

7th Asia-Pacific Climate Change Adaptation (APAN) Forum

Session on *Climate Finance for Catalyzing Transformative Economic Development*

Enhancing microfinance institution resilience:
development of a contingent disaster liquidity facility

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The issue

- Microfinance institutions (MFIs) can assist clients in the immediate aftermath of a disaster with repayment holidays and access to mandatory savings.
- Potentially, they have an even larger role to play in the recovery and reconstruction phases, providing additional loans to support people rebuilding their livelihoods.
- Increasing evidence globally shows that providing emergency liquidity to MFIs for on-lending to clients is a cost-effective way of accelerating households' recovery from disaster and that repayment performance is high.... yet lending typically falls after a disaster due to reduced liquidity



Proposed solution: contingent disaster liquidity facility (CDLF)

- The CDLF would channel funds to MFIs to cover liquidity gaps and better manage cash flow in the event of extreme weather events.
- The CDLF would catalyze and coordinate access to short- and medium-term loans from both the private and public sectors and would also serve as a vehicle to provide cash transfers from donors.

Complementary measures contributing to the successful implementation of a CDLF

- Development of a stress test tool allowing MFIs to assess their portfolio exposure to disaster risk
- Capacity development for MFIs in managing disaster risk and recovery planning
- Capacity development for MFI clients on accessing and using disaster risk information for improved decision making





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