BRIEF 1

Microfinance Institutions and Disaster Relief

The timing for MFIs to enter a disaster-affected zone is 'yesterday' with preparedness products, 'an hour after' the disaster with basic relief and 'a week later' with livelihood support.

(BWDA, an MFI in Tamil Nadu, India that operates in the Tsunami-affected areas)

In any natural disaster those most affected are the poor, many of whom are active or potential clients of microfinance institutions (MFIs). The emergency and relief stages that follow a natural disaster require various agents to provide or coordinate logistics and resources to support affected people. It has been observed that where an MFI was already operating in a disaster-affected area, it was invariably called upon as first responder until relief agencies and government organisations entered the scene.

SHOULD MFIs GET INVOLVED IN DISASTER RELIEF EFFORTS?

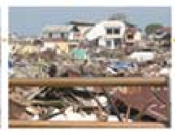
Yes! It is recommended that MFIs become an integral part of the disaster relief process. However, relief efforts for MFIs should not involve distribution of blankets, medicines and food throughout the emergency period, or operating camps for internally displaced persons. MFIs, by design, are not specialised to provide such types of relief.

LESSONS FROM TSUNAMI-AFFECTED AREAS OF INDONESIA, SRI LANKA AND INDIA:

- Go early, even during the emergency stage.
- Provide immediate relief that is only within the MFI's financial and human resource capacity.
- Open access to savings and allow accrual of savings.
- Respect, listen and dialogue with relief agents to foster coordination and partnerships.
- Take caution when providing grants: do not provide large amounts for long periods and, if possible, provide grants through a third party.
- Avoid mixing grants with loan products in the same contract.
- Link cash grants with access to loans, savings, insurance, and leasing.
- Slowly start providing regular loan products immediately after the relief stage for select clients on a limited basis, and gain pace.

Source: FDC research conducted in Feb–Mar, 2006





The major role for MFIs in disaster response involves facilitating coordination among various players such as relief agencies and the government, to help avoid market distortions and provide financial services other than just loans. Indeed, loan products are least demanded in the first few weeks following a natural disaster.

It is important for MFIs to recognise their financial and human capacity limitations to provide relief services. For example, if they lack liquid funds to provide basic needs but have adequate numbers of staff, they can provide moral support and mobilise food and water from the local non-affected public (see example below from Sareeram, Sri Lanka).

WHAT CAN BE DONE BY MFIs DURING THE DISASTER RELIEF STAGE?

MFIs can contribute the most during relief stages in the following areas:

- locating affected people;
- linking affected people with relief efforts;
- arranging for transportation to safer areas;
- using MFI communication lines to inform head offices of the situation;
- transmitting public health messages;
- coordinating with relief agencies and providing information about the area;
- organising MFI group members for community relief efforts such as clearing of debris;
- helping with damage assessment and design for relief and reconstruction plans.

Example:

Sareeram, an MFI in Batticaloa, Sri Lanka operates in the conflict-affected North East Province. When the Boxing Day Tsunami affected the area, Sareeram was the first to bring relief since it had good vehicles and officers on duty. Relief agencies and government agencies were not present before the Tsunami. Therefore, it took 2–3 days for them to arrive with relief supplies. Sareeram helped move affected people to temporary camps set up by local organisations. It helped collect food and water and distributed these for the first week. Later, it stopped providing basic needs but collaborated with relief agencies to compile a list of affected people. It conducted several participatory rapid appraisals to identify their immediate needs. It provided female staff to approach women and thus ensure trust for collection of confidential information. It then passed the information to government officials to facilitate the release of relief supplies.

WHY SHOULD MFIs GET INVOLVED DURING THE DISASTER RELIEF STAGE?

To re-establish relations with their clients.

Microfinance is based on long-term relationships. The relief stage after a natural disaster offers a chance to establish new relationships while renewing the existing ones, by being there for the clients, listening to them and linking them with relief agencies.



To help affected people to cope by releasing savings and facilitating money transfers.

This is especially important in areas that are frequently affected by disasters, where donor fatigue may limit the flow of funds for relief and livelihood restoration.

To help relief agencies with logistics and information.

In most places, MFI officers have comprehensive information about a village and its inhabitants. MFIs can be useful information partners to help relief agencies provide immediate assistance to affected households, since they are familiar with their clients and can quickly identify those most in need of relief.

To facilitate smooth transition from relief to recovery.

MFIs can engage with relief agencies in designing well-planned interventions for reconstruction while relief efforts are under way, so that transition from relief to reconstruction is rapid and efficient. Often, relief stages tend to be protracted because no long-term developments are initiated.

