International Labour Organization

IPEC International Programme on the Elimination of Child Labour

IPEC evaluation

Revolving Loan Funds in IPEC's Interventions

Thematic evaluation based on the case of Central America

JUAN MANUEL TOLEDANO NIETO

Evaluation Consultant

July 2002

(PART OF THE THEMATIC EVALUATION ON INCOME GENERATION AND CHILD LABOUR ELIMINATION)

Table of contents

1. Introduction

This evaluation seeks to meet the concerns of the International Labour Organization (ILO), and more specifically the International Programme on the Elimination of Child Labour (IPEC) to know the results and effects of the income generation revolving loan funds implemented in the course of its direct action projects in Central America. It is thus a thematic evaluation of "revolving loan funds", based on a sample of interventions recently completed or coming to an end in three countries in the area, Costa Rica, El Salvador and Nicaragua.

The evaluation exercise was adapted, both in terms of methodology and procedures, to the requirements laid down by the ILO in the terms of reference for the study (see Annex 2). The evaluation methodology and procedures are described in several of the Organization's documents, primarily the "Guidelines for the Preparation of Independent Evaluations of ILO Programmes and Projects”, edited in November 1997.

The following evaluation report is divided into three main sections:

- A descriptive section (Chapter 2), which gives a general overview of IPEC interventions in the region, describes the actions covered by this study and defines the methodology used in the evaluation.

- An evaluation section (Chapters 3, 4, 5 and 6) in which the design of the revolving funds, the performance of the actions undertaken and the results are analysed.

- Finally, the last section (Chapter 7) sets out the conclusions of the assessment and general recommendations to improve this instrument, considering that its ultimate goal is contributing to the progressive elimination of child labour.

The evaluation was undertaken from the end of April to the beginning of June 2002, with the mission to Central America taking up a good part of May.

The consultant wishes to thank all the IPEC staff for their collaboration, without which it would not have been possible to carry out the task, and especially Carmen Moreno and María José Chamorro, in the Sub-regional Coordination Office, and Florencio Gudiño from ILO Headquarters, in Geneva. He also wishes to thank the staff of the implementing agencies of the various projects for their patience and assistance, as well as all those people in the communities, parents and children, who accompanied and supported the consultant at all times.

2. General description of IPEC and the evaluation methodology

The International Programme on the Elimination of Child Labour (IPEC) of the International Labour Organization has in the last ten years gathered wide experience in the combat against this problem. Its goal is the progressive elimination of child labour, giving priority to the urgent eradication of its worst forms.

IPEC has a portfolio of projects in some seventy countries in the three regions most affected by child labour: Africa, Latin America and Asia. The Programme works in partnership with national organizations in adopting and implementing measures to prevent child labour, remove children from hazardous work, offer alternatives to children and their families alike, and improve conditions of work for adolescents as a transitional strategy until child labour can be fully eliminated.

IPEC's initiatives includes actions designed to:

- encourage ILO's constituents to engage in dialogue and form partnerships;
- determine the scale and nature of the problem of child labour and help to form policies and pass laws to combat it;
- establish mechanisms to ensure that the country takes ownership of the programme and implements national action plans;
- raise people's awareness in the community and the workplace, as well as in specific sectors, on the harmful consequences of child labour;
- support direct action to prevent child labour or remove children from work; and
- replicate projects which have proved effective and systematically include child labour issues in socio-economic development policies and related programmes and projects.

IPEC’s planning process differentiates between two types of instruments: projects and action programmes. Projects are wide-ranging interventions in a country or specific sector, while action programmes are more specific interventions designed as components of projects, and are normally implemented by so-called "implementing agencies" (trade unions, employers' associations, local NGOs or government agencies).[1] In most cases, income generation for families is one out of several components of a project’s strategy, which might also include awareness raising, social mobilization, support for policy and law reform, capacity-building, support for basic education and child health services, strengthening monitoring and control systems, etc.[2]

2.1. Rationale of IPEC’s interventions

The causes underlying child labour are many. One can point to poverty, low levels or even a total lack of education, social and cultural factors (which tend to regard child labour as a

---

[1] In a more orthodox view of international development cooperation, "projects" correspond to programmes and "action programmes" to projects as such.

[2] For the remainder of the report, to make it easier to read, the term "project" will be used when referring to initiatives to prevent child labour, whether they are "projects" or "action programmes" in IPEC terminology.

"normal" or even beneficial activity) and children's own desire to earn money, for cultural reasons or prestige (consumerism).

Child labour is very often perceived as necessary not only for the family income it generates but also as a means of acquiring skills. In certain cultural environments, the latter aspect is more important than the former. Education in these settings might not be valued (especially for girls), while preparation for work (acquisition of vocational skills) is regarded as important for the future.

From the employers' point of view, child labour could mean lower labour costs and also a way of providing support for the poorest families, since not only would money be given to the children —and through them to the household—, but a place to live, training, food, etc. The demand for child labour sometimes gives rise to the perception that training children for work is a good thing, both for the firm and for the children themselves.[3]

As will be explained below, the interventions promoted by IPEC seek to tackle several of the child labour causes simultaneously. To address poverty, projects include income generation activities intended to help the beneficiaries (in this case, adults) to improve their income and facilitate access to employment. This approach is based on the idea that parents must replace child workers' contributions to the family budget in order to ensure the success of projects.

Based on this rationale, IPEC has designed a model strategy, which is supposed to be applicable in most areas of intervention, apart from commercial sexual exploitation of children and child domestic labour (where children are away from their families), and in any country of the region. This model, formulated according to the logical framework approach, sets a general development objective consisting of the progressive elimination of child labour and three or four immediate objectives (depending on the version) in three areas of work:

(i) raising awareness of the adverse effects of child labour and mobilizing the population to tackle the problem;

(ii) social action involving prevention and removal of children from work (primarily by supporting education, leisure and health); and

(iii) income generation and vocational training.

On many occasions, implicitly, the third component is designed as a guarantee of sustainability of the efforts to remove children from work or prevent their entry to the labour market. This is expressed through the fact that income generation activities always start after the rest of the components, and it was confirmed in interviews with IPEC experts in the region.

The outputs and activities to achieve these objectives include workshops and awareness campaigns, distribution of "education packs", actions in school, work in preventive and palliative health (including special attention to the child population), training and technical assistance in job-creation schemes and provision of sources of employment, negotiation and coordination with local authorities and the provision of revolving funds and other mechanisms for financing income generation and job-creation activities.

[3] Concerning child labour and production costs, it is worth noting that reference is being made to general perceptions, which in many cases are not confirmed by economic research.

Interventions are complemented by crosscutting aimed at understanding gender relations as a key factor in the child labour issue.

With respect to the third area of work mentioned above, projects seek to apply a series of financial instruments (revolving funds, guarantee funds, promotion of savings, promotion of insurance, micro grants and scholarships) and non-financial instruments (skills development, business training, credit management, employment programmes and legal reforms) in order to support income generation in the target families. The majority of the interventions combine both types of instrument, although debt-generating instruments take precedence over grants and donations.[4]

2.2. Scope of the evaluation

The evaluation analysed eleven funds linked to the different IPEC projects in Central America, listed in the following table.[5] All the interventions analysed followed the general intervention model described in the previous section.

Project Title	Country	Total budget	Fund budget	Clients
Progressive eradication of child labour and protection of adolescent workers in the Cartago agricultural market and fair	Costa Rica	158.250 $US	30.000 $US	25
Progressive elimination of child labour in the Nicoya Gulf shellfish and fisheries industry	Costa Rica	266.807 $US	67.680 $US	56
Progressive eradication of child labour in the streets and public areas of Managua	Nicaragua	147.872 $US	38.519 $US	135
Progressive eradication of the economic and sexual exploitation of working children in Santos Barcenas bus station and market	Nicaragua	75.786 $US	20.000 $US	52
Elimination of child labour and risk of sexual exploitation of children and adolescents in the Leon Municipal Bus Station	Nicaragua	198.940 $US	40.000 $US	58
Progressive eradication of child labour in Santos Barcenas market and surrounding district	Nicaragua	70.938 $US	20.000 $US	86
Progressive eradication of child labour among the indigenous people of Sutiava	Nicaragua	83.602 $US	20.000 $US	178
Elimination of child labour in the dumpsite “Fortín de Acosaco”	Nicaragua	91.530 $US	20.000 $US	99
Progressive elimination of hazardous child labour in shellfish harvesting	El Salvador	100.000 $US	16.055 $US	18
Progressive elimination of child labour in the Francisco Lara Pineda terminal and Municipal Market No. 1 in Santa Ana	El Salvador	108.939 $US	20.000 $US	39
Contribution to the progressive elimination of child labour in the dumpsite “Camones”	El Salvador	111.777 $US	20.000 $US	16

[4] Annex I includes a brief description of these instruments, set out in a table prepared from information included in working papers prepared both by IPEC's own staff and independent consultants.

[5] Some aspects of the Project for the progressive elimination of child labour in gravel production in Retalhuleu, Guatemala, which was not included in the terms of reference of the evaluation, have also been analysed.

The general characteristics of all these funds can be summarized as follows:

- They are grants to create micro-credit funds to finance "labour capital" in order to launch new business activities or support existing small businesses.

- One such fund has been set up for each of the projects, thus rejecting the option of managing a single fund covering the needs of more than one project. They are thus project-related loan funds.

- The funds focuses exclusively in loans, so it would be more correct to call them "revolving loan funds". Unlike other revolving funds, there is no attempt to generate savings, nor to open discount lines, or use them for guarantees or other alternative or complementary arrangements.

- The initiatives promoted are almost always individual. Loans given to groups of beneficiaries to support joint initiatives are rare.

- The businesses supported are similar, with a predominance of small-scale trading in clothing, fresh and cooked food and drinks. There have been very few operations involving the production or transformation of goods for sale.

- The characteristics and conditions of loans are established independently for each fund. However, conditions of access, procedures for selection of beneficiaries, operations supported, interest rates, duration, repayment of loans, etc. are similar, probably due to the communication between the experts responsible for the projects.

- A series of criteria have been used for access to loans, which, although not explicit in the documents consulted, led to similar results. In principle, loans were destined for families who submitted business plans that —in the opinion of the experts in the implementing agency (often in consultation with IPEC experts)— were viable.

- The volume of funds was quite small, ranging from US$20,000 to US$150,000, the majority around US$30,000.

- The amounts of loans can be considered as low (in a range of about US$100 to US$1,500) and the guarantees or deposits required ranged from personal pledges (in a very few cases), through various joint guarantees, to guarantor's deposits (the preferred choice).

- Interest rates varied from two points above to two points below the "market rates" fixed by the local authorities. Repayment periods were very short, generally one to six months.

- In all cases, the revolving fund instrument was managed by implementing agencies, which also provided training and additional technical assistance.

2.3. Methodological approach

The analysis of the revolving funds will follow closely the Terms of Reference for this evaluation. Throughout the report, some specific replies to the questions included in the Terms of Reference will be found in boxes.

The selection of the projects included in the sample proved appropriate because it focused on interventions which were practically completed and which were representative of the work undertaken.

To arrive to the conclusions, recommendations and lessons set out in this document, information was gathered in three ways:

- **Review of documents** relating to the IPEC - Latin America programme and other material concerning revolving funds, from both ILO and other development agencies.

- **Interviews with key informants.** During the evaluation, all the experts in the Sub-regional Coordination Office and National Coordination Offices who had had any responsibility in the selected interventions were contacted and interviewed. Also interviewed were all those in the implementing agencies responsible for the interventions analysed. In addition, contacts were maintained and information exchanged with some of the recipients of the loans from the revolving funds[6]. Conversations were also conducted with other informants not involved in IPEC operations, who provided interesting opinions on revolving funds (staff of formal and non-formal financial institutions, other child-related programmes, local authorities, etc.).

- Three **workshops** were held during the evaluation mission. At the end of the first week, a workshop was held in San José with staff of the Sub-regional Coordination Office to define key issues in the strategy pursued so far. Half way through the mission, a workshop on micro-finance in San Salvador was an opportunity to gather different perspectives of various users of such instruments. Finally, on the last day of the mission, a debriefing workshop was held at the Sub-regional Coordination Office in which preliminary conclusions and recommendations were presented, so as to ascertain the views of IPEC experts on these issues.

Finally, the report was drafted, drawing on the comments by stakeholders with an interest on the issue, including IPEC and ILO experts.

[6] It should be noted that this sample was biased, since the implementing agencies put forward recipients whose businesses had been a success. This is, however, of minor significance given that this evaluation is thematic and not a project evaluation.

3. Design of revolving funds

As indicated above, IPEC interventions have followed a “standard” model is supposed to be applied in different circumstances and for different target groups and geographical areas. This fact deserves special consideration, since it raises the critical issues of applying the same solution to different problems and the difficulty of assessing its impact. It should be pointed out that the Programme management in the region knows the problem, although the solutions must come from higher planning levels.

Some general aspects regarding the design of projects and actions programmes need comment because they have acted as constraints on the evaluation:

- the indicators included in the project documents are weak and of little use;

- the work plans do not give sufficient detail of the mechanisms for implementing and managing the projects;

- in general, activities are not described in detail, and at times are mere statements of intent.

Finally, in general, IPEC documentation in Latin America, especially relating to the projects analysed in this evaluation, is not as complete as it might be desired. The identification and formulation of projects was not very thorough due to time constraints and donor pressure.. The general problems in terms of project design, the inadequacy of basic information and scant precision in the indicators had a significant impact on the evaluation, since it proved impossible to ascertain the precise contribution of the income generation component to the elimination of child labour.

This fact should in no way impugn the professionalism and commitment of IPEC experts in the region, whose knowledge and their involvement in the work can be described as more than adequate. This situation becomes clear when consulting the documentation that is being prepared in more recent phases of the work.

With respect to the design of the revolving funds, there is generally a similar pattern: the same model is applied, with minor variations, to different realities and target groups. Some more specific issues in the formulation of income generation instruments are described in detail below.

- The fact that the funds were linked to projects has advantages for the following reasons:

  - ✓ In Central America there are many micro-finance schemes independent of specific interventions. However, their credit lines are aimed at target groups that rarely coincide with IPEC's. Micro-finance is aimed, in most cases, at supporting established businesses with a certain degree of viability, and it is evident that financial institutions prefer their clients to be solvent small businesses.

  - ✓ IPEC, on the other hand, targets groups that, generally speaking, do not "qualify" as clients of other financial intermediaries. For that reason, linking funds to projects has proved appropriate to IPEC's line of action.

- Bringing into play implementing agencies to manage the funds has been essential and successful. Obviously, IPEC would have difficulty (legal and resource-wide) in managing the funds directly.

- The design of the funds has proved simple and effective. It has probably been based on a variety of largely unconnected experiences of micro-finance (as shown by the adoption of mechanisms taken from other instruments, such as Credit Committees, that can be often found as the initial stages of Rural Banks and Savings Banks). This has had, as noted, the advantages of simplicity and operational capacity, but also caused some difficulty because it lacks the ability to adapt to changing circumstances and ignores the value of other aspects of micro-finance (savings, guarantees etc.)

- The design showed weaknesses in certain specific aspects. Thus, attention has not been paid to what should happen to the balance of funds after loans had been repaid. Neither have standard criteria been established for loan periods, amounts, interest rates, guarantees, etc. This was an advantage with respect to adapting each fund to the respective project, but it left too many important decisions in the hands of implementing agencies' staff.

- The same can be said about the non-financial mechanisms accompanying the funds. Flexibility at the design stage makes standardization more difficult and the possibility of drawing lessons on specific issues is lower. Thus, training and technical assistance (the two non-financial instruments commonly used) varied in terms of those responsible for delivering it, its content and scope, which makes it hard to comment on possible improvements in this area.

In a nutshell, the funds have adopted a very simple design, probably adapted from other micro-finance experiences, with common characteristics for all projects but leaving several important open questions. This has given the project managers a degree of flexibility, but at the same time but it was difficult to adapt them to the project environment, limiting their possibilities.

Questions included in the Terms of Reference on the design of revolving funds

1. Links between the income generation component and other elements of the projects. Synergies created. Which are the project settings where revolving funds are more relevant?

- The income generation component is considered as a means to ensure the sustainability of the achievements of the other components of the projects. In general, removing children from work can be achieved, in the first instance, by raising awareness, negotiating with authorities, providing incentives to attend school and reach higher grades, health services and other measures. Once the children have been removed, the income generation component would act as "insurance" that the most deprived families in the target groups can replace the lost income and avoid using child labour as a survival strategy.

- This rationale may be clear but it has a number of critical points that need clarification. It can be questioned whether general models can be applied to different realities and environments. Not all disadvantaged people are the same, nor do the causes of child labour, even when they are the same, carry equal weight in different situations. Revolving funds seem to be relevant in contributing to the eradication of child labour if a number of necessary but not sufficient conditions are satisfied. These conditions will be described in later chapters.

