

Post-Disaster and Post- Conflict Microfinance: Best Practices in Light of Fonkoze's Experience in Haiti

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June 2006

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Haiti: The Poorest Country in the Western Hemisphere

Haiti is the poorest country in the Western Hemisphere and has seen more than its share of both natural and man-made disasters. 80% of the population lives in abject poverty. In 2005, the UNDP ranked Haiti 153rd out of 177 countries on its Human Development Index.¹ The following are some statistics from this report:

- Life expectancy at birth is 51.6 years.
- Adult literacy is estimated at 52%.
- 65% of the population lives below the national poverty line.
- 54% has no access to potable water.
- 49% of the population is undernourished.
- 5.6% of the population is estimated to be infected with HIV/AIDS in a country with 25 doctors per 100,000 people.

The country's economic growth has never been rapid, but since the 1970s the picture has generally gone from bad to worse. After growing at an average annual rate of 2.3 percent in real terms in the '70s, real per capita GDP fell an average of 2.4 percent per year in the '80s. The decline accelerated through the '90s to an average annual rate of 2.6 percent.²

Real GDP did not grow during the period 2000-2003, inflation averaged 17 percent (including increases in the price of basic products), and the fiscal deficit (excluding grants) averaged 3.1 percent of GDP. The absence of publicly-funded social programs and the dramatic contraction of donor

¹ Country Fact Sheets: Haiti. *Human Development Report 2005*, New York: United Nations Development Program, 2005.

² World Bank Group, *Haiti Country Overview*, July 2004, p. 1.

assistance led to significant declines in the delivery of basic services, from safe water to critical and basic health services.³

And the public institutions in place to address these needs have lacked the trust both of those whom they would serve and those who would collaborate with them. The 2005 Transparency International CPI index, which ranks countries around the world based on the CPI, or Corruption Perception Index, ranks Haiti 155th out of 158, with a score of 1.8. A score of less than 5 out of 10 indicates serious levels of corruption.⁴

Police lawlessness and the lack of professionalism is a particularly grave concern. Not only are the Haitian National Police (HNP) largely incompetent in preventing and investigating crime, they are responsible for frequent arbitrary arrests, torture, beatings, and the excessive and indiscriminate use of force against demonstrators. They also face credible allegations of extrajudicial executions and of involvement in drug trafficking and other criminal activity. The police force is under-trained and suffers from shortages of personnel and equipment.⁵

Human rights abuses in Haiti, such as those the HNP are accused of, have made world headlines. The head of the human rights section of the United Nations mission in Haiti told reporters in October 2005 that the country's human rights situation was "catastrophic." Children's rights are of particular concern. As many as 300,000 Haitian children live apart from their families in unpaid domestic servitude. Most are girls, who are often subject to sexual abuse. These children work sixteen-hour days, seven days a week, with no rest or play. Most do not attend school. Their prospects as adults are dismal.

³ Idem.

⁴ Transparency International, *Transparency International Corruption Perceptions Index 2005*, Berlin, 2005.

⁵ Human Rights Watch, *Country Summary: Haiti*, New York: Human Rights Watch, January 2006, p. 2.

Environmental degradation is also a major concern, especially when considering the potential effects of a natural disaster. Less than 2% of Haiti's forest cover remains, and much of the topsoil has been washed to the sea, where it silts over coral reefs and destroys fishing. The lack of topsoil has led to the deaths of thousands of Haitians each year due to flash floods, and whole regions of the country have become barren deserts.

September 2003 – September 2004: A Year of Conflict and Natural Disaster in Haiti

So under the best of circumstances, life in Haiti is hard for a large majority of Haitians. The twelve months between September 2003 and September 2004, however, included a set of conditions that only made a difficult situation much worse.

The six-month period between September 2003 and March 2004 were filled with political and social upheaval for Haiti. An ongoing political crisis beginning with an impasse between President Aristide's government and opposition political groups led to a widespread mobilization of civil society in an attempt to force change. This was accompanied by increasingly violent public demonstrations.

Gonaïves, Haiti's third largest city with a population of just over 100,000, was the center of much of the violence and turmoil, as it has been throughout its history.⁶ Amiot Metayer was the leader of a criminal gang in Gonaïves that called itself the "Cannibal Army". His group claimed to have originally received money and arms from Aristide's Lavalas party, but then turned against Aristide and Lavalas. The group kept Gonaïves in lock-down by creating a climate of fear among the populace, extorting taxes on incoming boats docked in the port, and harassing vehicles that passed through Raboteau, the slum where he had his base. City marketplaces were

⁶ Gonaïves is sometimes called Haiti's "independence city" because Jean-Jacques Dessalines declared Haiti's independence there on January 1, 1804.

limited to opening for just a few hours on certain days. This restriction greatly inhibited the local economy.

On September 21, 2003, Metayer was murdered while traveling to St. Marc, a town south of Gonaïves. Supporters claimed that he was killed by pro-Aristide forces.⁷ The killing sparked a new round of violence and demonstrations.

After Amiot's death, his brother, Butuer Metayer, took over leadership of the gang and blamed the Aristide government for Amiot's killing. The gang again threw its lot in with Aristide's opponents and changed its name from "Cannibal Army" to the "Gonaives Resistance Front." On February 5, 2004, Butuer Metayer initiated a national rebellion by capturing the city of Gonaïves.

Meanwhile former members of the Haitian military, which had been disbanded by Aristide in 1995, began crossing the border with the Dominican Republic to invade Haiti from the East. Metayer's front, in cooperation with these military units, then set out to oust Aristide and take control of all Haiti.

