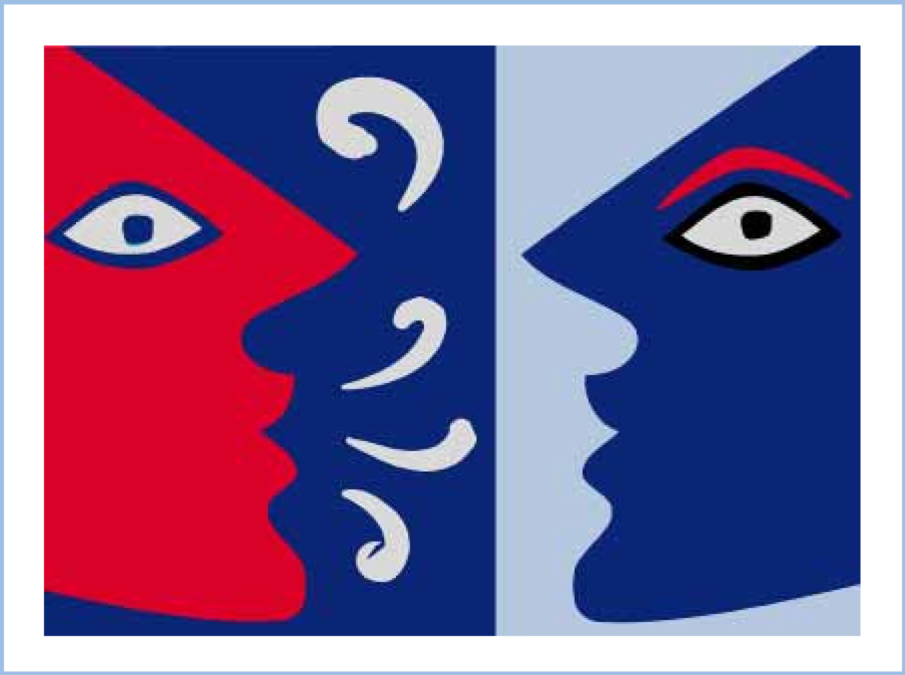
MICROFINANCE AND MITIGATING NATURAL DISASTERS

AN ONLINE SPEAKER'S CORNER DISCUSSION LED BY GEETHA NAGARAJAN AND HOSTED BY MICROLINKS.ORG



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CONTENTS

INTRODUCTION

WELCOME POST
Post By: Dr. Geetha Nagarajan

Dear Colleagues:

Welcome to the three day speakers corner event on role of microfinance in managing catastrophic natural disasters.

Each day will feature a major theme and two sub-themes on which participants are highly welcome to talk out their mind in a frank and open fashion. Yes, this is SPEAKERS corner!

The discussions may focus around disaster management by donors and MFIs immediately after the disaster, during initial and late reconstruction stages and preparation stages.

I thank all of you in advance for your input and enthusiasm. Hope we can share, learn and contribute an epsilon amount towards new knowledge on this topic.

Ok, lets begin the discussions. I am following this welcome message with a theme and sub-themes for day one.

- Geetha.

ABOUT THE SPEAKER'S CORNER

The Speaker's Corner is a series of online conferences discussing issues around microenterprise and microfinance. The conferences give the broader microenterprise community a chance to ask questions of an expert in a specialized field within microenterprise and microfinance, as well as give their own perspectives and opinions.

ABOUT GEETHA NAGARAJAN

Geetha Nagarajan, based on extensive field based research over the past eight years in Asia, Africa and Latin America, has documented experiences and practices used by MFIs to manage natural disasters. She has conducted several workshops, and has evaluated disaster management mechanisms used by MFIs in the wake of floods in Bangladesh in 1998, Mozambique in 2000, Poland in 1999, and Hurricane Mitch in Central America for USAID and IADB. She helped prepare several short briefs for use as a mini tool kit by MFIs and donors to manage rapid on-set disasters. She now directs *Microfinance Amid Conflict* research topic on a USAID-funded microfinance research project, managed by Chemonics International in Washington, D.C. She also teaches at the American University in Washington, D.C.

ABOUT THIS DOCUMENT AND HOW TO NAVIGATE IT

As the Speaker's Corner was originally a series of thread on microLINKS.org, the content in this document has been compiled in reverse chronological order. To facilitate simple navigation, a link has been added to the bottom of each page that will allow readers to jump back to the Table of Contents.

To access the original discussion and other resources related to MED in Post-Disaster Settings, please visit the Community of Practice at www.microlinks.org/disaster.

DAY ONE: THE DAY AFTER TOMORROW

DAY ONE THEME: THE DAY AFTER TOMORROW
SUB THEME: Role for Donors, Role for MFIs.
Post By: Dr. Geetha Nagarajan

Tsunami in Asia, droughts in Sahel, Katrina in gulf coast of the US, floods in Europe, && Well, devastation has been record high. The outpour of financial and physical resources for emergency relief has also been record high.

Microfinance, among other things, is once again touted as an important tool to transition the affected from relief to development stage. However, it has been chaotic especially during the first few days after the disaster for the typical microfinance clients and MFIs.

We are unprepared to manage wrath of nature with microfinance, it appears. The lessons from previous disaster management with El Nino, La Nina, floods in Bangladesh and Earth Quakes in India and Turkey have not been very helpful or not well applied. Are we hopelessly NO learners? Is nature challenging us to notch up our efforts to manage newer, bigger and worse disasters? I believe that our lessons from past experiences in using microfinance to manage disasters need to be reviewed and updated to better prepare for the future.

Let's discuss:

1. How can MFIs assist in the relief efforts and also protect their portfolio from deterioration?

2. Should MFIs accept massive donor subsidies just after a disaster? If so, for what purposes?

3 How should donors determine whether it is appropriate to provide subsidies to MFIs during the relief times, and in what form (donor-to-MFI loans or grants)?

4. Should the type of interventions vary by nature of the disaster?

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Shivendra Sharma

Assuming that we would take up the questions one by one:

1. How can MFIs assist in the relief efforts and also protect their portfolio from deterioration?

The question needs to be looked from two main perspectives. First, affected areas where microfinance existed prior to the disaster and second affected areas where there was no microfinance before the disaster struck.

In affected areas where MFIs were active prior to the disaster, there is a need for the microfinance institution to act to support the relief work and this cannot be denied. This is because the clients coming from the economically weakest sections of the community look up to them and expect some assistance. The nature of the assistance then depends on the maturity of the clients affected. The more mature the clients the less they will be looking towards the MFI for pure relief measures but more support measures. New and young clients would not have completely understood the role of the institution and hence would expect giveaways. It is clear in any case that any direct charitable giveaway from the MFIs would directly impact the financial discipline amongst the clients and harm the portfolio. But at the same time if packaged well the relief could come in the form of a value added service extended by the MFI to its client in the hour of need. Managed this way the relief would not hurt the credit discipline but rather strengthen it as the clients would see it as a form of insurance cover that they get for choosing to adopt microfinance. Together with such relief, loans could be rescheduled and interest waived for a certain period after the disaster to reduce the burden on the affected clients. I know microfinance purists might differ on this but in the end what is the benefit of a financially sustainable institution if it cannot pass on the benefits of this sustainability to its clients. Further, if MFIs continue to focus on their portfolios exclusively during such a time, then what different are they from. I feel that over time they would also evolve in the same way as banks have to focus on only on low risk clients.

Then we have the issue of affected areas where no microfinance existed before the disaster. In such areas the disaster offers us a unique opportunity to introduce understanding of a financial discipline and tying the availability of relief to such a discipline. In this case I think purists would say that it is unethical and wrong to introduce microfinance at such as time (as I have heard over an over after the Tsunami) but they done realize that all the charity and aid is only available for a short while after the disaster while microfinance institutions would set up a permanent presence in the affected areas and offer services continually. For this to happen it is important the communities realize the benefit and continue to work to maintain the financial discipline. The fishermen communities along the coast for example are not at the bottom of the pyramid in terms of incomes but because of the lack of a financial discipline coupled with the unpredictability of their occupation over spend when the going is good and have to go to the money lender during the monsoon months when fishing activity comes to an absolute halt. From what data we gathered each family in coastal villages in Tamil Nadu, use a loan of 40-50 thousand Indian rupees during the three months of fishing ban October onwards. The interest rates that money lenders charge vary from 3-4% to 10% a month depending on the local competition. Would it not help if through the introduction of microfinance, the community could first be encouraged to start savings and then receive loans whenever they want at market rates?

