

Micro Enterprise Training Manual

CONTENTS

Lesson One: Introduction to Micro Enterprise

1. The objective
2. The process
3. The people
4. Examples of Micro Enterprise businesses
5. Loans or gifts?

Lesson Two: The Role of the Fund Manager

1. Working with sponsors
2. Training
3. Management of funds
4. Dealing with issues

Lesson Three: The Role of the Applicant

1. Creation of a business idea
2. Business proposal
3. Running the business
4. Liaison with the Fund Manager

CONTENTS

Lesson Four: Business Management

1. Business Ethics
2. Security / Group Security
3. Mentor / Guarantor
4. Marketing

Lesson Five: Documentation

1. Formal documentation
2. Documents involved

Appendix:

1. Introduction

A small loan (usually under £50) is made to individuals in the developing world to start a small business which then generates sufficient income to take the individual and their family out of poverty. Children are fed and clothed, daily needs met and a savings account opened. As the original loan is repaid it is then “recycled” to provide a further loan for another start-up business.

Micro enterprise does so much more than provide for food and clothing. It restores dignity and self-respect and empowers people. It has been a huge success with over 1,600 families already having been helped in Uganda alone. Other programmes have been started in Burundi, Kenya and India. We have started a brand new project in Colombia, South America during 2006.

These notes are designed to give a simple introduction to Micro Enterprise Development (MED) programmes supported by Change4Change and are therefore not a full description of all the various models used in MED. The notes are based on the priorities of Change4Change’s involvement in MED.

On many of it’s MED programmes Change4Change works in relationship with Links International Trust.

2. Priorities of Change4Change’s involvement in MED

To assist individuals to establish small businesses which will enable them to move from poverty to self-sufficiency and develop business understanding and maturity.

To support the establishment and development of small MED programmes through relationship based connections and working with locally based administrators.

To place emphasis on the pastoral as well as business needs of the individuals and encourage mutual accountability and support.

3. What is Micro Enterprise Development?

The basic concept is to facilitate a “hand up” to individuals rather than a “hand out”.

Programmes are set up by initial funding to have capital available to facilitate small loans on attractive terms to start an individual, family or group in a business which otherwise could not be commenced due to lack of capital injection.

The programmes are accountable to locally based administrators, whose responsibility it is to oversee the loan applications and repayment alongside training and pastoral support.

4. What are the advantages of Micro Enterprise Development?

It enables those who would not have access to formal lending facilities to start up a business.

It encourages the entrepreneurial spirit and can be the means of creating employment opportunities.

To a large degree, initial funding can be “re-cycled” to other ongoing programmes to make best use of funds invested by donors’ etc.

5. Key Principles

A key strength is that the programmes are locally based with a leadership team already with an understanding of open relationships, integrity and personal responsibility.

This basis should be reinforced by regular person-to-person contact with all participants in the programme, not just for the purpose of collecting loan repayments but for updating on how the business is developing and for pastoral care.

There is a clear understanding, from the outset, of the nature and terms of the commitment made by each person, family or group entering into the MED (loan) programme. This will involve practical/financial commitments by all parties including the consequences should a business venture fail in some way (this would be set out in writing for all parties to agree).

There is a clear understanding and structure in place to ensure ongoing and consistent training and supervision for all those involved in the programmes.

There is a clear procedure to deal with any practical business and relational problems that might occur so as to enable a fair and equitable resolution.

6. Other Considerations

A new programme would normally be started, after establishing a working relationship with a leadership team and an administrator, and having obtained suitable initial training and funding, by working with individuals known to or within the local context.

A programme may only effectively commence when the local leadership team have a vision for MED and it's potential. This also needs to be linked with the availability of an administrator.

The administrator needs to be well trained and versed in financial and business management as well as pastoral care so as to bring a professional perspective.

Personal relationships and accountability need to be at the centre of any MED programme.

