DISASTER RISK MANAGEMENT
WORKING PAPER SERIES NO. 10

Surviving Disasters and Supporting Recovery: A Guidebook for Microfinance Institutions

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Margaret Arnold
Kiendel Burritt
Marc Jacquand

The World Bank

The Hazard Management Unit (HMU) of the World Bank provides proactive leadership in integrating disaster prevention and mitigation measures into the range of development related activities and improving emergency response.

The HMU provides technical support to World Bank operations; direction on strategy and policy development; the generation of knowledge through work with partners across Bank regions, networks, and outside the Bank; and learning and training activities for Bank staff and clients. All HMU activities are aimed at promoting disaster risk management as an integral part of sustainable development.

The Disaster Risk Management Working Paper Series presents current research, policies and tools under development by the Bank on disaster management issues and practices. These papers reflect work in progress and some may appear in their final form at a later date as publications in the Bank's official Disaster Risk Management Series.

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Acronyms and Abbreviations

ACODEP	Asociación de Consultores pare el Desarrollo de la Pequeña, Mediana y Microempresa – Nicaragua Microfinance Institution
ASCA	Accumulated Credit and Savings Association
BDS	Business Development Services
BRAC	Bangladesh Rural Advancement Committee
CECAM	Caisses d'Epargne et de Crédit Agricole Mutuel
CGAP	Consultative Group to Assist the Poor
CHF	Cooperative Housing Foundation (a non profit organization)
CNB	City National Bank (of New Jersey)
DAI	Development Alternatives, Inc. (Global consulting firm)
FONKOZE	Fondasyon Kole Zepol (Haitian Microfinance Institute)
Fundusz Mikro	Polish Microfinance Institute
GTZ	Gesellschaft fur Technische Zusammenarbeit (Germany)
HMU	Hazard Management Unit (World Bank)
IDB (IADB)	Inter-American Development Bank
MFI	Microfinance Institutions
MIS	Management Information Systems
NGOs	Non-Governmental Organizations
PAR	Portfolio at Risk
ROSCA	Rotating Savings and Credit Association
SEEP	Small Enterprise Education and Promotion
UMFI	Uganda Microfinance Institution
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UWFT	Uganda Women's Finance Trust Fund Ltd.
WOCCU	World Council of Credit Unions

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Preface

The World Bank's Hazard Management Unit (HMU) (formerly the Disaster Management Facility), in partnership with the UN Development Programme (UNDP) and the UN Capital Development Fund (UNCDF), has taken on an initiative under the umbrella of the ProVention Consortium to develop mechanisms for poor households and communities to better manage disaster risk. This guide is part of the effort.

The report, *Microfinance and Disaster Risk Management: Experiences and Lessons Learned*, written by Enrique Pantoja in July 2002, provides the basis for much of this guide. His research followed a colloquium held in February 2000, entitled *Microfinance: Disaster Risk Reduction for the Poor,* organized by the World Bank, UNDP and the ProVention Consortium. The goal of these activities was to explore how financial services might help the poor better manage natural disaster risk. The authors thank Enrique Pantoja for his work on past experience, and Yasemin Aysan, formerly of UNDP, for her support to these activities in their early stages.

The cooperation and assistance of several different organizations allowed for the collection of tools and resources available in this guide. Mary McVay (SEEP BDS Working Group) assisted greatly in finding a tool for Microleasing. Kimberly Tilock (CHF) designed the tool for housing finance. Mary Miller (DAI) provided appropriate resources for best practices and Information Systems (IS) questions. David Grace (WOCCU) provided assistance in finding information on remittances.

Finally, some of the ideas presented in this guide come from the experiences of Fundo de Crédito Comunitário, a World Relief International Program, during the floods in Mozambique in 2000 and its experiences of putting together a disaster response plan in the aftermath.

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Introduction

Purpose: Why prepare for a natural disaster?

Global experience demonstrates that Microfinance Institutions (MFIs) can profitably serve poor and vulnerable populations, enabling them to reach large numbers of clients. The majority of MFIs however remain challenged to develop the institutional capacity, client-responsive products, and business models to offer services sustainably. Rarely is this goal more threatened than in times of upheaval such as natural disasters.

Disasters increase vulnerability among the poor by putting their property, health and their lives in danger. Research shows that when disaster strikes, the poor are not only in a greater danger of falling victim, but suffer relatively more loss than the average population. Since MFIs target the poor, they work with high-risk populations. As clients' repayment capacity declines, an MFI's portfolio quality and liquidity situation position are put at risk. In the event of a natural disaster, both the MFI and its clients become vulnerable.

Experiences of several MFIs in disaster-prone areas, however, have demonstrated that access to microfinance services can support disaster preparedness and risk reduction by decreasing client vulnerability. When clients have access to needed financial services during crisis situations, the impact of the disaster may considerably lessen.

Provision of financial services during a crisis, however, is only possible if an MFI is prepared. An unprepared MFI may not only fail to protect its clients, but puts its own survival at risk. Since incidence of natural disaster is on the rise globally, many institutions have identified the need to prepare for this possibility for their own and their clients' well being.

Audience: Who needs to prepare for natural disasters?

Every MFI seeks to improve the economic well being of its clients. Providing services which enable clients to prepare for future crises and mitigate their impacts is one major element. For this reason, all MFIs need to ensure that they and their clients take necessary steps that enable them to plan how they will respond to and manage potential natural disasters.

Some MFIs serve areas prone to frequent natural disasters. Many of these institutions have some disaster policies in place. This guide will help them to assess whether their preparations are complete and to fill in any gaps.

MFIs which are not affected by frequent natural disasters may not be adequately prepared if one were to strike. This guide will help them assess the likelihood of such an event and determine how much planning they want to undertake.

All MFIs are strongly encouraged to set aside time to plan disaster management strategies in advance of a potential disaster, and to revise these plans on a regular basis.

Objectives: How will this guide help?

Once an MFI makes the decision to prepare for the event of a natural disaster, it requires a comprehensive plan.

This guide seeks to assist MFIs in defining an institutional strategy for disaster preparedness. It lays out the steps for assessing the potential risk of disaster, the clients' needs and the institutional capacity to respond.

Based on assessments, it offers a variety of recommendations for internal preparedness as well as examples of financial products that could mitigate the impact of disaster on clients.

Secondly, this guide provides references to tools and guidelines which institutions may use in rolling out their decided strategies.

The guide is organized as a series of exercises and references to tools to assist MFIs to plan and implement a disaster management strategy. It helps MFIs assess the risk of a disaster, their clients' needs and their own institutional capacity to respond. Finally, it offers guidance for preparation, response and recovery. The guide addresses the following topics in this sequence:

1. Assessment of Risk

2. Institutional preparedness

3. Client preparedness

4. Emergenc y response

5. Recovery

Institutions preparing for natural disasters before they occur will find this guide useful. Institutions in the wake of a natural disaster may find some helpful emergency response and recovery tools, but successful use of those tools will depend on the institution's existing capacity.

Chapter 1.

Assessment of Risks

This chapter presents tools and references to assess the risk your MFI faces in the event of a natural disaster. The sections are designed as activities that require research before a natural disaster occurs. This preparation is vital for the identification of appropriate strategies to minimize the impact of natural disasters.

By the end of this chapter, your MFI should be able to answer the following questions.
- What potential hazards does my institution face?
- How prepared is my institution to handle such a disaster?
- What other institutions will be available to assist my clients and how may their interventions have an impact on my institution?

Activity 1: Assess hazards and potential impacts

To assess the kinds of hazards you may face, the first step is to contact local or national government authorities responsible for keeping records on such occurrences. If this is not possible, relief agencies, such as the Red Cross, which have responded to previous disasters will likely have data or reports.

a. Answer the following questions based on your research:
   - Are my clients located in disaster prone areas?
   - Is my institution located in a disaster prone area?

b. If the answer to either of the above questions is yes, then you should explore the characteristics of the natural disasters that could affect your area using Table 1.1.

Recommended Resource 1:

Disaster Emergency Needs Assessment by the Red Cross, which can be found at www.ifrc.org/what/dp/manual/disemnas.pdf

Specifically, refer to the annexes which provide questionnaires for disaster response.

Also see the EM-DAT database of the Centre for Research on the Epidemiology of Disasters for past history of disaster impacts http://www.cred.be/.

Table 1.1 Hazards and characteristics

Hazard	What kind of disaster?	
Source	What causes it?	
Frequency/ Seasonal trends	How often does it occur?	
Predictability	Will there be sufficient warning before it occurs?	
Probability	How likely is it to occur?	
Speed	Slow on-set (drought) or Rapid on-set (volcano, hurricane, flood, earthquake)	
Concentration	How spread out will it be?	
Intensity	What level of damage is likely to be done? Will related disasters occur, like landslides after earthquakes?	

The information in Table 1.1 will enable your institution to understand better the kinds of hazards that could affect your clients and your institution. It also describes key characteristics of potential hazards that will have an impact on your institution's disaster preparations. You should refer back to this information throughout the guide.

c. Now that you have a clear idea of the type of hazards you face, it is necessary to assess how many of your clients are vulnerable. This will become important as you start to make planning decisions.
- Do all of my branch offices face this hazard?
- Is a single natural disaster likely to affect all branches simultaneously?

Your research into historical natural disasters will help you answer these questions. In the table above, what does the *concentration* of the natural disasters look like? For example, if your MFI provides services nationwide, will one event affect the entire country?

Use the lines below to list all branches or working areas where a natural disaster could strike. If a single event will likely affect more than one branch, group these branches together.

d. Look at the potential impact of the natural disaster on the infrastructure and social services. Each type of hazard impacts these sectors differently. Once again, by accessing local authorities or organizations such as the local Red Cross or Red Crescent Society, you can find out what degree of impact the potential hazards identified would have.

In Table 1.2 mark the sectors that would likely suffer from the potential disaster (Refer to hazards explored in Table 1.1). List your branch offices, and for each, indicate the type of hazard to which it is vulnerable. Note the infrastructure or social services that would likely be affected in the event of a natural disaster. Use the following example as a guide.

Table 1.2 Potential impact of hazard on social services and infrastructure

Branch Office or Working Area	**Type of Natural Disaster**	**Interruption of Social Services**	**Interruption of Communications**	**Damage to Roads and Infrastructure**	**Loss or Damage in Agricultural Sector**	**Loss or Damage in Other Major Economic Sectors**
Branch 1	*Flood*	*v*	*v*		*v*	*Trade*

Once you have completed this table, consider how the situation you describe could affect your ability to deliver services to your clients. In the example provided, Branch 1 would need to consider:

Health: How would clients' health affect their businesses and your portfolio? To what degree?
Communication: How will Branch 1 communicate with the head office?
Infrastructure: Will it need to map out alternative routes to meet its clients if roads are damaged?
Agriculture: If the branch finances agricultural activities, what would be the potential loss? How would loss of this income affect its clients?
Trade: Will the floods increase or decrease demand for purchased goods? Will its clients need advice in identifying business opportunities in this situation?

e. Finally, it is important to know which organizations can provide support in the event of an emergency. This information may be found through the local government office responsible for disaster management or relief organizations in your area.