Relief agencies realise that livelihoods need to be restored before they can leave, and finance is important for this. Those agencies that lack MFIs to partner with, and/or microfinance expertise among their staff, tend to initiate programs that become unsustainable, leading to more harm than good for the affected people and MFIs in the long run. Such efforts include mixing grants with loans and the provision of highly subsidised loans with lax repayment requirements. It is to be noted that grants and loans play complementary roles in restoring livelihoods. But when the same organisations deliver grants and loans under the same contract, clients receive mixed signals and this affects repayment discipline. Concessionary loans can have serious negative consequences and undermine fragile financial systems for the poor.

After the February 2000 floods in Mozambique, MFIs were very involved in relief programs and actively participated in all coordination meetings. They partnered with relief agencies to provide cash grants to entrepreneurs to restart businesses. They were also able to convince many relief agencies not to start their own revolving loan funds.

To avoid market distortions.

MFIs can work with relief agencies to minimise market distortions and use resources effectively. Staying out during the relief stage can create damage that will be hard to fix later. For example, in Sri Lanka, the wages for ‘Cash for Work’ (CFW) were fixed at Rs.400 a day while it was Rs.100 a day pre-Tsunami (Rs.100 = 1US$). This created inflation and also shortage of labour for livelihood activities such as microenterprises and farming. CFW activities overlapped with the agriculture season and labour could not be obtained on time since wages for farm labour were only half those for CFW. Consequently, some large farmers obtained bank loans and imported harvesters. Following withdrawal of the CFW program, the labourers were left unemployed, since the farms that engaged them before are now mechanised. These landless labourers now need to start new



livelihoods and require capital from the MFIs. They require non-financial services since they need to be trained to become entrepreneurs. A better design of the CFW by a relief team *and* MFI staff could have minimised the distortions.

As a result, the NGOs in Batticaloa and Ampara in Sri Lanka have established a consortium to scrutinise any future interventions in the area by new relief agencies.

As well, linkages between relief agencies and MFIs could have helped CFW beneficiaries to accumulate savings in a safe place, enabling them to obtain loans during the recovery stage.

WHAT CAN BE GAINED FROM ENGAGING IN DISASTER RELIEF EFFORTS?

Help track grant inflows and assess the need for financial services besides loans.

The assessments will also help MFIs to make better estimates of their need for liquidity to cope with the situation.

For example, BWDA in Tamil Nadu, India entered Tsunami-affected areas immediately to provide basic needs, sensitise their clients regarding grants and keep track of the grants that their clients received so the agency could offer them suitable financial products. BWDA also conducted periodic assessments from the third week after the Tsunami, to assess client needs and to time release of their savings and loans products. The assessments helped them identify demand for emergency loans, which they then provided to long-term, well-performing clients a month after the Tsunami. They also found demand for loans at normal terms and conditions emerging four months after the Tsunami. BWDA was able to slowly increase its loan portfolio and also record good repayment.

Capture savings from cash transfers.

Research in Aceh showed that 40% of those who engaged in CFW saved over 20% of their payments and spent the money on buying jewels and goats or invested in rotating savings and credit associations. Some also used CFW to repay old debts to moneylenders. MFIs that managed to partner with relief agencies and link grants with financial products such as savings were able to increase their business after the relief stage. For example, two MFIs in Sri Lanka (Sareeram and Alqueresh) could double the minimum savings requirements without any problem when they realised the huge inflow of grants and savings among the people both during and immediately after the relief stage.

Develop the microfinance business.

The presence of an MFI during times of need creates loyalty to the institution, helping to retain old clients and also gain new ones. LEAD, a cooperative in Trichy, India, enlisted 4070 new shareholders by partnering with a relief agency that provided CFW programs. The amount of share capital collected from these new members was about Rs.233/new member. As of March 2006, they additionally hold a savings balance of about Rs.40/member. More than 1600 of the new shareholders opted to obtain a loan from the cooperative.



A WORD OF CAUTION

Do not contemplate starting a new MFI during the relief stage. Established MFIs are better equipped to deal with the effects of a disaster if they have been in operation for some time, gained a good track record and possess local information and a client base.

In locations with no established MFIs it may be better to involve relief agencies with expertise in relief and microfinance. Such agencies include NGOs such as World Vision, Mercy Corps, World Relief, CARE, Save the Children, and Caritas. Microfinance experts in these agencies should be fielded along with relief staff and be involved in designing relief and livelihood restoration projects that will minimise market distortions.

This brief was written in May 2006 by Dr. Geetha Nagarajan, Research Coordinator, Capacity-Building for Microfinance Institutions for Post Tsunami Reconstruction, Foundation for Development Cooperation, Brisbane, Australia. The author acknowledges all the sources in Sri Lanka, Indonesia and India that contributed to this brief.

SUGGESTED READING

CGAP 2005. Sustaining Microfinance in Post-Tsunami Asia. Washington, DC:. http://www.cgap.org/docs/CGAPBrief_03_03_05.pdf