A programme needs to start small, with good foundations of training and accountability, together with the opportunity of subsequently developing in profile and influence.

There needs to be training in respect of induction into the programme as well as ongoing training and support, together with written documentation to ensure all parties have a full understanding of procedures and personal responsibilities

The opportunity to visit up and running programmes is a very beneficial precursor to commencing the process of discussing the setting up of a new programme.

7. Stories from existing MED Programmes

A young one-parent mother living in poverty in Uganda obtained a small loan which enabled her to start a small business selling charcoal. This was purchased cheaply in remote village areas, and then sold in the city. For the first time she was able to provide for her own needs and those of her children. However after a time, others began to establish themselves as competitors. At that point she realised the potential of providing a wholesale service to the retailers and applied, successfully, for a second loan to develop this. Subsequently both loans have been repaid and a new home has been built on the proceeds. This would have been unthinkable in the past and is a direct result of the micro-enterprise programme.

Just £16 enabled one woman to start a business providing bicycle parts. She has now repaid this loan and is providing for her family in a way which she simply couldn't have done before.

Another family started a small business for less than £20 buying coffee beans for drying in the sun. The dried beans are sold on to merchants for reselling in the market and for export.

One lady has established a small business selling bread in the local market. Her loan enabled her to buy bread in bulk for sale to individual customers at the busy daily market. Her life has been transformed as a direct result of micro-enterprise.

Fishing is an important local industry in many lakeside villages. It cost just £32 to set a man up with a commercial fishing net. Now he fishes each morning and is able to sell his catch in the local market to make a living. He used to rent a small canoe for £1.50 per day but a second-phase loan of £180 (4 months hire!) has enabled him to buy his own medium size canoe which he can hire out to others when he is not using it himself.

8. Further Resource Information

See our website at :-

www.change4change.org.uk

or e-mail for information

info@change4change.org.uk

Lesson One: Introduction to Micro Enterprise

1. The objective of a Micro Enterprise scheme is to create on-going wealth within local communities by establishing and nurturing small businesses.
2. How is this carried out?
 - 2.1. A group of people form an “association” or similar organisation with the express intent of running one or more micro enterprise schemes. They are then responsible for overseeing the scheme(s)
 - 2.2. A local micro enterprise “fund manager” is appointed and he/she encourages local people with business ideas to develop business proposals and assists in the application for loans. This may be either to aid the creation of new businesses or help in the development of existing businesses.
 - 2.3. The fund manager acquires funds from sponsors, who may or may not be the same group forming the association.
 - 2.4. The fund manager awards loans to successful applicants.
 - 2.5. The fund manager provides on-going mentoring, encouragement and training in all aspects of running a business, including encouraging new applicants to develop business proposals.
 - 2.6. The applicants use the funds to start / improve their businesses and re-pay the loans over an agreed period. If the need arises, the applicant can apply for further loans with the help of the fund manager.
 - 2.7. The fund manager can use the repayments to make further loans, as well as seeking new funds from the sponsors.

3. Who is involved?

Every micro enterprise group will be different but the basic principles behind each role will be very similar.

- 3.1. Group forming the association – primarily this group would work with the fund manager as required.
- 3.2. The fund manager – this may be one individual, a committee, or a leader with others reporting to him, etc.
- 3.3. Applicants wanting business loans – successful applicants would become “fund members”. Applicants can be individuals or groups.
- 3.4. Individuals acting as mentors, encouragers, guarantors – other members of the local community in some way working with the fund members – they may be family, church leaders, local politicians, other fund members.
- 3.5. Sponsors – individuals raising capital for the fund manager to use. These may be individuals or associations from another country and / or local community members.

4. Examples of businesses set up currently through micro enterprise loans

Fisherman acquires a boat – a fisherman was spending a significant portion of his revenue on the hire of a fishing boat. A loan was used to buy his own boat, which could also be rented out on his days off.

