

## 6th European Microfinance Award, 2015

### Microfinance in post-disaster, post-conflict areas and fragile states

## Explanatory Note

The objective of the 6<sup>th</sup> European Microfinance Award “Microfinance in post-disaster, post-conflict areas and fragile states” is to recognise microfinance institutions<sup>1</sup> that operate in post-disaster/post-conflict areas and provide financial and non-financial services aimed to increase the resilience of the affected population.

The prize of €100,000 will be awarded on 19th November 2015 during the European Microfinance Week.

#### Award Sponsorship



THE GOVERNMENT  
OF THE GRAND DUCHY OF LUXEMBOURG  
Ministry of Foreign and European Affairs

Directorate for Development Cooperation  
and Humanitarian Affairs

---

<sup>1</sup> See eligibility criteria for details.

## European Microfinance Award

The European Microfinance Award was launched in October 2005 by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs, to support innovative thinking in the microfinance sector. Awarded for the first time in 2006, it is jointly organised by the Luxembourg Development Cooperation, the European Microfinance Platform (e-MFP) and the Inclusive Finance Network Luxembourg in cooperation with the European Investment Bank (EIB).

Previous editions were devoted to the following subjects:

### **2006, Innovation for Outreach**

Microfinance breakthrough initiatives deepening or broadening rural outreach

Winner: The Zakoura Foundation (Morocco), for its programme on rural tourism.

### **2008, Socially Responsible Microfinance**

Microfinance innovative initiatives to promote social performance

Winner: Buusaa Gonofaa (Ethiopia), for the development of its client assessment system

### **2010, Value Chain Finance**

Outstanding microfinance initiatives in productive value chain schemes

Winner: Harbu (Ethiopia), for an initiative financing a soybean value chain

### **2012, Microfinance for Food Security**

Microfinance initiatives contributing to improve food production and distribution conditions in developing countries

Winner: ASKI (The Philippines), for its micro agriculture loans for smallholder farmers and agribusiness and support to market linkages to private sector enterprises

### **2014, Microfinance and the Environment**

For institutions that integrate environmental governance into the DNA of their business and that promote initiatives to improve environmental sustainability.

Winner: Kompanion (Kyrgyzstan), for its Pasture Land Management Training Initiative

## **6th European Microfinance Award**

### **Microfinance in post-disaster, post-conflict areas and fragile states**

After major crises, natural disasters, armed conflicts or health crises populations experience critical levels of poverty, insecurity and instability.

Institutions as well as local government structures, infrastructure, markets, households' human and physical capital, social relations and trust are severely affected, and the re-establishment of normal socio-economic conditions is undermined. Conflicts and disasters affect various levels of society, with impacts in the short, medium and long term.

Post-disaster/post-conflict situations increase the risk of poverty traps over the short and long term. Variability of poor households' incomes increases, productivity of economic activities decreases, investments are affected, market opportunities are reduced, trust and social relations are weakened, and health, housing and shelter conditions are worsened.

After humanitarian needs have been met, the restoration of livelihoods is fundamental to reduce the probability of recurrences of conflicts and to increase resilience to natural disasters.

Poor people and micro enterprises in developing countries are naturally vulnerable to various livelihood hazards, and microfinance (MF) has been argued to be an effective tool to decrease such vulnerability and cope with small, uncertain and irregular income of poor households, contributing in this way to build and support resilience.

However in post-conflict/post-disaster areas, population and institutions are exposed to additional systemic risks. In particular institutions delivering microfinance services (microfinance institutions or MFIs) are likely to experience a high rise in their non-performing loans (NPL), a run on savings and large-scale claims on insurance. Pressure on MFIs to forgive debt increases. Market, business opportunities and institutional environment changes. All this affects the demand-side of the MFIs' business.

Meanwhile, in such situations MFIs must face a difficult environment while simultaneously coping with internal challenges: damaged physical infrastructure and potentially difficult security situations. The risks affecting MFI clients also affect their staff, including direct impact from the disaster (injury, illness, or death) as well as displacement, threat of kidnapping or other risks. The period of stress can magnify operational weaknesses, leading to increased risk of fraud. Exposure to unpredictable environments may also undermine the confidence of some of the MFIs' funders, making access to liquidity particularly critical.

