

To: **Chairperson**
Upendo Development Group
P.O. Box 28014 Kisarawe
Pwani Region

Subject: **Request for Collaboration**

Please refer to our conversation between us held at the end of November 2003 in your office situated at Kisarawe. I kindly write to you introducing myself and also explaining my mission for collaboration.

I'm a graduate student currently doing Masters of Science degree in Community Economic Development since September 2003. The Southern New Hampshire University offers the Masters program jointly with the Open University of Tanzania. I'm attending class sessions at Dar es Salaam center.

One of the requirements of a student to qualify for SNHU Masters degree is to participate in designing and implementing development intervention in collaboration with local NGO or CBO that is working with community.

The intervention could be training, survey, evaluation, and program/project designing or developing a proposal depending on the community need. I apply working with you so that I fulfill this requirements and more important to improve my skills and techniques in community programs/projects. Your organization will as well benefit as far as my technical contribution is concerned.

I'm anticipating getting the positive consideration and looking forward to be partners in community development.

Thanking you in advance

Yours Faithfully.



John Holana

CED Practitioner Trainee

Date: November, 03, 2003

To: John Holana

Graduate CED Student

Open University of Tanzania

Dar es Salaam, Tanzania

RE: ACCEPTANCE LETTER FOR FIELD ATTACHMENT

We are writing to inform you that your letter regarding the above mentioned subject has been received and the CBO has no objection for you to come and work with us.

The CBO presently have three projects which were established two years ago but are not going well, we therefore need you to help us on the projects' sustainability and so that can be beneficial to stakeholders.

Upon receiving this letter we invite you to our offices situated at Kisarawe Township near Kisarawe Roman Catholic church for work plan.

Yours Sincerely;

Executive Secretary (Upendo Development Group)

Wilson Nzobasi

	LOGICAL OF INTERVENTION	OBJECTIVELY VERIFIABLE INDICATORS	SOURCE OF VERIFICATION	ASSUMPTIONS
OVERALL OBJECTIVES	To contribute to the improved growth, employment and the Income generation of Kisarawe residents			National Poverty Reduction Strategy Programme (PRSP)
PROJECT PURPOSE	To increase the sustainability of income and employment of Upendo Development Group community through their improved participation in the Food Presentation Project	50% Raise of income in 80% members employed business activities (monthly income from 10,000/= to <=50,000/= by December 2006	<ul style="list-style-type: none"> ◆ Bank Account statements ◆ Annual program report ◆ One year Final Reports 	<ul style="list-style-type: none"> ◆ Favourable economic environment ◆ Group participation and commitment
RESULTS	<ol style="list-style-type: none"> 1. Result 1: Group members trained in Business skills and enterprises development 2. Result 2: Efficient means of improving members income and life 3. Result 3: New group project activities identified and implemented 4. Result 4: Government Poverty Reduction Strategies Policy supported 5. Group Community and Private Sector partnerships established 	<ol style="list-style-type: none"> 1. 20 group members trained in business skills 2. 10 group members trained in specialist skills 3. Community business development projects implemented 4. Office bearers (Chairman, secretary and treasurer) attend management awareness workshops with traditional leaders. 5. Two (2) successful Income Generating Projects initiated by group by December 2006 	<ul style="list-style-type: none"> ◆ Annual Program Report ◆ Reports of the Project Steering committee ◆ Mid-term Review and Final Evaluation ◆ Field Surveys ◆ Press Reports ◆ Survey at individual income and life 	<ul style="list-style-type: none"> ◆ Upendo Development Group's active participation ◆ Project Coordinator and Facilitators commitment to training group community ◆ Implementation relevant legislation by Cabinet
ACTIVITIES	<ol style="list-style-type: none"> 1. Develop a training program for technical skills with regard to Income Generating Projects IGP (technical issues, agriculture and livestock training) 2. Develop a cash management program for group members 3. Conduct IGP training program 4. Prepare proposal for constructing the Project site (Building) 5. Select the Building Contractor 6. Equipment Installation and Fixing 7. Collect the raw crops for starting production 	INPUTS/RESOURCES <ol style="list-style-type: none"> 1. Program and Training manuals 2. Budget for workshops and Training 3. Trainers/Facilitators in Income Generating Projects 4. Qualified and experienced Project Coordinator 5. Budget for project Investment 	<ul style="list-style-type: none"> ◆ Training Logbook ◆ Records of facilitators' agreements ◆ Terms of Contracts on Building Contractors 	Training in Management skills and community strengthening does effect more and improved activities with regard to joint income generating projects

DATA COLLECTION QUESTIONNAIRE*[For Member Use]***A: MEMBER'S INFORMATION**1. *What is your Age?*15 – 25 ☐25 – 45 ☐45 – 60 ☐Others ☐2. *What is your Marital Status?*Single ☐Married ☐Divorced ☐Widow ☐3. *How did you join this Community-based Organization (CBO)?*Through Application ☐Through friendship ☐Others ☐4. *Why did you join this Group?*To generate income ☐To obtain basic services ☐To obtain assistance ☐To obtain loan ☐Others ☐ Specify _____5. *How do you get your CBO Leaders?*Through democratic election ☐Through appointment ☐Through special skills ☐Other Methods ☐ Specify _____6. *What did you contribute to the Group initially to become a member?*Cash Money ☐Crops ☐Livestock ☐

Other Assets: ☐ Specify: _____

7. *What the skills you have that can be used in the CBO economic activities?*

Farming Skills ☐

Livestock Skills ☐

Teaching Skills ☐

Accounting Skills ☐

Technical Skills ☐

Others: ☐ Specify: _____

8. *How long did you been in this CBO?*

0 – 1 year ☐

1 – 2 year ☐

2 - 3 year ☐

3 – 4 year ☐

9. *What did you benefit from the CBO since you joined?*

Increase of personal income ☐

Receive basic services ☐

Poverty reduction strategies ☐

None ☐

Others ☐ Specify: _____

10. *If "None", what do you think are reasons of not benefiting from group?*

Poor planning and Strategies ☐

Poor Leadership and Management ☐

Uncertainty outcomes ☐

Not Known ☐

11. *What is your Monthly Average income? In Tanzania Shillings:*

0 – 30,000 ☐

30,000 – 100,000 ☐

100,000 – Above ☐

None ☐

12. *What are the sources of your daily income?*

Selling agricultural crops ☐

Selling livestock products ☐

Employment Salary ☐

Trading activities ☐

Others: ☐ Specify _____

13. *How many dependants you have?*

0 – 2 ☐

2 – 5 ☐

5 – 10 ☐

10 – Above ☐

14. *How many hours can you work for CBO activities per week?*

0 – 5 hours ☐

5 – 10 hours ☐

10 – 15 hours ☐

15 – Above ☐

None ☐

15. *If you are household member, how does you family members considering your decision of joining group activities?*

Encouraging ☐

Discouraging ☐

Not aware ☐

None ☐

16. Is your family/household gender balance sensitive?

No ☐

Yes ☐ If Yes, describe how your household is gender balance

B: GROUP OR CBO ECONOMIC ACTIVITIES

17. What are economic projects that your group can be engaged?

Farming production ☐

Livestock production ☐

Trading (Buying and Selling) ☐

Environment activities ☐

Processing activities ☐

Others: ☐ Specify: _____

18. Why do you consider that above projects are appropriate ones for your organization currently?

Simple to be management and implementation ☐

Income generation and profitable ☐

Need low risk management ☐

Not known ☐

Others ☐ Specify: _____

19. Have you got any training or skills how to implement any of projects mention above?

Yes ☐

No ☐

20. If Yes, which level of training or skills that you have obtained?

Complete Skills ☐

Satisfactory skills ☐

Not complete skills ☐

21. What are group resources available to establish economic projects?

i. Assets

Assets	Values in Tanzania Shillings

ii. Manpower

Skilled People	Skills

iii. Others

Money	Values in Tanzania Shillings
Cash in Hands	
Cash in Banks	

22. What are the effects or disturbances of your economic activities to surrounding community people and Environmental issues?

CBO Economic Activities	Effects to Community People	Effects to Environmental Issues
Farming Production		

Livestock Production		
Processing Activities		

23. *If the above effects risks happened what do you think can be the countermeasures?*

- Reduce the effects ☐
- Stop the project ☐
- Transfer the effects to the community people ☐
- Ignore the risk situation ☐

24. *Who do you think shall be the beneficiaries of group projects?*

- Group members ☐
- Community people ☐
- Local Government ☐
- Others: ☐ Specify: _____




UDG INCOME GENERATING CAPACITY BUILDING PROPOSAL

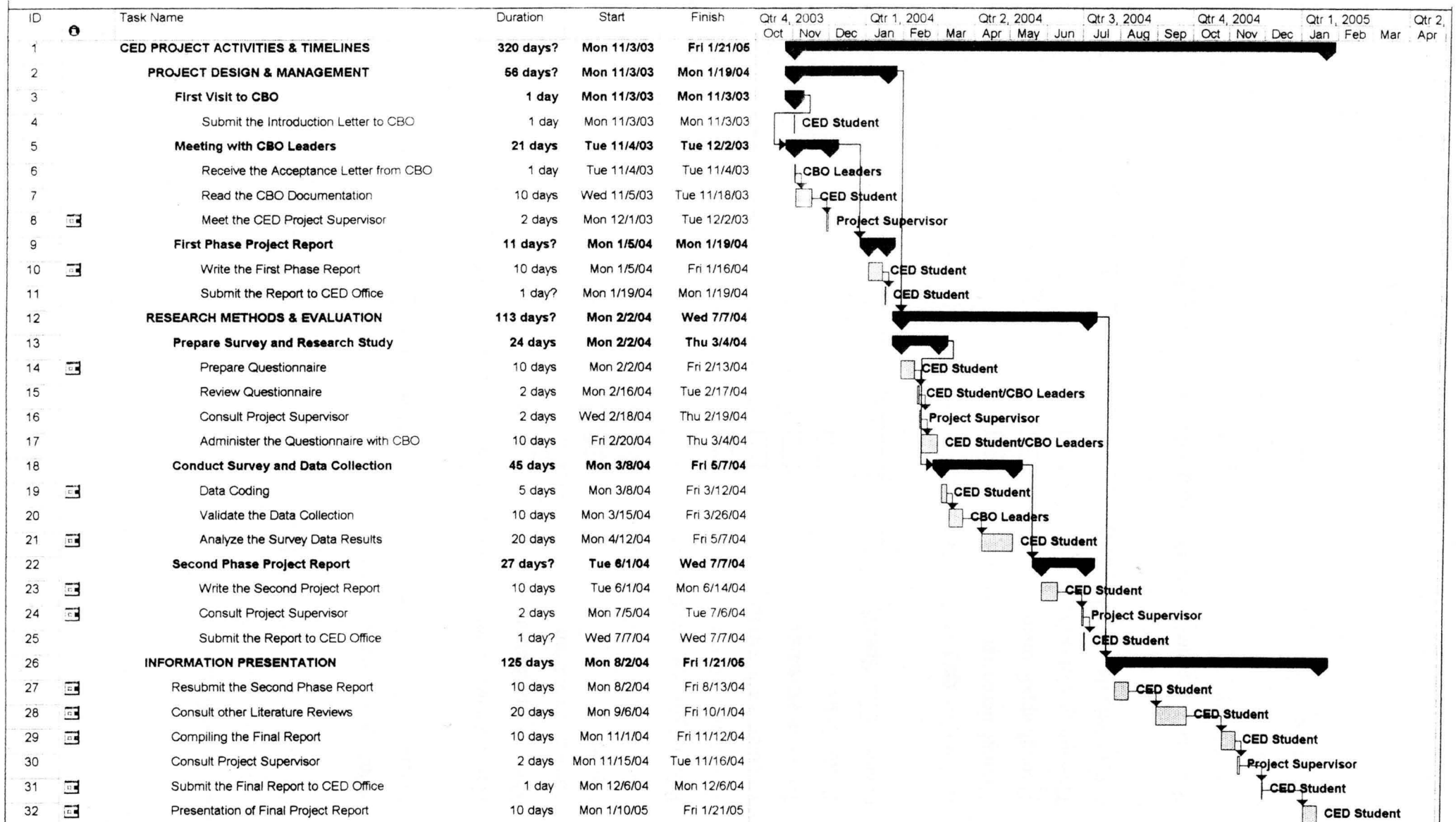
ID	Task Name	Duration	Start	Finish	004	Qtr 1, 2005	Qtr 2, 2005	Qtr 3, 2005	Qtr 4, 2005	Qtr								
					Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
1	PROJECT WORK BREAKDOWN STRUCTURE	255 days	Mon 1/3/05	Fri 12/23/05														
2																		
3	PROJECT PHASE I	160 days	Mon 1/3/05	Fri 8/12/05														
4																		
5	Begin of the Project Phase I (Training Phase)	20 days	Mon 1/3/05	Fri 1/28/05														
6																		
7	Develop Management Skills to CBO Members	45 days	Mon 1/3/05	Fri 3/4/05														
8																		
9	Develop a Project Model	30 days	Mon 3/7/05	Fri 4/15/05														
10																		
11	Develop Taining Program for Microenterprise Skills	50 days	Mon 3/7/05	Fri 5/13/05														
12																		
13	Conduct the Training of IGP and Management Skills	45 days	Mon 5/16/05	Fri 7/15/05														
14																		
15	Establishing Working Relationship with Other Groups	20 days	Mon 7/18/05	Fri 8/12/05														
16																		
17	PROJECT PHASE II	80 days	Mon 9/5/05	Fri 12/23/05														
18	Assessment and Evaluation of Project Phase I	30 days	Mon 9/5/05	Fri 10/14/05														
19																		
20	Begin of Project Phase II (Income Generating Programs)	30 days	Mon 11/14/05	Fri 12/23/05														