2. Comparison between different project models: comprehensive interventions implemented by an NGO non-specialized in credit (including —or not— a specialized organization to provide technical assistance) *vs.* interventions implemented by a groups of NGOs, one of which is specialized in micro-credit management.

- There are various models, from implementation by a single organization of all the components to involvement of organizations specializing in each. In general, implementation by several organizations presents problems of coordination and IPEC's ability to control them, while implementation by a single organization raises problems in terms of the necessary expertise.

- Four causes lie at the root of these problems: (1) design weaknesses; (2) differences in "timing" between the various components; (3) conceptual differences between "profitability" of the revolving fund and "profitability" of the organization; and (4) lack of capacity in "unpaid management".

3. Has there been any difference in the design of this component according to the different target groups?

- In principle, a general intervention model, which has been sought to make valid for all target groups, has been adopted. This has been one of the programme's weak points.

4. Have there been clear and relevant objectives and indicators for this component in the analysed interventions? Was there a clear link between the specific objectives of the income generation component and the overall objective of IPEC, e.g. the progressive elimination of child labour?

- No adequate indicators could be found and objectives were not clearly stated. The design also included means-ends relationships at the same levels of the logical framework.

- The link between the IPEC objective and income generation objective is clear, although for some specific groups the increase in income may be a necessary but not sufficient condition if children are to be removed from work. Temporary increases in the income of highly marginalized communities are directly used for consumption, and thus do not materialize into increased economic security.

5. Did results of and lessons from previous work guide formulation of these components?

- In general, yes, albeit in an informal manner. The experts are aware of the scope of the programme and its interventions, but they consider that apart from specific criticisms, they are unable to do anything to improve it, attributing a good deal of the difficulties encountered to donors' lack of flexibility and the meagre support from local authorities. This is probably true, but it would be useful to document the lessons and bring them to the attention of higher officials.

4. Implementation

4.1. From project approval to identification of loan clients

It has already been stated that IPEC's projects and action programmes follow a standard model, irrespective of the characteristics of the groups at which they are targeted, geographical areas, implementing agencies, etc.

Between design and implementation there is a stage of preparation of the so-called work plan, an annex to the project document that contains the programming of activities (assignment of time periods, resources and persons responsible for each). The work plan is prepared once the project is approved, since the information contained in the formulation documents is insufficient for implementation. Thus, in practice, the implementation process begins with preliminary and feasibility studies, which allow the activities to be designed in greater detail and with greater precision.

It is at this point that implementation normally begins. The first activities normally include awareness raising campaigns aimed at families in the target group and other stakeholders, including government agencies to other families in the area with working children. The awareness raising process is also normally used to make contact with the beneficiaries of the project and to redefine the initial census, including more information about the families. Experts from the implementing agencies normally carry out these activities.

Subsequent activities consist of concluding agreements with the local authorities (especially in the fields of education and health) so that they are committed to supporting the project and to participating in some of its activities. This is when educational and general rehabilitation services (health, recreation, etc) are provided. During this phase, loan clients are identified.

Once these activities have been implemented (raising awareness, health, education, etc.), there will already be a measurable number of children removed from work. Thus, measures to improve or increase income are taken to make their removal sustainable over time.

4.2. From selection of loan clients to fund management

Selecting potential loan clients is an issue that has proved difficult. In principle, loans should be aimed at families in the most precarious situations, since according to the project rationale the loans should help to replace the income earned by the children. However, the evaluation has been unable to determine that this criterion for the selection of recipients has been applied systematically.

Neither do the experts' views shed light on this uncertainty. While some of them confirm that a situation of economic vulnerability is a selection criterion, others assert that such families are not usually given loans, because they are not in a position to repay them.

This raises one of the major questions of this evaluation. Are the most needy really selected as loan clients (given that these loans are considered as a factor in removing children from work on a sustainable basis) or are the less needy chosen, because they are the ones that can pay (because sustainability of the fund is an objective in itself)?

In reality, it is not possible to give a clear answer. In principle, it depends on the implementing agency concerned, the project target group and the "ascendancy" of IPEC’s experts over those of the implementing agency.

Questions included in the Terms of Reference on management of the revolving loan funds (1/6)

1. Identify and examine "models of interventions" or approaches that have been used and the strategies involved in realising such approaches.

- IPEC's projects and action programmes have followed the same model, which sets out a general objective and three or four specific objectives, one of which is income generation through revolving funds.
- The strategies for launching activities to achieve this set of objectives can also be easily standardized. It is generally a matter of identifying one or more implementing agencies, signing contracts with them, financing these agencies to carry out a series of activities which generally start with raising awareness and social protection; identification and selection of loan clients, training and support for participating organizations and, finally, granting and management of loans. The whole of this process is accompanied by technical assistance for the beneficiaries and supervision and control by IPEC experts.
- The design, operation and management of the loan funds have been similar in all projects.

2. Implementing partners. Types of implementing agency

- Four types of implementing agency can be distinguished, based on their legal status and their operational specialization (they are all local organizations, and no supranational or international organizations were involved):

1. "General NGOs". Private organizations structured as foundations engaged in planning and managing all kinds of development projects. They normally have a good track record, experience with public and private donors, both national and international, and an adequate structure to carry out any development project. Prominent among these are ASAPROSAR in El Salvador or the Xotchil Acal Association in the "Los Caminantes" Project in Nicaragua.
2. "NGOs specializing in child protection". These are private organizations, also in the legal form of a foundation, which have worked in the protection of children's rights. They are more accustomed to working with private rather than public funds, and local rather than international financing, although they do rely on the collaboration with small international support agencies in the form of financial resources and expatriate volunteer workers. They usually have much more experience in child protection and in implementing development projects. One such example is the Mary Barreda Organization in Nicaragua.
3. "NGOs specializing in micro-finance". These are private organizations as well, but usually obtain a larger percentage of funds from international cooperation (either directly or through public agencies). Some of these organizations have been approached when neither of the above types, which were chosen first, could manage the revolving funds component adequately. One such example is the CEFEMINA Organization in Costa Rica.
4. Finally, certain government agencies in the recipient countries have acted as implementing agency. Perhaps the most notable case is the Ministry of the Family in Nicaragua (through its offices in Managua and Leon). Some of these government agencies have collaborated in projects by facilitating their implementation but with little budgetary or professional commitment (such as the project in Espíritu Santo Island, El Salvador).

The dilemma between the viability of the financial instrument and its relevance to the target population and thus the project objective has not been resolved either by this evaluation nor by the literature: "*The problem of choosing, on the one hand, between the provision of financial services with the objective of ensuring the viability of the institution and, on the other, provision of financial services with the objective of developing a given sector or target group is an old one. It already existed at the beginning of this century and at that time it was expressed in the contradiction between "welfare loans" and "commercial loans*"[7].

[7] Kuiper K., Schrnit L., van Rijn, F. (1995). *Financial Services. Development Cooperation Sectoral Policy Document* (page 22). Development Cooperation Information Service. Ministry of Foreign Affairs (DVI-/OS) 0 1995. The Hague (Netherlands).

This question will be further discussed later. However, the lack of clarity and agreement on the criteria used to select loan clients must be stressed. In principle, the following criteria have been used:

- Most needy population.

- No negative credit history.

- Good business idea.

- Participant in other components of the project.

- Some kind of security, generally a guarantor.

- Commitment to remove children from work.

One source of doubt is the usefulness of the “feasibility of the business” as a criterion for obtaining a loan. If this were really an issue, there would be countless investment feasibility studies. In reality, only a few analyses of this issue were found, involving always groups of beneficiaries and not individual investments.

For all the foregoing reasons, the evaluation can assert that the criteria used to select loan clients have been much more subjective and simple than it has been suggested[8]:

- That a loan application is made.

- That the person applying for it is known to the project experts (as a result of participation in other activities), is part of the target group included in the census, has explained orally how he or she plans to use the resources and there is no history of arrears.

This cannot be regarded as incorrect. Rather than complicated (supposedly) objective selection criteria, most analysts of micro-finance instruments suggest using the experience of lenders as a basic selection criterion.

At this point, the loan clients have now been selected. Following that, it is assumed that the experts prepare the supporting documents for proper monitoring of the operation and future client management.

[8] There is a document in the Sub-Regional Coordination Office ("Component of productive options: management of revolving funds by the Implementing agency") which includes the following set of criteria:

- Operate in compliance with legal requirements.
- Live in the communities where the project is implemented.
- Members of family where one child works.
- Prepared to be supervised by the local credit committee and the implementing agency.
- Participate in training.
- Have economic initiative.
- Level of indebtedness to third parties is reasonable.
- Up to date with loan obligations to the community credit committee.

However, this document is little known by the experts and the criteria it contains do not contribute very much to those who say they use it.

The fact that there is a document including the general fund model and a system for its management cannot be overlooked.[9] The document covers all the possible matters that may affect a fund, and includes a set of supporting documents useful for design and management.

The Sub-regional Coordination Office prepared this document after the start of most of the funds analysed. Presumably, it is little known and used by the experts. The evaluation suggests that the reason why it is little used lies in the complexity of the suggested system and supporting documents. The low monetary volume of the transactions does not justify this level of complexity.

Questions included in the Terms of Reference on management of the revolving loan funds (2/6)

2.2. Criteria used for the selection of implementing partners.

- It is hard to generalize about the selection criteria used. In principle, it should be noted that the situation in terms of potential implementing agencies is quite different in the three countries visited, both in terms of sectors where each operates, and even between regions within the country.
- Local NGOs in Nicaragua have a broad range, with strong organizations, high quality professionals, strong funding and are firmly and widely established in society, not only in their own country. However, IPEC has resorted to "small" organizations with little presence and knowledge of international financing. This paradox can be explained by two factors: (a) the meagre amount of funding committed by IPEC to each of its projects is not attractive to these NGOs, and (b) these organizations are generally highly politicised, for which reason it is not surprising that there has been a deliberate decision to avoid working with them.
- In Costa Rica, development support has been traditionally concentrated in bilateral work with government bodies. IPEC did not adopt this strategy, possibly because government agencies are not interested in the limited financial scale of the projects analysed. Another interesting issue in this regard is that in Costa Rica, revolving funds were linked to large public rural investment projects ("rural project financing"), which generated considerable knowledge in this field, but much less in micro-finance in urban settings.
- El Salvador might be placed half way between the other two countries. Broad-based NGOs cohabit with State development agencies. In this case, the selection of partners is perhaps less problematic, although neither the large NGOs nor the State development agencies have the same experience than their counterparts in the other two countries.
- For all the above reasons, it is very difficult to arrive at a standard set of criteria for the choice of agencies in the sample analysed. However, some general points can be made. Firstly, one criterion was the organization's presence in the context of the target group, met by all the implementing agencies. In some cases, the work with the target groups was only a small part of the organization's activities (ASAPROSAR, OEF, CEFEMINA), while in other cases the agencies focused most of their work on the selected target groups (Las Tías, El Fortín).
- Another criterion valid for all the agencies was their experience in at least one of the major areas of work (children and micro-finance). When the organization had experience only in one of these areas, efforts were made to provide technical assistance in the other, although this has not worked as it was hoped. In all cases, it was a requirement that staff should be assigned exclusively to the project, although ultimately not all the agencies fulfilled this criterion.

The document begins by identifying the main actors involved in the fund, distinguishing between:

[9] Op.cit. "*Component of productive options: management of revolving funds by the implementing agency*".

- ILO-IPEC, which appears as controller, without clearly stating whether it is responsible for financing.

- The implementing agency, which implements and manages. The document states that the fund "will be transferred to it", without mentioning the legal form of such a transfer, the terms on which it takes place and the rights and obligations to which it will give rise. It also appears that the implementing agency must take responsibility for the operation of non-financial instruments. The document includes of a series of obligations for the implementing agency, while ignoring any incentives to participate in the system.

- The local credit committee, with the functions of selection and determining business feasibility. It will consist of three people from the community, a chairman and two secretaries, elected by the loan beneficiaries. It is not clear whether the credit committee comes into operation before or after the loans are granted, or what are the advantages of participating in these organizations (other than the possibility of receiving expenses, although it is not clear whether these are charged to IPEC or to the implementing agency).

- The beneficiaries. These are the people who use the resources. The document states that these resources may not be used for consumption or housing (although it is not clear whether they can be used in the business infrastructure). The criterion of not having access to bank financing is introduced.

Questions included in the Terms of Reference on management of the revolving loan funds (3/6)

2.3. What are the requirements for good implementing agencies working in this field?

There is a great deal of information on the criteria for selecting a Micro-Finance Institution (MFI). However, the special nature of IPEC's target groups and the particular characteristics of each of the groups with which it works need to be underlined. Although it is difficult to suggest a set of selection criteria universally applicable, various authors suggest that a MFI should possess:

- an institutional mission, consistent with the principle that it belongs to this institutional group of entities and the principle of responsibility towards its clients, owners and financiers,
- a vision of its task and knowledge of its environment, expressed in total adjustment to the local context, while at the same demonstrating the ability to focus on the population with special difficulties in accessing other financing,
- strength and autonomy, determined by the capacity to reach a significant and increasing percentage of low income clients, yet compatible with its independence in terms of the financing specifically provided by the project,
- suitability for the proposed project , expressed as the capacity to evaluate to what extent the loan format is suited to the client with respect to the term, amount, speed and simplicity of processing, repayment incentives, etc.
- sustainability, in the three areas of market penetration, operational and financial viability,
- commercial flexibility of the funds, expressed as good financial management, giving priority to investments that ensure the operational and financial sustainability of the institution; the quality of the portfolio (arrears less than 10% and bad debts less than 4% annually); self-sufficiency (shown by progressive reduction in the subsidy component); and, lastly, possibility of achieving financial independence
- adequate human resources, meaning a stable staff and administrative competency of the team
- management and information capacity, expressed as reasonable efficiency in the management of small transactions, familiarity with reliable management information systems and the use of transparent and standardized financial management systems, to facilitate analysis of its management.

Since in the case of IPEC projects involve a target group with very special characteristics, it would be useful to include a further set of criteria concerning experience and knowledge on child labour issues.

- Some guarantors who contractually assume joint responsibility for repaying the loans, while their rights remain unclear. The document also seems to refer to some supposed guarantors of the lender.

The guarantors are precisely those who could not be identified by the evaluation. The system of guarantors has little actual impact on IPEC projects, since, as remarked earlier, guarantees have been invoked on very few occasions, and even fewer have been invoked against the guarantor.

The document also explains the technical characteristics that would need to be considered in the revolving fund. Most of them have not been incorporated in the funds analysed, with the exception of two:

- The maximum repayment periods, which were generally around three months, as recommended in the document.

- The rate of interest which was generally set at between two points below and two points above the country's central bank base lending rate. The document recommends that the interest rate should be split into four slices, 3% for administration, 2% provision for bad debts, 1% for "seed capital" and a percentage variable in line with inflation. Arrears would be loaded by an additional 100%.

Then follows a loan application form, including an analysis of the feasibility of the business, which raises several questions:

- It is fairly exhaustive, although some of the information requested is probably not very important and of doubtful value. In designing forms, one should not lose sight of the purpose, always asking "for what purpose" the information is required and "to what extent" it adds to the intended usefulness of the form. This difficulty and complexity was probably the reason why implementing agencies mostly did not adopt it, preferring those they were already using in other projects.

- To analyse prospective investments, it suggests the use of complex tools which are probably beyond the capacity of most loan staff in implementing agencies.

- It could be added that there are many documents on how to design complex models for analysing the viability of micro-financing (including in the ILO), which leads to the fact that formal requirements for access to loans are seen as a barrier by the beneficiaries.

- What is most important with respect to the feasibility of small investments is the quality of the business scheme and the effects it may have in contributing to a higher goal, and not the capacity to recover or rigidly sticking to irreproachable lending procedures. For this purpose, what is much more useful is the experience of the staff and ability to negotiate and take decisions, rather than complex procedures, strict criteria and a proliferation of supporting documents such as those suggested.

The document also contains other matters that the evaluation cannot ignore:

- It uses ambiguous concepts such as "family" and "dependency". Many people other than their own children may be dependent on a loan applicant. The “family unit” concept, especially in Central America and among disadvantaged groups, is much broader than the structure of a couple and non-adult children. If this document is to be used as a guide for the design and management of funds, it would be necessary to clearly define what is meant by family unit and what is meant by dependency.

- It also requests information on the applicant's expenditure and income in order to calculate his ability to pay. It has been shown on many occasions that expenditure estimates obtained from surveys are of little value. In this case, it would be more useful to have an open-ended questionnaire, with qualitative information on the family unit and dependants (as perceived by the beneficiary) and on its ability to pay off the loan or its saving possibilities, which is normally a good indicator of payment capacity.

