



# Enhancing the Financial Health of Micro-entrepreneurs: Beyond a mere assessment

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Klaas Molenaar // Timpoc Consultants  
Mathilde Bauwin // ADA

# Table of Contents

|   |           |
|---|-----------|
| Why this report? .....  | 5         |
| <b>1. A practice-based research to understand the financial health of micro-entrepreneurs ...</b>                           | <b>6</b>  |
| 1.1. What does financial health have to do with it?.....  | 6         |
| 1.2. Sixteen organisations studied in eight countries .....   | 6         |
| 1.3. Financial health and how it is defined today .....   | 8         |
| 1.4. Defining micro-enterprises/entrepreneurs .....   | 10        |
| <b>2. Findings – Part 1: Categories of entrepreneurs and their specific financial issues and support requirements .....</b> | <b>13</b> |
| 2.1. Shifts in MSMEs attended by FSPs and NSFPs and their service packages .....  | 13        |
| 2.2. Differences between the approaches and methodologies of FSPs and NFSPs.....  | 16        |
| 2.3. The financial issues faced by micro-entrepreneurs are quite uniform .....  | 18        |
| 2.4. Keen interest in guidance and training alongside assessments.....  | 20        |
| <b>3. Findings - Part 2: The financial health of micro-entrepreneurs can be enhanced in many ways .....</b>                 | <b>22</b> |
| 3.1. Websites and platforms .....   | 22        |
| 3.2. Applications (apps) .....  | 25        |
| 3.3. Reaching out to larger numbers.....  | 26        |
| 3.3.1. Outset and Outset Online.....  | 26        |
| 3.3.2. Mes questions d'argent of Banque de France .....   | 27        |
| 3.4. Approaches in structuring mentoring and coaching.....  | 27        |
| 3.4.1. Youth Business International.....  | 27        |
| 3.4.2. Early Warning Europe – (Team U).....   | 29        |

|  |           |
|--|-----------|
| <b>4. Towards an integrated approach to assess and enhance financial health and well-being .....</b> | <b>30</b> |
| 4.1. An integrated approach to enhance financial health .....  | 30        |
| 4.2. A practical definition of financial health and identification of focal areas .....              | 32        |
| 4.3. The role of mentors and coaches.....  | 33        |
| 4.4. Tools to be used in the coaching and mentoring process.....                                     | 36        |
| 4.4.1. Matrices to segment the market and classify micro entrepreneurs .....                         | 36        |
| 4.4.2. Assessment tool (including questionnaires).....   | 40        |
| 4.4.3. Action planning to enhance financial health .....   | 41        |
| 4.4.4. Evaluation and monitoring templates .....   | 43        |
| <br>Financial health means action! .....   | <br>45    |
| Further reading? .....   | 46        |
| About the Authors.....   | 47        |
| About EMN, ADA and JPMorgan Chase Foundation .....   | 47        |
| <b>Appendices .....</b>  | <b>48</b> |
| Details of the sixteen organisations participating in this research .....                            | 49        |
| <b>Four Case studies .....</b>   | <b>51</b> |
| Permico - The cash budget central .....  | 52        |
| Positive Planet – Building trust is crucial .....  | 56        |
| Aliança Empreendedora - A different meaning of wealth and financial health .....                     | 59        |
| SAICA Enterprise Development – It’s all about self-confidence .....                                  | 62        |

## List of Tables

|  |    |
|--|----|
| Table 1 Sixteen organisations studied in eight countries.....  | 7  |
| Table 2 Classifying self-employed micro, small, and medium entrepreneurs/enterprises .....                           | 12 |
| Table 3 Eight European services providers and their target group.....  | 14 |
| Table 4 Eight emerging economy services providers and their target groups.....                                       | 15 |
| Table 5 Notable differences between FSPs and NFSPs across EU countries and emerging economies .....                  | 16 |
| Table 6 Common financial issues across segments of the MSME universe .....   | 19 |
| Table 7 Platforms, websites and programmes related to financial health by entrepreneurial segment .....              | 23 |
| Table 8 Selected Applications to be used to deal with financial problems for micro-entrepreneurs...25                |    |
| Table 9 Financial health enhancement process, key actors and suggested tools .....                                   | 31 |
| Table 10 Business life cycle, needs for coaching/mentoring and prevailing roles to enhance financial health .....    | 34 |
| Table 11 Weighting values for questionnaire on Financial health for micro entrepreneurs .....                        | 40 |
| Table 12 Action plan to plan an intervention to enhance Financial health for Micro-entrepreneurs. 42                 |    |
| Table 13 Monitoring and evaluation action plans for the improvement of financial health for micro-entrepreneurs..... | 44 |

### List of acronyms

|             |  |             |                                       |
|-------------|--|-------------|---------------------------------------|
| <b>ADA</b>  | Appui au Développement Autonome          | <b>MFI</b>  | Microfinance institution              |
| <b>CFSI</b> | Centre for Financial Services Innovation | <b>SME</b>  | Small and Medium Enterprise(s)        |
| <b>CGAP</b> | Consultative Group to Assist the Poor    | <b>MSME</b> | Micro, Small and Medium Enterprise(s) |
| <b>EMN</b>  | European Microfinance Network            | <b>NFSP</b> | Non-financial service provider        |
| <b>FHN</b>  | Financial Health Network                 | <b>NGO</b>  | Non-governmental organisation         |
| <b>FSP</b>  | Financial service provider               | <b>SEF</b>  | Small Enterprise Foundation           |
| <b>MFC</b>  | Micro Finance Centre                     | <b>YBI</b>  | Youth Business International          |

# Why this report?

Financial support from the JP Morgan Chase Foundation enabled the European Microfinance Network (EMN) and Appui au Développement Autonome (ADA) to lead a joint research project to help improve the financial health of micro-entrepreneurs. The purpose of the research was to: (1) understand the financial health issues faced by micro-entrepreneurs, particularly those supported by organisations providing either technical assistance/business development services, referred to as non-financial service providers-NFSP or (micro)finance services, called financial service providers (FSP), and (2) develop an operational guide for the staff of FSPs and NFSPs in assessing the financial health of micro-entrepreneurs and supporting micro-entrepreneurs in dealing with financial issues that affect both the financial performance of their enterprises and personal well-being.

This cross-country research activity covered a mix of sixteen pre-selected FSPs and NFSPs in four European Union member states and four emerging economies. The data and information obtained from the sixteen organisations generated in-depth understanding on the financial health issues of micro-enterprises, the financial well-being of the micro-entrepreneurs and the ways in which such financial health and well-being might be enhanced.

The research was carried out between July 2018 and September 2019 by Klaas Molenaar (Timpoc Consultants) as lead researcher contracted by EMN, and Mathilde Bauwin as field researcher, working for ADA. The research was based on literature reviews, surveys, field studies, interviews and consultative discussions with a strong qualitative approach.

Given the geographical scope of their activities, the EMN managed the regional coordination for Europe, while ADA was tasked with the same role for the activities in emerging economies. In all phases of the project, an expert group provided support, guidance and oversight ensuring quality deliverables focused on the needs of project beneficiaries. Project partners (NFSPs and FSPs) were also actively engaged at all stages.

The two major outputs of this research include:

1. A paper synthesising the major findings, and;
2. An operational guide for FSPs and NFSPs to assist coaches and mentors in assessing the financial health of micro-entrepreneurs and supporting them to deal with financial issues affecting both the financial performance of their enterprises and personal well-being.

The major finding is that programmes related to the financial health of micro-enterprises must not only focus on assessing a micro-entrepreneur's understanding of the financial issues related to his/her business and be able to measure their capacity to deal with those issues, but more relevantly, programmes must also draw up action plans to broaden and deepen the understanding and capacity of the micro-entrepreneurs.

# 1. A practice-based research to understand the financial health of micro-entrepreneurs

*What does financial health have to do with financial inclusion? Financial health has been one of the key questions raised by CGAP<sup>1</sup> when talking about the financial inclusion of the most vulnerable. However, for a long time, the concept of financial health was mainly used to comment on the financial situation of companies. Strangely enough, financial health has yet to be extended to people.*

## 1.1. What does financial health have to do with it?

The Centre for Financial Services Innovation (CFSI)<sup>2</sup> took the first structured initiatives to deal with the topic of financial health from a human perspective. Since then, financial health has been an emerging topic on the development agenda<sup>3</sup>. There is also a growing understanding that the financial health of businesses is influenced by the financial understanding of the entrepreneurs themselves, and their capacity to deal with such issues subsequently impacts the financial well-being of the household.

As a matter of fact, while access to financial services has been a core focus for years, the idea that financial inclusion is not the ultimate goal of concerted development efforts is becoming more prevalent. The case of dormant accounts is just an illustration, as is the recent study from Gallup showing that there is no relationship between account ownership and financial security or perceived financial control<sup>4</sup>.

By contrast, financial health is a broader, more demanding concept that includes financial inclusion. Financial health appears to be a more desired state, or a positive outcome, for people and their businesses. Financial health is indeed more challenging for people to achieve and is particularly so for many micro-entrepreneurs. This report focuses on the financial health of micro-entrepreneurs, who represent an increasingly dynamic segment in developed and developing countries.

This report discusses insights generated by an explorative research on the financial health of micro-entrepreneurs in eight Northern and Southern countries. It provides guidance for organisations that support micro-entrepreneurs with financial or non-financial services and helps to better assess and improve micro-entrepreneurs' financial health. In addition to introducing a variety of approaches and methods to assess and enhance financial health, case studies are also presented to highlight interesting methodologies and best practices considered relevant for all actors in the sector.

This report is based on research funded by J.P. Morgan Chase Foundation and implemented by the European Microfinance Network (EMN) and Appui au Développement Autonome (ADA), aiming to better understand and help address the financial health issues faced by micro-entrepreneurs. Complementary to this publication, a practical guide dedicated to staff, mentors and coaches working with organisations supporting micro-entrepreneurs on their financial issues has also been developed.

## 1.2. Sixteen organisations studied in eight countries

The explorative research was carried out between July 2018 and September 2019 and is based on literature reviews, surveys, field studies, interviews and consultative discussions.

1 Soursourian M. (2019), "What's Financial Health Got to Do with It?", CGAP, blog.

2 CFSI is now the Financial Health Network (FHN)

3 The first publication of CFSI on the topic was published in 2015: Gutman A., Garon T., Hogarth J., Schneider R. (2015). Consumer Financial Health Study. Chicago, IL: CFSI

4 Gallup (2018), Gallup Global Financial Health Study

From the outset, the focus of the research was to analyse the *financial health of micro-entrepreneurs working with a maximum of five employees*. Given that the definitions of various segments of micro-, small and medium enterprises vary from one country to another (and even across institutions in a single country), it was not possible to rely on official definitions, especially since financial thresholds depend on the living standard and the economic situation of each country. Consequently, a threshold in terms of the number of employees was set. Furthermore, the research focused mainly on the work of financial service providers (FSPs) and non-financial service providers (NFSPs) working with this universe of micro-, small and medium enterprises (MSMEs).

In line with the prevailing understanding of the various types of self-employment activities that people opt into, the micro-entrepreneur universe was sub-divided into (hybrid) self-employed, solo self-employed (with special attention to lifestyle solo employment), opportunity driven and growth-oriented micro- (sometimes labelled small) enterprises<sup>5</sup>. During the *desk study* existing publications on financial health were reviewed, those dealing with micro- and small entrepreneurs' financial health. Furthermore, a selection of existing tools and methods to assess financial health and provide entrepreneurs with support related to financial issues were reviewed.

- The *field surveys* took place in eight European and Southern countries to obtain both qualitative and quantitative data about their performance and supporting information was collected from the staff of FSPs and NFSPs and selected samples of their clients;
- *Expert consultations* were held to obtain additional information and explore interesting practices;
- A *peer review* was organised to discuss preliminary findings and ideas emerging from the previous steps;

Those actions led finally to an analysis of the subject matter and development of a method to assess and improve the financial health of micro-entrepreneurs.

In total, 83 micro-entrepreneurs were interviewed, supported by 16 organisations in eight countries (United Kingdom, Italy, Spain, France, South Africa, Mexico, Brazil and Peru). See Table 1 and the related appendix with detailed information.

In each country, one financial service provider (FSP) and one non-financial service provider (NFSP) was identified and had their staff interviewed. For each selected FSP and NFSP, at least five micro-entrepreneurs were interviewed.