Project: UDG Project Proposal Timeline
Date: Tue 6/28/05

Task 
Split
Progress 

Milestone 
Summary 
Project Summary 

External Tasks 
External Milestone 
Deadline 



Project: UDG Capacity Building Project
Date: Tue 6/28/05

Task

Split

Progress

Milestone

Summary

Project Summary

External Tasks

External Milestone

Deadline

Page 1

DATA COLLECTION QUESTIONNAIRE

[For Member Use]

A: Member's Information

1. What is your Age?

15 – 25 ☐ 25 – 45 ☐ 45 – 60 ☐ Others ☐

2. What is your Marital Status?

Single ☐ Married ☐ Divorced ☐ Widow ☐

3. How did you join this Community-based Organization (CBO)?

Through Application ☐

Through friendship ☐

Others ☐

4. Why did you join this Group?

To generate income ☐

To obtain basic services ☐

To obtain assistance ☐

To obtain loan ☐

Others ☐ Specify _____

5. How do you get your CBO Leaders?

Through democratic election ☐

Through appointment ☐

Through special skills ☐

Other Methods ☐ Specify _____

6. What did you contribute to the Group initially to become a member?

Cash Money ☐

Crops ☐

Livestock ☐

Other Assets: ☐ Specify: _____

7. *What the skills you have that can be used in the CBO economic activities?*

Farming Skills ☐

Livestock Skills ☐

Teaching Skills ☐

Accounting Skills ☐

Technical Skills ☐

Others: ☐ Specify: _____

8. *How long did you been in this CBO?*

0 – 1 year ☐

1 – 2 year ☐

2 - 3 year ☐

3 – 4 year ☐

9. *What did you benefit from the CBO since you joined?*

Increase of personal income ☐

Other Assets: ☐ Specify: _____

7. *What the skills you have that can be used in the CBO economic activities?*

Farming Skills ☐

Livestock Skills ☐

Teaching Skills ☐

Accounting Skills ☐

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Others: ☐ Specify: _____

8. *How long did you been in this CBO?*

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Increase of personal income ☐

Receive basic services ☐

Poverty reduction strategies ☐

None ☐

Others ☐ Specify: _____

10. *If “None”, what do you think are reasons of not benefiting from group?*

Poor planning and Strategies ☐

Poor Leadership and Management ☐

Uncertainty outcomes ☐

Not Known ☐

11. *What is your Monthly Average income? In Tanzania Shillings:*

- | | |
|------------------|--------------------------|
| 0 – 30,000 | <input type="checkbox"/> |
| 30,000 – 100,000 | <input type="checkbox"/> |
| 100,000 – Above | <input type="checkbox"/> |
| None | <input type="checkbox"/> |

12. *What are the sources of your daily income?*

- | | |
|----------------------------|--------------------------|
| Selling agricultural crops | <input type="checkbox"/> |
| Selling livestock products | <input type="checkbox"/> |
| Employment Salary | <input type="checkbox"/> |
| Trading activities | <input type="checkbox"/> |

Others: ☐ Specify _____

13. *How many dependants you have?*

- | | |
|------------|--------------------------|
| 0 – 2 | <input type="checkbox"/> |
| 2 – 5 | <input type="checkbox"/> |
| 5 – 10 | <input type="checkbox"/> |
| 10 – Above | <input type="checkbox"/> |

14. *How many hours can you work for CBO activities per week?*

- | | |
|---------------|--------------------------|
| 0 – 5 hours | <input type="checkbox"/> |
| 5 – 10 hours | <input type="checkbox"/> |
| 10 – 15 hours | <input type="checkbox"/> |
| 15 – Above | <input type="checkbox"/> |
| None | <input type="checkbox"/> |

15. *If you are household member, how does you family members considering your decision of joining group activities?*

Encouraging	<input type="checkbox"/>
Discouraging	<input type="checkbox"/>
Not aware	<input type="checkbox"/>
None	<input type="checkbox"/>

16. *Is your family/household gender balance sensitive?*

No ☐

Yes ☐ If Yes, describe how your household is gender balance

B: Group or CBO Economic Activities

17. *What are economic projects that your group can be engaged?*

Farming production	<input type="checkbox"/>
Livestock production	<input type="checkbox"/>
Trading (Buying and Selling)	<input type="checkbox"/>
Environment activities	<input type="checkbox"/>
Processing activities	<input type="checkbox"/>
Others: <input type="checkbox"/> Specify:	<hr/>

18. *Why do you consider that above projects are appropriate ones for your organization currently?*

Simple to be management and implementation	<input type="checkbox"/>
Income generation and profitable	<input type="checkbox"/>
Need low risk management	<input type="checkbox"/>
Not known	<input type="checkbox"/>
Others <input type="checkbox"/> Specify:	<hr/>

19. Have you got any training or skills how to implement any of projects mention above?

Yes ☐

No ☐

20. If Yes, which level of training or skills that you have obtained?

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CBO Economic Activities	Effects to Community People	Effects to Environmental Issues
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23. *If the above effects risks happened what do you think can be the countermeasures?*

- Reduce the effects ☐
- Stop the project ☐
- Transfer the effects to the community people ☐
- Ignore the risk situation ☐

24. *Who do you think shall be the beneficiaries of group projects?*

- Group members ☐
- Community people ☐
- Local Government ☐
- Others: ☐ Specify: _____

**MFUKO WA FURSA SAWA KWA WOTE
(E.O.T.F.)**

CERTIFICATE USHINDI

Hii ni kuthibitisha kwamba




UPENDO DEVELOPMENT GROUP-KISARAWA

MSHINDI WA TATU

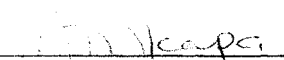
CEREALS, DRIED FOODS AND SPICES

**MAONYESHO YA WAFANYA BIASHARA NDOGO NDOGO
NA KATI WALIO KATIKA SEKTA ISIYO RASMI—2003**

Yaliyofanyika tarehe 22 hadi 28 Agusti 2003
yameandaliwa na Mfuko wa Fursa Sawa kwa Wote (EOTF)
Mdamini: Shirika la Hifadhi ya Jamii (NSSF)



Dr. Ramadhani Dau
MKURUGENZI MKUU, NSSF



Mhe. Anna Mkapu
MWENYEKITI, EOTF

Above Picture Description:

Upendo Development Group awarded a Certificate of winning third place in Exhibition Competition Informal Micro-Enterprise Sector..



Above Picture Description:

The Upendo Development Group products showing some of Batik-cloths and other Decorates which displayed in the exhibition competition.



Above Picture Description

From left First Lady Hon Mama Mkapa, Vice President Hon. Mohammed A. Shein, Former President Hon. Ali H. Mwinyi, Minister of Industries and Trade Hon. Dr. Juma Ngasongwa (MP) and NSSF Director General Dr. Ramadhani Dau congratulate the Upendo Development Group Chairperson Mrs. Lydia Jacob

TAILORED

MICROENTERPRISE DEVELOPMENT TRAINING MANUAL

FOR

KISARAWA UPENDO DEVELOPMENT GROUP

PREPARED BY JOHN A.B. HOLANA (MSc. CED STUDENT)

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ACKNOWLEDGEMENT

Initially, this manual has been developed as a cooperative effort between FAO and China's WPD local project officers in 1993. The customization has been done to this manual in order to meet the training requirement of Upendo Development Group (UDG). The microenterprise training manual for UDG is a technical training modules created for use primarily in community based organization. It provides a format that can be used by trainees in grass root level working individually or with groups. Since the training is heavily participative, this Manual in effect is the result of the contributions which the China Core Facilitators and field workers have contributed as FAO finalized this version of the Manual. A note of thanks therefore goes to the Core Facilitators and field workers: Lan Xiu Hua, An Guo Dong, Bai Zhan QI, Zheng You Mei, Wu Qi Ji, Deng Yun Ping, Liang Yan Chao and Zhang Zhi Feng.

Special thanks also goes to: Mr. Ramon Yedra, an FAO consultant Ms. Cora Bakker, United Nations Volunteer serving in FAO and Mr. Andrew Adzic of UNFPA helped in documentation and publication of the original version.

TRAINING DESIGN

All participants in this training have been designated to serve in the UDG projects or neighboring groups with the following tasks:

- setting up and running their micro-enterprises projects;
- managing their savings and loan operations;
- applying for loans funded from the project revolving fund;
- managing of the project revolving fund.

The major objective of this training is to equip participants with the tools, knowledge, attitude and skills required to perform these tasks. Whereas some basic knowledge could be acquired through lectures, the workshop methodology primarily encourages experience sharing. The purpose of this use of methodology is not just for knowledge and skills acquisition but to provide participants the opportunity to acquire positive attitudes and values which they will need for their work.

The general objectives of the training are for participants to have acquired the knowledge, skills and attitude on:

- The role of micro-enterprise development as a means to improve the household's income
- Micro-enterprise planning and assessment;
- Micro-enterprise management;
- Fund utilization and management (group and project level).

The facilitator should briefly explain the content of each module, the output and the methodology. Since this is a skills training and all participants have at least some experience in the project and with micro-enterprise development there will be few lectures and many opportunities for experience sharing and practicing through exercises and case study analysis.

Facilitator should distribute workbook and the training course outlines (see copy attached at appendix) to each participant, explaining to the participants that this contains the exercises and cases as well as the tools and forms which will be needed in this workshop. Participants will be guided by the Facilitator in the use of this Workbook as the workshop progresses.

Table 1: Training Outline

Introduction

1.1. How to use the Manual

The main body of the Manual is organized into Modules. For each of the 5 modules there are four major parts:

(i) *Rationale and Objectives*

The description of the rationale and objectives of the Module are for the participant to have a clear focus on the major objectives of the Module, Lessons and Sections. This will help the participant in preparing for the lessons and to put the content in context.

(ii) *Outline of the Training Sessions*

This consists of the Steps and the major Pointers in facilitating the content of the lessons and sections. Reference is made to the Case studies of some fiction groups and Standard Tools to be used in the section.

(iii) *Case Studies*

The Cases are for participants to practice what they have learned. Note that there are two parts in the Cases namely: Discussion questions and suggested answers.

The tables and diagrams are to be found in the Appendices. Tables are Business Plan Forms, Group Financial Records. During the training the participants should therefore make sure that they have a good understanding of these tables and on how to use them.

