

Economic Strengthening / Livelihood Tools and Literature Review

Summary and Analysis of the status of the literature and reviews of the tools, along with recommendations of best practices and guidelines on which tools work, identifying useful/workable interventions.

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list of acronyms

AIDS	Acquired Immune Deficiency Syndrome
ASCA	Accumulating Savings and Credit Association
ASOs	AIDS Service Organisations
BDS	Business Development Service(s)
CARE	Cooperative for Relief and Assistance Everywhere
CREAM	Consultancy for Rural Enterprise Activities Management
CRS	Catholic Relief Services
FINCA	Foundation for International Community Assistance
IGA	Income Generating Activity
ILO	International Labour Organisation
(I)NGO	(International) Non-Governmental Organisation
MFI	Micro Finance Institution
OI	Opportunity International
OVC	Orphans and Vulnerable Children
PACT	Private Agencies Cooperating Together
PVO	Private Voluntary Organisation
ROSCA	Rotating Savings and Credit Association
SIMBA	Supporting Basic Income Needs of AIDS-Affected Households and Individuals
SPM	Selection, Planning and Management (of Income Generating Projects)

1. Executive summary

Orphans and Vulnerable Children (OVC) and families affected by HIV/AIDS are especially vulnerable to economic collapse and destitution as their income and asset base gets eroded by the progression of the disease. It becomes especially urgent to develop strategies and products that reduce this vulnerability before it tips the family into destitution, when assets are sold and the capacity to generate income is eliminated. Economic strengthening through microenterprise becomes a critical part of the process and involves a range of financial and business development services.

Microfinance (savings, insurance and credit) services are critical because they provide clients with access to useful lump sums at times when they are needed, through savings, through loans and, in special emergencies, through insurance. In recent years microfinance organisations and banks have become much more responsive to customer needs and have developed a broader range of products that are inherently more flexible than the old credit-only solidarity group models. At the same time, this increase in product variety and flexibility has benefited HIV/AIDS affected people, but there is now particular attention to the strategies, products and methodologies that take cognisance of the effects of disease, both on clients and the institutions themselves. The most common strategies/product adaptations are:

- Loans with flexible terms
- Short-term emergency loans
- Insurance: credit, life, health and funeral
- Reduced emphasis on compulsory savings products and allowing voluntary withdrawal and/or emergency liquidation of a compulsory balance
- Reduce or limit the level of mutual guarantee required to access a loan
- Formation of ASCAs
- Contractual savings for predictable costs (i.e. school fees)
- Incorporating HIV/AIDS education and cultivating links to ASOs
- Loans to youths and orphans

Increasingly, however, it is recognised that microfinance as a whole is unable to reach a large proportion of the population that lives in remote rural areas or constitute the very poor in urban areas. Emerging experience with a raft of international and southern NGOs is showing that ASCAs are able to extend outreach significantly, reaching affected populations that MFIs and banks are unable to serve and, through their user-friendly and highly flexible modes of operation, able to offer services (admittedly on a small per-person scale) that are extremely well adapted to the needs of the very poor for savings, insurance and self-financing credit services.

In terms of BDS, the paper looks at new and emerging practice that is specifically adapted to the needs of HIV/AIDS affected people and OVC.

One of the most promising developments relates to large-scale market-based initiatives that seek to deliver low-cost, high-quality mass-manufactured technologies that contribute to increases in productivity, reduced demand for labour and significant value added. This fits well with the need for HIV/AIDS affected families to increase or maintain income with a reduced labour capacity.

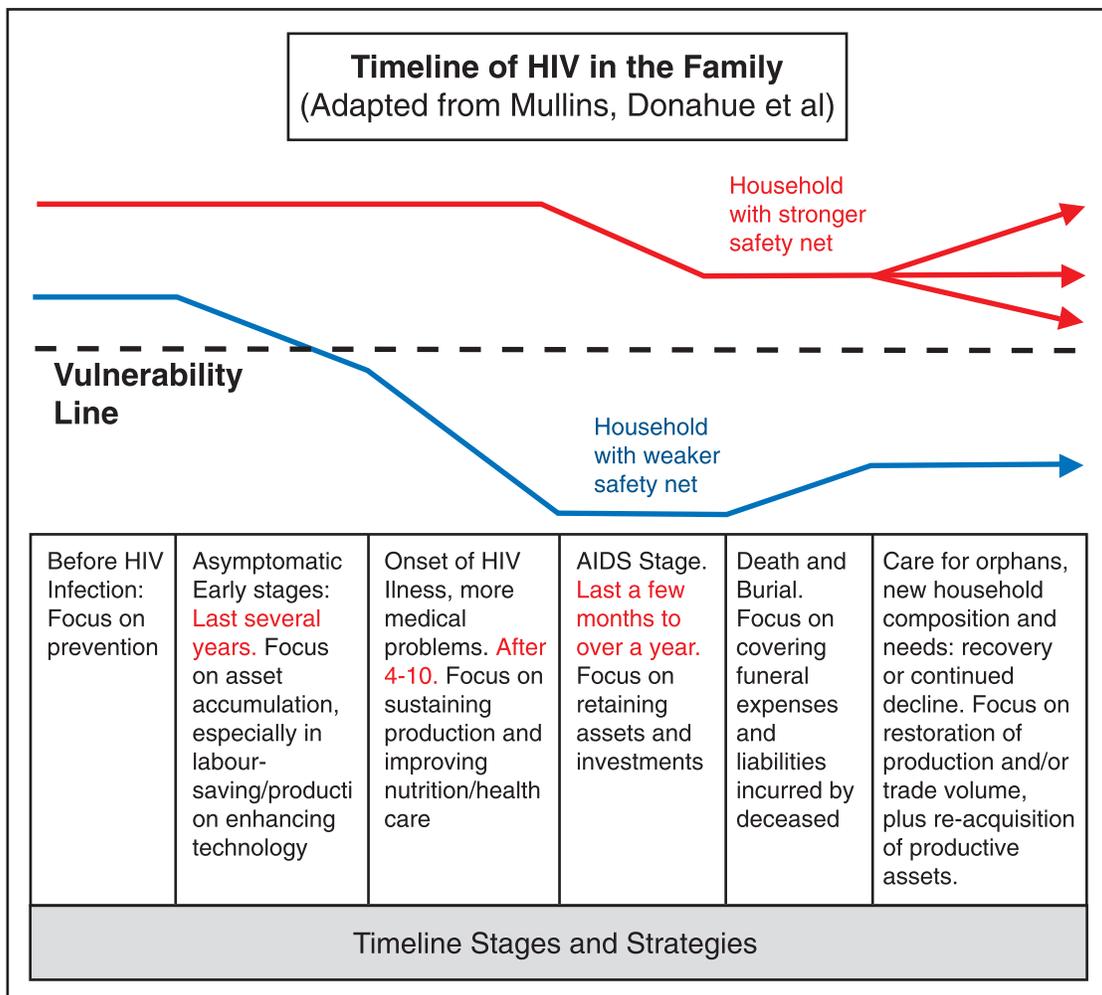
In recognizing that most HIV/AIDS affected people are those who operate income generating activities that seek to maximise business drawings and minimize reinvestment, most standard business training manuals and approaches are not appropriate. Work done on developing training manuals focused specifically on OVC and HIV/AIDS affected individuals has proven itself to be relevant and cost effective is highlighted.

2. Background and rationale

Economic strengthening is widely recognised as perhaps the most important factor in enabling HIV/AIDS affected families and communities to cope with the effects of the disease and preserve viable livelihoods. A livelihood comprises “...the capacities, activities and resources required for a means of living. A livelihood is sustainable when it can cope with, and recover from, shocks and stresses and maintain its capabilities and assets both now and in the future, while not undermining the natural resource base...” (Conway and Chambers)

More concretely, viable livelihoods consist of access to income and other resources to meet basic needs, including access to food, water, shelter, health and educational facilities and time for social participation. It consists of matching human capabilities with access to assets (tangible and intangible) and the capacity to engage in economic activities. Economic activities are at the core of this logic, because it is largely through economic engagement that food, shelter, health and education services can be paid for and sustained. Without the capacity to participate in systems of exchange and production, peoples’ livelihoods cannot be viable.

