

# **Challenges Facing Impoverished Families When Disaster Strikes: Opportunities for Microfinance\***

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\*Paper prepared for presentation at the International Academy of Business and Economics, Las Vegas, Nevada, Oct. 15-18, 2006.

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## **Abstract**

This paper will focus on the management of microfinance institutions (MFIs) when disasters of nature strike the Third World. Themes include restarting operations, preserving staff security, adjusting collection methods, recapitalizing devastated village banks, extending timelines for credit and repayments, jump starting informal economies, coping with the deaths and injuries of microentrepreneurial clients and their families, and so on. We will also discuss how MFIs provide humanitarian aid to clients hardest hit—in natural calamities such as Hurricane Mitch in Honduras (1998), earthquakes in El Salvador (2001), the Asian tsunami of 2004, and the Pakistan quakes of 2005. Drawing on the author's personal experiences, direct observations, and the lessons of others, this paper will show some of the stress and strain, as well as practical strategies and opportunities that microfinance managers may implement in difficult conditions.

## **Introduction to Disaster**

Hurricane Mitch devastated much of Honduras, as well as other regions of Central America during late 1998. As a professor of social entrepreneurship and organizational behavior, I was scheduled to teach my regular load of MBA-type courses. But shocked by the unfolding havoc Mitch was unreeling as floods engulfed the area, I decided to teach a new elective for students across the Brigham Young University campus. Called OB 490, "Becoming a Global Change Agent," it was going to be an action research experience at mobilizing college students, training them how to change the world, organizing teams of practitioners who would help to plan and/or go to Honduras during summer 1999 to serve as relief and reconstruction volunteers.

The course was a dynamic, participatory experience. All told, some 79 students either registered for the course, or attended twice a week as auditing students. We formed teams to plan the logistics of going to Honduras, where the needs were greatest, and to explore what microfinance institutions (MFIs) were in the country, which ones we could partner with, and determine relief and humanitarian aid we might take to poor families. As well, we organized a Honduras culture team to teach volunteers about local norms, values, and technical terms, established a PR group to obtain media attention, a fundraising team to help generate money, and a group of microcredit resource people who would train everyone about village banking.

University administrators, faculty colleagues and community professionals generally opposed this project. They claimed I would not get more than a half dozen students to go, we would not raise sufficient funds, as well as asserted that large relief organizations would take care of everything: USAID, the U.N., World Bank, churches and the Red Cross.

But they were wrong. Forty-six students went to Honduras, committed to volunteering six weeks or more each. We raised \$116,000. We created 46 new communal banks with our partner, FINCA International. We also gave FINCA \$40,000 to recapitalize village bank groups whose microenterprises were destroyed by Hurricane Mitch; thus, in reality, creating really a total of one hundred banks all together. These young social entrepreneurs became quite skilled very rapidly.

They selected the name H.E.L.P Honduras for the new NGO (meaning "Help Eliminate Poverty in Honduras"). We put together a packet of the deliverables for each of the OB 490 teams, and it was bound and distributed as "The Honduras Stewardship Project Handbook."

Volunteers lived with poor families, paying them a per diem amount for room and board which aided in their financial recovery. Over 14,000 hours of volunteer service were provided—to women and children in refugee camps, to shovel out the mud, wash, paint and re-open village schools, provide manpower to local governments—cleaning streets, rebuilding bridges, assisting groups of farmers, etc. Many hours were given in loving aid to orphanages, the children, and the Catholic nuns who were overwhelmed by the growing number of new orphans. HELP purchased tools for farmers so they could jump-start farm preparations on their tiny plots and be ready for the next growing season, when we also bought fertilizer and seed.

Honduras, declared the multilateral institutions, was set back 50 years by Hurricane Mitch. Seventy percent of the country's infrastructure was damaged. Nearly 90 percent of its agricultural produce was obliterated and large fruit companies pulled out. Throughout Central America 20,000 people died, an equal amount were missing and a million were homeless. H.E.L.P. Honduras' microcredit efforts created some 800 jobs benefiting nearly 4,000 individuals. Beyond microcredit we taught computer skills, brought older street children into care centers, and served in understaffed rural medical clinics. One young BYU student even delivered five babies!

