MODULE 3: RAPID RESPONSE

Summary

Objectives
Following completion of this module, participants should understand:

- the different phases of rapid response for an MFI, and the activities associated with each phase
- how to conduct a post-disaster assessment of the MFI, its clients, and the post-disaster environment
- options for modifying current products and/or offering new products, and
- the role of MFIs in disaster relief.

Topics

1. Rapid Response - Overview of Activities
2. Rapid Response - Phase 1
3. Rapid Response - Phase 2
4. Rapid Response - Phase 3
5. MFIs and Disaster Relief
6. Summary
Module 3: Rapid Response

What should an MFI do immediately following a natural disaster? On the one hand, the MFI wants to protect its identity as a member of the community, putting the needs of its clients first as any successful business will do. On the other hand, the MFI also wants to protect its identity as a long-term, professional financial intermediary, as distinct from an ‘aid’ organisation. There is a creative tension that it not easy to resolve, especially in the context of human suffering in the wake of a disaster. In collaboration with disaster management agencies, the MFI and its field staff are indeed part of the overall relief effort. Nevertheless, the priority of the MFI is to meet the economic needs of communities, and the initial focus is on the immediate financial needs of its existing clients.
Objectives

Following completion of this module, participants should understand:

- the different phases of rapid response for an MFI, and the activities associated with each phase
- how to conduct a post-disaster assessment of the MFI, its clients, and the post-disaster environment
- options for modifying current products and/or offering new products, and
- the role of MFIs in disaster relief.

Topics

1. Rapid Response – Overview of Activities
2. Rapid Response – Phase 1
3. Rapid Response – Phase 2
4. Rapid Response – Phase 3
5. MFIs and Disaster Relief
6. Summary
Rapid Response - Overview of Activities

There is a concrete and sequential series of activities that an MFI needs to undertake during and immediately after a natural disaster. These activities are divided into three phases, detailed below. The timing and duration of these phases are not fixed; rather, they are flexible, in accordance with the actual post-disaster context.

Phase 1
Verify the scope of the disaster, establish a crisis task force, review the disaster preparedness plan, impact assessment.

Phase 2
Monitor and follow-up with clients, design product modifications and new products.

Phase 3
Institute liquidity management, portfolio management, review of product offerings.
Rapid Response - Phase 1

The stocktaking exercises will reveal the necessary actions to ensure the safety and sustainability of the MFI. The first major decision may be to judge whether the MFI can continue to function in its existing facilities or must seek temporary quarters elsewhere. It is also important to determine if staff have been personally impacted by the disaster, and whether it is necessary to reassign staff or responsibilities. It is important to determine if there are any information systems and data processing problems. Temporary measures may necessitate manual processes until the automated systems can be re-established. Other operational questions that need to be addressed immediately include: How to open branches? Which branches to operate? What should be the hours of service? How will security be maintained? How should new loans applications be processed?
Establish a Crisis Task Force

In the post-disaster context, it is important to treat the rapid response as a project, and to manage it as such. The purpose of the Crisis Task Force is to ensure that all of the MFI’s key operating departments understand the nature and dimensions of the crisis and that the MFI forges a comprehensive and uniform response to it. This task force should be led by a Crisis Manager with strong organisational and management skills who can be freed from other responsibilities in order to effectively manage the MFI’s response to the crisis. The Crisis Manager should report directly to the head of the MFI.

The Crisis Task Force should consist of a representative from each of the departments - including credits, information systems, accounting, operations etc. The members should meet daily during the initial period of the crisis, and as frequently as needed thereafter. The task force will function as an ad hoc body, meeting when necessary to review the situation and to plan strategies.
Review and Refine Disaster Policies

If an MFI has a Disaster Preparedness Plan it should review it and follow the policies laid down, as far as appropriate to the immediate disaster.

While preparedness is essential the reality is that no matter how prepared an institution, each disaster brings in a new dimension. This means that there is a continuous process of learning and improving policies and practices at the end of each emergency situation, resulting in revisions and adjustments in the preparedness plan.