- Further on, the document stresses the need of guarantors. This is a complex matter considering IPEC's target groups. If the loan guarantee requirements included in the document were applied, the rest would be superfluous. If the loan application included solvent guarantors, the quality of the business initiative would be irrelevant, since the money would be secured. Even if the investment proved not to be viable, it would have generated a redistribution of income from the guarantor to the beneficiary, and positive economic benefits for the latter, which would certainly compensate for the negative effects on the guarantor's financial position (from IPEC's point of view).

- The problem of access to credit should not be confused with shortage of capital: It reflects the existence of conditions that preclude the participation of the individual in the formal sector. Thus, the problem is not that there is no credit for the most disadvantaged, but that there are no guarantees for such groups.

- The appendix to the document —on expenditure and income of the loan fund— is interesting, although it should be considered at the outset, and include an estimate of all the costs associated with the project and not just the loan fund.

- Another interesting and highly useful issue are the suggested checklists. This tool is probably much more useful for selecting proposals and loan clients than the complex questionnaires included in the document.

Questions included in the Terms of Reference on management of the revolving loan funds (4/6)

3. Management tools used by implementing partners and by IPEC: similarities and differences. Effectiveness of different management tools.

- All the projects analysed were implemented by implementing agencies at the request of, and delegated by IPEC. There were no projects implemented directly by IPEC included in the analysis, and the evaluation cannot comment on differences between the two approaches.
- The differences in implementation were due to characteristics of the target groups and the implementing agencies in charge of the projects.
- The technical characteristics of the revolving funds did not show any significant differences. Thus, rates of interest, for example, were initially calculated in a similar way among all the agencies, although it was later decide to "subsidize" some rates due to the weakness of the target groups. The amounts of the loans, selection of clients and transactions, systems of guarantees and procedures for collection, fund administration and arrangements for disbursement were practically the same. Management and information systems, credit committees, administration, functions and responsibilities of the staff involved, etc., are other issues where no significant differences between implementing agencies were found.
- In general, it can be stated that all these systems, procedures and mechanisms have proved appropriate, effective and even efficient in managing the funds. Obviously, all of them have room for improvement, especially with respect to the need of "individualized" designs for each project. Thus policies on interest rate, guarantees, selection, administration and collection of the portfolio should be adapted to the target group concerned.

4.3. Bad debts, enforcement of guarantees and fund balances.

Bad debts. When the beneficiary does not fulfil the conditions for the repayment of the loan it is registered as arrears, and the interest is increased as a late-payment charge. Many of the loans have been listed at some time as arrears, up to 80 per cent in some of the funds analysed.

On average, arrears have fluctuated between 30 and 40 per cent for first loans, falling very significantly in subsequent loans. The causes of these arrears are various, and opinions vary depending on who is asked.

- For beneficiaries who fall behind with their repayments, the reason is usually due to external factors, associated with poor economic conditions and personal circumstances (illness, death of family members, theft, etc.)

- The experts agree about these causes, although they tend to minimize them, and add conditions concerning the beneficiaries' lack of business sense and their ignorance of what is involved in managing and running a business.

Enforcement of guarantees. When the arrears exceed a certain time limit, the loan is considered a bad debt. Bad debts are considerable in the initial loan cycles, as much as 50 per cent in some projects, with an average of 15 to 20 per cent. At this point, in theory, the guarantees or bonds given under the rules of the loan fund should be enforced.

Guarantees have hardly even been legally enforced in the projects analysed. This is primarily for three reasons: (i) the legal weakness of the designs and contracts concluded; (ii) the high cost of legal proceedings compared with the small amounts owed; and (iii) the experts view that the beneficiaries' situation is bad enough without making it worse, thus rejecting the possibility of creating negative effects.

There are few exceptions to this general pattern, and where guarantees were enforced, there were other reasons additional to the non-payment, generally related to the failure of the beneficiaries to remove their children or wards from child labour.

This attitude gives rise to the idea among experts and beneficiaries that the funds are ultimately a grant, and that the sustainability of the fund is not so important as the positive effects that it can generate, thus ignoring the possibility of causing negative effects.

In any case, it should be noted that repayment is higher in succeeding cycles than in the first cycle of loans. This is certainly due to the simultaneous effect of two important aspects:

- in succeeding cycles, loans are targeted at the good payers in the first cycle, who are also much better known to the project experts;

- in subsequent cycles, the project ceases to subsidize the operation of the fund, and the administrative costs have to be borne by part of the interest. Thus, the loan agents have more incentives to press for collection, since their wages depend on it.

Ultimately, the percentage of bad debts must be regarded as high, thus seriously impairing the sustainability of the funds. This issue will be covered in the chapter concerned, starting from the premise that under the current situation of bad debts, the revolving funds are, in general, unsustainable.

Questions included in the Terms of Reference on management of the revolving loan funds (5/6)

4. Management tools used for monitoring the component and tracking systems used for the beneficiaries.

- Monitoring has been carried out on three levels: (1) the implementing agency staff collected data and reported progress, maintained contacts with the beneficiaries and kept track of external factors; (2) this information was passed periodically to the project officer for each project in the agencies, who in turn prepared more substantial reports covering longer periods of time for submission to IPEC; (3) for their part, IPEC experts checked the veracity of the reports (project supervision) and incorporated their own comments in the reports.

- The monitoring model used can be considered appropriate. The results have been good with respect to the financial aspects (state of fund portfolios and project accounts) and satisfactory on other issues. Some weaknesses in the model can be pointed out, although this evaluation is anecdotal in nature:

(1) In El Salvador the loss of information about one of the main operations can be seen as serious. Although the problem occurred when external support had already been withdrawn, it is possible that in a project with stable, professional and responsible implementing agency staff, the weakness of the information system would lead to its breakdown.

(2) In the projects in León (Nicaragua) the monitoring systems handle more information from informal channels than from the system itself. This was caused by "competition" between projects and agencies to obtain better performance and results indicators.

(3) In Costa Rica there was a certain lack of coordination in the circulation of information caused by the change in implementing agencies during the implementation of the projects.

- Although the monitoring information systems proved adequate, they could be improved if two steps were taken in the general administrative model: preliminary design of these systems and greater "proximity" of IPEC administrators to the projects. This is already happening in the new project formulations.

- The financial aspects of these systems are impeccable, despite weaknesses caused by the design of the model itself. This is for example the issue of local contributions, which is transformed into money though an accounting entry. The local contribution is called by some agencies "institutional loan" and by others, much more informally, "the 5 per cent".

- There are weaknesses in the reporting systems in terms of showing the contact with the beneficiaries, but these cannot be described as problematic since there have been no complaints from the latter, apart from requests for greater presence of fund managers on the spot and proximity of the bank to their business locations (this could perhaps be improved by using "collectors").

Fund balances. Despite the fact that the funds are not sustainable from an operational perspective, there are certainly some cash "balances" at the end of all the projects. In other words, after a series of loan cycles, there is always money deposited in one or several bank accounts.

All those involved in the management of the funds consider the destiny of these "balances" as a serious and urgent problem. In the general documentation intended to regulate the funds it is provided that the amounts must be transferred to the implementing agencies for their management in successive cycles, leading to the paradox that for some of the implementing agencies (around 75 per cent of those interviewed) maintaining the funds has ceased to be a profitable activity.

As long as the project covers the costs of administration and, in particular, the salaries of promoters and loan agents, managing the fund has a financial value for the implementing agencies. However, with the reduction of the available sums and the completion of the project, the funds turn into a burden rather than a source of business. One implementing agency even said that maintaining the fund was costing it more resources than it had available, and it wanted to off-load it as soon as possible because they thought that it was putting the organization at risk of collapse.

The regulations contained in the contracts for fund transfers between IPEC and each of the implementing agencies do not clearly indicate the final destination of the balances, although all the contracts point out that their management is transferred to the agencies provided that it is used for the initial purpose and the main target population.

In the agencies' opinion, these fund balances should be donated as untied contributions for their institutional strengthening, since keeping them in successive loan cycles with the same target groups costs them more than they get back in interest (part of which is supposed to be used to cover their management costs). They even say that they are willing to keep it in loan cycles, but with different populations, selecting beneficiaries on the basis of their capacity and willingness to pay, and not based on the general objective of the project in which they participated. They therefore consider that the instrument can be sustainable, but not if it continues to be aimed at the same target population.

IPEC officials hold the view that donors provide these funds for a specific purpose (the progressive eradication of child labour), and that if they remain in the hands of the agencies, there should be a formal undertaking to use them for that purpose.

The opinion of the beneficiaries is that the fund balances belong to them, especially the "good payers" in the initial loan cycles. They are ready to assume their transfer on any conditions.

The reason for this situation is the lack of an initial definition of the destination of balances. Theoretically, and this is perhaps the best suggestion for the future to avoid a repetition of the current problems, the repayments of the first loans from revolving funds should be considered as savings by the beneficiaries, and managed accordingly.

The procedure would be as follows: the fund is set up (with its regulations) and a first portfolio of loans is placed with the beneficiaries. As they pay back the loans, the amounts collected are considered as the personal savings of each one of them. The saving is remunerated with a rate of interest (generally lower than the lending rate), and the beneficiaries can make use of their savings as laid down in the fund regulations, either for new loan cycles (whether or not they participate) or by withdrawals for any purpose they wish. In general, fund regulations provide that savings cannot be withdrawn, partially or totally, until the end of the project.

Treating loan repayments as beneficiaries' savings has another important positive effect, since it encourages the entry of the beneficiaries into market systems and acts as a powerful incentive to pay back loans, since the money attracts interest.

In the case of the funds analysed, it may be too late to apply this system, so alternative mechanisms for liquidating the balances would need to be designed. In any case, it is clear that from the donor's point of view, these are tied donations, and should be used for the benefit of the project target groups.

Questions included in the Terms of Reference on management of the revolving loan funds (6/6)

5. Feasibility / market studies undertaken prior to the credit decision. Common patterns. How have these studies affected the selection of the beneficiaries?

- Few feasibility studies rigorously conducted were available for consultation, and even fewer market studies. In most cases they have not been done or, when they have, they were poor for various reasons:

1. They are very demanding in resources and professional expertise. The amounts initially envisaged for such studies were meagre.
2. In general, the identification and formulation phases were poor and lacked a strict methodology, resulting in poor requirements for such studies.
3. The small amount of the majority of individual loans was a constraint to carrying out studies that would cost more than the investment itself.
4. Existing analyses refer to group investments. The quality of these studies is poor.

- The studies rarely led to rejecting an investment. However, on one occasion, an investment was not done although the study was favourable. This says little about the value of feasibility and market analysis. They should, however, be crucial when undertaking an income generation action.

6. Has there been any difference in the implementation of this component according to the different target groups?

- The mechanisms for implementing the income generation component were similar in all cases (launch of a revolving fund accompanied by non-financial training in credit, business management and technical assistance). During implementation, however, some differences were found, as projects were adapted to the situation they sought to affect. These adjustments took place in two main forms: (i) "adjustment to the geographical environment" - in some cases it was found that the location of working children did not correspond exactly to the home of their families, so that the project actions had to be transferred to the districts from which the children came, establishing alternative sources of income for parents. Another project extended its geographical area of operations depending on the location of demand for credit; (ii) on some occasions, the conditions for access to loans were eased for the intended target population.

7. How have the implementing agencies provided technical assistance to the beneficiaries of the credits?

- In the projects analysed, technical assistance was provided in two ways:

1. In some of them, the implementing agencies provided technical assistance directly to the loan beneficiaries.
2. In other cases, the implementing agencies "subcontracted" or assigned technical assistance to specialized entities for each specific project.

- No significant differences were found in the results of the uses of these two approaches. In all cases the technical assistance was seen as insufficient (and on one occasion of little relevance to the context and type of beneficiaries). However, considering the available resources, it would have been difficult to do more.

8. How has IPEC provided backstopping to the implementing agencies? Which has been the most effective way to ensure the necessary technical assistance for the appropriate implementation of the funds?

- IPEC was present in all phases of the management of the action programmes, from the moment of origin of the initiative and analysis of its relevance to the project as a whole, through identification and formulation, to monitoring and support with evaluation, and in collaboration with the implementing agencies. In the implementation phase, rather than administrative support, there was supervision of the overall implementation, providing technical assistance and office facilities in areas where the agencies had the greatest problems, including facilitating contacts with the beneficiaries.

9. Which are the possibilities and shortcomings of IPEC's tracking database for monitoring beneficiaries of income generation activities?

- The technical tools and supports used by IPEC to manage the information derived from monitoring of the loan components were weak. This was due to various factors: overloaded staff, "refusal" to devote greater efforts to this area due to a conviction that they were not the right people for the job, lack of specialist staff and problems in organizing and processing information which was not suitably prepared.
- At the time of this evaluation, efforts are being made to resolve this problem and it is virtually certain that the problem will now be overcome.

5. Results

This chapter analyses the results achieved by the revolving funds as an income generation instrument to contribute to the progressive elimination of child labour. It is important to point out that —with the available information— it has been extremely difficult, albeit impossible, to isolate this instrument from the other components of IPEC's interventions.

This chapter is structured around the evaluation criteria suggested by the ILO,[10] which will be used for all the project components and specifically for the income generating activities.

Some important preliminary issues need to be discussed here:

- The main "findings" of the evaluation relate primarily to the criteria of effectiveness and relevance; and not so much to impact and sustainability.

- The treatment of this latter concern —sustainability— is especially complex in this case, since, as mentioned earlier, the sustainability of the revolving fund instrument may not be congruent with the general sustainability of the overall objective to which it is sought to contribute (the elimination of child labour).

- The evaluation of the instrument in terms of efficiency is much more difficult, since it is practically impossible to analyse it except by comparison. Moreover, comparison with alternative instruments can only be a theoretical exercise with little empirical evidence.

- No significant negative impacts were found. For this reason, the evaluation of this concern dealt to a large extent with the "non-effects" produced.

- The ILO establishes other evaluation criteria which were considered in this evaluation:

  ✓ The question of "alternative strategies" was used in considering other possible income generation instruments. The evaluation of this criterion was linked to the efficiency, considering whether there might be alternative solutions which cost less or the same, or would be more effective at similar costs.

  ✓ In this report, "causality" is closely linked to relevance, in terms of the match between the problems identified and the adopted solution (in this case, a common strategy, or standard model of intervention).

5.1. Relevance and causality

According to the ILO Guidelines, the relevance "*examines the usefulness of the project's results in solving the identified problems and meeting the needs of the target group(s). The analysis ascertains whether the project continues to make sense and identifies any changes that may have occurred in its context during implementation. The initial problems and needs may no longer exist. New problems and needs may have emerged as a result of political, economic, social and other factors, or even because of the project's activities. Ultimately, the analysis determines whether the objectives are still valid or should be reformulated*".

Starting from this definition, the first aspect that needs to be evaluated is the match between the problem and the proposed technical solution. In this respect, initially, it might be asserted

[10] *Guidelines for the preparation of independent evaluations of ILO Programmes and Projects,* ILO (PROG/EVAL), November 1997.

that the instrument of revolving funds has proved partially valid in solving the problem of child labour in IPEC's areas of intervention.

- The assertion of "partial validity" of the instrument is due more to its scope than the concept. In principle, the strategy followed assumed that revolving funds were a means of generating income and that, in conjunction with other components, they would be able to contribute significantly to the removal of children from work. This actually occurred only in certain very specific cases.

- The evaluation can state that the results of the application of the instrument have been extremely uneven. This disparity was not so much a function of the model adopted (once again, similar in all the projects) but of the target group concerned.

- The justification is that revolving funds could be a means of generating income to ensure that the achievements of the other components of the projects are sustainable in the long term. It can therefore be stated that the instrument has proved a partial solution to the problem of child labour, by ensuring the sustainability of the other project components.

- However, for certain beneficiary groups the instrument has not achieved the sustainability of the businesses promoted with the credits.

In short, the apparent paradox is that an instrument conceived to ensure the sustainability of the other components has not always been able to ensure its own sustainability. Probably the explanation for this can be found in an idea put forward by many authors concerned with micro-finance: credit does not work satisfactorily with extremely disadvantaged groups.

Thus, Hulme and Mosley distinguish between the **protection effect** of credit, asserting that in the most disadvantaged groups the aim of credit should be to provide for basic needs, with little effect on the generation of additional income, and the **promotional effect**, designed to lay the foundations of income generation.[11]

The evaluation came to a similar conclusion, having found that in general revolving funds worked much better with some groups than with others.

- The projects analysed were aimed at family groups in dumpsites, markets, match sellers in streets and at crossroads, collection of shellfish, vendors at bus stations, etc.