We sought donated relief supplies from church groups in Utah, Idaho, Arizona and California. We took toys to impoverished children in the Mitch refugee camps, including lots of soccer balls and air pumps, which we gave away. We took quilts and baby blankets lovingly made by the hands of Mormon Relief Society women throughout the Rocky Mountains. We took school kits--crayons, paper, pencils, pen, tape, scissors, etc.-- to give children when we got their schools reopened and ready. We assembled hundreds of newborn kits for expectant Honduran mothers. We also put together hygiene kits for refugee families—soap, towels, toothpaste and toothbrush, washcloths, hair shampoo, and so on.

The results? Our microcredit efforts, capital, training materials and organizing skills were supplemented with a host of other humanitarian aid to help the poor get back on their feet. The needs were considerable for thousands of families that HELP was able to assist. The result was a vision these college students gained that while they can't do everything, they can at least do something. They can make a difference. They learned the importance of preparation, financing and skill acquisition. Perhaps most importantly, they learned that young college students can become empowered to serve the poor and generate long-term impacts that may become sustainable. By doing so, they begin to have a life-changing experience that will continue to be played out as other Third World crises occur in the future. The ripple effect of H.E.L.P. Honduras may go on into the rest of their lives as social entrepreneurs.

### **The Context of Disaster in Nature**

The H.E.L.P. mini-case described above illustrates some of the challenges microcredit NGOs face when turbulence surrounds them. In this paper I attempt to draw on my personal action research experience, observations in the field of other NGOs doing microcredit, as well as report on the experience of other researchers, analysts and policymakers. We will survey the extent of natural disasters in recent years and attempt to categorize them. Next, I illustrate some of the complexities in managing MFIs under difficult conditions. What are the tough issues? Then I attempt to identify some microcredit programs that seemed to succeed, as well as those that ended, or did not succeed. We will address a few complex issues and try to assess how MFIs dealt with them. Finally, the paper concludes with suggestions for future research and practice.

As indicated in the title, this paper focuses on problems of nature that impinge on people in the informal economy who use microfinance services to cope with their crushing poverty. These are disasters in which unplanned for forces of nature wreak havoc on communities, regions, and/or even whole nations, disrupting the health, safety, and economic well-being of the poor.

### **Microcredit in the Context of Natural Disasters**

Impacts from nature's fury can be a high financial cost for the modern, developed world. Within the Third World, it is often not only a matter of money, but devastation of infrastructure and massive numbers of human deaths. The worst events tend to be what I will categorize as rapid-onset disasters such as volcanoes, earthquakes, cyclones, landslides and floods.

When examining a few examples in recent years, the consequences of natural events are eye opening. Consider 1984, for instance, when disaster deaths worldwide totaled nearly 600,000. In 1995 there were 123 large-scale disasters, two-thirds of which befell countries in Asia. In 1997, flooding alone killed 10,914 while, in contrast, the terrorist death toll was only 221.

A year later, in 1998, approximately 400 million Chinese lost their homes and/or crops when the Yangtze River flooded the region. That huge number of victims exceeds the total U.S. population by over a hundred million.

In the 20 year period between 1974 and 1994 an estimated 129.5 million individuals were injured or killed during natural disasters. In the early 1990s in a four-year period, global disasters cost a total sum of approximately \$443 billion.

According to the International Monetary Fund (IMF), the costs of disasters in material losses throughout the 1990s averaged about 15 times what they did back in the 1950s, a total of some \$652 billion.

Such events are becoming more frequent, as well. In 1975 there were a hundred major disasters around the globe, but in 2005 there were roughly 400. During the decade of 1985-95 an estimated 1.6 billion people were adversely impacted by disasters, in contrast to 2.6 billion over the period of 1995-2005. Disasters are also happening much faster. A few major crises of the recent past are described below.