This training has been designed in such a way as to have few lectures but many opportunities for experience sharing, simulation and other exercises with the use of case studies and other output-oriented tasks. The workbook for participants contains all the cases, exercises and tools. Participants learn through "doing and thinking" rather than through "listening and reading". The Manual proper contains the "answers" and "summaries" as guide for Trainers. It is therefore important that participants are not "spoon-fed" with these "answers" and "important summaries". The Manual should therefore not be given to participants until after completion of the training.

A Perspective

CBOs play an important role within, the community economy through the micro-enterprises members engage in. Once local people realize their own potentials, they are able to raise their own resources and develop the capacity to manage external resources as well. Through the Micro-entrepreneurial skills programs local people proved that they can manage loans from external sources, such as those provided through the project revolving fund. Members themselves are determined to address common weaknesses and constraints of their micro-enterprises. They are able to take risks and adopt innovative approaches in problem-solving. In certain instances, after two years of membership in development Groups, they were able to build up enough business skills and confidence to source their capital requirements from local banks.

But often times we hear remarks like "the poor will not be able to repay... they do not know how to manage their business.... they are used to hand outs... etc..."

Our experience in this Micro-enterprise Training Manual does not validate the above remarks. On the contrary we have found that the poor can be accountable and actually repay their debts. They have good instincts about business and are realistic in gauging risks according to their estimate of their own capacity. They would rather determine and decide on resources they need rather than outsiders determine this for them. They have a sense of pride in being able to achieve their own goals which they themselves determine.

Rural poor people engage in micro-enterprise activities which start as small household activities like vegetable gardening or raising a small number of small animals like pigs and chickens. Lack of cash for investment and the need to take care of their household tasks as well as the farm are among the major limiting factors why they are not able to expand their operation. When credit facilities are made available, they generally opt to either expand their existing micro-enterprise operation or engage in a new area of business.

Engaging in micro-enterprise is not only improving the people's economic position, but it also provides the local people an opportunity to improve their skills in business. "Small victories" against their reticence or lack of confidence serve as building blocks towards regaining control of their own lives.

When individuals realize their own strengths and potentials and when they realize that they need to operate as a group to consolidate their resources, the first risk they take is to mobilize their own resources. This risk comes in the form of savings mobilization in a disciplined process. As they lend out to one another what they have saved as a group, they are again taking a risk on one another. When group members choose a micro-enterprise to engage in, they are deciding to take another risk. These decisions are the next building blocks toward regaining control of their own lives. The consequences of these decisions are solely theirs whether the result is success or failure. The development of their own policies and procedures, managing themselves as an organization, the operation of their savings and loan fund, the identification of the micro-enterprise, the planning, the management and control of their chosen micro-enterprise enhance their skills as well as their sense of confidence in themselves. As a consequence, they achieve an increasing level of a sense of control over their own lives. In short, micro-enterprise development is Important for the empowerment process to occur.

1.3. Micro-Enterprise Development Manual

The Manual on Micro-enterprise Development focuses more deeply on the requirements of micro-enterprise development; the use of the revolving fund and the group savings fund.

Project personnel or community development practitioners in the area need to provide three major types of assistance for community development Groups, namely: (a) development of policies and procedures for savings and loan operations as well as the management of the group capital fund (sourced from the group savings and loan operations and their loan from the project revolving fund); (b) at the inception stage in assisting individual people in developing a feasible business plan; (c) follow through assistance during the micro-enterprise operation.

No previous education in micro-enterprise economics is required for participants in the training where this Manual will be used. The training methodology used is highly participative, meaning that few lectures are utilized. Rather a problem-solving methodology is applied using case studies, exercises and group work. The Manual has five major content areas.

The **first Module** focuses on the role of micro-enterprise development as a means to achieve group goals, major among which is to improve members' income and self reliance. The following concepts are dealt with: the fundamentals of what a business is and the characteristics of micro-enterprise: the role of micro-enterprise in the Income generating programs; elements which leads to success or failure of a business: the major weaknesses and constraints of micro-entrepreneurs and finally identification of the major areas of needed project assistance.

The **second Module** deals with the required attitude, knowledge end skills for business planning. The tools, the basic information required and the financial indicators for preparation and assessment of business plans

and loan applications are discussed. What trainees would have learned are then applied. Trainees are given an opportunity to work with village entrepreneurs to develop an actual Business Plan.

The **third Module** deals with the needed attitude, knowledge and skills in performing the Group leadership task of providing technical assistance during the operational phase of the micro-enterprise operations. This is what project implementers call the "follow thorough" phase. Emphasis has been placed on the preparation and interpretation of business records since we have observed that there is an absence or poor quality of business records among micro-entrepreneurs.

The **fourth Module** deals with fund utilization and management both at project and group level. The relationship between the savings fund and the project revolving fund is addressed; how these funds need to be managed and controlled; the preparation and processing of loan applications from the member's groups; how to monitor loan utilization; and the establishment and maintenance of the required record systems. Training design is attached in appendix as table 4.1.1.

MODULE 1:

CONCEPT BUILDING AND ROLE IDENTIFICATION

INTRODUCTION

Module 1 addresses important basic concepts about micro-enterprises, micro-enterprise development, and the place of micro-enterprise development within the broader development framework of the Community based organization (CBO) and role of leaders in micro-enterprise development.

OUTPUT OBJECTIVES

At the end of Module I, participants will be able:

1. To understand the role of micro-enterprise development within the broader context of the objectives of the CBOs and other groups..
2. To identify the characteristics of micro-enterprises and the types of enterprises.
3. To identify the causes of success/failure of micro-enterprises.
4. To identify the common weaknesses and constraints of micro-entrepreneurs.
5. To identify the proper roles of their group leaders in micro-enterprise development.

Lesson 1: Concept of micro-enterprise

Introduction

The CBO's projects aim at improving the status of members through income generating activities and social development activities. Income generating activities therefore are not an end in itself, but a means to achieve the overall goal of improved status of group members. This implies that the project supports those income generating activities which contribute most to improving members' status, namely micro-enterprises.

For participants to be able to involve in group programs a clear understanding is needed of what a micro-enterprise is, and what the role of micro-enterprise development is in the context of the CBO projects.

Output Objectives

At the end of the topic, participants will be able to:

1. Define what a business is and distinguish the different types of business;

2. Analyze the characteristics of a micro-enterprise;
3. Analyze the importance of micro-enterprise development in achieving the broader development goal of improving the status of group members'.

Training Materials Required

- Handouts,
- Flip Charts and
- Marker pens.

Section 1: Defining business

Discussion Questions

1. "What is a business?"
2. "What is it that makes each of these a business?"

Discussion Summary

- A business is "any venture which involves production of goods and/or services to obtain profit".
- The four types of business in rural areas are:
 - Production: producing goods for selling, e.g. Fruits growing, sheep raising
 - Processing/manufacturing: converting raw materials into finished product, e.g. processing cassava into flower
 - Trading: buying and selling of the same product(s), e.g. grocery shop, market stall
 - Services: Main line of business is providing a service e.g. barber shop, transportation.

Section 2: Defining micro-enterprise

Discussion Questions:

What are the characteristics of a micro-enterprise?

Characteristics of a micro-enterprise include:

- a. small level of capitalization;
- b. initiated and managed by a household or few individuals;

- c. self employment (owner is manager and worker);
- . simple technology and equipment;
- e. utilization of local resources/raw materials;
- f. transactions are often informal (no written agreement, based on personal contacts); and
- g. ease of entry.

Discussion Summary

- Although capital requirements of a micro-enterprise may be low, to the poor it is high. Therefore, the risk of undertaking micro-enterprise is not low. For the poor it is very hard to recover from failure of the micro-enterprise.
- The main differences between micro-enterprises and other enterprises (such as township enterprises) are:
 - level of capitalization
 - number of people involved
 - ownership: for micro-enterprises the owner is likewise the
Manager and worker

Lesson 2: The role of micro-enterprise development in the CBO project

Discussion Questions:

1. "What is the goal of the local group's programs?"
2. What are the root causes of group members' low income?
3. "How does engaging in micro-enterprise by group members contribute to improving their income? Which root causes for low incomes are addressed and how?"
3. Why forming groups as a self -reliance strategy are important for the member's entrepreneurs?

Discussion Summary

The title of the project would be "improving the Socio-economic income of group's members through Income generating and Social Development Activities". This implies that members' engagement in income generating activities is not the final goal of the project, but a *means* to achieve the broader project goal of *improving the income of members*.

Major characteristics of a micro-enterprise are that it is self-initiated and self-managed. By encouraging local people to engage in micro-enterprise, we encourage initiative, risk taking, making their own decisions and earn their own income. Because all these undertakings are done through their own initiatives, local people have a more direct opportunity to experience more independent thinking; they gain more self confidence and self reliance. They are able to participate in socio-economic activities in their communities.

Limited technical, literacy and business skills are other major reasons for low income of local people. Micro-enterprises undertaking requires relatively simple technology and management. When they engage in micro-enterprise local people can gradually improve their skills.

Except for technical skills and earning their own income, local people are not provided the opportunity to exercise initiatives and are not generally personally accountable for the over-all success of the business. As a consequence, they are not able to experience the personal changes which have been enumerated above.

Lack of funds is an obstacle for developing micro-enterprises. As a group, people can mobilize resources through savings from which members can borrow for micro-enterprise development. Project loans to the group augment their own funds.

Group members can study together and share experiences, e.g. on technical and financial matters, market information, etc. Through these group activities member's skills improve faster and to a higher extent.

As a group, micro-entrepreneurs can be more organized and can use group strength in addressing constraints. For example, the group can arrange training, can buy inputs or run facilities together, can negotiate with buyers, mobilize support from group leaders, etc.

Lesson 1.3: Causes of success or failure of a micro-enterprise

Introduction

In general, the poor cannot take unnecessary risks. Their resources and condition are such that they do not have enough to be able to incur losses. If their venture fails, they lose more than their material resources. It erodes their self-confidence. Furthermore, the poor have some kind of distrust of external assistance. When they fail in projects with external assistance, this could reinforce their lack of confidence in external agents.

The field worker therefore has a great obligation that sufficient safeguards are provided so that success and not failure results in women's micro-enterprise undertaking.

This lesson gives the participants an opportunity to examine the factors contributing to success or failure of a micro-enterprise.

Output Objectives

At the end of the topic, participants will be able to:

1. Understand the stages in micro-enterprise development
2. Analyze case studies of typical micro-enterprises and identify the critical aspects of micro-enterprises
3. Distinguish external and internal factors affecting the success of a business

Training Materials Required

- Handouts,
- Flip Charts and
- Marker pens.

Section 1.3.1: Business cycle and aspects

- a. Internal factors are those that are within the control of the entrepreneur. These include the knowledge, skills, attitude and resources of the entrepreneur. If the factors contribute to the success of the project they are called "strengths" or positive internal factors. When internal factors are an obstacle to success, they are called "weaknesses" or negative internal factors.
- b. External factors are those that are outside the control of the entrepreneur. These include the market situation, economic situation of the community, the weather, etc. External factors that contribute to the success of the project are called "opportunities" or positive external factors. When external factors may become obstacles to the success of the project they are called "constraints".

Lesson 1.4. Role Identification in micro-enterprise development

Introduction

The CBO’s Project seeks to assist members’ micro-entrepreneurs to overcome their weaknesses and reduce the constraints of their micro-enterprises. Group leaders, Project staff as well as group members need to be clear about the type of assistance they need to provide.

This lesson will focus on the most common problems micro-entrepreneurs encounter and the required project assistance to help them overcome their problems.

Output Objectives

At the end of the topic, participants will be able to:

- a. Identify the most common areas of weakness and constraints encountered by micro-entrepreneurs;
- b. Identify the major areas and types of assistance project staff needs to provide to micro-entrepreneurs.

Training Materials Required

- Handouts,
- Flip Charts and
- Marker pens.

Section 1.4.1. Common weaknesses and constraints of microentrepreneurs

Common Weaknesses and Constraints of Micro-Entrepreneurs

Most common constraints and weaknesses of micro-entrepreneurs, refer to attached Table 1.1.