On February 22, 2004, Haiti's major city in the north, Cap Haitien, was captured by paramilitary forces led by Guy Philippe. Under the seizure of major cities by the rebels and pressure from the international community, President Aristide left the country on February 29, 2004, leaving Port-au-Prince and many other parts of the country in chaos, with widespread looting and violence. It took several months, and ultimately the presence of an interim multinational peacekeeping force beginning in July 1994 to restore a semblance of normality in the country.

⁷ Michael Norton, "Body of Fugitive Leader Amiot Métayer Found." *Associated Press*, 23 September 2003.

But the violent political conflicts that plagued the country through 2003 and early 2004 turned out to be no more than preliminaries to the real disaster. Tropical storm Jeanne hit the coast of Haiti on September 18, 2004. Environmental damage and deforestation had long left the country, especially the area around Gonaïves, at high risk, so when Jeanne struck massive destruction was unavoidable.

The water rose quickly in the region surrounding Gonaïves, and entire villages were swept away. Thousands perished in the flood as well as from the deteriorated living conditions that were its consequence. Communication and transportation were cut, and the distribution of external aid was hampered by political miscalculations and difficulties attributable to destruction from the storm and to insecurity in the region.

In Gonaïves and its surrounding areas, the problem faced by small market women and their families went beyond simply the immediate impact of the floods and violence. Their livelihoods are based on daily sales. If she is unable to sell for even a day, a market woman may lack the means to feed her family.

Furthermore, when the market women's businesses suffer, their local communities are affected as well. Market women play a central role in providing their communities with access to foods and other basic goods. The combination of political upheaval, natural disaster, a failing economy, and a general climate of insecurity left the women and their families devastated, with very little means of survival.

Fonkoze: Haiti's Largest Microfinance Institution⁸

Haiti's position remains fragile. Poverty is endemic and the need for economic development is great. Microfinance has been introduced as a tool

⁸ For more information on Fonkoze, please consult the website at www.fonkoze.org.

for the poor to build businesses and improve lives: It can fuel development by helping to create jobs and raising income. Microfinance can also serve as a relief and survival strategy in disaster and in conflict. It reduces vulnerability to collapse by providing access to funds to purchase survival assets and to maintain a source of income. Access to capital can protect against total economic collapse during crises by allowing participants to access savings for income smoothing as well as for investment.

Fonkoze is the largest microfinance institution in Haiti, serving more than 90,000 of Haiti's rural poor with financial and educational services through a network of 30 branches that cover every region of the country. Fonkoze's key guiding principles include reaching the poorest, ensuring universal access, measuring impact, and establishing sustainability. Fonkoze's services include:

- Solidarity group micro-credit, with over 35,000 clients, 99% of whom are women, holding over \$4.3 million in loans outstanding. The average loan is less than \$150.
- Small and medium sized business development loans, through individual lending to over 600 clients, who hold almost \$1 million in loans outstanding. The average loan size is less than \$2,000.
- Savings products, with over 90,000 clients holding over \$7 million in savings.
- Money transfer and currency exchange services, with over \$10 million transferred to Haiti and over \$30 million exchanged in 2005.
- Educational programs that include a two-module sequence in basic literacy and additional modules in business skills and reproductive health. Additional modules in human rights and environmental protection are planned for 2006-2007. Over 9,000 clients participated in educational programs in 2005.

Fonkoze's mission is to build the economic foundations for democracy in Haiti. Specifically, Fonkoze seeks to:

- Provide Haiti's poor with the financial and educational services they need to make their way out of poverty;
- Demonstrate to the world that we know how to eliminate extreme poverty by replicating a proven model in Haiti;
- Reverse the decline in Haiti's economy by helping families to engage in sustainable economic development.

Fonkoze is working for a Haiti that is free of extreme poverty, a Haiti in which everyone has access to the financial and educational tools they need to make their way out of poverty and to support their families, and a Haiti with an economy able to support democratic governance.

Solidarity group micro-lending is Fonkoze's core product. Fonkoze motivates groups of five women to form solidarity groups. They are women committed to helping one another build better lives for their families. These solidarity groups organize themselves into credit/learning centers of 6-8 groups in which they help one another learn to read and write, learn basic business and life skills, and receive credit and savings services. Branch offices located in all regions of Haiti facilitate the functioning of these centers while providing a full range of financial services to the communities they are in.

The Fonkoze Family consists of three mutually supportive institutions. Branches that are not yet sustainable belong to the original Fonkoze (Fondasyon Kole Zepòl), a non-profit foundation, governed by the organized poor, that nurtures them to sustainability, while profitable branches belong to a well financed and capitalized commercial entity – Fonkoze Financial Services – poised for rapid expansion over the next five years. An independent U.S.-based 501(c)3 institution, Fonkoze USA, acts as a channel

for socially responsible investors and donors to participate in this innovative and exciting model.

Fonkoze's Response to Conflict: The Case of the Central Plateau

Beginning in May 2004, Fonkoze partnered with Concern Worldwide to help repair local supply chains that were broken following the social and political problems at the end of 2003 and the beginning of 2004. The initial experiment was undertaken in the Central Plateau, in the areas around the two major towns of Hinche and Mirebalais.

Two main problems faced the communities of Saut d'Eau, Mirebalais, Hinche, Thomonde, and Thomassique, where the experiment was undertaken:

1. A cash flow crisis, caused by the inability to repay local suppliers who were previously offering credit.
2. A breakdown in transportation to and from the capital, caused by an increase in fuel prices and insecurity.