Livelihoods are profoundly attacked by HIV/AIDS. Production is affected by the physical impairment of labour (and the high cost of labour-saving technology); by the time diverted from productive activities by care givers; by the diversion of economic assets away from production and into consumption.



The HIV/AIDS timeline shown above illustrates the impact on livelihoods under two scenarios: households with a strong economic and social safety net and households with weaker safety nets. Although in both cases the impact of the disease is negative, households with stronger safety nets do not drop below a notional 'vulnerability line' in which economic and social decline is impossible to arrest. Below this line the family loses productive assets and, despite the death of the infected family member, recovery (especially with the possible added burden of orphans) is harder to achieve and recovery to pre-disease levels virtually impossible. If the family can stay above this line, then it has a chance to hold on to its assets, remain engaged in productive activity and restore its income to (or close to) pre-infection levels.

The main point to note is that families do not suddenly go from one end of this line to another and suddenly descend into destitution. The process takes a long time. This has two ramifications. The first is that the needs of families change over time and that, given awareness, there is time to prepare for these transitions. Both families and programmes need to take actions that are relevant to changing needs and to take initiatives that anticipate them.

There are multiple strategies, thoroughly discussed in other literature, that offer means of ameliorating the effects of the disease at each stage. The key strategy relevant to microenterprise and microfinance programming is supporting incomes, through a mixture of initiatives, principally the following:

- Asset protection and accumulation through savings and productive investment before HIV infection and during the asymptomatic stage. Credit for new investments or securing the stability of enterprise has a role to play, especially in families where there are a pre-existing range of economic activities that employs HIV-negative family members
- Access to emergency loans, access to savings and insurance services during the time of HIV illness to cope with lump-sum needs for education and sudden medical care. Long-term loans inadvisable, but short-term working capital loans still appropriate. Access to labour saving technology to reduce labour requirements and increase productivity
- Continuing access to savings and access to insurance at the time of death to cover funeral costs, outstanding loans and enterprise and family expenses
- Survivors still in possession of productive assets need credit to invest in working capital and access to savings. Need opportunity to save very small sums, irregularly and retain insurance access.

In addition to the impact on families, HIV/AIDS affects microenterprise and microfinance institutions. This is at two levels. First, staff are more frequently absent, need more frequent replacement and tend to be less productive. This affects the efficiency of MFIs and BDS providers alike. The progress towards sustainability of MFIs is slowed down or even reversed. At the same time, credit portfolio quality is likely to decline, savings levels will be reduced and staff efficiency will additionally drop as more time is spent on delinquency management. There is therefore a need for MFIs and BDS providers alike to adopt strategies, policies, methodologies and products that protect them against deteriorating staff efficiency, increased costs and reduced portfolio quality.

This paper seeks to identify appropriate economic strengthening tools that have the widest possible bandwidth and proven track record in meeting the needs of HIV/AIDS affected populations along the timeline. It then reviews literature that discusses the effectiveness of these tools and also looks at promising institutional responses to the effects of HIV/AIDS on operations and offers insights into best practice.

3. Microfinance

3. Microfinance

3.1. Background: Products

As an industry, microfinance has origins that go back to informal and formal systems of finance that predated the establishment of the Grameen Bank. At that time the only service providers were money lenders and middlemen/traders, ROSCAs and a few ASCAs and banks and cooperative societies. Table 1 below suggests what it was these systems were able to teach the early microfinance practitioners.

Table 1: What Has Been Learned from ROSCAs, Moneylenders/Middlemen and Banks/Coops

ROSCAs	Moneylenders/Middlemen	Banks/Coops
<ul style="list-style-type: none"> • Client selection through peers weeds out bad risks at an early stage • Repayment pressure through peers is very effective in ensuring high repayment rates • Ability of participants to self-manage their own programme contributes to sustainable impact • Savings mobilisation potential of the poor can be realised, and lead to effective intermediation 	<ul style="list-style-type: none"> • Recognition that the poor can and will repay loans, even with high interest • Awareness that high returns on assets allow payment of high interest rates • Client selection based on personal knowledge of borrowers • Need for rapid and unfussy response to client needs (yes or no, now) • Close proximity to lender/borrower is important 	<ul style="list-style-type: none"> • A wide variety of financial products meets the needs of a wide variety of borrowers and of individual clients • Acceptance of important aspects of business viability analysis for larger loans • Usefulness of personal guarantors to pressure repayment • Shown how to use legal means to recuperate overdue loans • Demonstrated the value of a business-like approach • Importance of achieving cost-recovery • Importance of efficient and effective systems • Long-term credit requires lower interest rates than short-term working capital loans • Demonstrated the importance of external regulation of the institution to safeguard participants' savings

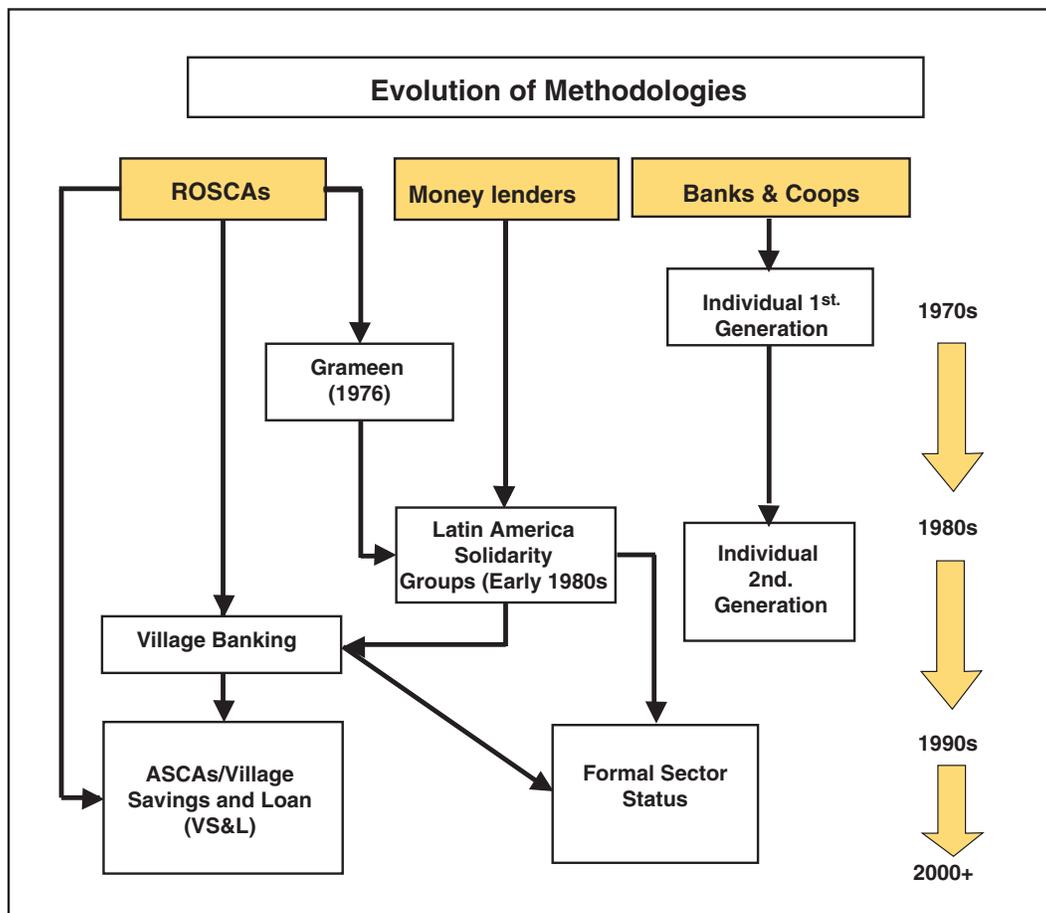
The essence of these lessons were that informal systems offered flexibility and proximity and taught that collateral substitutes were highly effective in ensuring good repayment. The formal sector taught the emerging industry that systems and standards were essential; that a wide variety of products were desirable and that profitability was a legitimate goal. Nonetheless, these systems had their limitations. These are summarised in Table 2 on the following page.