On the other hand let's look at how charity and aid is helping. Due to the visibility that it provides, all aid agencies are giving free boats all over the affected areas, without bothering to gather data about the fleet size prior to the Tsunami. This has resulted in a situation where instead of 1 boat for every 4 fishermen there are many more in any case the boats can't be taken to sea by less than 4 fishermen. Hence there are many instances where the fishermen are selling these boats for half the price. And do you think has the money to buy these boats but the moneylenders. The moneylenders will in turn make sell the boats when required for a profit and exorbitant interest rates! I stop here to hear what others have to say!

RE: DAY ONE: THE DAY AFTER TOMORROW

Post By: Luis Sanchez

It is widely accepted that disasters are a continuum within societies. In Geetah's first messsage, different stages of a disaster where MFIs are expected to play a role are introduced: relief, disater management, rehabilitation, etc., although no mention to the phases BEFORE a disaster strikes an area is done. In this sense, I believe that MFIs can play an important role in terms of turning their clients - poor vulnerable people - more resilient to disasters by promoting mitigation and prevention. One issue discussed after the 2001 earthquakes in El Salvador within the MFI community was how to generate new products that could create a safety net for small businesses affected by disasters and how to protect clients' assets and livelihoods. Microinsurance was an option, but also risk assessments, contingency plans, etc. Although much of this discussion was abandoned after a while -since disasters are or were not that frequent and regular problems then occupy our minds- I think that a lot of thinking has to be invested in finding the ways to generate a prevention culture, which in the long-run will be more financially-efficient because losses are expected to be reduced in the future, and because safety nets providing resources during the first phases of any emergency would enable affected businesses to keep running, and hence permitting the households' livelihoods to sort the crisis without the need of external assistance/aid or minimizing the latter.

RE: DAY ONE: THE DAY AFTER TOMORROW

Post By: Dr. Geetha Nagarajan

Dear Luis:

I cannot agree with you more: YES, our grandmothers would have told us: prevention is better than cure, any day, any time and any where.

But, prevention also comes with a price, involves lots of imagination and dedication of resources for regular upkeep.

This is especially the case for areas that are affected once in a blue moon. The preventative measures become outdated, get lost in memory and become useless when the disaster actually hits. Case in point: the very old and levees in gulf coast area in the US that were not maintained and reinforced on regular basis. Although the residents were insured, no adjuster could get into the area and settle claims without adequate papers. Three local banks are now expected to file for bankruptcy since they could not deal with the huge late and no payments. They are unable to make new loans, have difficulty in honoring depositors request for withdrawals!

However, in areas affected by frequent disasters, preventative measures make real sense. Bangladesh has now developed several preventative products to help reduce the vulnerabilities and blow to their clients (and themselves) in the wake of a disaster. These include savings products and flexible loan products. However, if the MFI cannot honor the clients request for withdrawal of deposits or pay indemnities towards insured items, these microfinance products lose their validity as preventative tools.

There is a need for developing some measures to make sure that the MFIs are in a position to serve their clients and also protect themselves using these preventative tools. Is liquidity a problem - if so, can some form of central fund facility help? If it's logistics, how can that be solved using technology? how can donors support preventative measures - do they have to make it mandatory before releasing funds? if so, where can they insist - high risk areas? If so, how can we cover areas that are hit very rarely?

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Tim Nourse

All,

Greetings.

To respond to the first challenge – Are we not learners? If we look at the Tsunami, I would say a qualified yes. My experience is limited to Sri Lanka, but there I saw that most serious donors realized that they should treat microfinance with care. They didn't urge wholesale write-offs or grants, nor did they throw too much loan capital at it initially which would overwhelm MFI capacity. Larger MFIs also reacted well, analyzing their portfolio carefully before making write-offs and only reducing rates where appropriate and able (using subsidized capital sources.) Smaller MFIs who didn't have access to information or the sophistication to use it, and relief donors unfamiliar with MF, however, made many of the common mistakes – writing off all loans or offering subsidized rates for all, regardless of the clients' situation, and offering poorly targeted grants. Accordingly, while a review and update of our lessons learned will be helpful, it will be as important to disseminate information to MFIs/donors in disaster prone areas, then ensure that they accept the lessons learned and prepare for future calamities.

In terms of some of the questions:

1. Role in relief – to follow on Shivendra's format – in places where MFIs exist, they should act as responsible members of their communities, in the immediate aftermath helping relief agencies to find the most vulnerable and serving as the conduit of appropriate relief supplies as able. These "relief" activities should be short-term however and not detract from their main business – lending. MFIs need to quickly analyze their portfolio and respond with appropriate policies – potentially write-offs in the worst cases, rescheduling for those affected, and normal loans for those not. I think few purists will argue that MFIs should not change their lending practices at all; they just need to be very careful about what changes are put in place, which clients benefit from them, and how they communicate changes to their entire clientele. Clearly, grants should not be a tool of MFIs, but MFIs can collaborate with relief NGOs to work off grants – lending to those who have been able to re-establish their assets with grants.

In places where MFIs don't exist, disasters do provide a challenge and an opportunity. The challenge in terms of establishing an MFI in a place where relief supplies and grants are prevalent, and the opportunity in that MF can serve as one means to help reconstruction in the affected area. Experienced organizations have demonstrated that it can work post-disaster, but they need strong management, a long term vision from the beginning and an identity for the MFI that is distinct from other relief players.

2+3. Accepting massive subsidies. It is difficult for any institution to refuse a large hand-out unless the reporting or targeting requirements are too onerous. Accordingly, #3 may be of more interest. For donors, they have the challenge of trying to responsibly assist MFIs that lost resources, but not negatively impacting the MFIs path to sustainability. In addition, they have to beware funding MFIs that were not worth their money before the disaster. The best way for them may be to look at the pre-disaster performance, judging what was lost with the MFI and funding those assets or the additional operational costs that are not being covered due to a loss in income. On the loan capital side, putting in place a fund that can be accessed according to a clear criteria in terms of MFI performance and management would be appropriate. Unfortunately, pressure to disburse funds and to be seen, "doing something" often spoil the rational choices of who to fund and how.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Anne Bordonaro

I completely agree with Luis Sanchez that there are some important ways that MFIs can protect their loan portfolios and continue to operate in the wake of natural disasters. Just one way that MFIs can help to protect clients is by encouraging savings. We know many of the world's poor keep their savings in the form of tangible assets such as livestock or real estate. However, these types of physical assets are often sorely affected in a number of natural disaster scenarios. Perhaps MFIs could use recent disasters to encourage their clients to save to protect themselves not only in the wake of disasters, but also for medical emergencies, life-changing events, etc. While we know that these savings might not be accessible immediately following a disaster like the Tsunami or Katrina, they would be protected for future use by the client in reconstruction efforts.

Also, I believe there are ways that MFIs can physically prepare themselves to deal with disasters and protect operations and client information. In the wake of Hurricane Katrina, I listened to a story about a small business owner who was protected because he had purchased payroll insurance as well as remote data back up systems following the hurricanes in Florida last year. MFIs in some countries can take similar preventative measures to back up client and portfolio information, as well as protect employees and operations.

Another example I have seen here in the US is MFIs requiring clients to purchase life and disability insurance for loans over a certain amount. This insurance enables the institution to recover the full amount of the loan should something happen to the client. This type of insurance is not costly and would seem to protect the MFI from extreme loss of life in cases of natural disaster. I have also heard of MFIs operating in conflict-affected zones in the West Bank and Gaza experimenting with loan insurance to protect their portfolios should damage occur to a client's business that would prevent him or her from completing sales. It would seem to me that loan insurance is another way that MFIs can protect their portfolios both in normal operations and those following a natural disaster.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Luis Sanchez

With regard to question 1: How can MFIs assist in the relief efforts and also protect their portfolio from deterioration?, I believe that MFIs are called to participate in the relief efforts at different levels, but should thet concentrate in at least two main areas: in the one hand, coordination with other players involved in the relief effort. MFIs are not specialized in relief operations, their main business is loans. Their role will be more helpful coordinating with expert agencies that have the necessary know-how to respond to emergencies. On the other hand, and for me this is the most valuable contribution from MFIs on the impact zone, would be targeting. MFIs know the field, know their clients, knoe their markets. Providing this information to the agencies in charge of the relief efforts would be better off for their clients than trying to cope with the situation by themselves, guaranteeing that their clients will be covered by these efforts accordingly to their specific conditions. This will also avoid portfolio deterioration because resources belonging to the MFI are not invested in the relief efforts, on the one side, and because clients affected are better serviced this way. In the meantime, the MFI can prepare to respond to the new needs that will emerge once the situation stabilizes.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Dr. Geetha Nagarajan

Dear Anne:

I agree with you that savings are an important preventative product. Let's assume that legal and human resource issues are not binding to provide deposit services.

