MICRO-ECONOMIC INITIATIVES

HANDBOOK

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ECONOMIC SECURITY UNIT / ICRC

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Sebastien Chessex


Boris Heger/ICRC

TABLE OF CONTENTS

GLOSSARY

Cash flow: The amount of cash a household generates and uses during a period. Cash inflows represent the cash received by a business or household in the form of wages, sales revenues, loans or gifts, while cash outflows represent cash paid by the business or household to cover payments or purchases.

Cash flow analysis: Identification of the cash flows of a business, relative to the amount of cash needed for operations and the amount of funds available for investment.

Credit: A contractual agreement in which a borrower receives something of value immediately, with the agreement to repay the lender at some date in the future.

Debt: An amount of money borrowed and owed by one party to another.

Depreciation: An annual expense determined by estimating the useful life of each asset.

Discretionary income: The amount of an individual's income available for spending after the essentials have been covered. Essentials consist of food, clothing, health care and shelter.

Disposable income: The amount of after-tax income that is available to divide between spending and personal savings.

Economics: The study of how people use their limited resources in an attempt to satisfy unlimited wants.

Economic security: The condition of an individual, household or community that is able to cover its essential needs and unavoidable expenditures in a sustainable manner, according to its cultural standards (ICRC definition).

Financial viability: The ability of a business to cover its costs with earned revenue.

Fixed assets: Machinery, equipment and property.

Inflation: A sustained rise in the general level of prices.

Inflation rate: The rate at which the price level increases over time.

Loan: When a lender gives money or property to a borrower, and the borrower agrees to return the property or repay the borrowed money along with interest, at a predetermined date in the future.

Macroeconomics: The field of economics that studies the behaviour of the aggregate economy. Macroeconomics examines economy-wide phenomena such as changes in unemployment, national income, rate of growth, gross domestic product, inflation and price levels.

Market: An organized exchange between buyers and sellers of a good or service.

Microeconomics: The branch of economics that analyses the market behaviour of individual consumers and firms in an attempt to understand the decision-making processes of firms and households. It is concerned with the interaction between individual buyers and sellers and the factors that influence the choices made by buyers and sellers.

Net income or profit: Total earnings less expenses.

Price: The amount of money or goods asked for or given in exchange for something else.

Productivity: The volume of business generated (output) for a given resource or assets (input).

Revenue: The dollar amount of sales during a specific period, including discounts and returned merchandise. It is the figure from which costs are subtracted to determine net income.

Savings: The amount left over when the cost of a person's consumer expenditure is subtracted from the amount of disposable income that he or she earns in a given period of time.

Target market: A group of potential clients sharing certain characteristics, tending to behave in similar ways and likely to be attracted to a specific combination of products and services.

INTRODUCTION

What are micro-economic initiatives?

Micro-economic initiative (MEI) is a term used by the ICRC to refer to an income-generating programme that is implemented through a bottom-up approach, whereby each beneficiary[1] is involved in identifying and designing the assistance to be received. This approach contrasts with other production interventions, generally of an agricultural nature, whereby an assistance kit with identical inputs is developed and distributed to all the intended beneficiaries.

For the most part, an MEI consists of one or a combination of three interventions: vocational training, productive grants and micro-credit support. The aim of all three is to support income-generating activities ranging from agriculture and livestock-rearing to trade and crafts.

In addition to enhancing sustainability and impact, which are the underlying objectives of all the ICRC's production interventions, MEIs aim to increase the compatibility of the assistance with each beneficiary's specific needs and abilities, by placing the beneficiary at the heart of the decision-making process. This means both an increased respect for the beneficiary's dignity and greater ownership of the income-generating project by the beneficiary. Not only does this ensure sustainable outputs but also a strong psycho-social impact of the project. The MEI approach is increasingly being used to support the income-generating activities of vulnerable people in urban areas or for people with disabilities, for whom a one-size-fits-all approach is unworkable.

1 Beneficiaries can be households, groups of households or communities.

In spite of growing interest in MEIs, they should not be seen as a universal panacea or as a replacement for other types of assistance programme. MEIs have some shortcomings that make them inappropriate in certain situations. Furthermore, they can be very challenging to implement because of the increased complexity of programme management, particularly in relation to the streamlining of procedures and the selection and monitoring of beneficiaries.

Purpose of the handbook

The purpose of the handbook is to build on the lessons and best practices identified during the implementation of MEIs and to propose tools to manage their inherent challenges. The handbook draws on the ICRC's experiences in some half a dozen contexts and on the conclusions of internal and external evaluations of MEIs carried out in the Balkans, the Caucasus and the Middle East.

The handbook is intended for field practitioners with experience of humanitarian programmes and of the ICRC's economic security approach. While the guidelines do provide an overview of economic security concepts, they should not be considered as a stand-alone document but rather as a complement to the MEI training module produced by the economic security unit (Ecosec) and other related Movement and Ecosec guidelines.[2]

2 For example: ICRC, *Guidelines on Programme/Project Management: The Results-Based Approach*, 2008; ICRC/International Federation of Red Cross and Red Crescent Societies, *Guidelines for Emergency Assessment*, 2008.

Structure of the handbook

The guidelines are divided into three sections. Section I provides a conceptual overview of the main issues involved in implementing MEIs, focusing on the profile of target beneficiaries and the advantages and limits of each type of programme. This section is designed to be of interest to practitioners outside the field of economic security as well.

Section II deals with the practical implications of MEI implementation and goes through each step of the programme cycle. This section covers grants, vocational training and micro-credit separately, highlighting the challenges that may arise during the needs and feasibility assessment and the design of programmes, their implementation and follow-up.[3] Grants are dealt with in detail, while the vocational training and micro-credit components concentrate on specific challenges not covered under grants.

Section III consists of guidance sheets for some of the key steps in MEI implementation, as well as examples of the different tools and forms that have been developed up to now and that could be of use in future programmes.

3 For the sake of simplicity, monitoring is covered in the follow-up portion of each programme, even though in reality it spans the whole programme cycle, including the assessment, design and implementation stages.


Boris Heger/ICRC

SECTION I:

CONCEPTUAL OVERVIEW OF MEIs

1 OVERVIEW OF ECONOMIC SECURITY CONCEPTS

This chapter gives an overview of the livelihood concept and economic security strategic framework. Both of these concepts are central to Ecosec programmes, bearing in mind that economic security is achieved when a household or community can meet its essential economic needs (or compulsory expenditures) in a sustainable way. Essential economic needs are defined by the household's/community's biology, environment and cultural standards.

1.1 Livelihood concept

The ICRC's economic security approach is inspired by a livelihood concept used by most major humanitarian agencies and donors. This concept provides a basis for humanitarian workers to analyse and assess operational contexts and aims to help people not only cope with shocks but also recover from them. The livelihood concept is based on a common understanding of livelihoods, the assets and liabilities of which they are comprised, and the processes, institutions and policies affecting them.

Livelihoods are defined as the sum of assets through which households/communities obtain and maintain access to the resources necessary to meet their immediate and long-term essential needs.

Table 1: Types of assets

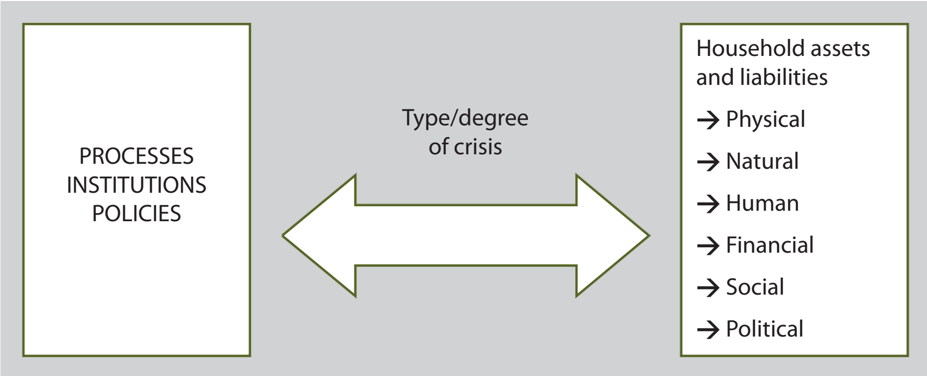
Asset type	Including
Physical	Productive assets such as: • farm equipment • seeds • tools • sewing machines • vehicles
Natural	Agricultural and grazing land Water resources Timber Fish
Human	Labour power within a household Education Skills Vocational training
Financial	Wages Access to credit Savings
Social	Kinship structures Religious groups Neighbourhood associations
Political	Citizenship Access to political leaders Recourse to a functioning legal system Personal safety

Assets and **liabilities** do not evolve independently over time. They are strongly influenced by the global environment in which a household or community lives. This includes:

Processes within the larger community
Institutions in charge of providing services
Policies being implemented

To ensure sustainable livelihoods, economic security interventions cannot focus only on "assets and liabilities" but must also understand the "PIPs" that influence them. Figure 1 illustrates this relationship.

Figure 1: Ecosec's livelihood approach



1.2 Economic security strategic framework

The economic security strategic framework provides practical management tools for any major economic security intervention.

Table 2 briefly summarizes the three types of intervention used in the strategic framework.

Table 2: Types of intervention

Intervention type	Aim	Achieved by
Relief	Saving lives and protecting livelihoods at immediate risk owing to an emerging or acute crisis.	Distributing economic goods or providing services essential to people's survival when they can no longer obtain these by their own means.
Production	Generating food and/or income, and ultimately restoring sustainable livelihoods in pre-, chronic and post-crisis environments.	Reducing liabilities or protecting/enhancing assets that provide for an adequate livelihood.
Structural	Rehabilitation of sustainable productive assets through the improvement of processes and institutions that have a direct influence on a target population's assets/liabilities.	Engaging key service providers and/or other key stakeholders in providing the necessary inputs required to achieve longer-term service provision in a vital sector.

Table 3 illustrates the objectives of different types of intervention in the context of the ICRC's Planning for Results exercise.

Table 3: Ecosec strategic framework

Objectives	Interventions		
	Relief	Production	Structural
General (3–5 years)	Beneficiaries have access to economic resources essential to their survival.	Assets that provide for beneficiaries' means of production are recovered/enhanced, so that they improve their living conditions over time.	Living conditions of the target population are protected/enhanced so that they can reach long-term economic self-sufficiency (ensuring sustainable service provision for the target population).
Specific (1 year extendable to a 2nd and 3rd year)	Items distributed or services provided enable beneficiaries to cover their essential needs.	Beneficiaries cover their essential needs/ improve their living conditions by themselves.	Adequate service provision leads to improved livelihoods at household/ community level.
Project (1 year)	As above.	Production or service(s) in a specific sector or area or for a specific target group are improved.	Adequate service provision is achieved through the mobilization and/or support of other actors.
Activities	Distribution of food, essential household items, seeds and tools.	Provision of productive goods and services.	Improved production or service delivery in a specific sector.

Different interventions are preferred in different crisis phases. The one that is chosen in a given context depends on the level of the beneficiaries' vulnerability, the identified needs and the varying influences of the surrounding environment on households and communities.

Production interventions

Production interventions are possible when households or communities whose livelihoods have been weakened but are still capable of recovery can be supported in their efforts to strengthen their own resilience or to re-establish sustainable livelihoods.

Production interventions entail the provision of productive goods or services along with capacity-building to support a household's or a community's means of generating food and/or income in order to restore sustainable livelihoods.

The objectives of a production intervention are to:

- → reduce households' and communities' liabilities and enhance their assets;
- → provide an important means of re-establishing a degree of lost dignity.

Production interventions are the intervention of choice during a chronic crisis and after immediate relief has been provided. They should be initiated where and when the environment permits a broader approach than strict substitution. They should also be considered in situations where the conditions in Table 4 are met.

Table 4: Conditions for production interventions in pre- and post-crisis situations

Situation	When/If
Pre-crisis	a) They provide added value as defined in the ICRC Assistance Policy.* b) They help the community to strengthen its resilience (consolidation).
Post-crisis	a) Parts of the target population assisted during a chronic crisis remain unable to meet all their essential expenditures owing to insufficient assets. b) They do not benefit from ongoing structural development/economic improvement (because of their origin, vulnerability, etc.). c) The mobilization of other actors appears to be ineffective.

* ICRC, Assistance Policy: Doctrine 49, 2004.

Figure 2: Relevance of the various economic security interventions in different crisis situations

Intervention	Pre-crisis	Acute crisis	Chronic crisis	Post-crisis
Relief				NOT RECOMMENDED
Production				
Structural		NOT RECOMMENDED		

Highly recommended   Recommended   Possible

The evolution from one type of intervention to another should be natural and logical. Relief interventions should lead on to production interventions unless positive trends in the conflict or the target population's resilience render a production intervention redundant (i.e. assets are sufficient and liabilities reduced within an improving global environment).

Production and structural interventions tend to overlap because processes, institutions and policies often threaten the success and sustainability of production interventions. It is therefore imperative to ensure that proper mobilization and/or persuasion of stakeholders accompany a production intervention and in some cases actually become the main strategy of the intervention as such (structural intervention).

KEY POINTS

- The economic security concept is based on a common understanding of livelihoods, assets and liabilities, as well as processes, institutions and policies affecting livelihoods.
- There are many different types of assets: physical, natural, human, financial, social and political.
- The ICRC Assistance Policy recognizes four types of crisis: pre-crisis, acute crisis, chronic crisis and post-crisis.
- Ecosec uses a combination of three types of intervention to address the specific needs in each type of crisis: relief intervention, production intervention and structural intervention.

1.3 Other relevant documents

ICRC, Assistance Policy: Doctrine 49, 2004

ICRC, Ecosec Operational Guidelines, 2004

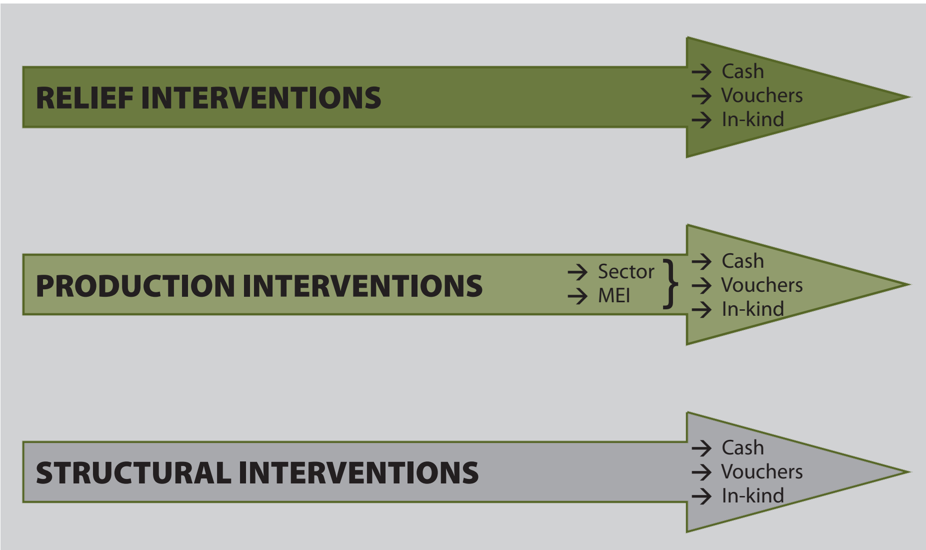
2 ABOUT MEIs

This chapter describes MEIs, positions them within the economic security approach and outlines the different types of MEI and their common characteristics.

2.1 Description

Micro-economic initiatives (MEIs): As with all production interventions, the objective of an MEI is to strengthen a household's or a community's income-generating capacity in a significant and sustainable manner within a predetermined timeframe. The particularity of MEIs, however, is that they are household- or community-driven production interventions characterized by the provision of inputs tailored to the needs of individual households or communities. Such an approach leads to increased versatility and proximity to the beneficiaries. The most common MEIs are productive grants, vocational training and micro-credit support.

Figure 3: Programmes and tools for production interventions



As noted earlier, production interventions include both sector-specific approaches, such as the distribution of standard agricultural kits, and MEIs.

Cash and voucher transfers are not interventions as such, but tools to facilitate and improve programme implementation. They can be used to support both relief and production interventions, including MEIs. There is a growing interest in such approaches because of the added flexibility they give to beneficiaries, greater respect for the beneficiaries' dignity, and their cost-effectiveness relative to in-kind assistance.

2.2 Types of MEI

Productive grant: A productive grant is a donation of one or several inputs to a selected vulnerable household in the anticipation that the inputs will help the beneficiary achieve higher income from an economic activity.

A productive grant programme has the potential to cover hundreds of different economic activities. Moreover, it is able to take into account the beneficiaries' personal profiles (skills, profession, education) and geographic location (urban, peri-urban, rural) and therefore to respond more effectively to their needs.

Productive grants are generally divided into three categories: agriculture, trade and craft. Inputs for agriculture and craft grants are generally productive assets ranging from livestock to tools, whereas the inputs for trade grants are mostly consumer goods which the beneficiary purchases in bulk and resells at a margin.

Vocational training: A vocational training programme can be defined as the provision of training aimed at upgrading the professional skills of selected beneficiaries in order to improve their employment possibilities or their ability to start their own businesses. Vocational training can be provided through local training institutions, through apprenticeships in existing enterprises or through ICRC-mandated training.

Micro-finance: Micro-finance is the provision of financial services (generally credit for working capital and sometimes savings and insurance schemes) to low-income clients who have no access to credit from banks or other traditional sources. Clients are typically self-employed, low-income entrepreneurs in both rural and urban areas. Micro-finance is often found to be most effective in targeting the middle and upper segments of the poor. The ICRC focuses on the micro-credit component. It does not provide loans as such but works to strengthen or expand the operations of existing institutions.

Note: Productive grants, vocational training and micro-finance are not mutually exclusive. On the contrary, different MEIs can be implemented in parallel as illustrated in case study 1.

Case study 1: Serbia and Montenegro

Between 2001 and 2004, the ICRC launched a variety of MEIs to assist internally displaced people (IDPs) from Kosovo in Serbia and Montenegro. After starting with a productive grant programme supporting IDPs living in rural areas, the ICRC expanded the programme to include grants to vulnerable IDPs in urban areas, as well as introducing a vocational training component for IDPs in urban areas who lacked the skills to initiate an income-generating activity in an urban setting. Noting also that many vulnerable displaced entrepreneurs could not access the necessary credit to consolidate their micro-enterprises, the ICRC supported a local micro-finance institution, the Micro Development Fund (MDF), to ensure appropriate loan products were available to IDPs.

Over a period of four years, a total of 3,279 households received productive grants, 880 underwent vocational training and over 600 obtained micro-credit. An external evaluation carried out in 2005 found that 43% of the beneficiaries of vocational training had found employment following the ICRC's assistance and 90% of micro-credit beneficiaries had seen an improvement in their economic security. To this day, the ICRC's micro-credit fund, which was handed over to MDF, continues to be used to assist IDPs, with over 1,000 displaced households benefiting from micro-credit support since 2007.

2.3 Characteristics of MEIs

There are a number of characteristics common to all three types of MEI:

- → They all apply a bottom-up approach, thus placing the beneficiary at the heart of the programme design and decision-making processes.
- → All three are therefore tailored to the beneficiaries' needs and profiles.

- → As such, they ensure greater respect for the beneficiaries' dignity.
- → Unlike relief assistance, they are conditional on the beneficiaries' motivation and skills, in addition to their vulnerability, and are therefore not suited to people who are destitute.
- → They require close follow-up.
- → They are market-driven and therefore depend on an integrated, diversified and well-functioning goods and services market.
- → They support mainly micro-enterprise and income-generating activities as defined in table 5.

Figure 4: Productive entities supported through MEIs

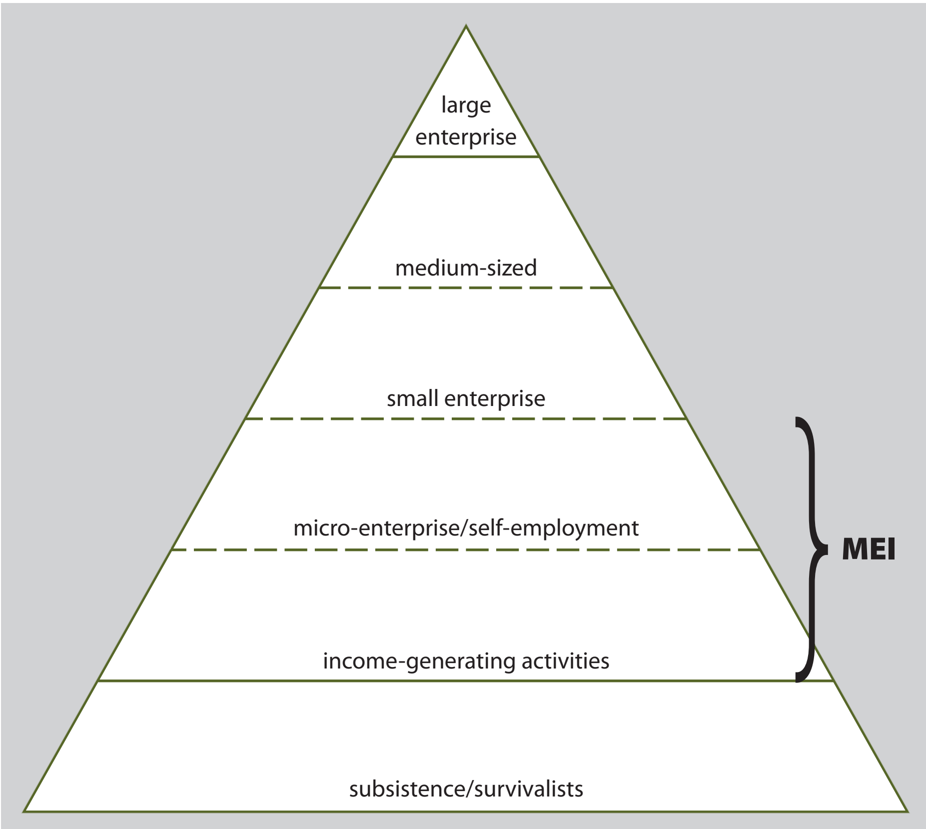


Table 5: Types of productive entities[4]

Type	Characteristics
Small enterprise	• Liquid and fixed assets ranging in value from several thousand to hundreds of thousands of US dollars • 10+ employees • Formal licence and business operations
Micro-enterprise	• Liquid and fixed assets ranging in value from several hundred to several thousand US dollars • 1 to 10 employees • Sometimes lacking a formal licence, but often with a fixed location and hours
Income generation	• Little or no fixed assets, total assets of US$ 30–1,000 • Work may be part time or sporadic, perhaps done from the person's home • Self-employment, with several ways of earning income
Subsistence producer	• Similar to income generation, but with lack of experience of participating in a cash economy • Oriented mainly to self-consumption and barter

KEY POINTS

- MEIs are production interventions that are characterized by the provision of inputs tailored to the needs of individual households or communities.
- MEIs ensure greater respect for beneficiaries' dignity, increased proximity to the beneficiaries and greater versatility.
- The three main types of MEIs are: productive grants, vocational training and micro-finance.
- Cash and voucher transfers are not limited to production interventions; they can be used for relief and structural interventions as well.

