

# Economic Strengthening for Vulnerable Children

Principles of Program Design & Technical Recommendations for Effective Field Interventions

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## Context and Rationale

The multi-faceted nature of child vulnerability – whether due to epidemics such as HIV/AIDS, conflict, natural disasters, extreme poverty, or a host of other contextual factors – is reflected in the wide spectrum of professional disciplines that have mobilized to address it. Among these, economic strengthening is gaining in importance and prominence as few experts in this area doubt that poverty is a major contributor to the challenges they face.

For this realization to be translated into improved programming and child outcomes, specialists from an array of disciplines including child protection, economic strengthening and health among others must be able to effectively work across their principle areas of practice in multi-sectoral teams. At present, very few feel comfortable operating at this intersection of disciplines, many of which

have become more technical and specialized and often appear impenetrable to outsiders.

This brief and the corresponding publication, [\*FIELD Report No 2: Economic Strengthening for Vulnerable Children: Principles of Program Design and Technical Recommendations for Effective Field Interventions\*](#) aim to begin to fill this gap. Each illustrates best practices in economic strengthening for vulnerable children (ES-VC) in a format that can be readily adopted and adapted by donors and practitioners for incorporation in their work.

## What is Economic Strengthening?

The ultimate goal of all programs discussed in this document is to strengthen the capacity of caregivers and communities to address economic constraints that contribute to child vulnerability. Such initiatives are vital to ensuring children are safe and able to access essential services, including healthcare, education, and other basic needs on an ongoing basis. In this context we can define economic strengthening as the *portfolio of strategies and interventions that supply, protect, and/or grow physical, natural, financial, human, and social assets*. Of particular interest are: the establishment or strengthening of social assistance programs such as asset transfers (“supply”), the provision of insurance services (“protect”), and the facilitation of access to savings, business credit, skills training, employment (including self-employment), market linkages, and value chain development (“grow”).

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# Principles of Economic Strengthening

Based on field work in Kenya and Uganda as well as input from a technical guidance committee comprised of economic strengthening and child protection specialists, the following seven principles of program design and implementation were identified as core elements of successful ES-VC programs.

- 1. Take a multi-sectoral approach and ensure open dialogue throughout the program**
  - Involve a variety of actors from all relevant sectors;
  - Inform programming decisions through situational analyses;
  - Create opportunities for ongoing dialogue among .
- 2. Base program design on sound market analysis**
  - Invest sufficient financial and human resources to identify relevant or growing markets for products and services with which to link vulnerable children, their caregivers, or their communities.
- 3. Weigh the benefits and risks of targeting**
  - Identify whether targeting is appropriate, or whether it risks breaking down market opportunities and systems;
  - Carefully assess the ability of pre-existing delivery channels to advance ES-VC programming.
- 4. Identify best practices in ES and adapt them to the specific vulnerabilities of children and households**
  - Link child-focused economic strengthening programming with best practices developed in related programs;
  - Adapt best practices to the specific circumstances facing target children and families. These circumstances include the level of economic vulnerability, asset depletion, economically active children and youth in vulnerable households, the presence of youth-headed households, large families, and elderly caregivers; and health and legal issues.
- 5. Know what you can do by yourself, build partnerships to implement the rest**
  - Consider that partnering with other organizations specialized in ES can be the most effective option;
  - Consider the relative benefits of facilitation versus direct provision in setting up partnerships;
  - Require a strong project plan and clear terms of reference for the partnership.
- 6. Develop interventions for sustainability and scalability**
  - Require a project plan that creates the conditions for sustainability beyond the life of the intervention;
  - Consider the cost per participant, and the envisioned outcomes;
  - Think critically about exit strategies;
  - Support projects that hold promise either for being scaled up or replicated over a large area.
- 7. Identify robust indicators to effectively track performance and outcomes**
  - Harness opportunities to begin developing, implementing and testing causal models of ES-VC;
  - Determine whether the use of human development indicators is an acceptable stopgap measure;
  - Consider opportunities for credible impact assessment;
  - Report progress according to activity-specific indicators.

