EXECUTIVE SUMMARY

STUDY ON THE ROLE OF MICROFINANCE SECTOR IN DISASTER RISK REDUCTION IN INDIA

SEEP
Powering connections

IFMR LEAD
LEVERAGING EVIDENCE FOR ACCESS AND DEVELOPMENT

Citi Foundation
citi

Background and Rationale

The frequency and impact of disasters across the globe have grown exponentially over the past several decades. In the past 20 years, 90 percent of major disasters have been caused by 6,457 recorded floods, storms, heat waves, droughts and other weather events. India is among the top five countries hit by the highest number of disasters, apart from the United States and China[1]. Beyond the immediate physical devastation of disasters, there are long-term negative social and economic consequences; particularly for vulnerable communities who are the most severely affected. While the initial humanitarian and emergency response to crisis is crucial, there is a growing recognition of the value of disaster risk reduction (DRR) strategies in preparing for and thus reducing economic and social losses associated with disasters. This is especially true for developing countries where poverty is a fundamental cause of vulnerability.

Microfinance Institutions (MFIs) largely cater to poor and near-poor populations. Not only are MFI clients excluded from the formal financial system, they are highly vulnerable to external shocks such as disasters, which puts them at greater risk. At the same time, many MFIs in India operate in communities and regions which are predictably hit by disasters year after year, while others work in more stable yet disaster-prone areas. Disasters hinder the ability of microfinance clients to repay loans efficiently by impacting their livelihood and productive assets. Given the demographic section that MFIs cater to, MFIs have a responsibility to and a vested interest in addressing the issue of disaster management within their "curricular" to ensure both their own institutional sustainability, as well as the resiliency of their clients. Through resiliency products, greater awareness of client needs and internal risk management procedures, MFIs can play a key role in continuing to support populations most affected by disasters. Promoting such activities would not only increase the ability of poor households to cope with different kinds of crises, but also in turn protect the MFIs' portfolios.

Greater preparedness will require MFIs to participate in all phases of DRR from pre-disaster to post-disaster management. Through the phases of disaster planning and response, there are a number of opportunities for collaboration between MFIs and state-sponsored disaster management agencies. These include contribution to disaster management plans, risk mapping, communication of early warnings, mutual awareness raising, disaster relief and disaster assessments. At the same time, there are clear operational steps that MFIs can take that include developing contingency plans, staff training and developing risk-reducing products for clients. In emergency situations, MFIs can also contribute to overall relief efforts through partnerships with humanitarian agencies or through their own relief efforts, based on the financial and economic needs of existing clients.

[1] United Nations Office for Disaster Risk Reduction (UNISDR), 2015. The Human Cost of Weather Related Disasters 1995-2015, retrieved from https://www.unisdr.org/we/inform/publications/46796

Organizational Information

The **SEEP Network** commissioned **IFMR LEAD's Centre for Microfinance,** to conduct this study in 2016. This study is part of the Disaster Risk Reduction (DRR) Program that aims to create awareness of the need for disaster preparedness in financial services markets and to build a general consensus among key stakeholders around effective disaster risk reduction practices. The DRR Program has been co-designed and funded by the Citi Foundation. For more information, visit seepnetwork.org/DRR

About SEEP Network

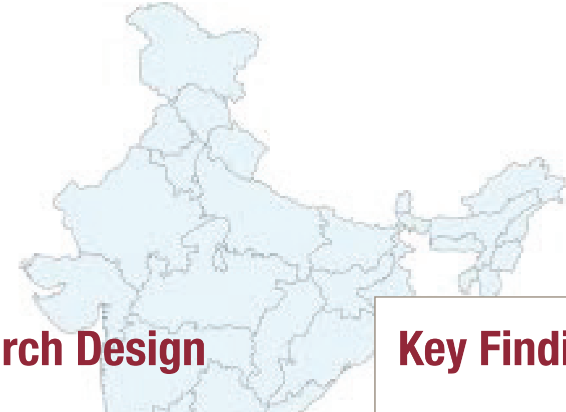
SEEP is a global learning network. We support strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their life. www.seepnetwork.org

About IFMR LEAD

IFMR LEAD is a non-profit research organization conducting high-quality scalable action research and outreach in development economics and finance. IFMR Lead's Centre for Microfinance (CMF) conducts research in the areas related to credit, savings, insurance and pensions, livelihoods, and policy and regulation. www.ifmrlead.org

About Citi Foundation

The **Citi Foundation** works to promote economic progress and improve the lives of people in low-income communities around the world. They invest in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities. The Citi Foundation's "More than Philanthropy" approach leverages the enormous expertise of Citi and its people to fulfill its mission and drive thought leadership and innovation. www.citifoundation.com



Research Design

This study was undertaken to understand the existing DRR practices of MFIs in the market and to map out the disaster-related vulnerabilities of clients affected by crisis in order to assess gaps for more effective disaster preparedness. The study covered pan-India and was conducted using primary and secondary data. Desk research was undertaken to understand the global and Indian disaster risk context and the MFI sector's role in disaster management practices. Secondary data was also used to select the geographical locations for the study, based on high and medium impact disasters that have taken place in India over the last five years. To keep the study representative of India's overall disaster management initiatives, in-depth interviews were conducted with 15 MFIs and NGOs from different parts of the country and of varying size and reach.

