

BUSINESS SUPPORT

DRC MENA livelihoods learning programme

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The Danish Refugee Council (DRC) is a humanitarian, non-governmental, non-profit organisation founded in 1956 that works in more than 40 countries throughout the world. DRC fulfils its mandate by providing direct assistance to conflict – affected populations – refugees, Internally Displaced Persons (IDPs) and host communities in the conflict areas of the world and by advocating on their behalf internationally and in Denmark.



*A woman and her family in their own tailoring shop in Syria which DRC help open through its livelihoods project to support micro and small enterprises.
Photo by: Rafel Al-Yasseri/DRC*

DRC began a three-year learning journey in 2017 in the Middle East region, aimed at better understanding the roles that an international NGO can best play in supporting the livelihoods of conflict- and displacement-affected people. DRC has started to face big strategic challenges by building up an evidence base about how its projects are working and the impact that they are having.¹

Final conclusions cannot be drawn at the end of the first year of the journey. However, DRC believes that reflections stimulated by its own learning journey may be relevant to others – often running similar interventions for supporting livelihoods, and facing similar challenges. This paper on business support, and a companion paper on employment support, should be seen not as recommendations for the sector, but rather as food for thought, containing as many questions as they do suggestions for answers.

Introduction:

DRC's business support interventions in the Middle East

Business support is a standard livelihoods programme for DRC across the region. Projects typically start with registration and counselling, followed by business skills training (including training in business proposal writing), grant provision in different forms and follow-up coaching. In some countries, DRC uses incubator models, where businesses have access to information and additional services to reduce start-up costs.

Depending on each country's legislation, DRC provides the grants in cash or in-kind. DRC supports either start-ups or the scale-up or strengthening of existing businesses. Home-based businesses are supported through grants of about USD 500 – 1,000. Other businesses receive from USD 1,000 up to USD 7,000. In some countries, the financial support is conditional on participation in the training and the submission of a successful business application only, while in others, matching capital is required or clients are expected to create a citizen / refugee partnership.

On average per project, DRC supports between 100 and 150 home-based businesses or 20 to 60 businesses in the market. Most projects are implemented over a 6- to 12-month period.

Technical/implementation issues

Market information

Like other aid agencies, DRC has shown increased appreciation of the importance of the market in recent years. But can NGOs ever have the expertise to know which investment decisions are sensible or which grants will lead to profitable businesses? Besides relying on the market expertise of partner agencies, country teams tried to undertake and use market studies to inform their programming and implementation, but often struggled to know what information to collect or how best to use it. Comprehensive market studies took time and resources, but at the end, they were not obviously useful for a variety of reasons: they took so long that they arrived too late; rapidly changing economic conditions meant that they became quickly out of date; more professional studies did not focus on the niche market segments or informal markets relevant to refugees; or the very specific market conditions in specific locations were not addressed.

In short, we have impossible demands for market information. We need information that is continually up-to-date and forward looking. It has to be very location specific, but it cannot ignore broader economic trends and must be comprehensive enough to cover all the sectors that might

¹ For more information and lessons about DRC's learning journey, see www.drc.ngo/livelihood-learning-journey

be relevant to refugees, even if we do not know in advance what they are. It must all be undertaken quickly and without too great expense, and the analysis must be done either by people working in the aid sector or people who understand the needs of the aid sector. Then, the information has to be in a form that is simple to understand and obviously practical. Perhaps unsurprisingly, managers of livelihood projects did not have the time or the expertise to design such studies or even to work out what information specifically they needed.

Our thinking so far:

- We need to be realistic about how much information we can collect, and worry more about what exactly we need to know and less about collecting more and more data.
- We need to develop relationships with client entrepreneurs where DRC can support them to make better informed business decisions without having to be the provider of knowledge or the judge of what businesses investments are correct.
- We need to develop broader networks of relationships, linking with successful entrepreneurs (including of small-scale businesses) who can help guide us, and more importantly help client entrepreneurs with their investment decisions. This could be called moving from (our) smart market studies towards establishing networks of market-smart mentors owned by clients.

Application system

The processes currently used to collect applications and to select which ones to support are creating huge workloads for staff – which in turn limits how many people can be assisted. Where grants are for small home-based activities, this is not cost-effective: it would be impossible for one full time staff member to administer more than \$12,000 worth of grants a year in one country. Despite this, we do not know if the businesses that we decide to help are any more likely to succeed than any others.

The success of a new business activity is more about the entrepreneur than the business plan. An entrepreneur needs to be networked into a rapidly changing market and to adapt quickly to opportunities or difficulties, rather than to implement a pre-arranged workplan. This is a challenge for an application system that has to be objective and transparent, where the aid organisation is providing the investment capital.

Offering business grants to a very limited number of displaced people, in a business environment where personal relations ('wasta') play such a large role in employment and business decisions, inevitably creates the possibility for suspicion of favouritism or worse. It may also create situations where staff come under pressure to choose certain applications. It is unfair for staff to have to face this pressure, and they need protection from the possibility of any suspicion. There is also a conflict between the role of supporting the applicants to develop proposals and the role of judging those proposals.

