Abstract

This study is an attempt to measure the impact of the earthquake on the micro-borrowers, which hit Pakistan in 2005. The econometric modeling is used for estimation by real-time data, which is maintained by a member of Pakistan Microfinance Network (PMN), working for more than a decade in the affected areas.

The repayment delays are used as dependant variable while distance from the epicenter of the earthquake is used as a proxy to measure the impact of the earthquake along with a number of other controls.

It is found that the impact of the earthquake decreases as we move further away from the epicenter of the earthquake. Although microfinance is an effective tool to tackle with the idiosyncratic shocks, it losses effectiveness incase of covariate shocks. The income diversification as an ex-ante coping strategy is not effective and needs reinforcement through complementary mechanism like micro-insurance.

Apparently, the impact of the quake was severe on the borrower households with single source of income. In fact, this was due to heavy micro lending in the conventional enterprise. Hence, microfinance institutes (MFIs) should encourage investment in innovative rather than conventional enterprise and help build the adequate capacity of the poor to reduce their vulnerability and provide them with the sustainable livelihood.