Building on Principle Four, the following section illustrates best practices for employing 10 of the most common economic strengthening tools to reduce child vulnerability. The examples are categorized within three objectives: social assistance, asset growth and protection, and income growth.

# Social Assistance: Asset Transfers

**Asset transfers**, most often cash-based, refer to program or government distributions to identified low-income families to support costs related to the care of vulnerable children. Such transfers can be either conditional or unconditional, depending on whether recipients are required to engage in specific behaviors as a condition for access.

## Examples from Africa

In Kenya, UNICEF is testing conditional cash transfers that require certain minimum standards be met in order to continue to receive the monthly disbursement. The conditions include:

- Attend the health facility for immunizations (age 0-1)
- Attend the health facility for growth monitoring and vitamin A supplement (age 1-5)
- Attend basic school institutions (age 6-17)
- Attend awareness sessions (caregiver receiving cash transfer)

The Government of Kenya is implementing a parallel cash transfer system in other districts on a non-conditional basis.

The SUUBI project under pilot in Uganda is another type of cash transfer, linked to child savings accounts. The project “matches” or pays into the savings fund for the child’s secondary education an amount double that of the child or caregiver’s monthly savings deposit, up to a certain limit.

## Programmatic Recommendations

- Critically assess the administrative capacity of implementing agencies—especially if conditionalities are part of the program—and the effective coordination of technical support.
- Target on the basis of poverty, incapacity, and dependence—ideally together rather than independently—rather than HIV/AIDS status.
- Targeting women is more likely to result in improved outcomes for children than avoiding gender-based targeting.
- Use community-based mechanisms of cash transfer if they are well-planned for and budgeted for.
- Design mechanisms for safely and transparently distributing benefits, especially in rural areas where social payment systems may not exist.
- Consider the supply side of a conditional program (i.e., the availability and quality of services and other associated costs of actions required of beneficiaries).
- Build household capacity to manage resources independently.
- Develop a clear exit strategy or transition process for cash transfers at the community level.

## Elements of Success

- ☑ Targeting support to the neediest households rather than on the basis of HIV/AIDS status
- ☑ Relying on community members to identify the neediest
- ☑ Using conditionalities to ensure desired outcomes for children, although in cases where capacity constraints are binding, it is most successful to start with unconditional programs
- ☑ Carefully assessing cost effectiveness and focusing on process efficiencies.
- ☑ Providing incentives for graduation and future-oriented investments.
- ☑ Including non-mandatory complementary activities, such as ARVs, nutrition, etc
- ☑ Collecting baseline information before payments are made for effective monitoring.

## Things to Avoid

- ☒ Providing lump-sum cash payments has gotten mixed reviews. Some studies show such payments can lead to investments in productive assets, others show that a large pay-out may not benefit the child.
- ☒ Expecting cash transfers to be part of sustainable support strategy at either the household or community level. Some cash transfer programs have led communities to hide their capacity to function independent of outside resources.
- ☒ Developing conditional cash transfer programs when the supply of services and implementation capacity are insufficient.
- ☒ Providing benefits to families that already receive assistance through other NGO projects or support agencies.
- ☒ Trying to analyze usage of the cash (recall) after a long period of support: Regular monitoring immediately after the distribution is needed to get accurate information on its use.
- ☒ Providing cash resources before assessing the impact on local economic dynamics.

# Asset Growth and Protection: Group-based Savings

**Group-based finance methodologies** are tools that pool the resources of caregivers (and sometimes young people) to accumulate savings or distribute relatively large sums of money to their members. Two of the most common forms are Rotating Savings and Credit Associations (ROSCAs) and Accumulated Savings and Credit Associations (ASCAs).