Facilitator note
Ask participants about other plans they have seen and what their opinion was of the plan. Was the plan used by the MFI? Were there improvements made?
Initiate a Detailed Impact/needs Assessment

What do we mean by ‘assessment’?

Assessment is conducting a systematic examination of clients, the MFI and the environment.

Why is detailed impact/needs assessment important?

Assessment enables the MFI to really understand what it is starting with, so that it is better able to modify its products and/or design new products in line with the client needs. Just as an MFI goes through an assessment phase before embarking on microfinance, it takes a similar approach after a major disaster.

How does an MFI do a post-disaster assessment?

One of the first things to do is find out the extent and severity of the disaster. This can be done using information from radio reports, telephone calls to officials and colleagues, and any other source available to determine the characteristics and intensity of the damage - specifically geographic location, nature and amount of damage suffered, condition of roads, communications and utilities. This information will help determine whether this is a major or minor crisis, and if any of the MFI branches or clients are likely to have suffered damage. It will also provide an initial idea of how to react to the situation.
**Assessment: Clients, MFI, Environment**

**Group activity**
- Ask participants to construct a fictitious disaster scenario.
- Organise participants into 3 groups, one each for ‘clients’, ‘MFI’ and ‘environment’.
- Each group should then make a list of stakeholders and issues, and write notes on a flipchart.
- While the groups are working, walk around and spend a little time with members of each group to ensure they are on-track and to indicate issues they need to focus on.
- When the groups have finished discussing and completing the flipchart ask a representative of each group to present to the whole group.
- Finally, display slides 10-12, and confirm the participants’ reflections.
Assessment: Client-level

Vulnerability is measured in terms of the assets and range of financial coping mechanisms available to a household to deal with economic stress events. It follows that households with fewer assets and inadequate coping mechanisms are more vulnerable; those with more assets and better coping mechanisms are less vulnerable.

How can an MFI find this information about clients?

- **Step 1:** Determine the locations most affected by the disaster. Cross-referencing news or government reports on affected areas is an obvious starting point for identifying the geographic impact of the disaster. This can be followed up by visual surveys of the affected areas by car - or by foot if not accessible by any vehicle. Information should be stored in tables that show population and number of clients by geographic code. A map pinpointing areas affected, estimates of total population and the degree of damage suffered should be created as an aid to understanding the scope of the disaster and planning responses.

- **Step 2:** Generate a rough estimate of the number of affected clients and their total loans outstanding, by matching data on ‘clients by location’ to the badly damaged or affected zones. A client survey will also help obtain some of this information.
Assessment: MFI-level

The MFI’s key assets include its personnel, loan portfolio, operational data and physical facilities. Protecting these is the first step to take in the face of a disaster. To what extent will the microfinance operations be disrupted by damage to the MFI’s assets?

**Human resources**

It is vital to take into account the physical, emotional and psychological well-being of the staff of the MFI as they have to provide support to many clients. They need to feel supported before they can extend their support.

Are the staff/management alive, hurt, traumatised, willing to come back to work or not? Identify the extent to which employees have suffered damage and determine how best to help them manage personal needs. Ensure that each branch notifies the management of any deaths or major injuries, so as to gain an understanding of the magnitude of the problem.

**Portfolio**

Given the disaster, what is left of the businesses for which clients took loans, and therefore what is left of the portfolio? Can one assess the depth of damage and value it?

**Systems**

Are the portfolio data lost or were they backed up at another location? What forms of accurate and updated information are still available?
Other assets

Conduct a complete inventory of physical assets. What is left of vehicles, offices and computers - at the branch/field levels and at the head office? What is the value? If the assets were insured, is the insurance active and when will be the claims be processed? What needs to be done to file the claims? This information needs to be compiled for physical infrastructure - walls, roof, flooring, water, electricity, vehicles, phone, fax, computers and other systems, both at the head office and the branches.

Security

A major threat in a disaster situation is security, as looting, fraud, vandalism and robbery often accompany disasters. The MFI needs to assess the integrity of its security systems and determine how to establish at least minimal security to protect its assets. Has there been looting, given the general instability of the situation and the lack of order? Should the office(s) be completely closed and, if so, when and by whom?