Charcoal business – A lady set up a new business selling charcoal purchased through a loan. It was so successful that competitors set up businesses also selling charcoal. The lady applied for, and was awarded a second loan and changed her business to become a wholesaler to the other charcoal businesses.

Bicycle spares shop – A lady set up a bicycle spare parts shop with a loan after her husband – a bicycle repairer – continually had difficulty obtaining the necessary spare parts. She then provided the spare parts to her husband as well as selling directly to the public who wished to repair their own bicycles.

Restaurant – A lady used a loan to run a restaurant business. The walls were of cardboard and there was limited furniture but meals were cooked freshly as customers came in, she even cooked portions that were dictated by the amount of cash the customer had available.

5. Why a loan and not a gift?

The idea of the principle is to give “a hand up not a hand out”.

5.1. The aim is to help people create businesses which will last. It is envisaged that someone who shows the commitment to develop the business sufficiently enough to re-pay the initial loan will then be able to continue to develop the business further.

5.2. As the loan is re-paid, the fund manager has funds available for future applicants.

Lesson Two: The Role of the Fund Manager

The Association appoints one or more people to act as the “fund manager” for the micro enterprise scheme. This is the vital role which brings everything together and as such the success of the scheme depends upon this manager.

The fund manager will: -

1. Work with the sponsors and the scheme committee or council to
 - 1.1. Request funds for loans to successful applicants who have submitted business proposals.
 - 1.2. Report on the use of the funds to an agreed level of detail and timing. Examples of these reports would be
 - Number and category of schemes
 - Amounts of outstanding loans
 - Amounts repaid / overdue
 - Details of applicants awaiting loans
 - 1.3. Show the results of the scheme to either local or international visitors
2. Train the applicants / fund members to: -
 - 2.1. Develop business proposals
 - 2.2. Initialise the business – different countries may require differing types of registration to conform to local legislation, bank accounts may need setting up, new employees may be required, etc.
 - 2.3. Administer the business, keeping books of account and producing management information.
 - 2.4. Run the business – marketing, sales, procurement, employing others as required
3. Manage the micro enterprise scheme
 - 3.1. Set up a scheme bank account
 - 3.2. Apply to sponsors and receive funds
 - 3.3. Award loans
 - 3.4. Receive repayments
 - 3.5. Produce scheme accounts if required
4. Deal with issues as they occur – examples are

- 4.1. Dealing with late payments
- 4.2. Dealing with unsuccessful businesses
- 4.3. Death / Disability of a fund member
- 4.4. Questions from local government officials

Lesson Three: The Role of the Applicant

- 1. Bring a business idea to the fund manager – it may be to develop an existing business further or create a new business.
- 2. Prepare a business proposal – see appendix 1 taken from a scheme in Uganda – and fill in an application form. This will involve
 - 2.1. Applicant's profile
 - 2.2. Proposed business idea
 - 2.3. Financial forecasts
 - 2.4. Loan application
- 3. Run the Business
 - 3.1. Ensure work is performed to a good standard
 - 3.2. Keep accounts to the required quality and legality in a timely manner
 - 3.3. Make loan repayments on time
- 4. Meet with the fund manager on a regular basis to discuss the business, any new ideas and raise issues as necessary.

Lesson Four: Business Management

- 1 Business ethics – the fund manager wants the members to act for the good of the association and all its members. The latter should be informed of the importance of honesty, justice, integrity and faithfulness in their daily trading and dealings with the association and its members.
- 2 Security / group security – is an important part of the micro enterprise scheme as it replaces the collateral that banks demand before issuing a loan. The member must be aware of the following:-
 - 2.1 Commitment – by signing a loan guarantee form they are financially committed to repay the loan, as they have pledged some of their own property as collateral.
 - 2.2 An applicant must have been recommended for the loan by a recognised individual.
 - 2.3 In a group each member is responsible for the loan of other members in the group.
 - 2.4 Each member needs to understand the Constitution agreement (see appendix 5) which they have signed.
 - 2.5 An explanation of the need to make repayment by instalments and how these are accounted for in the pass book (see appendix 6)