Type of Project Assistance for Micro-Entrepreneurs

Stage of Business	Type of Assistance from Project Leaders
Planning Stage	<ul style="list-style-type: none">• assist in market investigation and provide market information to micro-entrepreneurs• linkage with relevant institutes to provide technical skills training• training and assistance in business planning for any aspect of the

enterprise (production, marketing, financial, management)

- encourage savings mobilization and provide project loans

Implementation

Stage

- link to market to provide timely market information
- link with relevant bureaus to provide regular technical assistance
- training, monitoring and assistance in:
 - record keeping
 - areas in which the entrepreneur is weak, which can be in any aspect of the enterprise (production, marketing, financial, management)
 - savings mobilization
- continuous assessment of entrepreneur's needs and provision of
- appropriate training/technical assistance

Shengena's tea processing project

Mrs. Shengena is one of the active members of the women's group in the Lushoto village, a farming community with rolling terrains located some 30 km from the Lushoto Township. Like other households in the village, her husband is engaged the farming and wood gathering. She's 33 years old and takes care of the household work and their three children.

Since she joined the group and she has been thinking how to help her husband generate additional income for the family. At first, upon discussion with other women members, she thought of a small scale furniture workshop. But the capitalization required was Tshs. 150,000 and she could not afford such capital.

She finally decided on a tea processing project. The raw materials (tea leaves) are readily available in the village since most farmers, including her husband, grow tea in the village. Moreover, she learned from the peddlers who often visit their village looking for tea leaves, that processing tea would earn her good income. She learned from them that if she sells at Lushoto Cooperative Union, she can make a gross profit of TShs. 50 per Kg and or even higher at Tshs 100 if she sells in one of Tea Processing factories situated at Chang'ombe Industrial Area in Dar es Salaam. Also, she has a younger sister who used to work in a tea processing factory and she was confident she could learn the techniques required in such activity.

Encouraged by the potential of the project she obtained a loan from the women's group. In addition, she had some savings of her own and she was able to start the project in March 2005.

In spring the tea crops produce the best quality leaves. Mrs. Shengena decided to process tea only during this season. For the whole season she was able to sell 56 Kgs. In selling at Lushoto cooperative union she later learned that there are different prices depending on the quality of dried tea. Nevertheless after investigating which among the three buying stations in Dar es Salaam offered the best price, she settled into one station.

She however incurred losses when she tried to sell in Lushoto. About 20 Kgs was not paid for at all.

She personally took care of the project. Her husband and children assisted her in some of the activities of the project like gathering of wood for the stove and stirring the leaves on the pan. They could process 5 Kgs of wet leaves per day. She had minimal expenses for the project. She bought about 50% of the wet tea requirements from the village. The rest of the wet tea leaves, she obtained from their own harvest. She also had sufficient wood oil which was already good for the whole season She did not buy the needed pans as she had already two before the project and these were enough for the quantify she has been processing.

She was not able to keep records of the financial transactions but she is confident she was able to earn from her business. Although the income of the project is mixed with their other household income, she was sure that the whole net profit was used to invest in another project, a chair manufacturing project. At the same time, she is planning to expand her tea processing project for the whole three seasons that is including during summer and autumn. She also plans to hire workers so that she can process more.

Tasks for Participants

1. Analyze the internal and external factors that affect this Mrs. Shengena micro-enterprise, using the common strengths and weaknesses of micro enterprise format table 1.1 attached.
2. Is this a good project for Mrs. Shengena to become more self-reliant? If so, why, how?

Suggested Answers

Mrs. Shengena tea Processing Factors Affecting the Success or Failure of Business

Task 1

	Internal Factors		External Factors	
Business Stage	Strengths	Weaknesses	Opportunities	Constraints
A. Planning Stage				

Production	· Raw materials grown by family	· No skills. but sister can assist	· Villagers grow tea	
	· Sister has skills in tea processing			
Marketing		· No concrete market info (relied on informants info)	Tea factory in town	
		· No anticipation of quality requirements		
Financial	· Own savings		· Loan from women's group capital available	
Organization	· Husband supportive			

B. Implementation				
Production	· Raw materials availability			
	· Skills learned easily			
Marketing		· Lack negotiating skills	· Only 1 good market outlet	
Financial		· No records		
		· Mixed accounts		
		· Can not determine		
		real net income		
Organization	· Supportive family			

Task 2

Undertaking of this micro-enterprise strengthens Mrs. Shengena's self reliance, because:

- she learns technical skills as well as business skill, eg. negotiating, decision-making, risk taking
- she has acquired the support of her family members
- she raises capital by herself and increased her own income
- she plans and manages the enterprise herself
- others will respect her for her achievements (break through in traditional thinking)

Masaki grocery shop

Masaki is a farming village with 102 households (940 population) of Kisarawe township. Since the village is quite far from the township proper, people used to buy their groceries in the township operated grocery shop in the village. The shop however was not very well run as the operator was ill for some time.

Realizing this situation, Mr. Massawe thought of operating his grocery shop right in the village. His house is located in the center of village; hence it is very convenient for most villagers to come to his store. He constructed a small shed to convert part of his house into the grocery shop.

He obtained a loan for the shop from the Akiba Commercial Bank. This amount plus his own savings (total TShs. 1,000,000) enabled him to refurbish the shed and to buy in wholesale grocery items from the township.

Seventy percent of his groceries are food products, like canned goods, soft drinks and beer while 30% are basic necessity items such as soap. He goes to the township about 5 to 6 times a month to buy his groceries. Besides transportation he has to pay a tax regularly.

About fifty percent of the villagers buy from his shop on credit which they pay within 10 to 30 days. The rest buys on cash. He reported gross sales of TShs. 1,500,000 /month and gross margin of 20% on his groceries.

So far his business is doing well. Fast selling items are usually the consumable items like beer, soft drinks and cigarettes. Since he is also busy with other work, he let his child look after the store. Likewise, he has not enough time to regularly record his financial transactions. He accepts that sometimes the family consumes some of the grocery items of the shop and these are not recorded.

Group Discussion

- 1. Analyze the internal and external factors that affect Masaki grocery shop micro-enterprise using the below Table 1 format

Factors affecting the success or failure of business

	Internal Factors		External Factors	
Stage in Business Cycle	Positive	Negative	Positive	Negative
	Strength	Weakness	Opportunity	Constraint
Planning				

Production				
Marketing				
Financial				
Organization				
<u>Implementation</u>				
Production				
Marketing				
Financial				
Organization				

2. Is this a good project for Mr. Massawe to become more self-reliant? If so, why, how?

Suggested Answers

Task 1

Masaki Grocery Shop Factors Affecting the Success or Failure of Business

	Internal Factors		External Factors	
Business Stage	Strengths	Weaknesses	Opportunities	Constraints
A. Planning Stage				
Production				
Marketing	· house at center of village		· township grocery no good (clients not satisfied)	· far from source of goods
	· knows goods that sell well			
Financial	· own savings		· loan from women's group capital available	
	· knows margin decision			
Organization	· supportive			

	husband			
	· time available			

B. Implementation	Strengths	Weaknesses	Opportunities
Production			
Marketing	· correct commodities inventory	· no inventory record (consumption mixed	· wholesale purchase possible
Financial		· no records	
		· income not clear	
Organization	· child available as keeper	· time availability of husband and wife	

Task 2

Mr. Massawe has shown that he has the principle of self-reliance in that he has identified the opportunity for a successful enterprise, has raised the capital, prepared well before starting and makes a profit. However, since he does not manage and oversee (no financial records, mixed accounts) his business, he does not fully develop his talent to grow into a skillful and successful entrepreneur.

MODULE 2

MICRO-ENTERPRISE PLANNING AND ASSESSMENT

Introduction

Module 2 addresses the first initial stage of micro-enterprise development. This module focuses on preparation of good business plans and assessment/evaluation of micro-enterprise projects within the context of both business viability as well as the project spirit of self-reliance.

Output Objectives

At the end of module 2, participants will be able to:

1. Apply, analyze and explain the basic financial indicators in business planning for micro-enterprises.
2. Prepare and assess business plans together with the micro-entrepreneur.
3. Advise group micro-entrepreneurs in preparation and assessment of business plans and loan applications.
4. Advise the project Governing Body regarding approval of applications for project loans.

Topic 1: Financial indicators

Background and Rationale

The goal of the entrepreneur in starting a business is to make a profit. Before starting the business, the entrepreneur needs to be convinced that his/her goal is achievable. He/she needs to know what the risks are' and he/she needs to know whether he/she can finance and manage the business. In order to assess whether the entrepreneur can achieve his/her goal, it is necessary to have a thorough understanding of the basic financial indicators.

Through reviewing a case, participants will acquire the knowledge, skills and attitude in applying and analyzing the basic financial indicators.

Output Objectives

At the end of the topic, participants will be able to:

1. Analyze and explain the basic financial indicators in assessment of a business plan

2. Know and analyze the major risk factors of a business.

3. Review loan applications.

Materials

- Handouts,
- Flip Charts and
- Marker pens.

Section 1: Introduction to business planning

2.1.1 Introduction

In Module 1 we have identified the causes of success or failure of micro-enterprises as well as the common weaknesses and constraints of micro-entrepreneurs. The conclusion was that at the early stages of participation in the group, the entrepreneurs need the assistance in both the planning and implementation stage of the enterprise. In this module we will focus on the *planning stage*.

2.1.2 Business Planning Definition

Planning is thinking through, and then working out in detail, what you intend to do in a future period of time and how you expect to get there.

There is a big comparison between the business planning and planning a trip, someone may ask himself where he wants to go, then how he will get there. Then he plans in detail how much money he needs, what he wants to do and who he wishes to take on his journey, etc. It is not until he is quite sure that he can get where he wants to go that he starts to buy tickets and pack his suitcase. In business planning it is the same. You first plan what kind of business you want, then you plan in detail how you can realize it and how you will operate it. It is only until you are quite sure that you can be successful do you start to borrow money or buy goods.

In module 1 we have defined business as "*any venture which involves production of goods and/or services to obtain profit*". Our goal or where we want to go is to make a profit or income. In planning the business we must estimate as accurately as possible how we will run the business, what we need to buy, what we need to do, etc. and finally we have to decide whether we are satisfied with the expected result in terms of profit/income.

In this topic we will study a case in order to become familiar with the basic financial indicators in assessment of the viability of a micro-enterprise and loan applications. We will also analyze the risks involved in starting an enterprise.

Section 2. Net cash income

Description:

Before starting a business the group entrepreneur will be concerned whether he/she can make profit or not. To determine this, he must know the income, sales and costs involved.

Also the first thing the entrepreneur will think of is the required capital to be able to start the first production cycle. This includes:

- a) Capital for acquisition of fixed assets, such as land, buildings, facilities, equipment, etc.
- b) Working capital

The production costs are the costs incurred each time the output volume is produced. These are variable costs as these costs change with the output volume produced. Fixed assets are not bought for each production cycle; therefore the costs of fixed assets are not included in production costs.

Discussion Summary

Production costs include all costs that have to be made each time the estimated output volume is produced. These costs can be categorized as follows:

Materials: these are the costs we have to make to purchase the materials that are consumed in producing the estimated output volume, e.g. raw materials, chemicals, fertilizer, seeds, feed stuff, etc. The costs of durable materials, such as buildings, tools, equipment are not included here.

Paid labor: this is the costs of hiring external labor force or for paying family members to do certain tasks. Unpaid labor costs are not included. Usually micro-entrepreneurs do not pay salaries to themselves and therefore no costs are included here.

Cost of use of facilities: these are the costs like rent or fees paid to use land or facilities like drying facilities, storage, etc. This includes also any other costs directly related to the use of facilities/ equipment, such as energy, water, maintenance, etc.