Interviews followed the disaster management cycle, which consists of three phases: pre-disaster, disaster occurrence and post-disaster management to understand the role microfinance institutions, NGOs and government play in the disaster management process. In addition to mapping MFI responses to DRR, the study also mapped disaster-related vulnerabilities through a client assessment. A focus-group discussion was conducted in Deheri village, in Dhemaji district of Assam, which is one of the worst disaster hit areas of Assam. Located at a confluence of rivers, with the mighty Brahmaputra river flanking the district and its numerous tributaries running through, the region is perennially affected by floods. Conducting a case study in this region allowed for an exploration of the vulnerabilities of individuals to disasters and helped to identify key opportunities for building resilience of MFIs, their clients and the community at large in the face of crisis.

Key Findings: Current Practices

The study found that the Indian microfinance sector is in a very nascent stage of development with regards to disaster risk reduction. Though MFIs have the potential to play a significant support role, in general there is very little awareness and knowledge on the disaster management and planning practices and hence no organizational policy or protocol is in place for DRR. Currently MFIs offer only limited support during response and recovery phases. There are few innovative financial products and services in the MFI sector in general, and limited use of emergency loans (small value pre-approved loans), micro insurance, or agent networks. MFIs do, however, capture client risk exposure at the loan application stage and many use technology platforms to collect real time data on cash collection and loan disbursements. Since these processes are steps in the current lending process, there is an opportunity for the information collected to be used to identify and categorize clients and geographies in vulnerable groups.

In general, MFIs have participated in very limited relief efforts. They have contributed to annual philanthropic work, such as setting up health camps, providing education, training support, loan rescheduling, and some house repair/reconstruction loans after disasters strike. But these efforts are often ad hoc and MFIs lack standard organizational practices or protocols to handle disaster response. There is, however, widespread evidence of robust operational and financial risk mitigation mandates and practices within MFIs. This indicates that these institutions would be capable of scaling this to the disaster context, provided there is capacity building and orientation from the perspective of disaster preparedness.

The microfinance sector has evolved over the years and is taking bold steps towards financial inclusion. One of the reasons for the gaps in DRR is very weak stakeholder engagement on the agenda of disaster. Though the institutions abide by the regulatory body guidelines and are committed to poverty reduction, there remains a lack of a concrete vision in their role for disaster management.

Recommendations

The research found that microfinance institutions are as vulnerable to the impact of disaster as their clients. This underscores the importance of risk mitigation and the need to shift from post disaster support to pre disaster preparedness. Based on the observations, it is recommended that an overall stakeholder engagement be launched to develop a disaster mitigation and management strategy for the microfinance sector. This should entail a facilitated dialogue and discussion between the various key players involved in the sector, including: aggregators, sector experts, financial institutions, and government bodies. Such an exercise can lead toward the development of successful partnerships between different organizations who can pool their resources and skills to design resilient models for disaster management. This also needs to be supported by more policy advocacy, research and the evaluation of other global models that can be replicated in the Indian context.

Specific recommendations detailed below:

- **Proactive Role of Aggregators:** Aggregators, like MFIN and Sa-Dhan, should play a more proactive role in bringing together stakeholders and pooling resources to develop an industry level strategy to mitigate disaster risks.
- **Needs Assessment:** The microfinance industry should work together to assess the disaster prone areas, the volume of business, and the need for microfinance support during pre and post disaster phases.
- **Awareness Generation:** There should be a sustained dialogue between the MFI sector and the recognized bodies on disaster management planning to ensure better coordination.
- **Partnership Development:** Partnerships between MFIs and stakeholders (e.g. government, investors) are needed to develop robust disaster management strategies.
- **Moving towards preparedness:** MFIs should set up, review and regularly test organizational level policies and disaster management plans to better prepare for unforeseen disasters.
- **Promotion of savings:** MFIs should create awareness about the role of savings in increasing resilience and consider serving as Business Correspondents for the banks, as some do, to promote this product with their clients.
- **Incentivizing work in disaster areas:** The majority of MFIs are not proactively operating in highly disaster prone or affected areas, which leads to exclusion of the most vulnerable people. Donors and government can create incentives for MFIs, like early warning intimations, communications, product invocations etc. that could encourage more MFIs to work more in these areas.
- **Disaster Finance Fund:** Liquidity for the MFIs during disaster is limited. An Emergency Fund /Disaster Support Fund could help to ensure financial support in disaster situations.

It is important for the government, regulators and aggregators to understand the important role the microfinance industry can play in the area of disaster management. With the increasing risk exposure to disaster, it also becomes the responsibility of the sector to both ensure its operations are protected and to support its vulnerable clients from slipping further into poverty. This can only happen if all the ecosystem actors come together to develop a strategy around a common vision for disaster risk reduction with clear roles and responsibilities to ensure its implementation.

seep
Powering connections