**Table 1 // Sixteen organisations studied in eight countries**

|                                    | Country               | Financial service provider | Non-financial service provider |
|------------------------------------|-----------------------|----------------------------|--------------------------------|
| <b>Selected EU Member States</b>   |                       |                            |                                |
|                                    | <b>France</b>         | Adie                       | Positive Planet                |
|                                    | <b>Italy</b>          | PerMicro                   | Fondazione Welfare Ambrosiano  |
|                                    | <b>Spain</b>          | Oportunitas SL             | Incyde                         |
|                                    | <b>United Kingdom</b> | Nwes                       | Outset Finance/ YTKO Ltd.      |
| <b>Selected emerging economies</b> |                       |                            |                                |
|                                    | <b>Brazil</b>         | Credisol                   | Aliança Empreendedora          |
|                                    | <b>Mexico</b>         | ProMujer                   | ProEmpleo                      |
|                                    | <b>Peru</b>           | Norandino                  | ADEC ATC                       |
|                                    | <b>South Africa</b>   | SEF                        | SAICA Enterprise Development   |

Note. Details of the 16 organisations that participated in this research are presented in the appendix.

<sup>5</sup> See also (Molenaar, They are not yet seen ... but...Hybrid Entrepreneurship in a changing society, 2016) in which the classification of MSMEs as originally presented by Farbman/ Lessik, see (Gosses, 1989), has been expanded

Except for Nwes in the United Kingdom, the surveyed FSPs are institutions that deliver microfinance services; some were set up as NGOs while others are legally constituted as private limited companies. The surveyed NFSPs offer a broad range of business development services, with most NFSPs assisting clients access financial services or make better use of financial services. Most NFSPs depend on external financing. They were typically founded as NGOs or as projects by private companies (Outset Finance set up by YKTO Ltd).

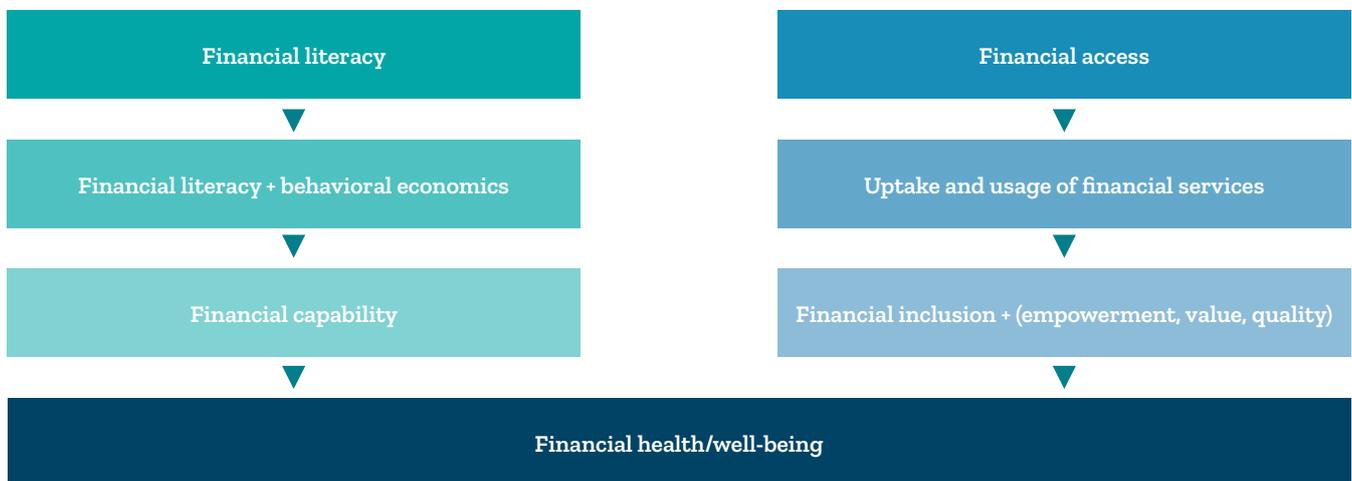
The objective of the interviews was to generate adequate insights on the concrete and practical understanding of financial health from the perspective of each stakeholder. In particular, the interviews identified the more common financial issues faced by micro-entrepreneurs, as well as the concrete support that FSPs and NFSPs can provide to meet the primary needs of micro-entrepreneurs.

Additionally, other stakeholders working on the topic of financial health or in the field of entrepreneurship and business development were also consulted. This was done by individual interviews. At the end of the data collection period a closed (by invitation only) workshop was held in Vienna in June 2019 alongside the EMN annual conference. The workshop synthesised the main conclusions from the field visits, especially the kind of solutions to offer micro-entrepreneurs regarding financial issues.

### 1.3. Financial health and how it is defined today

Financial health embraces a variety of financial topics, with many references to it made at seminars and workshops, as well as on the internet, websites and platforms. Debates over the past decade about financial inclusion (i.e. for people excluded from the formal banking system) have introduced a variety of expressions and concepts such as financial health and well-being, financial literacy, financial access, financial inclusion and financial capability. The Consultative Group to Assist the Poor (CGAP) has attempted to put these various concepts into perspective (see Figure 1).

Figure 1 // The many paths to financial health



Source: (Soursourian, 2019) <sup>6</sup>

In CGAP's conception, financial health appears as the ultimate goal while financial access, financial literacy and financial inclusion all contribute to its achievement. It is also implicitly understood that the financial health of micro-enterprises has a direct effect on the financial well-being of the entrepreneurs and their households.

Similarly, a recent survey conducted by Gallup<sup>7</sup> and funded by MetLife Foundation described financial health as an "umbrella" term encompassing financial inclusion, financial literacy and financial control. That survey, based on interviews conducted in ten countries, suggests that there is no relationship between account ownership, or access to financial services, and financial security or perceived financial control. The study concludes that financial inclusion is not sufficient to achieve financial health and that

<sup>6</sup> The article is accessible through the following link: [www.cgap.org/blog/whats-financial-health-got-do-it](http://www.cgap.org/blog/whats-financial-health-got-do-it)

<sup>7</sup> Gallup (2018). Gallup Global Financial Health Study. Washington, DC: Gallup.

financial control is another important and complementary dimension of financial health.

In a similar fashion, Accion, a global NGO working on financial inclusion, refers primarily to *individuals and household* when discussing financial health<sup>8</sup>. Accion sees financial health as directly related to the capacity of an individual to balance daily finance/systems, to weather financial shocks and to pursue important life goals.

For MFC, one of the leading microfinance networks in Eastern and Central Asia and Eastern Europe, financial health is defined as the “condition in which a *household* effectively manages its income and expenses, is resilient to financial shocks and plans its financial future with the long-term perspective.”<sup>9</sup>

The Financial Health Network (FHN) - formerly CFSI- , which initially raised the issue of financial health to the financial inclusion sector, started by working on the concept applied to individuals, especially consumers, through their Consumer Financial Health Study in 2015. FHN mentions in its mission statement that it “envisions a future where all people, especially those who are *most vulnerable*, have the day-to-day financial systems they need to be resilient and thrive.”<sup>10</sup>

Over the years, FHN has arguably made the most progress in describing the financial health of a small *business*. FHN classifies a small *business* (mainly US based) as healthy when “its daily systems help it build resilience and pursue opportunities over time.” It considers nine indicators to determine the financial health of businesses, which can be subdivided into three main categories:

*Managing your finance*, which includes:

1. Meeting financial obligations;
2. Maintaining sufficient cash reserves; and,
3. Maintaining a comprehensive financial management system.

*Planning your future and finance*, which includes:

1. Planning (or foreseeing) for significant business risks;
2. Planning for cash flow variability; and,
3. Possessing appropriate insurance.

*Building up your Capital* by:

1. Having access to affordable, timely (trade) credit;
2. Having a sustainable debt load; and,
3. Having access to investment capital

However, few debates or reports focus on the role of coaches, mentors and technical staff of FSPs/NFSPs in developing or enhancing the financial health of micro-entrepreneurs. Similarly, few (if any) programmes or projects endow coaches, mentors or technical staff with understanding about the financial health of micro-entrepreneurs and equip them with tools and instruments to assist micro-entrepreneurs deepen their financial understanding and capacity to deal with financial challenges.

8 Elisabeth Rhyne Managing Director, Centre for Financial Inclusion at Accion International Conference on Customer Centric Businesses Mamallapuram, India February 2018 – read June 2019, 17th

9 <http://mfc.org.pl/financial-health-2/>

10 <https://finhealthnetwork.org/who-we-are/our-mission/>

## 1.4. Defining micro-enterprises/entrepreneurs

For staff of FSPs and NFSPs to understand the financial health of micro-enterprises and micro-entrepreneurs, it is helpful to be more specific about the type of end clients they serve. Are these (solo or hybrid) self-employed, micro and small enterprises or about small and medium enterprises?

This research focused on FSPs and NFSPs that provide services to micro-entrepreneurs (e.g. entrepreneurs owning and running a business with less than five employees/co-workers (including the entrepreneur). With this threshold still a vast spectrum is encompassed of self-employed persons and income generating activities. Before proceeding it was felt needed to determine how this “market” could be segmented. To voice an opinion on the financial *health of micro-entrepreneurs* (within the context of this research), a generally accepted classification or segmentation was adopted that considers:

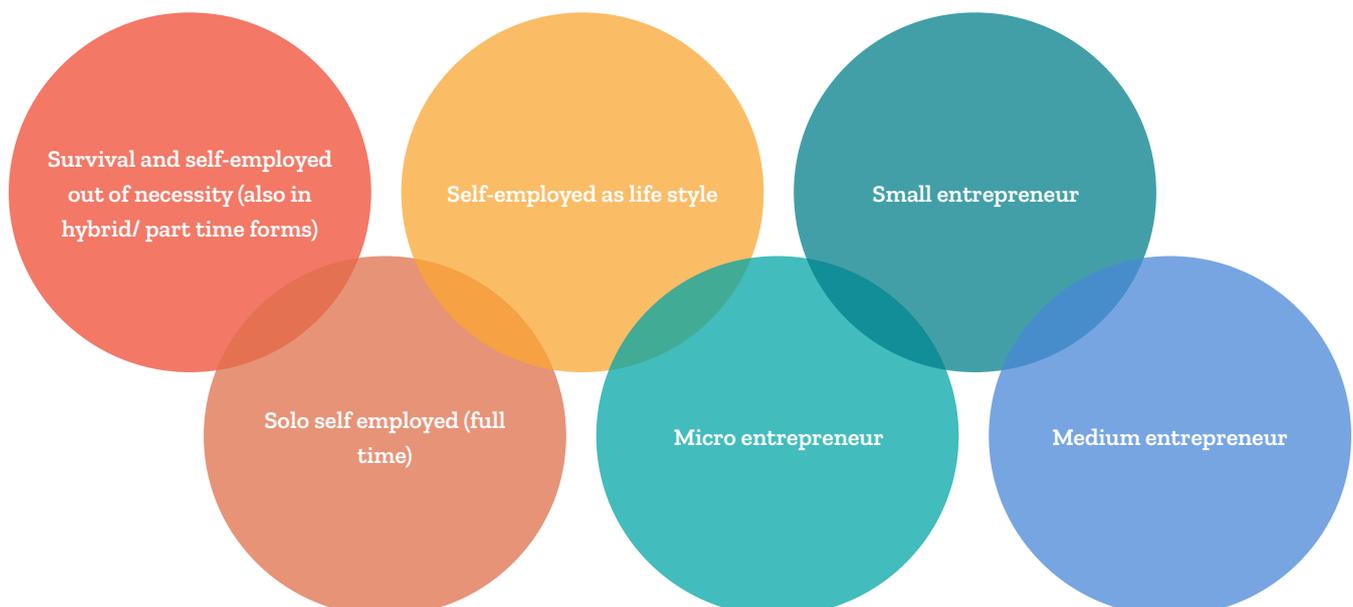
- the actual aspiration levels of individuals engaging in self-employment activities;
- the asset base and capabilities of enterprising individuals and,
- the structural changes taking place in society.

The economic activity of women and men alike depend on their aspirations, entrepreneurial capabilities and their asset base. That asset base can be further differentiated into three types of capital: human, financial/material and social capital. However, not all entrepreneurial individuals possess the same capability mix. As a result, the type of businesses they create and manage will differ. Entrepreneurial activities range from survival activities that generate some additional income to self-employment, micro-enterprises and small or medium enterprises that exploit opportunities and target high growth.

In this report, we use a general classification to describe income-generating activities and business types (presented visually in Figure 2). The classification covers all types of economic self-employment activities, ranging from survival self-employment to the medium-sized entrepreneurial venture.

This classification should be viewed as a continuum since there is substantial overlap between categories and oftentimes some transition from one category to another.

