Role of micro finance in natural disasters

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The impacts of natural disasters are mainly faced by the poor community people in every country. It is very much tough for the poor people to cope with the impacts of natural disasters. Micro-finance has not only generated enormous hope for the poor people in many developing countries but also played a vital role in natural disasters affected areas. In this paper, the roles of micro-finance in mitigating the impacts of natural disasters are illustrated. It has been seen that micro-finance institutions provide support on poor community people prepare for the onslaughts or rehabilitation needs of the disaster victims, show coping mechanism during a disaster hits and how people can wake of a post natural disaster both at the personal level and generally.

Key words: Role of Micro-finance, impacts of natural disasters, poor, support, coping, developing countries.

Introduction:

Over the years, natural disasters seem to have become more frequent across the world, resulting in enormous human and economic losses. Natural disasters take many forms like earthquakes, floods, cyclones, tsunamis, tornados and droughts, which threaten the very existence of the local communities. Further, it has been observed that the effects of natural disasters are more acute in developing countries than in developed ones. Natural disasters have had devastating dev·as·tate

tr. v. dev·as·tat·ed, dev·as·tat·ing, dev·as·tates

1. To lay waste; destroy.

2. To overwhelm; confound; stun: was devastated by the rude remark.

….. Click the link for more information. effects on the poor. For example, in 1998, Bangladesh experienced the “ flood of the century.” Households exposed to flooding had major crop failure, suffered various water-borne diseases, lost shelter, assets and the ability to meet basic needs. Results show that the burden of medical expenditures due to flood-related sicknesses is significantly higher for poorer households, and for households more exposed to flooding. More positively, econometric results indicate that social cohesion built on group-based micro-finance programs provide an informal social insurance that reduces sickness shocks. The strength of group-based micro-credit in coping with natural disasters is yet to be fully explored. Micro-credit may not be effective in the case of a large-scale natural disaster that creates a covariate shock. However, even in the case of a large-scale natural disaster (e. g. 1998 flooding), social capital developed through micro-credit programs is shown to play a positive role in reducing the burden of sickness shocks.

Micro-finance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. At the end of 2009, 1, 084 MFIs that were serving 74 million borrowers ($38 billion in outstanding loans) and 67 million savers ($23 billion in deposits). For example, In Indonesian context, micro-financial savings and lending institutions support families to ensure consumption against illness shocks. Micro-finance actually helps the poor and vulnerable poor people. So, micro finance reduces vulnerability and increases coping against socio-economic shocks, including Natural disasters. At the same time, microfinance can provide relief in direct response to disasters. Thus it is possible to make micro finance tools a part of diverse disaster relief programs or response.

Objective of the study:

Disaster mitigation practices needs to be tied up throughout the life cycle of micro-finance tools in order to make poor community people sustainable and minimize non-financial losses. As just mentioned, the roles of micro-finance in mitigating the impacts of natural disasters are the purpose of this study.

This study is prepared based on the following questions:

What are the roles of micro-finance in mitigating the impacts of natural disasters, coping mechanism during or after disaster period?

What are the main lessons and challenges of micro-finance to mitigate the impacts of natural disasters in poor community?

Microfinance and Disaster Mitigation: Some Conceptual Issues

The attributes of microfinance, which are applied in reducing household level risks, are relevant for reducing disaster risks too. Microfinance instruments help poor households diversify their income by source and season. They also diversify income by earner as it provides opportunities to women to earn. Multiplicity of income-earning opportunities and asset building through microfinance help poor households in dealing with disasters better. Microfinance also provides explicit and implicit insurance to the households. There is growing interest and constant experimentation in using microfinance in disaster management. The role of microfinance and microfinance institutions in disaster situations, however, is to be clearly analyzed here.

Microfinance deals with the poor who are vulnerable to various types of risks. The poor are more likely to be hard-hit hard-hit

adj.

