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SWAYAM Microcredit Programme

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ABSTRACT: The microcredit programme called SWAYAM was launched in 2005 by SEEDS and CAP Solidarités with support from Microsoft India, and subsequently Force of Nature Aid Foundation (FON) as well, in the tsunami-affected areas of Andaman and Nicobar Islands, India with the objective of supporting income-generating activities, addressing the livelihood needs of the affected communities. A loan programme was developed in such a manner that it fostered self-development of the beneficiary for sustainable livelihoods and for enhanced disaster preparedness and risk reduction. The SWAYAM microcredit programme offered small and short-term loans that enabled the beneficiary to restart business and receive quick returns. The programme resulted not only in a smooth transition from relief to long-term development, but it also raised awareness of possible future disasters and contributed to capacity development of local residents and to building disaster resilient communities.

KEYWORDS: Microcredit, Livelihood, Awareness, Disaster Risk Reduction, Community, Resilience.

1 INTRODUCTION

SWAYAM was launched by SEEDS and CAP Solidarités with support from Microsoft India in the tsunami-affected areas of Andaman islands with the objective of supporting income-generating activities, addressing the livelihood needs of the affected community. Subsequently, Force of Nature Aid Foundation (FON) also extended their generous support to the programme. The loan programme was developed in such a manner that it fostered self-development of the beneficiary and enhanced disaster preparedness and risk reduction for future disasters. The Microcredit Programme offered small and short-term loans that enabled the beneficiary to restart business and receive quick returns. SWAYAM was designed such as to ensure that a social network was built before the loans are provided.

Background

Asia is known as the most disaster-prone region of the world where about 40% of all the reported disasters are occurring every year, claiming 80% of the people killed and 90% of the people affected by disasters. The economic damage due to disasters in Asia is rapidly increasing, from 34% in 2000-2007 to 62% in 2008. The causes of these disaster impacts are diverse: poverty, rapid population growth, unplanned urbanization, migration of vulnerable groups to disaster-prone areas mainly in the urban areas, environmental degradation and so on. The pace of urbanization in Asia is extremely rapid making the urban areas more and more vulnerable, like in Bangladesh, China India, Indonesia, Pakistan, the Philippines and Vietnam.

Social and economic aspects of the society are equally important to identify the hidden vulnerability and its root causes. It was recently found out that disaster risk is highly concentrated in poorer countries and communities with weaker governance arrangements for disaster risk reduction. Climate change, which is already changing the geographic distribution, frequency and intensity of weather-related hazards and threatens to undermine the resilience of poorer countries and their citizens, is another aspect that we must address appropriately and urgently.

1.1.1 SEEDS

SEEDS (Sustainable Environment and Ecological Development Society) is a group of non-governmental voluntary organizations striving to help vulnerable communities in the Asian region become resilient to disasters. It consists of SEEDS India (based in India) and SEEDS Asia (based in Japan), both of which have adopted a locally-applicable multi-hazard approach seeking to empower communities through awareness generation, training and action for disaster risk reduction. Some of the areas of activities are: community-based disaster management incorporating climate change adaptation, school safety, disaster and environment education, sound disaster recovery, and urban risk management. These activities are carried out taking into consideration the local socio-economic and cultural background and the need for decentralization to the level of individuals.

1.1.2 Indian Ocean Tsunami

On 26 December 2004 an earthquake with a magnitude of M 9.0 off Sumatra, Indonesia occurred at 6.29 am (IST) generated giant tsunami, which caused such destruction to countries bordering the Indian Ocean in Asia and Africa. The direct impacts of the Tsunami were:

- Almost 230,000 dead or missing;
- 2.1 million people displaced; and
- Donors pledge almost 13.6 billion USD.

Table 1: Impact of the Indian Ocean Tsunami (Source: AlertNet; last reviewed in August 2008)

| | Number of people killed by the tsunami | Number of people missing since the tsunami |
|--------------------|---|---|
| Indonesia | 131,934 | 37,066 |
| Sri Lanka | 35,322 | |
| India | 12,405 | 3,874 |
| Thailand | 5,395 | 2,817 |
| East Africa | 164 | 139 |
| Maldives | 82 | 26 |
| Malaysia | 69 | 5 |
| Myanmar | 61 | 0 |
| Bangladesh | 2 | 0 |
| TOTAL | 185,434 | 43,927 |

1.1.2 Activities of SEEDS in support of communities affected by Indian Ocean Tsunami

After the devastating Indian Ocean Tsunami occurred on 26 December 2004, SEEDS carried out various activities in the affected communities to better recover from the disaster and to build their capacity to cope with future disasters. SWAYAM was one of the important programmes carried

out to support income-generating activities, addressing the livelihood needs of the affected communities of Andaman and Nicobar Islands, India.