I agree with you that MFIs may be limited by liquidity constraints to release deposits immediately after the disaster, but they can make them available for reconstruction efforts. However, lots of the MFIs, especially smaller ones, get caught in a spiral of liquidity problems even after the disaster is about 6 months old (as in the case of Tsunami) and are not able to honor member's request for withdrawing deposits. This causes members to lose confidence on the MFIs and ability of the savings products to protect them.

Yes, insurance can be a good mechanism but it requires scale, diversification, good information to fix the premiums so it can cover the costs. Also, poor need to be convinced to pay for an unknown event. It has not been easy in many developing countries. Microinsurance for life and loan are now available. But, the more important insurance for asset / businesses, crops and livestock has been very costly and not very feasible so far.

A recent paper by Mosleh Ahmad and others at the CGAP microinsurance working group on microinsurance in Bangladesh shows that while health, life and loan insurance are now functioning and also covering at least about one third of the poor, disaster and livestock insurance are virtually unavailable. The only one that provides them covers about 4% of the MFI clients. Of course, sustainability of these programs without subsidies is questionable. You may read the paper at microfinancegateway.com.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Shivendra Sharma

With reference to microinsurance, of course it presents itself as a good risk control measure and there is no denying that it is! But let me share with you an example of why we need to move from pure presentation of this fact to more concerned thought. I was in Colombo for a workshop organized by the Sri Lanka Tourism Board and the World Tourism organization where microfinance was discussed in reviving tourism micro and small businesses. Sri Lanka as you know gains a large part of its economic growth from tourism and according to an ADB study on Commercialization of Microfinance services 80% of its potential microfinance demand.

Representatives from several Regional Chambers of Commerce and SME associations presented the fact that even in cases where they had insured their assets, the insurance companies were not settling the claims on the pretext that only in cases where an earthquake was covered specifically in the insurance policy would they consider the case and indicated cover under natural disasters was not sufficient enough. Further some insurers went another step ahead and said that since the earthquake was not in Sri Lanka and the damage was caused by flooding due to an earthquake elsewhere even earthquake cover could not be considered! Since we have moved ahead from the basic justification for the need for insurance, it is important that such bottlenecks are discussed and highlighted to take the industry in the direction needed!

DAY ONE: THE DAY AFTER TOMORROW
Post By: Mosleh Ahmed

Dear Shivendra,

Insurance is a contract and like all contracts the terms and conditions have to be carefully read and understood before it is signed.

It is accepted that most small organisations do not have the expertise and therefore they should take outside support until they are able to develop their own expertise. In many cases donors have helped MFIs with technical support required with contracts and other capacity building areas.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Shivendra Sharma

Precisely my point Mr. Ahmed, there is a vast need to build such capacity amongst MFIs and their beneficiaries without which examples such as the one I have cited would continue to exist. Hope we can achieve this through our planned September special on Microinsurance in SMALL CHANGE. I am looking forward to receive your comments to the issue plan I mailed to you!

Re: DAY ONE: THE DAY AFTER TOMORROW
Post By: Dr. Geetha Nagarajan

Both Tony and Terry raised an interesting issue on disruption of value chains in the wake of massive disasters.

To quote Tony "If you help a shrimp farmer to repair his boat, but in fact there's no real regional market for shrimp for another 6 months, what should you do?". I have been wondering about this myself.

I am borrowing from Terry (I agree with Terry) to partially answer Tony's enquiry. Terry says "In the tsunami affected areas of Sri Lanka, coastal value chains were damaged first by the disaster and then distorted by transfers from benevolent relief organizations. Small, focused, cash-for-relief programs probably contribute to the revitalization of distribution networks in the affected areas. However, cash-for-work programs often benefit only those that can participate in manual labor (cleaning beaches, building roads, etc)".

What can help those who are not employable as manual labor??

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Eve Hamilton

I agree with Luis that it is important to look at the pre-disaster role of microfinance, and I think there are many ways in which microfinance can improve the preparedness of the poor. For example, through the provision of insurance products (which is increasing); safe savings instruments to replace more vulnerable in-kind savings, such as animals or jewelry; and productive loans that support the diversification of household income sources. In this vein, I would be very interested in hearing about any experience with microinsurance in a disaster. How helpful was it? Was it up to the task, or was the providing institution overwhelmed by the claims?

With respect to the role of MFIs during relief efforts, a few comments and more questions. First, as a result of the disaster, business or household fixed assets may be significantly reduced, the production capacity of the individual/business may have been affected, and/or demand (income) may have been interrupted. At the same time, to get back on track (rebuild home or business, etc.), an individual's financial needs may be relatively high. Given these conditions (creditworthiness potentially low, the risk of indebtedness high, and various unknowns):

1. How do MFIs assess the debt capacity/creditworthiness of disaster victims, particularly in the case of a disaster of unknown duration, such as a drought? Perhaps the larger question here is at what point during/post disaster is it feasible to offer microfinance (microcredit)? What conditions must exist before credit begins to flow, in order to protect both client and institution?

2. Similarly, is there a role for subsidized credit? Certainly, this is generally not considered a good thing- but does the benefit of extending credit to a larger group of affected individuals (or higher loans) justify this step away from traditional best practices, or should microfinance only be available to those who can pay full market rates? Shivendra suggests that it does, and I'm inclined to agree. My question is, what approaches are recommended to minimize undermining the financial discipline of current and future clients in the long-term. Waving interest for a specific time period may be one, what other approaches what other policies might be effective?

On the institutional side, we already subsidize MFIs, generally with the understanding that they use these subsidies to strengthen their institutions, reach scale, and become sustainable. While it's important for an MFI to move away from subsidies, I think postponing that move can be justified in a disaster. The key is to ensure that the institution is capable of managing the resources effectively, whether provided as a loan or grant, such that resources don't sit idle with the institution, or get disbursed haphazardly.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Dr. Geetha Nagarajan

Dear Shivendra, Tim and Eve:

I admit: I am one of those so called purists who says NO to new MFIs immediately after a major disaster. Tim rightly pointed out what smaller and inexperienced MFIs do in the event of a major disaster compared to experienced ones. MFI is a very information dense business. And, information is a scarce commodity (after pure water) immediately after a disaster. Any new MFI should overcome this information difficulty and gain the trust of the affected community to provide the services efficiently for a long time. An experienced MFI may do better in such cases but it may take time.

However, not all affected regions are blessed with MFIs. As you rightly said, in such cases, the affected may have to get their services from informal sources and/or depend on government/donor hand outs. It would be important for initiating an MFI in these conditions. Tim and his colleagues from ARC have shown that demand exist for MFI services and therefore can be started in refugee (or evacuees???) camps in conflict affected areas. But, they would also say that certain basic conditions need to be met before doing it (Tim, correct me if I am wrong, please).

Eve, in my opinion, the major conditions are evolution of some open MARKETS, MARKETS and MARKETS. Same applies for major disaster affected areas. In Mozambique, some experienced MFIs that operated in the affected areas took their business to the refugee camps that had access to near by markets and gained new clients in addition to servicing their own clients!!

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Dr. Geetha Nagarajan

Dear Colleagues:

What about microgrants instead of loans during the first few days of a major disaster? Is this a good sue of donor monies?

I saw this working in Mozambique after the floods of 2000. In my opinion, microgrants can be effective if they are very small, swiftly distributed and done through a relief agency or a development agency that is not a MFI. In Mozambique, several of the clients of MFIs that obtained these grants paid back their loan installments and became eligible for new loans. Such grants are also used in Sri Lanka by some established MFIs after the Tsunami.

Let me hear from you on your thoughts.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Josh Moga

Geetha,

One of the real challenges for MFIs in major post-disaster situations are the pledges of grants for affected poputations. After the tsunami we saw the rapid annoucement of cash benefit packages and promises by international donors to supply boats, houses, food to many communities. While many of these took time to reach the beneficiaries, when so many promises of grants are announced it is difficult for the MFIs to talk only of loans. Microgrant programs reflect the reality that people are in great need, but still maintaining the connection to loans that will help the transition from disaster on to development.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Terence Miller

Hi Geetha,

Using microgrants could be a very appealing alternative to debt at the on-set of a natural disaster, but only for a very limited time period, and perhaps only for special populations.