If there is a response plan, what is the level of awareness among community members? Taking into account the information from Tables 1.1 and 1.2, are there any gaps in the plan that your institution has the capacity to fill, for example in information dissemination?

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Additional considerations include the following.

***Banks*:** What banks serve this area and will they continue to serve in the event of a natural disaster? If your institution depends on banks that are not likely to be open to disburse funds, your ability to provide services will be limited. Knowledge of your bank's disaster plan will assist you in designing your own.

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Non-bank financial institutions (NGOs, credit unions etc.): What kind of financial relief will they provide to their clients in the event of a natural disaster? These might include grants or soft loans. Have they provided such services in the past and would the population expect such assistance in the event of a natural disaster? In identifying these financial relief programs, consideration must be given to their possible impact, both positive and negative, on your organization's activities. What steps will you need to take to deal with negative impacts?

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Relief agencies: What relief agencies have a presence in this area? Which ones, both those that are currently present and those likely to set up shop following a disaster, will provide services during natural disasters? What do they do? Are these likely to include cash grants? If so, are grants likely to positively or negatively impact people's ability and willingness to repay loans? What steps would you need to take to ensure complementary and mutually reinforcing approaches in response to a disaster?

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Donors: Which donors have demonstrated interest in this area and will likely provide assistance in case of an event?

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Activity 1 Summary: You have now identified the following in your assessments:

- Are some or all of your clients vulnerable to potential hazards?
- What types of hazards?
- What is the potential impact of a natural disaster on infrastructure and services?
- Does an emergency plan exist and which institutions are likely to provide services in the event of a natural disaster?

Chapter 2.

Institutional Preparedness

Now it is time to look inside your institution. Most likely your main motivation in preparing for a natural disaster is mitigating its impact on your clients. Your institution, however, will only be able to assist them if it survives the impact of the natural disaster itself. To ensure its survival, therefore, your institution will need to undertake certain preparatory steps.

This section presents activities that will help you to assess the preparedness of your institution in the following areas: infrastructure, management information systems, liquidity management, portfolio quality management, and human resource capacity.

Remember to use the results from Chapter 1 in completing this section. For example, if you are located on a flood plain, your MFI may or may not require earthquake resistant offices, but will need to ensure that its equipment and infrastructure is protected from potential flood damage.

2.1 Preparing your institution

Activity 2: Assess the potential direct damage to the MFI

In Activity 1, you assessed which branch offices will likely be affected by hazards. For those branch offices located in high-risk areas, consider the following questions.

- Is there likely to be damage to the building housing the institution?
- Does the building comply with local construction standards/building codes?
- Is there potential damage to office equipment including documents and computers?
- Is there any potential damage to vehicles or other means of transport?
- Is there any secondary risk of theft due to loss of keys or other security equipment?
- What is the probability of looting if there is a breakdown in law and order?
- Will communications be affected between the branch and the head office?
- Do some or all of your staff live in high-risk areas?
- Will you have access to your clients?
- Will there be any secondary impacts on the market? For example:
  - If crops are destroyed, market supply will decline, and prices may increase;
  - Inaccessibility to or from markets could decapitalize traders if they are unable to invest in new stock;
  - Loss of property could affect demand for goods (for example, there may be increased demand for household items but less demand for other non-essential items).

> Recommended Resource 2:
>
> The International Research Institute for Climate Prediction has updated climate forecasts that can be accessed by MFIs wishing to monitor potential disasters.
>
> These forecasts can be found at::
>
> http://iri.columbia.edu/climate/forecast/

If you have identified any areas of risk from the questions above, then consider what steps your MFI has taken to prepare for these eventualities. The following list provides suggestions for preparations that your MFI should undertake. Where your MFI does not have the internal expertise to assess its capacity, you should seek outside assistance.

Access to information

- Develop a policy on disaster-watch, including identifying who would be the responsible "watcher" and a reliable source of information.
- Identify channels to disseminate warnings. This could involve pre-establishing a communications chain among employees and clients.

Prepare infrastructure and equipment

- Consider disaster-resistant construction.
- Fire or water-proof cabinets.
- Develop a policy on vehicle and other equipment evacuation, including assigning responsibilities to staff members.
- Train staff on equipment evacuation policies.
- Consider disaster insurance for facilities and equipment.
- Consider loss of profit insurance, if available and affordable.
- Develop policies to ensure the security of the safe and office keys so that none is left in the office at the time of a natural disaster.
- Store key records in a secure off-site location.
- Pre-purchase a back up power supply through the pre-purchase of a generator and/or batteries.

Staff security

- Develop a staff evacuation plan for each branch, including timetables and staff responsibilities.
- Train all staff on carrying out the evacuation plan.
- Prepare a plan and budget for assistance to affected staff.
- Provide health and life insurance for staff if available.
- Provide damage insurance for staff or develop policies on assistance to affected staff members.

Communications

- Ensure a back-up communication plan in case any phone, road or postal communications are cut off.
- Identify institutions (e.g. Government, hospital) with access to radio or satellite communication which could assist during a natural disaster.

Access to clients

- Identify alternative access routes to clients, and if necessary provision of means of alternative transportation (e.g. boats).
- Develop a communication plan defined with clients in the event of a natural disaster.
- Pre-assign back-up account officers who know the location of the clients if the prime account officer is disabled.

Market shocks

- Plan to acquire necessary supplies to offer services in the event of a market shock.

Identify all areas for which your MFI needs preparation and map out a strategy and timetable for its implementation. Ensure that your strategy responds to the potential hazards identified in Chapter 1.

Activity 2 Summary: This activity has enabled you to assess whether your MFI's equipment, staff and procedures are prepared for a natural disaster. It has provided a list of key areas in which to consider planning.

2.2 Preparedness for Management Information Systems (MIS)

Activity 3: Assess the preparedness of your Management Information Systems

General diagnostic

Information is one of the key elements in effective management. If management does not have access to timely and correct information, its ability to respond as issues arise is hampered, particularly in a crisis context. Management Information Systems (MIS) include a series of processes that collect data, process data into useful information, and disseminate the information to a range of users. Key elements of an MIS include policies and procedures on information flow, an accounting system and a portfolio management system. An MIS produces financial statements and portfolio status reports. Additionally, some MIS incorporate client impact monitoring.

For accounting systems, your MIS should follow international accounting standards. Most General Ledger software programs adhere to these standards. Portfolio management systems, however, do not adhere to a single global standard, and should be adapted to an institution's unique needs. It should, for example, be able to accommodate the lending methodology (group or individual, grace periods, terms), calculate interest appropriately for your institution's products (flat or declining balance rates), and format reports to meet your information needs. Ideally reports will produce data which can be easily translated into best practice performance indicators. (You may refer to Activity 5 for a discussion of these indicators). Good systems ensure that data cannot be altered, reports are accurate, and that information can be produced regularly enough to inform management.

Recommended Resource 3

Read, CGAP IS Process Guidelines on how to "launch an IS initiative" to upgrade its MIS. http://www.cgap.org/iss_site/helpdesk/is_process_overview.html

Refer to Recommended Resource 3 if you are considering an upgrade to your current system.

Context of natural disaster

If your MIS does not generate up-to-date and accurate information, a natural disaster may leave your institution unable to determine its outstanding loan portfolio or clients' savings balances. Additionally, it will decrease your capacity to offer emergency services to your clients. This checklist allows you to determine if your Management Information Systems (MIS) can provide you with the necessary flexibility to respond to a natural disaster.

Answers to the questions below may highlight some areas in which your MFI needs preparation. In Chapters 3 through 5, we will look at potential policy and product modifications that your institution may adopt in response to a natural disaster. These modifications may lead to more complex operations. You must determine the extent to which portfolio and accounting structures can accurately track the modifications you make to various products and services and required changes to your standard MIS.

- Is there a regularly kept back-up, stored safely such that a natural disaster will not affect it?

- Are your systems able to handle more than one product? We will see in Chapter 4 that you may want to offer additional products during an emergency.

- Is your MIS able to handle significantly increased transaction flow? This is important because immediately after a natural disaster, a greater demand for your financial services may exist.

- Do you have completed operational and procedural manuals?

- Can your MIS change interest rates on current and existing loans?

- Can your MIS change loan repayment schedules?

- Can your MIS "stop the clock" on interest calculations? (This means that no new interest is generated on principal beyond a certain date).

- Can your MIS delink compulsory savings contributions from loan repayments?

- While access to MIS data must be controlled by passwords, an emergency procedure must be established so that if the MIS operators are cut-off from the institution, the MIS system can still function.

- Is your accounting structure set up such that you could track expenses for additional products or non-financial services (such as emergency activities) separately?

The following are some policy considerations for making your MIS disaster-ready.

Ensure the safety of data

- Regularly back up data.
- Keep a hard or soft copy of data in a secure location, for example, in
    - fire proof or water-proof cabinets;
    - on the second floor in high locations for floods;
    - in the basement for hurricanes;
    - at another location, such as the head office.
- Define a policy for data back-ups in disaster warning times – for example daily rather than weekly.
- If you have an external MIS provider or support unit, establish emergency procedures so that you can still get support for your MIS system if necessary.

Ensure adequate capacity to offer preparation, response and recovery services to clients

- Make sure your portfolio management system can track additional products.
    - If not, develop a dual system for emergency response products.
- Ensure that the portfolio management system can track restructured loans, while providing accurate portfolio quality reports. This may mean tracking them separately.
- Be certain that financial reports are able to present portfolios or balances of each product separately.
- Adjust your MIS system so that it can track and consolidate loans by geographic region and by business category to better monitor those clients or areas most affected by the disaster.
- Track non-financial service costs related to disasters separately in the accounting system.

Train human resources

- Train system operators for tracking all products, including those designed only for emergency situations.
- Cross-train non-MIS staff to assist in accounting and portfolio management in the event of a natural

disaster when transaction flow increases.
- Identify back-up personnel for critical tasks.

Ensure adequate support resources
- Obtain a stand-by generator and/or batteries for systems.
- Identify a back-up source for data entry. This could be through a previously designated read only terminal in a branch office.
- Maintain a reserve stock of legal forms and reporting formats in case the regular stockpiles are destroyed.
- Maintain a reserve supply of paper, ink cartridges, etc.
- Once you have identified areas of improvement needed in your current MIS, develop a strategy and implementation plan to address them.

Activity 3 Summary: This activity assisted in preparing your MIS for a natural disaster.

2.3 Preparedness for liquidity management

Activity 4: Assess the preparedness of your liquidity management systems

General diagnostic
Liquidity refers to the ability of an institution to meet all of its payment obligations on a timely basis. As such, the management and planning of liquidity is a key task at all times. Readers are referred to Recommended Resource 4 to better understand liquidity management concepts and guidelines.

While having available liquidity in normal circumstances is crucial to the success of your institution, it becomes absolutely critical during a disaster. This chapter will identify strategies for creating additional liquidity that can be considered in times of emergency.