Despite these challenges, MFIs have shown that they can successfully operate in post-conflict/post-disaster situations and play a key role to reduce poor peoples' vulnerabilities, address exclusion, strengthen the countries' economic fabric, and enhance the resilience of the communities in which they operate. The financial intermediation of microfinance can play an important role to restart the local economy and accelerate rebuilding, while reducing the risk of poverty traps for the affected populations.

MFIs serve mainly self-employed people, whose informal businesses and micro-enterprises in services and petty trade are common activities after disaster and conflict. Through such activities, the poor can sustain their households and create a safety net for themselves, their families, and the local communities. The proximity of MFIs to their clients can help rebuild trust and social ties among households and communities. In some instances, the particular legal status and operations of MFIs allow them to operate also in the absence of a strong institutional environment. The ability of certain MFIs to provide additional non-financial services, such as training and financial literacy programs, likewise help their clients adapt to post-disasters/post-conflict situations, modifying existing businesses or establishing new activities in response to the changes in the local market. In some cases, MFIs can link with health or education service providers, thus strengthening the overall resilience of their clients.

## **The Award**

The objective of the 6<sup>th</sup> European Microfinance Award “Microfinance in post-disaster, post-conflict areas and fragile states” is to recognise microfinance institutions that operate in post-disaster/post-conflict areas and provide financial and non-financial services aimed to increase the resilience of the affected population.

The Award is aimed at institutions that have an integrated response to support and build resilience for households and communities living in exceptionally difficult environments or circumstances. Because post-disaster/post-conflict situations affect both MFIs and their clients, successful applicants should demonstrate an effective strategy to increase both their own resilience (i.e. operations, staff, policy, control) and that of their clients (appropriate financial and non-financial services), while insuring responses that provide both for the immediate, medium- and long-term resilience of their clients.

## **Framework**

Resilience refers to the ability of households or communities to respond to external shock and re-establish activities, living conditions and livelihoods. A high degree of resilience implies a low vulnerability.

Vulnerability is the result of two factors: hazards and conditions. Vulnerability to disaster and conflicts results from the interaction between the natural hazard or conflict (the external factor) and the socio-economic condition of the households (the internal factor) and its environment.

Poor people in developing countries and in particular MFIs’ clients suffer from both high disaster/conflict risk and they have a low risk coping capacity.

## **Examples of microfinance practices in post-conflict/post-disaster areas**

The main focus of the Award is to assess the post-disaster/post-conflict operations of institutions delivering microfinance services and in particular their response to the disaster/conflict, and the outcomes they had on the resilience of their clients. However, to increase the resilience of its clients, an MFI must itself be resilient demonstrating that it can operate sustainably while serving its clients. The MFI must also show that it is able to quickly and effectively react to the disaster/conflict and provide adapted responses to support its clients. This may also include linking with other service providers (for relief services in particular or other non-financial services).

A non-exhaustive set of examples of actions are provided here below:

<b>Institutional resilience</b>
<p>Credit:</p> <ul style="list-style-type: none"><li>• establishment of strategies and procedures to restructure the portfolio to protect clients remaining assets and enable clients to continue their activities</li><li>• have adequate recollection procedures in place</li><li>• specialized recovery agents or staff, trained to handle non-performing loans</li></ul>
<p>Risk management:</p> <ul style="list-style-type: none"><li>• disaster risk management policies and procedures</li><li>• cash management procedures adapted to the disaster/conflict situation, and anti-fraud controls</li></ul>
<p>Staff:</p> <ul style="list-style-type: none"><li>• adequate staff incentive schemes in place to retain qualified staff</li><li>• specific training programmes for staff to operate in extreme situations</li><li>• insurance schemes (health, life, etc.) for staff</li></ul>

