A Microenterprise Training Guide
for
Peace Corps Volunteers





Peace Corps
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Introduction

INTRODUCTION

REASONS TO PROMOTE MICROENTERPRISES

Around the world, millions of low-income entrepreneurs are building better lives for themselves and their families by starting and expanding tiny businesses. The vast informal sector of the economy is comprised of microenterprises—microbusinesses with one to 10 workers, including the owner. Poor families launch microenterprises to generate income, build savings, and acquire assets as a cushion against natural disasters, illness or death, and other crises. As these enterprising households pull themselves out of poverty, they can improve their access to safe drinking water and more nutritious food, improve their housing, and educate their children. This is grass-roots development!

- Microenterprises provide most of the goods and services that meet people's basic needs in developing and redeveloping countries (such as the former Soviet states).
- Often microenterprises are the only economic organizations that function in a time of crisis.
- Microenterprises require small amounts of capital to enter the market and produce results quickly.
- The small size of microenterprises makes them simple to operate.
- Microenterprises use local products and skills.
- Microenterprises are labor intensive and create jobs.
- Microenterprises improve the income of the entrepreneurial poor.
- Microenterprises are a catalyst for comprehensive community economic development.

According to information presented at the 1997 Microcredit Summit, February 2–4, in Washington, D.C., in which the Peace Corps was a participant, there are more than 1 billion microenterprises worldwide. The income from these microbusinesses enables the working poor to take some control over their lives. Additionally, the benefits of microenterprise development extend to the broader society. In both transition economies and the developing world, microenterprises play an important role in the nation's economic growth and job creation for those unable to find employment in the formal sector. Through microenterprise, the poor become business owners, build assets, and invest in their communities.

International private volunteer organizations (PVOs), indigenous nongovernmental organizations (NGOs), and government-sponsored development organizations, such as the United Nations Development Programme (UNDP), the World Bank, and the U.S. Agency for International Development (USAID), and the Peace Corps, all realize the value in helping to create and sustain microenterprises. Assistance for microenterprises falls into three broad categories:

1. **Financial services—credit and savings**: Microfinance institutions (MFIs), usually indigenous NGOs, are the direct providers of credit and saving services. International PVOs and government development agencies frequently provide MFIs with capital and technical assistance until the MFIs can become self-sustaining.
2. **Nonfinancial services—business development services (BDS)**: Nonfinancial services include: entrepreneurship training, consulting services, information technology assistance, etc. Ideally, these services also are provided by local organizations with international PVOs and government development organizations supporting the projects only until they can become self-sustaining.
3. **Subsector targeting**: Often a number of microenterprises operate in the same subsector. Intervening to improve the subsector can increase the profitability of a large number of similar microbusinesses. Analysis of a subsector may result in efforts to expand markets, improve production methods, introduce new raw materials, and/or work to secure more favorable or less restrictive regulations for the subsector.

All three approaches are valid and, when implemented appropriately, effective.

Millions of microentrepreneurs have been reached through microfinancial services. As you learn more about the microfinance movement, you may recognize that these approaches to development are similar to those of the Peace Corps. Both MFIs and the Peace Corps are committed to:

- Working with the poorest of the poor,
- Focusing on women,
- Using locally available resources,
- Designing replicable projects, and
- Striving for sustainability.

There is a major difference in resources offered by the Peace Corps and most other international development organizations. The Peace Corps supplies skilled Volunteers, not loan capital. Local organizations request business Volunteers to help strengthen their operations, and work side-by-side with host country colleagues to deliver financial and nonfinancial services. Municipalities and regional governments as well as local development organizations seek Volunteers to help with subsector analysis and to implement strategies to increase the profitability of microenterprise subsectors.

HOW TO USE A MICROENTERPRISE TRAINING GUIDE FOR PEACE CORPS VOLUNTEERS

Each of the five modules in this manual is designed as a travel guide. It suggests an itinerary that highlights microenterprise information relating to microfinance history and methodology, nonfinancial business development services, and subsector analysis. Peace Corps Volunteers are serious travelers. They want to learn about microenterprise in their host countries and become involved to improve the quality of people's lives.

Travel guides often include sections on the local culture and some useful words of the local language. These training materials do the same. Gender issues related to culture are especially relevant since women operate the majority of microenterprises.

Throughout the microenterprise modules are activities to promote learning. Adults learn best through experience—the most relevant experiences are in communities similar to those where you will live during your Peace Corps service. Many of the activities include community observation, information gathering, and/or involvement—technical expertise is nearly useless until you learn how to adapt and apply what you know to fit the local culture and share that expertise in the local language.

Near the end of each module key microenterprise terms are explained as they are used in the module. There is a _space_ to write the local language translation of each key term.

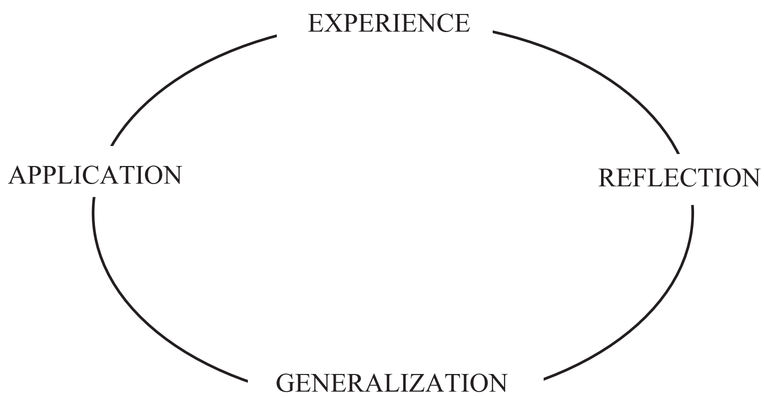
There is flexibility in the time spent and opportunities to explore areas that interest you. How much you learn during your visits is up to you. If you observe carefully, interact with the local people, and are open to new ideas, it will be a rewarding experience. As you begin learning about microenterprise as a strategy for development, it is useful to have a journal to record your observations, experiences, and thoughts; a camera; and an open mind.

Learning is not a spectator sport! You are in charge of your own learning. Your host community is a place for discovery, a place for observing, experiencing, processing, and implementing your learnings. Even "what you think you know" needs to be reevaluated in your new cultural environment. Incorporate local technical language into your vocabulary. In each module you are reminded to analyze what you know and what you are learning in the context of the local culture. Technical training is not complete without the integration of language and culture.

A Microenterprise Training Guide for Peace Corps Volunteers is designed for the self-directed adult learner. Self-directed does not imply a solitary learning experience, but rather that the learner takes responsibility for mastering the knowledge, skills, and attitudes. This self-directed approach is based on the "experiential learning" process, which is the way adults are most likely to learn.

Each module contains several activities, case studies, and/or hands-on exercises to present learning experiences.

EXPERIENTIAL LEARNING CYCLE



The experience that activates the experiential learning cycle may come from your past, an activity in your host community, a simulation game, or a written case study in a module.

Reflection is a special kind of thinking—it is both active and controlled. You are only reflecting as long as you stick to the problem or task at hand. Reflection is the kind of thinking that looks for the reasons for believing one thing rather than another, the kind of thinking that asks questions. It aims at making sense out of an experience. Practice reflecting on your experience, imagine the possibilities, and consider alternative meanings.

Many Volunteers find that keeping a journal encourages reflective thinking. Try writing in a journal every day for two or three weeks to determine if this works for you.

Socrates believed that it is through this kind of thinking that people shape their lives. He felt people need to think about what they do and why they do it, about what they believe and why they believe it. He said that a day should never pass without such questions and that a life without such questions is not worth living.

— reprinted with permission from *Developing Creative and Critical Thinking: an Integrated Approach,* Robert Boostrom, National Textbook Company, Lincolnwood, IL, USA, p. 4

During generalization, you expand on what you are learning to fit new and different situations. Generalization is especially relevant for Volunteers operating in a new and different country and culture.

The last step of the cycle, application, requires that you actually use what you have learned. As you apply what you have learned, you generate new experiences and the experiential learning cycle begins again.

As a self-directed learner, you are responsible for:

- Thoughtfully reading the modules;
- Actively participating in the suggested activities;
- Engaging with community residents to learn about microenterprises in the local context;
- Integrating cultural and language learnings to understand the technical subject matter in the local context;
- Provocatively seeking additional information to understand the microenterprise topics;
- Keeping an open mind to different ideas and ways of doing things; and
- Assuring that learning objectives are achieved.

TRAINER'S NOTES
INTRODUCTION

The trainer is responsible for facilitating the learners' understanding of microenterprise development by:

- Identifying opportunities and materials that enable learners to experience, observe, and gather information related to the activities and topics;
- Helping learners contextualize their experiences and observations based on the trainer's understanding of the local business environment and culture;
- Encouraging learners to take an appreciative approach to value local knowledge, using local resources and strengths;
- Facilitating the experiential learning cycle (experience, reflection, generalization, and application) using the trainer's technical, cross-cultural, and country-specific expertise.

A Microenterprise Training Guide for Peace Corps Volunteers is written for Peace Corps trainees and Volunteers who expect to serve as community development Volunteers and/or assist microfinance institutions in the delivery of microfinancial and related social and business development services. These materials also should be useful for Peace Corps staff in understanding the possibilities associated with the creation and promotion of microenterprises. With some modifications, *A Microenterprise Training Guide for Peace Corps Volunteers* can be adapted for indigenous NGO staff and local community development workers.

These training materials were designed primarily for use during Pre-Service Training (PST) and In-Service Training (IST). Also, Volunteers can use them for self-study anytime during their Peace Corps service. Because the modules are designed for the self-directed learner, they can be adapted to a center-based, a community-based, or a hybrid PST model. Although a trainee or Volunteer benefits from individual study, working with a small group is usually more interesting, and sharing ideas deepens understanding. Interaction of a knowledgeable skilled technical trainer is not essential but desirable.

Writing training materials to fit every Peace Corps country and training situation is not possible. *A Microenterprise Training Guide for Peace Corps Volunteers* is furnished electronically to facilitate local adaptation. We urge you to make changes! Work with the post's programming and training staff to:

Continued

Trainer's Notes, continued

- Rewrite sections that are not applicable to the local microenterprise or training situation,
- Add country-specific examples and graphics,
- Replace names of people and places with local names, and
- Replace dollar amounts with the local currency to make examples realistic.

Trainer's Notes for each module and activities in the module are located at the end of the module. When printing copies of the modules for training participants, the Trainers Notes can easily be omitted. These notes contain:

- Overview of information and concepts covered in the module or activities.
- Time to complete the module or activities. (Check times to determine if they need to be adjusted to fit your training schedule.)
- Materials that should be on hand before starting the module or activities.
- Preparation to take place before beginning the module or activities.
- Debriefing the experience and processing the learnings is included to remind trainers of ideas, attitudes, and skills that may need to be highlighted or could be used to bring closure to the module or activity. During debriefing and processing, the skilled trainer works cooperatively with learners, to coach them as they reflect on what they have experienced, adapt learnings to fit the local culture, and begin to understand how their learnings can be applied during their Peace Corps service.

The training participant's section of each module contains key terms and knowledge, skills, and attitude objectives.

Key terms include words and phrases defined as they are used in the module. A __space__ is provided for the local language translation. Work with your language teachers to find the right translations and build your technical vocabulary as you study each module.

Learning objectives are stated in behavioral terms and stress application of the learnings. Application is the final step in the experiential learning cycle.

Continued

Trainer's Notes, continued

At the end of each module are resources. These are readily available materials provide training participants and trainers additional information on microenterprises.

The following books are recommended for trainers of *A Microenterprise Training Guide for Peace Corps Volunteers*.

Methods for Development Work and Research: A Guide for Practitioners. Britha Mikkelson. (Sage Publications.) 1995. 269 pp.

Describes and analyzes different development research models, devoting special attention to the participatory approach, but also considering conventional and quantitative research methods that can complement this approach. Discusses the development issues that are being researched, with a separate chapter on poverty and gender analysis. Offers detailed information that can be useful in training field workers to do research.

Training Trainers for Development – Conducting a Workshop on Participatory Training Techniques. The CEDPA Training Manual Series Volume I, 1999.

Compilation of training activities that CEDPA has used in many programs to strengthen the training capacity of health, family planning, and other types of development organizations. Manual prepares managers and trainers to conduct interactive, learner-based training of trainers.

The Thin Book of Appreciative Inquiry. Sue Annis Hammond. (Kodiak Consulting.) 1996. 61 pp.

Simple, practical explanation of appreciative inquiry and how to use it. Also includes useful information on project planning and nongovernmental organization development.

MODULE 1

MICROFINANCE—AN EFFECTIVE POVERTY-REDUCTION STRATEGY

Working through *Microfinance—An Effective Poverty-Reduction Strategy* increases your awareness of the reasons working poor families remain in the poverty cycle. You will also learn about the relationship between gender and microfinance and a couple of promising strategies to help families break out of the poverty cycle. By the time you finish this module you should have the knowledge, skills, and attitudes to:

- Explain why families are stuck in the poverty cycle.
- Give at least three reasons why efforts to break the poverty cycle should focus on women.
- State under what, if any, circumstances you think small grants are better than microloans.
- Recommend two strategies to break the poverty cycle.
- Identify indicators, other than change in family income, that can be used to determine the impact of microfinance services. How would you collect the data? Why do you think these would be valid indicators to measure the impact of microfinance activities?

WHY DO HARD-WORKING FAMILIES REMAIN IN POVERTY?

Think about your experiences with poverty and your assumptions regarding the poor? Do beggars approach you on the street? Do you assume they are there because they are lazy, or addicted to drugs or alcohol, or because of a physical or mental handicap? When you see desperately poor people on TV news broadcasts, do you wonder why they are not receiving adequate assistance? What is the cause of their precarious situation—a natural disaster, civil strife, or ethnic conflicts? How do you react—give money; volunteer your time to help; wonder, given the magnitude of the problem, if there is a solution? Or do you feel helpless—convinced that individual efforts will not make a difference?

ACTIVITY 1:1

ATTITUDE SURVEY

This self-assessment activity allows you to get in touch with your feelings and identify your assumptions. You can keep your answers private, but it might be more interesting to discuss them with your fellow training participants, Peace Corps trainers, or community members. Below are 10 statements relating to ways in which microlending can help the poor start their own microenterprises. This is an attitude survey. There are no absolute right or wrong answers.

Attitude Survey

1. It is impossible to evaluate our work in enterprise development for the poor in terms of financial costs and benefits; human development cannot be valued in dollars.

   Agree / Don’t Know / Disagree

2. The best way to help poor people increase their incomes is to help a few people, who may not themselves be poor, to develop enterprises that will employ the poor.

   Agree / Don’t Know / Disagree

3. Poor people are unlikely to have their own good business ideas; MFIs must help them by giving them ideas.

   Agree/ Don’t Know / Disagree

4. Loans for poor people’s businesses must be at lower than market interest rates or interest free.

   Agree / Don’t Know / Disagree

5. MFIs, usually indigenous NGOs that are direct providers of credit and savings services, should charge the poor for enterprise development services, so that the MFIs themselves can become self-sustaining.

   Agree / Don’t Know / Disagree

6. MFIs should always encourage poor people to start group- or community-owned enterprises rather than individual businesses.

   Agree / Don’t Know / Disagree

Continued

Activity 1:1, continued

7. It is better to give grants to the poor to help them develop enterprises than to make loans to the poor.

Agree / Don't know / Disagree

8. If we do make loans to the poor for enterprise development, we cannot expect them to repay them on time; we must be lenient.

Agree / Don't know / Disagree

9. Women are better at microenterprise than men; they re-invest the profits, or spend them on their families, and they repay loans better.

Agree / Don't know / Disagree

10. Most poor people do not need training to enable them to start a business; all they need is access to finance.

Agree / Don't Know / Disagree

(This attitude survey is adapted with permission from *Empowerment Through Enterprise.* Malcolm Harper. Intermediate Technology Publications, London, 1996.)

Note: A discussion with answers is found at the end of this module. As you learn more about how microenterprises help the poor break out of the poverty cycle look for information to support or refute each statement in this survey.

Although their situation is heartbreaking, street people and the poor you see on TV are not representative of the working poor. The majority of the world's poor are working families. The term poor is used to identify those who do not have sufficient food to meet their basic nutritional requirements. Most of these families live in developing countries. Women head many of these families. "An estimated 200 million women in the developing world live in severe poverty. Most are self-employed, struggling to ensure the survival of their families through multiple economic pursuits that yield marginal returns" (*Village Banking: The State of the Practice,* Candace Nelson, Barbara McNelly, Kathleen Stack, and Lawrence Yanovitch, The Small Enterprise Education and Promotion Network and the United Nations Development Fund for Women, New York, 1996, p. 3).

What can be done to make a difference in the lives of the productive poor? Humanitarians have struggled with this question for many years. Before you get to the end of this module you will learn about two proven strategies. First, we need to determine why hard-working families remain in poverty. The following case study provides some insights into the vicious cycle of poverty.

ACTIVITY 1:2

A CASE STUDY ABOUT A POOR WORKING FAMILY

(Sakhubai and Rambhau's family is not real, but it is typical.)

Sakhubai and Rambhau's family, besides themselves, consisted of their one-year-old baby girl, Rambhau's 10-year-old sister, and his mother. The sister did not attend school; she worked doing laundry for a rich family in the village. Rambhau owned two acres of land and even a bullock-cart.

Every year Rambhau would borrow money from the moneylender at the rate of 10 percent per month (120 percent annual interest!). The money was used to purchase seeds, fertilizer, and pesticides for his field. But as soon as he reaped the harvest, all his income would go to repaying the loan and interest.

When Rambhau's mother died he didn't know where to get the money for performing the funeral rites. This was a crisis. Poor Rambhau was forced to mortgage one acre of his land for the money. His income was now decreasing.

After some years Sakhubai had a son. They now started running short of money even for his medicines, house repairs, and for so many other basic needs of the home. The expenses as well as prices were constantly on the rise. How much money could one get after selling the grain? Besides, the production of the land was declining each year. Finally, to repay his ever-increasing loan, Rambhau had to sell off the remaining acre of land they owned.

Two years later, when his sister was 14 years old, Rambhau decided to get her married since she was now of "marriageable age." He borrowed money from a sugarcane contractor for the dowry, purchases, and other expenses for the wedding. The entire family now had to work for the sugarcane contractor in order to repay the loan. In spite of working themselves to exhaustion, and almost starving themselves, their problems kept increasing. Their needs were constantly increasing, and it was impossible to make ends meet. The family now had no land; they had even lost their bullock-cart repaying the loans. Sakhubai and Rambhau could not find a way out of their situation.

Continued

Activity 1:2, continued

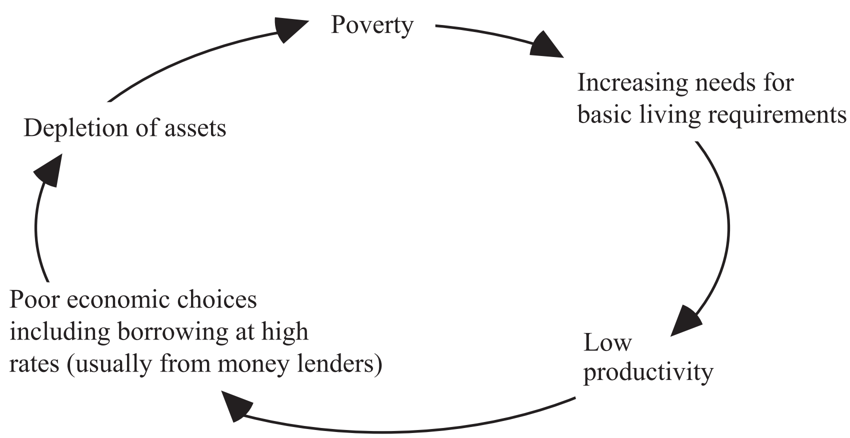
Answering the following questions will help you reflect on Sakhubai and Rambhau's situation, understand generally the factors that contribute to poverty, and finally suggest solutions that might reduce poverty. A small group discussion with other participants, your trainers, and/or community members will be more interesting than answering the questions by yourself and is likely to provide additional insights.

- What were the family's sources of income?
- What were the family's resources? Who in the family owned the land?
- What were the goods and services the family needed to purchase?
- What factors made the family poorer day by day?
- How are the circumstances of working poor families in your country of service similar to and different from those of Sakhubai and Rambhau?
- What development strategies would you suggest to help these poor working families improve their economic well-being?
- Are your proposed strategies culturally appropriate, feasible, cost-effective, long-lasting or sustainable, and replicable? (You may want to get the opinion of your language instructors, local friends, host family, or discuss these issues with your technical trainer.)

(This case study is used with the permission of the author, Dr. Marcella D'Souza, *Little Drops of Water Make a Mighty Ocean,* WOTR Management Series, Watershed Organization Trust (WOTR), Maharashtra, India, 1998.

Although the names are different; the crops may be coffee beans or bananas instead of sugarcane; and the family may reside in an urban slum rather than a rural area, hundreds of millions of working poor families on our planet face similar circumstances. They are caught in a vicious cycle of poverty.

The Poverty Cycle

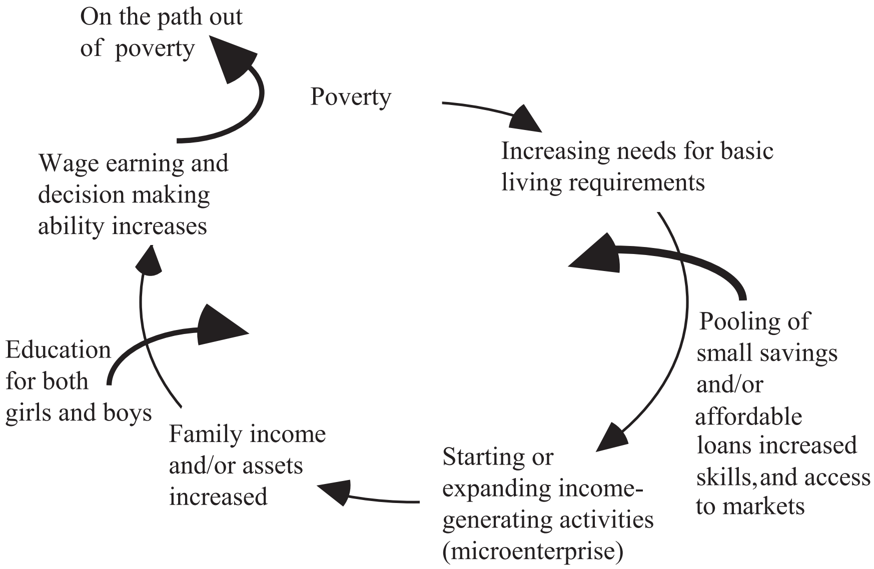


How can the poverty cycle be broken? Experience shows there are two promising strategies.

1. By **acquiring productive assets** through savings, small grants, or affordable microloans, a family can increase their capacity to produce income by starting or expanding an income-generating activity. A small amount of capital is all that is needed to purchase a bicycle to get produce to market or purchase raw materials to make handicrafts or other homemade items to sell. A little additional income can make a big difference. It is difficult for people without education to find employment, and self-employment or microenterprise is thus the only option for millions of poor people. Lack of capital to acquire equipment, raw materials, seeds and fertilizer, or farm animals is an insurmountable barrier.

2. **Education** not only allows family members to earn higher wages, but also enables them to better manage the family's scarce resources. Unfortunately, an education even at the primary level costs money. Although attending schools may be "free," students need school clothes and supplies. Additionally, there is an opportunity cost for children attending school. The time that a son or daughter spends in school limits the amount of time they can spend on income-producing activities or household chores, which allows adult family members to generate income. Children of the poorest families cannot attend school regularly until the family's basic nutritional, clothing, shelter, and health needs are met.

Breaking the Vicious Poverty Cycle



Education and the ability to secure productive assets are effective strategies in breaking the poverty cycle. Does it matter who in the family receives the education and controls productive assets? The experience of microfinance organizations in Africa, Latin America, and Asia indicates families benefit most when women control the assets and girls and women are educated.

Note: At the Microcredit Summit in Washington, D.C., February 2–4, 1997, attended by more than 2,900 people representing 1,500 organizations from 137 countries, a nine-year campaign was launched. They plan to reach 100 million of the world's poorest families, especially the women of these families with credit for self-employment and other financial and business services by 2005. Also, in 1999 the United Nations Development Program (UNDP) funded $3 million for a women's MicroStart Global Pilot Program. They did this because, "Evaluation of the results of microcredit have shown that these efforts can enhance the role of women in society, resulting in, among other things, prolonged education, reduced fertility and delayed age of marriage."
(UNDP website http://www.unfoundation.org/grants/3_6_microstart.asp)

WHAT IS THE RELATIONSHIP BETWEEN EDUCATION AND POVERTY?

(The following is excerpted from the comments of John Tucker, manager, Special Unit for Microfinance, United Nations Development Programme, given at the Microcredit Summit of Councils 1999, Abidjan, Côte d'Ivoire.)

> Although families usually choose to educate their sons before their daughters, development professionals and world leaders agree the poverty cycle is not broken until girls are educated. At the annual meeting of the Economic and Social Council (ECOSOC) in Geneva, United Nations Secretary-General Kofi Annan called on the international community to do more to promote women's prospects. "Women are among the poorest of the poor," he said. "They work long days, walk long distances to fetch water, and must find time and energy for informal sector activities, which are their only source of income. Their jobs are truly never done."
>
> Annan said investments in women, particularly in the education of women and girls, are the key to sustainable development and will give the greatest benefits to families and society. "By right and by reason, women must have equal opportunities," he said.
>
> World Bank President James Wolfensohn echoed Annan's remarks, telling ECOSOC delegates that providing equal rights to women is vital for the eradication of poverty, and that stable economic growth cannot be achieved without providing voting rights and job opportunities to the world's 3 billion women. (Source: United Nations Wire on line, July 7, 1999.)

