

# MFIs, sustainable economic development and disaster risk management in the Caribbean

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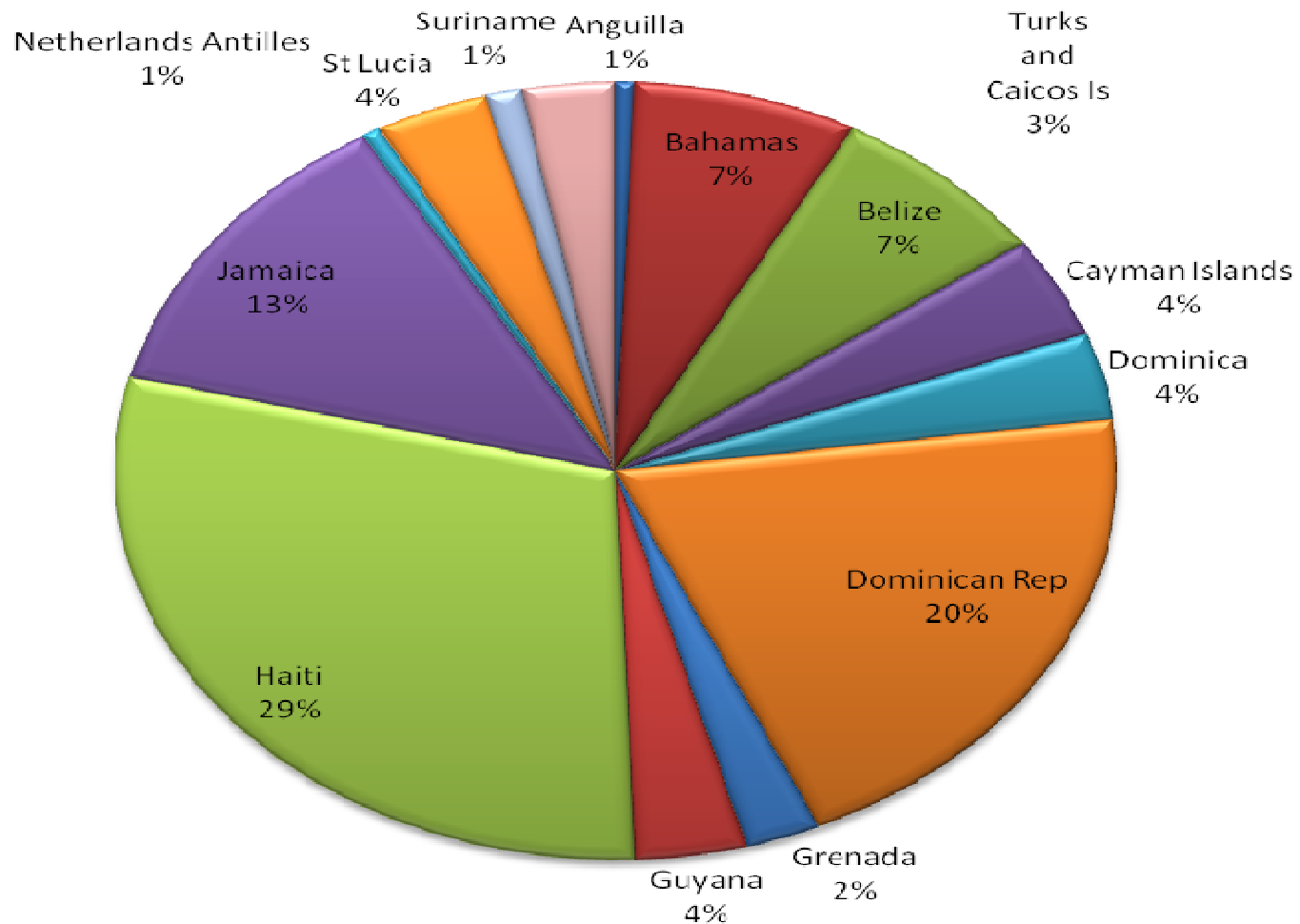
# Content of Presentation

