USAID
FROM THE AMERICAN PEOPLE

KOSOVO CASE STUDY: LINKAGES BETWEEN MICROFINANCE AND OTHER LIVELIHOOD PROGRAMS

AMAP KG ECONOMIC RECOVERY AMID CONFLICT CASE STUDIES

microREPORT #107

July 29, 2008

This publication was produced for review by the United States Agency for International Development. It was prepared by Mayada El-Zoghbi of Banyan Global and reviewed by Anna Bantug-Herrera of Chemonics International.

KOSOVO CASE STUDY: LINKAGES BETWEEN MICROFINANCE AND OTHER LIVELIHOOD PROGRAMS

microREPORT #107

Acknowledgements

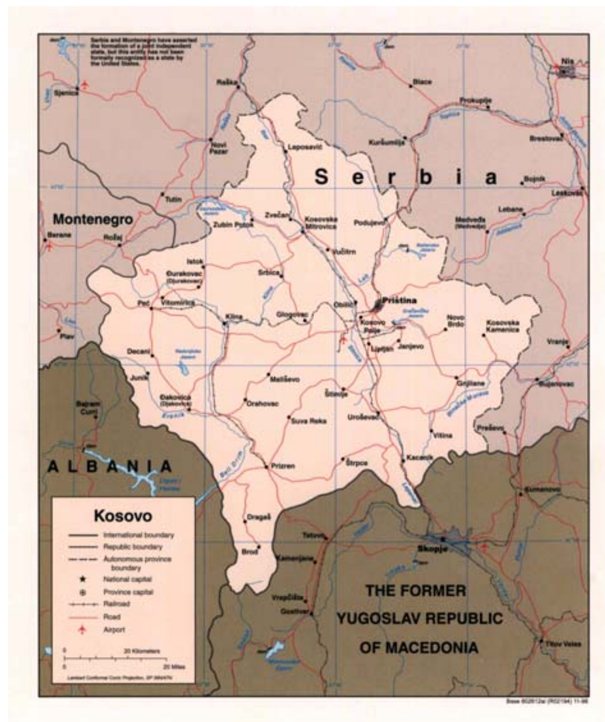
The author would like to acknowledge everyone at the Microenterprise Development Office, particularly Borany Penh, Tom Kennedy and Nhu-An Tran, and everyone in-country who contributed to this publication. Without their unwavering dedication and endless service, it would not have been possible.

CONTENTS

INTRODUCTION TO THE CASE STUDY

In the past 10 years, an increasing number of microfinance programs have begun operating in conflict affected environments. In many cases, emerging microfinance institutions (MFIs) have flourished and become successful institutions by any standard, regardless of the country context. Institutions often achieve sustainability more quickly by making concerted efforts to distance themselves from grant-based livelihood programs and limiting the use of non-financial services in their methodologies. In conflict affected countries, non-financial services are often associated with relief activities and perceived to create disincentives for payback of loans. MFIs in conflict affected countries have been utilizing a more commercial approach to their growth, following the example of other MFIs around the world in more normal environments. They begin with donor subsidies, but transition into more commercial sources of capital such as savings, debt or equity within shorter and shorter timeframes. While this approach has meant achieving sustainability more quickly, it has also contributed to limited cooperation and fewer linkages with livelihood programs, which are a major donor-funded activity in nearly all conflict affected settings.

From a broader development perspective, lack of cooperation implies that donor funding for emergency and short-term assistance is not fully leveraged and that development impact may be limited. Short-term assistance programs make the assumption that individuals will "graduate" into more commercial-based activities, whether this be self-employment or employment. The evidence on the ground has demonstrated that this graduation into more sustainable livelihoods is not occurring automatically and that individuals who participate in many livelihood programs are not graduating from relief assistance to a sustainable livelihood. More concerted efforts are needed to ensure that linkages do occur that enable individuals to build on the relief assistance packages such as in-kind or cash grants.



USAID'S RESEARCH ON CONFLICT AND MICROFINANCE

USAID's Accelerated Microfinance Advancement Project (AMAP) Knowledge Generation (KG) research on Microfinance Amid Conflict[1] began in 2003 with a focus on identifying best practices among microfinance organizations in conflict countries. This was later expanded to examine particular populations impacted by war, specifically youth. The focus of research during the last two years of the project is the role of microfinance within broader economic recovery efforts after conflict. Economic recovery is a broad umbrella of activities that tries to capture the full gamut of programming that has an economic objective. This spans short-term and often relief-like activities such as grants or in-kind support for basic livelihood to more long-term oriented activities such as establishing commercial banks or support to potentially competitive industries.