The Andaman and Nicobar Islands are located in the subduction zone of Burma Plate and is classified as Seismic zone 5 indicating high level of risk due to earthquake. The tsunami on 26 December 2004 was generated by an earthquake of magnitude M 9.0 occurred near Sumatra Island of Indonesia, only 163 kms away from Great Nicobar, the southern-most island from the archipelago. Tsunami waves hit the Andaman and Nicobar group of islands within few minutes and devastated the coastal areas killing almost 3400 people and destroying most of the vital infrastructure completely. The Nicobarese villages of Malacca and Kakana on the southeastern side of the island suffered heavy casualties while on the northeastern side, people in the villages of Sawai, Arong, Teatop moved deeper into the forest and formed new settlements. The Malacca jetty was totally destroyed. The Andaman and Nicobar Islands suffered the Tsunami waves and flooding, which severely affected the livelihoods of the people. Therefore, SEEDS developed a programme to address the livelihood needs of those people to recovery from the damage as soon as possible and at the same time to enhance their capacity to build a disaster-resilient community.

1.1 *Observations before implementation of SWAYAM project*

The SWAYAM team conducted a survey of the economic scenario in the islands before the implementation of the programme. It was observed that the tsunami affected community showed a heavy dependency on grants which was still being provided. Such delivery of grants was hampering the economy. Moreover, petty shopkeepers were being provided grants to revive their business; these grants were adequate to support one-time recovery, but sustainability in the long run was a factor left ignored. As a consequence of the huge grants received after the tsunami, some of the NGOs began distributing money to Self-Help Groups that required funds to help in reconstruction. This led to complacency in the attitude of the beneficiaries resulting in the setting in of notions such as the one in the example that follows. A beneficiary responded to the idea of taking loans in a manner quite expected. He remarked, “Why should we repay a loan if money is freely available?” To this the SWAYAM coordinator present simply replied, “Do you want to be beggars all your life?” This little incident captures the essence of microfinance as a tool for recovery as opposed to free aid.

An important spoke in the wheel of a microfinance programme is a microfinance institute or organization, or in the absence of one, a local bank. The SWAYAM team realized that the existent banking system was far too rigid and time-consuming; rather than encourage people to approach the bank for its services, it was instilling apprehension within the people of the islands.

How does a microfinance programme decide who to take as beneficiaries? To solve this problem the SWAYAM team conducted a survey of the effect of the disaster upon various livelihood groups. It was inferred that those directly affected included:

- The fishing community;
- Petty shopkeepers on jetties;
- Farmers and farm labour; and
- Displaced community.

Some such livelihood groups also existed that were not directly affected, but were, nevertheless, in need of livelihood restoration. These included:

- Petty shopkeepers/Fish retailers;
- Community affected by the change in market trend following the disaster; and
- Women (individual as well as Self-Help Groups).



Figure 1. Inundation after the Tsunami.

1.2 *Challenges faced in Implementation*

The tsunami disaster being unprecedentedly destructive, recovery and reconstruction from it were also very difficult and complex.

1.2.1 *Excess of relief*

Implementing a microfinance programme in a region where it is an entirely new concept can be a challenge in itself. What are the hurdles that an organization would face when it implements such a project? The very first challenge is to inculcate a culture of loans and savings in an economy paralyzed by free aid.

1.2.2 *Creating awareness*

Despite the continuity of aftershocks, the community was unaware of disasters occurring frequently in the region. The creation of awareness among a completely nascent community was an elaborate process. The SWAYAM team generated this awareness by conducting a succession of interactive meetings with the community. The result was the strengthening of the economic system and a more resilient community.

1.3.3. *Lack of infrastructure*

What is perhaps most essential in the process of implementing a microfinance programme in a region where the concept needs to be first introduced, is the establishment of the appropriate infrastructure. This also entails the deployment of well-trained personnel to execute the programme in an efficient and successful manner. In the Andaman & Nicobar Islands, the absence of adequate infrastructure and administrative facilities created drawbacks for the SWAYAM team in terms of the commencement of the programme. The solution, of course, lay in the provision of training and capacity building of various stakeholders involved in the project.