Our thinking so far:

- We should reflect on what, and how much, information is genuinely needed about clients in order to assess their applications. We need to explore how the burden of data collection and management can be reduced without losing information that would be useful, either in selecting grants or in understanding project impact.
- More transparent and anonymised selection processes are needed, with more separation between the roles of supporting business plan development and grantee selection. The selection process should involve people from outside any organisation connected to the project, and preferably including small-scale entrepreneurs.

Grants

Large grants are expensive, and greatly limit the possible number of clients. Grants of thousands of dollars also introduce an element of inequity – a few refugees gain a lot for free, where most get nothing. On the other hand, it is counter-productive to expect businesses to be successful if they have insufficient investment and working capital. Projects have not always explicitly thought about just how much income can be generated from investment grants of different sizes. This can easily lead to unrealistic expectations, which in turn may feed into designing projects that are not best designed to meet objectives. Although the business environment varied across the countries in the region, some general observations are appearing.

It was generally found that small grants of a few hundred dollars could help people to start home-based activities, but not a business that would be a full-time occupation. Where successful, such activities could only make a very partial contribution to a household's income, helping people meet only around a quarter of their basic needs. An investment capital of around USD 5,000 would typically be the minimum needed to create or expand a business capable of creating full time occupation for one person (or, in larger businesses, USD 5,000 would be needed for each partner), and for generating profit that could meet the needs of one household. Larger or matching grants typically went to partnerships of 2-3 partners. In many cases, this seems to have been one entrepreneur and one or two investment partners. This kind of information was not always known; it had not been fully incorporated into project design or implementation, or in devising broader strategies for supporting livelihoods.

In some countries, grants went to established business to help expansion, whereas in others, they were only for new activities or business start-ups. Existing businesses were believed to be less risky investments, whilst supporting start-ups was believed to be more effective in reaching poorer people. Country programmes had not always been explicit about the rationale behind the choice of strategy, and this meant there was no framework for monitoring and testing how far the rationale was well founded.

Project cycles have meant that entrepreneurs are only supported for the first few months after receiving a grant. Their businesses may survive during this period, before cash flow and other problems cause them difficulties.

Our thinking so far:

- Project timeframes of one year are insufficient for supporting businesses, and the degree of resources needed to extend support over a longer timeframe would not necessarily be that high. We have to build into project budgets the ability to learn what happens to businesses in subsequent years, in order to develop the understanding needed to design business support and livelihood support strategies. Otherwise, we will be condemned to basing programming on anecdote and hope.
- Providing all the investment capital needed through grants is only one possible model for helping to unlock constraints in accessing to capital. We need to explore alternative ways of helping people affected by displacement to find capital, and then to assess these models from different perspectives. Such perspectives would include: the likelihood of success; cost-effectiveness; and the impact on targeting. For example, in one country, applicants had to provide matching investments for any grant. Giving people half of what they need potentially enables DRC to help twice as many people with the same resources. The need to find other investment may also help in ensuring that grants go to more serious potential entrepreneurs. On the other hand, it may skew targeting of support and the distribution of benefits from aid resources (see below, Gender and other targeting issues).
- The decision to support start-ups or to provide additional capital for existing businesses may depend partly on which will produce the greater return on investment, but is likely to be dominated by two competing principles: the desire to maximise business success (and start-ups are obviously believed to be riskier), and targeting considerations with start-ups believed to offer better ways to reach poorer refugees, and to offer greater potential for broader based economic growth. Different organisations or country programmes may take a different view on this: the important lesson is to be explicit about what we are doing and to make sure we know how our strategy is working out in practice. This will allow programmes to modify strategies over time, if appropriate, and will enable them to meet objectives more effectively, by bringing together a whole range of design and operating considerations (e.g. grant size, conditionality, selection criteria, etc.) in a coherent strategy.

Training

The rationale behind including business training as a standard part of all business support was not always clear. Individual needs for training varied enormously. For some more experienced entrepreneurs, the standard training was something that had to be gone through to be able to apply for a grant. Training was often appreciated by others, though, not only for the technical skills it gave, but also for the networking opportunities it brought.

Different kinds of clients need different levels of training support. Often, the kinds of people who were given smaller grants needed more support than those able to apply for and use larger grants.

One-on-one training was most appreciated, because it was geared to the individual's circumstances and because of the intensity of the engagement. However, such training is obviously much more expensive.

