

Strategies for Microenterprise And Small Business Development

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

AFI Program Considerations

AFI participants may use their IDA resources to support any number of expenses needed to carry out plans for establishing small businesses or to support existing ones. Typically, participants use their IDA savings for expenditures such as purchasing equipment and inventory, legal requirements for establishing a business, and paying rent. All expenditures must have been included in the participant's business plan as approved by a financial institution, a microenterprise development organization, or a nonprofit loan fund. The plan must include a description of goods or services to be sold, a marketing plan, and projected financial statements. Expenses may cover items such as plant, equipment, working capital, inventory and other expenses.

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

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

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

Steps in the Process

1. MARKET AND RECRUIT PARTICIPANTS

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

In announcements, be sure to advertise the menu of support and services your agency provides for entrepreneurs. These include items such as microloans, entrepreneurial classes, business technical assistance, and business planning and incorporation.

If your organization is partnering with other organizations, work with them to help market the program. Be sure their staff understand IDAs and AFI opportunities and limitations so that they can identify likely eligible and ready applicants.

2. ENROLL PARTICIPANTS

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

Knowing up front the feasibility and status of the participant's business model is critical to providing the right assistance to help participants translate their visions into successful, income-generating enterprises during the IDA program period.

3. PARTICIPANTS BEGIN SAVING

Saving in an IDA is a great way for a participant to develop a track record that will be so important for actually owning and managing an ongoing business enterprise. By saving regularly in their IDAs, participants will demonstrate their ability to make regular monthly payments. By saving on a regular basis and not relying too much on sporadic, lump-sum deposits, emerging entrepreneurs will develop a good business credit history. They will also be building a strong relationship with a financial institution.

4. HELP PARTICIPANTS ATTEND FINANCIAL EDUCATION

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

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

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

5. RUN PARTICIPANT CREDIT CHECKS

For AFI Project participants who have bad credit or no credit histories, it may be difficult to obtain a business loan or line of credit. Be sure to assess the credit worthiness of microentrepreneurs early in the program. Take action when needed to ensure that the participant will be able to develop a feasible business plan using available financial resources.

An IDA savings period that extends over more than a year can help participants establish credit in traditional and untraditional ways or repair poor credit histories.

6. ENSURE THAT PARTICIPANTS ATTEND BUSINESS TRAINING

AFI Projects need to provide, directly or with a partner, a diverse and flexible set of business development services for microenterprise participants. This flexibility is necessary because participants typically come with widely varying degrees of skills, knowledge, and understanding of business practices.

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

Emerging entrepreneurs, however, are sometimes guarded with their business ideas and prefer to seek one-on-one assistance with loan applications and strategy development. Look for additional resources in the community through credit unions, law schools, microloan institutions, community mentors, SBA development centers, women's business centers, community development financial institutions, and SCORE (the Service Corps of Retired Executives). Many business schools require community service or encourage graduate-level students to provide technical assistance to small businesses as a way to increase their experience with real business problems.

7. HELP PARTICIPANTS DEVELOP BUSINESS PLANS

AFI requires that microenterprise participants develop and submit a business plan. A business plan describes the services or goods to be sold and includes a marketing plan and projected financial statements. The financial projections in the business plan, including income

statements, balance sheets, and cash flow statements, outline necessary business expenses and are used as the basis for disbursements. Costs described in a business plan, such as start-up expenses, equipment, rent, supplies, targeted marketing or advertising expenses, and inventory expenses, are eligible IDA purchases.

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

8. HELP PARTICIPANTS APPLY FOR BUSINESS MICROLOANS AND BANK LOANS

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

Many organizations that provide financing for microenterprises and small businesses are creating special fast-track loan products for IDA microentrepreneurs. These vehicles take IDA savings into account when setting interest rates and other terms for loans. Some even have allowed participants to use their own IDA savings (not any portion of the match) as temporary collateral to secure loans.

9. ENSURE THAT PARTICIPANTS SUBMIT PURCHASE DOCUMENTATION TO RECEIVE MATCHING FUNDS

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

It is often easier to use the IDA savings to purchase larger capital expenditures on a one-time basis rather than multiple smaller purchases on behalf of the business, but the latter is sometimes more practical for a startup. Smaller expenses allow the entrepreneur to save a little, spend a little, and use funds for business licenses, startup equipment, and so forth while continuing to save. For example, a participant could save \$500 and receive a \$500 match for a sewing machine and cloth to begin operating a tailoring service. Participants can start to earn money while continuing to save for future matched purchases.

AFI Projects should provide a checklist for participants on the documentation required for disbursement. Typical documentation includes

- Approved business plan (description of the business product or service)
- Market analysis
- Marketing plan
- Management and staffing plan
- Financial projections

In addition, AFI Projects should require participants to provide specific documentation and invoices for proposed purchases and loan agreements (if applicable). As with other AFI asset purchases, all funds must go to a third party, such as equipment suppliers.

10. FOLLOW-UP

AFI Projects should encourage their entrepreneur participants to stay in touch. Agency newsletters and access to local media add free advertising and marketing opportunities for the businesses. This is a win-win situation in which both the AFI Project and the small business get promoted. Agencies with large numbers of graduates can create directories of their small business portfolio and display their entrepreneurs' resources at business fairs to promote sales and increase visibility of the AFI Project in the community. Small businesses that succeed over time also offer compelling evidence of return on investment for nonfederal funders.