Microfinance Post-Tsunami

Cordaid

Colofon

Cordaid
Lutherse Burgwal 10
2512 CB The Hague, The Netherlands
P.O. Box 16440
2500 BK The Hague, The Netherlands

Telephone	+31 (0) 703136300
Fax	+31 (0) 703136301
Website	www.cordaid.nl
E-mail	cordaid@cordaid.nl
Text	Rose Rivera
Editor	Tony Fernandes
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Content

Post-Tsunami Reconstruction of Livelihood: When to intervene with credit.

For more than 15 years, Cordaid has used its Financial Services programme as an instrument for its development work. We offer loans, guarantees, trade finance and equity, sometimes accompanied by a grant component, to support economically active poor people. We believe that poor people have the strength to improve their economic situation.

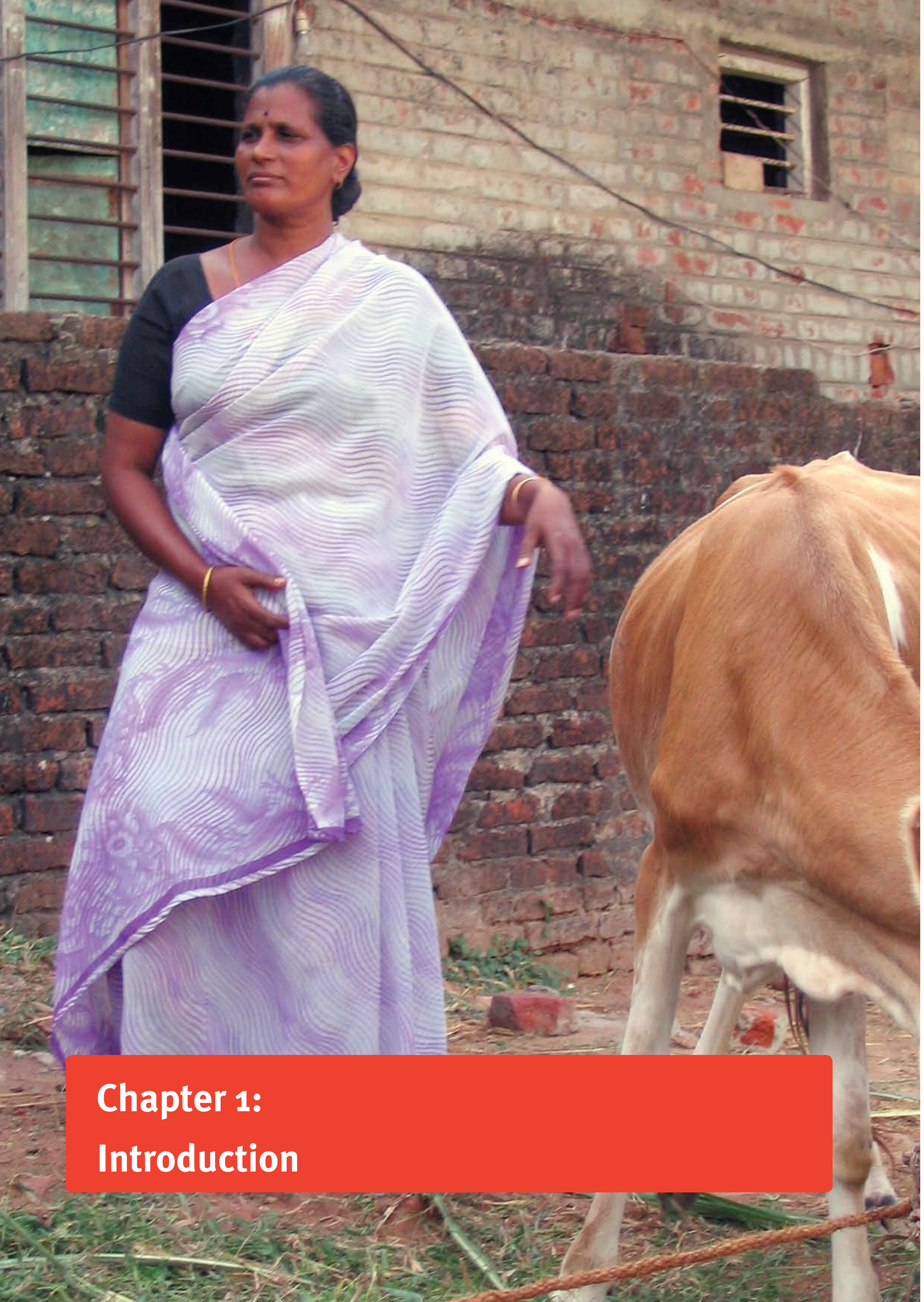
In recent years, we have also witnessed the enormous strength that people can muster after a crisis (be it a conflict or a natural disaster). After a disaster, Cordaid's Emergency Aid sector plays the leading role in issuing grants for the relief and rehabilitation phase. But after a certain period of time in the reconstruction phase, loans and guarantees can also be valuable instruments. Timing when to intervene with credit has proven to be a very important factor in ensuring that this instrument is successful.

This paper gives you an overview of the first two years of Cordaid's experience with credit interventions in the reconstruction phase after the tsunami in Indonesia, Sri Lanka and India. These loans were meant for rebuilding post-tsunami livelihoods. By publishing this paper we would like to share the lessons we learned with you.

This paper is the first in a serie of working papers sharing experiences with microfinance in post-crisis situations. Together with our colleagues of the sector Emergency Aid and Reconstruction, we are building up and extending our knowledge and experience in this field. How can we make a difference with financial services where circumstances are so difficult? What should we contribute? How can we open a window of new opportunities for those who have lost so much? Personally I believe it is important to share our mutual lessons learned. Let's learn together and open many windows!

Marjolein Dubbers
Manager Sector Entrepreneurship

October 2008



Chapter 1: Introduction

Introduction

This paper takes stock of the first two years of Cordaid's experience in rebuilding post-tsunami livelihoods (of 2004) in the three-most affected countries of Indonesia, Sri Lanka and India by using the concept of "credit plus" [1]. Based on Cordaid's experience, it attempts to define "timeliness of intervention" using financial instruments such as loans and guarantees from external sources. The objective is two-fold: to assist affected communities in restoring their livelihood activities through loans, and to ensure that loans made get repaid. It explores the manner in which the outcome of the intervention may contribute to better the loan management programme of rebuilding more resilient individuals and communities in the future.

An analytical framework locates credit and the timeliness of its entry within a continuum of post-tsunami interventions. It makes use of the ripple effect to demonstrate the extent of the impact of the disaster on the livelihood chain and the impact on the rate of inflation that resulted from the inflow of massive aid. It further looks at how the far-reaching impact of the tsunami can provide insights for designing strategies that could lead to inclusive and timely financial services. It also makes reference to the paradigm of "disaster risk reduction" to situate post-disaster credit as a tool for reducing vulnerability against future hazards.

In Cordaid, by and large, the Sector Emergency Aid took a lead role. With a budget allocation of over Euros 50 million, it spread its resources to relief, rehabilitation and reconstruction in the three most affected countries of India, Sri Lanka and Indonesia. The Sector Entrepreneurship followed through in the reconstruction period zeroing-in on livelihood restoration using the instrument of loans and guarantees. The Tsunami Credit Programme (TCP) was allocated Euro 3,5 million with an accompanying grant of over Euro 1 million for the first two years of implementation. The first loan was extended a year and a half after the tsunami struck.

The following guidelines oriented the credit implementation by Cordaid:

1. That the relief and rehabilitation phase precede and set the stage to the entry of credit as an instrument to revive affected livelihoods to generate income and/or create jobs in the shortterm, and reconstruct the path to development of the affected households in the long-term.

2. That post-tsunami credit is inherently more risky, for which reason, the loan of Cordaid is accompanied with a grant component. The grant is a help to mitigate the risk faced by a) intermediary organizations for the new product and new clientele in an uncertain environment and b) by the borrowers who have lost their sources of earnings but who, nonetheless, assume the responsibility of repaying the loans.

3. That unlike the one-time and short-term relief, credit is an instrument that requires long-term engagement with the affected borrower and where timeliness -more than speed- is of the essence.

4. That TCP relies heavily on three basic pointers for determining the timeliness of credit namely: a) the severity of damage and loss in the aftermath of the tsunami, b) the enormous amount of donor funds that come into the target area which, in turn, influence the level of grant dependency amongst the target borrowers and c) the demand which indicates readiness of the target population to take loans.

5. That in a high-risk credit environment, intermediary financial organizations (IFOs) extending credit should have a strong network, well established systems, a good methodology and management capacities.

6. That the credit policies have been discussed with potential partners and their suggestions have been taken into account when formulating TCP policies.

7. That there are two foci within the framework of livelihood restoration. These are: a) income generation through the instrument of micro loans to be extended through the MFIs and b) job creation by re-financing the SMEs in order to help revive their businesses.

8. That TCP loans are priced moderately, avoiding concessionary loans, to facilitate the return to a more competitive or pre-tsunami market situation that will ensure a return to normalcy of the credit market, and to facilitate the entry of more sustainable sources of credit.

[1]. Credit plus refers to credit with accompanying technical assistance, training, etc.

The Objectives

Main objective:
The working paper attempts to contribute to an adequate understanding on the timeliness of credit intervention in the framework of post-disaster livelihood reconstruction. It emphasizes the entry of credit in relation to the enormity or depletion of donor funds, the immensity of the devastation, the level of aid dependency, the readiness of the target borrowers and the availability of other competing loans for the same end.

Other objectives:

1. To describe the basis of TCP's design, features and policies including the strategies for implementation, and the immediate outcome of the intervention.

2. To describe how the parameters have been set in arriving at the inclusive definition of the affected and targeted communities.

3. To contrast the different approaches of intermediary organizations (commercial banks, MFIs, Cooperatives), the Dutch organizations and others that use the TCP funds. To examine what works and what does not and why. To learn which of the approaches are more demand-driven or supplied, and to discern the difference.

4. Based on the analyses, to draw lessons in order to arrive at some realistic recommendations for future post-crisis credit programmes.

The Outline

There are 5 chapters. The introduction begins by providing some general information on the issue of post-tsunami livelihood restoration and in particular, describing the TCP of Cordaid. Chapter 2 deals with the conceptual background such as the set guidelines and principles on sustainable post-tsunami microfinance that can be found in literature. It will use the Ripple effect in defining the extent to which livelihoods that have borne the brunt of the disaster, even when these were located away from the seacoast. An analytical framework further tries to look at the movement from relief to reconstruction to situate the timeliness of credit within the spectrum of these multiple interventions. It also takes the "disaster risk reduction" (DRR) framework into account, while explaining the potential for a more sustainable outcome of reconstruction as against the spill over effects. Chapter 3 analyzes the practices thus far in different countries where TCP was implemented in the light of the analytical framework. The 4th chapter focuses on lessons learned. These are drawn from the analysis and results of the reviews discussed in the previous chapter. The 5th and last chapter incorporates the recommendations that arise from the previous chapters and the mid-term reviews.

The Limitations

The impact on income from the loans, the translation of skills learnt into income and the rebuilding of household assets by businesses are aspects that are too early to measure. Reviews are limited to the outcome of access to capital and access to vocational training.

Here a major note needs to be made. The tsunami phenomenon of destruction and the immediate response of the international community in terms of generous aid were exceptional and the scenario that followed was comparably different than any other experienced in the past. Hence, the guidelines gained from the experience will not serve as a bible for future post-disaster credit intervention but as a pointer to what financial institutions and development agencies need to consider when introducing credit

Methodology

While this paper has largely been a desk work, data for analysis is based on the documentation of consultations held in India, reports compiled from all partners in the three countries, field monitoring reports, personal interview of some borrowers, daily communications, and the mid-term reviews by external organizations.

Countries' Brief Background

Of the three countries where TCP was implemented, Aceh (Indonesia) and Galle in the north-eastern districts of Sri Lanka were not the focus areas for Sector Entrepreneurship. The introduction that follows to each of the three countries hopes to situate certain facts and conditions that had a bearing on the discussion that helped to shape the design and strategies of the TCP.

Indonesia

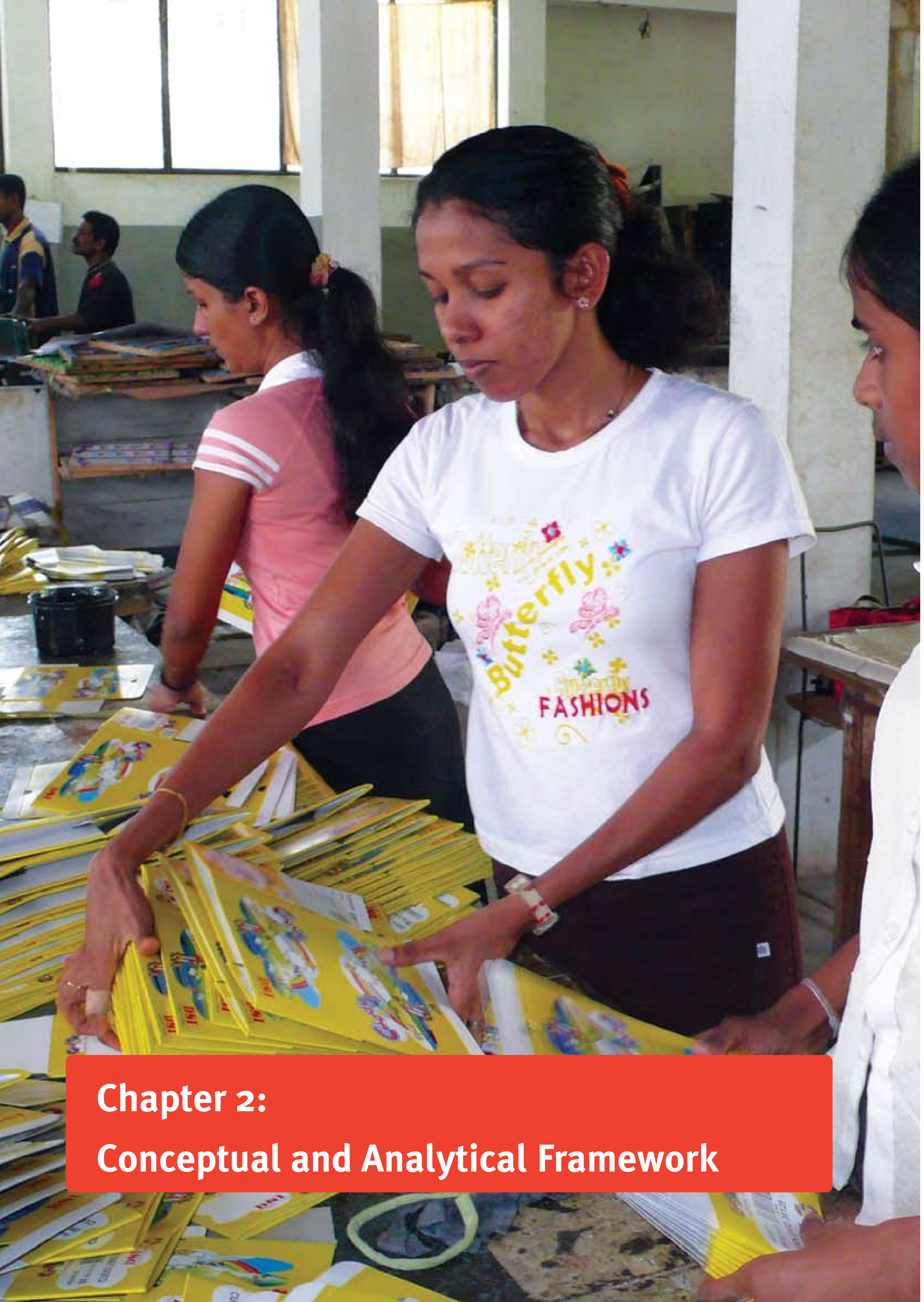
The massive earthquake in December 2004 on the seabed of the Indian Ocean that resulted in a series of tsunami in countries in the vicinity originated from the west coast of northern Sumatra and hit the province of Aceh in twenty minutes. Again in March of 2005, another earthquake hit the islands of Semeule and Nias, located to the west of Aceh. The combined catastrophe resulted in 167,540 deaths (including those missing), mostly women, children and the elderly (TEC 2006, p.33). The death toll in Aceh alone comprised 80% of the total tsunami deaths in all of the affected countries. Almost half of the estimated USD 9,9 billion losses was accounted for in this area (TEC 2006, pg. 17). Being the hardest-hit, Indonesia was also allocated with the biggest chunk of the international aid accounting for 37,2% (ibid p.87).

Sri Lanka

This small country was the second most severely affected. About 1,000 km. stretch of coast in the northeast and south of Sri Lanka experienced massive destruction. It also had the second highest death toll recording 31,000 persons dead, with 6,300 persons missing and 443,000 persons displaced (ADB, 2005). Estimated loss was placed at 1,5 billion Euros. Sri Lanka was allocated with the second largest international aid accounting for 23,5% of the total international aid of USD 13 billion.