There are lots of appealing aspects to focused, measured cash grant program. A principle of a microgrant program – not unlike microfinance – that without any conditions attached, households would make prudent use of the money. In the Mozambique case, it was USAID’s hypothesis that working on the supply side of economic activity alone via financial services was insufficient to re-establish economic networks. Unlike asset grants, micro-grants provide immediate liquidity to households that, in theory, should jump-start economic activity, like a tax cut. These micro-grants could also be directed to the very poor, who would not otherwise pass a post-disaster creditworthiness assessment. Grants are spent in the region, stimulating sales and job creation by retail traders. The extra income that trickles up to retailers in the form of increased business probably allows for purchase of inventory.

In the tsunami affected areas of Sri Lanka, coastal value chains were damaged first by the disaster and then distorted by transfers from benevolent relief organizations. Small, focused, cash-for-relief programs probably contribute to the revitalization of distribution networks in the affected areas. Cash for work programs can be quite efficient at pumping funds into an economy, without the appearance of welfare. However, cash-for-work programs often benefit only those that can participate in manual labor (cleaning beaches, building roads, etc).

The challenges of running a micro-grant program are probably:

1. The program may have issues overcoming the enormous information gaps in identifying affected households. How do we really know about the losses of the affected households?

2. The second challenge will probably be establishing eligibility criteria that is fair and transparent as well as operational at the field level.

3. Cash distribution is probably another planning and logistical challenge.

4. How do you measure the program success? Financial services versus cash grants?

5. Are we putting anyone out of business by providing the cash grants?

6. How can we distribute micro-grants in a way so that the credit culture is not further damaged, and so that the beneficiaries understand that this is a very, very short-term activity.

7. Coordinating closely with other welfare transfer programs

These are just some initial observations/thoughts. And, of course, as discussed, grants should not be distributed by MFIs for fear of sending mixed signals to borrowers.

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Tony Pryor

This has been a really interesting discussion (as Geetha's always are!!).

I had a couple of issues to raise, which may get picked up tomorrow. I was just wondering about the utility of looking not at MFIs per se, and the way to maintain/manage/support loans in a post-disaster environment, but to ask questions from the point of view of the impact of a disaster on the use of the funds.

When a disaster hits, money/help is needed (from the point of view of someone affected) to respond to immediate personal and health needs (need water and food that normal supply systems no longer can provide), to respond to breakdowns in social, econmic and political structures (markets no longer operating, etc.), infarstructural replacement, etc.

But the larger the disaster, the broader the impact on the value chain that the microenterprise depends upon/supports. At some point, getting funds to an individual when the broader market is disrupted would seem to be not as effective, if not counter-productive.

Not sure exactly if I'm making my point clearly, but I guess at its most broad, when you deal with a huge system-wide event like the tsunami or Katrina, just when does the role of microfi get overwhelmed by more systemic disruptions? How can you link broader societal investments (gettting a road fixed, repairing cold storage at a port, etc) with micro investments? (If you help a shrimp farmer to repair his boat, but in fact there's no real regional market for shrimp for another 6 months, what should you do?).

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Shivendra Sharma

Agree completely with the points Tony makes which reverberates my thoughts on using microfinance as a philosophy rather than a tool. But would still say that MFIs would be a good point to coordinate the effort since they would be establishing a branch and therefore a permanent presence in the affected area that would continue to provide for the people's needs on a continuing basis in comparison to an aid program which would be wrapped up in due course of time. Also there are MFIs and there are MFIs, as we all know the models are very diverse and the best suited I would say is not the purely financially focussed but one of those that has been maintaining a good financial track record but focussing on the overall economic development of the work area. Many such examples abound!

RE: DAY ONE: THE DAY AFTER TOMORROW
Post By: Sherry Sposeep

Hi All,

Some interesting points have been made on the use of cash grants vs.

loans. It is equally important to then figure out at what stage/sequencing are grants versus loans most effective so as not to create a culture of non-repayment, disrupt local markets, financial systems, value chains, etc. Creating over-indebtedness among a low income population through loans, particularly for non-productive uses, immediately following a natural disaster is not the right course. At this stage, grants are more appropriate to take care of basic and immediate needs. The US govt did exactly that following Hurricane Katrina by distributing $2000 debit cards to evacuees. Cash for work programs on infrastructure reconstruction (which have limitations for those unable to do manual labor, i.e. sick, elderly, children, etc.) and loans for productive would follow. I'm interested to learn more about the impact and results of MFIs that have developed housing loans in response to natural disasters. Were loans available to existing clients only or to new clients as well? What type of coordination, if any, occurred between MFIs and local/national govts?

DAY ONE: THE DAY AFTER TOMORROW
Post By: Mosleh Ahmed

Just to comment on one of the points raised by Eve Hamilton:

Natural disasters are co-variant risks, and even major commercial insurers have problems coping with it. One example is Lloyd's underwriters between 1989 and 1993; many members went bankrupt due to massive claims from hurricane damages, airline accidents and the Exxon Valdez oil tanker disaster.

The areas hit by Tsunami disaster did not have any major microinsurance schemes so there is no experience from that area that I know of. But there are several microinsurance schemes operating around the world to cope with natural calamities and man-made disasters. For example earthquake damage and fire damage microinsurnace by Care India and SEWA in India and flood microinsurance in China by People's Insurance Company. The flood insurance in China is subsidised by the government but the other two are in partnership with commercial insurance companies and are viable. There have been earthquakes, fires and floods and the insurance companies have coped with the claims.

There are also examples of several large companies such as AIG and ICICI-Lombard with successful microinsurance programmes in partnership with MFIs. These large companies have the capacity to cope with huge volume of claims.

Re: DAY ONE: THE DAY AFTER TOMORROW
Post By: Dr. Geetha Nagarajan

Multi Peril MicroInsurance

Mosley's example from Sri Lanka is not limited to microinsurance, unfortunately. Insurers in the US are now debating if they should pay if there are any water marks on the buildings since that is related to floods. Most of the houses in New Orleans were insured for fire and hurricanes. We know insuring for multiple perils is a night mare and would cost a bundle for both the insurer and the insured. These are practical implementation issues but looms large when a disaster strikes. Poor should not be misled by microinsurers that the disaster insurance will cover all types of natural disasters. This may add to the challenge to convince the poor to buy any type of disaster insurance, however.

DAY TWO: THE PHOENIX RISING FROM THE RUBBLES

DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES
Post by: Dr. Geetha Nagarajan

Dear Colleagues:

Thanks so much for the valuable contributions from 10 different participants (some with multiple postings) on DAY ONE. I am very impressed by the vast experience of the contributors with massive disasters and microfinance from around the world. It was a good sharing and learning experience.

I see over 145 views of the discussion thread so I am encouraged by the interest on the topic of our discussion. I am sure that those who are reading the postings have opinions that may contradict or agree with me and other excellent contributors on day One. Let us hear today from all the silent participants as well.

Today, we will focus on reconstruction phase in a disaster continuum.

We can discuss the roles of donors and MFIs during this phase to help clients and MFIs manage disasters with microfinance.

Specifically,

1. How can donors help MFIs and their clients in building their lives after a massive disaster? Beyond funding for traditional loans, should they fund housing construction through MFIs? Should they fund skills development for diversification into disaster proof activities through MFI linked partners? What should donors DO and should NOT DO to during this construction phase to facilitate effective disaster management of MFIs and their clients?

2. Can technological innovations help MFIs and their clients with disaster management during the (re)building phase? Are they only useful for effecting communications to swiftly apply for donor funds and remittances from relatives or goes beyond that?

3. Should donors and MFIs help develop good coordination among all actors including private investors and volunteers involved in the process? If so, how?

Although private investors and volunteers pumped in a considerable amount of financial resources into Tsunami hit areas, they are found to be used inefficient due to lack of coordination and local information. Shivendras example of more boats being distributed in Tsunami hit Indian regions than what was feasible in the region is beginning to undermine the hard built financial markets. Also, construction of houses by private volunteers in high risk zones in Sri Lanka is causing problems. What can we do about this? Very soon, this may problem for MFIs and their clients.

Let me hear your thoughts on these issues.