As part of this broader agenda on economic recovery, the AMAP KG team conducted a series of workshops and discussions with practitioners and donors working in conflict affected contexts. Participants at the workshops agreed that there were undocumented examples from the field that could provide valuable lessons to the larger community. To learn more about economic recovery efforts, focusing specifically on linkages with financial services, AMAP KG issued a call for nominations for case studies. Two cases from Kosovo, which highlight the work of three organizations—the Kosovo Enterprise Program (KEP), the International Center for Community and Economic Development (ICCED) and the Danish Refugee Council (DRC)--were selected for further research.

This report covers both case studies. The first case highlights a training program targeting marginalized communities and its links with MFIs, and the second describes how a stand-alone income generation program was merged into the operations of an MFI. These cases provide examples of one of AMAP KG's research objectives, demonstrating how short-term quick impact programs can be linked with long-term economic recovery needs. After a background section on the country context, each project is described in more detail. Both cases conclude with a summary of lessons learned.

BACKGROUND ON KOSOVO

Kosovo was and continues to be at the heart of many Balkan conflicts as most recently evidenced by the heightened tensions and demonstrations caused by Kosovo's declaration of independence in February 2008. Although Kosovo is predominantly ethnic Albanian within the larger Slavic nation of Serbia, Serbia has maintained a national identity that is strongly intertwined with Kosovo. Kosovo was an autonomous region within the former Yugoslavia from 1974 to 1989. As a minority within a greater Slavic and Eastern Orthodox majority, the ethnically Albanian and predominantly Muslim Kosovars endured a long period of systematic discrimination. Conversely, the Serbs in Kosovo enjoyed certain privileges during this period, including access to government and bureaucratic positions. Slobodan Milosevic removed Kosovo's special status as an autonomous region in 1989, sparking conflict in the region. After the removal of autonomy, forces within Kosovo began to demand independence. In 1996, the Kosovo Liberation Army emerged and gained control of some areas until 1998, when Milosevic sent in Serbian troops. Riots ensued, and the conflict escalated. The North Atlantic Treaty Organization (NATO) intervened in March 1999, marking the first time that the organization entered a conflict between a sovereign nation and its citizens. The Kosovo Force (K-FOR), the NATO mission put in place to keep the initial peace, continues to protect the province, and the United Nations Mission in Kosovo, a UN agency established to administer the province, also remains.

After the war, the long-term status of Kosovo was left undetermined, although there was a clear understanding among many in the UN that Kosovar independence was inevitable. Kosovars declared unilateral independence in February 2008. Serbia refuses to recognize this independence, and most recently, Serbs have staged protests in Belgrade and attacked the embassies of the U.S. and other countries that recognized Kosovo's independence.

[1] See www.microlinks.org for more information on this research.

The ethnic makeup and dynamics of the conflict in Kosovo is complex. In 1991, the total population of Kosovo was 1.9 million, of which 81% were Kosovar Albanians, and 9.9% were Serb. The remaining 9% was composed of other minorities such as Roma, Bosniaks (a term used to describe Bosnian Muslims), and other groups. When the Serbian hold on Kosovo ended after the NATO attacks in 1999, the Serbs in Kosovo, who had once been the powerful majority elite, soon became a weak minority with limited protection. Approximately 235,000 ethnic Serbs and other minorities left during the conflict[2] and according to United Nations High Commissioner for Refugees statistics, until 2006 only 15,000 internally displaced persons (IDPs), generally Serbs and Roma, had returned to Kosovo.[3]

Currently, most minorities reside in enclaves in northern Mitrovica and other Serb-controlled northern towns. Security for ethnic minorities has improved markedly since 1999. Initially protected by NATO forces, minorities have begun to reintegrate into mainstream Kosovar society. However, many challenges remain. Economically, minorities are among the vulnerable in Kosovo. Enclaves in particular have limited economic opportunities, and residents live on meager social assistance from Serbia.

PART I: LINKING TRAINING TO MARGINALIZED COMMUNITIES WITH FINANCIAL SERVICES

PROJECT DESCRIPTION

While most MFIs in Kosovo are officially open to all population groups, in actuality, most serve the predominant majority populations in larger towns. This is typical of microfinance programs which often open new branches in areas with higher population densities. Serving marginalized groups has been and continues to be a challenge for microfinance programs in conflict and other developing country contexts, particularly when these marginalized groups reside in rural communities. In the case of Kosovo, minorities also often lack collateral and reside in remote enclaves with limited economic viability. Targeting clients in these areas is generally not economically viable, and many MFIs fear that minorities are more likely to flee to Serbia or other countries. Finally, many MFIs are staffed by Kosovars, who may still harbor prejudice against minorities.

Nearly one million Albanian Kosovars left the country during the war. The number of returnees in 1999 and 2000 was far greater than expected by the international community. As a result, the recovery needs of majority groups became a pressing priority. At the same time, as minorities returned to Kosovo, their limited economic opportunities presented another challenge to economic growth and sustainability.