1.3.4. *Selection of beneficiaries*

The Andaman & Nicobar Islands suffered losses during the tsunami both in terms of lives lost and livelihoods shattered. Impoverishment and resignation were prevalent over large parts of the community. However, a programme designed to accelerate recovery through livelihood support can only encompass a fragment of the community. What criteria, in that case, should the programme put up, to benefit people in need of maximum support, and also function within the framework of the programme? SWAYAM sought a solution to this conundrum by choosing beneficiaries who could begin repaying loans quickly. The SWAYAM recovery model allows the beneficiary to begin reimbursing the loan amount four months after receiving it. This gives ample time for the beneficiary to revive business and start generating income. As the programme was also constrained to spend the allocated money at the earliest possible, the limitations set were several. Selecting beneficiaries on the basis of a short gestation period also ensured returns. The SWAYAM team was approached by a few individuals seeking loans for projects that would require a longer gestation period. For instance, the team met with a person who wished to purchase a cow, and that would cost Rupees 70,000. The loan was not granted because the possibility of the project not generating income was high: what if the cow purchased died? Therefore, the ability of prospective beneficiaries to pay was a vital consideration.

1.3.5. *Communication with beneficiaries*

The Andaman & Nicobar Islands are an archipelago of 572 islands. The facilitation of communication with beneficiaries can often pose a tremendous problem. It was a big challenge for the SWAYAM team also to maintain communication links with their beneficiaries. Monitoring activities of the beneficiaries related to their livelihood revival was therefore difficult.

1.3.6. *Coordination with the bank*

For an institution that is not a financial institution, implementing a microfinance programme requires partnership with a local nationalized bank. To give a formalized structure to the loan programme, bank accounts of all beneficiaries had to be opened with the bank, and a fixed deposit created to act as guarantee against the loans disbursed. However, the programme was not a part of any of the bank's existent schemes and therefore, to expect the bank's complete employment in the project is not practical.

2 COMPONENTS OF SWAYAM

2.1 *Recovery Model*

To fill in the gap between relief and rehabilitation, and to make this programme not just a recovery process but also a contribution towards disaster resilience and preparedness of the community, the SWAYAM scheme included various component:

