



Recovery from the Tsunami Disaster

Poverty Reduction and Sustainable Development through Microfinance

Special Report

May 26, 2005



Grameen Foundation USA

ACKNOWLEDGMENTS

Many people and institutions contributed to this report. Our key partner and funder in this project was the Abdul Latif Jameel Company, through the Grameen-Abdul Latif Jameel Initiative. Mohammad Jameel and his colleagues and family were determined from the time the tsunami hit to help us ensure microfinance played a role in the recovery process. Foundations that followed their lead include the Northern Rock Foundation, the Skoll Foundation and the Third Millennium Foundation; they made this report and its promise for tsunami survivors a reality. Thousands of individuals added more resources, and more come to us every day.

We are deeply indebted to our team leader, Dr. Gene Octavio, for pulling together this report, braving aftershocks of the earthquakes in Indonesia, all the sleepless nights and never-ending travel. His compassion, hard work and leadership inspire us all.

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Ceylinco Grameen in Sri Lanka and Rumohkita in Indonesia not only presented our team with plans, but were their gracious hosts looking after every aspect of the team's needs to deliver a quality product.

The following Grameen Foundation USA (GFUSA) staff members and consultants have worked above and beyond the call of duty to finalize this report: Tania Ashraf, Ian Black, Alex Counts, Kay Hixson, Ken Liffiton, Jim Mahon, Tara Marshall, Camilla Nestor, Liselle Yorke and Denise Ziegler.

The Program Committee of our Board of Directors, chaired by Janet Thompson, took a special interest in this project and formed an ad hoc committee to follow it and provide advice. Our Board Chair Susan Davis has been a key advisor and advocate of this approach, while keeping in mind our other organizational priorities.

Finally, we are indebted to Professor Muhammad Yunus, the founder of the Grameen Bank whose leadership and vision have been the catalyst for so much of what is today a global microfinance movement that reaches tens of millions of people, can respond to a regional disaster, and so much more.

The cover photograph, which amazingly shows a tree that was completely submerged at the time of the tsunami, is courtesy of Ian Black.



Grameen Foundation USA

A Special Report

Recovery from the Tsunami Disaster:

***Poverty Reduction and Sustainable Development
through Microfinance***

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FOREWORD

More than 220,000 people dead in 12 countries ... 1.6 million people displaced. The numbers are staggering. But numbers alone cannot provide a true sense of the devastation wrought by the December 2004 tsunami in the Indian Ocean. Nor can numbers tell us what it will take for the region to recover.

In the weeks that followed the tsunami, Grameen Foundation USA took immediate action by providing \$25,000 to ASA, our long-time partner in Tamil Nadu, India, to support its innovative approach to participating in the immediate relief effort. But as the extent of the disaster slowly became clear, we felt compelled to do more.

Even as ASA was putting our resources to work in order to keep people alive, we tried to learn more about the tsunami's impact on communities, on people and on local economies, and how microfinance could realize its potential in the long-term recovery effort. But we had few resources available to do the kind of study and project development work required. Fortunately, our trusted partner the Abdul Latif Jameel Group—which had previously worked with us to develop a major finance initiative in the Arab World and has supported the expansion of an experienced Indonesian microfinance institution (MFI) called MKEJ—approached us and proposed an innovative collaboration that would allow us to study the problem and develop high-impact responses.

We committed to learning what we, and more broadly, the microfinance community, could do to help. The Jameel Group committed all of the funds required to undertake a comprehensive, multi-country survey to determine how microfinance could be best used in the post-tsunami recovery effort. Knowing that money speaks louder than words, they also committed \$1 million to implement the recommendations of that survey. We appointed a team leader of our efforts: Professor Generoso Octavio, the founder of ASHI, one of the first MFIs in the Philippines to successfully use the Grameen approach. Later, a team was assembled that included Vineet Rai and his colleagues, and under Gene's overall leadership went on-site in the four countries that were most affected and reported back on what they saw, whom they spoke with and, most importantly, how Grameen Foundation USA and the microfinance community could best support the recovery effort.

Later, the Northern Rock Foundation of the U.K.—with whom we had no previous relationship—committed \$184,000 to implement the report's recommendations, and other donors expressed strong interest in adding to this fund. They shared our vision of microfinance, realizing its potential in the post-tsunami context, and somehow found us and made a commitment even while the team was still working. Hundreds of smaller donations, many from first-time supporters of GFUSA, came in despite the fact that we had done no outreach to solicit funds; we have never sent out a single piece of direct mail on the tsunami. Of the contributions we received, a grant of \$25,000 from the Skoll Foundation was the largest. There were also many gifts, some as little as \$10; all were appreciated and will make an impact now that the team's recommendations have been finalized.

These early commitments of financial support gave hope to the team and to those they met with, indicating that their efforts at developing tangible microfinance projects in the post-tsunami environment might yield more than just a report, but concrete action and the reduction of suffering. We hope that others will add their support to our fund, as the opportunities for impact far exceed the available resources as of the date of the release of this report.

As our assessment was getting started, the Third Millennium Foundation (TMF) and its flagship project, the International Center for Tolerance Education (ICTE), reached out to us and proposed that we release the report during a day-long seminar on the broader topic of microfinance in post-disaster situations. They also provided their wonderful Brooklyn facility and a generous grant to make this possible. TMF and ICTE have been long-standing partners of GFUSA and other MFI networks, having supported our work in India, Pakistan, Haiti and, most recently, Egypt. Our friends there regard this as part of their response to the United Nations International Year of Microcredit, which itself was spearheaded by GFUSA Board member and U.N. Under-Secretary General Anwarul Karim Chowdhury.

We are grateful to the early philanthropic supporters of this project, and also to our Board of Directors and the ad hoc committee chaired by Janet Thompson, that was appointed to oversee our post-tsunami work.

This report synthesizes what we learned from our survey teams. It is a tribute to their hard work and their dedication to a difficult job that brought them face-to-face with tragedy, day after day after day. It is also a tribute to all the people—microfinance clients, potential clients, and staff—they encountered, and the hundreds of thousands like them whose lives changed forever when the tsunami waves swept ashore.

As you will read in the following pages, Grameen Foundation USA has developed a four-country plan from the many visionary and extremely cost-effective plans of organizations that want to help but lack the resources to do so. We have highlighted the 11 most promising projects — the ones we hope to support through our fund because of their strong viability — and invite other donors to either contribute to our fund, or to contact the local agencies directly if they prefer that approach.

We have also given a supplemental list of organizations that have plans; these are ones that we think may have potential to make an impact, but at the time of our study there were not as well developed as the projects profiled in this report. However, it may have been the limitations of time and/or our team that shaped our judgment about their suitability for support. They deserve closer and more recent analysis, and we can provide their contact information so that anyone reading this report can approach them.

We believe that this is a good plan, and we are asking for your help to make it happen. Thank you in advance for your support.



Alex Counts, President & CEO
Grameen Foundation USA

TSUNAMI WORLD MAP



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INTRODUCTION

Mrs. Indrawani is a resident of Aceh province in Indonesia, which was devastated in the tsunami of December 26, 2004. She lost her husband and her home in the disaster and is gripped by a combination of grief and worries about the future.

Mrs. Indrawani's husband was a civil servant with regular income from the government. Now, she doesn't know if she can receive a government pension—the documents she needs to qualify were washed away to sea.

She shares a one-story rented house with relatives and has been relying on relief goods and assistance from the government and various nongovernmental organizations. But she knows this cannot last. Mrs. Indrawani was content with being a housewife. The only way she can think of to earn a living now is through petty trading—buying and selling fruits. Her two children, she said, can help her in the after school hours.

Mrs. Indrawani needs about \$40 to buy fruits in bulk. Where will the money come from? It is a question facing hundreds of thousands of people in tsunami-stricken countries who now are struggling to rebuild their livelihoods—and their lives.

In the weeks immediately following the Indian Ocean tsunami, Grameen Foundation USA appointed a team of microfinance experts to survey the affected areas in the four worst affected countries: Indonesia, India, Sri Lanka and Thailand. Their charge was to assess conditions facing the poor and the effects of the disaster on the provision of microfinance. In addition, the team was tasked to assess, and, if needed, to help develop and refine response plans of regional microfinance institutions (MFIs), and to determine their feasibility if funding was provided.



This report summarizes the team's findings and describes specific "opportunities for impact." We have identified microfinance institutions and nongovernmental organizations (NGOs) in India, Indonesia, Sri Lanka, and Thailand that are prepared to step up their microcredit activities in the affected areas but need significant support. In our analysis, we have attempted to differentiate the very best plans with the most experienced practitioners, from

those that require further refinement and due diligence. All the groups that we met with that had some plan or even a vision of how to respond are listed in this report.

The international media is beginning to chronicle the effectiveness and efficiency of addressing the long-term post-Tsunami needs through microfinance. For example, a front-page article in the *Wall Street Journal* on February 17, 2005, titled “**In Sri Lanka, Loans Take On Key Role In Disaster Relief --Pledged Aid Is Slow to Reach Victims, So They Embrace Company's Offer of Credit**” profiled the successful post-tsunami work of Grameen Ceylinko Credit Company. A leading Sri Lankan MFI modeled after the Grameen Bank, Grameen Ceylinco reached out to GFUSA in the days after the Tsunami. Their under funded plans to speed the recovery process are in this report.