With funding from the Foreign Commonwealth Office[4] ICCED, a locally-registered Kosovar organization established by the Kosovo Enterprise Program (KEP) (see box), offered a series of training courses targeted at returning and receiving communities in Kosovo. The design of this program was built on the understanding that MFIs were

[2] http://web.amnesty.org/library/Index/ENGEUR700042007?open&of=ENG-369

[3] http://www.saputnik.net/balkans/documentary-in-kosovo-the-background-2/

[4] This is the equivalent of the US State Department in the United Kingdom.

not reaching marginalized communities alone and that many individuals living in minority enclaves were not themselves ready to take on credit for the start-up or expansion of an enterprise. As in many other conflict affected settings, training was perceived as one of the key solutions to helping overcome lack of credit worthiness by marginalized groups.

Training as an economic recovery tool is quite common in post-conflict settings such as Kosovo. Often training is provided to groups that are perceived to be marginal in some way such as women, youth or in this case, minorities. Training initiatives rarely seek to measure their impact beyond measuring learning objectives or determining participant satisfaction. Many training initiatives do not directly intermediate the process of how knowledge attained through the training would lead into direct employment, start of a business, or growth of an existing venture. Inherently there is an assumption that with added knowledge, participants are able to secure greater economic opportunities on their own. While training is often characterized as an economic recovery tool, there is little evidence that participating in a training program leads to economic gains.

Recognizing these potential pitfalls, ICCED's design tried to address some of the key weaknesses with typical training-based livelihood initiatives. In order to encourage the linkages with financial services, allowing clients to build on the subsidized training that they would receive, ICCED included presentations by all MFIs in the regions served and discussions inside the training on how to access financing.

Furthermore, recognizing that the ethnic dynamics were still very much present in Kosovo, ICCED pursued an inter-ethnic format for the training. This format utilized both Serb and Kosovar Albanian trainers as well as participants from both ethnic groups. Finding a qualified Serb trainer who felt safe and able to work with ICCED's primarily Kosovar staff was not easy. It was perceived as critical, however, to instill within the culture of the institution the message of tolerance and integration. The trainer hired for the position returned specifically from Serbia to take on this role with ICCED. Interviews with this trainer and other Kosovar staff were clear that this approach had indeed succeeded in creating an internal environment of reconciliation.

ICCED's training program offered training in Basic Entrepreneurship, Advanced Entrepreneurship and Marketing. In addition to training beneficiaries directly, ICCED also worked with various non-governmental organizations (NGOs) which offered training and income generation programs to minorities providing them training of trainer opportunities so that they would be able to replicate this work within their training-based livelihood programs.

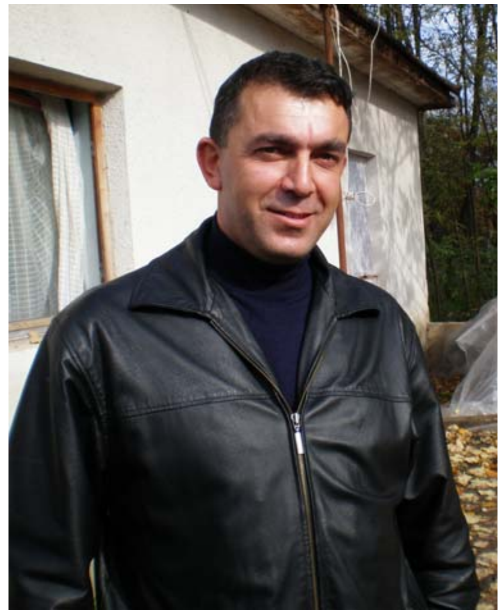
After 17 months, the project had:

- Offered a total of 52 courses to nearly 850 participants;
- Provided ten (TOT) courses to NGOs and other international organizations with income generation programs targeting minorities. By working with local and international NGO partners, the training aimed to improve the broader array of services offered to minority groups in Kosovo.
- Achieve measurable results: 357 participants from the training went on to access credit from MFIs including KEP, KosInvest, Zavet, Grameen, FINCA, and ProCredit.[5]

[5] KEP was one of the first MFIs to begin operations in Kosovo, but many others soon followed, including AFK, Grameen, FINCA, ProCredit Bank, World Relief's Besledjia, KosInvest, and several others. As early as 2000, the MFIs formed AMIK and a credit bureau, which was fully financed by the membership.

ICCED itself no longer offers the training on a regular basis, as funding from the British Office came to an end and there was no effort to commercialize these courses. However, ICCED has offered the course by request to the Association of Microfinance Institutions in Kosovo (AMIK) and the International Office of Migration (IOM). The messages that ICCED delivered through its training of trainer (ToTs) programs with NGOs continue to live on. Several of the NGOs that participated in the ToTs, such as the Danish Refugees Council, continue to utilize the content and mixed ethnic format of the training.

