

Crossfire: ‘Best practice in a post-emergency environment is no different from normal enterprise development and microfinance’

JESSE FRIPP and TIM NOURSE

‘Single cycle’ reconstruction interventions should be distinct from ‘multi-cycle’ or market-building interventions

A restart grant to an enterprise whose assets have been destroyed by crisis is an example of ‘single cycle’

In our regular debate between experts, Crossfire invites Jesse Fripp and Tim Nourse to argue the case surrounding: ‘Best practice in a post-emergency environment is no different from normal enterprise development and microfinance’.

Dear Tim,

Even though I’ve spent the better part of nearly 15 years working on, in or for initiatives focused on enterprise development and microfinance in crisis-affected areas, there is still a part of me that recognizes the initial, visceral reaction to this statement as being counterintuitive.

To keep us from falling into a philosophical quagmire, I suggest that we first suspend the idea that there is ‘normal’ enterprise development and microfinance. Rather we might engage in this crossfire around discussion of development principles in post-emergency versus an environment that is not in post-emergency.

I would argue that interventions implemented immediately – I want to underscore, immediately – after an emergency or conflict and conducted for a

finite period need to be considered in the context of ‘single cycle’ reconstruction interventions, versus ‘multi-cycle’ or market-building interventions. I don’t see these as either/or propositions, but rather as distinct interventions, complementary yet separate. I think a muddling of the lines between these two distinct types of intervention leads to the statement that ‘normal’ principles of best practice in enterprise development and microfinance don’t apply to emergency environments. The same best practices applied in a stable environment are just as necessary in the post-emergency environment, if the market and social infrastructure is ever to achieve a stable, equitable and efficient state of function.

Let me be clear in my terms here. By ‘single-cycle’ I mean essentially the one-way flow of grants (cash or in-kind) and free technical assistance. A start-up/restart grant to an enterprise whose assets have been destroyed by crisis is a good example. It is a one-time resource outflow from a grantor (typically a donor or humanitarian

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organization acting as their agent) to a grantee (an enterprise). It is not repaid. It does not create a continuing reflow benefit or 'ripple effect' to other enterprises or households, beyond the initial expenditure cycle. It is a sunk cost that does not generate a recurring dividend to anyone, except ideally the proprietor of the beneficiary enterprise (who we must hope has used this gift to rebuild his or her premises or invest in productive assets). This is not optimal in a non-emergency environment, but may be necessary for a very finite period of time in a post-emergency situation and then upgraded to a multi-cycle reconstruction intervention.

By 'multi-cycle' I refer to the broader realm of development interventions that are self-reinforcing and replenishing, on both a financial and institutional level. A loan that is extended to the same proprietor described above is a good example. The proprietor has wisely expended their single-cycle donor gift to rebuild their shops. But he or she needs an initial stock of inventory to generate profitable sales. The loan carries a commercial rate of interest, which in turn funds the operating and financial costs of the underwriting MFI, which is an indigenous institution with a long-term presence in the community. The principal that is repaid by the newly revitalized shopkeeper is used to invest in a multitude

of other enterprises and households, and so is replenished and multiplied throughout the recovering, crisis-affected economy. It is 'multi-cycle.' Ultimately, this durable multi-cycle effect provides for the best approaches to enterprise development and microfinance.

Recently, a group of development professionals from a range of technical backgrounds and perspectives spent over a year hashing out what they saw as the core standards of economic development in crisis-affected communities (SEEP, 2009). These included a focus on enterprise development and financial services delivery, and I think the findings of this group reinforce, rather than refute, the statement above. Most importantly, the standards do not advocate a 'waiting period' after crisis before these efforts begin, but suggest from collective experience that the best practice and multi-cycle initiatives must start concurrently with the short-term and single-cycle reconstruction focus.

All of these elements apply just as well to that village in the mountains of Pakistan that is rebuilding from an earthquake, as they do to the low-income Cairo neighbourhood where families and enterprises strive every day to survive and improve their lot. Thus, I stand by the original statement defining our conversation, and look forward to a different perspective.

