

This brief is one in a series of five MBP Technical Briefs focused on MFI response to rapid-onset natural disasters. These briefs discuss the potential interventions and actions that MFIs could undertake in the aftermath of a disaster, based on the experiences of MFIs from Hurricane Mitch and the Bangladesh flood of 1998.

Non-Financial Emergency Services to MFI Clients¹

In the immediate aftermath of a rapid-onset natural disaster—such as a flood, earthquake, or hurricane—field-based microfinance institutions (MFIs) are often the first to discover communities without homes, clean water, food, or shelter. Under those conditions, some MFIs temporarily provide emergency relief activities to clients or larger communities, with the goal of saving lives and protecting health. This technical brief outlines why, when, and how MFIs engage in relief activities without downgrading their credibility as a financial institution in the eyes of current and potential customers. It provides specific cases of MFI relief activities, drawing from the well-documented efforts following the 1998 flood in Bangladesh.

WHY DO SOME MFIS PROVIDE RELIEF SERVICES WHEN DISASTERS STRIKE?

Poor households—including microfinance clients—tend to be more vulnerable in natural disasters since they have a weaker economic safety net. Consequently, the direct impact of sudden natural disasters on their lives and livelihoods is magnified. Specifically, they experience loss of life or injuries, loss of income-generating activities, loss of or damage to household and business assets, and loss of homes. In the immediate disaster period, they often lack food, safe water, shelter, medicines and medical care.

The Extent of Disaster Losses: Bangladesh in 1998

In Bangladesh, the 1998 flood covered more than two-thirds of the country, affecting over 30 million people. Over 1,100 people died, 36 percent of the national rice crop and 27 percent of the national vegetable crops were destroyed, and 600,000 animals were killed. Nearly 500,000 homes were lost, along with 15,000 kilometers of road and 14,000 schools. In the microfinance community, more than 50 percent of clients were affected, 62 percent lost their homes, and 75 percent lost at least one income-earning activity (whether farm or non-farm).



Widening the circle, moving ahead

MICROENTERPRISE BEST PRACTICES

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MFIs—often situated near the location of disasters—may find that communities they serve are deeply affected but not quickly served by relief organizations or government emergency support. MFIs may fear for the health or lives of clients and their families and for the health of the larger community. In the absence of other relief actors, MFIs may step into the breach and provide emergency services until other relief organizations arrive on the scene.

WHEN SHOULD MFIs PROVIDE RELIEF SERVICES?

MFIs are not the first option in relief services. If nongovernmental organization or government programs serve a given community, MFI participation can be limited to locating their clients, linking clients and other community members to relief operations by providing information, or more directly by transporting them to where they can receive services.

In many cases, though, local relief services are unavailable. In these cases, MFIs may choose to shoulder these relief efforts on a temporary basis, handing off these activities to relief organizations as soon as they arrive. In any case, relief activities should conclude when the immediate emergency phase ends, which may be as short as a few days or as long as a few weeks, depending on the extent of the disaster.

WHAT MIGHT BE INCLUDED IN MFI RELIEF ACTIVITIES?

MFIs list the following range of services as critical to disaster-affected populations:

- ❑ Moving families and their animals to safe locations;
- ❑ Helping people locate relatives;
- ❑ Providing food grains or prepared foods (if cooking facilities are unavailable);
- ❑ Providing clean water;
- ❑ Providing basic health supplies such as oral rehydration salts and water purification tablets;
- ❑ Providing emergency supplies of candles, matches, or cloth;
- ❑ Setting up medical teams to provide emergency services or building temporary alliances with health centers; and
- ❑ Providing veterinary services and vaccines.

Near the end of the emergency stage, some MFIs provide final relief grants to reestablish households' minimal food security by providing replacement seeds or saplings. Although such services constitute the first steps of "reconstruction," these services are viewed as a critical means of ensuring that a household will be able to achieve some level of food security despite the lack of a current income stream or assets to invest in replanting.

WHO PAYS FOR MFI RELIEF EFFORTS?

Data on this topic are limited. However, information is available regarding the experience of 34 MFIs in Bangladesh after the 1998 flood. In total, 68 percent of the MFIs' branches engaged in some sort of relief activity. Of the total funds spent on relief activities, roughly 13 percent ultimately came from the MFIs' own coffers. The majority (86 percent) came from donors, with very little financial support from the local government.² It is likely that MFIs used their own funds initially for emergency efforts and later received some reimbursement and expansion of relief funding from international donors.