THE REACH OF THE DISASTER

The December 26, 2004 earthquake in the eastern Indian Ocean sent massive waves in all directions. Upon reaching the coasts of countries near and far, the surging waters killed at least 220,000 people, according to official reports. More than 1.6 million survivors were forced from their homes. Among the dead and the displaced were some of the world’s poorest citizens, as well as large numbers of people who had escaped poverty in recent decades.

In a recent report, the Asian Development Bank reported that two million Asians who had risen above the poverty line—some as a result of microfinance—have become poor as a direct result of the tsunami. But the true figure could be significantly higher.

While the heroic efforts of the global disaster relief community have helped to keep the tsunami from becoming an even greater humanitarian crisis, our team found that daily life in many of the affected communities remains a struggle with uncertain long-term prospects. To say that the tsunami did significant damage is an understatement. Homes, roads, bridges and businesses – in some cases, the entire social and economic infrastructure – were destroyed and must be rebuilt. Women who were struggling to feed their families before the tsunami now face even greater hurdles as they strive for self-sufficiency.

THE ROLE OF MICROFINANCE

Grameen Foundation USA believes that microfinance has tremendous potential, still largely untapped, to play a critical role in helping people and communities recover from the tsunami:

- Fisherfolk need loans to rebuild their boats and repair or replace equipment that was damaged or lost;
- Farmers need funds to reclaim flood-soaked lands and purchase livestock and equipment;
- Shopkeepers and traders need to replace depleted inventories and purchase food and other items for resale; and
- Craftspeople need money for supplies, new sewing machines and more.

Our team was encouraged to learn that many MFIs, even those not located in the tsunami zone, had feasible projects that could be implemented if the resources were made available. These MFIs were themselves buoyed by the fact that Grameen Foundation USA and its generous donors had already committed more than \$1.2 million to support the most viable of the projects surveyed.

Microfinance is a proven anti-poverty solution that can help poor families improve their socioeconomic condition through entrepreneurship. From Bangladesh to Central America, and from Haiti to Rwanda, it has been an especially powerful tool in helping the poor get back on their feet after natural and man-made disasters. The Grameen Bank has been a leader in this area, responding to the needs of its 4.4 million borrowers (and their families) after massive floods in 1987, 1988, 1995 and especially 1998, as well as after a cyclone that claimed the lives of 110,000 people on a single terrifying night in April 1991. The extraordinary experience and talent of the Grameen Bank, not least GFUSA's visionary Board member Dr. Muhammad Yunus, has informed our study and will leave its footprint on the work ahead, as it has on the entire microfinance movement.

Our team's findings suggest that tens of thousands of survivors are being held back in their efforts to recover because they lack investment capital, even as little as \$50. They also found that MFIs stand ready to meet those needs, but require additional support to do so. In light of the outpouring of concern and support by millions of people in the United States and worldwide, there exists an opportunity to have microfinance realize its full potential as a tsunami-response approach, and in so doing develop capacity and knowledge for responding to future regional disasters. This report represents a step in this direction, and will hopefully be remembered for its small contribution to realizing Dr. Muhammad Yunus' vision of a day when the only place one can find abject poverty is in museums.

ABOUT THIS REPORT

Members of Grameen Foundation USA's tsunami assessment team were on-site in the areas affected by the tsunami from early February through late April, working in concert with microfinance practitioners in the region and microfinance experts in Washington. To our knowledge, this study is the only systematic, regional survey of microfinance-related impact opportunities in tsunami-affected countries, and perhaps to any regional disaster in history.

Based on this survey, Grameen Foundation USA has identified 11 organizations that have well developed but unfunded plans to launch or expand their microfinance work in Indonesia, Sri Lanka, India, and Thailand. The number of people who could be impacted by these plans, if implemented over three years, is estimated to be 318,613.

Now, we are asking donors, particularly those that have raised or allocated funds for tsunami response, to join with the Jameel Group and the Northern Rock Foundation to expand our capacity to respond to the most promising projects. The following is a summary of the funds required to implement the strategies described in this report.

MICROFINANCE PROJECTS:	11
TOTAL COST:	\$19.2M
MINIMUM NUMBER OF FAMILIES BENEFITTED:	63,273
MINIMUM NUMBER OF PEOPLE BENEFITTED:	318,613
COST/PERSON BENEFITTED:	\$60

Based on the team's recommendations and preliminary discussions with the MFIs, we estimate that more than half of the funds required will be provided as interest-free or low-interest loans to the MFIs. In general, it is recommended that funds for on-lending to clients be provided to the MFIs as loans, and funds for training, capacity-building, software installation, and asset transfers be provided as grants. Exceptions will be made in some cases. As a result of this approach, an estimated 50 percent or more of this would be repaid and available for deployment for other disaster response, disaster preparedness or other microfinance or development programs in the future. If they are re-deployed in the same countries, there will be no foreign exchange loss. Thus the long-term leverage and impact is potentially much greater than is suggested by the figures above. If the cost per family and person benefited is calculated only based on the grant element, these already cost-effective investments would be seen as even better philanthropic bargains.

In the following pages, we relate the findings of our team and what they saw regarding the conditions of poverty and the state of microfinance in each of the four countries that were the focus of our research, along with the opportunities for impact that have been identified by our research team.

Grameen Foundation USA views the funding that we are proposing for this initiative as a necessary investment in the future of the people and the countries affected by this terrible crisis. We hope you will join with us in this important work.



Grameen Foundation USA is an eight-year old, dynamic, global organization that combines microfinance, new technologies, and innovative thinking to empower the world's poorest people to escape poverty. In just eight years, the foundation has established a global network of 50 partners in 20 countries that serves an estimated 5.5 million lives in Asia, Africa, the Americas and the Arab World.

Grameen Foundation USA sprang from a rich heritage and maintains an enduring relationship with the Grameen Bank of Bangladesh. Grameen Bank was started in 1976 by Dr. Muhammad Yunus, when he discovered that poor women could break through poverty by taking tiny loans to start or expand tiny businesses. He launched his concept, microfinance, with the money in his pocket. Today, Grameen Bank serves 4.4 million borrowers, of which an estimated 5 percent come out of poverty every year, according to a World Bank study. Grameen Bank has been a leader in disaster response in Bangladesh, and also in developing microfinance as a platform for addressing many dimension of poverty. More than 20 profit and non-profit companies have been established to further the goal of poverty alleviation and self-sustaining development.

As strategic global partners, Grameen Foundation USA and Grameen Bank fuse their mutual mission, ongoing relationship and common vision by sharing knowledge and success models to accelerate the microfinance industry's impact on the world's poorest. Dr. Yunus, the founder and managing director of Grameen Bank, is a founding and current board member of Grameen Foundation USA. Three of his senior managers, and two of the CEOs of Grameen companies in Bangladesh, serve on GFUSA's Advisory Council.

INDONESIA

Among the nations affected by the December 2004 tsunami, Indonesia was the hardest hit. The Aceh province at the northwestern tip of the island of Sumatra lies fewer than 100 miles from the epicenter of the undersea earthquake. The province's capital, Banda Aceh, was paralyzed by the resulting waves. Other heavily impacted areas include the towns and coastal subdistricts lying to Aceh's south and west.

Three months after the tragedy, Indonesian authorities reported that 126,000 people had died, 93,000 were missing, and 350,000 families had been forced from their homes. Our team met with many of the survivors and listened to their stories. Many had lost every family member, their home, all of their earthly belongings, and were either living in a temporary camp or with a relative. All were still in a state of shock, goose bumps forming on their arms as they relived those dreadful moments of seeing the 90 foot wave approach the shore. Within fifteen minutes, their lives had changed forever.

Total losses and damages were estimated at \$4.5 billion, or roughly 2.2 percent of Indonesia's gross domestic product (GDP). Losses and damages in Aceh province amounted to a staggering 97 percent of its GDP.

Damages resulting from the tsunami included the destruction of roads, bridges, schools, houses, buildings, boats and other assets. From agriculture and fishing to industry and trade, no segment of the economy was spared. Fishermen lost not just their boats but their nets and gear as well. Shopkeepers lost buildings and inventory. Farmers lost crops and equipment. And, most tragically, almost everyone lost family members and friends.

Personal interviews in the tent camps set up by relief agencies revealed the extent of the losses. One village head reported that 500 residents were accounted for in the aftermath of the tsunami. The village's pre-tsunami population was 5,000.

SURVIVOR PROFILE – INDONESIA

Mrs. Norwati rode out the tsunami waters on a mattress, holding on for dear life. She lost her husband in the disaster but feels fortunate that her 19-year-old son survived. In the days following the tsunami, Mrs. Norwati decided that she would return as soon as possible to the work she was doing before the waters rose.

Using borrowed and donated capital, she purchased cooking utensils, plates and other items so she could set up a food stall where she sells breakfast meals—commonly known as nasi pagi—consisting of fried fish, sautéed vegetables, noodles, rice and a beef dish called daging. Her net income from this microbusiness: between \$8 and \$11 a day.

Mrs. Norwati said that she would be interested in taking out an institutional loan to invest in strengthening and sustaining her business. The problem that she and others face, however, is that there are no affordable loans for Indonesia's poor.

