A market-integrated response to an emergency in Kyrgyzstan

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Mercy Corps has been working in Kyrgyzstan since 1994, focusing on micro-entrepreneurship, food security, small-holder farming and livestock development and conflict mitigation. Established in 2004 through the consolidation of five Mercy Corps-affiliated micro-credit agencies, Kompanion, a community development financial institution specialising in group lending, now employs over 1,000 staff, has 94 offices and is Kyrgyzstan's largest micro-finance institution, per number of customers. In June 2010, conflict erupted in Osh and Jalal-Abad provinces of southern Kyrgyzstan. Thousands of households lost family members, homes and possessions, as well as business assets. When the conflict broke out, over 45,000 of Kompanion's 109,900 clients were in the affected areas. Many of these clients needed credit relief quickly and additional assistance to recapitalise their businesses.

This article focuses on the emergency assistance Kompanion provided for its clients and the mechanisms put in place to provide it. Kompanion and Mercy Corps implemented programming designed to spur livelihood recovery for micro-entrepreneurs in southern Kyrgyzstan. This is in line with the organisation's commitment to responding to short-term needs while remaining aware of and focused on long-term development processes and opportunities to 'build back better'. This was Kompanion's first emergency relief intervention, and its model of emergency response is applicable to other micro-finance institutions (MFIs) and development organisations working in post-conflict contexts.

Post-conflict interventions

Within two weeks of the outbreak of the conflict, Kompanion had made contact, via phone or in person, with the majority of its 45,000 clients in the affected areas. It determined that 4,000 borrowers and their families had suffered serious losses and were in need of assistance. Kompanion responded with two interventions to assist with the recapitalisation of micro-entrepreneurs: the Emergency Credit Committee and the Fund for Rebuilding Communities through Micro-Enterprise.

Emergency Credit Committee (ECC)

Kompanion established the Emergency Credit Committee (ECC) in July 2010. The ECC had the authority to recommend loan forgiveness, with the approval of the Board of Directors of Kompanion; forgive interest and penalties; and extend repayment periods and restructure loans. The ECC consisted of three members: a regional manager and/or a member of the executive management team (Chairperson); a branch manager or a credit manager at the branch; and a staff lawyer.

Loan officers presented individual clients' situations to the ECC and provided documentation of losses (photos, witness statements). Information was gathered when loan officers became aware that a client had been directly affected by violence, looting and business damage, or at the request of the client. The ECC considered each situation on a case-by-case basis, taking into consideration the level of loss, the role and importance of the micro-business in the family's household budget, alternative income sources and the likelihood that clients would be able to restart their businesses with recapitalisation funds. The main determinant of the type of credit relief offered was an examination of the burden on the client of repaying their loan, given the unique situation of each family.

micro-entrepreneurs dominate the Kyrgyz economy, providing basic needs and services

Fund for Rebuilding Communities through Micro-Enterprise (FRCM)

Mercy Corps and Kompanion also designed an equity cash grant programme to assist affected micro-entrepreneurs to restore livelihood activities, the Fund for Rebuilding Communities through Micro-Enterprise (FRCM). Micro-entrepreneurs dominate the Kyrgyz economy, providing basic needs and services such as food production (livestock, agriculture), markets, clothing, hygiene supplies and transportation. To ensure the provision of critical products and services and ensure micro-entrepreneurs could support their households, their businesses needed to be recapitalised.

Mercy Corps secured grants for the FRCM from two private donors (Muslim Aid and an anonymous donor). By mid-July, substantial further funding from the Bill and Melinda Gates Foundation and USAID/OFDA had been secured to provide equity cash grants to hundreds of micro-entrepreneurs in affected areas. An agreement was signed between Mercy Corps and Kompanion to facilitate the cash grant disbursements from donor funds.

Qualifying micro-entrepreneurs were provided with $500 grants to restore their damaged businesses, and $750 if both their businesses and their homes had sustained damage. The grant size of $500 was determined by taking Kompanion's average loan size and increasing the amount by 50%, to account for additional immediate needs. Directly affected markets (bazaars) and business zones were identified, and all micro-businesses that were damaged, looted or destroyed in these areas were invited to apply for an equity grant. The grant was open to Kompanion clients and non-clients alike. Applicants completed a one-page application, staff photographed losses and damage and a grant committee made the final decision on grant eligibility. Each recipient was monitored up to four times over a period of 12–16 weeks. The monitoring regime


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Thanks to a $500 grant this woman managed to revive her family's business making clay ovens

provided tracking data and reinforced to the recipients the importance of accountability.

Results

Emergency Credit Committee

All late repayment penalties were cancelled and a one-month grace period was put into effect for every Kompanion client affected by the conflict. Within two weeks of the establishment of the ECC nine sessions had been held, 76 loans forgiven, 41 loans partially written off and 229 restructured. Between 15 July and 31 December 2010 there were 34 sessions of the ECC, and Kompanion forgave 220 loans, partially wrote off 111 and restructured the remaining 2,140.

