Microfinance and Micro-enterprise:

Teaming up to Restart and Diversify Livelihoods in the Post-disaster Context

Post-Tsunami Sustainable Coastal Livelihoods Project

Theme Paper

Integrated duck/fish/vegetable farm

Financial services for the poor can be powerful tools to fight poverty and enhance community resilience. Access to financial services such as credit, savings and even insurance, can help poor people to take control of their financial lives. When good practices are utilized, access to financial services can empower people to make better decisions about investing in alternative or supplementary livelihoods, education for their children and themselves, improving health care for their families and protecting themselves from crises such as illness, death, and natural disasters. It puts power into the hands of poor households so that they can move from a hand to mouth subsistence existence to planning for the future.

Microfinance is the fuel that encourages the entrepreneurial activities of the poor to start-up new, or expand existing business ventures, to dare, to risk, to use their imagination in pursuit of the most worthwhile of dreams – the advancement of oneself, their family and their community.

In September 2005 the Sustainable Coastal Livelihoods Program began training activities to establish micro-finance revolving funds in the communities to provide the needed capital for community members to restart and diversify their livelihoods.

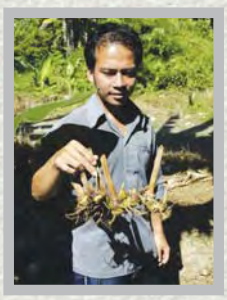
There were three phases of initial training:

- Techniques of microfinance/revolving funds formation
- Business Planning
- Credit and loan management and accounting

Subsequently, due to community demand training sessions were expanded to include:

- Business Finance
- Marketing
- Entrepreneurship

Under the terms of the revolving fund, low-interest loans were released to tsunami affected micro-entrepreneurs. As loans were repaid, more capital became available for additional micro-enterprises to borrow from, ensuring the availability of loans to a larger number of tsunami-affected families.



Yellow gingcr farming

Microfinance will only reach its potential if it can be financially sustainable and integrated into a country's mainstream financial system. Donor funds are recognized as start-up subsidies designed to get a fledgling financial institution to the point where it can tap private funding sources, such as member deposits.

Mussel culture

From Little Things Big Things Grow

Two years on, USAID's Coastal Livelihoods initiative to introduce revolving funds in five rural villages in Ranong Province Thailand has benefited the lives of 416 families. Since the first loan was disbursed in November of 2005 over 7.8 million baht ($~240,000 USD) has been used to restart and diversify livelihoods.

What started as a simple, informal revolving fund model managed by a small village microfinance committee and based upon "social capital" has now grown into a true financial institution of the people, with recognized legal status.

The communities have outgrown the social collateral model where a group of peers guarantee repayment of each others loans. As the savings components of the microfinance institutions have grown, members wanted a more secure financial vehicle for their accumulated funds. They now need a more sophisticated financial institution that can provide community members with such vehicles as home and automobile loans, insurance, funds to support the elderly and infirm, and community sponsored events and trainings.

In Thailand, the next step in the growth process for a successful village micro-finance institution is to become what is know as a Cooperative Credit Union. As an approved cooperative credit union, the institution becomes a member of the Credit Union League of Thailand (CULT). Members of CULT are recognized as formal, legally protected lending

institutions allied with over 1,300 similar Credit Unions serving 1.3 million people and backed by over 10 billion baht in assets.

The required documentation and reviews were completed and as of September 2007, Ban Kamphuan has been accepted as an Associate Credit Union!

The community of Ban Kamphuan is understandably proud of the success of their micro-finance institution and its transition into a cooperative credit union. The payback rate for their revolving fund is nearly 100 %. This illustrates that by providing convenient and secure access to financial services to the poor, a group previously excluded from affordable sources of credit and savings options, microfinance programs such as theirs demonstrate that the poor are very credit worthy: a lesson for banks and development agencies alike.

However, not all rural village microfinance institutions have experienced the same level of success. Ban Kamphuan has been a model for good practices with their revolving fund because early in the process they recognized the importance of the following critical factors for success.

- Select a strong leader for the micro-finance institution that is well respected and trusted by the whole community for his/her honesty, integrity and willingness to put the welfare of the community above their own
- Provide effective training in revolving fund formation, accounting, business management/planning, and entrepreneurship
- Create a set of by-laws that are simple, easy to understand and fair

- Implement a sound and practical monitoring and financial accounting system

The rising tide raises all ships

- Create a strong sense of community that emphasizes the importance of working together. Community members recognize that helping others and working with a common sense of purpose benefits all members of the community

Training on Business Accounting

The Importance of the Role of Women in Rural Microfinance Institutions

Over 65 % of the loan recipients in this predominantly Muslim region are women. This is a significant figure as women feature prominently among the working poor and provide a vital leadership role in both the family and community.