These problems caused key suppliers to run out of stock. They were thus forced to close their businesses. Consequently, local markets had little access to basic commodities, and the commodities that were available became so expensive that many merchants were unable to sustain their businesses. Living conditions quickly deteriorated.

Fonkoze and Concern developed an approach aimed at interrupting hyperinflation in the local markets and ending food shortages. A flexible loan product was offered to key suppliers so that they could provide credit stock to smaller vendors, who could thus resume supplying their local communities. This injection of commodities back into the communities would, in turn, help to bring prices back down to affordable levels.

Fonkoze and Concern first completed an appraisal of the situation in the affected areas. Individual interviews were conducted with small traders, key suppliers, and Fonkoze branch managers. These interviews were evaluated to determine the best way to approach the situation to recover market activity.

Fonkoze's clients, the small traders, were very helpful in targeting the local suppliers they had depended on for cash and credit-based sales. The small traders, in conjunction with Fonkoze and Concern, designated sixteen key suppliers to receive loans. The key suppliers were brought together to participate in the design of the special one-year loan product that was eventually offered through Fonkoze and Concern.

Loans were made in accordance with the following conditions:

1. Recipients had to supply Fonkoze clients.
2. Their commerce had to be related to foodstuff.
3. They had to be able to prove that they had been victims of looting and decapitalization.
4. They would repay the single, non-renewable loans over a one-year term.
5. The interest rate was 5% per month, declining balance.
6. The minimum loan was set at 50,000 HTG (at that time about USD 1,190) and maximum at 300,000 HTG (at that time about USD 7,142).
7. No compulsory savings were required, but borrowers were required to offer proof of ownership of assets offered as a guarantee against the loan.

After receiving the loan, the suppliers were able to replenish their stocks from wholesalers in Port-au-Prince and to begin selling again to their local communities. The injection of capital into the local economy had a significant effect on both the supply and the prices of commodities in the local market.

Fonkoze's Response to the Flooding in Gonaïves

In order to address a community's needs after a disaster, an organization's staff needs to be prepared to work very hard. Having the staff in place to deliver emergency assistance is dependent upon the organization's effectiveness at ensuring employees are in a sufficiently good situation themselves including by providing them with aid to help them get back-to-work if necessary. Many of the staff that Fonkoze was depending upon to address its Gonaïves clients' needs after the flood were from the very affected communities that clients were in. Both clients and staff were hit hard by the disaster.

After the floods, Fonkoze sent employees both from other regions and from the central office to Gonaïves to provide local employees with emergency food and clothing. Fonkoze also provided its local employees with a housing allowance with which to repair their homes or find new ones. Additionally, an organization-wide employees' fund was established into which other employees could make donations. Fonkoze matched every donation on a two-for-one basis.

Once the staff was in place, the next problem that needed to be addressed was to find clients and assess their situations. At the time that the flooding occurred, Fonkoze had just under 1,300 borrowers being served by its Gonaïves branch. Of these, some 365 had received loans just before the floods occurred, while another 565 were waiting for new loans when the floods occurred. Virtually everyone was homeless and staying somewhere other than where they normally lived.

The solidarity groups helped in finding clients. Group members had been able to stay in touch with one another, so finding even one member of a solidarity group usually led to finding the others as well.

To get the message out to clients, on October 4, Fonkoze issued a press release to be read over radio stations, in churches, and in other places where people congregate. It emphasized that Fonkoze wanted to work in solidarity with its clients. It invited clients to meetings in each zone that the branch served. The meetings occurred in mid-October and resulted in information being imparted to approximately 50% of clients. Subsequent work by credit agents significantly increased the percentage.

Fonkoze decided that two microfinance strategies were needed to mitigate the potential financial failure of its clients: a short-term strategy to alleviate the immediate effects of the disaster and a longer-term strategy to assist the clients to get their businesses up and running again.

Components of the Fonkoze short-term strategy were to cancel the debt of any client who died in the storm, although fortunately there were only a few such clients. In addition, Fonkoze allowed any client who needed to withdraw her savings maintained as collateral to do so – and even paid half of their transportation costs to get to the next closest branch where it was possible to make a withdrawal. Finally, it did not require any clients to make any scheduled payments on their existing loans for up to three months. No interest or penalties were charged during these months.

Fonkoze began systematically testing the local markets within weeks of the flood using a survey form designed for post-conflict/disaster settings and conducting in-depth interviews with clients to see whether the Gonaïves economy was strong enough to absorb new capital. In December 2004, Fonkoze performed market research to help determine what its clients in Gonaïves would need to get back on their feet. A team visited Gonaïves several times in December to understand the reality in the city and its surrounding areas. Individual interviews were held, and a focus group discussion was conducted with a total of 20 Fonkoze's clients. In addition,

informal discussions were undertaken with market women in the markets themselves. The interviewees relayed how the floods had destroyed or damaged their homes, killed or injured loved ones and friends, and swept away their merchandise. Most of the families were surviving by relying on help from other family members and churches.

A significant proportion of active clients had lost their entire inventories as well as their homes and were unable to conduct business at all. The impact of the floods on the local market contributed significantly to the decline of the availability of food and other basic commodities. So Fonkoze decided to get new money into clients' hands as quickly as possible. But the question was how much money and to whom? Should all clients receive new loans? How would (or should) Fonkoze be able to control whether they used loans for their businesses or for immediate consumption?