India

The impact of the disaster in India was largely located in the States of Tamil Nadu, Pondicherry, Kerala, Andhra Pradesh and the Andaman and Nicobar islands. The disaster left over 10,000 persons dead, over 5,000 missing persons and another 7,000 persons injured with the Nagapattinam District in Tamil Nadu as the worst hit. Damage to assets was estimated to be USD 690 million, while productivity losses were estimated to be about USD 410 million. India was the third country in terms of damage and losses and was allocated with the third largest aid amounting to 13,2% of the total international aid of USD 13 billion. (TEC pg. 87)



Chapter 2:
Conceptual and Analytical Framework

Conceptual and Analytical Framework

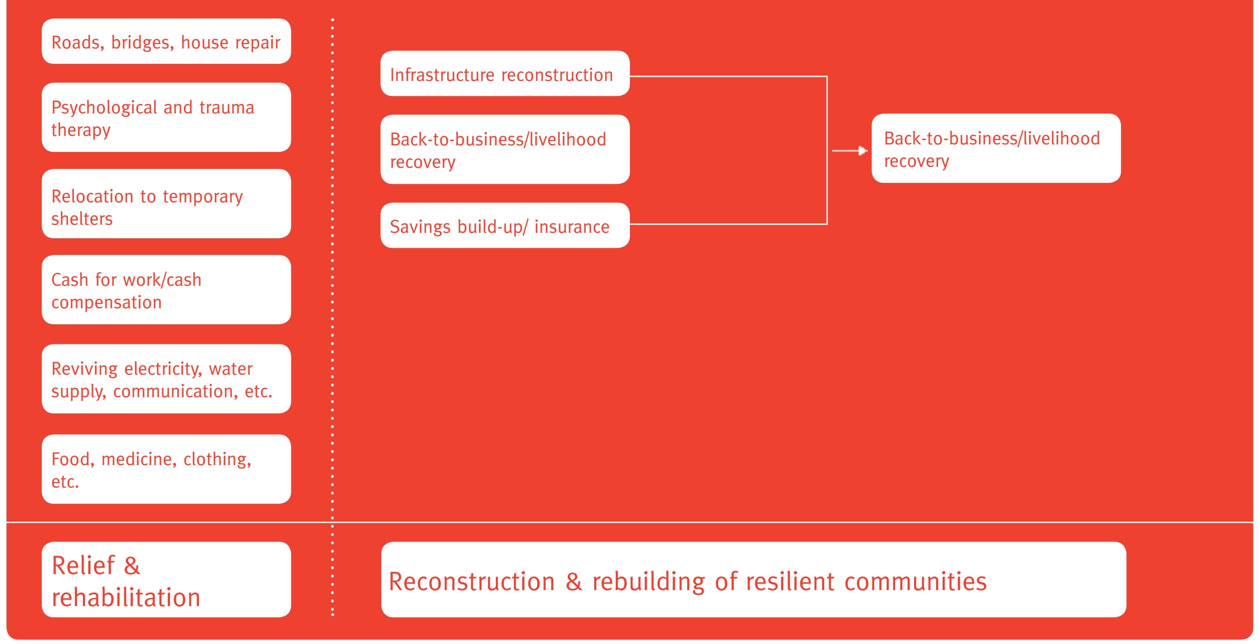
This chapter looks at some concepts on post-tsunami, post-disaster guidelines and best practices on microfinance. An analytical framework tries to understand the timeliness/appropriateness of credit as an intervention in the framework of livelihood reconstruction. It also illustrates the different uses of microfinance: as a tool for development, for post-disaster reconstruction and for reducing risk against future disaster. The ripple effect illustrates the far-reaching impact of the tsunami.

Timeliness

CGAP[2] stipulated in its brief guideline on post-tsunami microfinance that "reconstruction loans are most effectively given once the emergency state is over" (Brief note, 2005). Other literature views microfinance as one of the various disaster relief responses (AIDMI[3]). CGAP's principle, on the contrary, warns MFIs wearing two hats at the same time. It advocates that MFIs preferably link relief needs to non-MFI organizations to avoid creating confusion between free assistance and loan assistance. If unavoidable, CGAP (Brief note, 2005) recommends that relief be time-bound and that the MFI makes an effort to make a clear distinction between the two types of intervention. If loans with concessionary rates are granted, CGAP suggests that it should pave the way to normal loan terms. Importantly, the principle maintains that in doing so, an MFI should not choose for shortcuts in the pre-investment process particularly when ascertaining the credit history of the borrower. In short, loans should not be indiscriminately extended as a blanket programme.

The main premise, however, as to when is the right time for credit to be used to restore livelihood, remains. While in-kind resources are made available during relief, cash is inevitably sought for by the survivors. This need for cash is interpreted as coming from the affected individuals or families' desire to quickly restore their livelihood. There is no doubt that there is a need for cash. However, a number of questions arise that need to be answered. Is credit the tool to generate the needed cash? Amid chaos, instability and mobility, can credit appropriately translate into income and, at the same time, do the affected persons have the capacity to repay the borrowed amount? When is credit an instrument to revive livelihood without distorting the market? Where does credit lie in

Figure 1 Spectrum of post-tsunami interventions



[2] CGAP - Consultative Group to Assist the Poor, a consortium of 33 public and private development agencies.
[3] AIDMI- All India Disaster Mitigating Institute

the continuum of post-tsunami interventions? Figure 1 is an attempt to find an answer to these questions.

A note of caution when using this framework for analysis is in place here. First, one should not be led into the misconception that all the interventions are equally delivered and in the same degree to all of these countries. It is a fact that the degree of the damage and amount of intervention varied from country to country. Hence, all or some of the array of interventions can be present in one country. Second, this framework enumerates activities from relief to reconstruction which are representative of the numerous activities that were actually implemented (Cordaid's mobile clinic and the training of fire brigade are not mentioned here). What is important is to illustrate the location of the type of activities that can be attributed to a particular phase. Third, the set of activities found in the framework are not arranged in the order of importance and sequence, for instance, house and road repair need not be the first or the last activity respectively during relief. Fourth, it does not necessarily follow for all donor organizations that reconstruction activities have an underlying sustainability or risk reduction underpinnings.

Two major phases: relief and rehabilitation, and reconstruction

The framework classifies the continuum of interventions to belong to two major phases: the relief and rehabilitation phase, and the reconstruction phase. The latter could have the underpinnings of disaster preparedness or of "building back better" [4] or of rebuilding resilient communities to stand better against future disaster.

Relief and rehabilitation phase

Speed is of the essence in this phase. Humanitarian needs are uppermost in this phase such as the need for food, medicine and clothing which are the first port of call. At this period donation is the appropriate instrument. When survival needs have been aptly responded to, the national and international bodies proceed with rehabilitation of infrastructures while the affected communities are housed in temporary shelters.

During the rehabilitation stage, AIDMI in India and USAID [5] in Sri Lanka were among those who introduced cash for work (CfW). As opposed to earlier practices where the affected persons themselves volunteered to clean debris, now the CfW offered wages for these works. AIDMI argued that not only CfW stimulates the purchasing capacity of the survivors; the wages also reinforce their sense of dignity. CfW stimulates participation and the active role of the survivors while reducing costs to donors in terms of reduced paid staff (South Asia disasters.net, 2005).

The downside of aid inflow in this phase is the extent of the entitlement that tremendously influences the readiness of the survivors in taking assistance that is non-grant in nature. The cash for work is insightful when it comes to the generation of income for the much sought cash by the affected persons during the relief period. Instead of prematurely introducing credit, cash for work can precisely deliver the same effect and much more (raising sense of dignity) while completely avoiding market distortion and other side effects.

Reconstruction

This phase aims to restore normalcy and a return to order. It is often marked by the momentum of reconstruction with regard to housing, schools, bridges, and other major infrastructures. This is also the time where non-grant intervention can be introduced. While reconstruction is ongoing, there is already a spill over of work and donor funds have all been committed. Other needs that donors had not addressed gradually emerge. This marks the phase of responsibility and accountability from the survivors' end in responding to these needs.

A certain degree of stability as a consequence of the humanitarian aid precedes this phase. There are indicators of this stability that can be considered, such as children going back to school regularly (may it be a temporary school facility), survivors having roofs over their heads (some, returned to their repaired houses, while others move to newly constructed ones), and private and public services restored.

The huge funding available allowed some interventions with "building back better" and sustainability underpinnings. Cordaid Emergency Sector's programmes have embedded this in some of its interventions. This phase, particularly for the tsunami affected communities and who were also affected at the same time by the long civil conflict as in the case of the north-eastern parts of Sri Lanka, the novelty of having received international aid in large amounts, that once was too limited, created a new "window of opportunity".

[4] A revised approach where mitigation efforts are directed towards environmental sustainability and social resiliency as opposed to ill-conceived and poorly implemented relief and rehabilitation efforts.

[5] USAID - United States Agency for International Development

Duration of Each Phase

In most cases, it is not easy to define the exact boundary where relief ends and reconstruction begins. Both phases do inter-phase at a certain point. The length of the relief phase is likely to depend on the severity of the damage and the magnitude of available donor resources. The tsunami destruction was quite unparalleled and the relief efforts stretched for almost a year and peaked within the first three to nine months for countries with very much devastation such as Indonesia (Aceh region) and Sri Lanka.

Exogenous factors also influenced the length or the relief phase such as the expectations of those who gave donations. Pressure supported by media reports wanting quick results was one such strong factor. While there is no hard and fast rule in determining where one phase ends and the other begins, the end of the relief phase is signalled when donor funds are fully committed and when hardware reconstruction has been in full swing. The Dutch fund's commitment ended in 2006 or two years after the disaster, and had some spill over in the third year of implementation.

To get closer to the understanding of the appropriateness or the timeliness of credit intervention, an improved framework further illustrates the entry of credit relative to the supply of grant (see Figure 2).

The framework suggests that the grant (represented by a connected line) after reaching its peak follows a descending line. The loan (represented by a broken line) takes-off when relief has almost subsided and continues its momentum into the reconstruction phase. The meeting point between the loan line and the grant line is considered the 'appropriate time' or the "right time' when credit (especially external) takes-off and pursues a momentum carefully.

The framework suggests that a certain degree of stability (where electricity is restored, seas and rivers are cleared from debris, roads have been made passable) together with the notable decrease in the supply of grants now serves as a pre-condition for the entry of the loan. It is further argued that in the reconstruction phase, needs left unanswered by the donor aid is a strong pull factor for credit. Furthermore, the rate of interest can be a tool to test the readiness of the target borrowers to enter the more serious credit market. Acceptance of the interest rate close to pre-disaster levels (not too concessionary) can reinforce the signal of the appropriate time for credit, especially credit that is funded from external sources.

Figure 2 Loans within the spectrum of post-tsunami intervention

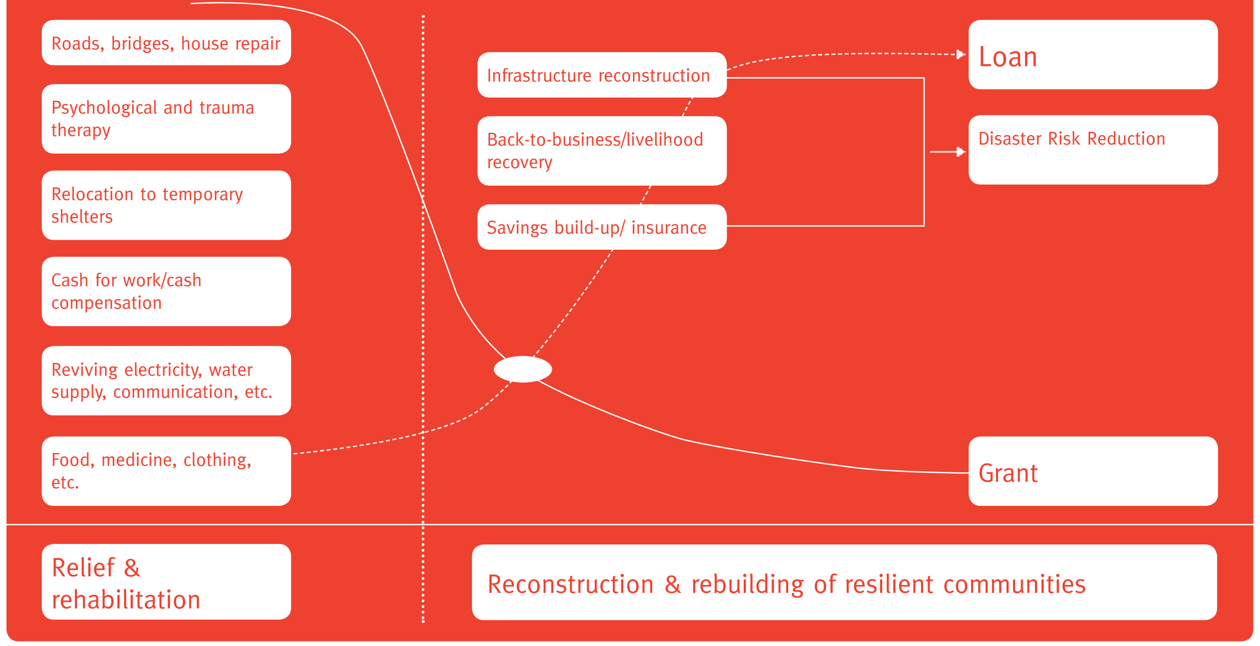
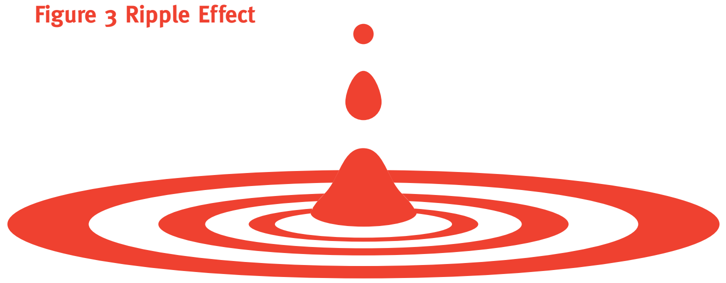


Figure 3 Ripple Effect



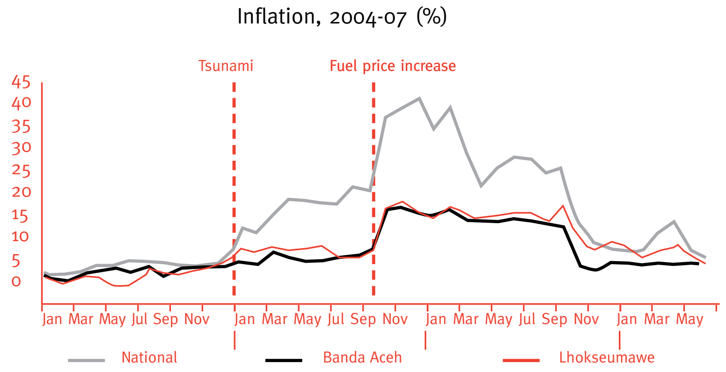
A tremendous help in this phase is the stimulation of the credit market by the local investors who know best to calculate risks. **Local loans can better build on local investments and together pursue a momentum for revival of both livelihoods and the credit market.**

Far-reaching Impact: Ripple Effect

The ripple effect is used to demonstrate the chain of livelihood that was impacted by the tsunami. Far from confining the damage within the mainstream-hit livelihoods, the impact actually ripples within the upward and the downward chain. In India, the first quarter of the aftermath saw more than 40,000 livelihoods in fisheries, micro enterprises, agriculture and livestock (and the wage labour allied to these sectors), to have been impacted (2004 ADB assessment). In Indonesia about 600,000 people have lost their livelihoods with the majority from the fishery sector and some 30% from agriculture (TEC, 2006). About 25 % of the labour force went without work and unemployment rose to 30% in the affected regions alone.

Not only did the impact ripple through the livelihood chain but it also impacted at the macro level on such aspects as inflation and employment.

Figure 4
Four-year Comparative Inflation



Source: BPS
Note: 2002=100

For instance, the inflation rate in the northern end of Sumatra, increased until it peaked at 41, 11% in December 2005, as a result of the reconstruction boom a year after the tsunami struck, a rate that was much higher than the national level of 17 % in the same period. As shown in figure 4, the impact of tsunami and later on the hike in oil prices factored the rise in inflation especially in Banda Aceh.

While the reconstruction boom has also rippled positively and became the main driver of growth in Aceh, the ripple effect was limited to the transportation and service sectors. In effect, it also caused an unbalanced growth, leaving agriculture, manufacturing and other sectors behind.

The high rate spilled over beyond Banda Aceh and areas with increasing flow of donor funds causing high increases in the provincial minimum wage rate (Robert Rice, 2007). The influx of the expatriates in Medan, the centre of rest and recreation and at a distance of 12 hours by bus from Banda Aceh, created an increased demand for prime commodities leaving the local people sighing against the soaring prices.

In Sri Lanka, in the tsunami struck areas, inflation once peaked at 37 percent while the national inflation rate was registered at 11,2% and 13,7% at the end of 2005 and 2006, respectively (ADB 2007).

Cordaid took into account the extent of the ripple effect on the livelihood chain (at the micro and macro level) in designing the livelihood reconstruction.

Disaster Risk Reduction

The forerunners of the “Disaster Risk Reduction” paradigm defined disaster as a state where victims of hazards are unable to cope with the impact. The victims need external assistance to be able to survive and later return to a state of living in normal conditions. The occurrence of the tsunami and other hazards, for that matter, may or may not necessarily result to a state of disaster if communities are resilient. Hence, the state of disaster can be prevented when there has been prior disaster preparedness intervention. What are these risk reducing programmes? An example would be savings which is often the first fall back because they are accessible. Another example would be engagement in diversified livelihoods so that in the event that one source is affected, there are still other possible options.

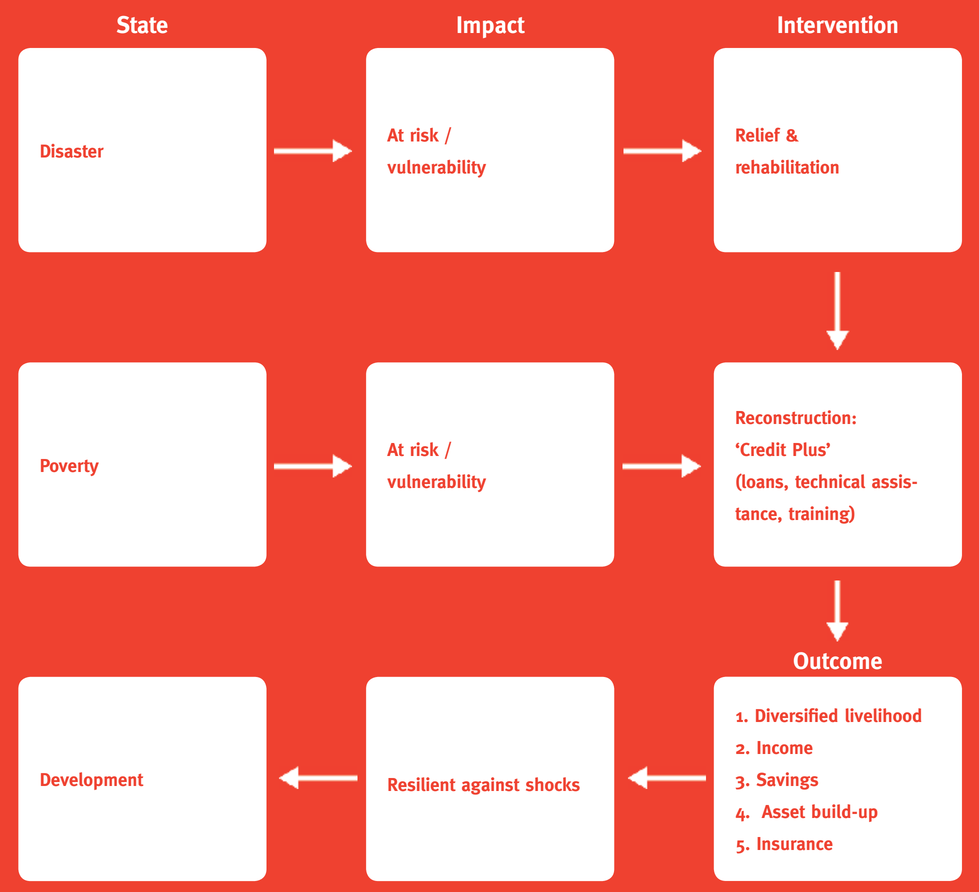
In the aftermath of a disaster, survivors are often reduced to a condition of abject poverty and helplessness. The only difference between them and the victims of poverty due to exclusion is their potential for receiving compensation, and for availing of the “window of opportunity” that relief and reconstruction present.

