Case study in
Disaster Risk Reduction

Fostering Resilience in the Middle East: A People Centered Approach to Risk Reduction

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A PEOPLE CENTERED APPROACH TO RISK REDUCTION…

» Puts the immediate physical, emotional and social needs of clients and staff at the forefront of service

» Builds deep and meaningful connections in communities and supports activities that contribute to resilience

» Fosters deep understanding of clients' circumstances to provide products and services that will best contribute to rapid recovery

» Requires persistent and flexible collaboration with financial service providers to negotiate services and products in quickly shifting environments

Fostering Resilience in the Middle East: A People Centered Approach to Risk Reduction

The seamless integration of disaster risk reduction into overall business planning means that, when disaster does strike, the company is well prepared to manage the impact and respond quickly. All of this helps fulfill Global Communities' mission to build safer, more resilient communities.

The following pages will explore three innovative approaches used by Vitas Group and Global Communities to successfully grow the financial inclusion sector in the Middle East over the last 20 years, despite the region's persistent political and economic instability:

- the development of community- and people-focused disaster management planning in **Iraq;**
- a relentless focus on customer relationships to support business continuity in **Palestine;**
- and the use of long-term funding with political risk insurance to address capital constraints during times of instability in **Lebanon.**

Security and risk reduction are essential components of every Vitas operating plan.

Organizational Information

Vitas Group is a commercial holding company created and owned by Global Communities as a long-term vehicle for fulfilling Global Communities' mission in micro-, small-, and medium-sized enterprise finance. Vitas Group prides itself on a community-driven approach to lending and building lasting partnerships in the places where we work. Vitas is 29 percent owned by Bamboo Finance, currently operates subsidiaries in Lebanon, Romania, Jordan, and Palestine, and shares its brand with the Global Communities microfinance institution CHF Vitas Iraq. For more information, please visit www.vitasgroup.com.

Global Communities is an international non-profit organization founded in 1952 that works closely with communities worldwide to bring about sustainable changes that improve the lives and livelihoods of the vulnerable. Learn more at www.globalcommunities.org.

Background

According to the most recent MixMarket data available (2014), the MENA region is currently home to 81 financial services providers (FSPs) that serve the financial inclusion space. Collectively, the 335 million borrowers in the region represent a portfolio of $1.9 billion in loans outstanding and $391 million in deposits. Most of those savings accounts are serviced by banks or specialized microfinance institutions, such as in Yemen, that also serve the micro-, small-, and medium-sized enterprise market.[1] Overall, the region exhibits the world's lowest levels of market penetration, with all MENA countries except Iran falling well below the projected market potential.[2]

One significant factor that has contributed to the region's low levels of financial inclusion is security risk. Political shifts in many countries can be sudden and significant, with flare-ups of violence and frequent shifts in political leadership leaving local banks and international investors jittery. As a result, the most vulnerable in the region are hurt doubly by crisis; in addition to having homes, businesses, families, basic infrastructure, and community spaces destroyed, they are deprived of the basic financial services needed to get back on their feet by financial institutions afraid to take additional risk. It has always been Vitas' mission to address this gap: to bring stable, responsible financial services to people who cannot get access elsewhere. As a result, addressing security concerns has been part of the organizational mandate from day one.

[1] Numbers include all country institutions, not just microfinance providers. http://www.mixmarket.org/mfi/region/Middle%20East%20and%20North%20Africa
[2] http://www.cgap.org/blog/introducing-mimosa-microfinance-market-capacity-measurement-tool

Case Study:
Iraq – Security Protocols

STRATEGY:

» Community- and people-focused disaster management planning

» Coupling soft-security approaches with hard-security protocols

PEOPLE CENTERED APPROACHES:

» Resource and rely on staff as integral members of DRR response

» Empower staff to establish strong linkages to the community

» Support community activities that strengthen cohesion and contribute to quality of life

KEY TAKEAWAY:

» Investments in staff and community result in remarkable business returns: steady growth, a satisfied customer base and high employee retention rates