**Figure 2 // Classification of income generating activities and types of businesses**

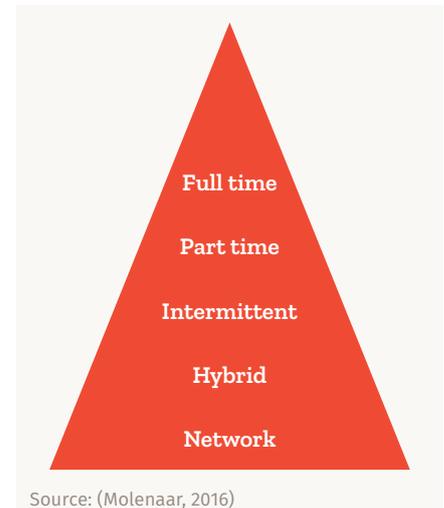


Source: Based on the classification of Farbman and Lessik (Gosses, 1989) and further adapted by (Molenaar, 2013)

European societies are rapidly changing, and citizens are also reacting to the new social and work environments. People look more critically at options related to "life-long employment" and "life-long self-employment." Today, men and women might seek new options to become economically active and develop new forms of entrepreneurship. These options may be either part-time or intermittent, leading to hybrid forms of entrepreneurship where an individual combines formal wage employment (or social welfare benefits) with self-employment (either as freelancer or as small or micro entrepreneur) simultaneously. These new forms of entrepreneurship may include:

- *Part-time entrepreneurship*: a person without wage employment who often may take-up household tasks (unpaid work) or who operates a few days a week as an entrepreneur (or self-employed person);
- *Intermittent entrepreneurship* (or intermittent self-employed): a person who engages in wage employment for a given period, becomes self-employed and will perhaps seek employment again at a later time and may repeat such several times in life;
- *Hybrid entrepreneurship*: a new entrepreneur who combines formal wage employment (or social welfare benefits) with self-employment (either as freelancer or as small or micro-entrepreneur) simultaneously; and,
- *Network entrepreneurship*: individuals who seek to collaborate with other self-employed where collaboration makes sense for both parties (see Figure 3).

**Figure 3 // Full-time and hybrid forms of entrepreneurship**



Hybrid entrepreneurial forms might represent a new way to start a business. Subsequently, FSPs and NFSPs face a challenge to develop a new range of services to meet the demand for this new entrepreneurial class.

Another key aspect to understand financial health relates to the various motives of people to set up an enterprise and become self-employed. Some are driven into self-employment out of necessity (e.g. to survive in society seeking ways to generate some income through self-employment without actual aspiring such), others may wish to exploit an opportunity, set up a business with a clear drive to grow or consider it as an integral part of a (modern) lifestyle. In this report, we identify four distinct options:

- *Necessity driven entrepreneurs*: individuals who have no access to formal wage employment or with relatively low social security benefits and decide to engage in income-generating activities survive thus become "entrepreneurs" to sustain their livelihood by necessity rather than choice;
- *Opportunity driven entrepreneurs*: people who decide to exploit an opportunity and engage in self-employment or create an enterprise. These individuals start their own business with a clear plan and pursue the idea, ultimately continuing, stopping or selling the business at an attractive price, as often observed in the IT sector);
- *Growth oriented entrepreneurs*: individuals with clear entrepreneurial talents and capabilities who decide to deliberately start and develop a business with relatively high capital accumulation or job creation potential, often with great innovation capacity and clear market orientation; and,
- *Lifestyle entrepreneurs*: individuals for whom working independently and for one's own purpose is seen as an investment in self-development, which are often realised in creative industries and through social enterprises.

Table 2 integrates all these factors into a market or end-client segmentation and the related financial challenges. This segmentation will be used to link categories of entrepreneurs to the specific financial issues affecting the financial health of their entrepreneurial activity, as well as the financial well-being of the entrepreneur. The specific related financial issues are mapped in Table 6 of section 2.3.

Table 2 // Classifying self-employed micro, small, and medium entrepreneurs/enterprises

| Type of economic activity  | Indicative number of jobs affected <sup>11</sup> | Entrepreneur's objective/ aspiration/ financial strength   | Main financial challenges  |
|--|--|--|--|
| <b>Survival and self-employed out of necessity (might as well be in combination with gainful employment or social welfare benefits)</b>    | Less than 1 FTE                                  | Not focusing on economic expansion but aiming at survival; survival mentality by combining personal and business finance   | Struggling to make ends meet, mixing personal with business finance; various sources of household income   |
| <b>Solo Self-employed – opportunity driven</b>   | 1 FTE  | No real vision to expand; investing (relatively small) own funds; sense of ownership; prudent control over funds   | Struggling to get control over financial matters; difficulty on setting prices based on costs; debt collection problems; weak administration                               |
| <b>Micro entrepreneur – opportunity driven; Activity often related to professional qualities of owner; and opportunities in the market</b> | 1 to 4 FTE <sup>12</sup>                         | Exploiting opportunities in the market with gradual, organic growth if chances occur; technical skills and ability to adjust to new opportunities; costs consciousness                                 | Focus still on obtaining financing from traditional sources that are less interested in this category, some control over liquidity; problems in bookkeeping and accounting |
| <b>Self-employed / lifestyle Growth oriented; Often in hybrid form and sometimes even virtual</b>  | 1 FTE  | Combination of focus on fast earning and self-development; not necessarily with longer term horizon; own funds and assets; capability to operate on the internet                                       | Often tempted to solve problems on their own; seeking financing on the internet; short horizon   |
| <b>Micro-enterprise – growth oriented</b>  | 1-5 FTE  | Growth orientation and capital accumulation; Stabilization of income; accumulated reserves and savings; business experience and relations with third parties such as accountants, advisers, financiers | Interested in complete financing packages and need of well-balanced growth and financing plan; over optimism might be bottleneck   |

Source: Adapted classification based on (Molenaar, 2016)

<sup>11</sup> FTE includes the entrepreneur.

<sup>12</sup> The average FTE in this category is 1.7 FTE; see also EMN MFC overviews of microfinance sector; confirmed during field visits during this research

## 2. Findings – Part 1: Categories of entrepreneurs and their specific financial issues and support requirements

*Different types of MSMEs are served by the FSPs and NFSPs; each category faces different financial issues and has unique requirements to improve financial health. How FSPs/NFSPs can best serve these clients is an outstanding question. The data and information obtained from the sixteen organisations establish a general consensus that merely assessing financial health is insufficient. In general, we find that an integrated approach is needed. Of course there are also substantial cross-country differences to consider then.*

### 2.1. Shifts in MSMEs attended by FSPs and NSFPs and their service packages<sup>13</sup>

The surveyed FSPs and NFSPs showed variation in the type of clients they serve, core objectives and working environment. Table 3 and Table 4 present an overview of the FSP/NFSP target groups and the *shifts in specific target categories* of the MSME universe.

FSPs and NFSPs in the selected EU member states:

- Tend to serve a broad spectrum of clients, however, FSP clients can mainly be classified as opportunity driven self-employed/micro-entrepreneurs with marginal employment creation (just reaching ~2 FTE including the entrepreneur)<sup>14</sup>. FSP reports tend to refer more to type of legal designation (registration) of their clients rather than the actual entrepreneurial profile of their clients<sup>15</sup>.
- A limited number of FSPs/NFSPs consciously decided to focus on growth-oriented SMEs and succeed in developing special programmes to reach to this segment (as an add-on to their overall service package); this is partly attributable to funding from municipalities that expect more jobs to be created by growth-oriented businesses than by opportunity driven micro-entrepreneurs.
- The self-employed lifestyle segment has not been widely recognised as a potential client group; it might well be that this group seeks its own form of financing (e.g. via the internet) and does not require the intervention of third-party financiers.

In the selected emerging economies, FSPs and NFSPs do not serve the same segment of micro-entrepreneurs.

- The FSPs operate at the low end of the MSME universe (which is not the case for NFSPs).
- The financing institutions (mainly microfinance institutions – MFIs) serve older and less educated clients than NFSPs.
- The size of businesses are not necessarily different (some MFI clients had several employees), although the entrepreneurial profile is typically different than in the European market.

<sup>13</sup> See the appendix for more details of the eight FSPs and eight NFSPs.

<sup>14</sup> Organisations typically present their client base based by legal designation and then report a broad range of target segments. In-depth analysis revealed that most clients belong to the opportunity driven self-employed and/or micro-entrepreneurs.

<sup>15</sup> See also the recent EMN- MFC microfinance in Europe sector overview(s).

Table 3 // Eight European services providers and their target group

| Country        | FSP/NFSP                      | Part time self-employed - survival | Solo self-employed - opportunity driven | Micro entrepreneur- opportunity driven | Micro/small entrepreneur - growth-oriented | Small, growth-oriented enterprises | Lifestyle entrepreneur (self-employed)- self-development driven | Major shifts taking place in reaching to target groups                         |
|----------------|-------------------------------|------------------------------------|---|--|--|------------------------------------|---|--|
| <b>FSP</b>     |                               |                                    |   |  |  |                                    |   |  |
| France         | Adie                          | ● ←                                | ●                                       | ● →                                    |  |                                    |   | Broadening scope from extremely poor to generally excluded from banking sector |
| Italy          | PerMicro                      |                                    | ●                                       | ●                                      | ● →  |                                    |   | Broadening scope and to attend small entrepreneurs as well                     |
| Spain          | Oportunitas SL                |                                    |   | ●                                      | ● →  |                                    |   | Micro-entrepreneurs and gradually small enterprises                            |
| United Kingdom | N-Wes                         |                                    |   |  | ●  | ● →                                |   | Gradually more growth-oriented entrepreneurs and growth-oriented SMEs          |
| <b>NFSP</b>    |                               |                                    |   |  |  |                                    |   |  |
| France         | Positive Planet               |                                    | ●                                       | ●                                      | ● →  |                                    |   | Gradually more growth oriented micro and small entrepreneurs                   |
| Italy          | Fondazione Welfare Ambrosiano |                                    | ● ←                                     | ●                                      | ●  | ● →                                |   | Gradually adding social small enterprises                                      |
| Spain          | Incyde                        |                                    |   | ●                                      | ●  | ●                                  |   | Attending all segments of MSME universe; no shifts                             |
| United Kingdom | Outset Finance/ YTKO- Ltd     |                                    |   |  | ●  | ●                                  | ● →   | Gradually more growth-oriented SMEs  |

Note. Darker colours in the respective rows refer to main area of operations and the arrows give an indication of notable shifts (as interpreted by the researchers) in attention to specific target groups by the FSPs or NFSPs studied.

Table 4 // Eight emerging economy services providers and their target groups

| Country      | FSP/NFSP              | Part time self-employed - survival | Solo self-employed - opportunity driven | Micro entrepreneur- opportunity driven | Micro/small entrepreneur – growth-oriented | Small, growth-oriented enterprises | Lifestyle entrepreneur (self-employed)-self-development driven | Major shifts taking place in reaching to target groups                        |
|--------------|-----------------------|------------------------------------|---|--|--|------------------------------------|--|---|
| <b>FSP</b>   |                       |                                    |   |  |  |                                    |  |   |
| Brazil       | Credisol              |                                    | ●                                       | ●                                      | ●  | ●                                  |  | Majority of solo self-employed  |
| Mexico       | ProMujer              | ●                                  | ●                                       | ●                                      |  |                                    | ●  | Majority of solo self-employed and lifestyle self employed                    |
| Peru         | Norandino             |                                    | ●                                       | ●                                      | ●  | ●                                  |  | Majority of micro-entrepreneurs - opportunity driven                          |
| South Africa | SEF                   |                                    | ●                                       | ●                                      | ●  |                                    |  | Recently started targeting opportunity-driven and growth-oriented micro-entrp |
| <b>NFSP</b>  |                       |                                    |   |  |  |                                    |  |   |
| Brazil       | Aliança Empreendedora |                                    | ●                                       | ●                                      | ●  |                                    |  | Majority of opportunity driven micro entrepreneurs                            |
| Mexico       | ProEmpleo             | ●                                  | ●                                       | ●                                      | ●  | ●                                  |  | Majority of self-employed - survival  |
| Peru         | ADEC ATC              |                                    |   | ●                                      | ●  | ●                                  |  | Majority of opportunity driven micro entrepreneurs                            |
| South Africa | SAICA                 |                                    | ●                                       | ●                                      | ●  | ●                                  |  | Majority of solo self-employed and opportunity driven micro entrepreneurs     |

Note. Darker colours in the respective rows refer to main area of operations and the arrows give an indication of notable shifts (as interpreted by the researchers) in attention to specific target groups by the FSPs or NFSPs studied.

As to the *service package* (see the appendix with details of the NFSPs/FSPs studied), interesting developments in the EU countries are noted:

- Nearly all FSPs appear to gradually start offering and organizing mentoring and coaching services for their clients (mainly with volunteers) in the post-loan stage (and to a lesser extent in the pre-loan stage); and,
- NFSPs also prioritise creating access to finance for their clients.
- Both FSPs and NFSPs appear to recruit (unpaid) volunteers to offer such services; and,
- FSPs and NFSPs tend to offer business support service free of charge.