Badly or adversely affected: “ Official rescue and recovery efforts were … just getting underway in this ravaged port city and more than a dozen other hard-hit towns” R.

….. Click the link for more information. by disasters like drought drought, abnormally long period of insufficient rainfall. Drought cannot be defined in terms of inches of rainfall or number of days without rain, since it is determined by such variable factors as the distribution in time and area of precipitation during and before

….. Click the link for more information., floods, cyclones, and earthquakes. Disasters normally give rise to two kinds of needs, namely relief and rehabilitation. What is required immediately after a disaster is relief to take care of food, shelter, medicine and other immediate needs of the victims. Through its long term impacts of reducing poverty and supporting sustainable development, microfinance reduces the vulnerability of the poor to disasters. Microfinance cannot, however, provide standalone protection against disasters. It must be part of a greater strategy of disaster risk reduction. MFIs must be prepared for disasters by developing disaster management plans that ensure the survival of the MFI and sustainable delivery of its services. Education on microfinance and disaster mitigation is needed for both successful poverty reduction and disaster impact reduction. Microfinance must be linked to disaster mitigation, especially during rehabilitation when the links between recovery and preparedness are clearly evident.

MFIs like BRAC, ASA, Grameen Bank, Shakti etc. are working to reducing vulnerability during natural disaster by providing—Clint-responsive loans, housing improvement loans, adaptation of current lending, emergency reconstruction loans etc. They help to so compulsory savings, voluntary savings, adaptation of forced loans etc. MFIs suggest people for doing Insurance (best established before disaster). MFIs provide money transfer services (remittances likely to increase), Grants and donations (for increasing power and building financial discipline), Livelihood relief (no payment) to the poor community people. Microfinance Institutions also provide non-financial services like training, information dissemination, distribution of supplies etc.

In the aftermath of a disaster, microfinance can quickly provide relief, and then support sustainable recovery and rehabilitation. Microfinance institutions can additionally provide post-disaster communication and coordination through their established community networks. Microfinance requires a degree of self-management by clients and is normally community based, thus fostering recovery ownership, dignity and community cohesion during traumatic and unstable times. Microfinance can reduce the cost of post-disaster recovery financing, while reducing aid dependency. At the same time, however, post- disaster aid can distort markets, adversely affecting microfinance performance. Post-disaster activities must be carefully considered to prevent negative long-term impacts on local markets and MFIs. To best reduce disaster impacts on a community, MFIs should offer a suite of flexible products to adapt to specific needs and situations. Links and/or partnerships with the formal financial sector are needed to enhance liquidity and support institutional and managerial capacity.

IV. Cases (Disaster management of Micro-finance programmes):

Flood in Bangladesh (1998): Bangladesh is largely a flat deltaic country formed by the confluence of great river systems of the Ganges, the Brahmaputra and the Meghna. These river systems annually drain a vast basin about 12 times its own size. Apart from this, hilly regions experiences flash flood after heavy rainfall and due to frequent depressions in the Bay, Bangladesh experiences regular threats of cyclonic storms, often catastrophic. The role of microfinance services in responding to disaster risks was demonstrated first during the 1998 flood. Bangladesh experienced the worst floods in its history from July to September 1998. The damages to standing crops, livestock and houses were overwhelming. The income generating activities of rural landless people were almost suspended. There had been a huge loss of property and human and animal lives during the SIDR attack in 2007 in the coastal areas of Bangladesh, nearly 4 millions affected, and more than six thousand people died, thousands of livestock perished, and 0. 9 million homes fully or partially damaged. All the MFIs in Bangladesh responded to the unprecedented situation of floods and SIDR. During the floods and cyclones, MFI workers even went on boats to ensure that weekly contacts with all members were maintained. Workers carried money with them and provided immediate interest-free consumption loans so that the members would not go hungry. the MFIs allowed the members to withdraw their savings. Grameen Bank, BRAC, ASA, Proshika, TMSS, CODEC, GUK and many other small MFIs despite a very serious financial consequence for their liquidity, opened access to compulsory savings account in an attempt to reduce the precipitous decline many households experienced in their incomes. In non-disaster times, members of these institutions did not have access to these funds unless they had fully repaid any outstanding loans and decided to leave the MFI. BRAC also operated disaster-related deposits, which allowed members to keep their assets safe from loss or damage due to the floods. A number of MFIs such as ASA and others provided voluntary savings facilities to their members. These facilities provided the members more assistance in disasters than compulsory or disaster-related savings with less negative financial consequences for the MFI.