Consultation with Concern Worldwide led Fonkoze to begin planning a major initiative and raising money to finance it. Concern has expertise in post-conflict microfinance, and it helped to undertake market research in Gonaïves. In addition, Concern helped Fonkoze see its Gonaïves branch as a community resource that could be of major assistance in rebuilding the Gonaïves region. Concern also helped link Fonkoze with other non-governmental organizations (NGOs) working in the area so that it could ensure its clients were linked to all the sources of support available to them.

Fonkoze's Disaster Relief program was given the name "Fonkoze Solidarity Services," which served to differentiate it clearly from other programs and conveyed the sense that it was a special program only for disaster victims. It seemed important to separate microfinance activities from relief activities in order to discourage the perception that Fonkoze was giving gifts or handouts. Such an image could have reduced repayment rates significantly.

Beginning in December, Fonkoze began giving those clients who had repaid their loans prior to the flood new, interest-free loans with the term extended to one year as opposed to six months for any group that decided to do so. The total disbursed in December was approximately \$144,000. Thus, by year end Fonkoze had a total outstanding loan portfolio of approximately \$250,000 in Gonaïves.

In the early months of 2005, Fonkoze began addressing the needs of those clients who had balances on the day the floods hit. A new interest-free loan was disbursed to each group. The loan size was consistent with the last loan received from Fonkoze and the capacity of the existing business. The balance on the old loan was folded into this new loan and was also interest-free. Again, clients could choose whether to repay their loan in six months or in one year. These loans, in total, equaled about \$156,000. All clients understood that once this loan was repaid, they would immediately receive a new interest-bearing loan with a six-month term.

At the same time, Fonkoze began a major expansion effort. Between January and December 2005, it opened three new branches in flood-affected areas. Two of these branches began operations with part of the former Gonaïves portfolio, while the third began in a previously unserved area that had seen the horrors of the floods. The following chart highlights the growth Fonkoze experienced during this period:

Growth In Flood-Affected Areas

Indicator	January 2005	December 2005
Number of branches	1	4
Active loan clients	1,084	4,016
Loans outstanding	\$283,296	\$512,536
Portfolio at risk >30 day	27%	7%
Number of savers	5,327	10,697
Savings balance	\$312,988	\$578,174

The repayment rate on all of these loans has been very high, and clients have had few problems accepting that the interest-free loan was a one-time affair. So far, only two loans have had to be written off and the amounts were relatively small. Fonkoze anticipates that no more than ten clients will fail to repay all or part of their loan.

Delinquency, however, has varied tremendously among the four branches with two having virtually no delinquency and two others having problems requiring very close attention – indicating that the problem of delinquency is less related to the flooding than to poor branch management.

A Review of Best Practices in Post-Disaster/Post-Conflict Microfinance

Fonkoze has reviewed available literature to compile a list of best microfinance practices following a conflict or disaster. Adopting the World Bank classification, the thirteen summary practices have been organized into five categories: (1) Assessment of risks (2) Institutional preparedness (3) Client preparedness (4) Emergency response phase and (5) Recovery phase. The following evaluation of these practices is based on Fonkoze's experience both on the Central Plateau and in Gonaïves.

Assessment of Risk

1. Business Planning: The business and strategic plan of the MFI should provide an analysis of disaster risk factors and outline a strategy to withstand and respond effectively in the event of a disaster. The planned response should set out to mitigate its impact on the institution and clients, and it should also outline the organization's contribution to disaster risk reduction as appropriate. A key goal of the business plan should be full sustainability and expansion of outreach, recognizing that this will take longer and

probably be subject to set backs in the event of a disaster due to the higher loan loss; the inflated cost structure that it might result in; and the negative effect it will have on the speed of expansion.

Though a business plan that included a clear and detailed response to possible disasters would have been helpful, Fonkoze discovered that such foresight in this situation was not absolutely necessary. Fonkoze is a highly committed, action-oriented institution that is better at thinking on its feet than it is at preparing strategic plans. After ten years of operating in Haiti, a very difficult country, it has demonstrated that neither disasters nor conflicts will stand in its way.

Of course, Fonkoze has aimed at developing into a fully sustainable institution, but the assumption that this will take longer and be subject to set backs in the event of conflict or disaster turns out to be not necessarily true. Fonkoze has consistently shown that it can turn the difficulties that confront it into opportunities for growth, deeper outreach, and learning, in part due to the assistance of its most important partners. These two cases are only two examples.

It is hard to predict how an institution will respond to a conflict or a disaster without actual experience. After an institution has been through several experiences, it is much more likely to know what it can and should do. At that point, making the most important strategies part of an overall plan would be appropriate. There is no question that Fonkoze learned a great deal as a result of disaster and conflict, although turning that learning into a sophisticated business and strategic plan is still, unfortunately, on the “to-do” list. For Fonkoze, both of these experiences – one a conflict situation and the other a conflict/disaster situation – would have been very difficult to plan in advance. Now, with the experience, it would be easier to do so.

These events occurred just as Fonkoze's most profitable branches were spinning off to form a high-growth commercial entity, including two branches on the Central Plateau that had been affected by the conflict.⁹ The timing could not have been worse. Nevertheless, the institution managed to continue growing in spite of the difficulties and is today a much stronger institution.

This best practice includes assumptions that there will be a higher loan loss and that there will be a negative effect on the speed of expansion. Neither was true for Fonkoze. Fonkoze was blessed to have many friends and partners who sent new funds to it after the Gonaïves disaster, which of course helped tremendously. But Fonkoze's approach was to assume that these disasters and conflicts could become opportunities to tighten its method, better train staff, increase staff and client loyalty, and grow the portfolio.

