



MICROECONOMIC INITIATIVES

HANDBOOK



ICRC



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Sébastien Chessex



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GLOSSARY

Cash flow. The amount of cash generated and used by a household during a specific 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, in accordance with 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.

Livelihood. The sum of the means by which households/communities obtain and maintain access to the resources (or assets) necessary to ensure their immediate and long-term essential needs.

Livelihood support. Any intervention aimed at supporting the livelihoods of households or communities. Examples of such interventions range from the provision of vocational training, microcredit and cash grants to the distribution of seeds and livestock.

Loan. A transaction in which a lender gives a borrower money or property 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.

Microfinance. The provision of financial services (generally credit for working capital and sometimes savings and insurance schemes) for low-income clients who have no access to credit from banks or other traditional sources.

Microcredit. The provision of loans (often of a short term nature) for low-income clients who have no access to formal financial services and only limited resources that could be used as collateral.

Market. An organized exchange between buyers and sellers of goods or services.

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 minus expenses, whereby total earnings represent the revenue earned through the sale of goods and services over a given period and expenses include the cost of goods sold as well as fixed and variable operating expenses.

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

Productive grant. Donation (free of charge, with no return expected) of inputs to a beneficiary in the anticipation that the inputs will help the beneficiary achieve higher income from an economic activity.

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

Revenue. The 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.

Residual income. The amount left over when the cost of an individual's consumer expenditure is subtracted from the amount of disposable income that he or she earns in a given period.

Savings. The amount of money set aside, especially in a bank, over 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.

Vouchers. Vouchers are used to provide access to a range of goods or services at recognized retail outlets or service centres. When used for food (i.e. for food assistance), they provide access to commodities at a predefined "price" or of a predefined quantity. The terms vouchers, stamps, coupons or "near cash transfers" are often used interchangeably.

INTRODUCTION

What are microeconomic initiatives?

Microeconomic 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 beneficiary¹ is involved in identifying and designing the assistance to be received. This approach contrasts with other production interventions (livelihood support), such as those of an agricultural nature, whereby an assistance kit with identical inputs is developed and distributed to all intended beneficiaries.

For the most part, an MEI consists of one or a combination of three interventions: vocational training, productive grants and microcredit support. The aim of all three is to support income-generating activities ranging from agriculture and livestock-rearing to trade and crafts. While part of the benefits of an MEI may include the production of goods to be consumed by the beneficiary, the primary purpose of MEIs is to support the generation of a cash income.

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 increase in respect for the beneficiary's dignity and greater ownership

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

of the income-generating project by the beneficiary. This not only ensures that outputs are sustainable but also that the project has a strong psychosocial impact. 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, with productive assistance having to be adapted to each individual case. MEIs have also proved to be a useful tool for assisting single headed households that face major time management constraints. It is worth highlighting that in most contexts the majority of MEI beneficiaries are women.

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, the selection and individual monitoring of beneficiaries and the provision of practical support for them.

Purpose of the handbook

The purpose of the handbook is to build on the lessons learned 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 over a dozen contexts and on the conclusions of internal and external evaluations of MEIs carried out in the Balkans, the Caucasus, Central Asia, Latin America, West Africa, the Caribbean 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 to other related Movement and EcoSec guidelines.²

Structure of the handbook

The handbook is 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 also of interest to practitioners outside the field of economic security.

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 microcredit separately, highlighting the challenges that may arise during the needs and feasibility assessment, and considers programme design, programme implementation and follow-up.³ Grants are dealt with in detail, while the vocational training and microcredit components focus on specific challenges not covered under grants.

Section III consists of guidance sheets for some of the key steps in MEI implementation and section IV provides examples of the different templates that have been developed to date and that could be of use in future programmes.

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- 2 For example: ICRC, *Programme/project management: The results-based approach*, ICRC, Geneva, 2008; ICRC/International Federation of Red Cross and Red Crescent Societies, *Guidelines for assessment in emergencies*, ICRC/International Federation of Red Cross and Red Crescent Societies, Geneva, 2008.
 - 3 For the sake of simplicity, in this handbook monitoring is discussed in connection with the follow-up stage of each programme, although in reality it spans the whole programme cycle, including the assessment, design and implementation stages.



SECTION I

**CONCEPTUAL
OVERVIEW
OF MEIs**

1 OVERVIEW OF ECONOMIC SECURITY CONCEPTS

This chapter gives an overview of the livelihood framework and economic security strategic framework, both of which are central to EcoSec programmes. Economic security is achieved when a household or community can sustainably cover its essential economic needs and unavoidable expenditure, given the physiological requirements of the environment and prevailing cultural standards.

1.1 Livelihood concept

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

A livelihood is defined as the sum of the means by which households/communities obtain and maintain access to the resources (or assets) necessary to ensure their immediate and long-term essential needs.

Livelihood conditions depend at any given time on a household's/community's capacity to access the resources (assets) needed to cover its essential needs and the liabilities (expenditures) it incurs when endeavouring to access them in a given socio-economic environment.

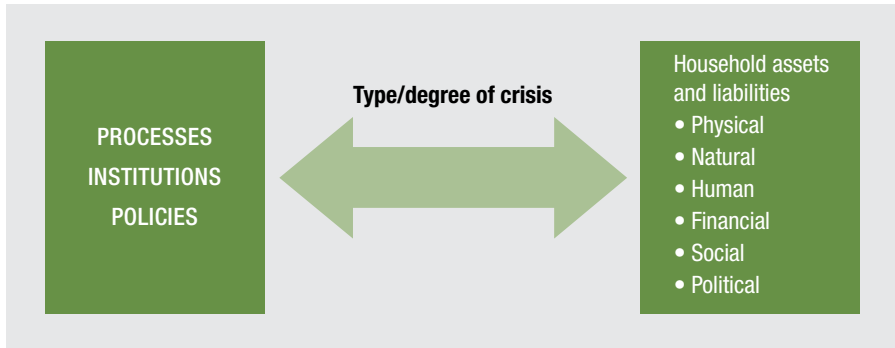
Table 1. Types of assets

Asset type	Including
Physical	Productive assets such as: <ul style="list-style-type: none"> • farm equipment • seeds • tools • sewing machines • vehicles
Natural	Agricultural and grazing land Water resources Timber Fish
Human	Labour power within a household Education Skills Physical capacity Vocational training
Financial	Wages, pensions Access to credit Savings Remittances
Social	Kinship structures Religious groups Neighbourhood associations
Political	Citizenship Access to political leaders Governance Recourse to a functioning legal system Personal safety

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

- **P**rocesses within the larger community
- **I**nstitutions in charge of providing services
- **P**olicies 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	To save lives and protect livelihoods at immediate risk owing to an emerging or acute crisis	Distributing economic goods or providing services essential to the survival of people who are no longer able to obtain them by their own means
Production	To generate food and/or income and ultimately to restore sustainable livelihoods in pre-, chronic and post-crisis environments	Reducing liabilities or protecting/enhancing assets that provide for an adequate livelihood
Structural	To rehabilitate sustainable productive assets by improving processes and institutions that have a direct influence on a target population's assets/liabilities, in chronic and post-crisis environments	Involving key service providers and/or other key stakeholders in the provision of the 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, enabling the beneficiaries to improve their living conditions over time	The living conditions of the target population are protected/enhanced so that they can achieve 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 is 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 grants and services	Improved production or service delivery in a specific sector

Different interventions are preferred in different crisis phases. A combination of interventions often produces the most benefits. Which one is chosen in a given context will depend on the level of the beneficiaries' vulnerability, the identified needs and the varying influences of the surrounding environment on households and communities.

Specific objectives should be formulated along the following lines:			
Specific objective	A given target population in a specified location(s) has protected/restored/improved its income so that it amounts to at least: XX% of the pre-crisis (or current or defined threshold) amount by [month], or CHF XX per capita		
Income support	This will be done by ... [specify the type/content of EcoSec interventions – see last column].		
Short-term outcome indicators	Indicator description (preferred indicators)	Data required	Source of data/ Methods
Amount of income/ expenditure	<ul style="list-style-type: none"> Income per capita (<i>also disaggregated by source of income to identify the share obtained directly from the intervention</i>) Expenditure per capita Proportion of target households that have achieved at least XX% of the pre-crisis income (or income before the intervention) by [month] 	<ul style="list-style-type: none"> Amount of household income Amount of household expenditure 	Household survey • Cash transfers • Cash vouchers • Cash-for-work approach
Purchasing power	<ul style="list-style-type: none"> Purchasing power: ratio of total income (or expenditure) per capita, to the cost of the minimum consumer basket (or to the poverty line) Proportion of target households who are able to cover XX% of their unavoidable expenditures by [month] 	<ul style="list-style-type: none"> Household income (or expenditure) Market prices or cost of the official minimum consumer basket or poverty line 	Production • Productive inputs distribution/ vouchers • Microeconomic initiatives (grants, vocational training, microfinance) • Labour market inclusion

Specific objectives should be formulated along the following lines:

Specific objective A given target population in a specified location(s) has protected/restored/improved its income so that it amounts to at least: XX% of the pre-crisis (or current or defined threshold) amount by [month], or CHF XX per capita

Income support This will be done by ... [specify the type/content of EcoSec interventions – see last column].

Short-term outcome indicators Indicator description (preferred indicators)

Data required

Source of data/ Methods

Type of EcoSec interventions

Access to income

- Sum of terms of trade (e.g. staple cereals, livestock, labour)
- Number of income sources at household level by [month]
- Proportion of income that comes from regular (sustainable) sources
- Proportion of income consumed that comes directly from the (ICRC) intervention/assistance
- Proportion of target population owning selected productive assets of interest
- Ratio of the number of income-earning members to the number of dependent members
- Share and level of expenditure for “luxury” goods or services (context-specific), e.g. for meat, electricity, roofing, child education

- Household survey

Relief

- Cash transfers
- Cash vouchers
- Cash-for-work approach

Production

- Productive inputs distribution/ vouchers
- Microeconomic initiatives (grants, vocational training, microfinance)
- Labour market inclusion

Indebtedness

- Level of debt per capita
- Time required to repay the debt
- Proportion of target households whose level of debt has decreased by XX% by [month]

- Level of debt
- Time for repayment

- Household survey

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 resilience or to re-establish sustainable livelihoods.

Production interventions entail the provision of grants 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 autonomy and thus of dignity.

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

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

Situation	When/If
Pre-crisis	<ul style="list-style-type: none"> a) They provide added value as defined in the ICRC Assistance Policy.* b) They help the community to strengthen its resilience (consolidation).
Post-crisis	<ul style="list-style-type: none"> a) Parts of the target population assisted during a chronic crisis remain unable to meet all their essential expenditure owing to insufficient assets. b) The people do not benefit from on-going structural development/economic improvement (because of their origin, vulnerability, etc.). c) The mobilization of other actors appears to be ineffective.

* ICRC, *ICRC Assistance Policy*, Policy Document 49, ICRC, Geneva, 2004 (internal ICRC document).

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, but simultaneous interventions should also be considered. Relief interventions lead or can be accompanied early on by 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 a production intervention is accompanied by the appropriate mobilization and/or persuasion of stakeholders, which in some cases may actually become the main strategic approach (structural intervention).

KEY POINTS

- The economic security concept is based on a common understanding of livelihoods, assets and liabilities, as well as of processes, institutions and policies affecting livelihoods.
- There are many different types of assets: physical, natural, human, financial, social and political.
- 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, *ICRC Assistance Policy*, Policy document 49, ICRC, Geneva, 2004 (internal ICRC document).

ICRC, *EcoSec Reference Framework*, ICRC, Geneva (internal ICRC document).

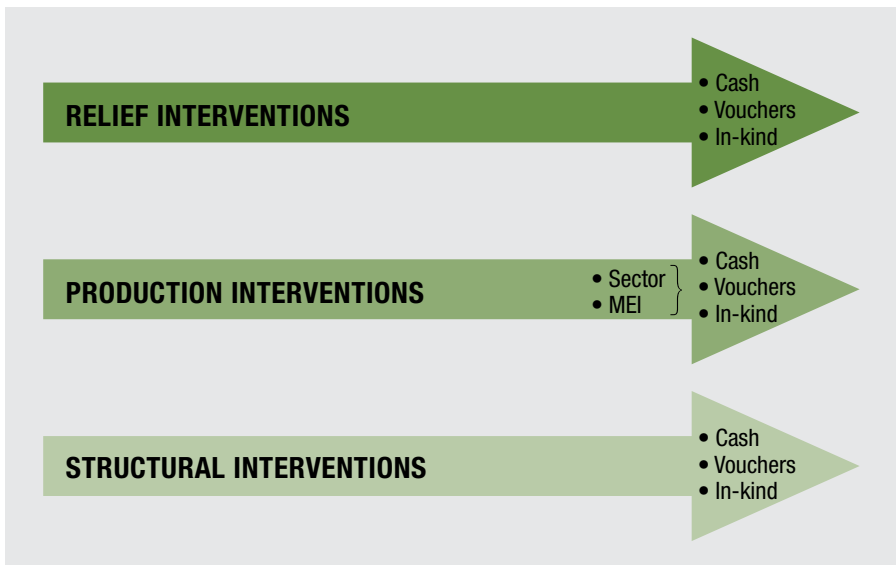
2 ABOUT MEIs

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

Microeconomic 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 time frame. The particularity of MEIs, however, is that they are household or community-driven production interventions characterized by the provision of inputs that are tailored to the needs of individual households or communities. Such an approach leads to increased versatility and proximity to the beneficiaries, which makes MEIs well adapted to urban settings and to supporting the productive capacity of groups that are often marginalized, such as female-headed households and the disabled. The most common MEIs are productive grants, vocational training and microcredit support.

Figure 3. Programmes and tools for production interventions



Within the EcoSec reference framework for specific objectives, MEIs fall under **income support** and their specific objectives include *protecting, restoring, and improving households' incomes with a view to ensuring that they recover to at least pre-crisis levels.*

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 given to beneficiaries, greater respect for the beneficiaries' dignity, and their cost-effectiveness relative to in-kind assistance.

2.2 Types of MEIs

Productive grant: A productive grant is a donation of one or more inputs to a selected vulnerable household in the anticipation that the input(s) 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 account of 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 craft⁴. 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.

⁴ The "craft" category also includes services such as those provided by rickshaw drivers, plumbers and electricians.

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 opportunities 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. Vocational training can also be accompanied by job placement services or employment generation schemes.

Microfinance: Microfinance is the provision of financial services (generally credit for working capital and sometimes savings and insurance schemes) for 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. Microfinance is often found to be most effective among the middle and upper segments of the poor. The ICRC focuses on the microcredit component. It rarely provides loans *per se* but works to strengthen or expand the operations of existing institutions or to support the creation of savings and credit groups at a community level.

Note: Productive grants, vocational training and microfinance are not mutually exclusive. On the contrary, different MEIs can be implemented in parallel, as illustrated in Case Study 1.

Case Study 1. Grants, vocational training and microcredit in Serbia

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 and to introduce 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 were unable to access the credit needed to consolidate their microenterprises, the ICRC supported a local micro-finance institution, the Micro Development Fund (MDF), to ensure that appropriate loan products were available to IDPs.

Over a period of four years, a total of 3,279 households were given productive grants, 880 underwent vocational training and over 600 obtained microcredit. 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 that 90% of microcredit beneficiaries had seen an improvement in their economic security. The ICRC's microcredit fund, which was handed over to MDF, is still being used to assist IDPs, with over 2,000 displaced households having benefited from microcredit support since 2007.

2.3 Characteristics of MEIs

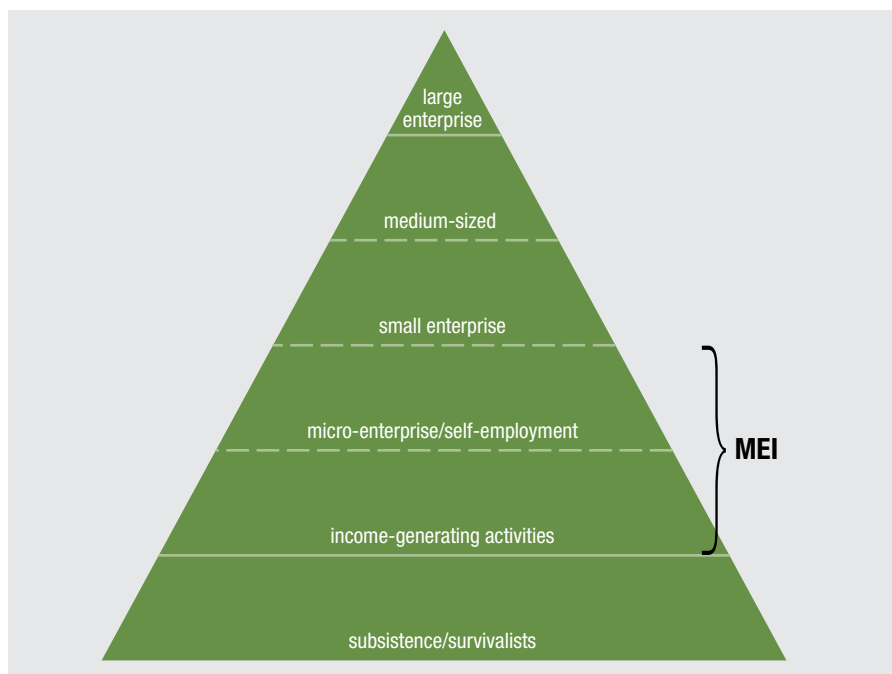
There are a number of characteristics common to all three types of MEI:

- They all apply a bottom-up approach, thus placing the beneficiary at the heart of the programme design and decision-making processes;
- All three types 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 microenterprise and income-generating activities as defined in Table 5.

Table 5. Types of productive entities*

Type	Characteristics
Small enterprise	<ul style="list-style-type: none"> • Liquid and fixed assets ranging in value from several thousand to hundreds of thousands of US dollars • 10+ employees • Formal licence and business operations
Microenterprise	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Similar to income generation but with lack of experience of, or access to, a cash economy • Geared mainly to self-consumption and barter

* Adapted from Lassen Associates, *Facts for economic life: a guide to develop earning capacity for the self-employed poor in third world economies*, 1997.

Figure 4. Productive entities supported through MEIs

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 MEI are: productive grants, vocational training and microfinance.
- Cash and voucher transfers are not limited to production interventions; they can also be used for relief and structural interventions.

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*, ICRC/International Federation of Red Cross and Red Crescent Societies, Geneva, 2007.

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 an individual household and at the macroeconomic level, and the coping mechanisms most likely to be used by low-income households affected by the conflict.

3.1 Economic characteristics of vulnerable households

While each context is different and each household has its specific features, the following economic characteristics are commonly observed in most low-income households in developing countries. This list is not exhaustive but is intended 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 expenditure.

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 climatic conditions, 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 the 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, the following apply:

- 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 unavailable 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 considered creditworthy;
- The informal mechanisms that are developed at a community level to compensate for the absence of formal income-smoothing mechanisms are generally limited, distorted or inefficient. Insurance schemes are limited⁵ and credit is often provided on the basis of binding reciprocal loan systems or abusive money-lender practices that tend to render beneficiaries dependent rather than independent and self-sufficient.⁶ This phenomenon is partly linked to the fact that individuals often play not one but a variety of roles when interacting with fellow community members.⁷ The most common example is of the credit provider also being the employer or the landlord, which weakens vulnerable households' ability to negotiate for fair loan, rental or employment terms. 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 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 shocks.

d. Households' income-generating activities are generally linked to the informal market⁸

- Economic activity in the informal market often means lower wages, no social benefits and the need to resort to bribery in order to obtain certain services or protection as people in the informal sector rarely benefit from law enforcement services;
- The informal sector is often blamed for underemployment, but this is true of only 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 prompt 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 tax and labour policies are particularly cumbersome;
- It is therefore important to distinguish between 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, while, similarly, the formal sector provides training and capital for upper-tier activities in the informal sector. For instance, an individual may acquire woodworking skills while

⁸ Informal activities are defined as activities that 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.

working as an apprentice carpenter in the informal sector before securing formal employment with a furniture-making company. Having developed a network of clients and accumulated a sufficient amount of savings to purchase carpentry equipment, this individual may then return to the informal sector to start his or her own carpentry business.

e. Households may face poverty traps

- The road to economic empowerment for low-income households can be riddled with 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 correlated to scale only above 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; an individual 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. A similar situation may arise with regard to access to credit if a person lacking assets is unable to meet the minimum collateral requirements to receive credit to initiate productive activities;
- These examples illustrate the fact that economic recovery is not a continuous process, but one that can be interrupted by self-reinforcing patterns that prevent people from reaching their full potential. The threshold concept is compelling when applied to conflict-affected people as households that have fallen below a certain threshold will have difficulty in recovering without external assistance.¹¹

10 C. Azariadis, J. Stachurski, "Poverty traps," in P. Aghion and S. Durlauf (eds), *Handbook of Economic Growth*, Vol. 1, Elsevier, Amsterdam, 2005, pp. 295-384.

11 For more detailed 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.

3.2 Economic impact of conflict on households

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

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;
- Additional expenditure for care of the wounded or for funerals;
- Income forgone because of the inability to work (as much) – increase in unemployment due to the closure of workplaces or displacement;
- Destruction of property;
- Decrease in the output of productive assets, e.g. 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. 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 conflict on the wider economy

- Disruption of the social and other mechanisms through which people develop social skills and on which they depend in times of crisis;
- 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 among investors;
- Investment in the military prioritized over investment in social programmes;
- Destruction of infrastructure;
- Limited investment in fixed assets (agricultural infrastructure and the private sector);
- A spillover effect and impact on the economy, leading to greater risk of the conflict spreading and becoming self-perpetuating;
- Contraction of the formal market and expansion of the informal market;
- Changeover 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 financial capital flight;
- Increase in human capital 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 EcoSec and MEI beneficiaries

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 box presented in this section. It is important to bear in mind that some of the common characteristics of low-income households may be further compounded by conflict.

The EcoSec unit focuses on vulnerable households that have been most directly affected by a conflict, although not all such households will qualify for an MEI. As MEIs are a form of market-based conditional assistance that requires beneficiaries to have a combination of skills, motivation and capacities for them to be effective, they are not suitable for all households or contexts. The following table

highlights common characteristics of households for whom an MEI is *not* the most appropriate form of assistance.

Characteristics of households that should not be assisted by means of an MEI

- None of the household members has the physical capacity to carry out a productive activity;
- The eligible household member is struggling to cope with the psychosocial impact of the conflict;
- There is no functional market system where the household is located;
- The household has yet to identify how best to strengthen its productive capacity;
- None of the household members seems to have the time or willingness to undertake an additional productive activity;
- The household needs immediate assistance to meet its essential needs.*

* Such households may qualify for an MEI at a later stage but priority should first be given to helping them meet their immediate needs.

It is worth highlighting the fact that the majority of beneficiaries of most MEI programmes are women. This can be attributed, first, to the fact that the responsibility and drive to help their household recover from the impact of a conflict often disproportionately shouldered by women. Second, in some cases women are the only remaining productive members of their household; this is often the case when focusing on beneficiaries such as families of the missing, the wounded or the detained following a conflict. Third, in many contexts women are often among the most economically vulnerable members of society.

Case Study 2. MEI programme for widows in Iraq

Over a period of two decades Iraq has experienced three wars, which, apart from the numerous casualties, have given rise to a large number of households headed by widows. In 2010, an ICRC assessment identified widows as one of the most vulnerable members of Iraqi society and shed light on their plight in trying to support their families with very limited resources. The need most commonly expressed by widows was a stable source of income. In response, in 2010 the ICRC launched an MEI programme that was tailored to the needs of widows and provided support for the launch of approximately 250 microenterprises ranging from small shops and workshops to beauty salons.

Given the vulnerability of the beneficiaries, an unconditional cash transfer programme and an advocacy programme were launched in parallel to an MEI programme with a view to ensuring that vulnerable MEI beneficiaries would remain included in the social security system as long as their earnings remained below the threshold necessary to meet essential needs. The combination of unconditional cash assistance, MEIs and strong advocacy contributed to the overall success of the response.



3.4 Coping mechanisms

Coping mechanisms are defined as the adapted/unusual strategies that people choose as a way of surviving 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 in the long term. In that sense, it is important to stress that the risk borne by vulnerable households is not only costly in the aftermath of a shock: the strategies adopted in anticipation of a shock can also hinder their ability to realize their potential. The coping strategies being employed are often a good indicator of the level of economic vulnerability of certain households. People tend to rely on the most negative coping strategies when they have exhausted their livelihood assets and have no further positive coping strategies on which to draw. The following are the most common coping mechanisms:

a. Diversified sources of income

- Households will generally depend on multiple sources of income and try, to the extent possible, to pursue 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 to join the armed forces.
- Household members may choose to have multiple occupations, which can be inefficient if it hinders their ability to specialize and to seek high returns from a specific trade.

12 ICRC/International Federation of Red Cross and Red Crescent Societies, *Guidelines for assessment in emergencies*, ICRC/International Federation of Red Cross and Red Crescent Societies, Geneva, 2008.