2.4 Other relevant documents

ICRC/International Federation of Red Cross and Red Crescent Societies, *International Red Cross and Red Crescent Movement: Guidelines for Cash Transfer Programming*, 2007

4 Adapted from Lassen Associates, *Facts for Economic Life*, 1997.

3 PROFILE OF TARGET BENEFICIARIES

This chapter focuses on the profile of the target beneficiaries of an MEI in order to gain a better understanding of the nature of their economic vulnerability. It highlights the common economic characteristics of low-income households in developing countries, the impact of conflict on a household and at macroeconomic level, and the coping mechanisms most likely to be used by low-income conflict-affected households.

3.1 Economic characteristics of vulnerable households

While each context is different and each household has its specificities, the following are economic characteristics commonly observed in most low-income households in developing countries. This list is not exclusive but is meant to highlight the main trends.

a. Households have an irregular flow of income

Uneven income distribution over the year is very often linked to high seasonal fluctuations in both revenue and expenditures.

b. Households live in an unpredictable economic environment

In addition to having an irregular income, households depend for their income on an economic environment that is relatively unpredictable, for example:

- → Their production is often dependent on climate, mostly in rural areas.
- → The price at which they can sell their produce is highly dependent on equally unpredictable competing markets.
- → Their access to markets can vary significantly from year to year owing to a variety of factors, ranging from competing markets to the state of infrastructure and the whims of traders and intermediaries.

c. They have limited income-smoothing mechanisms

The irregularity and unpredictability of households' income is further compounded by their limited ability to smooth out income variations. In other words:

- → They often lack non-productive liquid assets that could be sold to make up for a temporary lack of income or used as collateral to obtain credit.
- → The many formal income-smoothing mechanisms used in developed economies, such as credit and insurance, are often not available to them. In addition to a lack of formal institutions providing such services in remote areas, the unavailability of such mechanisms is often attributed to the fact that wealth-constrained households are not seen as credit worthy. Simply put, credit providers often fear that the asset poor cannot be sufficiently penalized for defaulting in bad times.
- → The informal mechanisms that are developed at a community level to compensate for the absence of formal smoothing mechanisms are generally limited, distorted or inefficient. Insurance schemes are limited[5] and credit is often provided on the basis of binding reciprocal loan systems or abusive moneylender practices that tend to render beneficiaries dependent,[6] rather than independent and self-sufficient economic actors. This phenomenon is linked to the concept of "multiplex" economies in which each individual plays not one but a variety of roles in interacting with fellow community members.[7] The most common example is of the credit provider also being the employer or the landlord, which makes it all the more difficult for vulnerable households to break out of the poverty trap. Similarly, interlocking labour commitments and credit transactions often divide workers and weaken their collective bargaining power vis-à-vis their employers.

5 Within small regions, the incomes of households are likely to be exposed to the same risks, reducing the effectiveness of local risk-sharing arrangements. This is particularly true of rural areas.

6 For instance, credit maturity is often linked to seasonality, thus limiting the excess liquidity that could be invested in other productive activities.

7 P. Bardhan, A. Rudra, "Terms and Conditions of Labour Contracts in Agriculture: Results of a Survey in West Bengal", 1979, *Oxford Bulletin of Economics and Statistics*, Vol. 43, No. 1, 1981, pp. 89–111.

→ Poverty is therefore not only associated with the risks created by the social, political and economic environment in which they live, it is also closely linked to people's reduced capacity to absorb shock.

d. Households' income-generating activities are generally linked to the informal market[8]

→ Economic activity in the informal market often means lower wages, no social benefits and the need to resort to bribery for certain services or protection, as "informals" often do not benefit from law enforcement services.

→ It would be incorrect, however, to say that all workers in the informal sector come from low-income households. The informal sector is often attributed to underemployment, but this is true only of some of those involved in such work. The general appeal of self-employment and the fact that the informal sector is more conducive to entrepreneurship may also lead better-off households to engage in informal activities. This is particularly the case when business permits and land ownership are difficult to obtain and when there are heavy tax and labour policies.

→ It is therefore important to distinguish the different levels of the informal market and their link to the formal market. The lower tier is characterized by ease of entry and lack of a stable employer-employee relationship, whereas upper-tier jobs have barriers to entry.[9] Furthermore, the informal sector will often provide training for the formal sector, and similarly the formal sector provides training and capital for the upper tier of informal-sector activities.

8 Informal activities are extra-legal in the regulatory but not in the criminal sense. As such, they are generally referred to as the grey market, as opposed to the criminal black market. According to the International Monetary Fund (IMF), one-third of the GDP of emerging markets is produced informally. International Labour Organization (ILO) figures indicate that between 17 and 84% of the urban labour force in developing countries works informally.

9 Examples of such barriers to entry would be skills and tools for a shoemaker or money and contacts for a fruit vendor. Moreover, certain actors in the informal market can be highly protective of their turf, with the absence of law enforcement leading to possible clashes. This should also be seen as a potential barrier to entry.

e. Households are confronted by numerous poverty traps

→ The road to economic empowerment for low-income households is often plagued by poverty traps. These are described as self-reinforcing mechanisms that cause poverty to persist.[10] One of the explanations for these poverty traps is that output is positively related to scale only as of a certain threshold. In other words, below a certain threshold, the added value of certain inputs may be limited. A common example is that of nutrition, whereby a person who does not have access to sufficient amounts of food may not have the strength to earn the money to purchase the food basket needed to meet his or her nutritional requirements. Another example applies to education, whereby only a person with a certain level of education will be able to earn enough to put money aside to further his or her education. A similar situation applies to access to credit, when a person lacking assets is unable to meet the minimum collateral requirements to receive credit to initiate productive activities.

→ These examples illustrate that economic recovery is not a continuous process, but one that is riddled with poverty traps. The threshold concept is compelling when applied to conflict-affected people, as those households that have fallen below a certain threshold will have difficulty recovering without external assistance.[11]

3.2 Economic impact of conflict on households

Beyond loss of life, which is clearly the most devastating impact, conflict has many direct economic consequences for households, which can affect both their savings and their productive capacities.

10 C. Azariadis, J. Stachurski, "Poverty traps", 2005 in: P. Aghion and S. Durlauf (eds), *Handbook of Economic Growth*, Elsevier, Vol. 1, No. 1, 2005.

11 For more information on thresholds, see M.R. Carter, C.B. Barrett, «The economics of poverty traps and persistent poverty: An asset-based approach», *Journal of Development Studies*, Vol. 42, No. 2, 2006, pp. 178–199.

Direct economic impact of conflict on affected households

- The loss of a breadwinner (deceased, missing, disabled)
- Additional costs incurred during the conflict period, such as the cost of displacement
- Income foregone because of the inability to work as much – increased unemployment due to closure of workplaces or displacement
- Destruction of property
- The decreased output of productive assets, such as limited access to land following the use of mines or the proliferation of explosive remnants of war
- The breakdown of markets leading to higher costs and less business
- The inadequacy of skills to meet market requirements, for instance as a result of displacement
- Erosion of support from the social network
- Depression, anxiety, lack of confidence and loss of hope in one's ability to carry on

Furthermore, the impact of conflict on the wider economy has very significant repercussions at the household level. Indeed, while there is still much debate on the extent to which and speed at which growth and wealth creation *trickle down* from the higher strata of the economy to the most vulnerable households, the trickle-down effect of the negative economic consequences of conflict is sadly very real and effective, especially with respect to vulnerable households.

Impact of the conflict on the wider economy

- Spillover effect on the entire region owing to an increase in the cost of transportation, disruption of trade routes, increase in the cost of insurance, and damage to the reputation of the region for investors
- Investment in the military favoured over investment in social programmes
- Destruction of infrastructure
- Limited investment in fixed assets (agricultural infrastructure and the private sector)
- A spillover effect on the economy leading to a greater risk of the conflict spreading and perpetuating itself
- Contraction of the formal market and expansion of the informal market
- Switching from a situation in which there is an expectation of honesty to one in which there is an expectation of corruption and a general lack of trust
- Decrease in the appeal of and access to formal education*
- Increase in capital flight
- Increase in human flight ("brain drain")

* The return on investment linked to education is perceived as correlated to the stability of the local environment. The volatility associated with conflict acts as one more disincentive to education.

3.3 Economic profile of an Ecosec target beneficiary

As the ICRC generally works with households that were either economically vulnerable prior to the conflict or have become so as a direct result of the conflict, the economic profile of its target beneficiaries will generally display a combination of the characteristics highlighted in the boxes. It is important to keep in mind that some of the common characteristics of low-income households may be further compounded by conflict.

3.4 Coping mechanisms

Coping mechanisms are defined as the adapted/unusual strategies that people choose as a way of living through difficult times.[12] While these strategies may be very important for resilience and may enable people to withstand the effects of one or more shocks for a limited period of time, they may also include strategies that are potentially damaging to livelihoods. People tend to rely on negative coping strategies when they have exhausted their livelihood assets and have no further positive coping strategies to employ. Looking at which coping strategies are being employed is often a good indicator of the level of economic vulnerability of certain households. The following are the most common:

a. Diversified sources of income

→ Households will generally depend on multiple sources of income and try, to the extent possible, to have activities that are not subject to the same risks.

→ Access to public entitlements and security may lead some members of the household to maintain employment in the public sector or join the armed forces.

b. Intensification of work

→ Households will also seek to maximize the contribution of family members. People will work longer hours, and children may be put to work.

12 International Federation/ICRC, *Guidelines for assessment in emergencies*, 2008.

c. Limiting expenses

- Households will limit expenditures in order to save money. This becomes of particular concern once they start foregoing expenditures on basic needs.

d. Migration

- Migrants' choice of destination is often linked to opportunities to complement their income through seasonal work.
- Migration is often limited to a few geographic locations per community as the first migrants make it easier for other migrants from the same community to follow them by providing them with lodging and a social network.
- The social status of migrants in their original communities often influences their ability to secure jobs in the area to which they have migrated.
- A distinction should be made between circular migrants who migrate seasonally and permanent migrants or those who migrate in unusual patterns because they are economically distressed or insecure.

e. Risk aversion

- Economically vulnerable households are much more sensitive to variations in income. As such, they will favour predictability of return on investment over the size of return on investment. This is even truer for households that have been subjected to an economic shock such as conflict and are living in a highly volatile environment.

  This can also be seen at the field level, where households whose consumption levels are most vulnerable to income shock devote a greater share of land to safer traditional crop varieties than to riskier high-yielding varieties.

  Mitigating risk through production choices, however, can be costly, since expected profits must typically be sacrificed for lower risks. Moreover, the costs intensify over time as risk-averse households show reluctance to adopt new technologies or take advantage of new economic opportunities.

f. Decapitalization

→ Decapitalization consists of the sale of assets in order to meet household expenses. While it is often used as an income-smoothing mechanism, with certain assets being purchased and sold in order to compensate for variations in seasonal income, it is of great concern when households start selling productive assets. In addition to the fact that this generally signals a severe and ongoing deterioration of a household's livelihood, such assets are generally sold under value, particularly when many people face the same problem and such items are in high supply.[13]

KEY POINTS

- Beneficiaries of economic security programmes are for the large part low-income conflict-affected households.
- Low-income households generally depend on an unpredictable economic environment, have irregular incomes largely earned in the informal market and have limited income-smoothing mechanisms or means of overcoming poverty traps.
- Informal markets are rarely homogeneous. They generally include both poor and better-off households and have various linkages to the formal sector.
- Conflict-affected households suffer both from the direct impact of the conflict and from the impact of the conflict on the wider economy.
- The most common coping mechanisms of ICRC beneficiaries are income diversification, intensification of work, limitation of expenses, migration, risk aversion and decapitalization.
- Households are likely to become more risk averse as they become more vulnerable.

3.5 Other relevant documents

Carter, M.R., Barrett, C.B., "The economics of poverty traps and persistent poverty: An asset-based approach", *Journal of Development Studies*, Vol. 42, No. 2, 2006, pp. 178–199

Collier, P. *et al.*, *Breaking the Conflict Trap: Civil War and Development Policy*, World Bank and Oxford University Press, 2004

Gonzáles de la Rocha, M., *Private adjustments: Household responses to the erosion of work*, UNDP, May 2000

Morduch, J., "Income smoothing and consumption smoothing", *Journal of Economic Perspectives*, Vol. 9, No. 3, Summer 1995, pp. 103–114

Sethuraman, S.V., *Urban Poverty and the Informal Sector*, ILO, 1997

13 The problem in a phase of normalization can be seen in reverse, whereby larger numbers of people are willing to restart their previous activities and try to buy back their productive assets.

4 ADVANTAGES AND LIMITS OF MEIs

Bearing in mind beneficiaries' common characteristics covered in chapter 3, this chapter focuses on the advantages and limits of MEIs. It should be noted, however, that these advantages and limits are not all specific to MEIs; many apply to production interventions as a whole.

4.1 Strengthening the productive capacities of affected households

The overarching objective of MEIs is to provide productive assistance that is adapted to the specific situation of each household. With various possible economic profiles of beneficiaries in mind, here are a few examples of how MEIs can address some of the obstacles to economic empowerment highlighted in chapter 3, as well as mitigate the impact of a conflict on the household economy.

4.1.1 Strengthening coping mechanisms and addressing obstacles to economic empowerment

i. Further diversifying sources of income
Example: Enabling a daily worker to start a kitchen garden or purchase beehives for self-consumption and trading.

ii. Providing a source of income that complements seasonal activity
Example: Providing popcorn machines to farmers so that they can earn a cash income during the lean winter season.

iii. Improving return on existing activities
Example: Providing an electric saw and drill to carpenters who were using hand equipment so that they can increase their productivity and marketability.

iv. Improving access to financial services
Example: Enabling entrepreneurial beneficiaries to double production by providing them with access to a loan to cover operating expenses.

v. Limiting the negative impact of calculated risk taking
Example: Enabling farmers to purchase high-quality fertilizer and pesticides to optimize their harvests without further exposing themselves financially to the limited risk of drought.

Increasing a household's income through one or a combination of the above approaches also decreases the likelihood that households will have to rely on unsustainable and negative coping mechanisms such as decapitalization, and in turn increases the chances of households overcoming poverty traps.

4.1.2 Addressing the consequences of conflict on the household economy

i. Replacing assets lost as a result of the conflict
   Example: Providing farmers who have lost their sheep during a conflict with new sheep to regenerate their flocks.
ii. Mitigating potential exposure to further conflict-related risks
   Example: Providing shepherds living in an area that has been mined during the conflict with an alternative source of income that does not put them at risk of mine-related injuries.
iii. Restoring the productive capacities of conflict-affected breadwinners
   Example: Providing vocational training and a productive grant to a family member who is disabled as a result of the conflict so that he or she can generate an income to support the family once again.
iv. Provision of skills adapted to a post-conflict environment
   Example: Training displaced farmers to repair air-conditioners so that they can find jobs in an urban setting.
v. Strengthening the marketability of beneficiaries
   Example: Purchase of power tools to enable daily workers to find jobs more easily and to charge a higher wage for their services.
vi. Facilitating integration into a community (social network)
   Example: Enabling IDPs to better integrate into a new community by becoming economically active members of the community and by developing new relationships through trading.

By addressing some of the consequences of the conflict and enabling beneficiaries to initiate new activities or consolidate existing ones, MEIs achieve a strong psycho-social impact in addition to their economic impact. This is generally because beneficiaries become more active as a result of their projects, gaining confidence and a renewed sense of dignity.

4.2 The limits and conceptual challenges of MEIs

The two main conceptual challenges of MEIs are referred to in economics as "asymmetric information" and "moral hazard". The concepts are touched upon briefly here and covered in more detail in chapter 5.

4.2.1 Asymmetric information and the wider appeal of MEIs

In economics, "information asymmetry" occurs when one party to a transaction has more or better information than the other party. In the context of economic security activities, the transaction consists in the provision of assistance and the parties are the ICRC, potential beneficiaries and other stakeholders involved in programme implementation.

Since MEIs generally appeal to a wider audience than traditional relief does (in great part because of the higher face value of the assistance) and because they are dependent on more complex criteria than vulnerability, asymmetric information is a genuine concern. On the one hand, more people may misrepresent their level of vulnerability in order to be included among the beneficiaries. On the other hand, it is much more difficult to distinguish eligible applicants from ineligible ones, as there are more conditions to be verified to determine eligibility for the assistance.

4.2.2 Moral hazard

In economic theory, the term "moral hazard" refers to the possibility that the redistribution of risk changes people's behaviour. In asymmetric information models, the ignorant party lacks information while negotiating an agreed understanding of a contract to the transaction, whereas in moral hazard the ignorant party lacks information about the performance of the agreed-upon transaction or lacks the ability to retaliate for a breach of the agreement. In the context of MEIs, this would mean the difficulty of ensuring that a beneficiary will use the requested inputs for the stated purpose and the ICRC's limited recourse if he or she does not. For example, will the beneficiary who has requested piglets use them for breeding as agreed or will he or she slaughter them and invite family and friends over for a meal?[14]

Asymmetric information and moral hazard are often closely linked, since it can be argued that properly selected beneficiaries will show a lower risk of moral hazard. However, in practice each phenomenon requires a set of specific mechanisms to limit its impact. This aspect will be dealt with in more detail in chapter 5.

4.2.3 SWOT analysis for MEIs

Following is an overview of the most common strengths, weaknesses, opportunities and threats (SWOT) associated with MEIs.

14 It should be stressed that beneficiaries may have good reasons to choose to use the resources provided by the ICRC for other purposes, and clearly programme managers must be open to this possibility.

STRENGTHS	WEAKNESSES
• Respects the beneficiary's dignity • Assistance adapted to beneficiary's situation • Strong ownership and sustainability • Versatile (urban and peri-urban) • Increased proximity to the beneficiary	• Finance and human resource intensive • Not for everyone (destitute beneficiaries cannot be assisted through such projects) • Lengthy implementation process • Slow speed of deployment • Limited scale
OPPORTUNITIES	**THREATS**
• Integration with programmes of other units • Coordination with other actors • Handing over programmes to other actors for poverty alleviation	• Asymmetric information, moral hazard and adverse selection • Threat to the ICRC's image if it does not have alternative avenues to propose to vulnerable households that have been excluded for lack of ability or motivation

Note: While the lengthy implementation process, relatively slow speed of deployment and limited scale of MEIs compared with more conventional assistance programmes must be recognized, the ongoing documentation of lessons learned and the use of innovative approaches has enabled the ICRC to mitigate the adverse impact of these factors, as shown in case study 2.

Case study 2: Nepal

In 2007, the ICRC launched an MEI programme in Nepal to help restore the livelihoods of conflict-affected households. As the terrain is rugged and beneficiary households remote and scattered, the ability to reach all the intended beneficiaries quickly became an issue of concern. Fortunately, the Nepal Red Cross Society was interested in the approach and was closely involved in the implementation of the programme. The ICRC retained technical oversight of the programme, while Nepalese Red Cross volunteers carried out the bulk of the work at district level.

This cooperation has enabled the ICRC to offer MEIs to over 2,000 households a year, a coverage which would not have been possible without the local knowledge of the Nepalese Red Cross and the commitment of the over 60 volunteers who participated in the programme. Furthermore, the approach allows for the programme to be handed over to other funding agencies when the ICRC ceases its activities in Nepal.

KEY POINTS

- MEIs can address the consequences of conflict on the household economy, strengthen existing coping mechanisms and tackle obstacles to economic empowerment.
- The main pitfalls of MEIs are that they are human resource intensive, do not provide a solution for the destitute and are limited in scale.
- Asymmetric information and moral hazard make MEIs more complicated to implement than standard relief interventions.

4.3 Other relevant documents

ILO/Graduate Institute of International Studies Geneva, *Guidelines for Employment in Crises*, 2006

Goovaerts, P., Gasser, M., Belman Inbal, A., *Demand-driven Approaches to Livelihood Support in Post-War Contexts*, ILO/World Bank, October 2005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5 OVERVIEW OF EACH TYPE OF MEI

This chapter gives a conceptual overview of each type of MEI and outlines its respective advantages and limits with respect to the others. While micro-credit is the least common MEI implemented by the ICRC, it is covered here in most depth because it is the most technical and because the advantages and limits of grants and vocational training can be more easily explained when compared with the advantages and limits of micro-credit.

5.1 Micro-credit

5.1.1 Basic concepts of micro-credit[15]

Micro-credit is the provision of loans to low-income clients. It can be provided by formal, semi-formal or informal actors, as described below:

- **Formal financial institutions:** These are chartered by the government and are subject to banking regulations and supervision. They include public and private banks, insurance firms and finance companies.
- **Semi-formal institutions:** These are not regulated by the banking authorities but are usually licensed and supervised by other government agencies. They include credit unions, cooperative banks and NGOs. The design of their loan and savings products often borrows characteristics from both the informal and formal sectors.
- **Informal financial intermediaries:** These include moneylenders, pawnbrokers and self-help groups.

There are many different approaches to micro-credit and possible loan products, but they can generally be categorized according to the lending method, the loan characteristic and the collateral substitute. Ideally, loan characteristics and lending methods will be adapted to the specific needs and environment of the target group.

15 Adapted from J. Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective*, World Bank Publications, 1999.

5.1.2 Lending methods

While there are multiple variations of lending models, most lending methods can be grouped into one of these categories:

- **Group lending:** The group lending model makes loans to individual members in groups of four to seven. The members cross-guarantee each other's loans to replace traditional collateral. Clients are very often women.
- **Individual lending:** Individual lending is defined as the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. Individual lending requires frequent and close contact with clients and is most successful for larger, urban-based, production-oriented businesses. It is generally used for clients who have some form of collateral or a willing co-signer.
- **Village banking:** Village banks are community-managed credit and savings associations established to provide access to financial services in rural areas, to build community self-help groups and to help members accumulate savings.

5.1.3 Loan characteristics

- **Size:** The amount of money lent is also referred to as the principal. The appropriate loan amount is dependent on the purpose of the loan and the ability of the client to repay the loan. Often micro-finance institutions (MFIs) have a maximum loan size for first-time borrowers, which increases with each loan. This is designed both to reduce the risk to the MFI and to create an incentive for the clients to repay their loans. In addition, increasing loan sizes enables the client to develop a credit history and an understanding of the responsibilities associated with borrowing.

- **Interest rate:** The percentage of the principal that is to be paid by the client in addition to the principal. The interest rate varies according to the inflation rate, the cost of issuing the loan, and the riskiness of the loan. When dealing with micro-credit, a balance must be struck between what clients can afford and what the lending organization needs to earn to cover all of its costs.[16]
- **Loan term:** The loan term is one of the most important variables in micro-finance. It refers to the period of time over which the entire loan must be repaid. The closer an organization matches the loan term to its client's needs, the easier it is for the client to carry the loan and to make the payments on time and in full.
- **Frequency of loan repayments:** Loan repayments can be made on an instalment basis (weekly, biweekly, monthly) or in a lump sum at the end of the loan term, depending on the cash patterns of the borrower. Activities that generate ongoing revenue can be designed with instalment payments. In this way, the client is able to repay the loan over time without having to save the loan amount over the term of the loan. For seasonal activities, it may be appropriate to design the loan so that a lump sum payment is made once the activity is completed. The frequency of the loan repayments depends on the needs of the client and the ability of the MFI to ensure repayment.
- **Grace period:** This is the period between the provision of the loan and the first loan payment. It is often seen as a way of allowing a client to start generating income before having to repay the loan. Many MFIs, however, will opt for a limited grace period as a way of ensuring borrowers have another source of income and of detecting delinquent borrowers as early as possible.

16 The interest rate for micro-credit will generally be above that of ordinary credit because of the need to discount the fixed cost associated with the credit over a smaller principal.

