MICRO-FINANCE INTERVENTIONS: TOOLS TO COMBAT THE WORST FORMS OF CHILD LABOUR INCLUDING TRAFFICKING

ILO Mekong Sub-Regional Project to Combat Trafficking in Children and Women

In collaboration with ILO-IPEC Footwear & Fishing Projects

An ILO project working paper
Technical Intervention Area 3

ILO IPEC

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International Labour Organization (ILO)
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MICRO-FINANCE INTERVENTIONS:

TOOLS TO COMBAT THE WORST FORMS OF CHILD LABOUR, INCLUDING TRAFFICKING

Paula Francis Kelly
PKA (Asia) Inc

June 2002

For:
ILO Mekong sub-regional project to combat trafficking in children and women &
ILO/IPEC projects to combat child labour in the deep-sea fishing and footwear sectors in south-east Asia

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FOREWORD

Worst forms of child labour, including trafficking, are not new issues – and neither is the ILO's work to ensure recognition of the fundamental human right to freedom from forced labour and child labour. The ILO's Constitution and Declaration of Philadelphia uphold this principle unequivocally. Other important landmarks include the ILO Forced Labour Convention, 1930 (No. 29) and the ILO Minimum Age for Labour Convention, 1973 (No. 138). Most recently, the ILO's Declaration of Fundamental Principles and Rights at Work and the Worst Forms of Child Labour Convention, 1999 (No. 182) have added more impetus to the struggle to end this terrible practice. And yet, it is an enormous task as the magnitude of the problems is huge and of a hidden nature.

More encouragingly, we have also seen unprecedented international interest in the fight against the worst forms of child labour and trafficking. The ILO has been at the forefront of international efforts to combat trafficking, within the framework of ILO Convention No. 182. In south-east Asia, the ILO's work includes a project to combat trafficking in women and children in the Greater Mekong sub-region – funded by the United Kingdom Government's Department for International Development (DFID-SEA) – and the ILO/IPEC projects to combat child labour in the deep-sea fishing and footwear sectors in south-east Asia – funded by the United States Department of Labour.

These projects joined forces in the development of technical capacities to address the worst forms of child labour, including trafficking, through micro-finance interventions. The initiative included a desk review of state-of-the-art literature and field research in Cambodia, the Philippines and Viet Nam. The desk review and research were undertaken by Paula Kelly – a consultant with PKA Asia Inc. – with more than 30 years of relevant working experience, and resulted in this paper. The joint initiative was co-ordinated by Hans van de Glind, who, together with Anna Engblom, also provided technical backstopping and editorial support.

The paper aims to contribute to more effective employment and income generation in rural areas and ultimately prevent children from being drawn into the worst forms of child labour. The paper is a stand-alone document that complements other papers in related areas, in particular a paper entitled: "Non-formal education and rural skills training: Tools to combat the worst forms of child labour, including trafficking". Together these papers form a series of tools covering a range of Technical Intervention Areas (TIAs) that may each contribute to combating the worst forms of child labour, including trafficking.

I take this opportunity to convey my thanks to those who provided technical inputs during the course of the initiative: Jim Tanburn (ILO-FIT); Rie Vejs-Laursen (ILO-SED); Judith van Doorn (ILO-SFU); Nelien Haspels, Ian Cummings and Max Iacono (ILO-EASMAT); Hans Haan; Anna Engblom and Antero Vahapassi (ILO-Footwear & Fishing projects); Eriko Kiuchi, Herve Berger and Hans van de Glind (ILO-TICW project).

I hope that this publication will make a meaningful contribution to effective micro-finance interventions and to this initiative's overarching goal – combating worst forms of child labour, including trafficking in south-east Asia.

Yasuyuki Nodera
ILO Regional Director
Asia Pacific Region

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EXECUTIVE SUMMARY

This publication on micro-finance interventions results from a joint initiative by the ILO's Mekong sub-regional project to combat trafficking in children and women (ILO-TICW project) and the ILO/IPEC projects to combat child labour in the deep sea fishing and footwear sectors in south-east Asia.

It is part of a series of publications covering various technical intervention areas that the TICW project focuses on. Other topics addressed include non-formal education and rural skills training, legal labour migration, gender equality promotion, networking and coordination, participation, project management, psycho-social counselling and working with employers' and workers' organizations. Together - not alone - these interventions are thought to contribute to combating the worst forms of child labour, including trafficking.

Micro-finance interventions can contribute to generating sufficient family income so that children can attend school and hopefully be kept from exploitative situations.

Not all micro-finance interventions are successful, however. This publication highlights and discusses a number of critical concerns related to micro-finance programmes, with a particular focus on rural areas. Questions, such as who to target and how, how to establish and maintain savings and lending schemes, what kind of training to provide, how to reach out to the poorest of the poor, gender concerns and how to ensure cost effectiveness and sustainability, are raised and thoroughly discussed. The findings and suggestions are based on a review of literature and field work in Cambodia, the Philippines and Viet Nam. Though the suggestions and considerations in the publication may be used broadly – beyond the three countries where the field work was undertaken, they are no "blue-prints" and should be interpreted in specific local contexts.

This document has four key parts: Chapters 2 to 5 cover micro-finance aspects. Chapters 6 to 8 deal with related services when managing a micro-business. Chapters 9 and 10 offer information on cross-cutting issues and lessons learned. Chapter 11 lists the main considerations and suggestions for project staff working on micro-finance and income generation with poor rural communities with the overarching goal to combat child labour and trafficking. Each one of the chapters 1 to 10 includes a summary of key points.

ACRONYMS[1]

AA	Action Aid
ACCION	A United States-based international NGO providing technical assistance to MFIs in Latin America
ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
ASA	An MFI in Bangladesh – no other meaning given
ASCA	Accumulated Savings and Credit Association
BAAC	Bank for Agriculture and Agricultural Cooperatives
BRAC	A very large MFI in Bangladesh – previously Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia Unit Desa
CA	Credit Association/Credit Agent
CARD	Center for Agriculture and Rural Development
CARE	CARE International in Cambodia, in Viet Nam and in United States
CBU	Capital build-up
CDC	Commune development committee
CELF	Community Enterprise and Livelihood Fund
CGAP	Consultative Group to Assist the Poor
CRS	Catholic Relief Services
CPV	Communist Party of Viet Nam
DTM	Dong Thap Muoi
ELFS	Enterprise and livelihood financing schemes
EMT	Ennatien Moulethan Tchonnebat (Cambodia)
EWTO	Experimental Workshop on Theory of Organization
FINCA	A member of the Village Banking Network Uganda
FOS	*Fonds voor Ontwikkelings Samenwerking*
FWF	Family Welfare Fund
GRET	*Groupe de Recherche et d'Echanges Technologiques*
GTZ	German Agency for Technical Cooperation
IAS	Institute of Agricultural Science
IGA	Income-generation activity
IGVGD	Generation for Vulnerable Groups Development

[1] Many of these names are in fact now the real names of the organizations whereas previously they were acronyms, such as CARE, BRAC.

ILO	International Labour Organization
INGO	International non-government organization
IOM	International Organization for Labour
IPEC	International Programme on the Elimination of Child Labour
IWDA	International Women's Development Agency
LWS	Lutheran World Service
MFI	Micro-finance institution
NGO	Non-government organization
ODA	Overseas Development Assistance
PADEK	Partnership for Development in Kampuchea
PKSF	*Palli Karma-Sahagak* Foundation
PUNLA	*Punla sa Tao* Foundation
RoSCA	Rotating Savings And Credit Association
SADP	Southeast Asia Development Program
SBP	Sustainable banking for the poor
SCF-US	Save the Children, United States of America (in Viet Nam)
SCF-UK	Save the Children, United Kingdom (in Viet Nam)
SHG	Self-help group
SNV	Netherlands Development Organization, Viet Nam
TESDA	Technical Education and Skills Development Authority
TICW	Trafficking in children and women
ToR	Terms of reference
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Programme
UNFPA	United Nations Family Planning
USAID	United Sates of America Foreign Aid Programme
VB	Village Bank
VDC	Village Development Committee
VWU	Viet Nam Women's Union
WCA	Working capital assistance
WEM	Workshop enterprise management
WB	World Bank
WU	Women's Union
WWB	Women's World Banking

MICRO-FINANCE INTERVENTIONS: TOOLS TO COMBAT THE WORST FORMS OF CHILD LABOUR, INCLUDING TRAFFICKING

1 INTRODUCTION

1.1 The Paper in Its Context

Child labour is a multi-dimensional issue requiring multi-dimensional responses. In south-east Asia, both the ILO Mekong sub-regional project to combat trafficking in children and women (ILO TICW project) and the ILO/IPEC projects to combat child labour in the deep-sea fishing and footwear sectors (F&F projects) employ a multitude of interventions. In both cases these interventions include a focus on micro-finance interventions.

Local partner agencies, through which the projects implement a range of interventions, indicated an interest in tools to professionalize their services, among others in the field of micro-finance interventions. The TICW project and F&F projects hence launched a joint initiative to explore the state-of-the-art knowledge in this area and identify outstanding needs.

This paper is the result of these collaborative efforts and aims to offer practical tools to a wide range of local service providers involved in combating the worst forms of child labour, including trafficking, in south-east Asia (and beyond). These agencies are mostly humanitarian in nature and typically offer a wide range of services, some of which could be made more effective.

The initiative is composed of a literature review and field research in three selected countries (Cambodia, the Philippines and Viet Nam) and suggestions have been put forward in such a way that they can be applied in a variety of situations and countries – provided that local contexts are taken into account. The results include practical guidelines when offering micro-finance services, suggestions for collaboration with expert service providers in the field of micro-finance, good practice examples and lessons learned, pointers for action and literature references. The paper aims to contribute to more effective employment and income generation in rural areas and ultimately prevent children from being drawn into the worst forms of child labour.

This paper is a stand-alone document that complements other papers in related areas, in particular a paper entitled: “Non-formal education and rural skills training: Interventions to combat the worst forms of child labour, including trafficking”. Together, these papers form a series of tools covering a range of Technical Intervention Areas (or TIAs) that may each contribute to combating the worst forms of child labour, including trafficking.

When offering rural skills training, micro-finance and business development services to poor families whose children are at risk of the worst forms of child labour, it is important to determine: i) the poverty level of the target group (see the vertical poverty continuum in Diagram 1); (ii) the most promising type of income generation they should embark on (from basic survival activities for the absolute poor to small enterprises for those with longer-term economic security (see the boxes under income generation in Diagram 1); and, (iii) the type of support services that would be needed for the particular type of income generation (see the vertical bars in Diagram 1).

Diagram 1 – Support Services to Generate Income

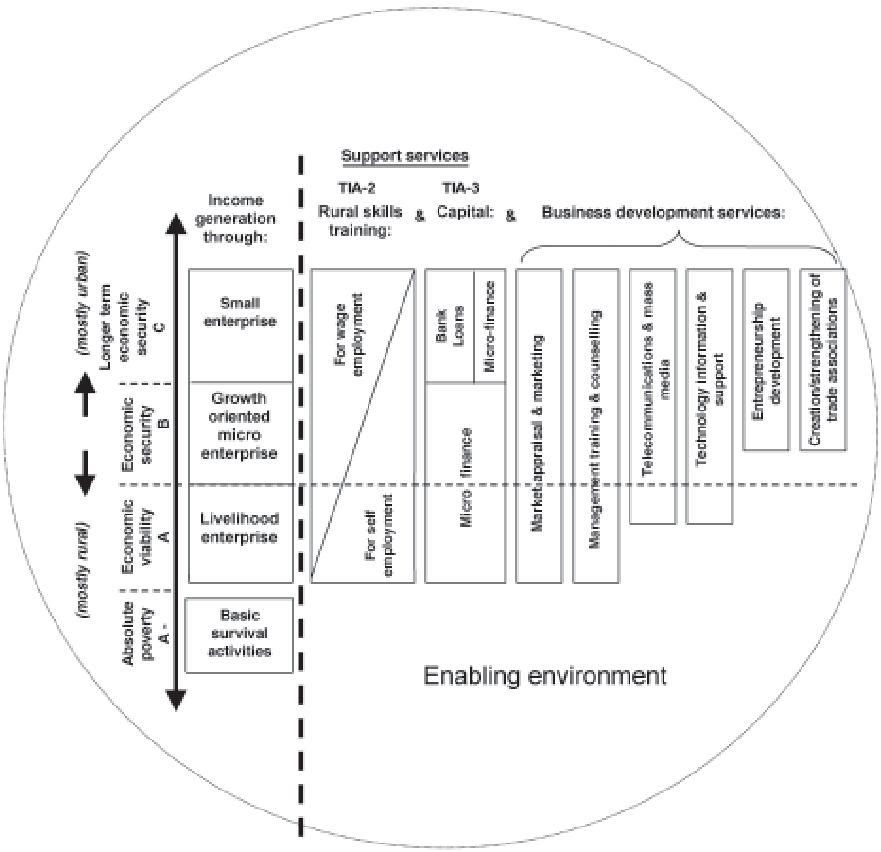


Diagram by Hans van de Glind, ILO

1.2 Literature Search and Review

The depth of the printed literature search is found in the bibliography section of this document. The Internet was used widely and relevant sites are also listed in the bibliography. It can be concluded from this search that much of the printed material is repetitive with old insight recycled but very little new thinking or theories based on field experiences that challenge and stir debate. Material found on the Internet, however, seems more dynamic and contemporary with far more ideas presented by practitioners working in the field. To keep up with changes on the ground and in theory, it is advisable to research material on the Internet first.

Good Practice Suggestions: Summary of a Handbook "How to Generate Wealth"

See: http://www.scn.org/ip/cds/cmp/hhbweal.htm

A "how-to" book for community workers to help eradicate poverty is discussed on this Web site and includes analysis of poverty and its causes as well as attention to using credit and training to promote entrepreneurship. The chapters touch on:

1. **Definitions, goals, methods.** Attacking causes, not results of poverty (such as apathy, ignorance, disease, dishonesty, dependency, isolation).
2. **Credit.** Wealth must be created, not merely transferred. Sizes of loans. Market rate of interest.
3. **Organizing groups.** Need for trust, training.
4. **Skills needed.** Management, resource mobilization, accounting, finance, records, reports, marketing, credit skills, technical skills.
5. **Successful enterprises.** Viability, integrity, goodwill.
6. **Appendices:** Forms, group formation, micro enterprise, business records, financial training, marketing, savings, planning, managing an enterprise, definitions.

Source: Bartle, Phil PhD, *How to generate wealth.*

1.3 Ever-Changing Terminology

Income generation traditionally was viewed as the umbrella phrase to describe activities that generate employment (of individuals, families and communities) from which money or money-in-kind as payment for work is generated. It was formulated along with notions of job generation of the 1970s. As a term, "income-generation activity" (IGA) now appears out of fashion, superseded by more sophisticated terms. In documents of the early to mid-1990s (CARE USA 1996), for example, income generation was being used as the term for the lowest level of informal economic and credit activities, which were usually home-based. Now such activities are generally referred to as micro-enterprise activities or livelihood activities. The credit associated with the older concept of income generation is now often referred to as credit and saving activities within an enterprise development project, or micro-finance.

These word changes, while managing to make the issue of micro-finance somewhat confusing, also reflect conceptual changes of interventions. But the changing terminology can be problematic. Field workers often find themselves feeling a few steps behind because new words with broader meanings are being used in international debates. And they also find, the hard way, that donors expect the latest terminology in proposals, perhaps thinking that this is more likely to prove implementation expertise.

It is not an issue of semantics but of different attitude approaches. Knowing the appropriate language sets the tone and agenda of the relationship for working with clients – once called beneficiaries. So this document really is not about income generation but “micro business”, and discussions presented focus on “micro-finance”, which once was known as credit. And all this discourse is no longer about poverty alleviation but what is now known as “economic security” for people who are poor.

Of course the changes are not universal. In practice, the term income generation is frequently used, and in this document it is used interchangeably with micro-finance. This document tries to demystify the new terms and explain the broader meanings, as well as the evolution of theory and practice of providing credit to people who are poor. And it sets out to explain the new industry of micro-finance with auxiliary functions for poverty alleviation, or rather, as the terminology calls it, economic security.

Though income generation and micro-finance are frequently used inter changeably, there is a broader meaning to micro-finance: in the international discourse, micro-finance refers to the provision of a broad range of financial services, such as deposits, loans, payment services, money transfers, insurance, training, counselling and other support of an in-kind nature to poor and low-income households and their micro enterprises. Micro-finance services currently are provided by three types of sources:

- formal institutions, such as rural banks and cooperatives,
- semi-formal institutions, such as non-government organizations (NGOs) and
- informal sources, such as money lenders and shopkeepers.

Institutional micro-finance is defined to include micro-finance services provided by both formal and semi-formal institutions. Micro-finance institutions (MFIs) are thus legal institutions (formal) in which the major business is the provision of micro-finance services (Asian Development Bank, 2000). Most NGOs are not MFIs and are usually termed micro-finance “providers”.

According to World Bank literature, “Micro-finance providers offer savings and credit services adapted to low-income households and they include government banks, commercial banks, non-government organizations, non-bank financial institutions, savings and loan cooperative, and credit unions. Informal moneylenders, pawn brokers and rotating savings and credit associations (RoSCAs) are also (said to be) micro-finance "providers." (Fruman and Goldberg for World Bank,1997)

Example 1: What is Micro-Finance?
Micro-finance is the part of the financial sector that responds to the financial demands of low-income households. Sound micro-finance operations are characterized by:

- small, usually short-term loans and secure savings products,
- streamlined, simplified borrower/investment appraisal,
- alternative approaches to collateral,
- quick disbursement of repeat loans after repayment,
- relatively high transaction costs,
- high repayment rates and
- location and timing of savings and short-term credit services convenient to the poor.

Source: Fruman and Goldberg for World Bank, 1997.

1.4 Poverty

Much of the literature links the lack of alternative livelihood options in rural areas to the increase in child labour. And lack of livelihood options is seen as a precursor to poverty.

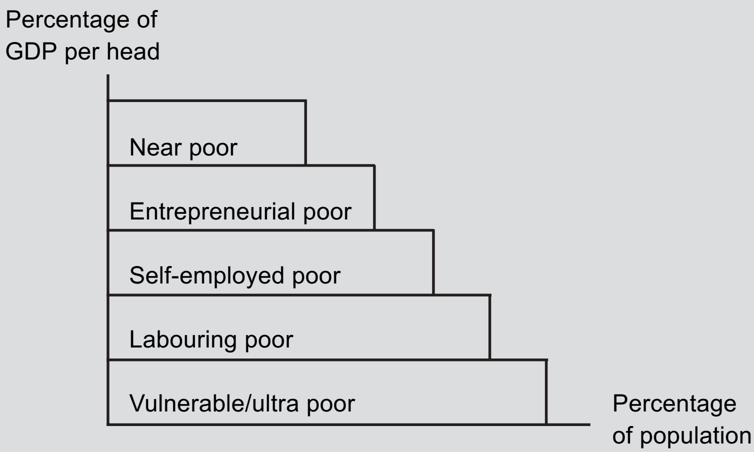
Of course, definitions of poverty vary widely, but certainly it is more than a measure of currency (Thapa, G., et.al. 1992). There are academics' classifications, sociologists' and other scientists' as well as bureaucrats' characterizations and there are different meanings perceived by people who are poor.

What is of great importance in discussions of poverty is how to reduce it. Experiences reflected in both the literature and in the field research of three countries in south-east Asia for this document indicate that different levels of poverty require different types of assistance. The concluding overview is that micro-finance is not for the poorest of the poor but only for the poor with opportunities. The poorest of the poor need other types of help that can lift them up to a level with opportunities, and then those people can entertain ideas of micro-finance assistance.

For example, Remenyi (1991) brought into the definition of poverty the concept of "entrepreneurial poor", a concept used throughout the current literature but usually undefined. It is generally accepted that where basic livelihood is not achieved, the spirit of entrepreneurship cannot be utilized. According to Garson (1996), the entrepreneurial poor can use assistance to move out of poverty.

They can create activities to achieve this. The non-entrepreneurial poor, such as the vulnerable poor, because of lack of skills or absolute destitution, are left unable to develop social and economic activities. Despite this impediment, many NGO programmes still offer economic start-ups for the vulnerable poor, which may result in higher indebtedness.

Figure 1: The Poverty Pyramid in the Third World



Source: Remenyi, J. (1991) *Where credit is due,* IT publication, UK.

Levels of poverty are often comparative. Figure 1 is an attempt to define poverty in situational terms (food, shelter, assets). Figure 2 is a way to divide the poor in terms of types of assistance that would be most effective, with the understanding that people can move from one category to another. So investigating the possible movement of households out of different levels of poverty would look like the continuum explained in Figure 2.

Figure 2: Continuum of Economic Status in Households

A-	A	B	C
Absolute poverty	**Economic viability**	**Economic security**	**Longer term economic security and higher standard of living**
Periods of no food, no access to job, need family members to migrate for seasonal work.	Have food, shelter, clothing for the immediate needs. Have deferred consumption (can buy livestock, for example).	Can protect household assets and income from the unpredictable (floods).	Situation sustained to the next generation – accumulation of assets – investment for higher returns and less risk needed.

The "level" process could be described as follows: Poor people move along a continuum from absolute poverty, or A -, if circumstances permit, until they reach A, or economic viability, where they have enough food, etc. and begin to buy deferred consumption products, such as livestock. If things go well (no disasters, illnesses in the family or deaths), they can move to B, or economic security: they are no longer vulnerable to slipping back into poverty. They can protect household assets and income from natural or man-made disasters. Then they can look to move on to a situation of long-term economic security and a higher standard of living, or C, which can be sustained to the next generation. They accumulate more assets, invest for higher returns and need not take great risks. (See also Diagram 1 on page 2 for an application of the continuum in a broader context of key terms.)

It is now generally believed in development circles that access to an income, predominantly from self-employment via credit, as an income-generating activity, is a very positive step toward a movement out of poverty. Income-generation activities are now a key means to alleviate poverty in developing countries. Not all people agree, and there is a small but growing body of people who are rethinking the idea of credit as a way out of poverty.

The counterview is argued, such as in Bangladesh, that if a poor country is to have sound and sustainable economic activities, a diversified and wide range of financial activities is necessary. According to Jackelen (2001), "While capital is not the only factor that allows for growth or creation of enterprises, it is the most vital, as without creativity, determination and innovation it cannot be transformed into material actions. Access to capital is a driving force that allows a 'democratization' of this valuable resource. Thus a diversified and rich range of financial services – from credit to savings to insurance and investment – are vital to underpin a strong foundation of sound and sustainable economic activities."

The question being internationally debated is to what extent can income-generation activities actually take people out of poverty and assist them and their families to own their own futures? The research to date shows that as long as a range of activities is available through micro-finance/income generation of both a financial and non-financial kind, progress to alleviate poverty can be made.

In the developing world at this time, activities for the generation of income have usually required some capital, and obtaining capital for the very poor is usually impossible because of a requirement for collateral and/or other barriers, such as cultural (which have left women, the unmarried, the disabled, religious groups, etc. from entering the market).

Key Points

- The literature shows that the terminology used in income-generation debates is changing and current definitions of all components now termed micro-finance need to be understood by those discussing the issues in the field.
- Families and communities can move along a continuum from absolute poverty to longer-term economic security with financial and non-financial assistance.

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2 MICRO-FINANCE INSTITUTIONS

This section covers some of the history and current examples of the rather new concept of micro-finance institutions. It is a background for income-generating project implementers who may not yet have been involved in the international changes that are affecting, though subtly, their projects.

2.1 The Micro-Credit Summit

The whole concept of lending to the poor emerged in Bangladesh and was developed in the now-famous Grameen Bank. After the experience of Grameen Bank and other groups with micro-finance delivery to the poor, local and international groups and organizations began to share their lessons learned. The discourse culminated in early 1997 when more than 2,000 representatives from private, non-government and public sector institutions and groups came together at the global Micro-Credit Summit in Washington DC, United States. It was decided during that summit that there should be a 10-year campaign to provide 100 million of the worlds' poorest families with credit and self-employment, and USD 11.6 billion was estimated to be needed to achieve this. Special emphasis was given to the women of poor families. The Micro-Credit Summit defined "the poorest" as the bottom 50 percent of the group of people living below a country's nationally defined poverty line. The participants pledged contributions to achieve this goal. Thus, the framework for this campaign began as one that is international, well developed, has vast and wide ranging support and is heavily resourced and documented. This money could be mobilized by raising Overseas Development Aid (ODA) going to micro-credit for the poorest people through wholesaler micro-credit funds and NGOs at the grassroots levels, such as Grameen Trust (Asia, Africa, Europe and the Americas) and Palli Karma-Sahagak Foundation (PKSF) Bangladesh.

The Consultative Group to Assist the Poorest (CGAP) was established and consists of all donors that stand by the Micro-Credit Summit. It is seen to be the best-suited micro-credit/capital donor forum to act as a catalyst in ensuring that changes are made to benefit the poor. Lessons learned through the Micro-Credit Summit and the CGAP Web sites are changing the way people in developing countries work with and for the poor.

Though the Micro-Credit Summit was a milestone event, it is seen by some as "promoting a single use of loans", thereby negating the importance of savings and other uses for borrowed money. Also, the need for homogeneity in the wake of globalization has certainly influenced the poverty alleviation/micro-credit approach. This could be a less than healthy situation where local contexts are not taken into account in a bid for standardized best practice, as promoted through the Micro-Credit Summit.

2.2 Formation of Micro-Finance Institutions

The development of institutions that specialize in financial and business services for the poor, called micro-finance institutions (MFIs), has shown that working with the poor can be profitable. MFIs can be institutionally sustainable and thereby provide people who are poor long-term and excellent professional services.

There are different models (see Annex 2 for a description of four models) that have been used to form sustainable MFIs suitable to different circumstances. These four models illustrate ways in which non-bank MFIs (NGOs) can reach financial sustainability and commercial scale and how the organizations can become “banks”. This does not mean that they stop servicing the poorest clients. MFIs have usually been government-assistance arms, bilateral programmes, local NGO or international NGO (INGO) programmes. They do not necessarily lose their philosophy of assisting the poor on becoming MFIs.

However, none of these models has relevance in any countries of the Mekong subregion unless a project can be institutionally sustainable (see Section 9.6 on sustainability). NGOs and other groups cannot link with sustainable MFIs unless there is a legal framework in place in the particular country to protect the clients – people who are poor – when a small scale project ceases.