- Context of research
- Regional vulnerability to hazards and disasters
- Role of MFIs in Economic Development and Disasters
- Case studies from the Caribbean
- Conclusions and Recommendations

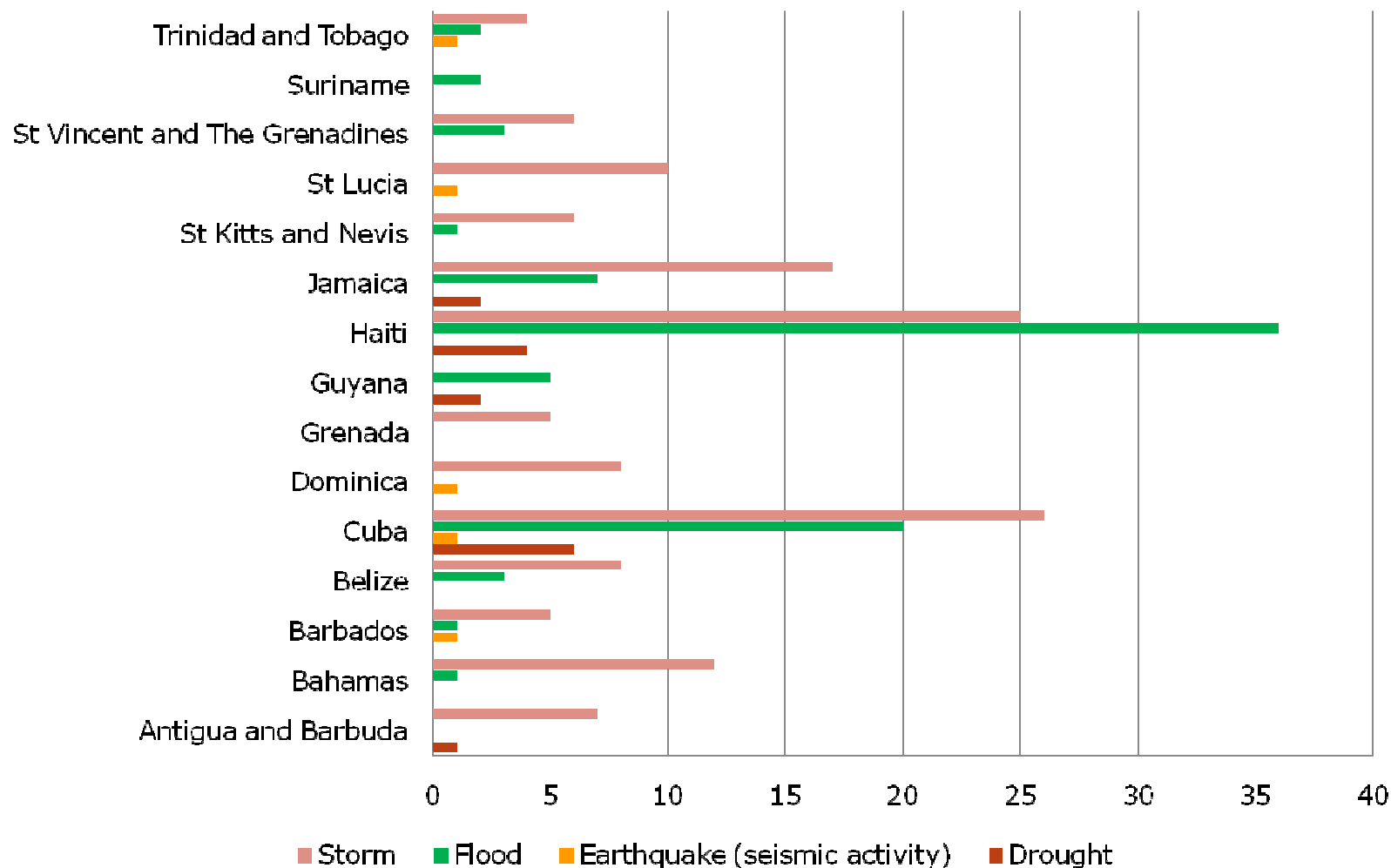
# Context of research

- Sustainable development in the Caribbean has to pay attention to economic, social and environmental vulnerability
- This research focuses on all three dimensions
  - The constituents who constitute the core of MFIs clientele are
    - Poor
    - Lacking basic education, lack of access to healthcare facilities etc
    - Living in environmentally (socially) vulnerable/volatile areas
- MFIs sometimes buffer a downward spiral for more persons joining the ranks of the poor and therefore play an important role in one of the key indicators of development – poverty alleviation.
- SEDU's research agenda

# Total Number of Natural Disasters that occurred by country: 1990 - 2008



# Disasters by country and disaster type: 1990 - 2009



# Total losses from a disaster

- Total losses from a natural disaster:
  - The economic losses refer to those damage costs incurred by key sectors of economic activity in the country – Tourism, Agriculture, Forestry and Fisheries, Industry and Commerce and Manufacturing.
  - The social losses are losses that affect Health, Housing and Human Settlements and Education and Culture.
  - The infrastructural losses include losses to Water, Electricity, Ports and Airports, Communications, Roads and Transportation, Drainage and Irrigation, Coastal Zone and Fire Services and Government Buildings; and
  - Measurable losses to the environment

# Overview of vulnerability of Caribbean countries : 1990 - 2008

- Total damage to the region estimated to be 136 billion USD
  - Estimated economic impact of natural disasters in the Caribbean was **\$63 billion USD (46% of total losses)**
  - Estimated social costs of disasters was **\$57 billion USD (42% of total losses)**
  - Estimated infrastructural damage from natural disasters was approximately **\$12 billion USD (9% of total losses)**
  - Estimated environment damage from disasters was **\$3.5 billion USD (3% of total losses)**

# Disaster Risk Reduction and Poverty Alleviation/Eradication

- Reducing disaster risks is an integral part of the fight against poverty.