Table 2: Formal and Informal Sources of Financial Services

Informal Sources		Formal Sources
ROSCAs	Moneylenders/Middlemen	Banks and Coops
<ul style="list-style-type: none"> • Inflexible timing of loans • Limited and inflexible loan amount • Risk of loss of investment 	<ul style="list-style-type: none"> • Extremely high interest rates • Obligation to sell to middle-men at sub-market prices • Often limited loan amounts 	<ul style="list-style-type: none"> • Very limited access • High transaction costs • Rigid collateral requirements

The emergence of the microfinance industry over the years has been a story that has spawned a variety of methodologies and responses to these limitations. There has, in general, been an effort to retain the best characteristics of pre-existing systems and increasingly adapt them to the needs of the poorest segments of the population. The following table illustrates in simple terms the historical evolution of methodologies and their key distinctions.

Table 3: Evolution of Methodologies¹



¹ Waterfield, Duval et al

Over the last two decades the industry has developed a degree of convergence. There is a great deal of emphasis now laid on providing a full range of banking services and a broader range of products. MFIs are responding to the need for savings services, many by moving towards establishment as licensed and regulated institutions and the cleavage, if it can be called that, is between institutions, such as Grameen that emphasise their social mission and those that stress the need for sustainability and emphasise efficiency and cost-recovery. Both of these strands, however, increasingly offer a much wider variety of products to their clients that tend to be more flexible.

This has arisen for two reasons. The first is that technology makes it affordable, but the most important driver is competition. Most MFIs in the 80s and 90s tended to offer credit only, forced savings with no right of withdrawal and required their clients to borrow. Often these loans were for fixed amounts that were determined by the lending institution and for fixed terms that bore no direct relationship to the cash-flow realities of micro-businesses. Loans, moreover, would often be scheduled all at the same time and would be guaranteed by forced savings and by cross-guarantees amongst members of a solidarity group. In the face of stronger competition, most MFIs seek to offer a flexible savings product that allows for voluntary withdrawal; loan terms that may vary and loan amounts that are matched to the clients' needs. They are also beginning to offer insurance services.

Thus, there is a general trend towards demand driven systems that has MFIs adopting more and more of the technical practices of commercial banks, while seeking to maintain a focus on poor clients. The emergence of a large number of regulated MFIs opens up new possibilities in outreach, as the ability to offer savings services means that growth is no longer constrained by the availability of donor funds to expand loan portfolios and the cost of funds is driven downwards. The industry is moving to scale and may be reaching as many as 100 million people.

Having said this, it has become self-evident that there is a very large gap in service provision. No matter how efficient and cost-effective MFIs become they are constrained in their ability to reach the urban very poor and the rural poor, especially in Africa. This is for four main reasons as follows:

- The cost of reaching remote, low-density, rural clients is higher than reaching urban clients
- Staff and other operational costs in Africa tend to be higher than in Asia and Latin America
- The demand for loans in rural areas is much lower than in urban areas, because investment opportunities are limited and potential clients are much more risk-averse.
- The principal services needed in rural and very poor urban areas are for savings and insurance services, not credit. Until of late (and then only occasionally) most MFIs do not specialise in these services in ways that are useful to the poor.

The result of this is that most of the people who live in rural areas and in urban slums (and particularly the very poor) receive no services. Thus, there is still a very large gap between the needs of the poor for financial services and the ability of banks and MFIs to provide these services. Consequently, many organisations are looking with renewed interest at traditional models of community-based finance, which are self-managed within the community, at very low cost and with none of the conventional overhead expenses associated with formal financial institutions. These are ASCAs (Accumulating Savings and Credit Associations) and, although they are found in a few places in Africa (such as Sierra Leone) are unheard of elsewhere. They have proven highly effective and CARE, CRS, Oxfam USA and Plan International are taking them up with vigour in Africa and also Asia.

Thus, it appears as though the future is promising and that a wide range of local and institutional solutions are evolving. They are characterised by much greater sensitivity to their clients needs and by a growing realisation that savings and some forms of insurance are probably the most important services that they

Parallel to this evolution (which is driven mainly by competitive pressure and the need to increase effective outreach) are the needs of HIV/AIDS affected families and communities and the needs of orphans and vulnerable children (OVC)

Perhaps coincidentally, there is an industry consensus that the sorts of services needed by these groups are almost exactly those that are being developed as a result of pressures to enter new markets and to offer a set of competitive products. HIV/AIDS affected communities and OVC need one or more of the following services²:

- Loans with flexible terms
- Short-term emergency loans
- Insurance: credit, life, health and funeral
- Reduced emphasis on compulsory savings products and allowing voluntary withdrawal and/or emergency liquidation of a compulsory balance
- Reduce or limit the level of mutual guarantee required to access a loan
- Formation of ASCAs
- Contractual savings for predictable costs (i.e. school fees)
- Incorporating HIV/AIDS education and cultivating links to ASOs
- Loans to youths and orphans

Apart from the last two services, many MFIs have been moving in these directions already, regardless of HIV/AIDS issues. There is, then, a general trend towards services that are better suited to HIV/AIDS affected people than before, but there is also an emerging awareness of the need to define institutional policies that consciously address the issue, in terms of products and services that address these needs but do not threaten institutional viability.

3.2 Formal Microfinance: Banks and MFIs

3.2.1 Products and Strategies

The review of MFI and banking activities related to people affected by HIV/AIDS and OVC did not turn up specific methodologies that are geared to these particular target groups, but rather a set of policies and products that are evolving at different rates, varying by institution to mitigate the effects on both the client and the institution. For the most part the effort is being spearheaded by MFIs rather than the formal sector. There is broad consensus on the range of products that are needed, which have already been summarised in section 3.1.

A majority of MFIs report that their cost structures are increasing owing to the impact of HIV/AIDS on portfolio quality and the costs of recruiting replacement clients. Staff recruitment and training costs and benefit costs have also risen. (Parker et al). MFIs have found it necessary to revise their methodologies to take account of client and family condition, depending where on the HIV/AIDS timeline they may find themselves. It is, for example, widely accepted that when the illness strikes and the client starts to decline, additional credit is of little value and may be a burden to the family, leading to reduced portfolio quality and greater staff time spent on managing delinquency. Equally, to protect both client and the MFI it is becoming increasingly important to insure loan balances against the death of the borrower.

But not only do client needs change as they move along the timeline: their capacity to take advantage of financial services depends on their socio-economic level: services need to be matched to client type.

² Microsave, ILO: McDonagh, Donahue, Kamau, Osinde et al.

Table 4: Matching needs with comparative advantage³

	Client Need/Response	Product or Service	
		Existing	More Innovation Needed
<u>Not so poor</u> Significant productive capacity/assets	<ul style="list-style-type: none"> • Strengthen micro business operations • Build voluntary savings • Diversify survival IGAs 	<ul style="list-style-type: none"> • Standard financial services • Peer or individual lending 	<ul style="list-style-type: none"> • Demand deposits • Fixed deposits • Life/health insurance
<u>Poor</u> Vulnerable assets & weak capacity	<ul style="list-style-type: none"> • Temporarily reduce but maintain activity • Skip a loan cycle • Transfer business to family member • Liquidate savings • Info. on social and health services • Assistance with HH and child care 	<ul style="list-style-type: none"> • Peer group methodology • Savings-led approaches • Credit with education • Community mobilisation 	<ul style="list-style-type: none"> • Deepen outreach to poorest • Smaller, short-term loans • Life/health insurance • Flexible lending/membership policies • Overlapping community and economic strengthening programmes • Membership in ROSCAs and ASCAS • Grants to rebuild productive assets
<u>Very Poor</u> Minimal assets, but still productive			
<u>Poorest</u> No assets and capacity extremely weak	<ul style="list-style-type: none"> • Medical care of assistance to care for family member • Liquidate productive assets to pay medical/funeral costs • Abandon productive activities • Relief assistance 	<ul style="list-style-type: none"> • Community mobilisation • Cash and food for work • Government welfare/emergency relief 	<ul style="list-style-type: none"> • Community initiatives that effectively mobilise internal and external resources for relief assistance
<u>Destitute</u> Not in cash or even barter economy			

The following are the principal emerging approaches:

3.2.1.1 Insurance: General

There are four main categories of insurance products that can be distinguished. These are:

- Life insurance, including loan insurance and funeral insurance
- Health insurance, including hospital and out-patient insurance
- Disability insurance
- Property insurance.