Fonkoze discovered that the best mitigator of risk is to have a geographically wide focus, with multiple centers of activity. Rapid expansion throughout the entire country in its early years served to protect the institution during these crises. The portfolios in Gonaïves and on the Central Plateau were both large, but neither represented a majority of the institution's total portfolio because there were so many other branches that were less affected or not at all affected by the events.

Institutional Preparedness

2. Contingency Planning: Preparation for potential disasters should include developing contingency plans to enable the MFI to cope with resurgence of short-term and long-term conflict or a natural disaster. Preparation should be formalized in the MFI's operation manual, and staff should be trained and skilled for its implementation. Security of

⁹ One of the branches scheduled to be spun off was the Gonaïves branch. Given the disaster it suffered, several months after the creation of the new institution, that branch was returned to the foundation, for continuing incubation.

staff and clients should be the highest organizational priority and security guidelines should be in place and reviewed regularly. The negative impact on the cash flow and the value of the portfolio outstanding should be anticipated by building reserves or having access to emergency funding or loans. Management information systems should be developed to withstand the resurgence of conflict or the onset of a disaster.

Again, things at Fonkoze are less well documented and more chaotic than this best practice would prescribe, but the leadership believes that such fluidity has been beneficial. Security of staff and clients is, of course, the Fonkoze leadership's highest priority. Similarly, the institution has developed emergency guidelines that exist in writing, and top management has received training in their implementation. Training in crisis or disaster response below the top management levels has not, however, occurred except specific training for security agents.

On the other hand, the management information system during the period was very weak. It depended ultimately on a manual system, which fortunately withstood the conflict and disaster. Fonkoze now has a better idea of what needs to be done, and is taking action to protect these systems.

After the Gonaives disaster, Fonkoze began taking a monthly provision, apart from its loan loss provision, to better prepare for losses from unexpected events, including disaster, conflict and theft. Given the difficulties of purchasing insurance in a country like Haiti, this type of self-insurance seemed to the board of directors to be the only appropriate course of action.

During 2004, the year in which the conflict peaked and the disaster occurred, there was not consensus within top management as to how to respond. One view was that during such periods the organization should retrench, taking things very slowly. This view was based partly on the assumption that

Fonkoze should follow the lead of commercial banks. In fact, that assumption initially became explicit policy: the leadership told its branch directors to open when and if commercial banks did.

This policy was finally overturned, however, by an alternative view that said that what differentiated Fonkoze from commercial banks was its relationship with its clients. That relationship dictated that it open as soon as clients were working in the marketplaces, that the decision should not be based only on the decision of the commercial banks. This view also proposed that there were varying degrees of openness – one could open fully to clients, one could close its doors to clients, but bring staff in to do back-office work, or one could close the building but let the credit agents continue to do their work in the field. Violence on a given day in Gonaïves didn't necessarily affect the rural areas around it. If a credit agent could leave the city, there was no reason for him or her not to work.

The final decision was that whether a particular branch opened or not would be left to the discretion of the branch director, with some advice from headquarters. So while many institutions closed their doors for days or even weeks at a time, Fonkoze was more likely than not to have its doors opened. Clients appreciated this tremendously.

Client Preparedness

3. Prepare your clients: Prepare those people living in poverty to use microfinance services while ensuring appropriateness of products and establishing a culture that includes a strong repayment discipline.

Fonkoze spends enormous time and energy developing savings, loan, and remittance products to meet its clients' needs at all levels. It has also established a culture of a strong repayment discipline. Fonkoze feels, however, that the greatest protection against poor repayment is the

solidarity group/credit center method it adapted from the Grameen Bank. The vast majority of Fonkoze loan clients are organized into solidarity groups and then into centers. Fonkoze is working to make those centers permanent associations of women who are devoted to strengthening their livelihoods by developing their businesses and themselves. Working in solidarity to lower the risk their communities and their families face is an important component of the work of these centers.

4. New Product Development: Develop products and services with a view to disaster risk reduction based on market research. Examples are remittance services, insurance products, compulsory savings that can be accessed in the event of an emergency, financial products that encourage diversification of income generation activities, and disaster preparedness training for clients.

The centerpiece of Fonkoze's successful risk-reduction strategy has been to broaden and diversify its portfolio. It has done this by adding, on the one hand, new branches that spread it out over a wider geographical area and, on the other hand, new products that help it reach a wider range of clients in a wider range of ways.

It is worth noting that neither of these strategies was chosen as a way to reduce disaster risk. Both are straightforward implications of Fonkoze's vision, which includes serving as many as possible of Haiti's poor.

The breadth of Fonkoze's approach is nowhere clearer than it is in the range of its credit products. It offers four separate loan products, which together are able to serve the whole range of Haiti's poor. Its *Chemen Lavi Miyo* (Path to a Better Life) product is adapting lessons from Bangladesh for addressing the needs of the poorest – i.e., those with no land, no productive assets, many children none of whom are in school, and significant food insecurity. *Ti kredi*, which is Creole for "little credit", is designed for those who are better

off than the poorest, but are not yet ready for standard solidarity-group credit. It allows a woman to gradually work her way up to full participation in Fonkoze's regular solidarity group program. Finally, for those who have successfully repaid multiple solidarity group loans and have viable and growing businesses, Fonkoze offers larger, individual loans through its Business Development program.