One of the more positive outcomes of the training at the MFI level is the perception by loan officers within MFIs that minorities are not more risky than other clients. Within KEP, for example, there is no difference in portfolio quality between loans that are for minorities and those that are for Kosvoar Albanians. In fact, when visiting several of the Serb enclaves, several MFI branch offices were spotted indicating that MFIs have now branched out to these communities in a more concerted way. One of the trainers interviewed indicated that repayment across MFIs that focus on minorities is reportedly 100%.



Turning Training into Profit

Dakic Serboulou is a Serb living in Gorazdevac, near Peje. He was one of the few Serbs who did not leave during the war, but a lot was destroyed nonetheless. Before the war, he did only some agriculture while now farming is his main income source. He participated in three training courses offered by ICCED. He initially heard about the training through the Danish Refugee Council which partnered with ICCED on outreach. Dakic said the training had a "very positive impact" and he believes that others participating felt the same. The training improved his overall business knowledge and helps him run his farm like a business. He now farms 30 acres along with his family and has 20 cows.

After the training, he took out a loan for 2,000 Euros for a year term for crops and feed for his animals. He has nearly paid this off and is ready to take a second loan for 5,000 Euro, which will be used for fertilizer. Dakic is a farmer by day and a police officer by night. He and his brothers support a family of ten people. He hires day laborers when needed. While the loan makes him work harder, Dakic has had no difficulties in repayment and, in fact, was able to repay his loan early.

Project Summaries

The ***Kosovo Enterprise Program*** (KEP) began as a project of the International Catholic Migration Commission (ICMC) in 1999 and was the first MFI to operate in Kosovo. Today, KEP is one of the largest MFIs in Kosovo with an active loan portfolio of 23 million Euros, as of October 2007. It has always maintained an exceptionally high portfolio quality and continues to maintain a portfolio at risk of 98%. KEP serves an active client base of nearly 12,000 clients of which 85% are Kosovar and the remaining are from various minority groups such as Serbs, Bosnians and Roma. KEP is currently in the initial stages of transforming into a regulated and licensed commercial bank, which is anticipated to be complete by the end of 2008.

The International Centre for Community and Enterprise Development (ICCED) is the for-profit subsidiary of the Kosovo Enterprise Program (KEP), offering training and consultancy services. It is committed to the socioeconomic betterment of communities through the provision of adult-based education, training and technical assistance in microfinance, civil society, and enterprise development. Despite the inherent challenges of operating in a post-conflict environment, KEP effectively delivered credit as well as adult-centered training programs to a diverse array of clients. This approach led KEP to believe that such a model could be applied to other excluded and marginalized communities.

The ***Danish Refugee Council*** (DRC) is a private, humanitarian organization. The aim of the organization is to protect refugees and internally displaced people against persecution and to promote durable solutions. DRC is an umbrella organization with 32 member organizations. The assistance to refugees consists of relief and other humanitarian aid, rehabilitation, removal of landmines, support to return and repatriation, and promotion of durable solutions. Support and capacity building of local and national authorities and NGOs form an integrated part of their work. The Danish Refugee Council works in more than 20 countries throughout the world.[1]

LESSONS LEARNED

The lessons learned highlighted here represent attributes identified by various stakeholders and the conclusions of the researcher based on views of clients and stakeholders.

- **Need for Evidence to Support Effectiveness of Training Programs:** Training programs are a major part of the landscape in any post-conflict context. Training is often delivered to IDPs and refugees in IDP or refugee camps. Many training programs during periods of displacement serve as a form of psycho-social support to beneficiaries. Psycho-social programs offer participants a chance to participate in what is traditionally a normal job or handicraft activity, such as sewing, while discussing some of the trauma experienced during the conflict. Through these activities, participants are able to create a community to help them move beyond their trauma to resume a normal life. Training is also commonly delivered to returnees with the explicit objective of providing beneficiaries with a "durable solution" or a means to earn a living. Nonetheless, humanitarian organizations often assume that IDPs, refugees and returnees will be able to access finance to start an enterprise from other sources. In some instances, in-kind or cash grants are provided instead of ensuring long-term access to finance. Despite its widespread use, very few studies have empirically assessed the impact of training programs on the livelihoods of beneficiaries. This is primarily because the funding of training programs rarely extends beyond the delivery period, meaning that the window for impact measurement falls outside the timeline of most projects. Instead, practitioners in this field often rely on anecdotal evidence or satisfaction surveys of the beneficiaries as proxies. Similarly, lessons learned from KEP's training programs are based on anecdotal evidence, rather than empirical study.