RE: DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES
Post By: Shivendra Sharma

The need for coordination cannot be much more pronounced than it is now. But as many well meaning attempts at such coordination have been made unsuccessfully. What emerges therefore though is the need to create widespread general awareness about disasters, recovery mechanisms and microfinance. Only when this understanding exists among a larger group can we expect that the coordination attempt would be fruitful.

Product Diversification: It is absolutely essential to diversity the loan and other products. If we consider housing, then it might be difficult for MFIs (considering the average investment in a house) to design a housing loan product but at the same time with some coordination the affected communities could be offered houses where for example the superstructure is built under a grant while small loans are made available to the people to finish the house as per their desires. After all microfinance is about providing opportunity and choice, why then should all affected families have houses that look exactly the same. With small loans, the families can do the exteriors and interiors of the house as they want. For MFIs the loan size easily comes within the purview of micro credit. Similarly since coastal communities largely depend on fishing as its principle livelihood activity which is in any case seasonal and prone regularly to the vagaries of nature, introducing alternate livelihood opportunities through new skills training and enhancement would not only be disaster proof but would also balance the income streams and make them more regular thereby improving the financial discipline amongst the communities. Even when planning to alternate livelihood opportunities in many cases very interesting new opportunities can be explored. Under our program for example, we are now considering implementing a home stay tourism programme in a village where we see the potential!

In order to apply technology to the situation, one needs to approach the subject with an open mind. Once we established our office in one of the affected villages in Tamil Nadu and brought in a laptop to facilitate communication between the various entities involved, we saw the opportunity of offer some services to the villagers. Hence our office evolved into a information resource centre, which on the one hand was providing services such as photocopy, photo printing, image and document scanning and enlargement, etc and on the other hand accessing information from various government websites of use for the villagers through the connectivity to the Internet using a GPRS enabled cell phone and a Bluetooth dongle. One might question the choice of these services but imagine a village where all documents have been destroyed by the disaster, and these very documents are needed in order to apply for government and other aid. The centre also served other aid and development agencies who could get this documentation accomplished in the village itself. Now we are moving on to weather forecasts and even trying to implement a small pilot using GPS tracking devices for fishing. And since all these services are charged, they provide valuable contribution to meeting the operational costs of the office.

Finally we hope to identify a local entrepreneur, whose skills would be developed in maintaining the resource centre and finally the assets be transferred at the depreciated cost as a micro credit. But this is not to say all of this has been and is going to be easy to achieve, and I cannot state precisely how/why we have succeeded this far, but it had been a great experience!

Once again coordination is of prime importance as without it we will face the same challenges every time a disaster strikes. I have seen in many cases private investors and donors initiating microfinance like programmes in disaster affected areas on themselves not realizing that all the effort will be a waste since they will not have the means/expertise/desire to sustain a microfinance programme. Through coordination it would be possible to add value to an existing well thought out programme where microfinance introduction has been planned in stages. One big factor to consider in such cases is that microfinance lead approaches to disaster management and livelihood restoration need considerably more resources since pullout is not possible till the branch or operation finds continuance through mainstream linkages with banks and that cannot be predicted with certainty despite best intentions and efforts!

RE: DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES

Post By: Luis Sanchez

Hi everybody:

I think that during the rehabilitation phase, besides the fact that the MFI must take a lot of vital decisiones, it is also important to consider the viewpoint of the clients. It is a very common situation during emergencies that decisions on what to do is left to relief organisations, but during the rehabilitation phase it is fundamental to hear from the clients, either they want the MFI to provide new loans for housing, capitalisation, equipment, etc. Thes participatory exercices could in fact provide the MFI with the exact blueprint of their interventions during the rehabilitation phase, and will also provide the grounds to redesign their financial products, custom-made for the special needs arising after an emergency.

In this sense, the donor community and other incumbents during this phase must be very attentive on what MFIs could propose once they acknowledge the special needs of their clients.

I believe the success of this kind of approach will depend on the maturity of the relationship between the MFI and its clients as well as to the degree in which the MFI is rooted within the community.

This is rather a theoritically approach, but I have always believed on the savvy of communities. If local knowledge can guide the MFIs interventions during rehabilitation, it is my personnal belief that targeting, programme and product desing would be more acurate and responsive and the continuum

BACK TO TABLE OF CONTENTS

emergency response-rehabilitation-development would be secured.

RE: DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES
Post By: Eileen Miamidian

I am interested I talking a bit about the grants versus loans in terms of the questions framed for today: what can donors do?

This will seem like an obvious point, but it continues to be an issue after many natural disasters, so I wanted to raise it: donors can insist that lending be left to the MFIs.

During the re-construction phase after a disaster, donors have many things on their agenda, but rebuilding the asset base of the affected population is typically one of them. One of the key things which donors could do after a natural disaster to support MFIs is to select the appropriate institution to carry out the intended program.

In the first few months after the tsunami in Indonesia, this was the focus of the many of the early livelihoods programs - they provided cash and in-kind grants to affected families and businesses. The livelihoods working group in Aceh Province invited local BRI representatives to their discussions, and this was a key message: rebuild the assets of the clients and help get the infrastructure going, then leave the lending to BRI. What most of the relief organizations did not do in the early stages of reconstruction was develop ill-fated revolving loan funds, but rather coordinate with existing MFIs.

Frequently, however, relief organizations continue to attempt to establish a revolving loan fund to achieve the end of rebuilding assets. More often than not, these projects fail due to insufficient systems, procedures and know-how. More importantly, they also undermine the efforts of MFIs to rebuild their own portfolios after a disaster. In the best case scenario, donors would remain strict in ensuring that relief organizations provide relief - in the form of in-kind or cash grants. Any programs designed to provide loans should be done through existing MFIs.

Donors can also assist by ensuring that MFIs are included in coordination meetings of relief agencies. After a natural disaster, many new organizations enter the affected region. They are not always aware of existing institutions or programs, and sometimes do not think to examine available resources. By ensuring that MFIs are at the table during the planning and coordination meetings, donors can both keep relief agencies in check, but also provide MFIs with the ability to consider where they can assist.

In Mozambique, as Geetha pointed out earlier, MFIs were very involved in relief programs. The facilitated cash grants to entrepreneurs to get businesses moving again. They also were able to talk many a relief agency out of starting revolving loan funds. This was possible because they had a voice at coordination meetings.

RE: DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES
Post By: Tony Pryor

I would like to follow up on Eileen's email. It struck me that she had two inter-related points: 1) do no longer-term harm while trying to address a short term crisis, and 2) try to do what one does best, while being modest about what one doesn't do as well.

A major issue implied in the debates between those in the disaster relief/reconstruction community and those involved with supporting MFIs and microenterprise is trying to figure out how best to respond to a crisis but at the same time not damaging initiative and value chains in the process. (The example earlier of the impact of loans versus grants at the beginning of a disaster comes to mind).

Not sure there's an easy resolution, but I do find that what's missing from both the disaster relief community and the microenterprise community at times is a willingness to step back and look at implications broader than working with an individual displaced person, or an individual entrepreneur. I think there's often a feeling that either time is not on the side of thinking more strategically, or that the need is at the individual level and so actions should reside there also.

Which brings me to the second point: trying to view post-crisis issues in terms of a tag-team, between individuals, communities and nations, and between community groups, NGOs, contractors and donors. Each has a role to play, each has strengths, and each weaknesses, in terms of impact, sector, scale, flexibility, and legitimacy. And if a strategic, flexible plan can be put in place that helps to define those posible realtionships without tying down the ability to respond, then the underlying structural repairs that only a country or donor can tackle might be linked with individual relief, and then individual growth and risktaking.

Any good examples out there of such thinking?

And by the way, having said that one needs to stay with what one is good at, Shivendra's really exciting example (where the MFI by default took on a range of roles) is correct too. Especially in a crisis, you do what you have to do. But as crisis moves to reconstruction, relative roles and competencies would, I guess, become more important.

RE: DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES
Post By: Dr. Geetha Nagarajan

A TidBit

Thought you may like to know!!

Sherry mentioned about the response in the US for the Katrina evacuees with cash grants, cash for work and loans. In fact I heard FEMA people discussing (on NPR) experiences from developing countries with major disasters and how they have adapted them to the US since the majority of the evacuees are poor. Interesting import of ideas!!!