- ROSCAs are traditional savings groups, common in many parts of Africa. They collect deposits from all members and distribute the combined amount directly to a selected member at each meeting, either at random or following a preset order. ROSCAs represent an age-old methodology of obtaining a large lump sum for investment or consumption; they do not involve accumulation or payment of interest.
- ASCAs—based on the ROSCA model—are savings-based groups in which self-selected members deposit small, regular amounts into a pool of funds, from which interest-bearing loans are issued to members. Additional savings inputs and interest payments allow the pool to increase, enabling additional group members to take loans. One of the best-known applications is the Village Savings and Loan model (VSL), pioneered by CARE.<sup>1</sup>

## Programmatic Recommendations

- Consider ASCAs in very remote communities and situations where small savings may serve as a stepping stone to the use of more formal services. The model may be a good starting point for older youth and child-headed households to learn about savings and credit.
- Require a strong operating manual and training program be in place to help groups establish themselves and receive training in effective and transparent procedures. Not only should standard training on ASCA operations be required, but additional coaching on developing social funds and planning for savings use can be especially helpful when HIV/AIDS objectives are integrated with the program.
- Ensure groups require minimal outside input and are encouraged to remain autonomous. Once a methodology is put in place, ASCAs should develop a level of self-sufficiency.
- Remember that group meetings represent an opportunity cost to participants and must be used in communities where people are able and willing to meet regularly (at least every two weeks).

## Elements of Success

- ☑ Involving participants who are too poor and risk-averse to participate in standard microfinance programs. This intervention can be especially effective for families affected by HIV/AIDS: accumulating savings to replace assets lost during periods of sickness or to build assets for the future helps prepare participants for future health and economic shocks.
- ☑ Ensuring the cycle of savings and lending in ASCAs is time-bound (usually between 6 and 12 months). At the end of this period the accumulated savings, interest earnings, and income should be returned to members to maximize transparency and accountability.
- ☑ Allowing each group to make its own decisions as part of its formation, including how group members will save and lend out funds, meeting frequency, and other bylaws. Financial services must match the needs and capacity of the community.
- ☑ Verifying that groups operate simple and transparent systems, managed by a small elected committee with all activities carried out in front of members.

## Things to Avoid

- ☒ Forming ASCAs from groups originally designed for other purposes. A key concept of ASCAs is strong social cohesion and mutual trust. For optimal performance, the groups must be self-selected, not externally convened.
- ☒ Providing loans to ROSCA/ASCA structures from outside the group. This has often weakened cohesion, with the quality of repayment declining as participants no longer see the funds as their own.
- ☒ Using facilitators who lack strong skills in community mobilization, training, and financial transactions. It is imperative that facilitators be motivated to develop strong, independent, high-functioning groups that can manage their own decisions and transactions.

<sup>1</sup> For excellent information on VSLs, ROSCAs, and ASCAs, see Allen, Hughes: “CARE International’s Village Savings and Loans Programmes in Africa: Micro Finance for the Rural Poor that Works,” CARE, 2002. See Part III of this study for more information on that document and additional technical resources.

# Asset Growth and Protection: Individual Savings

**Individual savings** are personal savings accounts, principally for caregivers but sometimes opened in the name of children to build cash assets.

In a number of developing countries, guardian-directed accounts are available through commercial banks. The guardian opens an account for the child under special terms and conditions (for example, low or no fees are charged and the minimum balance is quite low). Although increasingly common, these accounts are usually targeted at urban middle class families as a strategy to build their assets. They remain largely inaccessible to poor children in rural areas.

## Examples from Africa

One project observed in Uganda (SUUBI) is piloting individual savings accounts for children to save for their secondary education. Both the guardian and child can contribute to the account and the balance is matched up to a maximum limit each month on the provision that savings be used exclusively for educational expenses.

## Programmatic Recommendations

- Analyze the product development process and conduct market research to ensure savings are designed around the needs and aspirations of the target population. Will vulnerable children and their caregivers really be able to use and access the product?
- Ensure there is evidence that a savings account will ultimately benefit the child in whose name it was created. How will it lead to better outcomes for the child and not just increased resources for the guardian?
- Examine the savings product with care and identify the incentives or signals it sends to the guardian, child, and other caregivers. Does it encourage savings of surplus assets or needed household income? What is it used for? How is the child involved in decision making about the money, especially his or her own investment?
- Insist that savings are placed in reliable, trustworthy, preferably regulated deposit-taking institutions that can accurately track balances over time and be accessible over the long term.