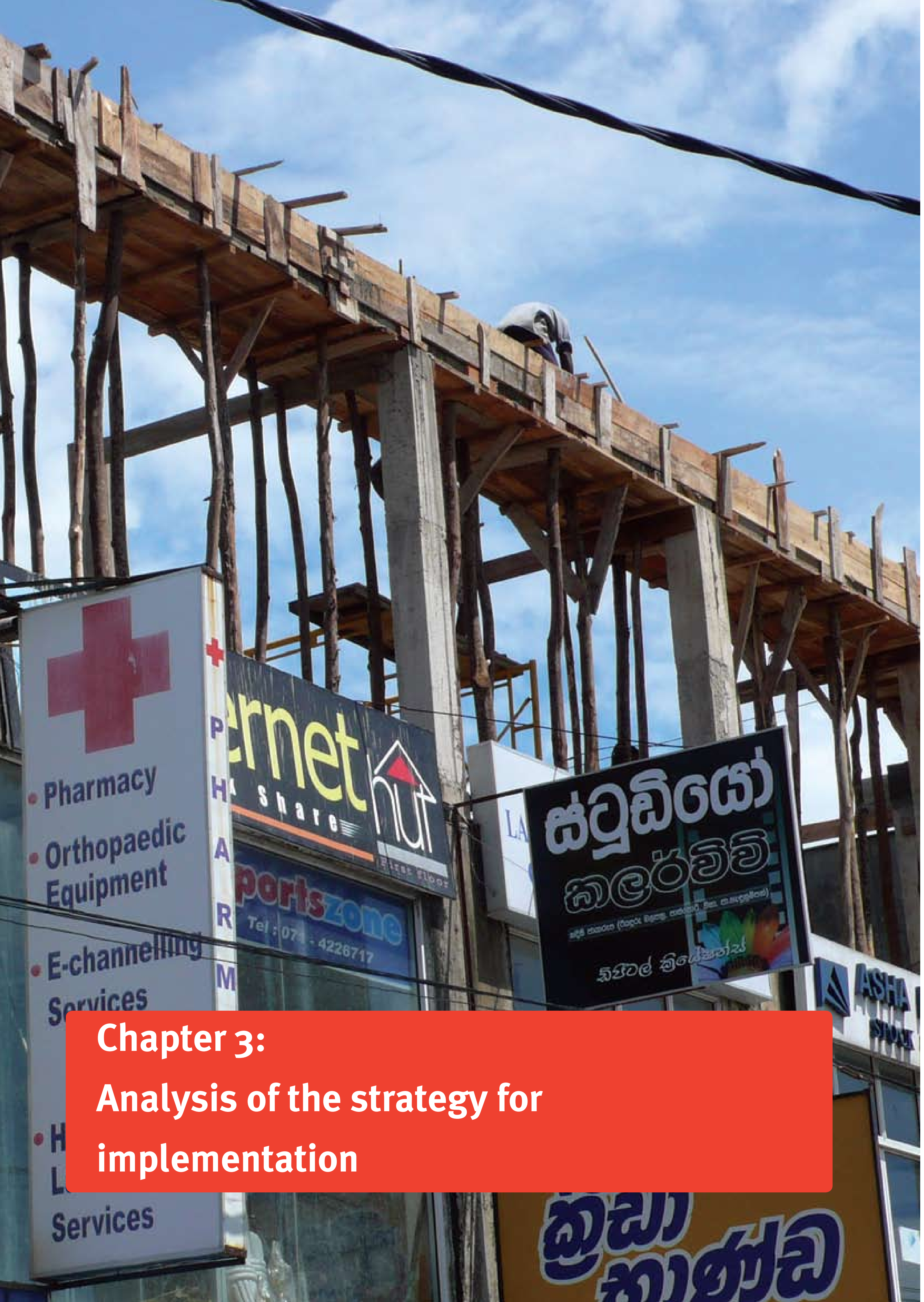
Credit or microfinance has been an established tool for poverty reduction. It is now seen as an instrument to facilitate the restoration of lost or affected livelihoods/businesses for the survivors of a disaster. Besides income generation, other financial services such as insurance and savings, amongst others, are believed to be effective instruments to reduce vulnerabilities.

This multi-potential use of financial services, especially credit, is reflected in the framework (Figure 5) which gives an insight into the linkages between humanitarian interventions and more structural interventions that generate resiliency amongst vulnerable communities which can serve as a foundation for development.

Figure 5 Framework for multi-role of microfinance

Microfinance as a tool for poverty alleviation, reconstruction post-disaster and disaster risk reduction





Chapter 3: Analysis of the strategy for implementation

Analysis of the strategy for implementation

Using the framework and concepts of the previous chapter, the strategy used in implementing credit programme during the period of credit intervention is analyzed in this chapter. It discusses briefly the post-tsunami condition of the project areas, the transit from relief to reconstruction, the roles of the various stakeholders on the ground and the appropriateness of extending credit. Appropriateness or timeliness is also analyzed by relating the immediate outcomes of the instrument to the goal of restoring livelihoods and creating employment. The analysis further looks at which strategy works and which practices best deliver the lessons to be learnt. The analysis makes a distinction between the SMEs and the MFIs.

Impact rippled beyond the mainstream victims

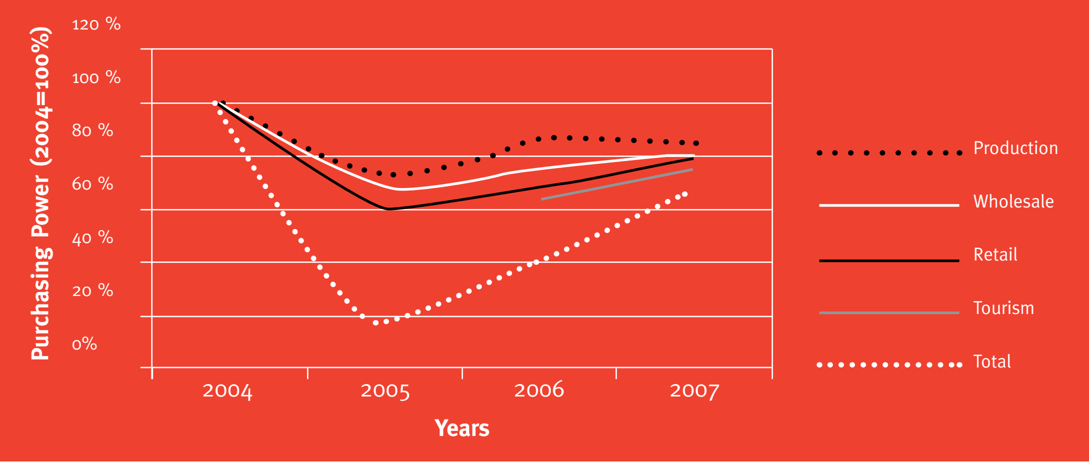
As indicated, the impact of the tsunami is not only limited to the directly affected individuals and communities but has a rippled effect in the wider economy.

From the Review done by FACET in Sri Lanka, it was noted that the impact on private enterprises was asymmetrical with some companies more affected since they were located along the coast while others were less affected because of their being located on higher grounds. Of the seventeen (17) companies interviewed, twelve (12) SMEs that took the loan from Cordaid had competitors that were not affected by the tsunami and who enjoyed an increased share of the market. Only five (5) of the SMEs had their competitors also hit by the tsunami.

The tsunami impacted “not just the directly affected businesses, but also those in the wider region, who also lost customers. This “regional recession” was different per sector (refer to Figure 6). Tourism obviously was hit hardest in the view of the owners, followed by trade. Production enterprises experienced a lesser decline in purchasing power, partly because of increased demand as a direct consequence of reconstruction efforts. In 2005, demand was lowest, and recovered fairly well in the two years thereafter, but remained lower than 2004.

The review confirms the ripple effect in the economy of Galle. “The immediate aftermath of the disaster combined with the massive influx of donor money also led to distortions in the local economy, inflating prices generally, as well increasing or depressing prices of some product groups. For example, food aid delivered in 2005 forced some local producers out of business for some time, while shortages of building materials led to higher prices for cement, timber and other such materials”.

Figure 6 Development of Purchasing Power, per sector 2004-2007

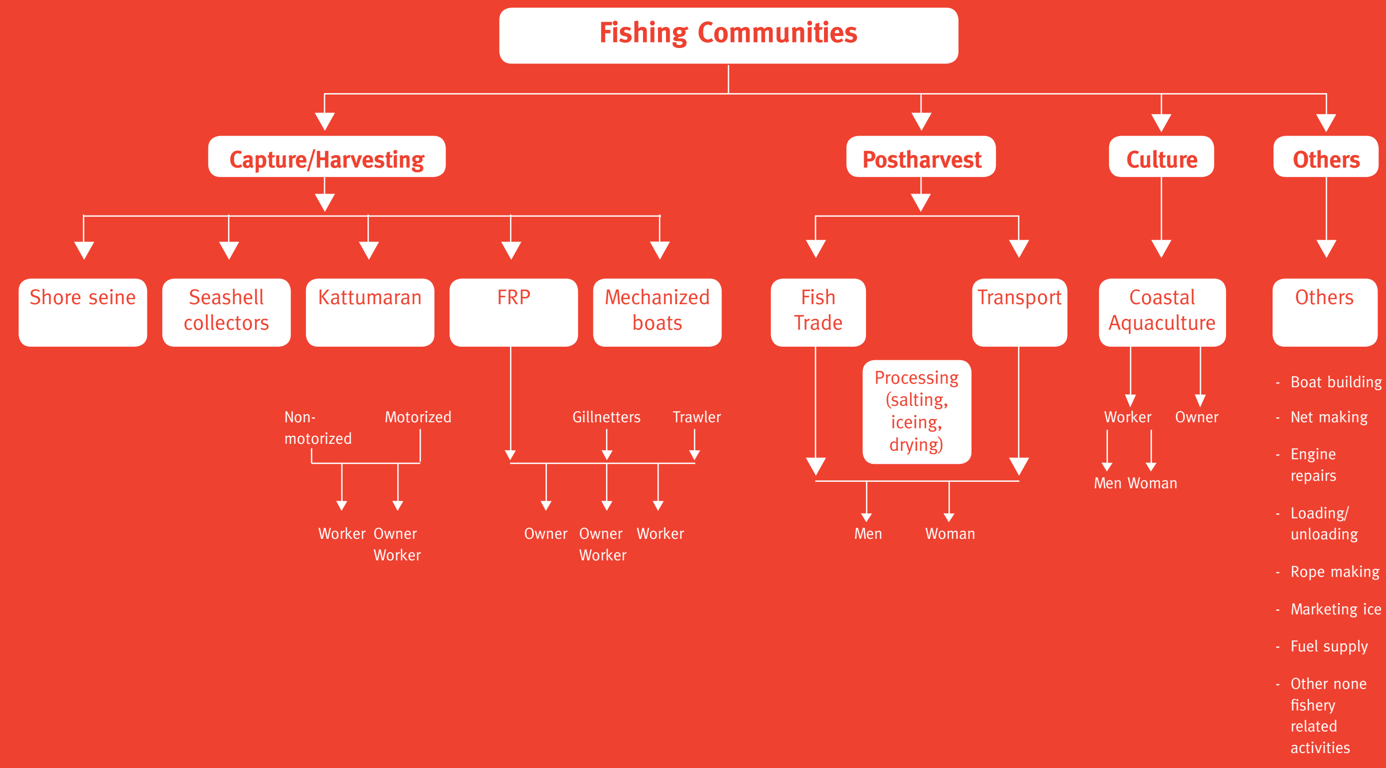


The report continued: "Therefore, the vast majority of enterprises were faced with multiple challenges: having lost many if not all assets, confronted with a general decline in demand, and a competition that had not lost assets and was better positioned to recapture an erratic local market. Without doubt, the directly hit enterprises would hardly have overcome this challenge if there had not been specific support instruments that favoured their enterprise over those that were not hit, and provided a chance to invest into working assets".

In Indonesia, the Economic Aceh Update (eau, 2007) noted that the large inflow of international aid gave rise to inflation that reached to as high as 41,5%. As mentioned earlier, reconstruction boom accelerated economic growth in the service sector by 50% but negative growth kept unabated in the primary and secondary sectors of oil, gas, mining and manufacturing. After three years, inflation saw a steady decline and as of June 2007, the rate got reduced to 8,5% coming close to the national level of 5,7%. However, Rice (2007) argued that the boom in construction could negatively affect the competitiveness of the whole region as against the country's growth and possibly lead to a recession as soon as the inflow of the aid ceases in 2009.

In India, Dr. Kurien illustrated the forward and backward impact on the livelihood allied with fishing. The four major categories of livelihood had strings of other livelihoods that equally suffered due to the loss in the main source of livelihood. For instance, a small Kattumaran has 1 to 2 workers, a large Kattumaran, 2 to 3 workers and the FRP canoe has 4 to 6 workers. Shore-seines need around 30 to 40 people to pull the nets ashore. Beyond what is depicted in the diagram, other sectors were also impacted. Store and shop owners in the town centres had decreasing revenues as a result of low purchasing capacity or loss of clients, including the fishermen and fish vessel workers (DPG, Cordaid mid-term Review 2007).

Figure 7 Rippling effect of the disaster on Livelihood



The impact that rippled beyond the main sector and areas that were affected provide a backdrop to the discussion of the strategy and the timeliness of the loan.

Strategy: The relief and humanitarian effort sets the stage for the reconstruction of livelihood

In the three countries, the Emergency Sector of Cordaid responded first by extending relief support to the affected persons and communities. The fund came mainly from the SHO[6]. Part of the budget of the Emergency Sector was allocated for reconstruction of houses and schools. A small portion was earmarked for livelihood restoration and was entrusted to the Entrepreneurship Sector. The timeline for spending the SHO fund was first indicated to be the immediate year after the tsunami which was later extended to another year with a spill over on the third year for implementation.

If the framework is that loan is to be introduced in the reconstruction period and the earmarked grant from the SHO is for the livelihood restoration, then there is a mismatch in terms of the timeline of spending. In addition, as was illustrated in the Figure 1, the reconstruction period pursues a longer term than does the relief period.

When allocating the grant fund to be used for the two stages of relief and reconstruction, it would have been much more effective if the timeline for spending the amount allocated is in line with the nature of the reconstruction period which has a longer time period than the relief period.

The loan from Cordaid went to tsunami areas but not necessarily the areas where the relief was provided by Cordaid's emergency sector. This will be explained in the following section.

India

Cordaid's Sector Emergency worked with 13 partners to carry out its relief and rehabilitation projects in a number of affected states in India. A range of projects have been funded that covered infrastructure (shelters and housing), education, legal support and psychosocial care and livelihood (boats) among others. Since India had been a focused country, partners are easily identified. There is high ownership with less collateral damage. Cross–cutting development themes were adequately addressed such as gender, HIV/aids, disaster risk reduction and promotion of Dalits (Beaufort, 2007).

However, the partners of the Emergency Sector did not comply with the eligibility criteria of partners to implement the TCP which specifies that they should be MFIs with strong capacities and the credit system are in–place. The reason being, post-disaster credit is much more complicated and risky than normal credit programme. The MFI should have its own resources to cope with eventualities. The partners of the Sector emergency were, however, helpful during the consultation held by the Sector Entrepreneurship.

6. SHO -De Samenwerkende Hulporganisaties- 8 Dutch NGOs working together to respond during huge emergency situations.

In the consultation, the policy for loans and grant usage and the eligibility criteria of TCP worked out in Cordaid was the subject of discussion in a workshop participated by MFIs and the partners of the Emergency Sector. The output formed the basis of the Cordaid's Tsunami Credit Programme.

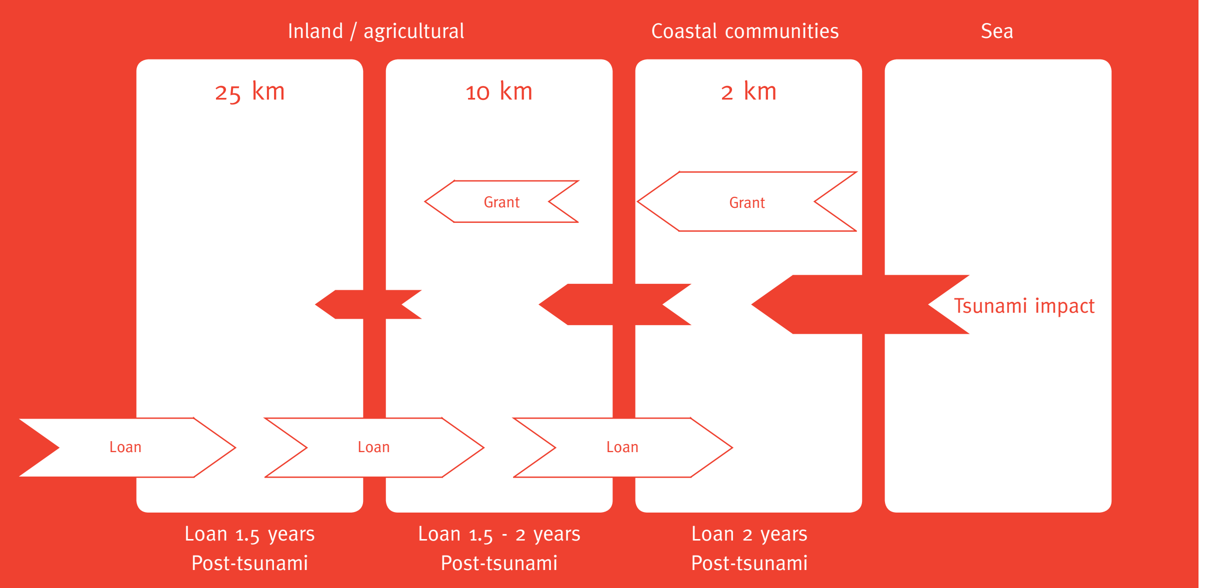
Critical contribution from the consultation was the expanded definition of the tsunami affected persons to include **"indirectly affected persons and communities by the tsunami but directly affected in so far as their livelihoods are concerned".** The definition considered the rippling effect on the livelihood chain. This further resulted in more inclusive financial services as opposed to exclusive services geared only to directly impacted livelihood.