Assessment: Environment-level

In this part of the assessment, we are evaluating the overall conditions in the affected areas. Ask the following questions:

- How would you describe the deterioration of living conditions?
- Are there population movements from one area to another?
- What is the security situation?
- Is the market place damaged?
  What is the major source of business and trade, and what is its condition?
- How disrupted are the means of production?
- Is there inflation and/or devaluation?
- Who are the other key players involved in post-disaster activities, and what are they doing? With whom could your organisation form a partnership?
Rapid Response - Phase 2

Phase 2 consists of largely repetitive tasks of monitoring, analysing and following up with clients. As the situation becomes clearer, it will be easier to determine whether or not loan rescheduling, liquidity support and other special measures are required. The Crisis Task Force should meet every morning during this period to review data, identify problems, and decide on actions to take. The task force also needs to review key indicator performance and determine implications of trends on a daily basis, essentially to determine whether the situation is improving or deteriorating. The following are some key questions:

1. Are collections improving or falling further behind?
2. Is loan delinquency becoming more or less serious?
3. Will income continue to cover expenses?
4. Are loan requests increasing or declining?
5. Is liquidity becoming a problem?

Estimated duration
20 minutes

Technique
Lecture, brainstorm

Slides
13-16

3. Rapid Response - Phase 2

- Crisis task force:
  - Meet every day
  - Identify problems, take action
  - Review key indicator performance and determine implications of trends on a daily basis
- Designing product modifications
- Designing new products

Slide 13 - Rapid Response - Phase 2
Designing Product Modifications

As a general rule, MFIs should not make blanket changes to the structure of loan products following a natural disaster. However, it will sometimes be advantageous to offer temporary concessions, as it is better to forgo some income for the sake of maintaining the goodwill of clients and protecting against loan default.

- **Rescheduling** - extending the term of the loan or relaxing the schedule of required payments.

- **Refinancing** - paying out a (problem) loan by issuing a new loan. This allows clients to begin making the loan payments again and, it is hoped, to continue until the loan is paid.

- **Loan forgiveness** - a de facto grant to indebted clients.

**Changes in lending methodology**

MFIs can consider changes in lending methodology in a post-disaster context. For instance, an MFI may allow members to switch from group-based liability to individual liability following a disaster, so that any individual default does not affect loan group members. In the post-disaster context, this may contribute to reducing default risk.

**Facilitator note**

- These product modifications are discussed in more detail in Module 4, Microfinance in Livelihood Restoration.

**Glossary items**

- (Loan) rescheduling
- (Loan) refinancing
**Brainstorm**

- Ask participants what ‘new financial products’ they can think of that may be relevant in a post-disaster context.
- Display slide 16, and confirm the participants’ reflections.
- Note that these new products are discussed in more detail in Module 4 - Microfinance in Livelihood Restoration.
Designing New Products (2)

New financial products post-disaster could include:

- **Emergency loans** - These may be offered for the purpose of restoring productive assets and essential household assets.

- **Reconstruction loans** - These are designed to help clients re-build, repair and replace damaged assets following a disaster.

- **Leasing** - In a leasing arrangement, a client rents an asset from a supplier (lessor) for a fee payable in instalments. The lessor retains the title of the asset so that the asset cannot be sold/mortgaged/pawned. No tangible collateral, except a steady cashflow projection, is required for approval of leasing contracts.

- **Grants** - Despite concerns from the microfinance community, grants are often provided to microentrepreneurs following a natural disaster. So, whether MFIs like it or not, grants and loans coexist in the post-disaster context. The challenge for relief agencies and microfinance providers is to design these interventions so that they contribute positively to restoration of livelihoods, without creating dependency, and without undermining efforts to provide market-based financial services on a sustainable basis over the long term.
Rapid Response - Phase 3

Phase 3 involves activities for the medium term. It includes obtaining liquidity support if needed, reviewing the health of the loan portfolio, setting aside sufficient reserves to cover anticipated loan losses, and developing new markets and new products as part of overall reconstruction efforts.
MFIs and Disaster Relief

The emergency relief stage following a natural disaster requires various agents to provide or coordinate logistics and resources to support affected people. It has been observed that where an MFI was already operating in a disaster-affected area, it was invariably called upon as first responder until relief agencies and government organisations entered the scene.