## Elements of Success

- ☑ Promoting the accounts with children and allowing them to participate in deposits.
- ☑ Providing incentives to save and regular reports on the growth of savings balances. However, the incentives should not be such that households divert needed resources for day-to-day life to the savings account at the expense of the child's welfare.
- ☑ Adding education or financial literacy to the savings promotion to build confidence and motivate households to save for children's needs.
- ☑ Developing a process of setting one or more savings goals so that guardians and children can work toward a tangible outcome.
- ☑ Using institutions that the caregiver and child trust and feel confident will protect their deposits. Likewise, building capacity and confidence on the side of formal financial institutions to work with low-income and young populations.

## Things to Avoid

- ☒ Trying to convince formal financial institutions to open an account in the child's name only. (An adult must be involved to create a "contractual relationship" with the institution.)
- ☒ Requiring significant fees or bank charges that erode the savings balance faster than it can accumulate.
- ☒ Maintaining, or handling, cash deposits as part of a social service project. To prevent mismanagement or abuse, account holders should be linked directly to formal deposit mechanisms that ensure transaction transparency.
- ☒ Forcing a savings contribution without paying attention to capacity to generate surplus income. Ask the critical question: Where will the deposits come from in this family or community?

**Microinsurance initiatives** link households with institutions that provide low-cost insurance to un-served or underserved clients. Health, life, disability, and loan insurance are increasingly common. Microinsurance can reduce the impact of shocks and help households caring for vulnerable children afford health services.

Microinsurance may be accessed either directly through a commercial insurance provider or indirectly through a microfinance institution or a community group that serves as an agent.

## Examples from Africa

- Microcare Limited in Uganda is an example of a private company focused on health insurance for the low-income market. Started in the late 1990s, it now serves over 20,000 beneficiaries. The company realizes that improving the current poor quality of many health institutions and increasing their efficiency is necessary for expansion into underserved areas.
- Jamii Bora in Kenya is a microfinance institution that offers its own health and life insurance scheme to members. It has developed strong ties to many mission hospitals and a complex computer-based system for payment tracking. It works with over 100,000 participants, who are required to participate in the insurance program to guarantee a diverse risk pool.

## Programmatic Recommendations

- Favor an arrangement whereby the program implementer or a local organization such as an MFI acts as local agent for a commercial insurer to reduce operating costs and lower risk. In many cases, linking households with vulnerable children to a private insurer may result in a win-win situation for all parties.
- Target groups rather than individuals to minimize costs. Bringing groups of clients to insurance companies reduces the latter's transaction costs in terms of marketing and enrollment.
- Support the use of information monitoring systems necessary for reducing fraud. As fraud is a significant liability within the insurance industry, programs must consider their internal control systems and benefit payment processes (for example, ensuring that life insurance is only paid upon proper documentation of a client's death).
- When implementing health insurance programs, verify that clinics meeting minimum standards of care are accessible by health insurance subscribers. For HIV/AIDS-affected populations it is important to explore the availability of testing and counseling services, ART, etc as well as whether insurance schemes might offer transport benefits to clinics, often a significant barrier to services in rural areas.
- Include educational programs and financial training on the unique characteristics of insurance (for instance, clients often mistakenly expect to receive a refund for "unused" insurance).
- Consider options beyond formal insurance: strengthen community approaches to help pay funeral costs (for example, co-operative, community, burial societies) or encourage the design of funds to help orphans pay for funerals or receive benefits when a parent dies.

## Elements of Success

- ☑ Introducing insurance products in communities already familiar with the way insurance works. It can be a difficult concept to market to low-income communities, so financial education on "what insurance is and how it works" is often needed.
- ☑ Creating a diverse pool of participants. To ensure a scheme is viable, risk must be widely spread so that groups do not consist exclusively of members who are HIV-positive or vulnerable for another reason—in other words, those most likely to make claims.