- It can be stated that the revolving funds were a much better solution for those groups that " have already something", i.e. for the target groups that have at least part of their basic food, housing and health needs covered. Thus the best results were achieved in markets with vendors (especially women) who had a fixed point of sale and already used loans from informal providers. Fairly significant results were achieved with groups that were already engaged in other commercial activities, such as vending in the street and at bus stations. The results were rather poor with shellfish collectors, and in reality there was very little success in dumpsites and with other extremely marginalized groups.

- The explanation for these differences probably lies much more in the degree of marginalization than in geography (projects were done in dumpsites in more than one country and in markets in all of them, with similar results) or the different project models (the same strategy was applied in all of them), or differences between implementing agencies (their management systems were similar).

[11] Hulme D. and Mosley P. (1996): *Finance Against Poverty*, Volume 1. London, Routledge.

This conclusion is not based on scientific or statistical evidence, but it does coincide not only with the views of the staff interviewed but also with much of the literature on the impact of financial instruments for poverty reduction.

While this subject will be covered in greater depth while dealing with effectiveness, it can be asserted here that revolving funds are appropriate to contribute to the eradication of child labour provided that a series of necessary but not sufficient conditions is satisfied:

(1) that the need of the family for the income contributed by the working children is the main reason why they work;[12]

(2) that this income, added to the resources provided by other family members, is enough to raise the household income from covering minimum basic needs (extreme poverty) to the so-called "subsistence level";

(3) that the family's main economic activity has previously benefited from loans (a service normally provided by so-called "loan-sharks" or "money-lenders");

(4) and, of course, that those conditions necessary for the revolving funds to be valid development tools are met (initiatives selected for loans which can "pay back" and generate surpluses, proximity of managers to beneficiaries, financial products appropriate to the demand, motivation of staff, simple management systems, rapid disbursement, capacity to mobilize domestic saving, linkage to non-financial instruments, etc.).

Revolving funds as a means of increasing income will be an appropriate solution to the problem of child labour, provided that at least the foregoing conditions apply. However, it has already been pointed out that for some very specific (marginalized) groups, income generation may be a necessary, but not sufficient, condition to withdraw children from work.

One possible explanation to this issue is that the problem lying behind the rationale of intervention has been incorrectly identified. The assertion that a cause of child labour is low family income might not apply to all the groups involved, or to all the families within those groups. Perhaps the problem that leads to child labour is not income but expenditures. In other words, in extremely marginalized groups, child labour would not be justified by the income provided by the children but by what the parents have to spend on them.

A child means expenditure on food, health, schooling, clothing, "security", etc. In situations of extreme poverty, the first neglected item is schooling, which in turn generates situations of insecurity because responsible adults no longer supervise the children. Under these circumstances, parents or guardians might decide to take their children to the workplace (normally in informal settings). The importance of children helping their parents at work is not so much the income that they may generate, but the expenditures that are saved in two crucial areas: security —since, at least, they are supervised— and school. Furthermore, it is possible that they obtain food and even clothing. If in addition they are able to contribute cash income or labour, the situation will be better, but this is probably not the most significant reason for them to work. This may be the case in dumpsites and collecting of shellfish, or certain agricultural tasks.

[12] On occasions, in extremely poor groups, the problem, rather than the need for children to bring in income, is that the children do not cost anything (children on waste disposal sites). This may also be one of the reasons for child domestic labour, in that children move to other better off families to work in exchange for food and not much else.

In this situation, temporary increases in income generated by granting loans to extremely marginalized groups would be used mainly for consumption, and would thus not result in increased economic security.

On the other hand, both in markets and street vending, the child's income may be quite significant to the family economy. The parents also take the children to work, but provide them with the goods so as to increase the range of their business. In this situation, the children are still supervised (usually selling within sight of their parents), they can obtain food and even clothing, by exchange with other traders or the charity of possible customers, and they do not incur any school fees.

However, the great difference compared with the foregoing groups is that these parents or guardians are already involved, to a more or less formal extent, in the market economy.

Such situations give rise to another paradox: among these groups, it is more difficult to remove children from work, but the revolving fund might become a much more useful instrument for promoting income generation. This issue will be analysed in the chapter on effectiveness.

If all the foregoing is true, IPEC should:

- reformulate its general analysis of the situation including, alongside low income, the cost of children to family economies; and

- Formulate each project and action programme separately from the others, in the light of the specific situation of each of the target group.

The relevance of IPEC's income generation strategy in relation with ILO's guidelines, local or national policies and other donors' interventions, as well as the possible creation of synergies with similar or complementary actions, should also be analysed. In this respect, the evaluation has not found serious problems, and it can be concluded that the Programme is consistent with general intervention policies relating to child labour in the region, and contributes to leadership in this respect. It can, however, be mentioned that:

- In general, existing micro-finance lines in the region are not aimed at population with the characteristics of (some) IPEC's target groups. Micro finance is focussed on groups with existing businesses and sufficient capacity to pay.

- No significant synergy has been found with the activities of other development agencies. The evaluation suggests that measures could be taken in this respect to multiply the positive effects of the interventions.

- There has been very considerable progress in coordinating with local policies in most of the countries in the region. The involvement of local decision-making structures is very positive and progress is being made in this direction.

As to causality, the ILO evaluation guidelines state that the analysis should focus on the following subjects:

(a) the factors or events that have affected the project's results (if the inputs needed to carry out the planned activities and deliver the expected outputs were available on time);

(b) the reasons for possible deviations or changes; and

(c) the effect of other factors such as technical, administrative or managerial constraints, inadequate inputs, failed commitment by project partners, insufficient funds, a faulty assessment of the effect of an assumption, etc.

In this respect, the following matters can be raised:

- The evaluation did not find any external factors having an adverse impact on the performance of the projects.

- However, there were some delays in starting the revolving fund component in almost all the analysed interventions, due to design weaknesses mentioned above rather than to external factors or lack of expertise among the staff.

- The management systems have been appropriate, although could be improved at the project design stage. Much the same can be said about administrative procedures, monitoring, control and supervision systems, etc.

- A significant issue in this connection is that, in many cases, the activities implemented with credits from the revolving funds did not coincide with those originally planned. This issue is especially significant in the case of interventions in dumpsites and markets, where actions involving recycling and deposit of waste were proposed but not implemented.

- The reason for the situation described in the previous paragraph can again be traced to the weakness of the design, where activities were planned without the agreement of the final beneficiaries, established with scant participation, a minimum of detail and based on poor feasibility studies.

- The inputs were adequate and the commitments undertaken by the various parties were fulfilled as agreed. No significant technical difficulties were found in this respect.

5.2. Effectiveness

The ILO evaluation guidelines state that the effectiveness concern *"assesses the extent to which the project has achieved its objectives and reached its target group(s). The analysis determines if the expected results have been or will be accomplished and, if not, whether the statement of objectives should be modified (mid-term evaluation) or the project extended (terminal evaluation). This assessment is facilitated if the objectives and indicators of achievement adequately describe the desired situation at the end of the project. The changes brought about by the project are ascertained by comparing information regarding the pre-project situation (of the beneficiaries) with the existing situation at the time of the evaluation".*

As with relevance, the evaluation concludes that revolving funds have been a fairly effective instrument in ensuring the long-term sustainability of the progressive eradication of child labour achieved through other components of the projects.

In the initial interviews with IPEC and implementing agency staff and representatives of the beneficiaries, it emerged that the considerable successes in removing children from work were due, at least initially, much more to the awareness raising, social protection and education measures than income generation. The majority of the children who gave up work (at least temporarily) did so before the revolving funds came into operation. Hence the insistence on the importance of this third component to ensure that the successes achieved by the former become sustainable.

But making such an assertion, that revolving funds are a vital factor in the sustainability of the objective and that a good part of the target population has given up work, says little about the effectiveness of revolving funds as a means of generating income allowing the removal of children from work, once the external support provided by the projects ends.

Measuring the effectiveness of the funds involves checking indicators. The performance indicators for these funds were based on their survival, the sustainability of the businesses started with their help, the transfer of income to the beneficiaries and the effects on child labour. Only the first two indicators are relevant in judging the effectiveness of the funds, since the third shows only that there has been a temporary transfer of income and the fourth is valid for all the project components, and —as mentioned in the beginning of this section— it is impossible with the existing information to isolate the contribution of each of them to the overall objective of child labour elimination (although the subjective impression is that the contribution of the income generation measures was somewhat limited).

With respect to temporary increases in incomes of the beneficiary families, in general the loans did not lead to permanent reductions in the poverty levels. The revolving funds were useful in "injecting" income into families, but not in generating sustainable businesses. In addition, the operating problems relating to fund balances demand a great deal of prudence in evaluating the instrument's overall effectiveness.

In this respect, the results achieved vary. With a similar fund design in all the projects, there have been some that showed a good level of sustainability and are keeping many of the businesses started with their help going, while others have virtually collapsed and the businesses they supported have failed. These differences can probably be explained by three underlying, highly interrelated factors:

1. **The different nature of the target groups.** It can be assured that repayment rates were better when working with groups situated "in the market", and it is almost totally certain that the degree of "marginalization" of the groups is a decisive factor in the performance of the funds. Thus, this instrument was more successful when working with groups in markets and bus stations than in dumpsites and rural areas.

   Given the available data, taking the analysis any further would be bold, although a few explanatory factors might be identified:

   - → Experience with previous loans, especially those provided by "money-lenders" is important for success. The substitution of this common finance source by loans on better terms managed by the project has been important for the beneficiaries.
   - → The results in urban areas can be considered better in general terms than those achieved in rural areas.
   - → The degree of marginalization acts as a constraint for the success of the lending. Irrespective of level of education, experience and other factors, the fact that the family does not reach a minimum subsistence level means that the loan would merely have a protection effect. Groups in the lowest strata of society are ready to accept any help without concern for the conditions imposed by the lender. For these people, the so-called "moral sureties" are more important than any other kind of guarantee.

2. **The different operations undertaken**. The viability of the various businesses supported was a factor that affected the rate of loan repayment. In addition, there was a relationship between the viability of these businesses and the conditions set out in the previous point.

Thus the viability of operations started up with groups closest to the market and with a lesser degree of marginalization was higher.

While it is difficult to establish a strict rule on viability by "business sector", it does seem that, in terms of sustainability, trading activities involving buying and selling predominate over production oriented actions. The operations aimed at the production of goods and services for the market were not only fewer in number, but also their relative viability was much lower than purely commercial operations.[13]

3. **The influence of "cultural variables".** Once again, marginalization is a factor that hampers success. The level of education and health and living standards in general (location and quality of housing, accessibility of commercial centres, access to basic social infrastructure, ability to negotiate, etc.) significantly determine the potential success of operations and, thus, the repayment of loans.

   However, the importance of "moral obligations" for this marginal population should again be emphasized. The implementing agencies report that beneficiaries among these groups fulfil their commitment concerning the removal of children from work even when they are not able to pay back their loans. This could indicate the importance of the instrument beyond its immediate objective of promoting income generation (market knowledge, reduction in marginalization, protection against disasters and, especially, coverage of basic needs for a certain period of time).

The efforts of agencies to deal with cases of arrears have been similar in all cases. In this respect, two instruments to reduce arrears have been used: moral pressure and financial incentives and coercion.

- Efforts have been made to pressure individuals to pay, through visits by loan agents and even by other beneficiaries. This instrument has worked better than financial incentives and coercion.

- Financial incentives (reduction in interest rates, cancellation of part of the debt, etc.) have only been used in extreme cases where the alternative was non-collection, with little success.

- Much the same can be said about financial coercion, normally consisting in cutting off the access to new loans and publishing a list of debtor's names. However, it is known that cutting off access to new loans only works when the conditions for new loans are better than the previous ones, which has not been the case with the IPEC projects.

The enforcement of guarantees against the guarantor and/or borrower was very rare (just four cases out of approximately 1500 loans). They were not only related to non-payment but also to individuals who had not fulfilled other commitments under the project.

In short, the revolving funds proved more effective (effectiveness being measured as sustainability of the fund itself and the businesses it supports) when they were aimed at

[13] The majority of the credit applications analysed during the evaluation was for commercial activities involving the purchase and sale of goods (food in taverns and markets, new and used clothing, non alcoholic beverages, purchase and sale of vehicle parts, etc.) Credit demands for production were very limited: only a few cases of small bakeries and confectioners (or processing of perishable foods and public consumption at domestic level), one breeder of poultry for sale and one prawn fishery were found. Most of the loans were directed at strengthening existing activities and only a few at starting new businesses, involving greater investment and higher risk.

groups that were formally or informally part of the market, and achieved poorer results when aimed at highly marginal groups. However, if effectiveness is measured as the contribution to the higher objective of the progressive elimination of child labour, there would be no difference in terms of the target groups, and it may even have been more effective with the marginal population.

This apparent paradox can possibly be explained by two factors mentioned earlier:

1. The effect of "moral" obligations and incentives, which is greater in the most disadvantaged groups. The argument of "keeping the word" appears stronger when working with someone who has never possessed anything than among those who are already in the market. This conclusion, for which there is no empirical data, is based on observations by the staff of implementing agencies.

2. The positive effect of the other components and the importance of children's income as a reason for child labour. It seems that the application of the other components of the project has similar effects on the withdrawal of children from work in both groups (“in the market” and "marginal"), but for those who are “in the market”, the children's income is a much more important reason for their children to work than in the other case. Thus, for the "marginal", the fact that their children receive education services and are partially fed at the project's expense can be enough to keep them out of work, while for those “in the market" the income foregone when the children are at school can be a powerful incentive for desertion.[14]

This last argument loses importance when the project ceases to provide support for schooling. In this situation, it is possible that the income generation component would become an "insurance" to keep children away from work, but for that to be the case the temporary increases in income must have translated into permanent reductions in levels of poverty.

It would be useful at this point to introduce a new indicator, closer to the measurement of impact than to the effectiveness. It would be necessary to determine whether the temporary income obtained via a loan is transformed into permanent reductions in poverty. The success of the business supported by those loans can be used as a proxy indicator for this, which leaves little room for optimism. The subject will be revisited when evaluating the efficiency and impact of revolving funds.

5.3. Efficiency and alternative strategies

The ILO guidelines state that, in terms of efficiency, an evaluation should assess "*the results obtained in relation to the expenditure incurred and resources used by the project during a given period of time. The analysis focuses on the relationship between the project’s inputs, including personnel, consultants, travel, training, equipment and miscellaneous costs, and the quality and quantity of the outputs produced and delivered. It ascertains whether there was adequate justification for the expenditure incurred and examines whether the resources were spent as economically as possible. This assessment should also determine whether the actions by the various partners were complementary and identify alternative strategies to deliver more and better outputs with the available inputs*".

With respect to alternative strategies, the guidelines observe that these "*are assessed, particularly if the original strategy turns out to be inappropriate. Evaluations examine*

[14] Some experts interviewed commented that several families in the markets withdrew some children from work, but they were replaced within a few days by an older sibling.

whether alternative approaches might have had greater impact or might have been more cost-effective. This analysis is especially valuable when follow- up activities are being planned".

At this point, a distinction should be drawn between the efficiency of the project and the efficiency of the revolving fund linked to it.

It has been observed that the projects proved effective in achieving their objective (the progressive eradication of child labour) although it is difficult to confirm its sustainability. It has also been pointed out that it is very difficult to isolate the effect of the income generation component from that of the other project elements, but that its effect on the overall objective does not appear to be particularly important.

It could be argued from the foregoing that the projects have not been efficient since the desired result was achieved with only some components of each project, making one of them —the income generation activities— barely necessary. If through awareness raising actions, health support, leisure activities, education, etc., children were removed from work, there does not seem to have been the necessity of implementing income generation measures.

Clearly, the above statement is called into question if the income generation is regarded as a means of ensuring the sustainability of the achievements of the other components. If it is possible to show that the other project results have led to the eradication of child labour and that the income generation component was the "insurance" that the benefits were sustained, the projects could be described as effective, and also efficient.

Consequently, the task for the evaluation is to show that the income generation component served as an "insurance of sustainability" of the objective achieved. For that, it will first be necessary to show that:

(a) the funds have proved sustainable, or at least able to continue to operate for a period of time, since not all the target population was reached in the initial loan cycles;

(b) the businesses started with the support of the fund were successful, since their failure would return the families to the economic situation prior to the intervention, and they would continue to need the income provided by their children.

When evaluating the efficiency of a revolving fund linked to a development project, two main indicators and a couple of secondary indicators are normally considered. The main indicators are the operational self-sufficiency and the financial self-sufficiency. The secondary indicators include the possibility of access to the funds and the conditions determining such access.

Self-sufficiency, in broad terms, is determined by the degree to which income covers the cost of loans. The cost of loans should be calculated in two ways: first including loan operating costs (price of money to the financier, non-payment or risk premium and direct management), and then including financial costs (maintaining the value of money, training, technical assistance and others).

