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MICROFINANCE PRODUCTS AS TOOL FOR FINANCIAL RESILIENCE TO HAZARDS

INTRODUCTION

Microfinance development over the last decades has been significant and increasing. It can be defined as providing financial services such as microinsurance and microcredit for the poor in rural and urban areas, thus enabling increased income levels and improving living standards. The purpose of this paper is to identify the role and impact of different microfinance products and services in reducing the risk of natural disasters. In the past, disaster risk management approaches had been focused on response and haven't address social vulnerability and exposure in a sufficient extent. Recently, this approach has been replaced by integrated approach, which includes ex ante risk financing.

CORE IDEA OF THE RESEARCH

Disaster risk can be allocated to:

- individuals and businesses;
- local or/and national government, international government and UN;
- insurance and reinsurance market.

Risk allocation depends on selection of disaster risk management techniques that is the most appropriate for certain risk (Figure 1).

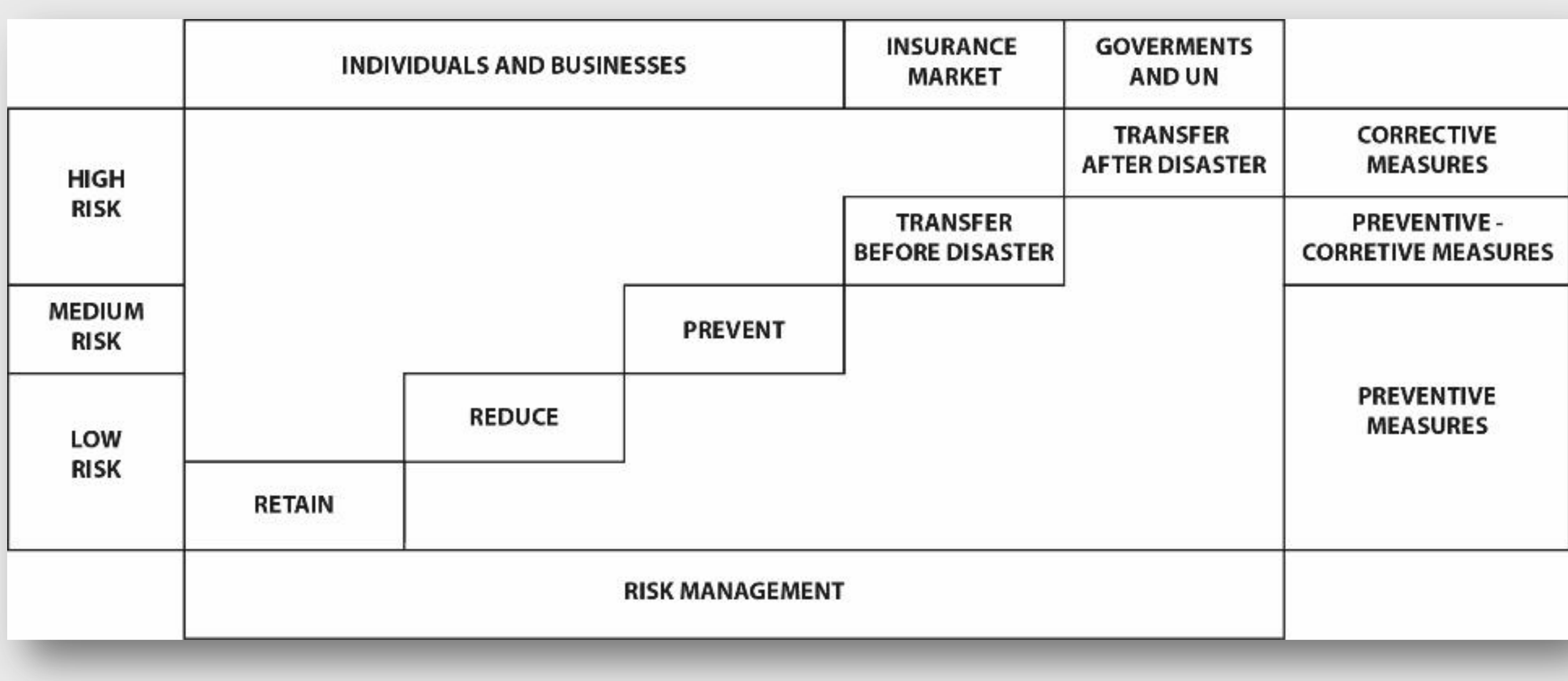

Figure 1 – Risk allocation (Popović, 2011)

In mature insurance markets, insurance has a substantial role in mitigating climate change consequences. Insurance reduces the effects of weather variability and extremes on national economies and provides security against poverty that strikes regions affected by climate change.

