



CGAP

**Workshop on Building Resilient Communities: Risk Management
& Responses to Natural Disasters**

Evelyn Stark

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This week's press on MF...

“What's happening? To be blunt about it: the pinstripes are chasing the poor. Microfinance, once a relative cottage industry championed by antipoverty activists and development wonks, is on the verge of a revolution, with billions of dollars from big banks, private-equity shops and pension funds pouring in, driving growth of 30% to 40% a year. Financiers are convinced that there's huge money to be made in microfinance.”

Links on this page: Women Being Cheated?

**The Big Trouble In Small Loans
By Barbara Kiviat**

This week's press on MF...

Yet making loans to poor people, while an important tool, is hardly a poverty cure-all. Property rights, the rule of law--these things matter too. "You cannot over-idealize what microfinance alone can do," says Clara Akerman, president of the microfinance group WWB Colombia.

**The Big Trouble In Small Loans
By Barbara Kiviat**

Not all bad...

Opportunity International Bank of Malawi (OIBM), for example, has moved away from traditional microfinance to focus on savings accounts. "The poorest people are not often able to run a small business, which is what micro-credit organisations focus on," says Deborah Foy, international programmes director at Opportunity International UK. "Usually poor people do save, but they tend to save in a tin pot."

OIBM, which has also developed a weather-indexed insurance product, based its model on biometric technology. No formal identification documents are needed to open a savings account and, for those who are illiterate, no forms need to be filled out.

Overview: Microfinance unlocks potential of the poor
By Sarah Murray , 2 June 2008 Financial Times (FT.Com)

What is Microfinance? What's an MFI?

- Microfinance is the sustainable provision of financial services to poor people
 - Savings (compulsory & voluntary, remittances/transfers, insurance, credit – working capital, housing, emergency, consumer, and more)
- Microfinance services are offered by
 - Specialised commercial providers (MFIs)
 - NGO specialised providers (NGO-MFIs; no savings intermediation)
 - Banks
 - Less formal organisations – Community Managed Loan Funds, Self Help Groups, Susu, RoSCA, ASCA....



MFI



Everyone gets their own money, but guarantee each other



uh oh...

Everyone brings back their repayment each week....



uh oh...

Everyone else has to pay for the non-payer...



uh oh!!!



When a disaster hits, most people can't pay, and the ones that can pay their own way cannot pay for everyone else

Livelihoods and Microfinance

- 80% of tsunami-affected HHs lost their main source of income (Sri Lanka); >100,000 microentrepreneurs lost their livelihoods in Aceh
- A livelihood is a means of support, something that provides income to live on, especially paid work to secure the necessities of life; economic activities that people know, own and undertake to earn income today and into the future; sustainable livelihoods allow a HH to cope with and recover from stresses, shocks and maintain and enhance its assets and capabilities while not undermining the existing resource base....

The Popular View of MF and Natural Disasters

MFIs are “everywhere” already serving poor people

Kind of true: BUT, they often serve a +/- 20-40km radius via staff on motor bikes... The potential may be technology – for example, smart cards

MFIs are already used to distributing money...

To their borrowers...not usually the gen'l public; And, many MFIs don't “touch the money” – clients deposit funds in comm'l banks...

MFIs are development NGOs and have to help

Yes, BUT, MFI clients re-pay loans...cannot confuse grants & loans
Have to recognize difference between beneficiaries and clients

An aside...