### A market-rate fee for mentoring

*INCYDE works closely with FSPs throughout Spain on a project basis and co-finances coaches and business advisers for small and micro-enterprises at pre- and post-loan stages. Endowed with large public and ESF funding, it is in a position to pay business advisers market-rate fees. This stimulates the emergence of independently operating business advisers.*

In the non-European countries:

- FSPs (all four operating as NGO/MFIs) mainly focus on delivering financial services (e.g. extending microloans to their clients who are interested in receiving such finance);
- When MFIs offer business development services (training), they struggle to make their clients attend; sometimes they make these services compulsory (e.g. subject to become eligible for financing in the pre-loan stages) and in this case, it helps to raise awareness among entrepreneurs about financing issues;
- NFSPs primarily offer stand-alone business development services (training and advice) to entrepreneurs who are more conscious of their support needs; and,
- NFSPs have more difficulty than their European counterparts to collaborate with FSPs.

Table 5 presents an overview of the notable differences between FSPs and NFSPs.

**Table 5 // Notable differences between FSPs and NFSPs across EU countries and emerging economies**

|             | Selected EU countries  | Selected emerging economies  |
|-------------|--|--|
| <b>FSP</b>  | <ul style="list-style-type: none"> <li>• Broad and diverse spectrum of clients</li> <li>• Tendency to add growth-oriented entrepreneurs (encouraged by funding partners)</li> <li>• Adding business support services to financing</li> </ul> | <ul style="list-style-type: none"> <li>• Mainly focusing on lending</li> <li>• Clients have limited formal education (but possess technical skills)</li> </ul> |
| <b>NFSP</b> | <ul style="list-style-type: none"> <li>• Strong links towards access to finance in coaching and mentoring</li> <li>• Growing number of volunteer coaches/mentors</li> <li>• No structured mentoring approach</li> </ul>                      | <ul style="list-style-type: none"> <li>• No explicit links to financing</li> <li>• Structured approaches in training, coaching and mentoring</li> </ul>        |

Source: Authors based on interviews and field visits (2019)

## 2.2 Differences between the approaches and methodologies of FSPs and NFSPs

A number of differences between FSPs and NFSPs across the four emerging market countries and four EU member states were observed, as well as unique geographical features. Among the methodological differences, the following observations emerged:

- The promotion of economic and social participation (i.e. fighting economic and social exclusion) and the creation economic wealth are more central in the strategies and mission statements of the European FSPs and NFSPs while poverty alleviation and the generation of a decent income are more prevalent objectives in the four emerging economies.

- In emerging economies, FSPs appear to have a very clear focus on their defined target group and adhere strictly to the financing methodology that has been developed for such target groups. This method serves as the basis for their business models and financial sustainability plays a central role. By contrast, FSPs in the emerging economies often face difficulties to develop a non-financial service business model.
- Emerging market NFSPs provide an offer of structured training, coaching and business advice but these services are not always linked to finance. In most cases, their business models do not rely solely on public subsidies, however, these NFSPs sometimes also rely on their respective national corporate tax systems (large companies provide funds to support entrepreneurs, sometimes in specific sectors and in exchange for tax reductions).
- European FSPs tend to integrate business support and mentoring services into the financial service package. They assume that the integration of non-financial services will lead to higher success in launching and developing a financed business.

Although mentoring and coaching are seen as relevant services in the European market, FSPs and NFSPs have difficulties to structure these services. In most cases, volunteer coaches and mentors decide independently how to offer their services. In a few cases, an effort is made to organise introductory courses and hold regular evaluation or intervention sessions with coaches and mentors<sup>16</sup>.

- MFI clients in the South are not necessarily looking for non-financial services whereas NFSP clients are willing to learn and improve their business, seeking financing afterwards.
- Charging clients (even a nominal fee) for business development services and mentoring has not yet been accepted by service providers. However, clients in the global North have indicated that they would be willing to pay if they see the added value of the coaching/mentoring.
- MFI clients in the four selected emerging economies are less likely to be aware that they may face financial issues and could therefore benefit from some non-financial support, whereas NFSP clients see the value in non-financial services. We find that this is the case even if MFIs also offer non-financial services since MFIs typically struggle to make their clients attend non-financial services. Some MFIs make these services compulsory, and in this case, it may help raise micro-entrepreneurs' awareness regarding their support needs.
- Entrepreneurs in the self-employment and micro-enterprise sector in the EU member states seem to be endowed with sufficient formal education and training to independently search for management tools, templates and applications offered through various websites. However, they still need support from coaches and mentors to apply and use these tools since knowing which platform to trust is a difficult task given that there are so many resources available today.
- In the emerging economies, the clients of the FSPs and NFSPs showed little take-up of digital tools and methods. They prefer the person-to-person methods of mentors and coaches to explain how to use such tools in practice. In addition, NFSP clients are more interested in a tool than MFI clients, but even in this case, entrepreneurs should receive institutional support to use a tool rather than using it alone. Clients were more interested in a tool to help them track records, properly perform costing and pricing, and assist with invoicing.
- In all cases, it became evident that entrepreneurs who have run into financial problems have difficulties (and may feel ashamed) in admitting so and seek external advice. Detecting a problem at an early stage is therefore incredibly valuable and is needed (as evidenced by programmes such as Early Warning Europe).

### Structured coaching and mentoring

*Positive Planet is a global initiative operating both in emerging economies. Its operations in France are run by Positive Planet France. The latter uses experiences learned abroad and then adapts them to the local situations found in France. Its structured mentoring and coaching serves as an example to the industry.*

### Willingness to pay for services

*Micro and small entrepreneurs who have received effective mentoring or coaching are willing to pay a nominal amount for such services. Still the price they are willing to pay will not cover all costs. Cross subsidizing or financing remain required to offer those services in a sustainable way. Segregating mentoring / coaching from financing and treating it as a business unit (see Microlab Onlus, Italy) makes it possible to identify the real costs.*

<sup>16</sup> Some FSPs/ NFSPs mentioned the valuable guides and information that Youth Business International (YBI) offers for mentor training.

## 2.3 The financial issues faced by micro-entrepreneurs are quite uniform

Across the eight countries surveyed, entrepreneurs face a broad range of challenges and problems. Many of these challenges have both direct and indirect effects on the financial performance of the business and on the financial well-being of the entrepreneur. An in-depth assessment of the various financial issues mentioned in the survey questionnaires and observed during the field work indicates that micro-entrepreneurs and the self-employed struggle with similar issues. However, some differences between the respective categories of entrepreneurs were observed. At the aggregate level, the most common issues include:

- Knowing how to separate private and business finance;
- Managing and dealing with personal and business cash budgets (including setting a salary for the entrepreneur);
- Costing and pricing of services and products;
- Setting up and using a (simple) administrative system;
- Dealing with debtors/creditors;
- Financial planning (including setting aside funds for future needs/investments); and,
- Dealing with traditional and new financiers.

### The importance of the cash budget (liquidity plan)

*Per Micro and MicoLab Onlus (Italy) pay extra attention in mentoring and coaching in the pre- and post-loan stages to the cash budget of the (ne)company and the related personal / household budget. That approach is not only effective to analyze the financial position but in training the prospective entrepreneurs.*

These issues are typically related to:

- The personal situation of the entrepreneurs;
- Planning one's individual (economic) future;
- The financial management of the self-employment activity or enterprise; and,
- Planning and financing the business.

To confront these issues, entrepreneurs must first need to understand the issue, take steps to learn how to deal with it and then make use of that knowledge. This requires structured actions. Although there is a unique set of issues for each of the five categories of entrepreneurs, some issues are more relevant and important than others.

In terms of entrepreneurial skills, attitude, acumen and characteristics as well as managerial knowledge and experience in business, the entrepreneurial profile differs across each category, and therefore, some issues will play a more dominant role than others as illustrated in Table 6.

Table 6 // Common financial issues across segments of the MSME universe

|   | Self-employed out of necessity | Solo self-employed - opportunity driven | Micro-entrepreneur - opportunity driven (1-4 FTE) | Micro-entrepreneur - growth oriented (< 5 FTE) | Lifestyle self-employed - growth oriented |
|---|--------------------------------|---|---|--|---|
| <b>Dealing with personal finance</b>                                |                                |   |   |  |   |
| Separating personal and business finance                            | ●                              | ●                                       |   |  |   |
| Managing cash in/out at the household level <sup>17</sup>           | ●                              | ●                                       |   |  |   |
| Keeping track of expenditures and income                            | ●                              | ●                                       | ●   |  |   |
| Setting aside money for future (un-expected) events                 | ●                              | ●                                       | ●   |  |   |
| <b>Dealing with financial problems of the business</b>              |                                |   |   |  |   |
| Setting up an administration for the business                       | ●                              | ●                                       | ●   | ●  |   |
| Calculating costs/defining prices                                   | ●                              | ●                                       | ●   | ●  |   |
| Tracking debtors  | ●                              | ●                                       | ●   | ●  |   |
| Managing a cash budget/liquidity budget for the business            | ●                              | ●                                       | ●   | ●  |   |
| <b>Dealing with general planning problems</b>                       |                                |   |   |  |   |
| Business planning   |                                | ●                                       | ●   | ●  |   |
| Planning - defining financial needs                                 |                                | ●                                       | ●   | ●  |   |
| Dealing with banks  |                                | ●                                       | ●   | ●  |   |
| Saving/setting aside profits for future investments in the business |                                | ●                                       | ●   | ●  |   |
| <b>Dealing with financing options</b>                               |                                |   |   |  |   |
| Knowing about financing options for growth                          |                                |   |   | ●  | ●   |
| Knowing how to present financing plans                              |                                |   |   | ●  | ●   |
| Knowing how to access external financiers (formal)                  |                                |   |   | ●  | ●   |
| Knowing how to deal with external financiers (digital)              |                                |   |   | ●  | ●   |

- Key issues for solo self-employed out of necessity
- Issues that deserve attention for solo self-employed
- Key issues for solo self-employed out of necessity
- Issues that deserve attention for solo self-employed
- Key issues for opportunity-driven micro-entrepreneurs
- Issues that deserve attention for opportunity-driven micro-entrepreneurs
- Key issues for growth-oriented entrepreneurs
- Issues that deserve attention for growth-oriented entrepreneurs
- Key issues for life-style entrepreneurs

<sup>17</sup> Including setting a salary for the entrepreneur

Two aspects to consider for each issue in a certain category include:

- i. The level of understanding of an issue and the possible effects it may have on the financial health of the enterprise or personal well-being of the entrepreneur; and,
- ii. The degree to which the entrepreneurs truly deal with the respective issue(s).

Additionally, three avenues that coaches and mentors should highlight include:

- i. *In the short term*: the liquidity problems affecting the immediate future of the enterprise (e.g. unable to pay expenses and bankruptcy risk) and the household (e.g. unable to pay bills), which is attributable to poor cash management/budgeting and inadequate savings. Not separating business from personal finance will contribute to such problems as well.
- ii. *In terms of evolution*: the gradual evolution of the self-employment/income-generating activity due to a lack of planning and/or improper dealing with external parties and banks.
- iii. *In terms of future growth*: the growth of the business due to poor financial planning, inadequate information and/or dealing with various financing parties (traditional financiers as well as emerging funding partners).

## 2.4 Keen interest in guidance and training alongside assessments

Interviews with entrepreneurs and organisational staff across all sixteen organisations indicated that there is a general interest in improving financial performance and dealing with financial issues.

Financial health should aim to deepen financial understanding and the consequences of business and personal decisions. Simply working with an (self-)assessment tool that measures financial health is not welcomed. There must be an integrated approach where assessment is combined with structured training, dissemination of information and focused mentoring and coaching. The measurement tool needs to be linked to both pre- and, more importantly, post-loan<sup>18</sup> coaching and mentoring.

However, mentoring and coaching then requires more structure, particularly if it was previously offered in an unstructured way. The coaching and mentoring must:

- be tailor-made to the type of entrepreneur/enterprise served by the FSP/NFSP (e.g. make difference between methods for self-employed, micro or small entrepreneurs); and,
- properly consider the education (and aspiration) level of the clients.

An in-depth analysis of the collected data and information<sup>19</sup> led to the following conclusions:

- i. Both the financial health of the micro-enterprise and the financial well-being of the entrepreneur must be central in any method to broaden and deepen understanding on financial health.
- ii. Segmentation of the MSME universe helps to identify appropriate methods to measure financial health and subsequently support entrepreneurs (see also paragraph 4.4.1). Once FSPs/NFSPs can focus explicitly on specific segments, they will be better positioned to offer appropriate services to such segments.
- iii. Organisational staff, coaches and mentors working directly with micro-entrepreneurs play a crucial role in convincing entrepreneurs about the importance of assessing their financial health and acceptance of actions that might be required to enhance their financial understanding. These stakeholders must be trained and informed on best-practices to assist the micro-entrepreneurs improve their financial health.
- iv. Entrepreneurs would not welcome group-based training on financial health issues.
- v. A method to assist micro-entrepreneurs should consider the entrepreneur's personal characteristics, experience and stage of the business. A uniform approach is thus not recommended.
- vi. Staff, coaches and mentors must have access to tools, instruments and techniques that can help micro-entrepreneurs measure and develop financial understanding.