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. In some cases this can exacerbate the income shock as competition on the labour market is ultimately increased, which can drive wages down.

c. Limiting expenditure

- Households will limit their expenditure in order to save money. This becomes of particular concern once they start forgoing expenditure on basic needs.
- This can also have an impact on households' livelihoods as the vulnerable households' decision to be more conservative with their productive inputs is not always the most efficient use of funds. For instance, a farmer's decision to save on the cost of fertilizers may have a negative impact on his crops that far outweighs the amount saved on the fertilizers.

d. Migration

- The destination of migration is often linked to complementary sources of income in terms of seasonality.
- 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 move on according to a seasonal pattern 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 susceptible 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.
- Risk aversion can also be seen at the field level, where households whose consumption levels are most vulnerable to income shocks 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 to take advantage of new economic opportunities.

f. Decapitalization

- Decapitalization consists of the sale of assets in order to meet household expenses. While decapitalization 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

¹³ In a normalization phase, the problem may occur in reverse, with larger numbers of people being willing to restart their previous activities and to try to buy back their productive assets.

KEY POINTS

- Most beneficiaries of economic security programmes are low-income conflict-affected households.
- Low-income households generally depend on an unpredictable economic environment, have irregular incomes generally earned in the informal market and have limited income-smoothing mechanisms or means of overcoming potential 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 expenditure, migration, risk aversion and decapitalization.
- Some of these coping strategies can be detrimental to households' livelihoods. This includes strategies adopted in response to a shock and coping mechanisms adopted in anticipation of a shock.
- Households are likely to become more risk averse as their vulnerability increases.
- The majority of MEI beneficiaries are women, often from single headed households.
- MEIs are not suited for all economically vulnerable households.

3.5 Other relevant documents

- 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.
- P. Collier *et al.*, *Breaking the Conflict Trap: Civil War and Development Policy*, World Bank, Washington D.C., 2003.
- M. Gonzáles de la Rocha, *Private adjustments: Household responses to the erosion of work*, UNDP, New York, 2000.
- J. Morduch, "Income smoothing and consumption smoothing," *Journal of Economic Perspectives*, Vol. 9, No. 3, Summer 1995, pp. 103–114.
- S.V. Sethuraman, *Urban Poverty and the Informal Sector*, ILO, Geneva, 1997.
- A. Banerjee and E. Duflo, *Poor Economics*, Public Affairs, New York, 2011.

4 ADVANTAGES AND LIMITATIONS OF MEIs

Bearing in mind the common characteristics of beneficiaries presented in Chapter 3, this chapter focuses on the advantages and limitations of MEIs. The overarching objective of MEIs is to provide productive assistance that is adapted to the specific situation of each household. Bearing various possible economic profiles of beneficiaries in mind, a few examples are presented 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 Advantages of MEIs

4.1.1 Strengthening coping mechanisms and addressing obstacles to economic empowerment

- i. Further diversifying sources of income
Example: Enabling a household dependent on daily wages to start a kitchen garden or to purchase beehives with a view to self-consumption and trading.
- ii. Providing a source of income that complements seasonal activity
Example: Providing farmers with popcorn machines so that they can earn a cash income during the lean winter season.
- iii. Improving the return on existing activities
Example: Providing carpenters who were using hand equipment with an electric saw and drill so that they can increase their productivity and marketability.
- iv. Improving access to financial services
Example: Enabling entrepreneurial beneficiaries to double their 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 of the above approaches or a combination of them also decreases the likelihood that households will have to rely on unsustainable and negative coping mechanisms such as decapitalization.

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 a family member who is disabled as a result of the conflict with vocational training and a productive grant so that he or she can generate an income to support the family again.

- iv. Providing 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 beneficiaries' marketability
Example: Purchasing power tools to enable day workers to find jobs more easily and to charge a higher fee for their services.

- vi. Facilitating integration into a community (social network)
Example: Enabling internally displaced persons (IDPs) to better integrate into a new community by becoming economically active members of that 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 to consolidate existing ones, MEIs also often achieve a strong psychosocial impact in addition to their economic impact. This is generally because beneficiaries become more active as a result of their projects, gaining confidence, autonomy and a renewed sense of dignity.

4.2 The limitations and conceptual challenges of MEIs

Although MEIs have proved to be a very versatile and effective intervention in a variety of settings, they also entail a set of limitations and challenges that need to be stressed in order to ensure that MEIs are only used when appropriate.

4.2.1 Limitations to the implementation of MEIs

The following limitations are those that have been most commonly identified during the evaluation of past programmes.

- MEIs are not an appropriate form of assistance for beneficiaries living in isolated areas with only limited access to markets. In such areas, MEIs typically fail to generate any income.
- MEI programmes in rural areas are often inefficient. This is partly because beneficiaries in rural areas are generally more scattered and are interested in a

limited range of productive activities. The time and resource investment for the implementation of MEIs in rural areas is therefore higher, whereas the benefit of catering for a wide range of productive activities is more limited. In such cases, standardized agricultural interventions may be a better option.

- Households with unskilled members are often limited to selecting projects that have a minimal return, which can lead to MEIs performing poorly with some of the most vulnerable households.
- Similarly, MEIs are ill-suited to addressing the structural vulnerability of the most destitute households. Ideally, MEI programmes should therefore not be implemented without an alternative form of assistance that may be more appropriate for destitute households.
- The versatility of MEIs is both one of their major strengths and one of their weaknesses. Because they have been successful in increasing the economic security of people with very diverse backgrounds and skills, they risk being seen as the preferred tool for cases where the optimal response to a population's need has not been thoroughly investigated.

In addition to the limitations associated with the type of households and context, conceptual challenges common to conditional assistance programmes also need to be taken into consideration.

The two main conceptual challenges are referred to as "information asymmetry" and "moral hazard." The concepts are outlined briefly here and covered in greater detail in Chapter 5.

4.2.2 Information asymmetry and the wider appeal of MEIs

“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 of 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 (largely because of the higher face value of the assistance) and because they are dependent on more complex criteria than vulnerability, information asymmetry 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 far more difficult to distinguish between eligible and ineligible applicants as there are more conditions to be checked to determine eligibility for the assistance.

4.2.3 Moral hazard

“Moral hazard” refers to the possibility of people’s behaviour being changed by the redistribution of risk. Information asymmetry implies that a party lacks information while negotiating a contract, whereas in moral hazard the party lacks information about the performance of the agreed transaction or lacks the ability to request redress for a breach of the agreement. In the context of MEIs, this relates to 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 a grant to purchase piglets actually use them for breeding as agreed? Will he or she devote the time and attention needed for the project to succeed, particularly as the ICRC has limited recourse if he or she does not do so?

Information asymmetry and moral hazard are often closely linked since it can be argued that properly selected beneficiaries will present a lower risk of moral hazard. However, in practice each phenomenon calls for a set of specific mechanisms to limit its impact. This aspect will be dealt with in greater detail in Chapter 5.

4.2.4 SWOT analysis for MEIs

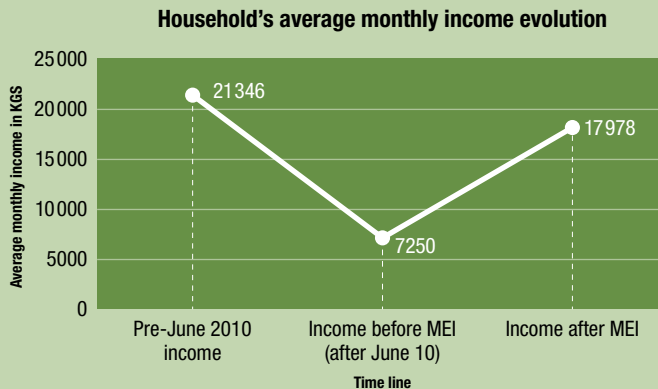
An overview of the most common strengths, weaknesses, opportunities and threats (SWOT) associated with MEIs is presented in the following table.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Respect for the beneficiary's dignity • Assistance adapted to beneficiary's situation • Strong ownership and sustainability • Versatile (urban and peri-urban) • Increased proximity to the beneficiary 	<ul style="list-style-type: none"> • Finance and human resource intensive • Not for everyone (destitute beneficiaries cannot be assisted through MEIs) • Requires beneficiaries to have access to diverse and functioning markets. • More challenging to deploy and implement than standard assistance programmes • Limited scale
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Integration with programmes of other units • Coordination with other actors • Handing programmes over to other actors for poverty alleviation 	<ul style="list-style-type: none"> • Information asymmetry, moral hazard and adverse selection • MEIs being used as a response when the appropriate response to people's needs has not been sufficiently investigated • Threat to the ICRC's image if it does not have alternative avenues for vulnerable households that have been excluded for lack of ability or motivation

Note: While the implementation of MEIs is often seen as a fairly lengthy process, with a slower deployment speed and a more limited scale than more conventional assistance programmes, the lessons learned from recent programmes and the use of innovative approaches has enabled the ICRC to mitigate the adverse impact of these factors, as shown in Case Study 3.

Case Study 3. MEIs as part of an early recovery response in Kyrgyzstan

In June 2010, a serious outbreak of Kyrgyz-Uzbek inter-ethnic violence swept Kyrgyzstan's southern city of Osh and quickly spread to Jalalabad Oblast. The four days of internal disturbance left hundreds killed or missing and thousands of businesses destroyed, consequently causing severe disruption to peoples' livelihoods in addition to the tragic loss of life. In response, the ICRC rapidly deployed a multifaceted programme, which included a sizeable economic security component. In a matter of months, the ICRC launched six different EcoSec interventions as its response adapted to the evolving needs and capabilities of the affected population. These included an MEI programme aimed at supporting the early recovery of 650 affected microentrepreneurs. Of the projects, 80% provided support for the beneficiaries to restart the same business that they had prior to the June events, which facilitated the quick deployment and implementation of the programme. The following graph plots the evolution of beneficiaries' average monthly income prior to the crisis, prior to receiving an MEI and following the ICRC assistance.



The Kyrgyzstan case illustrates how MEIs can be used to hasten and strengthen the recovery of existing microentrepreneurs after a conflict.

KEY POINTS

- MEIs can be an effective tool to address the consequences of conflict on the household economy, to strengthen existing coping mechanisms and to tackle obstacles to economic empowerment.
- The main pitfalls of MEIs are that MEIs do not provide a solution for destitute households or for those with limited access to markets.
- MEIs are not the ideal production intervention in rural areas where beneficiaries are widely scattered. In such cases preference should be given to sectoral interventions.
- Information asymmetry 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*, ILO/Graduate Institute of International Studies Geneva, Geneva, 2006.

P. Goovaerts, M. Gasser and A. Belman Inbal, *Demand-driven Approaches to Livelihood Support in Post-War Contexts*, ILO/World Bank, October 2005.



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 microcredit is not the most common MEI implemented by the ICRC, it is covered here in greatest 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 limitations of microcredit.

5.1 Microcredit

Microcredit consists of the provision of loans to low-income clients. It has attracted considerable attention as result of new and innovative ways to provide low-income households with affordable credit. One of the key components in the provision of credit is gathering information on potential borrowers so as to select those that are most credit-worthy and providing borrowers with the necessary set of incentives to ensure that they make appropriate use of the funds. These issues are both particularly challenging when dealing with low-income households. First, such households are often excluded from any formal record-keeping mechanism, making the collection of information concerning their creditworthiness tedious and often extremely costly. Similarly, because low-income households often lack assets that can be provided as collateral, creditors have been acutely aware of the difficulty of enforcing contracts, let alone ensuring that borrowers use the funds for their intended purposes. These issues are both intrinsically linked to the notions of information asymmetry and moral hazard that were described in Chapter 4. Grameen Bank pioneered the development of cost-effective systems to overcome those challenges and in so doing lent tremendous momentum to microfinance. As a result of the growing interest and research in microfinance, increasingly sophisticated tools and systems have been developed for the purpose of extending loans to credit-constrained households. This section does not set out to discuss those developments in detail but rather to give a brief overview of some of the key concepts and terminology relating to

microcredit before highlighting the type of programme options that are available to the ICRC in this area. The following section on credit providers, lending methods, loan characteristics and collateral substitutes has been adapted from the *Microfinance Handbook*.¹⁴

5.1.1 Credit providers

Typically, loans 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 microcredit 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.

5.1.2 Lending methods

While there are many different lending models, most of them can be grouped into one of the following 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 as an alternative to traditional collateral. Clients are very often women.

¹⁴ J. Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective*, World Bank Publications, 1998.

- **Individual lending:** Individual lending is defined as the provision of credit for 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-signatory.
- **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. Microfinance institutions (MFIs) often have a maximum loan size for first-time borrowers, which increases with each loan. This is intended 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. In the case of microcredit, a balance must be struck between what clients can afford and what the lending organization needs to earn to cover all its costs.¹⁵

¹⁵ The interest rate for microcredit will generally be higher than that for ordinary credit because of the need to discount the fixed cost associated with the credit over the smaller principal.

- **Loan term:** The loan term is one of the most important variables in microfinance. 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 sustain 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 borrower's cash flow patterns. Activities that generate ongoing revenue can be designed with payments by instalment. The client is thus 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 that borrowers have another source of income and of detecting delinquent borrowers as early as possible.

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 up to date with 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 public embarrassment as a way to ensure that clients repay their loans. The methods can include public notices or announcements made at community meetings.
- **Threat of legal action:** This depends on a country's legal context.
- **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 their consumption patterns and providing funds for emergencies.
- **Assets pledged at less than the value of the loan:** This can have an impact because of the perceived inconvenience of replacing certain assets or the sentimental value of assets.
- **Personal guarantees:** While microborrowers 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 microcredit interventions

ICRC microcredit interventions have two main objectives: to improve ICRC beneficiaries' access to appropriate credit schemes and to strengthen credit-providing structures. To this end, the ICRC rarely provides credit directly, preferring to work through existing MFIs or to encourage the development of new structures. One reason for this approach is sustainability, that is, ensuring the continuation of credit after the ICRC withdraws from the context. Moreover, for microcredit to function, credit providers have to be willing to enforce contracts. This may entail taking legal action against delinquent borrowers, which runs counter to the ICRC's desired image and principles.

The ICRC achieves the objectives of microcredit 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 that can be lent to its beneficiaries.
- **Starting new credit lines:** The ICRC can provide MFIs with support 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 with respect to a certain target group. This can encourage MFIs to take on clients otherwise deemed too risky.
- **Improving partner MFIs' geographic outreach:** The ICRC can provide support for 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 provide support for MFIs' advertising campaigns.
- **Setting up and supporting local community structures:** In areas where there are no existing formal or semi-formal credit providers, the ICRC may choose to set up credit and saving groups along the lines of the village bank model described above.

- **Providing beneficiaries with a soft credit record:** In order to increase beneficiaries' perceived creditworthiness, the ICRC can devise mechanisms to create informal credit records.

5.1.6 SWOT analysis for microcredit

An overview of the main strengths, weaknesses, opportunities and threats associated with microcredit is given below.

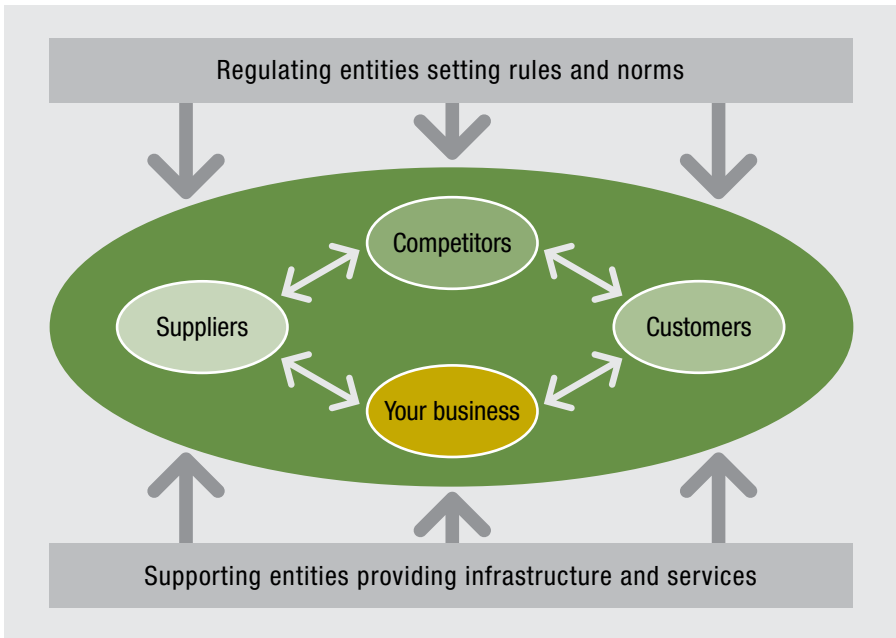
STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Self-targeting • Increased ownership and accountability through repayment • Sustainability of the disbursement of assistance as funds revolve • Sustainability of impact when savings and credit groups are created and persist beyond the ICRC's support • Often a useful tool to address gender issues 	<ul style="list-style-type: none"> • Not suitable for the poorest of the poor, because the interest rate is often high • 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 microenterprise is not successful
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Enables coordination with other forms of productive intervention • Revolving fund provides a platform from which to engage beneficiaries, even after assistance programmes have been ended 	<ul style="list-style-type: none"> • Bad selection of or lack of MFI partner • Lack of or change in legal framework for microfinance • Renewed conflict may lead to a high default rate

5.2 Productive grants

Productive grants are used essentially to support entrepreneurs. An understanding of some of the basic concepts of entrepreneurship is therefore crucial to providing the best support for beneficiaries in identifying and implementing successful microenterprises.

5.2.1 Basic entrepreneurship concepts¹⁶

Figure 5. Generic business environment



To be successful in business, an entrepreneur must know his business environment and his intended market. He must be familiar with the suppliers of the inputs required, the businesses competing with him, the different categories of customers for his goods or services, the rules and norms shaping the market, and the infrastructure and support services available.

The main duty of an entrepreneur is to make sure that all operational activities necessary to provide customers with goods or services are conducted as required and that a profit is generated. To do this, he or she has to plan, organize, lead and control. This is referred to as business management.

¹⁶ These concepts have been adapted from D. de Wild, *Business skills, Training course for beneficiaries of microeconomic initiatives*, ICRC, Geneva, 2014.

The following table highlights some very basic business principles and their implications for entrepreneurs:

Basic business principle	Implication for entrepreneurs
To generate a profit, the income of the business activity must exceed its total cost.	An entrepreneur must know the total cost of producing and marketing his or her goods or services.
A business can only generate a profit if customers buy its goods or services.	An entrepreneur must know the type of people to whom he or she intends to sell his goods or services.
Consumers generally have the choice of a range of similar and alternative products.	An entrepreneur must also be acquainted with his competitors and their goods or services (i.e. quality and prices).
To generate profit, businesses conduct three basic activities: buying, producing, and selling.	An entrepreneur must be acquainted with the infrastructure and market support services for his or her market as well as the institutions, rules, and norms affecting his or her business activity.

In addition to the above-mentioned points, start-up entrepreneurs face the additional challenge of having to draw up their business plans on the basis of a business idea, initial market estimations and financial projections instead of existing business data. This makes establishing a business plan more difficult. The key requirements for all start-up entrepreneurs are as follows:

- A detailed, well-defined business idea;
- The skills and abilities to run the planned business;
- A business plan;
- An assessment of the market in which he or she plans to operate;
- An estimation of whether his or her business will be profitable/financially viable;
- The ability to use a simple bookkeeping system;
- Ideas of how to sell the product;
- Plans for the buying, producing, and selling activities.

5.2.2 ICRC objective with productive grants

Because of the challenge and inherent risk faced by start-up entrepreneurs, as part of its productive grant programmes the ICRC sets out to equip potential microentrepreneurs with the necessary entrepreneurial know-how while also shouldering part of the financial risk. The financial support consists of a conditional cash grant that is intended to be used for agreed productive activities, whereas the business know-how is generally provided in the form of a business skills training course that is run by partner organizations or the ICRC itself.

5.2.3 Grants vs microcredit

While the general objectives of microcredit 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 as opposed to credit.

- Whereas microcredit 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 more vulnerable segments of the poor.
- Similarly, while microcredit is often restricted to people who have an existing micro-enterprise, grants can be used to support start-up microenterprises.
- Grants thus often act as a stepping-stone to microcredit 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 be potentially 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, a grant programme is likely to engender less accountability and ownership than a microcredit programme.

5.2.4 SWOT analysis for productive grants

Taking the above points into account, the table below gives an overview of the main strengths, weaknesses, opportunities and threats that apply to a grant.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Appropriate for more vulnerable households • Provides a solution for urban and peri-urban settings • Limits the beneficiaries' exposure to additional risk 	<ul style="list-style-type: none"> • Beneficiaries have less responsibility and ownership than with microcredit • Limited self-targeting • Requires entrepreneurial spirit • Can be administratively cumbersome
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Acts as a stepping stone for microcredit • Can be integrated into physical rehabilitation programmes, missing persons programmes, etc. 	<ul style="list-style-type: none"> • Resource-intensive • Unrealistic expectations of staff without MEI experience

5.3 Vocational training

5.3.1 Basic vocational training concepts

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

Vocational training programmes generally consist of a combination of three components: vocational assessment, training and job placement.

It is important to make a distinction between a standard needs assessment and a vocational assessment. Vocational assessment is part of the vocational guidance process and usually results in recommendations for training or employment. Vocational assessments are usually concerned with the correlation between a person's abilities and skills and job requirements. In other words, vocational assessment helps an individual to make realistic job training and career choices based on their interests, aptitudes and abilities and the realities of the job market.

The training component of a vocational programme includes the provision of hard skills intended to increase employability but should also include job-seeking skills. These include all skills needed to find a job, such as identifying job leads, making contact with employers, completing job applications and interviewing.

Vocational training can be provided in a classroom setting, through internships, through onsite training or through a combination of such approaches. It is essential for the training to be adapted to market requirements and therefore for both the beneficiary and the programme manager to have a strong understanding of the job market, namely the skills and experience that are in demand.

The placement process can take a variety of forms. It can include a range of incentives for companies to employ beneficiaries, support for beneficiaries undertaking internships that may lead to formal employment, or simply facilitating the matching process between beneficiaries and potential employers.

5.3.2 The ICRC and vocational training

The ICRC has predominantly focused on training and placement components but vocational assessment can also prove to be crucial depending on the type of context and beneficiaries.

The ICRC uses vocational training as a means of supporting both formal employment and self-employment. To the extent possible, the ICRC will favour the use of existing training providers as this allows the organization to support a wider range of vocational skills and to strengthen existing institutions. The ICRC has recently been more active in trying to engage the private sector in designing programmes and supporting the identification of job placement opportunities, as highlighted in Case Study 4.

Case Study 4. Youth employment in Colombia

Violence in the suburbs of Medellín was closely linked to the economic difficulties of households. Structural poverty, lack of opportunity and high levels of unemployment, particularly among young people, were identified as some of the causes and also as some of the consequences of violence. As part of its response to this complex situation, the ICRC's Economic Security Unit launched a programme focusing on youth employment in the neighbourhoods most severely affected by urban violence. The objective is, on the one hand, to provide support for young people to realize their potential and to contribute to their households' income and, on the other hand, to reduce the likelihood of their joining violent gangs. In order to promote youth employment, the programme relies on a series of microfinance and vocational training schemes. The ICRC has approached existing MFIs and training providers as well as small and medium-sized businesses to encourage them to offer selected beneficiaries training and employment contracts. The ICRC covers transport and daily expenses during the period of training and provides wage subsidies for companies that hire selected beneficiaries for a period of three to six months. In addition to some financial and technical support, one of the ICRC's key functions is to match the skill of beneficiaries with opportunities identified in the public and private sector. The short-term employment period provides beneficiaries with formal work experience, a potential reference, an opportunity to develop a professional network and openings for them to widen their social network. The ICRC has also used the success of the programme to advocate the hiring of unemployed young people and IDPs and to fight the stigmatization of those groups.

5.3.3 Vocational training vs grants and microcredit

- Vocational training is the MEI that is best suited for more vulnerable households as grants and microcredit often require the existence of marketable skills, while vocational training is intended to provide them.
- Unlike grants, vocational training has a self-targeting aspect. That aspect is not as strong as with microcredit but because vocational training involves a time investment, it limits the number of unmotivated applicants.
- The difficulty lies, however, in the fact that, if vocational training does not lead to employment, it has a very limited self-employment perspective. Unlike grants and microcredit, it does nothing to address the problem of the lack of start-up capital.
- While vocational training can theoretically be used to target the most vulnerable households, one of the common challenges lies in finding or designing a vocational training programme that does not require participants to have already acquired a considerable amount of basic schooling.

