

Enhancing disaster preparedness through microfinance

Innovations in financial services for rural women

Lead Organisation: SEWA

Geographic Spread: Gujarat, India



Key Message: The experience of the Self-Employed Women's Association in Gujarat, and subsequently other regions, has shown the power of linking financial services with people's organisations and capacity building for strengthening long term disaster preparedness among vulnerable communities. Microfinance can significantly reduce the vulnerability of the poor in hazard-prone areas and increase coping strategies. Through institution building and training, self-help groups (SHGs) can be equipped for disaster mitigation and risk management for their families and communities.

Need:

Across the world, environmental risks are “socially differentiated”, affecting certain groups and communities differentially and disproportionately than others. Both environmental costs and disasters occur in a way that those who already suffer acute economic disadvantages tend to bear the greatest burdens. High levels of affluence and wealth are accompanied by a safety net, assuring a continuation of livelihood for those at the top of the pyramid while the poor experience natural disasters differently. Whereas for the wealthy a disaster is an extraordinary exception, the poor face constant uncertainty and vulnerability to the threat of disasters, due to existing precarious livelihoods and lack of assets and capital. Therefore, the poor and within them more marginalized groups such as women, are to be focused on for natural disaster mitigation as they have fewer coping mechanisms and the informal risk sharing mechanisms they typically rely on are less effective in the face of covariate risks.

Response:

SEWA is a member-based organization of women workers, with over 1.9 million members spread across fourteen Indian states, as well as seven other countries. Beginning as a trade union in Gujarat in 1972, today SEWA has grown to become one of the largest organizations of informal works in the world, acting as a powerful agent of empowerment for poor women regularly marginalized in both rural and urban contexts.

Over the years, SEWA has effectively used microfinance through its network of savings and credit groups to support communities in managing risk during both natural and manmade disasters. Microfinance as an integrated approach that combines savings, credit and insurance is used as a means to aid the poor manage risk. Through its network of inter-linked organizations and multiple interventions, SEWA employs such an integrated approach offering the poor a one-stop service point for financial services. Micro-insurance offers tailored solutions to insurance for a segment of the market that is typically excluded from formal insurance. Furthermore by creating a web of interlinked

transactions – savings, credit, insurance, etc. – the problems of information and enforcement are minimized and transaction costs to the poor are lower.

Credit to rural women acts as a mechanism for reducing vulnerability as it provides access to other forms of capital – be they human capital such as health and education or physical capital such as raw materials, equipment and new technologies. Providing the poor with access to credit and financial services is critical towards enhancing ex-ante and ex-post coping strategies of the poor. Beyond providing consumption credit to facilitate consumption smoothing in the absence of insurance, SEWA's interventions provide the poor with the means to "self-insure" through precautionary savings, asset building, diversifying income sources, increased income stability and enabling the poor to invest in disaster mitigation measures.

Drivers of the Initiative:

Post the 2001 Bhuj earthquake that severely affected the Indian state of Gujarat, SEWA partnered with international and domestic organisations, civil society actors and various governmental bodies to bolster financial inclusion for poor women, both in India and in its operations abroad.

Objectives:

SEWA's main objective is to foster the organization of women workers in its countries of operations, both at urban and rural level, with the aim of strengthening their livelihoods and enhancing their self-reliance. As a core aspect of its approach towards women's organization, SEWA promotes the formation of democratic, membership based and member-driven cooperatives, led and managed by women themselves. SEWA also promotes a wide range of initiatives and programmes, by adopting a multi-dimensional approach that intervenes on seven macro-areas linked to women's livelihood and empowerment: employment, income,

nutrition, childcare, health, housing, and asset growth. Within this context, strengthening access to financial services is viewed by SEWA as a cross-sectoral intervention that can generate direct and indirect effects on all of these macro-areas.

The Process:

SEWA's approach to disaster mitigation is focused on livelihoods rather than relief. SEWA reacted to the 2001 earthquake with a rapid and highly effective response, recognizing the capacity of disasters to devastate already insecure livelihoods. Therefore an appropriate response was thought to be rehabilitation and rebuilding livelihoods, not simply relief. SEWA's members' priorities immediately after the earthquake – returning to work and rebuilding their homes (their workplaces) – support this view of disaster response.

As a longer term response to the earthquake SEWA together with the International Fund for Agricultural Development (IFAD), the World Food Programme (WFP), the Government of India (GOI) and the Government of Gujarat (GOG), launched **Jeevika Livelihood Security Project**. Jeevika was a seven-year livelihood security project for earthquake-affected rural households in Gujarat. Contrary to typical disaster responses, Jeevika aimed to rebuild livelihoods rather than provide relief. The project embraced an integrated, demand driven and need based approach to implement a comprehensive rural development agenda.

- In Jeevika's approach that prioritizes livelihood reconstruction and strengthening as the major elements of disaster relief and mitigation, microfinance plays a key role.
- Microfinance and financial management builds the capacity of communities and individuals to cope

with recurrent crisis and enables them to achieve greater livelihood security.