> Recommended Resource 4:
>
> Liquidity Management: A Toolkit for Microfinance Institutions prepared by GTZ presents a rigorous step-by-step approach to liquidity management, including the guidelines and tools.
>
> http://www.microfinancegateway.org/content/article/detail/2508

Context of natural disaster
For a variety of reasons, MFIs are likely to face liquidity crunches during natural disasters.
- Clients save less or stop savings deposits.
- Clients miss loan payments.
- Clients withdraw savings.
- Clients request emergency or recovery loan products.

The simultaneous occurrence of these demands will result in liquidity shortfalls for unprepared MFIs. Without planning, an MFI can find itself in a situation where it cannot meet its clients' needs during a disaster because of cash shortages.

Recommended Resource 4 also offers several suggestions to decrease the potential for liquidity shortages. One simple way is by diversifying your clientele.
- Diversify clientele geographically, so they will not all be affected by a single hazard. If a natural disaster affects your entire portfolio, it is much more difficult to handle. Geographically diversified MFIs will likely have several branches which are unaffected by the crisis, and can assist in meeting demands for excess cash in the affected areas.
- Diversify your clientele by economic sector so they may not all be affected to the same degree. If

all of your loans are in agriculture, a drought could affect your entire portfolio. By also financing producers and traders, a smaller percentage of your clients may be directly impacted.

- For a natural disaster, however, the best liquidity management strategy is to develop a contingency plan. First, you would need to understand all your potential sources of liquidity in times of crisis. These include both internal and external resources.

Your institution may tap the following *Internal Resources*:

- Retained earnings
- Savings
- Grants
- Stand-By lines of credit
- Required cash reserves
- Funds previously committed to new loan outlays
- Negotiating late payments on rent, utilities, salaries
- Sale or lease of fixed assets
- Securitization – issuing a corporate bond backed and serviced by loan portfolio
- Factoring – selling the loan portfolio to other lenders with a "discount"

There are various strategies that can be adopted to tap *external resources*.

- Set aside emergency funds for the event of a natural disaster. These funds would be invested in short term, secure, investments, such as Treasury Bills or Certificates of Deposit, which can be liquidated rapidly in time of need.

- Explore gaining access to "Disaster Fund Facilities" sometimes available from donors in certain countries.

- Negotiate an overdraft facility on your bank accounts. These facilities are often collateralized with required reserves or other funds. The facility allows the institution to overdraw on its account when cash is short.

- Some village banking MFIs have established client contingency accounts, maintained by the groups to be used in case an emergency develops.

Your institution will adopt liquidity management policies that are most relevant in your work environment. However, potential sources of liquidity are listed below, ordered from easiest to most difficult to access, that you might consider to create access to liquidity in a disaster situation.

1. Draw on funds previously committed to new clients that have not, as yet, been disbursed.

2. Access those liquid resources established for such a crisis. These will include cash reserves and special reserves. These would be drawn down while you approach donors/funders for special financing.

3. If special funding mechanisms are now available, draw on these funds, and if possible rebuild reserves.

4. Access the previously negotiated stand-by lines of credit or bank overdrafts. If other MFIs within your region have been unaffected, consider negotiating with them for a temporary loan.

5. Tap savings, after appropriate and prudent allowance for necessary liquidity.

6. Negotiate late payment on rent and utilities, but not salaries.

7. Securitize the loan portfolio (although this is a lengthy and complex process).

8. Sell, then lease-back fixed assets.

9. Reduce staff salaries.

Taking some of these steps will involve making difficult decisions. Hence, it is important to prepare a strategy in advance to tap a variety of resources and determine the order in which these resources will be used during a crisis.

Activity 4 Summary: This activity provides guidelines for managing liquidity and preparing for the liquidity shortages following a natural disaster.

2.4 Strengthening portfolio management systems

Activity 5: Assess the preparedness of portfolio management systems

General diagnostic

For any MFI, the loan portfolio represents the largest and most important asset. Sustainability of the institution requires ensuring that portfolio quality remains high. Failure to do so can lead to costly loan losses and loss of revenue on non-performing loans, and threaten the financial viability of the institution. Portfolio analysis helps MFIs ensure that clients are timely with their payments, making them better prepared to meet their obligations in more difficult circumstances. Strong portfolio quality and access to accurate portfolio information also makes an MFI more resilient during a natural disaster.

In Activity 3, you assessed your MIS to determine if it can provide sufficient data now and as your program becomes more complex following a natural disaster. The ability to monitor and manage your loan portfolio is even more critical in the advent of a disaster. Thus the need to ensure that your MIS remains operational after the disaster has struck is critical. It worth noting that strong management of any one element of operations during a time of natural disaster, whether it be portfolio management, MIS or liquidity management, requires that the institution is adequately prepared in <u>all</u> operational areas.

Generally accepted standards offer *Portfolio at Risk (PAR)* as the best measure of portfolio quality for microcredit. It is calculated as

$$\text{PAR} = \frac{\text{Total Outstanding Balance on Loans with Delinquent Payments}}{\text{Total Outstanding Loan Balance}}$$

In normal circumstances, if your PAR greater than 30 days exceeds 5%, then your MFI must focus its attention on improving portfolio quality and recovering delinquent loans.
Recommended Resource 5 presents additional measures to assess portfolio

> Recommended Resource 5:
>
> CGAP's Format for Appraisal of a Microfinance Institution, which can be found at
>
> http://www.cgap.org/publications/technical_tools.html, under Publications/ Technical Guides
> Also see:
> http://www.cgap.org/docs/OccasionalPaper_03.pdf
> for a discussion paper on the best indicators to measure your portfolio health.

quality. Such indicators include the *Provision Expense Ratio*, which demonstrates the cost of provisioning for potential losses and the *Loan Loss Reserve Ratio*, which indicates expected future losses. All of these indicators are useful tools for ongoing management of loan portfolio quality.

Context of natural disaster

Natural disasters aggravate poorly performing portfolios. Several MFIs that suffered severe portfolio write-offs after natural disasters found that had they improved their portfolio management before the disaster, they could have reduced loss when the disaster occurred. This is because clients who are unable or unwilling to pay in normal times are less able or willing to pay in times of disaster.

As clients find it difficult to make payments, it is likely that your portfolio will be affected. This guide should assist you in identifying ways to minimize the impact. Chapters 3 through 5 will introduce potential product modifications and adjustments to policies to protect your portfolio in the event of a natural disaster. These tools, however, assume that current portfolio quality is high. Thus, improving current portfolio quality is the first step, and must be undertaken prior to the advent of a natural disaster.

In addition, there are a number of preparatory steps that your institution can take before the advent of a disaster that will help you make decisions about loan disbursement and recovery policies once a disaster strikes.

1. Using the MIS system, analyze the loan portfolio by geographic region, business activity, loan size, loan product, and loan maturity. This will enable you in advance, to identify where your potential risks are, how a disaster could affect these segments, and their likely potential impact on your portfolio.

2. Categorize your clients into excellent clients (to be kept at all costs), good clients, average clients, and not-so-good clients. This will assist you in rationing availability liquidity, should the demand for funding exceed the supply of available liquidity, and you need to decline some of the loan applications. Account officers should be involved in this categorization exercise.

3. Based on the types of activities undertaken by the various clients, identify what are the most useful types of loan products that those activities will need, and plan how that product can be made available in the most expeditious manner possible.

4. Pre-establish a trigger point, using the PAR ratio, where the loan portfolio quality has declined to a point when the efforts of the account officers and staff will focus exclusively on the recovery of outstanding loans. This will result in the freezing of extending new loans until the loan portfolio quality problem is corrected.

Despite all of the precautions and pre-planning, deterioration in the loan portfolio quality must be expected. The key focus is to manage that decline so that in the end it does not overwhelm your institution.

Activity 5 Summary: Loan portfolio analysis is critical to managing the quality of the loan portfolio. Using Recommended Resource 5, your MFI should be able to analyze its portfolio quality. If you find that your institution is performing below recommended standards, design a strategy for improving portfolio management before increasing the complexity of your services. This must be an ongoing activity rather than something that is undertaken only in an emergency situation. Prior to the advent of a disaster, there are certain steps that can be taken to provide you with more information about your portfolio to facilitate strong portfolio management under stressful circumstances. These steps include identifying concentrations of risk in the portfolio, categorizing clients by quality, and defining what are the most appropriate loan products in a disaster environment.

2.5 Identifying disaster preparedness training needs

Activity 6: Assess preparedness training needs

In this chapter you will identify key training needs to assist in disaster preparedness planning and plan execution for the areas identified in Activities 1-5. These include the following:

- Developing or accessing hazard warning systems, ensuring the institution has timely information.
- Identifying the potential impact on infrastructure and developing equipment
- security policies.
- Developing staff security policies.
- Monitoring communications and alternative plans.
- Maintaining access to clients, including alternative routes.
- Understanding market shocks.
- Ensuring the safety of data.
- Building capacity to manage information for preparation, response and recovery services.
- Ensuring good credit management.
- Ensuring on-going cash management policies.
- Contingency planning of liquidity options in case of natural disaster.
- Portfolio management, analysis, and review.
- Developing client selection and retention criteria.
- Training for back-up staff so that they can take over the role of the primary staff member in cases of the latter's unavailability.

At the end of Activities 1 to 5, you developed a strategy and implementation plan for ensuring that your institution acquires the necessary capacity to undertake key activities.

As is the case with implementing any new policy, these steps require significant staff training and staff buy-in to ensure that they are implemented or accessed appropriately when needed.

Since disaster preparedness efforts will be institution-wide, involving all staff in assessments, policy development and planning will increase their understanding and capacity to respond. For all procedures developed, clear lines of responsibility should be established. Each staff member must understand their responsibilities in both preparation and emergency procedures.

In addition, however, staff will require *on-going* training in emergency procedures. Some of the changes you make will become part of daily operations, for example in portfolio management. Many, however, will only be implemented in the event of a natural disaster. Because of this, staff will need to practice new ways of operating so that they can implement them if a disaster strikes.

Although not specific to disaster management for finance institutions, there are several Training Needs Assessment tools that could be adapted to this purpose. Recommended Resource 6 is one example. It is a training needs assessment tool designed for managers. While the content is not specific to disaster management, the process developed for skills assessment may be applied here to assess training needs.

Recommended Resource 6:

Although not exclusive to disaster risk management, this tool provides a model for skills assessment, as described in the activity text.

http://www.denvergov.org/admin/template3/forms/Individual%20Needs%20Assessment%20(Web%20version).doc

The tool identifies capacities necessary for the task in question, and assesses the staff members' skill level for each capacity. Those areas with the weakest skill level are recommended for priority training.
Let's take an example from our list of potential market shocks from Activity 2. If your assessment in Activity 1 showed that natural disasters will likely result in crop losses, and as part of your strategy for Activity 2, you want to ensure that your loan officers are prepared to assess the impact of crop loss on clients, you would develop a list of skills needed to make this assessment. The list might include

- Strong communication skills
- Knowledge of client business cycles
- Knowledge of client business types and the role of agricultural suppliers
- Understanding the impact of crop loss on clients' buying power
- Training in identifying good clients from doubtful clients in stressful environments

Once you have developed the list of capacities, you can assess loan officers' skill level and identify priority training areas. Each institution's potential hazards and planning needs are different. Your training needs assessment should be clearly linked to the strategy and implementation plan you defined at the end of each activity.