5.3.4 SWOT analysis for vocational training

The following table gives an overview of the main strengths, weaknesses, opportunities and threats associated with vocational training.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Strengthens employability • Input stays with beneficiary • Partial self-targeting • Conducive to networking 	<ul style="list-style-type: none"> • Difficulty in finding trainers in tune with market demands • May require additional financial assistance for self-employment • Certain training may be unrealistic within the given time frame
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • To connect vocational training with microcredit and grants • To connect vocational training with the Ministries of Labour, Social Affairs or Education • To strengthen local institutions 	<ul style="list-style-type: none"> • Lack of economic growth and job creation • Informal entrepreneurs do not believe in the added value of vocational training • Bad choice of the vocational training partner

5.4 Information asymmetry and moral hazard

Microcredit group-lending schemes implemented by MFIs such as Grameen Bank have been given 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 the problems of moral hazard and of information asymmetry associated with the provision of credit for poor households. As highlighted in Chapter 4, information asymmetry and moral hazard are also issues of concern when providing grants and vocational training. The following sections provide some suggestions of how to mitigate their impact.

5.4.1 Mitigating the risk of information asymmetry

- 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 cost preventing more vulnerable households 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, significantly more information on their status can be collected than by relying simply on information collected through an application form or telephone interview. Interview techniques are covered in greater detail in Chapter 6 and Section III.

5.4.2 Mitigating the risk of moral hazard

- Use a similar approach to the group lending model, according to which 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 increase community tension.
- Ask community leaders counter-signing contracts between the ICRC and beneficiaries.
- Provide assistance for beneficiaries in stages. The assistance is provided in increments on the basis of the results of monitoring.
- Carry out unannounced, frequent and in-depth monitoring.
- Transfer ownership of the inputs only if the project is successful. This implies that that ICRC retains ownership of the project for the first few months.
- Build a relationship of trust with the beneficiary. This can also increase the extent to which the beneficiary feels accountable.
- Ask beneficiaries to repay a percentage of the project cost over a period of one year, with the money ideally being reinvested in the community in order to ensure that the community is involved 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 microcredit and different possible loan products, they can generally be categorized according to lending methods, loan characteristics and collateral substitutes.
- The objectives of ICRC microcredit interventions are to improve beneficiaries' access to appropriate credit schemes and to strengthen existing MFIs.
- The ICRC rarely provides credit directly but works through existing MFIs.
- While microcredit ensures better self-targeting and increased ownership of projects, grants are better suited for more vulnerable households.
- The main added value of vocational training is that it strengthens employability and can be used to assist households lacking marketable skills. It can also be a stepping stone to self-employment.
- Programme design and procedures are vital to tackle challenges linked to information asymmetry 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 Microfinance Institutions?*, Focus Note No. 5, December 1996.

Consultative Group to Assist the Poorest (CGAP), *Microfinance, Grants, and Non-financial Responses to Poverty Reduction: Where Does Microcredit Fit?*, Focus Note No. 20, December 2002.

ILO, *Guidelines for employment and skills training in conflict-affected countries*, ILO Training Policies and Systems Branch, Geneva, 1998.

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J. Morduch, "The microfinance promise," *Journal of Economic Literature*, Vol. 37, December 1999.

D. de Wild, *Business skills, Training course for beneficiaries of microeconomic initiatives*, ICRC, Geneva, 2014.

DRC, "Income generation through grant and micro-finance programmes", Programme Handbook, 2010.



SECTION II

IMPLEMENTING MEIs

6 HOW TO IMPLEMENT PRODUCTIVE GRANTS

This chapter deals with 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 microcredit 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 microcredit respectively, focus only on the specificities of those two types of MEI and not on the aspects common to all three, which are covered in this chapter.

Each of the three chapters in this section is divided into four sub-sections: needs and feasibility assessment; programme design; programme implementation; and follow-up.

6.1 Needs and feasibility assessment

At this juncture, it should be stressed once again that MEIs are one of many potential types of intervention and should be implemented only when the specific need for a programme of that nature has been identified and the preconditions are in place. In spite of the constant improvements in the streamlining of standard operating procedures, MEIs remain an intervention that is best suited for targeting a limited number of beneficiaries within a narrowly defined geographic area. In other words, as a means of implementing a large-scale response or assisting households that are sparsely scattered over a wide area, MEIs are not an appropriate response.

6.1.1 Timing

When first introduced, MEIs were used as a strategy for exiting from relief programmes that had lasted several years. The idea was to provide beneficiaries with one last boost of assistance to increase their self-sufficiency prior to closing down EcoSec operations. Increasingly, however, MEIs are being used shortly after a conflict to support early

recovery efforts and the timing of their implementation has been closely linked with their relevance and effectiveness.

MEIs have proved to be more relevant to households whose livelihoods have recently been affected by a conflict or related shock than to households that have been provided with an MEI decades after having been affected by conflict, as was the case for some programmes implemented as an exit strategy. This does not imply that MEIs fail to increase the income of the latter type of household; it is rather that many of those households appear to have already recovered economically and may have benefited more from a different type of assistance, as highlighted in Case Study 5.

Case Study 5. The importance of the timing of programme delivery in Georgia

The MEI programme in Georgia was initiated in response to the 2008 conflict with South Ossetia, and the first grants were disbursed in Shida Kartli in 2009. In addition to focusing on households that had been affected by the most recent fighting, MEIs were extended to families of the missing and of mine victims from the previous 1992 conflict. When the use of MEIs by households affected by the 1992 conflict was compared with that of households affected by the 2008 conflict, it was noted that 72% of beneficiaries affected by the 1992 conflict used the MEI to extend existing businesses, compared with 19% of households affected by the 2008 conflict. The latter group used the MEI mainly to start new income-generating activities. In other words, for households affected by the 1992 conflict, MEIs seem to have been a welcome reinforcement to the recovery strategies that those households had put in place over the previous 20 years, whereas MEIs seem to have played a more fundamental role in sparking the recovery of households affected by the 2008 conflict. The contrast of the programmes is not as great, however, in terms of the income generated by the grants, as grants to support existing microenterprises have a tendency to achieve better results.

The timing can be just as important as the content of the assistance but is not always easy to get right. The risk of donating too early is that beneficiaries have not reached the point at which they are ready to use the assistance, while the risk of late implementation is that the assistance is less relevant. One way of overcoming this is by allowing beneficiaries to choose when they wish to receive the grant. Beneficiaries can be informed that they have been selected for the programme and given six months to request that the money be transferred. Consequently, beneficiaries are encouraged to time the receipt of the grant with the seasonality of the income-generating activity and their household's readiness to restart the microenterprise.

One of the challenges of using MEIs at the earlier stages of a response is linked to the timing of the needs assessment. Such an approach implies having to carry out an assessment at a very early stage, possibly in conjunction with the assessment related to relief efforts. Early assessment is crucial as it allows the programme to be designed and launched by the time that it becomes most appropriate. It may also enable a quicker and more effective selection of beneficiaries given that microentrepreneurs who were previously running a business may be more quickly identified in the immediate aftermath of a crisis.

6.1.2 Assessing the need for an MEI

The following list is of the tasks to be undertaken when assessing the need for an MEI:

- **Analysis of the data collected during post-distribution monitoring of an existing assistance programme:** This will give an idea of the use being made of the assistance to date and of 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 broader perspective of the situation of the target population as foreseen in the medium to long term.
- **Gathering of demographic statistics concerning unemployment and under-employment:** 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 unemployment and under-employment, such as gender-related issues or certain age categories that are particularly affected by unemployment.

6.1.3 Assessing the feasibility of an MEI

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

- **Market assessment:** One of the most important components of a feasibility assessment is clearly the market assessment. This includes gaining an idea of market access and stability, the structure of the informal market and the potential of certain income-generating activities within the market. When carrying out a market assessment there is a need to focus on both the supply and demand sides, as potential MEI beneficiaries will be both buyers and sellers on the market. Given the importance of market

assessments for all interventions, the International Red Cross and Red Crescent Movement has developed its own market assessment tools, which should be used to guide this process.¹⁷ Further details of the market assessment process are provided in Section III.

- **Mapping of local resources and opportunities:** It is crucial to gain an idea of the skills of the target beneficiaries and the income-generating opportunities that they would like to pursue. By mapping these and comparing them with prevailing market conditions, an overview can quickly be obtained of how realistic/profitable those activities would be, whether the beneficiaries' skills meet the market standards, and the amount of time and resources needed to support such projects.
- **The ICRC's ability to provide the required goods and resources:** Linked to the two previous points is the issue of whether the ICRC will be able to provide the inputs and technical support that are most likely to be required. That will depend on the availability 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 as well as seasonal access considerations (e.g. during the rainy season).
- **Community dynamics:** 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 to implement such projects and how to do so. Similarly, the impact that MEI projects may have on rent-seeking relationships and existing community activities should be considered.

¹⁷ ICRC/International Federation of Red Cross and Red Crescent Societies, *Rapid assessment for markets, Guidelines*, ICRC/International Federation of Red Cross and Red Crescent Societies, Geneva, 2014; *Market assessment guidance*, ICRC/International Federation of Red Cross and Red Crescent Societies, Geneva, 2014.

6.2 Designing the project

6.2.1 Identification of the target group

Within the overall target population (e.g. IDPs, civilians), the exact criteria by which to identify the group to be targeted by the MEI programme must be defined. The criteria can be a combination of demographic (e.g. dependency ratio), economic (e.g. occupation, household budget) and social (e.g. widowed, elderly) factors. They should be developed in conjunction with the local community, generally with the assistance of community leaders or representatives of civil society. It is important to stress that MEIs are not an appropriate response for all beneficiaries. Generally, they will not be suited for certain groups, such as children or the elderly, and even within suitable target groups there will always be a significant number of vulnerable households that will not meet the criteria enabling them to benefit from such assistance. MEI projects are provided for economically vulnerable households that demonstrate the necessary skills, motivation and entrepreneurial spirit. Some vulnerable households and often the most destitute households do not qualify for this form of assistance. To avoid this conundrum careful consideration needs to be given as to whether MEIs are the best response for a given target group and delegations should avoid implementing MEI programmes without having possible options for the most destitute households. This may involve having recourse to more relief-oriented programmes, structural interventions, a system of referral to other organizations or relevant social assistance programmes.

6.2.2 Objectives, indicators and monitoring

MEIs are an economic tool that should be used to respond to an economic need. While they may generate secondary psychosocial benefits in some cases, those alone do not justify the provision of an MEI. Given that MEIs remain an expensive intervention, there are more effective and efficient ways of providing psychosocial support.

Objectives

When reflecting on the objectives and indicators for an MEI programme, a distinction needs to be made between income recovery and income diversification. While both of these aim to strengthen households' livelihoods, they have very different implications for the design and specific objectives of a programme. The needs of businessmen re-launching a previously profitable enterprise that has been destroyed are relatively simple compared to the needs of a family who has recently lost a breadwinning member of their household. In the first case, MEIs can be useful in helping businessmen recover their livelihoods; the second case is far more complex. Unlike the recovering microentrepreneur, the latter potential beneficiary will usually require psychosocial assistance before even starting an MEI, he or she will often have no experience of the enterprise that they wish to develop and limited support from other members of the family. While an MEI may be an appropriate response to the economic needs of such beneficiaries, it needs to be part of a holistic response to their wider needs and intensively managed.

Therefore, while MEIs should always be seen as income-generating activities, the way of implementing them should span the spectrum extending from loosely conditional grants to complex systematically monitored and mentored projects.

This implies that in contexts where different types of beneficiary groups are assisted by means of MEIs, there may be a need for a multipronged approach, with some beneficiaries receiving more support and closer follow up than others.

Performance indicators

The percentage increase in household income that is directly attributable to the MEI is the most common effectiveness indicator used, along with the number of assisted households that moved above the poverty line. Each of those indicators provides incomplete data when used on

its own. If used in isolation, both indicators suffer from similar shortcomings. First, their meaning is incomplete without information concerning the household baseline income. Indeed, a household that has a baseline income of USD 1 will increase its household income by 40% if the MEI allows it to generate no more than 40 cents. Similarly, a household whose income is only USD 1 below a poverty threshold will successfully be brought above that threshold if an MEI allows the household to generate one additional US dollar. When used in combination, however, the two indicators work better as the proportional nature of the first indicator complements the normative nature of the second. Nonetheless, they still suffer from problems linked to variations in the size of households. The grant value rarely varies from one household to another, thus making indicators that are expressed in terms of household income slightly biased towards smaller households. Similarly, household size varies over time and these indicators therefore risk overstating the impact of MEIs in cases in which a household may have lost a non-breadwinning household member during the lifespan of the MEI (e.g. migration, death, marriage).¹⁸ Indicators that are expressed in absolute terms in relation to a threshold that is pegged to the average family size may therefore be preferable. For instance, it can be said that MEIs allow households to generate additional income that is equivalent to 50% of the cost of the official food basket for a family of 4.

Results monitoring framework

The purpose of the results monitoring framework (RMF) is to ensure that the logic behind a programme's design will be sustained through the implementation and the performance evaluation phases. However, the RMF is too often treated as a formality associated with the design of a programme and is then not used sufficiently to guide programme procedures. For instance, in many contexts it is

¹⁸ The impact of an MEI may also be underestimated in contexts where the notion of household is broad and the household budget is managed by a single individual for the entire extended family.

not uncommon for MEI projects to be approved although the household's business plan indicates that the expected income from the microenterprise is below the performance indicator for the programme. Insufficient use of the results monitoring framework may also be linked to the insufficient thought that is sometimes given to their drafting. It is *crucial* for the RMF to appropriately reflect local specificities and to be understood by all staff connected with the programme.

6.2.3 Viability, preconditions and sustainability of projects (average amount)

Projects most likely to be requested should be identified on the basis of coping strategies, questions asked during post-distribution monitoring, the most popular activities in the informal market, and the most popular microenterprises supported by MFIs. Expected expenditures, revenue, and cash flow should be analysed in order to determine the profitability of each project. On the basis of this analysis, the ICRC's inputs should be identified, along with the items not provided by the ICRC that the beneficiary will need for the project to be successful. That exercise should make it possible to gain an impression of the average value of a project.

Determining the size of the grant

One of the challenges in designing an MEI programme is gauging the appropriate size of the grant. The average amount required to launch a microenterprise varies significantly from one context to another. Providing an insufficient grant amount may significantly hinder the effectiveness of the MEI programme, while being overly generous may have an adverse impact on the efficiency of a programme. Beneficiaries of the relief programmes who may have already launched or be interested in launching a microenterprise are obviously one of the most important sources of information. As the cost of starting a microenterprise also varies from one type of activity to another, there is a need to remain sensitive to the variety of activities that may be supported within a grant amount.

Indeed, while a handful of income-generating activities may be started with a relatively low grant value, this may lead to a saturation of the market for those activities. It may also compromise the bottom-up approach by compelling beneficiaries to choose an activity in which they may not be truly interested. Therefore, one should avoid considering the minimum needed amount to start a “standard” microenterprise and, rather, seek to determine the minimum amount needed to allow most beneficiaries to start the microenterprise of their choosing. To that end, it is also useful to consult other relevant stakeholders. In contexts in which there are reliable microfinance institutions, the average and maximum amount of the first loan provided for microentrepreneurs are generally useful indicators of the grant value needed to assist aspiring microentrepreneurs. Vocational training providers also often have a wealth of information on the costs faced by former students when starting microenterprises.

In some contexts it may be worth considering providing grants of different amounts for different purposes. For instance, some households may not be capable of starting a microenterprise aimed at generating a significant cash income but may benefit from a project that enhances their food production. In such cases providing a relief grant that is aimed at supporting self-consumption and may be of a significantly lower amount than the MEI may be the more appropriate option. That may also provide the ICRC with an alternative for some of the households that are deemed ineligible for the MEI programme despite their evident vulnerability. In other words, the relief programme would be run as a separate programme from the MEI but both would use similar cash disbursement mechanisms. In addition to savings on operational cost, this would allow beneficiaries of the MEI programme to be referred to the relief programme when appropriate. Making the distinction between self-consumption and income generation and having different grant values for each objective may also help address some of the difficulties faced in certain contexts with livestock projects.

Livestock projects

Livestock projects are frequently among the most popular projects in peri-urban and rural areas but they are also the projects that often fail to meet income generation performance targets. This can be attributable, to the fact that the profitability of livestock projects is often more difficult to forecast, given the different variables that need to be taken into consideration. As a result, some beneficiaries fail to manage their project in such a manner as to obtain optimal returns, which is why it is important for a proper analysis of the profitability of livestock projects to be carried out with the help of livestock specialists in the given context and for beneficiaries to receive the appropriate veterinary and marketing guidance. While the creation of predetermined MEI kits is generally not recommended as it has a tendency to hinder the bottom-up process that is essential to the success of MEIs, they have proved to be a useful option when dealing with livestock projects in order to ensure that the right mix of feed, veterinary care and livestock is provided for the project to be profitable.

Another reason behind the poorer performance of livestock projects is that in rural areas, motivated, capable and vulnerable households are often unable to submit a proper, income producing MEI proposal. This is simply because there is no viable market in their setting, which is also what prompts their request for a livestock project, as there are few alternatives. The accepted proposals are usually sound as expenditure substitution measures, enhancing nutritional self-sufficiency and social status. The projects also lead to improvements in social inclusion and subsequently an enhanced ability to withstand livelihood shocks. In such a situation another option for such livestock projects is to group them within a separate sectoral programme. This may make it possible to implement of a larger-scale and more cost-effective programme.

Group projects

Group projects are one of the alternatives that are often proposed when there are budget constraints or difficulties in selecting beneficiaries. They should, however, be avoided. Most attempts to encourage beneficiaries to apply as a group have failed, which is why group projects should only be implemented under very specific circumstances and certainly not as a means of addressing targeting challenges or budget limitations.

The common determinants for successful group projects are as follows:

- The group is a genuine and voluntary coming-together of people who were either related or knew each other long before the group was formed. Group members should preferably have prior experience of managing shared assets.
- All group members participate actively in the project
- A group project is implemented because the project needed more start-up funds than the individual grant value, because members wished to pool the risk associated with the project, or because members had complementary skills or assets.
- Successful group projects have fewer than five members.

For further details on how to analyse the viability, preconditions and sustainability of projects, please refer to Section III.

6.2.4 Identifying, informing and consulting key informants

Key informants generally include people working in both the political and technical spheres. The purpose of consulting them is twofold: first, to obtain their advice on programme design and, second, to gain their support 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 approaches of the project and should be 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 the money being misused. A strong relationship with the authorities at ministerial level will often be crucial for programme managers with a view to obtaining 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 experts:** These may be staff of specialized ministries (e.g. the Ministry of Agriculture), representatives of cooperatives, relevant professionals (veterinarians) or members of universities or training institutes. Such people are useful at the outset to verify assumptions on the viability of kits and to flag potential pitfalls. At a later stage 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 to ensure complementarity and coordination should be established.

6.2.5 Administration and logistics coordination and supervision mechanisms

MEI programmes should preferably be implemented through the provision of conditional cash transfers. In such cases, the programme design and implementation requires close cooperation between the EcoSec and Administration teams. In the rare cases in which cash is not an option, the logistics team also plays a critical role. Therefore, the

administration team (and logistics teams, where applicable) should be fully involved from the outset so that they have ample time to consider 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 that everyone agrees 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 MEI programmes are internal. Further details of cash transfer procedures for MEIs are provided in Section III.

6.2.6 Resources (human, budgetary, equipment, time)

When planning the necessary resources, two key points should be borne in mind: first, MEIs are often more resource intensive and take more time to set up than standard relief and production interventions. 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. The number of beneficiaries and resources required to launch a programme will depend on whether the programme sets out to support existing microentrepreneurs who are recovering from a shock or whether it is seeking to support vulnerable households that wish to start new income-generating activities. If the programme is mainly intended to help existing microentrepreneurs recover from a shock, it can be given a far lighter structure, particularly if affected beneficiaries are easily identifiable.

Another key factor contributing to the human resource requirements is whether the programme is implemented in cash or kind, as highlighted in Case Study 8.

Both the quantity and the quality of human resources are crucial to a programme's success. The programme should be started with a caseload of fewer than 100 projects per field officer, bearing 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. Regardless of the number of staff involved, a realistic objective for the first year of implementation should be no more than a few hundred projects.

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

Lastly, it is vital to 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 clearly explained. That will help involve people internally and manage expectations.

Beyond drawing up a proper programme budget, potential budget cuts need to be managed properly. Senior management should be warned about the risks of cutting the grant value as a first reaction when faced with the need to make budget cuts. As previously stated, a lower grant value is likely to decrease the type of different projects that can be realistically implemented with an MEI. In some cases, this may severely hamper the versatility of an MEI programme and have an effect on both its outreach and its effectiveness. Budget cuts should be properly thought through; where the programme is well calibrated, the most sensible option is to decrease the number of expected beneficiaries.

The possible members of an MEI team are listed below and their tasks described. Please note that not all of these positions are mandatory in every context and that certain tasks can be outsourced when relevant.¹⁹

¹⁹ While there are many advantages to outsourcing certain tasks, attention should be paid to designing incentives and reporting systems which ensure that the desired standards for services are met.

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 can be achieved by ICRC field staff and sometimes at a reduced cost. Local monitors relay the information to the ICRC field staff, with whom they liaise closely.

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 errors are largely carried out by ICRC field officers.

Agronomists

Agronomists are essential elements of an MEI team, especially in rural and peri-urban areas. They are heavily involved in monitoring and providing support for agriculture grants (greenhouses, open field production, etc.).

For the implementation of MEIs, the ICRC generally makes a distinction between two senior and junior agronomic consultants. Junior agronomists are involved exclusively 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 market for local crops.

Veterinarians

Veterinarians perform monitoring and support duties. They should also be involved in programme design. Their main role is to visit 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 an annual 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 60 to 70 MEI projects simultaneously, amounting to approximately 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 for 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.

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 annual 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 for them. He or she endeavours to ensure that all field offices adopt a consistent approach and that procedures are respected and understood. He or she acts as a trouble-shooter and a resource person for the field officers. He or she updates the programme tools and standard operating procedures.

6.2.7 Accountability framework

Ensuring that a programme is designed and implemented according to procedures that maximize the ICRC's accountability to its beneficiaries is a crucial element of all EcoSec programmes. As such, programmes need to be designed in accordance with the ICRC's Minimum Practices for Accountability to Affected Populations (AAP).²⁰ It is worth noting that apart from the accountability measures that apply to all relief programmes, there are also additional requirements when it comes to productive interventions such as MEIs. The following is an overview of some of the most critical points relating to MEIs; for further details please refer to the AAP.

²⁰ ICRC, Minimum Practices for Accountability to Affected Populations, ICRC, Geneva (internal document).

Critical points to ensure that a proper accountability framework is in place

- A complaints and response mechanism is established that is suitable for receiving complaints about quality and timeliness of activities. The complaint mechanism should endeavour to have systems for dealing with more sensitive complaints (including those about fraud and sexual abuse and exploitation linked to the programme).
- More than one channel for receiving complaints is identified, in order to ensure that different groups in the community can raise complaints safely and effectively.
- A complaints and feedback database is set up and used to analyse trends over time and from different locations.
- The approach for receiving and responding to complaints is designed with input from community members to ensure that it is safe, non-threatening and accessible to all (including women and men, boys and girls, and vulnerable and marginalized groups).
- The programme's complaint and response mechanism is documented, and answers the following questions:
 - What is the purpose and limitations of the mechanism?
 - How can complaints be raised (including an option for complaints linked to staff)?
 - What steps will be taken to deal with complaints (including how complaints will be investigated and in what time frame)?
 - How will allegations of exploitation and abuse (including allegations of a sexual nature) be appropriately handled?
 - What response will be made to complaints?
 - What will be done to ensure confidentiality and non-retaliation?
 - How will complaints that go beyond the scope of the mechanism be handled and appropriately referred?
- Information about the programme is communicated using language, formats and media that are accessible and understood by beneficiaries and affected communities, including vulnerable and marginalized groups.
- Beneficiaries and communities are informed about:
 - Essential aspects of the ICRC's mandate, values and role;
 - The criteria and process for beneficiary selection;
 - Programme objectives, start and end dates, planned activities;
 - The behaviour that they can expect from all ICRC staff during programme/ project transactions between the ICRC and beneficiaries;
 - In cash interventions, key financial information should be given about the amount that will be transferred;
 - In productive interventions only: Necessary financial information about the programme is shared with the beneficiaries and communities concerned;

- Staff and volunteers are easily identifiable by the beneficiaries and communities concerned, depending on the context;
- Field staff have access to programme information (as outlined in the proposal and programme plans), and are aware of their role in sharing details with people;
- Preferred methods for sharing information are identified on the basis of input from the community concerned;
- An option is provided to accept feedback on the information shared;
- Ongoing communication is conducted throughout the duration of programmes so as to keep the beneficiaries and communities informed;
- Beneficiaries and communities are informed about programme progress and any changes to implementation plans;
- Teams check if information is reaching the target audience;
- Communities are informed about their right to provide feedback and to make complaints;
- Programme staff understand the difference between feedback and complaints and the importance of both for improving programme quality;
- Staff, volunteers, beneficiaries and other community stakeholders are briefed on the complaints handling approach (procedures). Training is provided as needed;
- Feedback and complaints received by field staff as part of their day-to-day work reaches managers to ensure their use;
- Managers ensure that complaints are handled systematically, which includes recording and reviewing complaints regularly;
- A response is given to complaints;
- Action is taken to adapt programmes on the basis of feedback and complaints as soon as is possible and feasible;
- Communities and partners are involved in the feedback/complaints mechanism;
- Existing skills and capacities at community level are built on as part of programme implementation, including providing capacity building to enable people to play an increasing role in programme implementation;
- Beneficiaries and community members (including women and men, boys and girls, and people from vulnerable and marginalized groups) are shown how to monitor the programme progress themselves;
- Periodic programme reviews are carried out with beneficiaries and communities to understand the levels of satisfaction with the programme, including people's perception of value for money.