It is possible for an institution to evolve from a livelihood project with subsidized credit to financial, operational and institutional sustainability. The most well-known example is the Grameen Bank (see Example 2).

Example 2. Grameen Bank (Bangladesh)

From small acorns giant oaks grow. In 1976, after observing the dire consequences that the lack of capital of even the most minimal amount had on hard-working skilled village women, Muhammad Yunus, a Bangladeshi economics professor, loaned the equivalent of USD 21 to USD 42 to these women. At that time, Yunus approached a bank seeking loans for poor craftspeople and received the first of many rejections (Counts, 1996). Around this time, *the concepts of frequent repayments of small amounts (daily at that time), group formation, savings mobilization, including the use of a group tax of 5 percent of the loan amount, were developed* (Counts, 1996).

The Grameen Bank now operates in nearly 40,000 villages and has more than 2.5 million members. It is a part of the formal banking sector and loans more than USD 400 million annually (Grameen, 2001). It has been “emulated, adapted and transferred to many developing and some developed countries” (Kammen, 1997).

A more modern example that was able to build on the experience of the Grameen Bank is the ACLEDA Bank Limited of Cambodia, which started as a NGO and became a micro-finance specialist bank (see Example 3).

Example 3. ACLEDA Bank Limited (Cambodia)
The Association of Cambodian Local Economic Development Agencies (ACLEDA) started its operations in January 1993 as an NGO with the support of United Nations Development Programme (UNDP) and the ILO. ACLEDA transformed and obtained a license as a bank specializing in micro-finance on 7 October 2000.

ACLEDA Bank continues to enhance its capacity to provide sustainable access to financial services for the lower segments of the market by expanding both in scale and scope. ACLEDA Bank now is developing and providing additional banking services, such as savings and cash transfers, and will eventually position itself to attract capital on commercial terms. ACLEDA Bank's customers refer to ACLEDA Bank as their "second parents" because they perceive that ACLEDA Bank's financial services give them an opportunity to improve their own circumstances.

Financial products. ACLEDA Bank provides three main types of financial products: micro-business loans, small-business loans and small-scale industry loans.

Micro-business loan. This product utilizes two differentiations: the collateralized loan to individuals and the group guarantee methodology. Prospective clients form a group of 3 to 10 members. They receive a business consultancy. The consultancy is usually conducted by credit officers in the villages of the clients. During the group training, the viability of the business ideas are discussed and the credit methodology explained. Group members can apply for different loan sizes up to 1.5 million riels and individual customers can apply for a loan of 1 million riels to 15 million riels. (This is the bulk of their clientele.)

Small-business loan. This product consists of collateralized loans to individual small businesses and agriculture entrepreneurs. Applicants have to undergo a selection procedure after which they receive a consultancy in basic business management. Loan size is up to USD 4,000.

Small-scale industry loan. This product consists of collateralized loans to individual small-scale industry entrepreneurs. Applicants can apply for a loan from USD10,000 to USD 70,000. ACLEDA Bank offers three types of savings: demand deposit, savings account and fixed deposit.

Money transfer and money receiving. This new product is processed within a locality for money transfers and for money receiving, from all countries in the world. Customers can complete information for cash transfers within five seconds and it is done with the fastest payment for a specific source of money receiving.

<u>Source</u>: Information brochure 2001

ACLEDA also has personal client outreach (like smaller NGOs), personal counselling services and training in all aspects of enterprise development and financial planning. The advantage for the smaller, short-term projects of income generation of small NGOs is that linking into the services of MFIs is easy and efficient, and assists clients with graduation to formal institutions. A problem is that some implementers appear to have become fearful of MFIs because of the hype created by their international activities.

One potential MFI that is undergoing a similar process but in a different context is Save the Children Fund (SCF-US) Viet Nam (see Example 4). However, the lack of any legal framework to institutionalize the project, no matter how ready for this it becomes is an issue of sustainability in Viet Nam.

Example 4: Save the Children Fund SCF-US (Viet Nam)

Given the lack of any legal framework or even enabling environment in Viet Nam, a project that can in the context be termed successful is that of Save the Children Fund (SCF-US) in Thanh Hoa, Viet Nam. SCF has a business unit in Hanoi headed by a Vietnamese national with qualifications and experience in financial services and micro enterprise. This situation is not common among the INGOs in Viet Nam.

Originally, the SCF approach was very much the usual one adopted by development agencies working through the Women's Union and its staff. It cut costs and employed Credit Agents for outreach and associated administration and increased the Borrower/Credit Agent ratio. It did training and accredited the Credit Agents. It became financially managed at district level, eliminating more technical responsibility at lower levels. It gave small loans – small enough to deter richer people from bothering to try to access them.

For efficiency and sustainability SCF revamped its approach. The current strategy:

- **For** and **by** rural women.
- Micro loans between USD 20 and 70.
- Group guarantee (lending and savings) as collateral.
- Sustainability based on District Strategic Cost Centres with franchising potential to reach 100,000 active clients.

Comparison of the two approaches (The old one is still used by most other NGOs in Viet Nam.):

Features	Original Approach	New Approach
Credit agent-Client ratio	1 : 75	1 : 700-900
Salary as percentage of gross income	40%	18%
Time needed for Women's Union to master accounting and finance management (months)	12	3
Accounting and finance	District, commune and hamlet	District only
Management responsibilities	Financial management not existent	Financial management at district
Accounting and finance system format	Simplified (to suit staff capacity)	Based on international standard (CGAP format)
Internal control	Almost not existing	Yes

Source: Documentation, personal and telephone interviews.

2.3 Legal Frameworks

The literature points to the absolute need for a legal framework for micro-finance within the banking system to ensure institutional sustainability. NGOs that do not wish to become sustainable MFIs and have a short-term micro-credit project have little potential to continue project activities after funding ceases, unless they develop linkages with sustainable MFIs.

Cambodia put a micro-finance law in place early in 2000. So all credit lenders from the NGO sector that are in more than one district with 100 or more depositors must now seek registration. This will impact on the majority of INGOs and larger local NGOs that include a credit and savings component in their projects. There are 76 NGOs working in the area of micro-finance.

The Philippines has a more developed banking climate. It has a legal framework in place (Republic Act No. 8425) that facilitates money transfers to credit and savings organizations and allows for micro-finance services for the poor. To date, taking savings from other than members of community groups is not technically legal, but by mid–2002 it is intended to be included in the new micro-finance law added within the total banking law through the Medium Term Philippines Development Plan (1999-2004).

The Philippines looks to the private sector as the best implementer of micro-finance and associated training. The initial response to past failures has been the emergence of MFIs, in particular, CARD Rural Bank.

Ineffective Practice: Traditional Approaches That Failed
Traditional approaches to what is now called micro-finance failed because they were:

- rigidly designed and commodity oriented,
- unsustainable through providing subsidized directed credit,
- overly dependent on budgetary appropriation and external funding and
- dismissive of savings mobilization (believing the poor cannot save).

Viet Nam presents a special case. Although in the mid–1990s the Bank for the Poor was developed as a window of the Viet Nam Bank of Agriculture, a legal framework for institutional sustainability is missing. Furthermore, there are no local NGOs so those that are working there are international with some quasi-consultancy groups also in the field. An estimated 24 INGOs are involved in some form of micro-finance with 11 of the more significant ones withdrawing or phasing out from micro-finance activities by 2003.

The reasons for the withdrawals are many, but one is the lack of a legal framework to manoeuvre in the best possible market-oriented tradition. Two micro-finance programmes (at least) will continue. These are Action Aid (AA) and SCF-US, and they will remain because they believe the legal climate will change within the next five years. In fact, AA facilitated with SCF-US a field visit of banking legislators to the Philippines and other countries in August 2001. These two groups have a long-term continuous approach moving toward institutional sustainability, whereas most INGOs have a two- to five-year approach to project life.

Like Yunus, the founder of Grameen, SCF-US in Viet Nam has worked from the grassroots level to top political and government levels in a bid to ensure overall understanding of micro-finance. According to a SCF official, “SCF-US has actually facilitated recent visits of the State Bank of Viet Nam (SBV) to the Philippines, Indonesia, Nepal, and Bangladesh and organized an orientation workshop in Hanoi to reiterate fundamental concepts of micro-finance best practices and some special issues in supervising and regulating MFIs. In this workshop, about 25 officials from the Office of the Government attended, including the Deputy Directors, Banks and Non-Bank Credit Institutions and SBV, which is engaged in the development of the new legal framework for MFIs in Viet Nam.”

2.4 Standards Assessment

Unfortunately, because of changing definitions in the sector, projects have often operated alone – the implementers think or are led to believe that their projects are not “top end” and do not have to work within a framework of set standards. One professional during the field research called them “project islands”. Then there are the organizations where the head office is located in another country and decisions are made there – out of the context of the project. The Women’s World Banking (WWB) has developed performance indicators and set standards (see Table 1) that have acceptance in general in the wider field. These are seen as of great benefit to implementers who feel they work to a recipe and do not know the full picture (Interviews).

While these standards are reiterated throughout the literature, they are not always part of the practice in the field, particularly when micro-credit is only one aspect of a total integrated programme including income-generation activities (Field interviews). They are not used by some smaller organizations, which do not necessarily agree that the way forward is institutional sustainability or have short-term (two to three years) projects in the system (Project reports and interviews).

No matter how small a project dealing with elements of micro-finance, Table 1 is an excellent guide for those who want to achieve high-quality outputs for their agency, the donors and the client within the limitations of their specific contexts.

Table 1. Performance Indicators and Standards in Micro-Finance

Portfolio Size and Quality	• Gross portfolio outstanding – at beginning and end of year • Total number of loans disbursed during the period • Repayment rate on time and/or as of 30 days
Efficiency	• Portfolio at risk on time and/or as of 30 days • Cost per unit of money lent – based on amount of loans disbursed in the period based on average portfolio outstanding • Number of loans per credit staff person
Self-sufficiency/ Profitability	• Operational self-sufficiency of credit and savings operations overall, including and excluding costs of funds • Overall financial self-sufficiency • Return on performing assets
Key Demographic Data on Clients	• Average loan size • Percentage of loans below USD 500 • Number of active borrowers • Percentage of borrowers below poverty line • Percentage of credit clients that were repeat clients from previous years • Number of savers • Total deposits at beginning and end of the period • Percentage of borrowers who are women • Percentage of savers who are women • Percentage of board members who are women • Percentage of total staff who are women
Interest Rates	• Positive interest rates charged to clients in relation to inflation, commercial bank price rate and administrative costs
Financial Resource Base	• Resource base • Reduction in subsidies, donor dependence
Reach of Client Group – Focus on the Poor	• Evidence of focus on the poor • Methodology • Use of collateral substitutes • Savings
MFI Management, Structures and Systems Qualitative Indicators	• Vision and mission • Governance • Financial, credit and management information systems • Legal structures • Financial reporting • Management and staff • Business plan financial projections • Effective operating systems <u>Source</u>: Women's World Banking, *Changing the way the world works* (2000) at www.swwb.org/english/2000/2200.htm.

It is noted in the literature that the principles required for successful micro-finance within a bank operation (as in the following Good Practice), are the same as those to be used in a MFI stand-alone venture, in a micro-finance dedicated NGO a micro-finance department of an NGO or field operational headquarters. However, the methods of implementing the principles depend on the size, structure and context of the activities.

Good Practice Suggestions: The 10 Principles to Making Micro-Finance Successful in a Bank Operation

1. Understanding. Task Team Leaders (TTLs) must have basic knowledge of the rationale for micro-finance, the best practices, the lessons learned and the fundamental dos and don'ts. They must understand how these lessons relate to the country and to the demand of the target market.
2. Clear Objectives. The TTL should have a clear vision of what the micro-finance activity can achieve. Distinct, realistic and measurable goals should be defined. Micro-finance should never be confused with welfare.
3. Expertise. An experienced micro-finance specialist should be called upon at all the important stages of the project preparation and implementation.
4. Commitment. Management must be supportive of the micro-finance activity and understand its implications, including providing adequate resources given the high design and supervision costs, small loan amounts involved and the importance of policy dialogue.
5. Monitoring. TTLs must ensure that adequate management information systems are built into the micro-finance activity and that the counterparts understand the Bank's monitoring and reporting requirements. These should be rigorous but not too constraining.
6. Supervision. Particularly in the early days of the project, supervision must be frequent and intensive. Enough staff and consultant weeks must be budgeted.
7. Continuity. As for all activities that require a lot of attention and nurturing, continuity of staff and consultants is essential. This is also true, of course, for the staff in charge of implementing the programme in the country.
8. Flexibility and Simplicity. The micro-finance activity must be designed in such a way that it can be modified to adjust to changing conditions or demand. Its methods and services must be simple and appropriate to the context.
9. Opportunity, not charity. Subsidies should be aimed at building the capacity of micro-finance providers over a determined period of time. Capacity-building grants should cover both the up-front costs required to build a sustainable financial institution and social intermediation costs to help disadvantaged groups access the financial services. Beyond that, providers should reach sustainability through efficient management of financial services at real interest rates.
10. Policy Dialogue. Policy dialogue must be conducted at all times to ensure that the micro-finance activity receives support from the government and that appropriate policy changes are implemented to foster a conducive environment for micro-finance.

Source: Fruman, C., and Goldberg, M., *Micro-finance practical guide for World Bank staff (1997).*

What is important to smaller NGOs with income-generation activities is having sufficient information about accessable MFIs that are potential service providers for the NGO clients. Linking with sustainable institutions is the key to creating trust with clients because of the long-term potential of the MFI, as clients often do not trust short-term NGO micro-finance services.

The research for this report highlighted a huge gap in understanding the whole income-generation field of the new century. Small NGOs often said they do not want to go into micro-finance when, in fact, that is what they are in – if they are lending small amounts of money to the very poor and providing other forms of support that will assist with enhancing the livelihood potential of poor rural families. Others said, “We carry out income-generating activities, not micro-finance,” when they actually do give credit and take savings as well as provide business services, etc.

Key Points

- Micro-finance institutions have recently set the trend for activities of poverty alleviation in some countries, but only where the legal framework is in place. Standards of MFIs within these legal frameworks vary greatly.

- Many NGOs do not want to be MFIs but can function effectively within their contexts.

- Linking to sustainable MFIs is a key to creating client trust for smaller NGOs with income-generation activities.

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Women’s World Banking	http://www.swwb.org

3 CAPITAL

This section describes the different types of loans that can be made available within the area of micro-finance/income generation. Demand is considered as an issue, and the range of products and services to reach this demand is presented.

3.1 Simple Credit

Credit, the permission to delay payment for services or money borrowed for a period of time, is the foundation of the financial industry. For the very poor, the old, sick, disabled or the migrant, either of these services is difficult to access (CGAP, Focus Note 20, 2001).

Credit, in its simplest sense, is borrowing money for a short time and then paying it back. In the developing world, the lender can be a family member or friend. Belief is there that the money will be paid back and it usually is. There is a high level of trust. Cultures where family ties are strong use this method of bridging finance regularly, such as Confucian cultures.

Kith lending sometimes is the same as lending to family or close friends, but usually it has some repayment in money (as in interest or in a flat payment) or in kind (such as to return a favour, which can be labour after the fact).

In all poor societies there is a large informal lending system outside the more casual kith and kin credit. This system is the biggest where people are the poorest. Market trading systems help informal lending thrive (Alexander, 1987).

People borrow on a daily basis to produce, to sell and to eat sufficiently. The interest rate is high; 10 to15 percent per month (Pairaudeau, 1999), up to 60 or 70 percent per month (SCF-UK, 1999). But there seems to be no criteria for eligibility other than that a loan payment has not been known to have been missed, or be too late, by the specific (potential) informal borrower. Informal money lenders appear to report to no one and are both extremely helpful to the borrowers and sometimes quite ruthless and violent.

Informal finance refers to credit (and savings) services provided by unregistered, grassroots organizations, such as rotating savings and credit associations, friends and family, traders, moneylenders and self-help groups. Informal finance providers are not supervised by a government agency, so the risks of doing business with them can be higher for the borrower or saver. On the other hand, some have been around for decades and are reliable sources of financial services for low-income households (ADB, 1997b).

Enterprising or entrepreneurial people who are poor have always found ways to obtain needed money or cash-in-kind. This was usually through kinship or connections, or both. However, some poor remained outside even these informal structures of lending because of various contextual problems, such as migration, lack of familiarity with local people, not being accepted by the group (because of religion, disability, behaviours and practices), lack of connections or even because of natural disasters.

Many programmes and projects today have built on existing community informal loan systems, such as rotating savings and credit associations (RoSCAs), or Tontines as they are called in Francophone countries.

RoSCAs are associations formed “upon a core of participants who make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation” (Sutherland, 1999).

The advantages of indigenous RoSCA schemes are many: small savings are possible; lump sum drawings are favoured by many poor people; it is all cost free; with no outsiders; no one is beholden to any one and there is no middleman to profit from other persons’ problems; there is a very low risk of misappropriation; there is no need for elaborate bookkeeping so it is understandable; and it remains transparent. It can be time-bound for both the group itself and the activity or it can continue while all want it.

A more sophisticated form of RoSCAs are Accumulated Savings and Credit Associations (ASCAs), which lack clarity and are more open to potential fraud.

Both forms of savings and credit programmes work on a concept of solidarity group as guarantee, although they are quite simplistic. They have three goals: mutual guarantees, management efficiency and market responsiveness. Group cohesiveness and trust allow for people to risk lending their own money to others knowing that their turn to borrow will come at a usually predicted time.

Along with this simple form of credit, there is credit given by some form of charity/ social group, indigenous and foreign in most countries. In Viet Nam, the Viet Nam Women’s Union (VWU) is the major one in this regard. In difficult times, the VWU will collect money from the people in a commune to help a family in extremely difficult circumstances, and this money has to be paid back later when the situation of the family improves.

In none of these simple credit processes is there a specific overriding system. This is the main difference between what is now called micro-credit and simple credit.

Poverty lending is a concept that appears in the literature. It refers to the lending of money to people because they need the money for survival – for everyday living or because of a crisis. In the field research it was clear that much of the small loans to the vulnerable poor were used for this purpose, though many applications were ”for business”. In other cases it was used to pay off informal loans taken at much higher interest rates.

As Dichter (1999) explains, “To the extent NGO micro-finance practitioners aim credit at the poorest operators in the informal sector (such as for [survival activities]), they engage in poverty lending and not in enterprise development.”

3.2 Micro-Credit

Micro-credit is formal or semi-formal credit (loans) that is relatively small compared with those usually associated with formal credit facilities. Micro-credit still lies in the informal sector but now also has the potential of being the type of credit micro-finance institutions are lending out. The literature often uses micro-finance and micro-credit interchangeably leading to confusion for the reader. Strictly speaking, micro-finance also includes other financial services such as saving and insurance schemes, whereas micro-credit does not include these.

Micro-credit programmes require specialist people and often the cost is high to employ these people (Yunus, 1999). The benefits of investment in staff training and incentives are well illustrated in the example of a substantial rural credit provider in Thailand, the Thai Bank for Agriculture and Agricultural Cooperatives (Muraki, Webster and Yaron, 1998). Best practices show that “borrowers know more about their enterprises than bank officers (and) considerable international experience shows that monitoring loan use and ‘teaching’ borrowers about their businesses are unnecessary, ineffective and are very costly for the financial institution” (Robinson, 1996).

The general literature cites micro-credit as having stages of development. Rosenberg (1994) divides this development into four stages (see the following Good Practice suggestion) from unsustainable to potentially sustainable. In reality, however, many smaller micro-credit agencies or agencies in which micro-credit is one small part actually are not so interested in being sustainable but in using micro-credit as a vehicle for empowerment, self-esteem building, social cohesion or to encourage membership or attendance at management training sessions (Interviews in Cambodia and Viet Nam and reports of INGOs in these countries).

Good Practice Suggestions: The Four Stages of Development of a Micro-Credit Programme and the Instruments Required to Assist Growth

Level one: The micro-credit scheme does not break even. More cash is spent on expenditure than flows in as revenue. The majority of micro-finance programmes fall into this category. Grants are required to support programmes at this level.
Level two: The programme achieves break-even. Income covers all expenses, including non-cash expenses, such as depreciation, inflation and opportunity costs of funds. However, a programme at this level still finances most of its micro-loan portfolio with money borrowed from donors.
Level three: The programme reaches break-even and has substantial equity funding, which a donor has granted it. The programme can start using its equity to leverage funds from commercial sources, such as a bank. It may still continue to access donor lines of credit.
Level four: The programme obtains a license as a bank or some type of formal financial institution. Outside parties are more willing to loan or deposit money in the institution. The institution can obtain inter-bank loans or central bank credit facilities. It no longer relies on donor funding.

Source: Rosenberg, 1994. *Beyond self-sufficiency: Licensed leverage and micro-finance strategy,* cited in unpublished CGAP paper in Fruman and Goldberg, 1997.

3.3 Guarantee Loan Funds

A guarantee loan fund enables borrowing by people who lack the usual collateral required to access loans from a bank or other financial institution. They are meant to assist people who want micro-loans by sharing the risk with the bank and a third party involved – the guarantor. This guarantor can be another individual or organization (intermediary or retailer). Where the guarantor is a specialist institution (such as WWB, ACCION), the financial institution deals with the specialist institution guarantor.

Guarantees are backed by specific funds. For example, the Victorian Women's Trust in Australia holds AD 2 million from the Victoria State Government in a trust fund for this purpose. The amount guaranteed is usually put into an account with some reputable bank or institution. In developing countries, NGOs are often guarantors along with cooperatives or self-help groups, but others are local provincial or regional authorities, which support micro-enterprise (small or medium) development (Bastiaenen and van Rooij, 1997).

Graduation of the borrower to direct loans from the bank is the usual aim of guaranteed loans. This, however, does not always happen because of both internal and external conditions.

Internal conditions: The management of credit guarantee funds (programmes) must have full understanding of the processes of financial systems and of business and have policies and financial procedures in place that enhance management results. It must also be a sustainable organization. The staff must not be of the welfare mode but more professionally committed to making loans where the guarantee is more than a welfare step-up. They should exercise "hard-nosed" business decisions based on the interests of the potential business of the borrower, not the social welfare of the borrower, which is "one of the basic weaknesses of NGOs in micro-finance management" (Bastiaenen and Rooij, 1997). This is echoed in the current literature (Dichter, 1999).

External conditions: The financial sector of the country can enhance or thwart a system of guaranteed loans. A legal framework must be established and banks must adhere to best practice. In some cases there may be a local banking system that embraces the concept. Intermediation is a possibility, provided the NGO or grassroots organization is highly specialized and professional.

Inflation and monetary exchange rates will also have impacts. Both of these are outside the control of any NGO or smaller guarantor but must be considered risks.

To have any chance of success, it is essential that those involved require a solid understanding of the issues before setting up a credit guarantee programme. A most informative document on this issue is *"Guarantee Funds and NGOs: Promise and pitfalls – A Review of Key Issues",* (Bastiaenen and Van Rooij).

3.4 Demand for Credit

Unfortunately, many NGOs provide credit to the poor when it is the NGO that wants to supply it, not because the demand is there. They need "a project", often to survive in the development sector of the country. In this regard they then exacerbate the failures of government (and quasi-government) supply-led credit policies that are accompanied by subsidization in directed credit projects (Llanto, 2001; Robinson, 1996).

This sets up a problem for the legitimate MFIs, which must always work at sustainable interest rates. Unless the NGO addresses a demand for credit or develops demand using best practices in delivery services, it should simply stop micro-financial services. In contexts where people move from banks to an NGO because the NGO has lowered its interest rate due to subsidies, it just creates a demand for cheap credit from both rich and poor people. It remains, however, a supply-driven project, and it is not sustainable. Also, short-term projects (one to three years) for credit and savings achieve very little in the longer term. The money may well be better used in other ways to achieve development goals.

The reminder from Dichter (1999) that the feeling people who are poor have and express – that they "need credit" – does not, in reality, equal effective demand. Capacity for debt and for credit service must be considered. Dichter warns that many NGOs forget that demand for credit is actually also demand for debt and so they fail to question debt capacity.

Furthermore, as previously stated, many people who are poor "do business" anyway (such as very small services or petty trading), but they may not really want to "have a business", that is to own one and work only within this business. Within many current programmes, many people who are poor have no alternative other than to accept debt because that is all that is offered.

Despite this reality, it is not appropriate to offer loans as the only option for people who are very poor ("A-" in Diagram 1 and Figure 2). Not everybody wants to do business. Very poor people are likely to be over-burdened with debt and their poverty can get even worse if they are required to do business. Many poor people refuse loans anyway. In reality, unless some extra money is to be generated from the loan, how can it ever be paid back? Credit is not the answer at this stage for such people.

Urashima (1999) assumes that the demand for credit is real, and it certainly is for those who have moved along the poverty continuum sufficiently to feel that they can, and want, to take risks. Urashima has outlined the structure and character of micro-credit demand. (see Table 2)

Table 2: Demand for Micro-Finance Services: Structure and Characteristics

Sources of Demand	Products and Services and Characteristics of Demand			
	Savings/ Deposit Services	Savings/ Deposit Services	Other Financial Services	Nature of Services
Households Poorest (rural & urban)	- Convenient access to safe, liquid deposit services. - Passbook savings with unlimited withdrawal facility.	- Strong demand for consumption and emergency loans with no collateral. - Small loans for livelihood activities. - Occasional loans to finance lumpy expenditures, such as school fees.		- Service outlets at close proximity. - Simple procedures. - Low transaction costs. - Flexible repayment terms.
Poor (rural & urban)	- Convenient access to safe, liquid deposit facilities. - Return on savings. - Passbook savings with easy withdrawal facility. - Term deposits with small denominations and regular interest payments.	- Consumption and emergency loans. - Small loans for livelihood activities. - Loans to finance lumpy expenditures.	- Money transfer services. - Payment services. - Insurance services.	- Low transaction costs. - Flexible repayment terms.
Enterprise Micro-Farms (rural)	- Deposit facilities (safe, liquid, convenient). - Return on deposits.	- Small loans for working capital (fertilizer, seeds). - Small loans for fixed capital (purchase of simple tools, land improvements, etc.). - Demand is seasonal. - Below informal market interest rates.		- Easy access and minimal transaction costs.
Fisheries, Livestock and Poultry (mainly rural)	- Deposit services (safe, liquid, convenient).	- Working capital loans for feed. Fixed capital loans (for tools, purchase of chicks, etc.). - Demand from livestock sector is substantial.	- Insurance services.	- Minimal transaction costs.
Non-farm (rural & urban)	- Deposit services (safe, liquid, and convenient).	- A wide array of enterprise. - Demand for loans is not seasonal. - Demand is large for working capital loans. - Relatively large loans within the confines of micro-credit.	- Money transfer. - Payment services. - Insurance and leasing services.	- Minimal transaction costs and easy access.

