

## RESEARCH 2008

### Disaster Risk Management: is Rural Microfinance Doing Well?

#### Introduction

The disastrous events, both natural disasters (like cyclones, floods, earthquakes, famine, hurricanes) and human events (like wars), often hit and afflict many developing countries, especially in their rural areas.

There are yet a lot of studies on the negative consequences of these events.

The Microfinance Intermediaries too, as located in the local economic system affected by a disaster, suffer from damages of the particular area where they operate.

Because of the unforeseeable reduction of the client households income, the exposure of the loans portfolio of a MFI increases to present and future losses. And some preventive activities, intended to cover against disastrous events, are too difficult to put into practice.

The good experience of Bangladesh (Brown and Nagarajan, 2000)<sup>1</sup> shows that it's possible to face the negative consequences and to support supply and demand of financial services, through 3 steps: financial innovations, the right evaluation of damages, and an activity aimed at preventing these events.

#### Subject

This research aims to study and analyze the relations between microfinance activities and effects of disastrous events in rural areas, focusing on Portfolio Quality Management (PQM) of a Microfinance Institution (MFI).

The countries directly subjected to this investigation are: Bangladesh, Ethiopia, Madagascar, Sri Lanka.

Bangladesh case performs as a benchmark to study other experiences. The first lesson drawn from this experience is that flexibility and adaptability are essential elements for an MFI, especially in designing credit products. Moreover, proper insurance products contribute in general to warrant a smooth household income, but because of the covariant nature of disastrous events, there are few specific insurance products on disasters.

Another lesson is the importance of encouraging voluntary savings: when a disaster occurs, the clientele with savings can withdraw money to face the unexpected damages.

At last, from the Bangladesh experience, we learned that there aren't tailored products that MFIs can offer to their clients against disasters: clients preferences, their level of exposure to events and the dimension of an MFI influence the innovation of financial products.

Nevertheless, the Bangladesh case is restricted just to one typical event, the cyclone.

Ethiopia is afflicted by recurring drought. Madagascar is faced with opposite types of disasters, cyclone and drought, in different areas of the island. Finally, Sri Lanka, hit by the Tsunami in the past 2004, is still undergoing its very disastrous consequences.

All these countries seem to be very interesting fields where to go deeper into the relation between microfinance industry and disasters consequences, focusing, in particular, on the portfolio performance and risk management strategies of MFIs.

#### General Objective

To contribute in the understanding and in the improvement of the microfinance strategies in the management of disasters risks in rural areas.

#### Specific Objectives

- Analysis of the general structure of the portfolio quality of a MFI

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<sup>1</sup> Warren Brown and Geetha Nagarajan, 2000, "Bangladeshi Experience in Adapting Financial Services to Cope with Floods: Implication for the Microfinance Industry".

- Analysis of the effects of disasters on the portfolio risk management, comparing data before, during and after a disaster
- Analysis of the strategies in managing portfolio risks and alleviation of losses, before, during and after a disaster

### **Research Activities**

1. bibliography research and synthesis
2. questionnaire and interview setting
3. identifying of MFIs to analyse; data collection through field survey
4. results process and report drafting

### **Staff Involved**

Professor Laura Viganò

Davide Castellani

Simonetta Chiodi

Other students from the Master in Microfinance could be involved in the field work.

e-mail: [findev@unibg.it](mailto:findev@unibg.it)