CONDITIONS OF THE POOR

The Acehnese are not strangers to adversity. Poor communities there have long borne the economic brunt of the continuing internal conflict between the federal government and the Free Aceh Movement (GAM).

The tsunami added another layer of hardship to these conditions. More than half a million families in Indonesia were affected by deaths, missing family members or the loss of their homes. This suggests that the “new poor” in the country could total between 2.5 million and three million, assuming an average household membership of five people.

Survivors of the tsunami are housed in two types of camps. As of mid-February, nearly 300 relief agencies were operating tent camps in Aceh province. Here, survivors could obtain rice, noodles, biscuits, milk, clothes, medicines and other necessities. However, visits to the camps revealed a range of problems, such as: obvious overcrowding; discomfort due to the intense heat; inadequate toilet facilities; and an air of hopelessness and boredom on the part of residents, many of whom have no idea how long they will remain in these living conditions, and how they will resume normal lives once they leave.

“I lost everyone and everything. I am the only survivor of my family of ten people. I clung to the tip of the tree. When the water went down, I was in the top of the tree. All the people, animals, houses and cars and everything went out into the sea,” said Reme, one Banda Aceh survivor.

Many survivors with relatives and friends in nearby villages that were not completely leveled have opted to stay with them in “non-tent” or “non-camp” housing. These people also receive relief goods, and they clearly benefit from living in a more natural environment than their peers in the tent camps. In the non-tent communities, people help their relatives with farming, children have more space and more opportunities to play with others, and survivors receive emotional and social support from relatives and friends.

Whether they are living in tents or not, however, most poor people in Aceh and other hard-hit areas of Indonesia, such Nagan Raya, Pidie, and Aceh Basar, have lost their livelihoods. A few enterprising people have opened small businesses in the tent camps or pitched temporary roadside shops. But most rely on relief agencies for support.

An interview that our team conducted with a village head living in a tent camp revealed the degree to which things have changed. In his former village before the tsunami, residents engaged in an array of economic activities, from farming and fishing to trading, raising vegetables, and making and selling rice cakes. Because of the tsunami, all of these livelihoods have disappeared. The potential for revival may be there, but people clearly need help rebuilding their former lives and getting back on their feet.

The GFUSA Tsunami Assessment team went to Indonesia first, as it was the hardest hit but found only limited possibilities for microfinance. As the assessment began to take shape the

entire team met to begin consolidating the report. Banda Aceh was chosen as the meeting place, not because it was convenient, but because it was the most affected and the team wanted to leave no stone unturned in an effort to identify microfinance-based approaches to accelerating the recovery process. The ethnic strife in the northern Sumatra province makes for a complicated political landscape and has kept the rural areas underdeveloped, but the team searched for ways around these challenges.

CONDITIONS OF MICROFINANCE

Even before the tsunami, the provision of microfinance by organizations following international best practices has been limited. The principle reason has been that quality MFIs in Indonesia has been reluctant to enter this area due to the ongoing ethnic/separatist conflict. Branch offices of government and private financial institutions—such as the rural People’s Credit Banks (Bank Perkreditan Rakyat)—generally do not extend loans without requiring collateral, which makes their lending largely unavailable to the poor. Of the almost 100 NGOs operating in Aceh before the tsunami, only three were engaged in some form of microcredit activity. Two of these were severely affected by the tsunami, losing key staff, documents and files. Thus, there was not much microfinance infrastructure in place to use and build on, as was the case in other countries that we surveyed.



In short, we did not find any evidence of an existing MFI that was able to move quickly to provide microfinance through its existing program to serve the Acehnese poor. However, based on extensive interviews, Grameen Foundation USA has identified two groups of potential partners who could be supported to provide loans and other assistance. These include existing MFIs operating outside of Aceh that are willing to establish branches in the province and local Acehnese NGOs that want to launch microfinance initiatives.

- **Non-Aceh MFIs.** Grameen Foundation USA has identified at least four MFIs operating outside of Aceh that have expressed a strong interest in setting up local branches. Two of those are the Grameen Trust funded Yayasan Mitra Usaha (YMU), which operates on the Indonesian island of Java, and Yayasan Pokmas Madiri (YPM), which operates in Northern Sumatra province. The other two are Yayasan Kary Bunda Sejahtera (YKBS) operating in North Sumatra, and Yayasan Metra Dhuafa

(Yamida), which operates in Boyor, West Java. Both YKBS and Yamida are keen to begin operating in Aceh.

- **Aceh-based local NGOs.** Several local NGOs have expressed interest in broadening their anti-poverty efforts to include microfinance in the aftermath of the tsunami. Three Aceh-based organizations that Grameen Foundation USA has identified as the most prominent and most able to launch microfinance programs are: Save Emergency for Aceh (SEFA); Center for Aid in Resolving Aceh (CARE Aceh), Rumoh Kita. These three, plus two non-Aceh organizations, have been identified as the five potential implementers of post-tsunami microfinance initiatives. There is a certain amount of risk in partnering with the local agencies because they have little or no prior microfinance experience, and with the MFIs from other provinces, as they do not know the local realities. The team recommends that GFUSA and the donor community take a venture capitalist approach and fund three young, educated, ambitious local groups (and five overall), many of whose staff have worked as volunteers, and are now providing basic services to tsunami survivors. Working from these beneficiary lists, many of the neediest survivors will have access to credit to start rebuilding their lives. If even one of these efforts gets traction and has a big impact over time, this should be considered a success.

The nascent state of microfinance in Aceh demands action to help create strong Acehnese MFIs that will cater to the microfinance needs of tsunami survivors now and over the long term. This is an urgent need, based on interviews and surveys showing wide interest in microfinance services. Based on extensive interviews with potential microfinance clients, today the only choice for Acehnese seeking loans is to work with moneylenders offering rates as high as 10 percent per month or one percent per day. These are rates they cannot afford, and as a result economic recovery is being retarded and unnecessary suffering prolonged.

OPPORTUNITIES FOR IMPACT

Below are descriptions of several Aceh and non-Aceh based high-impact projects, implemented by MFIs selected by our tsunami team. Grameen Foundation USA already has met with six groups, including CARE Aceh, RumohKita, SEFA, Solidaritas, YAMIDA, YKBS and arrived at a general framework for supporting their microcredit activities, which include special conditions for year-one micro-finance projects that will be mature in two or three years. We are suggesting that \$1.96 million be provided in the twelve months beginning July 2005 to support five of these MFIs, based on a competitive but streamlined process. Those MFIs demonstrating significant progress in year one will receive additional funding based on best-practice performance criteria.

An overall summary for these projects is as follows (over a three year period):

Number of Tsunami-Affected Families Benefited:	34,180
Number of Tsunami-Affected People Benefited:	170,898
Total Project Cost:	\$11 million over three years
Cost per Tsunami-Affected Person Benefited:	\$64

The basic approach will be to follow the following guidelines:

- *Implement a standard MIS system in all five NGOs.* This investment will help build a strong foundation for collecting data from the very beginning. The economies of scale in implementing this system into all four agencies at once will save both time and money. As the organizations grow, the MIS will become increasingly important and it is therefore critical to have the right systems in place from the beginning. The software package we are recommending is M2, developed in the Philippines by the firm Southern Horizons.
- *Direct that initial funds be used to assist the selected agencies in developing the systems and staffing they need.* As a first step, the selected agencies will use resources to set up minimally acceptable management information systems and credit processes that will give the best chances for the programs to be sustained in the long-run. A second priority will be to hire additional staff, including a financial manager, program manager and senior loan officer, and give them training in microfinance methodologies, likely from quality MFIs operating in other parts of Indonesia. Agencies also will receive funds to begin hiring loan officers who can start training immediately, and when the first borrowing groups are established, resources for loan capital will be made available. A GFUSA microfinance expert will be on-site to supervise this process over the entire year.
- *Deviate from normal GFUSA MFI financing guidelines by being willing to provide at least part of the funding to NGOs as grants.* The most likely uses for grants funds will be for branch establishment costs, staff training, purchase of software and related systems, and technical assistance. Low-interest loans in local currency will likely be the means of providing loan capital, but GFUSA will remain open to providing that as a grant for year-one operations only, on a case-by-case basis.
- *Deviate from normal microfinance best practice by allowing MFI partners to provide financing to clients that might include a mixture of asset transfers (grants), subsidized loans and loans at market rates for a limited period, as long as they are in the context of a medium-term plan to become sustainable and follow generally accepted best practices.* The grant portion can be used for purchasing new equipment, machines and business facilities, while the loans will be for buying stocks and inventories of raw materials and other working capital. The Tsunami Assessment team gathered the proposed NGOs during a recent visit and gained consensus on terms for the first year of the project.
- *Coordinate efforts among potential partners and stakeholders in the initiative.* In response to its findings of poor coordination, GFUSA will complement its work with these local MFIs by organizing a mini-summit among stakeholders in the Indonesian microfinance sector as soon as possible. Participants will include potential partners, donor representatives, selected client representatives and local district leaders. The aim of the summit will be to lay out ground rules, policies, terms and conditions of

microlending, and to discuss potential problems and risks. This group will also form the base for the advocacy required to introduce a microfinance law in Indonesia.