<p>Clients proximity:</p> <ul style="list-style-type: none"> <li>• branch network that allows to effectively service the clients, and maintain client relationships</li> </ul> <p>Reputation:</p> <ul style="list-style-type: none"> <li>• strategies and procedures to separate MF services from relief and rehabilitation activities</li> </ul> <p>Funding:</p> <ul style="list-style-type: none"> <li>• access to diverse funding sources to assure liquidity that is not affected by conflict and disaster</li> </ul>
<p><b>Client Resilience</b></p>
<p>Loans:</p> <ul style="list-style-type: none"> <li>• emergency loans, flexible repayment schemes</li> <li>• credits for livelihood diversification, or to stimulate the adoption of activities adapted to the new market conditions (due to disaster/conflict), or housing loans to repair/reconstruct damaged properties</li> </ul> <p>Savings:</p> <ul style="list-style-type: none"> <li>• voluntary savings to foster clients' adaptation, or procedures to reschedule mandatory savings for affected clients</li> <li>• Ability to guaranty access to savings in the immediate aftermath of a disaster/conflict</li> </ul> <p>Insurance:</p> <ul style="list-style-type: none"> <li>• health or life insurance for clients and business insurance tailored to protect and stimulate adapted investments in post-disaster/post-conflict areas</li> </ul> <p>Non-financial services:</p> <ul style="list-style-type: none"> <li>• relief services</li> <li>• initiatives to rebuild trust and social cohesion</li> <li>• financial/business education projects adapted to the new conditions to support the establishment of activities adapted to post-disaster/post-conflict situation</li> </ul> <p>Linkages with other service providers:</p> <ul style="list-style-type: none"> <li>• partnerships or cooperation with various actors to reestablish interrupted activities and markets, and sustain adapted value chains</li> <li>• cooperation with health/education institutions to deliver health-educational services</li> </ul>

### ***Eligibility criteria***

- Eligible institutions are institutions operating in the microfinance sector in a post-disaster or post-conflict area in developing or emerging countries. It is expected that these institutions engage in urgent support activities as well as medium/long-term sustainable reconstruction of assets and skills (building resilience), disaster risk reduction and peace-building activities.

A post-disaster/post-conflict area is defined as an area where a disaster and/or conflict took place some time between January 2010 and the submission of the application. The disaster/conflict must be independently documented. MFIs that operate in an ongoing or recurrent disaster/conflict situation are eligible, so long as the relevant events are independently documented as having taken place sometime since January 2010.

Eligible MFIs must have been directly affected by disaster/conflict i.e. with operations in a country and/or area directly affected by the disaster/conflict. If the MFI is located in a neighboring country where the conflict/disaster happened, it will not be considered for the Award. For example an MFI that operates in a refugee camp adjoining a country with an ongoing conflict cannot be considered for the Award. However, MFIs working directly in a country/region with an ongoing conflict will be considered.

- Various types of microfinance institutions are eligible including NGOs, cooperatives, MFI networks, investment funds, commercial banks, development banks, leasing firms, insurance companies, etc.

Applicants must have ongoing operations at the time of the application.

- Eligible institutions have to be based in a Least Developed Country, Low Income Country, Lower Middle Income Country or an Upper Middle Income Country as defined by the Development Assistance Committee (DAC) for ODA Recipients. A list of Eligible Countries of ODA Recipients as defined by the DAC can be found at: <http://www.oecd.org/development/stats/49483614.pdf>

Joint initiatives from a financial service provider in a developing country and a European partner are encouraged in order to strengthen the links between Europe and the South. However, the Award money shall be provided to the partner based in the developing country.

An e-MFP member must provide written support for the application, e.g. by providing a short message or a letter addressed to the e-MFP Secretariat. If the applicant is not supported by an existing e-MFP member, they can contact the e-MFP to be connected with a potential supporter. A list of e-MFP members can also be found at: <http://www.e-mfp.eu/about-us>

### ***Award timeline and application process***

<b>When</b>	<b>What</b>	<b>Responsible</b>
<b>3<sup>rd</sup> June 2015, 5 pm CET</b>	<b>Deadline for applications</b>	Applicants
June – July 2015	Preselection Phase	Pre-selection Committee
Mid-September 2015	Selection of 7 to 10 semi-finalists and the 3 finalists among the semifinalists	Selection Committee
19 <sup>th</sup> November 2015	Selection of winner followed by announcement at the Award Ceremony	High Jury

