

*This is the second of three MBP Technical Briefs focused on natural disaster preparedness. This brief discusses techniques to prepare the microfinance client for a natural disaster; Brief No. 6 discusses institutional preparedness; and Brief No. 8 discusses donor preparedness.*

# Pre-Disaster Planning to Protect Microfinance Clients<sup>1</sup>

## WHAT HAPPENS TO MICROFINANCE CLIENTS WHEN RAPID-ONSET NATURAL DISASTERS STRIKE?

The majority of microfinance clients hit by natural disasters have loans outstanding that they may have used for many purposes, ranging from petty trading, home improvements, livestock, agricultural activities, school fees, medical bills, or previous family emergencies. But when natural disasters strike, clients lose family members, health, homes, business assets, inventories, livestock, and crops—exactly those things in which they had invested loan capital.<sup>2</sup>

Still indebted to the microfinance institution (MFI), clients lose assets or income-earning activities by which means they repay MFI debts. At the same moment, clients require emergency funds to buy food or medicine. Clients with the smallest liquid assets and the greatest loss of income or assets may cope by going deeper into debt, pulling children out of school; selling off their remaining assets, crops, and livestock; and, in extreme cases, dividing the family as adults migrate in search of work.

## WHAT OPPORTUNITIES DO MICROFINANCE INSTITUTIONS HAVE TO PROTECT CLIENTS?

MFI's have a range of tools to help clients cope with natural disasters (see Brief No.1: "Loan Rescheduling after a Natural Disaster," Brief No. 2: "New Loans after a Natural Disaster," and Brief No. 3: "Using Compulsory Savings for Natural Disaster Response"). But post-disaster response tools are significantly more useful if combined with pre-disaster client preparedness activities. Pre-disaster planning can lessen the initial impact of a disaster and increase the clients' range of coping mechanisms. This brief examines eight disaster preparedness tools that MFIs can use to mitigate the effects of a sudden natural disaster on their clientele.



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**MICROENTERPRISE BEST PRACTICES**

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## **EIGHT STEPS TO PROTECT CLIENTS AGAINST NATURAL DISASTER**

### **1. Meet with Clients to Discuss Natural Disasters**

Beginning with the most at-risk client groups, MFI headquarters and field staff should conduct client meetings to discuss preparations for and responses to natural disasters. In addition to imparting specific technical information, these meetings mentally prepare clients for unexpected events and help them build a sense of personal and community empowerment to respond to crises. Meetings might include the following topics: household emergency coping strategies; the role of accessible savings; diversification of income-earning activities into disaster-resistant activities; preventative health practices; and sources of disaster relief services.

### **2. Create Accessible Emergency Funds**

Clients face a range of risks—individually and as communities—that include natural disasters. Emergency funds set up within the MFI can provide clients a financial safety net in times of crisis. The key attribute of such accounts is that funds be held in a highly liquid form—not used as loan capital—so that these funds are immediately accessible when crisis strikes.

Emergency funds are often based within the lending group. These funds are typically available for a range of personal or aggregate (community-wide) crises, including natural disasters. If management of the fund rests with the group, they typically use the accumulated capital as a short-term emergency loan fund, setting interest rates as they see fit. Groups often want to set interest rates below the MFI's regular level to give crisis-hit households a smaller debt burden. Unfortunately, funds bearing lower than average interest rates encourage individual group members to attempt to gain access to these funds even when there is not a significant emergency. To control for this behavior, group members may face penalties of no future access for misuse of funds.

Funds managed by the MFI's staff do not face the same risks of client manipulation. But these funds are often considered inaccessible to members facing severe personal emergencies that do not meet the MFI's definition of a "crisis." For centrally managed funds, MFIs must be very clear with clients about the purpose and uses of emergency accounts to avoid client dissatisfaction or even accusations of misuse of funds.

In short, emergency funds must be carefully designed to provide both coverage and accessibility. An MFI may choose to use multiple emergency funds (as Grameen Bank does in Bangladesh), combining a group-based fund to respond to a range of individual emergencies with a centrally controlled fund to respond to large, aggregate disasters.