Below are brief profiles of these five organizations:

1. *CARE Aceh: Provide \$3 million to help 12,500 affected families. CARE Aceh conducts alternative education programs, economic development and healthcare training, as well as emergency assistance training. To substantiate its economic development program, CARE Aceh wants to implement microfinance projects in select districts of Aceh, with priority given to women housed in villages with their relatives.*
2. *Rumohkita: Provide \$300,000 to help 700 affected families. Rumohkita focuses on communities of internally displaced peoples (IDPs) living in houses, which are more abundant than those living in refugee shelters (the numbers of IDPs living in Aceh reached 260,000, compared to 140,000 living in refugee shelters.) These 'housed' IDPs were largely ignored by larger relief organizations, because they were wrongly assumed to be in a better condition than those living in refugee camps. Rumohkita feels that they require the same kind of assistance as IDPs in refugee shelters but are in a better position to start community healing efforts to heal themselves and their community.*
3. *Save Emergency for Aceh (SEFA): Provide \$2 million to help 4,000 affected families. SEFA is a humanitarian organization with a mission similar to that of CARE Aceh. SEFA was established on September 11, 1999, in response to the worsening humanitarian condition in Nanggroe Aceh Darussallam (NAD). It was founded by several young university graduates of Aceh and has gained support and recognition from various groups and agencies which are convinced of SEFA's vision, mission, integrity and dedication in delivering humanitarian assistance and bringing about social transformation in Aceh's more disadvantaged communities.*
4. *Yayasan Mitra Dhuafa (YAMIDA): Provide \$2.5 million to help 14,000 families. YAMIDA was founded in West Java and is focused on building the institutional capacity of MFIs through technical assistance, training, research and consultancy, using the Grameen model to reduce poverty in Indonesia. YAMIDA is ready to begin its first microfinance operation in Banda Aceh if funding is available.*
5. *Yayasan Kariya Bunda Sejahtera (YKBS): Provide \$2.8 million to help 3,600 affected families. YKBS is a new NGO, planning to begin operations in Aceh. YKBS is staffed by Acehnese with years of experience in Grameen-type microfinance. One of its key management officials was formerly connected with Yayasan Pokmas Mandiri in Medan, in North Sumatra.*

While three-year budgets are provided, it is imagined that over time one to two of these NGOs will gain traction with their microfinance programs and will be able to absorb the amounts projected or more, and the others will grow much more slowly.

SRI LANKA

The island nation of Sri Lanka lies more than 1,000 miles from the epicenter of the December 26, 2004 Indian Ocean earthquake. Despite this distance, Sri Lanka ranked second after Indonesia in the number of fatalities due to the tsunami. The official death toll in Sri Lanka was 31,000; 52 percent of the survivors were children. In addition, more than 15,000 people were injured, and an additional 5,600 were declared missing and are presumed dead.

The eastern and southern parts of the country bore the brunt of the effects of the tsunami, which forced nearly 300,000 Sri Lankans to evacuate their homes. Displaced residents were living either in welfare centers, which include tents and other temporary housing, or with relatives and friends.

In all, it is estimated that \$1.8 billion is needed to rebuild properties and infrastructure destroyed by the tsunami in Sri Lanka. Entire towns such as Hambantota on the nation's southern coast were devastated. The Grameen Foundation USA team found that a three-kilometer stretch of road near the Sri Lankan capital of Colombo was lined with destroyed homes; only a few concrete walls were left standing.

Survivor Profile – Sri Lanka

Among the tsunami survivors in Sri Lanka is Mrs. Fernando, who shares a tent provided by a relief organization with her sister and two other women.

Mrs. Fernando and her sister both lost their husbands in the disaster. Two years ago, she borrowed approximately \$100 from a Grameen credit branch to use in her sewing business. But now her sewing machine is gone, washed away by the tsunami's waves.

CONDITIONS OF THE POOR

Even before the tsunami, Sri Lanka was one of the poorer countries in the world. Officially, 24 percent of its residents live below the official national poverty line of \$64 per family per month. However, a survey by microfinance provider Ceylinco Grameen Credit Co., Ltd., showed that 54 percent of the population—or roughly 2.6 million people—earn less than the marginal income needed for a family to survive. Sri Lanka has been wracked by a civil war since the late 1980s, and as a result impressive social development that had been achieved (despite slow economic growth) in previous decades has been reversed to a large extent.

The government's efforts to alleviate poverty in Sri Lanka have been hampered by a range of problems, including: a lack of proper planning and evaluation; political influence and corruption; and the improper distribution of funds. Adding to the challenges facing the poor is the ongoing conflict between government troops and the Liberation Tigers of Tamil Ealam (LTTE), which seeks autonomy for Tamil-dominated areas in the north and the east of the country.

The December tsunami represented a crushing new blow to Sri Lanka's poor. The devastation of property and livelihoods wrought by the waves affected a wide swath of the population, from middle-income businessmen who make their money from tourism to residents of poorer communities along the coast.

CONDITIONS OF MICROFINANCE

Specialized MFIs, as well as multi-sectoral NGOs with microcredit programs, exist throughout Sri Lanka. These entities receive active support and encouragement from Sri Lanka's NGO-friendly government, which has created a relatively supportive policy environment for the participation of nonprofit organizations in initiatives to aid the poor.

Of all the organizations providing microcredit services in Sri Lanka, Grameen Foundation USA has identified Ceylinco Grameen Credit (CGC) as the one with the highest potential for impact. In fact, Ceylinco's commitment and readiness to meet the challenges and their support for Grameen principles was recognized in a recent *Wall Street Journal* article. Our team conducted extensive interviews with representatives of CGC in order to identify its tsunami-response goals and priorities and to gain added perspective on the conditions of microfinance in Sri Lanka in the wake of the tsunami.

CGC was established in 2000 by the chairman of Ceylinco Consolidated Group of Companies, Dr. Laity Kotelawala. It provides financial assistance for self-employment projects for Sri Lanka's poor. The company has 46 branches across the country with more than 75,000 "member-clients." CGC disbursed \$9.9 million in loans during its first four years.

Seventeen CGC branches are located in areas affected by the tsunami and are in the process of rescheduling and writing off loan balances of clients whose businesses were destroyed or who died.

One of the affected branches was the Matara branch, which had 2,500 member-clients at the time of the tsunami. Most of these clients were involved in fishing, buying and selling fish, operating retail shops, or sewing. Nearly 600 of the branch's clients were affected by the disaster; 12 died. CGC wrote off the loans of the deceased, while restructuring the loans of 14 clients whose



husbands perished. In addition, a grace period of three months was granted to all clients; CGC is now assessing these clients' ability to repay existing loans.

Other Organizations. Grameen Foundation USA also conducted interviews with the Women's Development Federation of Hambantota (Janashakti) and the National Development Trust Fund (NDTF). Janashakti lost 1,000 of its 32,000 members in the tsunami and is working to rehabilitate the businesses of survivors. NDTF is a nonprofit that operates through a network of partner organizations with the goal of alleviating poverty. In response to the tsunami, NDTF developed a "special emergency credit program" to help members of the partner organizations in affected areas.

OPPORTUNITIES FOR IMPACT

Below are descriptions of one high-impact project in Sri Lanka, implemented by Ceylinco Grameen. We are suggesting that \$4.74 million be allocated for helping Ceylinco Grameen reach nearly 12,000 affected clients, and prospective clients.

An overall summary for this project is as follows:

Number of Tsunami-Affected Families Benefited:	11,913
Number of Tsunami-Affected People Benefited:	59,565
Total Project Cost:	\$4.74 million
Cost per Tsunami-Affected Person Benefited:	\$80

The project would have two components:

- 1. Provide approximately \$1 million in loan capital to extend loans to approximately 2,000 existing Ceylinco Grameen clients. At present, CGC does not have enough loan capital to provide financial support to these tsunami-affected clients. It had enough to provide capital recovery loans to 3,000 others who were affected. As these borrowers and the staff are in place, in a matter of weeks these loans, averaging \$500, would be disbursed and be making an impact. Virtually no additional (overhead) costs will be needed, because the infrastructure is in place already.*
- 2. Provide an additional \$3 million in loan capital to approximately 10,000 new clients in the affected areas. About 60% of these clients need loans (averaging \$500) to restart their businesses, while the remaining 40% are in need of loans to fund start-up businesses, at an average loan size of \$50. The loan capital for new members could be disbursed almost as quickly as the loans above. The infrastructure is in place and the borrowers have been formed into groups or could be quickly.*

Because all of this assistance would likely be provided to CGC as a bridge loan that would ultimately be repaid, the capital will be able to be redeployed to other development activities in a later phase, or perhaps turned into equity in CGC. The grant dollar per family affected is tiny, only the cost of GFUSA or another member of the donor community to structure and monitor this investment/loan.

INDIA

The massive waves from the December 2004 tsunami crossed the Bay of Bengal at speeds of up to 500 miles per hour and wreaked havoc on India's southern coast. Worst hit was the state of Tamil Nadu; Kerala also saw extensive damage. Other states such as Andhra Pradesh and West Bengal were affected to a lesser degree.

