



CASE STUDY IN DISASTER RISK REDUCTION

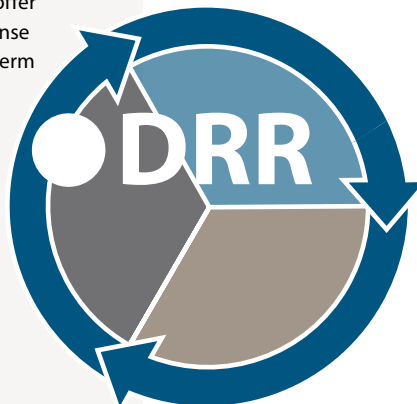
FIRST MICROFINANCE INSTITUTION SYRIA: BUILDING RESILIENCE THROUGH A CLIENT-CENTRIC MODEL



Organizational Information

The **Aga Khan Development Network (AKDN)** is a group of development agencies that cover a wide array of disciplines including the environment, health, education, architecture, culture, microfinance, rural development, disaster reduction, the promotion of private-sector enterprise and the revitalisation of historic cities. The **Aga Khan Agency for Microfinance (AKAM)** is a social development agency of the Aga Khan Development Network that works closely with the other AKDN agencies as part of a coordinated approach that brings together many inputs and disciplines. AKAM's mission is to affect demonstrable, measurable, and lasting improvement in the Quality of Life of its clients by delivering appropriate financial services to diminish the vulnerability of the disadvantaged and enable economic and social inclusion. AKAM is a registered Swiss non-profit organization with microfinance institutions in 10 countries offering a wide range of credit and deposit services. AKAM's financial service providers are present in Syria, Tajikistan, Kyrgyzstan, Pakistan, Afghanistan, Egypt, Madagascar, Mali, Burkina Faso and Cote d'Ivoire.

AKAM works with its sister AKDN agencies, such as Focus Humanitarian, Aga Khan Rural Support Program, Aga Khan Planning and Building Services and Mountain Societies Development Support Program, to offer pre-crisis mitigation and crisis response programs. In line with AKDN's long term commitment to the countries it operates in, AKAM seeks ways to serve and support communities during times of crisis to help communities recover and rebuild.