The participants also confirmed that grant mentality was high amongst the fishing community who received monthly compensation for six months from the government of Tamil Nadu. While waiting for the repair of the damaged boats and replacements of lost ones, not to mention mastering their fear of going back to the sea for fishing, the community also received subsidy from the INGOs This has tremendously influenced the strategy used for introducing the TCP in India. This is illustrated in Figure 8.

In the illustration, the TCP loan was introduced one and a half years after the occurrence of the tsunami. BFL[7], the first partner, implemented it within the 25 km radius from the coast in 6 different affected districts of Tamil Nadu. NLT[8] zeroed-in on poor families in Nagapattinam area whose livelihood were directly impacted but did not receive any donor fund. These households reside beyond the 2 km to 20 km radius from the sea. SIFFS dealt with the mainstream victims, and they introduced the loan of Cordaid only two years after the tsunami struck to the victims within the 10 km radius.

In short, the loan of Cordaid began in areas unaffected by the grant and moved towards the communities where the grant had waned out. The loans catered first to those whose livelihood were affected but was not, physically, impacted by the hazard. They were more attuned to restore livelihood by means of a loan. It, then, gradually penetrated the heavily affected sector, the fishing communities, who were recovering from the physical and psychological impact of the hazard.

Figure 8 Strategic entry of Loan in India



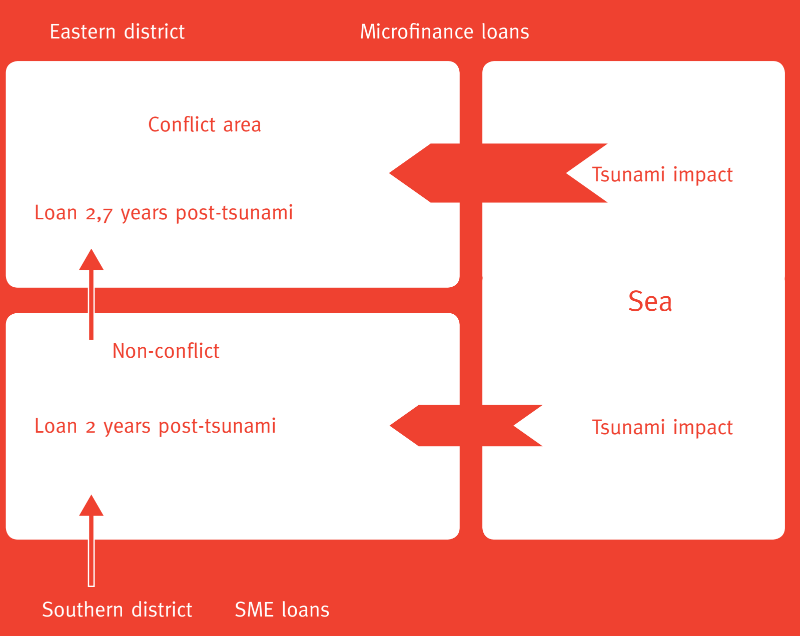
[7] BFL- BWDA Finance Limited, a non-banking financial institution in Tamil Nadu, India.
[8] NLT- New Life Trust, a microfinance NGO in Tamil Nadu

Sri Lanka

Cordaid structural programme has been supportive of the humanitarian needs in the northeast even during pre-tsunami times being a conflict area between the LTTE [9] and the government forces. The huge funding for relief, however, had outsized the capacities of the existing partners (Beaufort 2007). This resulted in setting up a Cordaid office for relief in Batticaloa. With the over accumulation of funds for relief programmes in the districts of Batticaloa, Trincomalee and Ampara, Cordaid's relief programme focused mainly on restoring livelihood by replacing lost fishing boats (ibid).
Cordaid Sector Entrepreneurship considered the north-eastern district for the implementation of the credit programme as a follow up to the Sector Emergency's effort. It was foreseen that the loan could be utilized to purchase the fishing paraphernalia to complement the boat that was donated by the Sector Emergency. This was not possible due to a number of reasons. One, the warring parties did not give way to reconstruction, and violence escalated at the beginning of April 2006. Two, communications proved to be very difficult for organizations in the eastern districts with some INGOs becoming the target of harassments by armed men. Third, Cordaid fund did not have much added value where loans with 60 % grant proliferated in the area. Most of these loans were disbursed in 2005 just when donor aid was at its highest peak.

At the southern area of the country, the district of Galle had recovered fast due to a number of reasons. One, it was not a conflict area. The beaches in the south had been a tourist destination (and grew more when the eastern beaches became inaccessible owing to the resumption of conflict), Two, it has a functional port where the devastation was not so large because destruction was mainly concentrated along the coast. Further, the local government restored the flow of electricity immediately three months after the destruction. This is true for equally important infrastructures like roads. The southern businesses contributed to the country's economic growth, a contribution that is hard to come by from the conflict–ridden northeast. Hence, Figure 9 describes the entry of loan relative to the peace or conflict condition of the districts and the degree of the devastation in relation to the concentration of donor aid.

Figure 9 Strategic entry of Loans in Sri Lanka



[9] LTTE - The Liberation movement of the Tamils occupying the northeastern areas of Sri Lanka.

Cordaid loan was introduced in Galle, two years after the tsunami. The loan targeted the SMEs because of its capacity to generate employment to tsunami-affected individuals. Not all victims of tsunami had potentials for entrepreneurship. Others simply needed to get their job back. To ensure this segment would not be left out, Cordaid consciously opted to assist the SMEs. In addition, Cordaid's partners were able to provide capacity building to the SMEs and conduct professional credit assessment. The complementarity of technical assistance, strong credit assessment, and the recapitalization (through loan and grant) had been envisioned to increase the chances of success.

An additional project to the south was implemented by Lakjaya Microfinance Limited, an emerging private microfinance company. Lakjaya is engaged in establishing a niche among small enterprises where loan amounts are too small for the bank to lend and too big for the NGOs to cater to.

Towards the end of 2007, more "cleared"[10] areas were established in the eastern district of Batticaloa. Cordaid tested the waters with a small loan to Sareeram Foundation for on-lending to war and tsunami- affected individuals. The loan was disbursed to the Community-based Organizations (CBOs) thirty one (31) months after the tsunami.

To summarize, in Sri Lanka, the aim was to facilitate the creation of employment (through the SMEs) and enhance self-employment (individual entrepreneurship).

Cordaid loan was first implemented in the non-conflict district in the south. It then moved to the conflict area with a relatively stable climate in the eastern part of the country. It was introduced in affected areas with less damage and less outpourings of donor aid and then moved to the strongly impacted areas which once had a greater influx of donor fund.

The target clients were a mix of SMEs with capital requirements that banks could cater to, the smaller enterprises with capital requirements that neither the banks nor the NGOs could cater to and the individual entrepreneurs with micro capital requirements.

Indonesia

The Sector Emergency of Cordaid zeroed-in on reconstruction of houses and schools, plus water and sanitation, on Semuele island on the west, and Seunoddon on the east coast. Seunoddon was a former GAM [11] bastion. Focussing on the area brought an added value to the peace and development dimensions.

The Sector Entrepreneurship envisaged, at the start, to complement the physical reconstruction in Seunoddon with efforts to restore livelihoods. However, Cordaid's image was very much of a donor, working with grants in the community. Introducing loans at this stage as an instrument to revive livelihoods was, therefore, not considered

[10] Government-recovered areas from the control of the Tamils in the northeast of Sri Lanka
[11] GAM- Free Aceh Movement

to be prudent. Instead, a furniture-making project, using indigenous materials on a smaller scale was supported in Seunoddon and implemented by the Structural Department [12] of Cordaid.

There were a number of factors that, in themselves, point to the fact that microfinance as a means to restore livelihoods, posed the biggest challenge in Aceh and that it was not a prudent intervention for a foreign fund like that of Cordaid.

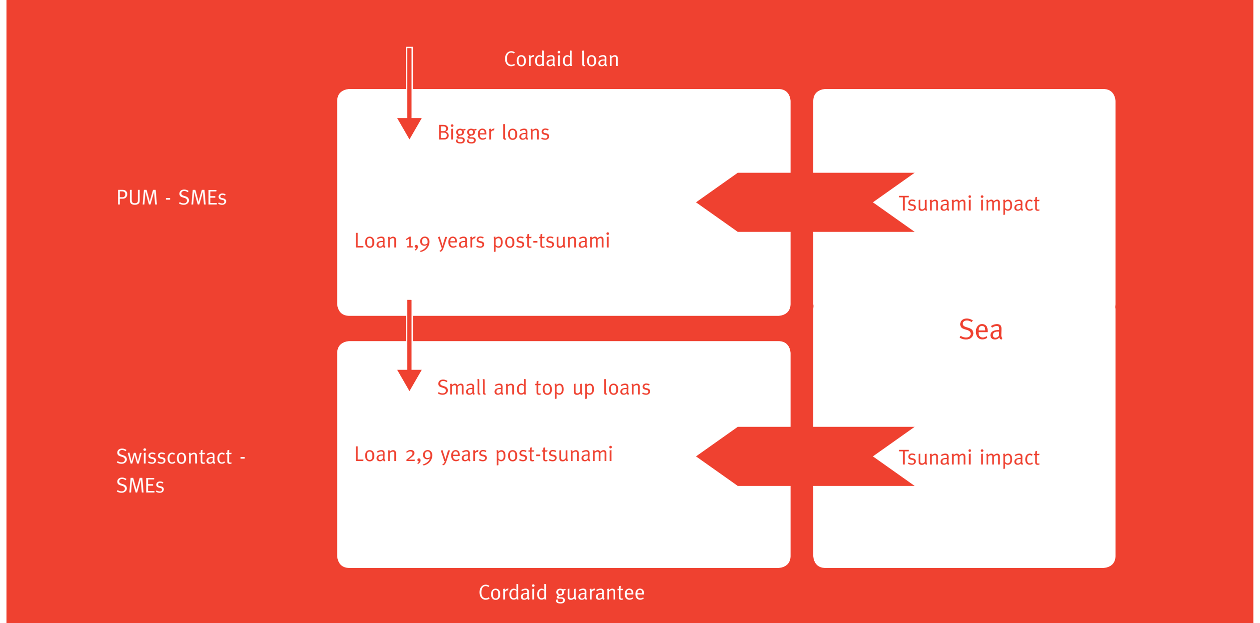
The main drawback in Aceh, was that MFIs were virtually absent in the province. As a result of the three decades of conflict, most of the civil organizations were organizations veterans in providing humanitarian aid. Importing an experienced MFI would have been quite a task because this MFI would have to be linked to a local potential MFI in pre-tsunami Aceh that sympathized with the cause of the Acehnese. (In general, the Acehnese are highly sceptical of non-Acehnese, especially the Javanese whom they considered to be local colonizers).

Another bottleneck for Cordaid finance was the existing Central Bank's law prohibiting direct foreign loans to BPRs[13] or rural banks. There are 20 BPRs that provide financial services in Aceh which included a small microfinance portfolio. These BPRs operated according to the Shariah Law[14] Consequently, Cordaid had to contend with the same arrangement of profit-sharing if it were to engage the services of the rural banks.

It also needed to provide the BPRs with administrative support. Financial services were also provided earlier by the state-owned BRI[15]. It had 118 branches with more than 50,000 clients. The main clients were employees and larger enterprises and there was little of real microfinance (Hashemi, CGAP). Besides the BRI, there were a few smaller NGOs and cooperatives with small lending operations. These institutions, according to Hashemi, suffered considerable damage that more attention needed to be paid to restoring the institution itself than to its clients.

Aceh, that received the highest humanitarian aid, witnessed the influx of more than 400 INGOs as relief and reconstruction providers. Most of these INGOs and some multilateral organizations had imported or pre-designed financial products for post-tsunami microfinance and implemented these in 2005. ADB, for example, set up a USD 12,5 million "Microfinance Innovation Fund"; ILO and Save the Children, Oxfam and World Relief had equally substantial programmes. Mercy Corps and Grameen Foundation engaged with BPRs and MFIs from outside Aceh, respectively. The government coordinating body for the reconstruction of Aceh, BRR[16], planned to embark on Microfinance through 73 "MFIs" with loan amounts ranging from USD 200 to USD 20,000 to clients on concessionary interest rates' as per the Shariah way (ibid).
As a result, the microfinance market that never existed in Aceh was overrated. The clear message that was perceived

Figure 10 Entry of Loan in Indonesia



[12] A unit in Cordaid that deals with long-term development projects.
[13] Bank Perkreditan Rakyat, secondary banks as opposed to commercial banks in Indonesia.
[14] An Islamic banking where profit-sharing in lieu of interest charges are observed.
[15] Bank Rakyat Indonsia, a state-owned commercial bank mandated to develop the agricultural areas
[16] BRR- Aceh and Nias Rehabilitation and Reconstruction Agency tasked to coordinate all efforts of reconstruction in the two hit hardest areas.

in such a situation where there was a massive influx of donor funds from outside and from within the country was first to develop the local capacities and to tailor the products to a new market situation while promoting a more conducive microfinance environment. GTZ addressed this need by approving Euros 4 million to be utilized over a span of four years. Aceh, being not a focus area for Sector Entrepreneurship, would not have profited from the loan intervention without a more long-term commitment for capacity building.

Cordaid did not engage in microfinance but the loan eventually reached Aceh through a Dutch partner, PUM[17], that wished to primarily manage and implement the loan programme for the revival of the affected SMEs. The loan was introduced 1 year and 9 months after the tsunami had struck the area. Another European but Indonesia-based INGO, Swisscontact also needed a back-to-back guarantee from Cordaid to meet the needs of very small enterprises. The loan was extended to the enterprises two (2) years and nine (9) months after the tsunami.

Cordaid in Aceh got, thus, primarily involved with the SMEs. The first transaction was a loan facility with PUM. The second was a small guarantee with smaller enterprises with Swisscontact (Figure 10). Both PUM and Swisscontact provided technical assistance to enterprises that were to be revived. Cordaid's aim was to generate employment and to stimulate the upward and downward chain of the companies and their businesses.

Cordaid did not consider the two post-tsunami years favourable for microfinance as an instrument for reconstructing livelihoods in Aceh without a long-term strategic plan that would include capacitating local institutions to adequately deliver financial services to the tsunami-affected individuals and communities.

To conclude the discussion on strategy, the sequence of the rebuilding of tsunami-affected communities began with the Sector Emergency responding to humanitarian needs that created stable conditions that were conducive for the Sector Entrepreneurship to follow through with undertakings on the restoration of livelihoods. These are two different but complementary interventions, with one building up on the other. The synergy was possible because of the presence of both expertise within Cordaid.

Timeliness of Credit as an instrument for reconstructing self-run enterprises and small and medium enterprises (SMEs).
In the following discussion, distinction was made between credit coursed through the MFIs and to the SMEs. Cordaid provided wholesale loan to MFIs in India and the eastern district of Batticaloa in Sri Lanka for microfinance. In Aceh, Indonesia and the southern district of Sri Lanka loans were directed for the SMEs.

Self-run enterprises or activities to be funded by microfinance loans are referred to in this discussion as livelihood[18]. Although activities to be funded by loans to the SMEs are referred to here as enterprise loans, these companies/businesses are sometimes referred to in the discussion as sources of livelihood for their employees.

The Tsunami Credit Programme in India opted to work with a strong and quite a large NBFC[19] contrary to the priority of Sector Entrepreneurship for small and emerging MFIs. This exception was deemed proper because post-tsunami credit environment demanded it.

A note of caution needs to be made when interpreting figures 11,12, 13 and 15: the grant curve is partly hypothetical with regard to the percentage of the volume of the grant in the X axis because the exact data cannot be ascertained anywhere in available literature. What is certain is the grant's declining pattern over time. The partners, network and relief NGOs together with the monitoring institutions are sources of measuring the pulse of the grants. The extension of the flow of the grants (Y axis) in the reconstruction period refers to the implementation time.

The loan curve is more suggestive of the momentum and not the quantum. It also shows the duration of the repayment more than the flow of the disbursement over time.

The detailed activities in both the relief and reconstruction period are no longer shown but are assumed to reflect those indicated in Figure 1 in Chapter 2.

India
ADB earmarked a USD 100 million as loans for India and another USD 100 million as grant (ADB, 2006). BFL availed of this tsunami rehabilitation loan through SIDBI at 5.5% rate of interest. BFL also got a loan from the Deutsche Bank at 3%. Cordaid loan came later than these loans with a 7% rate of interest. Regular loans from SIDBI were made available at 8.5 to 9.5% while commercial banks charged 8.5 % to 10.5%. It appeared that Cordaid's interest rate was closer to the regular loans offered by SIDBI and way above the concessionary loan offered by Deutsche bank.

The TCP credit reached the ground when the supply of grant was almost at its lowest level in mid-2006 (see Figure 11). **The point of intersection of the grant and the loan lines just at the end of 2006 (almost 2 years) is what is argued as the "appropriate time/ right time" for credit to reach the directly affected borrowers from the fishing sector.** The TCP loan through BFL reached the indirectly affected (In-Cordaid loan in the diagram). NLT followed shortly and SIFFS[20] disbursed to the fishermen 3,3 years after the tsunami had occurred. SIFFS dealt with the mainstream victims (D for directly affected loan in the graph).

