Capacity Building for Microfinance in Post-Tsunami Reconstruction

Summary Report

January 2007

In September 2005, Citigroup Foundation sought the assistance of FDC to design and conduct a regional program of research, curriculum development, and train-the-trainer workshops to increase the capacity of microfinance providers to prepare for, and respond to, natural disasters. FDC conducted this program in India, Indonesia and Sri Lanka. Comprehensive best practice training materials in five languages were developed. More than 600 microfinance personnel from 100 microfinance organisations have been trained, and a cadre of some 60 trainers represent on-going momentum to continue the capacity building effort.

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OVERVIEW

Microfinance has proven to be an essential element for people in disaster situations, enabling them to start to rebuild their lives and improve their living conditions. However, in recent times there have been crisis situations where massive injections of donor funding—including capital for microfinance operations—have not achieved their intended purpose, largely because there was insufficient local capacity to deliver services in a timely and appropriate manner.

This failure raises questions about how a microfinance institution (MFI) should respond in a post-disaster context. On the one hand the MFI wants to protect its good reputation, putting the needs of its clients first as any successful business will do. On the other hand it wants to protect its identity as a long-term, professional financial intermediary—quite distinct from an ‘aid’ organisation.

Furthermore, while proponents of microfinance often state that its primary purpose is to provide capital for enterprise development so that clients can grow their income and assets, a complementary purpose must surely be to assist clients to *protect* their income and assets from the impact of crises such as natural disasters.

Thus the FDC project asked: *‘**How can MFIs maintain their effectiveness in times of disaster?**’* And it sought to answer this question by engaging microfinance clients and practitioners in tsunami-hit areas of India, Sri Lanka and Indonesia. The FDC team conducted field research to obtain clarity on a number of issues regarding appropriate post-disaster responses by MFIs. Is there a role for MFIs in disaster relief and if so, what is it? What is the role of microfinance in livelihood restoration? How can MFIs provide loans in contexts where relief grants are commonplace? These are just some of the questions that are discussed in a series of research briefs developed by the FDC team.

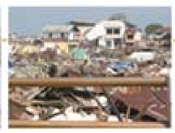
The research briefs and other learning were then synthesised into a curriculum, which was a challenging process due to the existence of such a wide range of microfinance providers—from licensed microfinance banks through to generalist NGOs, relief agencies and semi-formal self-help groups. All have different perspectives and roles, and for this reason the FDC team developed a ‘best practice’ manual as a series of six modules from which stakeholders can select topics according to their particular needs and context.

The training resources include a trainer’s manual, a participant’s manual, presentations, and handouts. These have been translated into the ‘tsunami’ languages—Bahasa, Hindi, Sinhala and Tamil. The resources are available free-of-charge through a dedicated website. A train-the-trainer program involved more than 60 people from nearly 40 organisations, and this cadre of trainers is now presenting the curriculum to others. Already nearly 500 microfinance personnel have received training.

FDC has marketed the resources to microfinance providers throughout the world and has attracted keen interest from stakeholders in numerous countries including Bangladesh, China, India, Indonesia, Laos, Nepal, Philippines, Sri Lanka, Sudan and Vanuatu. We have also responded to requests for access to the resources from numerous international NGOs including CARE, Concern, Opportunity International, Plan, and World Vision. Additional translations (Mandarin, Lao and Tagalog) are being prepared by third-party organisations, and these will be uploaded to the website in due course.

In these ways, the project has not only increased the capacity of microfinance providers to prepare for and respond to natural disasters, but it has created mechanisms and momentum so that the capacity-building process continues into the future.





PROJECT OUTPUTS AND OUTCOMES

The project commenced fourth quarter 2005. A steering committee, including project manager and four consultants was formed soon after and met on three occasions to provide project direction and to manage curriculum design. The first phase of train-the-trainer workshops was undertaken through Feb-Apr 2006, and a second phase over June-July. Field research was undertaken in parallel with these workshops. Feedback from the workshops and outputs from the field research were incorporated into the curriculum. From Aug-Sept, all training resources underwent a process of review, line-editing, graphic design, proof-reading, translation and production. Dissemination of the training resources, including an on-line marketing campaign, followed. Key outputs and outcomes from the project included:

1. **Curriculum development for microfinance in crisis situations:**

   Training modules include:

   - Introduction to microfinance and disaster management
   - MFI preparedness
   - Client preparedness
   - Rapid response
   - Microfinance in livelihood restoration
   - Livelihood restoration

2. **Comprehensive best practice manual on microfinance and disaster preparedness/response:**

   - English-language Trainer's manual and Participant's manual produced and printed.
   - Soft copies of the manuals, trainer presentations, participant handouts, research briefs and library are available on the Banking with the Poor website, at - www.bwtp.org/arcm/mfdm/.
   - Soft-copy manuals, presentations and handouts also available on the website in Bahasa, Hindi, Tamil and Sinhala. Additionally, the resources are being translated into Mandarin, Lao and Tagalog.
   - FDC has responded to requests for access to the resources from microfinance trainers in Bangladesh, China, India, Indonesia, Laos, Nepal, Philippines, Sri Lanka, Sudan and Vanuatu.
   - FDC has responded to access requests from various NGOs including: CARE, China Foundation for Poverty Alleviation, Concern, Opportunity International, Plan, and World Vision, and these organisations have indicated that they intend to use the curriculum in various ways.