Key Points

- Simple credit has always been a community activity in the Mekong subregion but has become formalized as micro-credit systems are set in place.

- Demand for micro-finance services is not always “real”. Small loans to vulnerable poor are often for “survival” while the loan applications are often “for bussiness”.

- Many small micro-credit organizations are not so interested in being sustainable, but in using credit as a vehicle for empowerment, self-esteem building, or social cohesion.

- Supply-led credit activities can lead to subsidized, and thus non-sustainable, projects.

- Short-term projects (1-3 years) for credit and savings achieve very little in the longer term.

- All credit is debt. Capacity for debt among the poor must be considered.

- Credit should be for the poor with opportunities rather than the poorest of the poor.

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4 SAVINGS

This section describes the first important component of any micro-finance project – that of savings mobilization.

Saving for a rainy day might be a well-known adage in many societies. However, the possibility that the poor also save and that savings mobilization among the poor should be an important part of the strategies of MFIs and NGO projects has, in the main, been ignored until the 1990s. Conversely, this has not been true of all MFIs: the Syndicate Bank in India introduced its Pigmy Deposit Scheme in 1928. Very small amounts of money were collected door-to-door. Over time these deposits accounted for up to 21 percent of total deposits. Most importantly, this was not a loss-making activity (Bhatt V. 1988 in ADB, 1997b).

In the late 1970s, the forerunner to the Grameen Bank (see Example 2) adopted an idea used by some cooperatives that required members to save money that could be used for investment. The maximum amount of weekly savings was set at what would be the biggest hardship for a group member. To increase the funds provided by savings, a group tax of 5 percent of loan amount was charged (Counts, 1996). Savings have been an important source of funds for other substantial MFIs, such as BAAC, BRI and BRAC (ADB, 1997a; BRAC, 2001).

Savings in kind (livestock in particular) has always been an activity of families, particularly among people who are poor. Rotating Savings and Credit Associations (RoSCAs), savings in kind, savings in gold, saving for emergencies such as bad health, for social and religious obligations and hoarding of cash, are all means identified in the literature to save for consumption and production.

MFIs present a range of possibilities for savings services. So savings within an institution may be voluntary or compulsory by (potential) members only and by others within an area. Stipulations sometimes are “no credit without prior savings” or “savings with credit”. Access to savings may be liquid, or there may be stipulations that access to savings is only allowed after a period of time. Savings accounts may earn interest or in some cases be interest free (ADB, 1997a; ADB, 1997b; McCarty, 2001).

The Consultative Group to Assist the Poor (CGAP) completed a series of four case studies by GTZ-German Cooperation of four deposit-taking MFIs and produced a synopsis paper of those studies to highlight the lessons learned from the experiences (Mukherjee and Wisniwski, 1998). Savings are difficult to mobilize (Gret, 1996), but there are a number of factors that people will take into consideration before making a commitment to save: security of savings, confidence and trust in the repository of the savings, the liquidity of the savings option, the transaction costs, such as the cost of making a deposit and of liquidating it, and the real interest rate (Mukherjee and Wisniwski, 1998).

Generally, it is accepted now that savings are a must for sustainability of income generation where credit forms a major activity and that it should be a first requirement in a process of extending a loan to a client.

The literature advocates savings *per se* as a separate service over the Grameen Bank's initial compulsory savings as a precondition to receiving loans. However, in the field, instituted compulsory savings still are the norm for NGO IGA project clients.

The Sustainable Banking for the Poor (SBP) inventory by the World Bank in 1995 noted that "worldwide demand by the poor for safe, liquid and interest bearing savings instruments is enormous and their capacity to save is evident. NGOs are not, however, generally involved in savings services." (Dichter, 1999) There could be many reasons for this situation. Certain NGOs are not interested in financial sustainability as a major goal of their project or do not understand micro-finance or by law are not permitted to collect savings.

As can be noted from the savings intentions of the poor, a constant concern is to save against the possibility of ill health and disability, which can threaten the livelihoods of even those households that have attained economic viability. The possibility of slipping back into absolute poverty remains real. Where such households have loans from MFIs, such a household calamity also poses a threat to the viability of the institution (see the following Good Practice; Mukherjee and Wisniwski, 1998; Gret, 2000; Brown and Churchill, 2000 a, b).

Savings, as an essential component of micro-finance, are especially strong in Bangladesh, Indonesia, Philippines and Thailand. In those countries, micro-finance implementers are acting on what has been known for many years: "Savings mobilization benefits the economy directly because it increases the resources available for all types of productive investment." In income-generating programmes dealing with the poor, savings are equally important for programme sustainability outside of donor support.

Before starting any income-generating activities, the general practice in the Philippines within the development of community groups is the implementation of a savings facility. A recent ILO/IPEC project proposal in the Philippines (see Example 5) gives insight into the importance rightly placed on this aspect of the total project.

Example 5: Livelihood Savings (Philippines)

The quality and effective delivery of services for welfare protection among group members greatly depends on the amount of pooled savings, its efficient collection and banking mechanisms. PUNLA and its partners will therefore establish the Savings and Credit Fund for Family Welfare Protection (hereby called Family Welfare Fund, or FWF). Weekly savings from group members will be accumulated into this Fund and shall be deposited into a formal financial institution, such as a rural bank or cooperative. It is expected that this Fund will generate interest over time. PUNLA will therefore facilitate and negotiate with formal financial institutions to look for one that provides more opportunities and advantages to the group members.

In general, the thrusts of this strategy are to establish savings discipline and pool enough resources for servicing the welfare needs of the members so that the groups can begin to access, borrow or subscribe to the developed risk-pooling and credit schemes. It is envisioned that the savings mechanisms in this action programme will progressively advance to cater to the enterprise and livelihood development for group members. While the initial savings fund may not extend to these type of services, PUNLA will actively link up with micro-finance institutions and other social investors to encourage them to provide equity or seed funding. IPEC is expected to provide the initial funds for enterprise and livelihood activities of the group members. PUNLA, thus, will establish and pool these resources into a Community Enterprise and Livelihood Fund (CELF). The initial funds from IPEC will remain in this CELF fund after the end of this action programme.

The administration of the CELF and other components of this action programme will be established and decided as part of the sustainability arrangements of this action programme at the end of the year 2001. Community savings groups will be required to pool their resources from the Family Welfare Fund (FWF) generated savings and channel a certain amount as their counterpart to the CELF. PUNLA, in consultation with target groups and partners, will develop Enterprise and Livelihood Financing Schemes (ELFS) that shall facilitate access and credit mechanisms on CELF. The mobilized resources will be devoted to helping families engage in allied footwear enterprises or other alternative and equally profitable economic activities. The action programme through ELFS will identify opportunities and catalyze the mobilization of internal capital for re-investment in the identified enterprises. Within ELFS, PUNLA will formulate specific operational guidelines and policies. PUNLA will also explore opportunities with its existing micro-finance networks, banking institutions and other partners to extend technical and financial services on livelihood and enterprise activities of the families of working children.

Source: Action Programme on Child Labour, Barangay De La Paz, Binan, ILO/IPEC.

Not all NGOs want to become MFIs. Many do other projects besides micro-credit and savings. What is important is whether or not an MFI is available for poor communities, the factors influencing their decisions to save and the benefits of savings mobilization. The seven key factors (see the following Good Practice) for successful mobilization of savings are the same for any NGO working in income generation within a poor community.

Good Practice Suggestions: Savings Mobilization Strategies, Lessons From Four Experiences

The poor will hold financial savings in savings accounts with financial institutions if appropriate savings facilities are available.

Factors influencing the household's decision to maintain a savings account:

- Security of savings and confidence and trust in the repository of the savings.
- The liquidity of the savings option. Quick access to deposits is especially crucial for poor households for emergencies and investment opportunities that emerge suddenly.
- The transaction costs, such as the cost of making a deposit and of liquidating it. Time spent travelling, waiting and on paperwork can represent such high costs that a seemingly positive real rate of return becomes negative and small savers would rather turn to informal means of savings.
- The real interest rate. Evidence from different countries has shown that the demand for savings products by all savers, including the poor, increases as interest rates increase.[1]

The benefits of savings mobilization for MFIs and NGOs:

- Savings mobilization can help MFIs and NGOs to expand and deepen their outreach. A larger number of poor households, including the poorest, may rely on savings before they have an effective demand for credit. Such deposits are less volatile than alternative sources and this stable funding source can expand lending operations and, hence, also benefit poor borrowers.
- Mobilizing small and micro-savings can contribute to self-sustainability by providing cheaper funds. However, there may be a trade-off between the lower financial costs and the relatively high costs of mobilizing and administering small deposits.
- Attracting depositors may instil a stronger demand-orientation and thriftiness in MFIs' operations and increase public confidence. As savers become important stakeholders in deposit-taking institutions, the latter are forced to improve their product variety and efficiency of services. Effective prudential regulation and supervision can increase the public's confidence in an MFI's financial operations.

[1] There is evidence that rural savings takes place even under negative real returns offered by the informal sector.

Seven Key Factors for Successful Mobilization of Small and Micro-Savings

- **Economic Reform and Financial Sector Liberalization.** Liberalization results in increased competition for the MFIs broadening the financial products offered, particularly savings, and incorporates new groups of customers, particularly the poor.
- **Institutional Type and Governance.** Governance, ownership and reputation of the institution are crucial in attracting savings because they lend to (or detract from) depositor confidence about safety of savings.
- **Organizational Structure.** The closer the institution or NGO gets to its customers, the larger the number of small depositors with access to savings facilities.
- **Savings Products and Technologies.** Individual, voluntary and open-access savings accounts have proven most successful in attracting savers.
- **Risk and Liquidity Management.** Managing risk through strict borrower screening, diversifying the loan portfolio, monitoring borrowers and following sound provision policies is essential.
- **Regulatory Framework and Internal Control.** Prudential regulation and effective supervision provide guidelines for sound financial management practices to safeguard the interest of depositors.
- **Lowering the Cost of Savings Mobilization.** Administrative costs are lowered through designing simple savings products, offering differentiated interest rate systems with no interest on low-balance accounts and maintaining lean field offices with the same staff handling lending and savings services. A performance bonus system instills high levels of operational efficiency and encourages savings mobilization. Access to an internal or external liquidity pool reduces cash-holding and the proportion of non-earning assets keeping in check operating costs.

Source: Adapted from Mukherjee, J. and Wisniwski, S. (1998).

For some NGOs, encouragement of their clients to save in a local MFI, if one exists, is part of a linking process whereby the very poor can graduate eventually to using mainstream financial institutions.

Key Points

- The poor can and do save but until the 1990s many, but not all, project designers and implementers ignored this fact.

- Putting into place viable savings products rather than providing credit is the best first step for any financial services project.

- The following factors influence people's decisions to save: security of savings, confidence and trust in the repository of the savings, the liquidity of the savings option, the transaction costs, and the real interest rate.
- Savings mobilization and linking clients to other financial services is the most appropriate path for small organizations (NGOs).
- Savings mobitization benefits the economy directly because it increases the resources available for all types of productive investment.

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5 GROUPS AND GROUP FORMATION

This section discusses the most popular method for credit delivery – that of lending to groups. Group formation can be problematic and where groups work well, there has been a strong cohesion based on tradition, experience or need.

As Dichter (1999) points out, when the success of the Grameen Bank and others in solidarity group lending became more known, the idea that offering credit to the poor "could make a difference" gained wider acceptance and a shift in programmes began to occur. "In the minds of some, credit started to become something to be offered to people, rather than to enterprises," writes Dichter.

Because people who are poor have been excluded from borrowing opportunities as they have no assets for collateral, peer pressure in the form of solidarity groups (borrower groups) has been tried and is fairly standard practice in developing countries. The group guarantees its members and all, thus, are liable to redress defaults of individual members. The context, that is the factors around which people organize (geography, history, culture), plays a major role in the group model success. Some contexts are not trusting of people outside the family, some trust only (or mistrust only) the leaders. However, since they are regarded as successful because of a 95 to 100 percent rate of repayment, they are commonly heralded as the answer to lack of collateral.

Except for individual lending, which is self explanatory, other lending methods (see Table 3) rely on some type of group formation.

5.1 Group Formation

A number of spontaneous groups exist in each culture – peer, family, aggregate, social, etc. Each have different characteristics. Groups for micro-credit, the basic borrowing unit in most of micro-credit systems, can be spontaneous or contrived like any other groups in the community. They also can be gradually developed. These types exist in different micro-credit projects where their role is to be the "peer pressure" that will ensure payment of all members.

Example 6: Group Types and Attributes

German sociologists have names for the two distinct categories of grouping. There is no easy English translation for either label:
Gemeinschaft: Groups in small communities characterized by common traditions, experiences and united by primary group relationships and close common bonds. They are warm and personal with direct interaction and a strong sense of common trust.
Gesellschaft: Groups formed on contractual relationship of limited quality, time-bound common purpose of achieving a goal but based on rational self-interest.

With reference to Example 6, most, in fact almost all the groups for micro-credit projects, appear to be in the second category unless they are also strong kith and kin, which then means that they have a common goal and are basically *gemeinschaft*. *Gemeinschaft* is also a condition of trust.

Trust is often absent in communities where war and political upheaval have occurred in the close past (one or two generations), such as Viet Nam and Cambodia. To pretend or assume that groups are *gemeinschaft* when they are not and cannot be without much community development and trust building, is naive on the part of micro-finance project NGOs. Yet such a situation was found in many projects in Cambodia, particularly those of local NGOs, and also in Viet Nam. Such attitudes were not found in the Philippines where there is a clear understanding of these two concepts of "group".

Good Practice Suggestions: Exemplary Group Formation Methodology (Philippines)

The Philippines offers a very promising group formation technique. Using community development and group theory, a system has been accepted whereby forming the groups is seen as absolutely essential before any other activities are attempted. There was broad agreement for the method and so government (e.g. Department of Labor and Employment), private consultants, NGOs and training groups like PUNLA (a micro-finance training NGO) joined together very early on to develop community groups in areas where programmes are to be developed.

Group membership is truly voluntary, and money is not used as an incentive to form the group. It starts with an interest (child labour, enterprise development, land rights, etc.) and moral/ethics training, using participatory techniques is introduced. This ensures that those who join the group have a feeling of solidarity and comradery. The next step is to inspire them to address the issues at hand and undertake training in leadership and organizing. Knowledge and skills acquisition are seen, together with socially desirable and agreed values, as keys to development. It is believed also that this leads to empowerment of the poor. The next step is access to other groups and institutions to broaden horizons.

Source: Field visits, discussions and interviews.

Group formation is problematic in some situations. Among the literature there are some "how to do it" documents, but they show very little consideration for the contexts of the projects and are usually taken from urban industrial practices. Every culture and sub culture will group in culturally suitable ways. Forcing group formation will not automatically ensure that trust will even develop to a level whereby solidarity can be achieved.

Groups are termed “solidarity” where they are specifically formed for the purpose of peer pressure as collateral (most Grameen clones). They are termed “self-help” where they are formed for other purposes, including for credit and savings or training. In simple form for livelihood projects, they are still sometimes referred to as “credit”, “savings”, or “credit and savings” groups. Whatever the label, they make administration easier, and they are believed to ensure that loans are paid back by the group’s guarantee. MFIs mainly still use groups for lending purposes. Much has been written about the features required for successful lending to groups. However, little has been written about whether or not groups are actually necessary to ensure repayment.

Peer pressure can (or in fact often does) push people who do not want to take on debt to do so. Also, the setting up of groups raises expectations and, if those spearheading the process do not have the skills of enterprise development, or group processes, people will simply feel let down (Interviews in the field research).

The key to a successful group lending programme is far more broad than simply group formation. (see the following Good Practice)

Good Practice Suggestions: Keys to Successful Peer Group Lending Programmes

1. Client Population
- Must have ongoing business or prior experience
- Have a majority women in most settings
- Mix of manufacturing, service and trade

2. Group Self-Formation
- Groups select their own members
- Three to 10 members – one member per family
- Group leader selected by group

3. Decentralized Operations
- Extension staff work in communities
- Overcome cultural barriers to formal institutions
- Staff become knowledgeable about client’s business environment

4. Appropriate Loan Sizes and Terms
- Loan amount and terms appropriate to client needs
- Loan size increases as business and client experience grows
- Terms range from quarterly to annual

5. Simple Loan Application and Rapid Review
- Application limited to basic information
- Standard project credit analysis not required
- Applications turned around in three to seven days

6. Interest Rates and Service Fees
- Interest charges supplemented with other fees

- Borrowing charges often exceed commercial rates
- Total charges cover real lending costs

7. On-Time Repayment Requirements

- Incentives and sanctions for on-time repayment
- Future loans pegged to group's repayment
- Up-to-date information systems alert staff to delinquencies

8. Credit is Linked to Savings and Other Financial Services

- Savings facilities are valued by group members
- Intra-group emergency funds serve as safety net
- Savings included within funds-management strategy

9. Cost Effective Training and Organization Building

- Training builds on existing client skills
- Cost-effective and responsive training methods developed
- Self-help organization address social and economic needs

10. Borrower-Lender Accountability and Mutual Respect

- Lender demonstrates borrower trust through Solidarity Group operations
- Lender obliged to provide a service of value to borrowers
- Borrower loyalty and mutual accountability generated

Source: Berenbach and Guzman, *Solidarity group experience worldwide,* ACCION monograph series No. 7 (undated).

Practitioners are now considering how long groups should be used and during what time in the life of a project is the use of groups appropriate.

Money can be used when trying to form a group for self-help, solidarity or co-operation. Experience in Cambodia provides two examples; Example 7 shows when payment for control was not able to secure self-help group status until this payment was given as working capital assistance. The following Good Practice shows what is considered a successful use of working capital.

Example 7: Self-Help Groups (Cambodia)

South-east Asia Development Programme (SADP) experimented with promoting self-help groups in Cambodia's Prey Veng province without providing working capital assistance. As a result, the organization's influence over the groups was minimal. The groups felt that if the organization had no material support to provide them, they did not have to heed the organization's advice. Thus, they did not adopt many of the structures necessary for democratic group functioning and effective and transparent money management, such as those introduced by the PADEK Area Support Unit (ASU). As a result, problems arose within groups. In many groups, members were not fully aware of the group's financial situation and suspicions grew. Meetings were poorly attended and irregularly conducted. Loan repayment became irregular. In addition, a large international organization started a credit programme in some of the villages where the self-help groups were operating, and members chose to contribute money to that programme every month instead of to their group, since they could access loans.

The SADP in Prey Veng has now become a Cambodian NGO called Chet-Thor. It has decided to provide working capital assistance to the groups as an incentive for adopting structures to ensure good group functioning. SADP officials say that other organizations wanting to promote this model of self-help group in Cambodia need to make some kind of external financial assistance available to the groups in order to ensure that such structures are incorporated.

Source: Rao, J., and Swift, P., *Savings solidarity and self-help: PADEK's experiences in working with self-help groups in Cambodia (1998).*

Good Practice Suggestions: Working Capital Assistance (Cambodia)

Working Capital Assistance (WCA) is an important input provided by the facilitating agency to the self-help groups during the process of group development. The assistance is aimed at enhancing self-reliance of the groups and also contributing to their sustainability. This assistance may be an interest-free loan to the group. It may also be a loan with some amount of interest depending on the policies of the agency.

In the case of PADEK the Area Support Unit decided to provide WCA to groups without charging any interest. This money went into the common fund of the groups, and groups then decided how to use the assistance, such as for lending to members. Padek did not restrict use of the working capital assistance as long as it met the genuine needs of the members and resulted in their development. However, Padek stipulated that groups would not be allowed to use working capital assistance to give loans to non-members.

The rational for providing WCA is three-fold:

- WCA increases the common fund and thereby enables the group to grant larger loans to its members. Furthermore, the interest earned by the group increases its own fund, thereby ensuring greater self-reliance and less dependence on the outside agency.
- Since it is given to a group on account of its good performance, WCA provides an incentive for good group work. WCA should clearly be seen as a reward for good group functioning. Appropriate requirements for group attendance at meetings, regular savings, good decision-making processes, good discussions, timely repayment of loans and proper utilization of loans.
- WCA helps enhance the decision-making and managing capacities of groups by providing them opportunities for managing larger amounts.

Source: Rao, J., and Swift, P., *Savings solidarity and self-help: Padek's experiences in working with self-help groups in Cambodia* (1998).

Despite the relative success presented by PADEK in Cambodia, the methodology for group formation in the Philippines (see Good Practice on page 34) has the potential to be more lasting and have stronger bonds and greater trust, as it is truly voluntary and without financial incentives.

5.2 Methods of Micro-Finance Delivery

Walter (2001) has categorized the different methodologies of micro-lending systems in Cambodia. Her typography is modified as Table 3 to incorporate other systems outside Cambodia.

While not finite, the information in Table 3 matches the different micro-lending methodologies, making comparisons possible. It also shows a more consistent terminology than is available in the international literature. Interest rate data, for example, do not apply to Viet Nam where rates are much lower. There is no one best micro-lending methodology; all depends on the community context. MFIs use all methodologies except revolving loan funds and NGOs utilize all five methodologies between them, with individual lending less common across the small NGO schemes.

Table 3. Characteristics of Different Methodologies of Micro-Lending Systems

	Individual Lending	Solidarity Groups	Village Banks	Revolving Loan Funds	Associations and Cooperatives
Client/ Members	Generally limited to individuals with existing businesses or demonstrated entrepreneurial capacity.	Self-selected groups, Typically 5 members, however actual practice ranges from 3-8 members.	Self-selected groups, generally comprised of 20-50 members in small borrower groups.	Large variations depending on the purpose and structure of the fund.	Self-selected groups, ideal group size 14-20 members. Group formation process encourages participation of more vulnerable community people.
Use Of Loans	Working capital and fixed assets for small/medium enterprise.	Working capital for IGA/micro-business.	Primarily linked to livelihood activities, consumption. Emergency loans may be made from internal account.	Wide variations. Separate funds may be set up for a specific type of loan.	Loans made for a wide range of productive, consumption and emergency purposes.
Size Of Loans	Medium to large.	Small, increasing each cycle. Often in predetermined amounts.	Small, increasing each cycle.	Small.	Small, determined by group for associations.
Terms And Conditions	Business plan required. Medium to long-term loans. Repayment schedule tailored to nature of loan. Collateral required. Interest at 2-4% per month.	Short-term (generally 6-8-month cycles). Group guaran-tees. Interest at 3-5% per month (except Viet Nam) (usually at a flat rate).	Short-term (generally 6-8 month cycles). Group guarantees. Interest 2-4% per month flat rate.	Short-term Interest at 3-5% per month flat rate.	Short-term, Individual loan. Terms determined by group. Interest at group start-up at 5-10% per month, reduced to 3% once groups aremore established.
Savings	Optional.	Generally linked to loans. Some offer voluntary savings.	Mandatory. Restricted access held/reloaned through internal account.	Mandatory. Restricted access held/reloaned through internal account.	Mandatory. Primary source of funds for lending. Restricted access.
Management/ Control of Resources	MFI. All interest reverts to MFI.	MFI. Part of interest paid to group leader for collecting payments, balance to MFI.	Internal Account: village bank committee. External Account: NGO (1-1.5% interest to facilitating NGO, 1% to umbrella NGO).	Village/project committees (may or may not be supervised by facilitating organization). Often co-opted by leaders.	Individual group/ association, cooperative.
Access To Services	At MFI office.	Through Credit Agent visits.	VB meetings in community.	Meetings in community.	Meetings in community.

Key Points

- While groups are not an essential methodology for a micro-finance project, they are the most popular method for service delivery.
- If groups are to be formed, they work best when there is a commonality of traditions, experiences and needs.
- Much time must be set aside for the task of cohesive group formation to ensure that trust develops to a level whereby solidarity can be achieved.
- Group formation can be problematic especially when groups are based solely on a contractual basis.
- The chosen methodology of micro-lending should depend on the community context.

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6 ENTERPRISE DEVELOPMENT

This section describes the similarities and differences between businesses in categories that come into the realm of the micro-finance area. Because ILO/IPEC projects deal with the lower end of enterprises within income-generation programmes for the very poor, only micro enterprises are emphasized in this document. The section also covers specialized enterprise development support services.

6.1 Livelihood and Growth-Oriented Enterprises

Enterprise in this context means a business – manufacturing, trading, agricultural, agri-business or even petty trading, etc. The literature points to various divides. Two are most recurrent: micro enterprise and small enterprise.

Micro-enterprise development today usually has two or more of the following objectives:

- poverty reduction,
- empowerment of women,
- employment generation and
- enterprise development as an end in itself (ADB, 1999).

In terms of income generation for livelihood purposes, the issue of combining social and financial objectives is important.

Adapted from a CARE USA (1996) publication, Table 4 gives a summary of the main differences between the three enterprise segments usually categorized under the banner of enterprise development. In reality, there is no absolute border between the three. They actually merge together from what is now termed livelihood enterprises to growth-oriented enterprises in the informal sector and to small enterprises in the formal sector. This document deals with livelihood activities and micro enterprises at the lower end of the enterprise range because they are the ones that are considered to have the potential for alleviating poverty.

Table 4. Summary of Main Differences of Enterprise Segments

Livelihood Enterprises	Growth-Oriented Micro Enterprises	Small Enterprises
• Profits for household consumption. • Diversification to increase household income and/or to minimize risk. • Informal sector.	• Profits used for household consumption and reinvestment in enterprise. • Strategy: specialization to increase household income. • Informal sector.	• Profits used for re-investment in the enterprise. • Strategy: specialization to increase profits. • Formal sector.
Little Re-Investment	**Some Re-Investment**	**High Re-Investment**
1. Mixed with household economy. 2. Number of workers: 0. 3. Family workers on part-time basis. 4. Little or no investment in infrastructure/ worksite. 5. Traditional technology. 6. Little or no fixed assets. 7. Part-time and seasonal occupation for the owner, multiple activities. 8. raditional skills and knowledge. 9. Illiterate or semi-literate. 10. Few or no written records. 11. Not paying business-related taxes.	1. Mixed with household economy, but shifting toward separation. 2. Number of workers: 1-10. 3. Family labour, some paid labour (seasonal). 4. Usually little investment in infrastructure/ worksite. 5. Out-dated technology. 6. Usually moderate fixed assets. 7. Full-time occupation for the owner. 8. Moderate-to-high skill and knowledge levels. 9. Low to medium levels of literacy. 10. Few written records. 11. Usually not paying business-related taxes.	1. Separate from household economy. 2. Number of workers: 11-50. 3. Paid labour. 4. Extensive investment in infrastructure/ workshop. 5. Modern technology. 6. Extensive fixed assets (up to USD 100,000). 7. Full-time occupation for the owner. 8. Higher skill and knowledge levels. 9. Literate. 10. At least basic administrative records and system. 11. Paying business-related taxes.