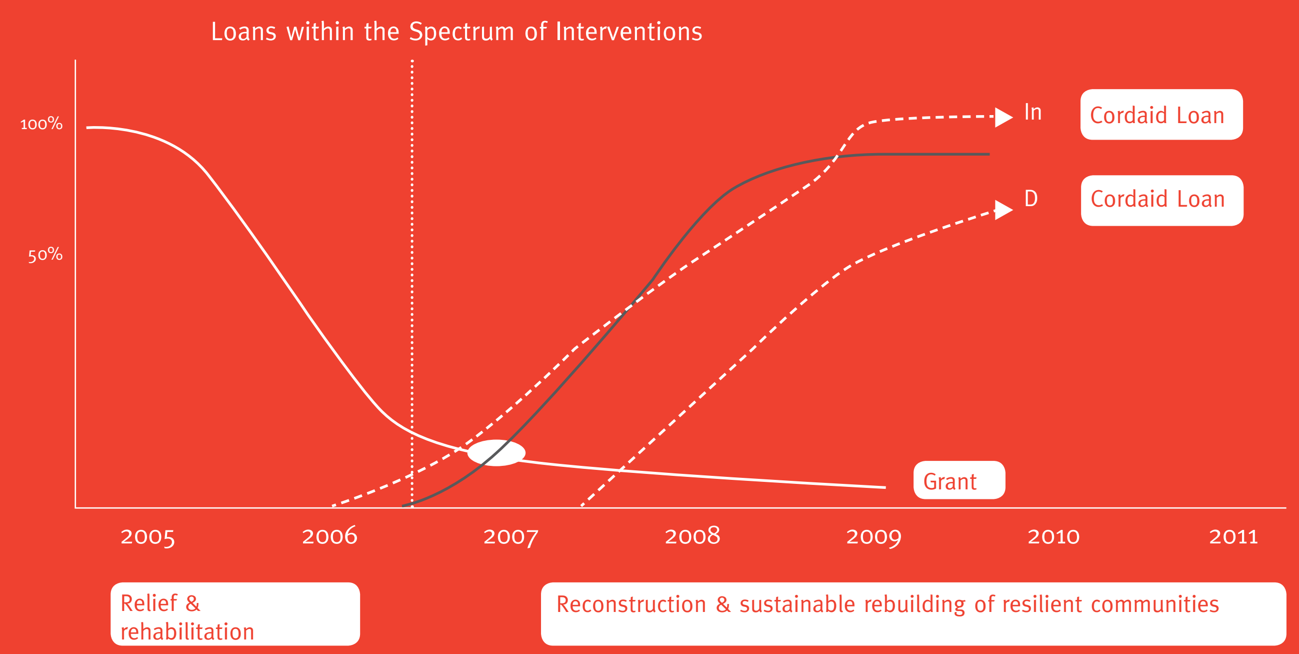
[17] PUM sending retired Dutch volunteers to assist companies abroad
[18] a livelihood comprised people, their capabilities and their means of living including food, income and assets (Chambers and Conway 1991)
[19] Non-bank finance corporation, regulated institution that can extend credit but not mobilize savings.

Apparently, central to the definition of the appropriate time to intervene with loans in India was the degree of the physical impact of the tsunami on the target borrowers on the one hand and the grant mentality that defined the readiness of the victims to take a loan, on the other. In this analysis, the "right time" refers to the main victims as the target borrowers. This 'right time' was argued to be towards the end of the second year after the relief phase.

Sri Lanka
The Central Bank of Sri Lanka (CBSL) has been active in rural finance for several decades. In the post-tsunami period, the CBSL introduced the back-to-business loan through the National Development Trust Fund (NDTF), the microfinance apex financial institution, using the ADB funds to the tune of USD 13,3 million (ADB 2006). The cost of this fund to the end-borrowers was 4% (2% to participating MFIs). The ADB report indicated that the conflict-ridden area of the northeast

[20] SIFFS- southern Indian federation of fishermen societies

Figure 11 Timeliness of Loan in India



benefited most from it. These loans were made available in the first quarter of 2005 just after the tsunami struck. About the same time, a loan packaged in the 60-40 mode (60% grant) was introduced by local NGOs. These funds were a grant from INGOs on the condition that the 40% component, when collected, would serve as a revolving fund.

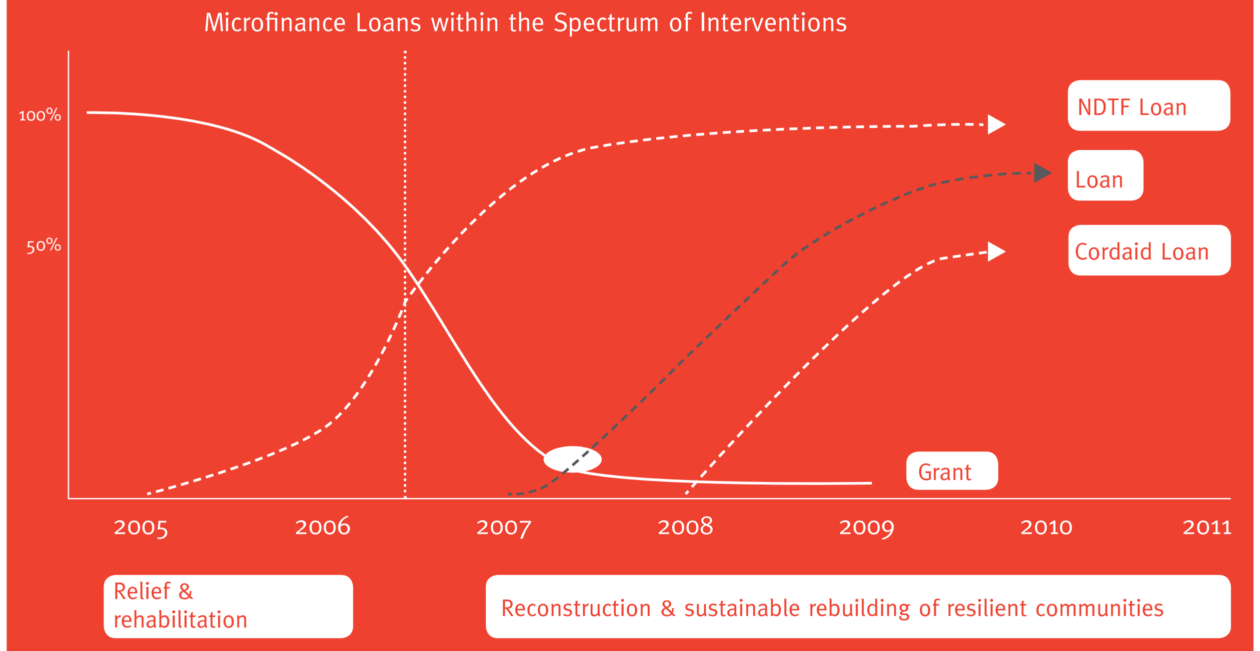
In Figure 12, the "right time" for the recovery of the external loan is argued to begin two years after the relief phase or ideally in the third year where grant-funded activities were in the spill-over period. A major consideration in defining the right moment for non-concessionary loans in Sri Lanka was the near exhaustion of the highly subsidized government-sponsored loans.

Cordaid loan (shown in the figure 12) for microfinance was well beyond the appropriate time because of a number of reasons as has been indicated earlier. In fact, Sareeram was only contacted in mid-2007, as a suitable partner with a promise of technical assistance from GTZ.

Sri Lanka, being not a priority sector for Sector Entrepreneurship of Cordaid, needed to have a partner which had the assurance of obtaining technical assistance from other organizations in cases where the MFI was just emerging to be a serious lending institution. Importantly, finding a local partner with a high level of acceptability and one that dealt with a multi-ethnic and volatile area (in terms of security) was an additional and specific requirement for the eastern districts. This was, de facto the case for the eastern districts since the peace accord (that was never working) between the warring parties was to end in January 2008.

The loan of Cordaid had served both the tsunami and conflict victims in the recently declared "cleared areas". Cordaid loan was priced at 7% (originally 8% for Sri Lanka since the inflation rate in that country was much higher than in India) and was above the concessionary rate of 4% of the government-sponsored loan, and at par with the NDTF pre-tsunami loan rate of 7% but below the NDTF regular loan in 2007 at 10,5%.

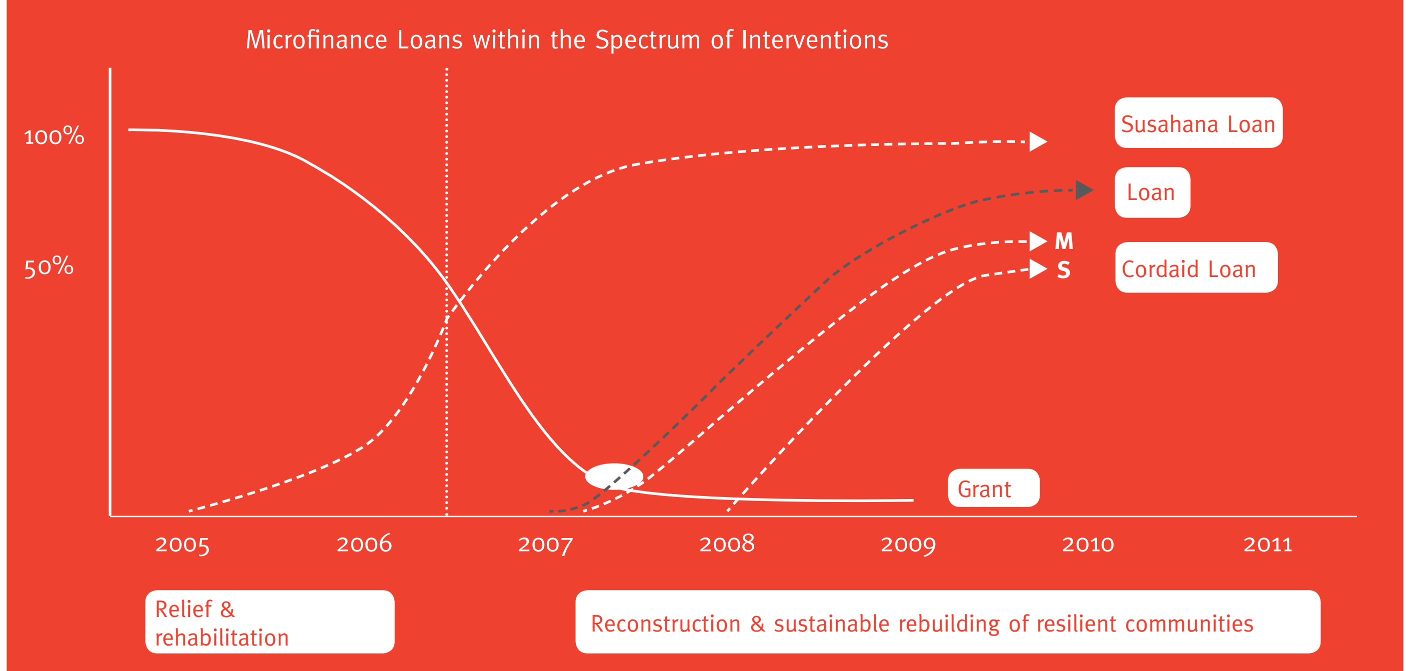
Figure 12 timeliness of loan in Sri Lanka



Sareeram, the partner of Cordaid, re-lent to the clients at 30%. This on-lending rate was more than four times the rate at which Cordaid had made its loan and was quite a leap when considering the concessionary rate of 4% to the end borrowers. It is interesting to note that Cordaid did not provide an administrative grant to Sareeram unlike NDTF. The fund was a loan to Sareeram and not a grant unlike what the other INGOs during the relief phase had done. Logically, Sareeram needed to pass on the full cost of the services to the borrowers. Secondly, the inflation rate in the area continued to rise rather fast so that the loan sizes had also to be doubled beginning in the last quarter of 2007 (starter loan, for instance, of Rs 5,000 became Rs. 10,000.). Around the time that the Cordaid loan was implemented, other loans also increased the interest rate to 30%. For instance, Sewa Lanka, a big NGO with a nationwide programme, used to have the 60-40 scheme in Batticaloa and Ampara. When Sewa Lanka launched its microfinance arm, the Sewa Finance, loans extended by the newly created MFI bore a 30% interest rate.

Cordaid loan reinforced the market environment that had started to return to a relatively "normal" condition indicated by sustainable interest rates that were passed on to borrowers. The 30% rate passed on to the borrowers was justifiable because of the potential risk that was constantly faced by the MFIs operating in areas faced with security problems while experiencing the tsunami aftermath at the same time. Enterprise loan in Sri Lanka and Indonesia

Figure 13 Timeliness of SME Loan in Indonesia



In Sri Lanka, Susahana loan, part of the USD 13,3 million back-to-business emergency credits offered by the government focused on micro, small and medium enterprises. Considering the inflow of this fund, an "appropriate time" to introduce externally sourced loan in Galle was two full years after the relief (that included the emergency credit from the Sri Lankan government). As illustrated in Figure 13 there were two types of Cordaid loans, the **S** loan for very small enterprises and the **M** loan for the SMEs. The bigger **M** loan for the SMEs started in the first quarter of the third year after the tsunami, The question that arises here was: Was Cordaid loan too late? The answer can be found in the FACET evaluation which is quoted here:

The local economic conditions prevailing in Galle in the first 1 – 1,5 years were not ideal to find good opportunities for viable business lending. In this "humanitarian phase", too many distortions, and too low turnover would not help businesses too much to expand production while input cost are high, prices erratic, demand low, and reconstruction cost (especially materials) are big. Also, the presence of another aid programme, the state-funded Susahana loan programme (similar in conditions) would have led to donor competition, which undermines additionality as it would overstretch the absorption capacity of most enterprises (too much capital to invest and manage in a short time)
(Page 26, 2007 Review).

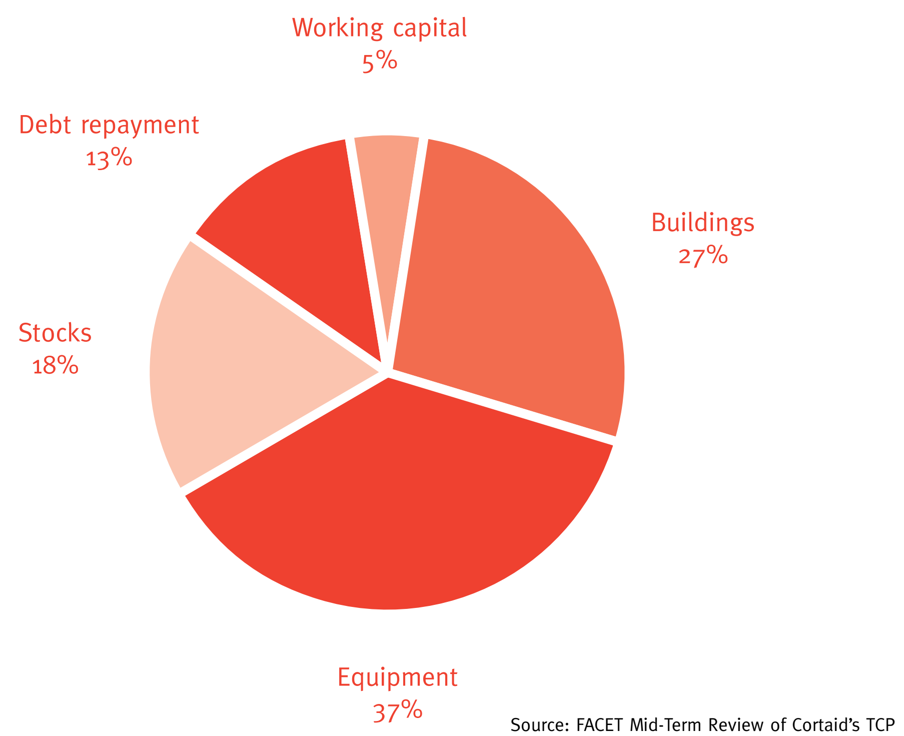
Susahana was a one-time loan and only 64% of the SMEs that received Cordaid loan accessed it. The loan had a ceiling of Rs 5 million (about Euro 40,000) regardless of the size of the SMEs, the damage, and the need for recovery. Not all SMEs that needed assistance to recover had received the loan.

This gap presented an opportunity and a clear demand from the sector. This signalled that time was more than ripe for a supply based on the demand. Cordaid provided a loan to Sanasa bank at 7% which was more than twice the cost of the wholesale Susahana Fund to retailers. Sanasa, further, passed on a 16% interest to the SMEs which were far from the highly subsidized rate but not too low a rate when compared to the prevailing commercial rate from the formal sources ranging from 19 to 22% at that time.

Two insights can be derived from the experience in Galle in assisting SMEs. First, **Cordaid reinforced the local emergency credit and facilitated the shift to the more normal credit market.** It was hoped that in this way Cordaid loan was providing a platform for local commercial sources to take on and sustain the supply. Second, the limited maximum size of the Susahana loan was not sufficient to facilitate a sustainable revitalization. Like any other loans available from informal sources, the focus was on the provision of working capital and not on the re-acquisition of assets necessary for long-term recovery (Review, 2008). **Cordaid top-up loan was necessary to assist SMEs to recover their pre-tsunami level of operation and to create more employment.**

Figure 14 illustrates how Cordaid loan assisted the recovery of the SMEs. Bulk of the loan was used for purchasing equipments (37%); the next largest amount was spent for buildings (27%), 18% for increasing inventories and repay-

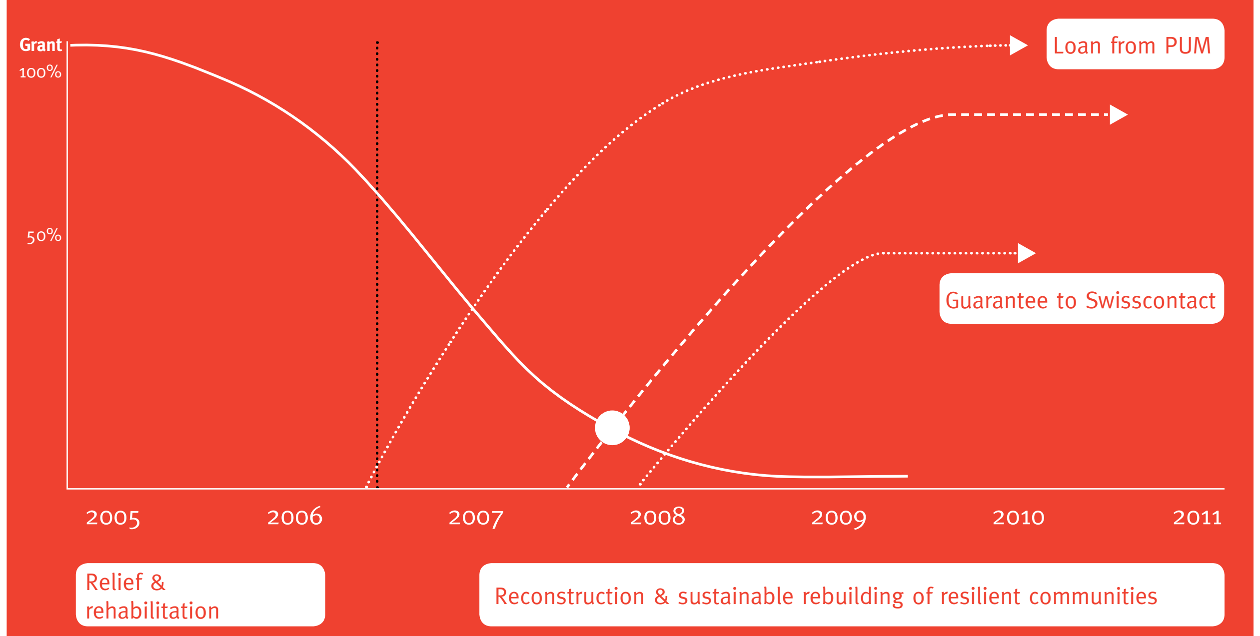
Figure 14 Use of Loans



Source: FACET Mid-Term Review of Cortaid's TCP

ment of debt due to damage and lost stocks. The percentage for working capital which was a minimal 5 %, clearly pointed out that there was a complementarity between the Susahana loan and Cordaid loan. On the other hand, the "S" loan or the small loan channelled through Lakjaya had been postponed. Disbursement had begun only towards the end of 2007. The reason being, Lakjaya did not want to extend the loan across the board in an area declared to be tsunami-affected. Lakjaya wanted to screen thoroughly and lend only to truly affected small enterprises in Galle.
In this particular case, it can be inferred that the "right time" was perceived by the partner based on the reaction the project elicited as soon as it was introduced. Implementing it later towards the end of 2007 became the more opportune time. **Lakjaya was demonstrating that a sincere purpose (and not just the purpose of increasing its portfolio) can further reduce the risk of recovery entailed in imprudently made credit.**
In Indonesia, the main players: Swisscontact and PUM were more or less independent in terms of the timing when loans were extended to the SMEs. Swisscontact was more particular in selecting the borrowers. The loan guaranteed by

Figure 15 Loans within the Spectrum of Interventions



Cordaid was already a top-up loan. In the previous loan, these SMEs had proven their credit worthiness. PUM wanted a faster intervention because speed was of utmost importance for them. Both catered to different types of SMEs; PUM dealt with more medium- sized enterprises and Swisscontact with very small enterprises. The diagram is an interpretation of how the entry of both loans from Swisscontact and PUM fared relative to the suggested timeliness of the loan in the most challenging of tsunami areas such as Aceh.