The total number of affected people in Tamil Nadu (including those who died and were displaced by the disaster) was 52,190. In Kerala, the tsunami killed or displaced 25,149 people. Women and children suffered the brunt of the disaster because large numbers of men were at sea fishing when the waves struck the coast. Also contributing to the gender discrepancy among the dead was the fact that women and girls in these areas generally are not taught to swim.

The economic losses attributed to the tsunami in Kerala have been estimated at \$100 million, and in Tamil Nadu at a whopping \$815 million. These damages have increased these two states' fiscal deficits.

At the local level, however, our team saw that the economic and social effects of the disaster were profound. Interviews with affected families were heartbreaking. And, while support has come from a variety of public and private sources, the relief effort is just now beginning to focus on ensuring sustainable livelihoods for survivors. Fisherfolk, farmers and other microentrepreneurs who lost their livelihoods are now seeking grants and/or loans for replacing assets, reclaiming lands and otherwise resuming the livelihoods they knew before December 26. The source of credit people are most often forced to turn to is the village moneylender, though family and friends are another important source. Loan sharks are known to charge interest as high as 10 percent per week, which is a recipe for keeping those who are suffering in the rut for a long time to come.

CONDITIONS OF THE POOR

The impact on the conditions of poverty by the tsunami was profound. By way of background, both Kerala and Tamil Nadu are among the most socially developed states in India—with relatively high rates of literacy, especially among women and girls, compared to other states in India. Nevertheless, both states have experienced persistently low incomes and high rates of poverty:

- **Kerala.** Even by Indian standards, Kerala residents are quite poor, with a per capita income below the national average. A survey by the government of Kerala found that 36.6 percent of the state's population of more than 1.7 million people lived below an austerely defined poverty line.
- **Tamil Nadu.** In Tamil Nadu, which has experienced a higher rate of economic growth compared to the average for all states, the poverty rate is still relatively high at

20 percent. At 14 percent, the state's official unemployment rate also is relatively high; seasonal underemployment and hunger are pervasive. Part of the problem is the concentration of poverty among workers in rural areas of Tamil Nadu. These workers depend for their livelihoods on rain-fed agriculture and can be made increasingly vulnerable in the event of drought.

Conditions for poor residents of Tamil Nadu and Kerala were made significantly worse by the tsunami. The damage to houses has been estimated by the Asian Development Bank (ADB) at \$195 million for Tamil Nadu and \$21 million for Kerala. Some fisherfolk are reporting decreased yields, especially along the Kerala coast. Land adjoining the coast was flooded, standing crops destroyed, and land made unproductive due to residual salt and sand. The district of Nagapattinam alone reported damage of about 10,000 hectares of land. The damage to agriculture and livestock has been estimated at \$37.5 million by the ADB.

During discussions with local people, the team learned that injury and loss of life was predominantly among women and children. This was because many men were out in the sea fishing when the disaster struck the coasts, and were spared. Due to local custom, women and girl children had not been taught to swim and, as a result,



drowned. Ironically and tragically, with few exceptions, only male family members, if any, had accident or life insurance of any kind.

The breakdown of social structures, damage to homes, and the loss of fishing equipment, boats, agricultural land, livestock and other small business assets have become a tremendous burden on affected communities. The result is that poor people are significantly more vulnerable now than they were before the disaster. And the economic picture is not likely to improve any time soon.

In rural regions, the farming cycle has been interrupted by the destruction of standing crops; there are often not enough seeds for the next harvest. Meanwhile, fishing communities face their own challenges, as fisherfolk are reluctant or unable to assume other livelihoods.

In order to address the impact of the tsunami in these communities, the government, NGOs and financial service providers will need to work together to restore sustainable livelihoods for the poor.

CONDITIONS OF MICROFINANCE

The environment for microfinance in tsunami-affected areas in India changed dramatically in the wake of the disaster. In Kerala and Tamil Nadu, with a few exceptions microfinance had been provided by small local organizations as part of an integrated package of development services. There were only a few specialized MFIs, such as ASA-GV, that followed international best practices and had achieved, or were within striking distance of, institutional sustainability.

However, a few microfinance institutions were active in the affected states in recent years. The GFUSA team met with these MFIs to learn of the impact on them and their clients, and to assess their recovery plans. Some of these, such as the South Indian Federation of Fishermen Societies (SIFFS) and the Indian Association of Savings and Credit (IASC), have reported severe impacts on their operations as a result of the tsunami. The post-tsunami period also has seen new organizations proposing and/or introducing microfinance services in hard-hit coastal communities.

Complicating the picture for microfinance is uncertainty about initial reports that the government would provide new boats for fisherfolk, as well as grants for the replacement and repair of lost or damaged gear. With the aid not forthcoming at the time of this survey, fisherfolk are in a state of limbo and have grown complacent about recovering old boats. This has also created uncertainty on the part of MFIs that might provide loans for buying boats. As weeks

ASA: One MFI's Immediate Response Strategy

Within days of the Tsunami disaster, Grameen Foundation USA teamed up with ASA in Tamil Nadu to provide relief services in affected areas of Tamil Nadu. Under the leadership of its Managing Director, Sathia Devaraj, ASA suspended its microfinance operations for a week and the whole staff team (approximately 300 staff) was organized into three groups for smooth implementation: one to do the damage survey and provide information about immediate needs, the second to do the materials procurement and transportation, and the third to raise funds from supporters and to maintain accurate financial records of the relief effort. ASA focused its efforts in districts which were difficult to access and, consequently, not served by other relief agencies.

ASA conducted its relief efforts in three phases; the first phase consisted of providing immediate relief kits, the second phase consisted of providing more relief material and resettlement and the third phase (which is ongoing) consists of educational support to children of affected families. To date, ASA has covered 58 villages and provided relief services to more than 5,000 affected families for an overall cost of approximately \$307,000.

Grameen Foundation USA provided ASA with \$25,000 for the second phase of relief work. These funds were used for distributing relief kits consisting of clothes, food and water packages and medicines and building temporary shelters and repairing permanent houses, where possible. ASA has now developed plans for providing the affected people with microfinance services, which is summarized later in this report.

For more information on ASA and its innovative approach, visit www.asadev.com.

turn into months and aid from the government continues to not materialize, the team senses a growing demand for loans to purchase boats from MFIs.

Grameen Foundation USA has studied the work and tsunami response plans of seven organizations seeking to provide microfinance in the affected areas of India. In our view, four of these organizations have well designed plans for responding and merit support. They are: ASA; the Covenant Center for Development (CCD); ESAF; and IASC. The other three organizations are mentioned briefly later in the report.

FOUR OPPORTUNITIES FOR IMPACT

Below are descriptions of four high-impact projects that MFIs our team visited are proposing, which have not been funded to the point where they could be implemented. In each section, a brief profile of the MFI precedes the description of the project and the costs involved in implementing it.

An overall summary for these four projects is as follows:

Number of Tsunami-Affected Families Benefited:	15,600
Number of Tsunami-Affected People Benefited:	78,150
Total Project Cost:	\$2.26 million
Cost Per Tsunami-Affected Person Benefited:	\$29

As noted in earlier in this report, the fact that much of this \$2.26 million will be provided as loans to the MFIs increases the long-term impact and leverage dramatically. If only the grant element is considered an outlay for calculating cost per family and person benefited, this becomes an even more efficient approach. The exact percentage of grant vs. loan funds in each of these projects will be determined based on their plans, our negotiations, and regulatory issues.

In some respects, the presentation below understates the beneficiaries and overstates the costs, even though the costs are very low due to the fact that these are implemented by local organizations paying local salaries that use existing infrastructure and have good rapport with the poor. In the case of IASC, one element of the project will shore up the MFI's loan pool and allow it to serve affected and non-affected clients. If this is not done, loans to all 11,000 families it now serves could be in danger.

1. The bottom line: Provide \$1 million to Activists for Social Alternatives (ASA) to support its plan to provide microfinance and complementary activities to 3,000 families in the affected areas.

ASA is a not-for-profit NGO that was registered as a public charitable trust in 1986. It works for the empowerment of the oppressed class around the issues of watershed development, land tenancy and microcredit through education, training, awareness building, networking and advocacy. Later, realizing the need to segregate microfinance operations from the rest of its developmental activities, ASA 'Grama Vidiyal' (ASA-GV) Public Charitable Trust was

given shape in 1993. Now, while ASA-GV provides microfinance services to the members, ASA provides complementary “microfinance plus” services, conducts pilot projects, and the like. ASA–GV is in the process of transforming, with the assistance of GFUSA and others, into a legal form more suitable for undertaking microfinance operations on a large scale. It will become a non banking financial company (NBFC), the most appropriate form for a growing microfinance institution under current Indian law. The MFI operates in six districts of Tamil Nadu, all of which are disaster-prone, and has the experience of working in both drought and flood relief activities. The table below captures the profile of ASA GV as of February 2005:

ASA - Operations

Districts	6
Branches	29
Villages (1 or more centres/village)	1,993
Centers (4 peer groups/center)	3,578
Peer Groups (5 members/group)	13,291
Members	66,436
Amount of Savings	US\$1.7 million
Amount of Loan Outstanding	US\$4 million

ASA, which has been a partner of GFUSA’s since 2000, was not itself affected by the tsunami, as it does not have branches in the coastal areas, but it responded nevertheless in a variety of ways that were profiled earlier in this section of the report. It is now proposing to pilot a modified microfinance intervention strategy through ASA (NGO), rather than through ASA-GV, due to the risky and uncertain nature of working in this environment. It will consider integrating these efforts in ASA-GV over time if they prove successful.