Thus;

- *The Total Income is gross sales plus other income.*
- *Gross Profit is total Income minus Production Costs.*
- *Gross Profit determines whether production costs can be recovered from the total income that the business generates.:*

- *Net Cash Income is Gross Profit minus other Expenses*, Expenses incurred in selling, delivery or general administration. Examples of other expenses are transportation, cost of sacks for grain delivery, tax etc.
- *Net Cash Income is what remains from the income after deducting all costs and expenses of the enterprise*. This is what the entrepreneur will be concerned about since it will show him/her whether he has cash left for the next production cycle. If he has no other source of financing (ed. he cannot avail of succeeding loan or he has no additional savings), the net cash income becomes his source of working capital for the next cycle.

Net cash income Components:

Total Income [Sales + Other Income]

Less:

Production Costs [Materials +Labor + Use of facilities]

= **Gross Profit**

Less:

Other Expenses [Transportation + Administration + Tax + Other costs of selling and delivery]

= **Net Cash Income**

Group Discussion

Assessing the viability of Ms. Amina's starch processing enterprise

Ms. Amina wants to start her own micro-enterprise. She thinks about processing potatoes into starch. In September she wants to buy an electric grinder at TShs. 600,000; three basins at TShs. 5,000 each; and three sieves at TShs. 3,000 each. In October she plans to buy 500 Kgs of potatoes at Tshs. 400 per Kg. After processing she will sell the starch within the same month. In November and December she plans to do the same.

Since she only needs the grinder for one week a month, she agreed to rent her grinder to her neighbour, who will pay Tshs. 5,000 rent at the end of each month.

Ms. Amina fixed assets can be used for 10 years, except for the sieves, they need to be replaced every 3 years.

Ms. Amina has only Tshs. 350,000 in savings of her own, and needs to borrow Tshs. 800,000 from the Pride Tanzania, a credit NGO working in the area, to be able to realize her plan. She will borrow in 1 September and plans to repay the full amount on January 1. The duration of the loan is then 4 months. The Pride Tanzania charges 2 % interest per month.

To improve the quality of the starch' Ms. Amina will use a chemical. To process the 500 Kgs. of potatoes 0.5 Kg of the chemical will be enough, but this chemical is only sold by the Kg, at Tshs. 30,000/Kg., so she has to buy 1 Kg in September.

Ms. Amina thinks she can produce a total of 150 Kgs. of starch out of 500 Kgs..of potatoes. She will sell this to the local vermicelli factory. The factory's price depends on the quality. Ms. Amina thinks she can sell 80 Kgs. of the highest quality at a price of Tshs. 3,000/Kg; 40 Kgs. of medium quality at Tshs. 2,000/jKg and 30 Kgs. of low quality which sells at Tshs. 1,000 /Kg.. Each time she sells, a total of Tshs. 80,000 of other expenses, such as for transportation are made.

Ms. Amina invited you to come and review her preliminary business plan with her. She wants to know whether this is a good business and wants your advice on how to proceed.

Task 1: Net Cash Income

1. Compute the Net Cash Income for Ms. Amina’s enterprise.
2. List questions you have regarding:
 - a) verification of the above data
 - b) additional information you need to compute and assess more accurately

Suggested Answers: Total Income

<i>Sales</i>	<i>Per Cycle Tshs.</i>	<i>September – December Tshs.</i>
high quality starch:		
80 Kgs. x TShs 3,000/Kg.	240,000	720,000
medium quality starch:		
40 Kgs x Tshs. 2,000/Kg.	80,000	240,000
low quality starch:		
30 Kgs. x Tshs. 1,000/Kg	30,000	90,000
Sub Total	350,000	1,050,000
Rent from neighbour	50,000	150,000
Total Income	400,000	1, 200 ,000

Production Costs

Production Costs (recurring costs for each production cycle):

	<i>Per Cycle</i>	<i>September - December</i>
500 Kgs potatoes x Tshs. 400/Kg	200,000	600,000
0.5 Kg Chemical x Tshs. 30,000/Kg	15,000	45,000
Total Production Costs	215,000	645,000

Examples of Questions

- The grinder uses electricity, what are the estimated costs?
- The processing requires water, what are the estimated costs?
- Till she have to pay any labor costs?

Discussion Summary

Production costs include all costs that have to be made each time the estimated output volume is produced. These costs can be categorized as follows:

- **Materials:** these are the costs we have to make to purchase the materials that are consumed to produce the estimated amount of product, e.g. raw materials, chemicals, fertilizer, seeds, feed stuff, etc. Investments in- durable materials, such as buildings, tools, equipment are not included here. In the next activity we will see how to treat the costs of this kind of materials.
- **Paid labor:** this is the costs of hiring external labor force or for paying family members to do certain tasks. Unpaid labor costs are not included. Usually micro-entrepreneurs do not pay salaries to themselves and therefore no such costs are included here.
- **Cost of use of facilities:** these are the costs like rent or fees paid to use land or facilities like drying facilities, storage, etc. It also includes any other costs directly related to the use of facilities or equipment, production, such as energy, water, regular maintenance of equipment, etc.
- Note that although Ms. Amina has to buy 1 Kg. of chemical, we only count half a Kg. as production costs. This is because production costs are the costs that have to be made each time the planned volume is produced, which is the cost of half a Kg.
- **Production Costs** include all costs that have to be made each time the output volume of the enterprise is produced, such as for materials that are consumed, cost of the use of facilities and the costs of hired labor. Acquisition costs of fixed assets are not included.
- **Other expenses** are those incurred in selling, delivery and general administration.

- Positive Gross Profit means the entrepreneur can recover all production costs from the total income of the enterprise. A negative (dross Profit would either mean:
 - a) Inefficient production
 - b) The price of the product is low
 - c) The price of inputs is high
- Positive Net Cash Income means that the entrepreneur has recovered all the production costs and other expenses from her total income from the enterprise. It also means that she has reserve funds either for payment of loans and interest or for use as working capital for the next cycle. Note that this is under the assumption that the sales in the computation are the cash sales only. Sales on credit are not included. If sales on credit were included, we would have to deduct the sales on credit from the Net Cash Income for the above statement to be true.

Section 3: Net profit

In the previous section we only considered the costs and expenses that are directly related to the production. There are however other costs involved in a business: the costs of fixed assets and interest on loans. These costs should also be generated by the business. *Net Profit is Net Cash Income minus Depreciation minus Interest on loans.*

Depreciation is the amount of money the enterprise should generate to be able to replace the fixed assets on time. For example, Ms. Amina's grinder which she bought at 600,000 will have to be replaced after 10 years. So, each year from Ms. Amina's Net Cash Income we need to deduct 60,000 (Tshs. 600,000 investment/ 10 years) for depreciation of the grinder. If her business cannot generate enough to buy a new one, she cannot continue her enterprise.

Discussion Questions

1. What is your conclusion on the profitability of Ms. Amina's enterprise?
2. What can the entrepreneur do with the profit?
3. What will happen to an enterprise if the Net Profit is negative?

2.3.1. Net Profit

Net Profit is Net Cash Income minus Depreciation minus Interest. (Table 2.1 attached to appendix page)

Discussion Summary

Depreciation:

Depreciation is the minimum amount of money that the enterprise should generate to be able to replace the fixed assets in time. If the enterprise can not generate this amount, the net profit is negative. It means that in the long term the business can not continue, unless money from other sources is added to it. Such a business of course can not be considered viable.

The net profit reflects the entrepreneur's return on her labor, management and capital investments. A negative or zero net profit means that the entrepreneur does not get any return on her labor, management and capital investments.

The entrepreneur can utilize profits in several ways:

- investment in expansion or improvement of her enterprise
- investment in new enterprises
- savings (ea. for child education, future investments, old age security)
- consumption

For the long run reinvestment is the best way for utilizing profits, since it leads to further increase in income in the future. On the short term utilization of profits for consumption may be equally important however, ea. to improve nutrition or health care, to be able to pay the school tuition, etc. Utilization for luxury goods of course should be discouraged.

Ms. Amina's net profit can be considered good. The net return on the total invested capital (1,150,000 TShs.) is 57 % per year (note: this is under the assumption that she produces all year round). This means that in just two years, she can already generate the required capital investment without the need to borrow. The net return on her own capital (350,000 TShs.) is very high. At 186 % net return a year it means she is able to almost double her original capital in one year.

Section 4 Risk analysis

Discussion:

We realized that many factors have to be taken into consideration and that there are external factors, such as the weather or market prices that can affect the profitability of the business. Since we can never be

completely certain about our projections, it is important that the entrepreneur knows what the major risk factors and their implications are.

Group Discussion Questions

Compute Gross Profit and Net Profit for each of the following situations:

- a) Sales price for each quality of starch is 300 Tshs. /Kg lower
- b) Price for 1 Kg. potatoes is 100 Tshs./Kg. higher
- c) The amount of starch per quality category is different: 60 Kgs. of high, 50 Kgs. of medium and 40 Kgs. of low quality is produced (on average a lower quality).
- d) 500 Kgs. of potatoes produces not 150 Kgs. of starch, but only 120 Kgs., of which 64 Kgs. high quality, 32 Kgs. medium quality, 24 Kgs. low quality (total amount lower than in original plan, but proportion per quality category the same).
- e) The price for the grinder is not Tshs. 600,000 but Tshs. 1,000,000.

Suggested Answers : Risk Analysis

	PLAN	A	B	C	D	E
Total Income	400,000	355,000	400,000	370,000	330,000	400,000
Production Costs	215,000	215,000	265,000	215,000	215,000	215,000
Gross Income	185,000	140,000	135,000	155,000	115,000	185,000
Net Profit	80,500	35,500	30,500	50,500	10,500	77,200

Discussion Summary

The outcome shows that we have to be very careful in our computations. What looks as though there is little deviation from our estimates can mean the difference between profit and loss?

The entrepreneur should be aware of which factors are most critical before starting the business, so that she is clear about the risks are and for which factors she needs to pay more attention to.

The following basic factors that we reviewed in this Case are most critical for all enterprises:

- sales price of products: market fluctuations of 10 % are not unusual (a)

- price of raw materials: market fluctuations of 10-20 % are not unusual
- quality of product: inexperience in the type of production and/or factors such as the weather or the quality of the raw materials easily can change the average quality of the products by 10 % (c)
- production efficiency (ratio between output volume to input): inexperience in the type of production and/or factors such as the weather or the quality of the raw materials easily can affect the output volume by 20% (d)

When inquiring about the price of equipment, usually only the price of the machine is mentioned. Additional costs, such as installation costs, adjustments needed in buildings, etc. often are forgotten. Especially in processing/manufacturing enterprises these costs can be substantial and hence affect the income from the business.(e)

Small deviations in the estimated volumes and prices in the business plan can have a big effect on the profitability of the business. It is therefore important that we try to estimate as accurately as possible. But even if we do so, we can never be completely certain about what happens in the future. There will always be a certain risk. The entrepreneur needs to be aware of the major risk factors and amount of their implication. This will help her to pay attention to those factors which are under her control and when the results are lower than her projection due to external factors, it will not undermine her self-confidence.

- The following basic factors are most critical for micro-enterprises:

- sales price of products
- price of raw materials
- quality of products
- efficiency of production (ratio between output and input volume)
- costs of fixed assets

Section 5: Cash flow

When profitability and income are considered high enough, we can start planning the financing of the investment in detail. The Cash Flow of the enterprise is one of the factors that needs to be considered.

2.5.1 Cash Flow :

Discussion Questions

1. Fill in the attached Cash Record to project the cash situation of the business between September and January.
2. Can Ms. Amina repay her loan with interest in January, as she has planned?
3. What decision should Ms. Amina and the Pride Tanzania make about her application?

Discussion Summary

Refers to (Table 2.1.1, Table 2.1.2 and Table 2.1.3), the Cash Flow Projection will determine whether the entrepreneur will be able to pay the loan or not at the time the loan matures. In this case Ms. Amina by the end of December only has 610,000 cash balance. This means she will not be able to pay the loan and interest (total Tshs. 864,000) in full. She is short of Tshs. 254,000. It also means that she cannot continue the business as she has nothing left for the next production cycle.

For the business to continue, the ending cash balance should be sufficient to cover the production costs and other expenses for the next production cycle.