Educating girls has great promise as a long-term strategy for increasing the economic well-being of women, their families, their communities, and their nations. If you would like to learn more about this exciting development opportunity, check out *Gender and Development Training: Girls' Education* (ICE No. M0054) listed in the Resources section at the end of this module.

* * * * * * * * *

A LEARNING MOMENT

Appreciative Inquiry (AI) is a capacity-building process that begins by valuing the individual, the organization, the community, and the culture in which they exist. Over time, AI develops four important competencies that support the unfolding of an ongoing appreciative learning experience:

- Appreciative competence: the capacity to focus on what individuals, organizations, and communities have done well in the past and are doing well in the present;
- Generative competence: a capacity to allow members to reflect on the impact of their contribution toward a higher purpose;
- Expansive competence: the ability to go beyond familiar ways of thinking; and
- Collaborative competence: the power of dialogue to transform systems.

There are parallels between the experiential learning approach and appreciative inquiry. Appreciative competence encourages us to look at what has gone well, to use past experience. The generative competence relates to the reflection step in experiential learning. The expansive competence correlates to expansion and the collaborative competence to the application step where learning is implemented.

* * * * * * * * *

You are encouraged to use an appreciative approach when interacting with members of your host community.

ACTIVITY 1:3

WHO GOES TO SCHOOL?

The relationship between lack of educational opportunities and poverty is well documented. School can prepare young people to take advantage of opportunities in their adult lives; the lack of adequate schooling leaves them with few options.

To learn about educational opportunities in your host country ask a kid(s), a parent(s), a teacher(s), school administrators, your language instructors, and/or Peace Corps staff. Visit a school. Watch a class. Remember to ask questions “appreciatively”!

- Are schools “free” and available to all?
- Do children from rural and urban areas attend equally?
- What about children from poor families?
- What are the ages of children who attend?
- Do more boys than girls attend?
- What impact does the level of education reached and who attends school have on the economy?
- Do the schools prepare students for jobs that are available in the community?
- When they graduate do most young people find jobs?
- How many start their own businesses?
- How much education do people who operate the microbusinesses in the community have?
- What changes in the school system do you feel would improve the economic well-being of community residents?

If you are lucky enough to have Internet access, visit www.UNICEF.org to view educational information by country.

After you have gathered information on educational opportunities in your host country and reflected on the information, what generalizations would you make? Do your fellow training participants and Peace Corps trainers agree with your generalizations? To what extent does the lack of educational opportunity contribute to the poverty level?

Based on your understanding of the local school system, what possibilities do you see for involvement during your Peace Corps service? You might want to talk to current Volunteers about their experiences working with local schools.

HOW CAN THE WORKING POOR ACQUIRE PRODUCTIVE ASSETS?

Some innovative approaches are being used to place productive assets in the hands of poor families. **Heifer Project International** offers animals (and training in the care of animals) to hungry families around the world as a way to feed themselves and become self-reliant. Children receive nutritious milk or eggs; families earn income for school, health care, and better housing. Farmers learn sustainable, environmentally sound agricultural techniques.

The project, when started in the 1930s, gave heifers (young cows that have not borne a calf) to hungry families. In return, they could help another family become self-reliant by passing on to them one of their animal's female calves. Today the Heifer Project supplies animals, including chickens, rabbits, sheep, goats, and cows, to families in more than 115 countries.

While numerous families have benefited from the Heifer Project, the logistics of providing the animals, training families to care for the animals, and making arrangements to transfer the offspring to other families are staff-labor intensive. This limits the number of families who can be helped.

Trickle-Up, established in 1979, is another program with a unique approach. The Trickle-Up Program is dedicated to reducing poverty by helping the lowest-income people around the world start or expand their microenterprises. Local representatives provide basic business training and a conditional grant. It is based on the assumption that people already have the capability and ingenuity to create viable enterprises. Seventy percent of those applying for Trickle-Up grants are women. It is one of the few programs where youth at least 16 years old can get funds to start a business.

Transaction costs for administering these small grants ($50 to $100) are usually high, and since it is not expected that the loans will be repaid, capital is rapidly depleted. The high transaction cost limits the grant program's ability to reach large numbers of the poor. Other disadvantages of grant programs are that they contain no provision for accumulation of family savings or for providing continuing financial services for newly formed microenterprises. Realistically, the small businesses started with grants will need ongoing financial services.

The challenge is to reach large numbers of the productive poor cost-effectively, provide them with productive assets that enable them to increase their economic well-being, and do so in ways that fit the culture.

The following hypothetical but typical story about the business of five Kenyan women highlights some of these cultural issues and explains:

- Why they were reluctant to do even simple business reports after they had operated for three months;
- How their families were better off economically because of a small grant;

- The important role that mutual trust plays in improving the economic well-being of the poor; and
- How the women's business practices were consistent with their traditions and culture.

> *Five Kenyan women prepared a simple business plan and received a $50 Trickle-Up grant. They take turns selling green vegetables and grain in the local market. All five women grow the produce in their gardens. At the end of the week each takes home two kilos of maize, three kilos of beans, and a kilo each of rice and wimbi. Each day the one tending the stall takes home the unsold green vegetables that will not keep. Enough money is set aside to replace what has been sold and the remainder is placed in a safe place. Periodically the group decides on a joint purchase with each member going home with six new plastic cups or a cooking pot. The utensils are considered group property and can be recalled for special occasions. The group hopes to someday have enough saved to purchase some land. If a member becomes ill, the group will purchase medication or pay the hospital fee. If there is a wedding or a funeral, money is given to the group member to cover expenses. School fees are paid for members' children, even where members have different numbers of school age children. No records are kept, except in their heads, of who gets what, but each member trusts that when she is in need, the group will respond.*
>
> *Traditionally, Kenyan women sell their extra vegetables, eggs, or chickens in the market to earn money to buy things for their families. These transactions typically take place on market days. What is carried home is the new purchase. Though over time significant amounts might be involved, records are never kept. In order to maintain control of this income and how it is spent, women do not reveal to their husbands the particulars of their business dealings. The fear is that if men know just how much money is involved, they will take control of it, and the basic needs of the children and household would not be met.*

These women's business practices differ from Western business standards of careful accounting and distributing of profits according to a partnership agreement. Despite frequent seeming inequities in who gets what, depending on how tragedies strike, women seem satisfied with the system, feeling that if the balance of misfortune shifts they will be cared for. (Adapted from stories in *The Trickle-Up Program in Kenya: An Evaluation Report.* Lani van Ryzin-Havens and Ruth Kobia. 1987. Trickle-Up Program Inc.)

Today, women still need to protect income from husbands or male family members. Most women do not want cash from their businesses, preferring food or household items. If a husband finds cash he might drink it away, so even recording cash amounts in a book could be a threat. If a man wants to sell a new cooking pot, he is told it belongs to the group and the wife is only keeping it for them.

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Programs such as The Heifer Project and Trickle-Up have helped thousands of families. There are many success stories to report. However, these programs are labor-intensive, and it is not possible to reach the 100s of millions of families who need additional productive assets.

A different approach to providing cash to acquire productive assets is the **Microfinance Movement**. It is built on the principles of mass-marketing—low-cost products, high volume, and efficient delivery systems. The loans are generic, the overhead is low, there are no frills, and the number of loans delivered to clients is enormous. Therefore, the transaction cost is low. Microloan programs have reached millions of low-income families and have the potential of reaching the 100s of millions.

More than 20 years ago, in the late 1970s, some highly inventive nongovernmental organizations (NGOs) and banks saw the promise of microlending and pioneered techniques to issue loans to the self-employed: those who know their trade well but lack conventional means to secure a loan. The descendants of these microfinance institutions (MFIs) have prospered in some of the poorest countries of Africa, Latin America, and Asia. In Bangladesh, the Grameen Bank pioneered "peer lending," which now reaches 2 million women. (*Village Banking,* Candace Nelson, Barbara McNelly, Kathleen Stack, and Lawrence Yanovitch, The Small Enterprise Education and Promotion Network and the United Nations Development Fund for Women, New York, 1996, p. 3.) In Central and South America, FINCA International started "village banking" independently at about the same time, using slightly different methodologies, but embracing the same basic concepts. By 1996, more than 10 million clients around the world had received microfinance services, "the vast majority of whom are below the official poverty line (usually defined by caloric intake)." (*MicroStart*, United Nations Development Programme, New York, 1997, p. 12.)

The fact that more than 10 million clients have received microfinance services is not nearly as impressive as the impact these services have on the lives of the savings and loan clients. Until recently, evaluation information focused on verifiable quantitative numbers—how many loans, number of savers, default rates, etc. Now MFIs are beginning to collect data showing the changes their services are making in the lives of their clients. Jeffrey Ashe collected the information below as part of a program evaluation in Cambodia. The survey findings document substantial change in the lives of the village bank members.

THANEAKEA PHUM VILLAGE BANKING PROJECT

In 1998, village bank members were interviewed. The sample consisted of 197 randomly selected members.

Members' income increased.

- 34 percent said what they earned from their microenterprises represented "most" of their family's income, compared with only 6 percent before they joined the village bank.

Members' families eat better.

- 67 percent said they ate better food and more of it.

Members are better housed.

- 19 percent said they had made major improvements to their homes and 57 percent more said they had made minor improvements.

Members invested their additional income in consumer goods.

- 65 percent purchased pots and pans.
- 21 percent purchased radios.
- 14 percent purchased watches.
- 9 percent purchased TVs.

Members invested their additional income in productive assets for their businesses, or for their family's agricultural activities. These investments can lead to greater productivity and more profits in the future:

- 61 percent purchased tools and equipment for their businesses.
- 50 percent purchased tools for farming.
- 26 percent purchased bicycles.
- 13 percent purchased motorcycles.
- 11 percent purchased land.
- 11 percent purchased a cow that also could be used for plowing.

Members said they helped each other:

- 80 percent were given advice by other members on how to sell their goods.
- 71 percent were given advice on how to produce.
- 70 percent were given advice on where to sell.
- 57 percent shared transportation.

- 47 percent sold another member's goods at the market.
- 28 percent produced the goods together.
- 24 percent shared tools.

Members were available to each other in times of crisis.

- Nearly three-quarters say they "often" help each other in times of personal crisis—sickness, illness, and fire, for example.
- Only 20 percent say they help each other "occasionally" or "never."
- Close to 60 percent say they help each other with their loan payments.

* * * * * * * * *

It would be difficult to find anyone who would argue against educating girls or providing poor women with assets to increase their ability to generate income. However, some development professionals believe lending to poor, often illiterate, women is not an effective use of limited development funds.

In the field of microenterprise, there are two main views on the growth and dynamics of microenterprises: growth and expansion; and equity and poverty alleviation. A third view has emerged, growth through equity and security.

If the goal is to create jobs through a vibrant sustainable microenterprise sector, then invest in those literate people with the skills, motivation, and the risk tolerance to grow and expand their businesses. Society calls these risk takers "entrepreneurs" who take risks by starting "enterprises." This is the growth and expansion economic development point of view. Proponents of this view characterize most women's enterprises as having limited potential for growth due to the nature of the enterprises or the women themselves.

Most low-income women in developing countries live and work in high-risk environments and seek to minimize risk and increase their family's security. Because low-income women often try to avoid risk and provide for the basic needs of their families, rather than to take risk and expand their economic activities, their activities often are not classified as enterprises. The terms "subsistence activities" or "income generating activities" are often used instead of enterprise.

Proponents of equity and poverty alleviation characterize most women's enterprises as low-growth enterprises; they favor providing funds to enable women to start their minibusinesses. There is no expectation that these women's businesses will grow; the expectation is they will maintain the families' basic needs. They don't believe extra funding is justified to work toward removing the barriers that prevent women from moving up the economic ladder——education, rights to own property, cultural biases that deny women access to nontraditional higher paid jobs, and benefits (like social security) male workers are provided in their formal sector jobs.

Proponents of growth through equity and security also recognize that most women's enterprises have low returns and low productivity but argue that many women's enterprises have potential for growth if cultural, policy, and market barriers are removed. They favor women-focused programs, which address these barriers and provide credit to help low-income women start their businesses. (Discussion of these three views can be found in "Gender and the Growth and Dynamics of Microenterprises," GEMINI Working Paper No. 5. Washington, D.C.: The GEMINI Project, Development Alternatives, Inc., 1990.)

Today different enterprise development projects take different views. Some projects are designed assuming growth and expansion is the optimal approach. Other enterprise development projects implement the equity and poverty alleviation approach, and still others take the growth through equity and security approach. There are many variations in projects. Project results are not clear as to the most effective long-term approach.

What we do know with certainty is that unless both women and men of poor populations become more productive, the likelihood of significant improvements in their standard of living is unlikely.

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A LEARNING MOMENT

What can you do during your Peace Corps service to increase the participation of women and girls?

- Plan meetings and other events at times when women can attend—based on knowledge of their daily schedules.
- Plan for child care—arrange for on-site child care or structure events so children can attend.
- Consider women's ability to travel or lack of access to travel in locating trainings and other events.

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Before we complete this first module, it is time to play the Best Game. You will experience making decisions as a poor working family in managing its microenterprise and trying to meet basic needs. Enjoy the experience, and may the cleverest family win. The challenge is to have money left at the end of the month!

ACTIVITY 1:4

THE BEST GAME

The Best Game introduces players to the economic realities a poor family faces on a daily basis and lets them experience the tough choices enterprising families make in managing scarce funds.

Ask your technical trainer, Pre-Service Training Director, or business program manager for a copy of the Best Game.

You need at least six people to play the game, plus a facilitator. The ideal number of players is 9 to 15. The game requires three teams (families). Invite some of your host country friends to join you in playing the game. You might want one member of each family who can translate if a local language version of the game is not available. The game facilitator will provide instructions and manage play. The rules and hints for planning the Best Game are included in a trainer's manual that accompanies the game.

After you have played one round of the game, take time to discuss with other players what you have learned. How could you have managed resources better to increase your profit? Will "your family" have to borrow again next month to continue your microenterprise? If you did not keep your savings in a bank or you could not borrow, what would be the impact on "your family's" economic well-being?

May the best family win.

Consider producing a local language version of the Best Game. Adapt both the pictures and words to fit your host country. Use the talents of artists in your group; involve your language instructors. A local language version would be a useful training tool to take to your site for teaching about managing a microenterprise.

KEY TERMS

Key terms are defined as they are used in the module. A space is provided to write the local translation of the word or phrase. Work with your language teachers to find the right translations and build your vocabulary as you study this module.

Entrepreneur: someone with the motivation, ideas, and capacity to combine the factors of production (land, labor, capital, and information) into goods and/or services.

Indicator: a surrogate measurement for a change. Example: A new roof on the home is an indicator of the family's increased economic well-being.

Informal sector: consists of numerous microbusinesses, which typically have no legal status and do not pay taxes. The informal sector accounts for more than 50 percent of the economy in many developing countries and is the major source of income of the poor.

Microenterprise: nonagricultural income–generating activity with fewer than 10 employees including the owner; the owner and employees have few personal assets.

Microfinance institution (MFI): organization that provides nonexploitative credit and savings services, generally for the poor.

Microlending: lending programs that normally range from $50 to a maximum of $300 to $500 (in U.S. dollars).

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RESOURCES

Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets. John P. Kretzmann and John L. McKnight. (ACTA Publications.) 1993.

Guide to asset-based community development, summarizing lessons learned by studying successful community-building initiatives in hundreds of U.S. neighborhoods. Outlines what local communities can do to start their own asset-based development, including how to rediscover their local assets; how to combine and mobilize these strengths; and how "outsiders" in government can effectively contribute to the process of asset-based development.

Gender and Development Training: Girls' Education. (Peace Corps ICE.) 1998. (ICE No. M0054)

Product of the Gender and Development Training Initiative. Seeks to institutionalize the consideration of gender issues throughout the Peace Corps. Contains eight booklets that provide background and training design for various participants; session plans and handouts; and insights from the field.

Income Generation and Money Management. PCV Sheila Reed. (Peace Corps ICE.) 1994. 70 pp. (ICE No. R0087)

Originally titled *Income Generation and Money Management: How to Train Gambian Women*, this manual applies to low-literate entrepreneurs in other parts of Africa and perhaps elsewhere as well. Contains helpful numeracy activities and good materials for small business/women in development projects.

No Short Cuts: A Starter Resource Book for Women's Group Field Workers. Nicky May and Mia Hyrun. (Change International.) 1992. 60 pp.

Provides practical information on how to organize a women's group and have it operate effectively. After a general discussion, relates the information to groups formed for specific purposes. These include creating a savings and loan association; producing handicrafts; initiating agricultural projects and improving farming techniques; processing foods; providing potable water, planting trees, and conserving energy; and improved health, education, child care, and home management. A detailed but easy to understand manual that is an excellent resource to use when working with host country women.

PACA: Participatory Analysis for Community Action. (Peace Corps ICE.) 1996. 350 pp. (ICE No. M0053)

Participatory Analysis for Community Action (PACA) is an approach used to facilitate communities' exploration of their own realities in order to make desired changes. Based on earlier participatory analysis methods, such as Rapid Rural Appraisal and Participatory Rural Appraisal, PACA turns the appraisal activity into a process where the development agent and community develop a partnership that leads to community control of their own projects. As a defining criterion, PACA distinguishes the role of gender in development by applying the participatory exercises with separate groups of women and men, girls and boys, which allows the community to compare and analyze together the roles that shape their reality. In similar ways, PACA can be used to understand age, ethnicity, or any other source of societal differentiation that has implications for development. The tools can be used in schools, organizations, institutions, and any other group, rural or urban, where different voices need to be heard.

A Question of Access: A Training Manual on Planning Credit Projects That Take Women into Account. (UNIFEM.) 1995. 180 pp.

Comprehensive look at issues surrounding the impact of credit on women and how to integrate this awareness into setting up a microcredit delivery system. Provides suggestions and instructions for organizing training workshops that can be used in developing materials and session plans.

Internet:

www.cedpa.org — The Center for Development and Population Activities (CEDPA) is a nonprofit international organization founded in 1975. CEDPA's mission is to empower women of all levels of society to be full partners in development. Good publications, training manuals, and section on lessons learned.

www.girlsright.org — Information from two working groups on girls established as part of the international movement to support the human rights of girls and their issues. Site has information on advocacy, communications, and a summary of "Cleaning a path for girls: NGOs report from the field on progress since Beijing."

www.heifer.org — Overview of Heifer International's history, success stories, and current program.

www.trickleup.org — Overview of Trickle-Up International's history, success stories, and current program.

www.UNIFEM.org — Good resource especially if looking at statistics worldwide on education.

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ACTIVITY 1:1 Reference

ATTITUDE SURVEY: DISCUSSION OF ANSWERS

1. **Financial evaluation is impossible.**

   Agree: Human welfare and dignity cannot be "priced"; they are priceless.

   Disagree: Business enterprise is about money; we are spending money to help people earn money; we must compare the two.

2. **Jobs for the poor, not self-employment.**

   Agree: The poor do not have the education, the skills, or the contacts to start businesses; it is better for them to be employed by others who do have the resources.

   Disagree: When the poor are employed they are usually exploited; if they have their own businesses they will be genuinely "empowered."

3. **We have to give the poor business ideas.**

   Agree: The poor have not been exposed to business ideas. A primary function of outsiders is to show them what they can do.

   Disagree: The poor know their own situation better than we do; they know what their own resources are, and what they can produce or sell.

4. **Charge the poor low interest or no interest.**

   Agree: Poverty means having little or no money, so it is self-evident that poor people cannot afford to pay a high price for money itself.

   Disagree: Access to finance is more important for poor people than its price. High interest may be necessary to pay for this service.

5. **Charge the poor fees for our services.**

   Agree: People only value services if they pay for them; free services are valued for what they cost, that is, nothing.

   Disagree: Donors have given us their money to help poor people; we are breaking our trust if we sell services to the poor.

Continued

Discussion of Answers, continued

6. **Always promote groups.**

   Agree: Individual business people always exploit poor people, even if they come from the same community. Strength comes from unity.

   Disagree: Group enterprises have bad records everywhere, they are more difficult to manage, and they usually either fail or are "hijacked."

7. **Grants are better than loans.**

   Agree: The poor need every cent for survival; it is wrong to make them repay, and it costs more to administer the recovery than is recovered.

   Disagree: Grants demean people and make them dependent on the donor.

8. **The poor cannot repay loans on time.**

   Agree: Poor people are vulnerable to personal and natural disasters. They and their families will suffer if they are forced to repay.

   Disagree: If a loan has been correctly approved, the borrower should have no difficulty in repaying it on schedule.

9. **Women are better at microenterprise than men.**

   Agree: Women always have to plan further ahead and to think of their children; men tend to spend any surplus on drink or other enjoyment.

   Disagree: Men are nearly always better educated than women, and they understand money better; most successful big business owners are men.

10. **Most poor people don't need business training.**

    Agree: Success in microenterprise depends on shrewdness and local knowledge, not on things that can be taught in a course.

    Disagree: Poor people have no knowledge of business, particularly of record-keeping; they must be taught these things if they are to succeed.

TRAINER'S NOTES

MODULE 1
MICROFINANCE—AN EFFECTIVE POVERTY-REDUCTION STRATEGY

Overview:

This module was designed to:

- Increase the reader's awareness of why the working poor have difficulty breaking the poverty cycle.
- Suggest some strategies that are promising in reducing poverty.
- Provide information to support the focus on girls' education and financial services for women.
- Reinforce concepts with an attitude survey, a case study, an activity on local microfinance conditions, and the Best Game, which allows participants to experience managing funds as a poor working family.

Time:

Reading	1 hour
Activities, including debriefing	7 hours

Materials:

The Best Game.

Preparation:

- Read the module and adapt activities if necessary to fit the local situation and training schedule.
- Arrange to have as many of the references listed at the end of the module as possible available at training site(s).
- Identify local microfinance NGOs and their staff for future field trips and/or discussions of local microfinance issues with trainees.
- Secure sufficient copies of the Best Game. Read instructions for the Best Game and be prepared to facilitate or train game facilitators.
- Schedule at least one hour to review and discuss learning objectives with trainees.

TRAINER'S NOTES

ACTIVITY 1:1
ATTITUDE SURVEY

Overview:

The attitude survey is intended to get trainees to think about the plight of the poor and what interventions are effective and not effective.

Time: 15 minutes

Materials:

Copies of the attitude survey and discussion of survey. Both are included in the module.

Preparation:

None.

Debriefing the experience and processing the learnings:

Trainees come to their host country with different backgrounds, and, predictably, they will have different attitudes. This activity allows training participants to reflect on their attitudes and better understand how they feel about issues related to helping the poor. Encourage trainees to consider the arguments for and against each statement in the attitude survey and to look for information that would support one or the other position as they learn more about how microenterprises help people move out of the poverty cycle.

TRAINER'S NOTES

ACTIVITY 1:2
A CASE STUDY ABOUT A POOR WORKING FAMILY

Overview:

This activity provides insights into why so many families in developing countries are poor.

Time: 1 to 1 1/2 hours

Materials:

Case study included in module.

Preparation:

Identify a trainee who will be responsible for scheduling the debriefing and leading the discussion.

Debriefing the experience and processing the learnings:

Sakhubai and Rambhau's family story can be used to promote a rich discussion of:

- How families spend their money.
- Gender issues related to poverty.
- Culture—expectations for spending at weddings and funerals.
- The relationship between education and poverty.
- The role of the government in helping the productive poor.
- The role of Volunteers in helping the productive poor.

Possible answers to the case study questions:

- **Sources of income:** farming, labor, or service.
- **Needs for money:** nutrition, clothing, health needs, medication, marriages and funerals, agricultural expenses, house repairs, and education.
- **Reasons for remaining in poverty:** low level of education, lack of adequate resources to earn a living, high cost of borrowing money.

Continued

Trainer's Notes: Activity 1:2, continued

- **Possible development strategies:**
  - Open a factory in the village to provide jobs.
  - Distribute land to the poor.
  - Provide scholarships so children can attend school.
  - Start a cooperative so agricultural supplies can be purchased cheaply and crops sold at higher prices.
  - Provide productive assets like cows and chickens; provide small grants or financial lending and saving services to enable the poor to start their own microenterprises.

Discuss how the poorest of the poor situation locally is similar to and different from the family in the case study.

Encourage participants to look at the cultural appropriateness, feasibility, cost-effectiveness, and sustainability and replicability of their proposed development strategies.

TRAINER'S NOTES

ACTIVITY 1:3
WHO GOES TO SCHOOL?

Overview:

A knowledge of the country's educational system is part of understanding a country's culture. School can prepare young people to be ready to take advantage of opportunities in their adult lives; the lack of adequate schooling can leave them with few options. This activity encourages training participants to learn about educational opportunities in the local community by asking questions of community members and visiting a school.

Time:

Can be adjusted by each training participant to fit his or her interest in this topic.

Materials:

None.

Preparation:

Gather articles and information on the country's educational system and have them available for training participants. Identify local schools that would welcome visitors.

Debriefing the experience and processing the learnings:

If one of the training participants has a strong interest in education, you may want to ask him or her to facilitate the debriefing.

Consider and discuss the following:

- There is a strong correlation between a well-educated population and a high standard of living. Why?
- Who benefits from the local schools and who does not?
- What are the connections between education, economic well-being, and the economy?
- What are the strengths and weaknesses of the local school system?
- What changes would community members like to see in their educational system?
- How can Volunteers be effective in working with local schools?

TRAINER'S NOTES

ACTIVITY 1:4
THE BEST GAME

Overview:

The Best Game introduces trainees to the economic realities that a poor family faces on a daily basis and lets them experience the tough choices enterprising families make in managing scarce funds.

Time:

To introduce and play the game	2 hours
To discuss learnings from the game	30 minutes

Materials:

The Best Game.

Preparation:

Instructions for preparation and facilitating the Best Game are found in the instructor's manual in the kit. Allow yourself two hours or more to familiarize yourself with the game. Consider asking one of the training participants to facilitate the game.