ASA plans to introduce microfinance in the regions in which it is currently providing relief. The salient features and the components of the proposed interventions are:

- About 1,000 families from three to four contiguous villages would form into a cluster, and the cluster would form the unit through which its operations would be implemented.
- In the wake of the tsunami, employment creation is anticipated through reconstruction and repair in the affected areas including the construction of disaster-proof shelters. This short-term “food for work” program would employ 50 people in a cluster to undertake such work for a period of 90 days, after which they would resume their normal livelihood activities.

- Livelihood support would be provided to 25 families each from both fishing and non-fishing families in a cluster. Families dependent on fishing would receive 25 boats and nets. Within a cluster, 25 farmers, including landless laborers and other non-fishing families, would receive money to purchase livestock, consisting of two goats and a cow/buffalo along with cattle feed for about two months so that they can resume income generation.
- Under the disaster-preparedness component, 1,000 families in a cluster would be provided insurance coverage for life, assets and livestock. Each cluster would have a disaster management centre that would act as a community centre. Additionally, the members would also receive financial education on risk management.
- Disaster-proof houses would be provided to about 30 families in a cluster. Fifteen of these houses would be built on government land and for the other 15, land would be bought.
- Through the advocacy component of this project, ASA proposes a campaign to bring about awareness among the people about issues like resettlement rights, access to relief and rehabilitation, on the one hand, and influencing policy decisions in favor of the effected people, on the other.
- To support special categories, the project would identify 20 physically challenged (handicapped) persons in each cluster and provide them with equipment like wheelchairs, walkers, crutches and hearing aids. Twenty single women and old age widows that need special attention in a cluster would be supported with money for furniture and other provisions to compensate for their loss due to the tsunami.
- Community-owned microfinance would transform rehabilitation efforts into a sustainable and an on-going activity. One thousand women from the poorest families in the cluster would be organized into self-help groups (SHGs) and these SHGs would form a mutual benefit trust at the cluster level. Collateral free loans of US\$225 (INR 10,000) would be extended to women through the groups for primarily for income generation, but also for house repair and, to a limited extent, for consumption purposes.

ASA Trust, the NGO, would be the implementing agency for the proposed project. Each cluster would have a cluster level committee (CLC) with elected representatives from the community. CLC would aid the process of selection of participants, planning and implementation of the project. In each cluster, a project officer, appointed by ASA, would be responsible for the execution of the project. He or she would report to the Chief Managing Director (CMD) of ASA and would be assisted by a project coordinator and five field supervisors. The technical assistance for the shelter and livelihood would be provided by consultants who would be experts hired on a contract basis.

The fund requirement per cluster, including the costs of monitoring, evaluation, and audit, is about \$350,000. GFUSA is proposing that the donor community provide support of \$1

million to support three clusters immediately, which would benefit more than 3,000 families and have other, secondary benefits such as improving disaster preparedness and allowing for pro-poor and pro-victim advocacy.

2. The bottom line: Provide support to the Covenant Center for Development (CCD) to extend working capital loans to 4,000 small farmers, particularly as the needs of farmers has been relatively neglected in the tsunami-response agenda.

CCD is an NGO that started its interventions for the rehabilitation of street children and their families who migrated to urban areas. Working with them it realized that migration was only a symptom and the real problem was economic under-development in the rural areas. Therefore, it started, and continues to, work towards securing the livelihoods of poor rural families. It has devised a three-pronged development strategy for the purpose:

- Economic Development;
- Natural Resource Development - sustainable harvesting, cultivation and marketing of medicinal plants; and
- Human Resource Development.

To build economic capacities, CCD mobilizes rural women and links them to banks. This economic support serves a dual purpose – acting as an entry point into the community and as program strategy to reverse the problem of migration.

CCD plans to address the needs of the agricultural community that have been largely ignored. Having identified the requirements, it aims to:

- Form 4,000 farmers into groups and federations,
- Reclaim about 3,000 hectares of land belonging to these farmers,
- Provide the farmers employment through the reclamation process,
- Provide credit for agricultural inputs like seeds (salt resistant seeds like cotton for the first few crops), fertilizers and pesticides through the federations, and
- Encourage and provide credit for processing units at the federation level.

CCD was judged by the team to be capable of executing this approach based on its having the following strengths:

- CCD has the experience of working extensively with the farmers and staff have expertise in agriculture,
- Their earlier involvement with relief and rehabilitation operations in Nagapattinam district equips them with understanding of the local areas, and
- The program staff and field workers belong to local area; in fact some of them are from the affected families.

- CCD has already secured funds from other donor agencies for support to organize the farmers into groups, so the cost of group formation can be done away with. Working capital for enterprises proposed to be set up by the federations can also be considered at a later stage, when the processing plants are in place. The key drivers of the total budget of \$580,000 are:
 - Support for only capacity building of the groups with regard to book keeping and maintenance of records at US\$115 (INR 5,000) per group.
 - Working capital loans to the farmers at the rate of US\$2,300 (INR 100,000) per group of 20 members (based on the assumption that production cost would be US\$115 or INR 5,000 per member).

To sum up, GFUSA recommends that this project be funded at a level of \$580,000, which includes the cost of monitoring, evaluation, and audit. This would represent a cost per farming family served of \$145, and a cost per person impacted (assuming five members per family) of \$29.



3. The bottom line: Provide \$280,000 to tap the potential of self-help groups to promote alternative livelihoods for 7,500 affected families through the work of Evangelical Social Action Forum (ESAF).

ESAF is a registered charitable society located in Kerala with branches extending to four other states – Maharashtra, Gujarat, Jharkhand and Chattisgarh. It has previously been supported by Grameen Trust, GFUSA’s sister agency based in Bangladesh that was established in 1989 to promote Grameen-style microfinance worldwide. ESAF’s operations are multidisciplinary and it offers the programs in:

- Micro Enterprise Development (MED)/Microfinance Program,
- Human Resource Development (HRD),
- Community Health & Rehabilitation,
- Promotional Department.

ESAF implements its microfinance interventions through self help groups. It facilitates the formation of the groups, monitors and evaluates their performance, and provides credit to their members. Interestingly, though it operates through SHGs the organization has also adopted sound banking principles and practices, for instance repayment is at the office where SHG leaders come to make the group's loan payments.

ESAF's microfinance program provides a broad package of financial and business development services to socially and economically disenfranchised women and men for creating opportunities to enable them to operate their own productive economic activities. Loans are extended mainly for production purposes, and to a small extent, for emergency consumption needs (which ensures that urgent medical expenses do not necessitate the decapitalization of a family's business). Though the organization does not have any recourse to the savings of the members, they are encouraged to save regularly. In collaboration with a mainstream insurance company, it also offers insurance services to its members. In 2003, it also introduced a housing loan product in collaboration with HDFC, an Indian commercial bank. In addition to microfinance, it provides a range of services to its members including skills building, business development services and market linkages.

The organization's portfolio has been affected by the tsunami but not to a very large extent. It has been providing relief in Kanyakumari district and would like to stay on and transition into providing rehabilitation through microcredit. In the judgment of our team, this is not an ad hoc decision and comes on the heels of a strategic decision made by ESAF last year to extend operations into Tamil Nadu.

Discussions that the GFUSA team had with the CEO revealed that ESAF is planning for the following key implementation modes:

- Providing microcredit to about 7,500 women through SHGs, for livelihood restoration. These women are engaged in alternate activities which are indirectly dependent on fishing and have therefore been affected due to the tsunami.
- Constructing and repairing houses for about 750 families.
- Rehabilitating the fishing community. This ESAF envisages through two means – provision of livelihood assets (catamarans, boats, nets, engines) and promotion of alternate sources of income such as coir production and fish vending to supplement their income. It plans to provide these to about 2,000 fishermen.
- Supporting 100 orphaned children.

The team felt that ESAF could execute this strategy if provided with the support, as it has the following strengths:

- ESAF has been providing relief to the residents of the very villages it intends to work in, thereby ensuring a good rapport with its potential clients. While working with them it

has also acquired an informal knowledge of their socio-economic status, and how it changed in the post-tsunami period.

- The organization has a strategy of working closely with the church. While this may be criticized by some, in the view of our team we believe that in this context it is a key asset for ESAF, as the church is a strong social enforcer, thereby building ESAF's credibility and mitigating risk by peer and religious pressure.
- ESAF is already undertaking microfinance in other areas of Kerala and has the experience of forming groups and lending to them. It is also planning to transform into an NBFC, which will facilitate a scaling-up of its microfinance activities.
- The organization's operating methodology is unique. It has not strictly followed any one model but has retained the flexibility to modify and amalgamate its approach depending on its operating environment. It has adopted some principals of the Grameen model, SHG lending and also retail banking.

The key cost driver of this project is the \$700 in credit provided to each of the 300 self-help groups, which will be composed of 7,500 people. The beneficiaries would be the 37,500 members of the borrowers' families. The total cost of the project, including monitoring, evaluation and audit, is \$280,000, representing \$37 per family served.