Fonkoze also has fully developed remittance services. It has its own remittance product in partnership with a U.S.-based, African-American owned bank. It also is a payer for several other transfer companies, such as Moneygram and Uno. In this way, Fonkoze is able to provide its clients with a choice of transfer companies and uses the choice as an opportunity to educate its clients to become more sophisticated consumers of financial services.

The organization emphasizes savings heavily, including required savings as a central feature of credit programs. Its clients are taught early on that the key to escaping poverty is to build assets and that savings is one important component of an asset portfolio. Ultimately the only way out from under the domination of ruthless money lenders is to build one's own savings.

Fonkoze now recognizes that even a one-day disaster preparedness module, one that could be offered as part of Fonkoze's educational programs, could very much benefit its clients. While the module has not yet been developed, it is high on the list of new modules under consideration.

Emergency Response Phase

5. Partnerships: Resolve to build capacities and networks that enable all partners to play an effective role in economic development after the disaster. Create, strengthen, and advocate partnership.

Fonkoze was fortunate. Its main partner, Concern Worldwide, not only has a microfinance section, but also a sophisticated emergency response capacity. After the floods in Gonaïves, Concern helped Fonkoze understand that its Gonaïves branch was a community resource and that Fonkoze should be working to bring together all the various players in the community.

Even if Fonkoze was never really able to make that a reality, nevertheless Concern itself was very active in helping to coordinate services among the many NGOs trying to respond to the disaster.

In retrospect, it might have been useful if Fonkoze had worked more closely with the other NGOs and the U.N. forces that were distributing all sorts of humanitarian aid. That aid was the source of considerable conflict, even violence, as people in need fought with one another to get access to the assistance, especially to food and water. It might have made more sense for distribution to work through Fonkoze credit centers. Fonkoze hopes that, in a future disaster, it will be more sophisticated at integrating the various responders, convincing them to use its networks of clients to deliver services, and also ensuring that clients are aware of all the resources that are available to them and their families.

6. Logistics: Establish the logistical challenges before embarking on any action. As soon as possible, conduct an assessment to determine the current standing of clients, employees, physical assets and portfolio quality following the disaster.

This was important for Fonkoze both in Gonaïves and on the Central Plateau. On the Central Plateau, Concern Worldwide was in the field very rapidly, assessing whether the situation should be viewed as a humanitarian crisis. Concern quickly determined that it should not, that the situation was rather a simple disruption of the economic value chain that could be resolved by using Fonkoze's Business Development program to make special loans to key

suppliers of Fonkoze solidarity group clients. A combined Concern/Fonkoze team then followed up this determination by using market research to identify both the key suppliers of Fonkoze clients, and also to learn what those suppliers would need to get their businesses up and running again.

The response this research led to turned out to be much more effective than treating the situation as a humanitarian crisis would have been. Food aid or other handouts would only have deepened problems for the small businesswomen Fonkoze exists to help. Instead, working with their suppliers helped them and, so, helped their communities as well.

In Gonaïves, Fonkoze sent multiple teams out on several different occasions to assess the situation in order to establish whether clients had the capacity to absorb new loans. The final assessment was done in November 2004, just two months after the disaster. That study showed that the markets were reopening, that people were coming out of the shock of the disaster, and that they had the capacity to absorb loans. This research convinced Fonkoze that its clients were ready for new money and that they would use it to re-establish their businesses. At that point, Fonkoze began disbursing loans to put new money in its clients' hands.

7. Short-Term Planning: In the event of a rapid on-set emergency, create a short-term, 30-day plan to manage the crisis effectively. Product design and organizational procedures should promote risk minimizing behavior.

This too was important, especially in Gonaïves. Once the news was in that Gonaïves had suffered a major flood, Fonkoze immediately put an emergency response team into place. Team members were partially relieved of other duties so that they could focus on the crisis. As soon as the flood waters had receded enough for vehicles to get through, the response team arrived in Gonaïves and began locating its employees. The team developed a plan that

covered how to get Fonkoze employees and their families housed and clothed so they could come back to work, how to set up communication channels that would allow them to remain in contact, how to protect remaining assets, how to provide security to its building, how to prepare the branch for reopening, how to give clients access to their savings accounts as quickly as possible, and how to ensure remittances would be paid effectively and rapidly.

As a result of the planning and the efforts of both Gonaïves employees and the emergency response team, Fonkoze was able to reopen its branch very quickly. During the days it could not open, it paid clients who needed to withdraw savings half the price of travel to its next closest branch so that the withdrawal could be made.

8. Employee Assistance: Provide relief and back-to-work assistance to employees if necessary.

Fonkoze mobilized rapidly all its employees to assist those who were victims of the Gonaïves flood. It opened a special fund for employee victims. The institution matched all employee donations to the fund on a two-for-one basis.

The institution started by working to secure food, clothes, and shelter for employee victims. It immediately began sending supply convoys to Gonaïves every few days.

The next step was to provide more substantial housing assistance. Fonkoze considered two options: providing the same assistance to each employee or basing the aid it would provide on each employee's particular need. In the end, Fonkoze gave each employee US\$900 to help them repair their homes or find a new place to live. This assistance served to motivate employees to

return to work and begin cleaning the office. Ultimately, this enabled Fonkoze to reopen well before other banks and MFIs in the area could.

9. Avoid across the board concessions: Respond to clients on a case-by-case basis. Bar temporary suspension of repayments, and avoid overly generous across the board concessions or write offs for clients. This will help to reduce the negative impact on the portfolio, minimize the risk of mass default and maximize clients' long-term creditworthiness. Close supervision and follow up is essential to clients who receive technical assistance and/or concessionary loans.