## Things to Avoid

- ☒ Providing health insurance in areas where healthcare is non-existent or ill-managed or healthcare quality is poor. A prerequisite should be a market survey to ensure the insurance actually provides a quality product.
- ☒ Self-managing insurance schemes by NGOs or community organizations. Insurance is fundamentally different from credit and savings, requiring statistical analysis, large pools of people, and complex claims systems beyond the management capacity of most small NGOs and CBOs. Even microfinance institutions find their comparative advantage lies in serving as local agents for experienced insurance providers.

# Asset Growth and Protection: Legal Services for Asset Protection

**Legal services for asset protection** include assisting in the process of protecting the assets of orphans and vulnerable children, including land and property inheritance, when parents die. Such programs may include encouraging birth registration, assisting in preparing wills, and helping families plan for the future before the legal parents die. They may also assist children in obtaining birth certificates, national ID cards, or other identifying documents that will allow access to services like attending school or opening a savings account. In practice, traditional law trumps statutory law in determining inheritance allocations in many places. Advocacy or support for legal intervention may be needed to ensure that national legislation protects the inheritance rights of widows and orphans and prevents property seizure by relatives.

## Examples from Africa

- GROOTS is a Kenyan NGO that advocates for vulnerable children and women by assisting in processing documents, ensuring inheritance cases are treated fairly in court, and supporting children with legal services.

## Programmatic Recommendations

- Build a path for vulnerable children and caregivers to eventually access more formal services by assisting them in accessing identification or birth certificates.
- Engage with policy makers on issues that create barriers to effective asset transfer in favor of the child upon the death of parents. In many cases the richest, oldest, or more powerful family members inherit any assets and there is no guarantee they will benefit orphans.
- Recognize advocacy efforts for legal services and community education as necessary preliminary steps to more widespread economic strengthening.

### Elements of Success

- Educating communities, including decision makers and leaders, about the legal rights of children and women before cases occur.
- Working to change legal frameworks that lack provision for effective asset inheritance by children or caregivers of vulnerable children.
- Mobilizing existing community-based organizations to work for the rights of children, become involved in the education process, and identify cases of abuse.
- Educating communities about the importance of formal identification, such as birth certificates or national ID cards.

### Things to Avoid

- Operating outside of national legal frameworks or trying to ignore the law. For example, if the minimum age to operate a bank account is 18 and the project attempts to open accounts for youth below this age it will be difficult to scale up services to serve greater numbers of participants unless the law is changed.

# Income Growth: Skills Training

**Skills Training** refers to the provision of specialized training to caregivers and older children in vocational skills (e.g., carpentry, tailoring, etc.), small business management, or to take advantage of specific business opportunities (e.g., handicrafts, honey production, etc.). This option is frequently used when directly targeting older adolescents, particularly in the form of vocational training programs.

## Examples from Africa

- St. John’s Community Centre in Kenya focused on training a small group of individuals in an urban slum to make cloth sanitary pads that could be washed and re-used. With a vast potential market, they are working to reduce production costs to expand business opportunities.
- In the slums of Nairobi, TechnoServe works with groups of young girls on entrepreneurship training and partners them with business mentors. The groups’ business plan competitions have served as a forum to demonstrate participants’ understanding of their training and develop successful enterprises.

## Programmatic Recommendations

- Require market research to establish the viability of using the skill in question. Identify opportunities as well as constraints for program graduates as they try to productively earn income as a result of the training.
- Invest in quality facilitation of training—consider certification or quality control processes to ensure graduates leave with marketable skills.
- Examine skills training programs comprehensively to determine if other needed services, such as credit to start up or expand a business, are available and viable. More than one project has failed because participants were given “loans” they could not repay as new start-up enterprises; others have seen participants sell tools and equipment provided to them because cash obtained from the sale was more valuable than attempting to earn income from using them.