Building Resilience through A Client-Centric Model

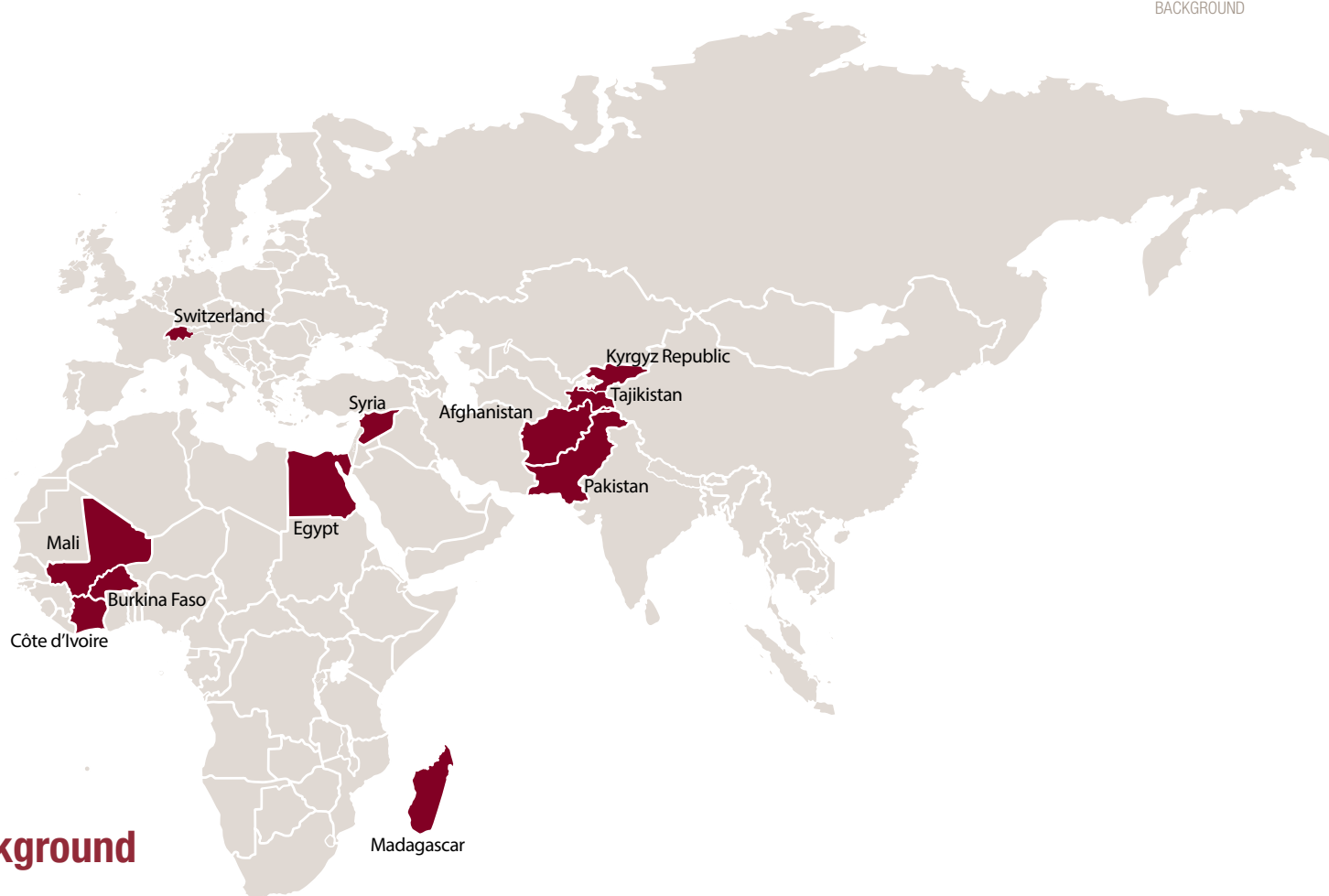
The Aga Khan Agency for Microfinance's (AKAM) mission is centered around creating lasting improvement in the quality of life of its clients by delivering client-centric financial products and services. While microfinance institutions cannot prevent crises from occurring, they can work effectively with communities to help them prepare for, mitigate, recover from and adapt to crises. As such, crisis management initiatives aimed at increasing client resiliency are an integral part of AKAM's goal to ensure that services go beyond meeting the immediate economic needs of clients to contribute to overall improvement of quality of life.

In 2007, AKAM transitioned its initial Syrian Microcredit Facility to First Micro-Finance Syria (FMFI-S). Since conflict began in 2011, many FMFI-S clients have lost family members, homes and busi-

nesses as a direct result of the protracted conflict in Syria. While FMFI-S has developed a range of tools to help clients withstand the crisis, over the past five years the institution has faced substantial challenges in its day-to-day operations, including inflation, local currency devaluation, staff security and safety, and funding. The policies and interventions outlined in this case study have allowed FMFI-S to strike a difficult balance between ensuring continuous delivery of client-centric financial products and services and promoting long-term institutional resilience.

FMFI-S's achievements can be attributed to a client-centric model and pre-existing policies and procedures that were adapted for the local context and have been continuously updated to reflect the realities of the situation on the ground.

Crisis management initiatives aimed at increasing client resiliency are an integral part of AKAM's goal to ensure that services go beyond meeting the immediate economic needs of clients to contribute to overall improvement of quality of life.



Background

AKAM emphasizes disaster readiness in its programming, as it operates in geographic areas that are either facing or have faced a variety of crises. Natural disasters, such as earthquakes and floods, have affected AKAM's financial service providers (FSPs), and clients in Tajikistan, Pakistan and Afghanistan. Concurrently, civil unrest and political instability have affected operations in Egypt, Burkina Faso, Cote d'Ivoire, Mali, Afghanistan and Pakistan and FMFI-S continues to operate in the midst of a civil war that has devastated the country. Furthermore, all the FSPs are operating in regions where clients are struggling with substantial economic issues.

AKAM's mandate is to alleviate poverty and improve the quality of life of its clients. Achieving resiliency for these clients, whose social and economic profile makes them particularly vulnerable to the detrimental impacts of disaster, is of crucial importance.