When Global Communities entered Iraq in 2003, following the fall of Saddam Hussein, the centerpiece of the operating strategy was to build strong ties to the communities before giving out any loans. This people-focused approach meant becoming responsible as a community member, not just as a lender. To this day, Vitas Iraq continues to sponsor a wide variety of events to stay present for the people they serve. These events serve a broad population with diverse needs: food donations for displaced families; technology grants for vocational centers and orphanages; youth sports sponsorships and Mother's Day visits to clients. These activities are developed hand in hand with the security team to ensure that there is no element of any activity that could put participants at risk.

This "soft security" approach is coupled with rigorous "hard security" protocols, which together form the backbone of a strong system for preempting and mitigating disruptions—whether sudden or protracted—that allows the company to operate in a constantly shifting environment. In practice, this involves developing extremely detailed security practices, including real-time communications with all staff, following a color-coded warning system to inform actions for staff safety, and maintaining agile operations that allow for immediate changes to systems, environments, and staffing

The challenges are many in Iraq—road closures, electricity outages, suicide bombings, and complete capital flight—however, crisis management is simply business management for Vitas Iraq and other Iraqi financial service providers, so finding a way to do it well is the only option.

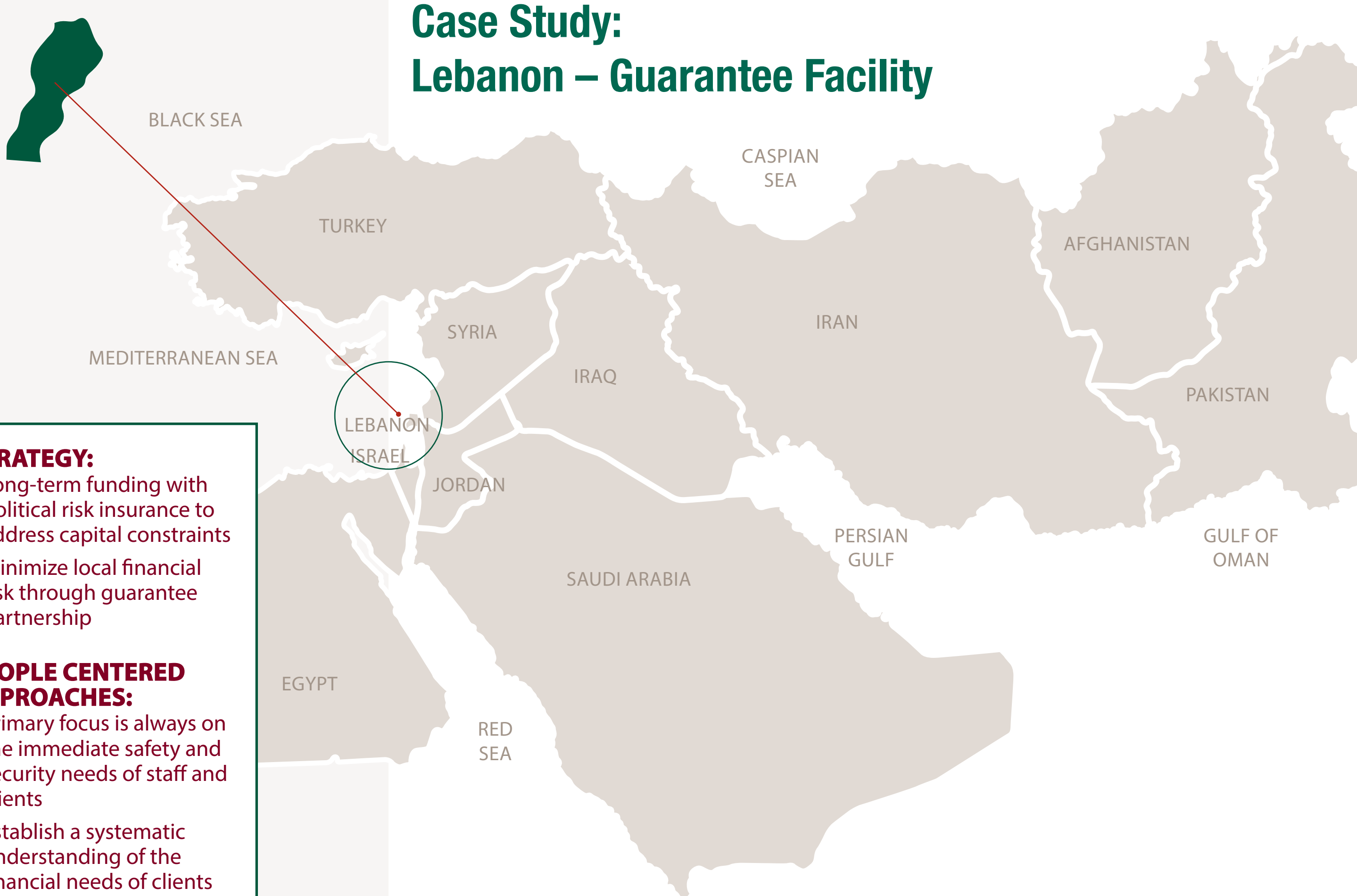
to keep business open as much as possible. It also involves accepting security costs at around 8.5% of all expenses, far above average for any financial services provider, to cover regular security trainings for all staff, 24-hour security staff, and occasional consultants for specific high-risk movements or events. It also means keeping a constant ear on the ground with local peers and key security contacts to understand changes to the local environment and act in advance of major disruptions. For example, when protests or pilgrimages are known to be imminent, security officers are in touch with all staff members in the impacted area as well as other local security professionals to find out what is expected and when. This gives them time to move staff and relocate or temporarily close offices until all potential for conflict has passed.