GROAN

Clients... not beneficiaries

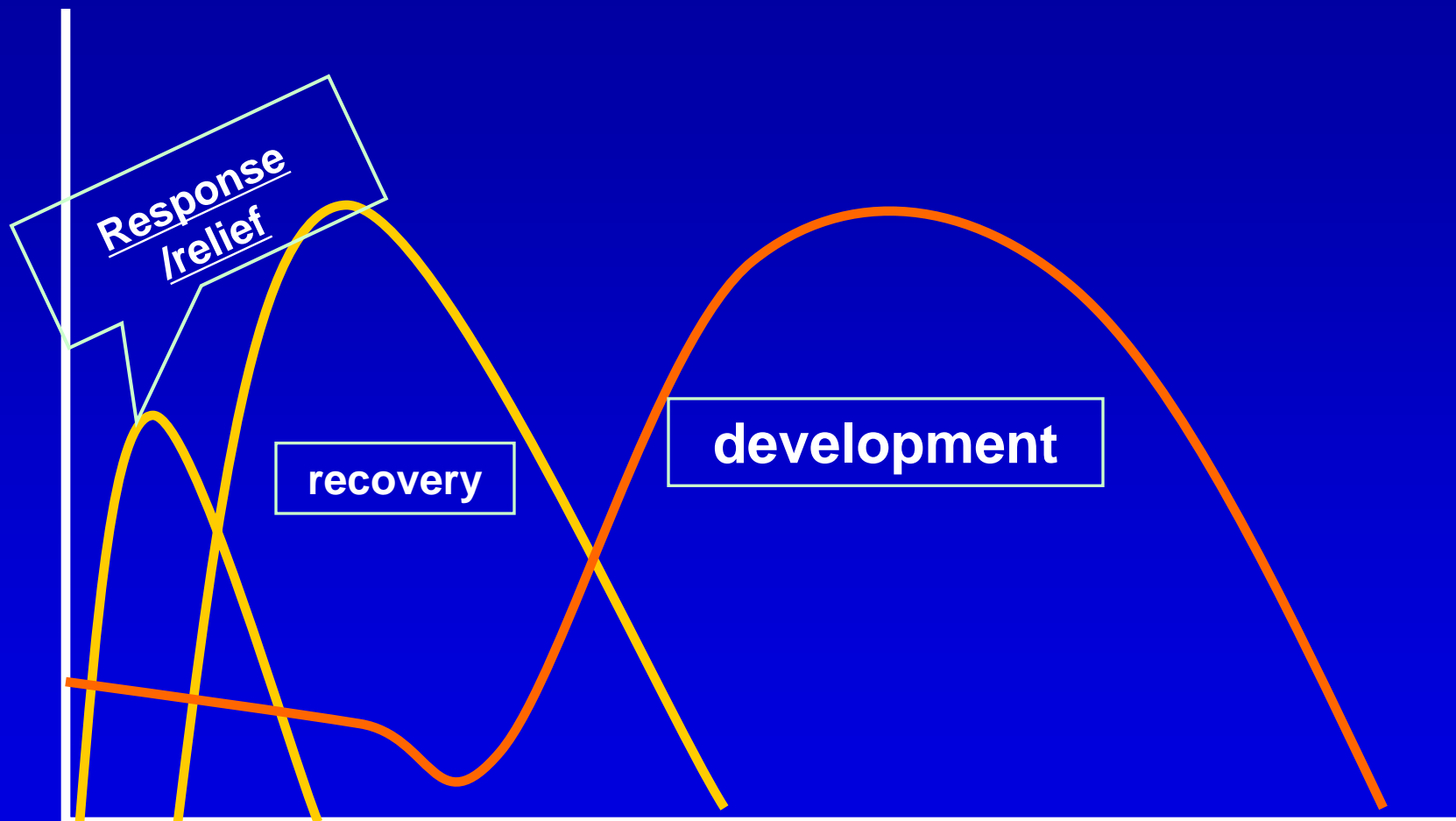


The Popular View of MF and Natural Disasters

**MFIs don't care and
aren't very helpful during
And after natural disasters**

**Generally Not True! But,
their mandates
(sustainability) and the
post disaster situation
often lead to confusion as
to what MFIs should and
can do without harming
their own sustainability...**

So, how can MFIs be useful before, during and after a natural disaster?



Development phase – MF & ME

- Sustainability
- Growth
- Profitability (financial bottom line)
- Social Mission being upheld (social, double, bottom line)

- Livelihood development
- Value chain/enterprise development
- Employments and small medium enterprises

clients

A: YA MKOPO 02 MKOPO HALISI 174000
 MUDA 36 weeks JUMLA INAYODAIWA 213150/-/213150
 MALIPO KWA WIKI 5950

TAREHE	SALIO/bf	KWA AWAMU INSTALMENT	SALIO HALISI	SAINI
17/12/2004				
24/12/04	213,150		213,150	
31/12/04	207,150	5900	207,150	
7/1/2005	201,150	6000	201,150	
14/1/2005	195,150	6000	195,150	
21/1/2005	189,150	6000	189,150	
28/1/2005	183,150	6000	183,150	
4/2/2005	177,150	6000	177,150	
11/2/2005	169,150	2000	169,150	
18/2/2005	161,150	2000	161,150	
25/2/2005	153,150	2000	153,150	
		6000	147,150	

Commercial Bank of Kenya Ltd
 Branch: Nairobi
 Account No: 1234567890
 Date: 25/2/2005
 Amount: KES 147,150
 Signature: [Signature]

Disaster Risk Reduction – MF & CDD

- Prevention, Preparedness and Mitigation
 - (Strong) Microfinance institutions as partners –
 - Where are they? How many clients do they have? How do they reach their clients?
 - What are their goals & mindset? (good partner?)
 - What products do/could they have that could be useful? Savings? **Insurance?** M-banking?
 - What plans (financial) do they have in place in the event of an emergency? (Rescheduling loans; compulsory savings? Reconstruction loans?)
 - What plans (relief) do they have? Can they clearly distinguish staff and MIS and assist with disbursing relief supplies, including cash?

clients

Big questions about MF's Ability to Respond

- “Can an emerging microfinance sector staffed with less trained local human resources operating in a poor country manage major disasters? This is a relevant issue for Mozambique”
- And a whole lot of other countries.