6.3 Implementation

6.3.1 Piloting the programme

As mentioned above, 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 but that this is a very challenging task, at least for the first year of implementation. When using MEIs as an early recovery intervention it may be necessary to launch a sizeable programme from the onset. However, when considering testing new approaches, it may be advisable to first run a pilot project.

The key points to bear in mind for a successful pilot project are as follows:

- Start small: Make sure that the size of the pilot project allows you to devote sufficient time to following each assisted household very closely in order to draw meaningful conclusions. Past pilot projects have included as few as 24 households.
- Follow up closely: Make sure that 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 project is not one that is implemented without problems but one that allows you to derive enough lessons to scale up the programme without encountering unforeseen challenges.

6.3.2 Area selection

Once the target group has been clearly defined, the potential areas in which to launch the programme need to be identified. 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 for the areas of intervention to be geographically defined and for the general public to clearly understand their boundaries. 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 area to the human resources available to them and to their 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 based on a mix of practical considerations (e.g. distance from the office, size, number and concentration of potential applicants) and operational parameters (e.g. living conditions of the target population, existence of markets for given products).

Case Study 6. Area selection in the 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 the geographic areas in which people were especially vulnerable, the ICRC pinpointed the professions that were most severely 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 north 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 to assist greenhouse farmers and Bedouin shepherds in the areas most severely affected by the conflict.

Youth employment programme

Analysis of unemployment patterns in the Gaza Strip revealed that young men 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 young men who were motivated and had the necessary skills to initiate income-generating activities. This was accomplished by allowing young men who had successfully graduated from a vocational training centre to apply for productive grants. Vocational training in the Gaza Strip was highly subsidized and used primarily by poorer families. Better-off youths attended university, and vocational training institutions thus conveniently 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 supplying 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 potential beneficiaries that a selection process will take place and that applicants who do not satisfy the criteria will not be assisted with an MEI. However, as highlighted previously, from the very early stages of the programme design a system to refer ineligible vulnerable applicants to other assistance schemes needs to be put in place.

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 dismissed as nothing more than a routine exercise.

Communication channels

A combination of different communication channels can be used to raise awareness of the programme. As stressed above, 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. Similarly, communication channels should be devised so that beneficiaries can voice complaints, raise concerns and appeal against a decision if their application is denied. This is critical to increasing the ICRC's accountability towards beneficiaries and should not be limited to MEI programmes solely. It should be borne in mind that communication channels should be adapted to their objective, in other words different communication channels may be used to collect concerns and appeals from those used to disseminate 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. Those methods include:

- Distribution site: The programme can be promoted among 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.
- Multipliers: Information is passed on to a few community leaders (multipliers), who then spread it by word of mouth.

Key information and messages

Posters and leaflets must clearly state:

- Who is entitled to apply for inclusion in the programme;
- The exact boundaries of the targeted area;
- The deadline for application;

- Where to obtain 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);
- How, where and to whom can feedback or complaints about the programme be communicated;
- How the complaints will be handled;
- A contact number for questions.

The key messages to be communicated are:

- The programme uses a bottom-up approach, with the applicant proposing the project that is best suited to him or her;
- The programme is restricted to the most vulnerable households in the community;
- The provision of assistance is not guaranteed: priority will be given to convincing projects proposed by the most vulnerable applicants;
- 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 best for 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 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 that they may face during the application process (questions concerning the limitations of the programme or the bottom-up approach, illiteracy, etc.).

Information that may be required of project applicants

- Official identification papers for all household members;
- A business plan, including expected 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.

For an example of application forms used in the past, please refer to Section III.

The business plan

One of the key determinants in the success of a project, and therefore in the selection of beneficiaries, is the business plan. A proper business plan requires time and knowledge to develop. The template for a business plan is provided in Section IV and the key points to consider when assessing a rough outline are highlighted in the selection interview guidance sheet in Section III. Ideally, a business plan should include a detailed description of the following items:

- The business idea;
- The market and the marketing plan;
- The production plan;
- Capital costs;
- The financial plan;
- Projected profit and loss statements.

In the light of the research and understanding necessary to draw up a proper business plan, it may not be realistic to request one from all beneficiaries as part of the initial application process. While some existing entrepreneurs may be able to develop a business plan without any guidance or assistance, this is not the case for many of the beneficiaries that are assisted with MEIs. For this reason it may be worth breaking down the application process into different steps in order to give beneficiaries the necessary time and training to develop a business plan. For instance, a first selection round can focus on the vulnerability and motivation of applicants. All beneficiaries selected in the first round are then offered a basic business training course covering each of the essential steps of a business plan. Following the business training, successful beneficiaries are invited to reapply and to present a detailed business plan for a conditional cash grant to start a microenterprise. For more on business training, please refer to Guidance Sheet 6 in Section III.

Disincentives

Programme efficiency depends heavily on good time management. Much time can be wasted by 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 any applicants who do not qualify at an early stage.

As there is no actual cost involved in applying for a project, one common disincentive for people already employed or not genuinely 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).

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

Another option that can be adopted in high density areas is relying on representative bodies or associations to draft an initial list of beneficiaries based on agreed economic vulnerability criteria. If there are no such organizations, the preparation of such a list can be overseen by a committee comprising representatives of each of the main constituent groups in the area. When using such an approach it is all the more important to ensure that an efficient and formal complaints mechanism is established along the lines of the points highlighted in Section 6.2.7. In addition to conferring legitimacy on the process and providing an opportunity to correct any mistakes that may have occurred during the drafting of beneficiary lists, it also encourages the representative body or committee to take their supervisory role seriously as they will ultimately be the ones to deal with any complaints.

6.3.6 Selection interview

All applicants are interviewed (using semi-structured interviews) at their places of residence by ICRC field staff. As far 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 checked and the degree to which the applicant fulfils the five selection

criteria assessed. Notes may not need to be taken during the interview and the interview form can be completed once the interview is complete.

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 experience between field offices, should be organized to facilitate the learning process. However, no training is a substitute for extensive practical experience. In the initial phase, field officers should work in teams of two. On average, a field officer can expect to carry out at least 20 interviews before feeling sufficiently comfortable with the approach.

During the selection process, ICRC field officers are encouraged to cross-check 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

The following five criteria are used to select potential beneficiaries.

- **Vulnerability:** the observed level of a household's economic vulnerability;
- **Motivation:** the household's motivation to undertake the foreseen activity;
- **Skills and knowledge:** the existing skills of household members as required 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).

The fulfilment level for each of the five criteria is defined by the programme management team and the delegation's operational priorities (e.g. choosing to accept only the most vulnerable rather than all vulnerable IDPs). The applicant's vulnerability is verified using a similar methodology to that used in the household economy assessment, with skills, motivation, experience and preconditions being assessed mainly through a discussion of the business plan and inputs requested by the ICRC. For further details of the selection interview, please refer to Section III.

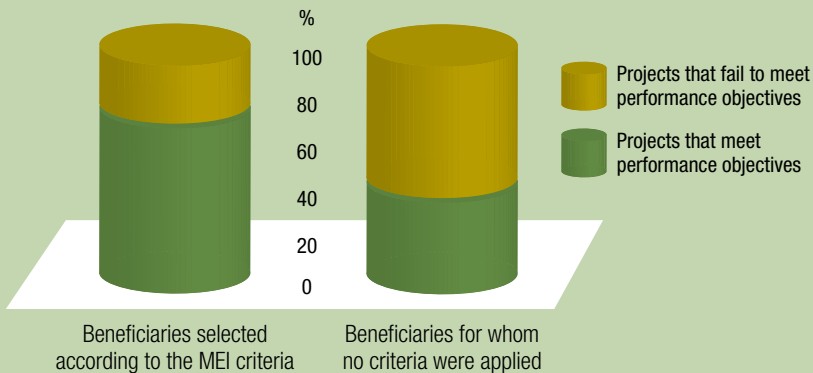
The programme management team is also responsible for ensuring uniformity in the assessment of the criteria (i.e. that a "pass grade" for vulnerability, skills, motivation and resources is the same at all field offices).

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

The temptation to relax the criteria for specific groups of beneficiaries should be resisted. This is a particularly salient issue when extending MEIs to groups whose vulnerability may not necessarily be economic. Given that a secondary psychosocial impact has also been attributed to MEIs in some cases, certain households who do not meet the economic criteria have nevertheless been provided with an MEI. The criteria are developed in order to ensure that MEIs are used as efficiently and effectively as possible while targeting economically vulnerable households. Therefore, considering another form of assistance may be preferable to relaxing the criteria, as illustrated in the box below.

Case Study 7. Application of selection criteria and programme effectiveness

At some point during the implementation of the ICRC's MEI programme in Kyrgyzstan, a decision was taken to remove the vulnerability criteria for a specific beneficiary group. It was felt that all such beneficiaries should receive an MEI, regardless of whether it was deemed to be the most appropriate form of assistance for them. This makes for an interesting case study. The graph below illustrates the difference in performance of such MEI beneficiaries before and after the decision was taken.



The performance of the group of beneficiaries that were not selected according to the criteria was far worse than the others in terms of meeting the economic objectives of the programme. This highlights the strong link that generally exists between relevance and effectiveness. In other words, people who truly need the additional income will often make more of their MEI, as long as they have the necessary skills and physical abilities.

Redirection

While project development is intended 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. Ideally, by developing a business plan, beneficiaries will be able to discard projects that are not promising. However, this does not always happen and beneficiaries may need to be encouraged to explore new avenues if those that they propose do not seem sustainable. In this respect, the field

officer may be required to meet applicants on several occasions before a project is finally 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 precise 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 meet the criteria. This can save considerable time further along 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 at 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 and are entitled to appeal against the decision through a formal mechanism, as outlined in Section 6.2.7. Incomplete information may impede the reliability of the appeal process and 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 for 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 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 relevant questions have been asked.
- **Countersignature of the application form:** This system is very similar to the previous one and requires a field officer and the programme manager to agree bilaterally on the selection. All the selection forms for projects must 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, and eliminates the need for programme managers and field officers 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, a selection committee being created at field office level and 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 further information

on aspects to be checked by the programme manager as part of the approval process, please refer to Section III.

In addition to approved and rejected projects, there will also be projects about which there is a degree of uncertainty. Such projects should be re-examined with senior staff before final approval is given (or refused).

6.3.8 Provision of inputs

When conditions allow, most humanitarian agencies (and donors) consider it preferable to use cash transfer (direct transfer of money, vouchers, creation of market fairs) as a means for supporting beneficiaries rather than replacing the market and making their own in-kind distributions. The reasons are as follows:

- *Programmatic reasons*
 - Choice and flexibility for beneficiaries;
 - Empowerment and dignity;
 - Potentially addresses prevention, emergency and recovery needs by strengthening markets.
- *Pragmatic reasons*
 - Often cost-efficient;
 - Often time-efficient, particularly if repeated distributions are envisaged;
 - Multiplier effects on the local economy.
- *Enhances autonomy and diminishes the risk of creating dependencies.*

The lack of food (or other essential items) is generally a problem of economic access rather than of the unavailability of food (or other items) on the market. Although they have not always been confirmed by evidence, concerns have been raised that if humanitarian aid is provided over a long period, it:

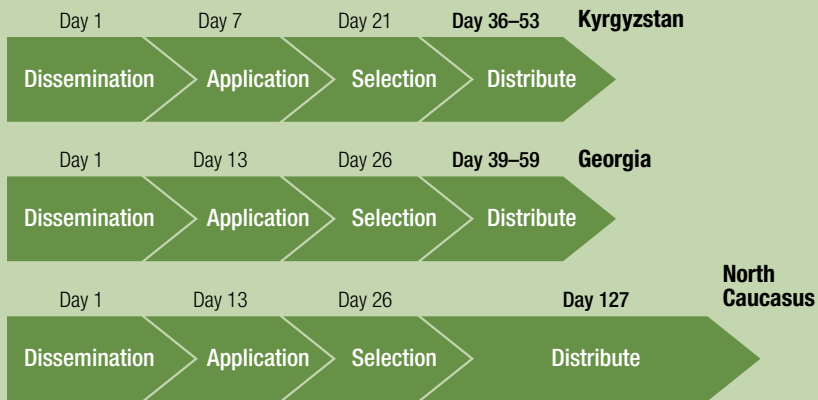
- may distort local consumption habits and tastes;
- may distort the local market;
- may become a disincentive for production or for the creation of a local market;
- has less of a multiplier effect on local markets than cash and thus limited impact on recovery.

In the case of MEIs the cash transfers are generally of a conditional/restricted nature, with a cash amount being transferred to beneficiaries following an agreement on how the cash is to be used. In some cases the conditionality may be enforced more strongly, for instance the cash amount may be transferred in a series of tranches with monitoring visits in between transfers to ensure that the money is being used as agreed. Beyond aligning the use of funds with the ICRC's programme objectives, the purpose of imposing conditions on MEI cash transfers and of monitoring project implementation is to incentivize beneficiaries to launch the microenterprise that they have been hoping to start. That being said, alternative approaches to conditional cash transfers can also be envisaged. For instance, vulnerable beneficiaries could be offered a choice between two unconditional cash transfer schemes: one in which the beneficiary receives an unconditional cash transfer as a lump sum if he or she is interested in starting a microenterprise and one in which the same amount is staggered over a longer period of time, potentially providing beneficiaries with greater predictability in their revenue flow. In that sense, cash transfers also allow for greater flexibility in the programme design and in the degree of conditionality imposed. Nonetheless, past programme reviews and beneficiary interviews highlight the importance of conditionality and frequent monitoring as a source of motivation and a key factor in programme success. The added flexibility that comes with unconditional cash transfers is appealing but may also come at a cost in terms of the impact of the programme.

Case Study 8 illustrates some of the advantages of using cash transfers from a programme implementation perspective.

Case Study 8. Cash vs. in-kind distribution

An evaluation of MEI programmes in Georgia, Kyrgyzstan and the North Caucasus in 2012 revealed the impact that in-kind distributions can have on the speed of implementation. MEI programmes in Kyrgyzstan and Georgia were implemented using cash transfers, while the programme in the North Caucasus relied on in-kind distributions because of restrictions imposed by the local authorities. The diagram below tracks the average amount of time that elapsed between the dissemination of the programme and the distribution of the assistance to a beneficiary in each of the contexts. The total time that elapsed is also highlighted at the end of each of the key phases of the implementation process namely, dissemination, application, selection and distribution.



After the first three phases of the implementation process there is a slight variation in the speed of implementation of programmes but they are all within the same range. What is noteworthy is the fact that the time needed to distribute the assistance once a beneficiary has been selected was up to three times as long for the in-kind programme as it was for the cash-based programmes. Similarly, the implementation costs for the North Caucasus programme were up to twice as high than for the Georgia programme.*

* While the differences in implementing costs are largely due to the distribution mechanism, it is worth noting that other factors, such as the intensity of the monitoring and the more restricted access to beneficiaries, also contributed to making the Northern Caucasus programme more costly than usual to implement.

In order to streamline the procedures of the growing number of projects implemented with cash transfers, the ICRC has developed a detailed list of standard operating procedures²¹ to outline the roles and responsibilities of Administration, Logistics and EcoSec in such programmes. Some of the main operational points relating to the implementation of cash transfers are indicated below. A more detailed guidance sheet is provided in Section III.

In order to verify the feasibility of the programme, multi-disciplinary teams including EcoSec, Admin (Administration) and Log (Logistics) staff should also assess:

- the performance of markets (competition between traders, linkages between markets, ability to respond to increased demand, etc.);
- the availability of the right quality of goods to comply with the ICRC's health and safety and performance standards (e.g. food-grade aluminium or stainless steel to avoid metal migration, type of paint, UV resistance level for tarpaulins, thermal and pilling resistance for blankets);
- the security risks (including the management of the delegation);
- the available financial transfer mechanisms;
- the inflationary risks;
- the institutional capacity or the capacity of partners to carry out and supervise cash transfers in a timely manner.

When looking at feasibility, the following questions need to be answered:

- Which financial transfer mechanism is the most secure (for the institution and the beneficiary)? What security risks are involved?
- Do the existing financial transfer mechanisms have the capacity to make the payments (amount/staff/time)?

²¹ ICRC, *Cash Transfer Programming: EcoSec, Logistics and Administration responsibilities and procedures*, ICRC, Geneva (internal ICRC document).

- How reliable are the existing financial transfer mechanisms (corruption and fraud risks)?
- Where is the destination and how high are the transportation costs from the delivery/pay point to the beneficiary's home?
- Are the markets from which beneficiaries will purchase supplies competitive, functional and integrated?
- Are the items available with the same quality, safety and cost-efficiency as in an ICRC supply?
- Are there any inflationary aspects to be taken into consideration?
- What fiscal controls/standards must be respected?
- What (if any) are the laws, regulations and government policies in place with regard to cash transfer "income"?
- How cost-efficient (the total cost of transferring money to the people) are the various financial transfer mechanisms?
- Has the ICRC observed a history of fraud in the context in question?
- Are experienced partners available?

In some contexts, it may not be possible to implement cash transfers because restrictions are imposed by the local authorities or because the quality of some the inputs available on the local market is insufficient. In such cases, an in-kind distribution system may need to be adopted. Hybrid systems can also be considered. For instance, when the main challenge is the quality of some of the inputs available on the local market, a cash transfer system can be put in place for the inputs that are readily available thereby limiting the burden of procuring the items to those few inputs that may not be available. If the local authorities are reluctant to use cash transfers, an alternative system may involve field officers purchasing items with beneficiaries, thus not directly transferring the cash to beneficiaries but ensuring that the some of the flexibility associated with cash transfers is maintained.

Distribution

If a feasibility assessment identifies cash transfers as being the preferred approach, a multidisciplinary team then needs to decide on a cash transfer mechanism or a combination of such mechanisms. The options to consider are as follows:

- Direct transfer to the bank accounts of the beneficiaries;
- Direct cheque delivery to the beneficiaries;
- ATMs and smart cards;
- Mobile banking or payment through mobile phones;
- Entrusting the payments to an intermediary;
- Direct distribution of cash by the ICRC.

If cash distribution is not considered an option, vouchers (commodity and/or cash) may be an appropriate alternative.

In the case of in-kind distributions, the distribution schedule is decided jointly by EcoSec and the Logistics Division.

The distribution points must be surveyed and routes and accessibility checked. Beneficiaries must be informed of the upcoming distribution schedule and of the means of transportation that they should plan to use to transport their grant inputs home from the distribution point. In general, the beneficiaries should be given confirmation of the distribution 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 as they may significantly delay the distribution process.

Quality checks

It is important for the future success of the programme that the items provided for the beneficiaries match their needs, both in terms of quantity and quality. The provision of sub-standard 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 requested. Should some items fail to meet those standards, the field officers are entitled to 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 completed 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. When implementing MEI programmes through cash transfers, the issue of quality checks is a more sensitive one but equally critical. In such cases, the responsibility for selecting and procuring items is transferred to beneficiaries, although it may be necessary to brief beneficiaries on the risk associated with buying cheaper items and to provide pointers on how to assess the quality of different assets.

Agreement

The distribution or disbursement of MEI projects also requires well-kept 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 the assets remain the ICRC's property for the first six months and that the ICRC will retrieve the assets if they are not used for the agreed purpose. In return, the beneficiary agrees to be monitored on a regular basis and to give the ICRC accurate information regarding the project. Some programmes may require that a small portion of the cost of the grant be repaid by the beneficiary over a period of one year, with the money being transferred to an account jointly held by the community and the ICRC. In such cases,

the money being reimbursed may be used to finance community projects benefiting people who have not received an MEI project.

For further details of types of agreements concluded with beneficiaries in the past, please refer to Section IV.

Briefing

Beneficiaries should be thoroughly briefed by field officers when an agreement is signed. This should be handled as if it were a business transaction rather than 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). Having community leaders also sign as witnesses can further reinforce the contract. In addition to having a small portion of the grant reimbursed and invested in community projects, this may 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 Monitoring and follow-up

The follow-up phase of grant projects generally has three components:

- Process monitoring;
- Progress monitoring;
- Outcome evaluation.

Although, 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 handbook for the sake of clarity.

Process monitoring is carried out at the programme management level and consists of keeping an overview of programme implementation. In other words, it involves evaluating each step to date and adapting the programme, as necessary, in order to streamline and improve it. This is also often referred to as “activity monitoring.” This section focuses on progress monitoring (Section 6.4.1) and outcome evaluation, both of which are carried out at the field level and are an integral part of results-based monitoring. One of the common shortcomings of MEI programmes is that in many contexts the monitoring seems more process than result oriented. In other words, the monitoring is aimed primarily at collecting data rather than at supporting beneficiaries and troubleshooting problematic projects. Monitoring must be dynamic and goal-oriented in order to allow the EcoSec teams to quickly identify and focus on problematic issues and projects.

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 encountered by the beneficiaries – and to help them overcome those problems;
- To identify the need for coaching and to provide it;
- To identify the need for training;
- To provide feedback for beneficiaries and to act as an additional source of motivation;
- To learn lessons that can be applied in the next programme cycle.

How?

Monitors should show interest in and commitment to 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 for it

to 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 is therefore 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, non-ICRC staff can be taught fairly easily how to monitor projects. 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,” with beneficiaries monitoring 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. In the initial stages, projects visited by local monitors should be revisited by ICRC field officers (or visited jointly with the monitors). Once local monitors have been appropriately trained, only a portion of projects need be revisited by ICRC staff to carry out quality checks. The ICRC can also encourage community members to monitor projects themselves, in addition to the ICRC monitoring.

When?

The frequency of monitoring depends on the type and performance of the project. Ideally, the first monitoring visit should take place shortly (less than a week) after the provision of inputs. Field staff should aim to reach beneficiaries by telephone in cases where there is no easy access to beneficiary households or if the first monitoring visit is delayed. The first visit serves several purposes. It signals the ICRC’s commitment to supporting and following up on

the beneficiaries' progress. Therefore, in addition to ensuring that inputs have been received by the beneficiary, monitoring staff should enquire about the timeline according to which the beneficiary intends to implement his or her project. This information should also be used to identify the timing of the second monitoring visit. Distribution errors should be noted and reported at an early stage so that they can be promptly corrected. The first visit also provides the beneficiary with an opportunity to ask the ICRC questions and for the ICRC to clarify the conditions of the project and to set the "ground rules." Technical information (such as feeding practices for live-stock) can also be provided during the first visit.

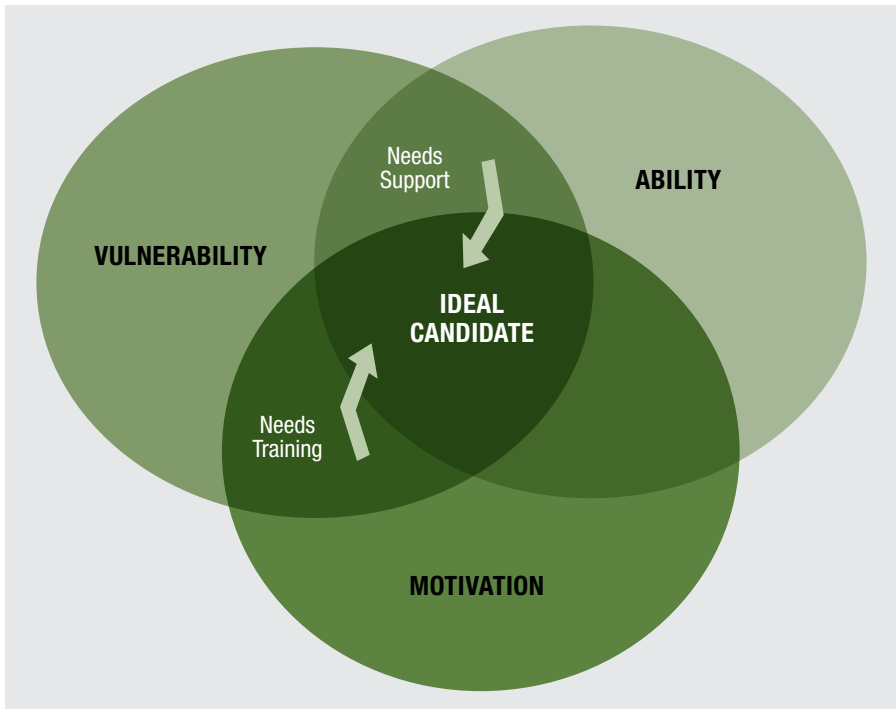
The aim of second monitoring visit should be to ensure that project implementation is under way and to identify any additional support that the beneficiary may need. If the beneficiary is encountering a specific problem, it should not only be documented by monitoring staff but a set of actions to address the problem should be proposed and implemented.