Activity 6 Summary: Using Recommended Resource 6 as a model, your MFI will develop a tool to assess the skills and capacities required of staff to implement the disaster risk management strategies defined in Activities 1 through 5, and help you to prioritize training areas.

Chapter 2 Summary

This chapter offered exercises to assist your MFI to analyze its institutional capacity and take steps to better prepare itself to respond to a natural disaster.

The main topics covered were

- Institutional Infrastructure and Equipment
- Staff Security
- Management Information Systems
- Liquidity Management
- Portfolio Management
- Staff Training

Chapters 3 through 5 will assist you to assess and respond to your clients' needs. The steps you take, however, must correspond to your organization's internal capacity. As you consider the product and policy options presented in the following chapters, we caution that you take stock of internal systems and human resources before introducing them.

Chapter 3.

Client Preparedness

This Chapter presents tools for assessing client needs during times of disaster and suggests potential products and product modifications that may assist clients to better prepare for such hazards. Taking some or all the suggested steps may drastically reduce the impact of the disaster on your clients, decreasing loss and damage as well as increasing liquidity available to them when needed.

The analysis of institutional capacity and preparation that you carried out in Chapter 2 has helped you become familiar with your institutional strengths and weaknesses in disaster preparedness. Throughout this chapter, reference is made to your MFI's institutional capacity to manage the options presented. You should only consider introducing new products or products modifications if you have sufficient capacity within your institution to manage them.

3.1 Assessing client vulnerability and financial service coping strategies

Just as your institutional capacity will determine which services your MFI can offer, your client assessment will identify which products your clients need.

The following activity will help you determine how clients will respond in the event of a natural disaster, and how financial services can help them.

Activity 7: Assess the preparedness of the clients

General diagnostic
MicroSave-Africa has developed a comprehensive toolkit to assist MFIs in market research. It enables them to understand the needs of the client and adapt products and operations to meet those needs. It goes beyond identifying what clients want today, focusing on understanding what clients might want but don't currently have access to.

The qualitative tools can also be used for a wide variety of activities that are useful to the institution both before and after a natural disaster may occur including:

- developing new products and modifying old ones,
- understanding clients and their perceptions of the MFI and its services/products,
- developing/refining marketing programs,
- analyzing clients' risks and vulnerability opportunities and how people use financial services to cope with them,
- understanding the "financial landscape" or environment within which the MFI is operating,
- analyzing problems such as drop-outs and increasing loan default,
- carrying out impact assessment and evaluation.

> Recommended Resource 7:
>
> The Market Research for Microfinance Institutions Toolkit produced by MicroSave provides tools for understanding customer products and services needs. This toolkit as well as 11 other toolkits dealing with new product development and marketing can be accessed at
>
> http://www.MicroSave.org

Context of natural disaster
This activity focuses on understanding your clients' vulnerability and coping strategies in the event of a

natural disaster. The *Participatory Rapid Appraisal for Microfinance (A Toolkit)* contains eighteen tools that assess different aspects of client preferences using focused group discussions (FGDs) and participatory rapid appraisal (PRA) techniques.
For this activity, the following tools have been selected from the toolkit.

Tool 1. Seasonality of Income, Expenditure, Savings and Credit.
Tool 3. Life-Cycle Profile to Trace Lump-Sum Cash Needs over Time.
Tool 11. Time Series of Crisis.
Tool 12. Time Series of Asset Acquisition & Ownership.

To find these tools, click on Toolkit 6, Market Research for Microfinance. Access the *Participatory Rapid Appraisal for Microfinance (A Toolkit)* in the Handouts folder for Day 3. Additional background information on the *Participatory Rapid Appraisal for Microfinance (A Toolkit)* can be found in other supporting documentation in Toolkit 6 in the Participants Manual folder (Day 3) and the Slides folder (Day 3). When you have completed this exercise you should have a table similar to the Time Series of Crisis table replicated in part below from PRA for Microfinance (A Toolkit), pp 43-48.

Crisis	**Explanation**	**Trends**	***Coping mechanisms***	***Institutional implications/ Opportunities***
Drought	• "From 1970 to 1991, it was too rampant. Even people died, other migrated". • "Cows die or devalue (thinner), and are sold on a take-away price." • " I prefer to get rid of the animals at any price before they die"	• Drought is seasonal (Nov to Apr), every year, and sometimes in August as well. It is considered the major crisis because of the recurrent financial burden it creates in the community. • This group perceived that widespread famine could hit the community in the near future – 5 years. (Although Kayunga looks green in May**…)**	• Cut on food. "Black coffee, no sugar." "Skip meals". "Since it arouses famine, we ration the little food we have to take us through the day spell." • Some families sell their assets (animals) and/or mortgage land. "Some people sell household property to access cash". • Resort to savings in terms of food that they conserve for dry seasons. • Go to cities, such as Jinja and even Soroti, to buy food. • Borrow from family members and friends. • "When friends are not willing to give money, what do you do? YOU SUFFER" • Participants clearly said that they rather not to borrow money from MFIs during drought periods being afraid that they will not be able to pay back. "People prefer borrowing from friends than MFIs". "The strict policies of lending are maintained even during hard times". "They can be tough on you, police is involved" • ROSCAs/ASCAs were not mentioned.	• Although there was considerable probing, participants are not willing to borrow from MFIs during crises. • The issue is not lack of supply of MFIs (UMFI and UWFT do have presence in the area) or of a specific loan product in times of emergencies. • Reluctance to borrow from UMFI is related to the 'red marks' on their records when the client fails to pay on time. It makes them feel embarrassed. • UMFI might want to consider introducing a "yellow card" to warn clients. "The red mark comes too quickly." Participants suggested a 2-day consideration period before applying red marks for late payment, especially to good clients. "If you could not go … you see, we come from Jinja" • UMFI should let clients know clearly that one red mark is allowed (according to loan officers), and afterwards, the amount for the next loan is lower. "The red mark still applies when the loan period has expired". They said it always affects access to higher loan amounts. • UMFIs repayment is flexible (bi-weekly or monthly) and is fine to them. However, UMFI might also want to consider the different nature of businesses for repayment schemes (farmers vs. market). • UMFI might want to open a branch in Jinja as clients need to travel long distances. • (And/or) UMFI should increase the number of loan officers in the Kayunga branch. There are 3 loan officers for a total of 2,400 clients (equivalent to approx. 300 groups of 5 to 10 clients each).

While completing Tools 3 and 11, ensure that your clients provide you with feedback on the historical natural disasters which you have researched in Chapter 1. Compare the clients' information on the types, characteristics and impacts of natural disasters with the information you sourced in Activity 1, and fill in any necessary gaps. Completing these activities should enable your institution to understand the level of impact of past natural disasters, whether predictable and seasonal or infrequent.

Based on the outcomes, you should have a clearer idea of clients' current coping strategies, and to what extent clients access your institution's services during crises. You may have also identified some opportunities that will better enable your institution to meet clients' needs.

Make a list of your clients' strongest needs during a natural disaster. Refer to this list as you consider options presented throughout the chapters that follow.

The material introduced here is part of a comprehensive training course "Market Research for Microfinance." While this section has focused on the FGD and PRA techniques explored in Day three of the Course, a review of other information in the toolkit is advised. It is also strongly suggested that you access training from certified MicroSave trainers to use these tools effectively. A list of certified trainers can be found on the MicroSave website.

Activity 8: Alternative client assessment. Assessing client vulnerability and coping strategies

For MFIs in the wake of a natural disaster, there may be insufficient time to fully carry out Activity 6. In this case, simply try to complete the table above through interviews with relief agencies in the area, most of which have probably performed a needs assessment. If possible, try to speak with some clients to help fill in the gaps.

Activity Summary 8: You have completed the following:

- Verified your research in Activity 1 with your clients.
- Assessed your clients' needs in the event of a natural disaster.
- Identified their coping strategies.
- Determined if disasters are seasonal or infrequent.
- Identified if and how your MFI has assisted in these situations.
- Prioritize potential products or product modifications to consider.

3.2 Reducing client vulnerability through long-term access to financial services

Microfinance has for many years been viewed as an important tool for poverty reduction by providing clients with needed capital to take advantage of economic opportunities that allow them to diversify and increase their sources of income. Micro and informal sector activities also play an important role in protecting population segments against vulnerability. It allows them to build assets upon which they can draw during periods of economic downturn or crisis to smooth out dips in income, and maintain consumption levels for food and other services, like education and health care.

Activity 7 helped you to identify client needs to prepare for and respond to in the event of a natural disaster. However, it is repeat access to a range of financial services over time, long before a disaster hits, that allow people to increase assets and reduce vulnerability.

This section will present some options for the introduction of new products or the modification of current products to enhance clients' ability to reduce vulnerability. It will take time and strengthened institutional capacity however to develop and roll out new products. The best time to identify demand for and design new products is far in advance of the onset of the disaster itself. New product development is a complex process that requires a range of activities from costing and pricing of services, planning and conducting pilot tests, and rolling out products on a wider scale. 12 Toolkits and supporting information on the MicroSave website explore relevant areas in more detail. In the face of a disaster, it is ill advised to attempt to design and introduce a new product within a short time frame.

Throughout this section, your planning should be clearly linked to information you attained in Activities 1 and 7, as well as your institution's own internal capacity, as determined in Activities 2 through 5.

Client-responsive loan products

One of the best ways to assist clients in mitigating natural disasters is by ensuring that products enable clients to diversify their income sources. For example, if your loan product is too rigid, your clients may be limited in the kinds of business activities in which they can invest. In once case, for example, an MFI found that by allowing clients to choose the frequency of loan repayments varying from bi-weekly to bi-monthly, clients were able to engage in animal husbandry and carpentry in addition to trading. In order to ensure that your products respond to the financial service needs of clients requires ongoing market research and efforts to strengthen your staffs' product development capacity.

Considerations for introducing adaptations:

- *Client responsive products require an understanding of the client's business and financial service needs and institutional capacity to carry out market research.*
- *Staff require technical support and training to carry out market research, pilot test products or product modifications, and roll out products on a large scale.*
- *New products and product modifications may require significant adjustments to MIS and other systems.*

Forced savings products

MFIs may require that borrowers deposit savings to collateralize loans. These deposits, sometimes called forced savings or compulsory savings, generally cannot be withdrawn at will during a loan cycle and sometimes cannot be withdrawn until a client exits. Forced (or compulsory) savings can be adapted so that clients have access to their savings at specified (but limited points) during the loan cycle or following a natural disaster. Allowing clients to withdraw savings at certain times of the year or agricultural season, when income is scarce, or when a disaster has occurred can help mitigate the impact of a disaster.