Indonesian Earthquake: Occurring during the weekend the author was polishing this manuscript (May 26-30, 2006), the 6.3 level quake devastated wide areas of the island nation, killing over 5,000 people, injuring more than 60,000, and causing billions of dollars in property damage. Poor communities were the hardest hit, as is often the case since they lack well-built solid structures and other forms of physical security.

Philippines Mount Pinatubo Volcano: In 1991, disaster struck the large island of Luzon, spewing a plume some 21 miles into the atmosphere. Experiencing weeks of rumbles and tremors, the government evacuated many residents who farmed in the areas nearby, but 800 died anyway. Over 100,000 ended up homeless. The U.S. Clark air force base was completely evacuated, with American personnel all shipped back to the states, never to return. For 9 hours the volcano shot off millions of tons of sulfur dioxide into the air, which began to spread around the earth. The toxic ash that dropped onto Filipino land, houses and farms was as deep as 13 inches in areas as far as 6 miles from the volcano itself. The worst danger zone affecting human health had a radius as wide as 18 miles. The economic costs were considerable—\$500 million in property losses, 5,000 houses destroyed, 70,000 more houses badly damaged, 100,000 refugees were relocated to temporary camps, having to stay there for years, and untold farm animals and crops destroyed—all forcing thousands of families into deeper poverty. In the end, Pinatubo became the second largest volcanic eruption of the Twentieth Century. Not only did it impact the Philippines, but its ash eventually spread around the entire earth, affecting climate in far away places. For example, it triggered the worst summer flooding in the U.S. Mississippi Basin during 1993, while during the same period, it worsened significantly the drought occurring in the Sahel region of sub-Saharan Africa.

Hanshin, Japan Earthquake: In 1995 a huge earthquake hit the region that led to over 6,000 citizens being killed in a mere 20 seconds. Rebuilding costs totaled \$443 billion.

Asian Tsunami: On December 26, 2004 in the Indian Ocean a massive tsunami traveled to the shores of 11 countries, racing through the ocean at 500 miles per hour. The destruction was shocking: approximately 250,000 individuals officially dead; thousands more still missing; 1.8 million people homeless; 516,000 people were dislocated in Sri Lanka alone; 2.7 million in India were impacted; etc. The economic toll will exceed \$7 billion for rebuilding infrastructure, and homes, along with fixing agriculture and rural life for many.

Hurricane Mitch: It occurred in late October, 1998 and wreaked havoc as the storm stalled over Central America for a week. The tragic consequences included 20,000 deaths, another 20,000 missing, and a million homeless. As mentioned early in this paper, Honduras was the hardest hit, affecting 70 percent of its infrastructure and 90 percent of its crops and animals. International

assessments concluded that Honduras was set back half a century. Most of the rest of the region also experienced death and the destruction of property, especially Guatemala, El Salvador, and Nicaragua. Nearly 80 inches of rain fell, engulfing the area. Conservative assessments of the damage topped \$8.5 billion—an amount that exceeded the GDP of Honduras and Nicaragua combined.

El Salvador Earthquakes: Two years after Mitch, El Salvador was blasted by a huge 7.6 earthquake that affected two-thirds of the buildings in some cities. That was on January 13, and a second big one that hit a month afterward on February 13 took down many buildings damaged but still standing from the first shock. Experts determined that in excess of half the country was forced to live in unsafe or in temporary housing. The two big quakes together killed over 1,100 individuals. The economic costs for rebuilding the nation exceeded \$3 billion, the equivalent to the entire national budget for 2001.

Caribbean Hurricanes in 2005: Last season's Atlantic and Caribbean regions suffered badly from damaged infrastructure in several countries, making it the period ever. Hurricane Stan, for example, was the eighteenth tropical storm and the eleventh hurricane of the Americas in the 2005 season. It damaged Central America and the Yucatan Peninsula of Mexico, causing 1,662 deaths, many of them in the hills above Lake Atitlan in Guatemala. Some 3,000 others were missing. During the same period in October Hurricane Wilma became a rare but powerful category five storm. It hit the Bahamas, Haiti, Jamaica, Cuba, and Florida, causing an estimated range of \$16-20 billion in damages. In western Cuba alone, over 368,000 people had to be evacuated.