5.1.4 Collateral substitutes and alternatives

Very often, a combination of the following collateral substitutes will be used:

- **Group guarantees:** Group guarantees can be either implicit, where other group members are unable to access a loan unless all members are current in their loan payments, or actual, with group members liable if other group members default on their loans.
- **Character-based lending:** Some MFIs lend to people based on their good reputation in the community. Prior to making a loan, the credit officer visits various establishments in the community and asks about the potential client's character and behaviour.
- **Risk of public embarrassment:** Some MFIs will use means of public embarrassment as a way to motivate clients to repay their loans. These can include public notices or announcements made at community meetings.
- **Threat of legal action:** This depends on the legal context of a country.
- **Compulsory savings:** Many MFIs require clients to hold a balance (stated as a percentage of the loan) in savings for first loans. Compulsory savings thus act as a form of collateral. Compulsory savings can have a positive impact on clients by smoothing out their consumption patterns and providing funds for emergencies.
- **Assets pledged at less than the value of the loan:** This can work because of the perceived inconvenience of replacing certain assets or the sentimental value of assets.
- **Personal guarantees:** While micro-borrowers themselves do not often have the ability to guarantee their loans, they are sometimes able to enlist friends or family members to provide personal guarantees. In the event of the borrower's inability to repay, the guarantor is responsible for repaying the loan.

5.1.5 Objectives of ICRC micro-credit interventions

ICRC micro-credit interventions have two main objectives: to improve ICRC beneficiaries' access to appropriate credit schemes and to strengthen existing MFIs. To this end, the ICRC does not provide credit directly but will work through existing MFIs. One reason for this approach is sustainability, that is, to ensure the continuation of credit after the ICRC withdraws from the context. Moreover, for micro-credit to function, credit providers have to be willing to enforce contracts. This may entail taking legal action against delinquent borrowers, which goes against the ICRC's desired image and principles.

The ICRC achieves the objectives of micro-credit interventions through a combination of the following actions:

- Increasing the size of the revolving fund: The ICRC can provide MFIs that have a limited revolving fund with additional funds to loan to its beneficiaries.
- Starting new credit lines: The ICRC can support MFIs in adapting their loan products to the needs of its target population.
- Establishing a guarantee fund: The ICRC can establish a fund to cover part of an MFI's losses in respect of a certain target group. This can encourage MFIs to take on clients they may otherwise have deemed too risky.
- Improving partner MFIs' geographic outreach: The ICRC can support some of the MFIs' set-up and operational costs, such as opening a new office or reaching areas of interest to the ICRC.
- Supporting advertising campaigns: In order to increase beneficiaries' awareness of existing loan products, the ICRC can support MFIs' advertising campaigns.
- Providing beneficiaries with a soft credit record: In order to increase beneficiaries' perceived creditworthiness, the ICRC can devise mechanisms to create informal credit records. This approach is illustrated in case study 3.

Case study 3: Pakistan-administered Kashmir

An assessment carried out in Pakistan-administered Kashmir in 2007 revealed that, following physical rehabilitation, people with disabilities had difficulty becoming economically active and as a result often found themselves in a dire economic situation. The assessment concluded that there was a variety of reasons for this, including their inability to access the funds needed to start their own micro-enterprises, in spite of the existence of several MFIs in the area. This was attributed to the beneficiaries' lack of credit history, lack of funds to meet initial savings requirements, and general lack of familiarity with MFIs.

The ICRC therefore decided to launch a multifaceted programme in 2008, which included an MEI component alongside advocacy and awareness campaigns. The MEI incorporated a business coaching module, as well as offering beneficiaries the possibility of attending vocational training in a local institution, if need be, prior to receiving a productive grant. One of the most innovative aspects of the programme, however, was the idea of linking it indirectly with MFIs in order to ensure that people with disabilities have access to the necessary funds to support their entrepreneurial goals in the long term.

Upon the provision of a grant, the ICRC opened an account with each beneficiary in an MFI. The beneficiaries were then encouraged to save regularly and progressively up to 25% of the value of the grant in the MFI account over the period of a year. As an additional incentive, the ICRC committed to provide a financial top-up to beneficiaries who managed to save the full amount.

If successful, the ICRC hopes through this mechanism not only to break down psychological and social barriers that have prevented people with disabilities from approaching MFIs but also to provide them with an informal credit history, as well as the necessary minimum savings to qualify for a loan. This is a good example of how a micro-credit component can be indirectly included in the design of an MEI.

5.1.6 SWOT analysis for micro-credit

Following is an overview of the main strengths, weaknesses, opportunities and threats associated with micro-credit.

STRENGTHS	WEAKNESSES
• Self-targeting • Increased ownership and accountability through repayment • Sustainability of the disbursement of assistance as funds revolve • Often a useful tool to address gender issues	• Not suitable for the poorest of the poor • Not suited to everyone, requires entrepreneurial spirit • Often requires having an existing business • Often restricted to areas of high density • Beneficiaries may be worse off afterwards if the micro-enterprise is not successful
OPPORTUNITIES	**THREATS**
• Enables coordination with other forms of productive intervention • Revolving fund provides a platform from which to engage beneficiaries, even once assistance programmes have been closed	• Bad selection of or lack of MFI partner • Lack of or change in legal framework for micro-finance • Renewed conflict may lead to high default rate

5.2 Productive grants

While the general objectives of micro-credit and of productive grants are very similar in the sense that they both seek to enable beneficiaries to strengthen their income-generating capacities, there are certain advantages and disadvantages to using productive grants over credit.

5.2.1 Grants vs micro-credit

→ Whereas micro-credit is often seen as targeting the "upper poor", mainly because repayment and high interest rates act as disincentives for the very vulnerable and risk averse, grants can be used to target the more vulnerable segments of the poor.

→ Similarly, while micro-credit is often restricted to people who have an existing micro-enterprise, grants can be used to support start-up micro-enterprises.

→ In this way, grants often act as a stepping stone to micro-credit for some beneficiaries.

- One of the main disadvantages of grants, however, is that they have no self-targeting component. In other words, because there is no cost involved to the grantee, everyone will potentially be interested in receiving a grant, even people who are not necessarily motivated to start an income-generating activity.
- Similarly, because the beneficiary does not have to pay back the grant, there is likely to be less accountability for and ownership of a grant programme than for a micro-credit programme.

5.2.2 SWOT analysis for productive grants

Taking into account the above points, below is an overview of the main strengths, weaknesses, opportunities and threats that apply to grants.

STRENGTHS	WEAKNESSES
• Appropriate for more vulnerable households • Provides a solution for rural settings • Limits the beneficiaries' exposure to additional risk	• Beneficiary has less responsibility and ownership than with micro-credit • Limited self-targeting • Requires entrepreneurial spirit • Logistically and administratively heavy
OPPORTUNITIES	**THREATS**
• Acts as a stepping stone for micro-credit • Can be integrated with physical rehabilitation programmes, missing persons programmes, etc.	• Resource intensive • Unrealistic expectations of some non-practitioners

5.3 Vocational training

5.3.1 The objectives of vocational training

In addition to supporting self-employment, the particularity of vocational training is its ability to strengthen employability. This is done not only by providing new skills or reinforcing existing ones, but also by boosting a person's credentials through the acquisition of a recognized diploma or by providing recognized work experience through an apprenticeship.

5.3.2 Vocational training vs grants and micro-credit

→ Vocational training is the MEI that can often be used to target people in the most vulnerable households, as grants and micro-credit often require existing marketable skills, while vocational training is meant to provide them.

→ Unlike grants, vocational training does have a self-targeting aspect. It is not as strong as with micro-credit, but because it implies a time investment, it limits the number of unmotivated applicants.

→ The difficulty lies, however, in the fact that vocational training on its own, unless it leads to employment, provides a very limited outlook for self-employment. Indeed, the problem of lack of start-up capital that is addressed by grants and micro-credit remains.

→ While theoretically it can be used to target the most vulnerable households, one of the main challenges remains finding or designing a vocational training programme that does not require much basic schooling.

5.3.3 SWOT analysis for vocational training

Following is an overview of the main strengths, weaknesses, opportunities and threats associated with vocational training.

STRENGTHS	WEAKNESSES
• Strengthens employability • Input stays with beneficiary • Partial self-targeting • Conducive to networking	• Difficulty in finding trainers in tune with market demands • May require additional financial assistance for self-employment • Certain training may be unrealistic in the given timeframe
OPPORTUNITIES	**THREATS**
• Connecting vocational training with micro-credit and grants • Connecting vocational training with the Ministries of Labour, Social Affairs or Education • Strengthening local institutions	• Lack of economic growth and job creation • Informal entrepreneurs do not believe in the added value of vocational training • Bad choice of vocational training partner

5.4 Asymmetric information and moral hazard

Micro-credit group-lending schemes implemented by MFIs such as the Grameen Bank have received much publicity as a result of their positive impact and high repayment rates. Much of this can be attributed to the group lending scheme's ability to provide a solution to both the problems of moral hazard and of asymmetric information associated with the provision of credit to the most vulnerable households. As highlighted in chapter 4, asymmetric information and moral hazard are also issues of concern when providing grants and vocational training. Following are some suggestions of how to mitigate their impact.

5.4.1 Mitigating the risk of asymmetric information

- → Design the programme so that there is an opportunity cost for the applicant (e.g. conduct the interview during working hours). Care should be taken, however, to ensure there are no ethical issues, such as the opportunity costs preventing the most vulnerable segments of the population from applying.
- → Provide assistance incrementally. In other words, the community has the possibility of future rounds of assistance if the first round is successful.
- → Use a system of checks and balances in community self-targeting. This generally entails having people from the community representing different interests to agree on the final list of beneficiaries. Further transparency can be achieved by publicly posting the list of selected beneficiaries and organizing a complaint day, on which the community representatives have to defend their selection.
- → Select beneficiaries on the basis of household visits, while using incisive household interview techniques. By visiting the household of each beneficiary, it is possible to collect significantly more information on their status than if relying simply on information collected through an application form or phone interview. Interview techniques are covered in more detail in chapter 6.

5.4.2 Mitigating the risk of moral hazard

- → Use a similar approach to the group lending model, whereby beneficiaries are divided into groups and their assistance is contingent on the first group's success. Such approaches should be used with caution, however, as they can lead to increased community tension.
- → Get community leaders to countersign contracts between the ICRC and beneficiaries.
- → Provide assistance to beneficiaries in stages. The assistance is provided in increments on the basis of monitoring results.
- → Carry out unannounced, frequent and in-depth monitoring.
- → Transfer ownership of the inputs only if the project is successful. The ICRC thus retains ownership of the project for the first six months.
- → Build a relationship of trust with the beneficiary. This will make the beneficiary feel more accountable.
- → Ask beneficiaries to repay a percentage of the project cost over a period of a year, with the money ideally being reinvested in the community in order to ensure that the community is engaged in the process and that even community members who are not direct beneficiaries benefit from the MEI.

KEY POINTS

- While there are different approaches to micro-credit and different possible loan products, they can generally be categorized according to lending methods, loan characteristics and collateral substitutes.
- The objectives of ICRC micro-credit interventions are to improve beneficiaries' access to appropriate credit schemes and to strengthen existing MFIs.
- The ICRC does not provide credit directly but works through existing MFIs.
- While micro-credit ensures better self-targeting and increased ownership of projects, grants are better suited to very vulnerable households.
- The main added value of vocational training is that it strengthens employability as well as enhancing self-employment potential and that it can be used to assist households lacking marketable skills.
- Programme design and procedures are key to tackling challenges linked to asymmetric information and moral hazard.

5.5 Other relevant documents

Consultative Group to Assist the Poorest (CGAP), "Financial Sustainability, Targeting the Poorest, and Income Impact: Are There Trade-offs for Micro-finance Institutions?", Focus Note No. 5, December 1996

CGAP, "Microfinance, Grants, and Non-financial Responses to Poverty Reduction: Where Does Microcredit Fit?", Focus Note No. 20, 2001

ILO, *Guidelines for employment and skills training in conflict-affected countries*, Training Policies and Systems Branch, 1997

World Bank, *Building the skills for the new economy*, Human Development Sector Reports, East Asia and the Pacific Region, 2007

Morduch, J., "The microfinance promise", *Journal of Economic Literature*, Vol. XXXVII, December 1999


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SECTION II:

IMPLEMENTING MEIs

6 HOW TO IMPLEMENT PRODUCTIVE GRANTS

This chapter tackles the practical implications of implementing a productive grant programme. Grants are the MEIs most frequently used by the ICRC and are often a precursor to vocational training or micro-credit interventions. This chapter therefore covers in detail each step in a productive grant programme from its inception to its closure. The following two chapters, which are dedicated to vocational training and micro-credit respectively, focus only on the specificities of these two types of MEI and not on the aspects common to all three, which are covered in this chapter.

All three chapters are divided into four sub-sections: needs and feasibility assessment; programme design; programme implementation; and follow-up.

6.1 Needs and feasibility assessment

Once again, it should be stressed that MEIs are one of many potential types of intervention and should be implemented only when the specific need for such a programme has been identified and the preconditions are in place.

6.1.1 Assessing the need for an MEI

Following is a list of tasks to undertake when assessing the need for an MEI:

→ **Analysis of the data collected during the post-distribution monitoring of relief programmes:** This will give an idea of the use being made of the assistance to date and the beneficiaries' main concerns, including their priorities in terms of additional assistance.

→ **Mapping of existing coping strategies:** This will help to identify whether MEIs could reinforce positive coping strategies and to limit households' reliance on negative ones (e.g. decapitalization).

→ **Mapping of existing services for low-income households and the unemployed:** This should include government assistance, as well as credit schemes and training programmes. In addition to revealing potential gaps that could be filled by an MEI, this exercise will pinpoint ways to integrate potential programmes into existing structures.

- **Identification of existing government policies concerning the target population:** Such policies can be positive or negative and give a greater perspective on the situation of the target population as foreseen in the medium to long term.
- **Gathering of demographic statistics concerning idleness:** Labour-related statistics can often be obtained from the ILO, if not from the national statistics office. While they are not always entirely reliable when it comes to the informal market, they can be used to identify some of the main trends concerning idleness, such as gender-related issues or certain age categories that are particularly affected by unemployment.

6.1.2 Assessing the feasibility of an MEI

When determining the feasibility of an MEI, the following tasks need to be undertaken:

- **Market assessment:** One of the most important components of a feasibility assessment is clearly the market assessment. This includes getting an idea of market stability, the structure of the informal market and the potential of certain income-generating activities within the market. More detail on market assessment is provided in section III.
- **Mapping of local resources and opportunities:** It is crucial to get an idea of the skills of the target beneficiaries and the income-generating opportunities they would like to pursue. By mapping these and comparing them with prevailing market conditions, it is possible to get a quick idea of how realistic/profitable those activities would be, whether the beneficiaries' skills meet the market standards, and what time and resource investments are needed to support such projects.
- **The ICRC's ability to provide the required goods and resources:** Linked to both earlier points is the issue of whether the ICRC will be able to provide the inputs and technical support that will most likely be required. This will depend on the availability both of items on the local market and of skilled staff.

- **Assessment of access:** Equally crucial is the issue of ICRC access to the beneficiaries in order to properly implement and follow up MEI projects. This can be determined through an assessment of the security situation.
- **Community dynamics:** Seeing as MEI projects are not provided as blanket assistance and some community members are likely not to be assisted in this way, the local community dynamics can also be instrumental in determining whether or not and how to implement such projects. Similarly, the impact MEI projects may have on rent-seeking relationships and existing community activities should be considered.

6.2 Designing the project

6.2.1 Identification of the target group

Within the overall target population (e.g. IDPs, civilians), define the exact criteria by which to identify the group to be targeted by the MEI programme. These criteria can be a combination of demographic (e.g. dependency ratio), economic (e.g. occupation, household budget) and social (e.g. widowed, elderly). They should be developed in conjunction with the local community, generally with the assistance of community elders or representatives of civil society.

6.2.2 Objectives, indicators and monitoring

In light of the different purposes for which MEIs can be used, clear and measurable objectives should be set. If economic impact is the priority, indicators of success should be agreed upon prior to launching the programme and rely on baseline information. Similarly, the mechanisms and resources needed to monitor these indicators should be considered. Objectives should include the desired change in the household income (e.g. as a percentage) and foreseen sustainability. A logical framework should be developed for this purpose.

6.2.3 Viability, preconditions and sustainability of projects

Projects most likely to be requested should be identified on the basis of coping strategies, questions asked during post-distribution monitoring and the most popular activities in the informal market. An analysis of expected expenditures, revenue and cash flow should be carried out to determine the profitability of each project and, where necessary, viable kits created. The creation of kits should not hinder the bottom-up process that is key to the success of such projects but is meant to standardize the specific items the ICRC will provide within certain categories of project. For example, this is particularly useful in livestock projects to determine the most profitable combination of feed, veterinary care, and livestock inputs. This exercise should make it possible to get a feel for the average value of a project. If in doubt, another useful indicator is the average value of loans provided by MFIs in the area to first-time borrowers. On the basis of this analysis, the ICRC inputs should be identified, along with the items not provided by the ICRC that the beneficiary will be required to have in order for the project to be successful. For more details on how to analyse the viability, preconditions and sustainability of projects, refer to section III.

6.2.4 Identifying, informing and consulting key informants

Key informants generally include both political and technical people. The purpose of consulting them is twofold: first, to get their advice on programme design; and second, to get them on board by informing them about and involving them in the programme from the outset.

Key informants may be:

→ **Government representatives:** These are generally ministry officials and are key partners to have on board from the start. They should be informed of the objectives and modalities of the project and regularly updated on the programme's progress. If a programme has a cash component, the selection and follow-up system should be clearly explained, in order to allay any fears of misuse of the money. A strong relationship with the authorities at ministerial level will often be crucial for programme managers in getting the necessary leverage when dealing with municipalities. Furthermore, if the ICRC has good relations with high-ranking authorities, municipalities may feel more accountable to the organization when carrying out beneficiary selection and follow-up.

- **Technical persons:** These may be members of specialized ministries (e.g. the Ministry of Agriculture), representatives of cooperatives, relevant professionals (veterinarians) or members of academia or training institutes. Such people will be useful at the outset to verify assumptions on the viability of kits and to flag potential pitfalls. Down the line they can also be used/hired as monitors for programmes with a strong technical capacity-building component.
- **Other actors:** Lastly, other humanitarian actors should also be informed, particularly those implementing similar programmes. Systems to avoid duplication and ensure complementarity and coordination should be established.

6.2.5 Administration and logistics coordination and supervision mechanisms

The administration and logistics teams should be fully involved from the outset so that they can start thinking of how to apply their respective procedures to best support the programme. Before launching it, a test run of the entire process, including communication lines and deadlines, should be carried out to ensure everyone is clear on their respective roles and responsibilities. This may seem trivial, but it is crucial; experience has shown that many of the initial bottlenecks when launching such programmes are internal. The specificities of logistic procedures for MEIs will be covered in section III.

6.2.6 Resources (human, budgetary, equipment, time)

When planning the necessary resources, two key points should be kept in mind: one, MEIs are resource intensive, and two, they take time to set up. The most common mistake made when planning programmes is to set unrealistic targets in terms of the number of beneficiaries and to request insufficient human resources. Regardless of the number of staff involved, setting up an MEI is time consuming, and a realistic objective for the first year of implementation should be no more than a few hundred projects.

MEIs are very human resource intensive not only for Ecosec, but also for the administration and logistics divisions. Both the quantity and the quality of human resources are crucial to a programme's success. Start the programme with a caseload of less than 100 projects per field officer, keeping in mind that as the programme evolves, part of the monitoring can be outsourced in order to free up staff for other more demanding phases of the programme cycle.

The seniority of field officers should also be considered when assigning staff to the MEI pilot. If the pilot is successful, the programme is likely to grow significantly in size. Therefore senior field staff should be involved at some point during the pilot so that they do not feel undervalued during the programme's expansion.

Lastly, remember that much of the programme's success will depend on the management's willingness to allocate resources to it. The programme's objectives and requirements should therefore be well explained. This will help to get people on board internally and manage expectations.

Following is a list of the possible members of an MEI team. Please note that not all of these positions are mandatory in every context and that certain tasks can be outsourced when relevant.[17]

Local monitors

Local monitors carry out the monitoring on the ground and provide beneficiaries with a locally based source of support and information. When necessary, they may refer beneficiaries to other local sources of information on a given issue. They enable tighter monitoring than achievable by ICRC field staff and at a much-reduced cost. Local monitors relay the information to ICRC field staff, with whom they work in close coordination.

17 While there are many advantages to outsourcing certain tasks, attention should be paid to designing incentives and reporting systems to ensure the desired standards of services are met.

Local monitors need to have a thorough understanding of the goals and purposes of the MEI and to gather information related to the progress of each project, as well as feedback on the general implementation. However, impact assessment and the correction of distribution mistakes is largely performed by ICRC field officers.

Agronomists

Agronomists are essential elements of an MEI team. They are heavily involved in the monitoring of and support to agriculture grants (greenhouses, open field production, etc.).

For the implementation of MEIs, the ICRC generally makes a distinction between two types of agronomic consultant: senior and junior. Junior agronomists are exclusively involved in field duties, such as advising beneficiaries on best practice, monitoring projects, treating disease, assessing harvests and organizing education sessions. Senior agronomists perform the same field duties but also advise on programme design, the purchase of agricultural inputs, and the seasonal calendar. They also provide vital information on the local agronomic market.

Veterinarians

Veterinarians perform monitoring and support duties. They should also be involved in programme design. Their main role is to visit the beneficiaries and advise them on livestock feeding and on improving the housing conditions of their animals. Veterinarians check that the animals are healthy and administer treatment if necessary. Veterinary treatment is not always paid for by the ICRC.

Field officers

Field officers' duties are wide ranging. Field officers are involved at every stage of the programme and are responsible for its ultimate success. It takes roughly two years for a field officer to become fully familiar with all the tasks and duties involved in an MEI programme (including establishing a yearly plan for his or her office, managing local monitors, coordinating consultants, organizing the dissemination of information, carrying out household interviews and organizing distributions). A trained field officer is able to carry out an average of 7 to 8 selection interviews per working day or 10 to 12 monitoring visits. He or she usually oversees around 70 to 80 MEI projects simultaneously, amounting to more than 100 projects a year. These figures may vary significantly from one context to another, depending on the distance between the beneficiaries and the field offices, the ratio of applicants to accepted beneficiaries, and the support to be provided to the beneficiaries.

Senior and junior field officers perform similar duties. However, senior field officers are also responsible for the overall coordination of the MEI team in the office and for reporting.

Administrative assistant

The administrative assistant is in charge of preparing the procurement process and tracking the budget allocations. He or she regularly updates the catalogues of standard MEI items upon the request of the programme responsible. In addition, he or she also has a role in the further development of programme tools, particularly when it comes to procurement issues. He or she may be called upon to ensure the quality of the procured items, find alternative suppliers and participate in the definition of new project packages. It is convenient if he or she is responsible for the MEI database – data entry, update and control.

Programme manager

The programme manager is responsible for programme development, reporting and overall quality. He or she decides on the programme's objectives for the year, supervises the yearly planning of the field offices and tracks their progress. The programme manager coordinates the MEI's human resources and ensures that sufficient support and training are available to them. He or she strives to ensure that all the field offices have a consistent approach and that procedures are respected and understood. He or she acts as a troubleshooter and a resource person for the field officers. He or she updates the programme tools and standard operating procedures.

6.3 Implementation

6.3.1 Piloting the programme

As mentioned earlier, the scale of MEIs is not unlimited. Past experience has shown that it is possible to target between 1,000 and 2,000 households a year through a mature programme that has been running for two years. Before reaching such a level of implementation, the programme should be piloted with a few households and thereafter scaled up progressively.