Considerations for introducing adaptations:

- *Not all MFIs with Forced Savings have systems which can track temporary withdrawal of funds.*
- *Clients who rarely have access to their savings may take full advantage of this opportunity to withdraw funds. MFIs may suffer liquidity shortages if clients withdraw all or most of their forced savings.*
- *Both loan officers and MIS staff need training. It is especially important that staff understand the policy and communicate it directly to their clients to manage periodic withdrawal of forced savings.*

Voluntary savings products

Generally clients feel a cash crunch during times of crisis. They may hesitate to increase their debt burden in an uncertain disaster stricken environment. Rather, they may wish to decrease their debt burden by paying off a loan, or prefer to fund the additional expenses from cash as opposed to more debt. Providing access to voluntary savings products before, during and after a natural disaster, therefore, is one of the best ways to assist clients in smoothing out consumption expenses by allowing them to save money when they have extra, and then permit ready access to it when they need it.

Unlike compulsory savings, voluntary savings products are not linked to loan approvals and repayments. With compulsory savings, institutions typically dictate the conditions under which the client may withdraw his or her savings, while voluntary savers usually have access to their savings as and when needed. Compulsory savings may be offered through groups or to individuals, while voluntary savings is a strictly individual product. While the mobilization of savings seems an attractive way to fund expansion of the loan portfolio and meet clients' needs, they place an incremental burden on both operating systems and management. These include developing additional teller facilities and systems for safekeeping, treasury management, maintaining savings ledgers, complying with regulatory requirements, and developing a state-of-the-art accounting system.

Given their volatility, and the likelihood that deposits and withdrawals will be made in large clusters, voluntary savings products require significantly greater management capacity than compulsory savings products. The more client-friendly the product, the greater the management capacity required.
In the case of a calamity, there may be a high level of withdrawals of voluntary savings. To prepare for liquidity shortages, MFIs can negotiate stand-by lines of credit in advance with a local commercial bank, or with a neighboring MFI. Experience has shown however, that MFIs offering voluntary savings products have not experienced massive withdrawals of savings following natural disasters. Clients may still withdraw some of their savings, but may also choose to maintain their savings and take out emergency loans instead. For MFIs that have uncertain capital resources, lack treasury management skills, or have insufficient accounting structures, offering voluntary savings products is not recommended.

> Recommended Resource 8:
>
> WOCCU, together with Pact Publications, has published *Branch, Brian and Janette Klaehn, 2002,* ` Striking the Balance in Microfinance A Practical Guide to Mobilizing Savings ' Washington, DC for sale to the general public through Pact Publications. http://www.microfinancegateway.org/content/article/detail/3804

Recommended Resource 8 lays out the criteria an institution should meet to offer voluntary savings and institutional requirements for prudent delivery of such services.

Considerations for introducing this product:

- *Your MIS will need to have an entirely different capacity to manage voluntary savings than forced savings accounts.*
- *This product may require separate staff. If not, MIS, field staff and management will require training in the use, tracking and management of savings accounts.*

Credit for housing improvements

Based on your client assessment, you may have identified the possibility of clients losing their homes as one of the greatest points of vulnerability. Your clients may live on a floodplain, on an earthquake fault or in an area prone to hurricanes. If houses are not built to weather these events, your clients could lose everything.

Recommended Resource 9 focuses on home improvement loans. These are typically larger than microenterprise loans and are used to cover the cost of the improvement. Assessment of repayment capacity is based on clients' current and future incomes. Clients typically borrow as individuals. First loans are generally used for minor improvements, and successful repayment qualifies clients for larger loans for major improvements. Loan cycles range from 18 to 36 months, longer than typical microfinance loans.

> Recommended Resource 9:
>
> Cooperative Housing Foundation guide, So You Want to Do Housing Microfinance? A Guide to Incorporating a Home Improvement Loan Program into a Microfinance Institution. It provides tools for assessment, loan structuring, supervision and external factors.
>
> http://www.microfinancegateway.org/content/article/detail/2785

A lending institution should not provide housing loans unless it partners with organizations that have the technical expertise to ensure that home improvements are disaster-resistant and meet building code standards. The MFI must have the capacity to understand land titles and regulations, as well as knowledge of safe building standards and setting for houses. Additionally, institutions should be able to assess external factors, such as job losses that could negatively affect the clients' repayment capacities.

Considerations for introducing this product:

- *Your MIS must have the capacity to track loans with varying terms, and offer various loan products.*
- *As loan sizes are larger and repayment periods longer than microenterprise loans, cash flow projections will be considerably different than for other loans.*
- *Your MFI will require trained staff to manage this product.*

Leasing for assets to reduce vulnerability
When an asset is leased a lessor (leasing or microfinance institution) makes an asset available to a lessee (client) for a fee, while retaining the title to the asset leased. At the end of the lease, the client has the option of purchasing the asset from the lessor at an established residual price. Your MFI might identify leasing as a priority disaster mitigation strategy if you found in Activity 6 that absence of certain assets is a key factor in client vulnerability.

For example, if during a drought, clients have no access to water, then leasing a well or rain catcher may decrease this vulnerability. Similarly, access to productive assets through leasing arrangements may enable families, particularly those that are agriculture-dependent, to diversify their income during periods of droughts or other disasters which destroy crops.

CECAM, Madagascar

Caisses d'Epargne et de Crédit Agricole Mutuel (CECAM) developed a product to help farmers in Madagascar obtain capital assets. The product line includes agricultural equipment, livestock, equipment for rural craftspeople, and domestic equipment such as sewing machines and solar lighting units.

To obtain a lease on a specific piece of equipment, the client must have the capacity to make a down payment that is equal to 25 percent of the equipment's total value. The lease terms vary from 4 to 36 months. The client pays the remaining 75 percent of the price in periodic payments, plus annual interest of 30 percent. The payment schedule depends on the client's production cycle. CECAM retains ownership of the equipment until final payment, after which time it legally transfers ownership to the client. This service enables clients to build capital assets and strengthen their business. (Bass and Henderson, 2000, p. 10).

Recommended Resource 10 provides a good overview on how to design leasing products and includes information on

- Leasing agreements
- Types of leases
- Differences between leasing and lending
- Cost evaluation
- Legal considerations

Recommended Resource 10:

Leasing: A New Option for Microfinance Institutions.
http://www.itcltd.com/microleasing/docs/bamako%202000.pdf

An MFI that is considering introducing a leasing product should explore legal ramifications. Additionally, the MFI must ensure that it has a clear understanding of residual value to determine an asset's expected worth at the end of the lease. If it does not, at the end of the leasing agreement, the MFI may be forced to sell assets at a loss.

Considerations for introducing this product:

- *Your MIS must have the capacity to track loans with varying terms, and offer various loan products.*
- *As loan sizes are larger and repayment periods longer than microenterprise loans, cash flow projections will be considerably different than for other loans.*
- *Your MFI will require additional staff to manage this product.*
- *All legal considerations should be investigated before introducing this product.*

Money transfer services

Money transfer services facilitate sending money from one location to another. If potential for earning income locally decreases, the demand for remittances will likely grow. In the situation where many of your current clients depend on remittances from neighboring towns or countries to supplement their income during a crisis, there may be a significant market for a remittance product.

Resource Note:

The Inter-American Development Bank (IDB) is currently studying the use of remittances to assist in disaster situations.

In Haiti, the Fondasyon Kole Zepol (FONKOZE), a Haitian microfinance organization, has entered the remittance market by developing a partnership with the City National Bank of New Jersey (CNB) to offer a safe, inexpensive, secure, and legal way for Haitians living abroad and friends of Haiti to send dollars back to FONKOZE's clients in Haiti. The main features include:

- ⇒ FONKOZE keeps the majority of its reserves in CNB.
- ⇒ CNB agreed to drop all bank fees, including fees for the acceptance of wire transfers.
- ⇒ At the end of each business day, CNB sends via email a list of all deposits into the FONKOZE account during that day – including the name on the check, the money order, or wire transfer and the amount of the deposit.
- ⇒ A FONKOZE representative works in the US, and people interested in sending money back to Haiti can contact her on a toll free number to process the request.
- ⇒ If the beneficiary has an account with FONKOZE, deposits can be made directly to that account for a flat fee of $10, by sending the funds by check, money order, or wire to FONKOZE's account at CNB.
- ⇒ Whenever the friend or relative living outside of Haiti is ready to make a deposit in the individual's account, she/he contacts the FONKOZE representative advising her of the amount of the deposit and the account to which it is to be deposited. The customer representative, in turn, tracks the receipt of the deposit from CNB, alerts FONKOZE in Haiti when the deposit has arrived and sends a confirmation to the client in the US that the funds have been received and deposited into the appropriate account.
- ⇒ The FONKOZE client in Haiti is free to withdraw all or part of the funds at whichever FONKOZE branch. Funds are usually available the same day or within hours of their receipt by CNB.

(Source: Ayiti Direk Direk: Reducing the costs of remittances to Haiti and developing educated consumers of financial services; FONKOZE, 2001).

In Bangladesh, remittances represent the second-largest source of foreign revenue. In certain Latin American countries, they outweigh bilateral aid and foreign direct investment. In disaster times, they become more important, as affected people rely on relatives and friends in other areas and/or abroad to support their recovery by sending financial resources home.

An alternative to developing a money transfer product is to become an agent of an existing funds transfer company, such as Western Union. Establishing a link with the Post Office to facilitate money orders (mandates) is another possible market opportunity.

Considerations for introducing this product:

- *Accounting procedures for money transfer services are different from savings and loans products. Managing the flow of money will require additional capacity.*
- *The location of senders and receivers will have an impact on cashflow and liquidity. Locations where there are net recipients will need to ensure sufficient liquidity, while locations from which remittances are typically sent may find themselves with extra liquidity. MFIs will need to understand the nature of this demand to appropriately plan their liquidity.*
- *This product may require separate staff.*

Insurance

Insurance enables a client to make premium payments toward a fund. In the event of a pre-determined crisis, the client will have access to payments from the fund.

The client assessment carried out in Chapter 3 may have identified demand for insurance products. Vulnerability may be addressed by offering insurance. Possible insurance products may include

- Disability
- Life insurance
- Property insurance
- Loan insurance
- Comprehensive insurance
- Crop insurance

Insurance products, however, are more complex to manage than typical loan and savings products. For most MFIs, introducing an insurance product requires developing new technical institutional capacities and systems.

Generally speaking, the successful introduction of insurance products demands that events insured against are not subject to covariant risks. This means that the insurance policy does not cover a risk that affects many of the policyholders at the same time. Natural disasters by their nature produce covariant risk, subsequently, introducing insurance products to respond to client needs within the context of natural disaster may not be possible. The World Bank however is currently exploring possible insurance mechanisms for covariant risk in which the portfolio is re-insured on the global market (Skees, 2003). These mechanisms are still being tested, and tools have not yet been developed for implementing them. You can consult ongoing research in the World Bank's Agricultural Investment Sourcebook. The following link takes you to a Box in the Sourcebook on weather-related index-based insurance: http://www-esd.worldbank.org/ais/index.cfm?Page=mdisp&m=10&p=02#page430b

Recommended Resource 11 describes mutual health insurance schemes. However, while it is useful for mitigating the effects of personal crises, it may not respond well when a health problem is widespread. It is included here not as a product for managing disaster risk, but rather one that may decrease client vulnerability over a period of time both before and after a disaster.