As a result, all staff members are integral parts of the disaster risk reduction efforts in Iraq by building ties to their communities and being representatives of the company. At the same time, the security manager, marketing manager, senior management team, office managers, and front-line staff are particularly responsible for staying up to date on the security situation and tailoring operational activities accordingly.

This approach has been highly successful for Vitas Iraq, garnering support among key local figures and institutions and demonstrating remarkable business returns in face of all the odds: 13 years of steady growth, a profitable business model, high customer satisfaction rates and employee retention rates, and a five-year average portfolio at risk under 1%. The challenges are many in Iraq—road closures, electricity outages, suicide bombings, and complete capital flight—however, crisis management is simply *business* management for Vitas Iraq and other Iraqi financial service providers, so finding a way to do it well is the only option.

CHF Vitas Iraq staff distribute food relief packages to internally displaced families in Kurdistan as part of their community engagement.

Case Study:
Lebanon – Guarantee Facility



STRATEGY:

» Long-term funding with political risk insurance to address capital constraints

» Minimize local financial risk through guarantee partnership

PEOPLE CENTERED APPROACHES:

» Primary focus is always on the immediate safety and security needs of staff and clients

» Establish a systematic understanding of the financial needs of clients through monitoring, surveys and outreach

» Facilitate constant, responsive collaboration among local banks, funders, sponsors and implementers, with flexibility to accommodate quickly shifting circumstances

KEY TAKEAWAY:

» A phased response creates a platform for long-term portfolio growth with existing and new borrowers

Within the Middle East, Lebanon has long been known for its rapidly changing security environment, moving from calm to chaotic in a matter of weeks, days, or even hours. As a result, local banks are notoriously conservative with risk, and international investors are quick to flee in times of trouble. When the war with Israel broke out in 2006, the three local bank partners that provided 100% of Vitas Lebanon's (then AMEEN s.a.l.'s) funding were quick to pull or restrict loan capital to limit the level of risk on their loans. This meant that little to no capital was available to address immediate needs when the fighting ended, leaving low-income populations struggling to recover.