> ***Creating Business Linkages***
>
> ***Nebojsa Velicevic*** is from Vidaje. He is 42 years old and has 3 children. During the time of the conflict Nebojsa fled to Serbia. When he returned he "had to start again from the beginning" Soon after returning, Nebojsa received an agricultural grant from IOM and started trying to make use of the land he had. At first he bought two cows and was able to sell milk to members of his surrounding village. But after a while the market dried up as members of the nearby Albanian community stopped buying from him. Nebojsa was invited to attend KEP's training in basic entrepreneurship in March 2006 and through the training exercises it became apparent that Nebojsa had a market access problem as was unable to sell his goods in his community. KEP connected Nebojsa with an Albanian owned organization in Dragash called ***Meshtekna***, which buys and sells livestock and dairy products. Now Nebojsa is selling his dairy products to Meshtekna for wider distribution.

- **Training Requires Subsidies**: ICCED did not attempt to cover costs within the training model. ICCED felt that without a donor subsidy this initiative, participation at the community level would be very low, as the market has been and continues to be flooded with donor funded training programs. ICCED has been able to offer the training to NGOs that have their own donor funding and in this way has been able to market the courses to other organizations. A more commercial model, whereby participants pay course fees, has yet to be introduced and will not likely be feasible until subsidized programs no longer operate.

- **Targeting Returnee and Receiving Communities**: Targeting returnees for special initiatives without incorporating the receiving communities has been known to breed further inequity. Standard microfinance "best practice principles" call for service provision to both returnees and receiving communities alike. This project demonstrated that the same principle applies to other services, including training. Members of ICCED, the donor and others interviewed for this case attribute a great deal of the success to the fully integrated model of serving returnees and the receiving communities. By mixing ethnic groups, those interviewed believe that the program has helped reduce discrimination of minorities within MFIs and within the communities served. They noted increased business linkages and partnerships which demonstrate trust between the ethnic groups.

Mr. Bojan Jovanoviċ from Izvor (Novobërdë/Novo Brdo) collects forest mushrooms. Before the war, Bojan successfully sold forest mushrooms to the large agricultural cooperatives that are now defunct. After the war, the market dried up and he was unable to earn a living through in the Kosovo market. He started transporting some of his goods to Serbia, but the costs of transportation were too expensive. During one of the trainings, Bojan identified a ***Mrs. Fride Aliu*** - owner of a Ferizaj/Urosevac based company that buys non timber forest products. Now, Bojan collects his mushrooms and sells them to the company for retail. Currently, Bojan and Fride are discussing the possibility of working together.

- **Utilizing a Mixed Ethnic Format**: The training format, in which participants from different ethnic groups attended the same training, created opportunities for the development of business linkages across ethnic lines. The project identified 56 business linkages created as a result of the training (see boxes above for examples). While many of the minorities and Albanians claimed to have maintained relations with their neighbors and old friends, it is relatively uncommon for new linkages to be established. Of course, it is difficult to assess exactly what factors enabled interethnic business linkages beyond the training. The simple passing of time may have been an important "enabler" as well. When local TV stations wanted to cover the training, many participants refused to allow the cameras in the training room in fear that their neighbors would see that they support integration. Furthermore, many individuals would not allow ICCED to utilize their names when publicizing inter-ethnic linkages demonstrating that there is still much room for progress in this arena.

- **Timing is Crucial**: There is no doubt that inter-ethnic tensions have declined over the years. Had this program been implemented immediately after the war, it is not clear that it would have achieved similar results. In fact, many attempts were made immediately after the war to integrate Serb and Albanian Kosovars through joint business activities which were unsuccessful, raising the question of when is the appropriate timing to utilize inter-ethnic cooperation as part of programming. The timing of this program allowed it to benefit from the reduced tensions that came with the passage of time. Nonetheless, there are many who argue that through livelihood programming, minority and majority groups can be brought together, and that this process itself helps to reduce tensions. Measuring reductions in tensions was not an explicit focus of the program nor is it the goal of this case study. In fact, this been an area that has not been researched in any substantive way nor well documented. There is very little empirical evidence to support or refute which comes first, the reduction in tension or inter-ethnic cooperation.

- **Facilitating Access to Credit**: Approximately half of the training participants were able to access a loan from MFIs in Kosovo. The training itself included a focus on financial literacy, informing and introducing participants to the financial providers and their products that served their regions. This introduction and increased understanding enabled greater access of minorities to the available financial services. By the same token, exposure at the MFI level to this community helped build their confidence in their risk profile. It is important to point out that participants were not guaranteed access to credit, but they were provided opportunities to learn about the conditions and requirements of MFIs and to meet the loan officers serving their communities. During the final day of the training, MFIs were invited to provide information to participants on their products and services. Through these direct contacts, clients were then able to follow up with business plans for financing. While there has not been any formal empirical study by ICCED to evaluate the broader impact of the training, there is clear anecdotal evidence that participating in the training has improved participants' access to credit. Despite the training, some participants did not seek financing either because they did not need it or they were still uncomfortable with taking on a debt burden with unstable income sources.