This particular best practice is a difficult one to implement as stated. Fonkoze did, in some sense, avoid across-the-board concessions. To this point, no loans have had to be written off on the Central Plateau and only two have been written off in Gonaïves that could be attributable to the conflict or disaster.¹⁰

Fonkoze did, however, immediately decide not to penalize any client in Gonaïves who was unable to make a loan payment during the first two months following the flooding. Even so, some clients chose to come in and make their repayments. On the Central Plateau, if a center meeting could not be held because of violent conflict in the surrounding area, no penalties for late payments were imposed.

On the Central Plateau, no other concessions were deemed necessary. There was no refinancing of loans, interest rates were not reduced and meeting discipline was reestablished as quickly as possible. For most branches in this area of the country, delinquency rates rose immediately following the departure of Aristide but returned to normal levels within 3-4 months. This

¹⁰ Fonkoze expects ultimately to have to write off another handful of loans in Gonaïves.

was not a conflict that endured for many months, however, and had it done so, we are not certain that we would have been able to maintain normal delinquency rates in every branch.

In Gonaïves the situation was different. Fonkoze combined the existing balance with a new loan that was extended to twice the normal term and was interest free. Whether it was necessary to do this for all borrowers is not clear and in future disasters, Fonkoze would reconsider whether this across-the-board loss of interest was necessary.

The problem with this best practice is that handling things on a case-by-case basis is very difficult when there are many clients involved and each credit agent is handling up to 500 clients organized into credit centers. There is not enough time following a disaster to develop quickly a policy of treating clients variably and then to train credit agents in how to make appropriate judgments. In Fonkoze's case, it turned out to be best to drop penalties for non-repayment for a period of time, but to maintain the expectation that everyone would repay.

The portion of this best practice that speaks to close supervision and follow-up with clients who receive concessionary loans is certainly true, and Fonkoze did not always respect it as well as it should. The proper functioning of credit centers is critical to the maintenance of low delinquency rates. It turned out to be necessary to put extraordinary attention on the proper functioning of credit centers following the Gonaïves disaster. During the prior year of political instability and violence in Gonaïves, center discipline had reached an all time low. In many places, the centers stopped meeting altogether or otherwise fell apart. Fonkoze used the response to the flood to reassert the importance of center discipline, to retrain centers, center chiefs, and credit agents.

10. Separate microfinance from relief activities: If staff are directly involved in aid delivery, ensure separation of microfinance and aid related activities and adequate messaging on the exceptional nature of their involvement in aid delivery to clients.

On the Central Plateau, Fonkoze provided no special relief to clients other than getting new money into the hands of their suppliers. In Gonaïves, it offered interest-free loans, but gave the program a distinct name to distinguish it from its regular programs. It also spent a great deal of time explaining that these interest-free loans would occur only once, to help clients get back on their feet. No staff was directly involved in aid delivery. Concern Worldwide was involved, but those activities were separate from Fonkoze's.

11. Consider your options: Immediately following the disaster, consider and carefully evaluate the following¹¹ to inform the appropriate course of action:

a. Carry out a rapid portfolio review.

The very first day after the flooding, Fonkoze began analyzing the portfolio. New loans had just been disbursed, and most clients had lost the money itself or the merchandise and/or animals they had purchased with it. Many other clients had just finished repaying and were waiting for new loans.

b. Impose a moratorium on lending

Fonkoze did not do this except very temporarily to allow the markets to reopen. The institution felt it was important to get new money back into clients' hands as quickly as possible.

¹¹ Eilene Miamidian, Margaret Arnold, Kiendel Burritt, and Marc Jacquand, *Surviving Disasters and Supporting Recovery: A Guidebook for Microfinance Institutions*. Disaster Risk Management Working Paper Series, No. 10. Washington, DC: World Bank, 2005. <<http://www.yearofmicrocredit.org/docs/Disasterguidefinal.pdf>>

c. Restructure loans

Fonkoze did restructure loans, combining the refinanced loan with new money and extending the repayment period.

d. Write off loans

In March 2006, Fonkoze wrote off two loans in Gonaïves. These were the first. Approximately five to ten additional write-offs are expected. The response on the Central Plateau required no write-offs.

e. Switch from group-based liability to individual liability during the disaster.

On the contrary, Fonkoze strengthened the solidarity component. It did, however, relieve groups from repaying the loans of clients who had died in the disaster.

f. Provide emergency loans

Fonkoze provided no emergency loans.

g. Allow withdrawal of forced savings

Fonkoze actively publicized this. Fonkoze even paid 50% of transportation costs to help clients travel from Gonaïves to the next closest branch so that they could make a withdrawal even when the Gonaïves branch was unable to open.

h. Modify loan product terms

Fonkoze took the balance at the time of the floods and folded it into a new loan that was usually about equivalent to the old loan. It doubled the repayment period and made the loans interest free.

i. Provide non-financial emergency services.

Fonkoze provided no such services, but its closest partner in the project, Concern Worldwide, did. Although it would have liked to have done a better job of informing its clients of the availability of emergency services, it did not succeed in doing so very effectively in the case of Gonaïves.

12. Market Research: Use market research to identify bottlenecks in the local economy. It may be appropriate to temporarily target non-traditional clients to help kick start the local economy.

