Livelihood
And
Employment Creation

Microfinance
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Microfinance
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PREFACE

Proposal of short Operational Guidelines

This collection of short guides describes a number of activities (based upon labour, enterprise and business development, training and local area development) that will contribute to the promotion of both social and economic recovery and livelihoods. Each activity is explained, and 'why', 'how', and 'when' (or when not) to implement them is outlined in a brief guide.

A. Why these guides

These guides provide a practical introduction to employment and business-related interventions. They are written for humanitarian and development field workers working on the promotion of self-reliance and livelihoods of displaced populations and other conflict-affected communities. They highlight opportunities and limitations of different relevant ILO approaches and methodologies for socio-economic empowerment through employment-oriented strategies. They should help field staff decide the suitability and feasibility of adopting these approaches in their particular operations; and will also help identify any need for specific ILO expertise to support relevant UNHCR operations.

These guides will not substitute technical expertise in the field; rather they are programming and decision-making guidelines that will help programme and technical staff oversee the design and implementation of relevant activities. Further technical training or partnerships should be developed as appropriate.

The subjects can be divided into three major categories:

- 'Cash for work', 'Food for work', 'Labour-based infrastructure reconstruction' and 'Community contracting' belong to the first. These three areas concentrate on the creation of temporary jobs that can inject cash into a community rapidly. These jobs are not meant to provide sustainable livelihoods, but are designed to revive the local economy, provide a boost to household economies, either in refugee hosting areas or in the reconstruction phase of a post-conflict situation, in order to create the means for further development.

1 These short guides were elaborated by Maria Lazarte G. to be included in the UNHCR Self reliance Manual and have been derived from consultations with ILO technical departments and based on their relevant publications.
• The second category includes micro- and small-enterprise development and its subsections: 'Microfinance', 'Business development services', 'Start and improve your business' and 'Women entrepreneurship development'. This group concentrates on building sustainable self-employment, and on micro- and small-enterprise support and development.

• The last group contains general strategies that can be used in combination with strategies above in order to promote individual and communal economic development. These include 'Emergency public employment services', 'Skills-training', and 'Local economic development'.
A. Who should use them

These guides are written for middle managers, national and international field experts and associated partners.

B. How should they be used

The guides comprise of a combination of briefings and a compilation of major relevant ILO tools on each subject.

The guides provide decision-oriented information on each area, and expansive methodological guidelines as well as a reference to an additional online bibliography and contact information for further resources and technical help.

The guides are divided into the following sections:
- A brief summary of each strategy (‘what is’).
- Its main advantages (‘why implement’).
- Information on when to implement each strategy (‘when to’).
- Warnings (‘when not to implement’).
- Problems and challenges to consider before and during implementation (‘problems/challenges’).
- Basic steps or different forms of each particular strategy, and some recommendations to consider during the implementation of each strategy (‘how to’).

C. Contents

There are twelve guides

Building a basis for employment and enterprise development
  1. Vocational and skills-training
  2. Local economic development
  3. Public employment services

Short-term employment options
  4. Cash-for-work
  5. Food-for-work
  6. Labour-based infrastructure projects
  7. Community contracting

Business development options
  8. Micro and small enterprise promotion
  9. Microfinance
  10. Business development services
  11. Start and improve your own business
  12. Women entrepreneurship development
Microfinance

A. What is microfinance

Microfinance is the provision of financial services in a sustainable way to micro-entrepreneurs and other individuals with low incomes, who do not have access to commercial financial services. Microfinance is banking with the poor.

Micro-credit is limited to the provision of credit. Microfinance includes a broader array of financial products and services, such as savings, micro-insurance, micro leasing and remittances (micro-money transfers).

Microfinance is not a grant, lending in kind, business development services or charity. It is a tool that, in the context of conflict-affected communities, uniquely blends the strengths of international relief and development work with the advantage of business and banking.

Microfinance development is an umbrella for various services.

B. Why provide microfinance

Microfinance can positively affect the social and economic welfare of client households, reinforcing their social and physical protection. By contributing to business development it enhances the capacity of poor women and men to generate income. Microfinance augments its clients' ability to satisfy their basic needs (food, health, education and water), increases their control on resources and enhances self-esteem.
In short, microfinance helps poor women and men access the capital necessary to engage in employment and contribute to their own development, in circumstances where no other access to this capital is possible. Microfinance is also one way of supporting new and existing businesses.

A successful sustainable microfinance programme will ensure low-income target groups continued access to financial services even after departure.

C. When to provide microfinance

Microfinance should be provided when a demand for financial services exists. It needs relative security and accessibility as prerequisites.

Self employment should only be explored when other wage employment options have been fully investigated. Not everybody is suited to running a business successfully, and failure rates can be high even in non-conflict situations.

D. When not to provide microfinance

Microfinance is not always suitable or sufficient for self-employment programmes. Other obstacles to self-employment must be assessed to determine whether microfinance programmes should be coordinated and combined with other projects. The pre-requisites include:

- A degree of political stability.
- A degree of demographic stability. Populations have to be settled, or at least relatively settled given the conditions of refugees and conflict affected communities.
- The client community must show sufficient economic activity and entrepreneurial spirit (or there will not be an effective demand for microfinance services).
- A functioning cash economy.