Mara's Story

Mara Savič from the village of Belo Polje in Peja Municipality is a Serb who returned to Kosovo in 2003. She is originally from Bosnia-Herzegovina and was displaced from Kosovo in 1992. While in Serbia, Mara participated in numerous courses on embroidery and sewing offered by DRC. Through the work and the social interaction, she has been able to recover from the trauma she experienced and has discovered a new occupation which she loves.

When she returned to Kosovo, she heard about the ICCED course and attended both the basic and advanced entrepreneurship courses. Mara has started producing scarves, blankets, toys, greeting cards, and various other items which she sells to neighbors and through special order to soldiers or other internationals living in Kosovo. She has participated in several exhibitions, where she was able to sell many of her handicrafts. Mara does not yet feel comfortable enough borrowing money to open a shop. However, she would like to start an enterprise where she and her neighbors can work together. The family receives 50 Euros a month in social assistance, and Mara is currently the only breadwinner in the family.

- **Crucial to Obtain MFI Buy-in and Identify Internal Champions**: Obtaining buy-in from MFIs at the onset of the program was not easy. As noted earlier, many of the MFIs in Kosovo heavily pursue a commercial approach and have been focused on their financial bottom line. In their pursuit for profitability, many have moved away from difficult to reach markets. KEP, for example, which was originally established by a refugee-focused non-profit organization and was built on the premise of reintegration of both majority and minority returns, had done little to retain its original mission. Getting buy-in to implement this program required an internal champion who could push the training at all stages, from the initial proposal development to the final training delivery. Once KEP and other MFIs have seen that their financial bottom line is not impaired by serving minority clients, as exemplified with 100% repayment rates, they are now competing to serve this market segment.

PART 2: A MERGER BETWEEN AN MFI AND A LIVELIHOOD PROGRAM

The previous case looked at the role of training in bringing marginalized communities into the economic mainstream by linking training to microfinance. In addition to training, the post-conflict landscape often hosts income generation programs (IGPs) which aim to restore the livelihoods of both majority and minority populations. The following case examines a rare situation, in which an income generation program, managed by the Danish Refugee Council (DRC), evolved into a financial service program and eventually merged with an MFI. Unlike the previous case, this case is not specifically focused on a population group and conflict dynamics. Instead, its focus is different programming instruments and how these can be utilized in a post-conflict environment.

DRC'S PROJECT

Like many other humanitarian relief organizations working in Kosovo after the war, the DRC operated an income generation program that targeted vulnerable populations such as the elderly, the handicapped, orphans, or those living in isolated rural locations. DRC provided in-kind grants of between 1,500 to 2,500 DM (approximately $1,100-$2,000 USD) to approximately 600 individuals in and around the Peja (Pec) region. Like other income generation programs, it is often assumed that in-kind grants can kick-start a business and that beneficiaries would be able to grow and manage the enterprise on their own. Few income generation programs attempt to provide sustained support to beneficiaries through this evolutionary process. Furthermore, few income generation programs attempt to link their beneficiaries with other sustainable sources of finance or technical assistance. [6]

Concerned with the issue of impact and sustained support to its beneficiaries, DRC considered options for extending its programming to support economic livelihoods in Kosovo. This was partly the initiative of its donor, the Danish International Development Agency (DANIDA), which demanded to see an exit strategy for the program that would not jeopardize impact at the beneficiary level. Without future subsidies to continue delivery of in-kind grants, DRC had few options available for addressing the exit issue. DRC decided to convert its IGP into a credit program.

DRC designed its credit program in 2002, when several other microfinance programs were already operational in Kosovo. It studied these institutions and developed similar products. After disbursing its first round of funding to 121 clients, all of whom had received IGP grants, DRC elected to change strategies. Program managers realized that many of the IGP beneficiaries were not necessarily appropriate credit clients and that many of the extremely vulnerable individuals would never be able to repay a loan on commercial terms, let alone manage a sustainable enterprise. DRC subsequently expanded its program to new clients who had not participated in its IGPs. All future disbursements from DRC used more standard microfinance selection criteria for clients, including capacity to repay and ability to operate an enterprise. This also implied that DRC's older IGP clients were able to benefit from the merger in a sustained way as many of these clients had trouble repaying loans.

After nearly a year of direct operation of a credit program, DRC began considering the program's long-term potential and sustainability. The options for achieving sustainability were limited. The first was to become a local NGO and to support the program through interest earnings. The second was to redirect funding to a different activity and eventually close out operations. The third was to merge with a larger entity endowed with sufficient capital to ensure future

[6] It should be noted that there is some work in Bangladesh, Ethiopia and other countries that seeks to link social safety net programs with financial services. Many of the lessons learned from these countries would apply to linkages of income generation programs and financial services in post-conflict countries.

growth. DRC elected to explore the third option and began discussions with several MFIs in Kosovo, including KEP and the Agency for Finance in Kosovo (AFK).

