

Strategies for Microenterprise / Small Business Development

Starting a small business can be an attractive fit with the skills, backgrounds, and aspirations of AFI Project participants. Ownership of a small business is truly an important financial asset that can enable individuals and their families to be economically self-sufficient for the long term. AFI Projects that enable people to save for a small business need to ensure that their participants have access to a variety of additional business planning assistance and entrepreneurship services—in addition to the AFI Project financial literacy education and matched savings accounts.

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Program Considerations

1. AFI Microenterprise / Small Business Policies

AFI Projects may use project funds to help project participants save in their Individual Development Accounts (IDA) to support any number of expenses needed to implement a business plan for establishing a small business or to support an existing one. Typically, participants use their IDA savings for expenditures such as purchasing equipment and inventory, legal requirements for establishing a business, and paying rent.

2. Program Design

The most successful AFI Projects that help participants support a microenterprise or small business offer a number of related training and services, such as business technical assistance, business plan preparation, and/or access to capital in addition to the matched IDA savings.

When developing your organization's strategy for helping participants save for a microenterprise, consider the types of business training and support it will be able to provide. Reach out to other groups and agencies that specialize in microenterprise services for low-income people. If your organization is not experienced at providing business training and support, consider partnering with one that is. A partner may need support from you to be able to serve your AFI Project participants with regard to their education level, culture, and language.

If your organization is not a financial institution or does not manage a nonprofit loan fund or microenterprise program, it will need a partner to approve and qualify the business plan prior to making disbursements.

Steps in the Process

1. Market and Recruit Participants

Develop marketing materials for your program. Frame the AFI IDA matched saving as part of an overall package of supports for developing a small business. This approach will have stronger appeal than simply listing microenterprise as a savings goal on general flyers.

Be sure to advertise the menu of supports and services your agency provides for entrepreneurs, such as business technical assistance, business planning and incorporation, entrepreneurial classes, and/or micro-loans in the announcements.

If your organization is partnering with another organization, work with them to help market the program.

2. *Enroll Participants*

Discuss the business development process and concept with potential AFI Project participants during their enrollment or pre-enrollment interview, or work with a partner organization to help assess the feasibility and viability of the potential participant's vision for his business.

Knowing up front the feasibility and status of the participant's business model is critical to providing the right assistance to help the participant translate his or her vision into a successful income-generating business during the IDA program period.

3. *Participants Begin Saving*

Saving in an AFI Project IDA is a great way to develop a track record that will be so important for actually owning and managing an ongoing business enterprise. By saving regularly in their IDA, participants will demonstrate their ability to make regular monthly payments. They will also be developing a positive credit history and building a strong relationship with a financial institution.

By saving on a regular basis -- and not relying too much on sporadic lump sum deposits -- emerging entrepreneurs will develop a good business credit history.

Many organizations that provide financing for micro enterprises and small businesses are creating special fast track loan products for IDA micro-entrepreneurs.

4. *Participants Attend Financial Literacy Training*

Helping entrepreneurs learn skills to track and manage personal income, debt, and expenses is a basic step to translating these skills into a small business environment. Good financial management is at the core of every successful business.

Since many AFI IDA savers begin business as a sole proprietorship, learning to track household and business transactions separately will let them make appropriate tax deductions and profit assessments.

Consider a different strategy for providing financial literacy training for participants who are saving for a microenterprise. Integrate the usual financial literacy training into the more specific asset training. Both components are closely related.

5. *Run Participant Credit Checks*

If an AFI Project participant has bad credit or no credit history, it may be difficult for them to obtain a business loan or line of credit. Be sure to assess the credit worthiness of micro-entrepreneurs early in the program, and take action when needed in order to ensure that the participant will be able to develop a feasible business plan using available financial resources.

A multi-year IDA can help participants establish credit in traditional and untraditional ways.

6. Participants Attend Microenterprise / Small Business Training

AFI Projects need to be able to provide a diverse and flexible set of business development services for microenterprise clients. This is because clients typically come with widely varying degrees of skills, knowledge, and understanding of business practices.

Small business training can include group courses on marketing, financial projections, legal structures, licenses, and business plan development.

Many new entrepreneurs are often guarded with their business ideas and prefer to seek one-on-one assistance with loan applications and strategy development. Look for additional resources in the community through Community Development Financial Institutions, credit unions, micro-loan institutions, Small Business Administration outreach centers, women's business centers, law schools, Masters of Business Administration programs, community mentors, Service Corps for Retired Executives (SCORE), etc.

7. Help Participants Develop Business Plans

AFI requires that IDA microenterprise savers develop and submit a business plan. A business plan describes the services or goods to be sold and includes a marketing plan and projected financial statements. The financial projections in the business plan, including Income Statements, Balance Sheets and Cash Flow statements, outline necessary business expenses and are often used as the basis for disbursements. Costs described in a business plan such as start-up expenses, equipment, rent, supplies, targeted marketing or advertising expenses, and inventory expenses are eligible IDA purchases.

Business plans are equally useful for business start-ups and expansions. An approved business plan not only serves as the basis for disbursing IDA funds but is also a good way to assess the viability of the business. AFI Project savers may require the assistance of an experienced entrepreneurial advisor to develop their business plan.

8. Help Participants Apply for Business Micro-loans and Bank Loans

AFI Project entrepreneurs will often need to leverage their IDA savings with business loans to accomplish their start-up or expansion plan. Providing linkages to community-based financial institutions and access to starter micro-loans will lend credibility to a loan application. An AFI Project organization's banking relationships can prove quite helpful for microenterprise clients.

9. Participants Submit Purchase Documentation to Receive Matching Funds

Distribution of AFI IDA funds is based on the participant's approved qualified business plan. The distributions can be made either to a business capitalization account held by the participant or directly to a vendor for eligible purchases.

It is often easier to use the IDA savings to purchase larger capital expenditures on a one-time basis rather than multiple smaller purchases on behalf of the business, but the latter is sometimes more practical for the start-up. Smaller expenses allow the entrepreneur to save a little, and spend a little, and use funds for business licenses, start-up equipment, and so forth while continuing to save. For example, participants can save \$500 and receive \$500 match for a sewing machine and cloth to start operating. They can start to earn money while continuing to save for future matched purchases. This policy, however, creates extra work for IDA staff with additional tracking, monitoring of bank accounts, and multiple match check disbursements.

AFI Projects should provide a checklist for participants on the documentation that you will require for disbursement. Typical documentation includes:

- approved business plan (description of the business product or service),
- market analysis,
- marketing plan,
- management and staffing plan, and
- financial projections.

In addition, AFI Projects should require participants to provide specific documentation, invoices, and receipts for proposed purchases and loan agreements (if applicable).

10. Follow-Up

AFI Projects should encourage their entrepreneur participants to stay in touch. Agency newsletters and access to local media add free advertising and marketing opportunities for the businesses. This is a win-win situation in which both the AFI Project and the small business get promoted. Agencies with large numbers of graduates can create directories of their small business portfolio and have fairs to promote sales.