### **3. Health Training and Vaccination Programs**

Discussing the impact of the 1998 Bangladesh flood on residents' health, Mohammed Yunus of Grameen Bank wrote, "Organizing community-level preventive and curative efforts will become the most important element to combat disease."<sup>3</sup> Clients need more than information: they need training in disease prevention. In Bangladesh, for example, although knowledge of oral rehydration is universal, only two-thirds of people use it in times of crisis. "The gap between knowledge and practice ... requires that aggressive behavior-changing communication

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... take place in the future.”<sup>4</sup> Rather than providing training using its own staff, an MFI can team up with a skilled health organization to train clients before disaster strikes.

The most common problem is waterborne disease, and accompanying diarrhea and dehydration, which can be combated with oral rehydration therapy and water purification tablets. Airborne diseases (such as tuberculosis) also can break out in cramped temporary quarters. Clients should learn about preventative measures, possibility of vaccination, early warning signs, treatments, and location of healthcare professionals to combat common diseases. When possible, the training may be combined with a vaccination program for clients and their families. Veterinary vaccination programs also may be stepped up to reduce post-disaster livestock losses.

#### **4. Support Economic Diversification**

MFI's with experience in rapid-onset natural disasters know which income-earning activities tend to be resistant to natural disasters and which are significantly or permanently disrupted. Clients operating in high-risk activities should be encouraged to diversify into disaster-resistant activities. Diversification is easier for clients before disaster strikes, when they can draw upon their traditional activity for income while accumulating assets and experience required for the secondary activity. Linking clients to existing business development services (BDS) may help them gain the skills necessary to diversify their income sources.

Related to economic diversification is seasonality of high-risk activities. For example, livestock raised to maturity before the rainy or hurricane season can be sold at full value, rather than sold under duress. On the other hand, immature livestock on hand during high-risk seasons may die or fall ill before reaching market or may be sold under pressure, if disaster strikes. Providing such guidance to clients not only protects clients' assets but also lowers the MFI's portfolio risk if disaster strikes. Obviously, this strategy works only in situations where disasters can be seasonally predicted. Totally unexpected disasters—such as volcanic eruptions—cannot be addressed with this sort of advance planning.

#### **5. Encourage Structurally Sound Housing**

One of the greatest risks to households in chronic disaster areas is poorly constructed housing, which is prone to extensive damage in winds or floods. In addition, clients continuing to reside in high-risk locations (such as within known flood zones or where mudslides are possible) are at greater risk than those living in safer areas. MFIs may consider providing savings or loan products to encourage clients to move to safer areas and to invest in more durable housing. For example, housing loans are provided in non-disaster periods by BRAC, PROSHIKA, Grameen Bank, and MYRADA for clients to build houses in safe place.<sup>5</sup>

#### **6. Consider Insurance Products that Respond to Aggregate Crises**

Insurance products provided by MFIs to their clients are typically designed to protect against individual crises, not crises that affect the entire portfolio of clients. Providing insurance for aggregate (community-wide) disasters is a risky undertaking for MFIs, even if payment into the plan is mandatory. Still, some MFIs have begun experimenting with insurance products for disaster response, in some cases turning to the re-insurance market to spread aggregate risks

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more broadly. SEWA in India has created one deposit-linked insurance scheme, which compensates clients for business losses and deaths caused by fire or flood. The program has been plagued with difficulties in getting the partner institution—a state insurance company—to make timely payments to clients. Vaigai Vattara Kalanjiam in India, working with PRADHAN, also links an insurance fund to the state insurance company. In this scheme, clients may request payouts of up to only four times the amount of premiums paid and only once in a five-year period (see Endnote 4). These efforts demonstrate both the possibilities and difficulties of designing insurance products that provide protection for natural disasters.

