CASE STUDY 4
The Experience of SEWA

This paper explores the Self Employed Women's Association's (SEWA) experience using microfinance and safety nets to increase disaster resilience among the rural poor of Gujarat, India. Many existing financial tools and safety nets play an important role in reducing the vulnerability of hazard-prone populations, particularly the poorest of the poor. Microfinance can effectively be used to enhance disaster risk management by reducing vulnerability and increasing coping mechanisms. Micro-credit, micro-insurance, savings and other safety nets can contribute to disaster risk reduction and build on or expand traditional disaster and risk coping strategies.

The poor are acutely vulnerable to disaster and experience disasters differently from the wealthy. For the wealthy, a disaster is an extraordinary exception whereas disaster is an all too familiar part of life for the poor directly impacting their livelihood. The poor face high uncertainty and are constantly vulnerable to the threat of individual disaster. A disaster represents the aggravation of this existing vulnerability due to a precarious livelihood and a lack of assets. The poor also have almost no access to formal insurance. Therefore the poor are also more vulnerable to natural disaster because they have fewer coping mechanisms than the wealthy and the informal risk sharing mechanisms on which they typically rely to manage idiosyncratic risk are less effective in the face of covariate risks.

Credit is an important mechanism for reducing vulnerability as it provides access to other forms of capital – be they human capital such as health and education or physical capital such as raw materials, equipment and new technologies. In this context micro-credit offers an effective tool for providing credit to the poor. Providing the poor with access to credit and financial services is critical towards enhancing ex-ante and ex-post coping strategies of the poor. Beyond providing consumption credit to facilitate consumption smoothing in the absence of insurance, microfinance provides the poor with the means to "self-insure" through precautionary savings, asset building (particularly portable assets), diversifying income sources, spreading income over the year, increased income stability and enabling the poor to invest in disaster mitigation measures. Furthermore the established networks of microfinance institutions increase the flow of

information to the poor and provide an efficient means for reaching the poor during relief efforts. SEWA has effectively used microfinance through its network of savings and credit groups to support communities in managing risk during both natural and manmade disasters. For example, Kheda District Association after the 2002 communal riots provided interest free loans to members through their groups to rebuild their homes and restart their lives.

Microfinance, when situated in an integrated approach that combines savings, credit and insurance can be even more effective at helping the poor manage risk. Micro-insurance offers tailored solutions to insurance for a segment of the market that is typically excluded from formal insurance. Furthermore by creating a web of interlinked transactions – savings, credit, insurance, etc. – the problems of information and enforcement are minimized and transaction costs to the poor are lower. Through its network of inter-linked organizations and multiple interventions, SEWA employs such an integrated approach offering the poor a one-stop service point for financial services.

SEWA’s approach to disaster mitigation is focused on livelihoods rather than relief. SEWA reacted to the 2001 earthquake with a rapid and highly effective response. SEWA’s response recognized that the experience and impact of disasters on the poor is different from that of the wealthy. Disasters devastate precarious livelihoods and threaten already low consumption. Therefore an appropriate response to disaster is rehabilitation and rebuilding livelihoods, not simply relief. SEWA’s members’ priorities immediately after the earthquake – returning to work and rebuilding their homes (their workplaces) – support this view of disaster response.

As a longer term response to the earthquake SEWA together with the International Fund for Agricultural Development (IFAD), the World Food Programme (WFP), the Government of India (GOI) and the Government of Gujarat (GOG), launched Jeevika. Jeevika is a seven-year livelihood security project for earthquake-affected rural households in Gujarat. Contrary to typical disaster responses, Jeevika aims to rebuild livelihoods rather than provide relief. The project embraces an integrated, demand driven and need based approach to implement a comprehensive rural development agenda.

Invest to prevent disaster

In Jeevika’s approach that prioritizes livelihood reconstruction and strengthening as the major elements of disaster relief and mitigation, microfinance plays a key role. Microfinance and financial management builds the capacity of communities and individuals to cope with recurrent crisis and enables them to achieve greater livelihood security. The first step in introducing financial management as a disaster mitigation strategy in the project area is to inculcate a culture of savings among the rural poor as a form of “self-insurance” which they can rely on to smooth consumption and meet production needs, savings the benefits of non-crisis periods to cover the crisis or drought periods.

Jeevika’s microfinance interventions in the area are aimed at strengthening ex-ante coping strategies and providing easy access to affordable credit as a better ex-post coping strategy. By organizing women into Swashrayee Mandals which provide them with access to loans through internal lending Jeevika attempts to reduce vulnerability. The Mandals are an effective delivery mechanism for credit and relief services as they have established relationships and delivery channels.

However, given the high vulnerability of the poorest and their low resource base coping strategies focused on savings, credit and micro-insurance are not enough. The project aims to expand poor households’ income base through micro-enterprise development as another risk management strategy. Through their Mandals members have access to working capital loans to diversify their sources of income which can provide greater income security since they no longer rely on a single source of income. Members can expand their income base and pursue nonagricultural or non-land-based income generating activities, reducing the vulnerability of their income stream to drought and other natural disasters. Members can also expand their productive asset base providing them with extra income and also an added buffer in times of crisis. The Mandals are being built up as decentralized community-based financial service providers which reduces the transaction costs of providing financial services to households in more remote rural areas with low population densities. Under Jeevika, members have used the credit provided by their Mandals for a variety of income generating activities.