AKAM began operations in Syria in 2003, under a memorandum of understanding with the Syrian Government, which cre-

ated the initial Micro Credit Facility (MCF). In 2007, MCF was transformed into First MicroFinance Syria (FMFI-S), a Joint Stock Company licensed to mobilize deposits. The conflict in Syria began in 2011 when government security forces and demonstrators clashed during pro-democracy protests in the southern city of Deera. The tensions between the groups escalated until a civil war broke out between rebel brigades and government forces. The loss of government control provided the extremist group Islamic State with an opportunity to take over large regions of the country.

The Syrian crisis has made the operational environment increasingly challenging for FMFI-S. The majority of clients have experienced substantial personal and material losses, many have fled within or outside the country and the economy has collapsed. According to data from the UN, since March 2011, over a quarter of a million people have been killed and over one million injured in the conflict. Furthermore, since the start of the conflict 4.8 million Syrians have fled the country and 6.5 million are internally displaced. In 2016, 13.5 million people, including 6 mil-

lion children, are in need of humanitarian assistance in Syria and four out of five Syrians now live in poverty.¹

The civil war has devastated the Syrian economy. Unemployment is estimated to have increased from 15% to 58% between 2011 and 2014 with 3 million Syrians losing their jobs. In particular, the tourism sector has been hit hard with dramatic drops in revenue and sizable job loss. As of 2011, only 23.3% of the population had an account at a financial institution and financial inclusion has only worsened over the past five years.²

FMFI-S has continued to operate within this environment. FMFI-S currently has seven branches and six service outlets. By the end of April 2016, the number of borrowers reached 23,273 with an outstanding portfolio of USD 10.49 million. The deposit portfolio consisted of 45,517 depositors with an outstanding portfolio of USD 11.85 million.

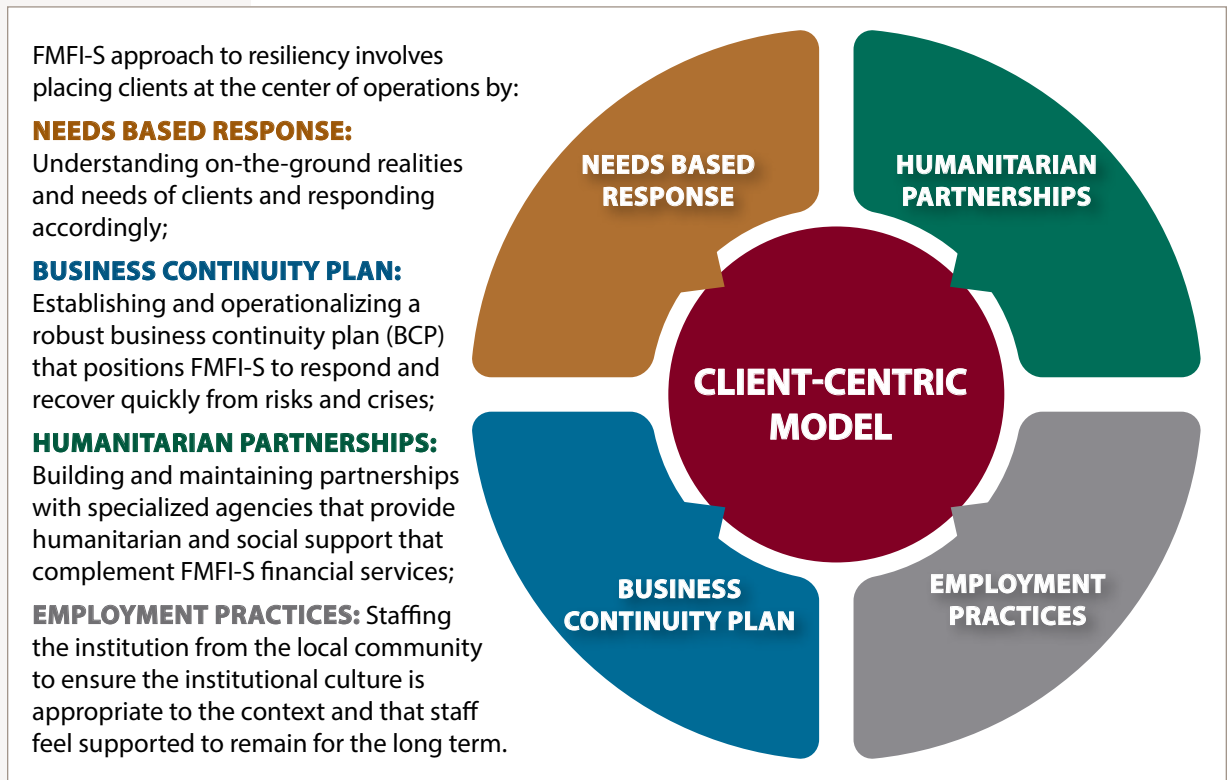
¹ <http://www.unocha.org/syrian-arab-republic/syria-country-profile/about-crisis>