Following are the key points to keep in mind for a successful pilot:

→ Start small: make sure the size of the pilot allows you to dedicate time to following each assisted household very closely in order to draw the necessary conclusions. Past pilot projects have included as few as two dozen households.

→ Follow up closely: Make sure you have the necessary human resources to document lessons learned and adapt procedures accordingly.

→ Try out different approaches: do not be afraid to test different approaches and to make mistakes. A successful pilot is not one that is implemented without any problems but one that allows you to draw enough lessons to scale up the programme without encountering unforeseen challenges.

6.3.2 Area selection

Once the target group has been clearly defined, identify the potential areas in which to launch the programme. This is done on the basis of the field office's knowledge of the target population in its area of responsibility and other indicators, if necessary. Such indicators can include indexes based on questionnaires or a combination of proxy vulnerability indicators that may be appropriate in the given context, as illustrated in case study 4.

The key is to ensure that the size of the area is manageable in terms of the number of potential projects and that the selection of the area over others is justifiable in terms of vulnerability. In order to avoid confusion during the application process, it is important that the areas of intervention are geographically defined and that their boundaries are clearly understood by the general public. It is thus advisable to use administratively recognized geographic entities. The size of an area of intervention may range from a single collective centre to an entire region. Field offices are thus relatively free to adapt the size of each one to their available human resources and budget. In doing so, the following ratios should be considered: the percentage of the target population that will apply and the percentage of the applicants who will be selected. Factors such as the extreme vulnerability of the target population living in the designated area, a dissemination campaign about the programme, or a change in the selection criteria may affect those ratios and should therefore be taken into account.

The final selection of the target area is done according to a mix of practical considerations (e.g. distance from the office, size, number and concentration of potential applicants, etc.) and operational parameters (e.g. living conditions of the target population, existence of markets for given products, etc.).

Case study 4: Gaza Strip

With economic insecurity and unemployment increasing in the Gaza Strip, the ICRC decided to launch production interventions in 2004. Given that Gaza is the most densely populated area in the world, with a large segment of the population living below the poverty line, one of the first challenges faced was that of targeting. The ICRC had to resort to a combination of criteria to ensure that its programmes were reaching the most needy and had an optimal impact.

Boat project
After conducting a mapping exercise to identify those geographic areas where people were especially vulnerable, the ICRC pinpointed the professions that were most affected by the prevailing economic conditions. It then cross-referenced the conclusions of both assessments. On the basis of the results, the ICRC launched a fishing support programme in the south of the Gaza Strip, which had been subject to severe restrictions for several years as a result of being surrounded by Israeli settlements. In addition to being the economic activity that had been worst hit, the fishing industry was also chosen because of its linkages with other economic activities in the area, thus ensuring a strong spillover effect on the economy of the area as a whole. The programme focused on the one sector but maintained a strong emphasis on the bottom-up approach, so that the fishermen could individually choose the inputs that were most useful to them. Through this programme, the ICRC directly assisted up to 200 households by refurbishing 19 of the biggest boats, known as "shanshullas", and providing inputs ranging from nets and engines to carpentry.

Using similar targeting mechanisms, the ICRC launched programmes assisting greenhouse farmers and Bedouin shepherds in the most conflict-affected areas.

Youth employment programme
Analysis of unemployment patterns in the Gaza Strip revealed that youths between the ages of 20 and 25 were the most economically inactive segment of the population. The challenge of launching a programme aimed at enabling them to become more economically active lay in pinpointing vulnerable youths who were motivated and had the necessary skills to initiate income-generating activities. This was accomplished by allowing youths who had successfully graduated from a vocational training centre to apply for productive grants. Vocational training was held in low regard and highly subsidized in the Gaza Strip, so tended to attract people from poorer backgrounds while better-off youths attended university. Thus, vocational training institutions acted as a vulnerability filter and a guarantee that the beneficiaries had the necessary motivation and skills.

6.3.3 Sequencing

Field offices determine the timing of the intervention and establish a rotation list (the order in which each area is covered). The necessity of carrying out one specific seasonal intervention, such as greenhouses, in a given area should be considered, along with the accessibility of the more remote areas at certain times of year. However, as far as possible, geographically contiguous areas should follow each other on the rotation list to avoid having to monitor projects in one area, distribute projects in a different location and select applicants in a third, distant area. A plan of action should be developed with clear deadlines and targets for each activity and region.

6.3.4 Dissemination

The importance of information dissemination is often underestimated. In reality, it is a key step in programme implementation, as it is the first means by which potential applicants can be filtered. The tone and content of the information and the channel used to communicate it must serve to encourage suitable applicants (vulnerable people capable of working) and discourage unsuitable ones. It must be made clear to all the potential beneficiaries that a selection process will take place and that applicants who do not satisfy the criteria will not be successful.

It is a good idea to brief a local reference person (e.g. the Red Cross or Red Crescent branch secretary) thoroughly on the MEI process. The reference person is usually the one who distributes the application forms.

Successful dissemination can make a great deal of difference in avoiding potential future problems. It should never be discarded as merely a routine exercise.

Communication channels

A combination of different communication channels can be used to raise awareness of the programme. As stressed earlier, the choice of channel can be instrumental in ensuring that communication is aimed primarily at the target population and not at those who may want to benefit illegitimately from the programme.

Besides the more formal communication tools, such as posters, radio broadcasts and leaflets, there are other more targeted and informal communication methods that can help to restrict the audience. These methods include:

- → Distribution site: Promote the programme to beneficiaries of emergency assistance by using the distribution site of relief items as a communication platform.
- → Local relays: Local representatives who are generally in contact with the targeted segment of the population (e.g. Red Cross or Red Crescent volunteers) can be used to promote the programme.
- → Word of mouth: Information is passed on to a few community leaders, who then spread it by word of mouth.

Key information and messages

Posters and leaflets must clearly state:

- → Who is entitled to apply to the programme
- → The exact boundaries of the targeted area
- → The deadline for application
- → The location to pick up and return application forms
- → The aims and purposes of the productive grants
- → The selection criteria (e.g. vulnerability and the project's expected impact)
- → The obligations of the applicants and the beneficiaries (e.g. to accept monitoring)
- → A contact number for questions

The key messages to be communicated are:

- → That the programme uses a bottom-up approach, whereby the applicant proposes the project that is best suited to him or her.
- → That the programme is restricted to the most vulnerable households in the community.
- → That the provision of assistance is not guaranteed: priority will be given to convincing projects proposed by the most vulnerable applicants.
- → That all applicants will be visited to discuss their proposed projects in more detail.

Things to avoid

- Do not propose generic kits: This will reduce the risk of applicants copying an idea rather than thinking through what would be most interesting to them. Refer, for instance, to projects as "livestock" or "agricultural inputs" rather than "pigs" or "greenhouses".
- Do not disseminate information to too wide an audience at once.

6.3.5 Application process

Use of local relays

In addition to disseminating information about the programme, local relays can contribute to the application process. The advantage of this is that the distribution and collection point for applications is closer to the beneficiaries. This is more convenient for the beneficiaries and provides them with a focal point to assist them with any difficulties they face during the application process (questions concerning the limitations of the programme or the bottom-up approach, illiteracy, etc.).

Information required of project applicants

- Official identification papers for all household members
- A business plan, including foreseen expenditures, sales and profit
- The required inputs
- The inputs to be provided by the beneficiary
- The expected output/applicant's goal in terms of the percentage increase in the household's income from the project
- Specific items required by the ICRC
- The seasonality of the project
- The applicant's prior experience of such activities
- The signature of the head of household

Disincentives

The efficiency of the programme depends heavily on good time management. Much time can be lost looking for and interviewing applicants who do not qualify for assistance under the programme. Careful consideration therefore needs to be given to the dissemination and application process in an effort to filter out early on any applicants who do not qualify.

As there is no actual cost to applying for a project, one common disincentive for people already employed or not motivated is the opportunity cost. This can be increased by ensuring that applications are accepted only during working hours and that a certain amount of research has to be done to apply for the project (e.g. finding a supplier, providing a *pro forma* invoice, etc.).

As much time can be spent locating the applicant households, pre-screening interviews can also be used as a filter prior to investing time in household interviews. While this is not ideal, and generally to be avoided, it may prove useful when targeting areas with a high population density.

6.3.6 Selection interview

All applicants are interviewed (using semi-structured interviews) at their places of residence by ICRC field staff. Inasmuch as possible, the visits are unannounced. Before proceeding with household visits, the field office should sort the application forms according to geographic area (so as to minimize travel from one household to another).

The interview is conducted in the form of a conversation, flowing from one subject to another, while the information provided on the application form is verified and the degree to which the applicant fulfils the five selection criteria assessed. Notes should not be taken during the interview.

The household interview is the single most important determinant of a project's likely success. It is the most delicate part of the MEI process. Training in semi-structured interview techniques and household economic assessment, as well as exchanges of experiences between field offices, should be organized to facilitate the learning process. However, no training can replace extensive practical experience. In the initial phase, field officers should work in teams of two. On average, a field officer should carry out at least 20 interviews before feeling sufficiently comfortable with the approach.

During the selection process, ICRC field officers are encouraged to crosscheck their impressions with key informants (e.g. the Red Cross or Red Crescent branch secretary), who may know the applicant and his or her family.

Criteria

- **Vulnerability:** the observed level of a household's economic vulnerability.
- **Motivation:** the household's motivation to undertake the proposed activity.
- **Skills and knowledge:** the existing skills of household members to perform the proposed activity and their knowledge of the market.
- **Experience:** the beneficiary's past experience of the proposed activity.
- **Preconditions:** the existence of basic conditions and resources favouring the project's success (e.g. land and water for greenhouses, adequate shelter for livestock, an energy source for power tools, a market for the produce, etc.).

The pass level for each of the five criteria is defined by the programme management team and the operational priorities of the delegation (e.g. choosing to accept only the most vulnerable rather than all vulnerable IDPs). The vulnerability of the applicant is verified using a similar methodology to that of the household economy assessment, whereby skills, motivation, experience and preconditions are assessed mainly through a discussion of the business plan and inputs requested by the beneficiary. For more detail on the selection interview, refer to section III.

The programme management team is also responsible for ensuring uniformity in the assessment of the criteria (i.e. that a pass grade for vulnerability, skills, motivation and resources means the same in the different field offices).

Experience has shown that the key determinants of project success are motivation and preconditions. Projects supporting skilled labour (e.g. crafts) are generally the most profitable. During the initial household interview, a need for strong monitoring or skills training can be identified. The provision of training and monitoring aimed at capacity building can clearly affect the outcome of the project, provided the necessary level of determination and motivation is present.

Redirection

While project development is meant to be a bottom-up process, with the beneficiary proposing the idea, this does not preclude the field officer from testing the idea and refusing it if it seems to have been selected on the basis of insufficient or apparently erroneous information. In this respect, the field officer may be required to meet applicants on several occasions before a final project is approved. It is the field officer's responsibility, prior to approving a project, to ensure that all the necessary groundwork has been done. This process is referred to as redirection, as in many cases it leads to the applicant exchanging a business idea for one that is more realistic and better suited to his or her exact needs.

Preparing for refusal

While it is not the role of the field officer to convey the final decision on whether or not a project has been approved at the time of the interview, steps can be taken to prepare the household for the project's refusal by explaining how and why it does not fit the criteria. This can save considerable time further down the line as applicants may be less inclined to question the refusal of their project if they are aware of the reasons for the refusal.

Storing and filing information

After the interview, the field officer briefly summarizes the applicant's responses and grades them according to the five criteria. A specific interview form is used for that purpose. The forms are filed in the field offices. It is extremely important to keep good written records of the interview, as rejected applicants often ask, months later, why they were excluded. They are entitled to know why their application was not accepted, and the field office should be as open as possible in answering such requests. An incomplete response may give the applicants the impression that the process was not impartial and thus damage the ICRC's reputation.

Lastly, the key responses on the interview form are entered into a database, which is used to check that none of the applicants has already received support from the same ICRC programme in the past.

6.3.7 Approval process

When initiating these types of programmes, the approval process should be centralized at the programme manager level. While this can be eased as field officers gain experience, when a programme starts out, the approval process is often one of the key means of providing guidance to and ensuring consistency between the different offices, as well as of avoiding fraud. A variety of systems can be envisaged for this purpose, the most common ones being:

- → **Selection committee:** This consists of field officers and programme managers who convene on a regular basis to discuss cases submitted by field officers for approval. Field officers are required to defend each application before the committee, which is responsible for checking that all the relevant questions have been asked.
- → **Countersignature of application form:** This system is very similar to the previous one and entails a field officer and the programme manager agreeing bilaterally on the selection. It requires all the selection forms for projects to be countersigned by the programme manager following a discussion with the field officer on questionable or uncertain cases.

- **Database:** This system allows for better streamlining of the approval process, whereby programme managers and field officers do not have to meet. Rather, the database of proposed projects is sent to the programme manager who, on the basis of the information contained in the database, follows up on any projects that seem unconvincing.

The approval process should be adapted and evolve as the field officers gain experience of the programme. A combination of the three systems is also possible, whereby a selection committee is created at field office level, with all the approved projects being countersigned by the office's senior field officer before being sent by database to the programme manager for final approval. Such a system further limits the possibility of fraud. For more detail on aspects to be checked by the programme manager as part of the approval process, refer to section III.

In addition to approved and rejected projects, there will also be projects that remain uncertain. Such projects should be reviewed with senior staff for final approval.

6.3.8 Procurement

Logistical issues

As in the procurement of items and services for other Ecosec programmes, the role of logistics in MEIs is crucial, and early constructive communication between Ecosec and the logistics division is key to the effective streamlining of MEI procedures. Constructive communication comes from recognition of the respective roles, concerns and challenges of each department.

Some of Ecosec's most common concerns and challenges with the MEI procurement process are:

- **Relatively slow and unpredictable delivery of items:** This arises because of the unpredictability of demand and thus the difficulty of standardizing and therefore stockpiling the items and services provided to the beneficiaries, since by definition MEIs are as individually tailor-made as possible.

- **Limited information on the status of requisition orders (ROs):** ROs are submitted by the field office, have to be approved by the Ecosec coordinator and the administration division and then validated by the logistics division before being acted upon. This makes keeping track of the entire process and identifying potential bottlenecks difficult, especially when an MEI programme results in a greater number of ROs.
- **Coordinating a programme that is being implemented continuously and managing beneficiaries' expectations:** Unlike many Ecosec programmes, which have a fixed timeframe with predefined beneficiary lists and distribution dates, most MEIs are continuous. The constant process of beneficiary selection and distribution of inputs makes the sequencing of actions less natural. In addition, once beneficiaries have been selected, providing them with realistic information on when they will receive their assistance is not always straightforward.

The logistics division's main concerns and challenges in respect of such programmes are generally:

- **Incomplete or irrelevant specifications:** Inexperienced Ecosec field staff provide insufficient specifications for the logistics division to make the necessary purchases.
- **Diversity of type and nature of items:** In addition to the wide variety of items that have to be purchased (several hundred for a grants intervention versus a dozen for a standard relief programme), the nature of the items further complicates the process. Indeed, while 80% of items are fairly standard and have fixed prices, some items, such as livestock, have fluctuating prices and inconsistent supply, and other requested items such as second-hand equipment have limited suppliers and unpredictable specifications.
- **Managing ROs:** Because of the diversity of projects and the continuous nature of MEIs, unless Ecosec drafts ROs in a systematic manner, the logistics division will find it difficult to manage requests optimally.

Standard logistics and Ecosec operating procedures for MEI procurement that have proven useful in overcoming the above-mentioned challenges can be found in section III.

Administrative issues

Beyond the actual purchasing of items, there are a range of administrative issues linked to the procurement process that need to be considered:

- **Follow-up of costs:** A feedback loop between the logistics division and Ecosec should be established to enable Ecosec to track expenditures based on real prices and not the estimated prices on the RO. Because of the amount and variety of items purchased, the aggregate difference between estimated and actual price can be significant over a one-year period. It is strongly advised to build a database of historical prices per purchased item with logistics, so as to improve the accuracy of the prices prediction over time.
- **Authorizations of expenditure:** Because of the difficulty of predicting the number of MEIs to be implemented from one month to another and because of the lengthy implementation process associated with MEIs, notably the gap between the ordering and the purchasing of goods, authorizations of expenditure often have to be kept open for more than the standard three-month period. This should be discussed with the local administration coordinator. Similarly, as much of the forecast for future allocations is dependent on amounts that have been imputed to existing ones, the administration division should be reminded not to impute amounts to different allocations from the ones marked on the RO, nor should they close allocations without the Ecosec coordinator's approval.

Distribution

The distribution schedule is decided jointly by Ecosec and the logistics division, in coordination with the field offices. The field offices are informed of the upcoming distribution schedule and the number and types of trucks are provided with the contact details of the truck drivers.

The field offices are given a couple of days to prepare for the distribution: distribution points must be surveyed and routes and accessibility checked. Beneficiaries must be informed of the upcoming distribution schedule and of what means of transportation they should plan to have in order to transport their grant inputs home from the distribution point. In general, the distribution should be confirmed to the beneficiaries the previous evening. Field offices must have some means of contacting the beneficiaries at short notice.

Some grants are particularly delicate to distribute. Items such as greenhouses are very bulky, while livestock cannot be stored easily. For these reasons, more often than not an MEI distribution cannot be postponed. Distribution routes must be weatherproof, and home deliveries of livestock and greenhouses should be avoided.

Quality checks

It is important for the future success of the programme that the items provided to the beneficiaries match their needs, both in terms of quantity and quality. The provision of substandard items results in higher rates of failure and the shorter lifespan of a project. It is also detrimental to the ICRC's image. Field officers present at the distribution site must check that the items received meet the quality standards they requested. Should some items fail to meet those standards, the field officers may refuse them. A note must be made on the truck driver's receipt clearly stating which items are refused and why. A claim form is then filled in and sent to the logistics division. This is particularly important for livestock and agro-related items. Similarly, the safety or environmental implications of specific items should be considered. This is particularly relevant for items such as fertilizer and pesticides.

Contract

The distribution of MEI projects also requires proper paperwork. An agreement between the ICRC and the beneficiary should clearly outline the obligations of each party. A donation certificate attests that the grant was distributed free of charge to the beneficiary, that it is on loan to the beneficiary for the first six months and that it will be retrieved by the ICRC if it is not used for the agreed purpose. In return, the beneficiary agrees to be monitored on a regular basis and provide accurate information to the ICRC regarding the project. You may also consider requesting that a small portion of the cost of the grant be repaid by the beneficiary over a period of a year, with the money being transferred to an account jointly held by the community and the ICRC, with the overall amount being used to finance community projects benefiting people who have not received an MEI project.

Briefing

Beneficiaries should be thoroughly briefed by field officers at the time of signature of an agreement. This should be done as if it were a business transaction rather than as assistance. Thus, the field officer should go over all the clauses of the contract with the beneficiary and make it clear that the ICRC is committed to following up the project. As far as possible, this should be done bilaterally (e.g. in an ICRC vehicle). The contract can be further reinforced by having community leaders also sign as witnesses. This, in addition to having a small portion of the grant reimbursed and invested in community projects, may also act as an incentive for the community to set up a monitoring system of its own. Lastly, if part of the monitoring is to be outsourced, monitors should be present at the moment of distribution and introduced to the beneficiary.

6.4 Follow-up

The follow-up of grant projects generally consists of three components:

- → Process monitoring
- → Progress monitoring
- → Outcome evaluation

While from a programme management point of view it is wrong to view monitoring as a separate phase – as monitoring is a continuous process whose conclusions should constantly feed back into programme design and implementation – it has been dealt with as such in this publication for the sake of clarity.

Process monitoring is carried out at the programme management level and consists in keeping an overview of programme implementation. In other words, it involves evaluating each step to date and adapting the programme, as necessary, to streamline and improve it. Therefore, this section focuses on progress monitoring and outcome evaluation, both of which are done at field level.

6.4.1 Progress monitoring

Why?

- → To verify that project inputs are being used as agreed
- → To verify that projects are generating income as expected
- → To evaluate the satisfaction of the beneficiaries
- → To identify any problems the beneficiaries are facing
- → To identify the need for coaching – and to provide it
- → To identify the need for training
- → To provide feedback to beneficiaries and act as an additional source of motivation
- → To learn lessons applicable to the next programme cycle

How?

Monitors should show interest and involvement in the project. To engage them fully, it is a good idea to include them in brainstorming sessions on ways to improve/expand the income-generating capacity of a project. While monitoring clearly acts as a form of soft pressure on beneficiaries to exert the necessary effort to succeed, it is crucial that it be carried out in a supportive rather than in a controlling manner. Beneficiaries should receive constructive feedback and positive reinforcement during monitoring visits.

By whom?

Monitoring is a time-consuming task and as such is often outsourced in order to make best use of ICRC human resources. That is not to say that monitoring is superfluous. On the contrary, it is the most important phase of a programme after selection. However, it can be taught fairly easily to non-ICRC staff. This ensures that monitoring is not treated as a lesser priority, which often happens when human resources are shared between different programmes. In fact, one of the most effective forms of monitoring is "peer monitoring", whereby beneficiaries monitor each other's projects. However, this is difficult to implement in areas where the beneficiaries are scattered, in which case it may be preferable to outsource the monitoring to local monitors.

Even when monitoring is outsourced, it is the responsibility of ICRC field officers to hire, train and manage the locally contracted monitors. At first, projects visited by local monitors should be revisited by ICRC field officers (or visited jointly with the monitors). Once local monitors are appropriately trained, only a portion of projects need be revisited by ICRC staff to do quality checks. The ICRC can also encourage community members to monitor projects themselves, in addition to the ICRC monitoring.

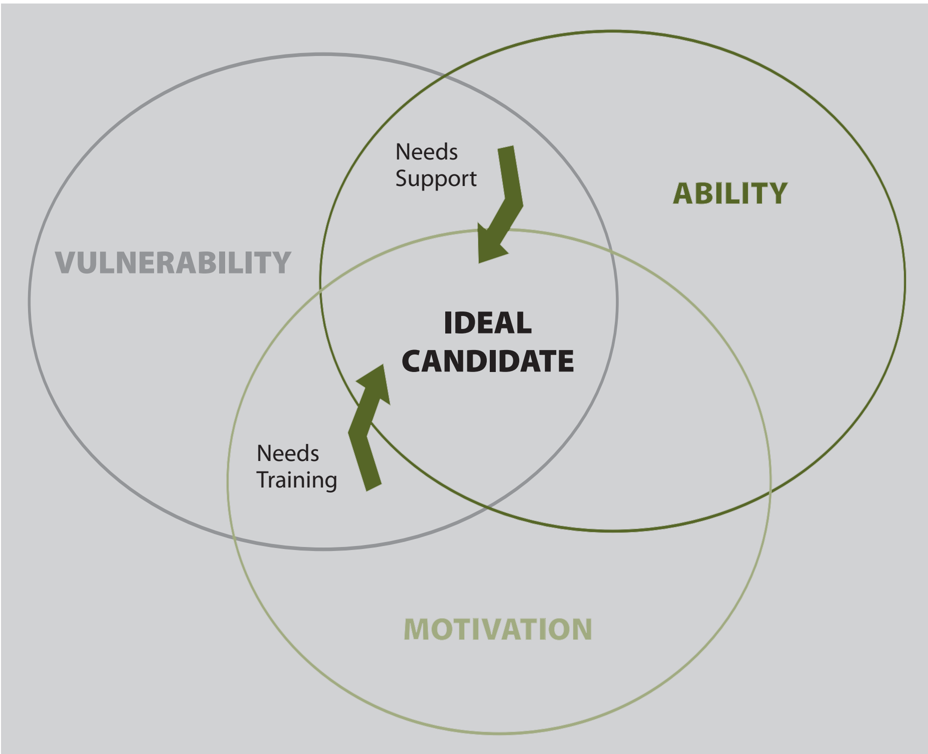
When

Monitoring generally entails one or two household visits per month over a period of four to six months. The frequency and length of the monitoring phase depend on the type and performance of the project.