Debriefing the exercise and processing the learnings:

Suggestions for debriefing the Best Game are found in the instructor's manual that accompanies the game.

A Microenterprise Training Guide
for Peace Corps Volunteers

MODULE 2

Microfinance Methods

Traditional
Artisans and
Entrepreneurs

MODULE 2

MICROFINANCE METHODS

Why do you as a Peace Corps Volunteer (PCV) need to know about financial services for the poor? Because you decided to spend two years of your life as a development worker helping people help themselves, including the "poorest of the poor." The experience of development agencies shows that when the poor have cash to purchase productive assets they can increase their incomes and break the poverty cycle. By the time you complete this module you should have the knowledge, skills, and attitudes to:

- Explain why the lives of the poor would improve if they had access to nonexploitative credit and savings services.
- Describe three nonformal traditional methods used by the poor to acquire financial services and why none of these adequately satisfy the families' needs for financial services.
- Identify the lessons learned from nonformal traditional financing methods, which led to the development of today's microfinance institutions (MFIs). State how these lessons were incorporated into MFIs.
- Describe for someone unfamiliar with financial institutions the different MFIs offering financial services to the poor: commercial banks, Latin American solidarity groups, Grameen Bank, village banks, savings and loan associations, and credit unions.
- Express an opinion as to how Volunteers can best contribute to the development of your host country in the area of microfinance.

FINANCIAL SERVICES

In this module we first look at local families' credit and savings habits and the role banks play in providing services. Second, we uncover the types of financial services that allow the poor to access these services. Third, we familiarize you with the traditional providers of credit or savings: moneylenders, middlemen, and Rotating Savings and Credit Associations (RoSCAs). Finally, we show how lessons learned from these traditional providers of financial services have influenced the design of today's MFIs.

What financial services do families want? One size of financial services does not fit all! Banks and credit unions tailor different financial products to fit different customers. What types of financial services did you use in the United States—a checking and/or savings account; credit or debit cards; student loans; loans to buy a car, a house, or start a business; wire transfers; or cashier's checks? You have doubtless used some or all of these. How did you feel when you applied for a loan? Nervous? Were the application forms long and complicated?

ACTIVITY 2:1

FAMILY FINANCIAL HABITS

Talking about money is a sensitive issue. When talking with your host family, other friends in the community, or trainers, ask questions in an appreciative, non-threatening way. Keep it general. Ask, “What do most people do?” not “What do you do?” Explain that you are trying to learn what financial services people in the country use, and what characteristics of these services they like and do not like.

If language is a problem, you will need to be creative. Possibilities include getting the questions translated into the local language, finding someone to interpret for you, or inviting host family members to share this information during a language class.

- Do most families in the community save? Where do they put their savings: in the bank, in hard assets such as jewelry or houses, or in a safe hiding place (under the mattress)? If savings are put in the bank, what interest rates are paid on the savings?
- Do most families in the community borrow money? Why do they usually borrow? From whom do they borrow: banks, moneylenders, middlemen, or family? What interest rates are common? Do they have to secure a loan with collateral?
- How are family financial decisions made? What type of decisions do men make? Women? What decisions are made jointly?

Information gathered through this activity will be more comprehensive if you share and compare what you have learned with fellow trainees.

Who provides formal financial services? Banks are the institutions people normally associate with financial services. Competition forces banks to offer services their customers want at competitive prices. However, in a number of countries there is little or no competition, and banks may or may not meet the financial needs of community members. To learn about local banks visit a bank, talk with a banker, observe who the customers are, and learn about the bank's financial products and services.

ACTIVITY 2:2

BANK VISIT

A visit to a local bank is a chance to learn about what formal financial services are available, at what price, and who uses these services. You may want to organize a group of trainees/Volunteers and invite a language teacher to accompany you. Find out about local banking services by asking the following questions appreciatively:

- What are the bank's strengths; what about the bank does the staff point to with pride?
- What services does the bank offer?
- What is the minimum amount needed to open a savings account?
- What interest rates do savings accounts pay, and what interest rates are charged for loans?
- Who are the bank's borrowers (men or women, age, income level), why do they borrow, and who are their customers?
- Must the borrower have collateral to secure a loan?
- How long does it take to process a loan?

How do the services the bank offers match with the services families in your community use and would like to have? Does it seem the bank is doing a good job of serving the financial needs of the community? If not, why not?

Poor families need financial services, too. Check the characteristics of financial services you feel would be desirable for a customer who is poor and possibly illiterate.

___ Low minimum deposits

___ Available in the neighborhood

___ Small loans

___ Market-based interest rates

___ Managed by local people

___ Quick loans

___ No collateral requirements

___ Savings kept in a safe place

___ No minimum balances

___ Reasonable fees

___ Rules sensitive to the special needs of women

Did you check them all? Good! The poor want and need safe places to keep their savings, quick loans at market interest rates, and a financial institution managed by local people they trust and who trust them.

Even as we enter the 21st century, the majority of poor families and individuals on our planet have no readily available affordable financial services. In many rural areas banks, savings and loan associations, and credit unions are nonexistent. The formal financial institutions that do exist do not consider the poor creditworthy, because the poor lack collateral to secure loans. This is especially true of women, who in a number of countries own no property or fixed assets due to legal restraints or cultural norms.

Savings accounts also are problematic; the savings of poor people are of little interest to banks. Transaction costs decrease the profitability of small accounts. Minimum balance requirements, complicated procedures to open accounts or withdraw savings, and a lack of trust discourage the poor from putting their money in banks. Illiteracy is another barrier to accessing formal financial institutions. It is impossible to fill out a savings or loan document if you cannot read or write. Again, women are impacted disproportionately; their illiteracy rate greatly exceeds the rate for men.

The habit of saving and building a safe, easily available financial cushion to soften the blow of life's unexpected emergencies is thought to be of even greater value to the poor in improving their economic condition than access to credit. Savings tend to be valued more by women than men; a primary concern of women is the security and welfare of their children.

Savings:

- Provide families with the ability to survive economic crises.
- Encourage people to look beyond daily or weekly income cycles and think about how to use money for long-term goals.
- Allow for risk taking. With even a minimal increase in security, a poor woman can think about diversifying some of her activities to generate income.
- When managed by a group, become a vehicle for bringing women together to talk about both personal and community issues.
- Give people some control over their lives.
- Enhance the welfare of children. Women's income is most often spent on improving the lives of their children. The sense of security derived from having some savings is passed on to the children.

TRADITIONAL INFORMAL FINANCIAL SERVICES

Historically the poor have relied on informal sources such as Rotating Savings and Credit Associations (RoSCAs), moneylenders, and middlemen to try and meet their financial needs. These sources suffer serious limitations in their ability to provide viable financial alternatives for the poor.

Moneylenders are where the poor traditionally go when they have no other options. Moneylenders charge high interest rates; over 100 percent annual interest is not uncommon even in countries with mild inflation. However, loans from a moneylender have certain desirable features: they are granted on the spot (no long wait for credit approval and loan processing), the borrower's reputation in the community is more important than collateral, and the moneylender is conveniently located right in the borrower's hometown. But, after the principal and a large amount of interest are repaid, the borrower may be no better off, and possibly worse off, than before taking out the loan.

Rotating Savings and Credit Associations are, next to the moneylender, the most prevalent type of informal finance source around the world. RoSCAs existed in China 1,500 years ago. (Jeff Ash, president and founder of Working Capital, in a lecture given to participants of the Microenterprise Institute, New Hampshire College, June 1999.) People form a RoSCA by inviting individuals they trust to join. The group decides how often and where they will meet, how much will be collected at the meetings (the group is self-managed). Each time the RoSCA meets, every member contributes a small set amount of money. Then the group decides who will receive the total amount collected, usually one member. When every group member has received funds from the group one time, the cycle is complete. The group dissolves and may freshly reorganize.

As an example, seven market women choose to contribute $1 to their RoSCA fund every Monday morning, forming a pot of $7, which one woman receives at the end of the week. Over the course of seven weeks each woman receives one pot of $7 and also contributes $7 to the pot at the rate of $1 per week. The first people to receive the pot are, in essence, receiving interest-free loans from the other members. The last members to receive the pot are no better off financially than if they had simply saved up their own money on a weekly basis.

Benefits of being a RoSCA member go beyond establishing a pattern of regular savings and receiving a lump sum of money. The group discusses problems and offers each other advice and mutual support. Unlike moneylenders, RoSCAs charge no high interest, but the amount of capital that can be collected by this process is limited. It may not be sufficient to start or expand a small income-generating activity—a microenterprise.

In many countries, RoSCAs have turned into permanent, nonrotating credit associations with their own loan funds. Most have stayed informal, but some have adopted the legal status of a cooperative society.

RoSCAs go by different names in different countries. RoSCAs, like moneylenders, provide funds locally with no complicated procedures, and membership in a RoSCA is by invitation from the group. RoSCA members depend on and trust each other to put money "in the pot" at every meeting. A member who takes his or her share of the funds but fails to contribute throughout a cycle experiences peer pressure and develops a reputation in the community for being unreliable.

Middlemen make loans for the purchase of raw materials, or they sell the raw materials, sometimes at inflated prices, to poor producers. The producers are then obligated to repay the loans or cost of raw materials by turning over their products to the middlemen at submarket rates. It is not unusual for middlemen to have a monopolistic hold over small producers, particularly in agriculture. Interest rates on a loan from a middleman are also extremely high.

ACTIVITY 2:3

ROTATING SAVINGS AND CREDIT ASSOCIATIONS

This activity is designed to determine:

- Are RoSCA-like groups known in your community. If so, what are they called and how do they work?
- What about moneylenders? Where and how do they operate? What interest rate do they charge?
- Do middlemen advance money for crops, securing the crops at submarket prices?

Who do you know that might have the answers to these questions?

Form a RoSCA. Invite those you trust to join a RoSCA to learn how RoSCAs work. At your first meeting you will need to decide: (1) how often and where you will meet; (2) how much money each member will contribute; (3) how it will be determined who gets the pot of money at the first meeting, the second, the third, and so on.

After a savings cycle has been completed (every member of the RoSCA has received the pot of money one time), think about:

- What benefit was the RoSCA to you? Would the answer be different if you were poor?
- How did you feel if you were the first, or not the first, to receive the pot of money? Did the selection process seem fair?
- Did all members pay on time? If not, what did the group do?
- Did you enjoy the social aspect of RoSCA membership? Why or why not?

MICROFINANCING METHODOLOGIES

Over the past two decades, development agencies, governments, and even private donors have experimented with a variety of methods to provide the poor with cash to establish microenterprises. This is because in areas as distant as Southeast Asia and Latin America people have realized that microenterprise works.

Indeed, microenterprises are the only income option for many underprivileged and undereducated families. When there are no jobs or jobs for which they are not qualified, poor working people have no other option but to start their own business. These businesses are small microenterprises. It is surprising when one business grows to employ more than just family members. But, most important, there are many success stories of these businesses generating enough income to more than meet the family's basic needs.

Starting or growing a business without money is nearly impossible. Businesses need raw materials and the workers need tools. Development workers observed how small amounts of cash allow the poor to acquire these assets, increase their productivity, and improve their economic well-being. About 20 years ago, a few innovators designed and piloted new financing methodologies. Today these methodologies are bringing microfinance services to hundreds of thousands of low-income individuals and families.

The most successful financing methodologies built on lessons learned from the traditional financing sources of the poor: moneylenders, middlemen, and RoSCAs.

From moneylenders innovators learned:

- Easy, quick, local access to credit is important.
- The poor have the ability to pay high interest rates.

From middlemen they learned:

- For poor farmers, borrowing and repayment is tied to the timing of crops.
- The poor often borrow to finance income-generating activities.

From RoSCAs they learned:

- The poor can save small amounts on a regular basis.
- Groups function best if they select their own members.
- Members are free to leave the group only at the end of a cycle.
- Peer pressure works to enforce agreements made by the group.
- People enjoy and benefit from group support and joint problem solving.
- The poor are capable of self-managing their groups.

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A LEARNING MOMENT

To increase the probability of success and sustainability, design new projects based on what has worked traditionally in the culture.

Below, discussed in general terms, are the most common varieties of the new breed of microfinance methodologies. Of all existing credit and savings programs, no two are identical in methodology, even those sponsored by the same organization. This is in fact appropriate, because the specifics of a program's methodology should be chosen to match the target group and local operating environment. Remember, "one size does not fit all!"

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In 1997, the U.S. Agency for International Development (USAID) provided $85,106,000 in funding for microfinancing activities to 221 indigenous NGOs, 103 private volunteer organizations, and 79 credit unions. (*Reaching Down and Scaling Up: Meeting the Microenterprise Development Challenge.* USAID. Washington, DC. 1997. p. 27.) Many other development organizations, including the World Bank and United Nations, realize the value of microenterprise creation and fund microfinance projects.

Individual lending is the oldest form of microlending and most closely approximates traditional commercial bank lending. Developers of individual lending programs attempt to modify bank methods to better meet the needs of low-income borrowers and at the same time allow banks to earn a reasonable profit and be assured default rates are kept under control. This is not an easy task.

The general strategy to reach the underprivileged is to relax loan requirements for the poor. Still, somehow these loans must be secured, either by the borrower's collateral and/or by cosigners, or they are disbursed to groups, where members of the group guarantee the repayment of each other's loans. To further reduce the risk of default, loan officers investigate the creditworthiness of the borrower and the soundness of the operating business or business plan. These procedures take time. Often several weeks lapse between loan application and disbursement of money.

Advantages include loan amounts and repayment schedules tailored to the specific needs of the business. Typical loan amounts range from $100 up to $3,000, and loan periods from three months to over one year. Customized loans have a price, however. The transaction cost is high, and costs are passed on to the borrowers. Individual loans are effective in supporting small businesses, but not in serving the "poorest of the poor." Procedures are too complicated, the waiting time for the loan to be processed is too long, and collateral or a cosigner often is not available. Clients are more often male than female.

Latin American solidarity groups consist of four to seven members. Groups self-select members and guarantee each other's loans. A new cycle of loans cannot be started until all loans taken out by group members have been repaid. Initial loans are small, in the neighborhood of $50, and repayment is required in two to three months. When members repay their loan on time their credit limit for the next loan is increased by about 20 percent, up to a maximum of about $300. Interest rates are normally higher than commercial banks, but lower than moneylenders.

Clients are usually required to deposit regular savings if they want to be part of the group; savings cannot be withdrawn until the member leaves the group. Savings serve as a compensating balance, guaranteeing a portion of the loan.

The microfinance institution gets loan capital from grants or loans from development or commercial organizations. The goal of the microfinance institution is to reach sustainability. If the microfinance institution is not sustainable, its clients will again be without financial services. To achieve sustainability they must earn enough profit from their group lending activities to repay any loans and build up their own lending fund. Therefore, interest rates plus any client fees must be set to cover operating costs, repayment of any loans plus inflation, and an extra amount to develop a self-sustaining loan fund. To generate the needed profit, costs must be kept low. Transaction costs are minimized because:

- The mutual guarantee of members' loans reduces the time that loan officers need to spend reviewing individual loans.
- Loan repayment rates are high, usually more than 95 percent, reducing time spent in follow-up on unpaid loans.
- Procedures are standardized. Loans can only be taken out in standard amounts (example $50, $60, $72, etc., up to a maximum of about $300); all group members borrow at the same time and repay on a set schedule, perhaps weekly at group meetings.
- Simple procedures, flat interest rates, and equal loan payments keep bookkeeping costs low. Example: A $100 loan at five percent per month interest to be repaid in eight weekly payments will have weekly payments of $13.75. ($100 principal + 2 months x $5 per month interest = $110. $110/8 weeks = $13.75 per week.)
- Group members help each other with their businesses, solve problems jointly, sometimes make loan payments for members who are having especially difficult times, and exert peer pressure to collect loans and interest.

Initially, most of the clients were female urban market vendors who used the loans for working capital. Today, the Latin American solidarity groups are also found in rural areas, and still clients are mostly women. Microfinance institutions prefer to lend to women—their loan repayment rate is higher, and they use almost all of their profits for the welfare of their children.

Advantages: Loans are quick, no collateral is required, savings are part of the program, and clients build their capacity to manage money by starting with small loans and gradually increasing the amounts. Disadvantages: There is no flexibility of the timing of the loan, group members all borrow and repay their loans at the same time, and savings can only be removed if a member leaves the group.

In Kazakhstan, VOCA (a U.S.-based private, nonprofit international development organization) worked with a national women's NGO to form a successful microfinance institution based on the solidarity-group methodology. Loans are higher than in developing countries, $200 to $1,000, because of the cost of living. The clients are both men and women, and most start their own shops. The NGO had to go to the expense and effort of registering the microfinance institution as a bank. Kazakhstan laws prohibit anyone but a bank from collecting savings. Volunteers were involved in training the solidarity group on forming a group, working together, and techniques for group decision making.

Did you find that RoSCAs and the Latin American solidarity groups have some common characteristics?

The Grameen Bank is, without doubt, the most widely known microfinance institution in the world. Grameen-style lending programs form small, five-member self-selected solidarity lending groups that are then incorporated into village "centers" composed of up to eight of these lending groups. These centers are then grouped into regional branch offices. Thus, the institution is built "from the ground up," with clients or members assuming responsibility for much of the management of financial services. Over 94 percent of clients are women, and loans are used for income-generating activities. Loans are repaid over one year with weekly payments. In 1983, the Bangladesh government licensed Grameen as a bank.

Groups are self-selected and manage themselves, making decisions as to which members receive loans. New groups must meet and save for a minimum of four to eight weeks before group members become eligible for their first loan. New borrowers initially receive small loan amounts, payable over periods of up to 12 months. When clients have established a good repayment history, loan amounts are increased. Loans range from $50 to $300. Members are required to save a percentage of their loan (generally five percent) over the loan repayment term through regular weekly installments. When members leave the group, they receive their portion of accumulated savings.

Members' savings and some fees are kept in the village. These funds can be lent to members or used to form special "emergency funds," managed by the village centers to assist members in need.

Program staff (loan officers) have fewer responsibilities than in the Latin American model. They are responsible for forming new groups and explaining how the Grameen Bank functions; keeping the program running smoothly; dispensing payments; recording loans, savings, and payments; and collecting money for safekeeping. Solidarity group members are the decision makers.

Advantages and disadvantages are the same as the Latin American model, with the addition of two advantages: (1) The "emergency fund" for members in need; and (2) groups have more autonomy in decision making, giving them some control over their finances.

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A LEARNING MOMENT

Repaying loans gives people dignity and confidence. Accepting donations makes people feel dependent. Taking a loan, running a small business, repaying the loan, and taking another loan: it is a cycle that gives borrowers a strength they could never get from a handout.

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Village banking (VB) was developed by FINCA, a U.S. NGO, through its work in Central America. It is probably the most commonly practiced community-managed loan fund methodology. A village bank is generally comprised of 30 to 50 members, mostly women. Bank members elect a management committee, which approves loans, collects savings and loan payments, and does most of the bookkeeping. (*CARE Savings and Credit Sourcebook,* Charles Waterfield and Ann Duval, CARE, New York, 1996 p. 110.)

The bank is financed through internal mobilization of members' funds (managed through an internal account), as well as through loans provided by the lending institution (managed through an external account). The external account is funded by a loan made to the village bank at commercial interest rates. The term of this loan is usually 10 to 12 months. All village bank members are responsible for repaying the village bank's loan and interest on that loan. Over time, the internal account, which is comprised of members' savings, share capital, and accumulated interest, is expected to grow large enough to replace the external account. An important objective of this methodology is that within a three-year period each village bank will be independent financially and in the administration of the bank.

This approach has been successful in reaching the rural poor, especially those who operate or want to operate income-generating activities. Village banks charge market interest rates. Initial loans are in the range of $50.

The field agent, commonly called a promoter, is responsible for helping communities start new village banks and for regularly visiting existing village banks. The field agent brings cash for loans and takes excess cash for safekeeping in a commercial bank, verifies the village bank records, and helps resolve problems, but does not approve individual loans. Some internal fund money is left with the village bank's managing committee for emergency loans to members.

Over each loan cycle members are typically required to save an amount equal to at least 20 percent of their loan. The goal is for members to save as much as $300 in three years. Savings are a strong component of the village banking methodology.

Village banking is theoretically more efficient than the Grameen model or Latin America solidarity groups because the field agent can serve larger numbers of clients. The clients do almost all the work of providing financial services, and they normally do a good job. All transactions are transparent; money is exchanged with the management committee present. Default rates on loans are low because the management committee knows the reputation of the loan applicant and if their idea for use of the loan will work under local operating conditions.

An added advantage of village banks and similar participatory financial service methodologies is the experience members gain through the process of electing a management committee and managing their own funds. These activities build social capital (the bonds of interpersonal trust and reciprocity that facilitate collective action). An increase in the social capital available in a community can be a powerful force in a community. It enables people to work together to achieve community goals.

The final activity in this module will give you a chance to understand more about village banks by attending an organizational meeting for a village bank group as you play the Learning Game.

An NGO's Story

Catholic Relief Services/Senegal (CRS/SN) provides a good example of village banking (VB) program methodology. In that program, membership is based on self-selection, and the number of members in each village bank depends on the capacity of their management committee. CRS/SN suggests that between 35 and 75 members are an efficient and workable number. Members design and approve their own bylaws and elect a management committee comprised of a president, a secretary, and a treasurer. Within each VB, members divide into smaller solidarity groups of six to 10 members. The concept of solidarity is enforced in the program. If one member fails to repay her or his loan, the solidarity group is responsible for repaying the loan. If one group fails to repay its loan, all members of that VB are held responsible. And, if one VB fails to repay its loan from the NGO, all other VBs are held responsible for repaying the loan. No new loans are made until the previous loan has been completely repaid.

Each VB member receives an initial loan of $30 to $40 from the external account (the loan fund provided by CRS) to invest in income-generating activities. At the end of a four-to-six-month cycle, members reimburse the entire loan principal and the 15 percent interest rate in one bullet (balloon) payment. The interest is divided between the counterpart organization to cover its administrative costs and the village bank to cover recurrent costs and increase its internal account fund. To qualify for subsequent loans, members are required to save a minimum of 20 percent of the external loan amount. Individual loan amounts can increase each new cycle by the amount of that member's accumulated savings during the previous cycle, thus encouraging members to deposit additional voluntary savings. Members' monthly savings, interest payments, and various fee incomes constitute the internal account fund. The VB is the sole owner of the internal account fund. Each month, the VB disburses loans amounting to the entire value of its internal account. These loans are made to members of the VB or the counterpart organization who are not members of the village bank. The internal account loans are on a monthly basis at 5 to 10 percent interest. The interest rate is higher for internal account loans, thus encouraging members to use the external account.

Credit unions (CUs) rely totally on the savings and fees paid by their members to build a loan fund. They are financially independent from their creation. Community-based CUs often consist of 30 to 100 members.

A field agent assists in the formation of the group and provides technical assistance. CUs set their own terms and conditions for loans to be made to individual members. The amount of a member's loan is often determined by the amount the individual has saved. CUs may use members' savings to secure a loan or may require some form of collateral to guarantee loans. The collateral might be a small household asset, a bicycle, or a goat. However, like Latin American solidarity groups, the Grameen Bank, and village banks, CUs rely primarily on their knowledge of the individual member and local operating environment to make sound loan approval decisions. The loan committee may advise the lender to revise his or her business idea before a loan is granted.

When there are a number of CUs in an area they sometimes join together in a formal or informal federation. They do cross-financing and training. Ultimately, it is possible to unite a number of regional federations into a national federation.

The major disadvantage of these institutions is that members must save for a considerable amount of time before loans are made. A second disadvantage is in the governance of CUs. The board of directors consists of members only. They are elected by the membership; each CU member has one vote, no matter how large his or her savings account. The Board may be made up of individuals who are popular but lack the skills and experience to oversee the CU. The major advantage is the independence members have in organizing the CU to meet their financial service requirements. Each CU is autonomous.

The chart at the end of Module 2 summarizes the general principles of microfinance lending methodologies. The principles of clients, loan approval, loan characteristics, guarantees, savings, and group characteristics are presented for individual lending, Latin American solidarity groups, the Grameen Bank, village banking, and credit unions.

ORGANIZATIONS INVOLVED IN MICROFINANCE

The MFIs that implement group-lending methodologies such as the Latin American solidarity groups, Grameen Bank, and village banks are usually indigenous NGOs or a division of an NGO. Some MFIs are registered as for-profit businesses. Credit unions are normally registered as financial institutions and have to comply with the regulatory requirements. Complying with regulatory requirements is an additional cost for an MFI. In a number of countries an organization can make loans, but it cannot collect savings unless it is a regulated financial institution. A regulatory system assures the safety of the savings.

Governments and private development organizations in European Union countries, Japan, and the United States (such U.S. development organizations as CARE, Catholic Relief, Freedom from Hunger, Save the Children, and World Relief) are actively involved in supplying funds and technical support for MFIs in developing and redeveloping countries.). Most do so by partnering with indigenous NGOs. The international partner supplies the initial loan fund, microfinance methodology, and technical training. The NGO modifies the methodology to fit the local situation, is accountable for the loan fund, and employs field agents (loan officers) who work with the village groups. The NGO is the MFI, or the MFI is operated by the NGO responsible for the day-to-day operations and working to become self-sustainable.

In some African, Latin and South American, Asian, Central Asian, and Caribbean countries, Volunteers work with MFIs or local NGOs that operate them. These Volunteers assist the organizations in improving their operations, planning for sustainability, and delivering business training.

ACTIVITY 2:4

THE LEARNING GAME

The modified version of the Learning Game is a three-hour simulation of key events in the promotion, organization, training, and implementation of a credit association (a modification of the village banking methodology). The game includes role playing and stories. It is an enjoyable way to learn how group-lending microfinance works. Invite some host country friends to join you in the game. The number of participants in the game can range from 15 to about 30. Although the game is written in English, it would enrich the learning experience to do the role plays and stories in the local language that you are learning. If there is a microfinance institution near your training site, involve some of its staff as presenters in the game, and perhaps modify the game to fit their microfinance methodology.