We learn from this case that although a business can generate a positive net profit this is not a guarantee that a loan can be repaid. It is necessary to make a cash flow projection to check this.

Rural households often have different sources of cash income. Perhaps Ms. Amina's household has received a large amount of cash after harvest, most of which is not needed until spring. In that case Ms. Amina could "borrow" from the household to repay the loan in January, since by March she will have enough cash from her starch processing enterprise. Another possibility would be to pay the loan in installments during a longer period of time. It is up to Ms. Amina and the Pride Tanzania to decide whether it is acceptable that the benefits of her business will not show in cash until after half a year of production.

In assessment of the viability of an enterprise Gross Profit, Net Cash Income and Net Profit are key elements.

Accuracy in the computation of Gross Profit is crucial in business planning, since it affects all other computations and indicators. Entrepreneurs can not be expected to be knowledgeable on all types of enterprises, and may need to call on experts to ensure complete and reliable data for estimating cost and income factors, such as input and output volumes, quality, prices, etc.

Risk Analysis is an integral part of business planning. The entrepreneur needs to know what the major risk factors are, how big the risks are, so that he/she can decide whether the risk is acceptable to him/her. It will also help him/her not to get discouraged when the results are lower than projected in the business plan.

Enterprises with a negative or low profitability are not sustainable. Project coordinators always be advised against such enterprises.

The Cash Flow Projection is important to determine whether the entrepreneur has sufficient working capital for the production costs and other expenses for the next production cycle and whether he/she will be able to pay his/her loan and interest at a given date.

Lesson 2: Business plan preparation and assessment

Background and Rationale

Project coordinators and group leaders need the skills to prepare and assess business plans for micro-enterprises to be able to:

- (a) assist the group members entrepreneurs in planning for their micro-enterprises;
- (b) assist local groups in credit management and in preparation of application for a project loan;
- (c) pre-assess loan applications before final approval by the Governing Body.

In this lesson, participants will work together with group entrepreneurs in preparation and assessment of business plans.

Output Objectives

At the end of the topic, participants will be able to:

1. Use the tools for business planning for each type of business.
2. Prepare a business plan together with the micro-entrepreneur.
3. Explain and assess business plans for each type of business.

Section 1. Key elements of a business plan

Introduction

From the previous topic we have learned to assess business plans based on financial indicators. However, we have seen that there are actually four business aspects which affect the success or failure of a business. These include:

- Production Aspects
- Marketing Aspects
- Management (organization) Aspects
- Financial Aspects

Proper planning of the first three aspects is very important, because this will determine the financial outcome of the business.

Production type of enterprise

Among the four aspects, the production type of project should be planned first. The most critical information needed for the production aspect is as illustrated in table 2.2.1. and table 2.2.2. Attached:

On the financial aspect, the inclusion clarifications of the following in the projection are required:

- Net Cash Income, Net Profit (Income Statement)
- Risk Analysis on price and volume changes
- Investment Plan

Processing type of micro-enterprise

Referring to the production aspects, there are differences between Production and processing types of business are:

- (i) Land is usually not critical in processing projects
- (ii) Information on the production process is critical. This involve the steps required in processing the product.
- (iii) An addition to this are the raw materials, labor requirements, etc. the entrepreneur can start computing the production costs per unit. The unit production costs are the total production costs divided by the production volume. Mainly the unit production cost is needed for the next aspect: marketing.

In these two types of micro-enterprise, if there are definite buyers, the critical elements are the same. However, in case there are no definite buyers, eg a bakery enterprise which has the village as its target market, the marketing aspect will include the following:

a) First, determine the demand

What is the estimated number of people who may buy your product? What quantity? What frequency? Are there existing competitors selling the same product? Are the estimates reasonable?

b) Second, determine the price

First check the unit production cost. The selling price should be higher than the unit production cost. Second, in setting the price consider the existing competitors and how to attract more buyers.

c) Third, determine the strategy to attract buyers

What will the entrepreneur emphasize? Examples: good quality, low price, fast delivery?

d) Fourth, determine the estimated sales volume

Are there demand seasonalities in demand? Determine sales volume at peak, normal and low demand periods. Estimate sales volume for the appropriate period (e.g. one month, one year).

e) Fifth, determine how to distribute/deliver the product

Where will he/she sell, i.e. through sales outlets or directly? What are the costs involved in delivery and selling?

Proceeding to the financial aspect, financial projections are needed. These are the following:

- Gross Profit, Net Cash Income and Net Profit (Income Statement)
- Risk Analysis on price and volume changes
- Cash Flow
- Investment Plan

Trading type of micro-enterprise

The first critical aspect in the trading type of enterprise is the marketing aspect. Trading basically is buying and selling of the same commodity or good. The entrepreneur may buy in wholesale and sell in retail. There are two basic principles in trade:

- Buy at low price, sell at high price.
- The faster the turn-over, the better.

The practical steps in planning the marketing aspects of trading projects are:

a. **First, determine what to sell (inventory listing)**

The entrepreneur first considers which goods will sell well in the community. Then he/she projects how fast a certain quantity (bought in whole sale) of each of the goods can be sold (turn-over rate). Then he/she lists this information and the purchase price in the following way:

Goods	Quantity	Unit Purchase Price (Tshs.)	Total cost (Tshs)	Turn-over Rate
Cigarettes	5 cartons	50,000	250,000	5 days
Beverages	1 box	48,000	48,000	6 days
Total			298,000	

b. **Second determine the price**

The entrepreneur then decides on the margin, (difference between unit selling price and unit buying price). In setting the price, he/she considers the price of competitors and whether this price is attractive to buyers. He/she also needs to consider the costs of other expenses in buying and selling the goods (e.g. transportation, tax), and the costs of the use of the facilities (e.g. rent, power).

c. **Third determine the estimated sales**

What will be the total sales income in a certain period, i.e. one month? For each item the sales is determined as the unit selling price times the estimated quantity sold in the period (determined in the inventory listing under a.). If seasonalities are anticipated' these must be reflected in the sales projection for the whole year.

d. Fourth, determine the selling strategy

Considering other competitors how will the entrepreneur attract more customers? What will the entrepreneur emphasize? Examples: good quality, low price, suitable location.

There are critical indicators in these financial aspects. The indicators are:

- Gross Profit, Net Cash Income, Net Profit (Income Statement)
- Risk Analysis of prices and sales volume
- Cash Flow
- Investment Plan

Organization and Management

In all four types of micro-enterprise planning of the organizational aspects is very important. Proper organization and management is needed to realize the projections made for the other three aspects.

The CBO project encourages micro-enterprise development by members with the goal to improve their self-reliance and income (see Module 1, Topic 1, section 3). Through engaging in micro-enterprise local people learn technical and business skills; learn to take decisions and risks, obtain own income. All of these contribute to more self-confidence and self-reliance. Local people either run micro-enterprises individually with usually some support of household members (household-based enterprise), or they undertake a micro-enterprise with a small group of members (group enterprise) should planned and managed.

Management of household-based micro-enterprise

Important considerations for the entrepreneur in planning the organization and management of enterprise are:

- Do I have the necessary skills to manage the enterprise (e.g. record keeping, income computation, production and marketing skills)?
- Can I acquire the skills which I do not have and how (e.g. training, help from group members, others)?
- Who among household members will be involved in the enterprise? What will be their tasks?

Management of group enterprise

Important considerations for entrepreneurs who plan to start a micro-enterprise together are as referred to Table 2.1.4 attached:

- Who among the group are to be involved? What will be the roles and tasks for each?
- Who will perform the following key roles of: manager, accountant and cashier?
- Do the members have the skills required for the assigned tasks? If not, how will it be solved?
- How will financial control be instituted? e.g. how often will they meet, how often will there be reporting on the financial status, how will they keep and disburse funds, etc.?

2.2.2: Introduction of tools for business planning

Steps:

To assess the economic viability of an enterprise we use the business plan form. This is a tool for organizing the data relevant to the four aspects of business (marketing, production, management and financial) and to make calculations.

To assess both components (entrepreneur and enterprise) we use Worksheet 1. After making the Business Plan entrepreneur reviews the questions in this worksheet to formulate the conclusions and recommendations. The project coordinator can use this:

- to make recommendations to loan provision organizations on loan application and required assistance (e.g. training, technical assistance, etc.)
- in monitoring the implementation of the project

The entrepreneur gets a copy of both the Business Plan and Worksheet 1 for future reference.

Important note: Micro-entrepreneurs often do not know the risks involved in starting a business. Some tend to be too afraid of taking the risk and others tend to be too optimistic. Therefore, it is important to raise critical questions in assessment of the Business Plan, so that the entrepreneur gets a realistic insight in the risks involved and the critical aspects he/she has to pay attention to once starting the project implementation. This will help him/her to make the right decision.

Sample Questions for Review of Business Plan

For Production Type Enterprises

Production:	- is the projected harvest reasonable?
	- is the quantity and price of crucial inputs, such as seeds, fertilizer, labor reasonable?
	- in animal raising, what is the mortality rate?
	- are estimates of amount and price of feed, medicines correct?
Marketing:	How sure is it that the buyer will really buy the quantity at the time and price that she projected?
Financial:	Project net profit for worst scenarios, ea. harvest 60 % of estimate, price 25 % lower?

For Processing Type Enterprises

Production:	- is the output volume reasonable?
	- is the quantity and price of inputs reasonable?
	- can the quality be assured?
Marketing:	How sure is she that she can sell the projected volume at the projected time and price?
Financial:	Project net profit for worst scenario, e.g. lower sales price or volume, higher price raw materials.

For Trading Type Enterprises

Marketing:	Are the projections on inventory turn-over reasonable?
Financial:	Project net profit for the worst scenario, e.g. sales 50 % of estimate.

For Service Type Enterprises

Marketing:	What is the basis for assumptions on demand, attractiveness of her business? Is the demand seasonal?
Financial:	Project net profit for the worst scenario, e.g. half of the estimated demand.

MODULE 3

MICRO-ENTERPRISE MANAGEMENT

INTRODUCTION

Module 3 addresses the management of micro-enterprises at the implementation stage. It is important for micro-entrepreneurs to work on problem-solving of their micro-enterprises and offering useful suggestions as a result. This module is designed for participants to acquire the knowledge, skills and attitude in providing technical assistance to ensure continued success or growth of their businesses.

OUTPUT OBJECTIVES

At the end of Module 3, participants will be able to:

1. Understand the requirements in micro-enterprise management and the importance of record keeping.
2. Assist entrepreneurs in keeping financial records and preparing income statements.
3. Carry out financial analysis and diagnosis, and come up with recommendations and options to the micro-entrepreneur.

Topic 1: Management areas, skills and tools

Background and Rationale

To obtain profit is the main goal why micro-entrepreneurs engage in business. Proper management is the key for success. Group leaders and project managers have a role in assisting group micro-entrepreneurs in improving their management skills.

In this topic the major areas of ***management*** and the required management skills of micro-entrepreneurs will be identified, and participants will acquire the knowledge, attitude and skills in preparing and reading financial records and statements.

Output Objectives

At the end of the topic, participants will be able to:

1. Identify the critical areas in management, the common weaknesses of micro-entrepreneurs in business management skills and the importance of record keeping in business management.

2. Prepare, read and explain financial records.

3. Understand why it is important to exchange of business information in the women's group.

Materials

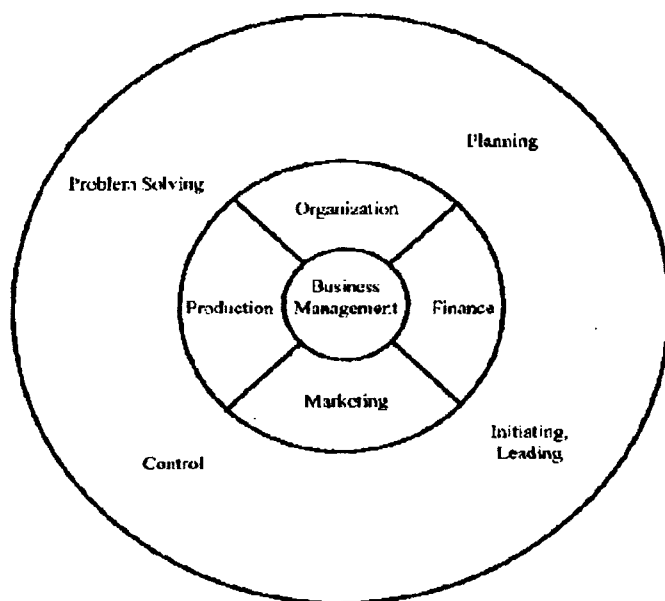
- Handouts,
- Flip Charts and
- Marker pens.

