



MODULE 2: CLIENT PREPAREDNESS

Summary

Objectives

Following completion of this module, participants should understand:

- the impact of external shocks such as natural disasters on poor households
- the risk management strategies used by these households, and
- financial products that can reduce their vulnerability.

Topics

1. External Shocks Faced by Poor Households
2. The Economic Impact of External Shocks on Poor Households
3. The Economic Coping Mechanisms of Poor Households
4. Financial Products for Client-level Risk Mitigation
5. Product Development for Disaster Preparedness
6. Summary



TOPIC 4

Financial Products for Client-level Risk Mitigation

In this topic we explore four basic products that can be used by MFIs to prepare clients to withstand external shocks. These include:

- savings
- remittances
- credit, and
- insurance.

Estimated duration

50 minutes

Technique

Lecture, brainstorm

Slides

10-19

Most MFIs have core credit products that enable poor entrepreneurs to finance working capital or fixed assets. To a great extent these products can be viewed as ways that MFIs are helping clients prepare for and cope with external shocks. Some MFIs also offer savings, but this is not always allowed by local legal and regulatory requirements. In such cases, MFIs can consider alternative ways to promote savings without direct intermediation. Linking their clients with postal or commercial banks, or training self-help groups on intermediating savings have been ways that MFIs have dealt with legal restrictions on taking deposits. Remittances are also often part of the mix, although there are few examples of MFIs having tapped into remittance flows as a source of client savings. Microinsurance is a relatively new and as yet unproven microfinance product.



Slide 10 - Financial Products for Client-level Risk Mitigation

TOPIC 5

Product Development for Disaster Preparedness

How can we know what kinds of products will be helpful for disaster risk mitigation, and how should an MFI proceed in developing appropriate financial products for clients' risk management?

The key steps should include the following:

► Step 1

Conduct a disaster risk and vulnerability assessment of the clients. Participatory learning methodologies can be used to investigate the nature of crises and coping mechanisms.

- Assess client needs for lump sums of money to manage risks.
- Assess the time frame of the anticipated need for the lump sum of money in the short, medium or long term.
- Identify the formal and informal types of finance that poor individuals and households use to manage these risks.
- Identify the existing formal and informal financial and institutional landscape.
- Catalogue the characteristics of this landscape.
- Study how, and under what circumstances, poor households use these existing resources and institutions.
- Assess the adequacy of these resources for meeting client needs for lump sums of money.
- Identify gaps and needs.
- Analyse the potential for improving existing products, delivery mechanisms and institutions.
- Analyse the potential for new products, delivery mechanisms and institutional partnerships.
- Discuss these new or improved product concepts with clients, with a focus on appropriateness for different groups (wealth level, household characteristics, geographic location etc.).

Estimated duration

10 minutes

Technique

Lecture

Slides

20-21

Cohen and Sebstad

TOPIC 5

Product Development for Disaster Preparedness

► Step 2

Train clients in disaster preparedness, e.g. using this module as a basis. If possible, partner with specialised training institutions so that offering this service does not impact the sustainability of the MFI.

► Step 3

Use a systematic approach to product development for disaster preparedness. MicroSave's methodology for conducting market research and product development is recommended (see slide 21).

Slide 20 - Product Development for Disaster Preparedness

Facilitator note

This section is only a brief overview on the process for developing financial products. The training does not focus on product development, and participants should consult the websites of organisations such as MicroSave for more information on this subject.

Market Research and Product Development

Slide 21 - Market Research and Product Development