KEP and DRC had been cooperating on several other fronts. When DRC began its credit program, it hired KEP to provide staff training. KEP also delivered client training for many of DRC's income generation programs. Institutionally, the organizations had strong relations. AFK had also started as an in-kind grant program which converted into a credit program, but it stagnated for several years when it was unable to raise additional capital and struggled with delinquency issues. For these and other reasons, KEP emerged as the natural merger partner for DRC's IGP turned credit program.

BENEFITS AND CHALLENGES OF A MERGER

The benefits of the merger to both DRC and KEP soon became clear. DRC was able to ensure continuity, long-term employment for its staff and continued access to finance for its clients. KEP was able to take on key managerial staff, increase its client base and relationships in communities where DRC had been operational, and build its equity by 600,000 DM, the loan portfolio it absorbed in the merger. Additionally, KEP gained the donor relationship with DANIDA, which donated funds for additional assets and some operational costs, as well as a loan in later years. Without these favorable outcomes, it is unlikely that the merger would have been as successful. While each situation is unique and should be judged independently, it is important that benefits accrue to both parties for a merger to succeed.

Despite these benefits, the merger was a challenge and created difficulties, particularly for the staff, for several years. The biggest challenge involved the technicalities of absorbing personnel and the redundancies that this created in the organizational structure. As KEP did not know the DRC staff as well as its own, the initial period of employment for DRC staff within KEP was somewhat uncertain. In the initial six months, staff were shifted among positions creating some friction and uncertainty. Some KEP staff members were demoted while DRC staff often felt the need to "prove themselves" all over again. KEP made a critical human resource mistake, which is not fully acknowledged by management and is justified through minor technicalities, by not upholding its agreement with DRC to acknowledge the employment history of DRC personnel with regard to benefits.[7] This issue continues to create a sense of unfairness among the staff. While grievances may still linger, many staff acknowledge the benefits of incorporating former DRC staff, which has helped to instill a competitive culture within KEP.

LESSONS LEARNED

Many people believe there is space within the post-conflict environment for income generation programs.[8] The most compelling reasons for their use involve the "asset replacement" needs of communities and individuals recovering from conflict or displacement. Yet, DRC's income generation program is one of the few that has evolved beyond its subsidized phase and has continued, albeit in a very different form. DRC's program is one of the few that has attempted to create linkages with more sustainable financial services by merging within one. On its own, the IGP would have come to its natural end with the end of the grant from DANIDA. But by merging, the program attempted to salvage what it had already attained – linkages with local communities, a well trained staff, and a strong donor relationship – to continue to serve client needs. Most IGPs end immediately with the donor grant period, raising questions about their ability to generate income for beneficiaries in the long-term.

---

[7] This includes things such as pension benefits and staff loans which are based on employment tenure.

[8] Here used to connote grants for enterprise activity.

DRC staff acknowledge that the benefits of short-term IGPs are marginal and that a one-off grant is not sufficient to pull someone out of poverty, let alone build an enterprise. DRC staff can share a long list of anecdotal stories about clients selling the assets they received from the program for a fraction of their purchase price, including chicks which were bought at 9.5 DM each and were sold by the client for 1 DM each and equipment purchased for 2,000 DM and sold at 200 DM.

These stories demonstrate the need to rethink the design and implementation of income generation programs. Should donors continue to support such initiatives? Who actually benefits? What is the impact of these programs in the short, medium and long-term? While this case study does not answer all of these questions, it does provide some insight on how the design of income generation programs may be improved to enhance their ability to support targeted communities.

- **Continued Access to Financial Services is Important for Achieving Impact**: While this case study is not an impact study, other impact work has clearly demonstrated that impact at the client level is felt only after repeat and continued access to financial services. IGPs, which are designed to have a limited duration, will clearly result in more limited impact on client lives. Meetings with clients – both DRC and KEP – demonstrated a strong satisfaction and loyalty to the services they obtained from these organizations. From the client perspective, the merger was seamless as there was no halt in service, no change in their primary contacts and ongoing access to larger loans.

- **Refining the Target Market**: As DRC evolved its IGP into a credit program, it began to select a different set of clients. Instead of seeking the most vulnerable, it identified individuals who were entrepreneurial and could manage a business. This is one of the core differences between programs that seek to improve a household's income earning capacity and those that aim to help vulnerable individuals with basic survival. Often, both types are labeled livelihoods programs, but in reality programs which target extremely vulnerable population are social service programs and should be classified as such and should not be perceived as supporting long-term income earning potential. In order for livelihood programs – income generation programs, vocational training or microfinance for that matter – to have impact on a household's income earning capacity, these programs must use appropriate client selection strategies; clients who are able to use the intervention to further their income earning potential should be selected.