The two most relevant categories are life and health insurance, which lie, it should be noted, in two entirely different categories, with the risks being easier to determine in the former than the latter. (AFMIN/Hivos 2005).

3.2.1.2 Insurance: Credit

Credit insurance protects both the client and the MFI from default. Most MFIs that insure outstanding balances do so internally with an interest rate or fee levy to cover the projected rate of loss. Since most MFI loan terms are short, even when insuring an HIV positive client the risks (and thus the costs) are comparatively low. The insurance can be both compulsory (Opportunity International) or voluntary (FINCA). The advantages accrue not only to client families and the lending institution, but also to solidarity groups who, because they cross-guarantee each others' loans, may tend to exclude members known to be living

³ After Jill Donahue

with HIV. (McDonagh and Parket et al). At the time of writing it is estimated that about 60% of MFIs are offering some form of life insurance, usually credit life in which the life of the insured is covered during the life of the loan and may also offer collateral coverage for dependents, funeral costs and loss of income.

3.2.1.3 Insurance: Life (including funeral)

Life insurance can help clients to recover from the effects of the death of a productive family member, but is an area that has considerable risk. The prevalence of HIV/AIDS represents a covariant risk to insurers who, in any case, can only estimate the costs of life insurance through actuarial study. MFIs that offer mandatory life and loan insurance, such as Opportunity International, have therefore chosen to do so through a professional insurance company (AIG Uganda in the case of OI). There are competing arguments as to whether or not this form of insurance should be offered in partnership with a professional insurer, or by the MFI, but in the majority of cases the coverage is provided by a professional partner.

3.2.1.4 Insurance: Health

MFIs benefit from offering health insurance because of higher rates of retention, lower rates of default and because fee sharing or commissions offer an alternative source of revenue to interest earned on loans. But health insurance is rarely offered by MFIs because:

- Co-variant risk is high in the case of HIV/AIDS affected populations
- Large reserves are required to guarantee potential claim loads
- Lack of risk knowledge
- Lack of health service delivery infrastructure

Three possible models exist:

Community-based model (CIDR, ILO STEP) The organisation offering insurance is owned and managed by members

Provider model: (GRET Cambodia, Grameen) The organisation that offers the health or funeral service is owned and managed by members

Partnership model (AIG and Microcare with Ugandan MFIs) MFIs link with regulated insurance companies and acts as its agent. There is very little risk to the MFI and fees to be earned, making it the most popular model at this time.

Regardless of the model offered it is widely agreed that the MFI should not itself offer the insurance owing to risk and regulatory concerns and because estimating limits to liability is hard. In addition, ethical/confidentiality issues may emerge. Finally, the accounting and auditing requirements for insurance are different to banking and require specialised staff.

3.2.1.6 Credit Flexibility

Many MFIs require their clients to borrow regularly (often in pre-programmed increasing steps)⁴ and, indeed, many consider a client to have retired from the programme when they cease to borrow. This is often justified on the grounds that it simplifies loan administration and encourages more ambitious enterprise investments. But the fact of the matter is that, regardless of HIV status, most clients financial service needs will vary, according to season, opportunity, capacity and competing uses of time. So there is a tendency in the industry to offer greater flexibility in the way in which loans are offered. These include:

4. One client of a well-known Ugandan MFI reported to FSDU that when he first joined the programme he received a loan of US\$100,000, which he found to be ideal. He was then required to borrow US\$200,000 which he did with some trepidation. Nevertheless, he managed to pay back the loan, although with difficulty. He was then required to borrow US\$300,000, for which had no use and insufficient cash-flow to repay. So he left the programme.

- ‘Resting’ between loans – in other words not being obliged to borrow. This is especially important for households affected by HIV/AIDS where the disease has entered the illness phase and labour and time to engage in enterprise activity is constrained.⁵

- Taking out loans of varying sizes – often smaller than in previous cycles. This reduces the stress that affected clients may feel to spend more time in their economic activities than they can spare from care-giving or, if infected, can set aside.

- Emergency loans. Short-term emergency loans can help clients meet short-term needs for health-care, nutrition, school fees and the like. These types of loans are best offered by community groups who may be linked to an MFI (or, indeed, even if purely community-based and managed) because the costs of evaluating eligibility will be high in the formal sector and may increase risks to the portfolio as risk is added to risk. Where these types of loan can work well is when they are linked to the ownership of insurance policies that can be held as collateral.

3.2.1.6 Savings

Compulsory savings: There are two basic types of savings offered by MFIs – compulsory and voluntary. Compulsory savings have been a feature of the microfinance industry since its inception and are generally levied to insure portfolios against risk. PRIDE Africa makes use of these savings in its loan portfolio, but is moving towards regulated status in the countries in East Africa where it works in order to legalise this practice. The original rationale for compulsory savings was to insure loans, but many MFIs require savings to be regular, in excess of insurance requirements. Evidence is emerging that the practice can be counter-productive as clients exit the programme in order to access their savings which, often, exceed their credit requirements. Some MFIs are now relaxing the mandatory savings requirement. While it may still exist, they may offer the right to withdrawal in an emergency.

Voluntary savings: Increasingly there is a demand for voluntary savings with the right of unlimited withdrawal. This is important for HIV/AIDS affected clients and their financial service providers because access to savings represents a lower cost of funds than borrowing to cover an emergency. It also reduces the risk that loan funds will be diverted from their nominal purpose, increasing the risk of delinquency. Access to savings balances has the effect of increasing mobilisation beyond a bare minimum.

Trust and dedicated accounts: To meet the need for predictable, infrequent lumpy expenditure (such as school fees and asset purchase) clients can contribute regularly to savings accounts that have limited withdrawal rights and a fixed maturity date. This prevents the diversion of loans to nominally non-productive purposes and reduces the risks of default. For HIV/AIDS affected households this can provide the opportunity to set aside resources for use after death, or when the illness phase of the disease emerges.

3.2.1.7 Incorporating HIV/AIDS Education and Cultivating Links to ASOs

Banks and MFIs can further reduce their risks by facilitating access to sources of information on prevention, mitigation and treatment of HIV/AIDS. Banks and MFIs may incorporate this into their standard operations but the trend is towards sub-contracting or linkages to specialist ASOs or health organisations.

5. It is always worth asking programme designers and managers if they would feel comfortable with their banks if they themselves were obliged to borrow money and could not get access to their savings. It is also worth asking how many have got savings accounts and how many have got business loans. There is always a heavy preponderance of savers over borrowers. Why the poor should be expected to receive services structured in the opposite way (especially if they are affected by HIV/AIDS) is a mystery.

3.3 Informal Microfinance: Community-based ASCAs

3.3.1 What are They and What is Their Impact?

Stuart Rutherford in his influential book “The Poor and Their Money” laid out some principles for all types of microfinance that should, ideally, guide strategy and product design. He states that clients need:

- Products that allow savings and credit access as often as needed and in useful and varying amounts
- Convenient product delivery systems that are local, simple, quick, and flexible

He argues that people need financial services for a variety of reasons, some of which have to do with short-term needs, some for emergencies and some for longer term needs. To meet these needs people need financial systems that allow them to make regular or opportunistic small contributions and receive useful lump sums when they need them. Whether or not the contributions precede access to the useful lump sum (what he calls ‘savings-up’) or whether they follow receipt of the useful lump sum (‘savings-down’ – or credit) or a combination of the two matters less than that financial systems should accommodate these needs through a range of services that permit savings-up and savings-down.