RE: DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES
Post By: Jim Tarrant

Another tidbit: Discussion-mates may want to have a look at the NY Times article about Liberty Bank, a New Orleans bank whose customer base is largely the poorest in that city. The Bank is also located in the same part of the city and got whacked by the flooding-then-looting. Basically, the Times is going to do a series about how this institution, which is already working to get back on its feet, will build its business back up while also dealing with the same issues facing its customers. It's a great coincidence that this article series is beginning the same time as this discussion, which has been first rate so far. Tjhe URL for the first article is as follows: http://www.nytimes.com/2005/09/20/business/20liberty.html If you're not a subscriber you may or may not have access (don't know) but, then again, the subscription is free.

RE: DAY TWO: THE PHOENIX - RAISING FROM THE RUBBLES
Post By: Dr. Geetha Nagarajan

Hi All:

I am extremely pleased to see a variety of suggestions for donors and MFIs (based on solid field experiences) during the relief and reconstruction phases.

As Shivendra pointed out, coordination is the key in building after a disaster. We all are very aware of the need to coordinate in the wake of a major disaster. But, it appears such coordination can be effected only if it already exists in some form prior to the disaster. That was the lesson for me from Mozambique. However, the well coordinated reconstruction efforts through microfinance in the case of Afghanistan raises some optimism for me regarding cultivating coordination even in places it did not exist before. yes, it involved heavy donor support. Is this where donors have a larger role to play? can we say that with confidence based on Afghanistan results or wait for more evidence, especially from disaster affected areas per se (and not projecting from conflict areas??). Eileen's posting on coordination in Aceh is a first step in knowing the effect of coordination in a disaster area?

What do you think?

DAY THREE: IT'S YOUR CHOICE

DAY THREE: IT'S YOUR CHOICE
Post by: Dr. Geetha Nagarajan

Dear Colleagues:

It has been an exciting two days of very good discussion on a variety of issues concerning roles of donors and MFIs before and after a massive disaster. I thank you for your open discussion of issues.

We touched upon several issues but we still have plenty to discuss on the role of microfinance for managing disasters.

Today, I propose an open forum so that every one can express their opinion without being limited by a discussion theme.

Therefore, NO SPECIFIC THEME chosen for this last day!!.

This is an open forum. Please feel free to talk on issues that you consider as the most important. But, please relate that to the role of microfinance for natural disaster management.

Let us speak out openly on issues that require more attention from donors, MFIs and knowledge generation communities. Let's make this a true SPEAKERS corner.

DAY THREE: MY CHOICE - INVISIBLE DRY TSUNAMI
Post by: Dr. Geetha Nagarajan

Dear Colleagues:

So far, we have been discussing Tsunamis, floods and hurricanes that are rapid on-set disasters causing very visible damages to lives and infrastructure. We tend to shy away from droughts - the invisible dry tsunami - that creeps in slowly and causes loss of lives and incomes in the long run. Since the beginning of 2005, the droughts and locusts in the

Sahelian regions of Africa have claimed the lives of over 100,000 children and many adults. I find very little information/knowledge on the role of microfinance to manage droughts.

Why do we ignore talking about the role of microfinance for drought situations?

Is it because (i) we consider droughts as less of an evil and therefore can be easily dealt with? (ii) we consider that lessons from rapid-on set disasters are applicable for droughts? (iii) few MFIs operate in drought affected areas?. My hunch is that most MFIs operate in relatively favorable areas for economic activities which are often urban and peri-urban areas, cities near large water bodies, coastal areas etc., -compared to economically poor areas due to unfavorable weather conditions and dry lands.

I think that droughts require a serious attention from the microfinance community. Our understanding about managing droughts is very minimal. Microfinance responses for rapid on-set disasters and for normal times can only be applied to an extent for drought affected areas. Here, preparation/ preventative measures matter more than coping measures.

What do you think?

RE: MICROFINANCE FOR DROUGHTS
Post by: Daniel Kull

On the topic of drought, there is some interesting work being done that while not microfinance, I feel it should be of interest to the microfinance community. The World Food Programme is investigating the use of "famine risk insurance" to help smooth its cash flows and demands on donors. Set up as weather derivative, WFP is currently pilot-testing the scheme in Ethiopia. The idea is that based on rainfall and temperature measurements, if certain drought conditions are reached, the scheme is triggered and cash (or food, agricultural support, etc.) payouts are made to the beneficiaries. The idea is that the response will be faster - the payout happens before the famine onset, therefore adding a preventative element, as opposed to the old structure where once the famine hits WFP has to launch an appeal, wait for donors to contribute, and only then deliver relief. Donors would now in a sense pay premiums, smoothing out to consistant annual payments instead of massive demands in one year and then none for non-event years. Many of the big donors are supporting the pilot test.

Of course there are many challenges to this scheme, so its not clear yet whether or not it will work. Most of all, its clear that many famines are not caused only or at all by drought, and often poor governance is the culprit. So what happens in such a case? The famine risk insurance isn't triggered by drought conditions but a famine happens anyway....no pay out? WFP can't provide relief? There is also the idea to cede the highest layer of the scheme for extreme events to the international markets, either through catastrophe bonds or reinsurance.

I know that there are weather and agricultural derivatives being pursued at the microfinance level. Do any of you have experience with these, specifically for drought? I'd be interested in learning more.

RE: MICROFINANCE FOR DROUGHTS
Post By: Tim Nourse

All,

I missed yesterday, so would like to comment on a few of the threads from late Tuesday and Wednesday:

On grants – Terry brings up the right questions that any agency serious about microenterprise development needs to grapple with if considering grants. My agency, American Refugee Committee does use grants as a relief tool for a short period of time to re-build businesses and/or prepare people for accessing microfinance. We typically operate them separate from any MFI and in a two-step manner, as a means to encourage investment. From our experience, I've some feedback on his 7 issues:

Issue 1, 2, and 3: important, but most experienced NGOs can work with the community to respond.

Issue 4: With a good baseline survey (in your application) you can measure success in terms of asset growth at the end of the grant period, whether a viable (on-going concern) business has been created/re-started, and whether the business is able to tap into sustainable financial services after the grant period (savings or a MFI)

Issue 5: Definitely need to be careful with this. For example in the more rural areas of coastal Sri Lanka, a village can only support 3-4 shops, the most obvious new business choice for people. Accordingly, the implementing agency needs to be careful about the number of grants in any area and encourage clients to diversify their activities.

Issue 6: This goes back to #2 – if you develop good eligibility criteria (e.g. people who can not access MF), limit the # of grants in any community, and communicate that it's a one-off, you can avoid damaging the credit-culture

Issue 7: Very important to avoid duplication. As important is to actively coordinate with MFIs so that the grant clients can graduate to more sustainable sources of capital.

On coordination, Eileen notes that donors should keep relief agencies in check and help MFIs decide where to assist. She's exactly right, but its very difficult in practice. My observations from the Tsunami are that there were too many donors, working with too many NGOs, and with too much pressure to disburse, to successfully coordinate activities. Accordingly, many different standards and practices were utilized, often to the detriment of a satisfactory relief effort or the development of the MF sector. In post-conflict arenas, one donor is often made the coordinating body for each sector and region. Its not perfect, but it does establish some standards and an ability to avoid duplication. Having a lead on MED issues, combined with a donor and practitioner statement on best practices (as we've seen with CGAP in the Tsunami and UNCDF and practitioners in Liberia), could help to provide guidance and discipline to agencies working in relief environments. This would get at Tony's point as well of creating a strategy for relief.

For today's topic of slow-onset, I'd opine that for the example cited, it's a question of developing strong rural finance institutions and mechanisms – from formal banks and MFIs to informal savings groups. Increasing people's access to a variety of financial services in these areas will help to strengthen their coping mechanisms against drought.

RE: MICROFINANCE FOR DROUGHTS
Post By: Alison Eskesen

Hello,

I am late to join the discussion and am very sorry for it. The dialogue I have read so far has been interesting. One thing that I wanted to add was the idea of using partial credit guarantees to support MFIs that were affected by natural disasters continue lending. This is something that USAID is beginning to look at as a complement to grant assistance.

The use of a partial credit guarantee could work several ways. First if the MFI runs into liquidity problems as a result of the natural disaster, the guarantee could help the MFI secure local or international financing. This additional capital could then be on-lent to microenterprises. Of course, the use of a guarantee to facilitate access to external financing assumes that the MFI was financially solid pre-disaster. If not, no local or international financial institution would be willing to assume the risk, particularly during a time of crisis. To give you a more concrete example of how this might work: USAID has been discussing the idea of a stand-by partial credit guarantee between local Caribbean commercial banks and selected MFIs. These guarantees would be established pre-disaster - in this case hurricanes - and be activiated only once a hurricane struck. The targeted MFIs would request the loan, guaranteed by USAID from the partner commerical bank. Clearly, the devil is in the details because we have yet to come to consensus on what sort of criteria (financial ratios) the MFIs would need to maintain pre-disaster for the commerical banks to lend to them post-disaster. That being said, it is soemthing that the Agency is think about and working on, especially as the Caribbean is prone to annual hurricanes.