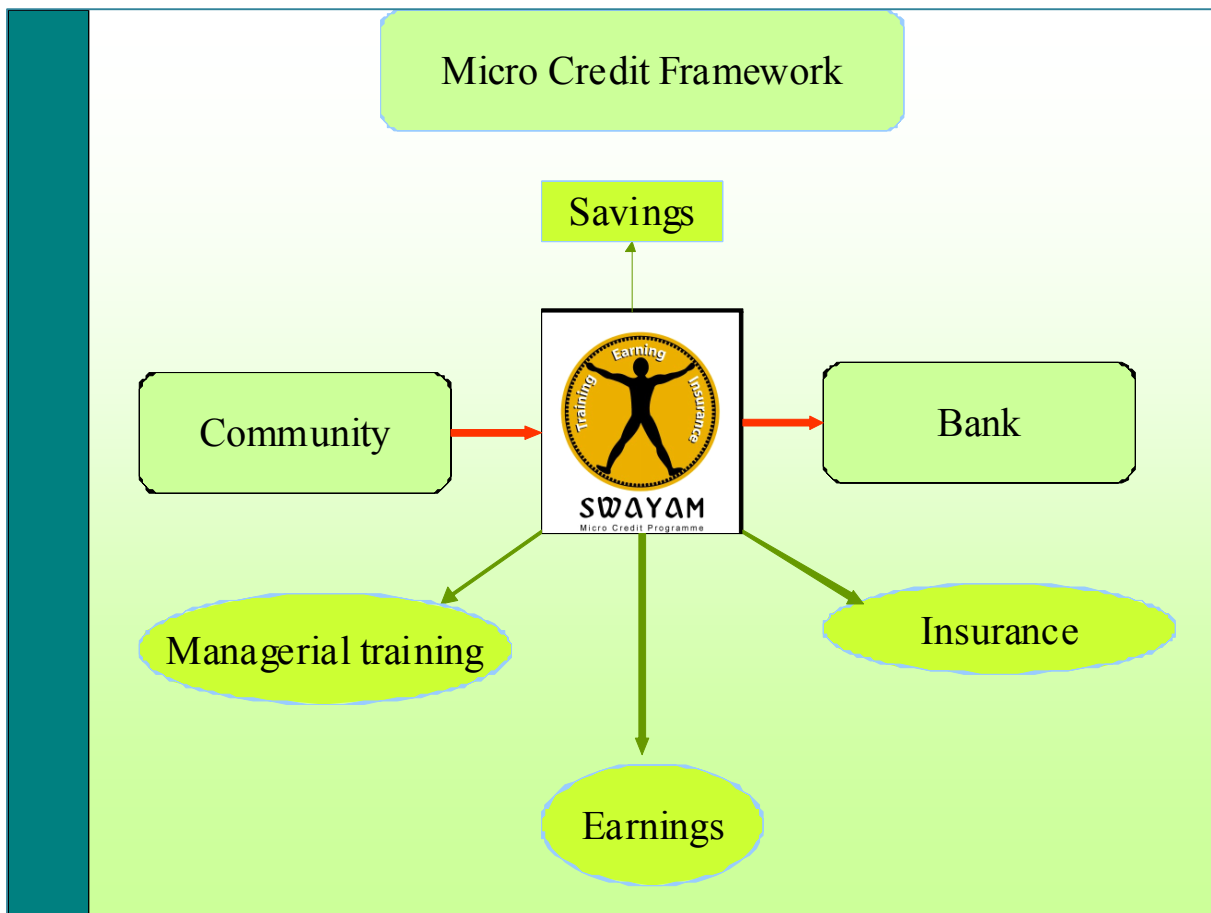


Figure 2. SWAYAM Framework

2.2 Insurance

An interesting fact observed was that the concept of insurance was not prevalent in the area when SEEDS entered the islands with their microcredit programme. It was therefore essential, to educate the community about the importance of insurance. In order to encourage the community to accept and incorporate the habit of insurance, SWAYAM designed the features of its programme to facilitate the beneficiary's acquisition of assets required for their livelihood recovery. SWAYAM made it compulsory for the beneficiaries to insure the assets purchased with the loan money, and opted to pay the insurance premium for the first year. The beneficiary would have to support only the insurance service taxes.

2.3 SWAYAM not merely a microcredit programme

The aim of launching a microcredit programme in the Andaman and Nicobar Islands was to offer to the catastrophe struck population something more than the mere benefits of a microfinance programme. Every loan implicates the repayment of the bank's interests at 9% p.a. The SWAYAM team, however, felt that in a post-disaster phase, a community should not have to pay such an amount. As a consequence, during the first three months of the reimbursement phase, CAP Solidarités and SEEDS paid the entire amount of interests on behalf of the beneficiaries and

half the amount for the next three months. This amount was paid by the amount proceeding from the fix deposit. Above all, the total amount of interest paid by the beneficiary till the end of the repayment is given back to him as savings. The concept of savings also brought about the metamorphosis in people's attitudes towards depositing incomes in the bank.

2.4 *Managerial training*

The idea of introducing to the community new livelihood options was dismissed soon after the team began interacting with the population. Alternatively, the idea of training the beneficiaries in managing their income and expenditure plans was thought to be more beneficial. Maintaining accounts would help them manage their income and devise saving schemes. A part of the managerial training provided by SWAYAM explains to the beneficiaries how to manage a simple budget and the relevance of respecting the schedule. Together with the beneficiary the team carries out a check of the planned activities and of the budget.

The SWAYAM microcredit programme was different from other such programmes mainly in three ways:

- Short-term: The programme, unlike others, was short-term, and the team intends to leave the islands by the end of the two-year period. However, this would be done with the satisfaction of having introduced to the community elements of mitigation and preparedness via the microcredit programme.
- Recovery-based: The programme does not offer new livelihood options, but helps the community recover their old means of income.
- Value-addition elements of insurance, savings and training.