Geetha Nagarajan

Disaster Response & Early Recovery

- Rescue and Relief
 - Their buildings, staff, equipment (motorbikes, cars, telephone lines) need assistance. They may or may not have funds available. Once replaced/recovered can they be leveraged?
 - If in place, with good client contacts (incl. mobile phones), staff and good MIS - will they disburse relief supplies, including cash?
 - Sustainability – make sure clear distinctions
 - Loyalty – good for business
 - Donors on board with (the right kind of) funds and other assistance [Bangladesh & Honduras good examples]

Clients & Beneficiaries



if everyone wants their savings at the same time (or loans) there will be a time....



....when there is no more money

Experience in Aceh....

“In the complicated post-tsunami economic environment, no financial institution was willing to relax its rules to help tsunami-affected businesses. Local banks froze all activity and spent months waiting for the Bank Indonesia (BI) to tell them how to restructure their portfolios. These institutions did not have the capacity to assess the lending risks and opportunities in the new environment and to design financial products to respond to the situation”.

Sascha Muench, Mercy Corps

“Local financial providers were also victims of the tsunami and had little capacity to lend. All local providers from national banks to small cooperatives were affected. A significant portion of these institutions’ outstanding portfolios were unrecoverable and they lacked cash to lend. Many financial institutions also lost staff in the tsunami and some suffered damage to their offices and records.”

Sasha Muench, Mercy Corps



Disaster Response & Early Recovery

- Rescue and Relief
 - Payout insurance claims as soon as possible
 - Implement policy to allow compulsory and voluntary savings to be withdrawn (balance with need to ensure liquidity...)
 - Implement policy re: rescheduling loans (protect portfolio quality and liquidity)

Clients



L/T Disaster Recovery

- Rehabilitation and Reconstruction
 - THIS is why you didn't lose focus on sustainability
 - Products back in action – **Build Back Better!**
 - Savings (if allowed; arrange gov't transfers)
 - Remittances (migrant outreach)
 - Housing loans
 - Housing improvement loans
 - Small business re-stocking loans
 - Working capital loans
 - Other emergency credit (health)
 - Insurance payouts, property/livestock continued & health?
 - Better outreach to vulnerable groups, women, etc...

clients

My one Microfinance cop moment...

- Repayment, social funds, community managed loans funds and revolving funds...

At the end of 2.5 years, would you rather have served 154 people or 69

At the end of 2.5 years, would you rather have lent out 7.7Million or 3.4Million on your initial investment of 1M?

If it's not a loan, don't call it a loan

If it's not a livelihood, don't call it a livelihood

Revolving Funds

Amount of Fund 1,000,000 LUC (local units of currency)

Loan Amounts per person 50,000

Repayment terms 6 months

Interest Rate 10% flat over 6 months - ie, 5,000 for every 50,000 borrowed

1,1

	Portfolio	People w/ loans	100%	95%	90%	85%	80%	75%	70%
	1,000,000		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
people	20		20	20	20	20	20	20	20
6 months			1,100,000	1,045,000	990,000	935,000	880,000	825,000	770,000
people			22	21	20	19	18	17	15
12 months			1,210,000	1,092,025	980,100	874,225	774,400	680,625	592,900
people			24	22	20	17	15	14	12
18 months			1,331,000	1,141,166	970,299	817,400	681,472	561,516	456,533
people			27	23	19	16	14	11	9
24 months			1,464,100	1,192,519	960,596	764,269	599,695	463,250	351,530
people			29	24	19	15	12	9	7
30 months			1,610,510	1,246,182	950,990	714,592	527,732	382,182	270,678
people			32	25	19	14	11	8	5
Total Number of People Reached			154	134	117	102	89	78	69
\$ "reinjecting" into business & HH			7,715,610	6,716,892	5,851,985	5,105,487	4,463,299	3,912,573	3,441,642

My one Microfinance cop moment...

- Repayment, social funds, community managed loans funds and revolving funds...
- Externally funded groups. When loans are financed by an early injection of external funds from donors or governments, CMLF projects appear to fail so consistently that this model of microfinance support is never a prudent gamble.