- **Designing IGPs with an Exit Strategy**: Income generation programs can be designed with an exit strategy allowing them to lead into more sustainable access to finance initiatives. To do so, the selection criteria for traditional IGP beneficiaries need to reflect business principles. Selected individuals must be able to manage and operate a business, despite their vulnerabilities. Individuals who will never be able to manage a business are not appropriate recipients of income generation grants. By aligning selection criteria, income generation programs can more easily transition their clients into credit and other financial services, either by directly merging, as in the case of DRC and KEP, or through a linkage model with an MFI.

- **Vulnerable Individuals May Need Continued Social Services**: As DRC transitioned its program from an in-kind grant model to a more sustainable intervention, its original target clients, vulnerable people, were unable to transition along with the program. Instead, DRC moved away from serving this vulnerable segment of society completely when its IGP funding ended. In recent years, there have been efforts made to graduate beneficiaries of social safety nets to more sustainable programming, such as microfinance, but there has been limited experience applying this in post-conflict settings. One model, which was previously highlighted under AMAP KG, was implemented by the American Refugee Committee and used a stepped approach focusing on refugees. In this model, refugees first access grants to start a business and are then provided certificates as a referral to a microfinance program in their home countries upon their return.[9] Success in this model, however, still requires that refugees have the potential capacity to start and manage a business, thus these individuals may not necessarily be the most vulnerable. They are merely temporarily placed in a vulnerable situation. Organizations often use the term "vulnerable" in a very loose fashion, often including women in this category and other groups that have full capabilities to work and/or manage an enterprise. Utilizing the term vulnerable in a purer fashion would imply those who are not able to take care of themselves, such as young children or the elderly. Many individuals who are deemed vulnerable in a post-conflict setting may require continued access to social services and may never graduate into employment or business ownership. Understanding that the term "vulnerable" can mean many different things in many different settings is an important first step. Economic recovery programs, such as IGPs, must first determine if their aim is to serve a social safety net function by helping the truly vulnerable sustain a basic livelihood, or if they aim to focus on economic recovery and seek to transition beneficiaries into a sustainable income earning activity.

- **Shared Vision is Essential for a Successful Linkage Model**: If IGP and credit programs are to merge or link in a substantive fashion, they must share a similar vision. While DRC began with a focus on vulnerable populations, it transitioned away from this population group as it introduced credit. DRC was fully aware that client targeting for grant programs was significantly different than for microfinance. As such, DRC and KEP shared a vision that reaching vulnerable clients can be achieved by focusing on communities and families with vulnerable members, rather than individuals with vulnerabilities. This has been a common best practice that has emerged for serving other niche markets such as individuals living with HIV/AIDs. Because extremely vulnerable individuals by definition are not able to take care of themselves, providing them inputs, whether in the form of grants, training or credit, is not sufficient to address their economic needs. Rather, focusing on working adults in households that have extremely vulnerable individuals supports a family's overall wellbeing, strengthening the opportunities and capacities of those who are already income-earners.

- **Transparent Communication is Necessary**: Transparency and communication are key to an effective merger. While DRC and KEP admit to mistakes related to staff transition issues, they both acknowledge that more transparent communication with managers and staff could have prevented some of the difficulties associated with the merger. Management and staff, in hindsight, gave many examples of how KEP and DRC could have handled the merger better. At the beginning, a lot of the negotiations between KEP and DRC was at high levels of the organization, primarily utilizing expatriate personnel, and did not include any mid-level managers. Given the size of Kosovo and the fact that most individuals and families know each other, this lack of transparency was quite a shock for KEP staff when the merger was announced. Mid-level managers felt that their knowledge of Kosovo could have been better utilized in this process. Once the merger went into effect, staff cliques were quickly formed with DRC staff kept out of the KEP mainstream. This staff dynamic could have been rectified by forming new teams that required mixing of personnel. Although this eventually was achieved, the initial cliques did create ill feelings among the staff from both organizations. Staff from DRC felt inferior when the merger took place as they were walking into a much larger organization that already had many years of commercial lending experience. By placing the staff directly into management and staff positions, they felt the need to prove themselves with KEP's employees. More could have been done at educating KEP staff on the experiences and the backgrounds of the DRC employees and participating in joint training or knowledge sharing events could have facilitated their absorption into the organization. KEP also did not build on the experience of DRC's work with poorer segments of the population. Rather than continuing to address the "graduation" issue of how to transition marginalized or vulnerable people into microfinance, KEP pursued an integrationist approach which in some ways has not fully leveraged the potential of the merger.

---

[9] **Refuge to Return: Operational Lessons for Serving Mobile Populations in Conflict-Affected Environments**
http://www.microlinks.org/ev_en.php?ID=7120_201&ID2=DO_TOPIC

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
Tel: (202) 712-0000
Fax: (202) 216-3524
www.usaid.gov