*All the best,
Jesse*

A 'multi-cycle' loan might cover the purchase of the shop's inventory

Multi-cycle initiatives must start concurrently with single-cycle reconstruction initiatives

Dear Jesse,

We're often counselled to trust our first instinct. In this case, even if visceral, I suggest the same.

Afghanistan. Sierra Leone. post-tsunami Sri Lanka. Need I provide more examples of environments where enterprise development and microfinance 'best practice' is very different than that in more normal, stable countries? While I will not dispute that 'multi-cycle' interventions are appropriate and necessary in post-emergency environments, I cannot agree that their practical implementation is the same as in stable environments, especially when considering post-conflict contexts.

As you know, post-emergency environments generally share a number of features: the country's infrastructure has been devastated; market networks have broken down; refugees and the internally displaced produce a mobile clientele; insecurity inhibits trade; the sense of community and trust has disappeared; and the best educated and most able have fled. In addition, relief and livelihood programmes have significant impacts on the economy that cannot be ignored. In these environments, enterprise development and microfinance best practices must be significantly adapted for success.

Let me provide some examples. For microfinance, many of its basic success factors are missing or undermined. The break-

down of community structures and trust make groups much less effective as a guarantee or bundling mechanism, requiring additional training, smaller groups or a focus on individual lending. Similarly, client mobility reduces the effectiveness of multiple loans as a repayment incentive, making client selection more time consuming or encouraging MFIs to utilize smaller (and more costly) 'tester' loans. On the institutional side, the 'get what you can, when you can' mentality prevalent in many post-emergency environments increases the importance and cost of internal controls. One has only to look at the increasing incidence of fraud in Afghani MFIs as the Taliban insurgency intensified for evidence of this problem. Together, these issues make microfinance more costly and less efficient, pushing out sustainability for most MFIs until four to five years of operations, as compared to two to three for stable countries.

Enterprise development is no different. Successful practice is about facilitation rather than direct delivery. However, in post-emergency environments where markets are dysfunctional, a heavier touch in the form of additional subsidies or the temporary direct delivery of services may be necessary to overcome challenges. In addition, whereas many value chain programmes in normal environments will focus on high value goods and

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Enterprise development practitioners need to be keenly aware of the conflict dimension of their work

The short-term, high-output mentality of relief practitioners provides particular difficulties

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international or capital city end markets, the fragmentation of markets in post-emergency environments often requires a narrower focus on closer regional or local markets and on lower value goods. For post-conflict environments in particular, enterprise development practitioners need to be keenly aware of the conflict dimension of their work and avoid reinforcing power dynamics that led to or will reignite conflict. Finally, the fluidity of post-emergency environments, with their population flows and rapidly changing availability of relief supplies, requires more frequent market assessments and more flexible designs to succeed.

An additional challenge for both disciplines is the relief industry. The short-term, high-output mentality of relief practitioners and donors provide particular difficulties for longer-term microfinance or enterprise development programmes. Practitioners must spend significant resources engaging these stakeholders to determine how best to utilize these humanitarian initiatives for the benefit of their programmes, or at worst to avoid the disruptions that short-term grant and livelihood programmes can engender.

By these examples, I don't mean to say that successful microfinance or enterprise development programmes cannot be implemented. Quite the contrary, microenterprise development professionals have established sustainable

financial institutions and facilitated profitable value chains in many post-emergency contexts. However, their success is due to the significant adaptation of normal context best practices, rather than their blind implementation.

*Best regards,
Tim*

Dear Tim

In response to your comments, a quote from George Bernard Shaw comes to mind: 'no question is so difficult to answer as that to which the answer is obvious'. I think the points you make require a closer second look, in this vein.

First, I'm glad we're in agreement on the critical nature of multi-cycle interventions in crisis-affected environments, but want to bring us back to the critical question under consideration here. There is an important distinction between 'best practice' and 'practical implementation', and it is the juxtaposition of the two that I think creates confusion. 'Best practice' is a set of principles and guidelines, and 'implementation' is the process for achieving them. Our implementation may indeed be different when we work in a crisis-affected environment, as you point out, but compromising best practice principles and guidelines in the short-term, however well-intentioned, will inevitably hamper the ability of institutions operating in crisis-affected

environments to serve their clients in the long term.

