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MICROFINANCE IN A NEW FINANCIAL ERA

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DISASTER RISK MANAGEMENT IN MF INTERMEDIARIES

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FONDAZIONE GIORDANO DELL'AMORE

PURPOSE OF THE RESEARCH:

Analyze the strategies employed by MFIs to either manage or face disaster risk

- Three research questions:
  - Can MFIs successfully implement survival strategies without direct external aid?
  - To what extent would the success of the strategies adopted be depending on the existing economic/infrastructural environment and the related support actions, not specifically addressed to the MFIs?
  - If external aid is meant to support MFIs' processes of either survival or recovery, how to provide it without distorting the MFIs' behavior?

- There are few examples of MFIs able to manage by themselves, without external interventions, disaster situations or period of crisis (Pantoja, 2002)

- The research confirm this tendency

- Disaster risk is, by definition, a systemic risk:
  - Natural disasters
  - Man made events (for example, pollution disasters or political events)

■ **The poor and disasters**:

- ✓ More exposed to environmental risks (geographical and household characteristics)
- ✓ Less options available to face disasters
- ✓ Less resources invested in disaster mitigating strategies
- ✓ Technology adoption influenced by environmental hazards (low risk)

► MFIs' clientele is usually represented by vulnerable households.

VICIOUS POVERTY CYCLE

- **MFIs and Disasters**:
  - Human damages: personnel
  - Infrastructural damages: buildings, equipments, information systems
  - Organizational damages: efficiency
  - Credit risk: consequences of damages to clients
  - Liquidity risks
  - Reputation
  - Risks of short, medium and long term

- **MFIs and Disasters**:
  - Control strategies: ex-ante, ex-post
  - Offer of adequate products to clients to prevent, face, mitigate a disaster: credit and saving products
  - Insurance
  - Donors aid: MFIs need to preserve independence
    - Funds for emergency credit – cash grants
    - External support in staff training and management

THE FIELD RESEARCH:

- 4 Countries:
  - MADAGASCAR
  - SUDAN
  - SRI LANKA
  - ETHIOPIA
- 11 MFIs
  - Madagascar: 4 intermediaries
  - Sudan: 3 intermediaries
  - Sri Lanka: 1 intermediary
  - Ethiopia: 3 intermediaries

MFIs MANAGING DISASTERS

- ALL 11 MFIs WOULD LIKE TO MANAGE DISASTERS WITH DEVELOPMENT PURPOSES BUT …
- … THEY HAVE *NO AD HOC STRATEGIES*: they use normal credit risk evaluations and do not have any integrated strategy
- NO IDENTIFICATION OF THE 3 PHASES OF A DISASTER: BEFORE – DURING - AFTER
- DISASTERS SEEM TO BE PART OF THE EVERY-DAY LIFE, NOT EXCEPTIONAL EVENTS

- TRADITIONAL MEASURES
  - Diversification
  - Loan rescheduling
- FEW NEW IDEAS:
  - Location – Vente contracts (MADAGASCAR)
  - Funds for emergency situation, fostered by clients savings or / and external subsidies
- ROLE OF THE STAFF
  - Training is very important

- **ROLE OF SAVINGS AND LIQUIDITY RISK**
  - MFIs not worried because of external funds (donors)
    - These subsidies may create dependency
- **BEST OPTIONS FOR EXTERNAL INTERVENTIONS:**
  - Staff training
  - Technology supply
  - Infrastructures
  - Support to markets, entrepreneurship
  - Disaster and climate change monitoring (early warning systems)
- **JOINT ACTIONS AMONG PUBLIC, PRIVATE AND MF ACTORS TO SUPPORT DEVELOPMENT POLICIES**