- Operational self-sufficiency means covering operating costs with the generated income and it is a condition of sustainability for all revolving funds. In order to achieve operational self-sufficiency, the capital or savings rates (amortization of principal) must match the loan portfolio, which ensures that there is no further use of external financing.

- Financial self-sufficiency means covering operating and financial costs from income, and it is a condition for the sustainability of funds intended to have a promotional effect on credit.

The funds analysed are not, in general, capable of achieving operational, much less financial, self-sufficiency. Up to now, a series of loan cycles have been done, but with high bad debt rates for the sector.

Normally the whole is covered in the first cycle, and with the first repayments it is decided to continue granting credits to the best payers. In this way, it has been possible to grant up to six loans to the best performing clients. However, rates of arrears, many of them subsequently treated as bad debts, are very high in the early cycles. This means that the debts reduce the capital available for lending, which now averages less than 50 per cent of the initial amount of the revolving fund.[15]

If it is desired to maintain the size of the portfolio (which is not a project objective), the situation is such that this would only be possible with injections of external capital to the fund.

Furthermore, the majority of implementing agencies express the wish not to continue managing the funds, based on their perception that maintaining them costs them more than the income they receive, and that the portfolio of loans is smaller both in absolute and relative terms (as a percentage of the number of beneficiaries, number of operations supported, etc.)

The evaluation has showed that around two thirds of the revolving funds linked to projects are not operationally self-sufficient, since repayments are much lower than the initial loan portfolio. It is obvious that if the funds are not self-sufficient from an operational point of view, they will be even less so from a financial standpoint. It is curious that, at least in the case of Nicaragua, the costs of technical assistance and training are included in the budget for income generation. While the percentage under this heading was not more than 25 per cent of the total allocated to this component (normally US$7,000 out of a total US$30,000), the funds were not able to recover this capital through the generated income.

It seems that given the rate of bad debts (if not excessively high, in all cases higher than recommended by the literature, which normally accepts a maximum of around 6 per cent), the interest paid by the beneficiaries has only served to maintain the value of the money, to cover management costs and pay the wages of the staff responsible for collecting loans.

In any case, the revolving funds have not been able to recover the costs associated to the project, i.e. the financial costs.

The following part of the analysis will determine whether the businesses started with these funds have proved sustainable.

Although quantification is difficult, broadly speaking between 60 and 70 per cent of businesses launched by these projects were not sustainable or are going through serious crises. However, the indicator may not be so pessimistic if it is compared with the fact that over half the schemes started in developed countries are not engaged in the same economic activity five years after their formation.

Above all, the funds have focused on supporting already existing businesses, with preference to those of an individual character rather than group investments.

---

[15] This percentage varies widely depending on the fund concerned, from 10-15 per cent and 70-80 per cent less than the initial balance. Two groups can be defined depending on whether this "recycled capital" is above or below 50 per cent of the initial balance, with three or four funds in the high group and eight or nine in the low, the explanation for the variation, once again, being the characteristics of the target group.

With respect to individual businesses, the following points can be made:

(a) The majority have focused on the commercial sector, especially small-scale buying and selling. Two main activities can be distinguished:

- Purchase in the formal market for sale in the beneficiary's establishment. In general, these businesses survive, even though they are experiencing serious sustainability problems generally attributable to the poor economic situation in the area where they operate and personal issues such as illness, thefts, etc. Another series of reasons can be mentioned, such as little business expertise, cultural, training and educational factors, purchase for cash and selling on instalments or on credit (which has a higher risk), the perishable nature of some of the products, inadequate management and, certainly, poor risk management (theft, assaults, fraud, etc.)

- Purchase in other places for sale in formal markets. In this group, the percentage of success is much higher, certainly the highest in the entire Programme, although as already indicated, this has mainly involved support for existing businesses rather than the creation of new initiatives.

(b) Initiatives focussed on production or manufacture of products for sale and agriculture have generally proved barely sustainable. No agricultural business was able to generate profits after the repayment of the loan, due to poor weather conditions.

Businesses started collectively by groups sharing the risk wer fewer than individual businesses. In the region there is a reluctance to work in groups, due to mistrust between neighbours and bad experiences with other projects using such methods of work.

Furthermore, from the point of view of the staff concerned, it is much more difficult to work with community schemes than with individual loans, despite the greater management demands of the latter.

It is complex to assess the success or failure of the businesses started by the revolving funds linked to each project, but some issues which may serve as indicators can be analysed:

- In general, the projects had difficulties in placing their loan portfolios in the first cycle. The supply of funds was higher than the expected demand from the target population.

  For example, a progress report of one of the projects stated: "There are another 27 families with 31 children covered by the project (out of a total of 107 children not initially covered) who did not want to receive loans". This is one of the projects implemented in a dumpsite, where loans were granted to 99 families, less than half those originally listed.

  These difficulties in placing loans could indicate a number of issues:

  ✓ There was an error in identifying the problem: the solution (loans) did not address local needs as perceived by the beneficiary population.

  ✓ Some of the proposed initiatives did not get beyond the feasibility analysis stage (possibly because the amounts invested did not justify major expenditure on prior studies) or these studies were rather poor.

  ✓ Credit promotion was not successful. However, it should be noted that promotion is an activity much more linked to micro finance programmes rather that to project-related funds, where it is assumed that the other project components will carry out that activity.

- Some of the implementing agencies did not express confidence in the mechanism that was being introduced. For example, the following observation appeared in one of the self-evaluation reports: "In generating economic alternatives, it was found that the project intervention model did not match the reality and needs of the target population". It is also indicated in the same document that not all the families were in a position to start a business activity because they lacked the technical and managerial capacity, experience and especially motivation. The report stated that families with no capacity for business needed a different approach, aimed at developing skills to enter the labour market. This fund delivered less than 50 per cent of the available capital over all its loan cycles.

- The local credit committees did not achieve the expected results. The majority of the funds included the creation of local credit committees with clear functions concerning the selection of loan clients and the approval of loans for the schemes submitted.[16] The committees' results were very disappointing, which seems logical if it is taken into account that their members had no incentive to participate in an activity which imposed obligations on them, cost them money and could set them at odds with their neighbours. Neither were there any initiatives to make the population itself encourage its neighbours to participate in the component.

- A specific issue, possibly linked to the target groups of the Programme, can help to explain (although to a limited degree) the difficulties in placing portfolios. One of the documents analysed states that the credit was offered to families with working children that were using their wages not to supplement family income but to buy non-basic consumer goods. In this case, it is possible that the parents were paid employees with little interest in participating in interventions to promote self-employment.[17]

- In general, the business opportunities and the credit management procedures were not those hoped for by the population. The final report of another project notes decapitalization of the portfolio and demotivation of the users, and recommends that loans should be targeted at users with greater purchasing power. It further recommends setting up a permanent training and technical assistance scheme.

The question of the soundness of businesses has been described at length in the literature on micro finance, leading to several general conclusions.

1. Good businesses are rare and difficult. Self-employment may be a solution for income generation in some families, but not all unemployed people want to be self-employed, nor do all those who want to be self-employed have business skills.

2. Normally, existing businesses are at the forefront, since it is normally too risky to invest in new schemes, and micro-finance programmes prefer seeking a market in which to

[16] This mechanism was probably taken from traditional "rural project financing". The great difference with the projects analysed is that, in rural development, the credit committees were conceived as a first step in creating rural savings banks and was based on working with communities where there was already a strong organization around issues such as water, irrigation, health, etc. In IPEC's case, such a community organization does not normally exist and thus enormous efforts were needed to launch such committees, with meagre results.

[17] It should be stressed again that this is probably not the situation in the majority of the groups with which IPEC is concerned, but it is a subject of great interest in analysing child labour. It appears to be closely related to the findings of an evaluation in Turkey also conducted by the ILO, which suggests the household income needs do not affect school enrolment, since the children decide to work to acquire goods which give them prestige and power among their peers.

place "working capital" and not "seed capital". The managers of the implementing agencies shared this view. All raised the possibility of targeting a population other than that originally identified.

3. The most disadvantaged are reluctant to participate in something they do not properly understand. When the degree of marginalization is high, any management issue becomes insurmountable.

In such circumstances, the only way to have sound businesses generating self-employment and consequently improving the family income would involve identifying initiatives jointly with the beneficiaries and ensure the quality of the business scheme. Two complementary measures (community initiatives) —non-financial instruments and donation of infrastructure— would be needed to increase the viability of the business.

Despite all the foregoing, it should again be emphasized that the instrument has worked well with populations already integrated in the market, with essential needs covered, existing businesses and experience in external financing of their operations.

In short, individual businesses supported by the funds have proved to be an efficient way of generating family income when undertaken by groups that were already operating in the market, while they were not efficient when applied to more disadvantaged and marginal population. In this respect, it could be a necessary measure, but it seems clear that it is not sufficient, since some people do not have access to the revolving fund (because they are not selected or because they do not want to) while those that do have access usually do not achieve good results, become demotivated and place the fund as a whole at risk.

In the section on impact it will be sought to go further to determine to what extent the temporary increases in income generated by "successful" businesses led to permanent reductions in situations of poverty. Together with the evidence that, at present, most of the benefited children continue to attend school, the evaluation might be able to conclude that revolving funds are an appropriate instrument for the progressive and permanent elimination of child labour.

What seems certain is that a considerable part of the planned target groups has been "lost", especially the most marginal groups.

If such groups are to benefit from the project's income generation component, it would be necessary to expand the number of alternatives, not restricting them to the use of revolving loan funds and the associated non-financial instruments (basically, technical assistance and training).

It is very interesting to note that some beneficiaries, when asked about the loans they had been granted and the purpose for which they had used the money, said that they "kept" part of the loan received. This part saved in banks and not invested was dedicated to cover contingencies ("in case it goes wrong and I cannot pay some of the instalments"). These comments might be evidence that there is a demand for savings among the target population.

Obviously, this is nothing new. Anyone interested in economics knows the Keynesian “liquidity preference” theory about the reasons for money demand. IPEC’s model of intervention assumes that the beneficiaries would ask for money for "speculation reasons", i.e. to invest in businesses that would allow them to progressively accumulate capital. However, some of those interviewed clearly express a demand for money "as a precaution" (or "insurance"), to cover unforeseen events or contingencies that might worsen their situation.

This is an issue that has already been taken up by the literature, which holds that revolving funds should not confine themselves to providing resources for speculation, but also for precautionary motives. The model is very simple and usually has positive effects, considering the first loan repayment as savings of the beneficiaries. This, in combination with supporting the integration of the beneficiaries in the market system, generates a strong incentive to pay back the loan and strengthens participation in the savings-credit organizations.

For extremely disadvantaged (marginal) groups, the first reason to demand money are the "transaction motives", i.e. to cover the gap between income and regular expenditures. The majority of the population can distinguish planned expenditure from unexpected expenses, and it is for the latter that there is a demand in terms of "precaution".

However, in those groups the expenditure may be a function of the income. Thus, expenditures would be limited by the income obtained, and all the money demand would be based on a transaction motive understood as the difference between their necessary expenditures to cover basic needs and the income required for that. In such a circumstance, any cash injection would be used to cover basic needs. The surplus above this basic minimum would be used to cover the risk of unexpected expenses (precaution), and it is only after that point that there would be a demand for speculative motives.

This is also the argument used by some authors to support the existence of the two loan effects mentioned earlier: “protection”, to satisfy minimum basic needs, and “promotion”, to accumulate income. It is evident that the use of resources will depend on the beneficiary's starting point and the type of micro enterprise he or she wants to create. In that respect, it is possible to distinguish at least three types: subsistence micro enterprises, simple accumulation enterprises and broad accumulation enterprises. The following table highlights some of their main characteristics.[18]

CHARACTERISTICS	SUBSISTENCE MICRO ENTERPRISES	SIMPLE ACCUMULATION MICRO ENTERPRISES	BROAD ACCUMULATION MICRO ENTERPRISES
Purpose	The objective is to generate income for immediate consumption	The objective is to generate surpluses to invest and grow and not just income for consumption	
Income	Incomes low compared to the consumer basket	Income only to cover costs; little savings	Profits for savings and investment
Seasonality	Seasonal precariousness and frequent changes	Stable all year round	Permanent development of skills possible
Location	No fixed place for carrying on the activity	Fixed place of business at home	Stable place of business away from home
Capital and equipment	Small quantity of capital and equipment	Some obsolete capital and equipment but imaginatively adapted	

[18] The table has been adapted from an Inter-American Development Bank document of May 2002 (*Access of small and medium-sized enterprises to financing*) which may be consulted on the Internet: http://www.iadb.org/sds/doc/SalvadorSME.pdf

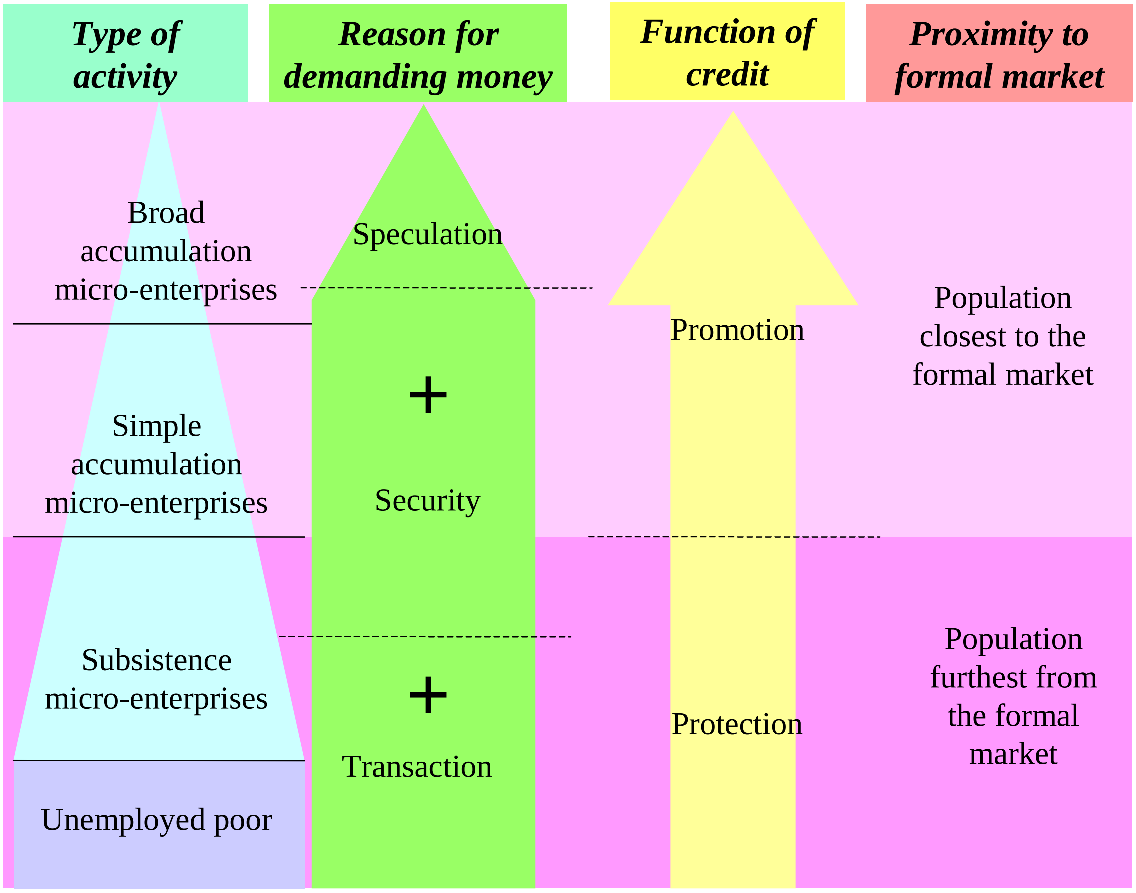
CHARACTERISTICS	SUBSISTENCE MICRO ENTERPRISES	SIMPLE ACCUMULATION MICRO ENTERPRISES	BROAD ACCUMULATION MICRO ENTERPRISES
Technology	Labour intensive		
Concentration of activity	Concentrated in retailing and personal services	Distributed across all economic activities	Concentrated in manufacturing and transport
Productive infrastructure	Lack of infrastructure	Some infrastructure for production or services	
Inputs and products	Obtained from and directed to local markets		
Flexibility	Flexibility of production to adapt to markets		
Financing and training	Use of family or informal financing at high rates of interest; difficult access to training provided by NGOs		Access to credit and training through NGOs, intermediaries and bank
Labour	One person, large number of women heads of household.	Use of small quantity of wage and family labour	
Working day	Over eight hours a day		
Human capital	Minimum education, no technical skills, little work experience	Primary education, few technical skills, little work experience	Primary or secondary education, some technical training, considerable experience
Union organization	Incipient		
Social protection	Basic lack of social protection		Some social benefits to employers

The diagram included in the following page summarizes the relationship between the classification of possible activities, the main reasons (motives) for the demand for money, the function of credit and the proximity of the beneficiaries to formal market mechanisms.