The first monitoring visit takes place shortly (one to two days) after the distribution of inputs. Monitors and field staff check that the items received by the beneficiaries serve their intended use and that they are of satisfactory quality. Distribution errors should be noted and reported early so that they can be promptly corrected. The first visit also provides the beneficiary with the opportunity to ask the ICRC questions and for the ICRC to clarify the conditions of the project and set the "ground rules". Technical information (such as feeding practices for livestock) can also be provided during the first visit. In subsequent months, monitoring focuses on providing support to the beneficiary household and gathering data on the project's progress.

6.4.2 Coaching

Figure 5: Overview of MEI criteria



As much of the success of the MEI approach depends on the beneficiary's ability to identify a good project, it is important that the beneficiary has the necessary skills to do so. This may be particularly relevant in contexts where beneficiaries have a low level of education. In such cases, it may be wise to offer applicants the possibility of participating in a workshop on micro-enterprise management. Clearly, such workshops should be adapted to each context, but for an overview of the topics to be generally included in such training, refer to section III.

Providing project-specific coaching may also be appropriate to enable beneficiaries to get the best output from their projects, as highlighted in case study 5.

Case study 5: Western Georgia and Abkhazia

In 2003, an internal review of ICRC assistance programmes in Western Georgia and Abkhazia recommended that the ICRC move away from food aid and give as many families as possible (with one member able to work) the opportunity to have more productive and self-reliant livelihoods. To this end, the ICRC initiated an agriculture, trade and craft programme (MEI) tailored to the beneficiaries' needs and capacities. The programme consisted of the provision of productive assets, technical support and close field monitoring. It was implemented over three years in the Imereti and Samegrelo regions in Western Georgia (2003–06) and over one year in Abkhazia (2005), with more than 10,000 households benefiting.

Following a review of MEI projects in May 2005, it was noted that some beneficiaries did not have sufficient knowledge to make the right decisions to optimize the new resources put at their disposal. In late 2005, therefore, the MEI programme was enriched by a coaching component and reinforced monitoring.

Coaching modules were designed for the most popular types of project. For instance, MEI recipients who benefited from piglet and chicken projects were invited to five coaching sessions. The sessions were designed so that groups of 7 to 10 beneficiaries could receive technical support on topics relevant to the upcoming seasonal activities. The range of teaching methods included PowerPoint presentations, comic strips and case studies.

6.4.3 Outcome evaluation

The last monitoring visits are devoted to measuring the outcome of the project on the beneficiary's household economy. The measurement of outcome is performed jointly by ICRC field officers and the locally contracted monitors. It is a delicate task, relying on careful semi-structured interviews. Clearly, each context and programme is different, but the common points addressed in an outcome evaluation are generally:

Economic impact

Evaluating economic impact consists in quantifying the economic output of the project (including cash, barter and self-consumption) and weighing it against the total household income prior to the project and/or against the value of ICRC assistance provided prior to the project (e.g. the monthly contribution of the production intervention versus the value of ICRC monthly food parcels). This can also be done by comparing the household's assets, income, expenditures and consumption prior to and after the project, using a similar tool to the one used for the selection interview (see guidance sheet 3). The investment in assets can also act as a proxy indicator for the sustainability of the impact.[18] Other aspects of economic impact worth considering might be how the project fits in seasonally with the household's other sources of income (i.e. it enables the household to generate income during the three-month period when its usual activities are at a low and therefore would generally oblige it to rely on savings). If possible, it is also useful to go beyond the pure monetary value of the project and look at what the output was used for (e.g. what are they using the money for, and in the case of food production, has it had a positive impact on the nutritional value of the household's diet?).

18 For more detail, see M.R. Carter and C.B. Barrett, «The economics of poverty traps and persistent poverty: An asset-based approach», *Journal of Development Studies*, Vol. 42, No. 2, 2006, pp. 178–199.

Sustainability

Evaluating a project's sustainability entails considering the length of time a project has been operating and its anticipated lifespan. This means looking at the financial viability of the project by comparing the profit of one cycle to the cost of repeating a second cycle. Similarly, it is often interesting to compare the profit/time investment ratio between the household's different income-generating activities. Often the most telling indicator, however, is the difference between the expected and the actual profit of a given project. Indeed, if a project is generating more or the same amount of income as had been foreseen prior to investing in it, the beneficiary will continue investing the necessary time and money into sustaining the activity. This is one more reason why it is crucial to document a beneficiary's expected profit for a project during the selection interview.

Snowball effect

The snowball effect is not always easy to dissociate from the economic impact as such. Typical examples of this effect are improved business or technical skills acquired as a result of the monitoring support, which may have enhanced other income-generating capacities. This can also include the reinvestment of income in another income-generating activity.

Spillover effect

The spillover effect refers to the indirect impact of projects at the community level. This is also difficult to measure in most cases but may be fairly clear in the case of certain activities that are closely linked with other professions. An example would be a project directly supporting fishermen, which also has a positive impact on the fish-processing industry.

Psycho-social impact

An aspect of particular interest to look at when dealing with IDPs or returnees is the extent to which the project has been a channel for social reintegration, increased self-esteem, etc.

While the assessment of economic impact and sustainability should have some quantitative basis, the assessment of the spillover effect and the psycho-social impact is obviously much more delicate. In most cases, a set of options is predetermined in order to facilitate the analysis of the qualitative findings (e.g. 25% of beneficiaries interviewed said that the project had enabled them to develop new social and business contacts with the host community). There is always the risk with such an approach, however, that the guidance sheet is used as a questionnaire. Another option is to select a few representative cases, which are looked at in depth in order to identify the implications of such qualitative outputs.

Reporting

In addition to constantly updating the beneficiary database, field offices should regularly produce a narrative report on the progress of the MEI projects in the areas under their responsibility. Reports should cover the following topics:

→ Progress against the yearly planning
→ Number of applications received
→ Number of selection interviews conducted
→ Number of projects distributed
→ Number of monitoring visits conducted
→ Impact of projects ending in the current month

KEY POINTS

- Grants are the most common MEIs and generally a precursor to the implementation of vocational training and/or micro-credit interventions.
- Needs and feasibility assessments depend mainly on understanding coping strategies, mapping existing resources and opportunities, identifying gaps in existing assistance programmes, and assessing the stability and structure of the local market.
- When designing a programme, it is vital to set clear objectives from the outset against which the success of the MEI will be measured. Objectives can be wide-reaching but should include expected changes in household income and sustainability.
- When planning the resources needed, it should be kept in mind that such programmes are human resource intensive for Ecosec, as well as for the administration and logistics divisions.
- Information on the programme and the channels of communication used should be thought through strategically, as they are an important means of filtering potential applicants.
- Beneficiaries are selected on the basis of their vulnerability, motivation, knowledge, experience and preconditions. The selection interview is the most important step in the programme.
- Procurement and administrative procedures should be well thought through prior to launching the programme in order to ensure efficient implementation.
- Outcome evaluation should look at a project's economic impact, sustainability, snowball and spillover effects, and psycho-social impact.

6.5 Other relevant documents

ICRC, Internal review of grant programmes in Serbia and Montenegro, 2005 (internal document)

ICRC, Internal review of grant programmes in Georgia and Abkhazia, 2007 (internal document)

ICRC, *Programme/project management: The results-based approach*, 2008

ICRC, *Guidelines for measuring results*, to be published in 2009

International Federation/ICRC, *Guidelines for assessment in emergencies*, 2008

Save the Children Fund/Food Economy Group/Regional Hunger and Vulnerability Programme, *The Practitioners' Guide to the Household Economy Approach*, February 2008


Alan Meier/ICRC

7 HOW TO IMPLEMENT VOCATIONAL TRAINING

This chapter serves as a complement to chapter 6. As many of the steps in programme implementation are similar for grants and vocational training, this chapter concentrates essentially on those aspects that are specific to vocational training.

7.1 Needs and feasibility assessment

7.1.1 Assessing the needs

In addition to gaining an understanding of local market dynamics and existing government programmes, as dealt with in chapter 6, certain aspects of needs assessment that are specific to vocational training should be looked at. Vocational training can be of interest to people for a variety of reasons, and identifying their specific needs is crucial to ensuring that they receive the most appropriate form of vocational training.

→ **Practical skills vs theoretical skills:** Some beneficiaries may have hands-on experience but lack the theoretical information that would enable them to adapt to new situations or gain credibility with potential clients. For them, an apprenticeship approach is unlikely to meet their training needs. Other beneficiaries may be well versed in the subject but lack the practical experience to translate their knowledge into action. For them, a formal training institution may not be the ideal place to learn.

→ **Training certificates:** In some cases, beneficiaries may have acquired the technical and practical knowledge but lack a recognized diploma that will enable them to practise in the area in which they have been displaced. For them, accreditation by a vocational training institution will be most useful.

→ **Work experience:** Similarly, some beneficiaries may have both practical and theoretical knowledge but lack recognized work experience to obtain formal employment. In this case, an apprenticeship might be appropriate, with the duration, the type of enterprise and the stipend all being adapted to suit the individual's needs.

→ **Skills for self-employment vs skills to enhance employability:** The underlying objective of the training will have repercussions on the type of vocational training proposed. Is it intended to support beneficiaries in starting their own businesses? If so, a workshop on micro-entrepreneurship to complement the skills training may be most appropriate. Is the aim to support the beneficiary in finding formal employment? If so, attention should be paid to the "signalling effect", whereby employers are more easily convinced that a person is genuinely interested in a specific job if he or she can show through some form of certification that time has been invested in studying a relevant craft. In other words, more than just proof of knowledge, a diploma from a training institution is seen as proof of motivation and of a desire to persevere in a certain domain.

7.1.2 Assessing the feasibility of a vocational training programme

Much of the feasibility assessment for vocational training is about identifying existing vocational training structures and understanding their strengths and weaknesses and their compatibility with and adaptability to the needs of the ICRC's target population. This requires mapping the training methods and eligibility requirements of existing service providers and assessing the general education level of the target population. It includes gauging the extent of their formal education, their literacy levels and their familiarity with their surroundings, particularly in the case of rural households that have been displaced to urban areas.

If the objective of the training is to increase the employability of beneficiaries, emphasis needs to be placed on determining the overall rate of job creation in the formal economy, as well as on identifying the sectors lacking skilled human resources. The next step is to find out whether the skills level provided by the vocational training meets the minimum standards required by the formal market. The skill level required may vary significantly from one context to another, depending on the quality of the vocational training and the extent of development of certain sectors. Achieving it may prove to be challenging in contexts where there is a big gap between the education level of people working in the formal market and that of the target population, seeing as ICRC-supported vocational training is generally limited to a few months and not years.

Lastly, it is also necessary to gain an insight into the start-up costs of self-employment in the professions most likely to be supported through vocational training in order to get a better idea of the project's impact and whether it will have to be complemented by other forms of financial support.

7.2 Programme design

The keys to designing a vocational training programme lie in identifying the type of training best suited to the beneficiaries' needs (be it a training institution, an apprenticeship or ICRC-mandated training) and in choosing the right partner. Case study 6 is a good illustration of how the design of a programme can significantly affect beneficiary satisfaction.

Case study 6: Montenegro

In 2004, two years into the implementation of a vocational training programme in Serbia and Montenegro, the ICRC noted that few members of the displaced Roma, Askhali and Egyptian (RAE) communities were applying. This was surprising, given that they were among the most vulnerable of the IDP communities. Further investigation revealed that, although there was a strong interest among the RAE in acquiring professional skills, a combination of factors was preventing them from applying. On the one hand, the vocational training programme was largely geared towards increasing employability, but the chances of the RAE finding formal employment were very slim, given the widespread discrimination suffered by these communities. Secondly, owing to their high rate of illiteracy, many of the RAE felt intimidated by the training institutions and few could meet the preconditions set by many of them.

The ICRC therefore decided to introduce an additional component in its existing vocational training programme in Montenegro's biggest Roma settlements. Instead of providing training through existing institutions, it contracted independent trainers to develop modules geared to self-employment for the most sought-after professions in the settlements. Surveys were carried out to determine which professions to focus on, and specific infrastructure projects within the settlements were identified and used as opportunities for the trainers and their students to acquire hands-on experience. Thus, trainee plumbers, electricians, carpenters and others gained practical knowledge of their respective trades by helping to repair and upgrade community structures. In addition to providing the beneficiaries with practical employment, this approach ensured that the skills gained were suited to local market requirements. As a further incentive to start up their own income-generating activities, upon successful completion of the course and in exchange for their community work, each was given the set of tools they used during the training in order to get a better idea of the project's impact and whether it will have to be complemented by other forms of financial support.

7.2.1 Possible types of intervention

Table 6 provides an overview of the most common advantages and disadvantages of the various training options.

Table 6: Advantages and disadvantages of training options

Type of training	Advantages	Disadvantages
Local training institution	• Use of a local partner provides opportunity for institutional strengthening. • Variety of training courses available increases strength of bottom-up process. • Provides strong theoretical grounding and is likely to have government accreditation. • The programme may be easier to hand over to another actor.	• Not always in tune with the work environment, and technology may not be up to date. • Generally limited to the main urban centres.
ICRC-mandated training	• Likely to have a greater outreach to remote areas. • Easier to adapt the programme to a specific target population (e.g. people with disabilities or lacking literacy skills) (see case study 1).	• Government accreditation unlikely. • Limited variety of subjects offered, potentially affecting participants' ownership.
Apprenticeship	• Very versatile. • Provides practical experience. • Can act as a reference and proof of work experience. • Provides networking opportunities with potential future clients.	• Quality of mentors may vary significantly. • Scope of training may be limited to certain specific skills. • Difficulty in ensuring accountability of training provider.

Experience has shown that a combination of theoretical training and apprenticeship is often most effective. Moreover, getting the beneficiaries to identify potential apprenticeships is a way of gauging their motivation.

7.2.2 Identifying potential partners

Bearing in mind the advantages and disadvantages of the different training options set out in table 6, potential local partners should be identified on the basis of the following variables:

→ **Adaptability of the institution:** Does the training institution cater to the specificities of the target population (e.g. literacy levels, disabilities) and, if not, is it willing to adapt its entry criteria?

→ **Accreditation and diplomas:** Does the training institution provide a recognized diploma and what is the perception of such a diploma on the job market?

→ **Integration of labour market requirements in the curriculum:** Has the training curriculum been developed in coordination with potential employers?

→ **Gender bias:** Are certain courses restricted to certain genders?

→ **Internal impact assessment:** Has the training institution carried out outcome evaluations of its training courses and, if so, which ones have the highest success rate in terms of employment?

The list of potential partners selected by Ecosec will then be passed on to the logistics division, which will decide on the training institutions to be used. This aspect is covered in more detail in the procurement section (see p. 95).

7.3 Specific implementation challenges

In addition to the general challenges mentioned under grants in chapter 6, there are some challenges that are specific to vocational training programmes.

7.3.1 Dissemination

Because the time spent in training represents an opportunity cost for beneficiaries, the challenge of disseminating information on vocational training is often more a question of awareness-raising than of managing information and expectations. A particular challenge is a lack of understanding of the vocational training approach, as nothing tangible is received.

7.3.2 Selection interviews

Besides the standard vulnerability check covered in chapter 6, one of the most important aspects of the selection process for vocational training is verifying the marketability of the requested skills. In other words, is there a market demand for that specific skills set?

Determining the marketability of skills is accomplished through a combination of tasks:

- → Establishing an initial list of the main professions in demand, in consultation with the Ministry of Labour, the chamber of commerce and other relevant bodies.
- → Gaining greater insight into a particular profession by testing the beneficiary's motivation to undertake such training and his or her knowledge of the existing market demand.
- → Requesting a letter of intent. This entails a beneficiary obtaining a letter from a potential employer stating that he or she will hire (or strongly consider hiring) the beneficiary on the basis of the training concerned. The idea is not to ensure that beneficiaries have a guaranteed job on completion of the training but that they have tested the market to see if there are real employment possibilities in their chosen professions.
- → An alternative to the letter of intent is requesting that beneficiaries identify businesses willing to provide them with apprenticeships. This generally requires a follow-up interview with the employer concerned, which is also a good opportunity to get a better idea of the market demand for the skills in question.

Because the beneficiaries rather than the ICRC may choose a potential partner (training institution, apprenticeship provider) for reasons of convenience (e.g. geographical proximity), the ICRC may need to check on the quality and credibility of the partner selected.

7.3.3 Procurement

Similarly, because it is not always the ICRC that selects the training partner, it is crucial to establish clear minimum quality criteria. On the basis of these criteria, and depending on the level of availability of vocational training centres/schools and of competition among them, the logistics division will either carry out a standard tendering process (where clear specifications will be vital even if not easy to put together) or a benchmarking exercise to identify training institutions in the main urban centres and establish a price bracket within which the ICRC would be willing to fund training in other institutions meeting the quality criteria.

The most common criteria for selection of a training provider are likely to be a combination of:

- → hours of training
- → diploma provided
- → government accreditation
- → student/trainer ratio
- → proximity to the beneficiary
- → reputation/impact assessment
- → training materials
- → willingness to receive payments in instalments

7.3.4 Contracts

In addition to the agreement concluded with the beneficiary, contracts will need to be signed with partners (training institutions and apprenticeship providers). These should clearly state the objective of the training, its expected duration and the partner's responsibilities, including the submission of attendance sheets to the ICRC and the provision of proof of training (e.g. a diploma or work certificate) to the beneficiary once training is completed.

7.4 Follow-up

7.4.1 Monitoring

Monitoring consists in following the progress of the training and keeping an eye on the trainee's ability to translate it into employment opportunities. The main aspects to be followed during the training are the beneficiary's attendance, satisfaction and grades. Attendance and satisfaction monitoring should be done at least once per payment instalment. For the monitoring of grades, minimum requirements may be set if the beneficiary is also eligible for a grant. In the case of apprenticeships, it may be worth getting a representative of each profession to evaluate the beneficiaries' performance, assess the quality of the training, motivate beneficiaries and create a standardized testing mechanism.

7.4.2 Sequencing

Because of the high number of separate actions involved in running a vocational training programme with partners, it may be practical to organize activities in specific time slots. For instance, the first week of the month could be dedicated to collecting invoices and signing contracts with training providers, the second week to monitoring, and the third and fourth weeks to carrying out selection interviews.

7.4.3 Outcome evaluation

In addition to the points covered under grants in chapter 6, the main aspects to consider in an outcome evaluation of vocational training programmes are:

- → Has the training enabled the beneficiaries to find a new job (or start a new business)?
- → If so, are the beneficiaries working in their fields of interest? Are they using newly acquired skills?
- → Has the training enabled them to establish new professional or social contacts?

KEY POINTS

- When considering implementing a vocational training programme, as well as when approving beneficiaries for such programmes, it is essential to get a clear understanding of the specific needs they are trying to meet through the training. These needs can include the acquisition of theoretical skills, practical experience, or official accreditation.
- Training programmes can be provided by the ICRC or through training institutions or apprenticeships. Each of these options has its advantages and disadvantages, and a combination of the three is often best.
- If programmes are being implemented through local institutions, potential partners need to be chosen carefully on the basis of their adaptability, their accreditation, links with the labour market, and the quality of the course provided.
- The use of implementing partners generally requires additional steps in the selection and monitoring processes.

7.5 Other relevant documents

ICRC, Internal review of vocational training programmes in Serbia and Montenegro, 2005 (internal document)

World Bank, *Building the Skills for the New Economy*, Human development Unit, June 2007

Middleton, J., Ziderman, A., Van Adams, A., *Skills for Productivity: Vocational Education and Training in Developing Countries*, World Bank, 1996

8 HOW TO IMPLEMENT MICRO-CREDIT SUPPORT PROGRAMMES

As the ICRC does not implement micro-credit programmes directly, the objective of this chapter is not to go through their design and implementation step by step but to focus on the specific implications of micro-credit support programmes for ICRC field staff. To learn more about the development of micro-finance programmes, refer to the recommended documents at the end of this chapter.

8.1 Needs and feasibility assessment[19]

8.1.1 Assessing the credit needs of the target group

To assess a target group's potential need for credit, the following points should be taken into account:

→ The beneficiaries' ability to engage in activities that can yield a reasonable profit. This relies on assessment methods similar to those covered in chapter 6.

→ The beneficiaries' interest in and *willingness* to take out a loan (or several repeat loans) for income-generating purposes.

→ The beneficiaries' debt capacity. This is the amount of additional debt a person can take on without running the risk of inadequate cash flow and consequent loan default. The smaller the cash flow of a household, the smaller its debt capacity will be.

→ The beneficiaries' access to loans through commercial banks or other sources. What is the reason for their lack of access to credit?

19 Adapted from J. Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective*, World Bank, 1998.

Some of the most common reasons why ICRC target populations have limited access to credit are:

- Lack of the necessary financial capital to meet collateral requirements.
- Lack of social capital to meet the requirements in terms of collateral substitutes (group lending for IDPs, recognized guarantors).
- Lack of a social mandate of the MFI in their area (i.e. MFIs are more keen on ensuring absolute minimum delinquency rates than reaching out to vulnerable households).
- Lack of outreach of existing MFIs.
- The application process is too complicated or intimidating. This may often be the case in contexts where illiteracy rates are high, where certain segments of the population have limited identification papers, or where there is general scepticism about the honesty of formal institutions.
- The loan products offered are uninteresting. This is generally because of restrictions on loan sizes or because repayment terms are incompatible with the target population's needs.

8.1.2 Assessing the context and feasibility

The main step in assessing the feasibility of a micro-credit intervention is to understand the actors, policies and regulations that apply to the sector. Following is an overview of the main questions that need to be asked in order to get a grasp of the financial system in the area concerned, reveal possible gaps and shed light on the restrictions faced by potential MFI partners.

- Who are the suppliers of financial services?[20] What products and services do they offer? What role do governments and donors play in providing financial services to the poor? This should lead to a better understanding of the financial system and also reveal gaps.

20 This should include formal, semi-formal and informal financial institutions.

- How do existing financial sector policies affect the provision of financial services? Such policies include:
  - Interest rate policies: An example of these policies is interest rate ceilings, which are well intentioned but often have the perverse effect of driving informal lenders underground.
  - Government mandates for credit allocation: In many countries, the government mandates formal financial institutions to provide a certain percentage of their portfolio to poorer segments of society or to certain economic sectors.
  - Legal enforcement policies: These are the various legal sanctions available when clients do not adhere to their agreements and the ability and effectiveness of the courts to enforce financial contracts.
- What form of financial sector regulation exists, and are MFIs subject to these regulations? Regulations generally apply to MFIs when their size is such that their failure may impact on the market or when they mobilize deposits from the public. Means of regulation vary from minimum capital requirements,[21] capital adequacy,[22] liquidity requirements, asset quality[23] and portfolio diversification.[24]
- What other economic and social factors could affect the provision of financial services and the ability of small businesses to operate? Inflation[25] and lack of infrastructure are examples of such factors. Social capital is another important factor to take into consideration. This refers to the existence of traditional social mechanisms that facilitate mutual obligations, contracts and transactions.[26] The breakdown of these mechanisms has serious implications for the demand, scale, training needs and operational efficiency of MFIs.

