

BRIEF 2

The Role of Microfinance in Livelihood Restoration following a Natural Disaster

About 80 per cent of the tsunami-affected households lost their main source of income, and 90 per cent of those households had productive assets destroyed or damaged.

(ILO, 2005 - Rapid Livelihood Assessment Survey, Sri Lanka, February 2005).

Over 100,000 microentrepreneurs lost their livelihoods in Aceh.

(Badan Rehabilitasi dan Rekonstruksi (BRR) report, December 2005)

WHAT ARE LIVELIHOODS?

A **livelihood** is a means of support, something that provides income to live on, especially paid work to secure the necessities of life.

Livelihood activities are economic activities that people know, own and undertake to earn income today and into the future.

A **sustainable** livelihood is one which can cope with, and recover from, stresses and shocks and maintain or enhance its assets and capabilities while not undermining the existing resource base (University of Sussex, used by DFID and the World Bank).

WHAT ACTIVITIES FACILITATE LIVELIHOODS?

Livelihood activities undertaken by people are shaped by their knowledge, inherent capabilities, and assets. These activities are enhanced by five basic assets with linkages to each other: natural, social, human, physical and **financial** capital.

These assets change over time and differ among households and communities. Access to them is vital for livelihood sustainability and resilience/restoration after a shock.

HOW IS MICROFINANCE RELATED TO LIVELIHOODS?

The **livelihoods approach** helps the poor to improve their livelihoods by strengthening these five basic assets, and comprises broad and interrelated programs and policies. Microfinance is an important component.

The livelihoods approach includes:

- giving people salaried jobs and other opportunities to earn income,
- providing loans, savings and other financial services,
- providing training in job and business skills,
- developing institutions, alliances and networks to advance economic interests,
- promoting policy and social changes that improve people's livelihood prospects.



WHO ARE THE MAJOR PLAYERS IN LIVELIHOOD RESTORATION?

The major players involved in livelihood restoration include:

- *Relief agencies* that focus on the initial stages of disaster response.
- *Development agencies* that provide assistance during reconstruction stages to restore livelihoods and to prepare for and mitigate future disasters.
- Some of the above organisations engage in both disaster relief and long-term development.

MFI's are invariably drawn into livelihood restoration from the earliest stages following a natural disaster, if they were present in the affected community before the disaster event. They seek to work closely with relief agencies for a smooth and quick transition from relief to reconstruction.

WHAT ARE COMMON LIVELIHOOD INTERVENTIONS IN THE WAKE OF A NATURAL DISASTER?

The major instruments used by relief agencies for restoring livelihoods include:

- grants (cash and in-kind);
- cash-for-work (CFW);
- distribution of tools and equipment to replace damaged and lost assets;
- distribution of tools and equipment to diversify into disaster-resistant livelihood activities.

Some relief agencies have provided a combination of grants and loans to facilitate a smooth transition from relief to reconstruction. Many of them have opted to partner with MFIs and local self-help groups (SHGs) to provide grants and loans.

The above instruments *directly* help disaster-affected people. In addition, *indirect* strategies such as facilitating coordination among various players, collection of information required for recovery and reconstruction, and restoration of markets and infrastructure, also help with livelihood restoration.

The major instruments used by development agencies for restoring livelihoods include:

- job and business training;
- business development services;
- financial services, including savings, credit and sometimes leasing finance.

Development agencies typically attempt market-based interventions to facilitate revival of livelihoods.

In relation to livelihood restoration following a natural disaster, **subsequent briefs** in this series discuss the following subjects in more detail:

- Grants and Loans
- Cash for Work
- Savings
- Lease Financing
- Microinsurance



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