Perhaps the most promising development in microfinance with respect to the rural poor and urban very poor affected by HIV/AIDS that conforms to Rutherford’s criteria, is the emergence of the ASCA as a community-managed financial system. The basic principles and concepts of an ASCA are simple.

- Members of a self-selected group save money, which then forms a source of loan capital from which they can borrow. The purpose of an ASCA is, principally, to provide savings and simple insurance facilities in a community that does not have access to formal sector financial services, but when the amount of money saved by the membership is sufficient, any of them can borrow from this source and must repay the loan with interest. This allows the fund to grow and provides a very high return on savings, usually far higher than any competing formal provider can offer.⁶
- ASCAs are autonomous and self-managing. This is their most important characteristic and is fundamental to their mode of operation and objectives. This cannot be compromised, because an ASCAs goal is institutional and financial independence.
- All transactions are carried out at meetings in front of the members, to ensure transparency and accountability. This also ensures that all the members are able to witness who has saved and who has not, who has borrowed and who has not and what this means in terms of net worth, at least once a month (more often for groups that meet more frequently). To ensure that transactions do not take place outside group meetings, a lockable cash box is often employed, to prevent unauthorised cash movement and the alteration of records.
- The cycle of savings and lending is usually time bound. Members agree to save and to borrow as they wish from the accumulated savings of the group for a limited period of time. At the end of this period the accumulated savings, interest earnings and earnings from other economic activities undertaken by the group, are shared out amongst the membership in proportion to the amount that each member has saved throughout the cycle. ASCAs that adopt this approach are known as time-bound.

Some 15 years ago CARE International started an ASCA programme (known generically as VS&L, or Villagfe Savings and Loan) that has spread to 22 countries, 17 of them in Africa. It now reaches about 750,000 people at a cost of about \$40 per participant and is fully sustainable. In India, over the last 10 years the

6. The annual returns on closing savings balances range from a low of 20% to as much as 150%. Nominally this can even be higher if interest rates are 10% a month and if all the group’s funds are in use. In Zimbabwe, CARE’s Kupfuma Ishungu ASCA project reaches 55,000 poor rural clients and provides a positive real return on savings in an economy in which annual inflation exceeds 250%. Competing commercial banks are able to pay only 50%.

Self-Help Group movement, promoted mainly by NABARD (the National Bank for Reconstruction and Development) is estimated to reach nearly 10 million people, and the methodology is promoted by more than 2,000 local NGOs.

In the last few years PACT (Worth), Oxfam USA (Saving for Change), CRS (SILC, or Savings and Internal Lending Communities) in Africa and India, Plan International (VS&L) and World Vision have also begun to work with variations of this model, because most believe that they cannot reach the very poor in Africa who live in rural areas and even urban slums, using standard microfinance methodologies and systems. The largest programmes belong to CARE's VS&L initiatives in Africa and to CRS in India, where more than 750,000 clients belong to SHGs.

Sadly, there are few studies that relate directly to the impact of this approach on HIV/AIDS affected people, but other impact studies suggest the following:⁷

- Household productive asset levels have increased amongst the great majority of members. These are mostly in areas that represent semi-liquid stores of wealth controlled mainly by women, such as small livestock and hoes.
- Household non-productive asset levels have increased very substantially, especially in semi-liquid stores of wealth controlled by women, such as utensils.
- There has been a significant reduction in the use of formal sector and traditional savings instruments, in favour of ASCA membership. This is particularly marked by steep reduction in use of banks and Post Office savings schemes.
- There is a small improvement in housing quality. This shows itself most noticeably in the construction of new houses from brick (as opposed to mud and wattle) and the widespread use of cement plaster.
- Access to health services is usually improved, as a result of being able to afford the costs from increased IGA income and being able to get credit to pay for the service when it is needed.
- Member households usually have a higher percentage of children in school, where school fees are charged. In several countries these types of projects are best known for the ability of participants to educate their children.
- Except where drought is prevalent, major food groups are consumed in greater amounts by between 45 and 85% of respondents.
- The number of income generating activities per household increased between 20 and 45%
- About 50% of IGAs are more stable than before, with less than 10% considered to be less stable
- Household labour allocated to IGAs increased by about 50%
- Between 40 and 80% of respondents feel that their status in the community had improved, directly as a result of their association with their ASCA
- Member participation in other social groups increased substantially, as did accession to leadership or committee membership.

⁷ CARE International in Zimbabwe and Mozambique. 2003 and 2005 respectively.

- At the family level there was increased co-operation felt between husband and wife and increased control over IGA income by women.
- Loan funds tended to be used both for consumption and productive activities, with a bias towards production. Shared out funds tended to be used to meet basic needs.
- In Zimbabwe and Mozambique, where the issue was directly addressed, there was a high number of orphans in households (30-50% of households across a range of groups), better able to cope as a result of ASCA membership.

The main advantages of ASCAs, from the perspective of a facilitating organisation are:

- They reach a very large number of people at very low cost
- They offer a range of financial products that are led by savings and insurance and meet the needs of the very poor for fast, flexible, simple and locally accessible financial services. There is very little risk of substantial debt burdens arising from the methodology.
- They decrease risk through an emphasis on asset accumulation
- They are inherently sustainable in places where no possibility exists of sustainable service provision by banks and MFIs
- They cost very little – in Africa about 10-15% of the cost of developing an MFI client.

3.3.2 Variations in the Models

There is a remarkable degree of consensus about approaches amongst the emerging group of practitioner agencies. All of them follow the basic model, which requires participating groups to use their own savings as the sole source of loan funds. Some offer insurance in the form of 'Social Funds', while some do not; some offer voluntary savings while others do not but the biggest divergence is in the approach to gender and literacy. Some programmes only allow female participation, while others are open to everyone and some offer literacy training in order to implement the model, while others implement two distinct sub-methodologies in which a memory-based system of record-keeping is used for groups that are not literate. PACT's WORTH programme is open only to women and integrates literacy and small business training as essential features of the model. Oxfam, CRS and CARE use dual-approach methodologies in Africa to accommodate non-literate participants, but do not link this to literacy. Most models adapt to local norms with respect to group sizes and meeting frequencies, but the following generalisations can be made:

- The methodology does not work very well with groups larger than 25 nor smaller than 5. The average is about 20. Larger groups are well adapted to stable and fairly densely populated rural areas, where mutual trust is high. Smaller groups are appropriate for areas where population density is low or where mutual confidence is at a premium. Thus, smaller groups (averaging about 10) are common to urban areas.
- Meeting frequencies are high in rural areas (usually weekly), where population density is high. Where the density is low meetings are less frequent: either monthly or fortnightly. Monthly meetings are the norm for urban areas where time has a greater opportunity-cost than in rural areas. Weekly meetings tend, after a few years to become fortnightly.

-
- Groups with a high general standard of literacy can offer a more flexible range of services than groups where literacy is low. The use of savings pass-books allows for flexible savings products across the board, but non-literate groups have difficulty managing a portfolio of loans with varying maturity.

3.3.3 Relevance to HIV/AIDS Affected People and OVC

ASCAs are, probably, the most appropriate financial institution for HIV/AIDS affected people and OVC, except in the area of insurance, where their capacity to offer useful benefits are limited by a low level of actuarial expertise and the insufficient scale of the financial pool – not to mention co-variant risk.