Hurricane Katrina: Of course the worst economic disaster in U.S. history also occurred during that period, that of Katrina. Slamming into Louisiana in August 2005 it unfortunately caused the deaths of 1,604 people in several states, and some 3,000 are still missing. Cities like New Orleans were flooded in water as high as 20 feet after the levees, built to safeguard the area, broke. Alabama, Mississippi were also hit by severe wind and rain. Not only did Wilma become the deadliest hurricane in the U.S. since the 1920s, but it was by far the costliest at a staggering \$115 billion. Federal disaster declarations covered 90,000 square miles, an area nearly the size of England. Three million victims were evacuated, leaving much property to be looted, even as evacuees were assaulted in some cases. Hundreds of thousands of people were transported beyond the immediate region to other parts of the U.S. It will be years before rebuilding will be complete.

Pakistan Earthquake: The last huge disaster within the past year was the 7.6 magnitude earthquake on the borders of Pakistan, India and Afghanistan in October 2005. An estimated 87,000 people died and approximately 3 million more suffered from the collapse or heavy damage to their homes. More died in the mountain snows as winter set in, and still today tens of thousands survive in refugee camps. The U.S. has donated \$470 million, and other nations are also assisting in the process of reconstruction. But the cost estimates for rebuilding are well over \$3 billion. To make matters worse, hundreds of frightening aftershocks occurred in the weeks after the big one hit.

Venezuela Mudslides: Heavy La Nina rains pummeled the country's coastal mountain range in 1999 along the Caribbean. Approximately two years worth of water fell in only two days, launching 15 million cubic yards of boulders, trees, mud, and other debris down the hill. It covered poor squatters who lived on the foothills in their self-made, densely populated shanty towns. Although people in that area were used to flooding and small mudslides, this time was dramatically different. The devastation was huge – 30,000 people dead and some \$2 billion in property damages.

There are many other cases of disaster that I will not go into because of the lack of space and time. But briefly put, some of the major events include the following: the Turkey earthquake of 1999 that killed 17,000 in the northwestern region of the country, destroying four thousand

buildings and 100,000 apartments; the 1998 cyclone in Gujarat, India that killed 10,000 individuals; vast forest fires that consumed parts of the Brazilian Amazon and native villages; the massive Bam earthquake in 2003 that killed upwards of 40,000 Iranians; the Indonesian fires in 1997-98 that burned 9.8 million hectares (equivalent in size to South Korea); the frequent flooding that occurs in Bangladesh which has killed millions over recent decades; the “supercyclone” of 1999 which took place in Orissa, India that obliterated 50,000 lives, and so on.

For MFIs, the “disaster cycle” stages articulated by Kirby and his colleagues (1997) help to conceptualize points at which managing microcredit programs may need to be adjusted when such conditions arise. The framework consists of an overlapping series of phases: pre-disaster prevention and planning, so as to risk-proof as much as possible, the relief stage in which humanitarian aid is provided as soon as possible, the rehabilitation phase in which efforts are made to strengthen individuals and families, the reconstruction stage in wherein investment is made to rebuild damaged infrastructure, and finally, what Kirby calls the development phase in which long-term economic sustainability is begun.

With respect to MFIs in times of disaster, numerous policy and leadership difficulties may ensue. These include such possibilities as the following: the MFI’s regular functions may be disrupted such as transportation and office damages, regional infrastructure such as electricity and running water may grind to a halt, microenterprises of the clients may collapse making it hard, if not impossible, to continue repaying one’s loans. In some cases microentrepreneurs and their families may suffer from physical or psychological trauma such as fear and worry, injury or even death. Alternatively, instead of hurting humans, people’s homes may become destroyed, leaving them homeless. For the MFI itself, there are often new demands that suddenly appear as disaster survivors come to need new MFI products and services such as housing loans, and so on.