² World Development Indicators

AKAM Client-Centric Model

In times of crisis, it is crucial that an institution's strategy, policies and procedures are adapted to reflect the evolving reality on the ground and allow the institution to react effectively and quickly to rapidly changing situations. AKAM FSPs have policies and procedures that are developed, tested and implemented with the local context in mind and that emphasize

both **client** and **institutional** resilience. This dual focus allows the organization to effectively and efficiently respond to crises as they evolve. A combination of a client-centric approach and pre-existing policies and practices during the crisis has so far allowed FMFI-S and their clients to weather the storm in Syria.



In order to best serve its clients in a crisis environment, an organization must have strategies, policies and procedures in place that are context-specific and adapted to the evolving situation on the ground. Such an institution must also ensure that it continuously reviews its products, services and delivery channels to ensure that they are meeting client evolving needs.

Needs Based Response

All AKAM FSPs abide by a needs based response in designing and delivering demand-driven products and services. Each country level organization has a Market Insights and Solutions unit that strives to understand client needs, preferences, behaviors and aspirations. The department also gathers client feedback and tracks changes in client poverty levels and quality of life. All of this data is used to inform development of client-centric products, services and delivery channels. This strategy is especially important in times of crisis, as client needs change to reflect the reality of the situation on the ground.

At the onset of the crisis in Syria, FMFI-S's priority was to help clients adapt to the new circumstances by offering products and services that met their evolving needs. The Market Insights and Solutions unit conducted a comprehensive market research study to establish a thorough understanding of clients' needs as the crisis progressed. Clients expressed concern with the rising costs of living, availability of working capital and regular power outages. As a result, FMFI-S developed a Crisis Initiative Policy that informed the organization's procedures around rescheduling or writing-off existing loans, and disbursing new loans to clients according to their feedback. FMFI-S's efforts to help clients cope with the crisis have supported both client satisfaction and the institution's reputation.

FMFI-S learned from the experience of AKAM's entity in Kyrgyzstan during the Osh crisis. In 2010, violence broke out between ethnic Kyrgyz and Uzbeks in Southern Kyrgyzstan, leading to a conflict during which clients in Kyrgyzstan faced many of the same challenges as those in Syria. As a response, AKAM loan officers went into the field to visit each client and assess their situation. If, for example, the patriarch of the family had been killed in the conflict, the loan officer would determine whether any other family members had the capacity to service the loan. Loan officers would then return to the branch and make the appropriate recommendations regarding rescheduling or forgiveness of the debt to be reviewed at head office. FMFI-S adopted this same strategy in Syria—an important component that contributes to the strength and sustainability of the client-centric model to this day.

This needs based approach has been used to both inform and define FMFI-S's products and services, which have continued to evolve in response to the conflict-affected context and changing needs of clients.

NEEDS BASED PRODUCTS AND SERVICES

Product Specifications

The institution took clients' declining purchasing power into account to raise the ceiling for microloans, lower the area stability requirement from six months to three months, allow loans for start-up projects, and design new products around alternative power sources.

Deposits

During the crisis, FMFI-S has continued to offer deposit services in the most challenging areas while other banks and MFIs ceased to do so. Providing clients with an income has been difficult due to the significant currency devaluation. Many Syrians have exchanged their savings into other currencies or gold. FMFI-S was unable to offer its clients increased interest payments, as the rate was set by regulators. So instead FMFI-S focused on offering a secure place for clients to store their savings and a convenient branch-to-branch transfer and withdrawal service during periods of internal displacement. Clients were also offered the option to use their savings as collateral for a loan at a proportion that varied with their circumstances. In addition, FMFI-S allowed clients to withdraw from their fixed term deposits without penalty at any time. This flexibility made it more likely that clients would place their savings at the institution.