Microfinance is especially beneficial for them and the community by:

- Providing them with greater and more diverse income opportunities that help them to better perform their leadership roles as brokers of the health, nutritional and educational status of other household members
- Enhancing their self-confidence and status within the family unit as independent producers and providers of valuable cash resources to the household economy
- Increasing women's employment in independent micro-enterprises that improve the productivity of women's income generating activities and helps diversify family income sources

It has been our experience that women are eager to adapt to an alternative livelihood when presented with the benefits of the new endeavor. They are willing to undertake training and work together with other women of the community to both produce and market their products.

Linking Micro-finance with Livelihoods Development

The Sustainable Coastal Livelihoods Project's approach to linking microfinance with micro-enterprise begins with the agreement from the revolving funds to financially support only those activities that meet the following criteria:

1) Business plan is financially feasible

2) Proven and simple technology

3) Low environmental impacts

4) Socially appropriate given local culture and work preferences

The actual development of new livelihood practices is guided by the following process:

- Investigate the existing market environment to uncover potential gaps, weaknesses or vacancies that will allow for the introduction of a new product or service for business profit or community benefit

- Identify a business opportunity or livelihood idea that appears to satisfy the four criteria listed above

- Identify village members with potential interest

- Prepare business plan that addresses:
  - ✓ Production techniques and production cycle
  - ✓ Costs for production, distribution and marketing
  - ✓ Availability of materials and inputs
  - ✓ Location and size of markets
  - ✓ Product price
  - ✓ Environmental considerations
  - ✓ Social and cultural suitability
  - ✓ Availability of technical assistance
  - ✓ Plan for training interested entrepreneurs (including study tour if needed)

- Set up production site and equipment including demonstration plan of production techniques

- Mentor local entrepreneurs through at least one successful (both technically and financially) business cycle

- Monitor and provide advice as needed and as production continues

- Require grant recipients to be members of and borrow from the revolving funds for ongoing operational expenses

The Approach

The linking of micro-finance with micro-enterprise support necessitated a two-prong approach:

1. Focus on ***restarting*** livelihoods by utilizing the loans to promote the development and growth of existing livelihoods. Supporting income generating activities in which the community already has existing experience is a quicker way to "jump start" a community's financial engine. This approach takes into consideration that starting new livelihoods is very risky and failure rates can be high. Further exacerbating the problem of introducing alternative livelihoods options is the fact that we are working in a post-disaster context where the infrastructure, markets and psychological well-being of the community members has been greatly stressed.

2. Focus on ***diversifying*** livelihoods and illustrating the Project's transition from relief to rebuilding. A key aspect of one of the project's objectives is to utilize this tragic disaster as impetus to "build back better". In order to build the financial resiliency of a community, livelihoods must be diversified. Over-reliance on a single ecological resource or livelihood increases the vulnerability of a community to a variety of hazards both natural and man-made. Therefore, the communities were introduced to a variety of alternative or supplementary livelihoods options that were deemed to be culturally, financially and ecologically appropriate. These innovative efforts required a great deal more time, assistance and training from the extension department than the first approach. Additionally, as expected the abandonment/ failure rate of these new ventures was also higher than those of the established practices.

Examples of Alternative Livelihoods Activities Supported by Micro-Finance Efforts

The Sustainable Coastal Livelihoods Project and the Village Revolving funds groups have worked together to provide funding and technical support to a wide range of diverse alternative income generating activities:

Agriculture
Yellow Ginger Farming
Integrate duck/fish/farm agriculture
Rubber Plant nursery
Goat and Cow Rearing
Batik manufacture
Muslim Headscarf Production
Ornamental Bead production
Juice shop
Coffee Shop
Aquaculture
Catfish Hatchery
Grouper Cage Culture
Green Mussel Culture
Seaweed
Frog culture

Each of the above activities has required Sustainable Coastal Livelihoods Project field site staff to provide significant educational support through extension and training. Additionally, field staffs have endeavored to build local technical capacity through creating linkages with the Department of Livestocks (DOL) and Fisheries (DOF) and a variety of other governmental and non-governmental training providers.