Thus, whether trying to maintain an existing NGO during the crisis of a natural disaster, or attempting to establish a new operation in order to help a region recover, the complexities and challenges for operating microcredit methods are formidable.

But it seems to me that microcredit is a wonderful tool for dealing with a natural disaster and mitigating its negative effects, because it can keep the poor from slipping further down the economic ladder. If managed effectively in turbulent times, an MFI may have a huge, positive impact on those in poverty who tend mostly to be the victims of catastrophes wrought by nature.

Let us briefly report on several microcredit programs that have experience with such disasters, and learn how they coped with the problem.

### **Microcredit Cases During Disaster**

The several cases include Katalysis, SEWA, and ACODEP in some detail, plus a few others that are only briefly highlighted.

Katalysis. When Hurricane Mitch slammed into Central America in 1998, a huge disaster unfolded, as reported in the opening pages of this paper. The California-based NGO supports 11 microcredit organizations throughout the Central American isthmus that serve 90,000 poor families. After two years of such disasters in the region, its leaders mapped a plan for future crises entitled “When Disaster Strikes” (Katalysis, 2001). The 34-page document contains strategies that include what to do before, during, and after a disaster occurs.

Getting prepared before hand includes such things as always backing up data from office computers; taking a small percent of interest earned on loans to build a disaster fund for emergencies; holding escape drills for all office staff; preparing a disaster kit of emergency supplies such as water purification tablets, transistor radios, a generator, fuel, first-aid kit and

flashlight. Specific guidelines are given under various potential disasters such as what to do in an earthquake, flood, windstorm, etc.

With respect to microcredit clients, the manual suggests several guidelines:

1. Suspend the collection of interest and principle for a short time, if the situation is grave.
2. If possible, allow desperate clients to withdraw savings without a penalty.
3. Do not give out new loans until the MFI has fully analyzed the crisis and its impact.
4. Maintain the organization's image as a professional financial institution. Do not forgive outstanding loans.

The document is quite comprehensive and well-reasoned. It suggests creating a chain of communication between headquarters, field offices, and village bank group leaders. The plan emphasizes the importance of giving moral support and comfort to all, as well as the need to listen and empathize with victims whose lives have been disrupted.

Several useful office forms are developed for staff in determining the disaster's impact on outstanding balances and overall loan portfolio. Their design includes listing human deaths and/or injuries, lost productive business assets, and loans needing to be refinanced or restructured. By compiling such data at the group, branch and overall level, the MFI will quickly be able to analyze the data and determine appropriate next steps.

Another section of the handbook lays out the groundwork for steps to be taken by the Katalysis Network Secretariat in Central America: the necessity of creating a plan with the group of country partners that emphasizes more macro office planning for emergencies, facilitating communication with each partnership, synthesizing their individual reports in order to make a comprehensive analysis of the big picture, and providing financial support to affected units of the organization. Finally, the plan has a section on the roles and responsibilities of staff at the Katalysis headquarters based in Stockton, California. It emphasizes setting up overall systems, initializing field contacts, implementing the overall systems, monitoring and ensuring quality control, as well as public communication with other MFIs and government authorities in the region.

All in all, the Katalysis manual is an effective game plan for future calamities. The president of the organization, Jerry Hildebrand, discussed various elements of it later at several panels and speeches presented at the Annual Microenterprise Conference, Brigham Young University (2002). He emphasized the need to refinance the loans of hardest-hit clients, the offering of new products and services (such as housing loans), the reprogramming of payment plans, savings withdrawals, and the recommendation to forgive loans of microentrepreneurs who have died.

SEWA: The Self-Employed Women's Association started in 1972 as a trade union and today it is the largest MFI in India with 688,743 members. Over the years, SEWA has developed a variety of financial products for the poor. While historically it provided microcredit to start/grow small enterprises, it also offers the following catastrophe-related services: 1) Preventative loans for monsoon-proofing one's home; 2) Loans to replace or repair a roof, wall or door; 3) Loans in urban slums to improve storm drainage systems and sewage systems for protection against future disaster flooding.