Once a project has started generating income that is near the level projected in the business plan, monitors should ensure that the beneficiary is aware of how they can be contacted should they encounter a problem, although no additional monitoring visits should be required. The idea is to focus on beneficiaries who are struggling to ensure that their projects are up and running according to plan. Therefore, the frequency of monitoring visits will vary significantly from one project to another.

6.4.2 Coaching and support?

As illustrated in Figure 6 below, MEI beneficiaries should ideally have the right combination of motivation and skills. In practice, however, potential beneficiaries often lack a little of one or the other. While monitoring is one of the means of sustaining beneficiary motivation, a lack of certain skills will generally require some sort of training or coaching.

Figure 6. Overview of MEI criteria



As the success of the MEI approach depends to a considerable extent on the beneficiary's ability to identify a good project and to draw up a well-prepared business plan, it is important for the beneficiary to have the necessary skills to do so. As mentioned above, it may be preferable in such cases to offer applicants the possibility of participating in a workshop on microenterprise management.

In the past, business training has been provided by either the ICRC or local organizations as highlighted in Case Study 9.

Case Study 9. Business management training in Pakistan-administered Kashmir

An assessment carried out in Pakistan-administered Kashmir in 2007 revealed that, following physical rehabilitation, people with disabilities found it difficult to become economically active and as a result often found themselves in a dire economic situation. The assessment concluded that there were a variety of reasons for this, including their inability to access the funds needed to start their own microenterprises 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, inability to draw up a proper business plan and general lack of familiarity with MFIs.

The ICRC therefore decided to launch a multifaceted programme in 2008, which included an MEI component alongside physical rehabilitation, advocacy and awareness campaigns. Because of the lack of literacy and self-confidence of many of the beneficiaries, the MEI programme incorporated a business coaching module that was developed with professors and business representatives from the community together with ICRC staff. Although the programme consisted of a sizeable conditional cash grant and a partnership with one of the main MFIs in the region, the coaching module was identified by several of the participants as being the key component in their economic and social recovery. In addition to providing beneficiaries with much needed insight on entrepreneurship, the coaching module also acted as a platform for beneficiaries to share their apprehensions and to encourage one another to overcome the stigma that they faced as a result of their disability. The coaching module also enabled beneficiaries to broaden their social and business network and to identify like-minded peers with whom to they could share lessons learned.

A business management skills training (BMST) course should help MEI beneficiaries to develop a detailed business concept, assess its financial viability and draw up a plan of how to implement it. It should be practical and adapted to the level of literacy and numeracy of the participants. The main topics to be covered in the business training are as follows:

- How to develop a good business concept;
- How to market products;
- How to conduct a market assessment;
- How to assess the financial viability of a business concept;
- How to manage and monitor business finances.

Because the quality and impact of business training courses has varied significantly from one context to another, the ICRC has recently developed its own curriculum.²² More information on business training is provided in Section III.

In addition to business training, providing project-specific coaching may also be an appropriate means of enabling beneficiaries to achieve the best output from their projects. Such coaching can be provided by technical experts, such as agronomist or livestock specialists, who can be hired as monitors. Alternatively, technical experts can provide brief technical training. Organizing such training courses generally requires a critical mass for a specific type of project to be worthwhile. In the past, such training courses have been developed for projects such as greenhouses in peri-urban areas.

6.4.3 Monitoring short-term outcomes

A final monitoring visit is organized before the ICRC hands the full ownership of a project over to beneficiaries. This generally takes place approximately six months after the provision of initial inputs. The purpose is to formalize the handing over of the project to beneficiaries and to measure the outcome of the project on the beneficiary's household economy. ICRC field officers and the locally contracted monitors will often perform the outcome evaluation jointly. It is a delicate task, relying on careful semi-structured interviews.

Clearly, each context and programme is different, but the points generally addressed in an outcome evaluation are as follows.

²² D. de Wild, *Business skills, Training course for beneficiaries of microeconomic initiatives*, ICRC, Geneva, 2014.

Economic impact

Evaluating economic impact consists of quantifying the improvements in the economic security of a household that are linked to the MEI. This can be done by comparing the household's assets, income, expenditure, debts, savings and consumption before and after the project. The indicators used should be consistent with the programme objectives and include the key indicators selected for the programme's results monitoring framework (RMF). The outcome evaluation should rely on information similar to that used during the selection interview and be weighed against the measures taken at that time. In other words, the data collected in the selection interview is used both as a means of assessing a beneficiary's economic vulnerability and as a baseline for measuring the economic impact of a project. The investment in assets can also act as a proxy indicator for the sustainability of the impact.²³ In addition to the indicators included in the RMF, programme managers may choose to consider additional issues during the outcome evaluation. These may be used to obtain a better understanding of the dynamics behind the economic impact of a project. Common indicators used for that purpose are listed below.

The choice of economic indicators should be guided by the programme objectives, their relevance to the context and the extent to which they can be objectively measured using the information available.

²³ For further details, 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.

Indicators measuring the economic impact of programmes

- % of households that have increased their level income as a result of the project;¹
- % of households that have more sources of income as a result of the project;
- % of households whose income has moved above the poverty line as a result of the project;
- % of households that have a greater number of productive household members as a result of the project;
- % of households that have less fluctuation in their income as a result of the project;
- % of households that have a more predictable income as a result of the project
- % of households that have seen positive changes in expenditure patterns as a result of the project;
- % of households that have purchased durable assets as a result of the project;
- % of households that have less debt as a result of the project;
- % of households that have increased their investments;²
- % of households that have access to better financial services as a result of the project;³
- % of households that have increased their savings as a result of the project;
- % of households that have started saving as a result of the project.

1 Levels of income can be measured against benchmarks such as the minimum consumer basket.

2 Investments can include investments in durable household assets, assets related to their existing or new microenterprises and investments in human capital such as schooling for children.

3 This may include being able to obtain credit from MFIs rather than from moneylenders as well being able to put savings in a bank or telephone account as opposed to keeping them in the home.

Sustainability

Evaluating a project's sustainability is a challenging task as the outcome assessment is generally carried out six months after the provision of inputs. On the basis of such a short length of time it is difficult to estimate the anticipated lifespan of a project. The most informative indicator is often 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 foreseen prior to investing in it, the beneficiary will continue investing the time and money needed to sustain the activity. This is another reason why it is crucial to document a beneficiary's expected profit from a project during the selection interview. Other useful indicators include the amount of additional money that has recently been invested by the beneficiary in the project. With regard to trade projects, a good indication of sustainability is a comparison between the profit of one business cycle and the cost of a second cycle. Similarly, when dealing with households that rely on several sources of income, it may be interesting to compare the profit/time investment ratio of the household's different income-generating activities.

Spillover effect

A spillover effect is a secondary assistance-related effect that was not initially foreseen. It can be either positive or negative and a distinction can be made between spillover effects at household and community level.

Spillover effects at household level are 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 effects at community level are 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. One example would be a project directly supporting fishermen, which also has a positive impact on the fish-processing industry.

Psychosocial impact

An aspect that should be given particular consideration 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 a quantitative basis, the assessment of the spillover effect and the psychosocial impact is obviously a much more delicate matter. 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 within 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 analysed in depth in order to identify the implications of such qualitative outputs.

It should be stressed, however, that while MEIs may generate secondary psychosocial benefits in some cases, these alone do not warrant the provision of an MEI. As MEIs are an expensive intervention, there are more effective and efficient ways of providing psychosocial support. MEIs are an economic tool that should be used to respond to an economic need.

Going further with evaluations

While changes in the household economy of beneficiaries provide an indication of the potential economic impact of MEIs, the use of control groups provide a more rigorous way of isolating the impact of MEIs. This implies comparing the evolution of the household economy of beneficiaries with that of similar non-beneficiary households. While this can present ethical challenges in some cases, certain

contexts can lend themselves to these types of comparison.²⁴ This is the case, for instance, when beneficiaries are assisted over several different phases, which allows a comparison to be made between the household economy of existing and future beneficiaries. Ideally, control groups should be identified before designing the programme so as to ensure that they are as representative as possible.

It should be stressed that cases in which a project has failed to have the expected impact are often those that deserve the most attention. Apart from the need to identify the main causes of the failure and whether beneficiaries need further assistance, there is generally a great deal to learn from failed projects on how to improve programme design. Where the failure of the project is deemed to have been entirely beyond the control of the beneficiary, such as in cases of *force majeure*, the possibility of providing a new MEI should be considered. However, such cases are likely to be the exception rather than the rule.

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 as compared with the annual plan;
- Number of applications received;
- Number of selection interviews conducted;
- Number of projects launched since the beginning of the budget year;
- Number of monitoring visits conducted;
- Impact of projects ending in the current month;
- Progress of programme implementation compared with that envisaged in the work plan.

²⁴ For more information, see E. Duflo, R. Glennerster, M. Kremer, *Using Randomization in Development Economics Research: A Toolkit*, NBER, Cambridge (MA), 2006.

6.5 MEI implementation with partners

The ICRC has increasingly been implementing MEIs with local partners. In addition to the fact that local partners generally have a better understanding of local community dynamics, such an approach often allows the ICRC to carry out some capacity building of the local partner with a view to its taking over or extending the programme without ICRC support. Other advantages have also included better lines of communication with local communities as well as more efficient implementation. In the past, National Red Cross or Red Crescent Societies have frequently been partners for the implementation of productive grants, although the ICRC has also entered into partnerships with micro-finance institutions when implementing microcredit programmes.

While the procedures as covered by this handbook so far remain largely unchanged when implementing a programme with a partner, a few additional considerations should be taken into account to ensure that the programme and partnership run smoothly. The following points have been identified as the key issues to be borne in mind when implementing MEIs under such partnerships.²⁵

- The partnership should be developed around a joint assessment of the identified need, a joint conceptualization of the partnership and joint programme design and planning.
- The roles and responsibilities of both institutions should be qualified and clarified jointly during the planning and design phase of the programme. This clarification should include definition of each partner's contribution to the partnership (human and financial resources, goods in kind, services).
- Processes and procedures that take account of those that already exist and that meet the needs of both partners and the programme should be developed and utilized. Any changes to existing procedures should be negotiated and agreed by both institutions.

²⁵ Adapted from the ICRC's evaluation of the MEI programme in Nepal.

- The different working cultures of the partners should be discussed and acknowledged and the programme design should make allowances for them.
- The MEI focal point within the partner organization should have sufficient seniority and authority to make key decisions on behalf of the partner.
- The transfer of skills related to MEI programme management should take place at all levels of the management hierarchy. This implies having an interface and working level relationship between the partner at the lower, middle and senior management levels.
- In order to strengthen capacity building, programme design should include a phasing-out of ICRC technical support over time. This support can be more intensive at the beginning of the programme if required, with the role of the ICRC field staff shifting from implementation to coaching once the partner has sufficiently developed its technical capacity.
- Consideration should be given to placing a member of the ICRC's technical staff within the partner's office. If this is not realistic at the beginning of the programme, it can be phased into the programme as human resources are recruited and developed. This allows for the development of the partner's technical skills and capacities to be enhanced.
- To the extent possible, the Cooperation Department should provide cooperation orientation training for all ICRC personnel working closely with the National Red Cross or Red Crescent Society in the country concerned. Similarly, ICRC technical staff should provide technical briefings and updates for the Cooperation staff responsible for supporting and mainstreaming the partnership with a National Society.
- The ICRC should be able to contact beneficiaries directly and a complaint channel should be set up so that beneficiaries can contact the ICRC directly.

Case Study 10. Implementing MEIs with a partner in 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 scattered across wide, often remote, areas, the ability to reach all the intended beneficiaries quickly became an issue of concern. Fortunately, the Nepal Red Cross Society (NRCS) 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.

Through their operational partnership on microeconomic initiatives, the NRCS and the ICRC successfully provided assistance for 5,050 conflict victims over a period of three years. This would not have been possible without the local knowledge of the Nepalese Red Cross and the commitment of over 60 volunteers who participated in the programme.

The partnership and the implementation of the MEI programme also enabled the NRCS to increase its capacity to implement such programmes and it now has the potential to successfully replicate income-generation interventions. The ICRC has, in turn, learned much about how to implement an operational partnership and to work effectively with a National Society on MEI programming.

KEY POINTS

- Grants are the most common MEIs and generally a precursor to the implementation of vocational training and/or microcredit 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 far-reaching but should include expected changes in household income and sustainability.
- When planning the resources needed, it should be borne 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 economic vulnerability, motivation, knowledge, experience and preconditions. The selection interview is the most important step in the programme.
- When conditions allow, cash transfers (direct transfer of money, vouchers, creation of market fairs) are the preferred means of supporting beneficiaries rather than replacing the market and making in-kind distributions.
- 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, spillover effects and psychosocial impact.
- Local partners are increasingly involved in the implementation of MEIs as they have a better understanding of local community dynamics, increase the sustainability of the ICRC's impact through capacity building and can improve programme efficiency.

6.6 Other relevant documents

- ICRC, *Internal review of grant programmes in Serbia and Montenegro*, ICRC, Geneva, 2005 (internal ICRC document).
- ICRC, *Internal review of grant programmes in Georgia and Abkhazia*, ICRC, Geneva, 2007 (internal ICRC document).
- ICRC, *Programme/project management: The results-based approach*, ICRC, Geneva, 2008.
- ICRC, *Measuring results*, ICRC, Geneva, 2009.
- ICRC/International Federation of Red Cross and Red Crescent Societies, *Guidelines for assessment in emergencies*, ICRC/International Federation of Red Cross and Red Crescent Societies, Geneva, 2008.
- Save the Children Fund/Food Economy Group/Regional Hunger and Vulnerability Programme, *The Practitioners' Guide to the Household Economy Approach*, February 2008.
- ICRC/NRCS, *Micro-economic Initiatives Programme in Nepal*, ICRC/NRCS, 2011.
- ACF, *Income-generating activities: A key concept in sustainable food security*, 2009.



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 examined. Vocational training can be of interest to people for a variety of reasons; identifying the specific needs of those people 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. Conversely, other beneficiaries may be well versed in the subject but lack the practical experience to translate their knowledge into action. For such beneficiaries, a formal training institution may not be the ideal place to learn.
- **Training certificates:** In some cases, beneficiaries may have acquired the necessary technical and practical knowledge but lack a recognized diploma that will enable them to work in the area to which they have been displaced. For such beneficiaries, accreditation by a vocational training institution will be most useful.
- **Work experience:** Some beneficiaries may have both practical and theoretical knowledge but lack recognized work experience that would help them obtain formal employment. In this case, an apprenticeship might be appropriate, with the duration, the type of enterprise and the wages 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 microentrepreneurship to complement 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,” with employers being 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 merely providing evidence of knowledge, a diploma from a training institution is seen as proof of motivation and of a desire to persevere in a certain domain.

It should be stressed that in many cases lack of training may not be the sole or main reason for the high levels of unemployment within certain social groups. Other common issues include beneficiaries’ lack of proper documentation or discrimination against a specific group. It is therefore critical for programme design to be preceded by a detailed understanding of the difference drivers of unemployment for a given group. In other words, unemployment and the desire for formal employment should not be automatically equated with the need for vocational training. When training is identified as a priority, vocational training programmes should seek, to the extent possible, to provide a holistic response to the employment-related challenges faced by beneficiaries. This may imply leveraging the services of existing government services or NGOs. For instance, beneficiaries may be referred to NGOs providing legal assistance for people lacking identification papers or to government bodies providing soft skills for job seekers such as job interview or curriculum vitae writing skills.

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 educational 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 skills 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 the appropriate level of skills may prove challenging in contexts in which there is a sizeable gap between the educational level of people working in the formal market and that of the target population, particularly as ICRC-supported vocational training is generally limited to a few months rather than 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 better assess whether the impact of the project will be sufficient on its own or whether it will have to be complemented by other forms of 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 (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 11. The ICRC contracts independent trainers in 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. First, 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 those communities. Second, 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 into 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. Trainee plumbers, electricians, carpenters and others thus 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 in line with local market requirements. As a further incentive to start up their own income-generating activities, on successful completion of the course and in exchange for their community work, each participant was given the set of tools that they had used during the training programme.

7.2.1 Possible types of intervention

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

Experience has shown that a combination of theoretical training and apprenticeship is often most effective.

In addition to these points, labour inclusion programmes offer an alternative approach to vocational training and are covered in greater detail in Section 7.5.

Table 6. Advantages and disadvantages of training options

Type of training	Advantages	Disadvantages
Local training institution	<ul style="list-style-type: none"> • Use of a local partner provides an 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Likely to have 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) 	<ul style="list-style-type: none"> • Government accreditation unlikely • Limited variety of subjects offered, potentially affecting participants' ownership
Apprenticeship	<ul style="list-style-type: none"> • Very versatile • Provides practical experience • Can act as a reference and of work experience • Provides networking opportunities with potential future clients 	<ul style="list-style-type: none"> • Quality of mentors may vary significantly • Scope of training may be limited to certain specific skills • Difficulty in ensuring accountability of training provider

7.2.2 Identifying training providers

Bearing in mind the advantages and disadvantages of the different training options set out in Table 6 (section 7.2.1), the ICRC may need to be involved in the identification of potential local partners for the provision of training. In such cases, the 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 that 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 and appoint the training institutions to be used.

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 dissemination phase of the programme generally needs to focus more on raising awareness of the opportunities associated with vocational training. A particular challenge is 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 the specific set of skills?

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 Cash transfers and procurement

When the beneficiary is given the freedom to choose their training provider, the use of conditional cash grants is one of the simplest ways of proceeding. Apart from the added speed and lighter administrative processes, the use of conditional cash transfers can also make it easy to add a vocational training component to an existing productive grant programme if it is identified as an appropriate response option for certain beneficiaries. In cases in which direct cash transfers are not feasible, another option is to provide beneficiaries with the flexibility of choosing the training that suits them best and providing the ICRC with the complete contact details of the training centres so that the cash transfer may be carried out between the ICRC and the training centre.

Case Study 12. Incorporating vocational training into a grants programme in India

In 2011 the ICRC launched an MEI programme in Jammu and Kashmir aimed at supporting the income-generating capacity of families of detainees and ex-detainees. The programme largely focuses on the provision of conditional cash grants to support the establishment of microenterprises; however, certain younger and better educated beneficiaries who had limited skills at the initial stage, had preference for a vocational training. Following an initial assessment of the vocational training market, the potential use of the conditional cash grants was extended to include training tuition fees for such beneficiaries. Beneficiaries interested in starting a microenterprise following a vocational training course are also provided with the balance of funds to invest in productive assets. One of the most popular and successful training courses amongst the younger beneficiaries has been on repairing mobile telephones.

When it is not the ICRC that selects the training partner, it is crucial to establish clear minimum quality criteria for training. 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.

On the basis of the above criteria, and depending on the level of availability of vocational training centres/schools and of competition among them, the Logistics Division can also be called upon to carry out a benchmarking exercise to identify training institutions in the main urban centres and to establish a price bracket within which the ICRC would be willing to fund training in institutions meeting the quality criteria.

7.3.4 Contracts

In addition to the agreement concluded with the beneficiary, where the ICRC deals directly with some of the training providers, 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 the beneficiary with proof of training (e.g. a diploma or work certificate) as applicable.

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 carried out at least once during the training phase. If beneficiaries are scattered across different training centres it may be preferable to carry out attendance monitoring by telephone or email. 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 having a representative of each profession evaluate the beneficiaries' performance, assess the quality of the training, motivate beneficiaries and create a standardized testing mechanism.

7.4.2 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 as follows:

- 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?

7.5 Labour inclusion

In cases where the lack of training has not been identified as the main cause of unemployment, it may be preferable to favour other or complementary means of promoting formal employment.

One alternative approach being tested by the ICRC is the provision of temporary wage subsidies to encourage enterprises to hire individuals whom they would have otherwise overlooked. This is may be a suitable approach when trying to help beneficiaries who are qualified but are stigmatized and therefore struggle to enter the workforce.

When considering such an approach, particular attention should be paid to issues relating to partner identification, job retention and advocacy.

Partner identification: The choice of partners for assistance schemes of this kind may call for greater sensitivity than when dealing with partners in the non-profit sector. Because the ICRC can ultimately be seen as financing part of the enterprise's activities, there is a need to carry out a thorough due diligence exercise to ensure that the partners identified are reputable companies. Similarly, there is a need to ensure that partner companies understand from the start that they will not be entitled to use the ICRC's name or refer to the programme as a means of promoting their social responsibility.

Job retention: Ideally, the prospect of beneficiaries being offered a permanent position after the end of the subsidy should be one of the key criteria behind the selection of partners. The programme objective is to enable the beneficiaries to secure long-term employment and therefore the job retention rate is one of the key indicators of success. However, the possibility of seeking to limit the duration of employment so as to increase the number of beneficiaries who can be employed by a certain partner may also be an option in some rare cases. This could be considered, for instance, when one of the partners is an

enterprise whose work ethic is held in high esteem and when it is felt that short-term experience with the company may act as a stepping stone to formal employment with other companies.

Advocacy: Such programmes are also an excellent platform from which to launch advocacy campaigns. When the main challenge faced by beneficiaries is social stigma, as is often the case with IDPs, the advocacy component may represent one of the most important components of the programme and should therefore be developed as part of the initial programme design.

KEY POINTS

- When considering implementing a vocational training programme, as well as when approving beneficiaries for such programmes, it is essential to obtain a clear understanding of the specific needs that the beneficiaries are trying to meet through the training. These needs can include the acquisition of theoretical or practical skills or training certificates, proving motivation or accreditation, gaining work experience, or enhancing self-employment opportunities or employability.
- Lack of training may not be the only impediment to formal employment. There may therefore be a need to complement vocational training programmes with other services.
- Wage subsidies along with advocacy are an option that may be more appropriate than traditional vocational training when beneficiaries are stigmatized and uninterested in self-employment.
- Training programmes can be provided by the ICRC, through training institutions or through 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.

7.6 Other relevant documents

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

World Bank, *Building the Skills for the New Economy*, Human Development Unit, World Bank, Washington D.C., June 2007.

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

8 HOW TO IMPLEMENT MICROCREDIT SUPPORT PROGRAMMES

As the ICRC avoids implementing microcredit programmes directly, the objective of this chapter is not to consider their design and implementation step by step but to focus on the specific implications of microcredit support programmes for ICRC field staff. To find out more about the development of microfinance programmes, please refer to the recommended documents at the end of this chapter.

8.1 Needs and feasibility assessment²⁶

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 similar assessment methods 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 that 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?

Some of the most common reasons why populations targeted by the ICRC have limited access to credit are as follows:

- 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);

²⁶ Adapted from J. Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective*, World Bank, Washington D.C., 1998.

- Lack of a social mandate at the MFI in their area (i.e. MFIs are keener to ensure absolute minimum delinquency rates than to reach out to vulnerable households);
- Lack of outreach at 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 microcredit intervention is to understand the actors, policies and regulations that apply to the sector. An overview is given below of the main questions that need to be asked in order to understand 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?²⁷ What products and services do they offer? What role do governments and donors play in providing financial services to the poor?
- How do existing financial sector policies affect the provision of financial services? Such policies include:
 - Interest rate policies: An example of such 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 earmark a certain percentage of their portfolio for poorer segments of society or for certain economic sectors;

²⁷ This should include formal, semi-formal and informal financial institutions.

- 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 affect the market or when they mobilize deposits from the public. Means of regulation vary from minimum capital requirements,²⁸ capital adequacy,²⁹ liquidity requirements and asset quality³⁰ to portfolio diversification.³¹
- What other economic and social factors could affect the provision of financial services and the ability of small businesses to operate? Inflation³² and lack of infrastructure are examples of such factors. Social capital is another important factor to be taken into consideration. This refers to the existence of traditional social mechanisms that facilitate mutual obligations, contracts and transactions.³³ The breakdown of these mechanisms has serious implications for the demand, scale, training needs and operational efficiency of MFIs.

While microcredit has proved to be an effective tool in helping people strengthen their livelihoods it is not suitable for all situations. The following points highlight those situations in which microcredit is **not** considered to be a viable approach:³⁴

- In an immediate post-emergency environment;

28 Amount of equity needed to be formalized.

29 Extent to which the revolving fund has been financed through debt.

30 Provisions made to avoid contracting bad debt. This generally refers to collateral guarantees.

31 To ensure that MFIs have not concentrated their portfolios in one geographic sector or market segment.

32 Many of the problems related to inflation can be overcome by indexing loans to another currency.

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

34 Adapted from CGAP, *Microfinance, Grants, and Non-financial Responses to Poverty Reduction: Where Does Microcredit Fit?* Focus Note No. 20, December 2002.