- Sensible and cost effective risk reduction programs the best defense against future catastrophes (*prevention is better (and cheaper) than cure*)



# Poverty and Disasters

- The poor suffer the most in times of a disaster
  - Poor have less resilience to disasters/ fewer safety nets; vulnerability increased
  - Women and children are at greater risk to natural disasters than men, especially in developing countries. comprise a larger portion of the poor in developing countries, even in many developed countries
- A 1995 UNDP study suggests that 1.3 billion people worldwide live in poverty
  - 70 per cent of these persons being female.
  - Caribbean specific data show that between 25-44% of households are female headed with 1-6 persons in that household

# Poverty and Disasters

- The poor are the target population of microfinance institutions – the riskier group of society therefore
  - when a disaster hits, the repayment capacity of clients decreases
  - the portfolio quality and liquidity position of the microfinance institution are put under stress...when a natural or manmade disaster strikes both the microfinance institution and its clients are vulnerable.
- Disasters can affect a microfinance institution in human, physical and financial ways.
  - The upheaval can affect staff, borrowers and savers, donors and governments that provide financial support, and basic service providers (such as transportation and electricity).

Country	Year	% Below Poverty Line
Anguilla	2002	23
Antigua & Barbuda	2008	10.4
Bahamas	2001	9.3
Barbados	1997	13.9
Delize	1998	33
	2002	33.5
British Virgin Islands	2002	22
Dominica	2002	30
Grenada	1999	32.1
Guyana	1993	43
	1999	36
Haiti	1997	65
Jamaica	1993	24.4
	1997	19.9
	2002	19.7
	2004	18.9
	2005	12.7

Source: Caribbean Development Bank

# MFIs and Economic Development

- Parker and Nagarajan (2000) ... core role of MFIs is to *'provide financial services – typically credit and savings- to poor communities that are otherwise cut off from formal financial services'*
- Services offered by MFIs can be utilized to alleviate poverty since they *'offer small loans to foster small scale entrepreneurship activities instead of ... handouts to poor households'* (Morduch 1998).