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Despite the benefits of a group-based approach to microfinance, Jeevika's experience has shown that often the poorest of the poor are so marginalized that they are excluded from self-selected SHGs or they lack the resources to be able to save even a nominal amount each month in order to join an SHG. In order to overcome these constraints, Jeevika has designed a direct intevention into the rural credit market to service the poorest of the poor at affordable rates. The rational for doing so is that by providing the poorest or the poor with the means to invest in their own enterprises, they are able to raise their incomes and enhance their risk coping strategies. SEWA's District Associations have begun granting loans through Village Development Committees, or Jeevika SEWA Mandals (JSMs), to individual women for income generating activities. Under the pilot phase of this project 130 households of the poorest of the poor have been able to diversify their livelihood base, gain regular income and enhance their ability to manage risk.

SEWA's experience has shown that it is important to provide poor households with an integrated package of financial services to reduce their vulnerability to negative shocks. Micro-insurance is a key element in this mix of financial products. The poor do not have access to formal insurance and can only afford to pay minimal premium amounts. Furthermore due to the high transactions costs of working with the rural poor, their low rate of policy renewal and high claims ratio, traditional insurance companies are not willing to directly insure the poor. Realizing both the need to offer the rural poor insurance and for an effective intermediary between insurance companies and the poor, SEWA established SEWA Insurance, an intermediary for formal insurance companies. SEWA has designed an innovative insurance product that offers the poor the range of insurance they require – life insurance, health insurance and asset insurance – while also recognizing that they cannot afford to interact with multiple companies or manage multiple premia and policies.

SEWA is promoting this product through an integrated approach, sankalit abhigam, that combines savings, credit and insurance through Swashrayee Mandals. The poorest often even have difficulty paying the minimal 100 Rs. premium for an individual policy in a lump sum. Therefore SEWA has designed a system whereby members can save for their insurance premium through small monthly installments in their

Swashrayee Mandals. At the end of the year when the policy is due for renewal or when new policies are to be purchased the full premium amount is withdrawn from the account and members who were not able to contribute the full amount are still insured and the balance of their premium is treated as a loan from the Mandal. By linking insurance with savings the initiative facilitates access for poor women to insurance. By creating a web of interlinked transactions information and enforcement problems are reduced as members enter into multiple and repeated relationships with each other and SEWA.

Microfinance can also enhance community preparedness for disaster by strengthening and supporting community risk coping strategies. Financial management and access to savings and credit services can help individuals spread the benefits of good years or months to bad years of months. In the same way individual financial management skills can be built upon to enable communities to spread the benefits of good years over to drought years through initiatives such as grain banks or fodder banks. Strong self help groups, or Swashrayee Mandals, can themselves represent an important resource for community risk management and disaster preparedness. The Mandals can provide physical, financial and human resources to enhance coping strategies such as delivery networks or operating grain or fodder banks. They can also evolve into local level institutions that can undertake disaster preparedness activities.

Through the Jeevika project, SEWA aims to build Swashrayee Mandals into local level institutions that can enhance individual and community preparedness for disasters. Through their Mandals members can identify and address various issues and problems faced by their community. The Mandals can become a vehicle for organizing the community's demands and needs as active elements of civil society and societal self-organization, through which their members can participate in and guide overall village development. SEWA aims to build the Mandals as agents of change in their communities. Through their Mandals women can participate in and promote other activities of SEWA which can improve community disaster preparedness such as the Water Campaign, Insurance Campaign or Agriculture Campaign. The Mandals can also demand government services and act as pressure groups to link communities with government disaster preparedness schemes and activities.

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The experience of SEWA has shown the power of linking financial services with people's organizations and capacity building for strengthening longer term disaster preparedness among vulnerable communities. Microfinance can significantly reduce the vulnerability of the poor in hazard-prone areas and increase coping strategies; when coupled with institution building and training, as through a self help group approach, it can enhance disaster mitigation and risk management strategies for members and entire communities.

Microfinance and safety nets should be used to move beyond the conventional approach to disaster relief and strengthen livelihoods instead which would not only enhance coping strategies but would reduce vulnerabilities and lead to better disaster preparedness. Through SEWA's experience microfinance can effectively be used to promote enterprise development and diversification to enhance livelihood security. SEWA has had success both with a group based approach supporting collective and individual enterprises or income generating activities and with an individual based approach to target the poorest of the poor and marginalized. Another key element to successfully supporting livelihood security through microfinance is to provide the right product mix. Providing vulnerable household with an integrated package of financial services covering savings, credit and micro-insurance packaged in an accessible and affordable structure such as the *sankalit abhigam* allows households to pursue livelihood diversification and strengthening while also building safety nets through insurance, the Work Security Fund and precautionary savings and expanding coping strategies through credit.

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