Bucks after the bang

How microcredit can help poor countries after natural disasters

A new initiative offers microloans to farmers hit by catastrophe

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BOTH, in different ways, worry about liquidity. And global warming may, indeed, be bringing meteorologists and financiers together. On January 18th, VisionFund, a microlending charity, and Global Parametrics, a venture that crunches climate and seismic data, launched what they billed as the “world’s largest non-governmental climate-insurance programme”. The scheme will offer microfinance to about 4m people across six countries in Asia and Africa affected by climate-change-related calamities.

Natural disasters are becoming more frequent and severe. They disproportionately affect poor countries, where many eke livings from vulnerable agricultural land. Yet it is often in the aftermath of disaster that credit is hardest to obtain. As non-performing loans rise and the perception of risk increases, microfinance institutions (MFIs) rein in lending; they receive little support from donors and relief programmes, which tend to favour humanitarian aid. Stewart McCulloch, VisionFund’s insurance boss, says that “recovery lending”—small loans with special terms—can act as a “safety net” by helping stricken households restart businesses.

Evidence suggests the money is usually paid back. In 2016, using a £2m ($2.7m) grant from the British government’s development arm, VisionFund’s MFIs provided microloans to 14,500 families in Kenya, Malawi and Zambia hit by El Niño, a weather system that caused severe droughts and floods. In all three countries, MFIs ended up lending far more than expected. Yet 93% of loans were repaid by May 2017, and missed payments were rarer than usual. Many borrowers made their livelihoods more disaster-proof by starting more drought-tolerant activities such as trading or horticulture. MFIs, for their part, found new clients among those their normal lending criteria excluded—without jacking up interest rates.

Encouraging though this is, expanding operations at such a juncture is difficult. According to Jonathan Morduch of New York University, the effectiveness of such loans relies heavily on their speedy disbursement. Yet MFI staff often live near affected areas and so need time to get back on their feet after disaster strikes; many lack, for example, backup IT systems. Lots of lenders are inhibited from offering more flexible terms to their unfortunate borrowers by loss-provision rules and write-down formulas set by regulators.

But the biggest difficulty is in raising finance for recovery lending. Grants may not be available. This month's initiative will give MFIs prompt access to liquidity after a disaster, helping them meet increased demand, for an annual premium of about 0.5% of the value of their portfolios, in addition to the normal cost of funds. Global Parametrics provides insurance cover through a contingency-credit facility from the InsuResilience Investment Fund (formerly known as Climate Insurance Fund), an initiative of KfW, a German government development bank, and risk capital from the Natural Disaster Fund, backed by the British government. Both also aim to raise money from private investors.

Other institutions could help. The World Bank has created a disaster risk-pooling system that covers the Pacific Islands, which are very prone to climate-related hazards. The countries pay a premium into a common pot, from which they can draw cash after a calamity. Some of the bank's programmes also include a "zero" component, where funds allocated to a project can be switched to emergency relief at the government's request, if a disaster is declared. In both cases, a share of the proceeds could go to recovery lending.

Whether MFIs would qualify for that money is up to the government. And that hints at a broader problem. Though independent, microlenders may be hindered in times of crisis if they are not part of national disaster-contingency plans, says Michael Goldberg of the World Bank. Private dollars can help make recovery lending a bigger thing. But to gain greater currency, local regulators and governments must also be convinced it works.

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