In the situation of marginal groups, it is highly possible that the loan would be used in the first instance for consumption. Therefore, it is suggested that depending on the groups and specific projects, other financial and non-financial instruments should be considered.

- Grants (basically group, to fund basic social services), stimulation of savings through the mechanism of considering loan repayments as deposits by the beneficiaries, as insurance in cases of high seasonal variations in income, as a guarantee for using other financial services, participation in the capital of group initiatives, etc.

- Greater use of specialised technical assistance, training, vocational education and for work, scholarships, etc.



5.4. *Effects and sustainability*

The ILO evaluation guidelines state that effects "*are identified during the evaluation to ascertain if a project is having any significant unforeseen positive or negative effects. Once identified, appropriate action can be taken to enhance or mitigate them for a greater overall impact*".

When it comes to sustainability, it is suggested that the evaluation should analyse the extent to which the project's results have had or are likely to have lasting effects after the termination of the project and the withdrawal of external resources. It is particularly relevant to examine the readiness of the beneficiaries and interested parties to continue supporting or carrying out specific activities, or even replicate the activities in other regions or sectors of the country (ownership). The analysis also assesses the availability of local management, financial and human resources that would be needed to maintain the project's results in the long run.

In this case, three types of analysis should be carried out:

- Firstly, an attempt should be made to determine whether the projects and the revolving funds have had unexpected positive or negative effects.

- Secondly, an attempt could be made to ascertain whether the projects are sustainable (can continue providing services to the beneficiaries) and whether their positive effects are lasting in the long term.

- As part of the analysis of the expected positive effects and sustainability, it would be interesting to ascertain to what extent temporary increases in income of the groups (by means of cash injections through loans) translated into permanent (stable) reductions in situations of poverty. If that were to be the case, it could be said that the revolving funds had acted as an "insurance" to underpin the achievements of the other project components, as suggested by the IPEC staff in the field.

With respect to the first question, only few unforeseen effects were found. These are hard to quantify and are based more on subjective opinions than on comparative data.

- It was not possible to identify regressive distributions favouring more advantaged groups within the vulnerable target populations, which is usually one of the major risks involved in micro finance instruments.

- No significant negative changes were detected in gender relationships; work overload on women taking on responsibility for the management of new initiatives could have been a side effect of these projects.

- No adverse environmental effects were detected.

- There was no evidence of the emergence of situations of greater dependency, which could result, for example, from an increase in bargaining power of the traditional middlemen.

- It is possible that the self-esteem of some loan beneficiaries whose business has failed has been undermined.

- The staff of implementing agencies suggested that children might be working in the new businesses that have been supported by the fund. Even though this could not be confirmed by the evaluation, it is possible that the new businesses have provided access to employment for some children. In some markets, it was indicated that younger brothers and sisters were taking the jobs that the target population had given up as a result of the projects.

- As mentioned by implementing agencies’ staff, some beneficiaries who could not pay back their loans withdrew from the other project components, and stopped attending meetings, training sessions and information days for fear of being pressured to repay their loans.

As already pointed out, it is difficult to assess the weight of the revolving fund component on the effects of the projects. Indicators of achievement to "measure" increases in family income were included in the project documents, but no baseline information was available. Some indirect indicators are also included, but these measure the loans’ performance rather than the income generation produced through them.

Other positive effects of the revolving funds that can be mentioned include:

- integration in the market economy of some individuals and groups;

- people's enhanced self-esteem after dealing with institutions that were previously inaccessible to them;

- strengthening of certain institutions (basically those that were previously not involved in income generation); and

- detection of other concerns of the target groups (for example, and most importantly, the demand for saving).

Questions included in the Terms of Reference on the design of revolving funds (1/3)

1. Effects of the increased income on the child labour situation in the households and in the communities. If possible, comparison of the situation of the target groups in relation with other members of the community.

- With the information available, it is practically impossible to isolate the effect of the income generation components on the withdrawal of children from work from the rest of the project. As indicated earlier, it can be suggested that rather than having a direct effect, this component supports the sustainability of keeping children away from work. Thus, it would be the other components that "remove" some children from work, while the income generation activity tends to keep them away from the labour market and in school.

- It is necessary to establish a series of riders to this assertion. Firstly, it is possible that this rationale only works with some groups and not others. For example, it could be applicable to families for whom the additional income generated by the child is crucial in satisfying basic needs. But these are probably the least common cases. On many occasions, what motivates families to keep their children working is not so much the income generated by children as the costs avoided by the parents. In such cases, probably the majority, assistance measures (i.e. grants) are much more valued by families than opportunities to increase income.

- In comparing the situation of target families of the income generation component with other families participating only in the other components of the same project, it is not possible, in principle, to state that the objective of withdrawing children from work is more related to the income generation component than, for example, to the education component in the same project.

- Despite the foregoing, parents and guardians participating in the income generation activities maintain closer links with the project (and the implementing agency staff) than the other participants, probably leading to a stronger and longer-term commitment to the withdrawal of children from work. However, the opposite could also be true: maybe those parents had a stronger commitment from the outset, improving their relationship with the staff that selected them as loan clients.

It should be noted that parents, once external aid has ceased, have demonstrated very strong commitment to the projects. The experts interviewed indicated that some families admit that they cannot pay back the loans because their business went wrong, but they maintain the commitment to keep their children out of work (in a few occasions, on condition that the project continues supporting them with that and other components).

This may support the idea that, in certain cases, one of the reasons why children work is not so much the need for additional income in the family as the impossibility of affording the costs which arise from alternatives to work (school or, more generally, care and supervision).

It has already been observed in the chapter on efficiency that the businesses launched with the support of IPEC proved rather poor in terms of sustainability. The main reasons for this situation are the following.

- In marginal groups, the purpose of all or part of the loans tends to be consumption to cover basic needs. It is possible that a good share of the resources requested were not used for the necessary investment, so that the viability of the business is seriously impaired from the outset.

- In general, the feasibility studies were very poor, which is understandable bearing in mind the low volume of investment in the schemes and the high cost of such studies.

- It is true that, in some cases, a number of factors outside the business ultimately affected them seriously: thefts, illness of the beneficiaries, general insecurity affecting commercial activity, economic situation in the recipient countries, etc.

- The lack of motivation might discourage starting a business and could cause efforts to stumble at the slightest difficulty. This, in turn, may be due to social and personal problems.

- Finally, it is generally difficult to achieve success with new schemes. Starting up a business with personal or group investments is hard not just for IPEC's target population, but in general. It is thus not surprising that the failure figures are high.

Questions included in the Terms of Reference on the design of revolving funds (2/3)

2. Has there been any difference in the effects of this component according to the different target groups? Which are the characteristics of the beneficiaries that might increase the effectiveness of the revolving funds?

- The success or failure, not just of the revolving funds but also of IPEC's income generation activities in general, are closely linked to the target groups concerned.

- It is with the most disadvantaged, partly or wholly marginalized groups, that the worst results are achieved from loans, while those who already have businesses in operation and are thus involved in the market (even if their activity is not formal) have a greater likelihood of success.

- In the course of the evaluation, a survey was carried out among the main Salvadorian institutions that provide resources for micro finance. It was found that none of them regarded the bulk of the population with which ILO/IPEC works as possible candidates for loans under their programme.

- In this respect, it is simple to establish a set of conditions to improve the efficiency of the revolving funds, but it has to be borne in mind that such conditions would always operate to the detriment of IPEC's objective, which is normally focused on the most disadvantaged:

1. Target loans to support existing businesses and not start-up schemes. The target group would include those beneficiaries with established businesses needing working capital.

2. Seek guarantees for loans (secured, where possible) and enforce such guarantees in the case of failure to meet commitments. The target group should possess some asset against which to secure the loan.

3. Establish market conditions for the loans (especially with regard to interest rates) to avoid depletion of the capital of the revolving fund and to limit the perverse effects of subsidies. In this case, the target group should be close to markets and financial intermediaries and should be able to afford market terms.

4. The target group should have its minimum living needs covered. Otherwise there would be a risk that the funds received would be used for consumption.

However, the success of some of the initiatives has to be recognized. This success is probably based on the following reasons:

- loans are used to support existing businesses; the beneficiaries have plenty of previous experience and know the market;

- the beneficiaries swapped their traditional source of financing for another on better terms, provided by the projects; in these cases, caution should be exercised before terminating the revolving funds, since going back to traditional sources could put the businesses at risk.

The question of the self-sufficiency of the funds has been the subject of extensive comment already. The failure of operations and the non-enforcement of guarantees serve as incentives not to pay for those that can afford to do so. Moreover, the lack of interest on the part of the majority of the agencies to continue operating the funds under the present conditions is a sufficient indicator of lack of sustainability.

Another factor that goes against sustainability is that the projects have done little to strengthen implementing agencies. The external resources were used to hire co-directors, social promoters and loan agents, and to purchase vehicles and equipment. With the withdrawal of external support and the evidence that the funds' collection rate has not been in line with forecasts, and that financing through interests on loans was not viable, some of these resources started to flow out of the organizations. At present, it is very difficult for the majority of implementing agencies to maintain their activities with the same target groups if they cannot obtain additional financing.

There are, however, positive aspects based on which it is possible to build sustainable proposals for the future: the attitude and experience gathered both by the target groups and by the organizations (including implementing agencies and IPEC) offer an opportunity to work in new areas: for example in the field of savings, both through repayment of credits and through other specific instruments.

Generally speaking, one needs money to cover the gap between expected expenditure and estimated income. People want rapid access to resources, with low transaction costs, security to keep it and positive yields. Personal saving is the best way of meeting this demand.

Starting from the hypothesis that, for some groups, covering the costs incurred by children is at least as important as the money they obtain from child labour, IPEC, in pursuing the objective of progressively eliminating this problem, should make an effort to promote savings by such groups.

There are various mechanisms for this, among them, for particularly disadvantaged groups, holdings in non-financial assets (high value assets), which can be converted to cash in case of an emergency. These can be jewellery, silverware, cattle or goats, poultry, extra clothing or footwear, and bags of basic agricultural products or building materials (keeping cash is also a form of storage).[19]

In such cases the transaction costs are low and the "deposits" only require the purchase of articles. The temptation to "withdraw" the savings is small because, usually, prices tend to be low and it needs time and effort to find a buyer.

However, the target groups need to have covered their minimum living needs to demand money for precautionary or security motives. The quickest formula, and the one offering the greatest possibility of success, involves support for minimum community services in the form

[19] "Door-to-door deposit collectors, rotating savings and credit associations, annual savings clubs, and in-kind storage illustrate the two basic strengths of low transaction costs and assistance with deposit discipline sought by poor women". Rebecca M. Vonderlack and Mark Schreiner (2001): *Women, micro-finance and savings: Lessons and proposals*, Center for Social Development, Washington University in St. Louis.

of grants, which is fully consistent with IPEC's approach and could be called "traditional development cooperation projects".

Another mechanism that can be used when it is necessary to make the leap from covering basic needs to the launch of savings and loan schemes is the participation of the implementing agencies in capital investment. This would lead to the design and implementation of community development projects producing goods and services for the market.[20]

The problem with community projects is the lack of incentives for the beneficiaries to participate at the investment stage. In this respect, the implementing agency itself could start the projects, using paid workers from the community (generally at lower prices than market cost) so that subsequently, in the operational stage, they can hand over the activities and thereby ownership of the project to the final beneficiaries.

This way of working has several advantages. It is the promoting agency which implements the project, assuming that if it is good for the beneficiaries it will also be good for the organization (if the investment is financially viable for the beneficiaries, it will also be viable for the agency). It avoids the demotivation of the beneficiaries, since they will be motivated to participate by the products of the project. It facilitates the initial phase of community organization, which usually falters at the lack of material incentives for the organization.

In addition to these mechanisms, other alternatives could be considered, such as insurance in situations where income is highly seasonal, guarantees to access the funds of other financial institutions, etc.

The third question that the evaluation must answer is to what extent temporary income generated by granting loans has translated into a general reduction in poverty levels. One indicator that could be useful in answering this question is the access to formal financial markets, since such access presupposes that the situation of marginalization has been left behind.

This question was raised with the promoters of the implementing agencies, and only a very limited number of cases could be identified. In brief, even in those revolving funds that achieved the best results, only two or three per cent of the target group managed to gain access to the commercial credit system.

[20] "Financial options —whether credit, savings, insurance, or grants— are still only part of the menu of choices for poverty alleviation. Where the absence of financial intermediaries means that *commercial* loan financing of infrastructure is not an option, such investments may be funded through a community-level income-generating project. The resulting revenue could be used to build a community savings and credit association, with technical assistance and capacity building provided. The association would manage the income flow from the project through an account with a formal financial institution (such as a bank), and use the income to capitalize itself and to engage in lending activities with its members. Where a savings and credit association is not a legal option, then a credit union structure may be sufficiently flexible to accommodate a savings and credit association-type structure. Infrastructure and community development projects may provide jobs and employment experience for those otherwise unemployed". CGAP (2001): *Micro-finance, grants and non-financial responses to poverty reduction: where does micro-credit fit*?

Questions included in the Terms of Reference on the design of revolving funds (3/3)

3. Withdrawal strategy and sustainability. Which are the perspectives of the revolving funds after the withdrawal of IPEC. What were the most effective strategies for the transfer of the fund's assets to ensure sustainability and extension of the positive effects of the projects?

- Considering the selected sample, it is not possible to comment on the strategies adopted for transferring the fund's assets, since none have actually undergone such a process. All the stakeholders involved are expecting a proposal on this issue. Some theoretical observations and practical suggestions for the short term could be made given the urgent need to take a decision.

(1) In principle, on a theoretical level, the literature analysed suggests that the donor should consider the funds as a subsidy, meaning that the resources become property of the beneficiaries from the very beginning of the project.

(2) The belief by some of the beneficiaries that the funds belong to them has to some extent acted as a disincentive for the repayment of the loans.

(3) In theory, the most effective mechanism for transferring such funds is their conversion into savings of the beneficiaries. This procedure would operate as follows: firstly, the donor transfers the funds under a grant agreement to the implementing agencies under the condition that the final transfer to the beneficiaries will be in the form of savings. In a second stage, the implementing agency issues the fund in the form of loans at a given interest rate, to be used for the start up or expansion of a business. At that point, it should be made known to the beneficiaries that the repayments will be considered as their savings and that, as such, the implementing agency will pay an interest on the deposit (less than the lending interest rate, using the interest rate differential to cover its management costs). The funds deposited are used to make new loans or for various investments (rules for withdrawals by the beneficiaries need to be established). Once the initial cycles have been concluded, or if the organization considers that the mechanism is able to continue functioning without external support, the system is transferred to the savers as shares proportional to their deposits.

(4) The great advantage of this model is the coexistence of savings and loans instruments, with potentially positive effects on the process of integrating the beneficiaries into formal market mechanisms. However, the system has two major problems. One is political, since in some Central American countries saving schemes can only operate through regulated institutions. The other is technical and financial, due to the high management costs involved in the model (higher still when it was not built like a credit-savings scheme from the outset). Nevertheless, this system of transferring the funds in the form of recipients' savings could be of great interest to future revolving funds established by the ILO, but it would be unrealistic to adopt it in those that have been operating for some time.

(5) For existing funds, the transfer mechanism should be examined on a case-by-case basis. In some cases, there may still be time to covert them into savings, if the beneficiaries wish so, but support should be provided to the future savings and loan organization that would stem from the process. The possibility of the implementing agency contributing a share of the capital of such an organization could be made a basic condition.

(6) In other cases, it would be necessary to analyse the possibilities of transferring the fund, either to associations or beneficiaries that have demonstrated their readiness and capacity to pay, or to the implementing agencies, to be used in the same or similar projects.

(7) Finally, a last transfer mechanism could consist of withdrawing the balances of funds in the projects and using them in other components or in similar activities. This solution would partially change the purpose of the fund, which is supposed to be a grant from the donor to the beneficiaries.

6. ILO’s special concerns

The ILO has established three issues of special concern to be analysed in its technical cooperation interventions: International Labour Standards, equality between men and women and protection of the environment.

The evaluation did not find any intervention conflicting with International Labour Standards. There is certain anxiousness among ILO staff concerning the support of businesses that keep the beneficiaries in the informal economy, including helping them to establish enterprises that are on the fringes of fiscal and labour systems.

However, this does not appear to be an issue that particularly affects IPEC, given that a very large percentage of the recipient countries’ economies can be defined as informal; the “informal sector” contributes enormously to these countries' production and employment. In any case, it is necessary to distinguish between informality of economies and illegality of businesses. It is clear that all the operations supported by IPEC are legal.