Preferred conditions (for increased probability of success) include: the existence of commercial banks; social capital or trust; and macro-economic stability.
These requirements may be difficult to meet in certain conflict affected communities e.g. in refugee operations where economic activity is distorted by relief substitution, or in returnee areas with a small population density and/or little economic activity. Accordingly UNHCR and its partners must survey the economic and financial activities prior to initiating microfinance support. Refer to existing data and collect additional information as necessary. UNHCR and its partners must also devise innovative approaches to boost the local cash economy, until it reaches a level adequate for initiating microfinance (e.g. CFW LBIP).

E. Problems/challenges

These are some of the issues:

- Providing microfinance has a cost. Because it is necessary to guarantee sustainability, interest rates on microfinance may be more expensive that other loans.
- Lending always involves risk. Micro-credit programmes should be designed to reduce this risk by screening borrowers and ensuring that repayment can be enforced.
- Beneficiaries have to be sensitized to the fact that microfinance is not a grant, and that they are expected to repay. Otherwise a microfinance programme cannot be sustainable.
- Few micro-entrepreneurs are able to break out of the cycle of poverty with a one-time loan. People are best helped out of long-term poverty with a series of steadily increasing loans and mechanisms for savings. Sustainability is an important aspect of a successful microfinance programme, guaranteeing its impact and reach.

It is important therefore to build a solid foundation. Relief agencies usually cannot stay in a country long enough after a conflict to build permanent, sustainable microfinance institutions. Further issues include:

- Adopt a long-term approach. This is particularly important in areas where human resources are extremely limited as it will take longer for microfinance to become sustainable.
- Establishing effective microfinance is a greater challenge in conflict-affected areas because of constraints (like damaged infrastructure, disruption of public services, social division, limited market demand and availability of skilled labour). Remember that conflict does not end after the fighting stops.
• More **creativity and adaptability** is needed when developing microfinance in conflict-affected areas - including knowledge of project design, project management, accounting and finance.

• Women and other groups with special needs can have particular difficulty accessing microfinance perhaps unable to provide the required collateral or guarantee. **Flexibility** and innovation in program design can help these groups to access microfinance (e.g. through group lending schemes).

Remember that micro-credit on its own cannot create a business. This will depend on the beneficiaries' skills and business acumen, a market for the output, the availability of supplies and other inputs, and enabling regulations and macro-economic environment.

**F. Partners/targets**

**Targets**

Low-income micro enterprises, groups, and other women and men usually excluded from services offered by formal traditional financial sector institutions.

**Suppliers**

Formal: banks, government and donor programmes, non-bank financial intermediaries, credit unions, international and national NGOs, microfinance institutions and formal transfer systems.
Informal: ROSCAs (Rotating Savings and Credit Associations), traders, moneylenders, and money-keepers, pawn brokers, credit and savings associations, informal borrowing and informal transfer systems.

**G. How to provide microfinance**

*Programming cycle*

1. **Assess and analyse.** Gather information for supply and demand analysis.

2. **Design.** Set objectives, identify partners, define methodology and determine inputs and outputs. Think of innovative and flexible ways to allow groups with special needs to access microfinance. Prepare a financial plan for sustainable services.

3. **Implement.** Deliver products and services, provide technical assistance and manage the activities.

4. **Monitor.** Track programme and clients using key indicators.

5. **Evaluate and follow-up.** Evaluate programme and clients for programme impact and revisions.

*Specific points*

Set out clear general and specific objectives at the outset. Select clients according to their entrepreneurial spirit, business viability and the capacity to repay. Clients must be economically active. Extremely vulnerable individuals who are dependent on others for their daily living are not suitable candidates for microfinance.

In conflict-affected communities start the programme slowly but steadily to set the foundation for growth. A rapidly changing environment calls for sound objectives and continued adjustment of operations.

The provision of social/welfare services should not be combined with financial services, as there is a conflict between the provision of free services, and a loan repayment scheme that charges interest on its clients (who might not want to pay for these services if they can receive them for free) leading to misunderstanding and jeopardizing its sustainability.
Additionally:

- Human resource development is crucial. External technical assistance and intensive staff development is absolutely necessary.
- Credit should be combined with the clients’ assets (financial and physical) in order to ensure that the individual has a stronger interest in success.
- A government regulatory framework may not be needed at the outset, but will be required later. A balance between control and laissez faire is desirable.
- The provision of microfinance should be clearly separated from other relief activities.

Micro-finance programs should not be implemented by UNHCR offices themselves, but entrusted to operational partners with a successful record of accomplishment to plan and implement such schemes (UNHCR should only be actively involved in planning and monitoring microfinance, lobbying for inclusion of selected targets, and funding).

UNHCR must ensure that micro-finance programmes be implemented according to proven sound practices as defined by micro-finance experts, and should collaborate with development agencies to ensure availability of adequate funding until sustainability is achieved.

**Manual on microfinance:**


**Links:**

- [www.ilo.org/socialfinance](http://www.ilo.org/socialfinance)
- [www.postconflictmicrofinance.org](http://www.postconflictmicrofinance.org)
- [www.mip.org](http://www.mip.org)
- [www.cgap.org](http://www.cgap.org)
- [www.grameen-info.org](http://www.grameen-info.org)
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