## Elements of Success

- ✓ Identifying a viable market for a skill or trade before training begins. Extensive market research is needed to clearly understand how a skill can be linked to income earning potential, what the barriers to entry are, and how the project will overcome these.
- ✓ Selecting individuals with interest or experience in managing a business (e.g., who know how to price, market effectively, etc.).
- ✓ Complementing skills training with other needed inputs, such as credit, business services, etc.
- ✓ Tracking performance of graduates and use of skills after training. This improves quality of programs in the future if adjustments are needed based on graduate feedback and also allows for better impact assessment of the skills intervention.
- ✓ Employing quality facilitators or instructors for training and ensuring needed materials are available for demonstration, practice, and modeling excellence.
- ✓ Linking trainees with the private sector for future employment opportunities.

## Things to Avoid

- ✗ “Flooding” the market with the same skill (for example, training 20 tailors for a small town does not work).
- ✗ Requiring written business plans, financial statements, or formal record-keeping systems if they are inappropriate for the business and participant. It is more important that the entrepreneur is able to develop a viable business strategy based on the skills developed, often using extensive market research to develop an idea of how the business will viably operate as well as its market potential.
- ✗ Establishing large vocational training centers without clear career paths for the graduates. These schools are expensive to open and maintain, and will not serve the attendees if they are unable to establish viable businesses or secure jobs from the training received.
- ✗ Providing all training and inputs for free. Requiring cost recovery or cost sharing (in cash or in-kind) by participants generally leads to better application and use of the learning. It also improves project sustainability.



# Income Growth: Income-Generating Activities

**Income-generating activities** involve working with groups of caregivers (or, in some cases, individuals) to design a project that produces income to be shared among group members or generate personal income.

Interventions are focused primarily on production. Examples include a joint project in poultry keeping, operating a catering business with other group members, building a fishpond or farming a piece of land as a group, buying an asset such as a maize grinding machine to generate an income stream, etc.

This option is often used with groups of caregivers and older children as a starting point for income generation.

## Programmatic Recommendations

- Use IGAs cautiously, ensuring that adequate market research has been carried out to identify profitable, sustainable opportunities to sell the goods or services. Some projects focus on cottage industry crafts rather than on producing goods that are appropriate to the local situation—and that people actually want to buy or that can be effectively exported.
- Consider the target population's ability to effectively run the project. Do they have the time, expertise, health, space, etc., to meet quality control and production needs?
- Verify there is sufficient expert input on how to run a business, as well as on the specific opportunity. There are often opportunities to link up with government services or other programs that have the needed expertise.

## Elements of Success

- Starting with market research: as with skills training, clearly outline the market opportunity before a project begins. Ensure the market is not already saturated.
- Designing systems that ensure transparent management of a group business, with equal sharing of inputs and income.
- Developing the capacity to adequately train groups in the activity and in project management. Best practice models draw on the expertise of others with skills in the proposed new activity.
- Using market mechanisms for financial services and operation of the income-generation activity (IGA). For example, linking groups or individuals to institutions specialized in providing loans is often better than trying to finance new projects as an NGO or community-based activity.
- Involving households and children in identifying potential projects. This creates ownership and ensures that children or other household members can take over if adult caregivers become sick or die.

## Things to Avoid

- Providing free provision of start-up capital or assets, which at times reduces commitment to making the venture profitable. Some projects have successfully subsidized a portion of start-up costs or training, but few group or individual businesses that are completely financed by the project remain successful.
- Relying on project staff of a multi-sectoral initiative to deliver both technical expertise (e.g., health education) and advice and guidance on income-generating activities. Many projects use community workers to identify and provide services for vulnerable children, but if these professionals lack the required experience and exposure to guide participants in IGA activities, businesses often fail.
- Setting up revolving loan schemes for IGAs. Few NGOs or community-based projects have successfully developed lending mechanisms that rotate a pool of funds from one project to another, especially with the limited staff capacity of many NGOs in the field. These structures can also be cost prohibitive, or highly subsidized and thus unsustainable.