The role of risk transfer in DRM has typically focused on the response and recovery stages. However, more recently attention has focused on possible contributions of risk transfer (insurance and microfinance) to the risk prevention and preparedness stages. (Figure 2)

In 2009. Munich Climate Insurance Initiative (MCII) offered proposal for climate risk management module that includes prevention and insurance as complementary instruments that will facilitate adaptation to climate change in climate post 2012 agreement. (Figure 3)

Figure 2 - Integrated climate and disaster risk management (GIZ/MCII 2017)

If risk has high frequency, but low severity, risk should be prevented and reduced. It is the most cost-effective measure. That also means that risk should be retained. When probability of occurrence of adverse event is medium with medium severity (losses) risk should be at first place prevented and reduced, but also it should be financed.

Microfinance is not a standalone solution for adaptation to disaster risks. However, it can be a strong complementary mechanism in a wider adaptation strategy.

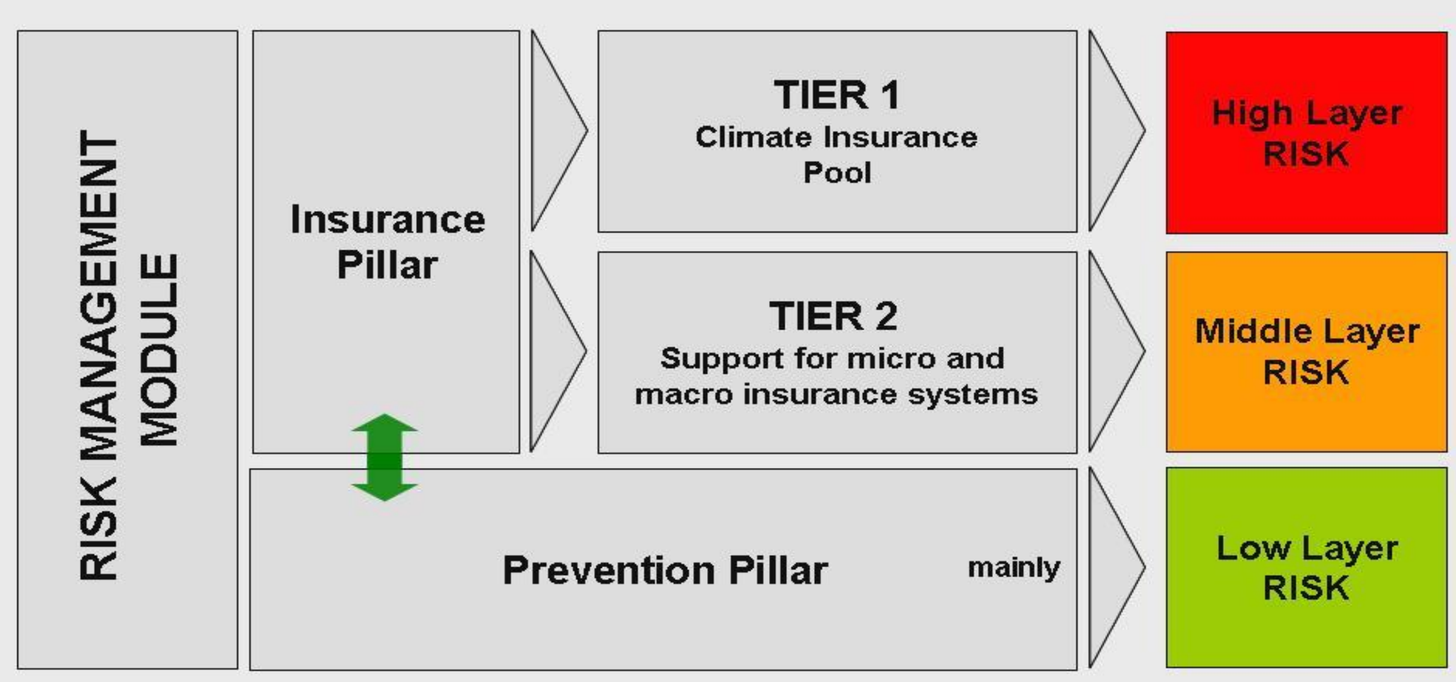

Figure 3 – Climate risk management module (MCII, 2009)

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