21 Amount of equity needed to be formalized.
22 Extent to which the revolving fund has been financed through debt.
23 Provisions made to avoid contracting bad debt. This generally refers to collateral guarantees.
24 To ensure MFIs have not concentrated their portfolios in one geographic sector or market segment.
25 Many of the problems related to inflation can be overcome by indexing loans to another currency.
26 K. Doyle, *Microfinance in the Wake of Conflict: Challenges and Opportunities*, The SEEP Network, July 1998.

8.2 Programme design

As mentioned previously, the ICRC does not provide loans directly. Micro-finance requires long-term commitment and the presence of an institution specialized in this domain. Financial support for a limited period of time could jeopardize some of the basic underlying principles of micro-credit.[27] One of the most appealing aspects of micro-credit is its sustainability, which would be at stake if the ICRC were to implement programmes directly and eventually pull out.

Once the gaps have been identified, the first step in designing a micro-credit support programme is to come up with the means to fill these gaps through support to existing structures.

8.2.1 Possible types of micro-credit support

There are various ways the ICRC can support a micro-credit programme through an MFI:

→ **Provision of an additional line of credit:** In this scenario, the ICRC lends funds to an MFI, which then provides credit to the ICRC's target population. Funds are generally provided on condition that certain vulnerability criteria are met. Based on the MFI's performance with regard to the fund's management, the fund can be handed over to the MFI in the long term. Funds should be provided in tranches.

27 For instance, guaranteed access to repeat loans is one of the main motivating factors for repayment of the original loan. If clients suspect the ICRC will eventually pull out, their willingness to repay may be affected.

- **Provision of a guarantee fund:** Here, the ICRC provides a fund that is then used to cover part of the delinquent loans of the ICRC's target population. This is generally done to increase the risks an MFI is willing to take in providing loans to a new target population. The ICRC should cover no more than 60% of the loss, and the use of the fund should be closely monitored by the ICRC programme manager, with the co-approval of the ICRC and the MFI required to release funds. Depending on the programme design, approval can be given prior to providing credit on a case-by-case basis (e.g. a client is accepted on the condition that the ICRC commits to covering part of the risk) or according to predefined criteria. The first option is preferable.
- **Increasing the MFI's physical outreach:** This can be done, for instance, partly by financing the opening of offices in locations of interest to the ICRC (see case study 6) or partly by covering the salary of an additional employee. Ideally, this should be done through a sliding scale financing model, with a commitment from the MFI that the resources will be used essentially to serve ICRC clients at least for a given period of time.
- **Support to the MFI's capacity-building costs to increase its effectiveness and fundraising capacities:** This could be accomplished, for example, by financing an audit of the entire institution (donors typically audit only their own portfolios) and/or contributing to an internationally recognized MFI rating. These actions would provide valuable information to the MFI and certainly help it to improve its processes and help secure additional funding.

- **Increasing the target population's awareness of the MFI:** This can also be done by supporting the marketing and dissemination of the programme, particularly in areas likely to be of interest to the ICRC's target population. Positioning the ICRC in such a communication campaign can be tricky, however. As mentioned earlier, the ICRC should not be associated too closely with the project as this might send out a wrong message to the applicants and risk affecting repayment rates and the programme's sustainability.
- **Provision of "soft credit records":** Given that one of the main obstacles to obtaining credit for low-income households is the lack of a credit history, the ICRC can set up a mechanism through a grant programme to provide beneficiaries with a soft credit record. One such example would be to request that the beneficiary put aside a percentage of a grant received from the ICRC in an MFI savings account over a period of time. The ICRC would inform the MFI of this request early on so that the MFI could use the savings process as a means of assessing the beneficiary's creditworthiness.
- **Guide the MFI in the adaptation of loan products:** In this case, the development of new loan products is carried out in cooperation with the partner MFI. The loan amount and the repayment time are interlinked, with smaller amounts and shorter terms being better suited to the more vulnerable. However, new loan product development requires extensive field research, testing and a multidisciplinary team of professionals. The ICRC will therefore rarely request the elaboration of a new product as such but will rather suggest adapting a few features of existing ones that may be problematic for its target population. These actions provide valuable information to the MFI and help it to improve its processes and its ability to secure additional funding.

Case study 6: Kragujevac office, Serbia

After providing an MFI in Serbia with a loan in 2004 to increase the amount it would loan to IDPs, the ICRC noted that in addition to a limited revolving fund, one of the impediments to the IDPs' access to credit was the limited outreach of MFIs in certain areas where there were high concentrations of IDPs. Following further assessments, the ICRC supported the MFI in extending its reach by covering some of the initial operating costs of opening a new office. The ICRC funding was provided on a sliding scale model, with conditions attached to each instalment. The table below provides an overview of the agreed payment scheme:

	2004						2005
	April May June ICRC	April May June MDF	July Aug. Sept. ICRC	July Aug. Sept. MDF	Oct. Nov. Dec. ICRC	Oct. Nov. Dec. MDF	Jan. Feb. March MDF 100%
Transportation costs	900	0	80%	20%	50%	50%	900
Salary	3,024	0	80%	20%	50%	50%	3,024
Office costs	540	0	80%	20%	50%	50%	540
Other administrative costs	0	1,008	0	1,008	0	1,008	1,008
Total	**4,464**	**1,008**	**3,571**	**1,901**	**2,232**	**3,240**	**5,472**

Total ICRC: €10,267

Total MDF: €11,621

1st instalment

1) An MDF loan officer recruited, trained and operational in Kragujevac.
2) An MDF office opened in Kragujevac.
3) The ICRC micro-credit programme launched in Kragujevac.

2nd instalment

In Kragujevac, loans are issued exclusively from the ICRC portfolio for three months from the date of the contract.

3rd instalment

Minimum 80% of all loans issued by the MDF in Kragujevac are from the ICRC portfolio for six months.

8.2.2 Choosing the MFI

Once the gaps in the credit market have been identified and the means of addressing them devised, the next challenge is to choose an MFI that is both professional and willing to cooperate with the ICRC in filling the gaps. This is often trickier than it seems as it requires finding an MFI that is both attentive to financial performance and committed to a strong social mission.

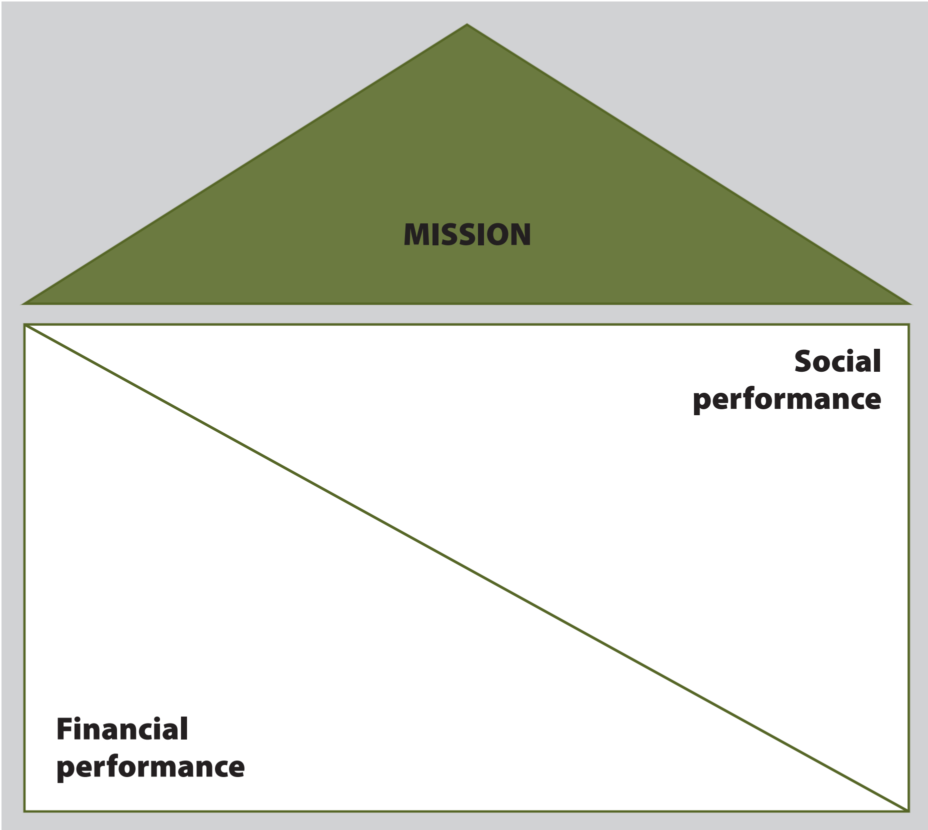
As illustrated in figure 6, the typical mission statement of an MFI has both a financial and a social component. However, very often financial objectives take precedence over social objectives, and financial indicators are seen as the main determinants of an MFI's success.

The selection of an MFI partner for the ICRC, therefore, has to be based on a more equitable assessment of both financial and social performance.

→ **Financial performance:** The financial strength of an MFI is generally assessed on the basis of the quality of its portfolio, its productivity and efficiency, and its financial viability. Concretely, this is done through the interpretation of various financial ratios, which are not covered in depth in these guidelines. While understanding some of these ratios is necessary for the follow up of the programme and will be covered later in this chapter, the assessment of the financial strength of an MFI will not be the direct responsibility of ICRC field staff. That assessment can be based either on international ratings that the MFI may have received through external audits or carried out by a consultant hired by the ICRC for that purpose.

→ **Social performance:** The assessment of the social performance of an MFI is entirely the responsibility of ICRC field staff. In addition to consultation with other relevant stakeholders on the matter, much of the assessment will rely on an understanding of the MFI's outreach to the poor and the excluded, the suitability of its services and products to the ICRC's target populations, its efforts to improve a client's social and political capital, and its general record of social responsibility. Specific indicators for each of these points are covered in more detail in section III.

Figure 6: The foundations of an MFI's mission

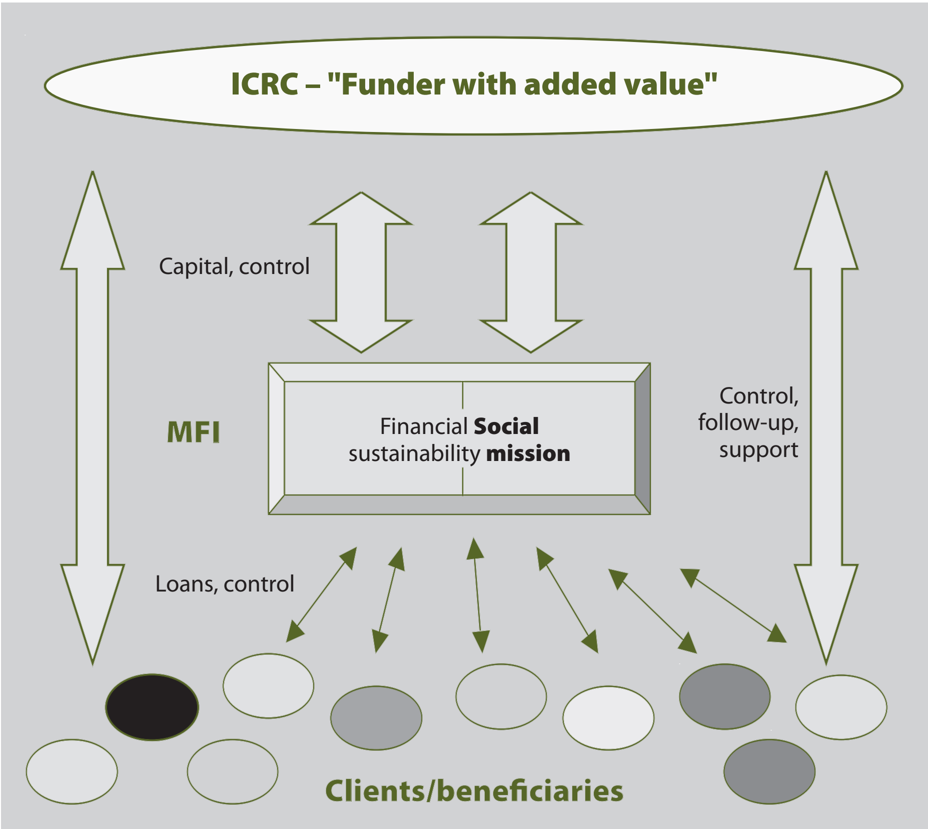


8.3 Implementation

8.3.1 Interaction with the MFI

The ICRC's relationship with the MFI will generally be that of a funder with added value. As previously noted, the ICRC funds either the loans themselves or some activities. The ICRC's role, however, will also be to ensure that the MFI maintains the appropriate balance between financial sustainability and its social mission to provide opportunities to the poor.

Figure 7: ICRC – Funder with added value



The ICRC's main operational role is to ensure that the MFI's social objectives are in line with the ICRC's objectives. This generally entails building the MFI's capacity to conduct a vulnerability assessment. Without external oversight and/or pressure, an MFI is easily tempted to offer loans only to the less risky/less vulnerable clients. Therefore, the ICRC must retain the right to refuse people who do not belong to its target group.

The ICRC and the MFI must agree on the vulnerability criteria of clients to be assisted with ICRC funds, and the ICRC must ensure that these criteria are properly incorporated into the MFI's selection mechanism. This is generally achieved by having ICRC field officers work alongside credit officers for a period of time. Once it is felt that the credit officers are familiar with the agreed criteria and feel comfortable selecting clients from the ICRC target population, ICRC field staff can take a step back, double-checking the vulnerability of selected clients through separate household interviews.

As with most partnerships, the relationship between the staff of both organizations will largely influence the quality of the partnership. It requires a clear division of responsibilities and good coordination to avoid the ICRC slowing down the approval process. Case study 7 provides an example of the division of responsibilities between the ICRC and an MFI. Loan approval is generally carried out by an approval committee similar to that used in grant programmes but comprising representatives of both the ICRC's and the MFI's field staff and management.

When negotiating with small, local NGOs, keep in mind that they are not always on a level playing field with the ICRC. The ICRC is funding the programme and is therefore in a position to set many of the rules of the game, but this should never be done at the expense of the best implementation practices.

Case study 7: Division of responsibilities in Belgrade (Serbia)

Following is an example of the division of activities and responsibilities between the ICRC and an MFI.

ICRC	MFI
• Leads the communication campaign; informs the target population; refers potential applicants to the MFI.	• Handles all applications and supports the process (business planning).
• Visits all applicants approved by the loan officers before the selection committee takes a decision.	• Assesses all applicants; submits the files of successful applicants promptly to the ICRC.
• Participates in the local selection committee and signs all approved loans. Indicates clear reasons for rejection.	• Chairs the selection committee; shares all relevant documentation with the ICRC.
• Is responsible for defining the vulnerability criteria and monitoring whether applicants meet them; rejects applicants who are not within the target group.	• Is responsible for all financial aspects of the loan, including deciding on guarantees and taking appropriate legal action towards defaulters.
• Visits clients independently (or jointly with the MFI) every 4 to 6 weeks to monitor the use of the loan; coordinates the visits to delinquent clients with the MFI.	• Maintains regular control mechanisms, repayment tracking, visits, etc.
	• Submits monthly and quarterly reports to the ICRC according to the mutually agreed format and schedule.

8.3.2 Contract

The contract concluded with the MFI has to be watertight to enable reimbursement of the capital by the MFI, if necessary. The main points to be included are:

→ Outline of loan products
→ Location of activities
→ Target group
→ Client selection mechanism
→ Loan portfolio management
→ Revolving loan fund
→ Risk sharing and losses due to unexpected hardship (guarantee fund)
→ Monitoring and evaluation
→ Reporting (format)
→ Final intention upon expiry of the contract

8.4 Follow-up

8.4.1 Monitoring

In addition to monitoring the implementation of the programme and the partner's respect for the contract and the selection criteria, the programme manager will be required to follow up on the ICRC portfolio if ICRC money has been lent. The idea is, on the one hand, to follow up on delinquent clients and, on the other hand, to draw conclusions on the creditworthiness of the ICRC's target population in order to convince MFIs to continue serving that population in the long term even without ICRC assistance.

The follow-up of the ICRC portfolio should be carried out on the basis of the portfolio report provided by the MFI. Clients with aging arrears should be systematically monitored to understand the reasons for their delinquency and to assess the likelihood of them repaying. The conclusions of such monitoring visits should, where necessary, be used to make amendments to the client selection process.

Otherwise, in order to get an overview of the quality of the ICRC portfolio and compare its performance with that of the non-ICRC target population, a combination of the following ratios[28] should be used:

Portfolio quality ratios

Repayment rate

$$\frac{\text{Amount received}}{\text{Amount expected}}$$

Varies from MFI to MFI (for the past month, two months, six months) and is more an indicator of the past loan recovery rate.

Arrears rate

$$\frac{\text{Amounts in arrears (generally the principal only)}}{\text{Portfolio outstanding (including amounts past due)}}$$

The arrears rate shows how much of the loan has become due and has not been received. However, it understates the risk to the portfolio and understates the potential severity of a delinquency problem, because it only considers payments as they become past due, not the entire amount of the loan outstanding that is actually at risk. For example:

A client who borrows 1,000 for petty trading for 12 months at 15% interest must repay 90 per month (83 principal and 7 in interest). If he or she misses the first three months of payment, the amount past due is 270. Accordingly, the arrears rate would be 249/1000 = 25%

Portfolio at risk:

$$\frac{\text{Outstanding balance of loans with payments past due}}{\text{Portfolio outstanding (including amounts past due)}}$$

The portfolio at risk refers to the outstanding balance of all loans that have an amount overdue. It is different from arrears

28 Extracted from J. Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective*, World Bank, 1998.

because it considers the amount in arrears plus the remaining outstanding balance of the loan. The portfolio at risk reflects the true risk of a delinquency problem because it considers the full amount of the loan risk.

Note: Some MFIs choose to declare a loan at risk only after a specific number of days have passed since the payment became due.

Delinquent borrower $\dfrac{\text{Number of delinquent borrowers}}{\text{Total number of active borrowers}}$

If the ratio of delinquent borrowers is lower than the portfolio at risk or the arrears rate, then it is likely that larger loans are more problematic than smaller ones. In determining the number of delinquent borrowers, it is also useful to see whether more loans are becoming delinquent at the beginning of the loan cycle or towards the end.

The definition of delinquency, however, varies significantly from one MFI to another and can influence the delinquent borrower and portfolio at risk ratios. The same can be said for the write-off policy.

Productivity ratios

$$\frac{\text{Average number of active loans}}{\text{Average number of credit officers}}$$

The number of active loans (or borrowers) varies depending on the method of credit delivery (group, individual). When comparing different MFIs, the average loan term should also be taken into account because this greatly affects the number of borrowers a credit officer can maintain.

$$\frac{\text{Average value of loans outstanding}}{\text{Average number of credit officers}}$$

$$\frac{\text{Total amount disbursed}}{\text{Average number of credit officers}}$$

Efficiency ratios

Operating cost ratio	$\dfrac{\text{Operating cost}}{\text{Average portfolio outstanding}}$

Operating costs should include neither financing costs nor loan loss provisions.

Cost per unit of currency lent	$\dfrac{\text{Operating costs for the period}}{\text{Total amount disbursed in the period}}$
Cost per loan	$\dfrac{\text{Operating costs for the period}}{\text{Total number of loans made in the period}}$

Financial viability ratios

Operational self-sufficiency	$\dfrac{\text{Operating income}}{\text{Operating expenses + Financing costs + Provision for loan losses}}$
Financial self-sufficiency	$\dfrac{\text{Operating income}}{\text{Operating expenses + Financing costs + Provision for loan losses + Cost of capital}}$

8.4.2 Outcome evaluation

The outcome evaluation of an ICRC micro-credit support programme should consider:

→ **The impact of individual projects:** This should be carried out along similar lines to that of grant projects.

→ **The MFI's management of ICRC funds:** This should be done on the basis of the above-mentioned ratios, looking at the MFI's performance over the life of the project, as well as improvement over time.

→ **The impact of ICRC involvement on the MFI's social mission:** This entails looking at the extent to which the ICRC's involvement has influenced the MFI's overall operations, including non-ICRC portfolios.

Objectives and indicators should be clearly communicated to the MFI at the start of the programme in order to ensure full transparency, particularly if the ICRC's donation of the revolving fund is contingent on the last two points, as is often the case.

KEY POINTS

- The most important step in the needs and feasibility assessment of a micro-credit support programme is understanding the specific reasons why the target population may not have access to appropriate lending schemes. These reasons may be varied and include lack of collateral, lack of social capital or overly bureaucratic procedures.
- Based on the specific obstacles identified, the ICRC can choose a range of potential interventions. The main challenge, however, lies in identifying an MFI best suited to a partnership with the ICRC.
- Partner MFIs should be chosen based on both their financial and their social performance.
- The ICRC's role generally consists in supporting the MFI through the loan of funds for certain programme extensions or adaptations and in ensuring that the MFI's social mission is thoroughly respected.

8.5 Other relevant documents

Comité d'Echanges, de Réflexion et d'Information sur les Systèmes d'Epargne-crédit (CERISE), *Audit of the Social Performance of Microfinance Institutions,* 2005

ICRC, Internal reviews of the micro-credit programme in Serbia, 2005 and 2007 (internal documents)

Doyle, K., *Microfinance in the Wake of Conflict: Challenges and Opportunities,* The SEEP Network, July 1998

Ledgerwood, J., The Microfinance Handbook: An Institutional and Financial Perspective, World Bank, 1998

9 MEIs AND AN INTEGRATED APPROACH

With interest in MEIs increasing both in Ecosec and elsewhere in the ICRC, there is growing demand for them to be integrated into the activities of other units, as illustrated in case study 8.

Case study 8: Northern Caucasus

In 2003, the ICRC launched an MEI programme targeting Chechen IDPs in Ingushetia and Daghestan, as well as vulnerable residents in Chechnya proper. While the beneficiaries were initially selected from the list of recipients of ICRC food assistance, the programme was expanded in 2008. In addition to a vocational training component that was introduced to further diversify the options for income-generating activities available to beneficiaries, the expanded programme would integrate its objectives with those of other ICRC units. Households with a breadwinner who is missing as a result of the conflict would be elligible, as would households with a disabled breadwinner.

A further component of the expanded programme was to address the economic vulnerability of the population living in areas affected by explosive remnants of war. The aim was to reduce the population's need to undertake risky behaviour because of economic pressures. Analysis of the incident data in the previous two years showed that the vast majority of incidents occurred because people had no choice but to enter dangerous areas to meet their survival needs. The ICRC therefore selected specific communities to assist on the basis of a joint assessment carried out by Ecosec and the weapon contamination unit. In addition to economic vulnerability, villages were selected on the basis of geographic location, mine incidence over the previous two years, and the numbers of incidents involving livestock or linked to professional activities. Through the MEI, the ICRC hopes to prevent new mine victims as well as to help existing ones.

While the trend towards an integrated approach is a positive development and constitutes one of the ICRC's main strengths vis-à-vis other organizations, the additional challenges posed by the need to serve equally the objectives of all the units concerned should, however, be kept in mind.