# MFIs, Economic Development and Disasters

- Mimidian et al (2005)
  - Experiences of several MFIs in disaster-prone areas show that access to microfinance services can support disaster preparedness and risk reduction by decreasing client vulnerability.
  - When clients have access to needed financial services during crisis situations, the impact of the disaster may considerably reduced.
  - Provision of financial services during a crisis, however, is only possible if an MFI is prepared. ... An unprepared MFI may not only fail to protect its clients, but puts its own survival at risk.

# MFIs, Economic Development and Disasters

- MFIs are primarily involved in disaster management to protect their portfolio ... either by '*maintain client loyalty*' from '*client protection*' by offering services such as:
  - Short- term emergency services (food, clothing, shelter and medicine, until other relief agencies are available)
  - Loans for asset recoveries
  - Remittance services
  - Loan rescheduling and restructuring
  - Insurance and savings

# MFIs, Economic Development and Disasters : a Caribbean context

- Wenner Mark and Geoffrey Chalmers (2001) describe the level of micro- finance activity in the Anglophone Caribbean as '*immature to other developing countries*'
  - Low staff efficiency
  - Low rates of cost recovery
  - Slow rates of portfolio growth
  - Poor outreach
  - High levels of loan delinquency
  - Low profitability due to low interest rates and high operating costs
  - High dependency on donor funding

# MFIs, Economic Development and Disasters : a Caribbean context

- A 2007 a survey of 47 Caribbean MFIs revealed the following:
  - over 60% of these institutions did not have a contingency plan in place to deal with risks from natural disasters;
  - 94% had no institutional and client's risk diagnostic;
  - 78% had no preventive and emergency relief policies in place.
  - 100% expressed strong interest in having a risk assessment done and a contingency plan prepared.



# MFIs, Economic Development and Disasters : a Caribbean context

- Jamaica
  - it is generally difficult for the poor to get access to credit by conventional means because banks generally require the security of collateral loans.
  - Micro-finance schemes are innovative ways of providing the poor with access to capital and thus a way out of poverty.
  - Women often lack access to the financial resources necessary to escape poverty and social dependency.
  - Micro-credit schemes enable women to engage in economic activities and join social networks through which both poverty and social dependency can be overcome.

# MFIs, Economic Development and Disasters : a Caribbean context

- Grenada
  - Weakening US economy, with high levels of recession, which is impacting the inflow of remittances to Members, impacting their savings.
  - Introduction of VAT by the government negatively affecting micro and small business operators.
  - High unemployment rate, especially among youth
  - Post hurricane job losses affects Members ability to repay loans
  - Increased competition from nontraditional micro leaders, such as the commercial banks, and furniture retailers with hire purchase (e.g. Courts and Singers).

# MFIs, Economic Development and Disasters : a Caribbean context

- Impacts of natural disasters on MFIs and their clients
  - Moderate to severe loss of credit portfolio
  - Increase in delinquency rates
  - Deterioration of financial indicators of the institution
  - Need to redefine potential expansion and growth areas, and policies of credit renewal
  - Difficulties for clients to bring their products to the market associated to damages of roads and transportation services.
  - Temporary unemployment and loss of business.
  - Greater difficulties to access essential services (water, energy, sanitation, education, health).
  - Client migration.
  - Partial or total loss of clients' houses and businesses located in areas exposed to natural or man-made hazards
  - Partial or total loss of working capital and assets financed by MFI.

# Conclusions from case studies

- Majority of Caribbean MFIs vulnerable to impacts of disasters on the impacts on their portfolio and on their clients
- Insufficient buffer provided by Governments to MFIs to facilitate their growth and economic viability

# Recommendations

- Public Education
- Safe microcredit
- Compulsory savings for a disaster fund
- Legislative framework required to facilitate (i) above
- Greater coordination between national disaster officers and microfinance entities
- Partnerships between Government and MFIs given the central role of the latter in poverty alleviation.
- MFIs should have Business Continuity and Disaster Recovery Plans (updated annually)