> Recommended Resource 11:
>
> Orientation Manual on Micro-insurance for Microfinance Institution provides general guidelines for insurance products. *http://www.microfinancegateway.org/content/article/detail/3572*
>
> For health insurance, *Providing Support to Mutual Health Insurance Societies*, provides guidance to decentralized institutions with member-ownership structures http://www.microfinancegateway.org/microinsurance/highlight_letourmy.htm.

Before embarking on creating an insurance product, first read *A Cautionary Note for Microfinance Institutions and Donors Considering Developing Microinsurance Products* – It outlines the requirements for establishing microinsurance schemes as well as some of the risks involved.
http://www.microinsurancecenter.org/resources/Documents/Cautionary_Note.pdf

Other products reviewed in this chapter (savings), or combinations of them (savings and loans), may serve the same purpose as insurance products to mitigate disaster risk, while proving less risky for the sustainability of the MFI.

Considerations for introducing this product:

- *Your institution will require an entirely new technical capacity.*
- *Cashflow and liquidity will depend on how this product is structured. In times of natural disaster, if a large percentage of the portfolio is affected, the insurance scheme may have insufficient resource to pay policy holders.*
- *This product will most likely require a separate staff.*

3.3 Non-financial services: Training for disaster preparedness

An MFI may have a role to play in non-financial services delivery both before and after a natural disaster. In Activity 1, you may have found that your MFI has the capacity to support information dissemination for the government's emergency plan. Or, in Activity 7 you may have highlighted that clients do not have sufficient information to proactively mitigate disaster impacts. Your MFI might decide to take advantage of its network to provide or host training to decrease vulnerability during natural disasters. Training topics may include:

- Information dissemination on a local emergency response and evacuation plans to help clients prepare.
- Prevention of illness, such as malaria or cholera that may increase following a natural disaster.
- Training in business skills to assist clients to diversify business opportunities.

Providing such services however can create significant additional expenses for the institution. MFIs need to ensure that they are able to cover the costs of these additional services by either charging for cost-recoverable skills training, raising interest rates, or partnering with other institutions that can provide these services at no additional cost to the institution. An MFI should be careful to ensure that it is able to track the additional costs of non-financial services separately.

Despite the benefit that the community might receive from the involvement of your institution in these preparedness activities, the greatest benefit that they can receive is the survival of your institution after the crisis abates. Consequently, your primary focus must be on ensuring sustainable delivery of financial services. The provision of non-financial preparedness services is generally secondary to this goal.

Recommended Resource 12:

Pre-Disaster Planning to Protect MF Clients, part of a technical brief series on MFI response to natural disasters produced by DAI, provides guidelines on some of the disaster mitigation topics which could be treated. It suggest topics including

- Health training and vaccination
- Diversification or selecting businesses less vulnerable to disasters
- Encouraging structurally sound housing
- Early Warning information dissemination to clients

http://www.microfinancegateway.org/content/article/detail/1757

Considerations for introducing these services:

- *Your accounting systems must be able to track expenses related to the provision of non-financial services separately.*
- *Staff need to be trained not only in how to deliver the training and new information, but also the importance of it. Management needs to be able to ensure that information is presented correctly.*
- *Such trainings may also serve to market financial products designed to decrease client vulnerability.*

Chapter 3 Summary

In this chapter, you assessed and analyzed your clients' vulnerability and coping mechanisms in the event of natural disasters. You identified opportunities for your MFI to provide products to decrease their vulnerability.

Finally, the chapter presented a number of product options that could mitigate the impact of such hazards and the importance of developing or adapting these products long before a disaster strikes. These include:

- Adapting current lending and compulsory savings products
- Home improvement loans
- Leasing
- Money transfer services
- Insurance
- Voluntary savings
- Non-financial services such as training

With each product, some considerations relevant to MIS, liquidity and staff training were highlighted.

Chapter 4.

Emergency Response Phase

ACODEP in Nicaragua has developed a comprehensive disaster preparedness plan that includes modifications to the delivery of their products and services during a disaster, as well as the introduction of emergency and recovery products.

In addition to a flexible credit policy for disaster emergency and recovery, ACODEP created a disaster loan fund to help the institution prepare better for possible cash flows demands and to control credit and liquidity risks. The MFI stops collecting payments during the emergency period, allows clients to withdraw compulsory savings deposits (which are used normally as collateral), stops lending, and, on the basis of a field damage assessment, prepares loan restructuring and refinancing plans. In addition, it offers short-term loans of 1 or 2 months with special interest rates in cases of severe emergencies for household needs.

ACODEP loans are restructured when clients lose their homes, but not their productive assets. Loans are also restructured for those clients that are severely injured. Loans may be refinanced when productive assets are completely lost. (Pantoja, 2002).

Activity 5 focused on managing portfolio quality, and highlighted preparatory steps that your institution can take to be better prepared in the event that a disaster strikes. Immediately following a disaster, your MFI should consider the following additional steps to ensure that its portfolio can weather the disaster with as little loss as possible.

4.1 Overview of response measures

There are a number of portfolio management procedures and modifications to currents policies and products that your MFI may consider if a disaster strikes. The most common ones include:

1. Carrying out a rapid portfolio review.
2. Imposing a moratorium on lending.
3. Restructuring loans.
4. Writing-off loans.
5. Switching from group-based liability to individual liability during the disaster.
6. Providing emergency loans.
7. Allowing withdrawal of forced savings.
8. Modifying loan product terms.
9. Providing non-financial emergency services.

If you decide to adopt any of these measures, you will need to ensure that they are implemented in a timely manner.

For each procedure or policy modification you should consider the following.
- *Criteria for implementation:* What level of disaster warning will trigger these procedures? Who will track and communicate the warning to the decision maker?
- *Time line*: When would the procedure go into affect? When does it end? What indicators will be used for each? (e.g. Government declaration of disaster, loss of access by road, loss of homes, etc.).
- *Selection criteria for affected clients:* To whom will the procedure be applicable? What criteria would be used to determine this?

- *Who makes the decision:* Branch level? Head office? Board?
- *What mechanism will communicate the decision to the staff?*
- *How will the decision be communicated to the clients?* Front-line staff need to understand the decision and receive training in how to communicate it to their clients.
- *What contact will be maintained with the clients during implementation of the policy*?

As you consider the options presented in this chapter, ensure that they respond to the types of hazards identified in Activity 1, the clients' needs expressed in Activity 7, as well as your institution's capacity to manage them, which you assessed in Activities 2 through 6.

4.2 Policies and procedures

The following discussion highlights issues to consider when deciding whether or not to modify certain policies or undertake a specific activity. For the most part, these measures serve to manage outstanding loans and savings balances at the time of a natural disaster. The introduction of emergency loans requires the confidence that your MFI can manage them during such a highly volatile time. Emergency loans are intended for active clients at the time of a natural disaster. For each option considered here, you will also have to carefully consider its impact on liquidity.

Moratorium on lending

In Activity 2, you established systems to ensure that your MFI is informed of impending natural disasters. Sometimes even with rapid on-set disasters, information is available several days, or even weeks in advance.

If your client assessment found that businesses, homes and infrastructure are likely to suffer damages, there is a strong possibility that clients will lose investments made with credit before the disaster. Therefore, it would be neither in the clients' nor the MFIs interest that the disaster hit while the client has a large outstanding loan balance. The MFI could consider freezing all new loans until the disaster warning has passed. This will decrease the outstanding portfolio at the time of the natural disaster, thus decreasing the portfolio put at risk by the natural disaster.

Placing a moratorium on lending, however, must be carefully considered, as invoking this policy frequently could affect client confidence. An MFI should ensure that the warning threats are sufficient to warrant disruption of normal lending. The MFI might consider having a "high alert", during which it is suggested but not required of clients to wait until the disaster warnings pass to take out a new loan. This procedure should not be adopted for slow on-set disasters such as droughts.

Considerations for introducing this procedure:

- *Freezing loans may cause a temporary excess of liquidity.*
- *Staff require training on how to implement this procedure, and how and when to inform clients to ensure that it does not create a crisis of confidence.*
- *A reduction in the loan portfolio will result in a reduction in gross revenue.*

Undertake a rapid portfolio review

In Activity 5, steps were recommended to analyze the quality of your loan portfolio, and its potential risk components. These tools should now be used to undertake a Rapid Portfolio Review. This will entail analyzing each loan, and loan type to ascertain their creditworthiness, the likelihood of repayment, the level of cooperation expected from the client, and what type of assistance may be offered to them. This review lays the basis for developing a strategy for each borrower.

Considerations for introducing this procedure:

- *Information may result in differentiated treatment for clients.*
- *Staff will need training in how to carry out decisions made under the Rapid Portfolio Review.*

Restructure loans

The most common policy MFIs adopt during a natural disaster is to restructure loans. This entails a change in the loan terms to facilitate repayments. This activity may be undertaken in rapid or slow on-set disasters once it becomes apparent that clients will be unable to make their payments on time. Some MFIs use criteria such as loss of homes or place of business to select which clients qualify for loan restructuring.

Restructuring could take the form of changing the frequency of loan repayments (e.g. from every two weeks to monthly), the amount of each loan installment, or to extend the maturity of the loan. It also could take the form of deferring interest payments until the last scheduled repayment (a balloon repayment).

Recommended Resource 13 offers some considerations to assist in selecting which of the strategies your MFI would choose for loan restructuring.

> Recommended Resource 13:
>
> Read Microfinance Gateway: Library: Loan Rescheduling After a Natural Disaster, part of a technical brief series on MFI response to natural disasters produced by DAI. The brief lays out the rationale as well as several options for treatment of rescheduling.
>
> http://www.microfinancegateway.org/content/article/detail/1745

- Will you continue to charge interest while capital repayments are restructured?

  Considerations for introducing this policy:
  - *MIS must be capable of tracking interest payments without capital, and must be able to alter loan terms.*
  - *As repayment schedules are changed, liquidity projections must be changed. The continuation of interest payments minimizes the impact of delayed payments.*
  - *Staff require training to assess clients' situation, whether they meet the selection criteria and how to communicate the procedure to them.*

- Will you charge additional interest payments to compensate for the extended loan period?

  Considerations for introducing this procedure:
  - *MIS must be capable of altering loan terms.*
  - *This puts greater strains on liquidity as no payments will come in for a period of time.*
  - *In terms of income, this strategy assists in reducing losses, as full interest payments are made.*
  - *Staff require training on assessing the situation of clients, whether they meet the selection criteria and how to communicate the procedure to them.*
  - *This strategy allows severely affected clients time before payments are required.*

- Will you "stop the clock" and simply extend the period of time without charging additional interest?

  Considerations for introducing this procedure:
  - *MIS must be capable of altering loan terms.*
  - *This strategy means the institution will forego potential interest income to compensate for potential losses.*
  - *Staff require training to assess clients' situations, whether they meet the selection criteria and how to communicate the procedure to them.*

- *This strategy allows severely affected clients time before payments are required and effectively writes off some of their interest payments.*

Avoid loan cancellations

Loan cancellations (in which clients are no longer held liable for repayment) are not generally recommended for either rapid or slow on-set disasters because it can negatively affect the MFIs income and capital as well as the credit culture that the MFI has worked to develop. This said, however, some loans may not be recoverable. In some cases instead of canceling loans, the MFI may cancel interest payments and just collect the principal outstanding.