<sup>18</sup> Most MFIs mainly provide post-loan coaching/mentoring. Linking coaching too explicitly to the pre-loan stage makes and making it compulsory might be seen by clients as a condition to access finance and not be considered relevant as such.

<sup>19</sup> Among other things, a special workshop organised by EMN on June 7th in Vienna, Austria.

- vii. Staff, coaches and mentors are more effective in enhancing financial health when they are stimulated and capable to tailor the various tools, instruments and templates to the needs of the entrepreneurs.
- viii. Access to (supporting) tools could be provided through a platform/website created by the sponsoring organisations and network organisations representing NFSPs or FSPs.

The main conclusion drawn so far is that *both the staff of FSPs/NFSPs and micro-entrepreneurs expect the measurement of financial health to be effective if it is integrated into a training/learning process with active participation of coaches and mentors. It should be adapted to enhance the financial understanding of entrepreneurs who subsequently will become more capable to deal with financial issues that arise in the business and personal lives.*

Such a methodology must be incorporated in the general service package of the FSP/NFSPs. The goal of the methodology should be to assist clients/micro-entrepreneurs to establish and manage enterprises or income-generating activities that are sustainable and generate a decent income. This is more likely to be achieved if micro-entrepreneurs have a solid understanding of financial issues (both personal and business-related issues) and have learned how to deal with them.

### **The utility of linking trainings to financing**

Maria, an entrepreneur who has been breeding chickens since 2012, decided to take a group loan from SEF, the MFI operating in her area, to better manage her business. However, to be eligible, she first had to follow financial education training. At the beginning, she was not interested but since it was compulsory to get the loan, she participated in the training. She was also subject to compulsory saving to access the loan. But over time she decided to use her savings to support her business, which helped her solve a variety of problems in the start-up phase.

In 2018, SEF, which was piloting a new financial product for its best clients, selected Maria to receive an individual loan



for a larger amount than what was offered through group loans. Once again, Maria followed the compulsory "Personal Initiative Training", which focuses on personal development and business planning. The training helped and opened her eyes to the opportunities that she could seize, for instance by buying more stock. The programme helped her to think bigger, and she has started a complementary activity by managing a grocery store for the past six months. Today, she is more confident in running larger-scale activities. She still wants to expand her business and dreams of building a supermarket that would include her chicken activity as well. For that, a new and larger loan from SEF would be necessary, but apart from that, she does everything by

herself, including keeping records every day, and "there is no husband in the story".

## 3. Findings - Part 2: The financial health of micro-entrepreneurs can be enhanced in many ways

*There are many ways to measure financial health and assist entrepreneurs to improve their financial understanding, which ultimately leads to improved financial performance and well-being. The enhancement of financial health can be achieved through face-to-face advice (e.g. coaches and mentors) or through technology-based methods. There are numerous websites, platforms and applications to assess financial health. Many initiatives are location specific and not yet focused on reaching MSMEs in general. Blended approaches are recommended whereby methods and tools presented on sites related to financial health are combined with structured mentoring and coaching. However, there are no uniform or unique approaches; each method will need to be adjusted to the context of the entrepreneur.*

### 3.1 Websites and platforms

Table 7 presents a selection of the most interesting websites, platforms and programmes identified during the research that deal with financial health issues.

The more relevant websites and platforms deal with financial education and claim that they help entrepreneurs overcome difficulties. They contain interesting assessment tools and applications that a micro-entrepreneur or mentor/coach may use to advance the financial health of the entrepreneur.

There is also a group of internet banks (such as Hi Bruno, Shine or Chime – see Table 7) that promote themselves as financial problem solvers for (micro and small) entrepreneurs. They offer several templates and tools for both existing entrepreneurs and those just starting. However, accessing and using the tools is often only possible after opening a bank account.

However, to date, no systems of programmes are offered through sites or platforms that both assess financial health or financial well-being and lead to establishing an action plan to improve one's financial health.

#### Opportunities in IT

*ADIE (France) makes use of IT platforms and chat bots to improve its service delivery. The platform to link coaches and mentors directly with clients and the chat bot to inform clients directly about the type of services it can expect from ADIE.*

Table 7 // Platforms, websites and programmes related to financial health by entrepreneurial segment

| Method/name and segment of target groups                   | Organisation applying the method                    | Main features dealing with financial health  | Individual consumer; loan users | Solo self-employed; necessity driven; opportunity driven | Hybrid self-employed; lifestyle entrepreneur | Micro-entrepreneur; opportunity driven | Micro/small <sup>20</sup> entrepreneur; growth-oriented |
|--|---|--|---------------------------------|--|--|--|---|
| <b>Financial Health Measurement project</b>                | CFSI – FHN (USA)                                    | Research, tools, advisory work   | ●                               | ●  | ●  |  |   |
| <b>EWE - Early Warning Europe</b>                          | Team U (Spain, Poland, Italy, Greece) <sup>21</sup> | Assisting entrepreneurs in distress, comprehensive method, training coaches                    |                                 | ●  |  | ●                                      | ●   |
| <b>Crisis support and avoiding insolvency<sup>22</sup></b> | Team U (Germany)                                    | Financial crisis support with hotline, app, advisory services                                  |                                 | ●  | ●  | ●                                      | ●   |
| <b>Check Your Financial Health</b>                         | MFC (Eastern and Central Europe)                    | Measuring financial well-being, quiz, advisory services, app <sup>23</sup>                     | ●                               |  |  | ●                                      | ●   |
| <b>Firmenhilfe<sup>24</sup></b>                            | Everts and Jung (Germany)                           | Financial crisis support by telephone counselling email, online advice, blogs/templates        |                                 | ●  |  | ●                                      | ●   |
| <b>Global Financial Health Plan</b>                        | IPA - Global project (Global South focus)           | Quantitative metrics to measure financial health; programme design                             | ●                               |  |  |  |   |
| <b>Poverty Probability Index</b>                           | Innovations for Poverty Action (Global)             | Tool for organisations and businesses to measure financial well-being at the household level   | ●                               | ●  |  |  |   |
| <b>Financial Capabilities Index (MFO)</b>                  | MFO (Global South)                                  | Web platform to measure the financial capabilities of low-income people                        | ●                               | ●  |  |  |   |
| <b>Poverty Stoplight (platform)</b>                        | Fundación Paraguaya <sup>25</sup>                   | Technology platform offers a self-assessment survey and intervention model; links to solutions | ●                               | ●  | ●  | ●                                      | ●   |
| <b>Business debt line</b>                                  | Money Activity Trust (United Kingdom)               | Website with guides, fact sheets, budgeting tools and templates                                | ●                               | ●  | ●  | ●                                      | ●   |

20 Primary focus on small (and medium) enterprises

21 To be rolled out in Europe at a later date

22 In German only

23 Under development (in cooperation with CFI)

24 In German only

25 In Spanish and English

Table 7 // Platforms, websites and programmes related to financial health by entrepreneurial segment

| Method/name and segment of target groups     | Organisation applying the method        | Main features dealing with financial health  | Individual consumer; loan users <sup>26</sup> | Solo self-employed; necessity driven; opportunity driven | Hybrid self-employed; lifestyle entrepreneur | Micro-entrepreneur; opportunity driven | Micro/small <sup>27</sup> entrepreneur; growth-oriented |
|--|---|--|---|--|--|--|---|
| <b>Financial ratio analysis</b>              | Global                                  | Set of tools to measure financial health position of enterprises   |   |  |  | ● <sup>28</sup>                        | ●   |
| <b>Mesquestionsdargent.fr</b>                | Banque de France (France) <sup>29</sup> | Comprehensive website dealing with all financial (health) issues, including information and training materials | ●   | ●  | ●  | ●                                      | ●   |
| <b>Crésus</b>                                | Crésus/ France                          | Platform to link expertise on financial issues <sup>30</sup>   | ●   | ●  | ●  | ●                                      |   |
| <b>Outset online</b>                         | YTKO Group (United Kingdom)             | Interactive online learning tool content and tools information, video tutorials, resources                     |   |  |  | ●                                      | ●   |
| <b>Hi Bruno</b>                              | Hi Bruno (France)                       | Internet bank with instructive tools to manage finance and savings   | ●   | ●  | ●  | ●                                      | ●   |
| <b>Shine Finance</b>                         | Shine Finance (Virtual)                 | Internet bank offering advice on financial issues  | ●   |  |  |  | ●   |
| <b>Chime Bank</b>                            | Various venture capital funds (Virtual) | Internet bank with instructive video and blogs dealing with financial issues                                   | ●   |  | ●  | ●                                      | ●   |
| <b>Dilemme</b>                               | Crésus (France) <sup>31</sup>           | Interactive game, websites, tools, guides, applications  | ●   | ●  | ●  | ●                                      | ●   |
| <b>PROMIFIN Educación Financiera project</b> | FACET BV (Central America)              | Guide, games on financial education for individuals and micro-entrepreneurs                                    | ●   | ●  |  | ●                                      |   |

26 Might also relate to necessity driven self-employed

27 Primary focus on small (and medium) enterprises

28 Provided ratios are adjusted to this category of enterprises

29 In French only

30 See also Dilemme, developed by Crésus Foundation

31 All tools in French with some explanations in English

### 3.2 Applications (apps)

In addition to the various websites, micro-entrepreneurs, coaches and mentors can also use specific applications that deal with financial issues. The number of applications dealing with financial issues has been quickly growing over the past years. Nearly every financial issue today has a dedicated application.

A simple search on the Internet returns several apps. Some examples include Investopedia's<sup>32</sup> "The 8 Best Personal Finance Apps of 2019" or The Balance's<sup>33</sup> "The 8 Best Personal Finance Apps of 2019" which presents a slightly different list. MFC has also identified useful apps related to the specific financial issues of micro-entrepreneurs<sup>34</sup>.

The most relevant applications for micro-entrepreneurs and coaches working on financial health issues are presented in Table 8.



**Table 8 // Selected Applications to be used to deal with financial problems for micro-entrepreneurs**

| Name application         | Founded/ launched | Purpose/ use                           | Strengths/ special features  |
|--------------------------|-------------------|--|--|
| <b>Mint</b>              | 2006              | Money management / Personal finance    | Simple personal budgeting  |
| <b>You Need a Budget</b> | 2010              | Debt management                        | Budgeting (multiuser) and encouraging financial planning   |
| <b>Prism</b>             | 2012              | Controlling bills/ invoices            | Fast collection of bills without third party   |
| <b>Every Dollar</b>      | 2015              | Budgeting                              | Personal budget tool with active stimulation of the user   |
| <b>Wally</b>             | 2013              | Tracking expenses                      | Easy uploading expenses  |
| <b>Acorns</b>            | 2012              | Easy saving                            | Automatic investing of savings   |
| <b>Coinbase</b>          | 2012              | Cryptocurrency                         | Crypto currency exchange platform  |
| <b>Robinhood</b>         | 2013              | Investing issues                       | Partly free investing and guides in investing and learning site  |
| <b>Tycoon</b>            | 2015              | App for freelancers                    | Attractive for debt collection/debt control  |
| <b>Unbury me</b>         | 2011              | Debt control                           | Controlling and managing personal debts  |
| <b>Venmo</b>             | 2009              | Cost-splitting                         | Sharing cost between individuals; fast collection of (personal) debts  |
| <b>Funding options</b>   |                   | Presenting offer of financial services | Mediating for funding for self-employed and micro-entrepreneurs  |
| <b>Hatch</b>             | 2017/2019         | Alternative credit scoring             | n.a.   |
| <b>Settle go</b>         | 2015              | International transfers                | Cross border collection of payments  |
| <b>Coconut</b>           | 2016              | Day to day financial matters           | Personal control over financial administration and control over costs  |
| <b>Solna- F6S</b>        |                   | Day to day financial matters           | Day-to-day business management including invoicing, payments and cash flow analysis and empowering entrepreneurs |

Source: Authors, combining lists of Investopedia, The Balance and MFC (2019) and selected reviews.

32 See <https://www.investopedia.com/personal-finance/personal-finance-apps/> (accessed 29th August 2019)

33 <https://www.thebalance.com/best-personal-finance-apps-4170650> (accessed 11th September 2019)

34 MFC, presentation at Workshop on Access to Finance of EM-Up, Barcelona, 4th April 2019

The list above is simply a selection of applications that can be used by individuals, self-employed or small and medium entrepreneurs. However, there is no specific focus on micro-entrepreneurs.