The loan from PUM took-off towards the end of 2006 but there was some delay and difficulty in the process of disbursements and hence, most disbursements took place in 2007. Swisscontact's loan was introduced in the last quarter of 2007. The suggested timely or 'right time' entry for external loans was mid-2007. This is even earlier if you take to heart the pulse of local contacts in Aceh. For them a period of 'cooling down' from too much inflow of aid is needed which, in turn, should precede the inflow of serious loans.
Considering the very high entitlement mentality and dependence on aid in Aceh which has lingered on during the reconstruction period, the possible "right time" to intervene with foreign loans like the ones from Cordaid should really be preceded by a good credit investigation. This entails ascertaining the capacity of the SME owners to be able to rebuild the business with their own means. Affected entrepreneurs have differing capacities and reserved resources, and may need not a grant as much as the others.
Swisscontact's (SC) loan came right after the "right time" towards the end of 2007. At this time, real needs had surfaced. For the enterprises assisted by Swiss contact, the loan was used more by the enterprises to regain their pre-tsunami level of operation.

Outcome and Impact of the TCP
Outreach, the volume of loans disbursed and the use of the loans are some indicators of the outcome of the TCP and how the loans impacted the recovery of the affected livelihoods. If any at this point, was done through the sample interviews during the external review and field visits. The

outcome for grant that directly benefited the clients is portrayed in terms of figures (training, product) but the real impact can only be adequately assessed after some time (two years as suggested by the partners).

The advantage of taking an established and experienced credit institution to implement the post-tsunami credit was its potential to have a large outreach in a short period of time as demonstrated by BFL, NLT and SIFFS. Table 1 shows that New Life had a small loan of Euros 55,000. The close to 100% repayment and shorter-term loan of 6 months facilitated a fast turnover. Disbursements were three times the size of the principal loan amount from Cordaid while the outreach was more than double after one year and a half of implementation. BFL organized around 500 SHGs with 12 to 20 members each. BFL surpassed the target of 10,000 borrowers with extra 40% more in the 5 declared affected districts in Tamil Nadu and Pondicherry in also one and a half years. SIFFS lent to its affected members and new members in Nagapattinam while BFL and NLT expanded to tsunami areas.
The Reviewer in India noted the following use of Cordaid loans by the SHG members: 1) on-farm use to include agriculture and livestock and 2) off-farm use such as petty shops, cottage industry, masonry, carpentry, and repayment of loans to moneylenders (debt redemption) (page 74 and 116, India Review, 2007). In the case of SIFFS: the use referred to the purchase of outboard motor, engines, nets and repayment of debt to the middlemen.

Freeing the fishermen from their bonded debt with the middlemen was the foremost social impact of the loan from SIFFS. This further meant obtaining a better price for the fishermen for their catch which was previously from 20-30% of the market value with the middlemen to 60 to 70% with SIFFS. (TCP Review, India). Consequently, with SIFFS take home earnings for the fishermen had increased by 50-60%. This is apart from the savings and insurance for old-age that is automatically deducted by SIFFS from the new loan (ibid page 45).

NLT had reached out to very poor villages in Nagapattinam. The Review noted that loans mostly reached the people from socially and economically deprived villages (ibid page

Table 1 Outreach, Loan disbursements to directly and indirectly affected by the hazard.

Partner	Outreach		Loan Amount (Euros)		% of the sample of clients	
India:	Actual	Planned	Disbursed	Approved *	Directly	Indirectly
BFL	13,962	10,000	800, 940	932,000	Est. 60%	Est. 40%
NLT	1,410	600	65, 000	55,000	75%	25%
SIFFS	508	920	206,745	200,000	Est. 80%	Est. 20%

Figures as of December 2007report

* approved by Cordaid

80). In these villages, human capacities were very limited, and as a result they generated inadequate income that inevitably pushed them to borrow from moneylenders at the rate of 54 to 75% p.a. Foremost impact of the loan from NLT-Cordaid was to liberate these borrowers from the clutches of moneylenders and sometimes, from the debt-trap. Less interest payment meant increased gross income for the family. For BFL's clients, the Reviewer noted the decreasing dependency on private money lenders. Lost assets were replaced by sustainable means of livelihood (ibid page 122).

The grant (SHO)

Originally, Cordaid earmarked the grant component to cover the cost of the capacity building of the institution and of the target borrowers. BFL used the grants to cover costs incurred in expanding the operation to tsunami areas, promoting SHGs, and diversifying livelihood skills through courses and training, BFL together with its NGO wing, BWDA organized different vocational courses. For instance, BFL organized a four-wheel driving plus simple mechanical training for 30 women for three months. After receiving certificates and licenses, it was envisaged that in the near future they would seek access to financial services to buy their vehicles that would serve as school vans and taxis. SIFFS used the grant to form a Federation of 89 new societies of fishermen in Nagapattinam. More importantly, SIFFS developed a pioneering insurance product for the livelihood/fishing assets of the fishermen. NLT implemented a rebate of 20% to first time borrowers who paid the loan on time and in full. In addition, NLT used the grant for the capacity building of the staff and for the adminsitrative cost of the Nagapattinam branche.

Economic returns were envisaged for women members who had acquired skills and who were able to immediately use them. On the whole, the Reviewer saw the need for improving the product quality and marketing system to benefit optimally from such new skills.

The grant used in the loan programme was sourced from the SHO funds whose mandate was to spend the fund before the end of 2007. However, considering that the loan programme started only a year and a half later than the relief period (middle of 2006), hence, the SHO deadline has posed so much haste during the reconstruction phase for livelihood.

Impact on Enterprises

FACET takes four indicators to measure the outcome of the intervention via the SMEs namely: the development of the SMEs after receiving the loan and grant (in terms of employment, turnover and profitability); the influence on the recovery process; the influence on business development prospects; and on the repayment capacity at present and in the future.

In Sri Lanka, the following outcome was applicable to the 17 out of the 20 enterprises that were part of the evaluation. Partly as a result of the Cordaid intervention (there are other factors that also contributed to the outcome), turnover increased by 45%, employment rose by 22% and profitability improved by 22%. Of the investments, 39% was used for re-start or extra recovery of the major business activities, 51% facilitated fast recovery of the companies which would not have been possible without the loan. On the business prospects, 58% treaded a realistic growth path and 31% were struggling to recover since interventions had just been received. Only 3 of the 20 enterprises were in default and the rest were paying on time which can be considered a high repayment amongst post-disaster SMEs. More importantly, of the reported damage of Euros 2,7 million by 17 SMEs, about 40% of the recovery assistance received by these enterprises came from Cordaid.

Table 2 Activities funded by the grant

Kind of Training	SIFFS	NLT	BWDA-BFL
Insurance of assets	4,000		
Federation formation	1		
Rebate		600	
Tinkering & painting		60	
Automobiles		60	
Prawn-lab Technician		60	
Simple chemical			210
Milk-based product			105
Fish processing			120
Bakery products			90
Artificial flowers			206
Animal husbandry			240
Seashell			350
Food processing			90
Screen painting			248
Rural entrepreneurship			170
Garment making			137
Mobile service			18
4-wheel Driving			70
Beautician			30
Computer			70

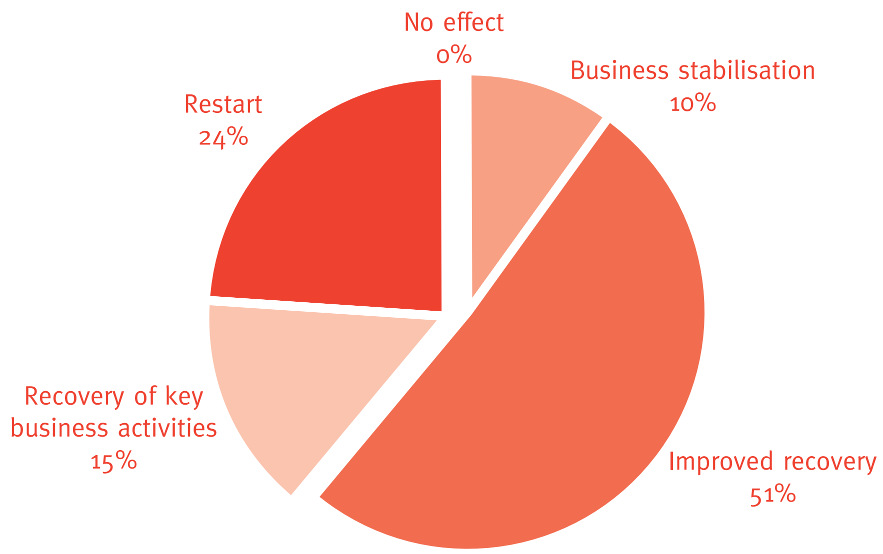
Impact was measured in terms of employment generation, employment in the upward and downward chain and social impact (families of the employees, minority groups and gender). FACET had difficulty measuring the impact attributed to Cordaid loan alone due to the intervention of other factors as well. Hence, FACET estimated 100-150 additional jobs attributed to the contribution of Cordaid after one year in Sri Lanka.

The 600 other employees who maintained their jobs due to the improvement in the business could be considered an indirect impact. Around 3,000 to 3,500 other jobs were created indirectly upstream and downstream (suppliers, tourism, shops, etc.). Most of them or 90% were from the wholesaler shops. The potential increase for 2008 is estimated to be high due to the upward trend on profitability.

In Indonesia, a joint assessment was done by FACET for the restoration of the SMEs funded by ICCO-Kia and Cordaid. Thus, the following results do not only reflect on the enterprises funded by Cordaid but also of ICCO-Kia. Only 4 out of 10 assessed SMEs were funded by Cordaid.

FACET noted that recovery for some SMEs began even before the receipt of the funds from the Dutch INGOs.

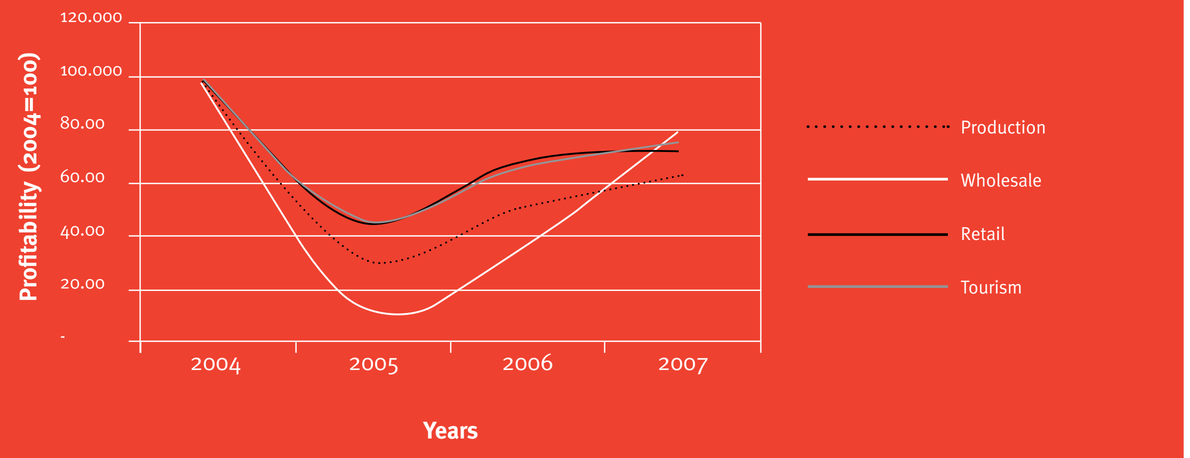
Figure 16 Effect on Recovery Process



Source: FACET Mid-Term Review of Cortaid's TCP

The infusion of the funds was to accelerate a faster recovery back to the pre-tsunami levels. Of the funds, 61% was used to re-start business operation while 27% was used for the improvement of the businesses. Regarding prospects for development, 43% was said to be on a positive growth path, another 16% on a potentially good path while 29% faced some challenges ahead (one project from Cordaid was included).

Figure 17 Profitability per sector



Source: FACET Review 2007, Sri Lanka

As shown in Figure 18, 2006 and 2007 showed a marked increase in turnover, profitability and employment amongst the SMEs. Accordingly 2008 promises further upward growth.

Recent repayment by Cordaid clients (Oikocredit update 12/03/08) shows that 65% of the interest has been duly paid while 17% of the principal due has also been paid (see diagram of repayments from Oikocredit: Figures 19 and 20).
One company has yet to receive the full investment from PUM/Cordaid. FACET had the impression that "repayment of dues is not the highest priority" amongst the SMEs in Aceh. Probably, this has got to do with the change in the funding mode. Earlier the SMEs were informed of the possible grant assistance for their recovery. However, the assistance turned out to be a combination of loan and grant. It was not certain how the SMEs had changed their perception towards the shift from purely grant to both grant and loan. FACET, however, was optimistic that most likely 88% of the portfolio will be repaid in the future.
In Aceh, employment generation of the ten companies has been relatively low with 50 to 60 jobs created in the 10 companies. There were another 700 jobs that were indirectly created. From the 15 small companies assisted by Swisscontact, the update as of February 2007 showed that all six instalments from the smaller enterprises in Aceh were fully repaid but the figures concerning employment generation were yet to be known.

From the private company, Lakjaya, an investment of a Euros 121.000 loan was able to generate 11 jobs after three months from disbursements. Most of the SMEs employed members of the family and did not count these as extra jobs being generated.

Figure 18 Business Development 2004-2007, Aceh

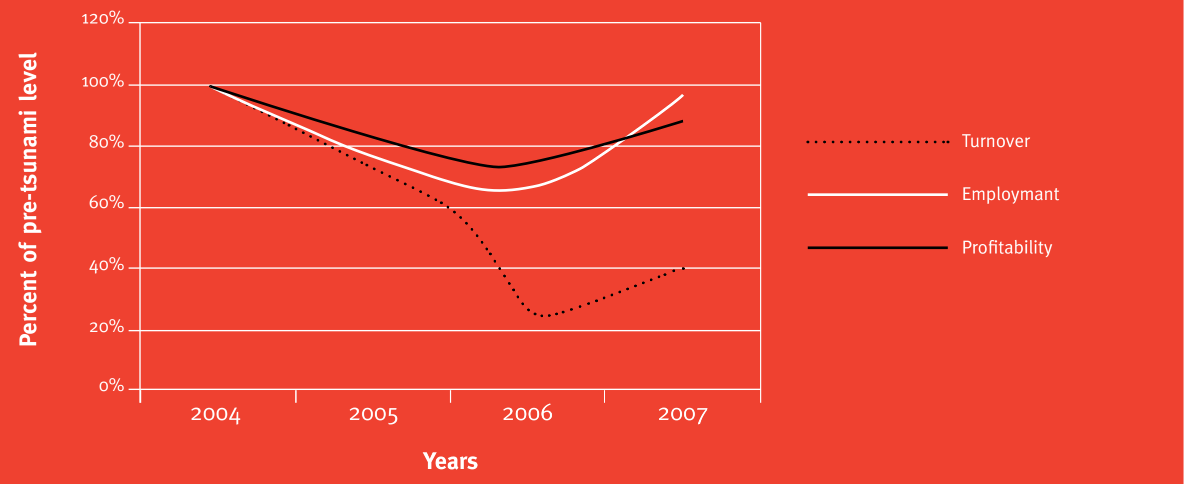


Figure 19 Interest payments of Cordaid clients

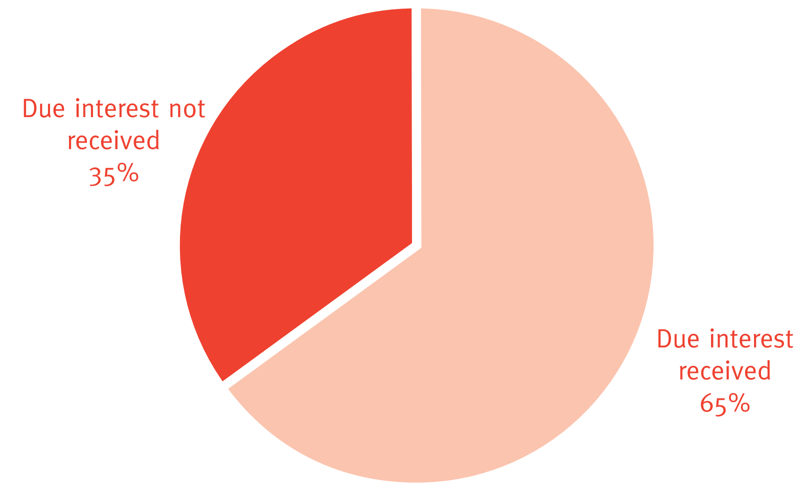
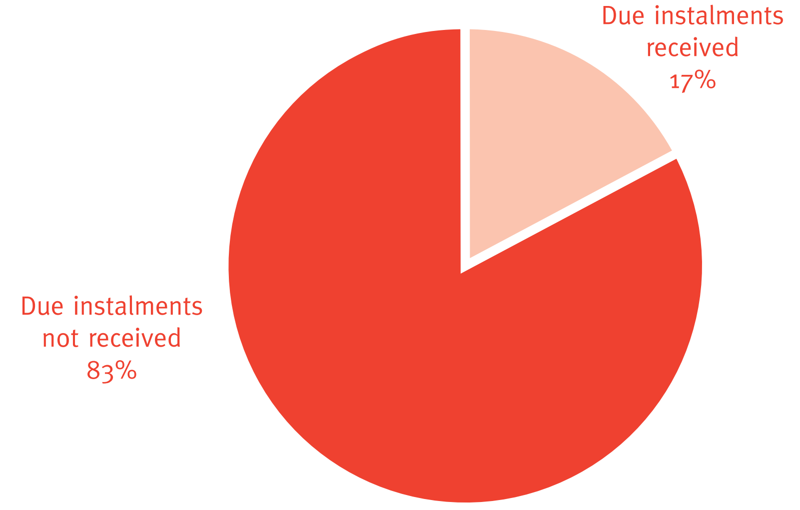


Figure 20 Principal repayments of Cordaid clients



Approaches: what worked, what did not and why?