- 4. The bottom line: Provide \$400,000 to support IASC to finance 400 catamarans for fisherfolk, repair 230 houses, and inject \$81,000 into its loan portfolio that will ensure that this MFI does not have a liquidity crisis due to rescheduling of the loans of affected clients, and thereby ensure that affected and non-affected clients are able to have their credit needs met.***

IASC is located in the state of Tamil Nadu and works primarily within the state. IASC's uniqueness among those MFIs profiled in this report is that its own portfolio has been severely affected by the tsunami and it is looking at microfinance as a solution to restore its clients' livelihoods and thereby its sustainability.

IASC, a Section 25 Company under Indian law, operates in approximately 160 villages in seven districts in Tamil Nadu – Kanyakumari, Thirunelveli, Thuthicorin (Tuticorin), Madurai and Coimbatore – and one in Kerala: Thiruvananthapuram. Operations are administered through three District Coordination Units and six Micro Access Centers across the seven districts. It has a lean staff structure maintaining a low operating cost base.

This MFI is structured to exclusively provide financial services to its clients and, therefore, does not form its own groups. Instead, it partners with local NGOs and lends to their groups. However, all financial transactions are the sole responsibility of IASC. It is an innovative strategy based on partnerships and strategic alliances, and in the view of the GFUSA team lends itself well to working in the post-tsunami environment.

The target clients of IASC are the rural and urban poor that have been formed into groups. About 40 percent of its borrowers are agricultural laborers, the most vulnerable group in rural India. Another 40 percent are the daily wage industrial or construction workers, and the remainder include fisherfolk and plantation workers. Its commitment to and success at reaching the most vulnerable populations is clear; the average monthly income of its clients ranges from US\$25 to US\$45 (INR 1,000 to 2,000 respectively). For many of these families, this is the only or primary source of income.

Although it currently uses the group lending methodology, IASC plans to diversify its lending channels by taking up microfinance for individuals, clusters of SHGs, wholesaling of microfinance products through credible partners, such as market support agencies and federations.

IASC is an organization whose portfolio has been severely impacted by the tsunami; however it continues to strive for growth, stabilization and coping.

- IASC's board and CEO strongly feel that they would like to rise to the challenge of providing rehabilitation through microfinance.
- While they see an immediate need to help their own clients who have been affected by the tsunami, they also see a major role for IASC in the long run to extend microfinance to other affected communities in the region, once they acquire experience, subject to the availability of funds.

Initially IASC advocated grant assistance for replacing livelihood assets, rescheduling of loans to lenders to match repayments for clients, and a bridge loan or equity investment to sustain the rescheduled and written-off portfolio. However, subsequent explorative discussions that the GFUSA team had with the CEO yielded ideas that were more easily implemented, could take shape within about three months, and were legally and operationally compatible for both IASC as well as donors such as Grameen Foundation USA. These ideas draw from IASC's experience in making housing loans as well as its assessment survey that has resulted in the identification of specific needs.

IASC is unique in a number of respects that make it a good implementation partner:

- The organization has a clear microfinance focus and a complementary legal status.
- It has thoroughly assessed the damage to clients through a survey, enabling it to make an accurate needs assessment and ensuring that interventions are in those areas where there will be immediate and maximum impact.
- It is one of the leading housing loan MFIs in the country, a feature that has been developed with its promoter, HDFC. This gives it the advantage of being experienced in a key area of intervention.

In light of extensive discussions with IASC, visits to field areas and an evaluation of its organizational capacity, the GFUSA team assisted IASC in developing its ideas into concrete interventions that would capitalize on the organization's strengths, enabling it to have a direct impact on the poverty levels of its clients. The GFUSA team also assisted IASC in estimating costs for these interventions. The details are as follows:

- Loans for livelihood assets: By way of background, IASC's members are caught in a situation where they are unable to repay loans due to the loss of livelihood assets and are unable to purchase these assets as their overdue loans make them less creditworthy. IASC cannot lend to these members without recovering old loans, as this would likely have a severe impact on organization-wide portfolio quality. In the event that it has access to an interest-free loan or grant from a donor such as Grameen Foundation USA, it is felt that the way to break out of the vicious cycle is to provide loans to purchase of catamarans, at the onset. With this support, IASC would provide catamaran loans for 400 fishermen involving a per head cost of US\$465 (INR 20,000). As clients start earning an income they would be in a better position to repay the old loan, as well as the loan for the boat. While there is a certain amount of risk associated with such lending, it is still agreed upon that it is the most effective way to support clients who have lost all assets, as well as keep them from slipping deeper into poverty and money-lender debt.
- House repair: Not all members have lost their houses entirely, and house repair is an effective way to get clients back on their feet. It is also less expensive and is not contingent on the availability of land. Furthermore, dissatisfaction with temporary shelters is high due to poor hygiene conditions. The cost for repair of houses is estimated to be up to US\$350 (INR 15,000) and is planned to be offered as a soft long-term loan of three to five years. They have a phase two plan to finance the construction of 200 new homes that is not included in this plan and budget.
- Capital injection to ensure liquidity: IASC has frozen loan payments for affected clients through August 2005. It anticipates that it would be unable to recover about US\$81,000 or INR 3.5 million from clients who have been severely impacted, particularly in the event of death of a member or the bread-winner. By injecting \$81,000 into its loan pool now, a liquidity crisis would be averted and loans would continue to be available for eligible clients, whether they were affected by the Tsunami or not. If this is not provided, IASC may not be able to serve all of its current clients who are eligible, which could in turn lead to a crisis in confidence and massive default (in a worst case scenario); in this case, all 11,000 client families would be denied access to credit.

Assistance to IASC should be a mix of grants and low-interest loans denominated in local currency; the former for those activities that have no returns, while the latter for those that can be repaid by clients though, in view of their loss, on softer terms.

The total budget for this project, including costs of monitoring, evaluation and audit, is \$400,000. The cost per family benefited is \$354, and the cost per person benefited is \$51.

THAILAND

In January 2005, the government of Thailand reported that 5,313 people had died and 3,396 were missing because of the tsunami. An Agence France-Press accounting in March 2005 showed a similar toll. The most severe impacts in Thailand were in six provinces in a coastal region dominated by tourism and fishing. These included Phang Nga, Ranong, Krabi, Phuket, Trang and Satun. Of these provinces, the hardest hit was Phang Nga, where the beautiful Khao Lak coast was largely devastated.

Economic damages resulting from the tsunami were focused chiefly on the fishing industry, which suffered an estimated \$12.5 million in losses. About 3,400 small fishing boats and 1,100 larger trawlers were seriously damaged or destroyed. Also destroyed were approximately 184 acres of fish and shrimp farms, and more than 7,000 fish and shrimp ponds. In all, the livelihoods of an estimated 100,000 to 120,000 Thais were affected in a negative way by the disaster.

Grameen Foundation USA's surveyors reported that an orderly and systematic transition is under way in Thailand from relief to rehabilitation and recovery. At the time of the survey, most of the tsunami survivors were housed in temporary shelters built by international aid agencies. Schools were being rebuilt and repaired by army personnel. And, to attract tourists back while providing continuous employment for many local residents, many hotels and beach resorts were rapidly being cleaned up and repaired.

Still, many residents remain in a state of shock and have a long way to go to resume normal lives. Surveyors encountered a woman in a local hospital who lost her seven year-old daughter, her house and belongings, and her family's small restaurant business in the tsunami. Her anguish over what happened shows that getting "back to normal" will be a struggle for Thailand, as well as for the other countries affected by the tragedy.

CONDITIONS OF THE POOR

Thailand is one of the more prosperous developing countries in Southeast Asia. With a population of 63 million, it has an official poverty rate of approximately 10 percent. Nine out of 10 poor people in Thailand can be found in the

SURVIVOR PROFILE – THAILAND

Mrs. Wasana, 33, worked as a masseuse at a Phang Nga resort before the tsunami. Her house was totally destroyed in the disaster. She is now living in a temporary shelter built by an international relief agency. Hurt while running away from the deluge of water that engulfed the resort, she now sells snack items, fruit and cigarettes from a small stand.

Mrs. Wasana started her small retail business using her savings and some money donated by others. Now, she has sales of between \$17 and \$20 per day. When asked about her future plans, she said she wanted to take a microloan to sustain her new livelihood, and that she would not go back to working as a masseuse.

country's rural areas, which are home to approximately 70 percent of the population. Thailand remains a predominantly agricultural country.

In the areas affected by the tsunami, however, tourism and fishing are the dominant economic activities. Those Thais who were lucky enough to work in restaurants and resorts that suffered only minor damages remain employed. But a number of resorts have not yet reopened. As a result, many residents have turned to other economic pursuits. Some are engaged in fishing; some have moved to Bangkok or elsewhere in search of employment; and some have decided to undergo skills training so they can start their own businesses.



Visits to the temporary shelters set up for tsunami survivors reveal that women in particular want to get back to

work and generate income for their families. Many now are engaged in selling fish, shrimp and other sea products harvested by their husbands and other men. Others buy, sell and trade snack items and cigarettes, and some continue with handicraft making using bamboo and rattan. Still others are sewing and making dresses. The wide range of ongoing economic activity is proof that many affected people in Thailand, while they will never forget what happened in December, are ready and eager to move on with their lives.