During the war, Vitas Lebanon focused its efforts on core humanitarian risks, checking in on staff constantly and moving them from one place to another as needed to stay safe. They also monitored clients at regular intervals to see whether they had been displaced and how their families and businesses were faring. No emphasis was placed on loan recovery in this phase. It was only after the fighting ceased that Vitas systematically surveyed clients to understand their situations—their capacity to repay outstanding loans and their need for new loans to repair the damages.

Ghada was able to take care of herself and her family, even as a widow, with a loan from Vitas Lebanon and OPIC.

In the wake of war, Vitas Lebanon made more than 36,000 loans, worth over $69.5 million dollars...of this amount, just over $600,000 was required to cover defaulted loans–only 0.8% of total loans made. After only one year, Vitas Lebanon had brought its portfolio growth and quality back up and helped rebuild the lives of its clientele.

After the initial crisis, Vitas Lebanon focused on addressing capital risks. In partnership with Global Communities, Vitas raised a $20 million guarantee facility with the Overseas Private Investment Corporation (OPIC) to ease the fear of local banks and encourage them to resume full-scale lending. The facility provided commercial and political risk insurance on any funds lent by local banks under the facility. Having a long-term, large-scale guarantee on financing allowed Vitas Lebanon to provide stable, affordable service to the people most critically impacted by war. In addition, a new short-term emergency loan was created to help new or existing clients bridge the gap between the essential cost of living and available resources and a longer-term reconstruction product for individuals whose businesses and/or houses were damaged in the war. Vitas Lebanon also adapted the terms on its standard microfinance loans to help business regain prior footholds in the market and get back on a path to growth that would help restart local economies.

The core challenges to the response on the humanitarian side were largely logistical. Because of the fluidity of the situation, planning could only be done a day in advance, and even then, when a plan was set, the entire situation could change overnight, requiring a new plan the next morning. Vitas responded to the situation by using a flexible approach, which involved constant communication with all stakeholders to regularly adapt and fine tune response efforts. Concerning the financing, challenges were largely related to the structuring of the guarantee facility. Getting such a complex financing instrument designed, signed, and implemented took nearly a year of constant collaboration among the local banks, the funder, the sponsor, and the implementer, even with unwavering support from all parties.

The hard work paid off, however, and the end goals of the guarantee were achieved: three existing partner banks fully resumed lending and one additional bank agreed to begin lending to the micro-, small-, and medium-sized enterprise sector through Vitas Lebanon. Throughout the life of the guarantee facility, which closed in 2014, Vitas Lebanon made more than 36,000 loans, worth over $69.5 million dollars to underserved entrepreneurs and households. Of this total amount, just over $600,000 was required to cover defaulted loans, an amount that comes to only 0.8% of total loans made. As a result, after only one year, Vitas Lebanon had brought its portfolio growth and quality back up to pre-war levels and helped rebuild the lives of its existing clientele, as well as new borrowers who were turned away by the traditional banking community.

Case Study:
Palestine – Refinancing in the Wake of War

STRATEGY:
- Refinancing product for existing loans with a top-off amount to support recovery
- Small emergency loans with a simplified, lower interest rate for new clients
- Relentless focus on customer relationships to support business continuity

PEOPLE CENTERED APPROACHES:
- Partnership with Global Communities and World Food Programme to deliver immediate humanitarian aid at the front lines of war
- Frequent, daily contact with staff to monitor and support their physical and emotional health and identify people in immediate need of assistance.

KEY TAKEAWAY:
- Short-term assistance in the form of direct aid, refinancing and emergency loans leads to portfolio recovery with extremely low rates of delinquency

Global Communities has worked in the West Bank and Gaza since 1995, when the CHF Access to Credit Program (now operating as Ryada/Vitas Palestine) was established to provide home improvement loans in Gaza. Over the past 20 years, Vitas Palestine has weathered innumerable crises along with its clients and, for better or worse, has become adept at disaster risk reduction planning that protects the business and the client. The recent war in Gaza is one example of how client-focused recovery plans can provide stability in the face of conflict.