The second idea for how to use partial credit guarantees to support microfinance services is to provide a portfolio guarantee to MFIs that have sufficient capital but are reticient to return to (and resume lending in) the area of the country that was affected by the natural disaster. By providing a partial guarantee to these MFIs, USAID shares their portfolio risk and encourages them to re-enter that market. USAID does have experience doing this in both El Salvador after the earthquake several years ago and in Indonesia after the tsunami.

Look forward to hearing thoughts and comments.

RE: MICROFINANCE FOR DROUGHTS
Post By: Dr. Geetha Nagarajan

Dear Daniel:

Yes, there are some weather based insurance and derivatives for drylands affected by droughts. But, they are generally for farming households and do not extend to agribusiness or microenterprises. As you rightly pointed out, not all droughts are caused by lack of rainfall or unfavorable weather!! Therefore, these products lose their relevance if droughts are not attributable to only bad weather.

For example, a Local Area Microfinance Bank called Krishna Bhima Samruddhi (KBS) in India is providing weather-based crop insurance for drylands that often get affected by droughts. KBS is a subsidiary of BASIX Ltd., an NBFI in India. KBS collaborates with ICICI Lombard General Insurance Company to provide weather-based crop insurance to small farmers in dryland areas for groundnut and castor crops based on rainfall data in the region over the past 30 years. Payouts are based on the deviation of actual rainfall from the predetermined rainfall index. Since June 2003, KSB has bought a bulk insurance policy from ICICI Lombard and has sold individual insurance policies to over 230 individual farmers for an insurance coverage of US$70,880 over a period of nine months to clients in an area hit by consecutive droughts in the three past years. Premiums collected were around US$2,135. As of March 2004, 156 claims were settled for a payout of US935. The product, if successful, can insure rainfed farmers from droughts, who are amongst the poorest. This weather insurance product is in addition to the Government sponsored crop insurance program mandatory for farmers who borrow from formal banks (BASIX India, 2004). The product is also being marketed to 50 soya farmers in Madhya Pradesh through Pradan, a NGO, and to some paddy farmers in Aligarh in Uttar Pradesh through an agribusiness company. These products are still in experimental stages and need to be monitored carefully before wider implementation. The organization also provides livestock insurance 9also Grameen Bank).

MORE ON DROUGHTS & OTHER DISASTERS
Post By: Tony Pryor

Let me expand abit on the issue of drought. At the risk of boring everyone, I thought I’d try to distinguish abit between these types of events, to see if these differences affect some of the issues related to MFIs we've flagged over these last couple of days.

Please add/correct to this list, but in reading it, the fundamental question is: does the role of/impact on MFIs before, during or after these various natural events vary between them? The reason I ask is that I am concerned that we may tend to view all natural disasters as essentially similar, and therefore apply lessons learned in one area incorrectly.

Here goes:

Droughts, tsunamis and hurricanes have some similarities, but also a number of crucial differences, due in part to the nature of the event itself, and in part to the way people interact with/influence these events.

Here's some possible ways to define these differences:

Time: earthquakes are often measured in seconds, tsunamis in minutes, hurricanes in hours, floods in days and droughts in years.

Space: earthquakes are tied to fault lines; they simply can't show up "out of the blue", or cover a wide space. The fault may be very long, but it's not often very wide. Tsunamis are potentially much bigger in length, scale and range, but their impact is somewhat constrained in width (unless the entire landmass is low-lying). Hurricanes/cyclones can be quite massive, droughts often are multi-country events.

Predictability/probability: Some events can be readily predicted in terms of where (tsunamis, earthquakes) but less in terms of when. Others, like hurricanes, have predictable seasons, but in terms of exact landfall the complexity of the weather system limits the ability to identify where with any certainty. Droughts tend to build slowly over time, and predictability is easier (but the systemic nature of their impact, and link to human interaction give droughts a wholly different set of concerns).

Prevention strategies: Just about the only phenomenon that can be "prevented" is drought, to the extent that famine which is a drought's most obvious impact is not always nature-made, but often induced/expanded by human interchange (a drought in a country with strong infrastructure can have decidedly less impact that a drought in a place wracked by civil war…)

Early warning: Again, early warning of these events is intimately linked to the nature of the event. Drought can be tracked pretty easily now, although the extent of famine is still not as easy to predict. Earthquake risk is predictable, but exact timing not as much (although even there, predictability is improving). For hurricanes, the storm tracks are so unpredictable that the numbers of events in a season can be guessed, but not their eventual landfall.

And early warning in terms of months allows for a series of actions on the part of people, governments and MFIs that are fundamentally different from early warning in terms of days (hurricanes) or hours/minutes (tsunamis).

Mitigation/preparation strategies. Certainly for some of these events, infrastructural policies (building codes, proper levees, policies on location of houses, etc.,) can drastically reduce the resultant damage. Having alternative access to water, power, communications, data etc all can have an impact. And this can be at the national or city level, or at even the MFI level. In the case of New Orleans or Acheh, for instance, being able to protect loan records, or to have a duplicate system away from the area at risk, could affect the speed with which an MFI could get back on line.

Finally, a word on drought. Some of the discussion thus far has tended to use "drought" and "famine" interchangeably. The first can be a contributing factor to the second, but famine more reflects socioeconomic and infrastructural/market weaknesses. For that reason, drought is just about the only type of natural disaster where the major potential secondary disaster (famine) can be influenced and drastically limited by MFIs and other interventions.

RE: MICROFINANCE AND DROUGHTS
Post By: Getaneh Gobezie

Dear all,

I thank you very much for giving me this opportunity.

Finally, a more sensitive issue especially for microfinance organizations working in drought affected areas is being raised. This is more so for MFIs working here in Ethiopia.

Microfinance, delivered in isolation in areas more affected by drought, is indeed very weak as an anti poverty strategy. Indeed, thanks to the increased attention given to the microfinance industry here, outreach is expanding very rapidly. Within the last 10 years of operation, ACSI (Amhara Credit & Saving Institution) can reach more than 370,000 active credit poor clients as well as well over 150,000 "voluntary" saving clients. However, realizing the potential "impact" on the livelihoods of the poor has proved to be a difficult task. That is, now that the "access" to caital is there, but the capital cannot be made productive. There are indeed many other things "missing" that can make the capital productive.

On the clients end, the most practical problem faced by MFIs is the very low absorptive capacity of the majority poor in rural areas, greatly constraining the potential positive impacts of access to microfinance programmes. Many rightly argue that credit alone, without the necessary infrastructure to enhance the skill capacity of the potential borrower, would often end up without achieving the intended goal of enabling the poor get out of poverty. This might sound more true given the objective reality in the rural areas of the region.

More specifically, credit alone tends to be used to increase the scale of existing activities rather than to move into new, more sophisticated or higher value added areas. It was unusual for credit to trigger a continuous increase in technical sophistication, output or employment: it was much commoner for each of these variables to reach a plateau after one or two loans and remain in a steady state. Having been in operation for the last 9-10 years, and with a clear policy of loan size progression (+100%, 75%, 50%, 25% additions from the 2nd loan cycle onwards), the "average loan size" taken by credit clients still stagnates at about Br.1000 (US$110).

As can be expected, the highest portion of ACSI portfolio are invested in small-holder agriculture (mainly operating very small land, purchase of oxen, traditional sheep rearing and other livestock) and petty trade, respectively. Average land holding is already constrained, and cannot be expanded. Whatever land is available, is what experts would like to call "tired" or highly unproductive. The agricultural extension scheme, cover only a small portion of the total farmers in the region. There is apparently almost no institution giving such BDS services or marketing support to a sufficient scale that can respond to all the demands of the poor. Rural infrastructure, particularly the road network, is in a very poor condition that reaching the very nearest market is a dounting task. The supply side arrangement of enterprise development is apparently so weak.

On the demand side, many clients, as can be expected, are very much risk-averse that even with the availability of credit service, they do not like to venture into activities other than those inherited from their fathers or for-fathers. There are also many interrelated cultural, religious, ... issues. Thus, to make the microfinance sector a truely anti-poverty strategy (and it can be!!) all efforts should be made to make the working environment smooth.

