Microloan-Supported Risk Management Funds to Increase Community Resilience to Disasters

The Context

Tajikistan constantly experiences disasters. These disasters, in many cases, affect a relatively small number of households, for instance as the result of local mud flows affecting small farming communities in the spring. However, the high rate of rural poverty (49.2% in 2010) together with limited local government resources, even small disasters have a correspondingly large impacts on community lives and livelihoods. Limited local government funds, and limited household disposable income, that funding risk reduction is a constant challenge, even where all involved recognize a need for simple and regular risk management such as clearing flood channels. The result is that Tajik households are often affected by largely avoidable disasters where the lack of funds to manage the hazards is a significant contributory factor to the occurrence of these disasters.

Micro-Loan-Supported Risk Management Funds

Recognizing the inability of local government and local populations to realistically assemble sufficient funding for local risk management, the United Nations Development Programme (UNDP) in Tajikistan developed a mechanism where income from micro loans are used to fund community-managed risk management funds. To start this effort, UNDP capitalized three micro-loan institutions, working in Kulyab, Khamadoni, Ayni and Hissar Districts [1], to make loans through the institutions' normal lending process. These loans focus on improving local economic development and the resilience of beneficiary households. Not less than 40% of those receiving loans go to women.

As agreed, 20% of the net loan income remains with the micro-loan institutions for their use. The remaining 80% capitalizes a District-level Disaster Risk Reduction Fund. Of the Fund, 70% is for disaster risk mitigation or prevention and 30% for immediate post disaster relief and recovery. Total funding for risk reduction and response is equal the value of the initial capitalization and ranges from $US 100,000 to $US125,000 per District. At least one fifth of the capitalization is to be available per year over five years. A total of 93,000 people are expected to be covered by the four Disaster Risk Reduction Funds.

Disaster Risk Reduction Fund Management

Disaster Risk Reduction Fund Administrative Councils at the District level administer the Disaster Risk Reduction Funds. The Councils are composed of two local village heads, one micro-loan organization representative, two loan recipients, the Government's District Committee for Emergency Situations and Civil Defense (CoES) representative, and a UNDP representative. By agreement, at least 40% off the Councils members are female. Locating the Councils at the level of risk (i.e., the District level) is expected to make risk management more effective by reducing the gap between problem identification and funding.

The Councils develop and implement an annual risk management action plan in collaboration with CoES, other government bodies, NGOs and UNDP. Following a disaster, a Council meets within 12 hours to identify immediate needs and fund relief and recovery as needed. Between disasters, Councils meet every 6 months to identify and fund disaster risk reduction projects. The micro-loan institutions report regularly to the Councils on the funds available and hold these funds until decisions are made on their use by a Council.

The 30 March 2012 Mudflow – Hamandoni District Tajikistan

On 30 March 2013 heavy rains and hail led to mudflows that heavily affected Yangiyul, Chubek, Choilobkamar and Tughul villages, Hamadoni District. Ninety-eight houses were destroyed, over 600 hectares of agricultural lands

[1] One institution works in two districts. UNDP funds capitalized four seperate Districts.

were severely affected and more than 300 livestock perished. The local Disaster Risk Reduction Fund Administrative Council quickly met and allocated $US 2,900 from the Disaster Risk Reduction Fund for 2,200 liters of fuel to be used by locally available heavy equipment to clear drainage channels, reducing the impact of the mud flows and contributing to further recovery.

But a more significant aspect of the 30 March mud flows was the damage not done. The local Council had allocated $ US 6,653 to the village of Hayoti Nav to clear and upgrade 1.5 km of mud flow diversion channel in late 2012. While flows affected neighboring villages, the cleared channel moved flows through Hayoti Nav with no damage. Broadly speaking, the cleaning of the channel contributing to protecting 250 households, valued at $ US 1,250,000, and 330 hectares of agricultural land, valued at $ US 330,000, a significant return on investment.

"We never believed that US$ 6,563 could save US$ 1,500,000 until the recent disaster happened."
Mr. **Jumakhon Kholmadov**, Chairman, Jamoat Chubek

The Challenge of Managing the Disaster Risk for Loan Portfolios

UNDP recognizes that micro-loan institutions in Tajikistan, including the three supported by UNDP, generally lack expertise to incorporate the financial risk associated with disasters into their portfolio management process. Most loans issued by the three UNDP supported institutions are for agriculture and related sectors. Disasters such as flooding, severe cold weather or disease, could reduce repayments and damage loan portfolios [2], and limit or stop the flow of funds to the Disaster Risk Reduction Funds. This outcome would both decapitalize the UNDP funding and leave the Councils without funds to locally manage disaster impacts at a time when these funds are needed most. As a result, UNDP is providing technical assistance to the three loan institutions to develop a better understanding of the risks posed by disasters, and their effectively management. As disaster risk is a common challenge for all loan institutions in Tajikistan, the technical assistance results will be shared with the larger micro-loan community.

Conclusion

The use of profits from micro loans is a new approach to funding local disaster risk management. These funds are derived from the communities which benefit from the resulting risk management efforts but in a manner which limits the burden on the more poor. The local generation and management of these funds, if done in a transparent manner, should ensure that real and immediate relief and risk reduction needs are met at the community level without bureaucratic delays. While microloan-funded risk management will never be sufficient to address major disasters or capital-intensive risk reduction, the funds can address small-scale disaster relief needs and support local risk reduction. These results, together with the economic growth supported by the loans themselves, improve the overall resilience of the rural communities targeted in the project. Base on pilot phase results UNDP is considering an expansion of microloan disaster risk management funding to other parts of Tajikistan.

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[2] The severe winter of 2010–2011 led to damage to some livestock loan portfolios and changes in loan procedures to reduce livestock loans by some micro-load institutions.