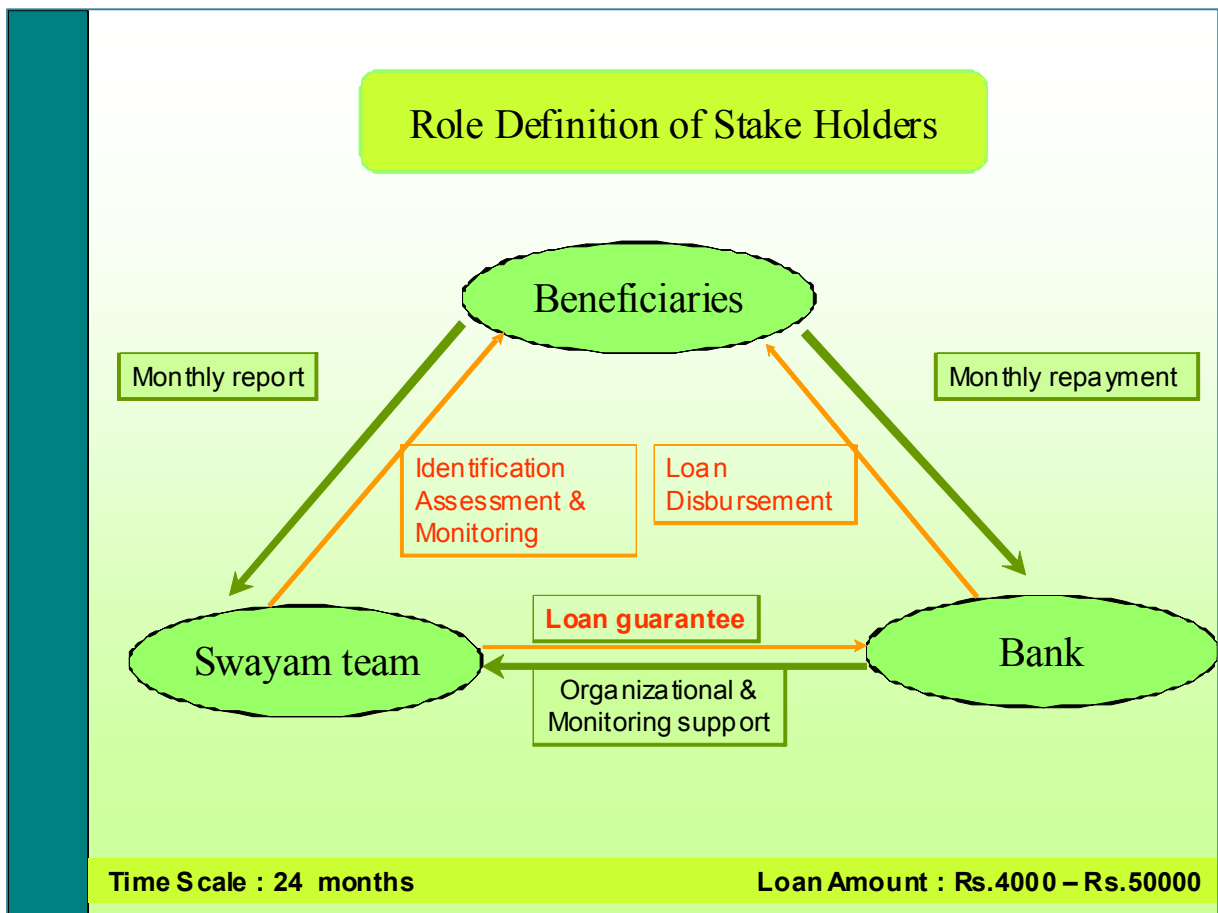


Figure 3. Stakeholders of SWAYAM.

3 SWAYAM PROGRESS

3.1 Completion of Programme

Under the Tsunami Learning Project the pilot intervention was of 19 months, ending in October 2007. SWAYAM completed its active phase of loan disbursement in July 2006. During this phase, a total of INR 42 lakhs (US\$ 91,304) was sanctioned as loan. A total of 89 beneficiaries, including 23 self-help groups and 66 individuals were covered under the programme. The beneficiaries of the loan programme include occupational groups and individuals engaged in:

- Fish-marketing;
- Restaurant businesses;
- Retail garment shop;
- Electronic repair shop;
- Stationary shops;
- Computer coaching classes; and
- Seafood export.

The SWAYAM microcredit programme aimed not only at restoring livelihoods, but also at building disaster-resilient communities through the facilitation of self-dependence. An ideal microcredit programme ensures a smooth transition from relief to long-term resilience. SWAYAM's success as a tool for microfinance has been made manifest through the beneficiary stories collected.

3.2 *Lessons learnt*

The SWAYAM Microfinance Programme has completed its first phase, that is, of loan disbursement, and has entered the second phase of recovery of loans. The success of a programme was evident only once it reaches this stage; the case of SWAYAM was no different. As a completely new initiative by an organization implementing such a programme for the very first time, the response to and learning from the project are of immense importance. An essential measure of the success of the programme was the change it managed to bring about in the economy.