- For the chronically destitute: credit is unlikely to succeed without pre-existing efforts to reduce vulnerability and to build skills, confidence and a minimal financial base;
- In severely disadvantaged rural areas lacking infrastructure, services, and/or access to markets;
- Where illness prevents people from engaging in productive activities. HIV/AIDS provides an extreme example of a situation in which the poor may become less able to benefit from credit over time.

Other limiting conditions include:

- A population so dispersed that it is too costly to reach clients on a regular basis;
- Dependence on a single economic activity – such as a single agricultural crop – which creates “covariance” risk for the microcredit institution;
- Reliance on barter rather than on cash transactions;
- A population with a high degree of mobility or instability – for example, populations temporarily displaced due to civil conflict;
- Likelihood of future crises such as civil violence, natural disasters or hyperinflation;
- Absence of law and order;
- A legal/regulatory or monitoring and enforcement environment that constitutes a significant barrier to microenterprise or microfinance activities;
- Lack of social capital or societal cohesion, which undermines the use of non-collateral credit methodologies.

Some of the limiting conditions highlighted above are often present in contexts in which the ICRC operates. In that sense, one of the ICRC’s roles is, where appropriate, to help MFIs mitigate the risk associated with some of these conditions.

8.2 Programme design

As already mentioned, the ICRC avoids providing loans directly. Microfinance requires long-term commitment and the presence of an institution that specializes in this domain. Financial support for a limited period of time could jeopardize some of the basic underlying principles of microcredit.³⁵ One of the most appealing aspects of microcredit 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 microcredit support programme is to secure with the means to fill these gaps by providing support for existing structures or by encouraging the development of new structures. Most of ICRC's past microfinance programmes have primarily supported existing MFIs, which is what this section will focus on. However, recent programmes have also aimed to provide beneficiaries with improved alternatives to keep savings and supported the establishment of community based financial services. Looking forward, the ICRC may also wish to consider providing support for microinsurance schemes.

8.2.1 Support for existing MFIs

There are various ways in which the ICRC can support a microcredit 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 for the ICRC's target population. Funds are generally provided on condition that certain vulnerability criteria are met. On the basis of 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.

³⁵ For instance, guaranteed access to repeat loans is one of the main motivating factors for repayment of the original loan. If clients suspect that the ICRC will eventually pull out of the programme, 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 approach is generally used to increase the risks that 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, the joint approval of the ICRC and the MFI required for funds to be released. 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 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 achieved, 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 implemented on the basis of a sliding scale financing model, with a commitment from the MFI that the resources will be used essentially to serve ICRC beneficiaries, at least for a given period of time.
- **Support for 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 by contributing to an internationally recognized MFI rating. These actions would provide valuable information for the MFI and certainly help it improve its processes and contribute to securing additional funding.
- **Increasing the target population's awareness of the MFI:** This can also be achieved by supporting the marketing and dissemination of the programme, particularly in areas likely to be of interest to the ICRC's target population. However, it can be difficult to position the ICRC in communication campaigns of that kind. As mentioned above, the ICRC should not be

associated too closely with the project as this might send wrong signals to the applicants and risk affecting repayment rates and the programme's sustainability.

→ **Provision of "soft credit records":** As 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 set aside a percentage of the grant received from the ICRC in an MFI savings account over a period of time. The ICRC would inform the MFI of this request at an early stage so that the MFI could use the savings process as a means of assessing the beneficiary's creditworthiness.

→ **Guidance for MFIs on 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 period are interlinked, with smaller amounts and shorter terms generally being better suited to the more vulnerable. The loan value, term and repayment schedule need to be properly calibrated to ensure that they are compatible with the investment requirements and anticipated revenue flows from the activities that they are intended to support. Similarly, if the loan period is longer than it takes to generate the expected income from the enterprise, it may put the beneficiaries of the programme at risk as the income may have been spent on other things by the time the loan repayments are made. For these reasons, new loan product development requires extensive field research, testing and a multidisciplinary team of professionals. The ICRC will therefore rarely request the development of a new loan product as such but will rather suggest adapting a few features of existing products that may be problematic for its target population.

8.2.2 Providing beneficiaries with alternative ways of managing their savings

There is growing recognition of the fact that in addition to access to credit, there is an unmet demand for access to efficient saving schemes. Savings are crucial to the creation of assets, the management of cash flow and risk but most poor and conflict-affected households lack a convenient and safe place to save. Common practices include keeping money in their homes or investing in unneeded livestock. Both are potentially problematic. Livestock are susceptible to disease and external shock and may have a high mortality rate. On the other hand, people are more likely to succumb to the pressure of having to share their savings with friends and family if they are kept in their homes.

As a result, the ICRC has been increasingly assisting beneficiaries to open savings accounts at banks or MFIs as part of MEIs or other cash transfer programmes, as highlighted in Case Study 12. However, because beneficiary bank accounts can also facilitate other aspects of programming, there is a tendency to overlook some key points when selecting the financial institution with which to form a partnership. If the priority is to allow beneficiaries to have access to a safe and convenient place to keep their savings, priority needs to be given to beneficiaries' needs and concerns when selecting the appropriate financial institution. This may include a combination of some of the following factors and will require a thorough assessment to be carried out:

- The location and opening hours of branches;
- ID requirements to open an account;
- The cost of the most common transactions;
- Penalty fees for overdrafts;
- The socio-economic background of other clients;
- Paperwork and procedural requirements for the most common transactions;
- The possibility of obtaining an ATM card;
- The existence of mobile telephone banking;
- The patience and helpfulness of bank tellers;

- The reputation and affiliation of the institution;
- Having the necessary reserves to respond to periods of high demand such a natural crisis.

In many contexts only regulated financial institutions may be allowed to offer voluntary savings. However, in such cases MFIs may still play a critical role by brokering savings arrangements between clients and formal financial institutions.

Case Study 13. Credit and savings accounts in Côte d'Ivoire

The post-electoral crisis in Côte d'Ivoire in 2011 saw, among other consequences, the failure of the majority of income-generating activities formerly carried out by women heads of households in the western cities. Many of these female-headed households had become heavily indebted and lacked the financial capacity to enable their businesses to recover. In 2012, the ICRC launched a programme to support 160 of these households with an MEI. Various transfer methods were available as means of providing the cash grant. They included money transfer agents, mobile telephone transfers, large banks, cooperatives and the post office. Following an initial assessment, it became apparent that most beneficiaries were not relying on any of those services and did not have a clear preference for a specific transfer method. Consistent with the goals of the project, the project team decided to transfer the conditional cash grants through a local credit and savings cooperative that had been identified as one of the potential reliable partners and the one that had branches easily accessible to most beneficiaries. In addition to facilitating the transfers, the objective was to enable beneficiaries to access savings and credit services at the end of the programme. According to an assessment carried out in 2013, 42% of former beneficiaries claimed to still be using their account. The main reason given by those who were not was the lack of sufficient savings to warrant a trip to the credit and savings cooperative.

8.2.3 Supporting the establishment of community structures

In some cases an appropriate MFI partner may not be available. In such circumstances, the possibility of supporting the establishment of local structures should be explored where relevant. The most common options include savings groups and loan committees. Case Study 14 provides an example of the latter.

Savings groups: These are composed of community members who choose to deposit their savings into a group fund. Loans are then disbursed from the savings fund and repaid with interest. At the end of a predetermined cycle money is returned to group members in proportion to the amount that they have contributed to the saving fund.

Loan committees: These consist of local committees that are set up at community level in order to manage a loan fund. Unlike savings groups, the funds are generally provided by an external source such as the ICRC.

While loan committees can be quicker to set up, savings groups have been shown to be more sustainable than village bank systems in which an outside party provides the funds. A higher default rate is generally associated with the provision of outside funds to village banks. This is attributed to the fact that borrowers may be more compelled to reimburse loans when the funds come from the savings of community members. Similarly, some studies³⁶ point to the fact that funds are managed more prudently when they consist of community savings.

³⁶ See J. Murray, R. Rosenberg, *Community-Managed Loan Funds: Which ones work?*, Focus Note No.36, CGAP, May 2006

The following points should be considered when the aim is to support the development of local credit-providing structures:

- A transparent selection process should be put in place for the purpose of selecting community members who will be responsible for handling money and recording payments;
- Transactions should take place in the presence of all saving group and loan committee members;
- Funds and records should be kept in an account that requires the joint approval of several committee members before it can be accessed. Where no formal savings providers exist, a safe requiring multiple keys can be used.

Case Study 14. Loan committees in Afghanistan

In northern Afghanistan various organizations and financial institutions provide loans. However, the loans are not always suitable for agricultural purposes because of high rates of interest and short grace periods. Furthermore, branch offices are often only accessible to communities close to urban areas. While some rural farmers could traditionally rely on crop-sharing arrangements and loans from shopkeepers, a combination of factors linked to the ongoing conflict, a series of droughts and harsh winters led to a decrease in the number of informal credit providers and to an increase in the demand for small loans in some of the rural communities. In response to these developments, in 2009 the ICRC supported the establishment of loan committees in several affected communities. The loan committees consisted of village elders, local mullahs, the agricultural cooperatives and one elected community member for every 50 households in the community. Each loan committee was given assistance to open a joint account at Kabul Bank and committee members were provided with training on bookkeeping. Because loans were provided free of interest, a small administrative fee was also levied by the loan committees from all new beneficiaries in order to cover administrative costs and sustain the seed fund. The main challenge faced by the loan committees was to determine who the first loan recipients were going to be, as many beneficiaries feared that the funds would not revolve properly. Nevertheless, within the first year of the programme over 250 households had been granted loans and the loan committees had maintained a 100% repayment rate.

8.2.4 Microinsurance

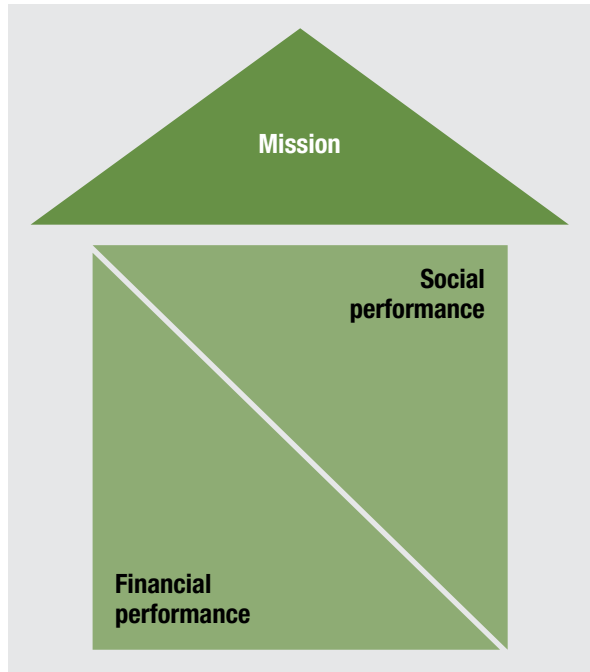
While savings allow the poor to absorb the shock of future events or emergencies, microinsurance offers a way to manage specific risks by sharing the cost of unlikely events among a number of poor households. Therefore, microinsurance can be a formidable tool when households within a same community are faced with diverse risks that have an influence on how households manage their money and make decisions. Microinsurance schemes have been used to provide crop, livestock, health and life insurance in areas lacking formal financial service providers. However, their main shortcoming is their weakness as an instrument for addressing community-wide risks. In that sense, one of their limitations is that they are often most needed in situations in which it is most difficult to implement them. This includes areas that are prone to natural disasters or other large-scale crises. This may be one of the reasons why the ICRC has yet to develop or support microinsurance schemes. Nonetheless, such schemes are an extension of the credit and saving services that are already being financed by the ICRC and have proved to be an effective way of addressing some of the risks faced by vulnerable households in many contexts. Therefore, microinsurance schemes may well be used to complement existing ICRC programmes in the future.

8.2.5 Choosing a partner

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

As illustrated in Figure 7, the typical mission statement of an MFI has both a financial and a social component. However, financial objectives very often take precedence over social objectives, and financial indicators are seen as the main determinants of an MFI's success.

Figure 7. The foundations of an MFI's mission



The selection of an MFI partner for the ICRC has to be based on an 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. In practical terms, this is achieved through the interpretation of various financial ratios, which are not covered in depth in these guidelines. While an understanding of some of these ratios is necessary for follow-up of the programme and will be covered later in this chapter, ICRC field staff will not be directly responsible for assessing the financial strength of an MFI. Financial strength can be assessed on the basis of international ratings that the MFI may have been awarded through external audits or by a consultant hired by the ICRC specifically for that purpose.

→ **Social performance:** ICRC field staff bear sole responsibility for assessing the social performance of an MFI. In addition to consulting 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 for the ICRC's target populations, its efforts to improve a client's social and political capital, and its general record of social responsibility. This is assessed by considering indicators such as the percentage of MFI loans that support start-ups, the percentage of beneficiaries that are below key poverty indicators, the number of loans that have been provided on the basis of social collateral, and the location and opening hours of the MFI's branches. Lists of specific indicators are covered in greater detail in Section III.

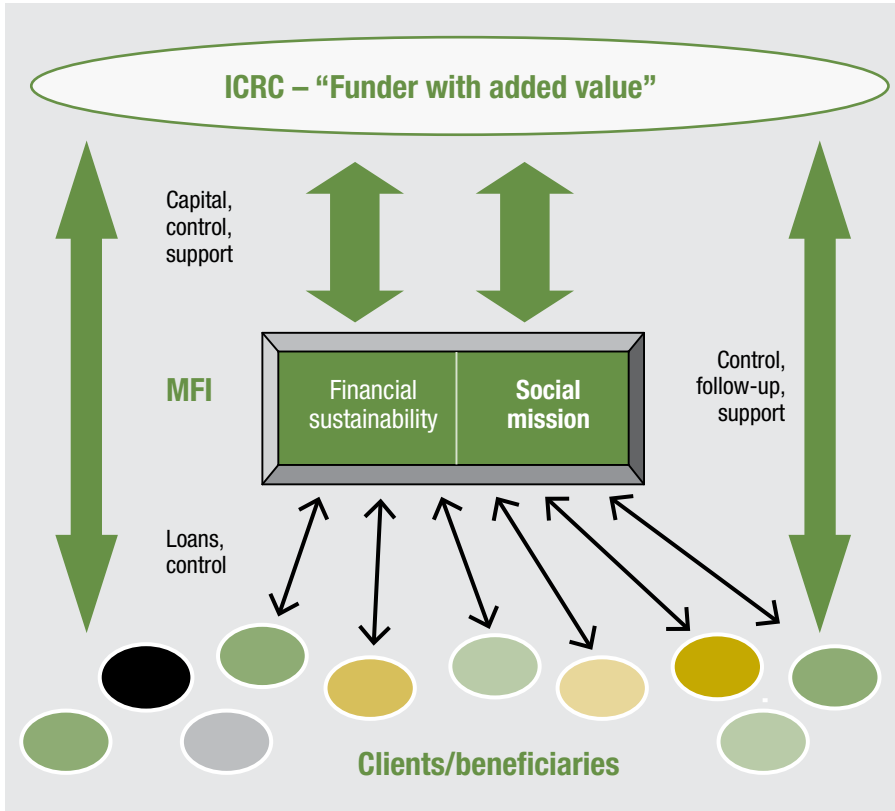
8.3 Implementation

8.3.1 Interaction with the MFI

The ICRC's relationship with the MFI will generally be that of a funder with added value (see Figure 8). As previously noted, the ICRC funds either the loans themselves or some activities, which is a natural starting point, since an MFI has to have sufficient working capital to operate and grow. 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 for the poor.

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 less risky/less vulnerable clients. Therefore, the ICRC must retain the right to refuse people who are not included in its target group.

Figure 8. ICRC – funder with added value



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 correctly 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 the credit officers appear to be 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 have a substantial influence on the quality of the partnership. A clear division of responsibilities and good coordination are required to avoid the ICRC slowing down the approval process. Table 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, it should be borne 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. However, this should never be done at the expense of the best implementation practices.

Table 7. Division of responsibilities between the ICRC and an MFI

This table provides an example of the division of activities and responsibilities between the ICRC and an MFI. These should be adapted in line with the programme design, the local context and the strengths and weaknesses of the partner.

ICRC	MFI
<ul style="list-style-type: none"> • Leads the communication campaign; informs the target population; refers potential applicants to the MFI. • Visits all applicants approved by the loan officers before the selection committee takes a decision. • Participates in the local selection committee and signs all approved loans. Indicates clear reasons for rejection. • Is responsible for defining the vulnerability criteria and monitoring whether applicants meet them; rejects applicants who are not within the target group. • Visits clients independently (or jointly with the MFI) every four to six weeks to monitor the use of the loan; coordinates the visits to delinquent clients with the MFI. 	<ul style="list-style-type: none"> • Handles all applications and supports the process (business planning). • Assesses all applicants; submits the files of successful applicants promptly to the ICRC. • Chairs the selection committee; shares all relevant documentation with the ICRC. • Is responsible for all financial aspects of the loan, including deciding on guarantees and taking appropriate legal action towards defaulters. • Maintains regular control mechanisms, repayment tracking, visits, etc. • Submits monthly and quarterly reports to the ICRC in accordance with 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 as follows:

- 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 on 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 adherence to 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 aim 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 persuade MFIs to continue serving that population in the long term even without ICRC assistance. Hence, when the general objective is to promote the provision of financial services for a specific population group, programmes should include an advocacy component.

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

Otherwise, in order to obtain an overview of the quality of the ICRC portfolio and to compare its performance with that of the non-ICRC target population, a combination of the following ratios³⁷ should be used.

Portfolio quality ratios

These ratios are used to obtain an appreciation of the quality of a given portfolio of loans. They should be used to ascertain whether the portfolio of loans supported with ICRC funds is performing well. However, they should also be used to draw comparisons between the performance of the portfolio targeting beneficiaries who had been excluded prior to the provision of the ICRC's support and the performance of non-ICRC beneficiaries. This is a key point as certain population groups such as IDPs are often excluded from financial services on the premise that it is too risky to provide them with loans. If IDPs are highly mobile this may be true, given that MFIs may be unable to reclaim the loans if IDPs move to other distant host communities. However, that is not always the case, particularly when IDP communities have no alternative resettlement options. In such cases, a comparison between the performance of a portfolio solely comprising IDPs with that of a portfolio of non-IDPs may be a useful tool to advocate for the inclusion of IDPs in the provision of financial services.

$$\text{Repayment rate} = \frac{\text{Amount received}}{\text{Amount expected}}$$

The repayment rate varies from MFI to MFI (for the past month, two months, six months) and is more an indicator of the past loan recovery rate. For example, if an MFI issued USD 2,000 worth of loans last year and recovered only USD 1,900, its loan repayment rate for the past year is $1900:2000 = 95\%$.

³⁷ Adapted from J. Ledgerwood, *Microfinance Handbook: An Institutional and Financial Perspective*, World Bank, Washington D.C., 1998.

$$\text{Arrears rate} = \frac{\text{Amounts in arrears (generally the principal only)}}{\text{Portfolio outstanding (including overdue amounts)}}$$

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 as well as the potential severity of a delinquency problem because it only considers payments as they become overdue, rather than the entire amount of the loan outstanding that is actually at risk. This is illustrated by the following example.

A client who borrows USD 1,000 for petty trading for 12 months at 15% interest is required to repay USD 90 per month (USD 83 of the principal plus USD 7 in interest³⁸). If he or she misses the first three months of payment, the amount overdue is USD 270. Accordingly, the arrears rate, which generally includes the principal only, would be $(3 \times 83) / 1000 = 25\%$.

$$\text{Portfolio at risk} = \frac{\text{Outstanding balance of loans with late payments}}{\text{Portfolio outstanding (including amounts overdue)}}$$

Portfolio at risk refers to the outstanding balance of all loans with an amount overdue. It differs from arrears because it considers the amount in arrears plus the remaining outstanding balance of the loan. 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 date on which payment was due.

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

In addition to looking at the above ratios individually, further conclusions can be drawn by considering them in

³⁸ Note that the payments are made on a monthly basis. The value of the payments is therefore calculated according to the same formula used to determine mortgage payments. $M = P \frac{i(1+i)^n}{(1+i)^n - 1}$ where M is monthly payment, P is the value of the Principal, i is the monthly interest rate (0.15/12) in this case and n is the number of payments.

conjunction with one another. For instance, if the ratio of delinquent borrowers is lower than the portfolio at risk or the arrears rate, larger loans are likely to be proving more problematic than smaller ones. In determining the number of delinquent borrowers, it is also useful to observe 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 and efficiency ratios

Productivity and efficiency ratios are useful indicators to monitor the efficiency with which a fund is managed. As with the portfolio quality ratio, comparisons of such ratios across portfolios targeting different population groups is an effective means of documenting whether it would be more costly to provide loans for otherwise excluded beneficiaries.

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

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 has a major impact on the number of borrowers that can be serviced by a credit officer.

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

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

$$\text{Operating cost ratio} = \frac{\text{Operating cost}}{\text{Average portfolio outstanding}}$$

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

$$\text{Cost per unit of currency lent} = \frac{\text{Operating costs for the period}}{\text{Total amount disbursed in the period}}$$

$$\text{Cost per loan} = \frac{\text{Operating costs for the period}}{\text{Total number of loans made in the period}}$$

Financial viability ratios

Financial viability ratios measure the financial sustainability of the MFIs. These indicators will be critical in the selection of potential partners but also in measuring the impact of a programme on the sustainability of an MFI. A distinction is made between operational and financial self-sufficiency. An MFI is considered operationally self-sustainable if its operating income allows it to cover its operational costs, whereas financial self-sufficiency implies the ability to cover operating costs and the costs of capital.

$$\text{Operational self-sufficiency} = \frac{\text{Operating income}}{\text{Operating expenses} + \text{Financing costs} + \text{Provision for loan losses}}$$

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

8.4.2 Outcome evaluation

The outcome evaluation of an ICRC microcredit support programme should consider the following issues:

- **The impact of individual projects:** This should be evaluated along similar lines as for grant projects.
- **The MFI's management of ICRC funds:** This should be evaluated on the basis of the above-mentioned ratios, with the MFI's performance being considered 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 analysing 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 microcredit support programme is to gain an understanding of 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.
- On the basis of 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 on the basis of their financial and their social performance.
- The ICRC's role generally consists of supporting the MFI by lending funds for certain programme extensions or adaptations and of ensuring that the MFI's social mission is thoroughly respected.
- In addition to the provision of credit, beneficiaries are also often in need of safe and practical places to keep their saving. Where relevant, ICRC should explore the possibility of complementing its MEIs with improved saving opportunities for its beneficiaries.
- When no viable MFI is present, an alternative approach is to provide support for the development of local community based structures such as loan communities and savings groups.

8.5 Other relevant documents

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- K. Doyle, *Microfinance in the Wake of Conflict: Challenges and Opportunities*, The SEEP Network, July 1998.
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- J. Martin *et al.*, *Savings as a cornerstone*, SEEP and Citi Foundation, February 2013.

9 MEIs AND AN INTEGRATED APPROACH

With interest in MEIs increasing both in EcoSec and elsewhere at 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 15. Integrating MEIs with other programmes in the Northern Caucasus

In 2003, the ICRC launched an MEI targeting Chechen IDPs in Ingushetia and Dagestan as well as vulnerable residents in Chechnya proper. The beneficiaries were initially selected from the list of recipients of ICRC food assistance but the programme was expanded to encompass a wider group 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 set out to harmonize its objectives with those of other ICRC units. As a result, households with a breadwinner who was either detained or missing became eligible for an MEI, as did 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 run risks because of economic pressures. Analysis of the incident data over the previous two years showed that the vast majority of incidents occurred because people had no choice but to enter dangerous areas in order to meet their survival needs. The ICRC therefore selected specific communities for assistance on the basis of a joint assessment carried out by EcoSec and the Mine Action 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 hoped to prevent new mine victims as well as to help existing ones. It is worth noting, however, that in order to be consistent, such a programme needs to restrict the types of microenterprises that are eligible in order to avoid encouraging activities that are likely to lead to mine incidents. This is but one example of how the integration of different programmes may run counter to overarching objectives if programmes are not properly adjusted.

While the trend towards an integrated approach is a positive development and constitutes one of ICRC's comparative advantages, the additional challenges posed by the need to serve equally the objectives of all the units concerned should, however, be borne in mind.