Tsunami -Micro Finance in Sri Lanka(2004): The December 2004 tsunami is one of the worst natural disasters experienced by Sri Lanka in recorded history. With over 35, 000 dead and over 800, 000 displaced it is a disaster of a magnitude that the country was ill equipped to deal with. Thirteen of the country's twenty five districts were affected with the North and East provinces accounting for over two thirds of deaths and nearly 60% of the displaced. Sri Lanka (RADA) estimates that about 150, 000 people lost livelihoods – about 80 per cent of the affected lost their main source of income; 90 per cent lost their productive assets including the abodes. There were several issues facing the micro finance sector even pre-tsunami. The micro finance market has been pluralistic with high penetration by many different types of institutions, employing a wide range of micro finance models and methods. Bulk of micro credit is funded through Government banks and programmes, through subsidized credit, which is not sustainable. Agro Micro-Finance, BRAC, Arthacharya Foundation were working in Sri Lanka during tsunami. While these MFIs might be fulfilling their social mission, they were not charging interest rates that would achieve cost recovery. Capacity building of these institutions was a priority. Agro Micro-Finance was operating in eight districts in Sri Lanka, many of which were affected by the tsunami. Arthacharya Foundation is a national not-for-profit NGO functioning in seven districts. This organization is working with a large number of donors in promoting micro enterprises through savings and credit, and also working in health and sanitation. BRAC set up operations in Sri Lanka for undertaking post-tsunami rehabilitation activities. BRAC has quickly expanded the outreach as well as loans since establishing operations in Sri Lanka. Within a year of operation the number of clients reached has touched 26, 373 making it one of the larger MFIs in Sri Lanka. Well established management practices and systems have enabled the MFI to quickly scale up. Though the initial operations were through grant funds from BRAC and Oxfam NOVIB, BRAC has recently approached commercial banks for loans for expanding its loan portfolio. Pre-tsunami, voluntary savings was offered by four MFIs and compulsory savings by ten MFIs. Overall, there have been several positive developments due to post-tsunami funding by donors.

Lessons and challenges of micro-finance:

As we look broadly at micro-finance as an industry, and at specific experiences in the natural disaster context, it is possible to draw several broad lessons:

Microfinance cannot be a financial safety net to an entire affected community, but can play an increasingly constructive role in disaster preparedness and response as it expands its range of products and services. Establishment of long-term relationships between individuals and MFIs allow poor households' access to existing MFI products that can help reduce some of the hardships caused by natural disasters. Preparedness of the MFIs staff and systems is the key to providing timely response to clients. Timing of MFI services matters to clients: emergency loans must be available quickly after disaster strikes, while reconstruction support is useful once the household has fully passed the emergency stage.

Along with these broad lessons, there are also clear bottlenecks that limit the role MFIs currently play in natural disaster response and mitigation:

Most MFIs do not have the liquidity position (or access to a Disaster Loan Fund) to respond quickly or fully in a disaster context. MFIs-from management, to field staff, to reserves, to information and communication systems-are not currently prepared to either weather or respond to a natural disaster situation. MFIs have not considered client needs from an emergency perspective; rather products and services are primarily geared to day-to-day business or household concerns. Demand for special services may be small, yet may require significant institutional investment. Therefore, individual MFIs are unlikely to invest in developing or maintaining these services. Regulatory restrictions and limits to institutional capacity will keep most MFIs from mobilizing voluntary savings for the foreseeable future.