Source: Adapted from Waterfield and Duval, *CARE savings and credit book* (1996). CARE USA.NB. Also, see Diagram 1 for corresponding terminology.

“Basic survival activities” and “livelihood enterprises” is the range of the majority of people living below the poverty line. According to the field research, only around 10 percent of people from the first level (livelihood enterprises), who are considered very poor, move into growth-oriented enterprises, and depending on their market and product/service, they may or may not be able to move into small enterprises.

ADB has constructed a table (Table 5) of the major characteristics of the two enterprise types with comparisons easily noted.

Table 5. Major Differences Between Livelihood Enterprises and Growth-Oriented Micro Enterprises

	Livelihood Enterprises	**Growth-Oriented Micro Enterprises**
Capitalization	Relatively low.	Higher, initial capitalization similar.
Education	Low education level. Relatively low, except skills.	Usually at least some secondary schooling.
Skills and Experience	Acquired traditionally, as in handicrafts; trading often a fertile training ground for later manufacturing of same product.	Higher, more often acquired through vocational training and/or previous wage employment.
Gender	High (often majority) participation of women.	Lower participation of women, but still high in many cultures.
Sector	Higher proportion of livestock, backyard poultry, food processing (service) and petty trading.	Higher proportion in manufacturing and services requiring skills.
Competition	Usually function in competitive markets with low barriers to entry and little scope for cutting costs by intensive use of family labour and even by offering credit.	Often occupy niche markets with more scope for specialization and product differentiation.
Seasonality	Often seasonal, tied to crop cycle, school year, major festivals.	Less affected by seasonality and function throughout year, even if at varying levels.

Contribution to Household Income	Usually a secondary source (although vital).	Often primary.
Whether or Not Only Enterprise	Usually one of several multiple enterprises (to compensate for seasonality and low returns).	Usually the only enterprise.
Use of Hired Labour	Infrequent, mostly use family labour.	More common, often relatives and children.
Surpluses and Re-Investment	Surpluses limited and often ploughed back into household expenditure.	Re-investment of surpluses the norm.
Use of Credit	Trading activities often started on a consignment basis, livestock acquired on a profit-sharing basis, boats and rickshaws on lease; however, in order to compete, often become net lenders, especially in trading and restaurants.	Credit available from a wider range (informal and semi-formal) of sources and a greater two-way flow of credit so that micro-enterprises are more often net lenders than livelihood enterprises.
Potential for Growth	Limited new employment generation, but scope for increases in sales, productivity, profitability and income; growth blocked often by demand constraints, resource constraints and physical constraints (space home/ yard).	Have growth potential; number of workers higher, with more paid employees; employment is usually of higher quality.

Source: ADB, *Microenterprise development: Not by credit alone, 1997* a (adapted).

Within these two classifications detailed in Table 5, there is actually no real border. The two can merge or a project could have both categories running side by side with people involved in the livelihood category of projects graduating to the growth-oriented micro enterprises.

According to Dichter (1999), “Many micro enterprises are thus hedges, not ways to build a sustainable growing business.” As he details it – and his views are widely supported – micro-enterprise characteristics of the informal sector:

- are generally one person,
- started using own savings, or money borrowed from family,
- find easy entry into the marketplace,

- are low skill,
- experience low or no growth even with financial services,
- have high death rates (go out of business),
- have low productivity,
- operate out of home or are mobile,
- sell whatever they make or serve directly to the consumer,
- operate in a market with very high levels of competition (for women this competition is even fiercer),
- operate in ”manufacturing” but are in fact engaged in making and repairing things of low quality and low value and
- operate in trade and are involved in low-margin street vending and food services.

Dichter’s comment is a masked warning for income-generation implementers not to think of micro-enterprise development as necessarily being the way out of poverty in all cases. It is being promoted internationally as the “way to go” for poverty alleviation, but it is also being questioned by those who have worked in this area over a long period with communities and tend now to believe that if income generation requires debt, then alone, it is not the answer.

For those working with clients at the livelihood level, a further distinction needs to be made between those who want to own a business or an enterprise and those who want to do business. The latter do not generally want to be bothered with business plans and focussing on one activity – the business – every day. They prefer to trade or produce on a very small scale simply to bring in money now and again. They are more interested in cash flow than profit and they do business for consumption. These people, more often than not, belong to the poorest groups and life has other challenges that do not leave room for owning a business.

The distinction is important when developing support services for these two groups. They must be different to target the specific needs. The people who want to “have a business” fit in more easily to enterprise development specialist services, including credit, while those “doing business” really require more individual support.

With success and cash flow and with health and other needs met, some of the people among the group doing business do develop more of an interest in micro enterprises and are often, because of their past experiences, quite skilled in business.

Table 6 displays the sectors of the micro-enterprise range with some examples of economic activities suitable for livelihood and growth-oriented enterprises.

Table 6. Sectoral Classification Suggestions for Micro Enterprises[1]

Sector	Livelihood Enterprises	Growth-Oriented Micro Enterprises
1. Non-crop agriculture-related activities.	Pig, goat raising, milch-cattle, backyard poultry, vegetable growing on leased land, fruit trees on homestead, sericulture.	Stall-fed mini-dairy of high-yielding cows, “scientific” poultry or duck raising, fish fry and fingerling raising.
2. Trading.	Small kiosk, ambulant vegetable vending, buy-and-sell fish.	Larger grocery store, vegetable wholesaling.
3. Food and refreshments.	Juice stand, small tea-shop, candy and snack stall.	Restaurant or tea shop at busier location with hired employees.
4. Food and agri-processing.	Rice cakes, dried fish, fruit juice.	Packaged candies, processed meat products, perhaps with labels.
5. Manufacturing (a) Textiles	Pit loom, seamstress.	Power loom, garment maker, bulk orders for uniforms.
(b) Wood, rattan, bamboo, and grass products	Mat and basket weaving, rattan furniture.	Larger furniture-making unit.
(c) Footwear and leather	Wayside shoemaker, shoe repair.	Larger ready-made footwear-making unit, leather bags.
(d) Bricks, tiles, and pottery	Village potter, brick labourer.	Larger brick-making unit.
(e) Handicrafts	Hats for local market, weaving fabric, coconut handcrafts.	More sophisticated handicrafts for the export market.
(f) Fabricated metal products and repair services	Simple agricultural implement maker, roadside bicycle repair.	Small engineering workshop doing job work, repairs to heavier agricultural implements.
(g) Other manufacturing.		
6. Fishing.	Single-person fishing boat line, net fishing.	Larger mechanized boat with crew members.
7. Transport.	Cycle rickshaw, mule, bullock-cart.	Mechanized three-wheeler, hand-tractor rental services.
8. Other services.	Wayside drink stall.	Cafe and tourist services.

Source: ADB, *Micro enterprise development: Not by credit alone, 1997* (adapted).

[1] Micro-enterprise (in the ADB study) refers to non-crop enterprises employing less than 10 workers, including the owner-operator and family workers. Crop production is excluded and livestock is included (ADB 1997 (A): xii).

6.2 Community Enterprises

The financing of viable community enterprises is not normally part of the micro-finance debates in the literature. However, they too – in addition to livelihood and growth-oriented enterprises – are income-generating activities that have the potential to lead to community solidarity, which, in the cases of vulnerability to exploitation of children and women, could minimize this vulnerability by reducing the need to be exploited by increasing self or family income. Commonly referred to as cooperatives although not legally necessarily so, such enterprises have a checkered history – in and out of favour, particularly when they become synonymous with any form of government auspice other than capitalist.[2]

However, although overtaken by micro-enterprise/finance/credit activities, cooperatives are really not so negative and can be viewed as another model for specific groups in specific contexts. They fit into the community development models cited widely for poverty alleviation because they can work on a system incorporating individual or small group credit schemes. This model is very popular in the Philippines. In Cambodia and Viet Nam along with other countries that have a history of centralist governments, people are not so in favour of them. Cooperatives, like other community enterprises, need solid group formation, good management and a high level of trust among members. They also need, like all enterprises, to be based on the market needs, not simply a product.

One of these community enterprise models that has been pioneered is outside the mainstream of development thinking and is based on the assumption that "the illiterate and poor adults in developing countries have already a theory and methodology of enterprise learning and management, born in their midst and developed by them" (Carman, 1995). This model, proven suitable for a developing context, was developed by de Morais (1980, discussed in Carmen, 1995) as the Experimental Workshop on Theory of Organization (EWTO), or Workshop Enterprise Management (WEM). It was first piloted in Spanish-speaking countries.

EWTO is about business with a heart. EWTO/WEM is the context "of people who share the same conditions (oppression, disenchantment, etc.) coming together to train as a group in order to claim their rightful place in society, in the production process and in enterprise, to achieve a genuine level of security, built in the power of their cultural identity and their capability to be self-reliant", as explained by Carman (1995).

This is why it is regarded as a strong possibility for replication for poor communities that share the child labour issues, although it seems not to have been used yet by this target group. Where strong group formation within a community development framework is part of an income-generation project, as is common in the Philippines, the EWTO system would be easy to introduce.

[2] Africa in the 1980s was termed "the graveyard of the cooperative movement" (Bouman 1984, in Carman 1995) because of its poor performance in this area.

EWTO/WEM is similar to business incubators popularized in developed countries in the 1980s. But in this case, it is for groups rather than individuals. It is a system of group learning by doing enterprise. “EWTO uses the means and the tools of production themselves as an organizational pedagogy. In this it differs substantially from the education and training modules directed at, by definition, alphabetically literate individuals,” writes Carman (1995).

The results of EWTO are the sort of results that are necessary for harnessing prior knowledge and building on it. Although it could be termed top down like most projects under the micro-finance banner, it has some differences. Its voluntary nature and the utilizing of educational principles suitable for illiterate and literate people together, coupled with an enabling environment that is culturally appropriate, appear to be the elements that elicit positive outcomes.

Good Practice Suggestions: Experimental Workshop on Theory of Organization Outcomes

Many management-illiterate people, employed and unemployed, are now organizationally literate.
At the group psychology level:

- They have full control of their own means of production (fishing cooperatives);
- They have full freedom to organize themselves;
- The group is collectively capable of self-reliant organization in a modern, complex, literate environment;
- They have a level of psychological development they lacked before (analysis/synthesis);
- They have a capacity or openness to training, which they did not possess before; literacy, numeracy, GANTT charts, management, and holding meetings are now all subjects that are digestible.

During the EWTO process, rural women are often found to be able to grasp complex organizational implications.
Individual changes:

- Participants have learned to make realistic production projections in order to solve concrete problems.
- Most participants achieve the use of operational levels of thought, some of them on a hypothesis/formulation level.

Source: After Labra, 1989, in Carman, 1995.

The EWTO has proven successful when tested once in Viet Nam in the Mekong Delta, but it may not continue for reasons other than its structure or methods (see Example 8).

Example 8: Khmer Silk – A Successful Community Enterprise (Viet Nam)

Extensive market research into potential products was carried out in 1996 by a Stanford University (USA) MBA student for CARE International in Viet Nam, out of its southern project office. The then director of the southern programme was interested in the potential for implementing a community enterprise with a unique product and had researched the systems and designs of traditional Khmer silk weaving. The project proposal for such an enterprise took many months and great angst among expatriate staff to get through the CARE assessors and to be presented to AusAID for funding. (AusAID saw the potential immediately when it finally was presented with the business plan and proposal.) It was very cheap (USD 50,000) because it used only one expatriate consultant part time and one local project officer who understood business.

The EWTO/WEM system was adapted for the Mekong context – one of few freedoms from the political hierarchy of provincial Viet Nam for ethnic minorities. The fundamental elements of "business incubators" and the methods of empowering the very poor and utilizing their innate and already developed skills were followed. It was time consuming, but credit and savings as per the Vietnamese model had not had any real impact on poverty there and in fact, had increased indebtedness. People had sold land to pay debts.

KhmerSilk seems a viable, sustainable business that, if left alone to thrive, will continue do so. It has overseas markets open to it. The members have learned marketing skills and product development. There is no certainty it will be left alone, as there is no legal framework for such a business venture in Viet Nam. The latest discussion centres on making it a state-owned cooperative by law, thus the group's potential loss of ownership. For now, at least, it is a living project of what is possible. It is an example of disenfranchised semi- and non-literate members of an ethnic minority who have shown local Vietnamese that they hold very special, saleable skills and that they can succeed if given the freedom to do so.

Source: Notes, files and interviews.

6.3 Specialists

Staff of MFIs, or aspiring MFIs, should have or obtain knowledge and understanding of business development to implement client-centred financial services to the poor, before starting any programmes.

Unfortunately, the international and local NGO's working in development are not always able or keen to hire personnel with qualifications suitable for the work they have to perform in enterprise development. Dedication, humaneness or a particular religion or philosophy are seen as the right credentials. But enterprise development is essentially a specialist area and requires specialists.

6.4 Training in Enterprise Development

Skills and vocational training has been extensively researched in tandem with the research for this document (See ILO project working paper entitled *Non-formal education and rural skills training: Tools to combat the worst forms of child labour, including trafficking).*

Whether paid for by the NGO, the MFI or by the client (the latter more common for growth-oriented business development), training in the various aspects of business set-up, development and growth is seen in the literature across the board (industrial and developed countries) as absolutely essential. Without training (formal or non-formal through family, community or non-formal education programmes) in basic concepts at least, businesses from the tiniest micro-enterprises to larger enterprises are vulnerable to failure, or at least can be slower to develop. If credit is involved, debt will be carried on.

The rise of the business training consultant, of business training establishments and of bilateral and multilateral NGO business training programmes is evidence of the market niche.[3]

At the livelihood end of the micro-enterprise scale, training of credit clients is usually not carried out by people with personal experience in business, much less those with a deep understanding of market concepts, product development and marketing (as opposed to selling), although most understand and train in the fundamentals of basic administration (accounts and reporting).

As pointed out earlier, international and local NGO implementing personnel rarely have the knowledge, real experience and the entrepreneurial flair to train grassroots clients. In some cases, micro-credit led to the increased and even unpayable debt of very poor families, directly due to the poor understanding of markets of some of those who are supposed to be the trainers and supporters of micro enterprise.

The support of a business mentor is seen as crucial in advanced economies societies and in reality, the role of a mentor is sometimes taken by advisors funded by home offices and attached to their INGOs in developing countries (such as with FOS in Viet Nam, CARE-USA in the Philippines). Further mentoring is made available through business development centres,[4] although these are usually for growth-oriented enterprises.

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[3] A full investigation of business training has been carried out in tandem with this research resulting in the ILO paper: *Non-formal education and rural skills training: Tools to combat the worst forms of child labour, including trafficking.*

[4] Business Development Centres are an integral part of the services in developed countries, but few examples are available in Asia for the micro end of the scale.

There are four primary types of services that are generally available to clients in conjunction with a savings and credit programme:

- Business management services
- Technical services
- Marketing services (see section on Marketing)
- Referral services.

These services are seen from international experiences to be essential for business-enterprise development. These can be sophisticated services for growth-oriented small or medium enterprises or, at the other end of the scale, livelihood projects where the use of credit to generate income is the aim.

There are many reading resources available about these four types of training. Many manuals exist for training in setting up a business and in expanding an enterprise.[5] They will not be duplicated here. Programme implementers, it is suggested, should study available information on these four areas so that they can have the depth of understanding required to successfully support their clients.

Example 9 describes a simple training programme in Viet Nam that was successful with disadvantaged rural women. The curricula were developed from the experiences of the training enterprise of personnel and experts in the other non-enterprise topics. It was tailored to the needs of the specific client target group. It was adapted to the enclosed training environment. The trainers were all entrepreneurial in their approach and had trained men and women in developed countries but had the ability and experience to be socially, culturally and educationally appropriate to this client group.

[5] See Bibliography; ILO has developed training programmes and all documentation is available through ILO offices in the capital cities of Mekong River countries and the Philippines.

Example 9: Training Programme for Women Entrepreneurs (Viet Nam)

To provide alternative work possibilities to very poor, mostly rural women (some having been trafficked) in a re-education centre for those found working in the commercial sex industry, a training programme was developed by CARE-Viet Nam and funded by NOVIB. It aimed to develop skills in aspects of self-employment, but the skills were expected also to assist with paid employment outside the usual stereotypical female employment.

The course curriculum was:

- Professional Development – introduction to customer services/sales environment
- Computer skills
- Small business development – including market research, business planning, product development, financial records, marketing
- Credit and savings
- Health and wellness for women
- Photography
- Theatre performance and music
- Painting.

The re-education centre also conducted training in weaving, industrial sewing, hairdressing and embroidery as part of its work-for-keep programme.

It was only sustainable to the extent of it being partially continued (within its budget) by the institutional authority after donor funding ceased. For those women exiting the centre, the project was linked to a credit facility conducted by a local NGO and supported and serviced by local authorities (near where the women lived).

Source: NOVIB files, writer's files.

Another example of a simple training programme is presented in Annex 5.[6] It was part of a series of trainings for a new credit, savings and micro-enterprise project with poor ethnic Khmer women in Viet Nam, written and delivered by a Khmer woman from CARE in Cambodia.

Key points

- Micro-enterprise development is not necessarily the best way out of poverty for all people, certainly not if it requires debt.

- When working with clients at the livelihood level, support services need to be adapted to those that want to 'do business' versus those that want to 'have business'.

[6] With permission of CARE International.

- Training in setting up and managing a business is absolutely essential in micro-enterprise development.

- Micro-credit is certainly worth condisering if markets for their products are available and accessible.

- Community enterprises and cooperatives can be very effective income-generation systems where there is good management, solid group formation, a high level of trust, and a proper market needs assessment.

- Enterprise development requires specialist skills; dedication alone, or humaneness, are not enough.

Key References

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Carman, R.
Convergence (1995).

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Cooperation for development, brochure SNV

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CARE savings and credit book (1996).

7 MARKETING AND MARKET RESEARCH

One area of income generation that still requires much more development by way of theory and skills is that of marketing – including market research/product assessment, which this section presents.

Marketing, market research and product assessments are areas that appear to be poorly resourced in terms of project officers with qualifications at the implementation level. Training for these aspects of business development for clients often can be contextually inappropriate. Managers and project workers of some INGOs have not ever been trained in marketing at all and, in fact, only understand it as selling, and that, too, at the lowest level of the concept. As Dichter (1999) points out, "While many surveys on micro-enterprises report lack of access to financial services a high priority constraint (and need), in quite a few surveys the top self-reported constraint is not financing (working or other capital) but marketing. Marketing refers to constraints like saturation, competition, inability to differentiate one's product from those sold by competitors, lack of information, pricing, etc."

So, on the negative side of the systems used is the fact that markets need to be identified before people take risks. This is currently usually done only on a personal local level.[1] In field focus groups, responses for business choices have included:

> "I raise ducks because I always have."
> "I saw that her ducks were a good business so I copied."
> "I think growing coffee is going to make money."

It is rare to have an overall market assessment procedure conducted of a whole geographical area (province, district or commune) in micro-enterprise projects throughout the world. Rural people are at a huge disadvantage, even if they belong to the entrepreneurial poor class. They need information and usually have it drip fed to them by some officers who need not necessarily have any real idea of market potential, or even market segments or what it feels like to take "risks". In rural areas, obtaining information is the key to developing business. If they (the rural poor) do not realize that they "do not know", it is imperative that they are properly informed to the extent that they can broaden their range of ideas and take calculated risks, based on real knowledge of the facts.

[1] See Annex 3 for a newspaper article on personal decisions without research.

Ineffective Practice: Misplaced Help

After much research into the high end of the market in country “X”, a community enterprise was developed. Its product was weaving of a very special traditional kind (unlike that of mountainous ethnic populations in the same country). The initial professional research showed that products – bags and cushions – could elicit a fraction of the price of woven textiles and if products were to be made, the traditional design of the woven textile would need modifying to avoid placing it in competition with products specifically made for the huge cheap tourist market.

The initial Project Manager had studied business and carried out the research with a fully qualified and experienced expatriate. The weavers were successful and had some overseas outlets and were taking orders for their woven textiles, provided they were traditional in design. They were in the process of developing their management skills but not really doing further market research at this stage.

The financial side of the NGO’s contribution, along with the project manager’s time and support, ended (no more funding). The manager was retrenched and contact with the weaving group was maintained by the NGO’s senior staff member.

The advice they then received from a senior staff member was to make products that the sponsor would sell in a new business specializing in handicrafts. They made products on this advice and sent them on consignment, ruining their cash flow. They lost their developed overseas market and the high end of the local market. The products were purchased for charity by the NGO and friends, not for their beauty and quality. Only a few were ever sold.

The women now sell their textiles to the local market at one quarter of the price at the international market; but it is at least higher than that of the cheaper knick-knacks. They no longer can benefit from bulk buying of thread or dye.

Source: Writer’s file and recent interviews during field work.

To assist implementers, some of the product assessments and questions actually asked in a full-market assessment in the Mekong Delta, Viet Nam, by a consultant (MBA student) and a Vietnamese Project Officer of CARE International in 1995 are presented as Annex 4. They are only to be viewed as samples, not current facts, as time and contexts change rapidly.

It has been noted that quite often the implementing organization trying to help entrepreneurs does not have a business-like approach itself. However, the Technical Education and Skills Development Authority (TESDA), an organization that trains cooperatives in the Philippines, is an uncommon example of a good practice approach. The surrounding grounds of TESDA’s building introduce an entrepreneurial flair that echoes throughout much of TESDA’s work. Inside, products made in-country are displayed in rows and rows of carefully and aesthetically placed stalls. This showcase of products for sale is a monthly ritual.

It gives the fledgling micro-entrepreneurs, including cooperatives, a chance to test out their wares, make some money and talk to other entrepreneurs. It also leads potential students to inquire about the formal and non-formal educational courses conducted by TESDA and others and to spread positive stories about TESDA among their friends and colleagues.

This type of entrepreneurship from community-based promoters of entrepreneurship is rare in the countries researched. Many NGOs and institutions show no flair in either their behaviours or their surroundings and certainly do not send messages that they can actually help develop viable, creative business ideas to realities for groups or for individuals. In general, they themselves are not always role models.

The following Risky Practice provides three examples of newly formed cooperatives. Each has strengths and there is much enthusiasm about their potential. But for the long term, their viability appears not so definite. As with many enterprises in the informal sector in developing countries initiated and supported by implementing NGOs or government departments for poor families, no solid market research was ever conducted.

Although the three cooperatives may do well, such risky ventures usually fail. Even well researched small businesses in developed countries, like Australia or the United States, have survival rates, post five years, that are not high.

Risky Practice: Three Fledgling Cooperatives

In a rural area where families are poor, one group initiated three cooperatives. At the time of the research, all three each had 45 to 47 members. Registration was in progress for two of the cooperatives and one had completed its registration. They seemed very appropriate to their members. However, no market assessment or feasibility study was carried out, although business plans were written and approved. The groups were given seed capital to assist with setting up. Some potential problems can be noted already:

1. **Peanut butter production:** Peanuts are not grown in the area and have to be brought to the cooperative factory. Markets have not been investigated and the current situation of demand for peanut butter in the immediate area is not known, but felt to be strong. Packaging and marketing of the product has not yet been investigated. Electricity is irregular.

2. **Industrial sewing:** Six sewing machines have been purchased based on the fact that small pads of industrial fabric cloth have been made and are being sold. A small order has now come in for some clothes. The time taken, thus the costing, has not been gauged and the fact that cheap second-hand clothes are readily available in many towns has not been considered because no market research was done. Marketing of the service has not yet been carried out.

3. **Drug store:** Drugs are being purchased at wholesale prices and sold at a small shop. Some assessment was made before setting up, but the assessment may not have gone far enough. (What do the doctors prescribe? How long do the drugs last outside a refrigerator? What is the quality of the wholesale product?) Although this cooperative appears to be in a better position for sales than the other two, such information still could have been factored in at the initial stage of concept development.

Source: Field trip and interviews with members.

Key Points

- Market research must be carried out by people with real expertise.
- In rural areas, obtaining information on market potential and risks is crucial prior to starting a business.
- Products must have a defined market before an enterprise begins.
- Marketing of products must be understood before production.
- Project workers must be innovative and broad thinking in their bid for income generation for families and communities.
- Training is an essential component of all income-generation projects, including enterprise development.

Key References

Dichter, T.
Non-government organizations (NGOs) in micro-finance: Past, present and future – an essay (1999).

CARE International
Annex 4: Market research in Mekong Delta for micro-finance project

Overy Miehlbradt, Alexandra
Guide to market assessment for BDS program design (ILO, 2001)

8 OTHER INCOME-GENERATING ASSISTANCE

Whilst training and group formation are major income-generating support activities, there are others – such as insurance, health care and literacy, micro-grants, seeding grants, rental options, scholarships, employment organizing, training, and infrastructure – that can be more appropriate to specific target groups in specific contexts. Of course all these other activities are context bound. They are outlined so that the reader can use them as a bouncing board for ideas to discuss and consider with those who require the support, in the particular working contexts.