# Income Growth: Job Creation

**Job creation** is focused on developing opportunities for older adolescents of legal working age or caregivers to earn income through paid employment. This strategy is often most successful in a public-private partnership where apprentice opportunities are created in the private sector, or jobs are developed and targeted at households supporting vulnerable children.

## Examples from Africa

- Lifeworks project—a private-public partnership in Kenya guided by the USAID/Africa Regional Office. It includes component production for vehicles, a home interior factory in Mombasa, and large-scale farming for schools and sales in the western part of the country.
- PANPIRI, a PEPFAR-funded sustainable farm that employs people from the community and also provides quality nutritious outputs for a community heavily affected by HIV.

## Programmatic Recommendations

- Consider who wins and who loses— for example, are other people’s jobs being replaced by your program participants?
- Consider that the marketability of new skills is more often assured when work is carried out with a private sector partner.
- Invite private sector partners to underwrite some or most of the training costs.

### Elements of Success

- Identifying sectors in growth phase or with significant growth potential that can provide long-term jobs or training in high-potential sectors.
- Evaluating skills gaps or challenges faced by older youth and caregivers before pursuing employment opportunities (e.g., illiteracy, need for childcare while working, periods of sickness if facing health crisis, etc.).
- Finding out from private sector counterparts the types of knowledge, skills, and character attributes they look for in employees.

### Things to Avoid

- Starting Subsidizing short-term work that does not build skills or longer-term gains for the household. While this may provide short-term income or fill in gaps, it is not sustainable and the household often returns to the same situation once the job ends.
- Providing jobs for caretakers without a strategy to care for the children while the worker is away from home. Many social workers have reported that accidents happen in the home while adults are away and children are left alone or cared for by other young children.

# Income Growth: Market Linkages

**Market linkages** refer to interventions that establish commercial relationships between producers and markets. These are ideally implemented as value-chain projects, by which we mean projects that conduct an initial analysis of all processes through which a product or service passes on its way to the final consumer. Subsequent activities are then based on an understanding of key challenges within the system to increasing caregiver-enterprise incomes. These processes include input supply, production, processing, wholesaling, and retailing. At every step of the analysis, opportunities are identified for improved efficiency, pricing, markets access, etc.

This category of interventions is clearly distinct from training in business skills or services (although improved practices and business management are often components of value chain development).

## Examples from Africa

A PEPFAR-funded project operating in western Kenya began with a market survey of the demand for certain agricultural products, which revealed a need for mushroom production in the Kenyan market. Many specialty vegetable markets, particularly in Nairobi, were searching for reliable edible mushroom growers. The project hired specialists to train women—particularly in households affected by HIV—or with caregivers on the production of mushrooms, which requires minimal input and is a highly accessible project for individuals unable to carry out more labor-intensive farming. The viability of the market, coupled with specific training and provision of start-up inputs through a financing arrangement, enabled several producers to continue sustainable agro-enterprises after the initial project phase.

## Programmatic Recommendations

- Recognize and address complementary difficulties that do not lie at the primary producer level but which can impact their success. In other words, be aware of the needs, strengths, motivations, and limitations of other actors in the value chain.
- Recognize that not all vulnerable children and caretakers can immediately engage in these types of projects, particularly those suffering from severe health issues.
- Focus on projects that lead to increases in productivity and/or add significant value to the final product.
- Channel support to projects that focus on sustainable production, distribution, and sales achieved mainly through private sector channels.
- Target subsidies to only those instances where there will be no effect on long-term pricing and the sustainability of production/distribution relationships. Avoid underwriting ongoing business costs for microentrepreneurs.

## Elements of Success

- ☑ Gaining intimate knowledge of the industry is crucial. The industries projects target must be well understood (with people inside the industry providing advice or service to the project, rather than the project trying to learn the industry) to ensure interventions have the desired impact.
- ☑ Operating in a business-friendly environment and area where a reliable communications and transportation infrastructure can support the production or processing cycle and link to markets.
- ☑ Examining pricing and thoroughly investigating niche markets to ensure their sustainability and size, and beneficiaries' ability to access them independently.