A more complex issue is the Programme's effects on possible changes in the relationships between men and women and the promotion of gender equality, especially taking into account two further issues: (i) that micro finance instruments and gender questions have been amply covered in the doctrine, and (ii) that there is a close link between child labour and the status of women, especially mothers of working children.

Focusing on the revolving funds, despite the fact that the loans were mainly directed at women, the evaluation suggests that this instrument has had little effect —positive or negative— on gender relations. It does not appear that the loans have perceptibly improved the status of women either in absolute terms (better general living standards), or in relative terms (enhanced power vis-à-vis men). Similarly, no significant negative effects were found. Women's workloads were not found to have increased significantly, nor did they enter sectors and markets that might worsen their status, etc.

Finally, no environmental effects due to the use of revolving funds or to the projects in general were observed.

7. Conclusions, lessons learned and recommendations

Being a thematic evaluation, it does not seem difficult or convenient to separate the conclusions from what has been observed from the lessons learned for future interventions. Many of them have already been anticipated in earlier chapters. Based on the lessons learned, recommendations for the improvement of future projects and, more specifically, on the income generation component, can be made.

7.1. Conclusions and lessons learned

1. Despite the weaknesses of design, and irrespective of some administrative difficulties and temporal issues, **both the choice and performance of the implementing agencies, as well as that of IPEC staff, and the management models adopted —including non-financial instruments, monitoring and supervision systems— has been effective and appropriate.** One of the greatest difficulties in this regard is the need for implementing agencies to have experience in two different issues: assistance to children and adolescents, and micro finance instruments.

   Obviously, there is room for improvement, from the design of the systems and mechanisms up to the evaluation. Significant improvements have been found in the implementation of successive projects. Thus there has been progress in the design of the management procedures and in the selection of personnel and implementing agencies.

2. The project model commonly used establishes a general objective (the progressive elimination of child labour) and three immediate objectives contributing to this goal: awareness raising on the problem, social protection (especially support for education and health) and income generation (by establishing revolving loan funds and support arrangements such as technical assistance and training). **Based on the available data it is practically impossible to know what has been the contribution made by each of the components to the project results in terms of elimination of child labour.**

3. Based on the fact that the majority of children were removed from work before the revolving funds came into operation, the evaluation assumes that **the income generation component contributed little to the elimination of child labour, indicating that the instrument used was of little efficiency**. However, **according to IPEC staff, the revolving funds should be considered as a factor contributing to the sustainability of the achievements of the other components.**

4. The evaluation has concluded that **income generation through revolving loan funds may be an appropriate, effective and efficient instrument to ensure the sustainability of the results achieved through other strategies** (basically awareness raising and social protection through education and health support) only **for certain IPEC target groups**.

5. The lack of operational and financial self-sufficiency in the majority of the funds and the high number of failures among businesses supported through the credits leads to the conclusion that **for other target groups, the instrument of revolving loan funds as a means of generating income and ensuring the sustainability of the benefits achieved through other activities has not proved effective, and probably it was not relevant**.

6. The evaluation found that the **application of the same project model with the same rationale of intervention, with similar implementing agencies and very similar management models to different groups has led to different results**. Thus, **it is to be presumed that the different characteristics of these groups is the variable which explains the diversity of results**.

7. In addition, **the results of projects targeting the same groups in different countries have been similar** (in general terms)**.**

   - The application of the instrument to groups involved in the market, with existing businesses, with previous financing or credit experience and which have covered their minimum basic needs has been positive.

   - Conversely, its application to the most disadvantaged groups, engaged in scavenging and collecting, with serious social problems and difficulties in entering the market, without previous business experience, with their basic needs barely covered and, in general, in marginal situations, has not yielded good results.

8. One possible explanation for the above-mentioned situation has been commented on many occasions by various authors in the field of micro-finance. **When basic living needs are not properly covered, the protection effect of credit dominates the promotional effect.** Capital is used to cover the difference between expected income and the expenditure necessary to satisfy basic needs, **and at least part of the credit will end up being used for consumption, so that the viability of the business it intends to support will be undermined**.

9. **This economic factors are accompanied by a series of social and cultural issues leading to the failure of the new businesses**, such as distrust towards the experts, education barriers, lack of participation, individualism, general disincentives to engage in market with entry barriers for marginal population, etc.

10. **For the marginal groups, the Programme's intervention rationale has not been adequate. It is possible that the expenses related to the care of children more than the family's need for income would be the economic reason for child labour.** The costs of schooling, food, clothing and security (among others) encourage parents and guardians to take their children to the workplaces, and the income they can generate is irrelevant, much more important being the expense that they cease to cause.

11. Despite the foregoing, **the revolving loan funds**, or more generally the projects including this tool, **have had positive effects irrespective of the target group, meaning that it is highly relevant to consider further development interventions**.

    Parents and guardians have realized the disadvantages of child labour, they have seen that it is possible to access markets, they have increased their self-esteem, they have realized the benefits of education for their children, they have been able to access institutions that were previously beyond their reach and, finally, they know that they can have new opportunities.

12. **The evaluation did not identify any significant negative effect of IPEC interventions.** No regressive distributions were found and no cases of greater dependency emerged.

    However, it is possible that that the self-esteem of some beneficiaries failing with their businesses would be undermined, and it is possible that other children than those directed targeted would be working in the new businesses. Some beneficiaries who did not manage to pay back their loans withdrew from other components of the projects.

13. **It is not possible to conclude that the funds are sustainable**, as proven by the fact that the current portfolio has been cut by half with respect to the initial commitments. In the majority of the funds, the yield from interests is not sufficient to cover the management costs, and most of the implementing agencies are not willing to continue managing the

funds on the current terms, where rates of arrears, bad debts and overdue loans are higher than those recommended by the literature.

Given the lack of operational self-sufficiency, financial self-sufficiency, as a way to cover the remaining project costs from income generated by the funds, is impossible.

14. **No intervention contradicted the International Labour Standards and no significant effects (positive or negative) on gender relationships or on the environment were detected**, although perhaps gender issues should be analysed in greater depth by experts in the field.

15. **In sum, the model implemented is not always appropriate, since there is a problem of formulation and relevance generating subsequent problems.** The instrument was designed and managed satisfactorily but there are doubts concerning its role in the project strategy. **These doubts are centred on the validity of a single model applied irrespective of the different situations of the various target groups. For populations such as those targeted by IPEC, the instrument is not always valid, and different strategies should be envisaged for different target groups.**

7.2. Recommendations

(a) To reach all the target population of IPEC:

16. Keep amounts of individual loans low, as excessive increases in the size of loans could encourage the participation of less disadvantaged sectors, which could result in regressive distribution, one of the major problems of micro-finance.

    It is also suggested that the project staff should maintain strict control over the selection of loan clients. The staff of projects and implementing agencies should take the final decision in granting loans, at least in the early loan cycles. Credit committees including beneficiaries, when there are no explicit incentives to participate, are likely to generate more negative than positive effects.

    When experts are included in the selection of loan clients, it must be borne in mind that these experts are external agents and may not have the trust of the beneficiaries (they will never be members of the group exposed to the risks). Moreover, care must be taken not to always promote innovative technologies and products, which are not suited to the beneficiaries.

    The costs caused by the staff should be viewed in two complementary ways: i) separate from the other costs of the fund, and ii) as part of the management costs.

    At the same time, the agencies' independence from political decision-makers and large-scale entrepreneurs should be maintained, as it has been the case up to now.

17. Differentiate between the protectional and promotional effects of credit when identifying projects. Instruments should be designed individually, primarily in relation to the situation of the relevant target group. In addition, it is very useful to promote savings by rewarding money paid back to the revolving fund. Repayments of principal by the beneficiaries constitute their own savings, which can be supported by other project inputs.

18. Complement vertical selection methods with incentives for leaders. When vertical selection methods are used to select candidates for micro-credits, involving community leaders to inform the beneficiaries and to help in decision-making, material incentives should be offered to those leaders, since participation is very difficult when such

incentives do not exist and it might generate negative effects when the incentives are not explicit.

19. Limit the size of groups in horizontal arrangements for shared responsibility. When the selection mechanisms are horizontal, i.e. when it is decided to work in communal initiatives, it is useful not to form groups with too many members. Large groups are very difficult to control and the risk co-variance increases (individual difficulties increase the risk of problems in the groups). Where groups are too large, it is worth considering establishing an insurance system to limit the risk co-variance.

20. Use mechanisms for linking loans to commercial transactions whenever possible (granting of loans as advance payments for the supply of goods or provision of credit for production inputs). These mechanisms lead to an integration of the production and marketing cycles in the same group in the case of community initiatives. Instruments of this type may be the purchase of products by the project and joint sale, establishment of discounts for beneficiaries, etc. When such instruments are used, great care must be taken with marketing (since failure tends to concentrate responsibility on the beneficiaries) and the future transfer of assets generated.

(b) To improve operations supported by IPEC projects:

21. Undertake separate analyses for existing and new individual businesses. Businesses already in operation have a lower risk, and should therefore be treated differently. The risk in individual start-up businesses is very high, and these require specialised studies and up-front support in the form of grants.

    Individual businesses are usually more successful in activities in which the beneficiaries are already engaged, promoting replacement of loans from illegal lenders with project credits.

    Collective businesses usually only work when the organization (whatever the form of association) was operating prior to their inclusion in the project. The formation of new associations to participate in the loan components of the projects has proved largely ineffective.

22. Always carry out simple technical and market analysis. It may be that the scale of the proposed operation does not justify the cost of the feasibility study. In that case, the possibility of not supporting the proposal should be seriously considered.

23. In many cases, grants are necessary to cover minimum basic needs and to encourage the use of other income generation instruments. Individual grants (to persons or families) tend to have negative effects on the motivation and self-esteem of the beneficiaries. For this reason, from an income generation point of view, only group or community grants for the provision of basic social services should be provided, especially community infrastructure.

24. Guarantees are a good tool when the need for security is a crucial factor for accessing credit. It may be that commercial credit is available for groups and beneficiaries of IPEC projects, but the barrier is the need for security. In such circumstances, the project could try to stand guarantor for the beneficiaries in relation to other financial intermediaries.

25. Insurance is effective in populations whose economic activity is highly seasonal. The feasibility of this instrument should be analysed in projects aimed at groups engaged in fishing, seasonal shellfish harvesting, seasonal agricultural work, etc. In such cases, negotiation with the formal financial sector is generally a good strategy.

26. Non-financial instruments (capacity building and skills development, business training, technical assistance in managing credit and savings, vocational training, employment programmes, promotion of legal reform, etc.) should always be used, independent from other income generation instruments. It is suggested that the "menu" of non-financial tools should always be consulted, selecting those most suitable to the project in question.

27. Participation in capital is useful for the start-up of, and support to collective businesses, when there are no initial incentives for organization and some basic needs are not covered. It is a powerful instrument (but at the same time not risk-free) for integrating the most disadvantaged groups in the market.

28. The calculation of interest rates should be based on the project and the target group, always seeking to keep as close as possible to market rates, to ensure the viability of the investment. It is desirable that loans reflect market conditions. However, in the conditions in which IPEC operates, the following issues should not be forgotten:

    - the administration and management costs of the non-formal financial instruments tend to be much higher than those of formal financial institutions, so that the rates necessary to achieve financial self-sufficiency are high;

    - the businesses supported must be able to afford these high interest rates, which is rarely the case of groups targeted by the IPEC Programme;

    - in general, beneficiaries mainly interested in the protection effect of the credit do not develop businesses able to afford the interest rates in the non-formal sector.

29. Experts' experience and their knowledge of the situation are usually much more relevant decision criteria for selecting loan clients and operations than complex risk analysis tools. Cumbersome questionnaires to identify possible loan clients and the complex analysis of potential recipients' ability to pay usually act as an entry barrier. Often, the bulk of the information collected is never looked at again in the whole process.

(c) To improve the sustainability of the funds and IPEC projects:

30. Differentiate guarantees between individual and group loans, bearing in mind that the moral incentives (pressure of leaders, experts and other members of the community) are usually not enough to ensure repayment. The guarantor model does not usually work very well with group initiatives.

31. Loan funds should not be presented as grants, but the beneficiaries should know that repayments are their own savings, and that the project will pay interests on it.

32. Establish financial incentives and disincentives as collection mechanisms (such as allowing beneficiaries who pay on time access to increasingly large loans, discounted interest rates, fast-track approval procedures, and banning beneficiaries who do not pay from access to new loans). With the type of groups targeted by IPEC, tangible and intangible securities should be rejected (since the beneficiaries usually do not own property, and even if they do, the transaction costs of registering and enforcing mortgages are high and are not justified in the case of small, short-term loans).

    Other types of personal guarantees (group responsibility, shared responsibility, guarantors) may be effective only in certain groups of beneficiaries (those in the best circumstances). For the most disadvantaged groups, the best guarantee may be a mix of moral and financial incentives, including remuneration for savings.

33. “Interlinking” as a guarantee is only secure if marketing works properly. Discount lines, integration of production and marketing channels in projects, sale and purchase on credit by the project, etc. can be very powerful micro finance mechanisms. However, it should be borne in mind that their use requires joint marketing of inputs and products. This is one of its major limitations.

34. Efforts should be made to bring services close to the beneficiaries. Transactions costs are an access barrier to micro-finance instruments. For the beneficiaries, going to the bank to make payments and deposits is a significant material and intangible cost (dealing with the formal sector frightens them). Hiring collectors and loan promoters and opening offices closer to the beneficiaries can be a good strategy, although the security conditions in the area of operation should be taken into consideration.

35. A proposal to the implementing agencies to work with lent funds may be an incentive to collect them. Many agencies in the Central American region work with other development agencies using funds provided as loans rather than grants. Similar to the argument than grants are a disincentive to the target population, the same can occur with agencies.

    Financial intermediaries in micro finance (implementing agencies, in this case) have problems in considering donated funds as their own, which is a disincentive to collect the loans (moreover, these entities obtain higher returns from "new funds" than from "recycled" funds). The suggestion to work with lent funds (albeit at a very low rate of interest) may be a good incentive in some cases.

36. Calculate operational and financial self-sufficiency separately.

    The cost of loans should be calculated in two ways: first including loan operating costs (price of money to the financier, non-payment or risk premium and directly related management), and then including financial costs (maintaining the value of the money, training, technical assistance and suchlike).

    Operational self-sufficiency means covering operating costs from income. It is a condition of sustainability for all the revolving funds. To achieve operational; self-sufficiency, capital or savings rates must be appropriate to the loan portfolio, to ensure that there is no need of external financing.

    Financial self-sufficiency means covering operating and financial costs from income, and is a condition for the sustainability if the funds focus on the promotional function of the credit.

    If the revolving funds are to survive, operational self-sufficiency must be assured. Operational self-sufficiency must be estimated in advance and controls mechanisms must be established to prevent non-compliance during the implementation of the project.

(d) To improve the performance of implementing agencies in the projects:

37. Strengthen selection mechanisms by establishing the responsibilities of the parties.

38. Define the future of the fund "balance", either as savings of the beneficiaries or for other purposes.

    The ideal would be to link credit to beneficiaries' saving. However, it must be borne in mind that the legal framework in the majority of Central American countries defines saving mobilisation as a function reserved to supervised financial institutions. Thus considering loan repayments as savings of the beneficiaries will only be possible legally on the basis of a mutual organization or under the umbrella of a supervised financial institution. Consideration of loan repayments as savings has two major advantages:

- it is an incentive to pay back loans;

- it eliminates the problem of fund balances through repayments to existing funds.

39. It would be necessary to establish incentives for some implementing agencies that have to work with marginal groups. The management costs can be a disincentive to participation, especially if the only way to cover them is the interest repayment. Possible alternatives can be the establishment of an "*overhead*", the delegation of the management of the non-financial components of projects (start up and participation in training activities, decisions on subcontracting of technical assistance, access to teams and information), the possibility of deciding on the portfolio, participation in the capital of some of the community investment initiatives launched, etc., or any other kind of social benefits for their employees.

40. Is would be important to ensure the commitment to the revolving mechanism of the fund, with incentives in terms of population reached and enforcement of agreed measures in cases of arrears and bad debts.

    A close supervision of operations is necessary in order to deal with the high risk involved, but experience shows that success is not guaranteed only by control. It is recommended to put additional efforts in the selection of the operations that are supported and implemented.

41. Establish a structure of responsibilities of the parties, setting out the duties of each and the kind of relationships and communication channels between them.

42. Separate tasks related to the funds from those related to the other project components. Separate those related to loans from those related to savings and, within those related to loans, distinguish between promotion, approval and collection.

43. Reserve a part of the interest generated by the fund so that the agency covers the management costs. Another part should be used to remunerate beneficiaries' savings.

44. Establish financial incentives for the staff responsible for collecting the loans, in order to enhance pressure for repayment.

ANNEXES

1. Characteristics of financial and non-financial income generation instruments.
2. Terms of Reference for the Thematic Evaluation.