## **7. Locate Relief Services to Use in Case of Disaster**

In areas hit recently by disaster, it is relatively easy to learn which relief institutions provided support to disaster-struck households. In Honduras after Hurricane Mitch, World Food Program, Catholic Relief Services, CARE International, and Save the Children, among others, distributed emergency food supplies, medical supplies and staff, water disinfectants, seeds, shelter materials, and emergency school supplies. In addition, government units in Honduras pledged to build “macro shelters” outside of the flood zone. MFIs should collect information on providers of emergency services and distribute this information to branch offices and then on to clients. In particular, MFIs should strive to locate and teach clients where to find safe shelters where they can take their families, livestock, and moveable assets if disaster strikes.

In chronic disaster areas hit by seasonal flooding, OXFAM helps clients prepare their own “disaster kits,” consisting of a water-tight pot filled with dry twigs, matches, kerosene, sugar, rice, and other essentials. After burying the pot in the ground, the client can then dig it up after floodwaters recede. An MFI also can help clients locate safe storage facilities (such as safe deposit boxes) for their most valued documents, like land titles or deeds. These are only two examples of actions clients can take themselves—with a little support from an MFI—to prepare for disaster. It is likely other ideas will emerge from MFI group meetings that discuss disaster preparedness.

In areas where disasters have not struck repeatedly, or where international or national organizations have not mobilized sufficient relief efforts, there may be few relief organizations prepared to serve the population in an MFI’s geographic area. In such cases, the MFI can develop plans for the purchase and distribution of emergency food, oral rehydration salts, and water purification tablets as a minimal strategy of protecting clients’ lives and families. (See Brief No. 4: “Non-Financial Emergency Services to MFI Clients.”) On the financial services front, the MFI can consider how it can provide remittance services to clients receiving financial support from distant family.

## **8. Collect and Disseminate Early Warning Information to Clients**

Early warning is important for protecting both MFIs and their clients. MFIs should liaise regularly with national or international institutions that track weather and predict storms, floods, or droughts. This information should then be communicated from the head office to field staff, then on to clients.

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## CONCLUSIONS

These eight techniques cannot protect clients from unexpected natural disasters. They can, however, reduce the loss of life and improve the health of clients and their families, protect household and business assets, and empower clients and their communities to prepare for and react to a sudden disaster.

At the same time, the MFI itself benefits from stronger, healthier, more resourceful clients. Moreover, the MFI benefits from the perception of clients that the MFI is strong enough—and foresightful enough—to weather an emergency, should one occur. This view of the MFI as a resilient institution will keep clients repaying loans in the expectation that the MFI will be there to offer new loans in the future.

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## ENDNOTES

- <sup>1</sup> This document draws on information presented in MBP papers, “Microfinance in the Wake of Natural Disasters: Challenges and Opportunities,” by Geetha Nagarajan, 1998; “Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implications for the Microfinance Industry,” by Warren Brown and Geetha Nagarajan, 2000; and “Disaster Loan Funds for Microfinance Institutions: A Look at Emerging Experience,” by Warren Brown and Geetha Nagarajan, 2000 (all available at [www.mip.org/pubs/mbp-def.htm](http://www.mip.org/pubs/mbp-def.htm) under “Managing Risk”).
- <sup>2</sup> After the 1998 Bangladesh flood, for example, a study of multiple MFIs revealed that “[o]ver 62 percent of all microfinance clients had lost their homes. For many, this also meant loss of their place of work; nearly half had lost everyday household possessions; and over 75 percent had their ability to generate income either destroyed or abruptly (albeit temporarily) terminated.” (M. Emrul Hasan, “Effects and Implications of High Impact Emergencies on Microfinance: Experiences from the 1998 Floods in Bangladesh,” SANMFI, Dhaka: 1998, p. 9).
- <sup>3</sup> *Grameen Poverty Research Newsletter*, Grameen Trust, Vol. 4, No. 3, November 1998.
- <sup>4</sup> Md. Khairul Islam: [www.bangladeshflood98.org/citizen/citizen7.html](http://www.bangladeshflood98.org/citizen/citizen7.html)
- <sup>5</sup> Nagarajan, Geetha, “Microfinance in the Wake of Natural Disasters: Challenges and Opportunities,” Microenterprise Best Practices Project, March 1998, <http://www.mip.org>.