## Things to Avoid

- ☒ Imposing labor-intensive technologies or programs on households that are physically affected by illness.
- ☒ Focusing on program options with a negligible impact on the household income: a new product process may increase the price of an agricultural product by 20%, but require a substantial investment in new technologies and more labor may not actually lead to improved outcomes for the household.
- ☒ Attempting to introduce market enhancements in locations where the infrastructure cannot support the value chain (lack of needed roads for transport, electricity for machinery use, clean water for processing, etc).

# Income Growth: Business Loans

**Business loans** refer to collaboration with, or the establishment of, a lending institution to provide group or individual loans to caregivers to start or grow a business. Generally known as “microcredit,” this methodology is one element of the growing portfolio of financial services provided by microfinance organizations. Young children are usually excluded from these loans because agreements can only be extended to persons age 18 or older. Although issued to support business, loans are often used for consumption or debt repayment.

## Examples from Africa

- AMREF in Kenya uses a pure community-based lending model (a community-appointed team approves loan disbursements to groups) and employs only one staff to monitor the portfolio for 1,200 participants served.
- FAHIDA, a project of K-Rep Development Agency, found that many of their participants experienced periods of sickness (e.g., from AIDS-related diseases). In response, the organization focused on helping them liquidate their businesses and restart them later to maintain good standing in the program through downturns.

## Programmatic Recommendations

- Avoid funding non-microfinance programs that try to initiate “loan schemes” to individuals or groups on a small scale. Such programs often fail to recover loan funds due to their lack experience in lending techniques and because they are too close to their beneficiaries. MFIs can achieve the kind of arm’s length business relationship the NGO cannot, and possibly should not, have with beneficiaries.
- Critically evaluate programs offering education and other services in conjunction with loans. Ensure the organization can provide these services on a cost-effective basis, that they are market-driven from the participant’s perspective, and that the institution has the capacity to deliver them well. Freedom from Hunger’s “Credit with Education” Model has been used effectively in many countries, but must be adapted to each context.
- Require timely, regular reporting based on industry standards for loan programs. Ensure there is an information system that rapidly signals where there are repayment problems or difficulties in cash flow for the institution.
- Avoid combining grants and loans. Giving with one hand (offering social welfare activities) and taking away with the other (requiring loan repayments) can be confusing to target communities.

## Elements of Success

- ✓ Segmenting the market by the types of participants to be reached; conducting market research to ensure products and services are designed to meet the needs of a specific segment.
- ✓ Using personal guarantors to pressure repayment or group guarantees within a self-selected group for populations unable to offer collateral to secure a loan. Care must be taken to ensure that these group guarantees are manageable and enforced.
- ✓ Providing loan products with flexible terms and/or short emergency loans. Loan products should always match the business cycles of entrepreneurs so repayment is timed when a business has generated the expected profit.
- ✓ Focusing on a business model for offering financial services so that the institution is sustainable and competitive.

## Things to Avoid

- ✗ Asking a bank or MFI to target caregivers or households with vulnerable children directly. However, if a project has a sizeable number of potential participants, working with an MFI or bank to introduce such households to the services offered by the financial institution may be a way to partner effectively.
- ✗ Subsidizing interest rates to provide below-market rates. While this might provide short-term benefit to participants, it does not introduce them to “real” financial markets; additionally, programs that charge subsidized rates generally are not sustainable.
- ✗ Requiring participants to continue taking loans at the end of each cycle, or taking larger loans, if the business is not ready.
- ✗ Failing to enforce repayment systems and monitoring of loans. Restructuring of loans (or delaying initial repayment periods) should only be done in cases of emergency.
- ✗ Offering individual loans to program participants without full disclosure of loan terms and conditions, including the importance of repayment. Many beneficiaries of other social services do not understand that the loan must be repaid unlike other services.