First and foremost, in the summer of 2014, when the conflict broke out, Vitas Palestine worked around the clock to contact all clients in Gaza, surveying all 2,600 clients to better understand who was impacted and how deeply. Next, Vitas worked with Global Communities and the World Food Programme (WFP) to deliver relief supplies to the 1,300 clients identified as most in need. Vitas staff personally delivered relief packages to clients whose homes and livelihoods had been destroyed, driving company cars across demolished cities to reach even the most damaged areas. No clients were asked about their loans at this time—only their well-being.

When the war was over and clients' most pressing human needs were met, Vitas staff dug deep to analyze the results of their survey in terms of portfolio impact. The results concluded that no client would be able to repay anything on current loans but that most peoples' situations could be drastically improved with just a few thousand dollars. To fill this gap, Vitas created a new Refinancing Loan to help cover and close out existing loans. The refinancing product included a small top-off amount to help clients get back on their feet and a grace period of up to six months, depending on need. At the same time, Vitas created an Emergency Loan of up to $5,000 with a simplified, lower interest rate for new clients who needed help to recover. In the end, Vitas Palestine disbursed $150,000 in emergency loans and $500,000 in refinancing loans, all of which would have otherwise been delinquent. The results were astounding: the portfolio was back to normal within three months and the institution closed the year with a PAR>30 below 1% and delinquency of only 0.7%. In total, $125,000 worth of loans were written off for businesses that were completely destroyed. But of those clients, 70% have now paid back those loans on their own accord, without any legal action or pressure from Vitas, so that they could keep a clean credit history with the local regulators and have access to credit again in the future.

Managing such a personalized, hands-on approach to disaster risk reduction required the work of all internal stakeholders—from client relationship officers to senior management to back office staff in Ramallah—at all hours and constant coordination with Global Communities' humanitarian relief efforts.

While many tactical challenges made the response to this crisis difficult, including devastated infrastructure that made it difficult to reach clients by phone or in person, the most complex challenge for Vitas Palestine was managing the very personal and emotional toll the war had on staff in Gaza. The people working on the food relief distribution had been facing war for 57 days. They saw their friends and families killed or displaced and their homes and neighborhoods destroyed. They needed services before they could truly help others. Vitas Palestine combatted this by setting up phone trees and a schedule so that someone from the West Bank called each staff person in Gaza at least four times a day to check in on their physical and emotional health and identify people in immediate need of greater assistance. West Bank staff listened to their stories and encouraged them to give it another day to stay safe for their families and for the clients who desperately needed help. The approach worked, and within 10 days following the end of fighting, Gaza staff were all safe and reported feeling very happy to have been able to help clients when they felt so helpless in other ways.

Because Vitas Palestine has always maintained a people-focused approach to lending since the beginning of its operations, crises like the recent conflict in Gaza have only served to strengthen the ties between institution and borrowers in the long run.

A client next to her ruined home in Gaza *(left)* and in the shelter she rebuilt with the help of Vitas Palestine *(right).*

Vitas staff personally delivered relief packages to clients whose homes and livelihoods had been destroyed, driving company cars across demolished cities to reach even the most damaged areas. No clients were asked about their loans at this time—only their well-being.

› A Balanced Approach to Risk Reduction

While many caught in uncertain economic or political environments are hesitant to take on debt, Vitas has proven to its clients time and again that risks can be taken, if prudently and with the right partner, and they have responded with loyalty. With strong risk management policies, deep client relationships based on authenticity and trust, and endlessly resilient borrowers, the institution was able to ride out the crisis with incredible portfolio quality and continues to grow today.

