Disaster Readiness – Guidelines for MFIs

Photo Credit: Sean Hickin

The recent tragedy that occurred in Haiti has once again brought to the forefront the vulnerability of less developed countries as well as those of MFIs operating in areas susceptible to natural disasters. If past experiences are anything to go by, disaster management is a necessary precaution for MFIs and Mary Morgan shows the way for MFIs to deal with disaster.

When an earthquake measuring 7.6 on the Richter scale hit El Salvador in 2001, the author, Mary Morgan, a PhD candidate and an economic development consultant, was working as Program Director for Katalysis Partnership. Having dealt with the chaos following the quake, Morgan and her organization quickly realized the critical need for disaster management policies so MFIs can be better prepared to deal with an emergency situation. She stresses that "plans and procedures to respond to natural disasters must be in place in order to minimize the trauma, mitigate the risk of loss of loan capital, and maximize the potential for a quick response to the clients."

Before the Disaster

Setting out institutional priorities to respond to natural disasters provide a microfinance institution (MFI) with an operational and moral compass to guide itself and its staff and clients through the chaos that inevitably follows a disaster.

It's vital that the staff knows what needs to be done in the event of a disaster before the event occurs. MFIs should train their staff to administer first-aid and cardio-pulmonary resuscitation (CPR) so they can assist clients if and when necessary. At the same time, when disaster strikes, an MFI's staff is bound to be concerned, first and foremost, about their own family and loved ones. As part of an institutional response to a disaster, an MFI should arrange a contact plan with the family members of its staff. When employees know that their families are safe, they can focus better on their job.

> "As outlined in these set of guidelines MFIs ought to be prepared for natural disasters in order to protect their loan portfolio as well as to provide leadership to its clients and its communities during a crisis. People living in the developing world want and need to ensure that their assets are safe and financial services are stable and service providers won't take advantage of them in the event of a disaster."

MFIs should also prepare disaster response kits for their staff, which could include a first aid kit, water purification tablets, water jugs, flashlights with batteries, a transistor radio with batteries stored in waterproof bags and a list of relief agencies with contact numbers.

A responsible MFI also regularly backs up data from the MIS and, ideally, the MFI should be storing this data in a place off site. If feasible, it would be prudent to create a disaster contingency fund in the budget. In regions where disasters occur frequently, the MFI could have clients set up a guarantee fund that is designated to cover losses incurred by natural disasters.

When Disaster Strikes

When disaster strikes, it is not business as usual. Having policies in place that provide the guidelines so that clients can be better served under the circumstances, while the MFI is still financially responsible, makes it easy for staff and clients alike to get things back on track as quickly as possible. The following are illustrative policies:

a) Temporarily suspend collections from affected clients for a specific period depending on the gravity of the disaster.

b) Permit clients to withdraw their savings without penalty.

c) Do not disburse new loans until the MFI has assessed status of outstanding loans.

d) Restructure existing loans (reduce principal payments and increase term of loan) when homes are lost but productive assets are still functional.

e) Refinance existing loans (increase loan amount, reduce principal payment, increase term of loan) if productive assets have been lost.

While some natural calamities such as an earthquake are unpredictable, there are immediate precautions MFIs can take for events like a storm or hurricane, which could result in flooding and landslides. If it is an oncoming hurricane, cover up the windows and move important pieces of equipment to a secure place. Get important data records and computer systems off the ground floor if flooding is imminent.

> "While the priority of an MFI is its clients, an MFI needs to care for its staff who can only effectively serve clients if they have the emotional and operational support to do their job."

When it is safe, determine which staff is capable of being part of the post-emergency team using the buddy system. It is important for an MFI to know how their staff have been affected and which staff are going to be in a position emotionally and physically to participate in post disaster operations. In this context, having a buddy system among the staff can be very effective. This system allows the MFI to quickly understand the conditions of its staff as well as provide immediate moral support.

Depending on the size of the organization, two to four employees can be paired with one person reporting to a branch manager who then reports to the MFI head office. This buddy system must be formed on the basis of staff's proximity to each other. If buddies live far away from each other, then their ability to report on the status of a buddy will be impeded if mobility is curtailed. The idea of this scheme is to form an internal chain of communication that facilitates the assessment of how the staff survived the disaster and at the same time lets MFI staff know that they are not alone. Moral support is very critical when disaster strikes.

If the MFI head office in a country is connected to an international or regional network, then these networks need to make every effort to communicate with the MFIs affected by the disaster to let them know that there is help available. Moral and emotional support is invaluable in such situations.

'Normal' operations always have a hierarchy. But when a disaster happens, the infrastructure is destroyed, communications are non-existent or very sporadic and staff may be dealing with personal losses that make them incapable of continuing in their professional capacity. MFIs should take all these factors into consideration in their disaster response plan. With this in mind, a MFI disaster response plan should designate someone to take charge of the operation in the event the senior management is rendered incapable. Loan officers are also key players in the post-disaster efforts as they would be conducting client visits and collecting data.

The Aftermath of a Natural Disaster

Once the MFI knows the condition of its staff, the Disaster Response Team should be appointed to facilitate a rapid response for clients who will need support in getting their feet back on the ground. Designated leaders at each MFI office – be it a branch office or national office, should call a meeting as soon as possible with the staff who are able to attend to let them talk about their experiences and how they felt during the disaster.

Traumatic experiences shake the foundations of our beliefs about safety and shatter our assumptions of what is 'normal'. To ease the stress and trauma, encourage your staff to describe their experiences from the event and their present state of mind. This exercise will assist an MFI's staff to gain some sense of control over the situation.

Institutional priorities of a responsible microfinance institution (MFI) should include:

1. Provision of moral support and comfort to MFI staff.
2. Provision of moral support to the clients.
3. To assess clients' losses and systematize the gathering of this information, and feed it to relief agencies, donors and MFI networks.
4. Determine the amount of the portfolio affected by the disaster by calculating the cumulative outstanding balance of the loans owed by clients who have:
   - Lost their homes
   - Lost productive business assets (fixed and current)
   - Been severely wounded and cannot work in the near future
   - Died
5. Determine which loans need to be refinanced or restructured.

After people have shared their experiences, the branch office leader should mobilize the Disaster Response Policies into action. Loan officers and staff should begin assessing the status of their clients. It is a time for the MFI to be there for the clients. And it's important to bear in mind that while the core business of microfinance is to provide financial services, disasters create needs that are much bigger and more immediate. So, MFIs should also coordinate with relief agencies to provide medical attention, food, water and shelter to their clients.

Each employee should be given a list of contacts at relief agencies and a basic aid kit (stocked with emergency supplies) for distribution. Clients are going to be in shock and providing concrete assistance and emotional support is the way to strengthen relations will be the need of the hour.

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When MFI employees make the first contact with clients after a natural disaster, it is critical to collect data on the damage to client' homes, business, injuries and casualties. The second visit should be to assess whether clients need to refinance or restructure their loans. This information will be valuable to pass on to donors, networks and relief agencies who can assist in raising the necessary funds to to refinance loans.

As outlined in these set of guidelines MFIs ought to be prepared for natural disasters in order to protect their loan portfolio as well as to provide leadership to its clients and its communities during a crisis. People living in developing world want and need to ensure that their assets are safe and financial services are stable and services providers won't take advantage of them at the time of a disaster. ●●●

Mary Morgan has worked in the area of socio-economic development since 1988. She has expertise in developing and implementing financial and non-financial services for vulnerable populations.