1. Characteristics of financial and non-financial income generation instruments

I. Financial instruments	
a) Revolving funds:	1. Intended to provide small loans to clients. 2. Clients do not have a credit history and/or access to "commercial" credit. 3. The money to provide loans comes from the project budget (it is an instrument associated with development projects). 4. The guarantee or security for loans takes the form of "solidarity groups". 5. Repayments (of principal and interest) are used to make new loans. 6. It is the financial instrument most used by IPEC. 7. Loans normally range from US$100 to US$600 on average, amounting in total to between 10% and 30% of the budget of each project to which they are linked. 8. Normally between 50 and 100 families per project received loans, organized into groups of 3 to 8 people for each loan. 9. It is important that the loans include a rate of interest (18-22%) to maintain the value of the money in the fund and its sustainability. 10. Criteria for selecting loan clients: families with "working" children, minimum income level, sufficient capacity, completing training stage.. 11. Some projects target this instrument at women's groups, in the belief that they offer better repayment rates. 12. It is useful both at subsistence level and with families that have a minimum level of income. 13. They generate debt for the client.
b) Guarantee funds:	1. Allow clients access to loans in the formal credit sector. 2. Support clients in guaranteeing loans for which they apply. 3. The guarantee comes from the project budget (instrument associated with development projects). 4. The instrument can be used jointly to support a group of clients. 5. The bank expects that the instrument will bear the risk of the operation and, possibly, include its clients in its portfolio. 6. The examples that IPEC mentions concerning this instrument are confined to Asia. 7. It is useful both at subsistence level and with families that have a minimum level of income. 8. They can generate debt.
c) Promotion of savings:	1. This is an instrument intended to increase the amount of capital available to a group. 2. This increase in available capital (through the sum of capital and personal savings) facilitates access to credit for members of the groups and enhances their independence from other financial intermediaries. 3. This instrument is also associated with development projects. 4. In this case of "project linkage", the project must mobilize savings and provide technical assistance to the savers' group. 5. The examples that IPEC mentions concerning this instrument are confined to Asia. 6. It is useful only with families that have a minimum level of income. 7. There is little possibility that it will generate debt.
d) Promotion of insurance:	1. In general, this is linked to credit and/or savings programmes. 2. Within these programmes, the instrument consist of a component designed to facilitate the implementation of insurance schemes. 3. These insurance schemes are designed to minimize losses caused by unemployment, illness or death of the head of the family and other external "misfortunes" It generally seeks to protect against events that cause considerable loss of income but which occur infrequently. 4. The component ascertains the needs of the insured and facilitates the implementation of insurance schemes. 5. It does not normally generate debt.
d) Micro grants:	1. These are primarily used in post-disaster rehabilitation. 2. They are not aimed at income generation or business start-ups, but rather consumption or health services. 3. They may be linked to other savings and credit instruments, including acting as a guarantee (prerequisite for access to other instruments). 4. They provide a starting point for clients for whom the time and resources thus saved improve their capacity and establish the basis of their economic activity. 5. They do not generate debt.

e) Bursaries or scholarships	1. Instrument to support families by paying part of all of the cost of schooling. 2. They can be linked to the opportunity cost of child labour, so as to substitute the family income that the latter could generate. 3. They may be linked to other savings and credit instruments, including acting as a guarantee (prerequisite for access to other instruments). 4. They do not generate debt.
II. Non-financial instruments (business development services)	
a) Capacity building:	1. Development of capacity or vocational training to prepare beneficiaries for access to the labour market. 2. They can focus on developing basic skills (literacy, team work, communication) and/or specific training for a specific job. 3. The target group of this instrument is primarily parents of working children or young people of working age. 4. The specific actions used are training, business advice, market research, contacts between entrepreneurs and markets, creation of enterprise networks, business cooperation, etc. 5. Another group of interventions centres on using this instrument not so much in groups as in institutions. It is used in technical assistance to local institutions and implementing agencies, training of trainers and development of training materials for business management..
b) Business training:	1. Business training broadly means support for the development of personal skills in starting up and running a business. 2. The target group for this instrument is parents and young people of working age. 3. The specific actions used are identification of market opportunities, creation of "business ideas", mobilization of investment resources and development of financial, management and marketing skills.
c) Credit management:	1. Promotion of credit management capacity is intended to facilitate and develop clients financial management skills. 2. The target group for this instrument is parents and young people of working age. 3. It is the most widely used of the non-financial instruments, although it is usually linked to the revolving funds. 4. The specific actions used are training in different credit and savings systems, training in bank procedures, bookkeeping, accountancy, cash flow analysis, etc..
d) Employment programmes:	1. Employment programmes seek to facilitate clients' access to a formal activity. 2. However, there is also a higher training purpose which could be called "work”. 3. The target group for this instrument is parents and young people of working age. 4. "Food for work" and "public work" programmes (collaboration in the implementation of basic social infrastructure) may be examples of the application of this instrument.
e) Legal reforms:	1. Included in the category of non-financial instruments other than those based on capacity building and training for work. 2. This instrument seeks to facilitate and accelerate beneficiaries' access to formal financial systems. 3. For this purpose, it is sought to simplify complex administrative procedures for the registration and start-up of businesses, which are a powerful disincentive to business creation.

2. Terms of reference for the thematic evaluation

<u>I. BACKGROUND AND JUSTIFICATION</u>

1. The International Programme on the Elimination of Child Labour (IPEC) of the International Labour Organization (ILO) has built up a project portfolio that include a variety of measures to progressively eliminate child labour, giving priority to the urgent eradication of the worst forms of child labour, in more than seventy countries. IPEC's interventions are implemented in partnership with governments, trade unions, employers' associations and non-governmental organizations. The projects and programmes promoted by IPEC include different components —such as awareness raising, social mobilization, policy and legislation development, capacity building, provision of education and health services for children, strengthening of monitoring and verification systems, etc.— to tackle the multiple causes of child labour comprehensively.

2. Poverty and the lack of an adequate family income are widely recognized as some of the main causes for child labour. The approaches to fight poverty are manifold. One of them is to enhance poor people's income by providing them with seed money —or facilitating the access to credit— for running small businesses. This strategy has been increasingly included in IPEC's interventions: many of IPEC's projects and programmes incorporate an income generation component, which usually takes the form of a revolving loan fund.

3. Revolving funds provide small loans to a group of people who have no credit history or access to commercial bank loans. Peer pressure in the form of a solidarity group is utilized to guarantee repayment. The repayments are made to the fund and used to make new loans. The size of the loan funds varies between 10% and 30% of the total project budget. The average loan size is between US$ 100 and 600, but in many cases is not specified. The number of loans provided differs depending on the size of the fund. As a thumb rule, between 50 and 100 families are envisaged to receive credit within the scope of a project. They are usually organized in borrower groups of 3 to 8 members. In the progress reports there is very little information about interest rates and the sustainability of IPEC loan funds. This is partly due to the fact that they seldom have reached the stage of maturity.

4. Although several studies and evaluations on the impact of micro-credit on poverty can be found in the development literature, IPEC needs an specific analysis of the impact of RLF on the incidence of child labour to determine what has worked and why, and which practices have not been effective or efficient. Central America provides a good opportunity for undertaking such evaluation, since the experience accumulated in using revolving funds is extensive. Nevertheless, the evaluation report will also be used for programming purposes in other regions as well.

5. Thematic evaluations are important for the development of analytical frameworks by analysing and documenting what IPEC has achieved in specific areas and under what conditions this has happened. IPEC is therefore proposing a series of thematic evaluations on different issues and sectors. This is part of an effort to strengthen IPEC's evaluation approach sponsored by the Department for International Development of the United Kingdom.

<u>II. SCOPE AND PURPOSE</u>

Scope

6. The evaluation will analyse the income generation components that include revolving loan funds in several interventions implemented in Central America. The focus should be on the common aspects and patterns of these projects and on identifying general strategies and lessons learned, rather than on the detailed coverage of each single project.

7. As a thematic evaluation rather than a thematic study, it is based on IPEC's work only and does not intend to look at other levels if this is not directly suggested by IPEC interventions. The experience of other organizations in dealing with revolving loan funds can be used to analyse IPEC's approach vis-à-vis the international practice.

8. A selection of specific components of projects (selected by IPEC's officials in Central America) will be looked at in detail through the field mission, including experiences in Costa Rica, Nicaragua, El Salvador and Guatemala.

9. It is expected that the consultant in charge of the evaluation will also develop a series of tools aimed at facilitating the design, management and evaluation of revolving loan funds in the future, based on ILO's and other organizations experience, as appropriate.

Purpose

10. The specific purpose of this evaluation is to provide a synthesis of IPEC's work in this area, including identifying possible strategies and models of intervention. The evaluation will also try to:

- ➢ document achievements, lessons learned and good practices generated in relation with the design and implementation of revolving loan funds;
- ➢ suggest possible orientations for future work based on existing experience and viewed from the field; and
- ➢ provide tools that would facilitate the management of the revolving loan funds included in projects in the future.

<u>II. ASPECTS TO BE ADDRESSED</u>

11. In general, the overall evaluation concerns as defined by ILO —relevance, effectiveness, efficiency, unexpected effects, sustainability— should be addressed throughout the evaluation (please *see ILO Guidelines for the Preparation of Independent Evaluations of ILO Programmes and Projects, section 1.2, November 1997*).

12. As a thematic evaluation, the following are the broad suggested aspects that can be identified at this point. The evaluation consultant can add other aspects or elaborate on the ones presented below as appropriate.

- **Design of the RLF**
  - Links between the income generation component and other elements of the projects. Synergies created. Which are the project settings where revolving funds are more relevant?
  - Comparison between different project models: comprehensive interventions implemented by an NGO non-specialized in credit (including —or not— a specialized organization to provide technical assistance) *vs.* interventions implemented by a groups of NGOs, one of which is specialized in micro-credit management.
  - Has there been any difference in the design of this component according to the different target groups?
  - Have there been clear and relevant objectives and indicators for this component in the analysed interventions? Was there a clear link between the

specific objectives of the income generation component and the overall objective of IPEC, e.g. the progressive elimination of child labour?

- Did results of and lessons from previous work guide formulation of these components?

- **Management of the RLF**

  - Identify and examine "models of interventions" or approaches that have been used and the strategies involved in realising such approaches.

  - Types of implementing partners. Criteria used for the selection of implementing partners. What are the requirements for good implementing agencies working in this field?

  - Management tools used by implementing partners and by IPEC: similarities and differences. Effectiveness of different management tools.

  - Management tools used for monitoring the component and tracking systems used for the beneficiaries.

  - Which have been the criteria for defining the beneficiaries of the credit?

  - Feasibility / market studies undertaken prior to the credit decision. Common patterns. How have these studies affected the selection of the beneficiaries?

  - Are there any common patterns in the funds concerning size of loans, interest rates and payment periods?

  - Which are the factors affecting repayment rates? What has been done in cases of non payment?

  - Has there been any difference in the implementation of this component according to the different target groups?

  - How have the implementing agencies provided technical assistance to the beneficiaries of the credits?

  - How has IPEC provided backstopping to the implementing agencies? Which has been the most effective way to ensure the necessary technical assistance for the appropriate implementation of the funds?

  - Which are the possibilities and shortcomings of IPEC's tracking database for monitoring beneficiaries of income generation activities?

- **Effects and sustainability**

  - Is there a pattern linking the different models of intervention and the effects perceived?

  - Effects of the increased income on the child labour situation in the households and in the communities. If possible, comparison of the situation of the target groups in relation with other members of the community.

  - Effects on school enrolment and retention in the target group. Comparison, if possible, with similar data for children who have not benefited from the income generation activity, but who might have received other services from the project.

- Has there been any difference in the effects of this component according to the different target groups? Which are the characteristics of the beneficiaries that might increase the effectiveness of the revolving funds?

- Sustainability of the micro-enterprises and businesses started with the micro-credits.

- Withdrawal strategy and sustainability. Which are the perspectives of the revolving funds after the withdrawal of IPEC?

- What lessons can be drawn from the work of IPEC, which would be useful for future programming in the same field?

▪ **Crosscutting issues**

- How have gender issues been taken into consideration for the design and implementation of the revolving funds?

- To what extent were participatory methods used in design, implementation and evaluation of this component?

- What were those methods and how did they affect the performance and achievement of the programmes?

III. EXPECTED OUTPUTS OF THE EVALUATION

13. The consultant will be required to prepare a brief **preliminary report** which will:

a) Define the analytical framework for the evaluation;

b) Propose a specific methodology, including checklists, questionnaires and data collection schemes;

c) Propose an annotated outline for the final thematic evaluation report.

This framework should be ready after the first week of work during the field mission, and will be presented to the evaluation officers in IPEC Headquarters for their consideration.

14. A **draft Thematic Evaluation Report**, in Spanish, will be ready one week after the field mission. The draft report will be reviewed for methodological and factual comments by the Evaluation Officers in Headquarters, and then by the Programme Managers in Central America. The Evaluation Officers will send consolidated comments to the consultants. A second version of the draft will be reviewed by the same people as above and by selected Senior Managers in the field and in Headquarters, for comments on the contents. These comments will be communicated to the evaluation team in a debriefing meeting or by mail for consideration.

15. The consultant will then produce a **final version of the Thematic Evaluation Report**, in Spanish, taking into consideration the comments on the draft. In all cases, the decision to include corrections or amendments to the draft document shall be taken by the evaluation consultant, with full justification.

16. A brief report, presented as a "**toolbox**" including elements to facilitate IPEC's management of revolving loan funds will also be presented two weeks after the ending of the field mission.

17. All drafts and final outputs should be provided both in paper copy and in electronic version compatible with either Word for Windows or WordPerfect.

18. The final report will be translated and distributed to all concerned partners, including project management, country programme management, main stakeholders in Central America and in other regions, ILO's Social Finance Unit, IPEC's senior management and the International Steering Committee at its annual meeting.

19. The preliminary conclusions will be presented at an in-house, one-day seminar at IPEC San José prior to the finalization of the field mission.

IV. PROPOSED METHODOLOGY

20. The following is the suggested methodology. The evaluation consultant —in consultation with IPEC— can adjust it, provided that the indicated range of questions is addressed, the purpose maintained and the expected outputs produced at the required quality. Since the baseline data of the interventions, including the economic situation of the beneficiaries, is generally weak, and due to resource limitations, the evaluation should mostly rely on the opinions and perceptions of the main stakeholders, including the credit beneficiaries. Therefore, the use of participatory tools is greatly recommended.

Composition of the evaluation team

21. An external evaluation consultant will be appointed to conduct the evaluation. His / her background shall include:

- Relevant education and training in Economics, including social research and data collection and analysis
- Extensive knowledge of income generation schemes and instruments linked to development interventions
- Relevant previous evaluation experience
- Experience in development, designing and implementing development projects
- Ability to write and communicate well in Spanish
- Publication and research record on evaluation, income generation and child labour
- Extensive knowledge and working experience in Central America

22. The IPEC DED Team will provide methodological support to the evaluation. IPEC will liase with ILO's Social Finance Unit to provide technical support. IPEC team in Central America will provide logistics support, including preparation of the agenda for the evaluation.

Timetable and itinerary

23. The evaluation is expected to take place in the period of April-May 2002 to build on ongoing programme development. Total duration is expected to be of 7 weeks, with one week for initial desk review, four weeks for missions, and two weeks for preparation of reports.

a) Desk Review and Preliminary Report

24. It is expected that the evaluation consultant will conduct a brief desk review of appropriate material as identified by IPEC HQ and Central America. The preliminary report can either be produced during the initial week or after the first week in the field. This report should provide the background to discuss methodological issues prior to undertaking the in-depth research in the region.

25. ILO's Social Finance Unit has produced several manuals and documents on the management of micro-credits. This material will be reviewed by the consultant and used during the evaluation as appropriate.

b) Field mission

26. The detailed timetable and itinerary for the field mission is the following:

April 15-20. Costa Rica. Desk review and field visits.

April 21-27. Nicaragua. Field visits.

April 28 – May 3. El Salvador. Field visits.

May 4 – 10. Costa Rica. Preparation of preliminary conclusions. Final interviews. In-house seminar.

c) Preparation of initial draft of final report

27. This is expected to take one week and should be completed as soon as possible after the mission.

d) Preparation of Final Reports

28. The preparation the final report is estimated to take one week, including review of comments received on first draft.

V. RESOURCES AND ADMINISTRATION

29. Required resources are

- One external consultant for a total of seven working weeks (35 working days)
- Travel and DSA for 13 days in San Jose, 7 days in Managua and 7 days in San Salvador.

30. Resources for in country visits (additional to DSA and travel for consultant).

31. The evaluation consultants will report to the IPEC Evaluation Officer and to IPEC's Sub-regional Coordinator in Central America.