If it's not a loan, don't call it a loan

If it's not a livelihood, don't call it a livelihood

Other resources (handouts in the back)

Related Documents

- Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implications for the Microfinance Industry
- Can Microfinance Meet the Poor's Financial Needs in Times of Natural Disaster?
- Disaster Loan Funds for Microfinance Institutions: A Look at Emerging Experience
- Disaster Management for Microfinance Institutions in Mozambique: Reflecting on Lessons Learnt for Future Directions
- MFI Liquidity Problems After a Natural Disaster
- Microfinance and Disaster Management
- Microfinance and Disaster Risk Management: Experiences and Lessons Learned
- Microfinance Donors: Preparing for Natural Disaster
- Microfinance in the Wake of Natural Disasters: Challenges and Opportunities
- Microfinance in the Wake of Natural Disasters: Challenges and Opportunities (AIMS Brief)



Management weakness is the greatest risk facing microfinance, says new 'Banana Skins' survey

The current flood of investment into the microfinance industry could overwhelm those microfinance institutions (MFIs) that are not equipped to meet the pressures of rapid growth and rising competition. The high expectations that people have of microfinance both as a social movement and a financial investment could be disappointed as a result, says a new survey of the risks facing the industry.

Events 



CGAP's 2008 Annual Meeting: CGAP's Annual Meeting will take place June 4-6, 2008 in Hyderabad, India. The microfinance field in India has become extremely dynamic in recent years. We look forward to gathering with our members from across the world in the heart of microfinance for our business meeting, and to visit some local microfinance work.

Mobile Money Summit: Mobile banking, access to finance, and the attendant challenges and opportunities were on the agenda at the Mobile Money Summit, May 14 - 15 in Cairo.

Technology Forum 2008: The third Technology Forum will be held in Yaoundé, Cameroon July 1 and 2, 2008. The forum brings together financial service providers and technical solutions providers for workshops on using new technology to increase access to financial services. The event also offers an opportunity for vendors to participate in a commercial tradeshow of products and services.

Announcements 

Funder Training Registration: Microfinance training for funders, Croatia, September 2008 The next CGAP/MFMI training course for funders, "Building Inclusive Financial Systems: How Can Funders Make a Difference?", will be held in Croatia, September 8-12, 2008.


Code of Ethics to be established in Microfinance: At the initiative of CGAP, Deutsche Bank and The Boulder Institute, leaders of microfinance institutions, investors, banks and development agencies gathered in New York to develop a common ground and set of principles that would help microfinance navigate between commercialization and its social mission. The Pocantico Declaration is the first step toward a code of conduct that could distinguish microfinance from other providers of financial services who lack the social motivation that drives the microfinance industry.

2008 Microfinance Funder Survey Launched: CGAP has launched this year's survey to collect information from funders all over the world about the size and composition of their microfinance portfolios. Data will be analyzed and shared in various user-friendly formats.

CGAP Microfinance Blog

CGAP Microfinance Blog: Welcome to the CGAP Microfinance Blog where we want to hear your comments on the latest trends and issues in access to finance.

The Microfinance Gateway is the most comprehensive online resource for the global microfinance community. It includes research and publications, featured articles, organization and consultant profiles, and the latest news, events, and job opportunities in microfinance <http://www.microfinancegateway.org>

Headlines 

- Is Bigger Better?** Jun 2, 2008 Forbes
- Poor People, Rich Returns** May 15, 2008 Economist
- IFC and Standard Chartered Bank** May 15, 2008 IFC
- SKS Microfinance gets ISO** May 20, 2008 Business Standard

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Our Approach

"Microfinance is attracting funds from ever increasing sources. How can we best make use of these resources to build local financial markets that work for poor people? Our work aims to ensure that funds for microfinance are directed to the right places, and in the most effective manner." Alexia Latortue, Team Leader, Donors and Investors

Funding Landscape

CGAP seeks to improve the availability and quality of information on funding flows to microfinance to promote greater social and financial transparency.

[Transparency on Performance](#)

[Flows and Trends](#)

Publications

[Water, Water Everywhere](#)

[Apex Institutions in Microfinance](#)

[Microfinance Donor Projects: Sound Practices](#)

[Building Capacity for Retail Microfinance](#)

[Housing Microfinance](#)

[How Donors Can Help Build Pro-Poor Financial Systems](#)

[Apex Institutions in Microfinance](#)

[Good Practice Guidelines for Funders of Microfinance](#)

[How CGAP Member Donors Fund Microfinance](#)



CGAP Unveils Results of New SmartAid for Microfinance Index

CGAP launched the SmartAid for Microfinance Index in 2007 to measure whether funding agencies are set up to support microfinance effectively. This ambitious project is the first of its kind

with the twin objectives of promoting transparent external assessments of funders and influencing the aid effectiveness dialogue to place greater emphasis on strong management systems—the way funders work. Seven funders participated in the pilot round of SmartAid, and six have agreed to share the results of the Index publicly.