This was exactly Fonkoze's approach on the Central Plateau. Fonkoze and Concern determined that the value chain had been broken, and then set out to repair it, rather than giving existing clients direct assistance. This strategy ended up opening a whole new market segment. All but one of the new clients remains active. No write-offs at all were necessary.

13. Establish a long-term approach: Based on market research in the disaster-affected area, develop a microfinance strategy that will bring long-term assistance to those affected. This may involve offering new products, such as home improvement loans and microleasing, and/or frequent revision of main financial products.

The combined conflict and disaster that Haiti has suffered in recent years has definitely taken its toll on Fonkoze's clients and on the country as a whole. They have also made Fonkoze very aware of the necessity of reaching even the poorest clients in an attempt to help reduce the risks they face. Three products that are now under development or soon will be, illustrate these efforts. First, Fonkoze is deep into testing a home improvement product in partnership with Habitat for Humanity and Moneygram. In that program, Fonkoze works together with clients to lay concrete floors where there were dirt, put tin roofs where they were thatched, and build latrines where there were none in an attempt to ensure that all its clients have a minimum standard of housing to protect their health and to better prepare them to survive natural disasters.

Secondly, Fonkoze is preparing to test a product that prepares even the most extremely poor for microfinance services. This product draws heavily

on the lessons learned by BRAC and the Grameen Bank in reaching the ultra-poor.

Finally, the Gonaïves disaster convinced Fonkoze that ultimately it would be necessary to offer its clients insurance products similar to those offered by CARD in the Philippines. Each of these products is designed to allow Fonkoze to reach deeper into poverty and also to help minimize risk.

Conclusion: Lessons Learned

The conflict and disaster that unfolded in 2003 and 2004 around Gonaïves and on the Central Plateau killed an unknown number of Haitians. It created miserable living conditions for many more, especially for those whose lives had already been more than hard enough.

Facing the tragedy and addressing it in whatever ways seemed best, however, was an experience that Fonkoze learned from. We would like to conclude by sharing the four clear lessons that seem most important to us.

1. Do not rush to identify a disaster as a humanitarian crisis without sound analysis. The Gonaïves flood was, without question, an humanitarian crisis. Thousands of people lost their lives and tens of thousands lost their livelihoods and/or their homes. But the situation on the Central Plateau following the departure of President Aristide did not, according to our research, constitute an humanitarian crisis. Instead there was a significant break in the value chain, which could be addressed in part through targeted microfinance assistance to non-traditional microfinance clients. In that situation, the aid that is the most likely response to a humanitarian crisis – specifically, giving away food – is also likely to delay the recovery of small trade businesses.

2. Use a crisis to tighten your method, better train staff, increase staff/client loyalty, and grow your program.

Fonkoze ended up with not one branch in the flood-affected areas, but four. It came close to quadrupling its client base in these regions. Moreover, it took the opportunity of the crisis to strengthen its credit centers. Specialized training was directed at credit agents, at centers, and at center chiefs. Both clients and staff at all levels learned a tremendous amount. Anecdotal evidence supports the conclusion that client loyalty in the region increased. For instance, it is not unusual when interviewing a Fonkoze client to hear, "If it hadn't been for Fonkoze, I would still be with those money lenders and my life would make no sense because I would be working for them only – not for myself." Similar reports were heard on the Central Plateau, where every client who received their first loan during that period is still today a Fonkoze client.

3. Fonkoze's two biggest defenses in conflict turned out to be, first, the loyalty and strength of its client base and, second, a national branch infrastructure that meant a crisis in one place could not destroy the entire portfolio or threaten the future of the institution.

In both Gonaïves and in Hinche, throughout the days of violence, our clients came to our protection. For instance, two clients in Hinche heard that members of the former military were about to enter the city and that Fonkoze was at risk. The branch director decided to close the office that day and feeling at some risk himself, went into hiding. When the armed men approached the branch, these two women stood before them and explained that they were part of Fonkoze and it was a part of them. They told the armed men that Fonkoze was a community asset and under no circumstances should it be harmed.

Fonkoze has, on occasion throughout its history, received criticism for expanding too quickly. In the end, however, that growth minimized the sensitivity of the portfolio to crises, which are usually constrained to a few

areas or unevenly impact different parts of the country. There were very few days when the entire institution shut down during the conflict, and most branches were able to reopen in a matter of days.¹²

4. Make the principle of solidarity permeate all you do. Fonkoze continually tells its clients that in a country like Haiti, without an effective government, a strong economy, or a decent educational or health care infrastructure, no one can make their way out of poverty without solidarity. Solidarity is manifest in Fonkoze's work through its microcredit methodology, through its approach to literacy and education, and through its response to disaster. As quickly as possible after the floods in Gonaives, Fonkoze got out to churches and on the radio to let its clients know that it was there for them, that it would not desert them, and that it would listen to their concerns. It named its specialized services during the crisis "Fonkoze Solidarity Services." In short, for Fonkoze solidarity is not a theory, but a practice – in all aspects of its operation. As one woman told our Director of Credit following his talk in her church, *"Knowing that Fonkoze is there with me has given me the strength and courage I needed to rebuild. Now I know I can do it."*

¹² This can also serve as an argument for building multi-national MFIs that can withstand economic downturns in one country because their portfolios extend to other countries that may not be experiencing the same downturn.

Acknowledgements

The authors owe a special debt of gratitude to the two reviewers of drafts of this paper: Isabelle Kidney, Microfinance Advisor, Concern Worldwide, Dublin, Ireland, and Geetha Nagarajan, Ph.D., Development Finance Consulting and Adjunct Professor, American University.

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