In response to the deadly Gujarat earthquake in 2001, SEWA managers established a more comprehensive rehabilitation program for their clients' recovery. They organized and sent out teams of staff relief workers to check on clients, discover their needs, and so on (SEWA, 2006). Ultimately, they found that 16,934 houses of clients from 162 villages were completely destroyed. Another 12,338 needed home restoration funding for which the MFI ramped up and began to offer. SEWA also started to provide emergency resources such as blankets, medical support, water and food to its members. SEWA's analysis of needs was given to India

government officials and, because of its credibility, regional and national funding was provided to its clients (ibid). Recently SEWA's monsoon and disaster-proofing proposal *Paaki Bheeth* was accepted by the government to build housing for 1,300 families who became disaster victims.

ACODEP: *Asociacion de Consultores para el Desarrollo de la Pequena, Mediana y Microempresa* was established in 1989 by graduates of universities in Nicaragua to provide loans, savings and consulting to microentrepreneurs. ACODEP is currently the largest MFI in the country, focusing primarily on the urban poor, serving some 16,000 clients. In response to multiple disasters in one of the poorest countries in Latin America, this MFI launched a program called "*mi vivienda*," (my home). After Hurricane Mitch, for example, it gave out over 2,000 such loans to clients for rebuilding these residences. Today its focus is on poor families, especially those in disaster-prone locations that may be more subject to quakes and floods than other regions of the country.

ACODEP's monies are given to renovate, reconstruct, or improve damaged homes. Mostly it pays for building supplies, with the family contributing its own labor as "sweat equity." However, in some cases funds may be used to connect the house to community infrastructure such as water pipes, electrical lines, and so on. At times, ACODEP has even allowed *mi vivienda* borrowers to relocate and build a new house away from hazard-prone areas. It also now offers *credisalud* for health coverage and a second financial product for the home, *credihogar* (ACODEP, 2006). The MFI gave out over 2,000 such loans to clients for rebuilding.

The listings below offer a brief reporting of additional MFIs and show the range of management's disaster relief services and NGO products currently being offered around the globe. As mentioned above, much of the material here derives from my personal research and observation of these MFIs. They suggest a clear business case for going beyond the traditional parameters in order to better serve customers and aid in regional recovery.

-Grameen Bank, Bangladesh: Grameen has a housing rehabilitation program that not only gives loans for house reconstruction, but 5,000 additional *taka* if one's home was damaged by a natural disaster. After a series of cyclones in the early 1990s Grameen staff went out in small boats to move people to emergency shelters and give them needed medicine and food, even before the Bangladeshi government and global aid organizations had begun to operate (Bornstein, 1996). Later, when the calamitous floods of 1998 spread over two-thirds of the country, they impacted more than 30 million people. About half a million homes were lost, as well as over 14,000 schools and 15,000 kilometers of roadways. In terms of agriculture, approximately 27 percent of all vegetables and 36 percent of rice crops growing throughout Bangladesh were eliminated, along with over 600,000 farm animals. More than 1,100 people died in the tragedy.

Among MFIs in the country, reports concluded that half of all microcredit clients suffered impacts, 75 percent of them losing at least one income-generating project, and 62 percent lost their homes. In the case of Grameen clients, the NGO gave out clothing and water purification tablets, as well as food and first-aid supplies.

The Grameen Krishi Foundation gave out hundreds of thousands of seeds for replanting wheat, potatoes, and green vegetables. The bank itself also quickly developed disaster response mechanisms such as releasing client savings, rescheduling people's loans, and issuing new housing rehabilitation and other emergency loans (Hasan, 1998).