- 3 A Mentor / Guarantor – is required for each member as this helps both the fund manager and the member to achieve their goals. A member or former member make ideal candidates.
- 4 Marketing
 - 4.1 Strategy – identify your market, understand how it works and be willing to make changes to attract customers.
 - 4.2 Appearance – the member must be dressed in the appropriate manner, with a smile and the right attitude. Ensure the product is displayed to its best advantage and customers are directed to the members trading site.

Lesson Five: Documentation

- 1 Formal documentation is a necessary part of the Micro Enterprise scheme. Everyone involved needs to be aware of how the documents form part of the scheme, and be tutored in filling in all the forms.
- 2 The main documents are as follows:
 - a. Profile sheet
This is a summary of the applicant's personal details, the business details, the amount of the loan required and repayments together with any savings they wish to make. See appendix 1
 - b. Members budget form
Details of budgeted sales, gross profit, expenses and net profit are broken down here. The name and signature of the person recommending the applicant must be added to this form to ensure its authenticity. The person recommending must be known and approved by the Scheme members. See appendix 2.
 - c. Loan guarantee form
To emphasise that this is a loan and not a gift a formal document is drawn up and details of the loan, savings, default conditions, security, sureties and approval signatures are completed. See appendix 3.
 - d. Loan rescheduling agreement
Should the member default on the loan and agreement has been reached to re-scheduled it, then a form outlining the details is filled in and signed by both parties. See appendix 4.
 - e. Constitution
The Micro enterprise scheme should have a constitution formally drawn up and agreed by those in the group responsible for the scheme. See appendix 5 for details of items that can be included in a constitution.
 - f. Pass book
A pass book is essential to record the loan, the repayments and any savings made by the member. Signatures of all parties are required for each transaction to ensure accuracy and fairness so that everyone in the scheme knows their current financial status at any moment in time. See appendix 6.
 - g. Loan repayments table
A sample of a loan repayment table is essential for all parties so that there is transparency in the figures and mathematical errors are avoided. See appendix 7 for details of a table in Ugandan shillings.

APPENDIX

Appendix 1 Profile sheet

PROFILE SHEET

- 1) Personal details
 - (a) Name.....
 - (b) Age.....Sex.....No.....
 - (c) Village.....
 - (e) Marital Status.....
 - (f) Guarantor.....
 - Address.....
.....
 - Tel no.....
- 2) Business Details
 - (a) Nature of the Business.....
 - (b) Place of work.....
 - (c) Capital Estimates
 - i) Stock.....
 - ii) Assets.....
 - (d) Amount of loan required.....
 - (e) Repayment of loan
 - i) Principal per week.....
 - ii) Interest.....
 - iii) Period of repayment.....
 - (f) Savings
 - i) Voluntary.....
 - ii) Compulsory.....

I....., do hereby certify that the above given information is true to the best of my knowledge.

Signed.....

Appendix 2 Budget form

Telephone.....
E-mail:

Loan Guarantee

Date.....

I (Name).....Signed.....

Do hereby agree to abide by all the laws and regulations governing the borrowing/lending of money as agreed upon by the members of Micro finance constitution.

A. The Loan

I hereby undertake to borrow

Amount in words.....

I will pay inequal instalments (with ten days grace period from the receipt of the funds)

Amount of each instalment.....

B. Personal Compulsory Saving Fund

I will also be saving towards my personal compulsory fund for each instalment the sum of

C. Default

In case of any default, I stand a 10% fine levied on the instalment.

D. Security

Ido hereby offer my property outlined on the application form as a security for my loan as per the constitution

I signature.....
Applicant

E. Sureties

We hereby undertake to pay in case the above defaults and fails to pay

F. Approval

The above facts are true to the best of our knowledge
WE SUB-GROUP SURETIES

(a)Name.....signature.....