3. **Field research related to microfinance and disaster preparedness/response:**

   Seven research briefs are available on the website:

   - Microfinance institutions and disaster relief
   - The role of microfinance in livelihood restoration
   - Grants and loans in livelihood restoration
   - Microfinance and cash-for-work in livelihood restoration
   - Savings for risk mitigation and crisis recovery
   - Microleasing for livelihood restoration
   - Microinsurance

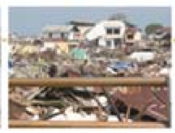
4. **Regional train-the-trainer program:**

   62 individuals participated in 6 train-the-trainer workshops in India, Indonesia and Sri Lanka.

5. **Stakeholder briefings:**

   Briefings on disaster preparedness/response for microfinance providers and other stakeholders was undertaken in numerous ways, and more than 100 organisations throughout India, Indonesia and Sri Lanka were briefed.





6. **Training for MFI staff or individuals from the government, private sector and NGOs:**
   - More than 650 individuals trained.
   - An objective of this project was to build capacity for disaster preparedness and response for microfinance providers. The number of individuals trained to this point is therefore arbitrary in the sense that training will continue into the future. FDC is committed to ongoing marketing of the resources throughout the world and is confident that the number of persons trained will continue to grow over time.
   - We have had requests for access to the resources from microfinance trainers in Bangladesh, China, India, Indonesia, Laos, Nepal, Philippines, Sri Lanka, Sudan and Vanuatu.
7. **Increased capacity of at least 20 MFIs in tsunami-affected areas:**

   The definition of 'MFI' is broad in as much as there is a whole range of microfinance providers, from licensed microfinance banks through to generalist NGOs, relief agencies and semi-formal self-help groups, all of which were targets of the project. We are able to report that at least 100 organisations received training and increased capacity, and that many of these developed readiness plans.

KEY LESSONS LEARNED

The research briefs identified and articulated many lessons from the post-tsunami experience. We refer the reader to the 'research' page of the website: www.bwtp.org/arcm/mfdm/research.html.

Other more general lessons learned include:

1. The notion of 'economic resilience' is important for poverty reduction efforts, based on the observation that the vulnerability of poor communities to external shocks keeps people poor, no matter how much effort is put into income-generation and asset building.
2. While proponents of microfinance often state that its primary purpose is to provide capital for micro-enterprise development so that clients can grow their income and assets, a complementary purpose of microfinance must be to assist clients to *protect* their income and assets from the impact of crises such as natural disasters.
3. Microfinance providers need to give more prominence to risk-mitigating products such as microinsurance and savings. While some microfinance proponents have questioned the demand for risk-mitigating products, it is worth noting the words of a participant from the All India Disaster Management Institute who said that 'while only 5% of the population was aware of insurance before the 2001 earthquake in Gujarat, 70% were aware of it afterwards'.
4. 'External risk management' ought to be a key aspect of the broader risk management responsibilities of MFI governors. Continued effort is needed to raise awareness of this among MFI governors.
5. Microfinance providers do have a role to play in disaster relief contexts, but their contributions should generally be restricted to their particular expertise, which is financial services, livelihood restoration and economic recovery, not distribution of emergency relief.
6. Despite concerns from some segments of the microfinance community, grants are often provided to microentrepreneurs following a natural disaster. The challenge for relief agencies and microfinance providers is to design these interventions in such a way that they contribute positively to restoration of livelihoods, without creating dependency or undermining efforts to provide market-based financial services on a sustainable basis over the long-term.



7. Whereas microfinance providers often restrict their product offerings to credit, and sometimes also savings, they ought to consider new product innovations for post-disaster contexts. These include loan rescheduling, loan refinancing, microleasing, and savings linked to cash-for-work programs.
8. Some microfinance providers do employ some of the products mentioned above, but they generally do so in the 'heat of the moment' following a natural disaster, with little analysis of the particular design of these products. However, MFIs will be better placed to respond effectively when a disaster strikes if they have worked through key issues, designed policies and products, and negotiated collaboration with disaster management agencies, *before* disaster strikes, rather than in the midst of it.

CATALYTIC IMPACT OF THE PROJECT

This project:

1. raised understanding of 'microfinance and disaster management' throughout Asia and beyond
2. contributed significant new learning with respect to microfinance in post-disaster contexts
3. contributed quality training resources on a subject where nothing existed before
4. established capacity and momentum so that training can continue after the project is complete
5. motivated a number of partner organisations to become key providers of 'microfinance and disaster management' training
6. attracted keen interest from major international NGOs, and FDC resources are set to become an important addition to training regimes for their microfinance partners throughout the world
7. motivated a major international NGO to develop a regional Emergency Liquidation Fund, to provide capital and support to MFIs in South Asia that find themselves in post-disaster contexts
8. is providing key inputs to the strategy deliberations of a major international NGO who has resolved to make 'economic resilience' a framework for poverty reduction efforts.