

BRIEF 4

Microfinance and Cash-for-Work in Livelihood Restoration following a Natural Disaster

As a general recommendation, MFIs should not be *directly* involved with Cash-for-Work (CFW), since community-related activities invoking logistical issues that are beyond their specialisation may often be involved. Also, the transfers made through such CFW activities may often be considered as grants and safety-net measures—sending a mixed signal to the clients about the seriousness of the MFI as a reputable financial service provider.

However, there are ways in which MFIs can be *indirectly* involved with CFW activities. Broad guidelines include the following:

Build consensus with CFW providers to avoid market distortions.

MFIs and CFW providers need to discuss how to set fair market wages to avoid inflated wages. CFW should involve short-term interventions that do not overlap with seasonal livelihood activities such as agriculture, and that can be phased out when markets begin to emerge.

For example, in Sri Lanka, the wages for CFW were fixed at Rs.400 a day, compared with Rs.100 a day pre-Tsunami (Rs.100 = US\$1). CFW activities included clearing debris, laying roads and de-silting ponds. This created inflation and also shortage of labour for livelihood activities such as microenterprises and farming.

CFW activities overlapped with the agriculture season and labour could not be obtained on time, since wages for farm

labour were only half those for CFW. Therefore, some large farmers got bank loans and imported harvesters. Now that the CFW is over, the labourers are unemployed since the farms that engaged them before are now mechanised. These landless labourers now need to start new livelihoods and require capital from the MFIs. They also require non-financial services, since they need to be trained to become entrepreneurs. A better design of the CFW by a relief team and MFIs could have minimised the distortions and linked the CFW beneficiaries with savings that could have helped them later to obtain loans (Aheeyar, 2006).

Link with CFW providers and their beneficiaries to supply required financial services.

Cash transfers through CFW were provided in excess in many places. Some MFIs decided to capture the savings made from such cash transfers. One cooperative in India, LEAD in Trichy, collaborated with the relief organisation Save the Children to capture the savings.

While Save the Children implemented CFW programs in LEAD operational areas, LEAD convinced the CFW beneficiaries to buy shares in the cooperative. After buying 3 shares they became eligible for loans worth 3–5 times the share value at a low interest rate (about 8% below market rate) from the cooperative.



By the end of the CFW in June of 2005 it was reported that 1400 new members were added due to this effort—about 235 of them took loans using the shares as collateral, and repayments were reported at 95%. The total savings at the cooperative also increased due to new members.

World Vision in Sri Lanka noticed surplus incomes due to cash transfers made to affected households. In order to capture the excess it adopted a policy of compulsory saving of a minimum of 25% of the CFW salary in a savings account into a local bank where it locked for 3 months. This applied to all CFW projects of 2 weeks duration or longer.

For example, in the southern region of Sri Lanka beneficiaries selected National Savings Bank (NSB), since this bank has village-level branches at post offices. They needed only Rs.200 (US\$2) to start a savings account compared with Rs.500 at Peoples Bank; NSB also provided the highest interest rate for a savings account.

A CFW supervisor/monitor collected passbooks from beneficiaries once a week while collecting the CFW attendance sheet. The passbooks were returned to beneficiaries after the cash was deposited. The bank opened new savings accounts for many beneficiaries.

Many relief agencies in Sri Lanka and India, and some in Aceh, used banks and MFIs to pay their CFW and cash-grant beneficiaries. Some MFIs, such as SANASA in Sri Lanka, requested a commission of 5% of the cash grant to cover their administration costs.

Some MFIs in Sri Lanka also encouraged the beneficiaries to deposit some portion of their grants into MFI accounts, to provide for the beneficiaries' future needs and help them to access new loans (Aheeyar, 2006).

Design responses that are gender-equitable

Many donors provided CFW and also gifts of boats and nets to restore livelihoods. These activities were found to be more beneficial to men than to women.

MSSRF, an NGO in Chennai, India conducted a participatory rural appraisal (PRA) in the internally displaced person (IDP) camps and found that women required livelihood diversification since many were reluctant to depend entirely on fishing.

Therefore, women received training in poultry keeping, mushroom cultivation and drying and canning small fish that cannot be sold in the market. The women were new to such livelihood activities. They were also provided with seed capital as grants to start off the business and were formed into self-help groups (SHGs) in April–May 2005.

The women requested access to reliable financial services and were linked to the nearby branch of the State Bank of India.

The bank, through its microfinance wing, helped the SHGs to save for 6 months and then provided them with small loans for working capital in November–December 2005.



Some women's groups also obtained loans to buy small used trucks to transport fish to markets. The local public transportation was unreliable and unavailable during early hours of the day when the fresh catch needed to be sold.

The bank issued a group loan for 3 years to purchase the truck at a reduced interest rate. MSSRF helped buy a used truck, calling on member savings together with a standing guarantee to the bank. The women now rent out the truck to nearby communities and they also pay a user fee to their group to help pay back the loan every month. The women are trained by MSSRF to keep books for both the revolving fund and the truck rentals. When interviewed, they indicated their satisfaction with the arrangement and noted that they would have spent all the grants if the bank had not offered them a place to save and access to loans in the future.

This brief was written in May 2006 by Dr. Geetha Nagarajan, Research Coordinator, Capacity-Building for Microfinance Institutions for Post Tsunami Reconstruction, Foundation for Development Cooperation, Brisbane, Australia. The author acknowledges all the sources in Sri Lanka, Indonesia and India that contributed to this brief.

SUGGESTED READING

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