-ENLACE, El Salvador: ENLACE management launched a loan program after the 2001 earthquakes, with accounts ranging from approximately \$100 to \$2,000 for renovation and/or new construction over a time frame that ranged from 6 months up to 7 years. ENLACE had over 10,000 clients organized into some five hundred communal bank group. It obtained financial support from Catholic Relief Services (CRS) for immediate humanitarian aid, and it cancelled all debt of those clients who suffered the most by classifying those monies as "unrecoverable." ENLACE provided debt restructuring for microentrepreneurs who sustained partial losses of



assets and sales, but who, with an adjustment in their debt structure, could get up and going again (ENLACE, 2006).

-Trickle-Up, Philippines: Trickle-Up executives began offering loan products as safety nets after the volcanic eruption of Mount Pinatubo in 1991, the earthquake of 1990, and various typhoons that have struck the 7,000 islands of the nation. Microcredit clients could qualify for cash grants of \$50-\$100 that did not need to be repaid if they had a solid credit listing with the MFI.

-Proshika, Bangladesh: Proshika is an NGO that was founded as a humanitarian aid nonprofit in the 1970s. During its inception it was motivated to give cash subsidies to victims of disaster. Then it shifted into becoming an MFI in the 1990s. Proshika also offers loans with no interest charges for rehabilitation after disasters strike, so its microentrepreneurs can quickly replenish assets and re-start income-generating products. Proshika gave out nearly \$4 million after flooding in 1997, and its one-time repayments were approximately 68 percent (Proshika, 2003).

Over time, Proshika managers have installed a series of disaster insurance products that consist of a Participatory Livestock Cooperation Fund that reimburses clients for the sudden death of farm animals such as goats, cattle and chickens. For human loss, a Proshika Savings Scheme was also established. If disaster strikes and clients' homes are lost, PSS reimburses for double the amount of their savings account with Proshika, and the savings deposit remains untouched for future needs. When and if a client dies in disaster, one's family receives the total of their savings multiplied by the number of years the account has been operational.

Fondo de Credito Comunitario (FCC), Mozambique: The most devastating floods in over a half a century hit the impoverished, Portuguese-speaking nation in 2000. Having no humanitarian NGOs in the region, the FCC team felt responsible to provide whatever aid it could. Sponsored since 1993 by World Relief, the MFI had become the largest credit organization in Mozambique. Loans of a few hundred dollars typically had to be repaid over a 4-month period. But inexperienced and overwhelmed by the cyclone's devastation, FCC's operation ground to a halt for several months. Most of its microentrepreneurs were forced from their homes for 8-10 weeks, and many more weeks were required to get people back in their homes, clean them up and repair them, all before microenterprise transactions could begin once again.

World Relief helped rescue the program by taking in helicopters, hauling people, office supplies and other necessities to keep FCC's managers functioning. Eventually, small cash grants were given to clientele with which individuals could then pay off loan balances or restructure their financing. Most communal bank groups elected to pay their outstanding debt and start over, thereby retaining their positive credit history of nearly 100 percent on time and full repayments (De Vletter, 2001).

### **Microcredit Learning from Catastrophes**

The preceding mini-cases suggest the challenges arising from natural catastrophes. The experiences are varied, depending on the type of disaster and the problems it may create for the poor, as well as the size and strength of the MFI and its managerial skills.

Listing some of the practical strategies and lessons from such experiences follows as I summarize the findings from various sources: Microlinks (1998-2000), Nagarajan (1998), Pantoja (2002), as well as my own MFI experiences described above. They suggest useful notions for NGO practitioners that attempt to carry out microfinance schemes under duress.