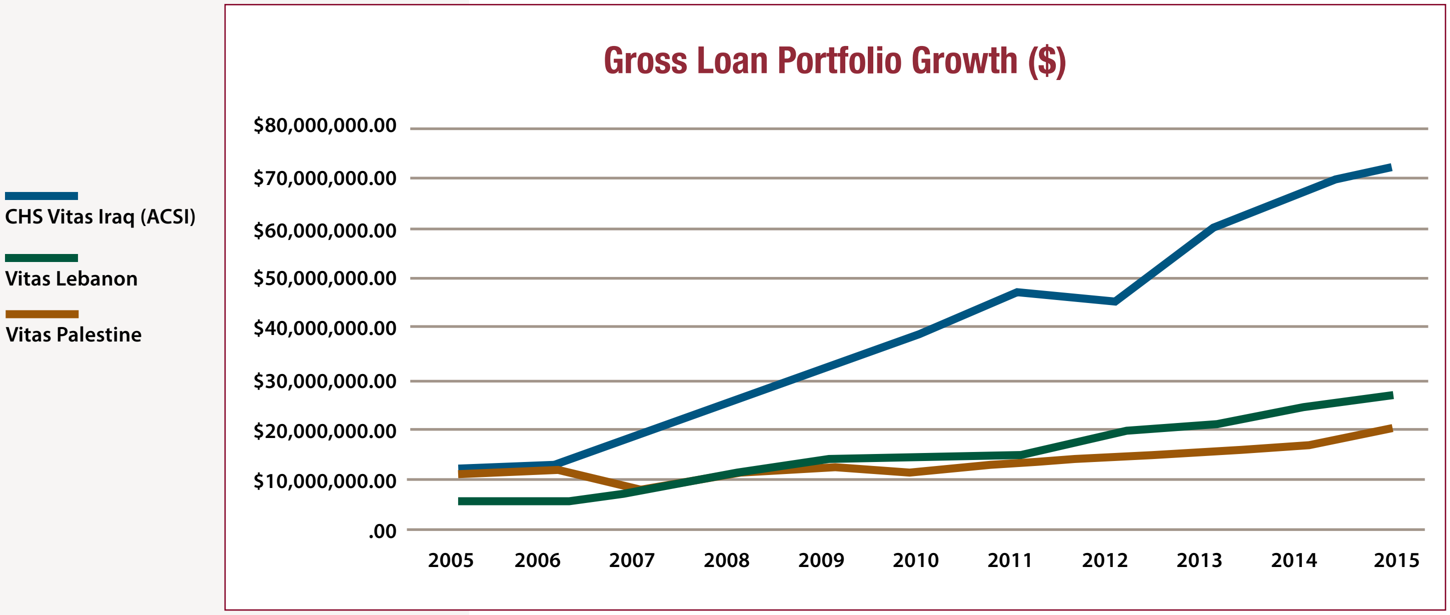
Results to date

No clients have ever been asked to repay loans they could no longer afford because of disaster, and no client has ever been asked to repay a loan in the midst of a major conflict.

These risk-reducing measures that have been tried and tested over the years have become standard operating procedures for Vitas partners operating in high-risk settings. It is now part of the Vitas Group credit policy to establish appropriate emergency loans and refinancing criteria for situations such as these, with lower rates and longer terms, to allow people to get back on their feet. The refinancing of current loans is done on a case-by-case basis with the approval of the local general manager, assuming that the team has assessed a willingness to pay and a reasonable expectation of the business to generate future cash flows to service the loan.

The benefits of a balanced soft and hard approach to disaster risk reduction have been immense for both clients and business. For the clients, this has provided them with access to services that meet their immediate needs while helping them to recover their capacity to repay existing commitments. No clients have ever been asked to repay loans they could no longer afford because of disaster, and no client has ever been asked to repay a loan in the midst of a major conflict. For the financial institutions, this has helped to protect the quality of their portfolios, with each being able to rebound fully within one year or less of each major conflict, maintaining a combined annual growth rate of 15% over the past 10 years and never purposefully shrinking a portfolio because of security risk. In terms of sustainable financial inclusion, it has allowed these institutions to remain functioning even during their least certain times, acting as an unwavering partner to the communities they serve. None of these institutions has ever fully closed operations or stopped disbursing funds because of a crisis. Not one has ever permanently closed a branch because of security.