Lesson 1: Introduction to micro-enterprise management

Description Summary

In module 1 was identified that the common weaknesses and constraints of micro-entrepreneurs are at both the planning and implementation stages. In Module 3 we will focus on the management of micro-enterprises. An enterprise must be properly managed to be successful.

Diagram 3.1.1 Management areas and skills



In Module 2 we concentrated on the planning stage. In this Module we will especially focus on the skills in *controlling the business*. A basic reason for difficulties of entrepreneurs such as inability to adjust to market changes and problems in production is a lack of records. Without records it is difficult to recognize changes and problems and it is not clear what the effect of changes and problems are for the income from the business. Unless the entrepreneur has thorough insight in his/her business, he/she is not really in control and hence can not take initiatives in problem solving.

To be fully in control of an enterprise, the entrepreneur needs to be well informed about all aspects of the business. He/she needs to know how he/she is doing in production, in marketing, in organization and in finance. Most of the information the entrepreneur will know without writing it down, but depending on the type of enterprise, it may be advisable to keep records for certain aspects. E.g. for a chicken raiser, a daily record of the egg production can be helpful to detect problems with disease, room temperature, etc. For a trader, a daily record of the stock is useful to make sure that he/she can always serve his/her clients. For a vegetable grower, it may be beneficial to note down the market prices every day, so that he/she gets to know what time of the year the demand for certain vegetables is highest.

Keeping financial records is important for all entrepreneurs, since this keeps track of the income in particular, which is a sign whether the business is successful or not.

Keeping records enhances the business consciousness and self-reliance of entrepreneurs. Group leaders should encourage the exchange of information in the group. It will help each one to improve his/her own management skills and business results. Besides, for common problems (e.g. with pig feed from the same supplier, payment problems with buyers, lack of technical advisory service) the entrepreneurs together can take more forceful action than individually.

It is important to be familiar with the preparation and analysis of financial records and statements in record keeping and in evaluating business results.

Lesson 2 Introduction of financial records

Description Summary

There are two major tools in financial record keeping:

- (a) The Cash Record, and
- (b) The Income Statement.

Refers to attached Table 3.2.1 and Table 3.2.1 at appendix, Entrepreneurs, who conscientiously keep a cash-book, will notice fluctuations in production or the market quickly. E.g. a pig raiser who keeps a cash-book will notice changes in prices of pigs and pig feed. From regular computation of the income over a certain period or production cycle, the entrepreneur will furthermore become more aware of the impact of these fluctuations on the income. The pig raiser for example will learn from subsequent income statements that a difference of a few quantities per Kg. of pig feed makes a big difference for the income.

To ensure that participants know how to prepare cash records correctly, the participants are to state for each of the following sample transactions whether it is (a) an inflow; (b) an outflow or (c) not recorded in cash record:

<u>Transaction</u>	<u>Answer</u>
1. loan from the group	Inflow
2. repaid loan to the group	Outflow
3. bought equipment	Outflow
4. bought materials	Outflow
5. Husband paid back the money borrowed from the enterprise	Inflow
6. deposit additional savings to group	Outflow
7. goods consumed by husband	Not recorded, not a cash transaction
8. harvest reduced by half	Not a cash transaction, not recorded

According to the experience micro-entrepreneurs who start to keep the Cash Record often need assistance regarding the three points below:

- (a). What is the beginning balance?
- (b). Why is it important to separate the enterprise account from the household account and accounts of other enterprises? Eg. when part of the raw materials or finished products or goods are used for own consumption, how should it be recorded?
- (c). Illiterates often are able or can learn easily to read and write numbers. Do you have suggestions on how they can keep the Cash Record?

Discussion Summary

The beginning, balance is the cash status at the beginning of the period for which the record will be kept. For a starting enterprise, this is the amount of savings (the own capital! that the entrepreneur will invest in her new enterprise. In an on-going enterprise, the beginning balance is the remaining balance at the end of the previous recording period.

If the enterprise's account is mixed with other accounts, it is very difficult to compute the enterprise's income. Eg. in a grocery shop, the household may use some of the goods. It is important that these goods are treated as goods sold to the household. Otherwise we charge the business for the living expenses of the household and the income from the business will come out low, while it is the household which has less expenditure than it would have if we did not have the shop.

Illiterates can ask family members to keep the records, but there are also alternatives. She can for instance use different colors or symbols for certain types of income and expenditures. i.e. a different color or symbol for raw materials and other inputs: fixed assets, labor payments and other expenses.

Section 1: Preparation and reading of financial records

Discussion Summary

Participants will practice in preparing and reading the financial records by reviewing two cases:

- (i) The first case is about a production type of enterprise: raising of goats. Participants have to carry the following tasks:
- The costs of improving the building are not a production cost since the newly improved facility can be used for more than one production cycle. Thus, this is added to the investment and included in computation of depreciation.
 - Depreciation cannot be found from the cash record, because it is a non-cash cost.
 - Rabbits that died cannot be found from the cash record. It would have been good if the item description in the cash record is filled up well, ie. Indicating quantity and price per rabbit (eg. sold 48 goats at Tshs. 15,000).
 - It would have been better if the amount and price of feed (i.e. 400 kgs. at Tshs. 500) also had been specified. This is helpful to check the inventory.
 - 31 % profit in 3 months is a good profit. Perhaps experts in goat raising have tips to further improve.

Situation 1: Goods consumed by the household

This is a situation in which the household consumes some of the products of goods of the business without paying for it, e.g. cigarettes of a grocery shop, beancurd of a beancurd processing enterprise, part of the vegetable consumed by the household.

1. The value of these goods must be treated as income and be added to the net profit.
2. It is advisable to encourage women entrepreneurs that goods borrowed or consumed by household members should be returned or paid for.

Situation 2: Sales on credit

In this situation we can think of a grocery shop, where the entrepreneur sells the goods on credit to certain customers, who then pay later.

1. Credit sales that the entrepreneur thinks can be paid by the buyer should be treated as income.
2. Credit sales that cannot be paid should be treated as a loss and be deducted from the net profit.

Situation 3: Use of own raw materials

Part of the raw materials may be produced by the household of the entrepreneur, e.g. a starch processing entrepreneur may have part of the potatoes from the household and buy part from other villagers.

1. The value of the raw materials should be treated as costs and be deducted from the net profit.

Important Points

Both the Cash Record and a regular Income Statement are a necessity for every entrepreneur, because:

- it gives the cash position at any time
- it helps the entrepreneur in detecting fluctuations in prices, market demand for goods, and in production
- it enhances the entrepreneurs business consciousness and control over her enterprise
- regular evaluation of the business is important for planning purposes

The Cash Record should be kept separate from the household and other business accounts.

The Cash Record should contain specific information such as volumes and prices to be able to prepare the Income Statement and to analyze the results.

In preparing the income statement, we need to check the data in the cash record carefully, and ask about non-cash transactions as well. Correct inventory cannot be deduced from the cash record alone. A periodic inventory record is also needed.

The Income Statement covers a logical period such as one production cycle (for production and processing type of enterprise) or a time period (e.g. a month for trade and service type of enterprise).

From the Income Statement strengths and weaknesses of the business can be identified.

Section 2: Options for the entrepreneur

Discussion Summary

The entrepreneur has always three options in the evaluation of the business results:

A. To continue the existing enterprise, but improve on the identified weak area by for instance:

- expanding production volume
- improving production efficiency
- improving customer relations
- improving quality of product

The entrepreneur must always look for better ways of improving her business to ensure its continued growth.

- B. To diversify into other products or new business. This option can be considered when he/she is satisfied with her current business. If she decides on this option, he/she should repeat the process of planning.
- C. To discontinue or close the business. This option may be considered if continuing the business would mean greater losses for the entrepreneur, particularly when weaknesses cannot be turned into strengths and/or when there are un-manageable constraints.

MODULE 4:

FUND UTILIZATION AND MANAGEMENT

INTRODUCTION

The previous modules focused primarily on the skills in micro-enterprise development needed for assisting micro-entrepreneurs in micro-enterprise development. Community based Organizations (CBOs) or other development groups have two kinds of funds available to engage in micro-enterprises, the group savings fund and the project revolving fund loan. The groups should be assisted in utilizing both funds successfully.

Module 4 focuses on the relationship between group savings, project revolving fund and group capital and on the important elements in fund management.

OUTPUT OBJECTIVES

At the end of Module 4, participants will be able to:

1. Understand the importance of group capital build up through appropriate use of group savings and project loan.
2. Understand the relationship between the group savings fund and the project revolving fund.
3. Introduce the records women's groups need in managing their fund.
4. Apply the policies and procedures for project loan. ;) to development groups.
5. Understand the important elements and procedures in management of the project revolving fund.

Lesson 1: Fund utilization and management in women's groups

Background and Rationale

Savings mobilization and utilization are the foundation for groups to become self-reliant through capital build up. At the start of a group, member incomes are low and hence savings are small. Once the group has some savings, members can borrow for investment in micro-enterprises and increase their income and hence their savings. The project loan augments the group's fund so that members can increase their incomes faster, which also means that the group can build up capital faster and can continue loan operations with their own funds.

In this topic participants review the importance of savings mobilization and utilization for sustainability of groups, the records that groups need for financial management, and the major issues in monitoring and technical assistance by project officers.

Output Objectives

At the end of the topic, participants will be able to:

1. Understand the importance of savings mobilization and utilization for building up the group's capital and the role of the project revolving fund loans as a catalyst in this process.
2. Assist the groups in setting up a proper financial recording system for savings and loan operations.
3. Identify the major issues involved in monitoring of group savings and loan operations by project officers.

Materials

- Handouts,
- Flip Charts and
- Marker pens.

Lesson 1: Importance of savings mobilization and utilization

Steps:

It is an important role of adequate utilization of the available funds for micro-enterprise development. In this topic we will refresh our memory on the importance of savings mobilization and utilization, and on the relationship between savings fund and project loan.

The discussion of the following questions should be done:

- a) What is the importance of saving for individual members?
- b) What are the advantages of saving as a group?

Discussion Summary

- Savings are important for the members:
 - a) To be able to invest in micro-enterprises and

b) To be prepared for future expenditures, such as children's education, old age security, emergencies.

- By saving as a group it is easier to make savings a habit based on the concept "Income minus Savings is Expenditures".
- In the beginning individual saving amounts may be rather small, but the group can accumulate more capital. Through borrowing from the group, members can avail of sufficient capital for investment in micro-enterprises.
- In the group, members get ideas and can exchange experiences, which helps them to improve their business skills and self-confidence.
- Through saving group members start to gain, control over their own resources and a sense of self-reliance develops.

Group Discussion on Savings and loan operations in development groups

Mtakuja Group

Mtakuja (Small Grass) development Group was formed two years ago. After the training group formation, the 20 members started saving Tshs. 10,000 per member per month and they still do so. The savings are collected every month and deposited on the group's bank account. The bank pays interest at an annual rate of 10 % at the end of each year. The group does not use their savings for loans to members.

After six months the group's total savings was Tshs. 1,200,000 and they received a project loan, amounting to 8 times their savings (Tshs. 9,600,000). All members received an equal amount of loan for micro-enterprise development from the project loan. Most members are engaged in traditional activities such as animal raising and crops. All members repaid after one year with interest of 0.5% per month (6 % for the year), and the group has repaid 30 % after the first year and 30 % after the second year to the project office, including the 4% social development fee. After the first and second repayment they divided the remaining balance of the loan equally among the members on the same conditions.