Families affected by HIV/AIDS need to have access to a range of financial services that change in nature depending where on the timeline they find themselves. Their initial need is to avoid increasing debt significantly but to increase savings and business profitability through savings. It is vital to recognise that a majority of HIV/AIDS affected families operate IGAs in the informal economy. Their traditional function has been to maximise income and drawings and to allow for rapid movement of labour and capital into other family-based enterprises: in other words to maximise income through diversification. They can neither absorb large amounts of capital very easily nor substantially alter the way they organise and do business. Their principal challenge is to stay in business, rather than de-capitalise to meet some short-term need (school fees, medication or the like). Thus, they are not a very useful instrument for fixed-asset acquisition or the supply of long-term credit.

Within these limitations they enable businesses to remain in operation, contributing consistently to family income. By offering as they do rather limited amounts of capital they avoid the risk of increased indebtedness or destabilisation of the enterprise as it undergoes transformation. In other words, they offer a combination of a flexible service in the community that allows small amounts of capital to flow into a mixture of intra-family investments, but does so at a scale that permits stability and incremental change. They are thus inherently safe, both in terms of their own financial integrity and the effect of their services on the family economy. These are of extraordinary importance to families and communities affected by HIV/AIDS.

The ASCA approach is one of the best examples of a completely decentralized financial system in the entire industry. It is really a movement rather than a single organisation, but it moves ahead with each of the groups making their own decisions and carrying out their own policies. Because it is self funded and the members are the managers, there are virtually no operating costs associated with the group. This allows it to function in extremely weak economic environments, where other financial institutions cannot afford to operate. Because all the benefits from interest paid on loans accrue to the members, there are few constraints to charging higher interest rates, which allows the return on investment to keep up with inflation.

The essential benefit of the system that makes it useful to HIV/AIDS affected communities is that it is the only financial system that many of them can ever access and meets all of Rutherford's criteria for flexibility and relevance. It's principal virtues are the range of services it can offer and the extent to which there is tremendous flexibility in the manner than transactions can be handled: based on an intimate knowledge of the local economy and the specific circumstances of its members.

3.3.4 Challenges facing ASCA Programmes

Despite the fact that ASCAs are the fastest growing type of financial service for the poorest and have an extraordinary track record in terms of sustainability, cost-effectiveness and impact, there is a residual tendency in the industry to believe that services for the very poor and for HIV/AIDS affected people can best be delivered through MFIs and other formal and quasi-formal structures, since this is the means for fully integrating the poor into national financial systems and ensuring stability of provision. Thus, there needs to be a broader recognition that autonomous, self-managed local structures may not need to evolve beyond what they already are and that moves towards federation and linkages to banks risk reducing transparency, and increasing complexity and cost. There is no inherent virtue in being linked to a formal system of financial intermediation, except where business growth, employment creation and significant scale are the goals. Where ensuring the supply of modest lump sums in the form of savings, insurance and credit instruments is the priority – to ensure business survival and continuity and meeting life-cycle needs – the ASCA may be the best way forward for a majority of the very poor.

3.3.5 Possible Programme Strategies and Directions

A strong competitive advantage of ASCAs is that the methodology is simple. Being simple it is not only easy to grasp and to manage at the community level but it is easy to implement by organisations that have no microfinance experience and, indeed, who specialise in other areas. CARE's work in Zimbabwe is relevant because, although starting out to promote ASCAs through its Kupfuma Ishungu programme, it quickly started to promote the methodology through other CARE managed projects that worked in agriculture and HIV/AIDS. Finally, it developed a specific HIV/AIDS related ASCA model to be delivered by ASOs and, after 3 years, more than half its clients were recruited through non-microfinance projects. Thus, an advantage of the methodology is that it can be inserted into their existing programmes to create 'managed synergy' under one roof.

Many organisations are happy to take advantage of this and work to help a given target population in a given geographical area, but more mature programmes are now looking to spin off successful projects, converting them into local NGOs (Ophavela in Mozambique, CREAM in Uganda's West Nile) and thinking on a national scale. Trends emerging are for large INGOs to design programmes in which their existing projects become independent technical service providers to a wide range of local NGOs working in other sectors (but with a particular emphasis on HIV/AIDS), either using the NGOs own resources or under an umbrella in which grants are provided on a competitive basis. This trend is at an early stage and has yet to offer much experience, but the methodology is increasingly being used as a core financial services methodology by INGOs in a myriad of locations and projects (financial services and non-financial) across particular countries.



4. business development services

4 Business Development Services

4.1 Definitions

Business Development Services (or BDS) is become more closely identified with the development of markets than with a broad range of technical services focused on business management and practice. Its goals are becoming associated with market access and market knowledge as the key point of departure, leading to feedback on product quality, type and volume and how a business needs to configure itself in order to take advantage of the market.

4.2 Technology and Market Development

Technologies can mitigate the effects of HIV/AIDS owing to their capacity to increase productivity and reduce the demand for labour, both in total and per-unit input. But not all technologies are appropriate for use with HIV/AIDS affected populations, because the available pool of labour is likely to be reduced, and technologies that significantly increase production and productivity (but do so at the expense of increased labour input) need to be carefully considered in the light of labour availability. Equally, technologies that are appropriate to this target group need to make significant contributions to overall household income. A fuel-saving stove might reduce the cost of cooking by 50% or more, but if the cost of fuel is already low then its contribution in absolute terms will be marginal. A technology must also be affordable, regardless of its productivity, value-adding or labour-saving features. In addition, the choice of technology is influenced by market factors. Key to this decision is the existence of good infrastructure and the potential for very widespread adoption.

Traditionally, technology programming has tended to be preoccupied with hardware. It has also been assumed that local manufacture, close to the end user, is self-evidently desirable. But recent experience in the last ten years by ApproTEC⁸ in East Africa and by EDI in Bangladesh suggest otherwise. While product manufacture close to the end user makes sense for very simple technologies that are otherwise not likely to enter the marketplace, the capacity to reach scale and significant impact depends on optimising design, production and distribution for the greatest efficiency and aggregate impact. To put it more graphically, no-one expects a thermos flask to be made in a village, nor an umbrella. Minimal cost to the end-user, plus high quality and efficiency may be best achieved through centralised mass manufacture: depending on low-cost wholesale and retail distribution to achieve scale and, more to the point, profitability for everyone in the value chain.

EDI in Bangladesh and ApproTEC in East Africa have shown that while engineering design is important, it is only a temporary part of the story, with sustainability and scale achieved through attention to market development.

Central to this strategy, sustainable production, distribution and sales are achieved mainly through private sector channels, with subsidies targetted only where there will be no effect on long-term pricing and the natural sustainability of the commercial relationships that support production and distribution. Subsidies should be aimed solely at:

- technology R&D
- technology transfer to manufacturers
- promotion and market development

8. Now re-named KichStart

The process is as follows:

Technology Choice Focus on technologies that fulfill the following criteria:

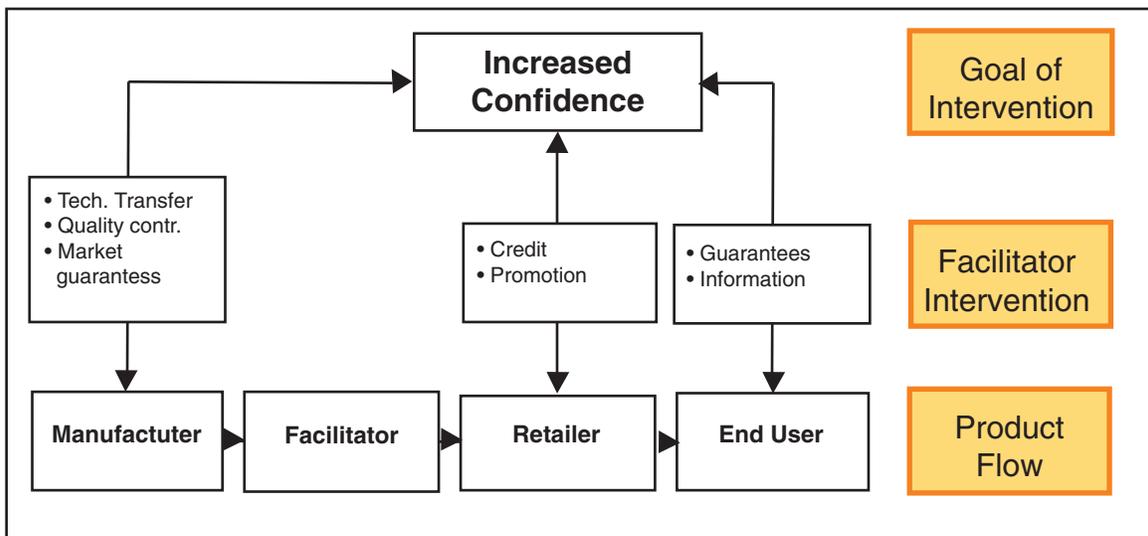
- they must self-target the poor and vulnerable because: they are affordable; easy to operate; reduce labour demand and increase productivity or value added; are simple and cheap to maintain
- they must make a significant contribution to household income (at least double)
- they pay for themselves in less than 3 months
- they must have the potential to be produced and sold in very large numbers
- they must be capable of centralised mass manufacture and mass market distribution through existing wholesale and retail channels