- The first step in introducing financial management as a disaster mitigation strategy is to inculcate a culture of savings among the rural poor as a form of “self-insurance” which they can rely on to smooth consumption and meet production needs.
- Jeevika’s microfinance interventions in the area are aimed at strengthening ex-ante coping strategies and providing easy access to affordable credit as a better ex-post coping strategy.
- By organizing women into Swashrayee Mandals which provide them with access to loans through internal lending Jeevika attempts to reduce vulnerability. The Mandals are an effective delivery mechanism for credit and relief services as they have established relationships and delivery channels.

Innovative features:

SEWA’s experience in Gujarat in 2001 and in the aftermath of communal riots in 2002, has shown that it is important to provide poor households with an integrated package of financial services to reduce their vulnerability to negative shocks. Micro-insurance is a key element in this mix of financial products. The poor do not have access to formal insurance and can only afford to pay minimal premium amounts. Furthermore due to the high transactions costs of working with the rural poor, their low rate of policy renewal and high claims ratio, traditional insurance companies are not willing to directly insure the poor. Realizing both the need to offer the rural poor insurance and for an effective intermediary between insurance companies and the poor, SEWA established **SEWA Insurance**, an intermediary for formal insurance companies.

SEWA designed an innovative insurance product that offers the poor the range of

insurance they require – life insurance, health insurance and asset insurance – while also recognizing that they cannot afford to interact with multiple companies or manage multiple premiums and policies. SEWA is promoting this product through an integrated approach, sankalit abhigam that combines savings, credit and insurance through Swashrayee Mandals. SEWA has designed a system whereby members can save for their insurance premium through small monthly instalments in their Swashrayee Mandals. At the end of the year when the policy is due for renewal or when new policies are to be purchased the full premium amount is withdrawn from the account and members who were not able to contribute the full amount are still insured and the balance of their premium is treated as a loan from the Mandal. By creating a web of interlinked transactions, information and enforcement issues are resolved as members enter into multiple and repeated relationships with each other and SEWA.

Overall, the Jeevika project contributed towards the economic rehabilitation of 40, 000 rural households during its seven years of implementation. Following the experience with Jeevika, SEWA strengthened its post-disaster livelihood financing approach through the creation of a Livelihood Security Fund, whose purpose is to finance livelihood resilience in disaster-prone areas where SEWA members reside, mainly by promoting economic empowerment programs tailored on the specific needs and strengths of each rural community. The Fund aims to foster alternative livelihood opportunities by focusing on rediscovering and reviving local skills and crafts, thereby reducing households’ dependence on agricultural activities while assisting in opening up business opportunities within the secondary and tertiary sectors. As a complement to disaster mitigation, the Fund also places a strong emphasis on reducing rural-to-urban emigration, as well as in moving women and youth away from drudgery and menial labour, towards more

empowering opportunities to sustain their livelihoods.

Overcoming barriers:

Despite its successes, Jeevika's experience has shown that often the poorest of the poor are so marginalized that they are excluded from self-selected SHGs or they lack the resources to be able to save even a nominal amount each month in order to join an SHG.

In order to overcome these constraints, Jeevika has designed a direct intervention into the rural credit market to service the poorest of the poor at affordable rates. The rationale for doing so is that by providing the poorest or the poor with the means to invest in their own enterprises, they are able to raise their incomes and enhance their risk coping strategies. SEWA's District Associations have begun granting loans through Village Development Committees, or Jeevika SEWA Mandals (JSMs), to individual women for income generating activities, to diversify their livelihood base and effectively manage future risks.

Economic benefits:

Microfinance and safety nets should be used to move beyond the conventional approach to disaster relief and strengthen livelihoods instead which would not only enhance coping strategies but would reduce vulnerabilities and lead to better disaster preparedness. Through SEWA's experience microfinance can effectively be used to promote enterprise development and diversification to enhance livelihood security. SEWA has had success both with a group based approach supporting collective and individual enterprises or income generating activities and with an individual based approach to target the poorest of the poor and marginalized.

Another key element to SEWA's success in microfinance has been providing rural women and communities with the right product mix. Providing vulnerable households with an

integrated package of financial services covering savings, credit and micro-insurance packaged in an accessible and affordable structure such as the sankalit abhigam allows households to pursue livelihood diversification and strengthening while also building safety nets.

Social benefits:

Microfinance can be used as a tool to enhance community preparedness for disaster by strengthening and supporting community risk coping strategies. Strong self-help groups, or Swashrayee Mandals, can themselves represent an important resource for community risk management and disaster preparedness. The Mandals can provide physical, financial and human resources to enhance coping strategies such as delivery networks or operating grain or fodder banks. They can also evolve into local level institutions that can undertake disaster preparedness activities. Through the Jeevika project, SEWA built Swashrayee Mandals into local level institutions that can enhance individual and community preparedness for disasters. Through these Mandals, members were also provided a space to discuss, and voice their opinions on issues plaguing their communities and themselves. The Mandals became a vehicle for organizing the community's demands and needs as active elements of civil society and societal self-organization, through which their members could participate in and guide overall village development. Through Mandals, women are encouraged to become agents of change, fighting for their rights and dues and investing in their future.