Some points worth considering in the commonest integrated MEIs are as follows:

- **Beneficiary selection:** While MEIs may mainly target 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 economic vulnerability, motivation, skills 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 the cases that they refer to EcoSec will necessarily be approved for an MEI. This implies that beneficiaries need to be informed by the units referring them to EcoSec that MEIs are a form of conditional assistance and that there is a likelihood that they may not be selected to receive this type of assistance.
- **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 a programme and, at the same time, made to understand that their eligibility will depend on the quality of their application. Therefore, all beneficiaries must submit a project proposal even if the units referring the candidates are convinced that they meet the eligibility 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. It is therefore the responsibility of EcoSec to ensure that the

necessary research has been carried out to justify focusing on a specific group for economic assistance. If a group's economic vulnerability is linked to the conflict and is different from that of the general population, a targeted production intervention may indeed be warranted. For instance, certain IDP groups have remained economically vulnerable long after a conflict because they lacked the necessary paperwork to secure employment or had difficulty obtaining credit in their host communities as a direct consequence of being IDPs. However, if the drivers of economic vulnerability and the level of poverty are the same for the conflict victims as for the general population, not only is a broader structural intervention likely to be more appropriate; there is also a risk of alienating the target group from the rest of the population by singling them out with a targeted intervention. In other words, in such cases, it may be worth considering broader structural interventions, focusing on the target group's conflict-related vulnerabilities that are not necessarily economic or providing economic assistance for a more relevant group even if it implies not adopting an integrated approach.

→ **Maintaining coherence:** While MEI programmes may be initiated with a narrow and well-defined scope, there is a risk that the coherence of the programme may be affected as new components are added to the programme or new types of beneficiaries are assisted. For instance, in some contexts mine victims have been referred to EcoSec for inclusion in MEI programmes. In many contexts, MEIs have proved to be a very effective way of complementing physical rehabilitation of people with disabilities with economic empowerment. There may therefore be good reasons to consider expanding an MEI programme to assist such beneficiaries. However, EcoSec bears responsibility for ensuring that the extension of the MEI programme to beneficiaries referred by other units is carried out in a way that is both non-discriminatory and consistent with a needs-based approach. Agreeing to provide

assistance for beneficiaries referred by another unit or organization may involve extending the MEI programme beyond the referred beneficiaries to ensure coherence. In the case of the referral of mine victims, there is no reason to believe that people who have been disabled as a result of a mine suffer from greater economic hardship than other war-wounded individuals. The extension of a programme to mine victims may therefore entail extending it to all civilian households that have had a breadwinner who has been disabled or killed as a result of the conflict.

- **Size of the caseload:** If the potential caseload of an MEI programme 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. Given the need for at least a minimal set-up in terms of EcoSec human resources in order to roll out MEIs, it is not advisable to start developing a programme in order to assist only a handful of beneficiaries referred by other units.
- **Psychological aspects:** In addition to physical impediments to economic activity, some beneficiaries may have psychological difficulties linked to their predicament that may hinder their socioeconomic 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 affect the appropriateness of an MEI for that group and should be taken into account in the needs and feasibility assessment as well as in the design of the MEI programme whenever possible. The “accompaniment strategy” that has been developed by the ICRC is an excellent example of the integration of MEIs in a comprehensive response to the complex needs of families of missing persons. MEIs are included at the end of a well-thought-through process in which psychosocial support and the provision of MEIs complement each other. Not only do MEIs provide additional psychosocial support in some cases, but also many beneficiaries seem more willing to accept and

enthused about the idea of implementing an MEI following the psychosocial support sessions.

→ **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 difficult to handle, as giving in to the family's requests may go against the specific objectives of the programme (e.g. the socioeconomic reintegration of people with disabilities), while projects lacking the whole household's support are unlikely to succeed.

All the above points highlight the need to consider the implications of an integrated approach carefully before setting out to integrate an MEI programme with other forms of assistance. When such a process is well thought-through it generally leads to programmes being very effective. However, when the added complexities that stem from adopting an integrated approach are not recognized, it tends to lead to disappointing results.



SECTION III

GUIDANCE SHEETS FOR MEI IMPLEMENTATION

GUIDANCE SHEET 1

CARRYING OUT A MARKET ASSESSMENT

Market assessments are one component of the broader assessment process; they represent an integral part of the response analysis and should therefore ideally be carried out prior to designing any programme. This guidance sheet therefore complements the assessment and programme design steps discussed in Chapters 6, 7 and 8.

With a view to supporting market assessments, the International Red Cross and Red Crescent Movement has developed a set of guidelines on carrying out market assessments. The guidelines include a rapid market assessment instrument (RAM) and market analysis guidance (MAG). The RAM aims to provide a quick, basic understanding of markets within the first few days after a shock and to support decisions on immediate relief responses. The MAG gives continuity to the RAM in the sense that it allows for a more detailed analysis and establishes a more solid basis for market-related programme decisions. Hence, the MAG is used to indicate whether or not MEIs may be an appropriate response.

The aim of this guidance sheet is to cover some of the basic issues that need to be considered when carrying out a market assessment for MEIs. In other words, the guidance sheet does not provide a summary of the RAM or the MAG but covers broad concepts, which are analysed in far greater detail in these guidelines.

A good understanding of local markets is essential when deciding whether to implement an MEI and how to do so. To determine the suitability of an MEI, a market assessment needs to be carried out to: (i) determine whether markets

are functioning or likely to recover quickly and therefore whether people will be able to rely on local markets to generate income; and (ii) obtain a better understanding of the structure of the local market and, more particularly, the importance of the informal sector.

Key questions for a market assessment³⁹

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:
 - 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 decreased? 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?

³⁹ Adapted from ICRC/International Federation of Red Cross and Red Crescent Societies, *Guidelines for cash transfer programming*, ICRC/International Federation of Red Cross and Red Crescent Societies, Geneva, 2007.

2. **Identify 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. **Map the supply (or value) chain:** Drawing a supply chain is also a useful means of developing an understanding of how the market system normally functions and how that might have been affected by the crisis. A supply chain might include some or all the actors shown in Figure 9 below.

Figure 9. Sample supply chain



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.

How to find out: 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 and whether this discourages other traders. Organizations (NGOs, businesses, National Red Cross and Red Crescent Societies) that have carried out tenders can provide an insight into the competitiveness of the market.

Are markets integrated?

Why you need to know: Markets can be functioning and even competitive, but weak linkages *between* markets can mean that it is not worthwhile for traders to address a deficit in one market (usually indicated by relatively high prices) by bringing in commodities from another. This is particularly relevant 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 fairly large 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 markets.

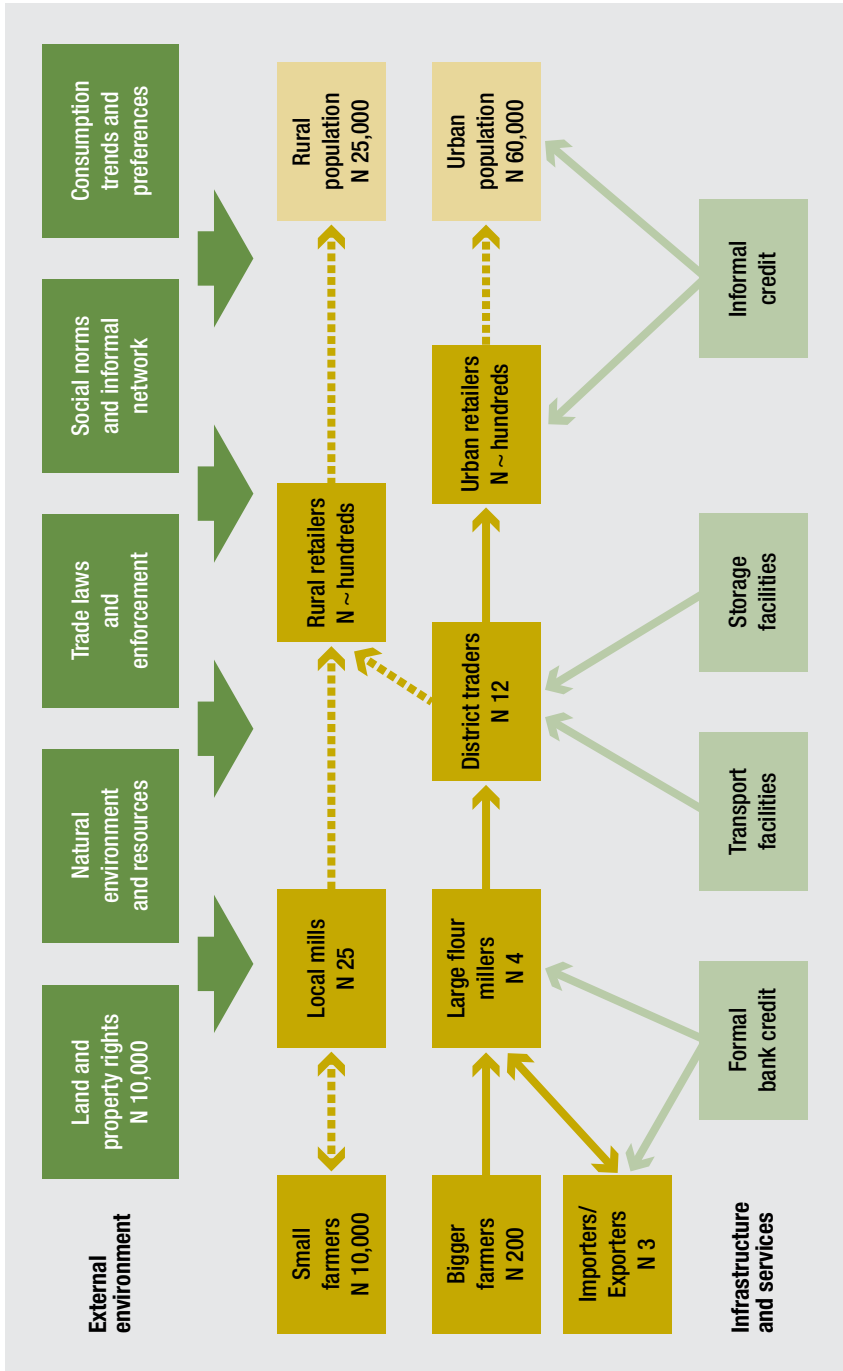
If markets are not integrated, surplus production by MEI beneficiaries will not be moved to other markets and is likely to bring down the sale price in the local area.

How to find out: Market integration is difficult to analyse quickly and without market expertise. Sometimes the best that can be done 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 major 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 price information.

The questions covered so far are not MEI-specific and apply to most market assessments. Guidelines such as the MAG propose a systematic way of carrying out an assessment that addresses all these points and more. In addition to outlining the entire market analysis process, the MAG proposes a variety of tools to assist practitioners with key steps. For instance, these include a matrix system that makes it easier to rank the importance of key markets, as well as forms to carry out trader interviews and analyse market-related risks. Another useful tool that is proposed in most market assessment guidelines is a method for mapping markets that brings together most of the information relating to the functioning of the market. Figure 10 below provides an example of such a map.

Figure 10. Market map



The following two questions are more specific to the implementation of MEIs. While the previous questions are used to support the response analysis related to market-based programming the following two questions are intended to guide the design of MEI programmes.

How important is the informal market and how is it structured?

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 gain an understanding of the following issues:

- 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:* This will generally include aspects such as certain goods being produced in the informal market and sold on the formal market; people acquiring skills by working 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 considering 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 straightforward 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 gain an understanding of which project proposals can be readily supported and which merit a more in-depth analysis. This applies to all three types of MEI.

How to find out: Once again, by consulting 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 reveal useful conclusions.

GUIDANCE SHEET 2

ASSESSING THE VIABILITY OF PROPOSED PROJECTS

When designing an MEI programme, one of the key steps is to identify the projects most likely to be requested by beneficiaries. As stated in Chapter 6, this should be done by consulting local MFIs, by identifying the most common activities in the informal market and by surveying the interests of beneficiaries during post-distribution monitoring visits. Once the projects most likely to be requested have been identified on the basis of the needs and feasibility assessment, an analysis of expected expenditure, revenue and cash flow for each project should be carried out to assess the viability of each project and to provide guidance for the design of the more standard projects. An example of the cash flow analysis carried out for a project in Nepal is presented below.

Typical MEI project (service sector) tricycle rickshaw taxi in Nepal – Income and expenditure analysis

Description of the Business Opportunity: Tricycle rickshaw taxis can be operated by any strong men willing to do so. It is a physically demanding occupation, particularly in the summer, when temperatures rise to over 40° C. Many rickshaw operators do not own their tricycle as that is a costly investment.

CASH FLOW ANALYSIS

	Months												Total	
	1	2	3	4	5	6	7	8	9	10	11	12		
Capital Expenses														
1	11'000													11'000
2	700													700
Total capital expenses													11'700	
Sales revenue														
1	2'375	2'375	2'375	1'900	1'900	1'800	1'700	1'700	3'750	3'750	1'900	2'375	27'900	
Total revenue													27'900	
Operational expenses														
1	340	340	340	340	340								1'700	
2												35	35	
3	90	90	90	90	90	90	90	90	90	90	90	90	1'080	
4	100	100	100	100	100	100	100	100	100	100	100	100	1'200	
5				195			195				195		585	
Total operational expenses (free cash flow)													4'600	
Revenue less operational expenses (free cash flow)													23'300	
Average monthly cash flow													1'942	

DISCUSSION ON THE CASH FLOW: With ICRC assistance, rickshaw taxis would provide typical beneficiary households with an estimated positive cash flow of NPR 1,900 per month during the first year, making it one of the best business opportunities available. This amount covers approximately 36% of household expenditure for essential needs.

GOODS TO PROCURE (BY THE ICRC AND/OR BENEFICIARY)

	Unit	Price/ unit	Total ICRC	Total ben.
Capital expenses goods				
1	1	10'000	10'000	
2	1	700		700
Total			10'000	700
Capital expenses services				
1	Unit	Price/ unit	Total ICRC	Total ben.
2				
Total				

Assumptions for the cash flow analysis: As each beneficiary benefits from having a brand new rickshaw, he will be able to capture a good share of the market from the first day of operation. He can expect to achieve higher earnings during the Dashtain and Thar festivals, when people visit relatives.

Social and geographical limitations/opportunities: Very poor people from various social groups pull the rickshaw rather than use a tricycle but it is extremely exhausting work. 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 the beneficiary's and the ICRC's 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 that field officers should ask 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 take several months to generate an output and the project design should be such as to enable the beneficiary to sustain the project during that period.

Let us assume, for instance, that sheep-rearing is one of the most commonly requested projects 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 at the nearby university, 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 annual profitability of the project, it would be tempting to distribute three sheep on their own to any vulnerable beneficiary who shows motivation and has the necessary shelter to keep the sheep. The findings from the financial projections, however, reveal that:

- a. if assisting a vulnerable household, the value of the project should cover both the cost of the sheep and a significant amount of feed, as the household will otherwise probably be unable to finance the costs of the project until it becomes profitable;
- b. sheep projects should not be approved for 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. consideration should be given to providing veterinary support for the programme in order to reduce the beneficiary's costs. At the same time, the project should be monitored regularly and beneficiaries reminded of the importance of fattening the lambs for at least four months so that they are not tempted to collect their earnings prematurely. 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 specific period of time, which may go against the immediate interests of many assisted households.

Therefore, on the basis of the cash flow analysis carried out for the most common microenterprises in a given area, programme managers should identify whether some projects require a specific combination of inputs to minimize the financial contributions that may be required by beneficiaries before a microenterprise becomes profitable. The projected cash flows should also be used to test applicants' knowledge and check whether their income expectations are realistic.

GUIDANCE SHEET 3

SELECTION INTERVIEWS

As highlighted in Chapter 6, the selection interview is by far the most crucial and delicate stage in the entire MEI implementation process. Time should therefore be invested in designing the necessary tools and training field staff in household interview techniques. This guidance sheet focuses mainly on how to assess applicants' vulnerability and their business plan. It should be borne in mind that if an applicant is found to meet the vulnerability criteria, he or she should be included or referred to other assistance schemes if they are not selected for an MEI. Selection interviews should take the form of semi-structured interviews, preferably in the beneficiaries' homes. It is essential for applicants to feel at ease during the interview and the tone of the interview and the sequence of questions should therefore be adapted accordingly. It is advisable to start the interview with a brief discussion of the business idea before moving on to questions about income and expenditure, which may be perceived as more intrusive. It should be borne 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 that approach often gives rise to many challenges. On the one hand, expenditure and revenue often vary significantly over time, leaving field staff with unreliable data from which to estimate the average. On the other hand, the quality of the findings is largely contingent on the beneficiary's willingness to share the required information.

Such an analysis should not be discarded altogether, however, as it is important to use a combination of indicators when assessing vulnerability in order to obtain as complete a picture as possible. Nevertheless, these limitations should be borne in mind when using key indicators such as:

- Level of income;
- Sources of income;
- Volatility of income;
- Reliability of income;
- Coping mechanisms;
- Level of indebtedness;
- Source of debt;
- Food consumption and expense patterns.

For this reason, an assessment of a household's assets is often used to complement the indicators listed above. An asset-based approach consists of estimating a household's vulnerability by observing its living conditions and belongings. The choice of indicators can include furniture, the 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 may also be less visible (e.g. ownership of land, support from relatives living abroad). The advantages⁴⁰ 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.

⁴⁰ 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.

A common way of incorporating this approach into vulnerability assessments is by using a grading scheme for some of the most common and easily identifiable assets in a given context. Figure 11 below provides an example of a grading scheme as it would appear on an assessment form.

Figure 11. Example of how some key assets would be graded as part of vulnerability assessment

Furniture and rooms		Electricity and gas		Water and sewage		Kitchen and bathroom		Toilet and heating	
0	0	0	0	0	0	0	0	0	0
1	1	1	1	1	1	1	1	1	1
2	2	2	2	2	2	2	2	2	2

A variety of other types of assets, such as furniture or kitchen and bathroom appliances, can be considered. Ultimately, the type of assets should be selected on the basis of their relevance as a potential wealth marker in the given context.

When using such an approach, it is essential to clearly define each grade so that the scope for interpretation is minimized. This is necessary to ensure consistent application of the grading scheme. If applied correctly, it can also provide a baseline for measuring any changes in the household assets following the implementation of an MEI. Figure 12 provides an example of how some grades have been defined in past contexts.

Figure 12. Example of grades and their definitions

Electricity
0 – No electricity
1 – Electricity lines illegally connected – no meter, low amperage and voltage, not appropriate for more than one light and perhaps cooking
2 – Normal connection to the electricity supply

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

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

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

A particular advantage of adopting this approach is that identical tools 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. For this reason it is preferable to use similar tools in the vulnerability and outcome assessment to measure assets, income and expenditures.

Evaluation of the business plan

The quality of a business plan can be assessed according to a variety of factors. Ideally, applicants should have participated in a business skills training course as part of the application process, in which case a detailed business plan should have been drawn up along the lines of what is covered in the ICRC's business skills training course. However, in some cases beneficiaries apply only on the basis of a brief outline of a business plan. The following section covers some of the key issues to be considered when discussing such business plans with applicants.

Knowledge of the market: It is important to ensure that beneficiaries have a sufficient understanding of the market relevant to the proposed microenterprise. This means ensuring that the beneficiary has done the sufficient research to substantiate some of the key assumptions behind any business plan. That includes being able to identify their target customers, the main competitors for their business activity, similar products that are available in the market and the main suppliers, as well as being acquainted with the relevant rules and regulations that apply to their sector.

Profitability and viability: These are assessed on the basis of the cash flow analysis referred to in Guidance Sheet 2, which is to be carried out for standard projects. When analysing the profitability of a beneficiary's project proposal, it should be ascertained on what basis the income and expenditure projections were made and whether they are realistic. The projections should take account of direct and indirect costs as well as depreciation, including the depreciation of any capital provided by the ICRC. To the extent possible, beneficiaries should be prompted to make projections using a form similar to the one illustrated in Figure 13. For further details on the step-by-step process to projecting profits, please refer to the ICRC's business skills training module. Once realistic figures have been established for the expected profitability of a project, they should be weighed against the effectiveness indicators

from the MEI programme's results monitoring framework. Projects that have an expected income below the programme's performance indicators should not be approved. Similarly, field teams should avoid approving projects with a projected income for their first year of operation that is below the value of the ICRC's contribution.

Figure 13. Monthly profit and loss form⁴¹

	Month												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
Income	11880	11880	11880	11880	11880	11880	23760	23760	11880	11880	0	11880	154440
Direct costs	5824	5824	5824	5824	5824	5824	11728	11728	5824	5824	0	5824	75872
Indirect costs	5444	5444	5444	5444	5444	5444	5444	5444	5444	5444	0	5444	59884
Depreciation	182	182	182	182	182	182	182	182	182	182	0	182	2002
Profit	430	430	430	430	430	430	6406	6406	430	430	0	430	16682

Productivity and time availability: On the basis of the assessment of the project's profitability, the return on time investment for the project should be compared with the household's other income-generating activities. If it is less than for other activities, the reasons for investing in such a project should be closely scrutinized. Similarly, the household's time availability should be examined 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. In the past, MEIs have proved to be useful for members of single headed households that can only work from home, but in many cases such beneficiaries have also been those who have struggled to find the necessary time to invest in the project. A proper assessment and discussion of time availability is particularly important in such cases.

⁴¹ D. de Wild, *Business skills, Training course for beneficiaries of microeconomic initiatives*, ICRC, Geneva, 2014.

The four 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 as compared with 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 attract the attention of potential customers?

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

In addition to covering key aspects of any business plan, it is important to analyse the four Ps in order 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 of 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 with 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) 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 of 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 need 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

The importance of a database to effectively manage MEI programmes was raised briefly in Chapter 6. Because of the complexity of programme follow-up compared with that of standard relief operations, the use of a database, or a detailed Excel workbook, that tracks the evolution of each project through the programme cycle and streamlines procedures is crucial, particularly 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. The following is a list of some of the main tasks that should be performed by a 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 the stage in the programme cycle that has been reached by each project;
- Storing and handling monitoring information;
- Storing and handling outcome evaluation information;
- Planning programme activities per area;
- Tracking programme activities per office and 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.

The following two figures give examples of the type of information generated from cross-referencing data that can be useful when analysing the performance of programmes and in order to fine-tune the design if necessary.

Figure 14. Breakdown of project groups by beneficiary categories

Beneficiary category	Agro	Craft	Trade	Livestock
IDPs	16	915	155	366
Residents	29	966	180	591
Families of missing (PMI)	35	350	64	344
Families of detainee (PDE)	9	183	40	147

For instance, in this example we note that there is a higher proportion of livestock projects among families of missing people and detainees. On the basis of the performance of such projects, this could prompt consideration of the need to increase veterinary support in areas where there is a high concentration of families of missing people and detainees. Similarly, by gaining a better understanding of why livestock projects are of particular interest for such groups we may be in a position to further improve the design and impact of the programme.

Figure 15. Breakdown of percentage of projects that have failed to meet effectiveness indicators by type of project and area

Type of projects	Area 1 (%)	Area 2 (%)	Area 3 (%)
Auto repairs and services	19	20	22
Bee-keeping	19	19	12
Fattening bull calves	27	27	19
Carpentry – upholstery – assemblage	24	26	30
Combination – craft and trade	26	35	29
Computer services	26	25	28
Cosmetics, hairstyling, massage, therapies	22	27	62
Cow	23	24	27
Food preparation	36	32	29
Food stand	32	30	20

While there are a few observations that can be made on the situations as shown in Figure 15, the most obvious one is the poor performance of cosmetic-related microenterprises in Area 3. That observation should prompt the programme team to investigate the reasons behind such a discrepancy. If it is attributable to oversaturation of the market in Area 3 with cosmetic microenterprises, the programme team would be advised to stop supporting such initiatives. In the meantime, the programme team should consider applications for cosmetic-related microenterprises in Area 3 with far greater attention and caution.

GUIDANCE SHEET 5

PROCUREMENT

GUIDELINES FOR

MEI PROGRAMMES

As stated in Chapters 6 and 7, there are a variety of options for the procurement of goods and services related to MEIs. For example, the ICRC purchases the items directly; a National Society or implementing partner is responsible for the procurement of goods; beneficiaries purchase the items themselves through cash assistance or voucher programmes.

When conditions allow, the ICRC considers it preferable to use cash transfer (direct transfer of money, vouchers, creation of market fairs) as a means for supporting beneficiaries rather than providing a substitute for the market and making their own in-kind distributions. The market is the default mechanism for people to receive their products and services. In most cases, markets will function at the appropriate level, balancing people's demand with supply. It should also be recalled that except for extraordinary circumstances, markets with their many traders supply many more people than could generally be supplied by the ICRC.