Since there is not a single, uniform method to assess and improve the financial health of the full spectrum of micro-entrepreneurs, a single app is unlikely to exist or be developed.

Coaches and mentors working with micro-entrepreneurs are thus expected to be informed about appropriate applications and need to select themselves the Apps they deem suited to the specific needs of their clients. They can then decide to recommend specific Apps to clients whom they expect to be able to use them without help or select the Apps best suited to solve a specific problem together with the entrepreneur (and/or give additional orientation or training).

Once the relevant Apps are selected, coaches and mentors need to stay informed of developments in the field. *Establishing a platform that posts the latest developments is recommended.*

### 3.3. Reaching out to larger numbers

There is a wide spectrum of methods to assess financial health and assist micro-entrepreneurs in dealing with financial problems. However, there are few programmes that succeed in reaching large numbers of micro-entrepreneurs. In our research, two initiatives were found that deserve further attention: (1) *Outset Online* and (2) *Mes questions d'argent* of Banque de France. Both offer online guidance to the general public dealing with a broad range of financial issues.



#### 3.3.1 Outset and Outset Online

Outset Online<sup>35</sup> is a tool promoted by Outset, an enterprise start-up support service, and established in 2009 by the Outset Foundation. Outset helps to stimulate economic development, financial and social inclusion through the creation of sustainable jobs and businesses. It offers a flexible and client-focused programme of workshops, mentoring and coaching, and empowers people to take charge of their lives through restoring their self-esteem and confidence to overcome barriers. It gives them the skills and knowledge needed to test and start their

own enterprises and provides support for sustainability and growth for further job creation and helps with access to finance.

Outset Foundation is an independent UK charity dedicated to supporting self-employment and skills development across the UK, with a particular focus on helping people that may be struggling to find traditional employment.

Outset Online is an interactive online learning tool that offers a wide range of content and tools designed to support a prospective entrepreneur during the business start-up journey.

Through a combination of information, video tutorials, resources and activities, Outset Online assists in navigating the start-up process through its website: from initiating and refining your ideas and identifying your customers and competitors, to figuring out your marketing strategy and helping you plan finances. The user goes through a learning and empowering process with a range of activities and exercises that help to construct a ready-made business plan.

Outset Online supports the client in the following ways:

- i. *Tools to turn an idea into a successful business and create access to finance.* Outset Online has special (reflecting and exploring) tools to turn an idea into a strong, sustainable and successful business.
- ii. *A system to learn from home, at one's own pace.* Outset Online is designed to be flexible and the entrepreneur can work in his/her own time, and (s)he can get essential business support anywhere, anytime through the Internet.

<sup>35</sup> <https://www.outsetonline.com/about-us/outset-online/> (accessed 15th October 2019)

- iii. *Videos, tools and online calculators.* There are over 140 video tutorials that help the entrepreneur navigate each stage of starting a business, plus a range of useful online calculators and tools that take the pain out of planning and managing the business finances.
- iv. *Tools leading to a business and financing plan.* By completing a range of activities, entrepreneurs create an exportable business plan that can be used to guide decision making, apply for finance or track the progress of the business once it's started. Finance is generally arranged through the sister company, Outset Finance.
- v. *Connecting with others in the online community.* The Outset Online system allows users to connect with other business owners, as well as a range of mentors and advisors to help brainstorm, network, trade stories and seek advice as the entrepreneur progresses through the business journey. Users typically seek assistance for financial health related issues in the pre- and post-loan stages.

Users are charged a fee of approximately EUR 85 plus VAT (a value of GBP 500) for 12-months access to the platform.



### 3.3.2. Mes questions d'argent of Banque de France

The French Government launched its national strategy on financial education with the goal of enabling every French person to gain the necessary financial education and information to

participate in society. It has entrusted the Banque de France to take the necessary steps to attain these goals. The first step in that process was the creation of a web portal labelled, "Mes Questions d' Argent" ("My questions about money")<sup>36</sup>.

Mes Questions d' Argent was developed in collaboration with more than 20 French associations and professional institutions. The website offers general financial information ranging from how to open a bank account to how to prepare a loan application. It not only provides information to assess one's own financial situation, but also offers a wide range of templates that people can use to act. The website reaches various segments in society; it even recently launched a programme (and website) directed towards the youth population. Through its website, users can find third party partners such as training and advisory organisations. The links found on the website are also relevant for entrepreneurs who are interested in specific services (beyond information and self-learning) such as training, coaching or mentoring.

Effective use of this website depends both on the willingness of the entrepreneur to seek information and the proactive attitude of the organisations tasked to assist entrepreneurs once they have been referred to them through the main site.

## 3.4. Approaches in structuring mentoring and coaching

Structured mentoring and coaching could enhance the capacity of micro-entrepreneurs to understand and deal with financial problems. During this research, two novel approaches emerged as examples of structured mentoring and coaching that could be adopted by FSPs and NFSPs in their future programmes: (1) *Youth Business International*, and (2) *Early Warning Europe project*.

### 3.4.1. Youth Business International<sup>37</sup>



Youth Business International (YBI) is a global network of 56 organisations in 52 countries supporting underserved young people to turn their ideas into successful businesses, create jobs and strengthen communities. Since 2008, YBI has supported over 40 member organisations around the world to start, build or strengthen their mentoring programmes for the benefit of young entrepreneurs.

Youth Business International aims to:

- Help members start their mentoring journey.
- Help members who are restructuring their mentoring programme.
- Provide a baseline to members to review their mentoring programme.

<sup>36</sup> [www.mesquestionsdargent.fr](http://www.mesquestionsdargent.fr) (accessed 14th September 2019)

<sup>37</sup> <https://www.youthbusiness.org/>

## Structure in coaching and mentoring

According to YBI effective mentoring is determined by:

- A clear programme management structure
- An effective mentoring programme manager at the helm
- A well-designed mentor-mentee matching process
- Initial training and preparation to engage in mentoring, for both mentors and mentees
- Proactive, ongoing support for mentees, mentors and programme managers
- Regular reviews to continually evolve the programme
- Shared opportunities and ideas to allow programmes to flourish

YBI defines voluntary business mentoring as personalised support that helps young entrepreneurs develop their abilities and insights as they start and grow their own business. Through one-to-one support, mentees can access skills and resources, develop their leadership abilities and foster professional connections. A good mentoring relationship will also help young people develop confidence and resilience, better equipping them to navigate the challenges of today's rapidly changing job market. YBI has developed a mentor training programme which it offers to its members. The framework has been structured to reflect a typical programme lifecycle, from the planning phase through to the full implementation of a mentoring programme. Organisations will cycle through the process as they roll out their programmes, but its end-to-end structure enables programme managers to choose the most relevant content depending on the stage of the scheme.

The framework on its own is not enough to guarantee a successful mentoring programme. The YBI team of professional mentoring consultants works one-on-one with YBI's member organisations through the programme creation process, and nurtures new and existing partnerships with academic experts, who deliver expertise through a series of workshops and coaching sessions at annual masterclasses.

YBI's community of mentoring practitioners is sector-leading, with over 14,000 volunteer business mentors who inspire and empower the young entrepreneurs they support to reach their personal and professional potential. Special attention should be dedicated to Global Mentoring Masterclasses where YBI's approaches to mentoring is discussed and new insights on mentoring are generated.

## Our coach acted like "a good father"

It all started with brewing beer in a small kitchen. Now, four friends own a micro-brewery, based in two shipping containers, in Eastern London, stacked on top of one other. A third container has recently been added as a taproom where people can enjoy fresh beer straight from the source.

One of the founders has a university degree in business administration and knows reasonably well how to deal with financing issues. Up to now, he has convinced his partners that it is better to reinvest all proceeds back into the company. He also has not yet taken a salary.

When the team first approached a formal bank, that promoted itself as financing start-ups, the initiators were told to submit annual accounts for at least one year and firm orders. From the local FSP, the four partners each received a personal loan of GBP 10,000 for a total of GBP 40,000 equity. This arrangement was only possible after preparing a comprehensive business plan together with a coach of the FSP.

During the year after the release of the loans, the partners received regular business advice from the coach as part of the total assistance package. Although the coaching was not continued after the loans were repaid, both parties declared that more sessions would have been welcome; however, neither party took steps to continue this service. Looking back, the partners mentioned that they would have welcomed additional advice on the following topics:



- The implications of financing;
- Ownership/legal issues; and,
- Setting up the administration of the business.

*"And if nobody will support or advise us, we will seek information online"*

### 3.4.2. Early Warning Europe – (Team U)

Team U – Germany<sup>38</sup> is the initiator of the Early Warning Europe project<sup>39</sup>, which is funded by the European Commission. It has

been set up to provide advice and support to entrepreneurs who recognise that their business is facing financial problems. The project offers a broad range of services to assist entrepreneurs in preventing bankruptcies and its negative consequences such as job loss, increased economic risk for suppliers in the company value chain, and a potential economic, social and personal shocks for the entrepreneurs and their families.



The methodology was developed by Team U and is based on a proven approach in Germany. A key element is to create strong framework conditions for entrepreneurs across sectors that can help them face key challenges, including managing a crisis, dealing with bankruptcy and getting a second chance. The project is a combination of structured coaching and mentoring to reach entrepreneurs facing difficult issues and methodical assistance. Methodical assistance helps entrepreneurs to detect their financial problems (e.g. assessing their financial health) and offers them structured assistance to improve their capacity to deal with such problems. It is thus based on the understanding that an effective financial health intervention requires both a proactive attitude on the part of entrepreneurs to seek advice and a proactive attitude on the part of coaches and mentors to establish contacts with entrepreneurs seeking help.

The European project started operations in Poland, Spain, Italy and Greece, providing support to 3.500 companies in distress between 2017-2019. It is now preparing to roll-out in five additional EU Member States. The ultimate goal of the project is to establish Early Warning mechanisms in all EU Member States.

The programme increases the likelihood of a company turnaround that results in a stable economic situation for the company and leads to sustainable growth. Moreover, if a company in distress is closed down at an early stage of the crisis, the intervention can help avoid insurmountable debt for the company owner and therefore give him or her a chance to start a new venture (a 2nd chance).

In addition to offering a comprehensive set of services to MSMEs, the project is establishing a European Network of experts, authorities, associations and chambers of commerce to improve framework conditions for SMEs and entrepreneurs across Europe. This work will be further strengthened by the

development of an innovative, data-driven method to identify companies in distress. The ambition is to present a Next Generation monitoring and early warning method based on machine learning and big data to identify companies that are at risk of bankruptcy.

#### **Training and organising mentoring for early warning**

*Effective financial health intervention requires both a proactive attitude of entrepreneurs to take steps to seek advice when facing financial problems on the one hand and a similar proactive attitude of coaches and mentors to establish contacts with such entrepreneurs on the other hand. This requires structuring the mentoring, training mentors and coaches and equipping them with the right tools and instruments. Team U (Germany) develops such approach in the Early Warning Europe project.*

38 [https://www.team-u.de/en/team\\_u](https://www.team-u.de/en/team_u)

39 <https://www.earlywarningeurope.eu/> (accessed 16th September 2019)

## 4. Towards an integrated approach to assess and enhance financial health and well-being

*Programmes on financial health issues should not only focus on assessing the level of understanding of a micro-entrepreneur of the financial issues in his/her business and the capacity to deal with them, but more relevantly, the assessments should be directly linked to action plans to broaden and deepen the financial understanding and capacity of the entrepreneur of dealing with financial issues.*

### 4.1. An integrated approach to enhance financial health

The staff of the interviewed FSPs and NFSPs consider an entrepreneur's capacity to deal with financial issues related to the business as the most relevant issue to improve financial health. During the interviews, they stressed the importance of both measuring financial health and identifying the subsequent actions that need to be taken.

The interviewed micro-entrepreneurs interviewed also expressed interest in the topic provided that it would help them better manage and run their businesses. They indicated that simply answering questionnaires would not be of much benefit. The micro-entrepreneurs would preferably do so in close cooperation (indirectly or directly) with coaches or mentors and expect follow-up actions to help them deal with financial issues. Therefore, there is a need for an integrated approach that covers assessing, measuring and following up with the entrepreneurs. Coaches and mentors working with FSPs and NFSPs are expected to play a proactive and stimulating role in that process.

In terms of working methods, differences between European entrepreneurs and those in emerging economies were identified:

- In non-EU countries, there is a significant group of clients that has reservations/limitations to use digital systems and prefer paper-based tools; meanwhile,
- In the EU, there is a general acceptance of templates, applications, and other digital instruments.

Coaches and mentors (either paid or employed by the FSPs or NFSPs) who actively support the micro-entrepreneurs need to be willing to adapt the working methods that meet the specific needs and characteristics of the entrepreneur (which can only be done effectively if the coaches and mentors fully master the subject matter). Table 9 illustrates the basic steps in the process as well as the required tools.