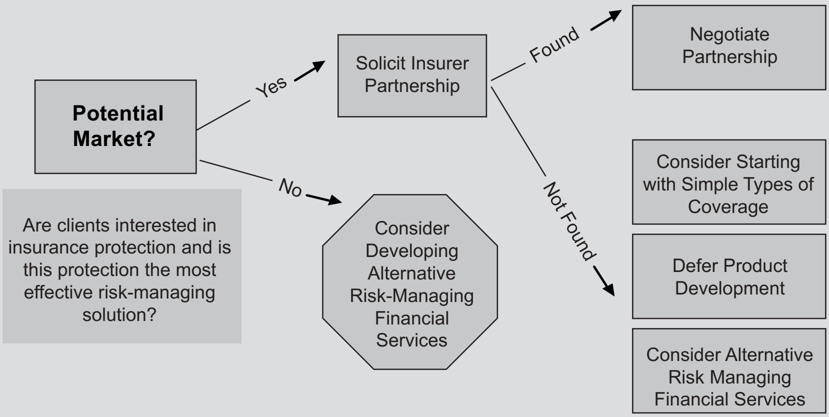
8.1 Insurance

EMT (previous name: Gret), a Cambodian NGO set up in 1991 using a strategy of rapid growth based on the provision of a single product – solidarity group lending with an average loan size of USD 40 – experimented with a health insurance system "based on the observation that while credit makes it possible to generate income, it is also important to act to safeguard income" (Gret 2000). Because of difficulties associated with operating such a health insurance scheme internally, an autonomous insurance scheme was later set up.

Providing insurance on the basis of "the debt dies with the debtor" is relatively straightforward when borrowers pay an additional small subscription to repay a loan (and provide for funeral expenses) in cases of death. The provision of health insurance is more complex as the risks differ. In addition, it is dependent on the availability of a viable health care system, which is not the case in many countries where health services, such as they may be, are provided by NGOs and community groups.

A study of MFIs by Brown and Churchill (2000 a, b) showed that the development of insurance products is being driven by endeavours to meet the needs of people who are poor and who are exposed to risk by sharing such risks through insurance. The needs of MFIs to reduce loan losses obviate the need to draw down savings, attain sustainability/profitability by benefiting from additional capital sources or generating fee-based income and diversifing their product range to retain and/or attract borrowers. Figure 3 displays the areas of assessment needed to develop micro-insurance products.

Figure 3. Decision-Tree for Micro-Insurance Product Development



Source: Brown, Green and Linguist (2000).

Insurance is very new in Viet Nam and SCF-US is investigating this area. It is not quite in place in Cambodia as yet, although interest in it was voiced by larger NGOs that are potential MFIs. However, in the Philippines, PUNLA is looking into this area and setting out to connect with an existing insurer. This linking may prove beneficial to all income-generation projects.

The literature predominately promotes savings over insurance as a safeguard for the vulnerable poor. It is thus suggested that small NGOs interested in insurance should follow PUNLA's example, or increase the savings service, or raise interest rates high enough to include an appropriate risk fund in the portfolio.

Guidance to implementers as to when insurance and savings are appropriate is presented in the following Good Practice.

Good Practice Suggestions: Rationale for Insurance-Product Development Strategies

- Savings are more effective than insurance in reducing vulnerability to economic stresses.
- Insurance provides more appropriate protection for larger losses that occur less frequently.
- Transaction costs can be reduced by layering insurance transactions on top of the delivery of other financial services.
- Savings accounts are a more effective foundation for delivering insurance services than loans because the credit-insurance link only provides coverage when a client has an outstanding loan.
- A savings-insurance link increases the likelihood that low-income clients with irregular income flows can access insurance.

Source: Brown and Churchill (2000 a).

8.2 Health and Literacy

When health expenses increase sharply and/or suddenly, or death occurs within families, the vulnerable poor can be plunged into heavy debt. Knowing this, some projects seek to address the issue in conjunction with a credit component (examples are throughout UNICEF projects, UNFPA in Indonesia, SCF-US past projects in Viet Nam, IWDA in Viet Nam and Cambodia and many others). The health component can include direct grants of food or simply education in nutrition and appropriate health-seeking behaviours or as in the UNFPA project in Indonesia in the early 1990s in which a woman being an acceptor of birth control promised to use it as a precondition for receiving a loan.

As families move into more secure survival situations, the need for such adjuncts to loan projects diminishes. Proponents argue that to leave out this component initially with the ultra poor minimizes the success of livelihood activities.

While such health resources are grants by the implementing agencies at the “livelihood” level, they can be subsumed into the health insurance aspects of non-financial services of more developed enterprises.

Literacy and numeracy classes are sometimes given as a prerequisite activity to livelihood projects. Certainly they are necessary for personal advancement but they should also be a necessary component of the micro-enterprise non-financial additions.

8.3 Micro-Grants

Where the poor are in a situation of crisis, such as those affected by natural disasters from cyclones, floods, earthquakes, etc. or as displaced persons on account of conflict, then it can be appropriate to provide micro-grants in order that these people can rebuild their livelihoods and replace lost assets (CGAP Focus Note 20, 2001).

From the literature review, research into unstable environments conducted under USA’s Micro-Enterprise Best Practices selected the BRAC Income Generation for Vulnerable Groups Development (IGVGD) programme as a good practice in the provision of micro-grants that help recipients graduate into BRAC’s mainstream micro-finance programme as borrowers (see Example 10).

Example 10. Income Generation for Vulnerable Groups Development (Bangladesh)

The Income Generation for Vulnerable Groups Development (IGVGD) programme, which started in 1988, targets the extreme poor and attempts to link them with its mainstream development activities and credit programme. The extreme poor, the majority of whom are women, constitute the bottom 10 percent of the population. They experience food insecurity, economic and social marginalization and lack access to regular employment, land and basic housing. The Government and the World Food Programme provide a stipend of free wheat while BRAC provides training on income-generating activities as well as human rights and legal education, nutrition, essential health care and credit. Through this package of support, the programme aims to prepare women to earn a regular income after the 18-month wheat subsidy ends. During the June 1998 to June 1999 cycle, 180,900 women received training while 97,230 graduated to regular employment with the assistance of small loans from BRAC.

Source: BRAC Web site: www.brac.net

The author of the Focus Note No. 20 (CGAP, 2001) warns that micro-grants can create long-term dependency among recipients and crowd out more productive investments of MFIs. He suggests six guidelines in an attempt to avoid these threats (see the following Good Practice).

Good Practice Suggestions: Micro-Grant Guidelines

Micro-grants should:

- Be carefully targeted to those whom micro-credit cannot serve in a particular context, such as the destitute poor and temporarily displaced persons;
- Be one-off and include a graduation process to market-based mechanisms, such as micro-credit;
- Be carefully structured and monitored to ensure that they are spent as intended;
- Be accompanied by training or mentoring when grants are intended for productive purposes;
- Require a cash contribution of at least 5 to 10 percent of the grant value from the grant recipient; and
- Not finance investments that result in income streams that could be used to repay a loan from a micro-finance institution.

Source: CGAP Focus Note No. 20, 2001

8.4 Seeding Grants

Seeding grants refer to grants that are specifically allocated for setting up enterprises (unlike micro-grants). They cover a huge range of possibilities. Sometimes this may cover the costs of developing business plans, buying seedlings, rent for a limited time, consultant fees, operational costs for a specified period. They are a method of income-generation support, which was noted in the Philippines and in some projects in Indonesia and Thailand. International NGOs in many countries also allocate money to such grants. However, in most of the developing countries, seeding grants are more commonly allocated to group/community enterprises rather than individuals, although clearly individuals and families could just as well benefit if they have the idea, the labour and the enthusiasm but the initial costs would put them into such debt that it would threaten the viability of the enterprise. In fact, some individuals can set up enterprises from seeding grants that have the potential to employ other people eventually.

8.5 Provision of Physical Assets for Rent

Rather than accumulate debt by purchasing a much needed piece of equipment (rice husker, sewing machine, bullock, sprayer, etc.), the facility to rent it is sometimes a far better option for a very poor family. When the maximum loan size does not cover the cost of the asset, some NGOs raise the loan size. If they do not, then the poor person simply borrows more capital, often informally at high interest rates. This path does not protect from over-indebtedness.

An NGO can rent out required equipment, covering the cost and the depreciation with weekly or monthly payments. A common practice is that the rent can be used as payment for the equipment, when sufficient money has been earned by the renting client, should this be requested. Alternatively, the asset can be returned to the NGO within a specified time frame or when no longer needed by the client.

“Deals” can be done in lieu of monetary rent. For example, husked rice for other poor families using the rented machine can be in-kind payment where products are for consumption only.

Animal banks (with cows, pigs, etc.), where families can rent a female animal for the production of litters and as payment, give both the female animal and one offspring (or more if pigs) to others to raise, keeping one of the litter, usually a female, for themselves. This is a very slow method of income generation, particularly for larger animals like cows and buffalos, but it has had success in specific contexts such as in Cambodia and the northern and central parts of Viet Nam (IWDA Cambodia and Viet Nam, SCF-UK Viet Nam). Problems that have needed ironing out centred on veterinary facilities being available and training in appropriate animal husbandry techniques for the families renting the animals.

Facilities can also be built and rented out for safe storage of rice for non-rice harvesting periods. The rice bank concept requires substantial monitoring and recording, as was found out by some agencies experimenting in Cambodia with this service.

8.6 Scholarships and Educational Assistance

Although often ignored in the literature on non-financial services to generate income, scholarships for children of poor families can assist with their additional income by taking away responsibility for some or all of the educational payments. This is particularly pertinent where children have left school due to poverty.[1] However, general assistance such as after-class tutoring, safe haven for homework, or resources to enable the children to complete assignments at the quality level of other children are other non-financial services that can be considered. School uniforms may well be necessary for acceptance by the school or by their classmates. In Viet Nam, school uniforms were the key to 65 out of 65 children in one village beginning school for the first time – some as old as 10 years.

Anker and Melkas (1996) have researched for the ILO other options, such as providing school lunches (or money for them), waivering fees, apprenticeships, school-work combinations and acceptable forms of work. As well as these, Anker and Melkas write, "A set of alternative approaches were brought up in responses to our survey activities which are designed to break the cycle of child labour and help ensure entry into school. They include non-formal education, recreation activities and residential camps."

The provision of non-financial services was considered in relation to training and skills enhancement in the 1980s and early 1990s. Unless they could be delivered at low cost, there was a likelihood of the cost of providing the services greatly exceeding the cost of loans approved (Robinson and Zainuddin, 1994). In more recent times, non-financial responses to poverty reduction have assumed a greater importance because of the demand to meet both the needs of the poor and to provide benefits, especially to MFIs, which have as their mandate assistance to the poor.

8.7 Employment and Community Organizing

During the field research, people in focus groups in each country stated that they would prefer to work for wages rather than develop enterprises. Generally, that question is not asked when NGO personnel come to develop income-generation activities without community development or other community preparation.

[1] Focus group discussions with child sea labourers (fishing) in Philippines showed that poverty was the main reason for them leaving school.

It is strongly suggested that before any implementing decisions are made, a full community assessment is carried out to determine: skills, past experiences, location (geography), culture, climate, land holding sizes, distances, etc. This can be part of the initial community development, but at some stage a reputable businessperson should be requested/hired to look into possible/probable business ventures. If that person finds none, there are none.

Ideally, the option of a private business venture employing some staff could result. Where some people receive wages, others receive lunches, childcare, etc. Cooperatives and community enterprises can also be possible and such an investigation could plant the ideas for these.

For the absolute poor, part-time opportunities for payment of services from the NGO can be created for tasks carried out, such as committee meeting organizing, some simple research and supplying lunches to visiting personnel or NGO personnel. This small casual money can make a huge difference to families that are desperately poor and, in fact, can assist them with cash flow immediately without the burden of debt.

Other work for the poor for development NGOs[2] can be:

- Oral histories recorded and produced for sale (each contributor being paid for their history);
- Pictorial studies of a specific place done by local people, produced and sold (each photographer paid for their photographic contribution); or
- Local people paid to train others in their specific skills – painting, theatre, story telling, weaving, cooking, etc., where these skills are marketable.

8.8 Other Training

Skills and vocational training have been extensively researched in tandem with the research for this document (See ILO project working paper entitled: *Non-formal education and rural skills training: Tools to combat the worst forms of child labour, including trafficking (TIA-2)).* Some relevant training is covered in this section nevertheless.

Veterinary training for villagers is available sometimes where IGAs include animal husbandry. (IWDA Cambodia and Viet Nam and Oxfam-Hong Kong in Viet Nam). Animal husbandry activities are quite common where IGAs include services other than loans and savings. (Other services touch on infrastructure, health, education and/or empowerment activities.) This has ensured that a veterinarian is available and that some people at the village level, who receive veterinary training, have potential to generate income as vets by servicing micro-enterprise clients.

[2] These are drawn from the direct experience of the writer.

Training in all aspects of financial-services delivery was part of the micro-finance projects' activities for clients, partners and for Credit Officers in each of the three selected countries of the field research. This was regardless of the type of system used (village bank, revolving fund).

Training in leadership, group dynamics and ethics were found to be an essential part of most income-generating projects (in fact most development projects) in the Philippines. In the ILO/IPEC quarry, fishing and footwear projects, it was noted that labouring children targeted were included in these activities. The footwear project in Binan was the most extensive one observed during the field research. It had been incorporated into a vocational training programme (electrical repair and motor mechanics) within health, childcare and school assistance programmes. Note was taken of the training of young boys in media presentation via theatrical performance in one fishing project of ILO/IPEC in Negros Occidental.

Training in group formation and maintenance is part of enterprise development support where group lending is a methodology to set up systems for the development of micro-enterprises, community enterprises and cooperatives. It is in the Philippines that this area of training is the most dynamic and includes training in ethics and morals.

Training combined with income generation projects was also seen in financial planning for domestic life (IWDA Viet Nam, World Vision Cambodia) and gender training was often included also (IWDA Viet Nam and Cambodia, Belgium bilateral project in Viet Nam, and KhmerSilk in Viet Nam). For IWDA, such activities were within its framework philosophy of empowering women using micro enterprise as a tool.

8.9 Infrastructure

It is good to keep in mind that poverty may be alleviated to an extent with carefully planned infrastructure improvements within the budget range of the implementing organization. Some examples proven successful are:

- Wells built, saving time and effort of women;
- Small-scale water supply to a village for personal and home garden use;
- Roads to the market made useable;
- Irrigation improvements to increase harvest; and
- Alternative electricity sources developed, such as biogas and solar power.

If such needs are seen as possible and cost effective, then employment could be created by using local paid labour to dig and build. Alternatively, those who benefit could donate their labour as a cost-sharing exercise, which does, in fact, give a strong sense of ownership. Oxfam-Hong Kong in Viet Nam, over a 10-year period, showed that small infrastructure improvements had very positive effects on the livelihoods of absolutely poor people in the most remote mountainous areas. They also found very strong community bonds formed because of the projects. Six years after a water system was put in place and Oxfam-Hong Kong had withdrawn, it was in full working order and managed by village water committees, paid (in rice or money) by the village people.

8.10 Food for Thought

Lending money is giving debt.

Group lending – solidarity, village banks, revolving loans and cooperatives – requires solid groups where trust is absolute, aims are common to all and competition within the group is avoided. Training for group leaders is essential. But any sort of lending is not the first answer for absolutely poor families (see chapter 3).

People in absolute poverty need some other method to enhance livelihood as a first step. As things improve for them, loans will assist at least with cash flow problems and may, although for only a few, lead them out of poverty.

Some of these other possibilities are not approved of by the micro-finance purists. For some people working on the ground, it is very obvious that something must be done to assist absolutely poor families to get out of poverty, but debt is not the answer. In fact, what is needed is a “leg up” to move them onto the level from which credit/debt can be useful.

Offer welfare support to the absolutely poor

There are many examples of such projects, though unfortunately they are not so well documented in recent literature. Some have been presented in this chapter. An NGO should look at all options and offer a range of options to the absolutely poor, with a firm plan of steps they together will take to move toward more direct activities for income generation.

Table 7 gives a summary of what activities and support were found, in the field and in the literature, to be appropriate to the families and individuals within the four levels of economic status outlined in Figure 2 (Chapter 1): absolute poverty (A-), economic viability (A), economic security (B) longer term economic security (C). Of course, depending on the project target, emphases will change. It must be remembered that the assumption is that if an implementer works at one level of economic status, eventually the client will move along the continuum.

Table 7. Appropriateness of Selected Income-Generation Support

Components	Economic status as per Diagram 1 & Figure 2			
	A-	A	B	C
General				
Casual Employment	X	X		
School Support	X	X		
Micro-Finance Services				
Savings	X	X	X	X
Capital/Loans			X	X
Loans in Kind	X	X		
Micro-Grants	X			
Seeding Grants		X	X	
Micro-Credit		X	X	
Insurance				X
Rent of Assets	X	X		
Training in				
Literacy	X	X		
Leadership	X	X		
Health	X	X		
Finance for Domestic Purposes	X	X	X	
Gender	X	X	X	X
Time Management	X	X		
Groups	X	X	X	X
Enterprise		X	X	X
Market Research	X	X	X	X
Marketing		X	X	X
Appropriate Technology	X	X	X	X

X denotes general appropriateness

Key Points

- A range of support services tailored to the needs of the whole target group (the clients) with individual services available will ensure programme success.
- Each of the income-generating support methods in this chapter are of use in assisting poor people (specific individuals, families or groups) at different levels of economic status. Assessment of each method must take into account the aim of the support.
- Savings rather than credit should be viewed as the first of the support services for very poor people.
- Grants (micro, support, seeding) may well be essential as a start in some circumstances and should not be overlooked. Neither should infrastructure projects in economically depressed areas be ignored.

- Lending is debt and should not necessarily be a major support mechanism employed in alleviating poverty, unless payments by clients are possible (real income can be generated).

- Opportunities for paid employment should also be considered as not all poor people want to develop small enterprises.

- Life skills-enhanced training (health, literacy and numeracy) have been successful adjuncts to income-generation projects.

- Infrastructural developments have a direct impact on the viability of micro-enterprises.

Key References

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Consultative Group to Assist the Poor (CGAP) –	http://www.cgap.org
The Micro-Finance Gateway	www.ids.ac.uk/cgap/static/1772.htm (insurance)

9 CROSS-CUTTING ISSUES

This section pertains to the cross-cutting issues[1] that have been identified in the field and in the international literature. These issues are context appropriateness, gender and empowerment, client targeting, management of projects and sustainability.

9.1 Programmes in Context

As mentioned earlier, when choosing a method within the micro-credit range to deliver credit and savings facilities, each NGO must first understand the community context – geographically, culturally, politically, administratively, socially and economically.

The original Grameen Bank model, for example, was developed for Bangladeshi poor women and has proven very successful over the years. It was developed for a specific context and this is a major part of its success. It is now a micro-finance institution.

Within the realm of context are also gender, class, historical and attitudinal issues. These are unique to each specific context. Some of these contextual components are shared by other contexts, but this does not mean that a complete replication of, say, the Grameen system, excellent as it may be in Bangladesh, is the most suitable model for every poor community.

In reality, the Grameen model has been cloned and adapted in many contexts, which is a very positive situation. However, sometimes it has been adapted because implementers do not properly understand the Grameen philosophy and methods and see it as simply any group-lending project. This is not a very positive use of that model because none of the issues of lending to the poor have been thought through sufficiently to have adapted it correctly for the specific context.

On the other hand, officials with the CARD Bank in the Philippines investigated the Grameen model in 1988 after experiencing difficulties in their own project. They later piloted a Grameen model and introduced a full Grameen replication in 1990. This project institutionalized "a bank, owned and managed by the grassroots" (Dichter, T., 1999). While CARD remains a Grameen model, it has made some adaptation for context appropriateness in the past few years: men are now included in the activities, meetings vary and participants no longer have to say a declaration/pledge at the start of the meeting. These changes were noted in some Cambodian and Vietnamese Grameen-cloned projects also.

[1] Cross-cutting issues are ones present in all aspects of a project, across programmes and within components.

The context is so important that lessons learned also need to take the context into consideration.

Example 11: Women are Targeted: "Men are Notoriously Unavailable"

The micro-credit programme is now seen as an empowerment programme for women. International organizations promote Professor Yunus as a saviour of women. Yunus became the most important speaker, besides Hillary Clinton, in the World Women's Conference held in Beijing in 1995 and also in the conference Beijing +5 held in New York in 2001. The only credit he has in his favour is micro-credit. But why have women become the favourite? Was it meant that way from the beginning? No it was not. Grameen started as a bank for the poor, not as a bank for women. Initially, only 50 percent of the borrowers were women, but gradually it was shifted only to women. Even when they give loans to the men, it is given through their wives (Yunus, 1998). Although by focussing on women only, Grameen wanted to deal with the gender discrimination in the bank loans, yet the benefit was more to the bank than to the women themselves. Women were more reliable and responsible than men as borrowers. They were also more sensitive to peer group pressure and easier to control. According to ASA, one important reason for high repayment is female membership. "In our country, the tendency of promptly repaying loans is found more among women than men. Moreover, women always remain present at the residence. Hence to avoid harassment of repeated reminders for payment, they deposit instalments regularly."

A Grameen Bank worker puts it "as women in the village are easily traceable, and they regularly attend more group meetings then men. Women are more reliable and more disciplined then men. Working with women is easier for us than working with men." (Goetz et al 1996)

Source: Akhter, 2001

9.2 Gender and Empowerment

Unless the whole issue of gender imbalance is addressed for the poor in their cultures, in politics and in societal institutions, the empowerment of women will remain elusive and poor women will continue working in the areas of micro enterprise within income-generation projects with debt attached, regardless of what they actually want.

When asked during the field research, "What do you really need right now?", women in projects in Cambodia, Philippines and Viet Nam always answered, "work". Women may well in large numbers prefer to work in other peoples' enterprises (Cambodia, Philippines and Viet Nam) or for government (Viet Nam) if given the opportunity – but they do not have this choice.

Access to all aspects of micro-finance, it appears, will lead to empowerment of women (and the poor in general) when the issue of gender inequalities in each cultural context is addressed. This challenge has not yet been taken up by those leading the micro-finance debate.

Akhter (2001) challenges the believers that empowerment and gender need to be issues included in micro-finance methods. "Micro-credit can be seen as the latest development disaster through feminization of indebtedness," writes Akhter. Patriarchy has always taken advantage of women's good will of being easily oppressed, so has the micro-credit programme. This is a women's indebtedness programme with high success rates of repayment. Women had to undergo group pressure, coercion and often forced to make sure that they pay the loan regularly with high interest rates."

Then there is a counter view, as stated in the Declaration at the Micro-Credit Summit of 1997: "Empirical evidence has shown that women, as a group, are consistently better in promptness and reliability of repayment. Targeting women as clients of micro-credit programmes has also been a very effective method of ensuring that the benefits of increased income accrue to the general welfare of the family, and particularly the children. At the same time, women themselves benefit from the higher status they achieve when they are able to provide new income."

These are ideas worth debating and using to challenge the status quo, if only to ultimately confirm that the activities are being steered in the most effective direction.

9.3 Client Targeting

There is a vigorous debate internationally regarding client targeting. Again, being aware of the debate should help implementers to assess their contexts and their ideas of potential client's best interests.

The clients of micro-credit are said to be low-income and poor persons who are cut out of formal financial institution access. However, throughout the literature, micro-credit is repeatedly defined in such a way that seems to cut out the vulnerable poor all together. For example, "Micro-finance clients are self-employed, often household-based entrepreneurs. In rural areas they are usually small farmers and others engaged in small income-generating activities, such as food processing and petty trade. Micro-finance clients are poor and vulnerable non-poor who have a relatively stable source of income." This sort of statement alienates the poor who do not have a stable, sufficient source of income.

For those targeting specific clients who are poor but who are clients for other reasons (such as efforts to combat child labour), the choosing of an income-generation activity or activities to suit specific client situations is crucial. In such situations it should not simply be assumed that “credit” and “business” are the answer for anyone. Other types of support may be more appropriate if the clients are extremely poor (“A-” in Diagram 1; also see table 7)

There are two schools of thought about when micro-finance is an appropriate tool. The first originates with the Grameen Bank philosophy, that all poor people can benefit. That is, they can improve their situation via micro-finance, provided it is appropriately accessed. The other, more recent school of thought, is that extremely poor people who do not have any stable income, such as the very destitute and homeless, should not be micro-finance clients, as they will only be pushed further into debt and poverty by loans they cannot repay (Micro enterprise Innovation Project Web site, USAID, 24.6.2001).

From nearly 30 years ago, when the argument first began that very poor people can borrow, are trustworthy and can pay back provided the services are suitable, it now appears that for many observers, a full circle has been made to the idea that the very poor are unsuitable for such a programme to be implemented for them.

In the field research interviews, discussions with clients and credit agents and in the literature, there was general agreement that micro-credit best services those who are already moving up the financial scale and are past the livelihood activities stage (see Diagram 1). A caveat is that once a person shows that he or, usually, she can pay back loans, they are ready for micro-credit. The re-emerging question, however, is, “How can they do this if they are not getting access to credit?”

9.4 Payment for Services

To generate income among the very poor there are other possibilities through the provision of non-financial services, which are less documented and not so much in favour. Such services can be subsidized by the implementers, at least initially to move the client into a more stable situation or partially paid for as a sharing between client and implementing agency. It can be fully commercial with the client paying. Some of the possible services are presented as a continuum according to the cost to the implementing agency or to the client. They include social subsidized activities, which generally are for poorer clients and usually are paid for by the NGO, government or another donor, and business development activities, which can be paid for by the clients (see Table 8). Payment of services is more common at the higher end of enterprises with growth-oriented and small enterprises.

Table 8. Non-Financial Services Continuum

Social Intermediation Subsidized →				Business Development Services Fully commercial
Health education	Literacy training		Business networks and linkages	Market information provision
Gender training	Group capacity building			
Insurance		Community business information	Enterprise training	
Social grants		Technical training (for potential value added enterprise)	Mentoring	Market linkage schemes
Pensions		Entrepreneurial training	Advisory services	
Scholarship Study support	Empowerment and self-esteem building		Business incubator experience	

Source: Adapted from CGAP Focus notes, "Micro-finance, groups and non-financial responses to poverty reduction. Where does micro-credit fit?" March, 2001.

9.5 Management

In all three countries covered by the field research, there were micro-finance implementing agencies that were either working solely in micro-finance or were working within an integrated programme. But a third system also exists: a micro-finance unit is conducted and managed separately from the other components of the total programme.

In Cambodia, the Catholic Relief Services (CRS) strongly supported their delivery system of a separate unit within a programme but agreed that when health and agricultural aspects of the total programme were also in the same geographical area (although conducted separately), the micro-finance project saw better results. This was said to be because good health, better nutrition and better farming methods led to a better livelihood, and credit and savings enhanced this further.

In Viet Nam, CRS is withdrawing the micro-finance component, whereas SCF-US operates with a system similar to that of CRS in Cambodia. As with CRS in Cambodia, the thinking is that the micro-finance department must be separate if it is to be efficient and effective.