A loan is a tool usually used in the context of development. As a consequence, when it is used in the recovery phase after a disaster, it is meant to continue naturally toward the development phase. The loan pattern, as in the case of a woman who owns a grocery store in the Kutch district, manifests this development fairly well. The first loan she borrowed was of Rupees 3,000. Her income at that time was between Rupees 500 and Rupees 700 per month. This was the recovery phase. The development phase was denoted when she took another loan when she was earning Rupees 3,000 per month and repaying Rupees 10,000 per year. Similarly, many SWAYAM beneficiaries also expressed the desire to take another loan after repaying the first to continue the developing process they had initiated. The fisherwomen Self-Help Groups were the most prominent among such beneficiaries. Some of them began repaying the loan before the three months granted to allow the business to revive – the moratorium period. There were also some who repaid more than the minimum amount due, to finish the repayment as soon as possible. What becomes critical, at that moment, for the beneficiary, is the question of finding a lender.

What the SWAYAM programme aimed to achieve was to meet the needs of the community and in the process, facilitate the transformation of the people into a resilient community. However, the implementation turned out to be a learning process for the team itself. To share these lessons appeared a good method of attempting to expedite the application of the programme in the context of other post-disaster reconstruction efforts. As one year of the programme got completed in July 2006, several lessons from the recovery phase emerged as tools for further learning.

3.2.1 *Flexibility of implementation*

Although the programme was designed in consultation with the community and their specific needs in the development phase, the programme somehow depicted foibles in the course of the implementation. At the time that SWAYAM was introduced in the islands, it responded to the need of the hour: stabilizing the economy. However, once the development in livelihood situations became effectual, there was a felt need to expand businesses. This need of the community could not be met due to the insufficiency of funds. This implicates the need for flexibility in the programme to ensure that multifarious needs are answered and a certain amount of homogeneity is maintained with regard to the services provided.

3.2.2 *How are the saving utilized?*

The SWAYAM recovery model was designed to ensure maximum benefits for the beneficiaries. Thus, the interests paid by the latter are returned at the completion of the loan repayment period as

savings. How can the programme devise a method of ensuring that these savings are utilized in a beneficial and productive manner, and not being spent on petty expenses? How can the value of savings actually be inculcated into the economic pattern of the community? These questions remain as lessons learnt and aspects to be considered while planning a microcredit programme.

3.2.3 *Inadequacy of short-term funding*

The inadequacy becomes predominant once the people begin grasping the concept of loan as a tool for recovery. Conceptualized to be a small-scale short-term programme, SWAYAM became popular soon after its implementation. It was then that the need for the regularization of the programme was realized. This once again brings up the issue of flexibility in a recovery programme.

3.2.4 *Legalization of agreement*

The SWAYAM team, on the one hand, has received a positive response to the programme, and on the other, has also encountered difficulties in the form of defaulters. A means has to be devised to as to be assured that loans are not misused and beneficiaries are capable of repayment. What the SWAYAM team suggested, in the wake of these realizations, was that the agreement with the beneficiaries ought to be legalized. Being bound by bonds and court formalities can be a strategy towards this drawback. Moreover, the fewer the beneficiaries are, the better and more efficient is the monitoring process.

3.2.5 *Strategic choice of local partners*

Well-rounded planning of a microcredit programme entails the perpetuation of security with regard to details. How much of the scheme should be disclosed? How much of it should remain secret? In SWAYAM, the security from beneficiaries is sought merely to create moral pressure. Making known this fact can lead to beneficiaries taking advantage of or misusing the benefits of the programme.

3.2.6 *Exit strategy*

An essential component of any microfinance programme is its closure; what the SWAYAM team realized, once the programme had been implemented, was that planning an exit strategy at the designing phase is also integral to the programme. The programme expected the recovery of loans to be complete at the end of the project, and the staff to continue in the islands in order to closely monitor the activities of the beneficiaries and maintain the pressure of repayments. It was decided upon implementation that the repayments by the beneficiaries would serve as support cost of the SEEDS office in Port Blair.

3.3 *Conclusions*

The implementation of the microcredit programme in the Andaman & Nicobar Islands taught several lessons, useful for adaptation in varied contexts. An evident lesson was that the combination of grants and loans is the ideal combination during the transition from recovery to rehabilitation.

This process was enhanced by taking into consideration a range of livelihood options and beneficiary systems. One of the most significant issues that emerged was that of sustainability that could be addressed by the establishment of relationship with the local government, NGOs, and various service providers such as banks and insurance companies.

Microcredit efficiency in a post-disaster situation has been studied and recognized quite recently. However, it has been well-known for several years that microcredit is also effective for

the social and economic development of rural communities. This process, in turn, leads to enhancement of measures of disaster mitigation.

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