Some points worth considering in the most common integrated MEIs are:

- **Beneficiary selection:** While MEIs may target mainly beneficiaries referred to Ecosec by other units, such as the families of missing persons or patients of ICRC-supported physical rehabilitation centres, the final selection of beneficiaries must be carried out by Ecosec in accordance with its standard criteria of vulnerability, motivation, ability and resources. As Ecosec remains the unit accountable for the quality of MEIs, this point is non-negotiable. Thus, units with which MEIs are integrated have to be made aware that not all of the cases they refer to Ecosec will necessarily be approved for an MEI.
- **The bottom-up approach must be maintained:** Beneficiaries must choose the projects best suited to their needs, and the initiative for such projects must also come from them. In other words, beneficiaries must be informed of the existence of such a programme while being made to understand that their eligibility will depend on the quality of their application. Therefore, all beneficiaries must put in a project proposal even if the ICRC is convinced they meet its criteria.
- **Perceived vulnerability of the target population:** Limiting an MEI to a specific target group should be avoided, if its situation does not clearly put it at a disadvantage in terms of economic security. Clearly, if the breadwinner of a household is disabled or missing, that will hinder the household's productive capacities. Therefore, focusing an MEI on such a group can easily be justified. However, a family who has just been reunited with a missing child may not be at an obvious economic disadvantage. Therefore, limiting the programme to such a target group may be misperceived and may end up further marginalizing the family rather than helping it.
- **Size of the caseload:** If the potential caseload of an MEI is dependent on referrals from other units, careful consideration should be given to its eventual size to ensure that it justifies the resources needed to set up an MEI, and that it is manageable in light of the limitations of scale of such programmes.

- **Psychological aspects:** In addition to physical impediments to economic activity, some beneficiaries may have psychological difficulties linked to their predicament that may hinder their socio-economic rehabilitation. This may be the case for mine victims, as well as for the families of missing persons or other severely conflict-affected groups. Such considerations will also influence the appropriateness of an MEI for that group and should be taken into account in the needs and feasibility assessment whenever possible. This may require adding a few specific questions to the selection interview, elaborated in consultation with a local ICRC psychologist.
- **Support from the family:** While the ICRC's priority may be to support the productive capacities of a specific family member, such as a person with a disability, for a variety of reasons the rest of the household may not always be in favour of this option. Such situations can prove to be quite tricky to handle, as giving in to the family's requests may go against the specific objectives of the programme (e.g. the socio-economic reintegration of people with disabilities), while projects lacking the whole household's support are not likely to succeed.

The above list of additional considerations is in no way exhaustive and this portion of the handbook is likely to be updated as the ICRC gains more experience with integrated approaches.


Alan Meier/ICRC

SECTION III:

TOOLS FOR MEI IMPLEMENTATION

GUIDANCE SHEET 1:
CARRYING OUT A MARKET ASSESSMENT[29]

A good understanding of local markets is essential when deciding whether and how to implement an MEI. However, it is often overlooked because of the limited time and resources necessary and the lack of reliable information available to carry out an in-depth assessment. Nevertheless, there are means of obtaining a good understanding of market dynamics while focusing on practical considerations.

To determine the suitability of an MEI, a market assessment needs to be carried out to: (i) see whether markets are functioning or likely to recover quickly, and therefore whether people will be able to count on local markets to generate income; (ii) get a better understanding of the structure of the local market and more particularly the importance of the informal sector.

The aim of this guidance sheet is to provide a simple tool for programme staff who are not market specialists to use when called upon to help organize or carry out a market assessment. It outlines the questions that need to be tackled when assessing markets and the methods by which the required information can be collected.

29 Based on ICRC/International Federation, *International Red Cross and Red Crescent Movement: Guidelines for cash transfer programming*, 2007.

Key questions for a market assessment

Are the markets functioning?

Why you need to know: In a conflict-affected area, it is important to find out if and how markets have been disrupted and how vulnerable they are to further disruption.

How to find out:

1. **Map the markets:** Aim to map both the **location** of and **access** to markets. Ask traders and key informants to mark out:
   - What are or used to be the main markets
   - Roads and other infrastructure
   - Physical or political barriers that have disrupted trade flows
   - New sources of supply if those markets have been cut off

Ask them to indicate how access is affected seasonally, for example in the rainy season.

Ask how markets have been disrupted by the conflict. How have the normal supply areas been affected (e.g. by drought)? Have transport routes or storage facilities been damaged? Has the number of traders gone down? If normal sources of supply have been disrupted, have traders found new sources? If a particular market has been disrupted, are people using a different market?

2. **Constraints to trading:** These commonly apply to certain markets (especially in remote areas), even in "normal" times, and include the high costs of transport, the long distances and time taken, and taxes imposed on the movement of goods or on using the market. In areas of conflict, poor security will also affect how well markets function.

3. **The supply (or value) chain:** Drawing a supply chain is also useful in understanding how the market system normally functions and how that might have been affected by the crisis. A supply chain might include some or all of the actors shown in figure 7.

Figure 7: Sample supply chain

Producer → Inter-mediaries → Traders → Wholesalers → Retailers → Consumers

Supply chains do not have to be long or complicated. Even a basic idea of the supply chain, as shown in figure 7, can add a lot to the understanding of how the markets work and how they might be affected by a crisis. Comparing how the number of different actors, their links to one another and their margins have varied as a result of the crisis can often be very telling. The situation prior to and immediately after the conflict should be compared in order to assess the impact of the crisis on the market.

What is the importance and structure of the informal market?

Why you need to know: Most MEI beneficiaries will be operating in the informal market. In order to fine-tune programme design and adapt selection procedures, it is crucial to get an understanding of:

a. *The size of the market:* The percentage of households whose livelihoods depend on activities linked to the informal market.
b. *The diversity of activities supported by the informal market:* The range of professions present in the informal market and tolerated by the authorities.
c. *Crossover between the informal and formal markets:* These will generally include aspects such as: certain goods being produced in the informal market and sold on the formal market; people acquiring skills through work in the informal market before moving on to formal employment; and people accumulating earnings in the formal market and then reverting to the informal market to start their own businesses in order to avoid bureaucratic obstacles.
d. *The population segments most active in the informal market:* This entails looking at and understanding why the informal market may mainly employ certain segments of the population and whether work in the informal market is transient or of a more permanent nature.

How to find out: Gathering information on the informal market is tricky because the very nature of the activities makes the availability of any official information unlikely. The only option is to obtain such information through interviews or focus group discussions with representatives of social assistance programmes, the Ministry of Labour, chambers of commerce and entrepreneurs in both the formal and informal markets.

What are the main job market niches?

Why you need to know: In order to get an understanding of which project proposals can be readily supported and which ones merit a more in-depth analysis. This applies to all three types of MEI.

How to find out: Once again, through consultations with key stakeholders, such as chambers of commerce, cooperatives, the ILO and the national employment bureau. Other useful indicators are the most popular and successful projects supported by MFIs, as well as the training courses provided by local vocational training institutions. Lastly, the follow-up of pilot projects will uncover useful conclusions.

Are there government policies that restrict the movement of goods?

Why you need to know: If government policies restrict the movement of goods between different parts of the country or from outside the country, this may affect the ability of local markets to respond to an increase in demand or supply. Movement of goods may also be discouraged by particular taxes.

How to find out: During **interviews with traders**, ask about market regulation. Are there any government restrictions on where they can move goods? Do they face particular taxes on the purchase or movement of goods?

Is the market competitive?

Why you need to know: A market is not competitive if it is dominated by a few traders, who are therefore able to control prices. In such a market, the risk is that powerful traders could jeopardize the success of the programme, if they are not directly or indirectly included, or could push MEI beneficiaries out of business if they are competing for the same resources.

<u>How to find out</u>: During **interviews with traders**, check how many other traders there are, and of what size, in the market for their particular commodity. Ask about the main constraints and risks they face and whether this discourages other traders. Organizations (NGOs, businesses, National Societies) that have carried out tenders can provide an insight into the competitiveness of the market.

Are markets integrated?

<u>Why you need to know</u>: Markets can be functioning and even competitive, but weak linkages *between* markets can mean that it is not worthwhile for traders to make good a deficit in one market (usually indicated by relatively high prices) by moving commodities from another. This is particularly so in areas with poorly developed transport and information systems. If the cost of transporting the commodity between markets is high, the difference in price between one market and another has to be quite big before it becomes worthwhile for a trader to move that commodity.

Moreover, in a segmented market, goods will not be moved from one market to another even if the price differential *is* greater than the cost of transport. Other factors characteristic of poorly integrated markets may come into play, such as weak information systems, traders' unwillingness to work in remote areas and the risks involved in trading in such a market.

If markets are not integrated, surplus production by MEI beneficiaries will not be moved to other markets and is likely to bring down the sale price in the local area.

<u>How to find out</u>: Market integration is a difficult thing to analyse quickly and without market expertise. Sometimes the best you can do is simply to ask traders whether or not there is physical trade between markets and the extent to which they think markets are integrated.

Further analysis: (i) calculate the difference in prices between two markets; (ii) find out the cost of transporting goods between the markets and compare the two (if the price difference is much higher than the cost of transporting the commodity, the market is segmented and not well integrated); (iii) compare the prices of particular commodities in different markets over time (e.g. month by month over one or two years). Markets are not well integrated if prices in different markets do not move together over time and/or if there are big differences between prices in the different markets at any one time; (iv) ask market actors on what basis they set their prices and what means they use to obtain that information.

Methods used in market assessment

- **Market visits:** Observe how many retailers there are and what is being sold. Record prices and talk to retailers.
- **Semi-structured interviews with traders:**

Tips for interviewing traders

1. It is better to interview traders individually and in private (e.g. in the back room of the shop).
2. Arrange a time to meet outside of normal trading hours.
3. Traders are busy people. Explain clearly why you want the information: to help design effective and efficient assistance programmes that will not harm, and if possible will support, market activity.
4. Try and keep your interviews as concise and flowing as possible.

- **Semi-structured interviews with community-level key informants:** Key informants, such as community leaders, are usually able to give good information on trade flows in relation to the market the people use (e.g. where grain comes from or goes to), on seasonal price trends and even on what has happened to prices and trade following previous crises.
- **Graphing price data** to compare with trends prior to and during the conflict.
- **Focus group discussions** to cover certain topics in more depth by allowing informants to complement their respective answers.

GUIDANCE SHEET 2:
ASSESSING THE VIABILITY OF PROPOSED PROJECTS

Once the projects most likely to be requested have been identified on the basis of the needs and feasibility assessment, an analysis of expected expenditures, revenue and cash flow for each project should be carried out to assess the viability of each project and provide guidance for the design of the more standard projects. Following is an example of the cash flow analysis carried out for a project in Nepal.

Boris Heger/ICRC

Income and expenditure analysis for a rickshaw project in Nepal

Typical Income Generating Project (Service Sector): Tricycle Rickshaw Taxi

Description of the business opportunity

Tricycle rickshaw can be done by any strong man willing to engage in such an activity. It is
men do not own the tricycle, as it is a costly investment, but rent it at a price varying between
procure a tricycle, the beneficiary needs to negotiate with the seller reimbursement of the

Cash flow analysis:	Months			
	1	2	3	4
Capital expenses				
Purchase of a new rickshaw	11'000			
Registration number	700			
Total capital expenses	**11'700**			
Sale revenue				
Daily income NPR 95	2'375	2'375	2'375	1'900
Total revenue	**2'375**	**2'375**	**2'375**	**1'900**
Operational expenses				
Payment of NRP 1,700 in 5 monthly installments	340	340	340	340
Registration number				
Tax to municipality NRP 3/day	90	90	90	90
Puncture and other repairs NRP 25/week	100	100	100	100
Rickshaw quarterly maintenance (change bearings and chain support)				195
Total Operational Expenses	**530**	**530**	**530**	**725**
Revenue less operational expenses (free cash flow)	**1'845**	**1'845**	**1'845**	**1'175**

Comments on the cash flow

With ICRC assistance, a rickshaw taxi would provide an estimated cash flow of NPR 1,900/month
This figure covers approximately 36% of household expenditure for essential needs.

Goods to procure (by the ICRC and/or beneficiary)					
	Capital expenses goods to procure	**Unit**	**Price/ unit**	**Total ICRC**	**Total ben.**
1	Purchase of a new rickshaw			10'000	1'700
2	Registration number				
Total				**10'000**	**1'700**

	Capital expenses services to procure	**Unit**	**Price/ unit**	**Total ICRC**	**Total ben.**
1					
2					
Total					

tough work, particularly in summer when the thermometer rises above 40°C. Many rickshaw NPR 25 and 35. Since the capital investment is higher than the ceiling for ICRC assistance to balance in fixed installments. A tricycle provides a lasting lifeline for poor households.

Months								
5	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**Total**
				Dashain	Tihar			
								11'000
								700
								11'700
1'900	1'800	1'700	1'700	3'750	3'750	1'900	2'375	27'900
1'900	**1'800**	**1'700**	**1'700**	**3'750**	**3'750**	**1'900**	**2'375**	**27'900**
340								1'700
							35	35
90	90	90	90	90	90	90	90	1'080
100	100	100	100	100	100	100	100	1'200
		195			195			585
530	**190**	**385**	**190**	**190**	**385**	**190**	**225**	**4'600**
1'370	**1'610**	**1'315**	**1'510**	**3'560**	**3'365**	**1'710**	**2'150**	**23'300**
							Average monthly cash flow	**1'942**

during the first year to typical HH beneficiaries, which is a very good business opportunity. However, it is hard work to drive a tricycle rickshaw.

Assumptions for the cash flow analysis

As the beneficiary will receive a brand new rickshaw, he will be able to capture a good share of the market from day one. During Dashain and Tihar festivals, a higher income is expected as people visit relatives and friends in town. During the warmer months of the summer, he would work fewer days owing to the heat and water-borne diseases.

Social and geographic limitations/opportunities

Very poor people from any social group pull rickshaws as it is extremely exhausting labour. Rickshaws are used only in urban areas in the Terai.

The cash flow and profitability analysis should focus on:

- → The time and value of inputs required before the project becomes profitable.
- → The return on investment of the project from a beneficiary and an ICRC perspective.
- → The extent to which different factors influence the overall viability of a project, such as the household's immediate needs competing with the need to reinvest some earnings in the project.

In addition to determining which projects should be considered and what inputs would need to be provided by the ICRC, a cash flow analysis will also help identify the questions field officers should be asking applicants in order to determine whether the preconditions for a project exist.

This exercise is particularly important for livestock- and agro-related projects as they often require several months before generating an output, and the project design should enable the beneficiary to sustain the project during that period.

Let us assume, for instance, that sheep-rearing is the most commonly requested project in the area where the ICRC is about to launch a productive grants programme. Following discussions with farmers, suppliers, veterinarians, the Ministry of Agriculture and members of the faculty of agriculture, it is concluded that the provision of three pregnant sheep will allow for a self-sustaining project that will yield US$ 1,000 a year. Financial projections, however, make it clear that such a project will only start yielding a profit six months after the provision of the sheep, provided that the lambs are not sold until they have been fattened for four months and that the beneficiaries are able to sell the milk on the local market. Furthermore, the beneficiaries will have to invest US$ 400 over the first six months to cover the cost of feed and veterinary expenses without any output from the project during that period.

By focusing solely on the yearly profitability of the project, it would be tempting to distribute three sheep on their own to any vulnerable beneficiary showing motivation and with the necessary shelter to keep the sheep. The findings from the financial projections, however, reveal that:

a. If assisting a vulnerable household, the sheep should be distributed with a significant amount of feed, as the household will most likely otherwise be unable to finance the costs of the project until it becomes profitable.
b. Sheep projects should not be given to beneficiaries who do not have the possibility of selling the milk on the local market. This aspect should therefore be checked by field staff during selection interviews.
c. Veterinary support for the programme should be considered to cut down the beneficiary's costs and to regularly monitor the project. They should also remind beneficiaries of the importance of fattening the lambs for at least four months so that they are not tempted to collect their earnings beforehand. This is a key point, as many such projects prove to be more profitable if the beneficiary is capable of withholding the sale of outputs for a given period of time, which may go against the immediate interests of many assisted households.

On the basis of the cash flow analysis, kits are generally devised for the more standard projects. It is crucial that the elaboration of such kits does not hinder the bottom-up process, however. It is simply meant to standardize the specific items to be provided by the ICRC for certain categories of projects, keeping in mind that most of the craft projects will remain very flexible.

Following is an example of the list of project kits approved in the Northern Caucasus. Any projects requested by beneficiaries that were not included in this list would require a more in-depth analysis before being approved.

List of approved kits for the Northern Caucasus

Project type	Preconditions	Inputs	Duration in months	External support
Greenhouse	Irrigation, land, basic activities	Greenhouse structure, seed, seedlings, fertilizer, plant protection, irrigation	9	Agronomist
Open field production	Irrigation, land, basic activities	Seed, fertilizer, plant protection, fuel	7	Agronomist
Tractor add-ons	Land, basic activities	Plough or harrow or trailer, etc.	4	Monitor
Piglet fattening	Barn, basic food, water, knowledge	3 male and 2 female piglets of 30 kg each, 1,100 kg feed	4	Veterinarian
Sow in gestation	Barn, basic food, water, knowledge	1–2 sows with feed for sows, starter and grower for first batch of pigs	6	Veterinarian
Chicken egg-laying	Barn, basic food, water, knowledge	60 chickens, 18 weeks old, feed for four months, sometimes cages	4	Veterinarian
Chicken fattening	Barn, basic food, water, knowledge	2 x (150) one-day-old broilers with feed for fattening	4	Veterinarian
Cow/heifer – for milking and breeding	Barn, pasture, hay, water, knowledge	1 animal which may vary in age, quality, weight (depending on the situation), conditions, price and vulnerability	4–9	Veterinarian
Calf for fattening	Barn, pasture, hay, water, knowledge	2–3 calves for fattening, depending on price	6	Veterinarian
Horse (working, carrying)	Barn, pasture, hay, water, need for transport, etc.	1 horse, 2–3 years old, for pulling and/or carrying	4	Monitor
Sheep for milk, lambs	Barn, pasture, hay, water, knowledge	4–10 sheep depending on the situation, conditions, price and vulnerability	4–6	Veterinarian
Ram for breeding	Barn, pasture, hay, water, sheep	1 ram for breeding of existing sheep	4	Veterinarian
Crafts and services	Basic activity, space, market	Various semi-defined sets of tools required for different craftspeople or services such as: plumbers, carpenters, masons, locksmiths, lumberjacks, fishermen, hairdressers, tailors, etc.	4	Monitor

GUIDANCE SHEET 3: SELECTION INTERVIEWS

The selection interview is by far the most crucial and delicate step of the entire implementation process. Time should therefore be invested in designing and adapting the necessary tools and in training field staff in household interview techniques. The following guidance sheet focuses mainly on how to assess applicants' vulnerability and business plan. Bear in mind that the quality of the business plan is generally a good indication of the beneficiary's knowledge and motivation.

Vulnerability assessment

While economic vulnerability is often believed to be best assessed through the analysis of a household's expenses, revenue and debt, in practice this approach quickly gives rise to many challenges. On the one hand, expenses and revenue often vary significantly over time, leaving field staff trying to estimate the average unreliably. On the other hand, the quality of the findings are largely contingent on the beneficiary's willingness to share the required information.

That is not to say that such an analysis should be discarded altogether, but that it may not prove to be the most efficient or effective approach on its own.

For this reason, the first step in a household vulnerability assessment is generally taken using an asset-based approach, whereby a household's vulnerability is assessed according to its living conditions and belongings. The choice of indicators can include furniture, availability of electricity and access to water and heating and should be adapted to the context. Indicators and vulnerability benchmarks should be defined in a participatory manner with community representatives. The goal in identifying vulnerability benchmarks is to determine what set of criteria clearly distinguishes the poorest of the poor from those who may be considered the "middle poor", and the middle poor from those who may be "better off". Such criteria may be visible – e.g. ownership of a functioning vehicle or several cows – but can also be less visible (e.g. ownership of land, support from relatives living abroad, etc.). The advantages[30] of this approach are its speed – as many of the variables used can be observed – and to a certain extent its precision, because assets do not fluctuate as much as income does over time and information is easier to obtain and verify through observation or other sources.

30 It should be stressed that the relevance of the asset-based approach is contingent on people owning a variety of assets and is therefore not necessarily appropriate for all contexts.

Indicators and benchmarks used in the Northern Caucasus asset-based vulnerability assessment

Furniture/toys
0 – Insufficient, basic, simple, old, unpaired, maybe old rugs, some important parts missing, no decorative items, no toys
1 – Modest but functional, all necessary parts available, carpets and some pictures, some decorative items and some inexpensive toys – nothing outstanding
2 – Good furniture, carpets, paintings, toys, etc.

Repairs
0 – House quite ruined without visible repairs (paint, wallpaper, masonry, carpentry, roof, bathroom, etc.). Windows: old, missing or covered with plastic sheeting; roof, doors, gates, locks old and bad
1 – Modest but with visible repairs (partially or fully from above)
2 – Normal looking house, painted, normal carpentry, masonry, gates, doors, windows

Electricity
0 – No electricity
1 – Electricity lines illegally connected – no meter, low amperage and voltage, not appropriate for more than a light and maybe cooking
2 – Normal electrical line

Gas
0 – communal line available but no connection in the house
1 – No communal line available and/or illegal connection in the house
2 – Gas connected and used

Water
0 – No water except from the well (without electric pump)
1 – Water tap available – one source outside the dwelling – collective or individual – communal or from the well with electric pump
2 – Normal communal water or pumping system connected in the dwelling

Sewage
0 – No sewage
1 – Collective sewage system – outside the dwelling or partial sewage
2 – Normal sewage system – in kitchen, toilet and bathroom

Kitchen
0 – No kitchen, kitchen in the room, only a wood stove
1 – Partially equipped kitchen in bad condition – just enough to call it so
2 – Normal kitchen with all required appliances

0 very vulnerable, 1 vulnerable, 2 not vulnerable
On the basis of the above indicators and benchmarks, the economic vulnerability of a household can be assessed using the following table on the selection interview form:

Grading scheme used in Northern Caucasus asset-based vulnerability assessment

A & B	C & D	E & F	G & H	I & J	K & L	M & N	O & P	Q & R	S & T	U & V	W & X
Furniture and repairs	Electricity and gas	Water and sewage	Kitchen and bathroom	Toilet and heating	Stove and fridge	Freezer and laundry	TV set and video/DVD player	Car/truck and tractor	Arable land and livestock	Clothes and hygiene	Medicine and addictions
0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0
1 1	1 1	1 1	1 1	1 1	1 1	1 1	1 1	1 1	1 1	1 1	1 1
2 2	2 2	2 2	2 2	2 2	2 2	2 2	2 2	2 2	2 2	2 2	2 2

If a household meets this first broad set of criteria, the necessary time is invested in collecting information on income and expenditures to see whether the second set of criteria are met. This two-tiered system makes for a better vulnerability assessment and helps field staff avoid wasting time conducting in-depth interviews with households that clearly do not qualify.