#### Pre-Crisis Management Preparation:

- Pre-disaster planning to identify potential crises, conduct risk assessments, and calculate necessary liquidity;
- Establish an emergency disaster fund with sufficient resources to cope with potential costs;

- Copy and store elsewhere all financial records in another, safer setting;
- Create a handbook, like that of Katalysis, with plans, policies and procedures for when emergencies ensue;
- Identify a disaster mitigation team of key individuals who are trained and ready to effectively manage actions to be taken;
- Establish clear policies, terms and conditions for disbursement of disaster funds;
- Train all staff in crises response procedures and guidelines;
- Build liaisons with other NGOs and government officials in the region;
- Develop a viable communication system that will work under various disaster conditions;
- Create a mutual understanding with commercial banks and major donors so that needed emergency capital may be quickly accessed when the need arises;
- Build an early warning system to sound the call to action;
- Meet with MFI clients to prepare them in advance;
- Foster structurally-sound client housing;
- Identify regional government relief services to be sought as needed;
- Encourage health training and vaccination of staff and client families to mitigate potential diseases;
- Plan for potential insurance products – for clients, homes, animals, and microenterprises.

#### During the Disaster Managerial Responses:

Depending on an availability of emergency aid from government/NGO sources, the MFI may need to supply services and material to affected clients. MFI humanitarian relief may consist of any or all of the following:

- Taking in clean drinking water;
- Providing food (grains and/or prepared foods if cooking is not possible);
- Relocating families to safe, but temporary shelter;
- Handing out emergency supplies such as first-aid kits, matches and candles, etc;
- Lifting livestock to safety;
- Transporting people who are seriously wounded to medical clinics/hospitals;
- Sending medical teams into affected areas;
- Providing veterinary services to animals;
- Transporting deceased family members to burial grounds;
- Helping clients locate missing relatives;
- Suspending MFI banking operations during the first days or weeks of the crises;
- Conducting assessments of disaster impacts on: clients, clients' families, MFI property, animals, community;
- Distributing small cash advances to good clients who may need capital to tide them over;
- Communicating to all clients that the MFI's emergency relief efforts are temporary so that mindsets of dependency and welfare do not develop;
- Funds allocated should not mix microcredit monies with capital to be used for relief.

#### Post-Disaster Management Actions:

As the crisis subsides, whether days, weeks or months, microcredit organizations need to shift their attention from humanitarian emergency relief to the challenges of getting the MFI operational systems up and functioning again. It should be noted that these problems often interact and/or reinforce the complexity of problems. In order to succeed, the following list of potential management actions should be considered:

- Assess liquidity needs and determine how to report to clients who want to deplete their savings or stop loan payments;
- Determine whether or not to allow clients to temporarily halt participation in compulsory savings programs, if they exist;
- Evaluate whether or not the giving of emergency relief loans will be possible;

- Estimate the number or percentage of clients that will seek cash advances on their savings accounts;
- Seek grants and reimbursements from government and aid NGOs for the extra assistance the MFI has provided;
- Find new sources of capital to better cope with liquidity shortages – perhaps from commercial banks or large donors.

It should be noted that the MFI will need to manage carefully the complex details of such matters as decision-making, ownership, terms and conditions of deposits, right of access to savings, and cash advances. There will always be a need to determine which of those are the prerogatives of the village bank group of microentrepreneurs versus the MFI's management team. If disasters usually are rare and relatively minor, and the MFI is large and well-established, it may be able to manage though the above process with relative ease. But if the region is subject to chronic disasters of major and long-term proportions, and the MFI is relatively new or small, the capacity to cope will require extensive and on-going preparations.

### **Conclusion**

The major thrust of this paper focuses on the intense challenges of managing microfinance organizations in circumstances of natural disaster. A complex set of difficulties must be confronted by MFIs around the globe as the rates of natural catastrophes seem to be accelerating.

To reframe the words of U.S. President George W. Bush, poverty, human suffering and natural disasters are the new "Axis of Evil." They decimate the quality of human life, destroy communities, and degrade the earth itself.

Microfinance holds the promise of becoming a countervailing force that pushes back the constant specter of poverty. While MFIs alone cannot fully stop the causes and flow of disasters in today's world, they hold much promise in lessening their impacts. Indeed, much has already been achieved by microcredit practices to diminish the devastation, and to accelerate the processes of recovery. As we learn more and more about best MFI managerial practices and the use of innovative strategies and tools, microentrepreneurs will be more fully empowered and their impoverished families may become stronger throughout the Third World.

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