Although decisions about the type of credit relief to offer clients were made on a case-by-case basis, some trends emerged.

- Loan forgiveness (220 loans; $127,570). Loans were forgiven for nearly all clients whose homes were damaged or destroyed and who also incurred business losses, where the client and/or a family member was killed or suffered serious bodily harm, or where the affected business was the sole source of income for the family.
- Partial write-offs (111; $18,120). Loans were partially written off primarily at the client's request. The typical situation involved writing off interest for a client preparing to leave the country contacting their loan officer with a view to fulfilling what they felt was their loan obligation.
- Loan restructuring (2,140; $1,187,080). Loans were restructured at the request of the client and their loan officer. Most often clients' businesses had been disrupted due to the conflict, but did not sustain severe direct damage, and there was a good prospect that business activities would be resumed.

To understand the appropriateness of the different credit relief mechanisms for Kompanion clients, we tracked the 2,198 clients who received credit relief from the Osh branch, which had the largest number of clients affected by conflict: 132 loans were forgiven, 96 partially written off and 1,970 restructured as of 31 December 2010. Within six months, of the 228 clients whose loans were fully or partially forgiven, 20% (45 clients) were taking loans from Kompanion for working capital. Almost all (97%) of the 1,970 clients whose loans were restructured remain Kompanion clients. On this basis, the intervention seems to have provided adequate credit relief. However, 3% of clients whose loans were restructured were not able to make repayments. More research is needed to see whether a different type of credit relief may have assisted these clients, or if there were other extenuating factors affecting their ability to repay their loans.

Fund for Rebuilding Communities through Micro-Enterprise

As of 31 December 2010, grants had been provided to 944 micro-entrepreneurs, 57% of whom were women. Kompanion mobilised staff as the implementers of FRCM: loan officers, tellers and key managers were responsible for verifying losses, distributing cash and monitoring the use of the cash by equity grant recipients. The first batch of FRCM grants was disbursed on 14 July 2010, less than a month after the violence ended. Mercy Corps determined that 13% of grant recipients were Kompanion clients, but it has not been possible to assess whether the other 87% of beneficiaries were loan clients of other MFIs working in the affected area.

More analysis is under way on the impact of equity grants on livelihoods; Mercy Corps' preliminary analysis indicates that affected micro-businesses have reestablished a majority of the nearly 2,000 jobs that were lost as a result of the conflict. These micro-enterprises support over 6,000 family members. While this tells us that micro-enterprises are running, it is not clear whether the equity grant amount was adequate. We know through assessments that, for the 944 micro-entrepreneurs who received equity grants, their average reported annual income pre-conflict was approximately $1,820 and their reported business losses due to the conflict averaged approximately $2,340. Thus, the $500 equity grants were equivalent to 27% of average annual income pre-conflict, or 21% of reported business losses due to the conflict.

Conclusion

Micro-finance institutions can be important partners for their clients and for humanitarian organisations in offering relief for families affected by conflict. Mission-driven MFIs recognise the obligation to share the burden that conflict places on the livelihoods of their clients. Within the context of market-integrated relief, MFIs have a vested interest in supporting the recovery of those in need while ensuring the health of their companies.

Kompanion incurred losses of $145,690 ($127,570 in principal and interest from loan write-offs and $18,120 in partial write-offs) in its effort to provide emergency relief for its clients. At the same time, it was the implementing partner for Mercy Corps' FRCM to help micro-entrepreneurs with livelihood recovery. Six months on, Kompanion began to see the return of clients whose loans had been forgiven. Kompanion's post-conflict support for its clients resulted in an initial economic loss, but ultimately engendered client loyalty.

Micro-finance institutions have a wealth of information, physical networks and strong client relationships that can be used in post-conflict and emergency situations. Kompanion was able to rapidly assess the scale and scope of needs in the aftermath of the conflict, working in coordination with Mercy Corps, share information in the weeks following the conflict and support affected households and clients. Micro-entrepreneurs in Kyrgyzstan are key providers of basic goods and services through thousands of small stalls in bazaars, in small neighborhood kiosks and shops and even out of homes. In a post-conflict setting, it is critical that these micro-businesses reopen, both to provide goods and services for communities impacted by conflict, and so that families can reestablish their own livelihoods.

Kompanion is further tracking its clients to understand the impact that different types of credit relief had on their ability to restart businesses and reestablish livelihoods. Ongoing analysis will assist in determining if equity grants are an appropriate intervention to recapitalise businesses post-conflict, specifically if the amount of the grant was adequate and if it contributes to asset generation. Debt relief can assist businesses by giving them a clean slate. After an emergency, inventory and raw materials must be purchased, salaries paid, tools replaced and shops repaired. This requires both credit relief and capital, such as equity grants, which are not repaid and do not further burden entrepreneurs with debt. Credit relief is essential for those affected by conflict, but not on its own sufficient.

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