Table 9 // Financial health enhancement process, key actors and suggested tools

| Step in process  | Main actors         |                     |                               | Tools to be used   |
|--|---------------------|---------------------|-------------------------------|--|
|  | FSP/NFSP management | Micro-entrepreneurs | Coaches, mentors and trainers |  |
| Deciding purpose/objectives of financial health programme for FSP/NFSP                               | ●                   |                     |                               | General papers about financial health  |
| Segmentation of MSME-market  | ●                   |                     | ●                             | Matrices to segment the market and classify the target/client groups; papers on segmentation   |
| Training coaches/mentors in FH programme and approaches  | ●                   |                     | ●                             | Training programme for coaches and mentors   |
| Identification of financial issues and financial understanding at the client level                   | ●                   | ●                   | ●                             | FH assessment tool (Questionnaires to be completed by micro-entrepreneurs and interview guides to be used by coaches/mentors)  |
| Developing Financial Health Action and Assistance Programme (FHAAP)                                  |                     | ●                   | ●                             | Action plan format with learning objectives to be discussed with micro-entrepreneur  |
| Implementing FHAAP   |                     | ●                   | ●                             | Action plan assisting coaches/mentors in selecting tools/instruments via platform  |
| Assessing changes/improvements in financial understanding and capacity to deal with financial issues | ●                   | ●                   | ●                             | FH assessment tool (Questionnaires – either stand alone to be completed by micro-entrepreneurs or comprehensive tool to be used by both coaches/mentors and entrepreneurs) |
| Evaluating effects of FHAAP  | ●                   | ●                   | ●                             | Evaluation templates to measure effects in relation to established objectives  |

● Staff of FSP/NFSP play key role     
● Micro-entrepreneurs actively participate     
● Coaches/mentors play leading role  
● Staff of FSP/NFSP are consulted self-employed     
● Micro-entrepreneurs are consulted

In order to implement such a process, one first needs a practical, working definition (or interpretation) of “financial health of micro entrepreneurs” and the roles of staff (e.g. coaches, mentors - whether paid or volunteers) need to be established. In addition, the tools and instruments (to assess financial health; segment the universe of MSMEs; and draw up, implement and evaluate the action plans) for coaches and mentors ought to be developed. This is described in more detail in the following paragraphs<sup>41</sup>.

<sup>41</sup> A manual to assist coaches and mentors will be developed and tested in 2020.

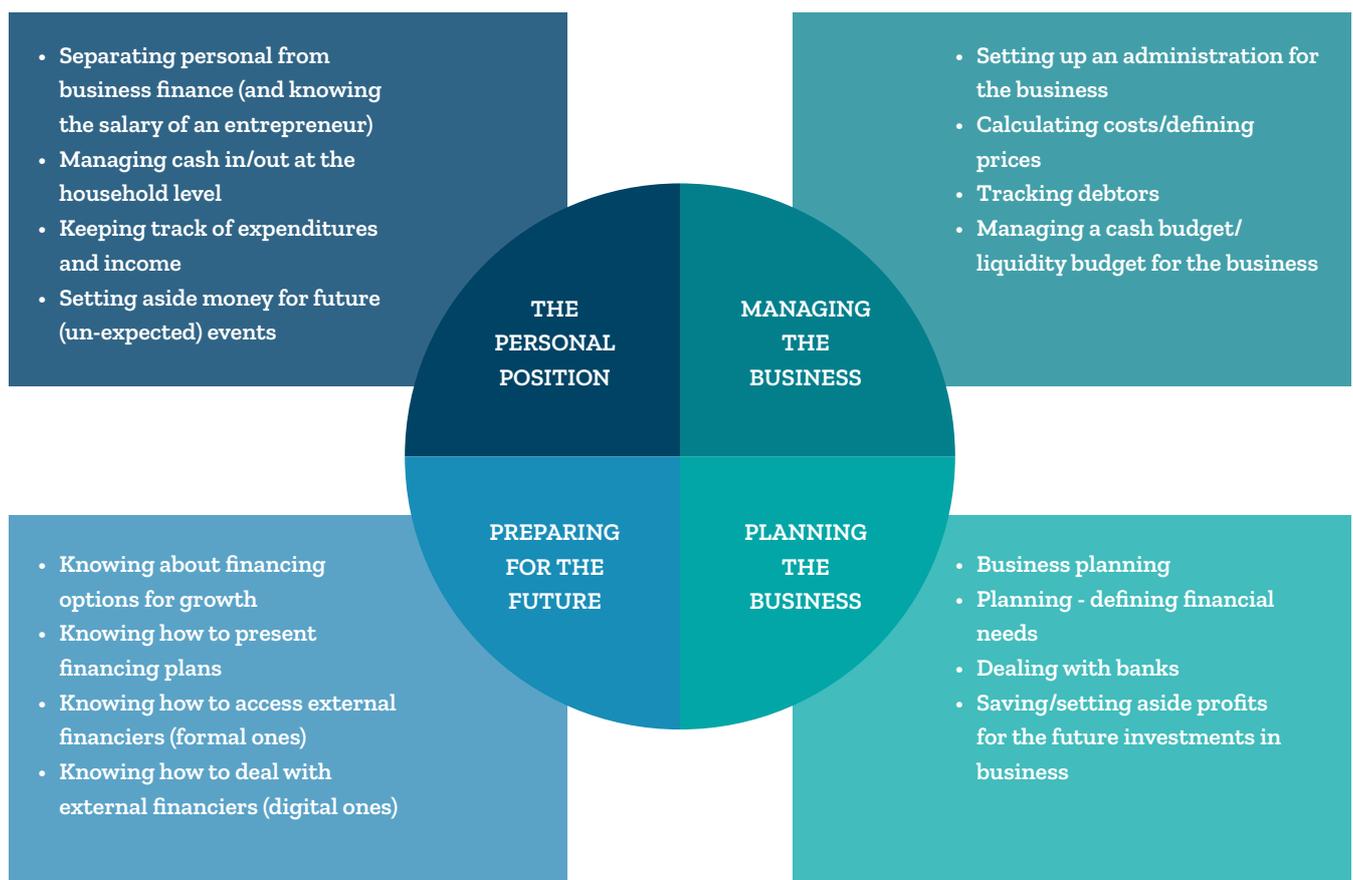
## 4.2. A practical definition of financial health and identification of focal areas

An appropriate working definition is needed for programmes attempting to enhance and improve the financial health of micro-entrepreneurs (embracing both *assessments and action that broaden and deepen understanding and capacity of financial health*). Since financial health in this paper primarily deals with micro-entrepreneurs with less than five workers/employees, an appropriate and practical definition of financial health suggests that *a micro-entrepreneur is considered financially healthy if (s)he possesses the capacity to deal with financial issues in his/her business, understands how to manage his/her finances and plans the future of the business in line with aspirations and capabilities*.

The financial well-being of micro-entrepreneurs is directly affected and influenced by the financial health of the micro-enterprises that are established, developed and managed by the entrepreneurs. The implicit assumption is that once the financial health of the business is enhanced, this will subsequently contribute to the financial well-being of the micro-entrepreneurs at the household level.

While assessing the information and data collected during the survey period, four focal areas emerged and, for each area, four specific issues were identified that determine the financial health of enterprise and the micro-entrepreneur, which are presented in Figure 4.

Figure 4 // Financial health of micro-entrepreneurs



Source: Authors, partly adapted from working definition used by CFSI/ FHN (2018) <sup>42</sup>

<sup>42</sup> See Cummings L., Ruales A. (2018). Addressing the Financial Health Needs of Small Business Owners. Chicago, IL: CFSI.

For each issue the question is to find out to which extent the micro entrepreneur has adequate (sufficient and relevant) knowledge about it and secondly knows how to deal with it.

The intricacies of the respective issues and the way to deal with them (1) need to be understood by the entrepreneurs and the mentors/coaches and, (2) coaches/mentors need to take into account that for each type of entrepreneur of the MSME universe, some issues are more relevant and important than others.

### Tailor-made solutions



Since 2015, the couple has been running a photography and commercial video agency. They have both taken diploma courses at the best schools in the country, however, these courses did not provide them the tools to prevent or overcome financial problems in their business. For instance, nobody had taught them how to deal with pricing. As a consequence, they looked for some advice from incubators and went to ProEmplo, where they followed nearly all of the offered trainings and services.

ProEmplo started with a diagnostic of the business. The couple had some financial problems, especially concerning the pricing of their services (such as defining the cost per hour, per photo, per video duration). Their business did not match the regular templates provided by ProEmplo, but the advice

allowed them to adapt the templates to their needs and thus determine more appropriate prices. Afterwards, they looked for credit support to control their liabilities. The couple found the human side of the support to be very useful, they felt that they had support.

ProEmplo provided them with the basics, or what is absolutely necessary. Today they are looking for more specific advice from other actors, but stay in contact with ProEmplo, especially to give advice to new entrepreneurs. Furthermore, they also now take pictures for ProEmplo, which has become one of their clients.

### 4.3. The role of mentors and coaches

Assistance for micro-entrepreneurs, also in financial health related issues, will likely vary over time depending on where the entrepreneur is in their business lifecycle (e.g. contemplating self-employment, starting phase, growth stage, consolidation or declining/ diversification stage). Depending on the entrepreneurial stage, the entrepreneur could benefit from different forms of external support.

Services may be provided by staff formally employed and paid by FSPs/NFSPs or even come from volunteers. The precise role of staff and volunteers will vary over time: at certain moments micro-entrepreneurs will benefit from the sharing of information; at other times, they need problem solvers, expert advice, general business support or counselling.

FSP/NFSP staff and volunteers ought to possess the skills of either coach or mentor and need to know when to act as a coach/ adviser or as a mentor/counsellor as entrepreneurs will not always benefit from one single form.

*Coaching* services are often rendered on a contractual basis and aim to provide clients (i.e. micro-entrepreneurs) with skills, knowledge, external information and solutions. In the coaching process, specific milestones should be clearly defined in advance and incorporated in the coaching process, as well as indicated in the accompanying initial contract. The milestones can then be measured and evaluated over time and corrective measures can be taken if deviations take place.

*Mentoring* is conducted more on the basis of equals (i.e. between the mentee/entrepreneur and the mentor/external professional). Mentoring is a service targeted towards the personal and professional development of the mentee. The mentor should be an experienced person but must also be adaptable to allow the mentee to gain insight and understanding from a perceived problem. The mentee is expected to learn how to solve an issue and works with the mentor to exchange views, enriched with practical advice

and information from the mentor. Specific learning goals (and competences to be gained) may be defined in advance and may go beyond business related issues to encompass issues such as work-life balance, self-confidence and well-being at large.

Effective support in financial health processes depends on a clear understanding of the type of service needed at a certain point in time.

Table 10 presents which role should be emphasized at various phases in the entrepreneurial journey.

**Table 10 // Business life cycle, needs for coaching/mentoring and prevailing roles to enhance financial health**

| Phases   | Most prominent need with special reference to health financial issues  | Prevailing role of coach or mentor assigned to the client |                             |
|--|--|---|-----------------------------|
|  |  | Coach   | Mentor                      |
| <b>Idea to start a business or to become self-employed</b> | Information<br><i>Knowing financing options - both traditional and new - on internet - emerging ones</i>   | ●<br>Information provider                                 |                             |
| <b>Decision to become self-employed</b>                    | Understanding what it is to become self-employed<br><i>Becoming aware of financial (personal and business related) implications of engaging in business</i>  |   | ●<br>Sounding board / guide |
| <b>Preparing the business plan</b>                         | Information, guidance, assuring business, referral to source of information, market and technology data<br><i>Detailing cost, prices, cash budget, financing/ investment plans, searching financiers</i> | ●<br>Business plan formulation                            |                             |
| <b>Preparation for the start</b>                           | Taking final discussions, seeking external partners<br><i>Committing one's own funds, presenting financing plans, attracting partners</i>  |   | ●<br>Sounding board         |
| <b>Actual start</b>  | Implementation plan, solving unexpected problems that were not included in the business plan<br><i>Dealing with external parties (banks, financiers, government, suppliers, client)</i>                  | ●<br>Business adviser, expert                             | ●<br>Motivator              |
| <b>First years of operation</b>                            | Dealing with daily problems<br><i>Administration, debtors/ creditors control, prices/ costs/ cash control</i>  | ●<br>Problem solver                                       | ●<br>Counsellor             |
| <b>Growth</b>  | Dealing with growth<br><i>Financial planning, setting aside funds for future</i>   | ●<br>Expert   |                             |
| <b>Diversification or winding up/down the business</b>     | Discussions in which direction to go and developing of diversification or exit plan<br><i>Financing plans, knowing which financier to approach, financing packages</i>                                   | ●<br>Expert in exit or diversification plan               | ●<br>Sounding board         |

● Dominant role as coach  
● Dominant role as mentor



***“My suppliers (of spare parts) must be my bank”***

One hears his mentor speaking. Repairing bicycles and cycling were his passion. He found a nice place to start and now owns a bicycle repair shop in Milan.