Loan Rescheduling

The Crisis Initiative Policy set criteria to determine whether a client was eligible for loan rescheduling, including an assessment of asset damage and cash flow projections. Rescheduling was to be done on an immediate and case-by-case basis in order to avoid portfolio contamination. In addition, a standard six-month grace period allowed clients to use loan proceeds productively in a manner that helped to rebuild capacity.

Loan Forgiveness

FMFI-S allowed loan forgiveness in cases where the client was unable to repay the loan due to death or irrecoverable loss of livelihood. Loan forgiveness was applied on a case-by-case basis, and was confidential in order to avoid moral hazard and other concerns.

Loan Disbursements

The organization extended business reconstruction loans to existing clients who had experienced partial or significant loss of business assets during the crisis but demonstrated capacity to continue to generate revenue.

Business Continuity Policies and Procedures **Humanitarian Partnerships**

FMFI-S first formulated its business continuity plan (BCP) in 2011 at the beginning of the crisis in the country. The purpose of the plan was to reduce the risks of and time required to resume operations during a situation that affected crucial business operations. The BCP clearly outlines FMFI-S's priorities around asset security, as well as staff and client protection during a crisis. To effectively ensure staff and asset safety, the BCP gives branch managers more authority to ensure that the institution can swiftly and flexibly respond to incidents. In addition, head office and branch management regularly review security conditions across the branch network to identify areas that are not safe for operations and adjust accordingly. If client mobility becomes a challenge in certain areas, FMFI-S offers alternative access points for clients.

Some other procedures introduced by the BCP include frequent testing of evacuation plans, first aid training for staff, heightened information and database security, as well as preparation of alternative work sites. The Business Continuity Team is responsible for the implementation, maintenance, review, and compliance of the BCP. As a direct result, the BCP has been continuously updated as the crisis has progressed.

In crisis situations, clients often need assistance beyond what a microfinance institution can provide. While AKAM FSPs do not directly provide humanitarian aid to clients, they do partner with AKDN and other specialized agencies that have expertise in those areas. FMFI-S has worked with AKDN agencies and other NGOs to offer assistance beyond the provision of financial products and services. In 2013 and 2014, FMFI-S worked with Aga Khan Foundation Syria to distribute humanitarian aid in the form of cash transfers to over 35,000 households. The institution extended branch hours, including over the weekend, to better serve those affected by the crisis and were able to serve 1,200 beneficiaries daily through its network. Over the same time period, FMFI-S has also partnered with AKF Syria to distribute financial aid for educational purposes. Seven branches disbursed aid to approximately 4,460 students in 2014 and 5,200 students in 2015.

Employment Practices

AKAM believes that communities are best served by their own members, as their familiarity with the culture and sensitivities of the local environment cannot be matched. It is for this reason that AKAM works to staff its FSPs with individuals from the local population as much as possible. Local staff is more likely to make a long-term commitment to the organization than foreign personnel and less likely to leave the region during a crisis. FMFI-S has been greatly concerned with supporting its staff during the crisis. The institution has arranged for access to fuel and other emergency staples, life insurance, family support, and crisis counselling for its local staff members. The steps taken to strengthen local staff were beneficial to their resilience and that of their families.

FMFI-S developed a Crisis Initiative Policy that informed the organization's procedures around rescheduling or writing-off existing loans, and disbursing new loans to clients according to their feedback. FMFI-S's efforts to help clients cope with the crisis have supported both client satisfaction and the institution's reputation.



Results to date

FMFI-S's disaster risk reduction initiatives have had a meaningful impact on a significant number of clients throughout the conflict in Syria. Through the organization's partnership with AKF Syria, FMFI-S has also helped distribute humanitarian aid to over 35,000 households and financial aid for educational purposes to almost 10,000 students from 2014 to 2015. As a direct result of the client-centric model, the number of depositors has increased from 27,949 to 45,517 and the deposit portfolio has grown from EUR 6.39 million to USD 11.85 million over the last year. The institution has rescheduled 20 loans valued at USD 4,718, including seven in Damascus and 11 in Salamieh. In addition, a total of 103 loans valued at USD 8,892 have been forgiven, the vast majority in the city of Holms.