USAID's Post-Tsunami Sustainable Coastal Livelihoods Program

Overview of Project

When the tsunami of December 2004 struck Thailand's Andaman coast it carried away not only the lives of over 5000 people but it also washed away the livelihoods for tens of thousands left behind. The disaster devastated the local economy by destroying fishing boats, engines and gear. The huge wave also took in its wake, homes, public buildings, and coastal infrastructure, including roads and bridges. The tsunami had its greatest impacts on rural coastal communities, many of which were already poor and economically vulnerable with limited livelihood options. Recovery is especially difficult in these poor communities because many of those that survived lost the capacity to practice their livelihoods.

The USAID Regional Development Mission/Asia responded with the Post-Tsunami Sustainable Coastal Livelihoods (SCL) demonstration project that helps coastal communities of Southern Thailand rehabilitate livelihoods, become more resilient to future natural disasters, and adopt livelihood practices that use natural resources more sustainably. Instead of just building back the way it was, this project strives to build it back better.

The project has a 30 month time horizon, with an end date of September 30, 2007. It is implemented in a partnership with the Coastal Resources Center of the University of Rhode Island, the Asia Institute for Technology (AIT), University of Hawaii, Coca-Cola Thailand, Asian Disaster Preparedness Center, and other local partners.

It is a model project, meaning that knowledge and lessons learned from what is developed and put in practice can be used in other at-risk coastal communities in Thailand or other countries in the Asia region.

Five tsunami-affected villages in Ranong Province were selected for the demonstration initiative. Located within Laem Son National Park, these villages have a population of 5,000 and are dependent on fishing and agriculture for their livelihoods. The relatively small, compact area makes it suitable for modeling an integrated approach to coastal disaster rehabilitation.

The SCL project seeks to build coastal community resilience with a focus on rebuilding the economic basis of livelihoods rather than on physical reconstruction, and on giving coastal people the skills and resources for self-recovery. Key elements of resilience include building livelihood opportunities that do not degrade the natural environment, protecting ecosystems, reducing vulnerability to natural hazards, and strengthening local governance. Project interventions combine ICM and hazard management frameworks.

USAID Post-Tsunami Sustainable Coastal Livelihoods Project

Theme Papers

This paper is one of a series of elemental theme papers from USAID's (SCL) Sustainable Coastal Livelihoods Project. USAID SCL Theme Papers are intended to provide an overview of our experiences, lessons learned and approach to rebuilding and rehabilitating communities in a post-disaster context. Each paper will address an issue that has been undertaken in the course of our efforts to assist in the rehabilitation process and the building of Coastal Community Resilience.

The papers will be based loosely upon the five main elements of the SCL Project:

1. **Build a common vision for action**.
   The project works closely with local government authorities and community leaders to build local ownership and establish a common vision for rehabilitation. The project's activities are accomplished by community efforts and collaboration.

2. **Reestablish and diversify environmentally sustainable livelihoods**.
   Microfinance, livelihood training, demonstration of new livelihood practices, small grants, and cash-for-work are strategies to reestablish and diversify livelihoods.

3. **Natural Resources Management and Environmental Stewardship**
   Trainings and extension activities are focused on enhancing the capacity of local communities to better manage their ecological environment. Specific activities include training modules on solid waste management, monitoring and rehabilitation of coastal habitats such as coral reefs, beaches, mangroves and sea grass beds, and the development of marine park co-management plans.

4. **Enhance community readiness and resilience to hazards.(CBDM)**
   The project builds readiness and resilience to natural hazards in communities through mapping of areas at risk to inundation, delineation of evacuation routes, training, village disaster management planning, evacuation drills, and First Aid training.

5. **Share experience and best practices**.
   Regional learning workshops and study tours are convened to share lessons learned with others in tsunami rehabilitation, disaster preparedness and issues associated with community resilience.

Each paper provides a summary description of the Project's approach to particular issues or the above referenced cross cutting elements. The description represents a summary of the lessons learned by the Project and illustrates the approaches utilized to overcome specific obstacles encountered throughout the maturation cycle of the program.

While providing a useful overview of Project activities to our regional partner institutions, SCL theme papers are primarily intended for our Global partners in development, disaster preparedness and community resilience. The Papers aim to raise awareness of the Project's activities, accomplishments and lessons learned and to pique the interest of individuals and organizations to seek more information so as to contribute towards the ongoing discussion about strategic direction in disaster preparedness and community resilience.

Coastal Resources Center
University of Rhode Island
University of Hawai'i HILO
USAID FROM THE AMERICAN PEOPLE
Asian Institute of Technology 1959
Coca-Cola
Pacific Tsunami Museum