Second, while crisis-affected environments are indeed afflicted by the immediate contextual challenges you describe, poor infrastructure, weak market linkages, client mobility, insecurity, and 'brain-drain' define most of the markets where microfinance and microenterprise best practice is applied. For example, in Papua New Guinea local MFIs must contend with all of these factors, none of which have been generated by emergency or crisis in the sense we are discussing these terms here. However, these MFIs have historically been inhibited in their success not primarily by these external factors, but precisely by a well-intentioned if misguided willingness to defer adherence to best practice to guide implementation.

Third, the adaptation of implementation approaches is necessary anywhere, as the largely informal, unregulated, and localized markets best served by microfinance and microenterprise development approaches demand such flexibility. This is even more relevant in a crisis-affected environment, but in this context, the rigorous adherence to principles of best practice is just as important as in 'normal' environments. For example, in Afghanistan, I would argue that the current challenges faced by the microfinance sector are due just as much to poor staff training, inadequate internal risk management and control poli-

cies, and an excessive emphasis on moving money out the door quickly to the detriment of market-conscious product design and rigorous loan origination (driven in large part by short-term donor incentives), as to the environmental factors you describe.

If we return to a review of the exact nature of the 'best practices' under debate here, I think we will see that many of the points you raise, while certainly relevant if considered in terms of flexible adaptation in implementation, are a bit of a 'red herring' in terms of defining the importance and relevance of best practice principles and guidelines in the context of post-emergency and crisis-affected environments. I offer an example from a country that is even now in the midst of recovering from horrific crisis, occurring in the context of serial crises, both man-made and natural.

As I write this, Fonkoze Financial Services (FFS) and other commercial microfinance providers in Haiti are working not only to contend with the human and infrastructure crisis affecting their institution and their clients, but also to restart their financial services operations as quickly as possible. While the emphasis of service delivery may need to be adapted to complement the short and long-term needs of reconstruction (for example, enhanced staff and systems focus on

Most of the places microfinance operates suffer from weak market linkages, client mobility, insecurity, and so on

We should not throw up our hands in a crisis and ignore the principles required to build strong financial institutions

Fonkoze in Haiti distinguishes between the more grant-focused operations and the best practice financial services

immediate processing of micro-insurance claims will likely be very important), as well as the forthcoming flow of needed short-term emergency grant assistance, this does not mean that FFS should begin subsidizing their loans, issuing grants, relax their focus on the long-term bottom-line performance of the institution, conduct blanket write-offs on the portfolio without case-by-case review, or suspend the application of internal policies and procedures for safety and soundness. Far from it.

Even before the current catastrophe, the Fonkoze Foundation and FFS had adopted innovative implementing approaches to distinguishing the more grant-focused and subsidized operations of the foundation, from the best practice financial objectives of FFS. Best practice does not deny the appropriateness of these short-term grants, it simply states that they should be distinct from the market-driven and longer-term services that are also necessary, and that they should be structured in such a way as to be complementary (yet distinct, to avoid the creation of confusion on the part of the clients), as well as coordinated in their delivery. The Fonkoze structure and approach is a strong example of the practical application of these principles, and will serve the institution and its clients well as it responds to the current emergency.

Ultimately, while natural and man-made crisis is undeniably an obstacle to development, such circumstances do not require that we throw up our hands and ignore the principles of discipline and rigour that ultimately are required to build strong financial and enterprise support institutions. We must remember how and why we arrived at the current principles of best practice in the first place: through a history of failure on the part of purely humanitarian or philanthropic responses to ultimately build the durable institutions and markets required to move a community out of crisis (of whatever nature) and along the path of development.