The Philippines has an integrated approach, but separate NGOs carry out different tasks for the implementing NGOs. This being the case, some NGOs doing an integrated programme may need to bear in mind the lessons of CRS Cambodia and SCF-US Viet Nam and keep micro-finance/micro-enterprise aspects quite separate – in terms of management – from the health, nutrition, etc. aspects of their programmes.

There are NGOs in Cambodia that have integrated programmes that include micro-finance because they see it as a necessary part of the total project. But they do not wish to become MFIs. The IWDA-VWU partnership in Viet Nam is attempting to use micro-finance as a means to empower women and integrates other training aspects into its meetings. This model may not necessarily increase incomes of the poorest clients and move them into financial security, but it is seen as giving learning opportunities to women who have not had opportunities before. These opportunities have the potential to improve tiny business outcomes and eventually increase the quality of life for these women's families and move them toward some degree of economic security. Large organizations in Viet Nam, like CARE International, have changed from dedicated micro-finance projects to totally integrated projects. As none of their micro-finance components have had a realistic interest rate and savings is not seen as a crucial element, they are not sustainable when CARE withdraws, so it cannot be considered similar to the CRS integrated programme in Cambodia.

The issue of whether micro-finance should be a stand-alone, a component or a separate activity is not resolved. It will need to be answered by implementers individually, as the contexts for their projects will influence the decisions they make about their level of sustainability.

The management structures presented in Example 12, and Figure 4 and 5 show that the Village Banking Systems are predominant in micro-finance NGO projects (although in Cambodia the Village Development Committee is sometimes replaced by a Village Bank Committee).

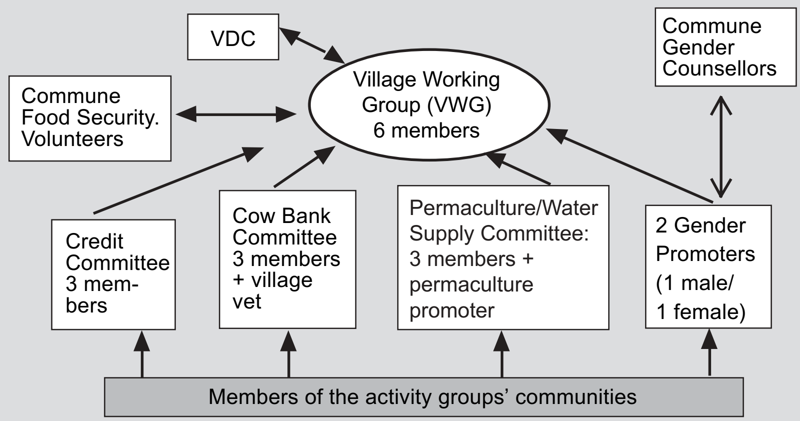
Example 12: Management Structure for PADEK (a Cambodian NGO)

Commune Organizations	CDC	Federation of Self-Help Groups	
Inter-Village Organizations	Activity Committees	Federation of Self-Help Groups	
Village Organizations	VDC	VDC	VDC
Group Organizations	SHG SHG	SHG SHG	SHG SHG
Household Organizations	Families Families	Families Families	Families Families

Relationships among the different levels and types of organizations can be many and complementary without compromising the independence on any group or organization. Individual families could be members of a Self-Help Group (SHG), the Village Development Committee (VDC) and an activity committee at the inter-village level. SHGs could form a federation with groups from several villages, or at the commune level. SHGs in a given village could have representatives on the VDC and help to mobilize their members to participate in village level activities. Some of the VDC could come together to work on an infrastructure project that is a priority for their village. A federation of SHGs at the commune level could collaborate with the Commune Development Committee (CDC) by mobilizing its network of groups and members, to contribute to commune level activities. The possibilities for collaboration are numerous without requiring that all organizations be managed and coordinated under a single rigid structure.

<u>Source:</u> Rao, J., and Swift, P., *PADEK's experiences in working with Self-Help Groups in Cambodia* (1998).

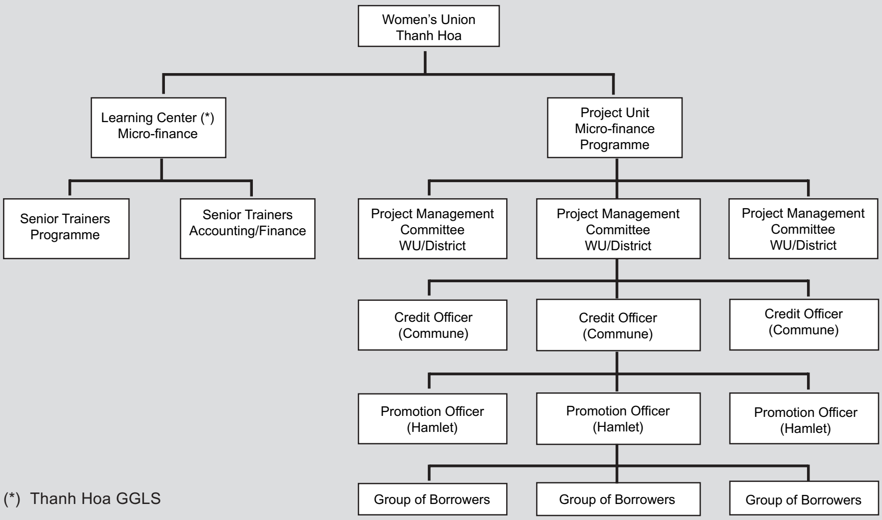
Figure 4: Project Community Management Structures in Cambodia



<u>Source:</u> IWDA Cambodia files and interview with Director in Banteay Srei.

IWDA funds a cow bank within a local organization in Banteay Srei, Cambodia. The management structure presented in Figure 6 shows the complexity of the project housed along with credit, permaculture/water and food security aspects. It works outside the Village Development Committee (VDC) but informs the Committee. Its legality, if it were to be handed over to the VDC, may not be secure.

Figure 5: Structure of SCF-US Programme in Viet Nam



(*) Thanh Hoa GGLS

Source: SCF-US documents and interview.

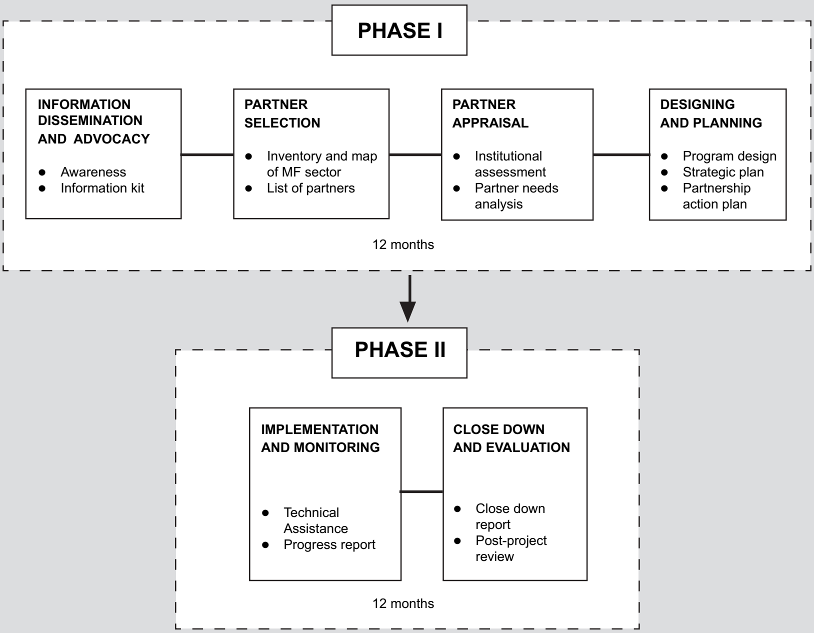
As noted in Example 4, SCF-US (see micro-finance institutions in Chapter 2) in Viet Nam strives for efficiency. Figure 5 is the management structure it uses – decisions are made at district level and credit officers are qualified and employed as professionals at the commune level, not because they are members of the Women's Union or other groups.

Women's Union (WU) staff members are involved in SCF's non-technical tasks, leaving the micro-finance decisions to trained personnel. The Women's Union reports on SCF's finances only, which is not the usual practice in Viet Nam.

In terms of management tools, SCF-US has "...developed an accounting package that is based on international standards but uses the chart of accounts and accounting books issued by the Vietnamese Ministry of Finance. Thus, the project is (i) meeting international and local accounting standards that allow for monitoring the financial situation to ease registration as a local institution later, (ii) reducing the cost of training for staff and the Women's Union as they are familiar with the accounting books issued by the Ministry of Finance and (iii) reducing the cost of printing (and designing new) accounting books." (Written information from SCF-US in response to interview question.)

In the Philippines, PUNLA, the micro-enterprise training NGO mentioned earlier, has developed a complete strategy for its activities as micro-finance trainers for groups, see Figure 6. The strategy is adjusted as sophistication develops in the field. Most consultancy firms or individuals dealing with NGOs in micro-finance training, observed during the field research, do not have such a developed strategy. PUNLA adopts a well-documented action research methodology to achieve its strategy goals over a two-year period.

Figure 6: PUNLA Implementation and Strategy in the Philippines



Source: PUNLA, Building Filipino Capacity in Micro-finance Information sheet and interviews.

The operational management systems are also important to compare. Example 13 shows these systems for two village banking type NGOs in Cambodia. A difference is in who is eligible to be a member of the Village Bank Committee. For CRS, representatives cannot be on the Village Development Committee as well as the Village Bank Committee. For the Lutheran World Service, they usually are on the VDC as well, and the chairperson of one can be the chairperson of the other. Other differences are in their plans for the future as regards institutional sustainability and their use of interest.

Example 13. Two Operational Management Systems (Cambodia)

There are many successful micro-finance projects in Cambodia. They run according to international best practices. They usually work through either the existing Village Development Committees (VDCs) or set up their own Village Bank with people outside the VDCs.

One such success is Catholic Relief Services (CRS), which has a separate small enterprise development department within its organization, and its project, Thaneakea Phum Village Banking. The project is five years old. It has six basic principles of poverty lending:

- Focus on the poor, particularly women;
- Begin with small loans and small repayments, expanding as experience and confidence grows;
- Link credit to savings to build equity and accumulate reserves;
- Commit to organizational and financial sustainability through realistic pricing of services while striving to minimize costs;
- Adopt a participatory management structure that increases skills and sense of ownership among programme participants; and
- Employ solidarity groups and mutual guarantees as collateral.

Each Village Bank is a community-based organization that consists of five to seven solidarity groups of mainly women who work together in a larger group of 30 to 50 people. There is a strong savings mobilization component for sustainability held by the bank and its use is decided by the members.

The outreach is intense and carried out by paid Credit Agents. The Village Bank Chief and Assistants are trained in administration. The interest rate in 3 percent per month. Cycles are six to eight months and loans are small starting at Riels 150,000 and increasing with each cycle to a maximum of Riels 300,000. Groups meet monthly for the transactions of receiving and paying loans and interest. A double-entry system is used. As there is generally no electricity, all transactions are in hard copy and the current financial situation is on large white boards. When interviewed during the field research, the women expressed trust in the Village Banks and said they are pleased to have safe places to save. CRS is now preparing papers for MFI accreditation.

Lutheran World Service (LWS) has integrated programmes successfully. It uses the Village Bank system for micro-finance and, it too, is operationally and financially sustainable. It does not intend to become an institutionally sustainable MFI.

The LWS Village Bank has a savings component attached to the members' obligations when they borrow. Loan amounts vary depending on the presented business plans, which are assessed by the members. It also "charges" 5 percent interest, to be paid monthly. On successful repayment of the loan, 3 percent is returned to the borrower as the “membership dividend”. This satisfies the need to have a lump sum to help with further purchases for family or the business. It also is a strong incentive for making payments. The Village Bank has used some interest to fix roads and generally improve the environment.

Source: Brochures and interviews.

If the management of business-related activities is not business-like, then there is no role-modeling for clients, and there is no enabling environment for systematic management of their loans, business or, sometimes, even their lives. The major result of IWDA-VWU research (2001) into its micro-finance projects (over a decade), was that the clients said that their lives had changed for the better because they were able, from the project, to manage family, time, decision making and business better than before. This was seen as more important than the loans.

The following Good Practice presents some lessons about village banks that were learned during a case study in Indonesia. Documentation shows that Village Units in village banks benefit enormously from policies promoting stability and growth.

Good Practice Suggestions: Village Banks – The Next Step (Indonesia)

Having achieved a high degree of financial self-sustainability, the main challenges facing the Village Units operating in Indonesia centre on increasing the extent of the system’s outreach. Both breadth and depth of outreach need to be expanded with special attention given to maintaining the system’s high degree of financial self-sustainability. A number of lessons have been learned in the process of moving away from a subsidized, credit-only banking system to a full-service, fully commercial banking operation. Some of the most important lessons are:

A. Loan Products

- In order to minimize overhead costs, banks in rural areas need to be able to serve the whole credit market.
- Access to credit on a regular basis is more important than a low interest rate.
- The main lending decision is whether or not a particular individual and enterprise is creditworthy; this decision should be left to the bank.

B. Deposit Products

- Serving people’s demand for savings instruments is just as important as satisfying their demand for credit.

- There is a large potential for savings among relatively low-income people in the rural areas.
- A large number of small savings accounts provide a relatively stable source of funds for the bank.

C. Management

- Efficiently operating a large network of small banks requires a combination of simplicity, transparency, standardization and delegation of authority and responsibility.

D. Operating Environment

- A stable macro-economic environment and a growing rural economy have been invaluable contributors to the success of the Village Units.

Source: Patten and Yaron, *Case studies in micro-finance,* Bank Rakyat Indonesia Unit Desa, www.World Bank.org, Charitonenko, 1998.

People are supposed to graduate to formal financial institutions eventually, so the theory goes. “Graduation” dilemmas in the Village Bank approach are pointed out by Dichter (1999), who writes: “Many approaches to best practice micro-finance in NGOs include the expectation that eventually clients will “graduate” to formal financial institutions. In the case of the so-called Village Bank (VB) methodology, the expectation was that VBs would eventually graduate to autonomy and no longer need the external account relationship with the initiating NGO. But experience since the beginning of the 1990s has revealed some dilemmas in this regard. By encouraging the graduation of VBs that are ready, the initiating NGO often realizes that it is about to lose its best performers and those least costly to maintain, which in turn will affect the NGOs record as a micro-finance intermediary. As for the Village Banks themselves, some do not want to lose the sense of protection they gain from being affiliated with the mother NGO, even if they have become capable of managing their own affairs. But the majority of VBs simply are not able to move very far up the learning curve of financial management and quite plainly need the sponsoring NGO’s credit officer to keep them functioning.”

9.6 Sustainability

Sustainability is a theme throughout the literature. It is agreed that it is essential for micro-finance operations of all types. Donors want proof of the various elements of sustainability and even the smallest credit and savings project is asked to comply. There are three elements to sustainability for micro-finance sustainability overall –

Operational: The programme project is sustainable operationally if it can operate within its own budget without subsidies from other sources. A programme can be a component of an institution but if it is to be operationally sustainable, it must function as a self-contained unit. It must also allow for growth, thus it must ensure that it covers all present and future costs and can break even.

Financial: Tied directly to operational sustainability, a financially sustainable operation has its activities costed at such a level that all costs are recovered on, at the least, a component basis. A project is not sustainable if it is being subsidized by other departments/projects within the operation or it is using its capital to pay expenses or donors are subsidizing interest rates or financial activities.

Institutional sustainability: The literature very strongly advocates institutional sustainability. This is the development of a body (institution) that has legal status (or at least official status) within a country to deliver micro-finance services to specific groups or general public. These institutions are generally now referred to as micro-finance institutions, or MFIs.

There is a range of MFIs now legalized within banking frameworks in Asia – local NGOs, International NGOs, commercial and savings banks, finance companies, state banks, credit cooperatives and village banks.

Institutional sustainability is seen as contributing to long-term poverty reduction by giving an opportunity to mobilize savings from the public legally and safely for the clients while providing access to commercial credit. It is not dependent on donor/government funding and has heightened efficiency of the operation's decision making based on good governance. A formula to attain sustainability levels is presented in the following Good Practice.

Good Practice Suggestions: Formula for Sustainability

Institutional sustainability

- Develop good governance – recruit capable board members with expertise, experience and commitment to the organization.
- Build a strong management team (not a one-person show) and competent staff.
- Build strong institutional systems – policy and operations manuals.
- Develop mechanisms for staff appraisal.
- Ensure a plan and allocate budget for first-time orientation and periodic training of staff.

Operational sustainability

- Increase the scale of operations – number of clients and volume of lending without affecting the quality of the portfolio.
- Manage transaction costs without affecting the overall quality of services and responsiveness to clients.
- Increase spread on earnings from loan portfolio by ensuring on-time repayment and increasing the loan portfolio.

Financial sustainability

- Develop a realistic plan to increase self-sufficiency with focus on profitability of the micro-finance operations.
- Develop a long-term plan to reduce dependence on donors.
- Move gradually toward soft loans and commercial financing as source of funds.

This formula is based on the assumptions that:

1. A legal framework gives an enabling environment in which sustainability can occur.
2. Personnel managing and developing the schemes have knowledge skills and personal experience to develop the schemes.
3. A group (NGO) has sustainability as an objective.

Source: Paper presented by Hout Ieng Tong at 10th Conference of the Forum on Cambodia, Lao PDR and Viet Nam, Vientiane, June 2001.

A current view from the Philippines National and Economic Development Authority is that supply-led credit policy and subsidized directed credit programmes have failed, while they give praise to local MFIs for their market oriented financial and credit policy frameworks (Llante, 2001). Savings mobilization is key to the success of these MFIs, according to Llante.

9.7 Interest Rates

Sustainability of MFIs requires an income to be generated. This income comes from interest. It must cover the total cost of a service to be operationally sustainable. The debate is how high should interest rates be?

All the evidence points to the situation of subsidized interest rates, such as non-market rates subsidized by another source, as having a number of detrimental effects that lead to unsustainable situations in the long term. However, some social intermediation supporters do not agree. The position of the Women's Union and the government of Viet Nam is that subsidies have positive effects. The government-approved article in Example 14, which was taken from the Viet Nam News, shows that the country's Bank for the Poor is subsidized at a rate so high that it is not sustainable.

Example 14. Poor Households Get Access to More Credit (Viet Nam)

HA NOI – Poor residents will get improved access to much-needed funds under a plan to build the loan book of the Viet Nam Bank for the Poor. The bank wants to build its loan funds by 30 per cent and the Government has consented to a cut in interest rates to serve that end. It launched the scheme in June, offering loans at interest rates of 0.5 per cent and 0.45 per cent per month for poor households in lowland and mountainous areas. These rates compare to the previous offerings of 0.7 and 0.6 per month. Loan amounts have been hiked from VND 3 million to VND 5 million per household[1] as long as the funds are invested in livestock breeding, cash crops, fruit trees or offshore fishing. The length of a medium-term loan has increased from 36 months to 60 months, an official from the bank said.

It also received the prime ministerial nod for its continued work to reschedule and corner debts for poor households who borrowed funds in 1996 and 1997. These households can now prolong their repayments for a further three years, taking them up to 2004.

The bank has also earmarked loans for agricultural and forestry promotion projects, and education to teach farmers how to structure contracts and use their capital effectively. It will co-ordinate with other organisations for farmers and women to manage and monitor the loans used by poor farmers.

Not content with those changes, the bank has its sights set on new markets including issuing bonds and using long-term State funds for loans. Currently, about 70 per cent of its loans are stretching out from one to five years.

It has also introduced a method to loan funds to groups rather than just individuals. A group of individuals can cooperate to manage bank loans and help the poor develop their production. This structure ensures the loan funds are targeted towards the right borrowers and helps them use the funds effectively and make timely repayments. More than 200,000 groups have accessed loans over the past six years, helping more than half a million households escape from poverty.

The bank's head of office for professional planning Tran Huu Y said its outstanding credit loan is expected to be at VND 6,100 billion by the end of this year.

Source: Viet Nam News, 24.8.01, Vol: XI, No. 3599. pp. 1 and 3.

[2] Micro-credit in Viet Nam is invariably less than VND 1.5 million (USD 100) – see SCF-US, which has micro loans at USD 20 to 70.

Some people, not involved in the balance sheets of credit activities (either NGO or MFIs) believe that 6 percent interest charges per year, as described in Example 14, is not too low. However, for small loans with wide outreach and excellent client services (which banks do not give), the costs are higher. It is generally accepted that around 2 percent charged per month (24 percent per year) lets the NGO or MFI break even on short-term loans. The costs in Cambodia – up to 5 percent per month for small group loans – are said to be too high.

The prolonging of repayments, a common practice documented, also presents a problem as it masks the default figures, which were reported (in interviews in Viet Nam) to be very high in projects of low-interest rates because people think the money is a government “gift”. This notion was also mentioned in interviews during the field research in the Philippines and in Cambodia in relation to many people among the rural poor perceiving loans with low interest rates as “charity”.

The NGO Cambodia Poverty Lending Group has drawn up a list of negative effects (see the following Ineffective Practice) springing forth from subsidized interest rates that were echoed by comments made by staff of organizations during the field research and in the literature review.

Ineffective Practice: Negatives of Subsidized Interest Rates

- It reinforces the dole-out mentality among borrowers, which affects loan repayment and raises expectations from participants on the continuous supply of cheap credit, making it more difficult to develop sound but usually unpopular higher interest rate measures in the future.

- It discourages formal institutions from lending to the poor, which is already deemed high risk, due to the their inability to cover their costs and earn a profit.

- This eventually results in credit contraction and rationing due to the unsustainability of credit programmes to the poor, since lending margins do not allow cost recovery and the dole-out mindset results in poor repayments. Loan losses due to default reduce the size of the loan portfolio over time, further aggravating the problem of credit accessibility and reliability, which have been found to be of more importance and of more crucial concern to poor borrowers than the cost of credit.

- It creates a high demand for cheap credit that results in the diversion of cheap credit to unintended fund borrowers that possess influence and have better connections to fund providers.

- It encourages the formation of groups mainly as a conduit of concessionary loans and/or as beneficiaries of cheap credit.

> - It creates distortions in estimating potential incomes from livelihood or income-generating activities, often times resulting in non-viable projects being justified for loan support. When supply of cheap credit is withdrawn, these projects are unable to cope with the real market situation and fail to be sustainable.
>
> Source: NGO Cambodia Poverty Lending Group (1998)

Regarding interest rates, there has been a new trend in philosophy and practice in recent times, according to Akhter (2001), who notes, “Micro-credit programmes have entirely shifted the priorities of development activities. It is no longer based on building a support system for economic activities of the poor. Rather, the development worker who was committed to reach the poor is now asked to do only one thing, that is, lending out credit and ensuring repayment.”

“In the early development paradigm,” continues Akhter, “the poor were the receivers of resources, now they are the means to realize the interest of money capital that is circulating globally in the era of financial liberalization. The field workers have to earn their own salaries. Financial sustainability of the lending NGOs has become a priority agenda. This has led the MFIs to operate on the basis of cost recovery and profit making. In doing that they charge high interest rate to the poor. The Grameen Bank interest rate on micro-loans is at least 20 percent, which is 8 percent higher than the commercial market rate in the country. The poor are paying more interest than the rich are.”

While MFI supporters overwhelmingly disagree that the interest rates are too high for the very poor, many field workers from smaller NGOs agree, as explained in the field research and literature review. It is certainly worth considering when deciding on the type of project that suits the context and the specific client group.

9.8 Programme Design

A number of studies (by Women’s World Banking, FINCA Village Banking, Grameen Bank, etc.) show that what the poor actually want and what they benefit from the most by way of credit is permanent and reliable access to financial services that are trustworthy and established. This is far more important than cheap credit without these conditions. SCF-US in Viet Nam has never had a complaint from any clients about its interest rates, which are more than 1 percent higher per month than the Government’s Bank for the Poor. Unfortunately, the majority of international NGOs provide short-term project funding only, often with lower interest rates and very often with a social, rather than a financial goal as the main objective. This is also true in Cambodia with smaller NGOs and in the Philippines. These smaller projects are time bound and have no intention to be truly sustainable in the current best practice sense as seen in the literature.

The NGOs entering the field of income-generation activities must weigh their own need for sustainability, the donors' desire for sustainability and the consequences for the project, the clients and the financial environment of its chosen level of sustainability. Interest rates remain the key issue in all projects, along with savings provision.

The CARE-US programme design framework (Table 9) is a tool for the development of an appropriate design that is contextually suitable for project implementers. As it is, it does not fit into every south-east Asian context, but as a tool it has the potential to be a basis for management groups to work together to develop unique designs for micro-finance activities.

Table 9. Programme Design Framework

	Target Group	**Environment**	**Existing Sources Services**
SITUATION	• **Economic activities** Scale, sector, time in operation. • **Demographic characteristics** Age, gender, education and literacy. • **Cultural characteristics** Cultural cohesion, perceptions of credit, attitudes toward enterprise.	• **Physical** Geography climate. • **Economic** Inflation rate. • **Accessibility** Transportation infrastructure, population density. • **Markets** Market structures, access and opportunities. • **Government policies** Small business regulation, financial sector regulations.	• **Partnership** Rationale for partnership, working with existing partners versus, creating partners. • **Appropriate types of partners**
	Interventions	**Methodology**	**Delivery Channel**
PROGRAMMING	• **Community level** ▪ Financial services ▪ Business support services ▪ Combinations of services ▪ Training	• **Individual lending** • **Non-financial support**. • **Peer lending group** ▪ Solidarity ▪ Self-help	• **Single type of partner** Intermediary, replication, apex, mixed partner/ direct.

	Impact	Efficiency	Sustainability
GOALS	• **Household** Increased household income and economic security. • **Local economy** Secondary income effects, displacement. Programme scale.	• **Field staff productivity** Use of time, methodology. • **Organizational structure** Staff configuration, responsibilities and coordination. • **Financial management systems and procedures** Loan disbursement, financial reporting support services.	• **Level of sustainability** - Financial - Operational - Institutional Vision, human resources, programme, financial viability, planning, organizational structure, systems, linkages.

Source: Adopted from CARE Waterfield and Duval, Savings and Credit Sourcebook, 1996.

Key Points

- An understanding of the community context is essential for effective income-generation projects; this includes historical and cultural aspects, such as gender.

- Access to all aspects of micro-finance will lead to empowerment of women when the issue of gender inequalities in each cultural context is addressed.