KEY TERMS

Key terms are defined as they are used in the module. A space is provided to write the local language translation of the word or phrase. Work with your language instructors to determine the best translation and build your technical vocabulary as you study this module.

Collateral is property or other assets used to guarantee the repayment of a loan.

Simple interest is the cost for the use of money calculated on the full amount of the loan over the entire outstanding period of the loan. For example, if $100 is loaned for 12 months at 12 percent annual interest, with equal payments made to repay the loan plus interest each month, the simple interest is $12 ($100 [loan amount] x .12 [12 percent interest rate] = $12 interest). Each equal monthly payment would by $9.33 ($112 [loan amount + interest] / 12 [number of months of loan] = $9.33).

Financial services include providing both credit and savings products.

Social capital is the interpersonal trust and reciprocity that facilitate collective action.

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RESOURCES

*An Institutional Guide for Enterprise Development Organizations***.** Elaine Edgcomb and James Cawley, Editors. (The Seep Network.) 1993. 299 pp.

A guidebook prepared by members of the Small Enterprise Education and Promotion (SEEP) Network's Institutional Development Working Group to help private development organizations plan and implement small enterprise development programs. Deals particularly with the objectives of sustainability, institutional development, and expansion, addressing the questions that organizations need to consider at each stage of a program's development. A tools section contains a variety of formats, sample documents, question guides, and other materials to help in the various planning and implementation processes, e.g., creating boards of directors, hiring staff, arranging contracts, and establishing credit mechanisms. Also includes a bibliography and glossary.

*Our Money, Our Movement: Building a Poor People's Credit Union***.** Alana Albee and Nandasiri Gamage. (IT Publications, Ltd.) 1996. 46 pp.

Describes in detail the working of credit and saving mechanisms used by the Women's Credit Union in Sri Lanka. Illustrates how financial services can be controlled and managed by the poor, instead of being delivered to them. Describes how people's efforts can shift economic views of development to include cultural and social aspects.

Internet:

www.mip.org

www.UNICEF.org — Good resource especially if looking at statistics worldwide on economics.

Other Materials:

Village Banking–The State of the Practice, Candace Nelson, Barbara McNelly, Kathleen Stack, and Lawrence Yanovitch. UNIFEM 1996.

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TRAINER'S NOTES

MODULE 2
MICROFINANCE METHODS

Overview:

In this module we look at the financial habits of local families, and we learn about the financial services the local banks provide. We provide a historical perspective of financial services with visits to the world of traditional moneylenders, middlemen, and Rotating Savings and Credit Associations (RoSCAs). At each stop trainees increase their understanding of the customers and suppliers of financial services in their country of service.

Readers are encouraged to discover for themselves the credit and savings habits of local families and what financial services local banks provide. The module also examines traditional financial services providers and how learnings about the poor people's traditional credit and savings habits and ability to pay were used to design today's MFIs. The Learning Game offers a chance to be an active participant in a microfinance activity.

Time:

Reading	1 hour
Activities	4 hours
The Learning Game	3 hours

Materials:

Copy of the Learning Game and handouts called for in the game's instructions. Articles on the nation's banking system and/or local MFIs would supplement trainees' observations.

Preparation:

- Schedule times within the training for trainees to take field trips to banks. The amount of time will depend on local logistics.
- Enlist the help of language instructors for those activities where language may be a barrier.
- Work with one of the trainees (a trainee who enjoys theatrics is a good choice) to organize and lead the Learning Game.

Continued

Trainer's Notes, continued

- Spend at least one hour, after reading the text and completing the activities, discussing with trainees their mastery of learning objectives and processing module learnings.
- There are social and cultural considerations when interacting with community members. Before beginning the activity brief trainees and community members on expected behavior and cultural norms. This increases the comfort level for everyone.. If host family members or local friends are invited to a language class or other training session, what social courtesies should be extended? Should you offer tea, coffee, or sweets before or after the discussion? What are expectations as to greetings and introductions? If you visit a family or business to gather information, should you take a small gift? What gift is appropriate?

Debriefing the experience and processing the learnings:

Experience is only the first step in the experiential learning cycle. Reflection, generalization, and application follow experience. Don't stop the training before completing all four steps. Allow adequate time and opportunity for reflection, generalization, and applying the learnings to the trainee's Peace Corps Service.

In debriefing the module and processing the learnings, remember the trainees are responsible for their own learning. It is to be expected that trainees will have different interests and approaches to acquiring information. Two reasonable individuals can see the same thing and disagree about what they saw, how it should be interpreted, and/or the applicability of the information.

A skilled trainer adds value by providing an emotionally safe environment where participants can reflect on what they have observed; explore their feelings; and consider how learnings can be used during their Peace Corps service. Trainers are a learning resource. They may be able to fill in information gaps, correct inaccurate impressions, and illustrate how the national laws, economy, and culture affect what trainees have observed.

Before completing the module check with trainees to determine if they feel the learning objectives were accomplished. If not, what additional information or activities do they require to achieve the objectives?

TRAINER'S NOTES

ACTIVITY 2:1
FAMILY FINANCIAL SERVICE

Overview:

This activity is designed to teach trainees how families in the local community use financial services.

Time:

To collect information:	1 hour (approx.)
To discuss results:	30 minutes

Materials:

None.

Preparation:

Work out a plan with trainees, given their language capabilities, to gather information on local families' credit and savings patterns and financial service requirements. It might be useful to have language teachers' help prepare questions in the local language with spaces where host families could write answers.

Debriefing the experience and processing the learnings:

Financial services should (1) meet the consumer's needs, (2) be readily available, and (3) be reasonably priced. Do the financial services available in the host community meet these criteria?

TRAINER'S NOTES

ACTIVITY 2:2
BANK VISIT

Overview:

This activity is designed to teach trainees about the financial services offered by formal financial institutions.

Time: 2 hours

Materials:

None.

Preparation:

Trainees should set up bank visits on their own. However, they may need your assistance in identifying which banks to approach and what approach is culturally acceptable—a written request, a phone call, or a request on behalf of the trainee by a community member. Before they visit the bank, trainees should be coached on culturally correct conduct for business meetings.

Debriefing the experience and processing the learnings:

What were the surprises, if any? What customers were observed in the bank (businesspeople, men, women, and/or people who did not appear to be well off)? Are the bank's location and hours convenient? Did the customer service seem friendly?

TRAINER'S NOTES

ACTIVITY 2:3
ROTATING SAVINGS AND CREDIT ASSOCIATIONS

Overview:

The goals of this activity are twofold: first, to learn about local RoSCA and moneylender activity; and second, to experience group dynamics of a RoSCA.

Time: 3 hours

Materials:

None.

Preparation:

If you do not have knowledge of moneylenders and middlemen practices in the local community, investigate this before conducting the activity.

Debriefing the experience and processing the learnings:

A local trainer can add value to this activity by assessing if the information gathered reflects reality. There is a "learning moment" following this activity to discuss with trainees how their RoSCA group made decisions and broaden the discussion to include group decision-making techniques. Introduction of decision-making tools such as multiple voting or decision matrix may be desirable.

TRAINER'S NOTES

ACTIVITY 2:4
A LEARNING GAME

Identify a trainee/Volunteer who will organize and facilitate the Learning Game for other trainees/Volunteers and invited host country nationals. Talk with the language instructors in advance to enlist their help in working with the trainees/Volunteers to do the Learning Game in the local language.

GENERAL PRINCIPLES OF THE LENDING METHODOLOGIES

Principles	Individual Lending	Latin American Solidarity Groups	Grameen Bank	Village Banking	Credit Unions
Clients	Individual businesses	Microenterprise owners	Microenterprise owners	Groups are clients	Groups are clients
Loan Approval	• Based on careful viability analysis	• Based on minimal viability analysis	• Group involved in loan appraisal	• Group loans processed by agent • Individual loans analyzed by group	• Individual loans analyzed by group
Loan Characteristics	• Loans adapted to client needs	• Limited range of loan conditions • Quick processing of follow-up loans	• Limited range of loan conditions • Rotating access to credit • Various types of loans	• Group loan is aggregate of individual loans • Loans disbursed in cycles • Rigid loan conditions	• Varied loan amounts available to individuals
Guarantees	• Collateral and/or cosigners	• Mutual guarantee of all loans	• Mutual guarantee of all loans • Emergency fund	• Peer pressure from group • No guarantees on individual loans	• Guarantees on individual loans at discretion of group
Savings	• Not essential	• Often key to methodology	• Key part of methodology	• Essential part of methodology	• The fundamental principle of the methodology
Group Characteristics	• None	• Self-selected small groups	• Self-selected small groups • Formation of federations of groups • Required attendance at weekly meetings	• Democratic control • Administratively self-sufficient • Independence • Autonomy in member selection • Regular meetings	• Democratic control • Administratively self-sufficient • Independence • Autonomy in member selection • Regular meetings • Formation of federation of groups

A Microenterprise Training Guide
for Peace Corps Volunteers

MODULE 3

Operating a Microfinance Institution

Business
Centers
Supporting
Entrepreneurs

MODULE 3

OPERATING A MICROFINANCE INSTITUTION

A VOLUNTEER'S STORY

A Unique Microfinance Institute: The Cultural Bank

In the West African village of Fombori in northern Mali, 100 miles south of the city of Timbuktu, some women's idea of a local museum to preserve their culture and attract tourists evolved into the Culture Bank of Fombori with the assistance of a Peace Corps small business Volunteer. The sustainable Culture Bank didn't happen overnight—it took three years, one failure, and a revitalized plan. The original concept of the cultural museum charging admission to tourists and selling craft items in a museum shop was abandoned because of lack of tourists. The women found it was necessary to involve the whole village, including the village council and the youth, before the project became successful. The museum's board of governance now represents men and women, young and old. Thinking changed from "how can the museum attract outsiders" to "how can the museum serve local residents." What evolved was a unique organization.

The Culture Bank is an entirely new type of institution that combines a village bank with a village museum. The Culture Bank enables local inhabitants to use their culturally and historically important objects as collateral for small business loans. In this way, the cultural assets of the community are transformed into economic assets, and a real incentive for conservation of cultural heritage is created. The objects are researched and organized into a collection that is displayed in the Culture Bank's galleries and used as a tool to facilitate community education and development programs. The interest accumulated from bank loans provides income for the Culture Bank's operation, allowing it to become self-sustaining.

The Culture Bank is also designed to play an educational role in the community by using its income to finance a program of cultural and development activities, such as literacy programs, concerts, theater, and artisans workshops. The large covered porch provides a meeting place for storytelling festivals and wrestling matches. There are activities for all. Women have participated in soap-making classes and men in woodcarving classes. All of these activities equip the community with the knowledge and skills to orchestrate its own community development.

The Culture Bank of Fombori began operations in 1997, and in a year and a half it doubled its initial $400 loan fund through its own activities, achieved more than a 95 percent reimbursement rate, and engaged hundreds of people in its program. People from Fombori and the surrounding areas submitted more than 400 objects, such as masks, sacred statues, clothing, weapons, jewelry, and household items, receiving in return loans of 5 to 40 dollars to begin small businesses. The objects were researched, documented, and organized into a community collection that is presently on display in Fombori.

Four other Culture Banks have now been started in Mali, two with the help of Peace Corps Volunteers.

* * * * * * * * *

These written materials are a guide for your Peace Corps technical training journey. They suggest ways you can learn about microenterprises (microbusinesses) and microfinance institutions (MFIs). When you have questions about what you see or hear, don't forget you have valuable resources available. Discuss these questions with your technical trainer, language teachers, other Peace Corps staff, or your host family. By the time you finish this module you should have the knowledge, skills and attitudes to:

- List the common types of microbusinesses found in your host community and describe the owners' expectations for their businesses.
- Explain how MFIs have adapted mass-marketing strategies to provide savings and credit services to millions of low-income people.
- Explain the importance of building institutional capacity and how links between nongovernmental organizations (NGOs), government organizations, and private businesses strengthen MFIs.
- Discuss, after observing an MFI organization, which microfinance methodology the organization uses.
- Do a SWOT (strengths, weaknesses, opportunities, threats) analysis when provided with information about an organization's internal operations and external environment.

LOCAL MICROENTERPRISES

As you traveled from the airport to your training site and explored your host community, what did you observe about people and their jobs? Do most citizens have formal jobs in factories, offices, or stores, or is there a significant amount of informal business activity going on in the streets or markets? Do those who work in the offices, factories, or stores appear to be better off and better educated than those working on the streets? Are there many people who don't have jobs? Did you see any people working at nonagricultural jobs in rural areas?

Your firsthand observations will likely confirm the following:

- Becoming an employee is not an option for millions of poor people.
- Jobs are not available locally, and there are poor people who cannot afford to move.
- Illiteracy and lack of technical skills limit employability.
- Women often face additional barriers to obtaining a job:
  - — Child care and domestic responsibilities.
  - — Cultural norms in working outside the home or with men.
  - — Gender bias limits the types of jobs available for women.

When jobs are not available, self-employment is often the only option. This has resulted in millions of microenterprises being organized, most operated by one person or an owner and unpaid family members. These tiny informally organized businesses are everywhere. You see their owners vending on the streets, selling fish in the market, engaged in simple agro-processing operations, handicraft production, repair services, furniture making, or perhaps driving a taxi.

Unfortunately, many of these businesses are not very profitable; they are undercapitalized and the owners may lack basic business skills. Owners of these struggling microenterprises and those who want to start a microbusiness are the target customers for microenterprise development projects.

"Know your customers" is standard business advice. Therefore, in Activity 3:1 you are encouraged to visit with microbusiness owners to learn how they operate their income-generating activities, and what challenges they face.

ACTIVITY 3:1

GETTING TO KNOW MICROENTREPRENEURS

In this activity you will learn about microentrepreneurs and potential microentrepreneurs. The more you understand about the day-to-day operations of microbusinesses and the challenges their owners face, the better prepared you will be to assist them.

Arrange to shadow a microenterprise owner for several hours during his or her workday. You may already know a microbusiness in your host community you would like to learn more about; if not, ask your host family or a local friend to introduce you to a microentrepreneur.

During the shadowing experience, ask questions in an appreciative way and, if culturally appropriate, offer to help with the work rather than standing back and observing. Gather as much of the following information as is possible:

1. What is the nature of the income-generating activity? ______________
2. How long has the owner been involved in this business? ____________
3. Is the business active throughout the whole year or only when the owner is not involved in other activities? _____________________________
4. Does the microenterprise provide most of the family's income? ______
5. What does the owner like about his or her business?

   ____
6. How would the owner like to improve the business? _______________
7. Has the owner ever borrowed money for the business? _____________
8. If so, from whom? ____
9. How did the owner learn to operate the business? (For example, was he or she taught by a mother, father, or friend; self-taught; or trained in a course?)

   ____
10. What one change would make the business more profitable? (For example: a larger space to sell in, special equipment, more customers, or a vehicle to transport goods?)

    ____

Continued

Activity 3:1, continued

Thank the microentrepreneur for his or her time. A small thank you gift may be culturally appropriate. Ask your host family or language instructor if in doubt.

Pool the information you learned with that of other trainees to piece together a more complete understanding of microenterprise operations.

- What did several of the businesses have in common?
- What were some differences?
- What did you learn that might be useful during your Peace Corps service in helping to develop microenterprises?

MASS-MARKETING MICROFINANCIAL SERVICES

When you first hear that microfinance institutions (MFIs) charge their clients higher fees than commercial banks, it seems unfair. Why wouldn't an organization whose mission is to help the poor charge a token or at least low interest rates? The answer is MFIs must earn interest and/or fees equal to their operating costs plus the cost of capital and inflation, or they cannot remain in business. If the MFI goes bankrupt it can no longer serve its customers.

It is unethical and inconsistent with an MFI's mission—providing the poor with financial services—to charge higher prices for financial services than are necessary because of bad management. Ineffective management results in higher costs, which are passed along to clients. Ineffective management prevents an MFI from providing ongoing savings and credit services for customers.

MFIs fail, not because of a lack of customers or the customers' inability to repay their loans, but because of inadequate planning and management. Most MFIs were started and are operated by those with social goals rather than financial or business backgrounds. These caring individuals are committed to improving the lives of those they serve, but often they lack the business skills to run a financial institution. In a number of countries, Peace Corps business Volunteers have shared their business skills with MFIs and the customers of MFIs.

MFIs face a formidable challenge: to achieve massive scale, because the potential market is vast, while keeping customer costs low. Only when MFIs are well run do they have the capacity to reach larger and larger numbers of poor clients with quality financial services at a low cost on a sustainable basis.

Although MFIs make micro-sized loans, the successful MFIs are not small businesses! A number of MFIs serve more than 20,000 clients each; two MFIs serve almost 2 million clients each. In 1993, Grameen Bank had 1.6 million members, while The Bank Rakyat Indicia had 1.9 million. Their loan portfolios were US $180 million and US $931 million, respectively. Banco Sol and Actuar Bogotá are newer programs, with 46,000 members (loans US $24.8 million) and 37,000 members (loans US $8.2 million). The credit union system in Cameroon had an active portfolio of US $21 million in 1991 and 20,000 loans. The Small Enterprise Foundation in South Africa started operations in 1991, and by the end of 1993 had nearly 2,000 clients and a loan portfolio of US $200,000.

(Figures from *What Makes Them Tick? Exploring the Anatomy of Major Microenterprise Finance Organizations.* Elisabeth Rhyne and Linda S. Rotblatt. ACCION International. 1994. p. 11.)

What do these successful MFIs have in common?

- High customer volume
- Low operating costs
- Low cost of capital for their loan fund
- Efficient delivery systems.

ACTIVITY 3:2

WHAT MAKES DISCOUNT MASS MARKETING SUCCESSFUL?

Chances are you have shopped at one of the large discount mass-marketing stores in the United States. Reviewing the factors that contribute to the success of these retailing giants will give you some ideas as to how an MFI can successfully implement a mass-marketing strategy for savings and lending services.

How many factors can you think of that contribute to the success of the discount mass-marketing firms?

When you finish, look at the list of factors that contribute to these businesses' success at the back of the module. Did you think of some factors that are not on that list? Of the factors you listed and the ones at the back of the module, check those that are applicable to the mass marketing of microsaving and microlending services.

MFIs' ORGANIZATIONAL DEVELOPMENT

There are core competencies, which are similar to those of a well-run for-profit business, that assure a well-run MFI. Strengthening these core competencies builds the capacity of the MFI, enabling the organization to turn its ideas (mission, goals, and objectives) into action. The process of building an organization's capacity is called organizational development (or institutional development).

Peace Corps Volunteers help MFIs improve operating efficiency by working with management, staff, and the MFI's board of directors. Before the end of this module we will discuss each of the core competencies an MFI must develop to achieve its mission. First, we look at the four key elements of organizational development.

Key Elements of Organizational Development

Process: Organizational development is not static; it is organic and evolving. It affects all facets of an organization and implies learning, adapting, and changing.

Capacity: Organizational development involves human resources as well as organizational structure and systems. Both need to be strengthened in concert.

Impact: Organizational impact is not a goal. It is a means to solve problems and improve capacity that will result in greater impact on the quality of people's lives.

Long-term: The ultimate goal of organizational development is to become a self-reliant organization that can sustain the flow of benefits and services to its members/clients over time.

(Adapted from *An Institutional Guide for Enterprise Development Organizations,* Elaine Edgcomb and James Cawley, Editors. The Small Enterprise Education and Promotion Network (SEEP), New York, 1993. p. 10.)

MFI Goals	Organizational Development	A successful, sustainable MFI capable of achieving its goals has:
1. Serves large numbers of the poor. 2. Provides high-quality financial services. 3. Low costs.	The process of building an organization's capacity to enable it to put ideas into action and achieve the organization's goals.	• Trained staff • Adequate financing • Effective governance and management • Policies and systems to deliver and monitor quality services and costs

ACTIVITY 3:3

MFI SITE VISIT

Visit the sites of some local MFI operations. Find out what is working well. Remember to ask questions "appreciatively." The problems will come out, but let them come out later.

Why did the MFI start operations? ________________________________

What are the strengths of the organization? __________________________

What micro-finance services (savings and credit) does the organization offer?
____

Who are the MFI's clients? ______________________________________

How do they determine if their clients are poor? ______________________

What impact have the financial services had on the lives of clients—on the communities? ____

What interest rate does the MFI charge, what is the length of the loans, and what is the loan repayment rate? _________________________________

What challenges does the MFI face and what are its opportunities?
____

What is the MFI's development psychology—what does it value most about its projects/programs? ____

A major organizational challenge for MFIs is balancing their dual mission—social impact and financial sustainability. The Small Enterprise Education and Promotion Network (SEEP) undertook an extensive study to learn what practices contribute to the operations that enable MFIs to achieve their dual mission. In 1993, they published a framework for organizational development. This framework and materials relating to the framework resulted from the promising field practices of six development organizations (Pan American Development Foundation; Katalysis—North/South Development Partnerships; Opportunities Industrialization Council, International; CARE, Inc.; Plan International; and Opportunity International).

MFIs operate under four different corporate structures:

1. public (government),
2. nonprofit (NGO),
3. for-profit (private business), and
4. cooperative (credit unions).

Bank Rakyat Indonesia is a government institution and is publicly owned. NGOs offering financial services, while covering their costs, are the most common corporate structure. There are two types of for-profit MFIs—commercial banks and finance companies that move down market to serve the microenterprise sector and NGOs established as regulated financial institutions. In credit unions clients are the owners; excess profits, if any, are returned to the members of the credit union. Surprisingly, organizational development is similar for all four corporate structures.

The SEEP framework identifies four components of an institution: vision, capacity, resources, and links. Each of the four is discussed during three development stages of the organization: the development stage, the sustainability stage, and the expansion stage. Here we will discuss only the components in the development stage. The sustainability and expansion stages are beyond the scope of these materials introducing Volunteers to MFIs.

Vision is the ability to articulate and foster commitment to the mission and the approaches an organization uses. It is important that vision grow out of, and respond to, how local people want to change their lives. The vision is often articulated in a mission statement. A mission statement describes: whom the organization serves, what type of services they will receive, where the clients are located, and how they will be served. Part of the vision should indicate the desired level of impact.

Example of an MFI Mission Statement:

Our mission is to improve the economic well-being of 30 percent of low-income women and their families in the region of Zambuko.

The Zambuko Village Bank provides, through solidarity groups, opportunities to accumulate savings and acquire microloans to start or expand individual or cooperative businesses.

Capacity is the ability to turn thinking into action. Capacity requires an organizational structure through which people can channel their energy and creativity.

Example of an MFI Organizational Structure

BOARD OF DIRECTORS

(Diversified 5–15 member board, including members with financial and technical expertise, women, and clients)

EXECUTIVE DIRECTOR

(Desirable qualities: commitment to the organization; charisma; combination of social commitment and management skills; demanding of excellence in themselves and others)

STAFF

Marketing	Financial	Support
Supervisors and Field Agents	Head Credit Officer and Accountant	Fundraising Officer and other Support Staff

(Staff with appropriate training and clearly defined responsibilities.)

CONSTITUENT ASSEMBLY (CLIENTS/CUSTOMERS)

(Represents group targeted in MFI’s mission statement)

* * * * * * * * *

An MFI's leadership is composed of the board of directors and the executive director.

An active board of directors is important because the board:

- Provides a locus for the vision of the organization;
- Develops and approves organizational policies and goals;
- Guides strategic planning;
- Ensures excellence among management and staff;
- Hires and terminates, if necessary, the executive director;
- Oversees accountability of the organization funds;
- Creates links to other key organizations;
- Raises funds and other resources, and
- Provides legitimacy to the organization.

The **executive director** works with the board and implements the board's policies on a daily basis.

An MFI needs **systems and procedures** to ensure that the structure operates smoothly; that there is a timely flow of accurate and complete information; that staff and clients are treated fairly and justly. These include personnel policies, management information systems, budgeting and accounting systems, and monitoring and evaluation systems.

An MFI's **methodology** allows the organization to carry out its mission and achieve its desired outcomes. An MFI's methodology includes target population, desired effect (jobs, income, goods or services produced), mode of organizing clients (solidarity groups, credit unions, etc.), credit policies, services offered (savings, credit, business training), and a set of policies for providing services.

A reminder related to MFI methodology: Experience shows that the poor are willing to pay high interest rates. What is most important to them are quick, easy loans, available close to where they live (they often do not have access to transportation), and with no collateral required to secure the loan.

Resource capacity targets both acquiring and managing MFI funds. For MFIs, key factors include fundraising policies and practices, financial projections, cash flow, and credit portfolio management. Internal controls, internal audits, and an annual audit by a qualified accountant with financial institution experience are necessary to assure both donors and clients of the proper use of MFI funds.

MFIs need money to cover operating costs and for their loan fund. MFI field staff engage in hundreds of small transactions each week, as they collect savings and loan payments and fees, and disburse loans and savings withdrawals. Cash flow management is critical. One way MFIs keep transaction costs low is by keeping the accounting simple.

Keeping Accounting Simple

Loan interest is calculated using a flat interest rate:

Amount of the loan x Interest rate x Length of loan = Total interest.

If the loan in paid back in installments, the real (effective) interest rate may be almost double the stated interest rate.

Sound financial management is critical. To keep client costs low, the cost of capital must be minimized and excess funds invested to earn a high rate of return while keeping the invested funds safe.

Links are productive relationships with a wide variety of organizations and agencies. Establishing links serves three important functions: strengthens organizational capacity, influences policy, and increases legitimacy of the MFI within a community. Links can include relationships with similar MFIs, commercial banks, government institutions, and networks of organizations with similar interests.

(The above information on organizational elements summarizes material found on pages 11–16 of *An Institutional Guide for Enterprise Development Organizations.* Editors Elaine Edgcomb and James Cawley, The Small Enterprise Education and Promotion (SEEP) Network, New York, 1993.)