Microfinance

While it was not uncommon for post-tsunami MFIs to have worn two hats -as grant and loan providers- some had run into trouble in terms of repayments, while others had succeeded to maintain credit discipline amongst its borrowers. SIFFS and BFL, for example, are among those who have delivered both humanitarian assistance and reconstruction loans and yet managed to succeed in both roles. How?

BFL, has an NGO wing, BWDA, which did most of the relief delivery while BFL provided loans immediately to its members affected by the tsunami for consumptive purposes of Rs 100,000 per SHG (Euros 2,000). The Reviewer noted, “That due to the relationship that BWDA-BFL had built with its clients over the years, it was able to extend timely help without expecting any collateral. From the feedback received from BFL’s borrowers, it was evident that this timely provision of loans proved useful to the community at their time of need”.

Post-disaster, promotion of new SHGs came en masse because BFL had standardized their procedures, had trained staff to deploy and had existing branches in all five affected districts. The Reviewer added that BFL “had a wide presence, diverse reach and was well-connected with the local government and credit institutions. With systems in place to track the financial support and repayments, BFL was in a unique position as compared to its competitors, both in the private and public sectors such as the government institutions”.

BFL did not tailor and modify their post-tsunami products or make short cuts to the group formation and processes except the timing of disbursements. “The groups had access to internal lending from the very next day of starting their savings. The groups mentioned that BWDA-BFL loans are accessible readily and easily” (Review 2007).

SIFFS has been a vehicle of massive relief and housing reconstruction amongst the mainstream victims, the fishermen, managing an investment of more than Euros 14 million.

Faced with so much devastation, SIFFS declared six months moratorium on the payment of principal and a grace period for the interest payments during the same period. What SIFFS did not do was to simply write-off the loans of the affected fishermen. Instead the focus was on the repair of the damaged boats and engines, and replacements of the same with the use of grants. In this way, the fishermen were able to regain their livelihood and resume the payments of their loans.

The built-in structure of SIFFS was instrumental for the effective delivery of relief and reconstruction of livelihood using loans. Being a three-tier cooperative, SIFFS, the apex organization, takes care of improving the existing structures and does fund sourcing, facilitates access to information and develops appropriate technology and is engaged in lobbying and advocacy. The Federation, the second tier, liaises between SIFFS and the Primary Societies and does monitoring and audit functions. The Primary Societies (PS), the basic units of the Federation, are village-based with membership from traditional marine fishermen.
Each tier, therefore, had its own defined roles and functions relative to the loan, savings and insurance services. The advantage in the structure is the linkage between the credit services and the marketing of fish. The Primary societies have control over the marketing at the beach level. The auction bypasses traditional middlemen and, as a result, fetches higher prices for fish for the fishermen. As matter of rule, 10% of the sale is withheld to service the loan. Since repayment of loans is calculated against the percentage of the gross sales, large repayment is linked to a large catch and a small repayment to a small catch. Pre-payment of full loan is possible, which is often the case.

Other products that can reduce vulnerability amongst the fishermen are savings and insurance. A one year premium for the insurance is deducted at the time of releasing the loan while 2 to 3% is withheld in the form of savings from the sales of the catch.

The coordination of the three-tier organizations, the built-in linkage between credit and marketing plus the long experience of pre-tsunami lending to fishermen enabled SIFFS to balance and effectively implement both relief and loan interventions.

Box. 1: SIFFS member’s liberation from the bonded debt

Germanus Charles is 34 years old, is married and has one son. Prior to tsunami, he was not a member of the Mel Mutton II Primary Society and had a loan from a middleman for Rs 25,000 (about Euros 500). The middleman dictated the price of the catch when he bought it and took another 10% of the gross sales as interest payment for the loan. The loan had no interest but was binding until Germanus could return the full Rs 25,000.

Germanus’ house is located in the hilly area of the sea bank and has therefore escaped from being totally washed out when the tsunami struck but everything else in the house went with the rushing water to the sea.

Germanus joined SIFFS after the tsunami. In February 2007. He took a Rs 50,000 loan, where half of it was paid to the middleman. He was free at last. With the other half he bought nets and other fishing accessories. Payment to the Primary Society has been regular.

Germanus likes the automatic deduction for the loan payment and savings in SIFFS. The 12% interest rate from SIFFS is 50% less than the prevailing rate from money lenders. According to him, the fish catch neither increased nor decreased substantially after the tsunami.

Germanus is positive about his future. Custom dictates that he has to help to marry-off his 3 sisters by providing the much-needed dowry. Marriage can cost Rs 500,000 (Euros 10,000) At the moment he has an existing loan spent for the previous wedding of his sister. He looks forward to pay this high-bearing cost loan from his next loan from SIFFS. His dream is to finish his obligation by helping all his sisters get married. For his sister to be married in an appropriate manner expected from him by tradition and for her to be respected by the groom, she has to have plenty of jewellery. In India, culture and traditions are major factors for keeping people inherently within the cycle of poverty. For Germanus, however, doing what is expected by the culture made him feel that he had accomplished something.

The case interview in Box 1 illustrates the effectiveness of SIFFS credit to a member who joined the Primary Society located on the coast of Kanniyakumari after the tsunami. It also tells of the economic and social benefits that a member avails.

Enterprises

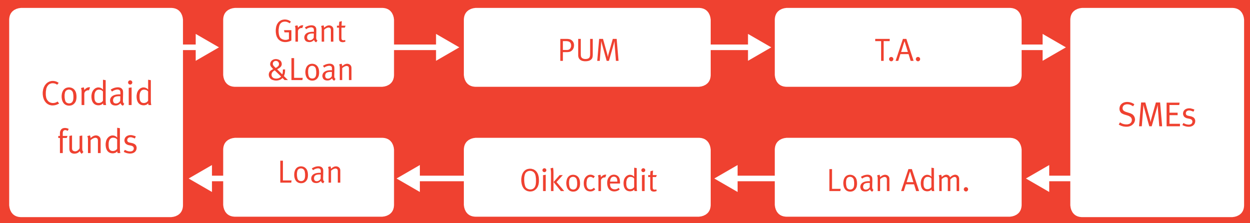
With regard to what worked and did not on the loan for the SMEs, the following is a contrast of the loans to the SMEs in Galle and Aceh due to common denominators in these two projects. PUM invited Cordaid to assist the revitalization of the affected SMEs in both areas with a loan-cum-grant on a 70-30 scheme (70% loan and 30% grant). PUM provided the SMEs with technical assistance (indicated as TA in Figures 21 and 22) and management strategy while Cordaid provided the funds. In both projects, there was a local PUM counterpart who assisted the PUM coordinator from the Netherlands (NL) and the pool of experts.

One of the differences in the approaches between the Galle and Aceh was that PUM Aceh group believed that speed is important in rebuilding the SMEs. PUM preferred “fast and short communication lines”. So much so that pre-investment activities should be managed by them. A third party is only necessary to collect the repayments which was delegated to Oikocredit (January 2008, PUM report). This implementation process is reflected in Figure 21.

Oikocredit, a credit institution, agreed to take on a role of a loan manager while Cordaid was confined as fund provider. Cordaid sent a financial analyst from Indonesia to go with the PUM expert and to look into the financial aspects of the business proposal. The recommendation of the financial analyst, however, may or may not be taken on board in the deliberation to approve a loan or not. Approval was done by PUM in the Netherlands as on the size of the loan and the grant partly based on the business plan of the SMEs and recommendation of the PUM expert. In short, both advisory and decision-making role was assumed by PUM. This manner of working was agreed between PUM and other DUTCH NGOs before Cordaid joined in, to which Cordaid had to conform in order to have only one scheme for PUM, the main player,

In contrast, in Sri Lanka, the entry to Galle was negotiated both by PUM and Cordaid. As shown in the diagram 22 Cordaid’s loans were channelled through a formal institution, the Sanasa Bank, based in Galle. PUM and Cordaid agreed to working with Sanasa Bank in order to manage the loans while PUM agreed to manage the grant. It was a coopera-

Figure 21 PUM, Oikocredit and Cordaid tripartite



tive work during the pre-investment phase where PUM assisted the SME in coming up with all the requirements for a bank loan. The decision to approve the loan was up to the bank. This scheme had its delays as the bank had to go by its own procedures but it paid-off in terms of achieving good repayment rates (at the time of the Review)

At this point a contrast in terms of outcomes between the two setups yielded the following: In Aceh, PUM had disbursed an average of Euros 72,855 per SME while in Sri Lanka, Sanasa disbursed Euros 26,764 per SME; the loan in Aceh being more than twice the size of that in Sri Lanka. For almost the same portfolio of Euros 400.000, 20 companies received loans in Galle while only 6 in Aceh, which explained the difference in loan sizes. New jobs generated in Galle were also three times more than in Aceh. As a result, each job generated costs Euro 10,000 in Aceh while the benchmark in Aceh was estimated to be Euros 1,000 per employment to be created (FACET, 2008). As of Review time, repayment was much better in Galle than in Aceh.

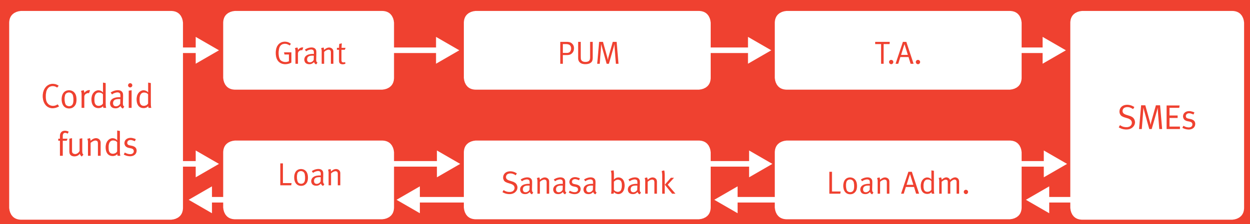
As literature on post-tsunami good practices has it, assessment of the absorptive capacity of target borrowers should precede any commitment of disbursements (USAID, 2006). In Galle, the first wave of loans was provided by the government, which was followed by loans from Cordaid and private sources. Loans should begin in small amounts and can be increased later (ibid). CGAP argued that no short cut should be made in the pre-investment phase. The Galle experience apparently reflected these practices and mainly due to the close but open collaboration of PUM, Sanasa Bank and Cordaid.

One may argue that the devastation in Aceh was worse than any other tsunami-hit areas but precisely this is the point where the exercise of maximum prudence had to be exercised because it is most likely that the entitlement mentality can be very high in Aceh where donor funds were extended in huge amounts.

Rebuilding the business is a process, just like it is at the start of these SMEs. Large loans with the minimal requirements such as business plans and collaterals without due stress on credit worthiness of the borrowers and their absorptive capacity can be very risky investments. In loans, 'building back-better' should not be applied in terms of the size of loans but on what is appropriate given the general atmosphere of reconstruction, particularly, the market condition.

The experience with Swisscontact (SC) and Saranah Aceh Venture (SAV) in Aceh reflected some of the good practices previously mentioned. SC assisted the small enterprises gradually to stand on their feet. Loans were small. Moreover, screening and due diligence were done with utmost prudence and at three levels: SAV, the lender, next the SC and then Cordaid which could endorse or object the financing of the SMEs based on the due diligence done by both partners. In Galle, this was also the effect of the multi-party screening which began with the local PUM volunteer in Galle, then the PUM NL during the field work and lastly by the Sanasa Bank credit committee. In sum, tedious but cautious pre-investment efforts reinforce the seriousness of the loan. The tone of the seriousness on the pre-investment process could very well facilitate a better credit performance even in the post-disaster environment.

Figure 22 PUM, Sanasa Bank, Cordaid Tripartite



It appears that in a donor-flooded environment, intervening with loans, is much more challenging than what it already is under normal conditions. A strong financial institutional face cannot be undermined by goodwill and speedy credit intervention especially of non-financial institutions. Care should be taken with regard to the far-reaching impact of the loan in setting the market right.

DRR: Microfinance products as tool for risk reduction

The premise of the disaster risk reduction paradigm, as dealt with in chapter 2, is that disaster may not occur when the community has the capacity to cope with the impact of the hazard. The other way of putting it is that resilient communities are not vulnerable to hazards. What is the role of 'credit plus' and other financial products such as savings and insurance in building such communities?

In the framework explicitly worked out in this paper in chapter 2, microfinance is seen notably as a tool to alleviate poverty but also as a tool for post-disaster recovery, and consequently for building resilient individuals and communities. The framework presents the use of 'credit plus' where not only loan but also technical assistance and training can lead to a much better reconstruction of livelihoods. The restoration of such livelihoods enables communities to raise savings, pay insurance premiums, and build their assets from the income generated. The diversification of skills and the development of human capacities facilitate better chances of coping with the disaster and of earning from various means of livelihood than a mono-skill or from only one type of income generating source.

In addition, this framework presents the synergy between the different types of intervention that come from relief and rehabilitation group of interventions to the reconstruction type of interventions.

Post-tsunami, Cordaid's Sector Emergency embarked on the reconstruction of houses and schools which included water and sanitation, all with the goals of increasing the capacities of communities to stand up to future shocks. An example of this was the earthquake-proof schools in Semeule that had, indeed, withstood the onslaught of the February 2008 earthquake of the same intensity as that of March 2005.

The liaison officer of Cordaid Sector Emergency in Yogyakarta spoke about his experience in accompanying the communities that had embarked on DRR after the May 2006 Earthquake in Yogyakarta.

On the relief measures, the communities have their contingency plan like stocking food for the immediate days

Box 2 Case Interview Tsunami survivor and member of SHG

Janny is 46 years old and a representative of her SHG. She reached 9th standard (secondary school). While waiting to be married-off, she engaged herself in milking cows. She sold the milk and the leftover was sold as curd. At other times she tended a vegetable garden. At 29, she finally got married to a collie. Collies are unskilled labourers. They don't earn much. She has two daughters from a relatively late marriage (in the Indian society standard) because her family had insufficient dowry to marry her off.

She joined the SHG mainly to save. Importantly, for her, being in a group, one can help a lot to work for the good of the community than being alone.

When tsunami struck, water rose 30 to 40 feet and her house was flooded. Consequently, whatever was left in the house was simply unusable. In no time, her SHG divided their savings plus the interest. Her share was Rs 12,000 (Euros 250) and Rs 5,000 (Euros 100) interest. She used the amount to immediately procure basic things for the family.

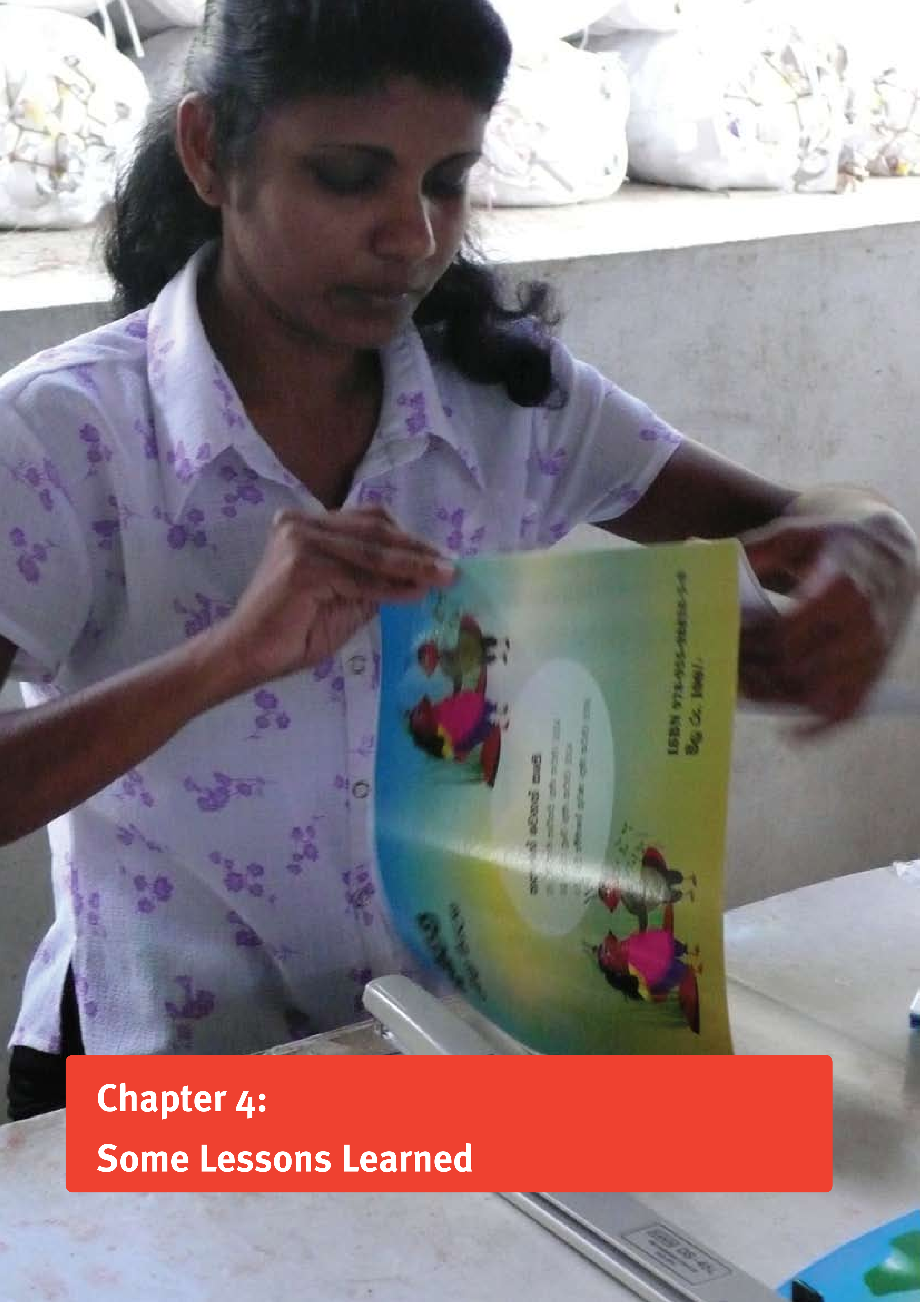
Janny joined the tailoring training which BWDA facilitated (an activity funded by Cordaid-SHO grant). With her skills put into practice, Janny, can finish a blouse and earn a labour fee of Rs 25 (Euros 50 cents). For a school uniform she gets Rs 75 (Euros 1.50). In a day, Janny can earn Rs 150 (about Euro 3) gross and her cost is a meagre Rs 2, 50 (Euros .05). All her income is earmarked for her daughter's schooling.