CONDITIONS OF MICROFINANCE

Microfinance could provide an obvious boost to tsunami survivors in Thailand as they seek to resume their livelihoods and start new microbusinesses. The array of home industries and self-employment opportunities in the affected region—from fishing and trade to handicraft making and services—all are connected to and supported by the tourism industry, which is rebuilding at a rapid pace. As a result, the prospects for income-generating activities are good.

However, in the absence of financial institutions that serve the poor (without requiring physical or material collateral), the only recourse for many Thais is to deal with private

moneylenders who usually charge exorbitant interest rates, which, based on local interviews, we estimate to be between 1 percent per day and 20 percent per month.

A number of microfinance institutions operate in Thailand, including the Small Enterprise Development (SED) Corporation, which serves approximately 15,000 clients in the northeast region of the country. However, Grameen Foundation USA could find no NGOs offering microlending services in the areas affected by the tsunami. Thailand's relatively low level of poverty, together with other factors, have hindered the development of focused and effective microlending initiatives on a countrywide basis, particularly in the south.

The only NGO identified as a potential partner in bringing microfinance to Thailand's tsunami-hit areas is Step Ahead, an international organization focused on micro enterprise development. Step Ahead is the relief and development arm of Youth With a Mission (YWAM), which has worked in Thailand for 25 years.

YWAM originally worked with the Thai government, the U.N. High Commission for Refugees and the International Committee of the Red Cross to help the thousands of refugees fleeing the war and genocide in the Indochina region. Since then, the organization has diversified and offers youth cultural exchange, community development, English-language instruction and drug rehabilitation, as well as other services. More recently, YWAM has embraced micro enterprise lending as part of its mission, focusing its microlending activities on the slum areas of Bangkok where it has 200 clients at present.

In expressing its interest in working on microfinance issues in tsunami-affected provinces of Thailand, Step Ahead affirmed its belief that "microfinance can bring mega-results." Step Ahead also is a strong believer in the power of microfinance to build personal responsibility and dignity, as well as social capital.

OPPORTUNITIES FOR IMPACT

Below is a brief description of one high-impact project in Thailand, implemented by STEP AHEAD. We are suggesting that \$1.1 million be allocated to support Step Ahead's proposal to replicate its nascent microfinance initiative in Bangkok in one of the provinces affected by the tsunami, which would benefit 2,000 families over two years. GFUSA would provide them with M2, a software package for microfinance developed in the Philippines, and intensive technical support that would fast track their very early stage success in Bangkok and make it relevant for tsunami survivors affected clients.

An overall summary for these projects is as follows:

Number of Tsunami-Affected Families Benefited:	2,000
Number of Tsunami-Affected People Benefited:	10,000
Total Project Cost:	\$1.1 million
Cost per Tsunami-Affected Person Benefited:	\$60

ADDITIONAL OPPORTUNITIES FOR IMPACT

The GFUSA team met with many MFIs and NGOs in these four countries that had plans or ideas about how they could apply microfinance in the post-tsunami context. Only the most developed plans are profiled in this report. However, some of the organizations not profiled might be able to have a significant impact if their plans were refined more. It also may have been the limitations of time or the training of our team that had us miss the strengths of the plans as they were presented to us.

A partial listing of other organizations that had plans that probably merit additional investigation by the donor community appears below. Contact information for these organizations is available on request from GFUSA.

India

1. Bullock Cart Worker's Development Association
2. League for Education and Development
3. South Indian Federation of Fishermen Societies

Sri Lanka

1. Women's Development Federation of Hambantota (Janashakti)
2. The National Development Trust Fund (NDTF)
3. Sarvodaya Economic Enterprise Development Services (SEEDS)
4. Lanka Evangelical Alliance Development Service (LEADS)

Indonesia

1. Solidaritas

Tsunami Recovery Microfinance Budget: Page 1

Country	Organization	Data	Budget Year			Grand Total
			1	2	3	
India	ASA	New Clients	3,000			3,000
		Cost per Client	\$353			\$353
		New People Helped	15,000			15,000
		Cost per Person Helped	\$71			\$71
		New Staff Trained	3			3
		MIS Units Installed				
		Total Budget	\$1,060,000			\$1,060,000
	CCD	New Clients	4,000			4,000
		Cost per Client	\$145			\$145
		New People Helped	20,000			20,000
		Cost per Person Helped	\$29			\$29
		New Staff Trained	4			4
		Total Budget	\$580,000			\$580,000
	ESAF	New Clients	7,500			7,500
		Cost per Client	\$37			\$37
		New People Helped	37,500			37,500
		Cost per Person Helped	\$7			\$7
		New Staff Trained	10			10
		Total Budget	\$280,000			\$280,000
	IASC	New Clients	1,130			1,130
		Cost per Client	\$354			\$354
		New People Helped	5,650			5,650
		Cost per Person Helped	\$71			\$71
		New Staff Trained	2			2
		Total Budget	\$400,000			\$400,000
	Country Total	New Clients	15,630			\$15,630
		Avg. Cost per Client	\$148			\$148
New People Helped		78,150			\$78,150	
Avg. Cost per Person Helped		\$30			\$30	
New Staff Trained		19			\$19	
Total Budget		\$2,320,000			\$2,320,000	
Indonesia	Care Aceh	New Clients	3,440	4,128	4,954	12,522
		Cost per Client	\$256	\$247	\$246	\$249
		New People Helped	17,200	20,640	24,768	62,608
		Cost per Person Helped	\$51	\$49	\$49	\$50
		New Staff Trained	4	6	9	19
		MIS Units Installed	1			1
		Total Budget	\$880,000	\$1,020,000	\$1,220,000	\$3,120,000

Tsunami Recovery Microfinance Budget: Page 2

Country	Organization	Data	Budget Year			Grand Total
			1	2	3	
Indonesia	Rumohkita	New Clients	200	240	288	728
		Cost per Client	\$450	\$375	\$347	\$385
		New People Helped	1,000	1,200	1,440	3,640
		Cost per Person Helped	\$90	\$75	\$69	\$77
		New Staff Trained	5	8	11	24
		MIS Units Installed	1			1
		Total Budget	\$90,000	\$90,000	\$100,000	\$280,000
	SEFA	New Clients	1,000	1,200	1,440	3,640
		Cost per Client	\$270	\$792	\$660	\$596
		New People Helped	5,000	6,000	7,200	18,200
		Cost per Person Helped	\$54	\$158	\$132	\$119
		New Staff Trained	5	8	11	24
		MIS Units Installed	1			1
		Total Budget	\$270,000	\$950,000	\$950,000	\$2,170,000
	YAMIDA	New Clients	3,750	4,500	5,400	13,650
		Cost per Client	\$93	\$169	\$285	\$194
		New People Helped	18,750	22,500	27,000	68,250
		Cost per Person Helped	\$19	\$34	\$57	\$39
		New Staff Trained	6	9	14	29
		MIS Units Installed	1			1
		Total Budget	\$350,000	\$760,000	\$1,540,000	\$2,650,000
YKBS	New Clients	1,000	1,200	1,440	3,640	
	Cost per Client	\$370	\$633	\$1,146	\$764	
	New People Helped	5,000	6,000	7,200	18,200	
	Cost per Person Helped	\$74	\$127	\$229	\$153	
	New Staff Trained	10	15	23	48	
	MIS Units Installed	1			1	
	Total Budget	\$370,000	\$760,000	\$1,650,000	\$2,780,000	
Country Total	New Clients	9,390	11,268	13,522	34,180	
	Avg. Cost per Client	\$209	\$318	\$404	\$322	
	New People Helped	46,950	56,340	67,608	170,898	
	Avg. Cost per Person Helped	\$42	\$64	\$81	\$64	
	New Staff Trained	30	45	67	142	
	MIS Units Installed	5			5	
	Total Budget	\$1,960,000	\$3,580,000	\$5,460,000	\$11,000,000	
Sri Lanka	Ceylinco Grameen (Country Total)	New Clients	11,913			11,913
		Cost per Client	\$398			\$398
		New People Helped	59,565			59,565
		Cost per Person Helped	\$80			\$80
		New Staff Trained	3			3
		MIS Units Installed				
		Total Budget	\$4,739,000			\$4,739,000

Tsunami Recovery Microfinance Budget: Page 3

Country	Organization	Data	Budget Year			Grand Total
			1	2	3	
Thailand	STEP AHEAD (Country Total)	New Clients	1,000	1,000		2,000
		Cost per Client	\$550	\$550		\$550
		New People Helped	5,000	5,000		10,000
		Cost per Person Helped	\$110	\$110		\$110
		New Staff Trained	4	4		8
		MIS Units Installed	1			1
		Total Budget	\$550,000	\$550,000		\$1,100,000

Overall				
Data	Budget Year			Grand Total
	1	2	3	
New Clients	37,933	12,268	13,522	63,723
Avg. Cost per Client	\$252	\$337	\$404	\$301
New People Helped	189,665	61,340	67,608	318,613
Avg. Cost per Person Helped	\$50	\$67	\$81	\$60
New Staff Trained	56	49	67	172
MIS Units Installed	6			6
Total Budget	\$9,569,000	\$4,130,000	\$5,460,000	\$19,159,000

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