News and Events

CGAP South Asia Microfinance Funders Roundtable: CGAP organized a roundtable with a range of funders supporting microfinance in South Asia on May 1, 2008 with the objective to increase efficiency of funding to microfinance by connecting different types of funders, identifying their respective added value and highlighting their complementarities to increase access in a rapidly changing environment.

September 2008: Microfinance training for funders in Croatia: The next CGAP/MFMI training course for funders, "Building Inclusive Financial Systems: How Can Funders Make a Difference?", will be held in Croatia from September 8-12, 2008. A highlight will be visits to microfinance institutions in Croatia and neighboring Bosnia and Montenegro. This one-of-a-kind course is tailored specifically to donors, investors, and policymakers interested in keeping up with the rapidly evolving world of microfinance while gaining practical skills in microfinance appraisal and performance-based management. Join over 480 participants from 70 countries that have benefitted from previous courses.

New CGAP Brief -- Microinsurance: What Can Donors Do?: Poor people in developing countries enjoy few safeguards against the numerous perils of life—illness or injury, natural disasters, and loss of property. Microinsurance is growing in popularity among donors as one means of helping the poor manage risks and reduce their vulnerability. CGAP recently

Good Practice Standards

CGAP uses its convening power to forge consensus on lessons learned and to develop good practice standards to move the industry forward.

[Microfinance Investment Vehicles](#)

[Good Practice Guidelines for Funders of Microfinance](#)

Operational Resources

CGAP develops a range of resources to assist donors and investors in applying good practice standards and enhancing their skills in access to finance.

[Learning](#)

[Guides](#)

[Donor Briefs](#)

[Case Studies](#)

Funder Effectiveness

What does it take for donors and investors to fund microfinance effectively? CGAP strives to improve how funders support microfinance by focusing on the one thing they can change – their own way of working.

[Country Reviews \(CLEARs\)](#)

[Aid Effectiveness: Microfinance as a Test Case](#)

[SmartAid 2007 Pilot Round Results](#)

[Microfinance Donor Peer Reviews](#)

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Our Approach



Our Work

Access to financial services – whether in the form of savings, credit, money transfers or insurance – is a fundamental tool for improving a family's well-being and productive capacity. Our mission is to help alleviate poverty by advancing access to finance.

CGAP helps to build financial systems that serve poor people. Our goal is to create local, deposit-driven markets. Though CGAP is known for having promoted a commercial approach to microfinance, we are committed to ensuring that as commercial microfinance increasingly becomes a reality, that some poor people, countries, or regions are not left behind, and that financial access contributes to reducing poverty. At the same time, we remain committed to sustainable microfinance, and we work to improve the way local financial systems operate. Whether it's through our technology work, where we're trying to lower transactions costs through improved delivery mechanisms, or through more effective

aid and investment mechanisms, CGAP believes that microfinance will help more poor people by becoming increasingly professional in the range and quality of services that it offers. We see solid market infrastructure, reliable information, and policies that stimulate access while protecting poor clients, as critical elements of a financial system that serves poor people well.

Technology

"We work to identify technologies that will best enable a wide range of potential providers to reach out to the poor regardless of their location or personal circumstances. That means mobile phones and other types of branchless banking, as well as the important role that information systems play for financial institutions." Gautam Ivatury, Team Leader, Technology

Expanding Access

"Many of the poorest and most marginalized people are currently excluded from access to financial services and the benefits microfinance can provide. Through our research and advisory work, we aim to increase access to, and use of, formal financial products and institutions by greater numbers of poor and marginalized people. Better understanding of the constraints and opportunities on both the supply and demand side will help the industry to make 'inclusive finance' a reality." Evelyn Stark, Team Leader, Expanding Access

Donors & Investors

"Microfinance is attracting funds from ever increasing sources. How can we best make use of these resources to build local financial markets that work for poor people? Our work aims to ensure that funds for microfinance are directed to the right places, and in the most effective manner." Alexia Latortue, Team Leader, Donors and Investors

Government & Policy

"CGAP's policy work focuses on building favorable policy and regulatory frameworks for financial service providers serving the billions of poor people worldwide who lack access to safe, appropriate and affordable financial services." Tim Lyman, Team Leader, Policy

The end...

- But not really!
- Evelyn Stark estark@worldbank.org
- Stephen Rasmussen srasmussen@worldbank.org
- Our consortia member-donors/funders