- Welfare support may be more appropriate for extremely poor people than "credit" and "business".

- A management structure that suits the context is very important for efficiency and effectiveness.

- Management practices of the implementing organization should be business-like.

- While donors want sustainability of projects, it is not always easy to achieve it in all contexts with all client groups.

- Interest rates should be at market rates even for small NGOs and can be a tool for project sustainability, at least at the operational and financial levels.

- Permanent and reliable access to financial services that are trustworthy and established is far more important than cheap credit without these conditions.

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Internet sites

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Consultative Group to Assist the Poor (CGAP) –	http://www.cgap.org
The Micro-Finance Gateway	www.ids.ac.uk/cgap/static/1772.htm (insurance)

10 LESSONS LEARNED

Because the whole range of income-generation possibilities is huge, there is a multitude of lessons learned from the many facets of micro-finance and auxiliary products. There are also different stakeholders who have learned a disparate range of lessons. These include donors, governments and their departments, policy implementers and advocates. It also includes all those in financial systems (banks, credit unions, etc.) that have embraced or are trying to embrace the evolving micro-finance sector: corporations, educators, private and public businesses and enterprises. Included are NGOs (both international and local) and other development aid groups/institutions (bilaterals, UN agencies). Community groups and other forms of collectives, individuals and families who are at the poorer end of their societal structures and the vulnerable poor are basic stakeholders. It is impossible to go through all the lessons learned by all of the above in one small document.

Thus, the lessons learned presented here are those that have impacted more directly on the income-generation potential of the poor and the vulnerable than the wider target group of micro-finance. These lessons come from four sources – the literature review, the field research with visits to NGOs and MFIs and ADB (1997a) and UNDP (2001) documents.

10.1 Lessons learned Among NGOs Working in Income-Generating Activities

1. Any programme to assist the poor in rural areas requires a full assessment of social (including land ownership), infrastructure, political and economic (including product, service and capital markets) factors for it to be able to address local issues impacting on the potential to assist people who need it, particularly the extremely poor, and to help move them out of poverty.

2. Addressing infrastructure problems (water, roads, electricity, etc.) is essential for a remote rural community to be able to help themselves. Where this is difficult, advocacy with policy makers and donors can be a fruitful step toward changing the context in which a community is living. Income-generation activities should try to include these aspects.

3. Community development activities, conducted by skilled practitioners who can train community workers in theory and practice, have been found to have positive long-term impacts on participatory potential options for development.

4. Credit programmes alone, and as a first step, do not assist the poorest and vulnerable people in rural communities. Social programmes are necessary in the first instance and, even then, only about 10 percent of people actually can or want to move into credit and business activities. For both the benefit of

the members and the institution, an essential element of any income generating-project is savings.

5. The people who are the poorest say that they want jobs (security), not credit (debt). This is difficult in remote rural areas but not always impossible. Market assessments, combined with surveys of the other contextual issues, sometimes show potential for value-added enterprises. The best consultants to complete such assessments are private business people, not NGO staff. The overriding question for them would be: Would they themselves put their money into an enterprise in the area? NGO personnel often do not have the personal experience of risk, being themselves employed.

6. Cooperatives and other forms of community enterprises have proven successful in a number of countries. These can be set up by, with or for poor communities to create employment for those who prefer to work for a wage in conjunction with fellow community members who wish to manage for profit and take the risks involved. Seed capital for community enterprises for the poor and training in the specific skills, management, marketing, etcetera are necessary. The EWTO system (see section 6.2) promotes interesting methods that can be adapted to situations where people have a common disadvantage.

7. One problem that exists in almost all micro-enterprise development projects for poor people is that the product (service or goods) is developed first. Market research must be the first step[1] in any commercial enterprise and then followed by product development to ensure that efforts are not in vain. A lesson learned by many people to date is that there is simply no market for their products and that no matter how hard they work without an assured market, they will remain in debt.[1]

8. Programmes set up for the rural poor that use credit as a means for other than economic/livelihood improvements (such as empowerment) have generally achieved their aims. The lesson in the field is that there are other activities that are easier to implement for objectives other than livelihood outcomes. Implementers must be very clear about project goals and aims and use credit purely for livelihood advancement.

9. Ignorance of many aspects of income generation and poverty alleviation of NGO/community workers and consultants has been highlighted in the literature as an impediment to progress. The lesson for NGO implementers of projects for poverty alleviation for the very poor is that keeping in touch with best practices via the Internet and other resources in the international networks is essential. Community members and clients of the projects should also have access to these resources and be encouraged to educate themselves. The

[1] See Bartle. P. Marketing. http://www.scn.org/ip/cds/cmp/hwmarket.htm

use of consultants may be necessary for technical input at certain times. Where the NGO implementer has solid understanding of the actual outputs required from a consultancy, the choice of which person or group is the most appropriate is easier and targeted outputs can be better achieved. Consultants should be required in their terms of reference to provide any documents developed or used for training, process and background information. This ensures that the project personnel and the community itself develops its own library of knowledge, expertise and tools for the future. The literature warns of the consultant who comes with a ready-made recipe for a community or group of clients.

10. Where children of poor families are at risk, credit alone is not the answer. Extremely poor parents, particularly mothers, have no time for enterprise development or even petty trading if they have poor living situations, children that are ill or there is no support available. Health, nutrition, education and social capital for the children are found to be far more important initially and that type of assistance can help relieve the burden of the parents, which then allows them the freedom to make choices (within the possibilities) of livelihood activities. This entails assistance within income-generation programmes that does not involve business and credit. Successful projects of health, nutrition, literacy, micro-grants, scholarships, educational support and social capital building are well documented and from which lessons learned can be noted and used.

10.2 Lessons Learned for MFIs and Others Involved in Micro-Financial Services

The following is largely based on experiences of Hartha Kalsekan (an MFI to be registered in Cambodia) and includes seven principles learned from methodologies appearing in published literature and in the practices of some of the better organizations in the field. In addition, there is also a list of lessons contributed from the experiences of small NGOs that are active in micro-financial services with the poor and have links to MFIs. These principles suit MFIs and NGOs equally in the design of their programmes.

Principle 1 – Offer services that fit the preferences of the client.

Proximity
Loan disbursement and collection and savings deposits and withdrawals should be available at the commune level to reduce, if not eliminate, transaction costs on the part of the borrower, such as no child care and transportation costs. No missed business opportunities due to attendance of meetings and training.

Simplicity
Loan application form should be simple and easy to accomplish (no more than two pages). See annex 6 for an example.

Accessibility
The loan process and disbursement should be quick, with less than three weeks for first-time loans and less than a week for repeat loans. A repeat loan is based on good performance, growth of business activity and increase of household income and assets. Savings withdrawal should be available anytime after the first loan cycle.

Individual loans
Borrowers should be responsible for themselves only. Group loan should be used for pragmatic reasons and not to mutually guarantee each other. It can be used as a peer-group screening process to reinforce borrower selection and screening mechanism (members would not want to be associated with someone of bad reputation). Group loan can also be used, to some extent, for the reduction of administration costs because a joint loan agreement is made for all members of one group. (NGOs are currently questioning the wisdom of group loans as collateral.)

Competitive interest
Monthly interest rates on small business and agricultural loans should be 3 percent and 4 percent respectively, calculated on declining-balance method (some NGOs have flat rates around 2 percent). Savings deposits earn interest of 6 percent per annum with monthly calculation on outstanding balance.

Flexibility
Borrowers should choose their own loan terms that suit their cash flow and business cycle (from 1 to 24 months for small business loans and from 1 to 12 months for agricultural loans, for example). Savings deposits can be any amount above a set limit, USD 1, for example.

Close monitoring
A well-developed system for monitoring loan utilization and up-to-date collection and highly trained branch and commune staff to carry them out is critical.

Principle 2 – Simplify and standardize operations to reduce loan transaction costs.

- Recruit staff from local communities (communes).
- Use commune credit committee for initial screening and loan appraisal, loan disbursement, loan monitoring, loan collection, acceptance of deposits and withdrawal of savings.
- Simplify application procedure to reduce time for appraisal.
- Simplify and decentralize loan decision-making procedures.

Principle 3 – Ensure good loan repayment.

- Assess the environmental and economic risks prior to initiating lending.
- Carefully screen client families and income flows.
- Skilfully evaluate client's business plan.
- Rely on track record and physical collateral for larger loans.
- Ensure clients are clear and familiar on loan terms and conditions, procedures, loan contracts, penalties, etc.
- Develop mechanisms to facilitate on-time repayment, quick follow-up on late loans and verbal reminders on credit officer's visits.
- Motivate clients to repay on time by creating incentives – fast repeat loans, increase in loan sizes.
- Enforce repayment mechanisms – use guarantor pressure, village leaders or local authorities in difficult cases but not where reasons are beyond the control of the client.
- Allocate appropriately for risks – loan loss provision.

Principle 4 – Charge appropriate interest rates.

- Interest rates should cover all operation costs, loan loss, financing costs, costs of capital and surplus for future expansion.

Principle 5 – Know your clients and their constraints.

- Know environmental risks beyond the control of the clients – natural calamities, pests, lack of law and order, etc.
- Consider some client-friendly approaches, such as reasonable grace periods before charging penalties and loan re-scheduling on a case-by-case basis.

Principle 6 – Understand and maintain customer satisfaction.

- Retain good clients while bringing in new clients.
- Assess drop-out rates and perform periodic client audits.

Principle 7 – Work to build long-term sustainability at all levels.

Even if a micro-finance implementing agency is only small and will never have the outreach of a large group or does not want to stay implementing for the long term but hand over to community groups or MFIs (if legalities are in place), the following areas need attention and are best set in place at the beginning of a project:[2]

- Explicitly target the poor.
- Set interest rates at market levels.
- Make use of groups initially but do not feel bound to them forever.
- Mobilize capital through locally generated savings.

[2] Taken from INGO experiences presented in 1995 and again in 1998 from INGOs in Viet Nam.

- Allow the borrower to control his/her investment.
- Expect and ensure high repayment rates.
- Establish clear rules and transparent record keeping systems.
- Plan for potential scaling up of the project.

10.3 Additional Lessons

The ADB documented a series of lessons on micro-finance in its micro-finance development strategy (2000). These lessons are based on experiences from more than a decade of work in this area. Those lessons, coupled with experiences obtained during the field research, are presented here:

- Adoption of the financial system development approach is the key to achieving sustainable results and to maximizing development impact. This approach emphasizes an enabling policy environment, financial infrastructure and the development of financial intermediaries that are committed to achieving financial viability and sustainability within a reasonable period and that can provide a variety of financial services, not just credit, to the poor.

- Micro-finance clients are more concerned about access to services that are compatible with their requirements than about the cost of the services.

- Given the diversity of demand for financial services, a broad range of institutional types is required to expand the outreach.

- Strong retail institutions committed to outreach and sustainability are essential for extending the permanent reach of financial services and have a significant impact on poverty reduction. Thus, building the capacity of institutions with a commitment to reach the poor is vital.

- Financial institutions committed to providing micro-finance services require considerable technical assistance for capacity building. This is particularly true for institutions that target potential clients in resource-poor areas and the poorest of the poor.

- The demand for savings services by poor households and micro enterprises is as strong as or stronger than the demand for credit. Expansion of the outreach of savings services can have a potentially significant impact on both sustainability and poverty reduction.

- Because micro-finance is primarily targeted to the poor who are dis-advantaged, social mobilization is necessary to introduce them to a formal or semi-formal, market-oriented institutional environment.

For donors interested in reaching the poorest people, the following lessons are interesting:[3]

- The legal, social, philosophical, economic and geographical aspects of contexts can be so different that it is fairly risky to find a "model" for a project to alleviate poverty and assume that any aspect of it is actually transferable in another context. In fact, many aspects probably are, but rigorous primary research by field workers with the appropriate background is absolutely necessary before proceeding to any formulation of a project. Also, a clear definition of "rural" is necessary as rural commercial centres certainly are a different context to isolated rural villages.

- While the overall goal may be general poverty alleviation, a clear understanding of the donor is necessary about what the actual aim of the project is: enterprise development for existing entrepreneurs, poverty lending and/or non-financial assistance to the vulnerable poor to increase the institutional capacity to the level of those who can obtain employment or become self-employed? If it is support for an aspiring MFI (or NGO), then the past record of that organization in poverty lending and enterprise credit and other services should be investigated for efficiency, outreach and client satisfaction. This is necessary to be confident that the goal may be at least partially achieved through this activity.

- Successful programmes begin with ensuring that both the donor project development team and the project's "home" or "partner" clearly understand the difference between financial intermediation and social intermediation and then develop, and implement the project according to the aim.

These lessons learned by donors can assist NGOs that want to attract these donors in writing solid proposals for income-generation activities for poverty alleviation. While some individuals disagree, there is ample evidence in the field that knowing what donors want in the content of proposals (the key words, issues, knowledge of current practices) is beneficial for NGO project approval. Through knowing and writing in donor terms, development agents can better explain the rationale, the thrust and activities of their proposed projects.

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11 SUGGESTIONS FOR PROJECT STAFF WORKING WITH THE VERY POOREST COMMUNITIES

11.1 General

1. Read about and be familiar with the whole current international discussion on micro-finance, including the various systems being used. Develop your own ideas from the issues raised internationally on where your clients and their community can fit best. Then you will not make the simple, but common mistakes (made by many NGOs) that trap people in indebtedness. Better cash flow does not mean a movement out of poverty. Cash flow can be improved without debt. Because of your knowledge of the whole area of micro-finance, you should be able to make the distinction between loans to people because they are poor (poverty lending) and loans to people to set up micro enterprises (enterprise lending), then act in the best interests of your specific clients. As Dichter (1999) explains, "The further down the poverty scale (see continuum in Diagram 1) micro-credit (especially short term) is provided, the less likely are we to see enterprise growth and transformation. Likewise, the more there is the potential for enterprise growth and transformation, the less the borrower can make efficient use of small amounts of credit (especially short term credit)." And, he adds, "The more we see micro-credit operations focussed at higher, more sophisticated levels of the economy among more genuine business enterprises, the less useful are the small size loans which most NGO micro-credit programs restrict themselves to in the name of outreach."

2. Develop your own skills in community development, market and product research and business development and, alongside the clients, give yourself the experience of risk taking so that this can develop in you a different level of empathy with the community. If you do not have the time to do this, then hire experts – real ones, who understand and who have taken risks in business (some can be from the community).

3. Know your environment; before you make plans, find out the other agencies in the area and at each level of the structures (village, commune, state, etc.). Any MFIs, NGOs, training groups, government support organizations, knowledgeable members in the community and their skills, etc. all could help your clients. It is much better to facilitate clients using existing expert services than setting up new ones. Also, include in your research a study of the various capital markets, formal and informal (other places from which people borrow money) in your project area.

11.2 Non-Financial

4. Non-financial assistance must be considered before developing activities that will produce debt. Until the basics for survival – throughout the year –

are available, nothing will change in the lives of the poor. Consider infrastructure, casual payments, scholarships, etc, as first steps, but do not leave out training and community development as parts of non-financial services.

11.3 Savings

5. Savings is an essential tool for all people, including the absolutely poor. So a first step should be developing savings before credit (if credit is to be introduced). Savings alone can be a worthwhile activity and should also be available in tandem with other income-generation activities. Savings is the main part of what is termed micro-finance.

11.4 Credit

6. While credit certainly has a place within poverty-alleviation programming, do not look to credit as an activity that alone will get a person or family out of poverty. Credit systems suit some poor people who already have been trading a little, have family members for labour and a little business to develop into a growth-oriented business. Instead, look at credit as one tool that is used best as one part of a package of activities. Remember, credit is debt and debt can ruin the livelihood of those who already live in poverty.

7. If micro-finance activities are to be introduced, then develop management skills among the community, and follow best practices regarding interest rates, outreach, savings, etc. (as per document). Do not consider a micro-finance package until the clients have reached the stage of economic security (although still vulnerable) to be able to take advantage of it.

8. Introduce credit to the very poor the way it was first done at the original Grameen Bank – with micro-loans, with matching short-term payments – daily, weekly, building up to suit the particular business ideas of the client. Remember, this takes much time, but for the very poor, it is an essential ingredient of their eventual success. And such credit must suit your context. Move into larger long-term credit when it is appropriate.

11.5 Enterprise Development

9. Before suggesting business activities of any sort, have market research completed and know exactly the potential of all the possible products and services... and more. It will be the “more” that will probably make the money because of lack of competition or its uniqueness to the area. Work with clients to do cost analyses before deciding on any form of business. They must have full information about supply and demand and thus the impact on potential prices. Glut problems inevitably occur in poorer villages where assistance comes without full information.

10. Extend the thinking of the clients past what they know – pigs, chickens, etcetera. – to other possibilities, especially of value-added products. For example, rather than fresh fish, produce fish products. Carry out a marketing exercise with the clients.

11.6 Other

11. Set the agenda firstly through language. No longer talk about beneficiaries, but clients; not credit, but micro-finance; call economic activities micro-business, rather than income generation. Instead of poverty alleviation, use the term economic security. In other words, raise the status of those for whom you work by using appropriate language (adjusted to best suit everyday language used in an area).

12. Consider the gender implications for any activities you introduce. For example, overburdening women with work and the introduction of debt in addition to their family responsibilities, or leaving a man totally out of the decision-making processes by having women-only activities, have gender implications that need to be thought through and solved before initiation.

13. Where traditional cultural attitudes are going to be challenged because of the activity (like loans to women), make sure that you develop an awareness of these attitudes within the community itself, before promoting the activity. For example, if receiving a loan as an individual woman is seen as negative in the culture, work must be done to change this attitude. It may have come from an entirely different attitude, such as women have no “head for money,” or only men should be “breadwinners”. Attitudes, and the source of these, must be understood so that people can move on to new ideas and accept new practices. Changing attitudes at their source requires skills in community development and attitudinal change in communication techniques.

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B. Internet Sites

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ACCION International	www.accion.org
Asia Pacific Research Network	www.aprnet.org
Bartle, P. HABITAT Community Development Programmes	www.scn.org/ip/cds/cmp/site.htm
BRAC	http://www.brac.net/
Calmeadow	http://www.calmeadow.com/
Consultative Group to Assist the Poorest (CGAP) – The Microfinance	http://www.cgap.org

Gateway	www.ids.ac.uk/cgap/static/1772.htm (insurance)
Development International Desjardins	www.did.qc.ca
Directory of Development Organizations	http://www.devdir.org
Finance and Development Research Programme (DFID)	http://www.devinit.org/findev
Foundation for Development Cooperation	www.fdc.org.au
Global Development Research Center	www.gdrc.org http://gdrc.org/icm/ (virtual library)
Grameen Bank	http://www.grameen.org/
GRET, France	www.gret.org
International Labour Office	http://www.ilo.org/public/english/employment/ent/sed/ (small enterprise development) http://www.ilo.org/public/english/employment/ent/sed/bds/siyb/ (Start and Improve Your Business) http://www.siyb.org.vn/ (Start and Improve Your Business) http://www.ilo.org/public/english/employment/ent/sed/bds/fit/ (ILO-FIT-programme aiming to stimulate innovative business development services for small enterprises) http://www.ilo.org/public/english/employment/finance/ (the ILO Micro Finance unit)
Microcredit Summit	http://www.microcreditsummit.org/
Microenterprise Innovation Project	www.mip.org

Microfinance Best Practices Project	http://www.mip.org/pubs/mbp-res.htm#npm
Microfinance Network	http://www.bellanet.org/partners/mfn/
Pact Publications	www.pactpub.com
World Council of Credit Unions, Inc.	http://www.woccu.org/WOCCU
Seattle Community Network (Community Development Society – CDS)	http://www.scn.org/ip/cds/cmp/
Small Enterprise Education and Promotion Network	www. Seepnetwork.org
Women's World Banking	http://www.swwb.org
UNDP (microfinance)	http://www.uncdf.org/sum/
Village Banking (FINCA)	http://www.villagebanking.org/FINCA
World Bank	www.worldbank.org
	www-esd.worldbank.org/html/esd/agr/sbp (Sustainable Banking with the Poor/ The World Bank)
	www.pacific.worldbank.org

TERMS OF REFERENCE ANNEX 1

study on income generating alternatives to worst forms of child labour including trafficking in children and women in South-east Asia

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1 Background

ILO runs a number of projects to combat child labour in South-east Asia - including the overall IPEC South-east Asia programme; the Footwear and Fishing project (F&F) in Indonesia, Thailand, and the Philippines; and, the Greater Mekong Sub-regional project to combat trafficking in children and women (TICW-project). The latter project is managed by a sub-regional project team in Bangkok, and national staff in 5 country offices in Cambodia, Laos, Yunnan Province of China, Thailand, and Viet Nam.

The TICW-project works at different levels (from sub-regional to local level) on capacity building[1] and awareness raising, and offers focused direct assistance services in selected geographical areas that are source areas of out-migration. As interventions are similar to those under the SEA-programme and the F&F project, this particular assignment has been initiated in collaboration with these other programmes.

Direct assistance services (by partner agencies) to families whose children are at risk of worst forms of child labour (including trafficking) include education and (pre) vocational training, and income generating alternatives including business development, group formation, micro credits, and sustainable livelihoods. These services are offered through partner agencies. Some have extensive experiences in offering these services to the particular target group, others not.

2 Proposal

The TICW-project proposes therefore to recruit a series of consultants to document lessons learnt in the aforesaid fields, based on case studies and review of literature, and come with a <u>set of recommendations for future use by project partners.</u> This particular consultancy will target income generating alternatives including business development, group formation, micro credits, and sustainable livelihoods - and is done in collaboration with the IPEC footwear and fishing project (technical and financial support), and the overall IPEC SEA programme (technical support).

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[1] Capacity building services include (1) development of knowledge & materials + training on: education & (skills) training, alternative livelihoods, business development, gender issues, and legal literacy; (2) Legislation and policy making; (3) localized cross-border arrangements; (4) (Improved) co-ordination mechanisms; (5) Project management training; and (6) improved research methods & participatory approaches.

3 Assignment for consultant/expected output

3.1 Conduct a desk review of interesting lessons learnt in offering income generating assistance to rural poor (based on project documents, manuals, evaluation reports, web sites, consultations with ILO colleagues (in particular ILO multi-disciplinary team specialists, IPEC and GENPROM staff, and staff of the Social Finance Unit, FIT, and SIYB), and those of other agencies such as GTZ, ADB, and UNDP. The document should among others tap into knowledge built up by the Grameen Bank (micro-credits), BRAC (poverty alleviation), the Micro-credit summit campaign, and community management and development (as per the attached home pages). The desk review should result in a draft paper that gives an overview of the state-of-the-art in the provision of income generating assistance including prevailing approaches, useful lessons learnt, illustrations of success stories in boxes, possible checklists, and references to useful recent resource materials;

3.2 Conduct field research in Cambodia, Philippines, and Viet Nam (approx. 10 days per country) to analyze ongoing or completed income generation projects[2], and identify and describe good practices and lessons learnt - resulting in a draft paper. These projects are not necessarily IPEC sponsored and do not necessarily aim to combat worst forms of child labour including trafficking. They should be significant projects in terms of serving as 'models' on income generation in the sub-region.

Critical questions[3] to be examined during the field work (during visits to project sites and interviews with beneficiaries, project staff, and others):

- Was a local market potential assessment done before the assistance was provided?;
- Did the assistance provided lead to increased diversity of the local economy?;
- Was training and/or guidance provided properly (e.g. qualified trainers, materials and equipment, proper methods (self-study and practice, and participation));
- Are beneficiaries assisted better off as a result of the assistance provided? (e.g. more family income, better diets, improved schooling);
- Did services provided to a particular target group lead to stigmatization and/or increasing demand for services by others?;
- Were services provided sensitive to gender?;
- Was an assessment of the training and/or guidance carried out afterwards, including a tracer study on the well-being of beneficiaries?;
- To what extent have 'models' been adapted and modified to reach out to marginalized target groups?;

[2] National project staff of the ILO-TICW project, F&F project, and IPEC SEA programme will put forward suggested projects (3 to 5 per country) to be evaluated in Cambodia, the Philippines, and Viet Nam.
[3] The consultant should employ a standard set of questions during the field work in the various countries, while at the same time leaving scope for flexibility depending upon specific field situations and conditions.

- To what extent have pilot models been replicated and mainstreamed into national policies;
- Has a sustainable support and follow-up mechanism been put in place?;
- Can promising group formation techniques be identified, and is group formation and/or community development necessary for successful income generation?;
- What are lessons learnt in providing micro-credits (in particular issues of access, amount provided, repayment mechanism, monitoring mechanisms, and sustainability)?;
- To what extent are services provided linked to other relevant initiatives in the field of vocational training, and initiatives of existing private sector enterprises, authorities and the like?;

3.3 The desk review and field findings should result in a synthesis paper that includes an introduction, an overview of lessons learnt with illustrations of the various case studies (in boxes), a list of practical suggestions to consider for future income generation projects to combat worst forms of child labour including trafficking, and other tools that help to develop meaningful and effective income generating projects to combat worst forms of child labour. The suggestions for future partner agencies should to the extent possible be specific to the Mekong sub-region (and Indonesia and the Philippines where the F&F project is operational), and where necessary they should be country specific, and be applicable in particular in rural areas[4].

The consultant should liaise with another project consultant on 'education and (pre)vocational training' to avoid unnecessary overlap and ensure complementarily. The/other consultant will visit the same countries in the same time frame on a similar assignment.

The synthesis paper in English should be between 35 and 45 pages (single-spaced), excluding annexes.

The synthesis paper will form an ILO background paper for the Asia preparatory meeting (scheduled for Mid October 2001) of the Yokohama Congress on sexual exploitation of children, and an ILO meeting on trafficking in the same month.

4 Time frame (5 June - 20 September 2001)

5 June	Starting date of contract
20 June	Draft results of desk review submitted to ILO TICW project office for review in collaboration with IPEC F&F and IPEC SEA
2 July	Briefing day in Bangkok with the other consultant (on (pre) vocational training), and relevant ILO staff
3 July till 5 August	Field work

[4] Rural areas are considered source areas of trafficking.