* * * * * * * * *

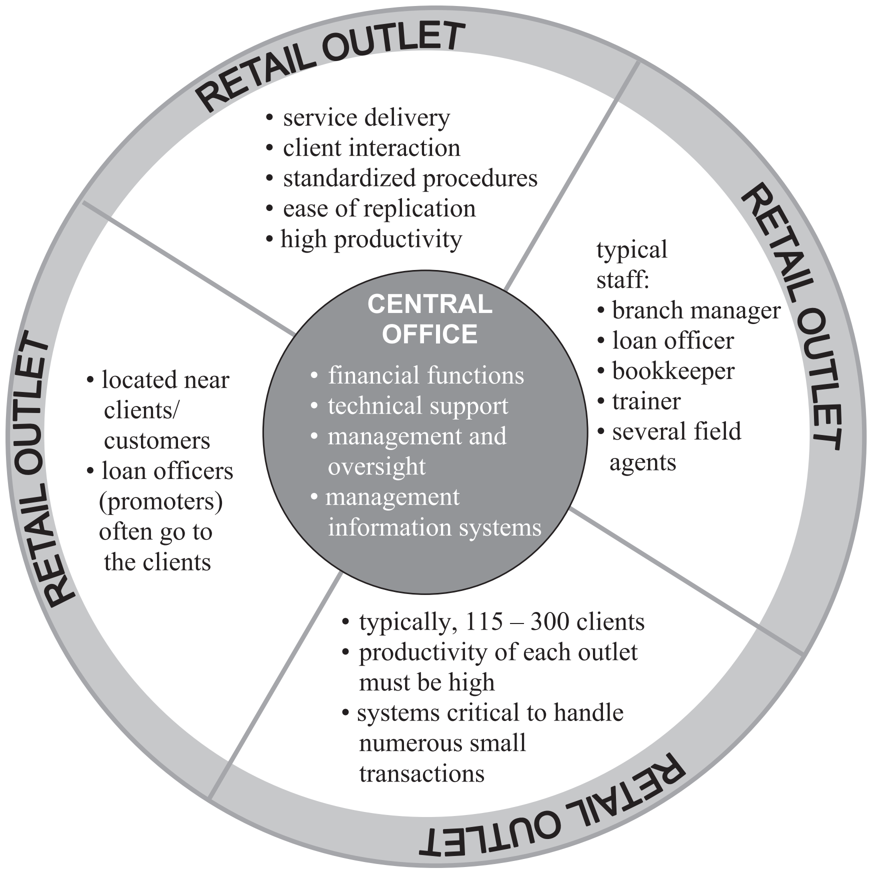
Each element represents a distinctive organizational capacity and involves an integral set of roles, policies, procedures, and tasks that need to be accomplished in systematic and recurring ways.

Competent organizations have a strong sense of mission, and their basic credit and savings services are complemented by other services as an outgrowth of their vision. Their services are highly valued by clients and appear to make a significant difference in the lives of microentrepreneurs' families.

Geographically, MFIs often look something like a wheel, with the central office in the center and retail operations at the ends of the spokes (see the example on the next page of an MFI with four retail outlets). The geographical distribution of large MFIs reveals a simple pattern: a set of small retail outlets that do the frontline work, linked by a superstructure that provides higher-level services and oversight to the retail outlets. A strong model for retail outlets is key to successful expansion—growth comes from replication of standardized retail units.

Geographical Structure of a Small MFI

(Each retail outlet shows a few of the desirable characteristics of MFI retail outlets.)



Financial services for the poor must be located close to clients, whose ability to spend time and money obtaining financial services is limited. Given the expense of making very small loans and taking in small savings deposits, it is essential for each retail outlet to be highly productive. MFIs hire as field workers young, (and usually) secondary school graduates and train them in the field. Pay rates are relatively high compared with other jobs these young people could obtain. Bonuses are common rewards for meeting goals.

MFIs must protect themselves against various forms of fraud—most MFIs encounter fraud by employees at some point. A good internal control system lowers the possibility of funds being misappropriated.

Well-run MFIs have some commonalities. These include strong and stable leadership (i.e., active boards, multitalented and committed executive directors, and senior managers able to take on increasing levels of responsibility). These institutions take a systematic approach to policymaking, vesting the responsibility in more than one person, and making policy changes through formal channels. Growth and innovation are carried out in a highly systematic fashion. The institutions move carefully through product identification, delivery system design, and full implementation.

Looking at the elements of an MFI that have to run smoothly, it is obvious there are a variety of skills and talents the organization must acquire. Most likely the management and staff will not have all of these skills, especially in a small organization. There are several options for acquiring access to missing skills:

- Hire a consultant(s).
- Exchange or borrow personnel with/from another MFI or NGO on a short-term basis.
- Find a local volunteer willing to donate his or her time and talents.
- Use the skills of a Peace Corps Volunteer.

As you were reading about organizational competencies, you may have thought, "I know how to do that!" Do you know about accounting or finance? Can you help staff learn to use computers or set up simple systems on the computer? Are you someone who is good at organizing and writing materials and could help with promotional materials or grant proposals? Are you good at networking? If so, you could assist an MFI in developing cooperative relationships with other organizations and agencies—links. Are you a trainer who could help by developing materials and training clients in very fundamental business management skills, health, or other areas? Are you good with people and could help by recruiting and training local volunteers or helping with board development? MFIs have a big job to do in helping to reduce poverty and empowering people to change their lives. No doubt you can help in a number of ways.

ACTIVITY 3:4

SWOT ANALYSIS USING AN MFI CASE STUDY

Identifying the strengths and weaknesses that are internal to an organization and the opportunities and threats in the organization's external environment is a time-tested tool to ensure a balanced look at both the positives and negatives internal and external to the organization. Examples include:

Strength—an extremely competent executive director.

Weakness—an inadequate accounting system.

Opportunity—a large, underserved target group for your services.

Threat—an inflation rate of 60 percent.

SWOT analysis is a quick, easy way to communicate an overview of the organization and its operating environment.

Below is a case study for Callow MFI. Organize your SWOT analysis as shown below.

SWOT ANALYSIS

Callow MFI

INSIDE THE ORGANIZATION	OUTSIDE THE ORGANIZATION
<u>Strengths</u>	<u>Opportunities</u>
1.	1.
2.	2.
. . . . .	. . . . .
<u>Weaknesses</u>	<u>Threats</u>
1.	1.
2.	2.
. . . . .	. . . . .

You can do the SWOT analysis alone or in small groups. Either way, after you have completed the SWOT analysis, compare and discuss your SWOT analysis with others in your training group. Language instructors or Peace Corps staff may provide insights into the local environment you were unaware of.

Continued

Activity 3:4, continued

If you were asked to advise Callow's board of directors on actions to be taken following your SWOT analysis, what would be your advice?

The following Callow MFI case study is purely fictitious, but it draws on situations observed in a number of MFIs. This case study has been prepared as a training tool to highlight certain organizational development issues faced by MFIs.

The case study provides the information you need to complete the strengths and weaknesses part of the SWOT analysis. You are to use conditions in your host country and local training area as the external environment for the Callow MFI.

Callow MFI Case Study

Callow was incorporated in early 1990 as a not-for-profit charitable organization committed to supporting microenterprises in <u>insert the name of your host country</u>. Callow operates a solidarity group lending service, targeted at market vendors and other midsized microenterprises. In the early years Callow also operated technical and business training activities. These were wound down in 1994 to concentrate resources on the credit activities.

Callow's board of directors is comprised of the founder and chairman, a Christian bishop, and three other individuals: a lawyer, a retired banker, and a mining company executive. The lawyer and the mining company executive travel extensively and are rarely able to attend the meetings.

Sixteen people, including the executive director, who has held that position for seven years, work in the head office. Staff turnover is low. Callow's only office is in the capital city. Field agents sometimes must travel three hours to reach the head office from their most distant solidarity group. In the past, branch offices have been considered, but the board fears a loss of centralized control.

The 100 field agents are committed to excellent client service and spend long hours on public transportation visiting groups, and filling out paperwork and taking it to the head office. All field agents have a minimum of two years of college training, with either a business or a social sciences major. Field agents are hired straight from college and given two months of training. Approximately one in five trainees does not pass/complete the training period; another one in five does not complete their first six months of work. Twenty-five of the 39 loan officers are women.

Continued

Activity 3:4, continued

Field agents' job descriptions are clearly written, and supervisors submit performance appraisals every six months. Supervisors are trained in how to provide effective feedback. Basic salary for field agents is $300 per month. They also receive an incentive payment, and they are paid quarterly, based on the total interest generated by their solidarity group member's loans.

First-time loans begin at $80 per group member and increase in increments of no more than 30 percent per loan. First and second loans must be for a term of four months; subsequent loans may be for four, six, or nine months. Loans are repaid either weekly or monthly, depending on the type of the borrower's business. Interest rates are set each January 1st at 20 percent over the country's inflation rate. Clients pay no other fees. The default rate is less than 3 percent.

About 20 percent of the members drop out of the group after one loan cycle. Only 30 percent of members remain at the end of three years. Field agents constantly have to start new groups to keep their numbers up. Currently only women are allowed to join the solidarity groups.

Financial statements are produced and audited annually. The auditor is a longtime acquaintance of the managing director who provides his services at a highly reduced rate. Other clients of his auditing firm include three hospitals, an advertising firm, several law firms, and several retail establishments.

No annual budgeting or longer-term financial forecasting has been done to date; the board is concerned that not enough loan capital is in place to fund expected growth. The loan portfolio is expected to rise to $1.8 million in the next six months, a growth of half a million dollars, but only $236,000 of the expected growth has been secured from a single donor. Every workday extra cash is deposited in the First National Bank of name of your host country. Only enough cash for the next day's operations is kept in Callow's safe.

A Bad Debt Report is produced monthly. No Portfolio Aging Report is available, so it is difficult to calculate the true "risk" inherent in the portfolio at any point in time.

Possible recommendations for the MFI's board of directors are found at the end of this module.

KEY TERMS

Key terms are defined as they are used in the module. A _space_ is provided to write the local language translation of the word or phrase. We encourage you to work with your language instructors to translate these terms into the local language.

Default: A defaulted loan is a loan the MFI is quite certain will not be paid back the borrower.

Capital: The organization's capital is the amount they have borrowed plus retained earnings plus any donated capital.

Cost of capital: The amount an organization has to pay for the capital it has borrowed plus the amount it would have to pay for donated capital if it were borrowed at the current market rate of interest.

Effective interest rate: Interest rate reflects all costs of the loan fees plus interest paid only on the amount of the loan outstanding. The effective interest rate is sometimes called the "true" interest rate.

Flat interest rate: The interest rate is fixed over the term of the loan.

Institutional (also known as organizational) development: The process of building the capacity of an institution or organization.

Loan fund capital: The amount of capital the entity has that is to be used to lend to borrowers.

* * * * * * * * *

RESOURCES

An End to Debt: Operational Guidelines for Credit Projects. (UNIFEM.) 1993. 104 pp.

Provides guidelines to assist in establishing, managing, and supporting successful credit projects for women microentrepreneurs. Also relevant for microentrepreneurs in general. Clearly illustrates the stages of a successful credit program, from laying out the policies, to identifying a project, planning, implementing, and following up to assure its sustainability. Written from an economic perspective, this project outline is helpful for organizing a credit program for women. A good guide for Volunteers working with women and credit, providing a practical discussion of the issues and strategies involved.

An Institutional Guide for Enterprise Development Organizations. Elaine Edgcomb and James Cawley, Editors. (The SEEP Network.) 1993. 200 pp.

A guidebook prepared by members of the Small Enterprise Education and Promotion (SEEP) Network's Institutional Development Working Group to assist private development organizations plan and implement small enterprise development programs. Deals particularly with the objectives of sustainability, instructional development, and expansion, addressing the questions that organizations need to consider at each stage of a program's development. A tools section contains a variety of forms, sample documents, question guides, and other materials to help in the various planning and implementation processes (e.g., creating boards of directors, hiring staff, arranging contracts, and establishing credit mechanisms); also includes a bibliography and glossary.

Banking Services for the Poor: Managing for Financial Success—An Expanded and Revised Guidebook for Microfinance Institutions. Robert Peck Christen. (ACCION International.) 1997. 274 pp.

Designed to help microfinance program administrators manage for financial success and ensure the sustainability and outreach of their institutions. Focuses on the financial criteria and techniques that are most helpful to managers who want to improve their institution's performance. Summarizes the four major challenges faced by microfinance institutions, as well as the levels of cost recovery. Includes models for financial projections that accompany strategic financial plans.

Juhudi: Credit Officer Training Manual. Kamau Kabbucho and Nanette Magnani. (Kenya Rural Enterprise Programme.) 1993. 393 pp.

"Juhudi," a Swahili word meaning determination, is the name given to a program for providing small loans to microentrepreneurs in Kenya. This publication serves as a training manual for Juhudi credit officers, and provides numerous tips and applications. Offers practical "how-to" information for Volunteers working in nongovernmental and voluntary organizations that are trying to start or strengthen credit delivery systems.

MicroStart: A Guide for Planning, Starting and Managing a Microfinance Programme. (UNDP.) 1997. 157 pp.

Practical, clearly written book that lays out how to start a microfinance institution. Developed as a means to help organizations and individuals who wish to initiate or strengthen their microfinance programs. Compilation of materials useful for Volunteers who are assigned to help nongovernmental organizations in dispensing credit.

An Operational Guide for Micro-Enterprise Projects. (ACCION International/ The Calmeadow Foundation.) 1988. 98 pp.

Based on the experience of organizations affiliated with ACCION International, this book provides a guide for planning and implementing microenterprise assistance programs, focusing on three types of assistance: credit, management training, and how small business development can be supported through training and connections with microloan funds. An excellent source for small business programming possibilities.

Internet:

www.mip.org

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ACTIVITY 3:2 Sample Responses

FACTORS THAT CONTRIBUTE TO DISCOUNT MASS-MARKETERS' SUCCESS

- Focused business plan.
- The firms know their customers and stock what the customers want.
- Products are available when the customers want them, just-in-time inventory.
- Stores are open when customers have time to shop, 24 hours a day at some stores.
- Stores hire local people, and store employees are encouraged to be active in the community.
- Although employee wages are low, the company may show employees are valued through such means as referring to them as "associates" rather than sales clerks.
- Firms use technology to make systems more effective and cut costs.
- Low overhead—stores not located in high-rent districts.
- Good marketing to let customers know the benefits of shopping at a discount store with a wide variety of merchandise and convenient parking.
- Firms practice smart management of debt and equity financing to keep cost of capital low.
- Firms practice long-range planning—they have a growth plan for where and when new stores will be opened.
- Management is experienced in the business of mass retailing.

ACTIVITY 3:4 Sample Responses

POSSIBLE ITEMS TO INCLUDE IN THE STRENGTHS AND WEAKNESSES PORTION OF THE SWOT ANALYSIS

Strengths:

- MFI charges what appears to approximate a market rate of interest.
- Low staff turnover.
- Good personal evaluations.
- Pay incentives for field agents.
- Ratio of head office staff to field staff looks reasonable.
- Low default rate.
- Financial statements are audited.
- Most funds kept in bank where safe.
- Women are well represented in the field agent staff.

Weaknesses:

- We aren't sure, but there may be no women on the board of directors.
- No client representation on the board.
- Board seems small for this large an operation.
- Board attendance at meetings is low.
- Client defection rate seems high.
- Lack of long-term planning.
- Expected increase in demand for loan capital not fully funded.
- Loan officers are spending a lot of their valuable time traveling to and from the head office.
- Though the auditor's price is low, he may not be independent or have the industry expertise needed to do a good job.

Recommendations for the board:

- Expand the board, include women; businesswomen would be a nice addition, as would a couple of clients and someone from another NGO's management.
- Immediately work with the staff to start a long-term planning process; evaluate if opening a branch office now would be a good option given the expected growth.

Continued

Activity 3:4, Sample Responses, continued

- Hire an independent auditor with experience auditing financial organizations.
- Survey clients who have left the solidarity groups to determine why they left and then look for ways to modify the loan product to retain these clients.

TRAINER'S NOTES

MODULE 3
OPERATING A MICROFINANCE INSTITUTION

Overview:

The goal of this module is to train participants to develop an understanding of the MFIs' potential customers. Next, the principles of MFI management are related to the readers' experiences with U.S. mass retailers. The factors that contribute to a mass retailer's success have much in common with factors that contribute to successful and sustainable MFIs. Finally, training participants take a look at organizational development and building the organizational capacity necessary to support microfinance programs.

Time:

Reading 1 hour
Activities 10 hours

Materials:

If international organizations such as CARE, World Relief, PLAN, etc., are operating microfinance institutions in the country, provide information on their methodology to the trainees.

Preparation:

Preparations for a field trip to an MFI may be necessary if one is not located near the training community where training participants can make the arrangements themselves.

Debriefing the experience and processing the learnings:

Important learnings in this module are the general organizational structure of an MFI and monitoring operations to assure quality. By the end of the module, a participant should begin to visualize how his or her individual skills and talents might be used in microenterprise development activities to reduce poverty and improve families' standard of living.

TRAINER'S NOTES

ACTIVITY 3:1
GETTING TO KNOW MICROENTREPRENEURS

Overview:

This activity is designed to equip trainees with an understanding of how microbusinesses operate before they begin working with these businesses or organizations that assist in the development of the microenterprise sector.

Time: 4 hours (approx.)

Materials:

Trainees will probably have questions concerning local microenterprise legal, tax, and licensing requirements. An effective way to gather this information might be to ask one or two trainees who have a special interest in this area to gather the information. They could then summarize the information and present it to the rest of the trainees.

Preparation:

Make trainees aware of any cultural norms or local conditions before they spend time with a microenterprise owner. Depending on the situation, the activity's questions may need to be translated into the local language and/or the trainees should practice the vocabulary. If it is necessary for language teachers to translate, trainees may need to be grouped during this activity.

Debriefing the experience and processing the learnings:

Expand the discussion of individual microenterprises to emphasize the role microenterprises play in delivering goods and services in the local economy:

1. What percentage of families in the community depend on microenterprise activity for their income?

2. What percentage of the goods and services consumed in the community are provided by microenterprises?

The changes that owners would make to improve profitability provide Volunteers and their Counterparts with clues as to how they can intervene to assist microentrepreneurs.

What were other things trainees learned from the shadowing experience? How do these learnings better prepare them for Peace Corps service?

TRAINER'S NOTES

ACTIVITY 3:2
WHAT MAKES DISCOUNT MASS MARKETERS SUCCESSFUL?

Overview:

This activity assists training participants in building an understanding of MFIs' operations based on their past experiences with mass-marketing retailing in the United States.

Time: 30 minutes

Materials:

None in addition to those included in the module.

Preparation:

None.

Debriefing the experience and processing the learnings:

A major lesson to be learned from this mass-marketing activity is that MFIs must operate like mass-marketing businesses if they are going to succeed in helping ever-increasing numbers of poor families improve their economic well-being and family's security.

Suggested responses to the question concerning a discount mass-marketing firm's success:

- Focused business plan.
- Firms know their customers and stock what the customers want.
- Products are available when the customers want them, just-in-time inventory.
- Stores are open when customers have time to shop, 24 hours a day at some stores.
- Stores hire local people, and store employees are encouraged to be active in the community.
- Although employee wages are low, stores can make their employees feel valued by referring to them as "associates" rather than sales clerks.

Continued

Trainer's Notes, Activity 3:2, continued

- Firms use technology to make systems more effective and cut costs.
- Low overhead—stores not located in high-rent districts.
- Good marketing to let customers know the benefits of shopping at the discount stores, low prices, wide variety of merchandise, and convenient parking.
- Firms are smart in the management of debt and equity financing to keep cost of capital low.
- Firms engage in long-range planning—they have a growth plan for where and when new stores will be opened.
- Their management is experienced in the business of mass retailing.

TRAINER'S NOTES

ACTIVITY 3:3
MFI SITE VISIT

Overview:

This activity provides training participants with an opportunity to observe an MFI's operations.

Time: 3–4 hours

Materials:

None in addition to those included in the module.

Preparation:

If trainees cannot arrange visits to an MFI themselves, arrange for field trips to MFIs. Ideally, trainees should visit their offices and observe a field agent working with a group. You may want to divide participants into small groups to visit different places and report to the other groups.

Debriefing the experience and processing the learnings:

Use your local knowledge to help ensure participants gather accurate information. The language instructors may need to become involved to act as interpreters and provide cross-cultural insights. When you visit an MFI make mental notes of which capacities the MFI is implementing well and which could be improved. How would the improvement of the capacities you identify contribute to the MFI's ability to provide low-cost loans and make savings programs available to large numbers of low-income people?

The major learning from this activity is an understanding of how an MFI operates and who is involved in the process of issuing a loan or the acceptance of a saving deposit.

TRAINER'S NOTES

ACTIVITY 3:4
SWOT ANALYSIS

Overview:

This activity is designed to acquaint or reacquaint trainees with SWOT analysis, a systematic approach that looks in a balanced way at the internal strengths and weaknesses and external opportunities and threats facing an MFI.

Time: 1 hour

Materials:

Description of SWOT analysis and case study included in the module.

Preparation:

Familiarize yourself with the case and be prepared to answer trainees' questions related to the opportunities and threats found in the host country.

Debriefing the experience and processing the learnings:

This is an opportunity for discussions with training participants about factors affecting local economic conditions, which they may not have noticed. Focus on effects of these factors on microenterprises as well as on the MFIs.

Possible items to include as strengths and weaknesses in the SWOT analysis:

Strengths:

- MFI charges what appears to approximate a market rate of interest.
- Low staff turnover.
- Good personal evaluations.
- Pays incentives for field agents.
- Ratio of head office staff to field staff looks reasonable.
- Low default rate.
- Financial statements are audited.
- Most funds kept in bank where safe.
- Women are well represented in the field agent staff.

Continued

Trainer's Notes, Activity 3:4, continued

Weaknesses:

- We aren't sure, but there may be no women on the board of directors.
- No client representation on the board.
- Board seems small for this large an operation.
- Board attendance at meetings is low.
- Client defection rate seems high.
- Lack of long-term planning.
- Expected increase in demand for loan capital not fully funded.
- Loan officers are spending a lot of their valuable time traveling to and from the head office.
- Though the auditor's price is low, he may not be independent or have the industry expertise needed to do a good job.

Recommendations for the board:

- Expand the board, include women; businesswomen would be a nice addition, as would a couple of clients and someone from another NGO's management.
- Immediately work with the staff to start a long-term planning process; evaluate if opening a branch office now would be a good option given the expected growth.
- Hire an independent auditor with experience auditing financial organizations.
- Survey clients who have left the solidarity groups to determine why they left and then look for ways to modify the loan product to retain these clients.

A Microenterprise Training Guide
for Peace Corps Volunteers

MODULE 4

Non-financial Business Development Services

Sheep, Poultry
Egg Production,
and Other
Agribusiness

MODULE 4

NONFINANCIAL BUSINESS DEVELOPMENT SERVICES

A VOLUNTEER'S STORY

A Peace Corps Volunteer in Nicaragua obtained a Small Project Assistance (SPA) grant to finance a microentrepreneur woodcarving artisan project. The Volunteer was responsible for contracting the instructors, purchasing equipment, and inventory control. Over a six-month period, 20 youths ages 12-20 were selected and given training in how to design and carve marketable wood products. After acquiring this new skill, they then received classes in marketing, price setting, customer service, and basic accounting. Having obtained a marketable skill as well as the ability to create and promote their products, the group has begun to exhibit and sell their products at fairs on the local and national level.

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As a Peace Corps business Volunteer, chances are you will be assigned to an organization whose mission includes delivering nonfinancial business development services (BDS) to those who are disadvantaged in society: the poor, women, minorities, or at-risk youth. For some organizations, this is their primary mission, and for others, like microfinancial institutions (MFIs), women's groups, or youth empowerment organizations, BDS is a secondary mission. This module contains background information for all Volunteers who plan to share their understanding of business with microenterprise owners/managers and potential business owners. Module 4, "Nonfinancial Business Development Services," presents an overview of BDS, discusses two current BDS debates, and looks at good practices and innovations to increase the impact of BDS. Note: We use the term owner/manager because in nearly all small and microbusinesses the owner acts as the manager.

By the time you complete the readings and activities in this module you should have the knowledge, skills, and attitudes to be able to:

- Explain how your personal knowledge and skills might assist an MFI in providing its clients with nonfinancial services.
- Articulate the major points of the "Minimalist vs. Credit Plus" and "Income Generators vs. Entrepreneurs" debates.
- Describe at least five activities that you feel would benefit actual or potential microenterprise owners/managers in your host community, and give reasons why these activities would be beneficial.

- Write a one-page report or give a five-minute talk detailing how your business sector project plan does or does not implement good BDS practices.
- Provide two reasons why subsector interventions is a promising innovation and another two reasons why transferring BDS services to the public sector is a promising innovation.
- Demonstrate your ability to deliver nonfinancial training appropriate for solidarity groups in your host country.

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A LEARNING MOMENT

Food for Thought

Cigarettes and soft drinks are available in just about every village. Clean water, primary education, or health services are not. Why is it that so many nonessential or even harmful products are so effectively distributed to every community that can afford them, and to many that cannot, while the things people really need are so often difficult to get, or not available at all?

What can be learned from the above observation relative to microenterprise development, community development, and capacity building? Find a time to discuss this question with fellow trainees, Peace Corps trainers, and staff.

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WHAT ARE NONFINANCIAL BUSINESS DEVELOPMENT SERVICES?

Microenterprises exist in a broad market environment in which demand for their products is influenced by numerous factors related to consumer tastes, purchasing power, trade conditions, and politics. These can be classified generally as “demand-side” factors. A microenterprise’s performance is also affected by factors such as technical and management skills, networks, access to resources, and information availability. Most interventions, including those of Volunteers, are focused on improving the supply-side. Some, however, such as international trade agreements and alternative trade organizations, focus on changing the demand-side.