(b)Name.....signature.....

Appendix 4 Loan rescheduling agreement

LOAN RESCHEDULING AGREEMENT

Dear Sir/Madam

RE: Out standing amount of. _____

I (Member's name) _____

Agree that I defaulted on my loan repayments with the xxxxxxxxxx Micro enterprise scheme of

Amount in words.

I would like to try out the arrangement we have agreed to with loan officials. If I do not clear the outstanding sums of money within a period of, I understand that I am in default and I am willing to forfeit my security mentioned here below:

- 1.
- 2.
- 3.

Signed by _____

In the presence of _____

Date. _____

Official remarks.....
.....
.....
.....

Appendix 5 Constitution

Suggestions of the type of information, rules and regulation that may be included in a Constitution.

Association

Name

Location and address

Any affiliations to other organisations

Objectives

How to raise funds

Loans to members

Promotion of the association

Assisting members

Uplift of member's standard of living

To commit to the laws of the resident country

Membership

Who is eligible to become a member

Recording of members details

Differing types of members

Ceasing to become a member

Conditions for membership

General meeting

How often the members meet

AGM and special meetings terms

Typical items on an agenda

Election of officers

Election of auditors

Election to committees

Procedure of meetings

Finance and banking details

Amendments to the constitution

Winding up procedure

Appendix 6 Passbook

Sample page of a pass book
Passbook first half

Loan Repayment

Date	Loan	Repayment	Total&Signatures
------	------	-----------	------------------

Passbook second half

Savings Account

Date	Deposit	Withdrawal	Total&Signatures
------	---------	------------	------------------

The first half of this book contains the persons loans received and repayments made, the second half shows entries of the savings, which are either voluntary or compulsory together with any withdrawals.

After the running totals it is most advisable for both parties to put their signature to the latest transaction to avoid any misunderstanding, and to keep the member informed of their current financial status.

LOAN REPAYMENT STRUCTURES FOR XXXXXXXX Micro Enterprise Scheme

Principal	Interest 10%	Compulsory saving 1% (per instalment)	Repayment per number of acceptable instalments							
			6	8	10	12	16	18	20	
20,000/=	2,000/=	200/=	3,900/=	2,950/=	2,400/=	2,050/=				
50,000/=	5,000/=	500/=	9700/=	7,400/=	6000/=	5,100/=				
80,000/=	8,000/=	800/=	15,500/=	11,800/=	9,600/=	8,200/=				
100,000/=	10,000/=	1,000/=	19,500/=	14,750/=	12,000/=	10,200/=				
125,000/=	12,500/=	1,250/=	24,200/=	17,400/=	15,000/=	12,800/=				
150,000/=	15,000/=	1,500/=	29,000/=	22,200/=	18,000/=	15,250/=				
200,000/=	20,000/=	2,000/=	38,700/=	29,500/=	24,000/=	20,500/=	15,750/=			
250,000/=	25,000/=	2,500/=	48,500/=	36,875/=	30,000/=	25,500/=	19,700/=	18,000/=		16,250/=
300,000/=	30,000/=	3,000/=	58,000/=	44,250/=	36,000/=	30,500/=	23,700/=	21,400/=		19,500/=
350,000/=	35,000/=	3,500/=	67,700/=	51,700/=	42,000/=	35,600/=	27,600/=	24,900/=		19,600/=
400,000/=	40,000/=	4,000/=	77,500/=	59,000/=	48,000/=	40,700/=	31,500/=	28,500/=		26,000/=
450,000/=	45,000/=	4,500/=	87,000/=	66,400/=	54,000/=	45,750/=	35,500/=	32,000/=		29,250/=
500,000/=	50,000/=	5,000/=	96,700/=	76,750/=	60,000/=	50,850/=	39,400/=	35,600/=		32,500/=