Key Steps

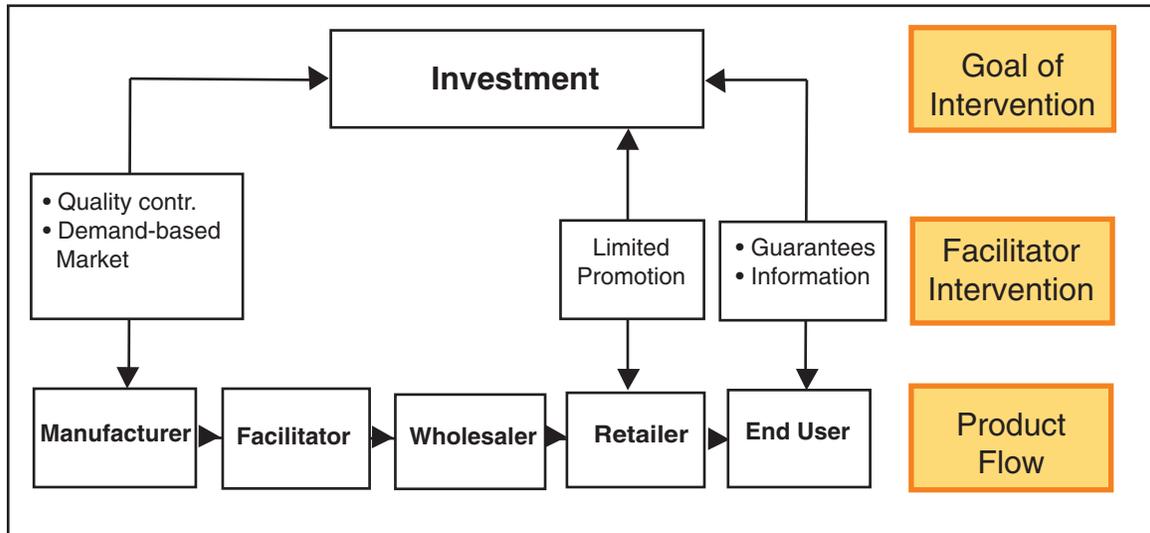
The following schematics shows how a technology may be introduced into the marketplace, under free market conditions.

In **Step 1**, it is assumed that neither manufacturers nor retailers are ready to invest in making or selling the technology because it is an unproven product. Interventions are, then, **principally designed to reduce perceived levels of risk** without distorting the pricing structure that is needed for long-term sustainability. Mark-ups may need to be substantial, as much as 50% or more ex-factory to end-user. At the end of this stage it can be expected that consumers are aware of the product and its benefits, while manufacturers and retailers should be convinced of its' potential to provide a competitive return on investment.

Step 1: Product introduction to manufacturers and market, principal goal is increased confidence amongst manufactures, retailers and buyers. Promotion is subsidised.



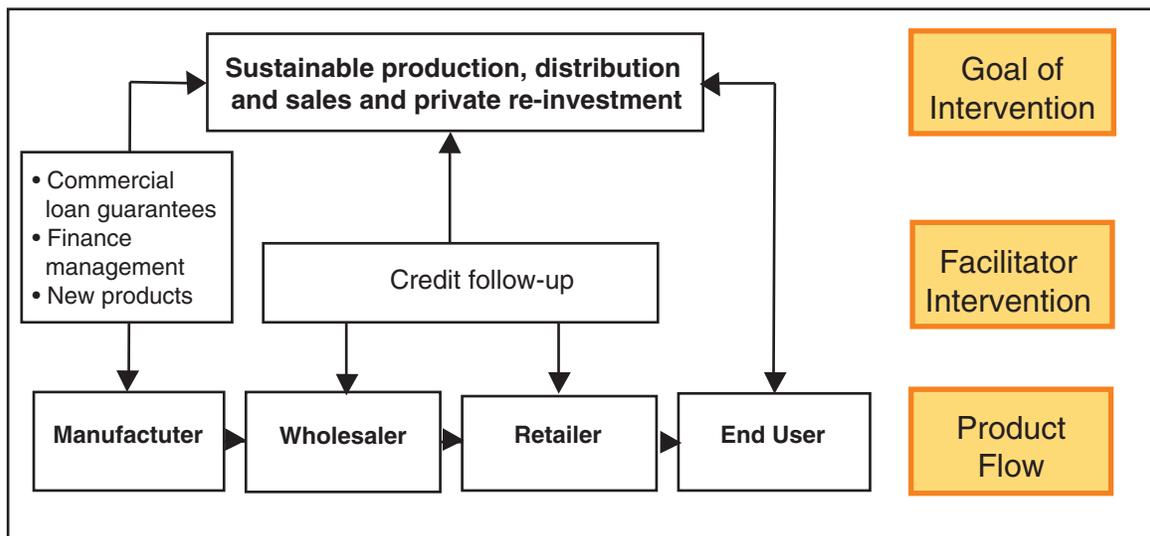
In **Step 2** the facilitator continues to work with retailers and manufacturers, but starts to work with wholesalers.



Wholesalers can be convinced to work with the facilitator because sales figures from Step 1 show that handling the technology provides a competitive return on capital invested, with significant growth potential. Wholesalers receive market intelligence (where the product is selling well and who are the high-quality retailers who pay up in full and on time) from the facilitator and financial assistance to invest in low-cost publicity instruments (calendars and the like). The facilitator no longer provides credit to retailers who now receive it from the wholesaler. The credit is no longer open-ended consignment credit but 30 days on presentation of invoice.

In **Step 3**, which lasts about a year, the facilitator's principal relationship is with the manufacturer

Step 3: Self-sustaining production, distribution and sales



In this stage, which lasts about a year, the manufacturer may be financed with a facilitator-guaranteed commercial loan (see below) to manage the credit chain through wholesalers and retailers. The facilitator's operational involvement is to assist the manufacturer manage the credit chain by using marketing staff to make follow-up visits to delinquent wholesalers and retailers, but only for a limited period of, while the relationships mature and stabilise.

It is essential for the sustainability of production, distribution and supply that there is a steady increase in investment amongst all the players in the technology.

This particular approach is illustrated at length in this paper because, although the system described is conventional in the private sector it is rarely applied in the PVO sector. It is also given emphasis because it has proven itself in simple cost-benefit terms, compared to the traditional intermediate technology approach based on very low-tech local manufacture and factory-gate distribution⁹.

Of greatest relevant to programmes that target HIV/AIDS affected populations is the fact that it does not require technological know-how to set up and run such programmes, where technologies are already on the shelf. For generalist organisations and ASOs it is best to start with proven products that are already available but are not yet widely distributed.