Findings of the study:

Although the concept of using microfinance for disaster mitigation is a novel idea, the relevance of microfinance under disaster conditions especially for the poor is yet to be fully established. Microfinance even under normal circumstances faces quite a few limitations in bringing about improvement in livelihood. While microfinance can ensure livelihood protection by reducing various shocks and vulnerability, it cannot lead to livelihood promotion unless it is accompanied by other equally important measures like training, market linkages and technology development. As micro-finance institutions involved in livelihood restoration interventions, they are aimed at establishing funds that could be used in normal situations and during times of disaster. Their main aim during normal times was disaster preparedness.

By taking up various activities aimed at disaster preparedness, they secured livelihoods and resources, improved the lives of the communities, made them less vulnerable and better equipped to face disaster. In case of an emergency, the projects assisted the communities in mitigating mit·i·gate

v. mit·i·gat·ed, mit·i·gat·ing, mit·i·gates

v. tr.

To moderate (a quality or condition) in force or intensity; alleviate. See Synonyms at relieve.

v. intr.

To become milder.

….. Click the link for more information. the effects through loans reserved for the purpose. Insurance could be a useful instrument of risk mitigation for the poor especially under disaster situation Micro-insurance can take up under MFIs to provide protection to the women against loss of life, accidents, prolonged pro·long

tr. v. pro·longed, pro·long·ing, pro·longs

1. To lengthen in duration; protract.

2. To lengthen in extent.

….. Click the link for more information. illness and hospitalization, and damage or destruction of houses and household assets. Thus, both during normal and disaster times, the MFIs funds were used mainly through loans.

The core objective of the MFIs is to reach out to the most vulnerable among the target groups. As observed in the study, the members would like to depend upon MFIs for their social, economic and emotional security. For protection and improvement of their livelihood, they need diverse financial services. Many of them would like to take up income generating activities to strengthen their economic base. Moreover, no significant attempt is made by these interventions to adopt an integrated approach required for improving the livelihood of the disaster-affected households. Given the fact that the members of the poor households in the study area are faced with many social and economic constraints like illiteracy, severe caste and gender discrimination, and landlessness, mere introduction of microfinance may not help them in bringing about any significant improvement in the livelihood.

VI. Methodology:

The study mainly uses secondary sources. Secondary data on Flood in Bangladesh (1998) was colleted from " Bangladesh Country Report" by Sirajul Islam (INAFI Asia & Bangladesh) and Tsunami – Micro Finance in Sri Lanka (2004) was collect from " Review of Post-Tsunami Micro Finance in Sri Lanka" by Girija Srinivasan. Moreover, I have taken help from different websites and books.

VII. Conclusion:

Reducing the Poor's vulnerabilities to disasters and emergency situations is the role of micro-finance in disaster risk mitigation. It can immediately relieve financial burdens caused by the on set of calamities, especially if savings and micro-insurance is included in the package of services. It can further support consequent initiatives for sustainable disaster recovery and rehabilitation. Since, MFI is private in nature; it has great potential to provide financial and non-financial services in all stages-relief, rehabilitation, reconstruction and development.

However, micro-finance services alone cannot immediately translate into a stand-alone successful disaster recovery enterprise but needs to form part of an over-arching disaster risk mitigation strategy. The success of the microfinance industry in various disasters is indicative of future accomplishments in exploiting microfinance for pre- and post-disaster mechanisms. While micro-finance can be an entry-point for the delivery of sustained services in disaster situation, it still needs the prompt provision of services from the government, like installation of damaged infrastructure and other rehabilitation interventions and active participation of other civil society groups for training, counseling and organizing. A more thorough understanding of microfinance and disaster mitigation is needed for poverty reduction and disaster impact reduction. Finally, it can be said that micro-finance institutions can be an entry point or a point of convergence of poverty alleviation and disaster mitigation programs.