*All the best,
Jesse*

Dear Jesse,

I hate to be pedantic, but principles and practices are not interchangeable concepts; instead principles serve as the basis for practices, with 'best practices' representing their most effective application. We clearly are in agreement that the principles of successful microfinance and enterprise development – rigour, sustainability, efficiency, understanding the market, among others – are the same whether in a stable or post-emergency environments and I support CGAP's *Key Principles of Microfinance* (CGAP, 2004) or USAID's principles of value chain programme implementation (USAID, 2008) as much as you.

Some best practices apply only to post-emergency environments

IDPs can be served successfully if microfinance principles are adhered to while practices are adapted

In post-emergency settings, short-term job creation programmes can prove effective

However the 'best practices' or application of these principles in crisis or stability are different in many respects. In my first entry I discussed how the conditions in post-emergency environments required the significant adaptation of standard best practices. To further illustrate my point, let us examine some best practices which apply only to post-emergency environments.

Consider refugees or the internally displaced – a mobile population with weak social networks. Best practices designed to serve more stable and networked groups fail this market because the traditional repayment incentives of multiple loans or social stigma do not apply when a household can move at any time and doesn't know their neighbours. Nevertheless, organizations have demonstrated that they can be served, if microfinance principles are adhered to, while practices are adapted. In West Africa, American Refugee Committee (ARC) developed a 'refuge to return' (R2R) model that worked because it provided an alternative incentive – credit upon return. Since ARC had a presence in refugee camps, as well as in areas of refugee return, it could encourage repayment in the refugee camp with the chance of credit upon refugees' return to their home country. The transferable credit history of the R2R model led to high repayment in refugee camp credit programmes, and helped emerging MFIs in the return country

because they could start with a pre-tested clientele (Nourse, 2004). This best practice does not require 'throwing up our hands' or 'ignoring the principles of discipline' as you state above, but instead utilizing those principles to develop an innovative and different practice.

To take an enterprise development example, perhaps we can reflect on the construction industry in post-emergency settings. In stable contexts, enterprise development programmes will generally avoid interacting with socially oriented welfare and job creation schemes as they are inherently unsustainable and skew long-term market signals. However, in post-emergency settings, short-term job creation programmes can serve as a catalyst for the reconstruction of a viable construction industry, as the training can re-supply the labour market and the increased demand for goods can revitalize local industries. Smart enterprise development practitioners see this opportunity; they adhere to their principles of analysing the market and directing interventions towards opportunities by practising coordination with these relief programmes to strengthen links in the value chain that feed into or are supported by the relief work.

Please note that my description of different best practices in this entry or adaptations in my prior entry does not imply that best practices in stable contexts do not apply at all in

post-emergency environments. Rather, I am highlighting that additional best practices and significant adaptations of some best practices are necessary for success in post-emergency environments. Best practices in accounting and financial management are largely unchanged in post-emergency contexts, but practices related to service delivery, coordination, conflict sensitivity are unique to post-emergency or entail significant adaptations from stable country ones.

Before I close, I also would like to reflect on the situation in Haiti. Fonkoze Financial Services and other sustainable microfinance providers should not be abandoning their principles in responding to the current crisis. However, they will need to rely on a number of practices unique to post-emergency environments. Exploiting institutions' knowledge of its clients to direct relief to where it is needed most, relying upon contingency plans for emergency situations to locate staff and restart operations, using branch networks to maintain services (or collect payments) from clients who have fled Port-au-Prince, and conducting a careful analysis of the affected portfolio to make decisions whether to write off, reschedule or refinance loans (by the way, a good example of a practice developed in emergency, not stable, contexts) are all best practices from emergen-

cy contexts that MFIs will need to follow.

Jesse, we have both seen the remnants of failed microfinance and enterprise development programmes in post-emergency situations. I agree with you that these failures are indeed sometimes the result of throwing away the core principles of their disciplines. However, these failures are as often the result of poorly applying these principles by importing best practices wholesale from stable environments. Best practice in a post-emergency environment is different from normal enterprise development and microfinance due to the unique circumstances that these contexts possess; ignoring this fact is (I can't resist) a recipe for disaster.

*Best regards,
Tim*

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Fonkoze should exploit its knowledge of clients to direct relief to where it is needed most