RE: MICROFINANCE AND DROUGHTS
Post By: Mr. Tillman Bruett

I appreciate the comments from Gataneh of ASCI. I was recently working with the World Vision affiliate in Ethiopia, WISDOM MFI. They have done some impact studies and shown that one of the greatest differences between existing clients and new or non-clients is the diversification of income sources. One of the first things clients do when they become clients is to use the new funds to diversify away from their primary income source - particulalry the small farmholders. This was confirmed in our focus groups that revealed that clients moved from crop product to livestock (short-term fattending for holiday seasons) and local trade. Another interesting finding is that female clients were far less likely to be food aid recipients as compared to the control group. The diversification made them less reliant on rainfall for survival.

WISDOM has a mandatory savings program which they are in the process of changing into a voluntary program. Already, they allow mandatory savings to be withdrawn for emergencies. I think the findings suggest that recurring disasters are best dealt with through preparation rather than crisis management. Once the drought (or swarm) hits, there is not as much for the MFI to do. For operation in agricultural regions that can suffer from drought, MFIs may wish to develop savings products (or some type of insurance) that provides emergency funds.

I know in Mongolia the World Bank is working on a pilot project to provide herders insurance against the Dzud - the winter "drought" that leads to mass starvation of livestock. The Dzud has a farily predictable recurrance rate over time and the livestock mortality rate has been well documented. The product is supposed to be delivered through the local insurers, as I understand it. It would be interesting to hear how they are progressing.

RE: DAY THREE: IT'S YOUR CHOICE
Post By: Andy Reuter

I've got a question: MFIs, obviously, can have different capital streams. Some are self-sustaining, while others receive donor funding. In your experience, has there been any difference in how each group responds to disasters? If so, how has that response differed?

Thanks in advance for responding.

RE: DAY THREE: IT'S YOUR CHOICE
Post By: Evelyn Stark

I think the idea of the "dry tsunami" is a really interesting topic. It just so happens that I had a newspaper article about WFP's iinsurance idea on my desk, and then at breakfast read the paper and the discussion around Niger.

Today's New York Times (page A3, I think) has an article on Niger. Because of last year's harvest failure, this year there is famine. However, because of the all of the farm aid that has poured in, this year's bumper crop has low value!

WFP is proposing a pilot project in Ethiopia to write insurance contracts based on rainfall indeces so that insurance payouts occur BEFORE a farmer sells his assets (oxen, farm untensils, etc.) so that s/he'll be able to feed the family this year and have those assets next year when the rains do come. The premiums for this will be met by donors, according to WFP - which points out that it's a lot cheaper to pay the premium than it is to meet the massive needs when the harvest does fails and the fall out from that than can certainly last more than one season.

I put this out for information/ discussion, ideas and thoughts!

RE: DAY THREE: IT'S YOUR CHOICE
Post By: Liam Collins

I am sorry I couldn't join the discussion until now as I have been travelling. My name is Liam Collins and I am the manager of special projects at the Grameen Foundation USA. The post-Tsunami Microfinance Initiative is directed by me.

Most of my microfinance experience has been in post-conflict stuations (Azerbaijan and Croatia).

One theme runs true through all disaster situations: There are always going to be people who are beyond helping themselves and will thus require some sort of aid. There is the element of best practices and sustainabilty which should be sought;however, if done correctly, it can be done sensibly and with compassion. Subsidized loans whether through grants or some other form of help do not neccesarily have to be viewed as evil, or destroying the microfinance market in a given country. Systems can be introduced gradually after a disaster to ensure vulnerable people are being helped, whilst educating them why it is benficial for them in the long run to repay their loans thus building a reliable source of credit in their community.

I haven't had a chance to read all the other dialogue, but I look forward to doing so. I hope it is being stored somehow so that we may refer to it in the future. I hope we can come to some concrete conclusions and perhaps come up with a type of rapid response multi-organizational team to address the next disaster and microfinance's role. Unfortunately, we know it will come, let's work together to be ready.

RE: DAY THREE: IT'S YOUR CHOICE
Post By: Tony Pryor

Liam: thanks for bringing us back to post-conflict situations. In discussing on MicroLINKS the relatjonship between microenterprise and disaster and conflict management over the last 16 months, I've wondered just how the issues are similar or different. Part of the difference relates to the issue I mentioned in my previous email - drought is (mostly) a natrural phenomenon, while famine, albeit influenced by nature, is driven heavily by human factors.

But post-conflict issues do pose issues that natural disasters simply don't have to address: governance, trust, risk management - all are in a fragile state almost by defintiion in post-conflict situations, and all are key to the role of MFIs and their impact. And as Getaneh mentioned, MFIs may indeed be counter-productive in some situations. Is this more of a risk in post-conflict issues? Worth exploring more.

RE: DAY THREE: IT'S YOUR CHOICE
Post By: Dr. Geetha Nagarajan

Dear All:

I would like bring you 2 quotes from 2 of the nobel prize winning economists - food for our thoughts!!

“.... most famines are associated not with droughts and a shortage of food, but the failure to get food to the people who need it, largely because they lack purchasing power.” - Amartya Sen.

“Markets, for all their virtues, often do not work well in a crisis. Indeed, the market mechanism is often revolting to behold in emergencies. The market did not respond to the need for evacuation by sending in huge convoys of buses to get people out; in some places, it did respond by tripling hotel prices in neighboring areas, which, while reflecting the marked change in supply and demand, is reviled as price gouging. Such behavior is so odious because it brings little allocative benefit no significant increase in supply in the short run and carries a huge distributive cost, as those with resources take advantage of those without.” - Joseph Stiglitz, Sep. 19, 2005 (comment on Katrina)

RE: DAY THREE: IT'S YOUR CHOICE
Post By: Mosleh Ahmed

After Tsunami, there have been a large number of initiatives for microinsurance programmes in disaster prone areas. The main focus has been on the Donors, MFIs and the NGOs. I feel that that the focus is in the wrong direction – it should be on the commercial insurers. Unless there is a massive support from the insurers with product development and partnership with NGOs/MFIs, programmes will have viability problems.

I would like to know the participants' views on this and if they have any suggestion as to how insurers should be approached and the selling points. Perhaps they would like to share their first-hand experience on this subject.

RE: APPROACHING THE INSURANCE INDUSTRY
Post By: Daniel Kull

Dear Mosleh and colleagues,

I totally agree that one of the needs for both micro-insurance as well as microfinance in terms of disaster risk reduction is to get the commerical insurance (and banking) sector's support.

I have some experience doing this with the ProVention Consortium, plus I worked for the Swiss Reinsurance Company for a number of years. At ProVention we've had some success with getting the private sector involved, and I think a lot of it had to do with the approach we used. First of all, business likes to speak business language, and respects professionalism. We've found so many times people approached the insurance sector with the wrong "charity" approach. You need to show them the business case, and be profressional about it. What's in it for them? Even if all you can offer is reputational enhancement through corporate social responsibility, present it professionally. Speak to them in their language.

Which brings me to the next point. Prepared business cases catch their interest. Soft dialogue on how we should help the poor does not. Approach them expressing that you understand they are a business and therefore have certain goals (profits, increased shareholder value), and most importantly that you respect these goals. Again, businesses get involved in pro-poor activities because in the long-run they'll profit from it, whether its actual monetary profits or a better reputation. If you can deliver a business case and ask them for their expert input and what they would need to consider investing, it will help inspire them to be involved (and give them some ownership). Don't approach them by simply saying "Help"! Mutual respect is the key.

Its all about nurturing the relationship and showing them the seriousness of your proposition and organisation. It won't happen overnight, so you need a long-term strategy, and commitment to the relationship. Often corporate social responsibility is the way to open the door and start the relationship, and then you can build from there. And your organisation needs to put something on the line - not just ask for their commitment.

Of course some companies will be more open than others to this. We now have a number of solid relationships with global (re)insurers who are investing in pilot projects and lending their powerful voice to our cause.

I'd love to chat more if you want to write directly to me...

RE: APPROACHING THE INSURANCE INDUSTRY
Post By: Amy Davis Kruize

Dear Colleagues,

For your information, here are a couple of excellent resources regarding micro-insurance and examples of working with the commercial insurance companies.

http://www.microfinancegateway.org/section/resourcecenters/microinsurance/?PHPSESSID=3f8f1062994b0a2fbf584ae3174c9cde

http://www.microinsurancecenter.org/

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