The chart below demonstrates that even during times of conflict, insecurity and and chaos, Vitas has been able to consistently grow its loan portfolio to serve the needs of those affected by disaster.



Lessons Learned

Disaster risk reduction is a constant work in progress for Vitas and Global Communities. It is part of every business plan, and our approach is reviewed after every new security incident so that improvements can be made in future responses. Two key lessons will be at the heart of our strategy moving forward:

1. People always need excess cash to support children, buy food, and pay medical bills. This is felt more acutely after disasters, when basic needs are exacerbated and new or more urgent needs must be met in the face of cash shortages. This makes the delivery of financial services even more crucial and calls for a reinforced commitment to lending during times of crises.

2. Disaster risk reduction is business as usual in the Middle East. It should be seen as a process that needs to be reviewed regularly, like any other key business area, with a senior person directly responsible for overseeing it—a Chief Risk or Security Officer.

While most regions do not operate with the same level of security risk as the Middle East, many of the key takeaways can be applied in other contexts. Following is a list of the essentials for successful disaster risk reduction:

1. A financial institution should always have a crisis management plan as part of its risk management framework—even in low-risk security environments. Floods, earthquakes, or riots over election outcomes don't come at planned intervals. A robust plan should involve constant communication with all stakeholders, from security managers and other local partners to staff and clients, all of whom must be accounted for at regular intervals and kept apprised of key changes In addition, flexibility is absolutely essential. Creating a plan is necessary, but all team members must be prepared to move from Plan A to Plan B, C, D, F, and G as quickly as possible to accommodate rapid changes in the situation.

2. Staff and client well-being must always be the first priority. Full stop. Portfolio concerns are secondary. A robust disaster risk reduction plan should include tactics to manage both the emotional and physical well-being of staff to ensure that a basic duty of care is given before, during, and after stressful situations. Ideally, this involves a strong security plan, managerial training to recognize stress or worrisome behavior changes in employees, flexible leave policies to accommodate mental health needs, and a list of resources available locally for those in need of additional care.

3. When finally assessing the portfolio, do everything possible to help clients recover before writing off loans. Rescheduling loans or providing additional emergency funds helps get the clients back on their feet while preserving the viability of the business, which helps both the customer and the financial institution in the long run. Writing off loans not only hurts the lender's business but also affects a client's credit history and future ability to obtain credit.

4. Last, to create stability, look for new ways to preserve liquidity in times of crisis. Loan guarantees or other instruments are excellent ways to mitigate risk; however, they take time and advance planning to structure. For companies in high-risk environments, start early and begin building relationships before crisis strikes.

SEEP
Powering connections

About SEEP

SEEP is a global learning network. We support strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their life.

Founded in 1985, SEEP was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the worlds' poor.

SEEP members are active in more than 170 countries worldwide. They work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

About Citi Foundation

The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world. They invest in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities. The Citi Foundation's "More than Philanthropy" approach leverages the enormous expertise of Citi and its people to fulfill its mission and drive thought leadership and innovation. For more information, visit www.citifoundation.com.

DRR

About the Disaster Risk Reduction (DRR) Program

The goal of the Disaster Risk Reduction (DRR) Program is to improve the resiliency of financial service providers serving vulnerable populations, as well as that of the communities they serve. The program aims to create awareness of the need for disaster preparedness in financial services markets and to build a general consensus among key stakeholders around effective disaster risk reduction practices. As a result, the program will strengthen the capacities of financial service providers and their clients to anticipate, cope with, and recover from the negative impacts of disasters. The DRR Program has been co-designed and funded by the Citi Foundation. For more information, visit seepnetwork.org/DRR.

About the Author

Christina Washburn serves as the brand and staff engagement manager for Vitas Group and the Financial Inclusion division of Global Communities. Over the past nine years, Christina has served both institutions in diverse capacities, including technical support to the institutions featured here and large-scale change management strategies in the areas of branding, human capital management, and internal audit. She received a joint-honors B.A. in international development studies and French language and translation from McGill University and an MBA from Georgetown University.

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