



Invest to prevent disaster

POINT OF VIEW 2

Planet finance

What can local MFIs/NGOs do in that context through microfinance programmes?

In case of natural disaster we recommend to reschedule existing loans to reduce the burden on affected households and provide new, quick disbursing emergency loans to replace income sources temporarily lost because of the disaster. But the Tsunami case is completely different because NGOs activities are less visible in the affected coastal belt. NGOs and Microfinance institutions can use the unique opportunity of disaster recovery to become more sustainable, by integrating hazard mitigation strategies with other community objectives related to economic health, environmental stability, and social well-being. MFI can help making communities not only less vulnerable to disasters, but more sustainable and therefore better places in which to live and work, while educating, directing investments of beneficiaries.

We have to rebuild sustainable housing. Schools and houses cannot be reconstructed on the beach because they will not resist to flood or typhoon. MFIs can give that advice and conditionate lending to that restriction. They can also finance investments in flood shelters (secure housing), like in Bangladesh. When the water started raising people were able to move the cattle to the flood shelter...when it was obvious that the house was in danger they contacted a rescue boat and moved everything, including the house to the shelter, and they can stay there for up to six months whilst they look for a new place to live.

Some special lending can be designed: spread on a huge period with a small rate, maybe a negative real rate. MFIs are going to meet huge demands for refinancing activities: broken tools like boats... they can coordinate lending to more sustainable activities. It has estimates that more than 1 million micro entrepreneurs will need micro loans.

Fishery is one of the principal resources of coastal East Asia (tourism is the other). The tsunami destroyed huge quantities of coral and mangroves (fish meat safe), and rejected billions of fish on the beach.



Invest to prevent disaster

Through a 5-10 year Integrated Development Plan, Microcredit may help in that way: that kind of project allows modernization, poverty reduction (increase of resources, improvement to water access...) etc unsustainable manner where Planet Finance can play a potential role to implement the best practices.

When such devastating things happened, people loose everything. To avoid that kind of problem, they must diversify their activity: MFIs must intervene to suggest alternative solutions to the mono projects of beneficiaries. They must reach several markets to sell their products, produce different kind of cultures to mitigate the risks...

Advantage must be given to low cost activities with great profit. The activities of food selling are a good example: low investment, immediate profit.

Financial Tools: Local NGOs/MFIs should be introduced and trained to integrate more friendly financial products and insurances so that they can prepare themselves for such unwanted situations in the future. MFIs can use new loans to Help clients repair and replace damaged or destroyed assets. Loans are smaller than average in size and for shorter terms than normal.

MFI can be relays for international communities or government subsidies: they can distribute grants. But to avoid distortions and limit multilateral spending they can also make soft loans with that aid and give it back to the financial backers later, namely, ten years later or so.

Covering of covariant risk is at stake and we must focus on this issue in the future to prepare the nation for any kind of disaster. MFIs of a region can ensure those of another, far away, threatened by different natural diseases. Normally, regions wouldn't be in an emergency situation at the same time. So, with comparable purchasing power, one can insure the other.



Invest to prevent disaster

What are the main limits or constraints of this tool in this Context? What are the best conditions for its optimal functioning?

It is not so easy to intervene in this situation when reality is more crucial than the expectation. Soon after the disaster, main challenges for the following weeks are to ensure the supplies of food, medicine and shelters so that affected people can have minimum support to live on. Microfinance programme is not a better solution during this rehabilitation & emergency supply phases since by the nature of the microfinance programme it will conflict with the situation.

Three months after the disaster, no crops and vegetable grow due to salty landscape and no fishermen are able to catch or sell fish since people are afraid to buy it because they consider that the fish have eaten all human flashes.

- a) Micro loan programme and rehabilitation/emergency supply can't go side by side;
- b) Stable and sound environment required to run the effective microfinance program
- c) Due to disaster and natural catastrophe when infrastructure destroyed until unless it has rebuilt microfinance programme cannot be initiated;
- d) Microfinance is not just giving out money ...it works along with Motivation and training. It is not easy to rebuild the confidence of the people who lost their family members, houses etc. through microfinance program during the post disaster situation.
- e) Without forming groups, MFIs can't start the micro-lending programme but it is not easy in such circumstances;

Written by Dr. Mostaq Ahmmed, Director, Training and Technical Support, PlaNet Finance
Contact: mahmmed@planetfinance.org
<http://www.planetuniversity.org>
<http://www.planetfinance.org>