The starting point in considering the design of any BDS intervention is the assessment of the needs and perceptions of microenterprise owners/managers. Needs change depending on the particular circumstances of a business. Typically, the pattern of needs varies according to factors such as business sector, location, sex of owner/manager, and stage of development. Needs are not static; they change throughout a business development cycle. The range of possibilities is vast, and it is dangerous to overgeneralize about the nature of these BDS needs. There are felt or perceived needs, which reflect the owner's/manager's analysis of his or her situation, and there are objective, real, or logical needs that BDS practitioners believe to be the needs of microbusinesses. Good BDS practice calls for being as precise as possible in analyzing needs.

It is clearly not the case that microenterprise owners/managers always know what is in their best interest. They do not have perfect knowledge of all the factors pertaining to their business (e.g., marketing opportunities, business management practices, or technology trends). Development strategies based on an external analysis of a microenterprise situation may well educate the owner/manager on the potential benefits of a suggested course of action.

The most reliable measure of the perceived value of a BDS—demand—is the willingness to pay for the service. Most in the BDS community believe recipients of BDS are able to and should pay at least a portion of the service cost. Demand-driven services tend to be better accepted by microenterprise owners/managers, and demand tends to eliminate unneeded BDS.

The following is a list of BDS; it is quite long and not all-inclusive. An individual microenterprise probably would "demand" only a few of these services.

Business management training
On-site technical assistance
Mentoring
Input access (raw materials, products for resale)
Trade fair organization
Assistance with buying and selling products
Information on taxing and regulations
Training in other areas (e.g., leadership)
Entrepreneurship training
Marketing links between buyer and seller
New product development and testing
Market research and information
Subsector research and information
Quality control of products
Subsector interventions
Assistance with business licensing

Most studies of the microenterprise sector stress the importance of nonfinancial constraints on growth and profitability. For many, or even most, microentrepreneurs, weak business management and access to markets are the most serious barriers to growth rather than lack of finance (*Microenterprise Development Policy Paper,* U.S. Agency for International Development. Washington, DC. 2005. p. 33). Peace Corps business Volunteers confirm that these two constraints are the main concerns of the microenterprise owners/managers they work with.

ACTIVITY 4:1

A BDS SESSION PLAN PORTFOLIO

BDS trainings are a typical activity of Volunteers and their Counterparts. Training is an ideal time to develop a portfolio of training sessions to have available when you arrive at your site.

Steps in developing training sessions:

- Identify and make a list of the most common training needs of microenterprise owners/managers and potential business owners in your host country.
- Each training participant or pair of training participants selects a topic of interest and prepares a training session appropriate for microbusiness people. The sessions should not be longer than one hour. Keep them participative—learning is not a spectator sport—and use adult learning methods. Materials listed in the Resources section at the end of this module contain examples of BDS trainings. Almost always, training sessions need to be adapted to the local situation.
- Present the sessions to a pilot group of participants and obtain feedback on the sessions—what was most useful, how might the session be improved, and were there elements of the session that were not culturally sensitive or did not fit the local business environment.
- Rewrite session plans including changes based on pilot feedback, make photocopies, and share with fellow trainees. If possible, provide copies of session plans in the local language.

TWO BDS DEBATES

Microenterprise industry stakeholders agree:

1. The poor need access to credit;
2. Even more than credit, they need a safe place to accumulate savings; and
3. They need education and health services.

Stakeholders are still debating:

1. Which target group, income generators or entrepreneurs, should benefit from limited BDS resources?
2. Can and should MFIs provide nonfinancial BDS?

INCOME GENERATORS VS. ENTREPRENEURS

Is the most effective strategy for poverty alleviation helping numerous microenterprises or concentrating efforts on encouraging a few entrepreneurs with good ideas and the knowledge, skills, and drive to grow their businesses?

Without doubt, BDS need to be available to micro- and small businesses with high potential for growth. Developing economies need job growth, and there are workers who do not want to own their own businesses or are not temperamentally suited to self-employment.

The vast majority of microenterprises are one-person operations or consist of the owner and his or her family. They are subsistence activities, formed out of necessity to generate income. Most low-income microenterprise owners in developing countries live and work in high-risk environments and seek, therefore, to minimize risk. Because the owners often try to avoid risk and secure their livelihoods rather than to take risk and expand their activities, their economic activities often are not thought to have growth potential. If there is little potential for growth, does it make economic sense to put resources into these tiny businesses? Are funds better spent on a few entrepreneurial individuals whose enterprises have the potential to grow and create jobs?

Studies by the Harvard Institute for International Development and the United Nations Development Fund for Women suggest that in avoiding risk and overcoming constraints, many of these low-income microenterprise owners are quite innovative and entrepreneurial. If the risks and constraints they face are minimized, their economic activities can grow. "What organizations working with low-income women have shown is that often women's 'subsistence activities' are viable and can be transformed into sustainable enterprises capable of generating surplus income." (*Beyond Credit: A Subsector Approach to Promoting Women's Enterprises,* Martha Alter Chen (Ed.), published by Aga Khan Foundation, Canada, 1996. p. 4.) This may be true of male-operated microenterprises as well.

If you restrict analysis of the question, "Which target group, income generators or entrepreneurs, should benefit from limited BDS resources?" to the largest return for funds spent, spending would be limited to entrepreneurial firms with a high growth potential. However, even though few microenterprises will grow into small or medium-sized operations, most development organizations, including the Peace Corps, favor supplying BDS to microbusinesses with a lower likelihood for growth. The next question is how can this be done economically. Later in the module, we discuss two innovative ideas that have surfaced—subsector interventions and providing BDS through the private marketplace.

SHOULD AND CAN MFIs AFFORD TO DELIVER BDS?

The first three modules of this series, *A Microenterprise Training Guide for Peace Corps Volunteers*, highlighted the value of microfinancial services, the structures of organizations providing these services, and the impact credit and savings services have on the lives of people. A theme was the desirability of microfinancial institutions (MFIs) achieving sustainability in order to continue providing clients with financial services. This has proven more difficult than originally thought.

The field of microenterprise development has long been divided by a debate over whether microenterprise programs should provide only financial services (the "minimalist" approach) or also provide nonfinancial services (the "credit plus" approach). Perhaps a better name would be the "financial services plus" approach. There is a broad consensus that the provision of credit should be accompanied by a provision for savings (financial services = credit + savings). Incorporating a savings component with credit benefits both the client and the MFI. Client savings expand the amount of money available for lending and reduce the MFI's cost of capital. Savings programs encourage clients to accumulate assets as a cushion for emergencies or to invest in their businesses.

Today, the debate continues over whether an MFI's financial services should be supplemented by nonfinancial services. It takes only one visit to a poor rural village or urban slum to know nonfinancial services are needed. Many international, national, and local relief and development organizations are dedicated to the delivery of nonfinancial services. Unfortunately, the number of poor and their needs exceed the capacity of these organizations. The most common of these nonfinancial services are business development services (BDS)—management training, technical assistance in production, or service delivery. Health education and health services are a second category of services often offered to the same target group as microcredit, and, to a lesser extent, numeracy and/or literacy training. The additional costs of providing these nonfinancial services make it even more difficult for an MFI to become sustainable.

There are at least three reasons why MFIs are well positioned to provide non-financial services.

1. MFIs are already committed to improving the economic well-being of their clients through providing financial services.
2. MFIs have established networks of fieldworkers who are in regular contact with the poor who could benefit from nonfinancial services.
3. Target populations, through the efforts of the MFIs' fieldworkers, are already organized into functioning groups (solidarity groups and/or village banks).

Piggybacking nonfinancial services on financial services seems logical. The same disadvantaged group that needs credit and savings services also benefits from literacy and numeracy lessons, exposure to improved health practices, and BDS. Why not offer health, education, or business management training when people are taking out or repaying loans or depositing savings. Do MFIs have the skills to deliver nonfinancial services? While there are several reasons why MFIs are well positioned to deliver nonfinancial services, there are other reasons why they are not.

1. Field agents/promoters do not have the expertise to deliver the additional trainings, and require technical training in the nonfinancial services.
2. Group members come because they want financial services; they may not have the need, interest, or time for "add-ons."
3. There is an "opportunity cost" for the MFI; when field agents are providing nonfinancial services the income they would generate providing financial services is lost.
4. Hiring additional employees to deliver nonfinancial training increases employee and transportation costs.

The bottom line of the MFIs is impacted in two ways. Costs increase to hire additional staff or to train existing staff, and revenues drop when field agents' time is taken up with health, education, or BDS training.

Grameen Bank and some of the other large MFIs have sufficient customer volume and self-generated low-cost capital to provide nonfinancial services. The Grameen Bank serves severely impoverished, mainly illiterate people. In addition to microfinance they carry out a range of projects, such as promotion of informal village schools, distribution of seeds and seedlings, and special projects such as fisheries and textile production.

Actuar Bogotá is a private, nonprofit corporation founded in 1988 in Bogotá, Colombia, and affiliated with ACCION International. Actuar places relative importance on business and technical training, and has established a Basic Service

Center, a wholesale depot at which borrowers can purchase inventory and raw materials at lower prices—and more conveniently—than they can elsewhere. Plans include offering health care insurance. (These two examples are from *What Makes Them Tick? Exploring the Anatomy of Major Microenterprise Finance Organizations.* Elisabeth Rhyne and Linda S. Rotblatt, ACCION International, Cambridge, MA, 1997. p. 6.)

Freedom from Hunger's mission is expressed in the organization's name. Their microfinance strategy is called credit with education. The strategy uses village banking combined with low-cost informal education to help women build their productive assets, accumulate savings, improve self-confidence, and improve basic business and family survival skills.

Freedom from Hunger is a large international development organization. Microfinance services are a vehicle to achieve the organization's mission. Credit for them is a means—› to generate income —› to provide basic nutrition for families. They provide group-based poverty-lending integrated with simple, relevant, high-impact learning in better business management, health and nutrition improvement, and family planning—delivered at substantially the same cost as village banking programs without education. They do this through use of well-developed, time-efficient education materials and cost-effective management systems. Freedom from Hunger believes business management training increases the profitability of client's business. Child health, nutrition, and reproductive health information contribute to achieving "freedom from hunger."

The Grameen Bank is a long-established MFI, which has accumulated a loan fund that exceeds the needs of its clients. The bank has excess funds, which can be used to provide additional services. Newer, less well-established MFIs are not in as enviable a financial position. Actuar's wholesale depot is an example of clients paying for additional services; it is self-supporting. Freedom from Hunger views services in addition to savings and credit as their priority and has structured their programs accordingly. These are three examples of successfully providing more than just financial services.

Although a few of the most successful MFIs have succeeded in self-financing nonfinancial services, the vast majority of MFIs have been forced to look for subsidies, find other organizations to deliver the nonfinancial services, or deprive their financial clients of the additional, though often needed, services.

However, most MFIs find they are unable to add services and achieve self-sufficiency. What are the alternatives? Since the skills to manage a financial institution are specialized and the provision of multiple services complicates operations, there is some agreement that it makes sense to separate the financial operations from the management and delivery of nonfinancial services. This is done by:

- Separating the microfinance operations from other NGO activities, and, if possible, operating as a separate legal entity.

- Operating the microfinance division as a "profit center" with specialized staff and management qualified to address the issues unique to microfinance, and fundraising separately to finance another division of the NGO, a "cost center," responsible for delivering the additional services.
- Charging fees to the clients who want the additional services. In some cases this is possible, but in most cases, the client cannot justify paying the fees based on an increase in income or immediate benefits. Even if the benefits are in the future, should clients be willing to pay if the service is valuable? Perhaps they are willing to pay, but with their time rather than with money. If the time they spend receiving these services is time they would have used generating income, they are incurring an opportunity cost. This may be a high price for those who are struggling to earn enough just to survive.
- Partnering with other NGOs whose mission is to deliver these services. They would be given access to those lending group members who want their services. Assuming there are appropriate partners, both NGOs would benefit. The MFI members gain access to additional services, and the service NGO gains access to pre-formed, motivated groups.

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A LEARNING MOMENT

As you move about your host community—shopping with your host mom, attending a sporting event, doing your daily walk/run—take time to meet and talk with the microbusiness people you encounter. They are interesting, creative people. Learn about their businesses. Ask them in an appreciative way, "What are the constraints that keep your business from growing or becoming more profitable?"

Later, share experiences with other training participants and your Peace Corps trainers.

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ACTIVITY 4:2

MIND MAPPING BDS INTERVENTIONS FOR A MICROENTERPRISE

You can explore the territory appropriate to many topics, including BDS, using mind mapping. Start with a central image or word and order your thoughts by radiating them out from this, printing key words on the lines or in boxes, circles, or other shapes. Show relative importance by the size of your writing or images, and by the thickness of your lines. It does not matter if you cannot draw, but try to make it as creative and attractive as you can—use of color helps. Mind maps help you to clarify, order, and summarize your thoughts. They can also serve as a tool for communicating your ideas to others.

Pick a local microenterprise you are familiar with and use a "mind map" to identify business development services you feel would benefit this business. The Learning Moment above may provide information on a business you want to use to illustrate mind mapping. Use larger shapes, etc., to emphasize importance and lines to show connections. Be as specific as you can on details of proposed BDS interventions. Draw this diagram on a blank piece of paper. Or, use flip charts to share your ideas with others in your training group.

INNOVATIVE BDS APPROACHES

SUBSECTOR METHODS

A mass-marketing approach has been instrumental in delivering microfinancial services to millions of individuals. Microloans and savings programs adapt more easily to mass delivery systems than BDS. These financial services are more generic-type services than the mixture of BDS required by diverse microbusinesses.

However, one innovative BDS approach has been successful in working with large numbers of similar microenterprises and levering their BDS resources. The subsector strategy holds that microenterprises in the same subsector or trade face constraints and issues that are common to them and distinct from other sectors. Interventions that focus on overcoming these specific constraints are more likely to have a significant effect than those that are more generic. A subsector is a vertically integrated group of enterprises (both large and small) that are concerned with the same product group.

Manuals on the subsector approach list a number of key steps and thoughts to consider in implementing the strategy (see the Resources section at the end of the module). These key steps can and should be undertaken in a participatory manner, which stresses a target group's own analysis and development of ideas for interventions rather than that of an external catalyst.

SUBSECTOR ANALYSIS IS THE FIRST STEP

Choice of subsector. Is this a subsector in which large numbers of microenterprises are concentrated? What is important, interesting, or promising about the subsector?

Introduction to subsector. What does your target group have to say about the operations, technologies, participants, and links within the sector?

Subsector map. What are the main operations or functions, participants, technologies, distribution or marketing systems, product flows, production relationships, or other important characteristics of the subsector?

Working environment. How does the regulatory and institutional environment affect enterprises in the subsector?

Dynamics within the subsector. What are the driving forces within the subsector and how do these interact? What are the constraints and opportunities with regard to market demand, technological change, profitability of different niches, barriers to entry, input supply, etc.? What are the common perceptions of constraints, and do these reflect actual constraints?

Subsector strategies and points of leverage. What are the main interventions planned? What interventions can influence large numbers of people? What types of institutional infrastructure, services, and skills are proposed?

IMPLEMENTING INITIAL INTERVENTIONS IS THE NEXT STEP

Subsector analysis, in and of itself, is only a study and will have little, if any, impact on microenterprises unless it is followed by actual implementation of activities.

Subsector constraints and opportunities can be addressed using a variety of services and approaches. These include:

- Promoting economies of scale by
  - Joint procurement
  - Joint production for large contracts
  - Cost sharing of expensive facilities and machinery
- Advocating for improved regulatory environment
- Developing trade standards
  - Financial ratios
  - Quality control standards
- Developing new technology and products
- Developing and implementing plans for specific business activities
- Developing domestic and export markets
- Providing training in business skills and technical assistance
  - Financial management
  - Production of records that demonstrate credit worthiness
  - Marketing, quality control, organization development

(Adapted with permission from *The Subsector/Trade Group Method: A Demand-Driven Approach to Nonfinancial Assistance for Micro and Small Enterprises* Frank Lusby, U.S. Agency for International Development, the GEMINI project, Arlington, VA, 1995.)

A few examples may illustrate the relationship between subsector constraints and opportunities identified in a subsector analysis and possible interventions.

Furniture Building Subsector

Subsector Constraints and Opportunities	Possible Subsector Interventions
Higher prices are paid by individual microenterprises for raw materials	Support trade associations to make joint purchases of wood
Lack of access to upscale markets	Facilitate links with buyers and designers in market centers
Inefficient and poor quality cutting of wood	Help owners develop plans for purchase of power tools
	Train to upgrade skills to produce to design specifications

Subsector interventions are only effective to the extent that there are local implementing organizations with the skills, knowledge, and resources to alleviate subsector constraints and take advantage of subsector opportunities.

IDENTIFICATION OF ADDITIONAL CONSTRAINTS AND OPPORTUNITIES

As you become better acquainted with a subsector, new constraints are apt to emerge and new opportunities will be identified. Address them with our clients by designing and implementing new interventions or modifying existing ones.

Subsector methods are applicable only when a significant number of similar microenterprises exist in close enough proximity to benefit from common interventions. Are there appropriate subsectors in the area where you will be serving as a Volunteer? The following activity may help you identify some potential subsectors.

ACTIVITY 4:3

SUBSECTOR TARGETING

Divide your training group into three teams. Each team chooses a separate subsector and assesses the potential for subsector interventions based on the criteria shown in the table below. This presentation of subsector targeting is simplified here. In reality, a more careful study should be made before committing resources to a particular subsector. Gather as much information as is feasible given your training limitations, and then mark each criterion with a 1, 2, or 3 for high, medium, or low potential.

TARGETING A SUBSECTOR

Criteria	**Subsector A______**	**Subsector B______**	**Subsector C______**
Number of microenterprises in the subsector within a short distance of one another: <10 low, 10–20 medium, >20 high	______	______	______
Potential for growth	______	______	______
Potential for employment opportunities	______	______	______
Potential for links with other microenterprises	______	______	______
Participation of women or disadvantaged groups	______	______	______
Established markets available for products and services	______	______	______
Value-added potential (sales price minus costs)	______	______	______
Other criteria? ____________________________ ____________________________	______	______	______
TOTAL POINTS	_______	_______	_______

Compare results with others in your training group. Is there a subsector that appears to have a high potential for successful subsector interventions?

PRIVATIZATION OF BDS

The last few years have witnessed a significant change in prevailing views on BDS. Development of private markets for delivering BDS has emerged as a priority area of interest. Yet, despite this substantial level of interest, there is comparatively little experience with market-development interventions to date.

Market-development interventions are aimed at the development of "vibrant and competitive (primarily) private sector markets of relevant, differentiated services consumed by a broad range and significant proportion of microenterprises." If microenterprises see the need and are willing to pay for BDS then there is a "demand," and the opportunity for other firms to meet this demand.

In some instances, suppliers are building some BDS into product use. For example, a varnish distributor teaches furniture makers how to use the varnish so they will be satisfied with the product and continue to purchase it. In other cases, the buyers of products are providing design and quality control standards. In the crafts industry, for example, craft buyers often offer advice on product development that benefits the micro-craftsperson as well as the buyer. Development workers are shifting some of their efforts to facilitate and promote BDS that are built into business links.

Other development organizations are sponsoring projects to identify and assist businesses that are privately providing BDS. For example, vouchers have been offered to microenterprise owners to offset part of the cost of attending a private training. As markets for BDS become more organized, the opportunities for private providers is likely to increase.

For sustainability of providing services, reaching large numbers of microenterprises, and cost-effectiveness, privatization of BDS seems promising. Still to be determined is if this approach will reach rural microenterprises or those who may need and want but can afford to pay only a small amount for the BDS.

GOOD BDS PRACTICES

Good BDS practices refer to approaches that deliver the most beneficial outcomes. It would be simple to state that good BDS practices result in a microenterprise increasing its profit. However, because in many cases microenterprises exist in competitive markets, the profit increase in one microenterprise may be at the expense of a competitor. BDS impact can take place not only at the enterprise level, but also at the community and, possibly, national level. So, in looking at good BDS practices we need to consider the improvement in a microenterprise market, not just one microbusiness. Case studies and microenterprise literature suggest that the following are desirable principles of nonfinancial assistance:

- Concentrates support on established enterprises, rather than attempting to create new enterprises.

- Cost recovery or partial recovery serves two functions: covering, or partially covering, the cost of services and as an indicator of the value clients place on the services.
- Microentrepreneurs are engaged in all phases of the design, execution, and monitoring and evaluation of nonfinancial assistance.
- Training is simple and builds on existing knowledge of microenterprise needs, keeping in mind that most microentrepreneurs acquire their skills informally.
- Clients are organized into groups or associations, particularly according to trade group, thus reducing the unit costs of reaching them.
- Assistance focuses on a "single missing ingredient" rather than addressing multiple constraints.
- Targeted to address the needs of particular industries or subsectors, rather than treat all microenterprises alike.
- Investigates local market opportunities first; typically, there are fewer obstacles than in export markets.

Volunteers are most often involved in BDS group trainings and in counseling individual microenterprise owners/managers. In this module, we have looked at the general field of BDS and given you an opportunity to develop BDS training sessions. Module 5, "Business Counselor and Extensionist," explores techniques and methods for working one-on-one with microbusiness owners/managers and potential owners.

ACTIVITY 4:4

MICROENTERPRISE ATTITUDE SURVEY

How have your attitudes about microenterprise changed since you started learning about the field of microenterprise? To find out, take the attitude survey below and compare your answers with the answers you gave when you first took the survey in Module 1, "Microfinance—An Effective Poverty-Reduction Strategy." (The consensus answers of MFI practitioners from 15 countries given at the New Hampshire College Microfinance Institute in June 1999 can be found at the end of this module.)

Attitude Survey

1. It is impossible to evaluate our work in enterprise development for the poor in terms of financial costs and benefits; human development cannot be valued in dollars.

   Agree / Don't Know / Disagree

2. The best way to help poor people increase their incomes is to help a few people, who may not themselves be poor, to develop enterprises that will employ the poor.

   Agree / Don't Know / Disagree

3. Poor people are unlikely to have their own good business ideas; MFIs must help them by giving them ideas.

   Agree/ Don't Know / Disagree

4. Loans for poor people's businesses must be at lower than market interest rates or interest free.

   Agree / Don't Know / Disagree

5. MFIs, usually indigenous NGOs that are direct providers of credit and savings services, should charge the poor for enterprise development services, so that the MFIs themselves can become self-sustaining.

   Agree / Don't Know / Disagree

6. MFIs should always encourage poor people to start group- or community-owned enterprises rather than individual businesses.

   Agree / Don't Know / Disagree

Continued

Activity 4:4, continued

7. It is better to give grants to the poor to help them develop enterprises than to make loans to the poor.

   Agree / Don't know / Disagree

8. If we do make loans to the poor for enterprise development, we cannot expect them to repay them on time; we must be lenient.

   Agree / Don't know / Disagree

9. Women are better at microenterprise than men; they reinvest the profits, or spend them on their families, and they repay loans better.

   Agree / Don't know / Disagree

10. Most poor people do not need training to enable them to start a business; all they need is access to finance.

    Agree / Don't Know / Disagree

(This attitude survey is adapted with permission from *Empowerment Through Enterprise*, by Malcolm Harper, published by Intermediate Technology Publications, 1996.)

After taking the survey, discuss the issues with your fellow training participants and trainers.

- Which of your answers have changed?
- Can you cite observations, experiences, or examples in your host country that support your attitude?
- Are you and your fellow training participants and the Peace Corps programming and training staff in agreement on all the questions? If not, it is not surprising. As you read in "Two BDS Debates" in this module, the microenterprise industry has not yet reached agreement on some of these issues.

Survey items 4, 7, 8, and 9 were discussed in previous modules; items 2, 3, 5, 6, and 10 are discussed in this module. Some insights into how to determine human capacity building (item 1: It is impossible to evaluate the impact of business development services; human development cannot be valued in dollars) are contained in Module 5, "Business Counselor and Extensionist." You should also discuss this item in conjunction with the monitoring and evaluation of your business sector project plan. Using local business project plan objectives, can you determine how to measure human capacity development?

KEY TERMS

Key terms are defined as they are used in the module. A space is provided to write the local translation of the word or phrase. Work with your language teachers to find the right translations and build your vocabulary as you study this module.

Business Development Services (BDS) are services such as training, technology transfer, marketing assistance, business advice, mentoring, and subsector analysis, which are aimed at helping small entrepreneurs and microentrepreneurs, improve the performance of their businesses.

Demand implies a felt need plus a willingness to pay for a particular good or service.

Efficiency is concerned chiefly with the delivery of a BDS intervention and the rate and cost at which inputs are turned into outputs.

Effectiveness measures the extent to which a BDS intervention's objectives have been met, including a comparison of impacts with costs. Assuming that these objectives are related to general development goals, effectiveness is also a measure of development relevance.

Opportunity cost is the economic benefit that is sacrificed when an activity is eliminated as a result of choosing another activity.

Outreach is the quantitative scale of a program's influence—number of people, enterprises, etc., reached by a BDS intervention.

Subsector is a network of workers and enterprises involved in the production and distribution of a given good or service.

Sustainability can be seen at two levels: (1) the extent to which the BDS can be financed through client fees, and (2) the extent to which changes in microenterprises are durable.

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RESOURCES

Accounting for the Micro Business: A Teaching Manual. Michael Ronan/PCV Colombia. (Peace Corps ICE.) 1975. 105 pp. (ICE No. R0023B)

A teaching manual to help small business entrepreneurs learn basic accounting. Lessons explain the nature and objectives of such fundamental business practices as balance sheets, profit and loss statements, credit books, cash books, and transactions, among others. Designed for one-to-one or small group teaching. Also available in Spanish, *Contabilidad para la Micro Empresa: Manual de Ensenanza* (ICE No. R0023).