Your MFI may consider changing the normal policy for write-offs, extending the time before writing-off loans in the event of a natural disaster.

Considerations for introducing this procedure:

- *This should have no impact on your current MIS capacity.*
- *Writing off loans puts greater strains on liquidity*
- *This strategy decreases the interest income and capital, both of which will affect sustainability.*
- *Staff require training on assessing the situation of clients, whether they meet the selection criteria and how to communicate the change in procedure to them.*
- *This strategy may assist severely affected clients, but could cause problems with future loan repayments.*

4.3 Product modifications

Shift from group-based liability to individual liability during a disaster

Some group lending institutions have opted to switch liability to the individual in times of natural disasters. Many clients will need capital soon after the disaster but group members' ability to repay will vary. Once a client has repaid her loan, institutions may consider disbursing a new loan even if some group members have not yet completed their payments. MFIs have used this procedure for both slow and rapid on-set disasters.

This strategy must be well planned. Risk increases as outstanding loans have no guarantee. Clients who successfully manage individual loans may not want to rejoin groups.

Considerations for introducing this procedure:

- *If you currently track loans as groups, you need to ensure that your MIS system is capable of handling the change to individual loans. The institution will also need to handle a substantial increase in transaction flow.*
- *The impact on liquidity of this procedure depends greatly on clients' responses. It may encourage repayments, but also increase loan disbursements.*
- *It may encourage clients to pay more promptly if they are able to, but also removes the guarantee for those who are not.*
- *Staff require training on assessing the situation of clients, whether they meet the selection criteria and how to communicate the procedure to them.*
- *Clients will also need to clearly understand when this change in procedure ends, when and if the MFI returns to group lending to avoid resistance.*

Provide emergency loans

Emergency loans are offered to clients in good standing immediately after a rapid on-set disaster. Unlike regular business loans, the purpose is usually consumption. They are generally small amounts with short repayment periods designed to assist client in meeting immediate household needs.

Most MFIs that have offered emergency loans during a natural disaster have reported a 100% repayment rate (See Rapid-Onset Natural Disaster Technical Briefs, 2000). That said, the MFI must ensure that it selects recipients of this loan carefully to reduce risk at a very vulnerable time. Providing loans to clients with poor repaym ent histories, for example, may result in large losses in the emergency loan portfolio. This risk can be considerably reduced by undertaking the Rapid Portfolio Review.

Considerations for introducing this procedure:

- *Your clients may have more than one outstanding loan. You need to ensure you MIS can track that. Also, emergency loans should be managed as a separate product, so you require capacity to handle multiple loan products or a dual system.*
- *You will be disbursing loans before the projected payment of outstanding loans are made You may require additional funds to handle this.*
- *Staff require training on assessing the situation of clients, whether they meet the selection criteria and how to communicate the procedure to them.*
- *This loan will only assist clients in good standing. Clients who struggled to make payments before the hazard will likely find the increased debt a burden.*

Fundusz Mikro is a Polish MFI that established an emergency fund after the 1997 floods in Poland**.** In order to ensure rapid loan disbursement, an important objective during an emergency, Fundusz Mikro assigned partial responsibility for damage assessment and total responsibility for emergency loan disbursements to the clients. This institution provided a standardized loan amount to groups of affected individuals, and the group members divided the loan amount on the basis of the losses suffered by each of them. This was a simple way of assuring that only affected clients received emergency loans, as group members were unlikely to provide part of the capital to someone who did not need it. Through random checks Fundusz Mikro disqualified any group that submitted an application with a non-eligible person to ensure compliance with the emergency lending policy. Applications for emergency loans were considered from the smallest to the largest amount requested thus discouraging people to ask for more than they needed (Fundusz Mikro, 2000).

Fundusz Mikro made a critical decision by extending emergency loans to all micro entrepreneurs living in the flood impacted area, trading off the increased likelihood of defaults for a wider impact. The institution eventually benefited through increased outreach as it gained new clients.

It is important to realize, though, that if clients do not want to borrow due to the fear of the inability to repay, that loans should not be forced onto them. A key criterion of microfinance lending is to lend to clients who will have the necessary cash flow to repay the loan. Ignoring clients' judgments as to whether they can afford the loan risks by over indebting them may have disastrous consequences for your institution***.***

Adapt current loan products

In the aftermath of a disaster, time is of the essence. Ongoing delays in accessing credit can mean the difference between the successful restructuring of a client's business and its failure. With this in mind, adapting current loan products to the new, emergency environment will facilitate a more rapid response than attempting to design a new product to meet the changed circumstances on the ground. Your MFI may find that it may need to modify certain loan terms or conditions to meet changed circumstances on the ground.

Considerations for introducing adaptations:

- *Staff must have the capacity to determine what product modifications are appropriate in the context.*

- *Your MIS must be flexible enough to allow you to change certain terms and conditions.*
- *If payments are less frequent or loan periods longer, capital inflows become less frequent or smaller. This may have an impact on expected income. You may also find that without sufficient planning, your liquidity is insufficient.*

Modify compulsory savings products

Many MFIs practice a credit with savings policy in which clients are required to save a certain amount to access loans. Although policies vary, access to this savings is restricted. An MFI may consider allowing clients to access these savings in the event of a rapid on-set disaster. By allowing access to forced savings, clients can get cash without taking on more debt at a critical time.

If the MFI uses compulsory savings, however, for on-lending it may suffer a serious liquidity shortage if there is very significant demand for the withdrawal of compulsory savings. Clients tend to withdraw more compulsory savings than voluntary savings in the event of a natural disaster. This happens because clients rarely have access to compulsory savings, and are therefore likely to take full advantage of this opportunity for withdrawal when permitted. Voluntary savers that have ready access to their savings upon need, often only withdraw savings as a last resort. Recommended Resource 14 provides some good suggestions to ensure that savings are replenished quickly following the withdrawal of forced savings.

> Recommended Resource 14:
>
> Read Microfinance Gateway: Library: Using Compulsory Savings for Natural Disaster Response, part of a technical brief series on MFI response to natural disasters produced by DAI.
>
> http://www.microfinancegateway.org/content/article/detail/1750

Considerations for introducing this procedure:

- *Your MIS must be capable of tracking extraordinary withdrawals.*
- *As noted above, experience has shown that allowing withdrawal of compulsory savings could have a serious impact on your liquidity situation. Alternative liquidity sources will be necessary if you modify this policy.*
- *Staff require training on assessing the situation of clients, whether they meet the selection criteria and how to communicate the procedure to them.*

> **Use of Compulsory Savings in Bangladesh during the 1998 Floods**
>
> The most well documented example of demand for access to compulsory savings comes from the Bangladesh flood of 1998. Grameen Bank reported that 95 percent of compulsory savings were withdrawn during the massive 1998 flood, while 67 percent of BRAC clients withdrew more than half of their compulsory savings. *(Rapid-Onset Natural Disasters Technical Briefs: Using Compulsory Savings for Natural Disaster Response*)
>
> Replenishing these savings proved challenging. By 2000 only half of the 660,000 clients of BRAC in Bangladesh who withdrew compulsory savings during the 1998 flood had re-deposited these funds. (Pantoja, 2002)

4.4 Non-financial emergency responses

Many MFIs provide strictly financial services. For most MFIs, the decision to not provide non-financial emergency assistance is based on human resource capacity and a concern, first and foremost, to ensure the survival of their MFI during and beyond the crisis period. The following discussion provides some guidance to your institution if you are considering the provision of non-financial emergency assistance.

Should your MFI get involved?

There may be many reasons to get involved in providing non-financial emergency assistance:

- Your clients may have no other entity responding to their immediate needs. In times of disaster,

they may have great needs for information and basic assistance. Your MFI may be positioned to meet these needs better than any other institution.
- Your reputation is at stake. If clients perceive the institution as indifferent or unresponsive to their needs, your future reputation could suffer.
- When you are developing a Disaster Preparedness Plan, you may have the time to research vital training or information dissemination topics, develop relationships with donors who typically fund relief work, and ensure that your staff and systems are able to manage the additional workload.

While there may be compelling reasons to provide these services, you need to ensure that your MFI has the capacity to provide emergency services should you decide it makes sense to do so.
- You will need funding to cover the additional costs of these services. Your regular activities will likely become more costly and income will decrease, at least temporarily, so it is vital to ensure that you have sufficient funds for your financial services as well as non-financial ones.
- Your loan portfolio quality must be under control before you undertake new activities.
- Your liquidity position must be adequate for your projected future needs.
- Your accounting systems must be able to track expenses for these activities separately. You may need additional personnel for accounting.
- You may be limited by your human resource capacity. Remember, a disaster will stretch your capacity, and your staff will be implementing procedures that they have only practiced before. How such activities will be designed, implemented, managed and evaluated should be well planned.
- Clients who do not receive sufficient explanation as to why, how, and for how long you will be involved in these services could start to see your institution as a relief agency, and fail to make future payments.

Emergency Services Provided by BRAC after Bangladeshi Floods

During the 1998 floods in Bangladesh, the Bangladesh Rural Advancement Committee (BRAC) provided several non-financial emergency services to the flood victims. These included disease control measures, seeds to farmers and input replacement for other economic activities. They also helped repair schools and basic infrastructure (Sebstad and Cohen, 2000). BRAC also purchased 364 tons of rice on the open market and sold it at subsidized rates to clients (Pantoja, 2002).

BRAC's relief efforts also linked relief to reconstruction by helping severely affected clients find job opportunities in clean up and reconstruction. These jobs included cleaning roads and drains, building toilets, cleaning and sinking new tube wells, loading garbage onto trucks, replanting trees and restoring farmland, and repairing schools, roads, culverts, ponds, and other infrastructure. Although this level of effort is well beyond most MFIs' capacity, an MFI may still be able to play a role in identifying reconstruction employment options for affected clients. *(Rapid-Onset Natural Disasters Technical Briefs: Non-Financial Emergency Services to MFI Clients)*

It should be noted that even a large MFI like BRAC needed additional support to continue its operations while providing these additional services.

There have been successful examples of MFIs that became involved in relief activities. Their success depended mainly on the MFIs ability to manage, implement and source additional funds.

For whom should the services be offered?

As noted above, your MFI should limit *financial* service responses to its current clients. By contrast, should you decide to provide *non-financial* emergency services, limiting those services to only current clients could have negative implications. Your institution is providing services to assist the community, and the best way to demonstrate that is to provide non-financial emergency assistance without consideration of the victims' client status. Also, it is important that clients do not perceive your institution as providing gifts specifically for them. That could hurt your future relationship with your clients as you seek to collect on loans. The decision as to what approach to take will have to be made by an MFI based on the circumstances at the time of the disaster.

What types of non-financial services may be appropriate?

1. *Training on Risk Awareness:*
   - How to avoid diseases during disaster such as malaria, cholera or tuberculosis.
   - How to construct safe housing structures.
   - How to diversify your asset base.
   - General hazard mitigation strategies (possibly from the Red Cross).