4.3 Business Choice and Management: Tools for the Very Poor

4.3.1 Background

There are a number of business training manuals on the market, aimed at developing economies and the lower end of the microenterprise spectrum. Most, however, start with the assumption that the business is separated from the family economy, owned or operated by a literate entrepreneur, aiming to grow significantly, employing paid labour and operating from fixed premises. In reality income generating activities differ substantially from growth-oriented small enterprises. In the one case the objective of the owner is to maximise drawings and invest only the minimum necessary to optimise income, while the owner's preoccupation – at least to some degree – is to re-invest for growth. The following typology elaborates this distinction further.

Table 5: Key Characteristics of IGAs and SEs

IGA	SE
Little Reinvestment. Strategy diversification	High Reinvestment. Strategy specialisation
Mixed with household economy	Separated from household economy
Family labour	Paid labour
Little or no investment in worksite	Extensive investment in worksite
Traditional technology	Modern or semi-modern technology
Few fixed assets	Extensive investment in fixed assets
Part time or seasonal for owner	Full time occupation
Traditional skills	Skilled or semi-skilled
Illiterate or semi-literate	Literate
Few if any written records	Extensive records and systems
Not legally registered and does not pay tax	Legally registered and pays business taxes

9 In Tanzania, ApproTEC's Micro-Irrigation Promotion Project (MIPP) achieved a benefit cost ratio of 9.73 in 3 years. In Kenya, after 5 years a similar project run by ApproTEC achieved better than 12:1

10 Waterfield et al

It follows that HIV/AIDS affected individuals tend to operate IGAs and seek to maximise drawings to meet rising costs associated with the disease. It also follows that OVC, where they engage in enterprise activity, exclusively operate IGAs, at least in the first few years after becoming economically active. Thus, programmes that seek to promote economic independence for OVC and HIV/AIDS affected households will, overwhelmingly, be promoting IGAs and helping affected individuals consider:

- what types of IGA they can choose
- what demand may exist for what they propose to produce or offer as a service
- what skills, assets and technology they will need
- what it will cost and where they can get the money
- what income they can derive from the activity

In addition, they need to consider how well the anticipated income, expenditure and net income flows match their survival needs and the demands of other household enterprises for labour and capital.

The emphasis of the more traditional works on starting and operating a business is on management practice, record-keeping and administration. These are concepts with which even well-established enterprises sometimes struggle. To an IGA they can be confusing and irrelevant. The inherent simplicity of the enterprise and the real world demands that are placed on IGAs to juggle business and household needs for labour, investment and cash require a much simpler framework in which assumptions can reasonably be made about the following:

- the business is cash-based and rarely needs to consider receivables and payables, except on a very short-term basis
- no real distinction needs to be made between fixed assets and working capital except at start up. Replacement costs and amortisation of fixed assets do not represent a significant cost to the business
- fixed and variable costs do not need to be precisely differentiated, except in terms of the needs of the household for income

There are emerging models that cater to the needs of IGAs. The two tools that are specific to HIV/AIDS affected communities and tested in the marketplace are:

- Street Business toolkit from Street Kids International
- Selection Planning and Management of Income Generating Activities (SPM for short), from CARE Zimbabwe, out of CARE Bangladesh and CARE Uganda

4.3.2 Street Kids International's Street Business Toolkit

The objective of the Street Business Toolkit is to provide basic business training to street children, who have very little access to economic opportunities. It is intended to be used by partner organisations who target street youths and is intended to complement other programmes of vocational training offered by these organisations. It is aimed principally at urban street children but is, clearly, applicable to orphans and vulnerable children in urban areas and also, significantly, those who continue to live in rural areas and have very limited access to assets and skills to enable them to take charge of their economic life. Although this is not discussed very much in the toolkit, there is evident potential for linkage of the training in this manual with community-based microfinance initiatives. More so than MFIs community-based financial service CBOs have shown themselves to be responsive to the needs of orphans and vulnerable children, both in terms of social and economic support as well as direct inclusion in their programmes. Most of the microfinance approaches that benefit vulnerable families affected by HIV/AIDS help to build or secure existing assets as a family goes through the illness and death phases of the disease. Many community groups

engaging in community-based finance are also groping their way towards solutions or approaches that begin to address the problem. But most of these solutions, however effectively facilitated, appear to be an adjunct to the core interests of the groups to provide for their own needs. Some groups, for example, try to send orphans to school or to help with feeding, but few actually look to help youths who are beyond the nominal age of dependency and who are expected to seek their own solutions to their economic futures. These tools are amongst the very few that target this group, who may have been thrown into the streets, amongst other reasons, owing to the effect of HIV/AIDS on their families. They are amongst the most practical on the market and deserve wider circulation amongst ASOs and NGOs dealing with the effects of the disease and seeking to craft effective strategies for self-reliance.

The main areas covered are:

- Basic business concepts.
- Selection of a business idea (or more)
- Markets and competition
- Customer relations
- Segregation of business and living costs
- Making and spending profit (division between re-investment and drawings)
- Problem solving
- Business plans

The Toolkit covers much the same ground as the IGA SPM materials developed by CARE, but does so specifically from the perspective of homeless children, rather than a family with multiple demands for cash. It uses an attractive pedagogy, based on multi-media, at the core of which is a video that tracks the progress of 5 children, each of whom gets involved in IGAs, in order to survive in the city. It also presumes that none of the children has access to credit and each has to find a way to start and expand their economic activities. The methodology is participatory and realistic, with classroom sessions interspersed with a video, visits to marketplaces and local entrepreneurs and a number of games. The materials are extremely well produced and the progression of each session is linked clearly to key materials, all of which are readily accessible and to which the trainer is directed: there is relatively little creative preparation required by the facilitator because the materials are step-by-step, while allowing time and the opportunity for structured.

4.3.3 CARE Zimbabwe's SIMBA SPM

The Selection Planning and Management of Income Generating Activities (SPM) tools were originally developed in Bangladesh in the early 1990s by Anne Ritchie to prepare women working on road maintenance to become economically active, through the establishment and strengthening of Income-Generating Activities (IGAs). The tools were used also in Uganda and have been most widely applied in Africa in Zimbabwe as part of CARE Zimbabwe's SIMBA and Kupfuma Ishungu programmes. SIMBA (Supporting Basic Income Needs of AIDS-Affected Households and Individuals) specifically targets HIV/AIDS affected communities and families, while Kupfuma Ishungu is a savings and credit programme into which SPM has been introduced at a later stage. SIMBA also implements community-based savings and credit activities and uses SPM as a companion tool.

The SPM materials cover 5 key areas:

- Knowledge, skills and time required to operate the proposed activity and the effects of seasonality
- Markets. Who will buy and in what amounts. What competition exists
- Costs. How many IGAs can be considered. How much does it cost to start and run the enterprise and what are the sources of capital.

- Calculation of profit. Sales minus inputs. This is a simple but practical approach to estimating profit, since overheads and family expenses tend to overlap.
- Family expenses. To what extent does the IGA meet the family's need for income

SPM is a practical tool for the very poor and is focused on IGAs. It does not take a conventional business training/management approach but roots its analysis and planning approach to the cash-flow realities of the rural or urban poor household, with its competing demands for cash, capital and labour. It is not focused on growth-oriented businesses and aims primarily (at least at the start) to ensure the stable and secure operation of an IGA, which both contributes an optimal yield to meet the needs of the household but also looks to the cash needs of the business. It helps the trainee to make choices that may appear conservative or to miss out on high-yielding opportunities but does so from a risk management perspective and to ensure the survival and continuing contribution of the enterprise to household income.

The principal lesson of SPM is that it increases the number of household IGAs, increases their stability and enables an HIV/AIDS affected household to secure, stabilise and maintain its asset base through the dormant stages of the disease to its final onset and beyond. There is also a definite synergy when this training is offered in conjunction with a financial services programme (in the case of SIMBA VS&L) - the existence of which is a useful pre-condition for benefiting from the lessons of SPM: the availability of actual opportunities to save and to borrow makes the probability of being able to start a business more likely and the lessons of SPM more relevant.

These two tools are given particular emphasis because they have been developed and tested with the specific target groups (OVC and families coping with the effects of HIV/AIDS) in mind.



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