MFIs can be an integral part of the disaster relief process. However, relief efforts for MFIs should not involve distribution of blankets, medicines and food throughout the emergency period, or operating camps for internally displaced persons. MFIs, by design, are not specialised to provide such types of relief. The priority of an MFI is the economic needs of its communities, and the initial focus is on its existing clients.
Why Should MFIs Get Involved in Disaster Relief?

- **To re-establish relations with their clients** - Microfinance is based on long-term relationships. The relief stage after a natural disaster offers a chance to establish new relationships while renewing the existing ones, by being there for the clients, listening to them and linking them with relief agencies.

- **To help affected people cope by releasing savings and facilitating money transfers** - This is especially important in areas that are frequently affected by disasters, where donor fatigue may limit the flow of funds for relief and livelihood restoration.

- **To help relief agencies with logistics and information** - In most places, MFI officers have comprehensive information about a village and its inhabitants. MFIs can be useful information partners to help relief agencies provide immediate assistance to affected households, since they are familiar with their clients and can quickly identify those most in need of relief.

- **To facilitate smooth transition from relief to recovery** - MFIs can engage with relief agencies in designing well-planned interventions for reconstruction while relief efforts are under way, so that transition from relief to reconstruction is rapid and efficient. Often, relief stages tend to be protracted because no long-term developments are initiated.

- **To avoid market distortions** - MFIs can work with relief agencies to minimise market distortions and use resources effectively. Staying out during the relief stage can create damage that will be hard to fix later.
To help track grant inflows and assess the need for financial services - For example, after the Boxing Day Tsunami BWDA in Tamil Nadu, India entered affected areas immediately to provide basic needs, sensitise their clients regarding grants and keep track of the grants that their clients received, so the agency could offer them suitable financial products. BWDA also conducted periodic assessments from the third week after the Tsunami, to assess client needs and to time release of their savings and loans products. The assessments helped them identify demand for emergency loans, which they then provided to long-term, well-performing clients a month after the Tsunami. They also found demand for loans at normal terms and conditions emerging four months after the Tsunami. BWDA was able to slowly increase its loan portfolio and also record good repayment.

To capture savings from cash transfers - Research in Aceh showed that 40 per cent of those who engaged in cash-for-work saved over 20 per cent of their payments. MFIs that managed to partner with relief agencies and link grants with financial products such as savings were able to increase their business after the relief stage.

To develop the microfinance business - The presence of an MFI during times of need creates loyalty to the institution, helping to retain old clients and also gain new ones.

What can be Done by MFIs in Disaster Relief? (1)
**TOPIC 5**

**MFIs and Disaster Relief**

**What can be Done by MFIs in Disaster Relief? (2)**

MFIs can contribute the most during relief stages in the following areas:

- locating affected people and linking them with relief efforts
- arranging for transportation to safer areas
- using MFI communication lines to inform head offices of the situation
- transmitting public health messages
- coordinating with relief agencies and providing information about the area
- organising MFI group members for community relief efforts such as clearing of debris, and
- helping with damage assessment and design for relief and reconstruction plans.
Estimated duration
5 minutes

Technique
Lecture
Slide
22

Summary

Effective rapid response to disaster depends on:

- building a robust institutional structure with strong governance and skilled human resources
- creating a strong MIS for rapid response, keeping track of portfolio and clients
- strong internal controls to avoid possible fraud during the time of crisis
- tailoring responses to client vulnerability and capacity, and offering product flexibility and choice
- having a clear but flexible resources policy attuned to staff and management’s trauma and needs, and
- effective coordination of stakeholders during normal times and choice of relevant products and strategies to mitigate and cope with disasters.