15 August	Draft results of field work submitted to ILO TICW project office for review in collaboration with IPEC F&F and IPEC SEA
10 September	Draft synthesis paper submitted to ILO TICW project office for review in collaboration with IPEC F&F and IPEC SEA
20 September	Final paper submitted to ILO TICW project office

HvdG/AE, 31/5/01

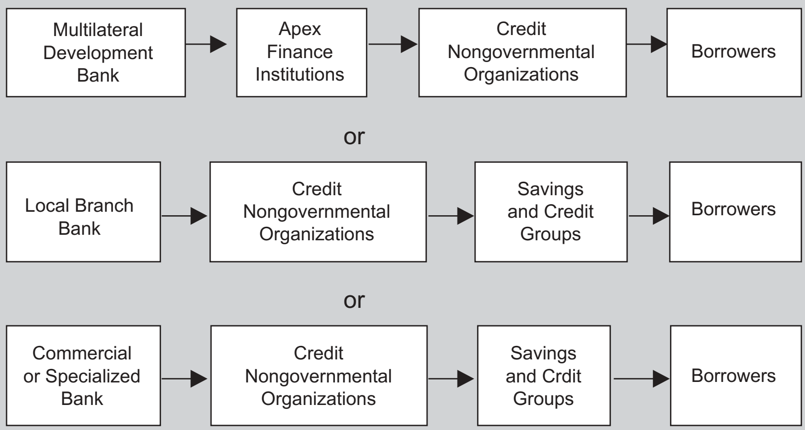
1 The transformation model

The transformation model is the movement with assistance and support of a credit project such as through a NGO, or a whole organization such as a community enterprise or an NGO, to financial sustainability to commercial scale and become banks. Examples are BRAC in Bangladesh, LDKB of Indonesia (Lembaga Dana Kredit Perdesaans).

2 The wholesaling model

There is a “wholesaling model” in which the banks and apex finance institutions (AFIs) lend to NGOs and other MFIs as credit intermediaries, with NGOs being willing to borrow and on-lend at their own risk. PKSF of Bangladesh is an example of a wholesaling model (see Box 7).

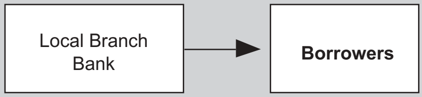
Figure 5: Wholesaling model



3 The downsizing model

Existing commercial banks and other profit-making financial intermediaries can downsize to include micro-enterprises in their lending to individuals. This is suitable where there is a dense network of credit NGOs. Indonesia, for example is the world leader in the “downsizing model” according to ADB, 1997a.

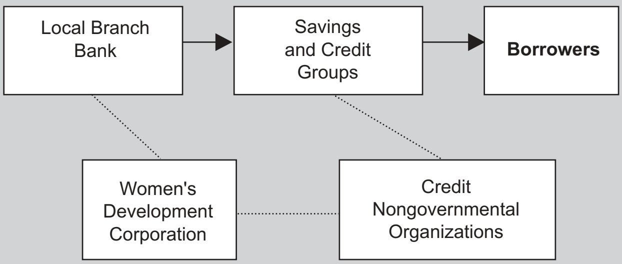
Figure 6: Down-sizing model



4 The linking approach

The “linking approach” sees NGOs, instead of acting as financial intermediaries, act as usually organized into groups. (ADB, 1999). ADB has adopted this in Nepal. The approach has been popularized by the German Agency for Technical Cooperation (GTZ), and the International Fund for Agricultural Development (IFAD). The ADB believes that the “linking model” is likely to become the dominant model of micro-finance in a number of countries in the region, wherever bank branch networks exist.

Figure 7: Wholesaling model



Microfinance project proves that small change can change lives by Tran Thu Huyen (Vietnam News, 15 October, 2001).

QUANG TRI – With his weathered facial features and the dark skin of a coastal man, Duong Huu Tu, 28, looks 10 years older than he really is. He travelled away from home three or four times a month to go fishing off shore. He would leave behind his 71-year-old father, his wife and three young children (including a blind son), for between a week and 10 days. The land is too dry, sandy and infertile to grow rice and other subsistence crops with traditional cultivation methods. If there was no flooding, Tu and his wife Le Thi Ve had enough land to grow about 300kg of dried sweet potatoes. The dried sweet potatoes could be used to feed pigs, or sold for about VND120,000 (US$8) per 100kg. Poor harvests and a constant lack of capital made animal husbandry either impossible or erratic for Tu and his family.

For Tu and many other men living in Trieu An Commune, in Quang Tri Province's Trieu Phong District, fishing is the only way to earn a meagre living. Tu had to pay the ship owner about VND20,000-VND30,000 ($1.40-$2) per day to take him off shore to fish, and for some food on the way. As the fish become rarer, life becomes more difficult day by day for fishermen like Tu. Tu and Ve's family of six lived in constant poverty, as their monthly income of VND200,000 (less than $14) could buy them just enough food to survive.

One year ago, they borrowed VND500,000 (over $33) from World Vision's Micro Enterprise Development (MED) programme to buy a new fishing net. As the saying goes, it is better to give a man a fishing net than a fish. The new net has enabled Tu to earn six times more from his catches than he could with his old net.

As their earning capacity has increased so dramatically, Tu and Ve have been able to repay the borrowed money, including 1 per cent interest and 1 per cent savings.

The interest and savings collected from the MED programme have been administered and managed through the Village Bank system.

Over the last year, Ve had the opportunity to attend numerous training courses on business, on topics such as animal husbandry techniques and the management of borrowed capital.

Recently, the family was rewarded with a second loan of VND1,500,000 ($100) to be invested in pig and duck farming. As he quietly fed his new piglets in their low and dark pig sty, Tu's smiling face revealed his happiness. Tu and Ve strongly hope the piglets and ducks they purchased with the money they borrowed from World Vision's MED programme will bring them good profits in a few months.

As I spoke to Tu, he repeated several times: “Our family can say nothing more than thank you to World Vision and its staff, now that our life has become easier.” With a stable income, they are now confident they will be able to afford to send their eldest son to school when he starts in the first grade next September.

Conclusion: Success in the short-term, but no marketing research

ANNEX 4

OUTLINE OF MARKET RESEARCH IN MEKONG DELTA

This annex provides information on the following from an actual project in Viet Nam:

1. Preliminary list of potential products
2. Potential business opportunities for borrowers
3. Sample questions asked by the researcher
4. Sample results obtained
5. Sample calculation of a potential business

1 List of Potential Products researched initially

(After reading about the area, agricultural, historical and council documents, as well as local newspapers etc. a broad list of **possible** products was developed)

Agricultural

1. Straw mushrooms
2. Rice
3. Pigs
4. Cattle/oxen
5. Chickens
6. Other vegetables
7. Red onion
8. Sweet radish
9. Bee-keeping
10. Tree and plant nurseries
11. hydroponics
12. market gardens
13. fruit trees
14. sugar beet
15. cow fattening
16. pig fattening
17. firewood
18. beans
19. corn
20. sweet potatoes
21. sugar cane
22. onions
23. longans
24. watermelons
25. mangoes
26. oxen
27. buffaloes
28. geese
29. ducks

Handicrafts

1. broom making
2. thatch making
3. fishnet making
4. agricultural tools
5. rattan and bamboo storage
6. wooden buckets and tubs
7. silk mosquito nets
8. silk weaving
9. embroidery
10. appliqué
11. jewellery
12. dyeing
13. woven/painted bamboo containers
14. blanket dyeing
15. sericulture
16. palm sugar

2 Potential business opportunities for borrowers

(After presentation of original list to borrowers and completion of field research another list was developed highlighting new market opportunities).

Businesses Suggested by the Women *	Businesses that are familiar, but have not been Suggested	New market opportunities
1. pig raising	1. grass weaving - mats	1. traditional silk weaving
2. oxen raising	2. sericulture	2. products using silk
3. squash	3. sericulture - silk thread	3. mulberry paper products
4. string beans	4. palm sugar	4. natural dyes
5. corn	5. cotton kroma weaving	5. fold-up grass mats
6. cucumber		6. bees and honey
7. sweet potato		
8. rice		
9. firewood		
10. grocery stands		
11. chickens		
12. ducks		

* Note the narrowness of the original list.

3 Sample questions for some market segments

<u>*Wholesaler Questions*</u>

- Where do you buy the product?
- Where do you sell the product?
- Do you transport the product from the place where you buy it to the place where you sell it?
- How much is the cost of transporting the product from the place where you buy it to the place where you sell it?
- Do you store the product?
- Does the price you pay for the product change every week?
- Was the price you paid charged last week the same as the price you paid today?
- Does the price you charge for the product change every week?
- Was the price you charge last week the same as the price you paid today?
- Can you buy directly from framers?
- If you do not, why do you not buy directly from farmers?
- Does the quality of your product vary a lot from day to day?
- Can you buy as much (quantity) of the product as you would like to buy?
- Could you sell more product if you bought more product?
- If you could buy or sell any product, what would that be?

<u>*Market Vendor Questions*</u>

- About how many do you sell per day?
- What is the price today?
- What was the price last week?

- What was the price last month? Was it different?
- Does the price change every day?
- From whom do you buy the product?
- Where do you buy the product? (another market?).
- Does everyone “here” buy the product from the same person?
- Do you go there to pick up the product or does the vendor deliver to you?
- Do you buy the same products every day?
- Do you buy the product from the same person every day?
- Approximately now much do you pay for the product?
- Was the price you paid for the product last week the same as the price you paid today?
- Does the price you pay for the product change every day?

<u>*Questions for Animal Farmers (oxen, pigs)*</u>
- Do you raise this animal to sell it in the market?
- How many months from birth until the animal is ready to be sold?
- How many animals do you have?
- How many calves/piglets are born each year?
- During what time of year are the babies born?
- What do you feed the animal?
- How many acres of land do you use to raise the animals?
- Do you have enough land, or do you need more?
- What was the price you paid when you bought the animals?
- What price do you receive when you sell the animal?
- To whom do you sell the animal?
- Do you sell the animal to a wholesaler?
- Do you ell the animal directly in the market yourself?
- How much does it cost you per year to raise the animals? (food, equipment, labor...)
- What are your expenses in raising the animals? (food; equipment; extra manual labor; medicine; veterinary services; tools; other costs)
- What time of year (which months) do you sell the animals?
- Is there a selling season for the animals?
- Is there more than one season?
- Is it difficult to raise the animals during the dry season?
- What do you feed them in the dry season?
- How do you provide water in the dry season?
- In which markets is your animal eventually sold? (commune market, Tri Ton, Chau Doc?)
- How long have you been raising these animals?
- What are the biggest problems you have in raising these animals?
- Do you pay anyone to help you raise these animals?
- How much money do you need at the beginning of the season to start raising the animals? (for seeds, materials, and anything else?)
- Do you have to borrow money at the beginning of the year?
- If you had a “good year” how many animals would you sell?

- If you had a “bad year” haw many animals would you sell?
- If you had more land, what else would you raise?

Questions for Crop Farmers
(rice, straw mushrooms, string beans, cucumbers, pumpkins, lettuce, sweet potatoes)

- During which month or months of the year do you plan your crop?
- During which month or months of the year do you harvest your crop?
- How many months does your crop require to grow?
- How many growing seasons do you have per year?
- Can you grow anything during the dry season? (If yes, what; If no, why not?)
- How many acres do you use to grow this crop?
- How many kilograms of the crop to you harvest in one season?
- Do you sell your crop to a wholesaler?
- Do you sell your crop to a vendor in the market?
- Do you sell your crop in the market yourself?
- In which markets is your crop sold? (commune market, Tri Ton, Chau Doc?)
- What price do you receive for your crop per kilogram?
- How long have you been growing this crop?
- What are the biggest problems you have in growing this crop?
- What are the costs of growing this crop?
- Do you have to buy seeds, fertilizer, tolls, machines, or anything else?
- Do you pay anyone to help you raise this crop?
- How much money do you need at the beginning of the season to start growing your crop? (for seeds, materials, and anything else?)
- Do you pay taxes on your crop?
- If you had a “good year” how many kilograms of the crop would you grow?
- If you had a “bad year” how many kilograms of the crop would you grow?
- If you had more land, what else would you grow?

4 Sample results of Interviews in Local Market

Interview - Vendor of Women's Grass Products (Local Market)

Products: children's sleeping mats, mats for paddy drying, bamboo woven baskets soft woven baskets, woven bags
Original source: local craftsmen
Sells to: end customers
Price:

	Buy Price	Sell Price	Quantity
children's mat	2000	2500	n/a
paddy mats	13500	14000	> 10/day
soft woven baskets	2 for 7500	2 for 8000	20/day in season
bamboo woven baskets	8500	9000	20/day in season
			2-3/day off season
woven bags	3500	4000	3-4/day

= Vendors in Local: 3 other vendors selling woven grass products.

Interview – Rice Vendor (Local Market)

Products: 4 different kinds of rice
Original source: farmers in the local area
Buys from: farmers come directly to her to sell their product
Sells to: customers
Price:

	Buy Price	Sell Price	Quantity
type 1	n/a	1,800/liter	20-30l/day
type 2	n/a	1,600/liter	20-30l/day
type 3	n/a	2,500/liter	50-60l/day
type 4	n/a	3,500/liter	n/a

(type 4 is Chau Doc rice)

Frequency of Purchase: n/a
= Vendors in Local: there are 20 rice vendors in Local market

Interview – Palm Sugar Vendor (Local Market)

Products: palm sugar cubes and liquid palm sugar
Original source: Khmer women make the palm sugar in the An Giang province
Buys from: she buys directly from the Khmer women. It was not clear whether they come to her or she goes to them to purchase.
Sells to: end customers

Price:

	Buy Price	Sell Price	Quantity
palm sugar cubes	n/a	6000/kg	> 10kg/day
liquid palm sugar	n/a	4000/kg	> 10kg/day

= Vendors in local: 2-3 other vendors selling palm sugar (we later saw at least 5).

5 Sample calculation of Potential Business

Potential Profitability of Operating a Vending Stand

	Option 1	Option 2
Location	High traffic	Low traffic
Capital		VND 100,000
Requirements	VND 500,000	VND 1,000,000
- inventory	VND 1,000,000	
- vending stand		
Labor requirements	6 days/week > 10 hours per day	6 days/week > 10 hours per day
Profit	20%	10%
Revenues (annual)	VND 12,000,000	VND 7,500,000
Cost of raw materials	VND 9,600,000	VND 6,250,000
Profit	**VND 2,4000,000**	**VND 750,000**
Seasonality of Income	Constant year round	

Potential Profitability of Producing Portable Grass Mats

	Option 1	Option 2
Annual production	50	25
Time requirement	300 days	150 days
Selling price	VND 100,000	VND 100,000
Cost of grass / mat	VND 10,000	VND 10,000
Cost of fabric / mat	VND 5,000	VND 5,000
Cost of distribution	VND 20,000	VND 20,000
Cost of distribution	VND 20,000	VND 20,000
Total product cost	VND 55,000	VND 55,000
Profit / mat	**VND 45,000**	**VND 45,000**
Annual Profit	VND 2,250,000	VND 1,125,000
Seasonality of income	year round	year round

ANNEX 5

CONTENT OF FIVE DAY CREDIT AND SAVINGS WORSHOP[5]

1 Credit

Ask participants whether any of them have accessed to credit. If yes, ask them what they think credit is, what the difference is between credit and grants.

2 The role of credit in rural development

Ask participants what they think about the role of credit in rural development (What is credit for?) they should have included the following
- To help alleviate the poverty.
- To start and encourage business activities.
- To improve the people's living conditions.
- To help community development.

3 Savings

Ask participants whether they have ever saved before. What is saving?
Expected answer: Money left after expenditure. (Old concept: Income minus expenditures equals savings).

INCOME – EXPENDITURE = SAVINGS

Read out a story illustrating savings: Split participants into groups for discussion ask questions about the story.
Each group will present their answers to the large group.
Then explain the real meaning of savings.

New concept: Income minus savings equals expenditure.

INCOME – SAVINGS = EXPENDITURE

Lessons learned from the story are:
- Many pieces make a whole.
- Savings should be put aside before expenditure.
- Savings should not be kept by the saver.

People save by different ways. Ask participants how they save their money. Answers would be:
- Keeping livestock

[5] This document was used by the facilitator. the workshop was held after groups were formed, and a full market assessment was undertaken.

- Putting in bank
- Invest in assets
- Putting aside

Ask participants to tell their experience on savings. Introduce concept of banking. Why do we keep money at home versus bank? (Interest, security, direct/immediate access).

"Is the money in our pockets considered savings?" Explain why not, how this depends on one's perspective, i.e., to a banker, it is not considered savings because it is not earning interest.

However, for a very small amount, it's not worth going to the bank all the time. That's the reason why we create a group savings fund.

4 The role of saving in a credit scheme

In this credit programme, savings is compulsory. Ask participants if they know why savings mobilization is important to a credit scheme. Write all ideas on board. Expected answers are:

- to add to the group capital to loan out.
- to save it for emergency need or unpredicted events.
- to develop loan and expenditure management skills.
- to reinforce the strength and discipline of the group.
- to show commitment to the programme.

"What are the factors which affect savings?"
Expected answers around capacity and willingness. Sum up:

- Capacity to save is determined by the income of a person. Theoretically, the more income a person gets, the more savings a person should have.
- Willingness to save is not determined by income but rather the habit of a person. For example, a person with little income but a habit of saving will have more savings than a person with a higher income, but no habit of saving.

Ask participants to write down how much they can save per month and why they decided on that amount.

5 Interest

Ask participants "What is interest?". Write down their definitions on the blackboard. Expected answer would be:

- Interest is the amount that the borrowers have to pay to the lenders for using their money in a period of time.

- To the lenders who do not look at making profit, interest will be used to cover all the expenses for loans releasing procedures, as well as maintaining the loan amount value. Interest is also the amount that financial organisations (like a bank) pays to savings-depositors for using their money.

6 Interest rates

If you borrow for 1 month and you have to pay the lender after 1 month. The interest is 2,200 dong and the interest rate is 2.2% per month. So, interest rate is the percentage charged on the loan amount in a period of time.

Suggest participants to talk about interest set by banks, private lenders, so that they have an idea that different source have different rates.

Ask what should be taken into consideration when setting an interest rate. Write down participants idea. Expected answers would be:

Cost of funds: include interest charged on borrowing the fund from other resources and the inflation.

Operation costs: include allowance of local project workers, expenses on stationery, transport during the life of project.

Risk fund: is a reserve a fund in case of loan loss. If some borrowers fail to pay back, an amount of money would be extracted from this fund to cover for these loan. Write this formula on blackboard:

INTEREST = COSTS OF FUNDS + OPERATION COSTS + RISK FUND

7 Methods of calculating interest rate

Before presenting this part, tell participants that they must understand the two major methods clearly, so that they can decide which one they want to be applied to their loans. Present to them how to calculate an interest rate only on declining balance, and simple/flat interest rate. Explain slowly each method, write clearly on the blackboard. After finishing one method, stop to ask participants to see of they all understand. If not, say again.

Group exercise: Divide the class into groups of four. Give calculation exercises.

Invite each group to present to the large group.

Also tell them the convenience and inconvenience of these two methods from the project workers' view.

For method 1, the borrowers pay a little bit less interest but the group leader and even they have to calculate/remember the different monthly amounts of interests.

For method 2, the borrowers pay a little bit more but the same amount of interest monthly which makes it easy for the group leader and themselves.

Discuss and decide which method they are going to apply for their loans in this project.

8 Business plan

Say: "it is crucial to prepare carefully your business plan. Of course, any of you by some way has calculated and considered a lot before investing in any activities, but you are not used to writing down your plan. And we now show you how to prepare a good business plan. It needs to emphasise that you are not able to borrow loan unless you can present a viable business plan".

Of what should a business consist?

1. Introduction of your business:
    - What the business is going to look like?
    - Describe advantages, qualifications for your running this business.
    - What is your objectives?
2. Marketing strategy:
    - Describe customers you are going to reach.
    - How you are going to sell/distribute your products.
    - Understand competition
    - Pricing, costing
3. Production strategy:
    - Labour
    - Raw materials/supplies sources
    - Facilities
    - Quality control
4. Financial strategy
    - Working capital
    - Loan requirement - Calculate your loan amount
    - Cash flow
    - Profit and Loss account

Give out Business Plan form.

Explain costs:

Fixed costs are expenses which do not change in a short period of time such as pigsty, sow, sewing machine, fishnet weaving tools, etc.

Variable costs are expenses which do vary very often according to the increase or decrease of products, such as food, fertilisers, threads, needles, etc.

To make it more understandable, get participants to list out the activities currently carried out in their villages. Ask them which they want to develop as an example. Split participants into groups of four. Each group prepares business plan of one

activity. Take the project interest rate (i.e. 2.2% month) so that they can become familiar with that.
Each group send a representative to present their group business plan on blackboard. The others can add in some other things that they think should be in the business plan. (Make sure that labour cost and loan interest are put in).

Homework: Each participant will prepare a business plan.

9 Cash flow

Some of the families may have a book to record the amount of money coming in and going out, i.e. cash flow record, owed a period of time.

Cash flow is a break down of costs and expenses you need to spend for your business or income you earn from your business in a period of time. A good cash flow will decide a good business plan.

Use a poroma. Show participants how they're going to fill the monthly cash flow.

Group work: Participants split themselves into their former small groups. Each group will prepare their cash flow using the same figures used in their business plan. Walk around to help and explain further if you recognise they are not so clear about any points.

Homework: Each participants will prepare a cash flow of her business.

10 Repayment scheduling

- Explain what a repayment schedule is.
- Discuss how to make it appropriate to a particular business.
- Discuss what should be taken into account when making a repayment schedule.

11 Organisational structure of the project

- Explain the roles of management and coordination at each level in each group.
- Discuss group rules.

12 Books system

Show and explain to participants how to use members' passbook. The purpose of this book is for the member's awareness of their accounts. It can be used as a proof to show that they have made actual payments and savings deposit. Members' passbook will be filled in by the group leaders. Also show and introduce other books of the accounting system.

ANNEX 6

INFORMATION ON LOAN APPLICATION FORMS - EXAMPLE FORM[6]

From: [Applicant's Name]
Address: ______________________________
____
Date: ______________________________

To: *[Name of MFI or NGO Village Bank, Commune Group, or other organisation responsible for processing]*

A loan is requested of ________________ [currency]

Amount of loan in words ______________________________

This is a ____________ [1^{st}, 2^{nd} ...] loan requested from [loaning organisation]

Previous loan repaid on (date): ______________________

Purpose(s) of this current loan: (very brief description only)
____
____
____

Statement

I understand that the loan interest rate is ________ % per month and that the loan duration is ________ months.

(Capital may be paid in instalments or in a lump sum, the following is an example)
Further I understand that the grace period is ________ months, when I do not have to pay any capital instalments. After the grace period I shall make ________ [number of instalments] of [amount] over ________ [instalment period].

I understand that I will also pay ________% interest monthly (*or whatever the terms are set out by the lending agency) the amount decreasing as the instalments are made (or set rate throughout the loan period)..*

(If group lending the following addition should be considered)
I, as other members of our group, delegate our group head to collect my payments of interest and instalments to transfer to *[NGO, MFI, Village Bank or responsible body].*

Signature [Applicant]
Date ________________

[6] Suggestions to the form have been included in italics.

(Add the following also if a group system is in place)
We the members of the group ________________ [Name of group] considered the loan request of Ms./Mr. ____ .
We propose that [Loan organisation] approves this loan.
As members of the joint liability group we are jointly responsible for the repayment of this loan to the project. *(Or a statement which outlines the specific liability is there is one).*

Signature [Group representative]
Date ____________________

Signatures of other group members: ____________________________________
____

- **If the application has been filled in by other than the applicant (because of disability or illiteracy) the writer must also sign and a fingerprint of the applicant can be used.**

- *In some countries local governmental organisations are expected to sign loan applications as well. (leave space for this).*

- **Attachments:** Any further information should be as attachments **not** on the actual form. These may (depending on the rules of the organisation) include a business plan outlining how income will be generated and how much income is expected as a result of a specific business activity, list of available labour in family or village, list of assets, business experience of applicant, current statement of financial situation. Each attachments should be signed by the applicant.

Micro-finance interventions:
Tools to combat the worst forms of child labour including trafficking

ILO-IPEC estimates that approximately 245 million children are engaged in child labour in the world. A majority of these children are found in Asia. To enter the labour market at a premature age will have negative consequences for a young person, his or her family, and the society as a whole. Child labour is contrary to human rights, human development, and provision of decent work.

Recent years have brought unprecedented public awareness of the problem of child labour and a broad consensus to solve it. There is, however, no simple solution to child labour - the problem is complex and so are effective responses.

Further compounding the problem is that, given high fertility rates in recent years in most south-east Asian nations, millions of children will join the labour force in the next few years. Many of those youngsters will end up in exploitative situations if decent work options are insufficient.

ILO-IPEC addresses child labour and trafficking through multi-dimensional approaches which include assistance in policy design, institution building, awareness raising, development and application of protective legislation, and direct assistance including education, skills training, and micro-finance services to families whose children are at risk of worst forms of child labour.

As part of this comprehensive package of interventions, micro-finance interventions are designed to improve the economic situation of families and communities and thus make child labour less of a necessity. Designing and implementing sustainable micro-finance interventions can, however, be a challenge in itself. This paper is a practical tool for use by project designers and implementers working in this field.

The paper highlights and discusses a number of core principles for income generating activities with a focus on micro-finance programmes. Questions such as who to target and how, how to establish and maintain savings and lending schemes, what kind of training to provide, how to reach out to the poorest of the poor, gender concerns, and how to ensure cost effectiveness and sustainability are raised and thoroughly discussed. The paper presents lessons learned from income generating projects in Cambodia, the Philippines, and Viet Nam - mainly targeting the rural poor. The suggestions in the publication may be used broadly - beyond these three countries. They are no 'blueprints' however and should be interpreted in specific local contexts.

The target audience for the paper include project designers and implementers working to combat worst forms of child labour, including trafficking, through micro-finance interventions.

The paper is a result of a joint initiative by the ILO Mekong Sub-regional Project to Combat Trafficking in Children and Women (TICW-project), and the ILO-IPEC projects to combat child labour in the deep-sea fishing and footwear sectors in South-east Asia.

This publication is part of a series covering various Technical Intervention Areas (TIAs) that ILOs TICW-project focuses on. Along with 'micro-finance interventions', the series includes 'non-formal education and rural skills training', 'legal labour migration', 'gender equality promotion', 'networking & co-ordination', 'participation', 'project management', 'psycho-social counseling' and 'working with workers & employers organizations'. Summary notes of all these TIAs are available from the TICW-project office in Bangkok.

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