EXAMPLES OF MFI RELIEF EFFORTS

Two MFIs provide interesting cases of relief efforts following the 1998 flood in Bangladesh: Shakti Foundation and Grameen Bank.³ These MFIs are notable because they are generally considered "finance-only" institutions.

Shakti Foundation: Three Weeks of Relief Services

Shakti Foundation provides credit services to poor urban women in Dhaka and Chittagong. Shakti is known as a sound microfinance institution, and it has successfully negotiated commercial financing for its microfinance program with a local bank. In the aftermath of the 1998 flood, Shakti Foundation suspended branch operations for six weeks but continued to visit clients by boats to maintain morale and ensure close contact was not lost. In the first three weeks, Shakti Foundation provided rice, oraline, water purification tablets, candles, and matches. The relief operations were paid for through a grant from OXFAM.

Grameen Bank's Relief Operations

Grameen Bank estimated that roughly 58 percent of its centers were affected by the 1998 flood, including 52 percent of its clients. Immediately after the flood, Grameen staff traveled by boat to locate and assess the needs of clients. Grameen staff distributed clean water, saline, alum, water purification tablets, and cash grants to purchase food, medicine, and clothes. Grameen established medical teams to provide treatment for members and their families. Finally, Grameen distributed 500,000 vegetable seeds contributed by the Grameen Krishi Foundation, plus supplied wheat, potato, onion, and mustard seeds to members. All of these relief efforts were combined with the traditional microfinance disaster response mechanisms of rescheduling client loans, releasing client savings, and new emergency and housing rehabilitation loans.

Other MFIs that were active in relief efforts—such as BRAC and PROSHIKA—have in-house relief and social service units which they called into service when the flood hit. BRAC's relief efforts are much like those described above, but added an important element that linked relief to reconstruction. Specifically, BRAC linked severely affected clients to employment opportunities arising from flood clean-up and reconstruction. For example, BRAC expected to involve 1 million people in cleaning roads and drains, building toilets, cleaning and sinking new tube wells, loading garbage onto trucks, replanting trees and restoring farmland, and repairing schools, roads, culverts, ponds, and other infrastructure. Although this level of effort is well beyond most MFIs' capacity, they may still be able to play a role in identifying reconstruction employment options for affected clients.

CAUTIONS

MFI relief efforts are not simple. Beyond the obvious operational challenges, a few additional cautions must be mentioned. First, MFIs engaging in relief efforts must clearly communicate to their clients that these efforts are temporary and unique and that the MFI will return to business as usual after the emergency has passed. This message signals that while the MFI is a constructive member of the community during an emergency, it remains—fundamentally—a serious financial services provider. Some MFIs reinforce this message visually—by having MFI staff wear special “disaster response” shirts during the relief phase.

Second, the MFI should take care to keep relief funds separate from MFI operational funds and to maintain separate financial records for relief activities. This will allow the MFI to accurately assess how much was spent on relief, to seek outside funds to reimburse for relief expenses, and to assess the final proportion of relief expenditures that were covered by outside contributions. Moreover, donors will require evidence on how relief grants were used. The paper trail should clearly show that relief funds were not used to capitalize the loan portfolios or to cover the MFI’s operational losses resulting from the disaster.

Finally, all MFIs are not suited to participate in emergency relief efforts. Relief efforts require the use of scarce institutional funds at the peak of the emergency—a contribution that is beyond the reach of many smaller MFIs. Moreover, MFI success in such situations depends on strong leadership and a motivated, trained staff, who often work twice as many hours for half their salary during emergency periods. Finally, MFIs need good information systems to launch effective relief efforts—field information about levels of damage and needs of clients, and up-to-date financial information to allow cash flow planning and to inform fund-raising strategies.

ENDNOTES

- ¹ This document draws on information presented in “Microfinance in the Wake of Natural Disasters: Challenges and Opportunities,” by Geetha Nagarajan, 1998 (available at www.mip.org/pubs/mbp-def.htm under “Managing Risk”); “Effects and Implications of High Impact Emergencies on Microfinance: Experiences from the 1998 Floods in Bangladesh,” by M. Emrul Hasan, SANMFI, Dhaka, 1998; and web postings about MFI responses to Hurricane Mitch and the 1998 flood in Bangladesh.
- ² “1998 Flood and Its Implications for Microfinance Institutions in Bangladesh,” Sajjad Zohir, 1998, posted at www.bangladeshflood98.org/citizen/citizen9.html.
- ³ Hasan, M. Emrul, op. cit.