Beyond Credit: A Subsector Approach to Promoting Women's Enterprises. Martha Chen, Editor. (Aga Khan Foundation.) 1996. 155 pp.

Explores interventions to promote the enterprises of low-income women in developing and redeveloping countries. Contains cases drawn from a variety of organizations in Africa, Asia, Latin America, and North America. Outlines framework and guidelines for understanding and applying participatory subsector analysis.

Entrepreneurship: How to Start and Operate a Small Business, Module 1, Chapters 1–17. Steve Mariotti (The National Foundation for Teaching Entrepreneurship Inc.) 1987. 216 pp.

A simple course designed to teach young adults the fundamentals of starting and operating a small business venture. Provides only a minimal introduction to disciplines such as accounting and economics. The ultimate goals are financial independence, personal satisfaction, and a sense of self-worth. Module 1 includes units on Introducing Entrepreneurship, Types of Enterprise, and Exploring Profit.

Entrepreneurship: How to Start and Operate a Small Business, Module 2, Chapters 18–37. Steve Mariotti (The National Foundation for Teaching Entrepreneurship Inc.) 1987. 216 pp.

A simple course designed to teach young adults the fundamentals of starting and operating a small business venture. Provides only a minimal introduction to disciplines such as accounting and economics. The ultimate goals are financial independence, personal satisfaction, and a sense of self-worth. Module 2 has units on Business Communication, Types of Enterprise (in addition to those identified in Module 1), and Financing.

Entrepreneurship: How to Start and Operate a Small Business, Module 3, Chapters 38–50. Steve Mariotti (The National Foundation for Teaching Entrepreneurship Inc.) 1987. 135 pp.

A simple course designed to teach young adults the fundamentals of starting and operating a small business venture. Provides only a minimal introduction to disciplines such as accounting and economics. The ultimate goals are financial independence, personal satisfaction, and a sense of self-worth. Module 3 contains units on Real-World Applications, Business Behavior, and The Entrepreneur's Responsibilities.

FIDIKA! Business Training for Women's Groups: The Tototo Way. Kevin Kane/ Tototo Home Industries staff. (World Education, Inc.) 1992. 66 pp.

Contains 14 easy-to-follow lessons in business skills. Designed for trainers and extension workers helping village groups develop successful and profitable businesses. Can be adapted to a variety of training situations, including the training of trainers.

Improve Your Business: Handbook. D.E.N. Dickinson, Editor. (International Labor Organization.) 1986. 129 pp.

Suitable for trainers and individual business people, this manual provides the basics to succeed in business on the premise that business improvements are the result of creative entrepreneurs. Consists of eight sections dealing with buying and selling, manufacturing and service operating, bookkeeping, costing and pricing, marketing, management accounting, office work, and planning. Supplements text with illustrations and practical examples.

Improve Your Business: Workbook. D.E.N. Dickson, Editor. (International Labor Organization.) 1986. 83 pp.

Contains eight sections of problems corresponding to the eight portions of the handbook. Each section asks a set of questions, then gives you a number of business exercises, and finally shows you how to set up an action program to solve your problems. Useful for trainers and extension workers. (Accompanies handbook described above.)

Income Generation and Money Management. PCV Sheila Reed. (Peace Corps ICE.) 1994. 70 pp. (ICE No. R0087)

Originally entitled *Income Generation and Money Management: How to Train Gambian Women*, this manual is applicable to low-literate entrepreneurs in other parts of Africa and perhaps elsewhere. Contains helpful numeracy activities and good materials for small business/women in development projects.

Marketing Strategy: Training Activities for Entrepreneurs. Suzanne Kindervatter and Maggie Range. (OEF International/UNIFEM.) 1986. 96 pp.

Examines the problems women entrepreneurs face in developing small businesses that focus on marketing. Provides activities that facilitate the implementation of new ideas for women with their own businesses. Useful text for experienced trainers, extension workers, and programmers. Also available in Spanish, *Estrategiá de Mercadeo: Entrenamiento para Empresarias*, and in French, *Strategie de Marketing: Activités de Formation pour Entrepreneurs*.

Nonformal Education Manual. Helen Fox. (Peace Corps ICE.) 1989. 163 pp. (ICE No. M0042)

Demonstrates how the techniques of nonformal education (NFE) can be used by virtually all Volunteers. Emphasizes full-scale community participation at all stages of development. Uses Volunteer experiences to illustrate the nature and principles of NFE. Includes information on adult learning, identifying people's needs, planning and evaluating NFE activities, working with groups, and developing appropriate materials for NFE activities. Also available in French, *Manuel d'Education Non Formalle* (ICE No. M0048).

Recording and Using Indigenous Knowledge: A Manual. (International Institute of Rural Reconstruction International Development Research Centre Publications.) 1996. 211 pp.

Provides the information and tools to integrate indigenous knowledge into development work. Describes more than 30 methods for recording and assessing indigenous knowledge and 11 mini case studies that show how projects can build on indigenous knowledge. Focuses on many aspects of indigenous knowledge, including agriculture, livestock rearing, food preparation, and natural resource management.

Internet:

www.microenterpriseworks.org — This is the Internet site for the Association for Enterprise Opportunity. The site contains success stories of low-income entrepreneurs.

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ACTIVITY 4:4 Reference

ATTITUDE SURVEY:

CONSENSUS ANSWERS BY A GROUP OF MFI PRACTITIONERS

The answers below, offered at the New Hampshire College Microfinance Institute in June 1999, reflect the thinking of MFI practitioners from 15 countries. Did you agree or disagree with them?

Attitude Survey

1. It is impossible to evaluate our work in enterprise development for the poor in terms of financial costs and benefits; human development cannot be valued in dollars. **Disagree**
2. The best way to help poor people increase their incomes is to help a few people, who may not themselves be poor, to develop enterprises that will employ the poor. **Disagree**
3. Poor people are unlikely to have their own good business ideas; MFIs must help them by giving them ideas. **Disagree**
4. Loans for poor people's businesses must be at lower than market interest rates or interest free. **Disagree**
5. MFIs, usually indigenous NGOs that are direct providers of credit and savings services, should charge the poor for enterprise development services, so that the MFIs themselves can become self-sustaining. **Agree**
6. MFIs should always encourage poor people to start group- or community-owned enterprises rather than individual businesses. **Disagree**
7. It is better to give grants to the poor to help them develop enterprises than to make loans to the poor. **Disagree**
8. If we do make loans to the poor for enterprise development, we cannot expect them to repay them on time; we must be lenient. **Disagree**
9. Women are better at microenterprise than men; they reinvest the profits, or spend them on their families, and they repay loans better. **Agree**
10. Most poor people do not need training to enable them to start a business; all they need is access to finance. **Agree**

TRAINER'S NOTES

MODULE 4
NONFINANCIAL BUSINESS DEVELOPMENT SERVICES

Overview:

In this module we turn our attention from financial services—credit and savings—to nonfinancial business development services (BDS). Topics covered include: What are business development services? Discusses two current BDS debates, a look at best BDS practices, and innovations to increase the impact of BDS.

Time:

Reading	1 hour
Activities	10 hours

Materials:

It is important to have on hand several business training manuals. The ICE materials in the Resources section at the end of the module list several good books; there are a large number available in the market.

Preparation:

Find out from the business project manager and current Volunteers what types of business development services the Peace Corps has been involved with. What have been the successes, the challenges? You might want to consider compiling a list of local BDS best practices and checking to see how they compare with the ones the international committee developed.

Debriefing the experience and processing the learnings:

Business development services constitute a major effort of many Peace Corps business Volunteers. Spend some time having training participants develop a small portfolio of BDS training session plans. The majority of activities in this module are designed to provide trainees with skill development opportunities to practice identifying BDS skills local microenterprise owners/managers need, modifying trainings to fit the local economic context, and BDS training.

TRAINER'S NOTES

ACTIVITY 4:1
A BDS SESSION PLAN PORTFOLIO

Objective:

The objective of this activity is to provide training participants with experience in developing and delivering BDS training, The activity stresses identifying common needs of microbusiness people, designing participatory adult trainings, and delivering these trainings.

Time:

The time needed to design and present these BDS sessions will depend on the number of training participants. On an individual basis, each participant should spend at least two hours preparing for a one-hour training.

Materials:

Training participants need to have available several business training books for session ideas and examples. See ICE materials listed in the Resources section at the end of the module.

Preparation:

If possible, training participants should take responsibility for arranging the pilot sessions. Depending on training logistics, training staff may need to help set up the pilot training sessions. Trainees need access to computers, printers, and photocopying equipment to write and reproduce session plans.

Debriefing the experience and processing the learnings:

Training staff as well as fellow training participants should be prepared to provide feedback on pilot BDS sessions. Give presenters the opportunity to say what they observed when giving the session. When was the pilot group actively involved? Did presenters feel the training objectives were met? Did pilot group participants feel the training objectives were achieved?

TRAINER'S NOTES

ACTIVITY 4:2
MIND MAPPING BDS INTERVENTIONS FOR A MICROENTERPRISE

Overview:

This activity allows training participants to express visually BDS interventions for a local microenterprise. The mind maps can serve as a starting point for discussions of BDS for microenterprises in the local business environment and the different interventions needed to serve a diverse assortment of microenterprises.

Time:

To draw mind maps	30 minutes
Discussion	time varies

Materials:

Sheets of paper for each trainee and pencils or pens.

Preparation:

Gather information, think about, and prepare a list of BDS interventions that have been successful in assisting microenterprises grow or become more profitable in your country. Can you speculate why some BDS interventions have been successful and others not? Be prepared to share this information with training participants. You may want to ask the Peace Corps business project manager or a local BDS provider to take part in the discussion.

Debriefing the experience and processing the learnings:

Have each participant present and explain the reasoning behind the BDS they chose to include on their mind map. In debriefing, use the mind maps as a starting point for discussions of local BDS. Training participants should choose different types of microenterprises, providing a chance to discuss the various BDS needs of each. Expand the discussion to include the local experience with BDS—what works, what does not, and which organizations are active in providing BDS.

TRAINER'S NOTES

ACTIVITY 4:3
SUBSECTOR TARGETING

Overview:

In this activity, training participants have a chance to investigate a few local subsectors and evaluate their potential for subsector interventions.

Time: 1 hour

Materials:

Matrix contained in participants' activity.

Preparation:

If participants have not had experience with enough local microenterprises to be able to identify three subsectors, you may need to help them gather information on subsectors.

Debriefing the experience and processing the learnings:

Discuss with participants their findings and explore any assumptions or conclusions you feel are not based on the local business environment.

TRAINER'S NOTES

ACTIVITY 4:4
MICROENTERPRISE ATTITUDE SURVEY

Overview:

In this activity trainees retake the attitude survey first presented in Module 1 and discover how their attitudes about the microenterprise field have changed. One of the items addresses monitoring and evaluation of human capacity development; the remaining items are divided between microfinance issues and nonfinancial business development services issues.

Time: 30 minutes

Materials:

Attitude survey contained in the module. If individuals who are not training participants take the survey, you will need to make additional copies.

Preparation:

To quickly get a composite of the groups' answers, write the numbers 1–10 on a flip chart followed by the three choices:

AGREE DON'T KNOW DISAGREE

Have participants make a mark next to the answer they chose.

Debriefing the experience and processing the learnings:

There are no right or wrong attitudes. Differences in attitudes lead to interesting discussions. Encourage participants to support their attitudes by citing experiences, observations, and examples that come from the host country. The discussions will be richer if a number of residents of the host country participate in the conversation. Another added dimension would be to include Volunteers working with microenterprise organizations that provide financial services, nonfinancial services, or both.

A Microenterprise Training Guide for Peace Corps Volunteers

MODULE 5

Business Counselor and Extensionist

Small-scale Construction and Repair Enterprises

MODULE 5

BUSINESS COUNSELOR AND EXTENSIONIST

A VOLUNTEER'S STORY

A women's sewing cooperative wanted an Armenia business Volunteer to help them get a loan from Catholic Relief. The three seamstresses apparently had a successful growing business making and selling dresses to well-off women in the capital. They had recently started to make school uniforms on contract to local schools, and this business was growing very rapidly. The loan was for the purpose of purchasing two more sewing machines.

The cooperative had never worked out the cost of the dresses, since every item sold slightly below the prices of the originals from which the designs were copied. The schools had asked for quotations, based on samples, and the seamstresses had carefully worked out the amount of cloth, cottons, and thread needed for each garment and had estimated how much time it would take to cut and sew. To these costs they added 10 percent profit. This pricing structure always secured the school contracts. Now they had more orders than the three women could fill.

A few questions from the Volunteer revealed that it was necessary to add at least 25 percent to the cost of materials and labor to cover overhead, such as sewing machines, rent, and maintenance. The cooperative was losing money on every uniform and was planning to increase their losses by buying two more sewing machines. The loan would have been a disaster.

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Nonfinancial business development services (BDS) are delivered through a range of methods—books, radio, television, classroom instruction, individual consultancy, and today the Internet. Volunteers use all of these methods. A number of excellent books have been written about business training in group settings, some of them are available through the Peace Corps Information Collection and Exchange (ICE), and today the Internet offers additional ideas for training business groups. (See the Resources section at the end of this module.) There is not as much guidance available for Volunteers engaged in individual, one-on-one training. This module attempts to fill that gap by guiding you as you explore how to assist microenterprise owners/managers and potential owners in their places of business. The term microenterprise owner/manager is used because in reality the owners of these microbusinesses are also the managers.

Your primary assignment may be to a nongovernmental organization (NGO) whose mission is to assist small businesses, a community economic development organization, a municipality, or a microfinance institution (MFI). You, with your co-workers, conduct group trainings. But, ultimately, in delivering nonfinancial services, Volunteers spend a significant part of their service working one-on-one with microenterprise owners/managers and those who want to become business owners. This last module of *A Microenterprise Training Guide for Peace Corps Volunteers* concentrates on guiding you in the acquisition of knowledge, skills, and attitudes to work effectively as a business "counselor" and "extensionist." We assume as Peace Corps business Volunteers you already know the business basics, and therefore we focus on how you can share what you already know. By the time you finish the module you should be able to:

- Explain why the roles of business counselor and extensionist are consistent with the three goals of the Peace Corps and the goals and objectives of your business sector project.
- Give at least three country-specific illustrations of typical differences between Volunteer's and local businessmen's and business women's cultural values.
- Demonstrate how "the questioning methodology" helps a micro or small business owner or manager find solutions to their own problems.
- Conduct an interview to determine if a business's most pressing needs are:
    - Lack of capital,
    - Not enough customers,
    - Related to poor management,
    - Market or technical assistance information, or
    - Could be helped by joint activities with other small business people.

THE ROLE OF A VOLUNTEER AS BUSINESS COUNSELOR AND EXTENSIONIST

Generally, counselor and extensionist are more appropriate roles for a Volunteer than consultant or advisor when working directly with microenterprise owners/managers. An understanding of four words—advising, extension, consultancy, and counseling—as used in the field of development helps explain why counselor and extensionist are preferred roles for Peace Corps business Volunteers.

Consultancy is expert advice, on specialized technical and managerial issues, provided by a skilled and experienced consultant who appraises the situation and recommends a course of action. For a long time, consultancy was the standard model used by small and medium enterprise development agencies. However, in recent years, there has been increased concern over a number of aspects of consultancy:

- An expert's recommendations from another country are not necessarily valid in a developing or redeveloping country. Bad advice, if taken, can be devastating to a struggling small business.
- There is often a social and cultural distance between the consultant and the local businessperson that prevents the local businessperson from sharing information with the consultant. . As a result, many consultants are unable to offer effective recommendations and do their jobs right.
- Consultancy, particularly where it is free of charge or heavily subsidized, is not accepted by micro and small business owners.
- And, last but not least, consultancy can lead to dependency. When small and micro business owners come to depend on consultants to "fix their problems" they are not building the management capacity to run their businesses.

Advising is to offer advice, to recommend, or suggest. It differs from consulting in that the advisor is not necessarily an expert. Nevertheless, most of the concerns are the same.

- A foreign advisor's advice, recommendations, or suggestions may not be appropriate under different economic conditions.
- A foreign advisor is apt to encounter the same reluctance with information sharing as a consultant.
- "Free of charge" advising may be viewed with suspicion. Business owners question the motives behind the advice and the value of the free advice.
- Advising can lead to a dependency situation rather than capacity building.

Counseling is a guided process of self-discovery, whereby the counselor guides and helps the client identify problems, opportunities, and resources, define options, and select a course of action. It could also be described as "coaching" for microenterprise owners with the view to strengthening their entrepreneurial capacity and competence. Counseling requires a high level of interpersonal skills, such as being able to listen, empathize, communicate, and motivate. Counseling, too, raises concerns.

- Counselors from big businesses or those with a high level of business education can find it difficult to pursue a capacity-building process of counseling and sometimes revert to telling the business owners the solutions to their problems. Encouraging people to learn for themselves takes patience and a lot of time.
- It is hard to obtain direct payment from clients for counseling services, since the business owner may not see a direct product of the counseling (e.g., in the form of a business plan or written report offering recommendations).
- It is more difficult to assess the benefits of counseling, since capacity-building outcomes are often not as tangible as monitoring and evaluating business improvements based on consulting or advising recommendations.

Counseling also offers grassroots capacity-building opportunities consistent with the Peace Corps' three goals and the goals and objectives of your business sector project. In the ideal situation, your Counterpart as well as micro and small business owners benefits from your counseling efforts. During the business counseling process you have ample opportunities to: share technical skills, share American culture, and gain firsthand experiences about local life and culture to share with friends and family when you return to the United States.

If you have not already reviewed your business project plan, ask your technical trainer and/or Peace Corps country staff to go over the project plan with you. Identify where in the plan counseling could help achieve the plan's goals and objectives.

Extension is the delivery of any form of advice or nonmaterial assistance outside a classroom, usually to clients at their places of business. It is a generic term, and includes advising, consultancy, and counseling.

Extension is about "where," while advising, consulting, and counseling are about "how." The major disadvantage of extension efforts are the time and cost required to make visits to business sites. Going to the micro and small business owners is especially appropriate because:

- Micro and small business owners may be uncomfortable in a classroom or group setting. This can result from their lack of formal education or social norms—women may be uncomfortable in the presence of men, or older business owners in a class with young people. However, after group-training sessions take place, extension visits can be a valuable addition to the class. A Volunteer assigned to the Chamber of Commerce in Santo Domingo, Dominican Republic, has been instrumental in getting that organization to include an extension visit as a follow-up to business classes.

- Micro and small business owners are often competitive with one another. They may be willing to cooperate to a certain extent, but there is always a risk that one person's success will result in the failure of his or her neighbor. He or she would rather discuss business matters in the privacy of his or her own business.
- Training may need to go to the micro or small business owners because they are unable to afford the time away from their businesses (they often run their businesses single handed) and costs to travel to training.
- Unlike financial services that offer a commodity, that is, money, different businesses need a variety of BDS. Working at the business enables the counselor to see the situation and tailor BDS to fit the business.
- You and your Counterpart will have a more complete understanding of a business if you observe it in operation.
- Extension visits provide chances to work one-on-one to build management capacity.

IN BUSINESS CULTURE MATTERS

As you carry out counseling and extensionist efforts with Counterparts, community partners, and host country individuals interested in starting or expanding a micro or small business, you will occasionally—perhaps often—have the feeling that you are unable to communicate. This may be more than your lack of language skill; it may be due to cultural differences. How exactly does culture impact written oral and body language business communications in your host country? How do you bridge these cultural differences? Experienced Volunteers and your Peace Corps' trainers and program staff are good people to discuss these questions with.

A good source of information on bridging the cultural gap in business is, *Global Business Challenges: Am I Ready?* by Maija Gazue, International Concepts. Ltd. Boulder, Colorado. 1994.

You can avoid creating unnecessary problems for yourself by realizing you are bridging two, sometimes more, cultures. This can, at times, feel like you are walking a tightrope. The following advice can make your Peace Corps assignment more enjoyable and your work with your Counterparts, community partners, and business clients more effective:

- Genuinely respect the culture and strive to be a good guest.
- Keep learning so you can understand your hosts better.

- Accommodate differences: These consist of the laws, legal practices, and important social conventions. (An important social convention in many countries is that to do business, you must get to know the people and build a trusting relationship.)
- Choose to accommodate some superficial behaviors, customs, and courtesies. (It is polite to behave according to their culture. However, they are also curious to learn about you and your culture.)

Now that you are aware of the impact of culture, let's move on to explore how you can be a business counselor in an extension situation. Key elements are keen observation, asking thought-provoking questions, and, of course, your cultural sensitivity.

THE QUESTIONING METHODOLOGY

Learning is most effective if the learner believes that he himself (or she herself) is the source of the new knowledge. This may be the only way somebody can learn from a person whom they believe knows no more than they do about their business. A skillful teacher does not tell a child that 2 + 2 = 4, but leads the child to this conclusion by a series of carefully chosen questions, so that the child feels he or she is making the discovery. Similarly, on a higher lever, a small business counselor must act as a guide rather than an instructor. Remember, you probably need to get to know the business owner and establish some rapport before beginning the questioning methodology. The following two simplistic examples illustrate this approach.

The first is a dialogue between a shopkeeper with a low number of sales and a business counselor.

Counselor: These figures show that your shop is making a good profit on everything it sells, but it is not selling enough. How do you suppose you can sell more goods?

Shopkeeper: By having more customers.

Counselor: And why do you think customers come to a particular shop?

Shopkeeper: Well, they come where their friends are, where they can find what they need, and where it is convenient.

Counselor: Your shop is convenient, and you have many of your friends and family around here. Can they find everything they need here?

Shopkeeper: Well, I have everything the other shops have.

Counselor: Do your customers know you have it?

Shopkeeper: Well, it is all here on the shelves or on the floor for them to see.

Counselor: Can they see it from outside in the marketplace before they have even decided to come in?

Shopkeeper: No, I suppose not.

Counselor: How can you tell them that you have what they need in here before they even decide to come in?

Shopkeeper: I am not sure.

Counselor: Come outside a moment. Now look around the market. Which shops are the busiest? How are they different from the others?

Shopkeeper: They are all brightly covered with advertisements, and my shop looks very uninteresting. I can soon change that.

They then went on to discuss obtaining more sales per customer, by selling products that were not already in stock elsewhere in the village. Here again the shopkeeper herself recommended the idea, and the specific items that people presently had to travel to another town to find.

Are you beginning to understand how to effectively use leading questions? Let's read through one more example before trying it ourselves.

Example of a metal window frame maker's conversation with a business counselor who works for a microfinance institution (MFI). The frame maker has applied for an additional loan.

Counselor: You say you want an electric grinder to smooth the corners of your window frames now that there is power in the village, but you cannot get a loan. Our figures show us that you have a large amount of money tied up in this business already. What have you used those funds for?

Window M: The stock of metal strips for windows.

Counselor: And how often do you go to the city where you can buy more steel strips?

Window M: Every week.

Counselor: And why did you buy six months worth then?

Window M: Because I got a three percent discount for buying such a large quantity.

Counselor: How many grinders could you have bought for the money you paid for those strips?

Window M: Three or four, but I needed the strips.

Counselor: Yes, but in order to save three percent on the strips you deprived yourself of the grinder. Would you rather have the great heap of steel strips and the three percent savings or a grinder?

Window M: A grinder I suppose, but what can I do about it now?

Counselor: Are you saving already for your next six months purchase of steel strips?

Window M: Yes, I already have a quarter of the money I need.

Counselor: What else might you do with that money?

Window M: Well, it might be enough for a grinder by the end of the next month . . .

Here, the idea of capital as something that can be used and that is profitable at the discretion of the owner was introduced by the counselor's questions, but the idea appeared to originate from the businessman himself. Next time the businessman needs something for his business, might he think of other alternatives before asking for a loan?

No advice is better than bad advice.

—a business Peace Corps Volunteer
in the Czech Republic

ACTIVITY 5:1

QUESTIONING ROLE PLAY

Form pairs for this role play. If the numbers are uneven, or just for fun, talk some of the training staff into participating. Read the situation below. Decide which member of your pair will play the role of the shopkeeper and who will be the counselor. Do the role plays away from the other training participants so they cannot overhear. After all pairs ha ve finished, share your solution. If there are differences of opinion on the best solution, discuss them.

A shopkeeper has $10 to spend on new stock. She can either buy ten blankets, which she will sell for $1.50 each, or 100 packets of tea, which she will sell for $0.11 each. She will sell the blankets at a rate of one per month, and the tea at a rate of 100 packets per month. Should she buy the blankets or the tea? Why?

WHAT AREAS PRESENT PROBLEMS FOR MICRO AND SMALL BUSINESSES?

Research suggests that the problems of micro and small businesses in developing and redeveloping countries are not fundamentally different from those of small businesses in developed countries. Yet it is still necessary that training materials and assistance programs be modified to suit local circumstances. To this end, we have:

- Emphasized awareness of cultural differences in working with small businesses;
- Used a counseling approach and questioning methodology to tailor assistance to the individual business owner's needs; and
- Adopted the business-extensionist policy because small business owners are often reluctant or cannot afford to go to group training.

Now we turn our attention to some common concerns of these small and micro businesses. Businesses need capital, suppliers, equipment, buildings, customers, employees, and, above all, proper management. We shall investigate later how we can find out the needs of any specific business, and we shall see that they do not always need what they believe they need. Nevertheless, small and micro businesses do face difficulties. In particular:

Capital: Most entrepreneurial business people are short of capital, since they have more ideas than they have money to put them into effect. Nearly all small business people state that their biggest, or even their only, problem is shortage of capital. This is not always correct.

Banks may not be an option if the business lacks collateral to secure a loan or the loan is too small or too risky to justify a bank's transaction cost. Families may be willing to lend money, but when this source is exhausted the small company needs to turn elsewhere. Combining the MFIs described in modules two and three may be the solution. MFIs' mass-marketing lending methods allow them to make small loans at a reasonable cost.