Application forms are available in three languages: English, French, and Spanish. They will be distributed through e-MFP member organisations and through the e-MFP website: <http://www.e-mfp.eu>

Please send your application, together with the e-MFP member support letter and the required additional materials (see the Application Form), via e-mail to **contact@e-mfp.eu**

During the pre-selection and selection phases, the applicants might be contacted and asked to supply additional information on a case by case basis if deemed necessary.

The judges' decision is final and not subject to appeal. Neither the Judges nor the Organisers will enter into any correspondence relating to the decision.

The Organisers regret that information relating to the on-going evaluation of applications will not be released. The three finalists will be announced in the second half of September and the winner will be announced at the Award Ceremony.

The three finalists will be invited by the Luxembourg Development Cooperation to attend the Award ceremony, which will take place during the European Microfinance Week (EMW), 18th to 20th November 2015. The three finalists agree to ensure the presence of a representative from Senior Management from their organisation at the Award ceremony on 19<sup>th</sup> November 2015.

## ***Award Selection Process***

### **Pre-selection phase**

In order to be pre-selected and considered for the Award selection phase, applicants must:

- demonstrate sufficient financial and social performance (Component 1 of the Application Form);
- demonstrate a sufficient engagement, consisting of procedures and actual actions, to increase resilience of its clients in a post-disaster/post-conflict situation (Component 2 of the Application Form)

The transparency and quality of the application will also be assessed during the pre-selection phase.

### **Selection phase**

MFIs that meet the criteria and pass the pre-selection phase will be evaluated on the basis of their resilience supporting/building action in the specific post-disaster/post-conflict area using the following criteria (Component 2 of the Application Form):

- 2A. Description of the context and regulatory environment
- 2B. Institutional response to the disaster/conflict
- 2C. Institutional robustness

Only components 2B and 2C have a score and are explicitly evaluated, however, section 2A should be filled out carefully as it provides the context against which sections 2B and 2C will be assessed. An incomplete 2A section will affect the evaluation of sections 2B and 2C.

## ***General Assessment Grid***

An overview of the indicative weightings for each of the components is included below. However, decisions will be based on a holistic review of each application.

### **Component 1**

<b>Item</b>	<b>Weight</b>	<b>Section</b>
<b>1A. Institutional overview</b>	<b>20%</b>	1A
<b>1B. Financial performance</b>	<b>35%</b>	1B
<b>1C. Social performance</b>	<b>35%</b>	1C
<b>Transparency-quality</b>	<b>10%</b>	All: 1A, 1B, 1C
<b>Total</b>	<b>100%</b>	

The MFIs will be evaluated along all the dimensions and a sufficient level of Institution, financial, social performance should be assured.

## Component 2

Item	Weight	Section
<b>2A. Context and regulatory environment</b>	na	2A
<b>2B. Institutional response</b>	<b>60%</b>	2B
<b>2C. Institutional robustness</b>	<b>30%</b>	2C
<b>2C1. Institutional resilience</b>	15%	2C.1
<b>2C2. Client resilience</b>	15%	2C.2
<b>Transparency-quality</b>	<b>10%</b>	All: 2A, 2B, 2C
<b>Total</b>	<b>100%</b>	

### ***Award benefits***

The winner of the Award will receive:

- €100,000 (one hundred thousand Euro)
- An Award Certificate
- Promotion of their organisation and initiative by e-MFP

The winner will be requested to provide a report in autumn 2016 describing how the Award funds were used.

The two other finalists will receive:

- A Certificate of Achievement
- Promotion of their organisation and proposed initiative in e-MFP publications.

All eligible applicants will receive a Certificate of participation from e-MFP.

Information from the applications of the semi-finalists will be used to compile an e-MFP publication on “Microfinance in post-disaster, post-conflict areas and fragile states” and participating organisations will be asked for their consent to include non-confidential information in this publication.