Household (HH) economy (Sum in RUR for all family members/month):				**Assistance from others**			
Expenditures total (RUR)		**Income total (RUR)**		**Sort of assistance**		**Providers**	
Food		Salaries		Food		WFP	
Water/gas/ electricity		Daily labour		Non-food		FAO	
Firewood		Existing business		MEP		HELP	
Rent/housing		Income from agriculture		Shelter		ACF	
House repairs		Other income		CFW		IRC	
Clothing/footwear		Remittances (family)		FFW		DRC	
Medicine/health		Humanitarian assistance		Training		SDC	
Hygiene		Pensions		Legal		World Vision	
Transportation		Child allowances		Other		Other	
School/education		Other State allowances					
Phone fixed/mobile		Specify number of HH members working in:	**a)** state administration				
Other expenditures			**b)** security structures				
State the professions of key HH members (working or able to work):							
Calculated difference between income and expenditures (RUR)							
If HH has debts/credits, specify how much (RUR)							
Monitor feels that the answers were honest and the above information is reliable						**YES**	**NO**

A particular advantage of using this approach is that an identical tool can be used during the outcome evaluation to quickly assess whether the project has had any significant impact on the household's assets and income and on its consumption patterns.

Evaluation of the business plan

The quality of a business plan can be assessed according to a variety of factors. The following are the most common:

Profitability and viability: These are assessed on the basis of the cash flow analysis mentioned in guidance sheet 2. Furthermore, when analysing the profitability of a beneficiary's project proposal that would qualify as a micro-enterprise rather than an income-generating activity,[31] a profit and loss statement should be filled out with the beneficiary along the following lines:

Items to be included in a profit and loss statement

IN Income	OUT Expenditures
Sale of goods	Purchases of goods and consumables
Sale of services:	fuel, electricity, fertilizers
salaries and incentives received	Purchases of services:
Other sources of income:	payment of salaries, insurances
Interests (cash/kind)	Payment of taxes (cash/kind)
Borrowing (cash/kind)	Reimbursement of loans (cash/kind)
Gifts	Payments of interests
In kind contributions received	Amortizations costs
	Comsumption in kind of goods
	and services
	Other opportunities of expenditures
(Loss)	Profit
1'000 USD	**1'000 USD**

31 See chapter 2 for more detail.

Productivity and time availability: On the basis of the assessment of the project's profitability, the return on time investment of the project should be compared with the household's other income-generating activities. If it is inferior to other activities, the reasons for investing in such a project should be closely scrutinized. Similarly, the household's time availability should be looked at closely for projects requiring a significant and systematic time investment. This analysis should include the time needed to maintain other income-generating activities, as well as to perform social obligations.

The 4 Ps: Product, price, place and promotion are generally the four items used to assess a business's marketing strategy.

Product: This entails looking at the specifications of the proposed goods or services vis-à-vis competing products and the extent to which they meet potential customers' needs.

Pricing: This refers to the process of setting a price for a product or services. More specifically, how does the price compare with the rest of the market and the purchasing power of potential customers?

Promotion: This refers to the various methods of promoting the product and includes advertising, sales promotion, publicity and personal selling. In other words, how will beneficiaries starting a new business thanks to an MEI be able to get the attention of potential customers?

Place: This requires looking at how the product gets to the customer. For example, will it be sold from a market stall, door to door or on the street near strategically chosen locations?

In addition to covering key aspects of any business plan, analysis of the 4 Ps is important to ascertain what are realistic projections in terms of quantities that can be sold, which in turn will feed into the profitability analysis.

Value chain analysis: This consists in looking at the added value of each of the different activities in a supply chain in order to assess how the activity of a designated project compares to other activities in a supply chain. For example, how much money does the milk producer make compared with the cheese maker or the dairy product seller in the market. Explanation of the reasons for choosing a specific project (e.g. high demand, lack of skills, etc.) should be sought, if the designated activity is not among the activities with the most added value in the given supply chain.

Risk analysis: This consists in identifying the main risks associated with certain projects, the likelihood of them occurring, their potential impact and the ways foreseen to mitigate them. Obviously, projects with unreasonably high risk of failure should not be supported if the means of mitigating the risk have not been identified.

Barriers to entry and growth prospects: Barriers to entry refer to obstacles or disincentives to starting a new business within a specific market. Common examples include lack of skills, lack of capital, relations with suppliers, etc. It is important to identify them, as the beneficiaries will have to show their ability to overcome them for a project to be deemed appropriate. They also serve to protect beneficiaries from other people copying their projects and stealing part of their market.

GUIDANCE SHEET 4:
MEI DATABASE

Because of the complexity of programme follow-up compared with that of standard relief operations, the use of a database that tracks the evolution of each project through the programme cycle and streamlines procedures is key and even more so as the programme grows in scale.

Small-scale programmes can be initiated by using a simple spreadsheet, but once they start targeting several hundred households, a more dynamic system is necessary. A standard MEI database has been developed and used in the Balkans and the Caucasus and could be adapted, if need be, to other contexts where large-scale programmes are under way. Following are some of the main tasks performed by the database:

- listing the details of people who have already applied for a project
- listing the details of people who have been approved for a project
- listing the type of project that has been requested by each beneficiary
- listing the specific items that have been provided by the ICRC
- listing the cost of each project
- tracking at which stage of the programme cycle each project is at
- storing and handling monitoring information
- storing and handling outcome evaluation information
- planning programme activities per area
- tracking programme activities per office or field staff member

In addition to smoothing procedures and allowing for proper safety checks and controls, by cross-referencing the above-mentioned data the database provides the programme manager with an analytical overview of the programme.

Following are examples of information generated from cross-referencing data, which has proven instrumental in adapting programmes:

Evolution of the diversity of projects in Northern Caucasus

Count of P group	Admin Year				
P group	2004	2005	2006	2007	Total
Food Processing, Preparation and Serving	50%	31%	28%	22%	**26%**
Livestock – Large Cattle	0%%	19%	31%	15%	**22%**
Sewing – Weaving – Knitting	0%	23%	10%	14%	**13%**
Livestock – Ruminants, Small Animals	0%	0%	16%	8%	**11%**
Services	0%	0%	4%	6%	**5%**
Trade – Retail	0%	0%	2%	7%	**4%**
Carpentry – Upholstery – Assemblage	0%	4%	3%	5%	**4%**
Metal Works	50%	4%	1%	6%	**4%**
Auto Repairs and Services	0%	8%	1%	4%	**3%**
Masonry – Plastery – Painting – Flooring	0%	4%	1%	4%	**3%**
Greenhause Production	0%	0%	0%	5%	**2%**
Other Profession	0%	0%	0%	2%	**1%**
Cosmetics, Hairstyling, Massage, Therapies	0%	4%	1%	1%	**1%**
Trade – Wholesale	0%	0%	0%	0%	**0%**
Livestock – Beekeeping	0%	0%	0%	1%	**0%**
Arts	0%	4%	0%	0%	**0%**
Plumbing	0%	0%	0%	0%	**0%**
Handicrafts	0%	0%	0%	0%	**0%**
Combination – Craft & Trade	0%	0%	0%	0%	**0%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Problems faced by beneficiaries during programme implementation

		AoR			
Problems during implementation	**Data**	**GRO**	**KVA**	**NAR**	**Grand Total**
Other	#	55	11	21	**87**
	%	23%	24%	18%	**22%**
Illness of HH members	#	35	10	33	**78**
	%	15%	22%	28%	**20%**
Purchase of raw inputs	#	51	4	11	**66**
	%	21%	9%	9%	**17%**
Weather conditions	#	37	13	15	**65**
	%	16%	29%	13%	**16%**
With MEI location	#	21	3	13	**37**
	%	9%	7%	11%	**9%**
Market / Sale related	#	19	4	4	**27**
	%	8%	9%	3%	**7%**
Quality of items received	#	11		11	**22**
	%	5%	0%	9%	**6%**
High Debts	#	4		6	**10**
	%	2%	0%	5%	**3%**
Production related	#	5		1	**6**
	%	2%	0%	1%	**2%**
Lack of skills / Knowledge	#			1	**1**
	%	0%	0%	1%	**0%**
Second (other) job	#			1	**1**
	%	0%	0%	1%	**0%**
	Total #	238	45	117	**440**
	Total %	100%	100%	100%	**100%**

GUIDANCE SHEET 5: PROCUREMENT GUIDELINES FOR MEI PROGRAMMES

The procurement of goods and services represents one of the key steps in the programme cycle, as the quality of items provided by the ICRC can greatly impact on the success of individual projects, and the speed at which they are purchased will influence the programme's potential scale. A variety of options exist for the procurement of goods. These include: the ICRC purchases the items directly; a National Society or implementing partner is responsible for the procurement of goods; or beneficiaries purchase the items themselves through a cash assistance or voucher programme.

While the last option is preferable, ICRC experience has shown that it is not always possible, mainly for security reasons or because of local perceptions of ICRC activities.[32] The implications of each of the above-mentioned options are covered below.

I. The ICRC purchases the services and items and distributes them to beneficiaries

This is clearly the most procedurally heavy option, but also often the safest, most transparent, and easiest to provide appropriate reporting for. The key is to ensure proper coordination between the logistics division and Ecosec and to find mechanisms to streamline procedures.

Following is an overview of some of the main steps:

32 For more detail on the advantages and limits of cash assistance, see ICRC/International Federation, *International Red Cross and Red Crescent Movement: Guidelines for cash transfer programming*, 2007.

Categorizing items and maintaining a standard list and catalogues

While there are potentially hundreds of different items that can be requested by beneficiaries, they will generally fit into three main categories for purchasing purposes:

Category A: Frequently ordered items with fixed specifications, allowing stockpiling, if possible, or at least pre-identification of supplier, advance tenders, fixed prices and normally faster delivery. All such items should be centralized and purchased by the delegation's logistics unit.

Category B: Less frequently ordered items for which specifications are clear or items with significant seasonal price variations, not enabling pre-identification of supplier and advance tenders. For such items, ad hoc purchase is conducted with or without tender under the logistics division's responsibility, which may be delegated to Field Offices according to the ICRC's Financial Rules and market possibilities (see below on decentralizing purchases).

Category C: Fully ad hoc items, such as second-hand machines or very specific and exceptional items, for which specifications cannot be known in advance. Ad hoc purchase will always be conducted with or without tender and by the logistics division or the field offices according to the Financial Rules and market availability. To facilitate the procurement of such items, the RO should be accompanied by a *pro forma* invoice provided by the beneficiary, in order to identify the specifications or model and at least one supplier.

During the first year of the programme, it may be difficult to predict the types of items that will be requested. The following list of items most requested in the past may be helpful, however, in feeding into initial discussions with the logistics division, including verifying that codes for these items exists in logistics item databases.

Cages for egg-laying chickens	PC pentium 4 + 17" monitor
Cages for hares/rabbits	Piglets, f1 for fattening
Calf, domestic Simmental	Plane, 710w
Chickens, egg-laying	Plastic welder-heater-connector for pvc plumbing tubes
Chickens for fattening	popcorn machine, electric, 220 v, on wheels, portable
Compressed implement: paint puffing gun – for painting	Printer for PC
Compressor small, 24 l	Ram, Wirtemberg
Cow, domestic Simmental, in milking, 3- to 4-year-old	Refrigerator for food, Atlant
Cow, low breed, in milking, 3- to 4-year-old	Refrigerator, vertical, transparent doors, for shops, 220 v, app 300 + l
Drill, cordless, electric 12v	Router, line straight, 670 w
Drill, hammer, 2 kg	Rug/carpet-washing machine & vacuum cleaner, with adapter for upholstery
Drill, hammer, 4 kg	Sander for floor polishing: Novatec co-206.1, 220 v
Drill, table mounted, >1200 w, vertical	Sander, belt
Drill, vibro, 1060 w	Saw, chain, electric
Drill, vibro, 800 w	Saw, chain, motor
Drip irrigation system for a 5 m x 20 m greenhouse	Saw, circular
Electric cable, on roller, portable, 50 m, with electric plug-in, 12 a	Saw, circular, with table stand.
Finishing sander	Saw, sting
Goat, female	Scale, electronic for grocery shops
Greenhouse structure, simple 100 m2	Scissors electric, for metal plates
Grill, electric, 220 v	Scissors for tin plates, manual straight
Grinder, angular, 125 mm	Scissors, for tin plates, left, 280 mm
Grinder, angular, 230 mm, 2 kw: Makita 9069	Scissors, for tin plates, right, 280 mm

Hairdresser – chair for women, with hydraulics	Seed set - standard 100
Hairdresser – chair for women, without hydraulics	Seedling set for 1 x 100sqm
Hairdresser – wash sink	Sewing machine, ending, 3 threads, 220 v
Hairdresser set (26 items) for women	Sewing machine, seaming, 11+ prog. 220 v
Hairdresser's chair for women/men, with ceramic wash sink and water tap	Sewing machine, seaming, 25+ prog. 220 v
Hairdresser – fan w. table stance	Sewing machine, seaming, industrial, for leather
Hairdresser – hair press for curly hair	Sheep recog. domestic
Hairdresser – hair trimmer, electric, 15w	Sheep recog. domestic app 50 kg
Hairdresser – hairdryer hood, portable	Socket wrench set 108 pcs w. torque adjustment ratchet (socket, slotted, philips, pozi, etc.)
Hairdresser's scissors, for haircutting	Sow in gestation
Hairdresser's scissors, thinning	Sprayer, for paint, scrub
Heifer, domestic Simmental – in gestation	Stapler, electric
Hoist, chain, pulley	Steam iron, standard
Hydraulic jack, 2 t, in plastic case	Stove, electric, with oven, 220v
Ironing board	Stove, gas operated, gefest pno 4g 1100
Ladder, 2 m, "a-type"	Vice spanner
Laundry washing machine, 220 w, automatic, 6kg	Vice with table mount
Meat grinder, 1300 w, 220 v	Welder, co^2, 160 a, (mig)
Mixer for concrete, 130 l, 220 v	Welder, transformer 160/180
Mixer for concrete, 250 l, 380 v	Welder, transformer 160/210
Mixer for dough, 3–5 kg	Welding & working, safety accessories
Multimetre, digital, 0.5-10 a, 1-10 ohm, 0.5-1000 v	Wheelbarrow

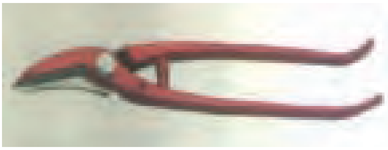
It should be noted that many of these items, particularly livestock (and the necessary fodder), may have to be adapted to the local context.

An item catalogue is also a useful way to ensure maximum clarity with regard to the specifications of each item:

Example of item catalogue used in the Balkans

Item no. 0623.
Pliers nail pull, 180 mm

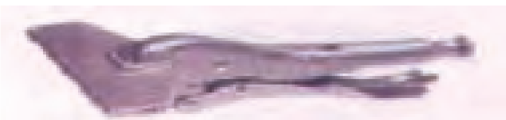
Item no. 0624.
Pliers wire cut, 900 mm



Item no. 0630-0631.
Scissors for tin plates,
left & right, 280 mm

Item no. 0626.
Pliers rivet gun

Item no. 0629.
Pliers, Swedish, 2



Item no. 643.
Vice/grip pliers

Grouping requisition orders

Per category: Realistic timeframes for each type of item should be agreed upon and orders grouped by category, with generally one RO for category A and an additional RO for categories B and C.

Per month: In order to make the handling of ROs and the grouping of purchases as simple as possible, Ecosec and the logistics division should agree on the provision of a single RO per month, with a fixed cut-off date.

Decentralizing purchases

Certain lower-value B and C category items will be easier to purchase at the field office level. The option of decentralizing purchases for certain items should therefore be considered, with the logistics unit nevertheless being responsible for the final decision as to who purchases what.

Establishing and formalizing strong communication channels:

There is a need for a very strong, systematic and formalized communication flow, whether it be on the definition of item specifications (whereby the logistics division and Ecosec pool their needs analysis and market knowledge to agree on a realistic item definition), on the announcement of incoming needs and orders, on the follow-up of pending orders or on financial follow-up. Typically, Ecosec and logistics would assign staff to the follow-up of the standard list, orders, budgets, etc. and set up regular follow-up meetings with common tools (e.g. a follow-up sheet on the shared server), agendas and minutes of meetings.

II. Beneficiaries provided with vouchers

This approach is foreseeable in a context where the most common items can be found in local hardware stores. By tendering a basket of the most common goods, the logistics division can select the best shops with which to establish partnerships. The voucher system then works along similar lines to that of food vouchers, with monitoring visits used to check whether beneficiaries have indeed purchased the items needed for the income-generating activity they had committed to.

For verification purposes, shops should be requested to keep a receipt of the items purchased for each beneficiary.

III. Beneficiaries provided with cash to purchase items

Ideally one of two approaches should be adopted:

1. A fixed cash amount is provided regardless of the type of income-generating activity. In such a case, the cash disbursement becomes simply an administrative issue, and the logistics division is not involved in the process as such. Programme auditing and accountability rely exclusively on Ecosec's beneficiary selection and follow-up procedures.

2. The amount of cash provided to the beneficiaries varies according to the type of project. In this case, the logistics division should still be involved in providing benchmarks for requested items.

GUIDANCE SHEET 6: TOPICS TO BE COVERED IN MICRO-ENTERPRISE MANAGEMENT COACHING

When considering developing or outsourcing a coaching module on micro-enterprise management, try to ensure that at least all of the following topics and points are touched upon:

I. How to identify good ideas for income generation[33]

A business idea can be an item to produce and sell, the resale of purchased items or the sale of services. To identify potential business ideas, do the following:

- → Consider how your skills can be used or improved to produce goods (not necessarily artisan skills but also more general skills such as cooking, gardening, sewing, knitting, animal raising, etc.).
- → Detect unmet needs: What would people like to buy locally that no one sells? What goods are in short supply at certain times of the year? What things do neighbouring communities lack?
- → Use local raw materials: These can be materials you grow yourself or can purchase cheaply, things you can gather or harvest, things you can salvage, or industrial or agricultural by-products you can purchase cheaply. Once you identify cheap raw materials, think how they can be processed.

33 Adapted from Lassen Associates, *Facts for Economic Life*, 1997.

II. How to analyse the feasibility of business ideas

- Can I produce it? Does it fit in with my family situation?
- To whom/where/and how much can I sell?
- How much will it cost? What I can sell it for? What is my mark-up?
- Will it earn enough?

III. How to carry out a market assessment[34]

- The customers buying your products
- The suppliers from which you get input for your activity.
- Competitors offering similar products to the same type of customers.
- The regulating entities, such as the government, tax authorities, etc.
- Other actors who should be considered.
- The different market segments, with each segment representing buyers with specific characteristics.
- Where do buyers make their purchases?
- How do buyers and sellers communicate in this market?

1. Assessing market demand

- What products are bought by customers of specific market segments?
- What product characteristics (feature and quality) do the clients require?
- What price for a product with a certain characteristic are the customers prepared to pay?

2. SWOT

- Compared with your competitors, what strengths do you have in respect of this project?
- Compared with your competitors, what weaknesses do you have in respect of this project?
- What opportunities exist in the business environment that will increase the chances of success?
- What threats exist in the business environment that could impede the success of your business idea?

34 International Federation, *Income-generating Projects: Guidelines on how to get started*, 2001.

IV. How to design a strategy to increase income and create stable employment

- Identify various ways to earn: In addition to the core business, what small things can you sell with the changing seasons? What can you sell on special occasions?
- Identify how income activities can be combined to reinforce one another? Which related activities utilize the same tools, skills and market? What additional things would your customer want to buy?

V. How to develop a selling advantage

- Differentiate the product.
- Go where there is consumer traffic.
- Diversify your products and locations by season.
- Make prices attractive.
- Ensure good presentation.
- Do not be afraid to sell things in a different way from others.
- Have sales promotions.
- Be attentive, helpful and pleasant to customers.
- Be a price maker not a price taker.

VI. How to identify means of adding further value

- Process your product.
- Add packaging or labelling.
- Sell in appropriate sizes and attractive prices.
- Package complementary things together.
- Grade agricultural products: do not mix produce of markedly different size and quality.
- Filter and clean products well: present as having high quality.

VII. How to manage your cash

- Monitor costs, revenue and profit.
- Pay yourself a wage and build up a working capital.
- Apply cost-saving measures.

VIII. How to reach higher value markets

→ Improve quality, design and packaging of product.
→ Sell to richer customers in the area.
→ Sell in markets beyond the locality.
→ Join or create a cooperative.

More guidance on the above-mentioned points can be found in:

International Federation, *Income-generating Projects, Guidelines on how to get started*, 2001
Lassen Associates, *Facts for Economic Life*, 1997

GUIDANCE SHEET 7:
TOPICS FOR ASSESSING THE SOCIAL PERFORMANCE OF MFIS

Following is an outline of the main factors and indicators to consider when assessing the social performance of an MFI. The outline is based on guidelines developed by CERISE.[35] The guidelines are divided into four main topics: outreach to the poor and the excluded; adaptation of services and products to the target clients; improvement of clients' social and political capital; and the social responsibility of the MFI.

I. Outreach to the poor and the excluded

- Does the MFI select areas in which to operate based on poverty and exclusion (poor urban and remote rural)?
- If yes, how does the MFI carry out socio-economic studies to identify poor areas?
- Does the MFI use objective indicators (illiteracy, farm size, etc.) and participatory wealth ranking to improve the depth of its outreach?
- Does the MFI agree to provide loans secured only by social collateral (solidarity groups, third party recommendations, low commercial guarantees)?
- Does the MFI develop specific policies or methodologies to reach remote areas or to facilitate access for an excluded population or poor clients? (e.g. Banco de Opportunidad)
- Distribution of loan size (less than 30% of GDP/C)
- Minimum instalment rates
- Minimum amounts in savings account
- % of branches located in areas where there is no other MFI or bank
- % of women borrowers
- % of clients among the very poor
- % of start-up loans
- % of new loan beneficiaries

35 CERISE, *Audit of the Social Performance of Microfinance Institutions*, 2005.

II. Adaptation of services and products to the target clients

- → How many different types of loan product does the MFI provide?
- → Does the MFI provide social emergency loans?
- → What is the flexibility of the repayment for the clients (MFI proposes different formulas, schedule is decided with the clients)?
- → Are loan officers leaving the MFI's premises to visit their clients for financial transactions?
- → Are opening hours in line with the needs of the most vulnerable?
- → How many market surveys has the MFI carried out to improve the quality of its services to clients?
- → Does the MFI know the reasons why clients dropped out or are inactive?
- → Does the MFI have a specific and proactive strategy to associate non-financial services with financial services for clients (business training, literacy, health services)?

III. Improvement of client's social and political capital

- → Do clients have access to the MFI's financial statements?
- → % of growth in terms of voluntary savings
- → Are there client representatives and do they participate in the decision-making process?
- → If so, how are they selected?
- → Is there a network of clients to share and resolve some of the client's problems beyond access to financial services?

IV. Social responsibility of the MFI

- → How does the MFI manage its own staff (benefits, transparency, training and empowerment)?
- → Has the MFI ever conducted studies to assess the social and economic impact of the services it provides (selection process, pressure on repayment, impact on social links within the family for loans to women, etc.)?
- → Does the MFI provide some type of insurance that frees the family from the burden of debt in case of the death of the borrower?

- → Does the MFI have a specific policy regarding activities financed by individual loans that have a high social value for the local community (finance projects that may seem risky but are innovative and have a positive social impact)?
- → How often has the MFI assisted the local community through financial support for community projects?

Notes

Notes

MISSION

The International Committee of the Red Cross (ICRC) is an impartial, neutral and independent organization whose exclusively humanitarian mission is to protect the lives and dignity of victims of armed conflict and other situations of violence and to provide them with assistance.

The ICRC also endeavours to prevent suffering by promoting and strengthening humanitarian law and universal humanitarian principles.

Established in 1863, the ICRC is at the origin of the Geneva Conventions and the International Red Cross and Red Crescent Movement. It directs and coordinates the international activities conducted by the Movement in armed conflicts and other situations of violence.



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