



## MODULE 1: MFI PREPAREDNESS

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### Summary

#### Objectives

Following completion of this module, participants should understand:

- the impact of natural disasters on MFIs, and
- disaster risk mitigation for MFIs.

#### Topics

1. Overview of Risks Faced by MFIs
2. The Impact of Disasters on MFIs
3. Disaster Risk Mitigation for MFIs
4. Disaster Preparedness Plans for MFIs

## TOPIC 2

## The Impact of Disasters on MFIs

We now consider the possible impacts of disasters on MFIs. If we understand the areas of risk, it will then be possible to design and implement strategies to mitigate these risks.

Direct impact refers to physical damage on computers, information systems, data etc.

Indirect impact includes disruptions in general services that impact on how an organisation operates. This includes disruptions to electricity, telecommunication and transport infrastructure. Macroeconomic damage refers to broader impact felt by the region, and includes inflationary pressure, disruptions to means of production, social unrest etc.

### Estimated duration

50 minutes

### Technique

Lecture, interview, brainstorm

### Slides

6-14

Slide 6 - The Impact of Disasters on MFIs

### Interview

You should either identify a suitable interviewee or ask the participants to construct a scenario. Remember to keep the flipchart for this exercise, as you will use it again later.

Describe the direct, indirect and macro-economic impacts suffered by one of your branch offices following a natural disaster:

- How was the office building and/or equipment damaged? Was the equipment insured? How was it replaced? Did you lose client data? How did these losses impact on the microfinance operations?
- Did you lose electricity? Telephone? Were your officers able to travel to the clients' communities as before? How did these losses impact on the microfinance operations?
- Were there particular social problems that impacted on your microfinance operations?

## TOPIC 2

## The Impact of Disasters on MFIs

## Quantifying Impact in Accounting Terms

Slide 7 - Quantifying Impact in Accounting Terms

**Facilitator note**

*This is an introductory slide only. The discussion that follows uses the two categories - Impact on cashflow and Impact on the balance sheet - to discuss ways of quantifying the impact of a disaster in accounting terms.*

## Impact on Cashflow

Slide 8 - Impact on Cashflow

**Brainstorm**

- Ask participants to consider each of the following - declining inflows, increasing out-flows, declining repayment rates and increasing loan default. Ask them to explain how/why these phenomena occur.
- Write the answers on the flip chart.
- Finally, display the next slide, and confirm the participants' reflections.

## TOPIC 2

## The Impact of Disasters on MFIs

## Impact on the Balance Sheet (3)

## Assets

The biggest (i.e. most valuable) asset an MFI has is usually its loan portfolio. When a disaster strikes, clients may be unable to repay or perhaps their repayments will be late. This means that loan loss reserve will increase (although this is a non-cash provision), and there is a net reduction in the value of the loan portfolio.

Slide 13 - Impact on the Balance Sheet (3)

Physical equipment might also be damaged. If the equipment is not insured, the MFI will need to draw on current assets to replace this equipment.

Furthermore, with the reduced performance of the loan portfolio (i.e. less income from lending operations), the MFI may need to draw on significantly more liquid assets (cash-on-hand and short-term investments) to meet ongoing and unexpected costs.

Thus the net impact on the asset side is, typically, a significant decline.

## Liabilities

Following a disaster, MFIs that accept client deposits will likely need to meet increased demand for withdrawals. If they do not have the cash reserves or if these reserves have been impacted, then the MFI will not be able to respond to this important client need.

Any reduction in the 'client savings' liability will be balanced by a reduction in current assets and/or increase in short-term borrowing.

Some MFIs may be able to increase short-term borrowing in order to maintain liquidity, in which case net liabilities will increase. However, MFIs that are already heavily leveraged may not be able to borrow additional funds.

## TOPIC 3

## Disaster Risk Mitigation for MFIs

In the previous section, we discussed the impacts of disasters on MFIs, including:

- direct impacts
- indirect impacts
- macro-economic impacts, and
- impact in accounting terms:
  - ▶ impact on cashflow and liquidity, and
  - ▶ impact on the balance sheet.

### Estimated duration

60 minutes

### Technique

Lecture, brainstorm, case study

### Slides

15-25

We now look at each of these impacts again, and suggest ways to mitigate risk associated with each of them.



Slide 15 - Disaster Risk Mitigation for MFIs

## TOPIC 4

## Disaster Preparedness Plans for MFIs

The **key output** of Module 1 is that the MFI prepares a **Disaster Preparedness Plan**.

### Estimated duration

60 minutes class-time plus out-of-class time as required

### Technique

Group exercise

### Slide

26



Slide 26 - Disaster Preparedness Plans for MFIs

### Group activity

- Distribute Handout 1.26
- Ask participants to work in groups with colleagues from their own organisation.
- While participants work on their plan, move through the group and monitor their progress. Provide assistance as required.