2. *Information Dissemination:*
   - What emergency services are available and how to access them.
   - Updates on the progress of a disaster and recommendations from government on evacuation or other measures.

3. *Distribution of emergency supplies:*
   - Food items may include basic foodstuffs such as grains, beans and fats.
   - Non-food may include household supplies such as pots, buckets, soap, blankets.
   - Distribution of medicines or vitamins in conjunction with health programs.

For any of these activities, it is best to contact local relief agencies and become familiar with their strategies for training, distribution, and information dissemination.

Chapter 4 Summary

This Chapter offers various response options for an MFI, focusing primarily on portfolio management, and modifications to product and other institutional policies. Their purpose is to ensure that clients have their immediate needs met in the event of a natural disaster and that an MFI is able to ensure its survival.

The <u>potential</u> responses reviewed included:

1. Undertaking a Rapid Portfolio Review.
2. Putting a moratorium on lending.
3. Restructuring loans.
4. Canceling loans.
5. Switching from group-based liability to individual liability during a disaster.
6. Providing emergency loans
7. Allowing the withdrawal of compulsory savings.

Potential non-financial interventions to consider included:

1. Providing training.
2. Disseminating information.
3. Distributing food and non-food items.

A review of policies in these areas is critical for all MFIs if a disaster strikes. Even if an MFI found in Chapter 3 that it is unable to offer clients multiple and new services to better prepare for natural disasters, the MFI must develop the capacity to respond once a natural disaster strikes.

Chapter 5.

Recovery Phase

You may have assisted your clients in meeting their immediate needs during the disaster through emergency loans or releasing forced savings, but now they find their businesses decapitalized, some or all of their assets have been lost, and they need to make repairs on their homes. This chapter helps your MFI think through which products can serve your clients best at this time.

As you consider the options presented in this chapter, you may start planning how to assist your clients to mitigate the affects of the next disaster. You will find that the products in this Chapter are similar to those in Chapter 3 (Client Preparedness). For Recovery Products, we have selected those which respond most readily to clients' needs at this time, while not requiring major additional institutional capacities.

Again, to successfully deliver these products, your MFI will need to plan ahead, and already have in place the necessary policies, procedures, practices, and systems in advance of implementation. It is quite difficult to design and roll out new products immediately after a natural disaster.

Post-disaster loans are riskier than those in stable times. Refinanced loans will need to be structured so that the business being financed can generate enough cash to service both loans, while still allowing the borrower to care for her family. This will require greater focus by the loan officer on clients' cash flow, collateral, and character. In some circumstances it may be necessary to decline the loan application, since a second loan may over indebt the borrower.

Victims of a natural disaster who have never managed a loan may have limited capacity and experience to repay immediately following a crisis. Consequently, it is not advisable to offer recovery loans to new clients at the time of the disaster. These loans should be reserved for current clients.

5.1 Adaptation of current products

Loan products
Rather than designing a completely new product, your MFI may consider offering more flexible loan terms during the recovery phase. Clients may need grace periods, or longer repayment periods as they rebuild their businesses.

Forced savings
Whether or not your MFI allowed the withdrawal of forced savings during the natural disaster emergency period, it may consider allowing (or extending the period for) the withdrawal of forced savings. Refer to the recommended resource 14 in Chapter 4.

5.2 Designing new products

Refinancing old loans concurrent with new loans
Some of your clients might have lost all of their business stock financed by a loan from your MFI. You may decide to reschedule the loan, but some clients will still have very limited resources to repay the loan. One option is to provide a second business loan, while restructuring the loan payments of the first. Where

possible, the two loans should be monitored separately, even if they are paid simultaneously.

When planning for refinancing loans after a disaster, refer to the list of policy considerations (selection criteria for affected clients, etc.) at the beginning of Chapter 4.

Additional considerations include:

- Determining whether your MFI will limit this opportunity to one additional loan, or consider providing more than one additional loan before the balance of the restructured loan is repaid?
- Determining whether repayment of the refinancing is simultaneous with or after the repayment of the restructured loan?

Refinancing Loans after Hurricane Mitch

After Hurricane Mitch in Nicaragua, Pro-Mujer refinanced its clients, determining loan terms based on client needs, capacity to repay and repayment history (Pro-Mujer, 1999). In order to assess this, Pro-Mujer sent trainers to work closely with established community banks to gather information on clients in order to assess the quality of the loan portfolio and establish strategies for disbursing new loans. In addition, Pro-Mujer helped those clients who lost their business completely to identify alternatives and establish new business plans. (Pantoja, 2002)

An MFI must work with its clients to ensure that new capital is invested. Clients who lost their stock and capital during the disaster will find themselves repaying two loans (the initial and any additional loans) with income generated from the investment capital of one (only the additional loan). For this reason, failure to invest all of the capital could lead to delinquency or default.

Considerations for introducing this policy:

- *You need to ensure your MIS can track more than one loan per client.*
- *You will be disbursing loans before the projected payment of outstanding loans are made. You may require additional funds to handle this.*
- *This loan will only assist clients in good standing. Clients who struggled to make payments before the hazard will likely find the increased debt a burden.*

Home improvement loans

For information on housing loans, see Chapter 3. The tools and procedures are the same. The only difference is the client selection criteria. While *mitigation* products may be offered widely to current and new clients interested in improving their homes, recovery products should be restricted to known clients with an established credit history with your institution.

Your MFI should remember that providing home improvement loans is considerably different than business lending and requires specific technical skills. If you have not prepared the systems, staff and funding before a disaster, it is not wise to try to provide this service immediately afterwards.

Considerations for introducing this product:

- *As loan sizes are larger and repayment periods longer than microenterprise loans, cash flow projections will be considerably different than for other loans.*
- *Your MFI will require additional staff and expertise for this product.*

Hurricane-Proof Housing Initiative in Nicaragua

ACODEP in Nicaragua, which had focused on microenterprise loans, established a new housing loan product in response to Hurricane Mitch called MI VIVENDA ('my house'). During the reconstruction period, 2,700 households took advantage of this product. The housing loan is now offered as a regular loan product and has reached a high level of demand. (Pantoja, 2002)

Microleasing

For micro leasing to replace assets, see Chapter 3 (Client Preparedness). The tools and procedures are the same. While *mitigation* products may be offered widely to current and new clients interested in diversifying and expanding their asset base, recovery products should be restricted to known clients with an established credit history with your institution.

Chapter 5 Summary

Recovery Products are offered by MFIs to *established* clients after a disaster and once policies and procedures for products are in place.

- Refinancing generally serves clients who have suffered severe business loss and require additional credit to enable their businesses to meet current loan repayments.
- Housing loans are for clients whose homes were lost or damaged and seek financing to replace the damage.
- Microleasing assists clients who have lost assets during the disaster and wish to replace them.

An MFI can provide any of these products in addition to normal business loans if it establishes clear selection criteria and has adequate capacity.

These products may *eventually* be offered to new clients in currently untapped markets to assist them in preparing for future natural disasters.

Chapter 6.

Summary of Preparation Procedures

This checklist will help you ensure that you have prepared your institution to face a natural disaster. It does not imply that no damage will occur to clients or the MFI, but aims to minimize losses.

Is everything ready?

- Have you prepared your institutional facilities, equipment and staff? – *Chapter 2.*
- Have you assessed your clients' needs and identified ways to respond to them with new products and product modifications keeping in mind your institutional capacity? – *Chapter 2 through 5.*
- Have you identified institutional partners for selected activities – *Chapter 2.*
    - Early Warning structures,
    - Technical experts for new products (e.g. for home loans),
    - Relief organizations,
    - Banks,
    - Government offices.
- Have you formulated policies for the emergency response phase related to portfolio management and product modifications? -*Chapter 4.*
- Have you upgraded your MIS and Accounting systems if necessary to introduce new products or modify current ones? *Chapter 2.*
- Have you ensured that you will have the capacity to assess your liquidity position and source additional liquidity if necessary? – *Chapter 2.*
- Have you trained your staff in implementation, information dissemination and reporting on all new products? – *Chapters 2 through 5.*
- Have you sourced additional expertise for selected products, for example home improvement loans, where necessary? - *Chapter 3.*

Your MFI is now ready to implement its disaster response or mitigation plan. Although you cannot prevent damage, this planning process will help you to decrease the vulnerability of your MFI and its clients significantly.

It is important to remember preparedness is a continual process. Developing policies for which staff are unprepared to implement will not assist greatly in times of disaster. Through regular review of policies and insuring that you meet all implementation requirements, your MFI will prepare itself to weather a natural disaster and better respond to its clients.

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Recommended Resources

Recommended Resource 1:
Disaster Emergency Needs Assessment
www.ifrc.org/what/dp/manual/disemnas.pdf

Centre for Research on the Epidemiology of Disasters (CRED)
http://www.cred.be/

Recommended Resource 2:
The International Research Institute for Climate Prediction
http://iri.columbia.edu/climate/forecast/

Recommended Resource 3:
IS Process Guidelines (CGAP),
http://www.cgap.org/iss_site/helpdesk/is_process_overview.html

Recommended Resource 4:
Liquidity Management: A Toolkit for Microfinance Institutions
http://www.microfinancegateway.org/content/article/detail/2508

Recommended Resource 5:
CGAP's Format for Appraisal of a Microfinance Institution,
http://www.cgap.org/publications/technical_tools.html

Discussion paper on indicators to measure your portfolio health.
http://www.cgap.org/docs/OccasionalPaper_03.pdf

Recommended Resource 6:
Training Assessment Tool to be adapted for each institution.
http://www.denvergov.org/admin/template3/forms/Individual%20Needs%20Assessment%20(Web%20version).doc

Recommended Resource 7:
The Market Research for Microfinance Institutions Toolkit (MicroSave-Africa)
http://www.MicroSave.org

Recommended Resource 8:
Striking the Balance in Microfinance: A Practical Guide to Mobilizing Savings (WOCCU), Pact Publications.
http://www.microfinancegateway.org/content/article/detail/3804

Recommended Resource 9:
So You Want to Do Housing Microfinance? A Guide to Incorporating a Home Improvement Loan Program into a Microfinance Institution (CHF), available through PACT Publications.
http://www.microfinancegateway.org/content/article/detail/2785

Recommended Resource 10:
Leasing: A New Option for Microfinance Institutions
http://www.itcltd.com/microleasing/docs/bamako%202000.pdf

Recommended Resource 11:
Orientation Manual on Microinsurance for Microfinance Institutions,
http://www.microfinancegateway.org/content/article/detail/3572

Providing Support to Mutual Health Insurance Societies
http://www.microfinancegateway.org/microinsurance/highlight_letourmy.htm

Recommended Resource 12:
Pre-Disaster Planning to Protect MF Clients (DAI)
http://www.microfinancegateway.org/content/article/detail/1757

Recommended Resource 13:
Loan Rescheduling after a Natural Disaster, part of a technical brief series on MFI response to natural disasters produced by DAI. http://www.microfinancegateway.org/content/article/detail/1745

Recommended Resource 14:
Using Compulsory Savings For Natural Disaster Response (DAI)
http://www.microfinancegateway.org/content/article/detail/1750

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