The following guidance sheet has been adapted from the ICRC cash transfer programming guidelines.⁴² It is intended to provide initial guidance on the issues that need to be taken into account as well as the ICRC's responsibilities and procedures linked to cash transfer programming. In that sense, this guidance sheet is likely to be of interest primarily

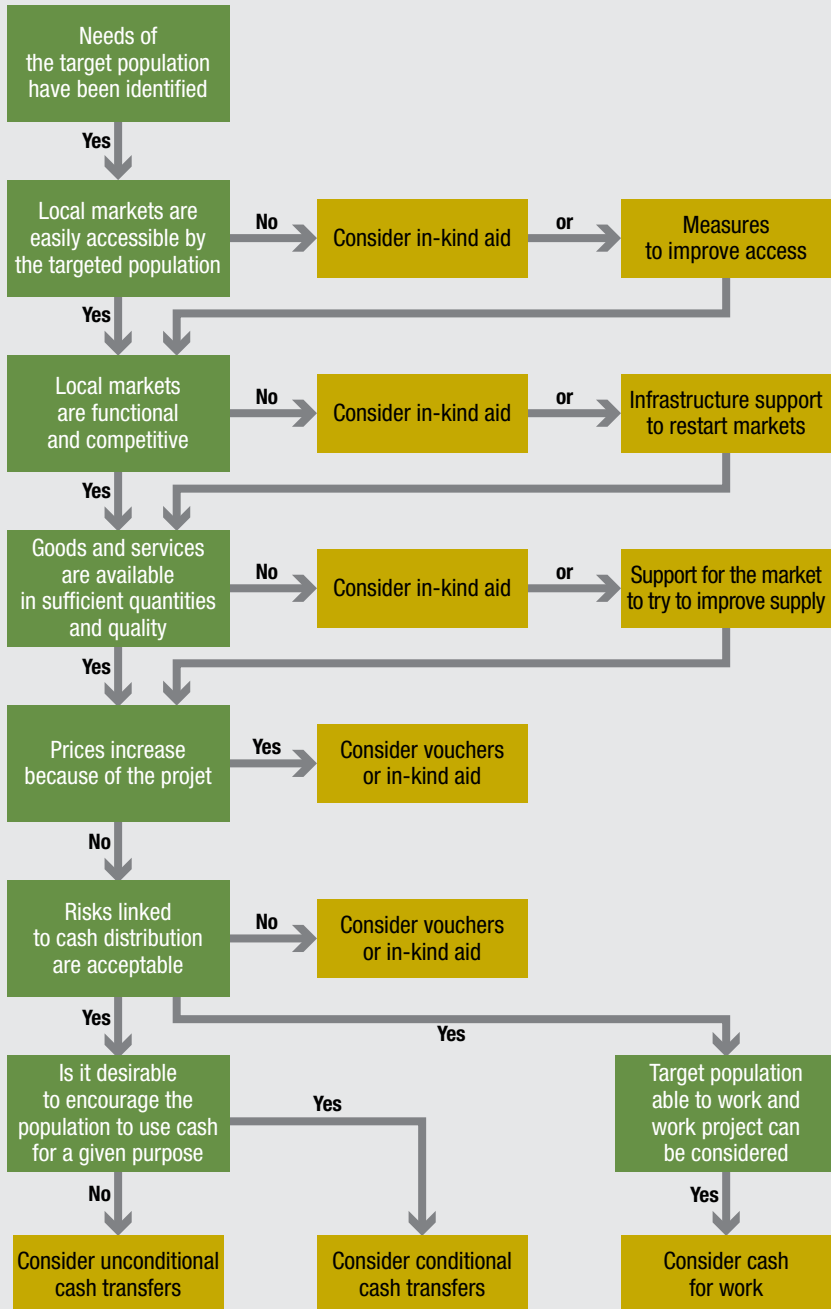
⁴² For further details of the planning and implementation requirements for cash transfer programming, please refer directly to the guidelines on roles and responsibilities in ICRC, *Cash Transfer Programming: EcoSec, Logistics and Administration responsibilities and procedures*, ICRC, Geneva (internal ICRC document).

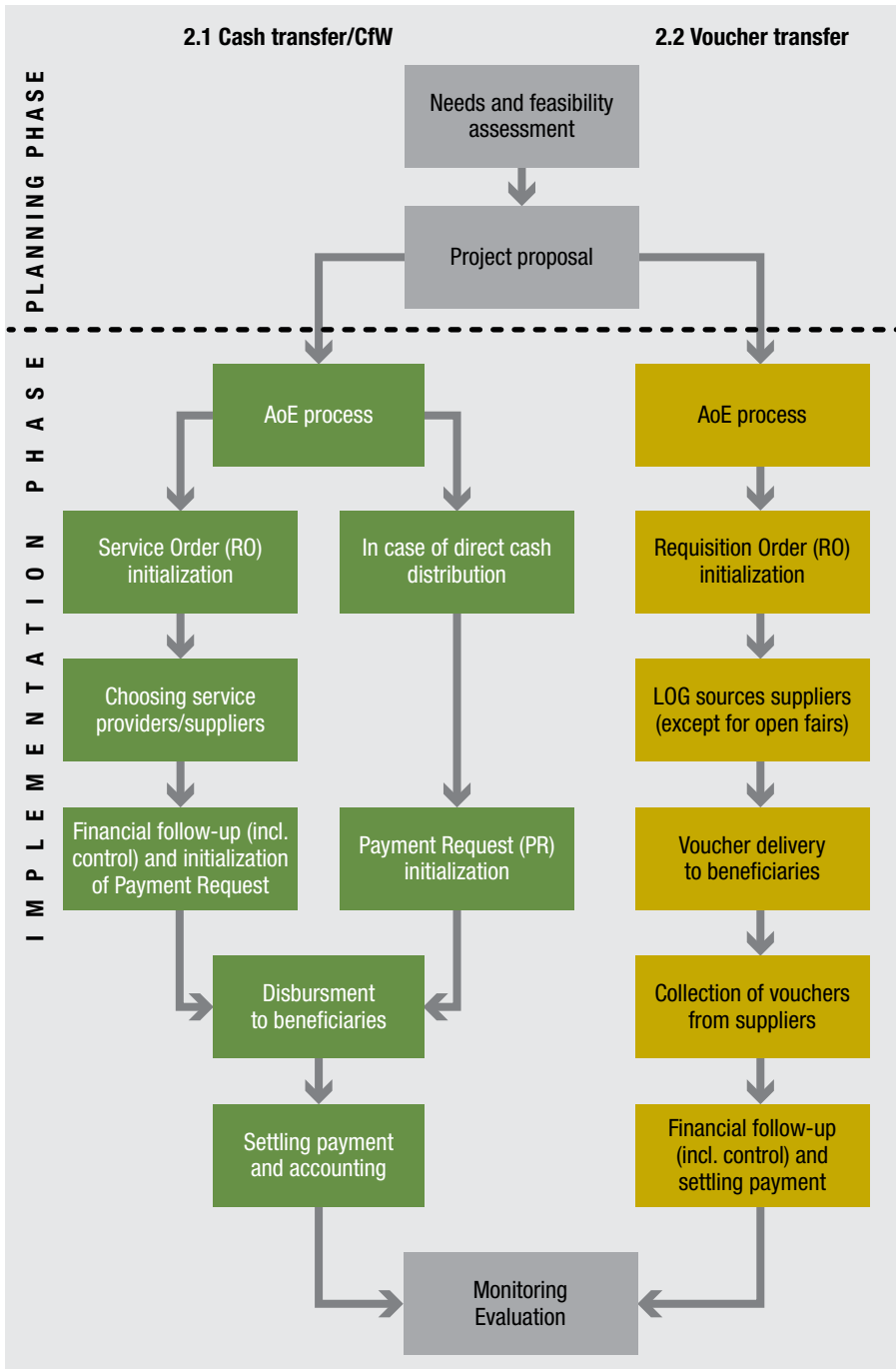
to ICRC staff as it outlines the ICRC-specific procedures regarding cash transfers.

Apart from determining whether markets are functioning, other criteria must also be examined when considering the appropriateness of cash transfers. These include potential negative intra-household and intra-community effects (depending on who receives the transfer), beneficiary preferences for in-kind, cash or a combination of in-kind and cash transfers, and the timeliness of setting up cash transfers in relation to the urgency of meeting identified needs.

The decision tree on the opposite page illustrates some of the key criteria to be considered when deciding which cash-based transfer programme is most suitable in what circumstances.

The guidance sheet sets out to provide a quick overview of some of the main considerations linked to the planning and implementation of cash transfers. The diagram on page 202 illustrates the key steps for both phases.





1 PLANNING PHASE

The planning phase consists of a needs assessment and a feasibility assessment. At the end of these assessments, a project proposal is drafted. The planning phase is the same for all types of cash transfers (including vouchers).

1.1 Needs assessment

EcoSec is responsible for the needs assessments. As per Movement guidelines on cash transfer programming, the needs assessments should analyse:

- The beneficiaries' needs;
- The urgency of responding to these needs and the time frame for the response;
- The envisaged targeting of the programme;
- The beneficiaries' preferences with regard to the form of intervention (cash, kind or combination; what form of cash transfer);
- Intra-household issues relating to control over in-kind and cash resources;
- The usual means of accessing cash by target households;
- The availability of sufficient quantity of goods on local markets that are in line with the identified needs;
- The beneficiaries' physical access to markets.

Apart from establishing the needs, the needs assessment should thus also help define the constraints on the cash transfer mechanism, as listed below:

- The amount of cash to be transferred in total, per beneficiary and per location;
- The frequency of the payments;
- The number of beneficiaries that will need to be served in each location within a given time frame,
- The usual way of obtaining cash within the country, and by targeted households;
- The familiarity of the target population with the various existing financial transfer mechanisms such as bank accounts, ATMs, mobile banking, etc.

1.2 Feasibility assessment

In order to verify the feasibility of the programme, multi-disciplinary teams including EcoSec, Admin and Log staff should further assess the following:

- Performance of markets (competition between traders, linkages between markets, ability to respond to increased demand, etc.);
- Availability of the right quality of goods to comply with the ICRC's health and safety and performance standards (e.g. food-grade aluminium or stainless steel to avoid metal migration, type of paint, UV resistance level for tarpaulins, thermal and pilling resistance for blankets);
- Security risks (including delegation management);
- Available financial transfer mechanisms;
- Inflationary risks;
- The ICRC's capacity or the capacity of partners to perform and supervise cash transfers in a timely manner.

When analysing feasibility, the following questions need to be answered:

- Which financial transfer mechanism is the most secure (for the ICRC and the beneficiary)? What are the security risks?
- Do the existing financial transfer mechanisms have the capacity to make the payments (amount/staff/time)?
- How reliable are the existing financial transfer mechanisms (corruption and fraud risks)?
- How high are the destination and transportation costs from the delivery/pay point to the beneficiary's home?
- Are the markets where beneficiaries will obtain supplies competitive, functional and integrated?
- Are the items available with a similar quality, safety and cost efficiency as an ICRC supply?
- Are there inflationary aspects to be taken into consideration? How can they be addressed?
- What fiscal controls/standards need to be observed?
- What (if any) are the laws, regulations and government policies in place with regard to cash transfer "income"?

- What level of cost-efficiency (the total cost involved in transferring money to the people) is achieved by the various financial transfer mechanisms?
- Does the ICRC have a fraud history in the context concerned?
- Are experienced partners available?

Following positive outcome of feasibility assessment, the multidisciplinary team then needs to decide on one of the cash transfer mechanisms or a combination of them. The options to consider are as follows:

- Direct transfer to the bank accounts of the beneficiaries;
- Direct cheque delivery to the beneficiary;
- ATMs and smart cards;
- Mobile banking or payment by mobile telephones;
- Entrusting the payments to an intermediary;
- Direct distribution of cash by the ICRC.

If cash distribution is not considered an option, the possibility of using vouchers (commodity and/or cash) can be considered.

Please refer to Chapter 7 of the ICRC's cash transfer programming guidelines, which outlines the advantages and disadvantages of each of the options.⁴³

As with all humanitarian assistance programmes, the top priority is the security of the beneficiaries and the staff thus the direct ICRC distribution of cash is generally the last option that should be to considered.

⁴³ ICRC, *Cash Transfer Programming: EcoSec, Logistics and Administration responsibilities and procedures*, ICRC, Geneva (internal ICRC document).

1.3 Project proposal

On the basis of these assessments, EcoSec drafts a project proposal including, *inter alia*, a budget, a monitoring framework and an exit strategy.

The budget needs to include the following:

- The number of beneficiaries multiplied by the amount to be paid (in the currency of payment);
- Human resources costs;
- Transport costs;
- Handling costs (bank or other charges);
- Administrative costs (office equipment needed).

The project is either integrated into the PfR framework (usually) or non-budgeted (rare). In either case, implementation is subject to the usual allocation of expenditure (AoE) procedure.

Whereas the planning phase is the same for cash and vouchers, the implementation phase of cash and voucher programmes follow different sets of procedures.

2 IMPLEMENTATION PHASE OF CASH TRANSFERS⁴⁴

2.1 Documents needed to settle the payments and accounting bookings:

The following justification documents need to be submitted in order to settle payments:

- The copy of the Service RO and Payment Request (PR)/
The copy of an RO if initialized;
- The copy of the contract (PO) with the bank or intermediary if not direct cash distribution;
- The list of beneficiaries (e.g. in EPMT);
- The beneficiary information sent to the bank/intermediary (if relevant);

⁴⁴ In addition to the information provided in this section, the ICRC standard operation procedures also provide a breakdown of the activities and division of responsibilities between EcoSec, Logistics and Administration.

- The proof of payment to the corresponding beneficiaries (bank or financial supplier confirmation);
- The copy of the monthly bank/or other payment booking statements;
- In case of repeated payments, the accounting voucher reference numbers of the preceding payments.

In case of direct cash distribution, working advances are issued based on the documents numbered 1 and 3 above. The clearance is completed on the basis of documents 1, 3 and 5.

2.2 Additional procedures for specific types of cash programmes

2.2.1 Direct cash payment by the ICRC

Whenever possible, direct cash payment should be effected by the cashier/Admin staff. However, if this is not feasible (e.g. payments made in the field), Administration should carry out random checks. The Administrator is responsible for the decision to carry out a random check. As a matter of principle (segregation of duties) Administration staff handle the cash and any non-feasible situations should remain an exception.

The normal rules for issuing/settling working advances apply when cash is taken out of the delegation for the purpose of making payments to beneficiaries.

In addition, the following departments need to carry out the following tasks:

Administration

- Ensure that enough cash is available in the office or sub-delegation at the time of the payment;
- Clarify insurance cover for the money;

Management

- Ensure the security of handling of cash.

Logistics

- Provide means of transport.

2.2.2 Conditional cash transfer

EcoSec is responsible for carrying out the following tasks:

- Defining the conditions to be met by the beneficiaries;
- Designing a monitoring system to check whether the conditions have been met;
- Establishing a procedure in case of non-compliance by the beneficiaries.

2.2.3 Payments in fixed amounts

The amounts paid to the beneficiaries may be fixed (i.e. the same amount for each beneficiary) or variable (i.e. beneficiaries will be given different amounts depending on their needs).

If the fixed amount is intended to ensure that the beneficiaries can afford a certain combination of goods and services, the value of this combination should be benchmarked by the Logistics Division at the very start of the programme. This benchmark establishes the value of the amount that will be transferred to each beneficiary (or each beneficiary household).

However, the prices of the goods or services should be monitored and a decision mechanism established to adjust the amount accordingly or to modify the intervention if necessary (e.g. switching to in-kind assistance) so that the intended objectives of the transfer are still met.

2.2.4 Payments in variable amounts

If the value of the amount to be paid to the beneficiary is determined by a personalized list of items that the beneficiaries needs to purchase (e.g. to start a MEI), EcoSec needs to provide Logistics with this list of items to ensure that the pricing/benchmarking is correct.

Logistics

- Carry out a market assessment and establish the benchmark for the different items;
- Verify that the proposals from EcoSec are in accordance with the benchmarking;
- Draw up a selection table in accordance with the ICRC's rules on financial management;
- Agree on the value of each grant.

Administration

- Crosscheck the benchmarks with the prices paid in successive payments.

3 IMPLEMENTATION OF VOUCHER PROGRAMMES

There are different types of vouchers. A voucher may have a money value or a commodity value. It may be restricted to a single commodity or service or spent on a range of goods and services. A cash voucher is used in the same way as cash, in that the price of any good is decided in the usual ways associated with the market. A commodity voucher is valid only for a specified type and quantity of commodities or services. Generally, vouchers have a limited period of validity during which they can be exchanged.

The collection of vouchers and encashment lists from traders as well as following up on expired vouchers should be covered by a specific article within the contract signed with the trader.

Note

- Advance payments to traders may be approved by joint decision of the Logistics, EcoSec and Administration Divisions;
- The payment is preferably made to the trader's bank account;
- It may be decided not to use encashment lists, with traders being asked to keep receipts of what the beneficiaries have purchased. Encashment lists may facilitate reconciliation and help ensure that the beneficiaries retrieving the goods are the same as those who received the vouchers (no thefts/exchange of vouchers).

3.1 The documents required to settle the payment and accounting booking

The following justification documents need to be submitted in order to initiate, settle and book the payment:

- A copy of an RO;
- A copy of the contract (PO) with the traders;
- The list of registered beneficiaries (EPMT) with the vouchers issued to them;
- The vouchers and the encashment list (if available);
- The invoice from the trader corresponding to the amounts on the vouchers and encashment list submitted;
- The document from the trader confirming the reimbursement against invoice.

The vouchers are kept in FAD_REV archives in accordance with the legal requirements on keeping documents (as part of the PO file).

GUIDANCE SHEET 6

TOPICS TO BE COVERED IN MICROENTERPRISE MANAGEMENT COACHING

A typical MEI beneficiary has a vague business idea and very limited or no business management experience when he or she enters the MEI programme. As mentioned in Chapter 6, for such beneficiaries a business management skills training (BSMT) course should help them develop a detailed and elaborate business idea, assess its financial viability, and develop a plan of how to implement it. It should be practical and adapted to the level of literacy and numeracy of the participants.

When considering outsourcing a BMST course, every effort should be made to ensure that the following topics and points are covered.

1. How to define and draw up a good business concept⁴⁵

Those taking part in a BMST course should learn how to define and draw up their business concept. The course should help them clearly define the following aspects of their business:

- The goods or services that will be produced/provided by the business;
- The needs of the customers that will be met by the business;
- The customers that will be addressed by the business;
- How the business will sell the goods or services.

⁴⁵ It should be borne in mind that having a business idea is typically considered a criterion for inclusion in an MEI programme. Hence, including the “generation of a business concept” into the curriculum of a business skills training course means designing it for people that have not yet been selected for an MEI programme, i.e. potential future beneficiaries.

The course should also encourage participants to reflect on their capacity to run the business that they plan to launch. It should help them to assess whether:

- they have the necessary practical skills to produce the goods or services;
- they have the necessary knowledge of management skills to run and monitor the business;
- their personal situation allows them to implement and operate a business.

Finally, the course should show participants how to analyse the quality of their business concept with respect to their future business environment. A good and common tool for this purpose is a SWOT analysis, which prompts participants to analyse the strengths and weaknesses and the opportunities and threats of their business venture with respect to their future business environment.

2. How to market products

Start-up entrepreneurs need to develop a general understanding of how goods and services are marketed – i.e. how goods or services reach the customers. There are four basic features that participants can adjust in order to enhance the attractiveness of their goods and services:

- The product itself;
- The price of the product;
- The promotion of the product;
- Where and how they sell the product.

Product, price, promotion, and place are known as the four Ps of marketing and should be addressed in a training course. The course should show participants how to devise the four Ps in order to market their goods or services successfully. Examples should correspond to the types of businesses that the participants plan to implement.

A basic knowledge of marketing will help the participants to conduct a market assessment as it shows them the information that they will need to assess their business environment.

3. How to conduct a market assessment

Start-up entrepreneurs need a good understanding of their future business environment and target markets. Because they are unlikely to possess this knowledge, they need to be given guidance on how to conduct a market assessment. The training course should discuss the type of information that participants should gather:

- customers to whom they plan to sell their products;
- competitors selling the same or similar goods or services;
- the suppliers from whom they plan to buy their materials and equipment;
- the infrastructure required and available;
- rules and regulations governing the market.

Moreover, the course should give the participants an idea of how this information is best obtained.

The market assessment should provide participants with the information needed to determine the financial viability of their business (e.g. prices of inputs and equipment, potential sales volume, approximate sales prices).

4. How to assess the financial viability of a business concept

Before starting their business, participants need to assess the financial viability of their business. They need to determine whether their business will generate a profit. The training course should provide the participants with a good understanding of the financial aspects of their future business. It should help them to:

- estimate the potential sales volume;
- determine sales prices;
- determine direct and indirect costs;
- determine depreciation;
- calculate profit and the profit margin.

Without a proper understanding of the financial aspects of the business, participants will have find it very difficult to run and monitor their business.

Another aspect to be covered in the training course concerns the capital requirements of the business. A business cannot function without sufficient capital. A training course should show participants how to calculate their capital needs. It should discuss:

- the need for investment capital (money needed to start the business);
- the need for working capital (money needed to run the business until revenue is sufficient to cover operating costs);
- possible ways of obtaining capital (e.g. grants, own funds, loans).

5. How to manage and monitor business finances

Every entrepreneur needs to monitor and manage the financial aspects of his business. It is therefore important for them to have – and know how to use – a basic record-keeping system that allows them to monitor revenue, cost and profit. The training course should provide participants with a simple and basic record-keeping system and show them how to operate it. The record-keeping system should at least include:

- a cashbook for monitoring and managing cash;
- a system for managing sales on credit;
- a system for managing purchases on credit.

Apart from showing participants how to technically manage business finances and monitor revenue, costs and profit, the course should discuss the importance of:

- including an entrepreneur's salary;
- retaining a sufficient stock of working capital in the company;
- setting money aside for equipment that needs to be replaced (depreciation);
- building up savings to be able to cope with unforeseen events;
- keeping business finances and private finances separate.

6. Summary

The above-mentioned aspects allow participants to go through all the necessary steps involved in drawing up a simple business plan. A training course should help the participants summarize the lessons learned and put all the information together in a condensed manner. One approach is to show participants how to establish a simple business plan that:

- defines and develops their business concept;
- determines the strengths and weaknesses and the opportunities and risks of their business idea;
- includes their basic marketing plan;
- presents the relevant market information gathered;
- estimates the potential revenue, costs and profit;
- determines the capital needed to start the business.

GUIDANCE SHEET 7

TOPICS FOR ASSESSING THE SOCIAL PERFORMANCE OF MFIs

An outline of the main factors and indicators to be considered when assessing the social performance of an MFI is presented below. As mentioned in Chapter 8, the social performance of an MFI is one of the key criteria to be considered when selecting an appropriate MFI partner. This outline is based on guidelines developed by CERISE.⁴⁶ 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.

1. Outreach to the poor and the excluded

- Does the MFI select areas in which to operate on the basis of poverty and exclusion (poor urban and remote rural areas)?
- If it does, how does the MFI carry out socioeconomic 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?

⁴⁶ CERISE, *Social Performance Indicators (SPI)*, 2011.

- Does the MFI provide small loans to facilitate access by the poor (loans of less than 30% of GNI per capita)?
- Does the MFI authorize small instalments (less than 1% of GNI per capita)?
- Does the MFI allow the opening of saving accounts with very small amounts (less than 1% of GNI per capita)?
- What percentage of branches are located in areas in which there is no other MFI or bank?
- What percentage of the borrowers are women?
- What percentage of the clients are among the very poor?
- What percentage is accounted for by start-up loans?
- What percentage is accounted for by new loan beneficiaries?
- Does the MFI cross-subsidize its different branches or different loan products?

2. Adapting 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?
- Does the MFI provide loans specifically tailored to production needs and wealth creation?
- Does the MFI allow local branches to adapt their products and services to clients' needs?
- Does the MFI propose voluntary savings products? And are they specifically tailored to clients' social needs?
- Does the MFI use market research to identify the needs of clients and potential clients?
- How flexible is the repayment system for the clients (MFI proposes different formulas, schedule is decided with the clients)?
- Do loan officers seek to facilitate transactions so that clients do not have to travel to the MFI?

- 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 customer services?
- Does the MFI know why clients have 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)?

3. Economic and sociopolitical benefits for clients and their families

- Does the MFI track changes in the poverty levels or economic status of clients over time?
- Does the MFI have a staff incentives scheme related to social performance goals?
- Has the MFI taken corrective measures as a result of negative impacts on social cohesion or client welfare?
- Does the MFI have a formal policy on how to use the profits generated by the MFI to benefit clients?
- Do clients have access to the MFI's financial statements?
- What percentage of growth is shown in terms of voluntary savings?
- Are there any client representatives and do they participate in the decision-making process?
- If there are, how are they selected?
- Is there a network of clients that can share and resolve some of the clients' problems that go beyond access to financial services?

4. Social responsibility of the MFI

- How does the MFI manage its own staff (benefits, transparency, training and empowerment)?
- What does the MFI do to avoid client over-indebtedness?
- Has the MFI ever conducted studies to assess the social and economic impact of the services that it provides (selection process, pressure on repayment, impact on social links within the family for loans to women, etc.)?
- Does the MFI provide insurance that frees the family from the burden of debt in case of the death of the borrower?
- Does the MFI have an environmental policy for microenterprises that it finances and for its organization's practices?
- 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?
- Does the MFI have a complaint procedure for clients and explain it to them?

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.



ICRC