There is one particular client whose experience exemplifies the impact of FMFI-S's needs based products and services have had on the ability of clients to withstand the crisis at hand. The client, Mr. H. had previously borrowed two small loans (USD \$100-200) from the institution to support the operations of his grocery store. Unfortunately, due to the safety situation in Damascus, Mr. H. was forced to leave the city and his business and move to Salamieh, located approximately 250km North of Damascus. FMFI-S assisted Mr. H in finding employment in his new town and eventually he was able to find a partner with whom to start a new business. The value of Mr. H's most recent loan was about 10 times the size of his previous loans. He is using the profits of his business to rent a house and to open a kindergarten with his partner. He is hopeful that his new business will help him build a better house and a better future.

The Way Forward

Going forward, FMFI-S will continue to focus on its client-centric approach in designing new products and services and amending existing ones to meet client needs in the conflict environment. The institution will also continue to follow its Crisis Response Initiative by offering loan forgiveness and rescheduling on a case-by-case basis.

FMFI-S will carry on with its efforts to attract deposits and is currently considering a scheme that will grant rewards to clients for maintaining specified savings levels.

FMFI-S is also working to address client needs around recurring power shortages through products that improve client access to alternative power sources. Prior to the conflict, FMFI-S refrained from providing consumption loans. However, many items that were previously considered consumption goods have become basic needs and now qualify for financing. For example, electricity has been cut in innumerable households leaving clients in desperate need of alternative power sources. In response, FMFI-S has recently started offering a loan that allows households to purchase generators, batteries, electric stabilizers and solar panel water-heating devices.

FMFI-S will continue to rely on client feedback and consult with branch management in determining appropriate modifications for its existing product suite. Recent discussions have highlighted the need for changes on product usage conditions for the housing loan and small business loan products. As a result, the permissible uses of the housing loan were expanded to include consumer needs such as fuel and household commodities. The small business loan was also revised to better meet the reconstruction needs of businesses striving to rebuild in a crisis environment.

Lessons Learned

- **AKAM's experience in Syria has brought out a number of valuable lessons that are relevant to all its country level operations. First and foremost, it is important to note that each context is different—as such, the crisis response strategies need to be tailored to the nature of the crisis as well as local culture and context. In order to best serve its clients in a crisis environment, an organization must have strategies, policies and procedures in place that are context-specific and adapted to the evolving situation on the ground. Such an institution must also ensure that it continuously reviews its products, services and delivery channels to ensure that they are meeting client evolving needs.**

Since the beginning of the crisis, FMFI-S has come to fully appreciate the importance of a dedicated local team who support the organization during and after the crisis. FMFI-S will continue to focus on, and invest in, staff needs, providing both financial and non-financial support to staff and their families who are also dealing with the realities of the extended crisis. Without the insights and effort of the local team, FMFI-S would not be able to successfully operate in the crisis environment.



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.

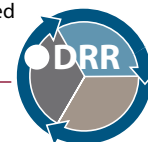
SEEP members are active in more than 170 countries worldwide. They work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

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.

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

Sitara Merchant, Director of Market Insights and Solutions, Aga Khan Agency for Microfinance (AKAM), Geneva

Sitara has over 25 years of global experience in both the private and social development sector; she founded her own private sector consulting company in Canada that worked with clients to develop their strategy and link it to their day to day performance to have a bottom line impact. She joined the Aga Khan Development Network twelve years ago to follow her desire to make a difference in developing economies. During the last seven years she has been developing financial products/solutions for the poor, small and medium enterprises. At AKAM she provides technical assistance 10 microfinance institutions on market insights and solutions with a view to transition these entities digital financial services that are client centric as well as implement a performance management (social and financial) to monitor and maximize the positive impact on the quality of life for the poor.

Bethanie Pascutto, Market Insights and Solutions Consultant, Aga Khan Agency for Microfinance (AKAM)

Bethanie joined AKAM in early 2015 as the Research and Product Development Manager for AKAM's West African entities, where she was responsible for developing quantitative and qualitative research and data analysis tools to aid in the design and delivery of microfinance products and services. She currently provides consultancy services for the organization. She has a Master's in International Development from NPSIA, Carleton University and a B.Comm in Finance from Queen's University. Prior to making a significant career change she worked in various positions at TD Wealth for over five years.

Contributing authors include: **Deena Burjorjee, Jenny Morgan and Sonya Salanti.**