(Interview: November 19, 2007, India)

of the aftermath. On the longer term, farmers incorporated pro-active preparedness measures in their agricultural practices. To further improve their coping capacity, communities embarked on diversifying their income sources, and, particularly, the women formed savings associations.

How can savings be an effective disaster preparedness measure? The short interview from the SHG representative of BFL in Kootapuli (see Box 2) can best illustrate the capacity of savings as the immediate post-tsunami fallback, and how savings and diversification of skills can reduce future risk for a potential victim of a disaster.

It is unavoidable in the process of relief and reconstruction targeting that some unaffected segment can likely benefit from the intervention. The DPG Review in India noted that the BFL had included in their outreach the borrowers who were not affected by the tsunami but lived within the 25 kilometer radius that BFL declared to receive assistance. The unaffected segment is called the spill over.
However, the report also added that this percentage of outreach was grateful that the loans enabled them to diversify their income sources and allowed them to reach the savings that they never had before. In this case, spill over can be viewed to have contributed to the building of resilient individuals in the vicinity where hazards hit and who can be potential victims of future hazards. The spill over illustrates a possible case of a community assisted with the DRR.



Chapter 4: Some Lessons Learned

Some Lessons Learned

The discussion in the previous chapter has yielded the following lessons that may serve as guidelines for future post-disaster reconstruction of livelihoods. Importantly, timeliness of credit builds on the pulse that the relief activities may put in place. The synergy between the Sectors Emergency and Entrepreneurship is vital for an effective and timely delivery of both relief and reconstruction set of interventions which may have far-reaching impact on reducing risk of potential victims of the hazards in the future.

Reconstruction builds up on emergency aid

Humanitarian aid is indispensable in the aftermath of a disaster. This is more so in the case of one of such a magnitude as the Tsunami of 2004. Speed is of the essence in such a situation to provide the frontline affected individuals and communities with the basic needs for survival. Stability, as a consequence of the rehabilitation of the basic infrastructures, is a precondition for the reconstruction of affected livelihoods and businesses using the instruments of loans. Hence, the synergy between the emergency and the reconstruction interventions is vital. Sustainability underpinnings are necessary if communities have to become resilient to similar shocks in the future.

Timeliness of credit

The challenge of timely reconstruction of livelihoods and enterprises using the non-grant instruments of loans and guarantees need to consider seriously the following factors: the severity of damage and the loss caused by the disaster, the enormous size of donor funds that come in and its influence on the level of grant entitlement, the readiness of the target borrowers to take loans and the availability of loans locally. All these are indispensable in defining the timeliness of credit.

In India, the mainstream affected individuals and communities received the loans only after the donations had dried up and the fishermen community, in particular, became more attuned to take loans. This was three years after the disaster. The repayment rates for the loans taken were similar to the pre-tsunami level. For those that were indirectly affected, loans were introduced earlier, about one and a half years after the tsunami. Since no donations had reached this affected segment, the borrowers were more than ready to take loans.

In Sri Lanka, Cordaid loan reached the SMEs in the south when the highly subsidized government-sponsored loans were exhausted two years after the tsunami occurred. The loan served as a “top-up” or follow through and repayment was good thus far. In the eastern area, the loan was introduced much later because the tsunami affected area was, at the same time, a conflict-ridden area. As a result, timeliness needs to consider the impact of both hazards.

In the worst affected Aceh province of Indonesia, the top-up loan to the small enterprises two and a half years later worked well. The time was ripe and repayment has been 100% thus far. The bigger loans to the SMEs were made earlier, one and a half years after the tsunami and the resulting repayment has still to pick-up. The poor repayment behaviour of the SMEs can be attributed to the process in which the loans were introduced apart from the timing. Evidently, the grant was massive in Aceh and had lingered on for almost two years after the disaster which, in turn, led to a high grant dependency. This aspect should have been considered seriously as being extremely important when introducing loans, and donors ought not to have looked to the short-sighted revival of the businesses as the principal goal.

Strategies: what worked and what is to be avoided

In India, the loan catered first to those whose livelihoods were affected but who were not physically impacted by the disaster. They did not receive assistance and were more attuned to take loans to revive or diversify their livelihoods. It was when grants had subsided in the mainstream area that the loan moved in to the directly affected individuals and communities. The interest rate was close to pre-tsunami levels and the demand for loans was perceptively high at the time of entry.

In Sri Lanka, the loan reached the non-conflict area earlier than the conflict areas. The loan sizes were more or less the same. Cordaid’s interest rate reinforced the local emergency credit and facilitated the shift from the concessionary to the more sustainable rate of interest, be it that the rate was lower than the pre-tsunami level and higher than the

prevailing subsidized rate at the time of entry.
The loan to an MFI in the eastern area was more like "testing the waters" and was beneficial in terms of learning about how a loan in a post-disaster area with unstable peace conditions would turn out in the long run.

Selection of companies was done at two-levels: First, by the local PUM representative who had a pretty good knowledge of the SMEs in the pre-tsunami period, and second, by a Dutch expert from the Netherlands who also provided the technical assistance. The due diligence and approval of the loan was performed by a formal bank. The separation of functions between the technical adviser and the investment provider has worked well carrying with it the message of seriousness when making loan investments.

Employment created by the SMEs was quite negligible due to the type of businesses. Tourism and trading stimulated more jobs in the upward and downward chain.

In Indonesia, loans to small enterprises by Swisscontact were a top-up to the first smaller loan from another donor agency and were extended to enterprises that received few donations. The loan was to fill-up the high demand from this sector. Due diligence was strictly done by two field-level organizations with Cordaid at the third level which could convey its reservations or give it its endorsement.

On the contrary, the loans from PUM to the SMEs were done with a sense of urgency, the interest rate was more concessional and loans were oversized. While the loans succeeded to assist recovery of the businesses, it did not result in good repayment. "Building back-better" was more the idea of the advisory provider.

What was less advisable and probably something that should not have been done was to combine the roles of PUM in Aceh as technical advisor and loan provider. This was clearly a case of conflict of interest.

Employment generated was minimal. The cost per employment created was Euro 10,000, far from the estimated benchmark suggested by Swisscontact and other financial institutions in Aceh of Euro 1,000 per employment generated. This was because the end goal of PUM was only to revitalize the businesses.

The 'Cash for Work'

Instead of introducing credit for livelihoods prematurely, cash for work is preferable in generating the needed cash/income in the aftermath of the disaster. The emergency credit if introduced right after the onset of the relief phase could likely cause market distortions.

Targeting the real tsunami affected persons and communities

Targeting can be an issue in post-disaster because of the far-reaching impact of the disaster (due to its rippling effect in the livelihood chain and the resulting inflation). Mainstream and indirectly affected persons and communities need to be part of a more inclusive recovery-oriented credit programme. In India, TCP target group was defined to include "indirectly affected persons and communities by the tsunami but directly affected in so far as their livelihoods are concerned". The downside of this expansive definition is the inclusion of the non-affected members of the community, the so called spill over. The financial services that reached this unaffected segment helped them to save, which may be considered a disaster preparedness measure.

While most livelihood approaches consider microfinance as a tool to reconstruct livelihoods, care should be taken not to exclude those with no inclination and/or potential for self-run businesses. Other affected persons simply need to regain their employment. Hence, assisting the rebuilding of companies may create the necessary direct employment to the survivors. It is advisable to choose small companies that can multiply and stimulate indirect employment in the downward and upward chain.

Credit institutions to extend loan

In a post- disaster reconstruction environment that has been preceded by massive donor aid during the relief phase, introducing credit for reconstruction necessitates a strong and established financial institution that has its natural comparative advantages in terms of a) having systems and methodologies in-place for a speedy outreach or expansion; b) facilitating the shift in the mode of intervention from donation to loans; c) having the capacity to calculate the risk in a barely stable credit market; d) having the ability to develop credit discipline amongst new borrowers and e) having the capacity to be resilient when dealing with unforeseen post-disaster challenges. Experience with Cordaid loans and/or guarantees channelled through Sanasa Bank, Swisscontact-SAV, SIFFS, New Life and BFL are illustrations of these strong and established financial institutions with their natural built-in comparative advantages.

Putting it in another way, non-financial institutions extending loan in the aftermath of grants run the risk of sending wrong signals to the borrowers and of creating a more supply-led credit that will most likely result in poor repayment recovery.

The downside of the formal lender like a bank, however, is its bureaucracy and the strict collateral requirements (as deemed proper by the central bank) which turned out to be difficult for the companies to comply with due to the lack of sufficient physical assets they could mortgage as collateral.

No short-cuts

Prudence, and not speed, is the essence of loans for reconstruction. Short-cuts in credit investigation and pre-investment processes can undermine effective results and good repayment performance. BFL and SIFFS in India, Sanasa Bank in Sri Lanka and Swiss contact in Aceh did, in fact, take the necessary steps to do the due diligence carefully and, as a result of this preparatory ground work that was done well, they were able to make the disbursements more effectively. Pre-investment processes, however, were not shortened. A three-level screening done by PUM-Sanasa in Sri Lanka, and Swiss contact-SAV in Aceh was effective in weeding out non-viable and non-performing businesses.

Start with small loans

Small loans made to the SMEs in Sri Lanka through the Sanasa and Lakjaya institutions and in Aceh through Swiss contact-SAV were more effective -a rather prudent reconstruction move- than a one-time large investment as was done in the Aceh-SMEs through PUM. "Building back better" works if it comes from the company owners and not from the technical adviser. In addition, the market position of the SME and the general market condition is a major consideration to be taken into account.

BDS and fund

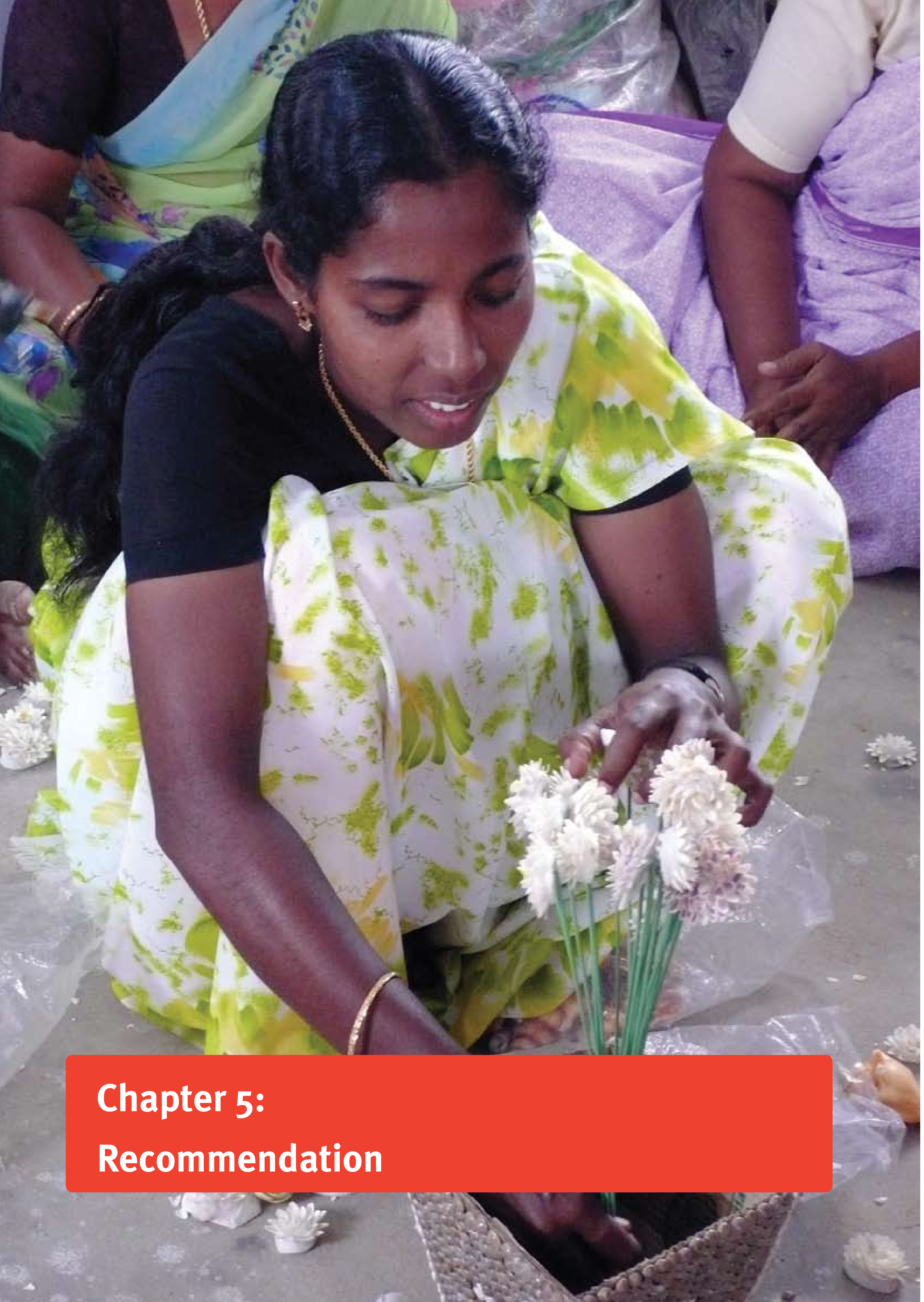
In Sri Lanka and Aceh, technical assistance from both local and international PUM experts had a positive effect on the recovery of the businesses. This is a real input on "building back better". As has been mentioned, the presence of the knowledgeable local PUM representative in Sri Lanka was instrumental to the pre-selection of viable companies since the business records of many companies were completely lost in the Tsunami aftermath.

Grant

To be more effective, the grant component that accompanies the loan should be earmarked for use as deemed appropriate by the partners on the ground and does not have to come loaded with conditions, particularly in the form of restrictions from the donors. The spending deadline should also accommodate the reconstruction period, especially when the grant is used to mitigate the risk the MFIs and the borrowers face in a severely affected market.

Microfinance is far from a one-time intervention

In post-disaster that are at the same time post-conflict areas like Aceh or some districts in eastern Sri Lanka where credit culture was still developing among target borrowers, extra care was taken to see that microfinance services were introduced with capacity building for the would-be MFI and, as such, was seen to be a long term intervention. A purely one-time loan facility to start-up enterprises and livelihoods is very inadequate when seen within the framework of livelihood reconstruction with sustainability and "disaster risk reduction" as underpinnings. Besides, any credit programme is inherently long-term since there is very little incentive to repay the existing loans where there is no perspective of future loans to the borrowers.



Chapter 5: Recommendation

Recommendations

The experience of the first two years of implementing the Tsunami Credit Programme (TCP) pointed to some practices that Cordaid may want to consider in similar post-crisis reconstruction programmes using the instruments of loans and guarantees as provided in this chapter.

Timeliness of intervention, using the instruments of loans and guarantees, is essential within the framework of reconstruction of affected enterprises and livelihoods, in the post-disaster period as an instrument to build a more resilient individual or business enterprise.

Prudence and not speed needs to be exercised to the utmost.

The timing should consider the wider humanitarian and reconstruction momentum to ensure the readiness of the target borrowers to take loans. For a more successful reconstruction loan programme, a clear demand should precede any supply, lest it be misconstrued as part of the relief intervention.

Critical selection of the loan vehicle -a formal channel or an experienced NGO-MFI- should not be compromised as financial institutions are extremely vital in setting the market right and in ensuring that loans get repaid.

The value of an external portfolio ("additionality") should be weighed against the capacity of the companies to revive by their own capacities in relation to the prevailing local supply. It is possible that the portfolio can be more useful as "top-up" or follow through loans to local and probably highly subsidized and emergency credit. If it is a first loan, start small and provide a follow-up loan when recovery process is headed in the right direction. The interest rate necessarily has to assist the market to return to a more sustainable rate.

Differentiation can be made in the loan reconstruction programme that targets areas that are both affected by natural and man-made (conflict) disaster. In this case, the rate of interest should take into consideration the risks faced by the partner MFI. If need be, a grant needs to be introduced to mitigate that risk. In areas with no credit culture, capacity building of would-be MFIs needs to precede any infusion of a sizeable loan portfolio. Grant is indispensable in developing the credit culture.

In tripartite relationships, the basic principle that needs to be adhered to before taking-off is the levelling-off of the different goals and methodologies of each stakeholder in order to avoid imbalances in achieving the different objectives.

Finally, there is a no hard and fast rule in designing an appropriate post-disaster credit programme. Common sense plays a crucial role along with a keen and close analysis of the environment beginning from the magnitude of the destruction; the enormity of the emergency aid and the resulting dependency and entitlement that influences the readiness of the target population to take up their livelihoods using the instrument of loans.

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