Customers: Every business needs customers, but micro and small business people often find it particularly difficult to sell enough of their products or services to keep them busy and earn a reasonable living. They cannot afford to hire professional salespeople or advertise; big international companies are not competing in remote rural markets, and the small businesses are at a disadvantage even in their own villages. They are far less able to sell their goods in the growing urban areas, where people often need the products, because the large firms can afford to use modern marketing tools.

The Internet may offer some hope. Particularly in the craft market, small rural craftspeople are able to access national and international markets through the Internet. Access to and an understanding of the Internet can open new markets for previously isolated businesses. Another possibility is for a small business to join with other businesses to reach more customers than it is possible to reach on its own.

The quality of goods or services may cause customers to purchase someplace else, but often it is a lack of customer service that turns customers away. Microenterprise owners may not realize that how they treat their customers has as much to do with their sales as the products and services themselves.

Joint activities: Small business people often need to cooperate with one another to obtain reliable and economical supplies of raw materials, to market their goods, and to present their views to government and the general public. Individually it is difficult to order large amounts of raw materials and get quantity discounts, market their products outside their local area, and be heard by government and the public. Yet, any form of cooperation requires initiative from an experienced person who has the time and ability to organize it. Frequently, the only way micro and small businesses can compete with larger ones for sources of supply, for markets, and for government attention is through cooperative efforts.

Information: Micro and small businesses are often unable to take advantage of services provided by government, development agencies, or NGOs because they do not know about them. They may also lack information on emerging markets for their services and products. Here again joint activities and the Internet help bridge the communications gap, as does the radio in rural Africa, MFIs informing their clients of training and marketing opportunities, and development organizations like the Peace Corps.

Management: Finally, and most important, micro and small business people are in need of management assistance. They must compete with managers and management techniques, which have been tried and tested in large firms. We have already defined small business as those where management is, in a sense, a part-time activity, carried on by someone who is mainly a craftsperson or a shop assistant. Small businesses cannot afford to hire full-time managers, so their owners have to learn to “do it themselves.” Micro businesses are often new operations, and children have not had the opportunity to learn from their parents.

Small business people sometimes need more capital, but they nearly always need management training. Better management can help them make better use of their limited capital. Many small business people fail to realize that if they do get a loan they will have to repay it with heavy interest charges. Better management can also help them identify low-cost marketing techniques and design their products and services to appeal to their customers.

As you start working with a small business owner or manager, be a detective. Through observation and conversations discover what would make the business more profitable and able to grow—more capital, additional customers, better access to marketing and technical information, joint activities with other small business people, or improved management. You must be able to do more than pass on standard business advice and check that it is followed on subsequent visits. A good business counselor is a sort of "business doctor" who can examine each patient individually, diagnose the problems, and then ask the right questions to help the business owner or manager figure out the remedies to heal them.

ACTIVITY 5:2

FOUR MICROENTERPRISE CASE STUDIES

Divide the training group into groups of three or four people. Each person is responsible for reading the case study, developing a plan for helping the microenterprise owner find a solution to his or her problem, and presenting the case study to their group for discussion. Your technical trainer may have additional local case studies for you to discuss.

The Baker

The baker claimed that she needed more capital; her ovens and her labor were only half occupied because she could only sell her bread through this shop. If she had a pickup truck she could transport the bread to outlying villages and run her bakery at full capacity. She asked for a loan to buy a pickup truck.

Careful questioning revealed that the daily cost of running a pickup on the very bad roads in the baker's home area would almost equal the total value of the bread it could sell in one day. The neighboring villages were widely scattered, along four different roads out of the town where the bakery was, and it would be necessary for the pickup to pass through the town three times a day in order reach all the villages. This meant that the truck would have to cover many miles, and the villages were too small to buy more than a few loaves each. If the baker had been able to obtain a loan and buy a pickup, she would very soon have gone bankrupt, because of the high expenses of running the vehicle when compared with the very small profits to be obtained from selling more bread.

What did the baker need? She did not need a loan. She needed to know how to calculate the costs of her proposal—cost of the pickup and potential profit from the additional bread sales. The results of her calculations would encourage her to find a better solution to her problem.

What questions would you ask to encourage the baker to investigate other alternatives and find a more profitable solution?

Continued

Activity 5:2, continued

The Shoemaker

The shoemaker made shoes in four different styles. They were well made and durable, and had sold regularly in the village for many years. Sales had dropped off recently, and the shoemaker complained that he needed more customers; as he saw it, his business was shrinking because people were not buying as many pairs of shoes as they used to. He thought that he would be able to do better if he could afford to sell on credit.

A brief inspection of people's footwear, and one or two questions, showed that they were now going to a nearby town where a large shoe shop sold the latest styles. These were expensive, and not very well made, but the younger people in particular felt they had to adopt the latest modern fashion.

What did the shoemaker really need? The shoemaker thought he needed more customers. He was right, but he had first to realize that it was his job, as a businessman, to find out what his customers wanted, and to provide it. He really needed to learn about marketing.

What questions would you ask to help him work through his marketing problem?

The Carpenter

The carpenter made simple furniture and sold it from his shop to local people. He said that he could not bid for large contracts to make school desks and benches because he did not have enough money to buy the quantities of wood that would be needed.

When the carpenter's accounts were computed, it showed that he was earning a reasonable profit every month, which was more than enough to pay for his simple way of living. He eventually admitted that he gave all his spare cash to various relatives who continually pestered him with requests for help.

What did the carpenter need? He thought he needed more capital, but his family would probably have talked him out of the money he obtained through a loan. He really needed to stand back and look at the long-term. He then realized that his family's long-term benefit depended on short-term sacrifices and proper financial management.

How would you help the carpenter think through an approach to gain his family's cooperation?

Continued

Activity 5:2, continued

The Tank Maker

The tank maker manufactured circular water tanks out of corrugated iron sheets. He had to spend a great deal of time, and money, in buying ready-curved sheets from the city and transporting them to his village. He asked for a loan to buy a curving machine for himself. With this he could save time and money, since he could buy uncurved sheets from the dealer in the village without going to the city.

When the tank maker was shown how to calculate the cost of the curving machine each month, he soon realized that he could not employ it economically on his own. He could curve all the sheets he needed in four days out of the month. The rest of his time was taken up building, selling, and delivering the water tanks. There were three other water tank makers in town who also went to the city to purchase curved corrugated iron sheets.

What did the tank maker really need? He needed a machine, but more important he needed to know how to calculate the cost of owning a machine and figure out a more profitable solution to his problem.

What questions would you ask to help him come up with a different and better proposal?

Note: A few possible solutions to the problems posed in these case studies are listed at the end of the module. You probably can think of others and perhaps they are better than the ones listed.

(Case studies adapted with permission from *Consultancy for Small Businesses* by Malcolm Harper, Intermediate Technology Publications Ltd., London, 1977. pp. 6–8.)

MICROENTERPRISE OWNER-MANAGER CAPACITY BUILDING

Capacity is the ability to put ideas into action. Microenterprise owners/managers often have great ideas, but they lack the ability to put those ideas into action. In the case studies and examples, we have read about owners/managers who lacked the ability to calculate cost, to attract customers, to deal with relatives, to form links with similar businesses, etc. These microenterprises and their owners/managers are a diverse lot, and of course their competencies also differ. However, there are certain basic changes that would increase the capacity of most microenterprise owners/managers.

1. Changes in attitudes and behavior**,** not just an increase in knowledge. We want the business owner to perform better and not merely to be able to pass an examination in management.

2. Ability to analyze their own situations. It is not enough to learn facts about business in general. They must see how these learnings apply to their own businesses.

3. Evidence of bigger profits. Appealing to the profit motive is a learning motivator. We probably will not see financial reports showing higher profits; microenterprise owners/managers are reluctant to share this information, but we may see improvement in business facilities, more employees, or improvement in living conditions of the owner's family.

4. Willingness to practice what they are learning on their own. Microenterprise owners/managers work alone; unlike owners and managers of larger firms, they do not have the encouragement of colleagues.

5. Permanent changes in management skills. We want the business people not just to perform better when we are watching, or the following month, but for many years.

6. It is extremely important that the microenterprise owners/managers choose what is right for themselves as individuals, and not just follow general rules that may be quite wrong in particular cases. Microenterprises are vulnerable; individually these tiny firms have little power to protect themselves from misfortune, or bad advice, and owners often depend entirely on their businesses to support themselves and their families.

Module 5, "Business Counselor and Extensionist" was written primarily for Pre-Service Training. However, the readings and activities can easily be adapted to involve Counterparts at an In-Service or Mid-Service Training or at your site. The intention is that you engage in business counseling and extension work with your Counterpart.

As a team you and your Counterpart strengthen each other.

- The presence of a Counterpart helps bridge cultural gaps.
- Your Counterpart may be able to assist with translation until your language skills improve.
- Counterparts "know the territory." They can ease your transition into the business community and advise you on local business practices.
- You are a source of new ideas, connections, skills, and enthusiasm for your Counterpart.
- Ideally, your Counterpart will gain the capacity to carry on the business counseling and extension work after you return home.
- Two sets of eyes and ears in observing a business are better than one.

The counseling process usually involves several visits to a microenterprise owner's business. Keeping organized records helps you keep track of what happened during each visit, and at the same time model good business record-keeping habits. What follows is one idea for a client counseling record. Does it meet your and your Counterpart's information requirements? If not, modify the form or design a new report.

CLIENT COUNSELING RECORD

(Name of the organization you are assigned to)

Client's Name: ____

Name of Business: ____

Name(s) of Counselor(s) _____________________________________

Who initiated the visit? _____________________________________

Date of visit ___________ **Date of last visit** ___________ **Next appointment date** ___________

Is the business operational: _____ Yes _____ No

How many people work in the business full time? _____ Part time? _____

Has the number of people working in the business changed since your last visit?

____

What in the business appears to have changed since your last visit?

____

Area of Counseling:

Business start-up	_____	Computer System	_____
Marketing or sales	_____	Export	_____
Business plan development	_____	Insurance	_____
Accounting and financial reports	_____	Licensing	_____
		Networking/links	_____
Cost control	_____	Customer service	_____
Inventory Control	_____	Personnel	_____
Information sources	_____	Produce/service quality	_____
Time management	_____	Managing customer credit	_____
Cutting business costs	_____		
Other ________________	_____	Decision making	_____

Comments: (Describe the business concerns that were discussed. What information needs to be gathered before the next appointment? Include what decisions the owner/manager made as a result of the counseling. What does the owner/manager plan to accomplish before the next appointment? Add additional information on the back of the page, if needed.)

____

____

ACTIVITY 5:3

PRACTICING THE COUNSELING AND EXTENSIONIST SKILLS YOU HAVE LEARNED

Do this activity individually or in pairs. Large groups destroy the dynamics of one-on-one counseling. Look for an opportunity in your training community to counsel a microenterprise owner. Your host family may be able to suggest a business, or ask your training staff to help you locate a microenterprise. If language is a problem, invite a language instructor to accompany you.

- Spend some time getting acquainted with the microbusiness owner/manager.
- Explain who you are and why you want to learn about microenterprises in their country.
- Discuss the concerns they have about their business.
- Be appreciative in how you ask questions. Notice and mention the things they are doing right in their business.
- Use the form on the preceding page or make your own form to record counseling information.
- Listen, ask thought–provoking questions, but do not give advice.
- Offer a small gift to say “Thank you for your time” if that is culturally appropriate.

Discuss with your fellow training participants and trainers what you observed and learned. Were your experiences similar or different? What conclusions did you reach? What does the owner/manager think he or she needs? What do you think they need? What actions are they willing to take to improve profitability?

Working with microenterprise owners/managers and potential microentrepreneurs is fun, exciting, satisfying, and, at times, frustrating. If you seem to not be communicating with a micro–business owner/manager, review the cultural business values to find out if cultural barriers are causing your difficulties. Capacity-building takes time; do not expect changes to happen overnight. It can take several months just to develop a level of trust where a business owner/manager will discuss his or her business with you. You are not alone. Volunteers in approximately 60 countries are assisting microenterprises to increase profits and families' quality of life.

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KEY TERMS

Key terms are defined as they are used in the module. A __space__ is provided to write the local language translation of the word or phrase. Building a local language vocabulary of terms related to microenterprise prepares you to function effectively in this area of development. Work with your language instructors to find the appropriate translation and definitions in the local language and build your technical vocabulary as you study this module.

Advising is to offer advice, to recommend, or suggest.

Consultancy is expert advice, on specialized technical and managerial issues, provided by a skilled and experienced consultant who appraises the situation and recommends a course of action.

Counseling is a guided process of self-discovery, whereby the counselor guides and helps the client identify problems, opportunities and resources, define options, and select a course of action.

Capacity is the ability to put ideas into action.

Extension is the delivery of any form of advice or nonmaterial assistance outside a classroom, usually to clients at their places of business. It is a generic term and includes both consultancy and counseling.

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RESOURCES

Accounting for the Micro Business: A Teaching Manual. Michael Ronan/PCV Colombia. (Peace Corps ICE.) 1975. 105 pp. (ICE No. R0023B)

A teaching manual to help small business entrepreneurs learn basic accounting. Lessons explain the nature and objectives of such fundamental business practices as balance sheets, profit and loss statements, credit books, cash books, transactions, etc. Designed for teaching on a one-to-one basis or in small groups. Also available in Spanish, *Contabilidad para la Micro Empresa: Manual de Ensenanza* (ICE No. R0023).

Beyond Credit: A Subsector Approach To Promoting Women's Enterprises. Martha Chen, Editor. (Aga Khan Foundation.) 1996. 155 pp.

Explores interventions to promote the enterprises of low-income women in developing and redeveloping countries. Contains cases drawn from a variety of organizations in Africa, Asia, Latin America, and North America. Outlines framework and guidelines for understanding and applying participatory subsector analysis.

Entrepreneurship: How to Start and Operate a Small Business, Module 1, Chapters 1–17. Steve Mariotti (The National Foundation for Teaching Entrepreneurship Inc.) 1987. 216 pp.

A simple course designed to teach young adults the fundamentals of starting and operating a small business venture. Provides only a minimal introduction to disciplines such as accounting and economics. The ultimate goals are financial independence, personal satisfaction, and a sense of self-worth. Module 1 includes units on Introducing Entrepreneurship, Types of Enterprise, and Exploring Profit.

Entrepreneurship: How to Start and Operate a Small Business, Module 2, Chapters 18–37. Steve Mariotti (The National Foundation for Teaching Entrepreneurship Inc.) 1987. 216 pp.

A simple course designed to teach young adults the fundamentals of starting and operating a small business venture. Provides only a minimal introduction to disciplines such as accounting and economics. The ultimate goals are financial independence, personal satisfaction, and a sense of self-worth. Module 2 has units on Business Communication, Types of Enterprise (in addition to those identified in Module 1), and Financing.

Entrepreneurship: How to Start and Operate a Small Business, Module 3, Chapters 38–50. Steve Mariotti (The National Foundation for Teaching Entrepreneurship Inc.) 1987. 135 pp.

A simple course designed to teach young adults the fundamentals of starting and operating a small business venture. Provides only a minimal introduction to disciplines such as accounting and economics. The ultimate goals are financial independence, personal satisfaction, and a sense of self-worth. Module 3 contains units on Real-World Applications, Business Behavior, and The Entrepreneur's Responsibilities.

FIDIKA! Business Training for Women's Groups: The Tototo Way. Kevin Kane/ Tototo Home Industries staff. (World Education, Inc.) 1992. 66 pp.

Contains 14 easy-to-follow lessons for training people in business skills. Designed for trainers and extension workers helping village groups develop successful and profitable businesses. Can be adapted to a variety of training situations, including the training of trainers.

Improve Your Business: Handbook. D.E.N. Dickinson, Editor. (ILO.) 1986. 129 pp.

Suitable for trainers and individual business people, this manual provides the basics to succeed in business on the premise that business improvements are the result of creative entrepreneurs. Consists of eight sections dealing with buying and selling, manufacturing and service operating, bookkeeping, costing and pricing, marketing, management accounting, office work, and planning. Supplements text with illustrations and practical examples. (A workbook is available to accompany this handbook.)

Improve Your Business: Workbook. D.E.N. Dickinson, Editor. (ILO.) 1986. 83 pp.

Contains eight sections of problems corresponding to the eight portions of the handbook. Each section asks a set of questions, then gives you a number of business exercises, and finally shows you how to set up an action program to solve your problems. Useful for trainers and extension workers. (Accompanies handbook described above.)

Income Generation and Money Management. PCV Sheila Reed. (Peace Corps ICE.) 1994. 70 pp. (ICE No. R0087)

Originally entitled *Income Generation and Money Management: How to Train Gambian Women*, this manual is applicable to low-literate entrepreneurs in other parts of Africa and perhaps elsewhere as well. Contains helpful numeracy activities and good materials for small business/women in development projects.

Marketing Strategy: Training Activities for Entrepreneurs. Suzanne Kindervatter and Maggie Range. (OEF International/UNIFEM.) 1986. 96 pp.

Examines the problems women entrepreneurs face in developing small businesses that focus on marketing. Provides activities that facilitate the implementation of new ideas for women with their own businesses. Useful text for experienced trainers, extension workers, and programmers. Also available in Spanish, *Estrategiá de Mercadeo: Entrenamiento para Empresarias*, and in French, *Strategie de Marketing: Activités de Formation pour Entrepreneurs*.

Nonformal Education Manual. Helen Fox. (Peace Corps ICE.) 1989. 163 pp. (ICE No. M0042)

Demonstrates how virtually all Peace Corps Volunteers can use the techniques of nonformal education (NFE). Emphasizes full-scale community participation at all stages of development. Uses Volunteer experiences to illustrate the nature and principles of NFE. Includes information on adult learning, identifying people's needs, planning and evaluating NFE activities, working with groups, and developing appropriate materials for NFE activities. Also available in French, *Manuel d'Education Non Formalle* (ICE No. M0048).

Internet:

www.microenterpriseworks.org — This is the Internet site for the Association for Enterprise Opportunity. The site contains success stories of low-income entrepreneurs.

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ACTIVITY 5:2 Reference

SUGGESTED SOLUTIONS FOR CASE STUDIES

The Baker

- Buy a motorbike and hire a student to deliver loaves of bread to the four neighboring villages.
- Get the local bus driver (assuming there is a bus) to deliver the loaves of bread.
- Diversify product line and make bakery products other than bread to sell in the bakery.

The Shoemaker

- Visit the store in a nearby city where his former customers are buying shoes to see what styles are selling.
- Advertise in the local newspaper that he takes special orders to make shoes to customer's specifications.
- Make several pairs of the new style shoes and display them in his window.

The Carpenter

- The carpenter may need to keep money in a bank account instead of at home, where it is easy for him to give it to relatives.
- The carpenter may hire some relatives to fill the larger orders so they can appreciate the benefits of the carpenter growing his business.
- The carpenter may need to learn to say "no," although that may not be culturally acceptable.
- Perhaps he could enlist the help and understanding of the elder in the family to explain to family members why the carpenter will not be able to give away money for several months.

Continued

Activity 5:2, Suggested Solutions, continued

The Tank Maker

- The tank maker might explore forming a cooperative with the other three tank makers and sharing the cost of the bending machine.
- The four tank makers might agree to purchase curved corrugated sheets jointly, getting a quantity discount and sharing the cost of transportation. This would result in cost and time savings for all of them.
- The tank maker might approach the other tank makers and offer to sell them curved corrugated sheets at a price less than they are now paying. This assumes that using the curving machine is a more profitable use of his time than making, selling, and delivering tanks.
- The four tank makers might explore forming a joint venture, cooperating on the whole business process, purchasing raw materials, curving the sheets, building, selling, and delivering tanks.

TRAINER'S NOTES

MODULE 5
BUSINESS COUNSELOR AND EXTENSIONIST

Overview:

This last module concentrates on preparing training participants for their roles as business counselors and extensionists. Since the role of counselor depends heavily on interpersonal skills, training participants are alerted to the impact of business cultural values and how to bridge differences in culture, and the use of "questioning methodology" in enabling businesspeople to solve their own problems. To better understand why the roles of counselor and extensionist are preferred, these roles are compared with those of a consultant or advisor. Much of the module is devoted to case studies of typical small business situations to provide trainees with practice in analyzing business situations and counseling business owners.

Time:

Reading	1 hour
Activities	10 hours

Materials:

Provide several books that cover the delivery of nonfinancial business development services (BDS). See Resources section for suggestions. Also, provide copies of the Business Sector's Project Plan.

Preparation:

- Arrange with the business program manager or other Peace Corps staff to discuss their project plan and how counseling and extension help achieve project goals and objectives.
- You may wish to translate the business cultural values continuum so more local people can participate in discussions of cultural issues with the training participants.
- Arrange for pairs of training participants to practice their counseling and extensionist skills with small business owners. These might be the same people the training participants shadowed in an earlier module.

Continued

Trainer's Notes, continued

Debriefing the experience and processing the learnings:

Important learnings in this module are that it is not enough just to transfer technical skills. Volunteers need to build the management capacity of microenterprise owners, and the way they do this is by asking questions to help the business owner pull together his or her own knowledge to reach solutions that will increase the business's profitability. Discuss the aspects of counseling that were difficult and explore how individual training participants can continue to improve their interpersonal, cultural, and counseling skills.

TRAINER'S NOTES

ACTIVITY 5:1
QUESTIONING ROLE PLAY

Overview:

This role play activity allows training participants to practice using the questioning methodology, have a little fun, and hopefully realize they should consider a wider range of issues than just the numbers.

Time: 30 minutes

Materials:

None other than the scenario contained in the reader's training materials.

Preparation:

Training participants should be able to conduct this simple activity themselves.

Debriefing the experience and processing the learnings:

If training participants do not bring up the following themselves, use the "questioning methodology":

- The 10 blankets will be sold in 10 months and generate a profit of $5: 10 blankets at 50 cents profit each ($1.50 sale price minus $1.00 cost).
- The tea will be sold in one month and generate a profit of $1.00: 100 tea packets at 1 cent profit each (11 cent sale price less 10 cent cost).
- The profit margin on the blankets is higher, but so is the risk of having stock on hand for nine more months than the tea.
- What would be the profit over the 10 months if the shopkeeper used $10 of the $11 sales each month to buy 100 packets more of tea?
- Should she consider buying some blankets and some tea? If so, why? And how many items of each?

Ask questions in an appreciative way so respondents do not feel like they are being cross-examined. Did anyone, as they did the role play, take out paper and pen and work through the calculations together?

TRAINER'S NOTES

ACTIVITY 5:2
MICROENTERPRISE CASE STUDIES

Overview:

These case studies enable training participants to think about typical microenterprise problems and devise ways they would assist the owners in thinking through solutions.

Time: 1 hour

Materials:

The case studies contained in the reader's training materials. You might want to write some additional case studies based on your local experience or ask current Volunteers to write case studies based on their experiences with local businesspeople.

Preparation:

Training participants should be able to conduct this simple activity themselves.

Debriefing the experience and processing the learnings:

Have training participants facilitate the discussions. The conversations will probably be more interesting if business programming staff, local small business consultants, and/or Volunteers can participate in the conversations. The following are merely a few suggestions; there are no right answers. The process of helping a microenterprise owner arrive at a reasonable solution is what is important.

Suggested solutions for case studies:

The Baker

- Buy a motorbike and hire a student to deliver loaves of bread to the four neighboring villages.
- Get the local bus driver (assuming there is a bus) to deliver the loaves of bread.
- Diversify product line and make bakery products other than bread to sell in the bakery.

Continued

Trainer's Notes, Activity 5:2, continued

The Shoemaker

- Visit the store in the nearby city where his former customers are buying shoes to see what styles are selling.
- Advertise in the local newspaper that he takes special orders to make shoes to customer's specifications.
- Make several pairs of the new style shoes and display them in his window.

The Carpenter

- The carpenter may need to keep money in a bank account instead of at home, where it is easy for him to give it to relatives.
- The carpenter may hire some relatives to fill the larger orders so they will appreciate the benefits of the carpenter growing his business.
- The carpenter may need to learn to say "no," although that may not be culturally acceptable.
- Perhaps he could enlist the help and understanding of the elder in the family to explain to family members why the carpenter will not be able to give away money for several months.

The Tank Maker

- The tank maker might explore forming a cooperative with the other three tank makers and sharing the cost of the bending machine.
- The four tank makers might agree to purchase curved corrugated sheets jointly, getting a quantity discount and sharing the cost of transportation. This would result in cost and time savings for all of them.
- The tank maker might approach the other tank makers and offer to sell them curved corrugated sheets at a lower price than they are paying. This assumes that using the curving machine is a more profitable use of his time than making, selling, and delivering tanks.
- The four tank makers might explore forming a joint venture, cooperating on the whole business process, purchasing raw materials, curving the sheets, building, selling, and delivering tanks.

TRAINER'S NOTES

ACTIVITY 5:3
PRACTICING THE COUNSELING AND EXTENSIONIST SKILLS YOU HAVE LEARNED

Overview:

This activity allows training participants to experience and put together the various elements discussed in the module—cultural business values, core competencies for microenterprise owners/managers, the "questioning methodology," and working with an owner/manager one-on-one to discuss business concerns and help the owners/managers arrive at their own solutions.

Time: 2–3 hours

Materials:

Copies of the "Client Counseling Record."

Preparation:

Depending on the training community, you may need to help training participants identify microenterprise owners/managers to visit for this activity. In some communities participants can set up these visits themselves.

Debriefing the experience and processing the learnings:

Have each individual or pair report to the training group on their findings. Discuss commonalities and learnings. What would training participants do differently in their next visit to a microenterprise owner/manager? Did they notice cultural differences?

Also, use this final activity as an opportunity to discuss the history of the Peace Corps in your country with nonfinancial, business development services. Where have Volunteers had successes in this area in the past and what are unexplored opportunities? Are their "potholes" to watch for? What local resource people might assist Volunteers with BDS?