Msasani Women's Group

Msasani (Red Rose) Women's Group (20 members) was formed at the same time as the Mtakuja group. They also saved Tshs. 10,000 during the first six months, but after six months, the group decided they could save Tshs. 15,000 per month, since they now had established the habit of saving. After 3 months of saving, they decided that 3 members would borrow Tshs. 200,000 each from the total Tshs. 600,000 in the savings fund. These members had to repay after three months with interest of 2% per month (total Tshs. 12,000 each). The group each month decides how the new savings and the repayments and interest will be used. Their policy is that no more than 10-20% of the savings fund should be in the bank.

Twice or three times a year, the members discuss the monthly savings amount, and they have regularly raised it: to Tshs. 20,000 per month after month Tshs.12,000 and to Tshs. 30,000 after month 18.

Since Msasani Women Group after six months had Tshs. 1,200,000 in savings, they received the same amount of project loan as the Mtakuja Group (Tshs. 9,600,000). The total amount was lent to members for a variety of income generating activities. Besides in traditional activities, members have started engaging in shop keeping, trade, hair dressing, etc. The amount of loan per member depends on the kind of enterprise and the member's financial position. Interest on loans is 2% per month and the duration of loans usually is between 1 month and 6 months.

Task

Compare the savings and loans policies of the two groups. What are the differences and which group is more successful/self-reliant? Why?"

Suggested Answers

Saving Mobilization

- Msasani Women Group has internalized the concept of “income minus savings is Expenditures? When the habit of savings was established and when incomes increased, they raised the monthly savings amount.
- Because Msasani Group regularly increased the monthly savings amount their total capital fund will be much higher than that of the Mtakuja Group.

Saving Utilization

- Mtakuja Group keeps the savings in the bank, Msasani Group actively uses the savings for micro-enterprise development. This difference leads to the other differences below.
- Because Mtakuja Group does not use the savings for loans, the members do not see much of the benefits of saving and hence the concept of savings is not reinforced. Msasani Group every month will discuss what to do with the savings. The benefits of savings then are very clear to the members and they develop more ideas and skills in micro-enterprise identification and planning.

By using the savings fund for loans to members, more members in the Msasani Group can avail of loans and loans can be bigger than in the Mtakuja Group, so more households can increase their income and the increase can be higher.

- Because Msasani Group started loan operations as soon as they had some savings, they gained experience in decision-making on loan applications and the record keeping system, they are

better prepared for management of the bigger project loan.

Project Loan Utilization

- In Mtakuja Group the project loan is equally divided among the members, loan duration is fixed at one year and loans are mainly used for traditional activities. In Msasani Group the amount and duration of loan is based on the requirements of the micro-enterprise and the member's financial position. In Msasani Group more members benefit, funds are used more efficiently and for a variety of enterprises. The dynamic approach improves the member's entrepreneurial skills and income much faster than in the Mtakuja Group.

Fund Management

- Msasani Group regularly reviews and increases the monthly savings amount. This means that the group's own capital grows faster.
- A higher interest rate makes it more attractive to repay as soon as possible, which means more members can borrow sooner. Higher interest also means that the group's capital increases faster.

Income of Group members

- Members of Msasani Group develop their entrepreneurial skills, their self-confidence and income much faster and to a higher extent than in the Mtakuja Group. Family members will appreciate their potentials.
- The Msasani Group will gain a stronger positive image in the community, because of their performance in fund raising, management, contribution to household and village economy and innovations.
- The positive image in the community, the higher group capital and more active group life of the Msasani Group will also contribute to implementation of more social projects in the community, ea. establishment of kinder garden; improve health facilities, entertainment, etc. Group's own capital (savings plus interest) two years after group formation.

The following table is the illustration the difference in capital build up between the two groups (since interest computation is rather complicated, do not ask participants to compute).

<u>Mtakuja Group</u>	<u>Tshs.</u>	<u>Msasani Women Group</u>	<u>Tshs.</u>
Total Savings	4,800,000	Total Savings	9,000,000
Total Bank interest	480,000	Interest savings utilization	2,000,000

Interest on RF loans (2 %)	259,000	Interest on RF loans (20 %)	2,590,000
Total Group Capital	5,539,000	Total Group Capital	13,590,000

Note: Msasani Group after two years already has generated own capital higher than the project loan of Tshs. 9,600,000.

Discussion Summary

The important elements in group policies regarding savings and loans are:

- The group starts lending to members for micro-enterprise development as soon as it has a few hundred Tshs. in savings
- The group regularly reviews and increases the monthly savings amount
- The group charges interest on loans to members. which is added to the group capital
- Loan duration is as short as possible and based on the requirements of the enterprise and entrepreneur
- These policies result in:
 - faster capital build up of the group
 - more benefits for the households (more, bigger loans)
 - efficient use of savings fund and project loan
 - faster improvements in members' business skills and self-reliance

There is the differences between policies for loans from the group to members and loans from the project to the group:

a. Ratio savings and loan

The project loan to the group depends on the savings (loan is maximum eight times the group's savings). Within the group the ratio savings to loan is not relevant; loans should be based on the requirements and payback ability of the enterprise and the entrepreneur.

b. Duration of loan

Groups repay the loan to the project in three years. Within the group loan duration should be as short as possible, depending on the enterprise and entrepreneurs ability. Loans from the group to members should never be longer than 1 year.

c. Number of loans

Groups can only once avail of a project loan. There is no limit to the number of times that members can borrow from the group.

d. Interest

Besides 4 % per year for the social development fund, no interest is charged on project loans to women's groups. A higher interest on loans from the group to members is advisable for faster capital build up of the group and as incentive for early repayment.

Lesson 3: Preparation and procedures of loan applications.

Discussion

As soon as groups have undergone the training group formation and started saving, the group can start with preparing the application for the project loan. Already during the training group formation the members have developed initial ideas and acquired some basic skills in preparing business plans. Earlier in this training, we have identified that at this stage most groups need practitioner's assistance, especially in the following areas:

- building up business consciousness and skills in business planning
- provide market information
- arrangements for technical training and advisory services

In this lesson, we will focus on the procedures and required documentation for processing of loan applications.

Step 1: Preparation by the local group.

The first step is the preparation of the loan application by the local groups with assistance of the development practitioner. The group prepares the following documentation for submission to the Loan providers. **Most essential in preparing the documentation is that all members participate in the decision-making process.**

Policies and procedures for loans to local groups

I. Qualifying Criteria

Individual

Members must have undergone training group formation and must have participated in this training for at least 90% of the training time.

After training, group members must have decided voluntarily to join the Group.

Group

Each member of the Group must have undertaken savings activities for a period of at least 6 months.

The Group must have an established bookkeeping and management system.

The Group must have a functioning loan committee with elected officers and clearly designated functions.

II. Procedures for Loans to Member's Groups

(A) Approval Procedures

Individuals and/or sub-groups submit a feasibility study to the Group loan committee.

The loan committee with assistance of the project office submits the Group proposal to the Group Governing Body.

The Group Governing Body assesses Group proposals and approves fund level for specific groups.

(B) Contract Signing Group and Local Authority

A contract is signed between the Group (with individuals signing) and the local Authority leaders, with the Local Authority Governor as guarantor.

The contract will stipulate among other things the following:

(a) Group must repay in a 30%, 30%, 40% schedule in three years

(b) Penalties on default (10 % for every month of delay)

(C) Release of loan funds

Upon approval of the Group Governing Body, the Local Authority Governor executes the decision by releasing the loan to the group chairperson, treasurer and loan committee chairperson, who are jointly responsible.

The chairperson, treasurer and loan committee chair person make sure that individual and/or sub-groups fund releases are made on the same day when funds are released from the county.

III. Procedures for Loans to Individuals

These procedures apply to loans from both the project fund and the group's own savings fund.

(A) Approval procedures

Individuals or sub-groups submit a feasibility study to the group loan committee.

The loan committee and/or the group members assess the proposal and approve the fund level.

(B) Contract signing

A contract is signed between the individual or sub-group and the group chairperson, treasurer and loan committee chair person.

The contract will stipulate among other things the following:

- (a) The duration of the loan
- (b) The interest rate, amount and date of payment.
- (c) The repayment schedule with amounts and dates.
- (d) Penalties in case of default.

(C) Record of loans

The treasurer keeps record of all loans and the terms of the loan.

The repayment schedule, including interest is copied by the treasurer to the individual's pass book.

Example of Sample project loan payments

Release in the year 1995

Group savings after 6 months:	1,250,000
Loan is 8 times group savings	10,000,000
After deduction of 4% Social the amount to be released is: 9,600,000	

Payment Social Development Fund:

1995 (deducted at release)	400,000
1996	400,000
1997	400,000

Repayment Loan:

1996 30% of 10,000,000	3,000,000
1997 30% of 10,000,000	3,000,000
1998 40% of 10,000,000	4,000,000

MODULE 5

EVALUATION

Background and Rationale

Participants will have filled in an evaluation form after each module. The facilitators therefore already have a consolidation of the written evaluation when this topic starts. In this topic participants will be asked to evaluate the whole training and to come up with suggestions for improvement for the facilitators. The evaluation will show which parts of the training require special attention, which were most useful for the participants and what follow through action can be expected.

Output Objectives

At the end of the topic, participants will have:

1. Evaluated the training and have made suggestions to the facilitators for improvement.
2. Identified critical elements in conducting this training.

Lesson 1: Evaluation

Background

Facilitator introduces the activity by explaining the purpose of the evaluation, which is for facilitators to get feed-back from the participants in order to improve in next training courses, and for participants to think about the critical aspects in conducting training, which can be useful when they will act as facilitators themselves after returning home.

2. Facilitator reminds the participants of the general objectives of the training as agreed upon at the start of the training, being for participants to have acquired the knowledge, skills and attitude on:
 - a. The role of micro-enterprise development as a means to improve the status of women
 - b. The role of project officers in assisting women micro-entrepreneurs
 - c. Micro-enterprise planning and assessment
 - d. Micro-enterprise management
 - e. Fund utilization and management

3. Ask participants to discuss the following three questions (write on the black board) in sub-groups of 5 persons:

- a. Have the training objectives been achieved? Ask for specific examples.
- b. What comments/suggestions do you have regarding the content of the training?
- c. What comments/suggestions do you have on the methodology of the training?

4. Before breaking into sub-groups the facilitator presents the consolidation of the written evaluations on newsprint and raises some specific questions for participants to discuss in the sub-groups. Examples of these questions could be:

- for topics and activities that are not appreciated much' facilitator could ask participants about the reason (too difficult, not clearly explained, boring lecture, wrong methodology, etc. and to come up with suggestions on how to improve
- for topics and activities that are very much appreciated, facilitator could also ask about the reason

5. Ask sub-groups to write their conclusions on newsprint and give 20 minutes for discussion.

6. Ask each sub-group to present and thank participants for their suggestions.

7. To end the training in a cheerful way, facilitator could conduct a quiz among subgroups. Below some sample test questions are given. This will also give additional information to facilitators on the [earnings of the participants. Note that this kind of questions could also be inserted after each module.

Revision Questions

Question 1

A business has a Net Profit of 200 rmb per cycle, 4 cycles per year. The total invested capital is 1000 rmb. Is this a profitable business?

Answer 1. Yes, return on invested capital is 80 % per year.

Question 2

A loan of 600 rmb (interest 2% per month) is requested to buy equipment (life time 5 years). Net Cash Income will be 200 rmb/month. The production costs are 100 rmb/month. Should the loan application be approved? If yes, how much can she repay each month?

Answer 2. Net Profit is Net Cash Income minus Depreciation minus Interest on loan: $200 - 10 - 12 = 178$ rmb. This is a good profit (why?), the loan can be approved. Monthly amortization can be Net Profit minus Production Costs for the next cycle. $178 - 100 = 78$ rmb.

Other

For example: some questions whether a certain item is recorded in the cash record as inflow, outflow, or not recorded because it is not a cash transaction (see Module 3).

For example: What information cannot be found in the cash record, but is needed in the income statement (depreciation, inventory, non-cash costs and income).

Then end the training by thanking the participants for their cooperation.