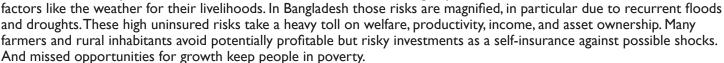


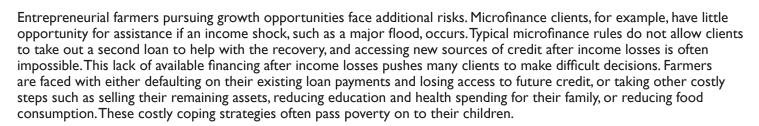
# an AMA Innovation Lab Spotlight

# **EMERGENCY LOANS: Building on Microfinance Success to Enhance Resilience**

## **Ready for the Unexpected**

In all parts of the world, farmers face myriad risks. Not only do farmers face the same risks that we all face - disability, health crisis, etc. - but the additional risks of being dependent on external





Researchers supported by the Feed the Future Innovation Lab for Assets & Market Access have worked with microfinance partners (BRAC) to explore a portfolio of flexible risk-handling instruments that offer assistance in the event of a shock, without compromising clients' willingness and ability to save and repay loans. The Emegency Loan is designed to offer clients an avenue to access additional financing in times of distress while also allowing them to maintain good standing with the microfinance institution.





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#### **A Promising Opportunity**

Other financial innovations for risk management, including index-based insurance, have been explored in a number of contexts, but have proved difficult to promote among farmers due to incomplete coverage of risk, high cost due to insurance company loadings, lack of trust in insurance providers, and a lack of willingness to insure.

By adapting traditional financial products delivered by microfinance institutions, and making them more flexible to meet the needs of farmers and rural inhabitants, many of these challenges faced by index insurance can be overcome.

## The Research Study

The new financial innovations described above will be evaluated using a randomized control trial. The broader research project will combine these risk-handling financial innovations with risk-reducing technological innovations (specifically, new rice varieties), to create a portfolio of tools to manage and cope with risk.

On May 1st, 2016 a credit score was generated for the clients from the 200 BRAC branches participating in the study. In 100 treatment branches the eligible clients were contacted and given a referral slip that describes the details of the loan and the concept of pre-approval. The FFWC website is now being monitored daily and when one of the monitors linked to a treatment branch shows flooding, the BRAC branch management will contact eligible clients letting them know that their guaranteed loans are available should they want them.



In the pilot run last summer, the research team found that the clients who took the Emergency Loan overwhelmingly used the capital to reinvest in their productive capacity. Farmers used the credit to purchase new seed and replant their field once the floodwaters receded, families who lost livestock repurchased cattle, and small business owners repaired their shop and purchased new stock.

These early results bring hope that the Emergency Loan will allow clients to recover from the disaster while also maintaining their status as a good borrower.

## **Potential Impacts**

BRAC, the microfinance partner for this research, currently provides financial services to 5.5 million borrowers, educational services to 1.14 million children, and sanitation services to 25 million people, in 11 countries, including five Feed the Future focus countries (Bangladesh, Haiti, Liberia, Tanzania, and Uganda).

If the financial innovations tested in this research prove successful, they have the potential to be immediately promoted at scale.



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# **PROJECT OVERVIEW**

Lead PI

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Partners BRAC. IRRI

**Timeline** 2014-2017

**Funding** \$575,000

Key Innovation combined technological and financial innovations for risk

management

Commodity

Rice

Photos by Gregory Lane, UC Berkeley

For more information on this project, visit basis.ucdavis.edu

