USAID
FROM THE AMERICAN PEOPLE

POUNDS OF PREVENTION

- A Disaster Risk Reduction Summary -

"Pounds of Prevention" is a series of short articles that illustrate how disaster risk reduction works and why it is important. Take a behind-the-scenes look at aid work in action, long before the disaster occurs. How is that possible? Read on!

FOCUS: MONEY & MICROFINANCE

Natural disasters can quickly wipe out a community's homes, crops, livestock, and businesses. In the aftermath, affected populations often need money—accessed through savings or loans—to rebuild their lives and livelihoods. In many disaster-prone countries, however, getting cash is not as easy as walking into a neighborhood bank. Around the world, low-income households and small business owners frequently cannot access regular banks. Rather, they rely on various types of microfinance providers, from local savings-and-credit groups to credit unions and cooperatives. Recognizing the important role financial services play in reducing vulnerability to disasters and facilitating post-disaster recovery, USAID supports a number of efforts worldwide that increase people's access to finance while strengthening the preparedness capacity of the providers themselves.

Women in Senegal meet to discuss lending rules and investments. Photo by Emily Gish, USAID.

A women's cooperative hosts the launch of a disaster savings product in Jakarta, Indonesia. Photo by Helen Ho, USAID.

Africa: In rural Africa, many families have difficulty meeting daily needs, much less the extra expenses needed to recover from a disaster. To help address this, USAID has supported the creation of savings groups—often called Village Savings & Loan Associations—in Burkina Faso, Chad, Ethiopia, Kenya, Senegal, South Sudan, and elsewhere. The groups typically comprise 10 to 25 members, who meet regularly to pool savings. With this money, the members lend among themselves, and the borrowers repay the credit with interest. The members can then invest in small business activities or meet unforeseen expenses. All earnings are eventually returned to members, providing them with a cushion of savings for difficult periods, including recurrent droughts.

Asia: Throughout Indonesia, many low-income families rely on small microfinance providers, such as rural banks or cooperatives, for savings and credit. Frequent natural disasters, however, affect the ability of these institutions to provide uninterrupted service. Working through a partner in the country, USAID has provided disaster preparedness training, including instruction on how to safeguard institutional records, to microfinance providers who serve tens of thousands of clients. USAID has also supported the development of financial products designed specifically for disasters, such as disaster savings accounts and disaster recovery loans. Moreover, to ensure that low-income families and small businesses have consistent and reliable access to services after a disaster, USAID supports public-private partnerships with larger banks to help microfinance providers obtain emergency and recovery financing.

Latin America and the Caribbean: Nearly every year, Haiti experiences multiple disasters, notably from serious storms. With USAID support, Fondasyon Kole Zepòl, a Haitian microfinance institution also known as Fonkoze, developed an insurance product that protects both itself and its clients in case of disaster. The mandatory insurance costs a fee equal to 5 percent of each six-month loan, with clients paying 3 percent and Fonkoze subsidizing the remainder. When damages from heavy rains or other hazards reach a given threshold and affect clients' homes and livelihoods, clients' loans are paid off. They also receive additional funds of approximately $120, jumpstarting the path to recovery.

By working at different levels, from informal community groups to well-established lenders, USAID is helping low-income families plan for and manage the risk that disasters pose, while also helping them restore their livelihoods should disaster strike.