Our thinking so far:

- More thinking is needed on how to assess which training is useful and appreciated, to prevent wasting people's time and agency resources. Even if highly customised training is not possible, different training modules could be organised (e.g. 'starting your business', 'growing your business' and 'expanding your business'.)
- Training is expensive but the support offered has to match what we are trying to achieve with different clients. This is a targeting issue. Greater investment in training and counselling may be justified if it is felt that a population with greater needs for support should be the focus of assistance. An assessment is needed of what it takes, and what it costs, to achieve a given objective with a client group, and then a decision has to be made – either to work with those people or not. Analysis of cost-effectiveness is essential, but simple metrics (e.g. “% of the budget used in grants” or “cost per client”) may be misleading. Training and other support may have their own value in people's lives, and not only as a vehicle for making it possible to provide grants.
- “People need support” does not mean “DRC needs to provide support”. Clients as a group have shown they value each other's experience and the range of experience and expertise that could be tapped into can be extended. DRC could play an important role as a facilitator of networking, rather than assuming by default the role of a provider (or purchaser) of training. This could involve creating peer-to-peer training, tapping into successful (small) entrepreneurs as mentors, and helping clients to identify their knowledge and skills gaps and how they can fill them. Rather than offering standard packages, DRC needs to experiment widely in this area.

Wider issues

One of the successes of the exercise in project learning was how it stimulated staff with different roles and of different levels to discuss together wider issues relating to the role of an international aid organisation in supporting the livelihoods of displacement-affected people in the region. These issues will help shape DRC's learning process over the next two years. Reflections are inevitably still throwing up more questions than conclusions, but the learning process has shown how important it is to put these strategic considerations at the heart of programme design – and how often this is not happening.

Coverage

Hundreds of thousands of displacement-affected households are struggling for a livelihood, but an aid organisation such as DRC is stretched even to help a hundred households in a project area using the current models. The two limiting factors are the demands on staff time and the high costs of helping each client. The demand to design projects to maximise the outcome (welfare) of clients has to compete with the demand to help as many people as possible. DRC needs to find ways of working that can be scaled in orders of magnitude, without succumbing to the pressure to give assistance only to those who can be helped most easily.

Gender and other targeting issues

Projects usually try to ensure that a minimum number of women are direct clients. But in the Middle East, DRC is working in a society where gender norms strictly circumscribe women's roles

and limit their movement. For some women, movement outside the home is limited, they cannot work together with men in the same workplace, the time they can spend on economic activities is severely curtailed by domestic responsibilities, and they may not be allowed to take control of the extended family's investment potential. In such a context, what would a genuinely gender sensitive business support programme look like? DRC now wants to reflect more on the different kinds of support that women might need in starting up business activities, and how women can be supported to overcome the discriminatory business constraints that they face, such as limited freedom of movement or barriers in accessing to capital.

The difficulties that younger adults face in starting up businesses are inadvertently being reflected in difficulties in accessing support from projects such as DRC's. Decisions to support existing business rather than start-ups, or to demand matching capital from entrepreneurs, may exclude young people, and focusing on home-based activities may not respond to the priorities of young men, which usually include expanding their external social networks. (Women and poorer applicants may also be excluded, in places where they are less likely to have relationships with people who would be willing to invest business capital with them, including their own wider family.) As with gender, it seems to be best to start by deciding on the priorities and targeting: and then, rather than including quotas for each target group, understanding their specific constraints, opportunities and priorities and going on to design the support given to different population groups (e.g. women hosts, younger male refugees) accordingly.

Established and well-off businesses have received grants of several thousand dollars, whilst poorer refugees receive only a few hundred. Balancing the different arguments for targeting resources (see above, Grants) goes to the heart of the strategy for the involvement of an agency in a country and the choice of what kinds of programmes to run. This needs to be coherent: targeting and grant size should not be determined simply by pressure to report on a high success rate. In order to resist this, agencies need to be explicit with their own donors about the rationale behind their strategies, and about the realities of failure rates, risk and impact.

Impact

DRC's own country programmes have not always set out clearly what they would consider to be worthwhile success for a business support programme and it is harder to design and manage a project for success, if success has not been defined. Entrepreneur clients want to feel that their businesses are their own, and they have understandably not always wanted to be closely monitored. It is difficult, then, for an NGO to have accurate information on rates of return or profit margins, and it is not even possible to know in all cases whether a supported business is still running at all.

Different ways of understanding impact may be required, and the "theory-based impact assessment" model suggests some possibilities which could play an important role from the programme design stage. DRC now wants to turn more attention to identifying the biggest constraints to the survival and growth of different kinds of business activity (including start-ups, and informal home-based activities), including specifically for the businesses of refugees. If we can better understand what services and skills would most improve business success, we could potentially expand what an NGO can offer beyond grants of investment capital. This could develop into a different kind of business incubation model from the one which DRC has used (where it refers to a physical centre where businesses are 'incubated') to one where DRC facilitates ongoing support through networks that can also address suddenly arising difficulties or opportunities.

It will remain critical to understand and to be realistic about the kinds of profit that can be generated by different kinds and sizes of businesses. However, a more tailored approach to supporting business would allow DRC to shift the focus of monitoring, which could look much more at how successfully specific constraints had been removed. This would in turn generate monitoring information that would not just serve donor accountability but the refinement of programme and strategy design.