He started on a modest scale and has gradually become established. He even competes with a larger bicycle shop selling top brands further down the street. However, there is no plan to grow dramatically,

*“I am happy with what I have, and I do not think I will employ somebody in the coming years, but interns from the vocational training center are always welcome.”*

The owner pays himself a modest monthly salary, *“if I want a salary increase, I need to negotiate*

*with my boss”*, he answered with a smile, reflecting his understanding that private and business finances need to be separate.

He got a loan of EUR 17.000 from a local bank to start his business, guaranteed by the local business support agency. The cash budget was the central piece in his business plan that he prepared with his mentor. After the start, his mentor visited him bi-weekly. He learned to meticulously manage the accounting books, which he does after opening hours. His mentor also taught him how to calculate costs and prices.

When asked whether he would be able to use a tool to assess financial health of himself and his business, he answered honestly that he would only take the time for it when guided by mentor.

In general, the mentor is a facilitator in the advisory trajectory and does not solve the entrepreneur’s problems. Evaluating the process is more complicated; in the course of the process both parties best discuss at regular intervals progress and results achieved and felt (!) and define whether they are satisfied with the process and the relationship or not and come to a mutual understanding which corrective measures eventually need to be taken.

There are two distinct ways of linking financial and business development/support services:

- The *integrated approach* whereby clients are expected to make use of a complete package of training, financial services and mentoring and coaching; and,
- The *interrelated and additional approach* which acknowledges that MSMEs would benefit from either coaching/mentoring or financial services but would not necessarily need both services at the same time.

The integrated approach implies that the FSP decides to offer all of the services to the clients simultaneously. For an integrated approach, the FSP needs to have all of the resources to deliver such services in house, and thus, must have all of these professional competencies within the organisation.

In the *interrelated (or parallel/partner) system*, there are operators/service providers that function independently and offer services individually to the clients. Those can be done independently (parallel) or in coordination with each other (partner approach).

## 4.4. Tools to be used in the coaching and mentoring process

### 4.4.1. Matrices to segment the market and classify micro entrepreneurs

As argued in chapters 2 and 3, coaches/mentors must assess the personal characteristics, experience and stage of the business to help micro-entrepreneurs improve their financial health. This is only possible after defining the client groups and determining the appropriate support methods.

Coaches and mentors can subsequently decide which tools/instruments might be appropriate, which might consist of existing tools, modified tools or even tools to be developed. Over the past years, the number of tools reaching the market (mainly in the form of web applications) has been rapidly increasing. It is doubtful whether FSPs/NFSPs should embark upon developing their own from scratch since modifying existing tools/applications is likely to be more cost efficient.

To determine the applicable intervention method, the following matrices can be used:

- i. *Matrix 1* can be used to determine the type of entrepreneur (hybrid or solo self-employed, opportunity-driven or growth-oriented), the entrepreneurial attributes (attitudes, skills or capabilities) and the recommended training and coaching methods.
- ii. *Matrix 2* evaluates the person whose financial health is to be assessed, the level of urgency (or crisis) and indicates the type of intervention required.
- iii. *Matrix 3* is used to identify the key financial issues corresponding to the lifecycle stage of the business/entrepreneur (i.e. stages in the business life cycles) and highlights the appropriate intervention techniques to be adopted by coaches and mentors to improve financial understanding, which then leads to enhanced financial health.

Before starting the coaching or mentoring process, the mentor/coach needs to know the type of entrepreneur asking for assistance as well as the most effective learning and working methods for each category of entrepreneur: hybrid or solo self-employed, opportunity-driven or growth-oriented micro-entrepreneurs. Entrepreneurial type is determined by the prevailing attributes (attitude, skills or capabilities). Matrix 1 is a tool to identify the recommended type of training/coaching. In this process, identification is based on the general MSME universe (i.e. no scoring is used). However, the process requires a profound understanding of the MSME universe and entrepreneurial characteristics. The final outcome is a decision on the preferred learning/working method.

### Matrix 1 // Segmentation, learning and coaching methods for financial health

| Type of economic activity/<br>entrepreneur                     | Part time self-employed - survival   | Solo self-employed - opportunity<br>driven   | Micro-entrepreneur- opportunity<br>driven   | Micro/small entrepreneur - growth<br>oriented and Lifestyle entrepreneur<br>(self-employed) |
|--|--|--|---|---|
| <i>Learning objectives related to<br/>financial issues</i>     |  |  |   |   |
| <i>Attitude</i>  | Understanding that good household financing is a condition for active participation in society | Understanding that active participation in economic life requires control over one's money | Understanding that a viable business requires prudent management of personal and external finance     | Wishing to plan ahead in business   |
| <i>Knowledge/ skills</i>                                       | Knowing how to use money (at the household level)  | Knowing how to invest in a small economic activity   | Knowing how to manage finance in business   | Knowing how to plan financing, where to find financing and related financing conditions     |
| <i>Capabilities</i>  | Managing own finances (household)  | Managing business and personal finance   | Managing business finance   | Dealing with financing issues   |
| <i>Type of training or coaching/<br/>mentoring recommended</i> | Group training, information session, problem solving on the spot                               | Working together on completing templates, group training, one-to-one coaching              | Group training; individual consultancy services; working together on interpreting completed templates | Referring to information sources, counselling   |

Source: Authors (2019) based on interviews with micro-entrepreneurs and staff of FSPs/NFSPs

Clients of financial health programmes have *different characteristics, educational backgrounds and business experiences*. They find themselves at different stages of (personal and business) development and will be subject to different financial crises. At this stage, it is important to find out the seriousness of the financial problem facing the micro-entrepreneur and the urgency to act. Matrix 2 leads to a score that can be used to define which type of coaching or mentoring might be required.

## Matrix 2 // Personal characteristics, financial health and coaching methods

| Prevailing characteristics and levels                                 |                 |                        |                    |                         |
|---|-----------------|------------------------|--------------------|-------------------------|
| Aspects to consider and score   | Appreciation    |                        |                    |                         |
| <b>Financial crisis level (mainly cash/liquidity problem)</b>         | High            | Imminent               | Emerging           | None                    |
| <b>Level of financial education</b>                                   | Low             | Basic understanding    | Main understanding | Well-developed/high     |
| <b>Stage of business</b>  | Starting        | Fast growth            | Consolidation      | Planning to diversify   |
| <b>Level of mastering digital issues</b>                              | Low             | Basic understanding    | Main understanding | Well-developed/high     |
| <b>Aspiration level</b>   | Low - survival  | Emerging               | Moderate           | High                    |
| <b>Age and attitude towards entrepreneurship</b>                      | Exploring       | Traditional            | Open minded        | Modern                  |
| <b>Entrepreneurial experience</b>                                     | Limited         | Basic                  | General            | Advanced                |
| Scoring   |                 |                        |                    |                         |
| <b>Max values to be given to each aspect and related appreciation</b> | 4               | 3                      | 2                  | 1                       |
| <b>Max value per appreciation</b>                                     | 28              | 21                     | 14                 | 7                       |
| When score is:  | From 28 to 23   | From 23 to 18          | from 18 to 13      | Less than 13            |
| <b>Type of intervention required</b>                                  | Problem solving | Advising and assisting | Coaching           | Mentoring and referring |

Source: Authors (2019) based on interviews with micro-entrepreneurs and staff of FSPs/NFSPs

Like any other business, the businesses of micro-entrepreneurs typically advance through the *stages of the business life cycle*. For each category, the pertinent financial issue will differ by stage. Similarly, various stages require different methods of coaching and mentoring. Matrix 3 helps coaches/mentors and staff of FSPs/NFSPs to determine the appropriate method for each category of the MSME universe given the stage of development they are in or go through.

## Matrix 3 // Business life-cycle related to financial health and coaching

| Type of economic activity and business life cycle                      | Start-up                               | Operational   | Growth  | Diversifying/selling                          |
|--|--|---|---|---|
| <b>Part time self-employed - survival</b>                              |  |   |   |   |
| Most common financial issues causing problems                          | Not knowing what to do or how to do it | Running out of cash   | n.a.  |   |
| Method and main instruments  | Assisting                              | Problem solving by setting up personal cash budget  |   |   |
| <b>Solo Self-employed - opportunity driven</b>                         |  |   |   |   |
| Most common financial issues causing problems                          | Not knowing what to do or how to do it | Running out of cash, mainly due to not properly separating personal and business finance          | n.a.  |   |
| Method and main instruments  | Assisting                              | Problem solving, direct assistance  |   |   |
| <b>Micro-entrepreneur- opportunity-driven</b>                          |  |   |   |   |
| Most common financial issues causing problems                          | Poor plan/lacking a plan               | Liquidity problems due to mix of late payment by clients, poor costs/ prices, weak administration | Lacking a financial plan                              | n.a.  |
| Method and main instruments  | Training and coaching                  | Developing control mechanisms, advising   | Orienting, referring to training, providing templates |   |
| <b>Micro/ small entrepreneur - growth oriented</b>                     |  |   |   |   |
| Most common financial issues causing problems                          | Poor plan                              | Liquidity problems due to mix of late payment by clients, poor costs/ prices, weak administration | Lacking a financial plan                              | Plan lacking                                  |
| Method and main instruments  | Training and coaching                  | Problem solving, direct assistance  | Orienting, referring to training, providing templates | Advising, informing, linking to third parties |
| <b>Lifestyle entrepreneur (self-employed)- self-development driven</b> |  |   |   |   |
| Most common financial issues causing problems                          | Finding investors                      | Overspending  | Lacking a financial plan                              | Finding investors                             |
| Method and main instruments  | Informing, referring to websites       | Developing control mechanisms, advising   | Orienting, referring to training, providing templates | Advising, informing, linking to third parties |

Source: Authors (2019) based on classification of entrepreneurs in Molenaar (2016) and adapted to the MSME universe of micro-entrepreneurs defined in this study.

#### 4.4.2. Assessment tool (including questionnaires)

The next step in the process is to assess the level of financial health for a given micro-entrepreneur, which means capturing an entrepreneur's understanding of financial health and his/her capacity to handle financial problems. This measurement can take place at any time; however, it would best fit in a predetermined series of steps and then systematically measured over time. Once a baseline has been established, the mentor and mentee can formulate and evaluate an intervention process and its potential effectiveness.

The assessment tools are based on the definition of financial health presented in section 1.3, which indicates that a micro-entrepreneur is financially healthy if (s)he possesses the capacity to deal with financial issues in his/her business, understands how to manage finance and plan the future of the business in line with his/her aspirations and capabilities.

With this definition in mind, four focal areas and four related issues primarily determine the financial health of enterprises and thus the financial well-being of micro-entrepreneurs. Assessment questions have been formulated to measure both the degree of comprehension on an issue and the degree to which the entrepreneur thinks he can deal with the problem. This reflects the basic understanding that the financial well-being of micro-entrepreneurs is directly affected by the financial health of business. To be willing to move forward and create an action plan for the future, the entrepreneur must first reflect on his or her current performance. This self-reflection can be stimulated by active participation of the micro-entrepreneur during the assessment period.

Two questionnaires have been developed to assess financial health levels, taking into account:

- i. The first questionnaire is designed as a stand-alone survey or measuring (and feedback ) tool that micro-entrepreneurs can use independently (without the help of third parties). This questionnaire gives micro-entrepreneurs direct feedback on their comprehension of financial issues and their capacity to deal with them. The tool may also refer the user to a coach and mentor for any follow up action if additional assistance is advisable. The questionnaire asks entrepreneurs to provide a simple "Yes/ No" response for questions subdivided in two major categories: (1) questions related to familiarity about a certain issue and (2) questions related to actually dealing with (or using) a specific financial product, service or issue. Depending on the respondent's score, additional questions will ask whether the entrepreneur wishes to seek guidance from a coach or mentor.
- ii. A more comprehensive questionnaire, preferably to be used by both the micro-entrepreneur and the coach/mentor, has also been developed. Based on the questionnaire outcome, both parties can then discuss which area requires attention and the specific actions that need to be taken to enhance the entrepreneur's understanding of a relevant financial issue or strengthen his/her capacity to deal with the selected issues. The questions of the second questionnaire are weighted and the results are presented through a "spider" diagram. Rather than a single, unique score, the spider diagram is a visual presentation of the main factors, e.g. the personal situation and degree of preparation for the future and the capacity to manage the business and degree of business (growth) planning. This visualisation is subsequently analysed and discussed by both the mentor and mentee. This process is expected to bring issues to the table and enable discussion concerning the steps of action (if required). Table 11 presents the weighting method, answers and value.

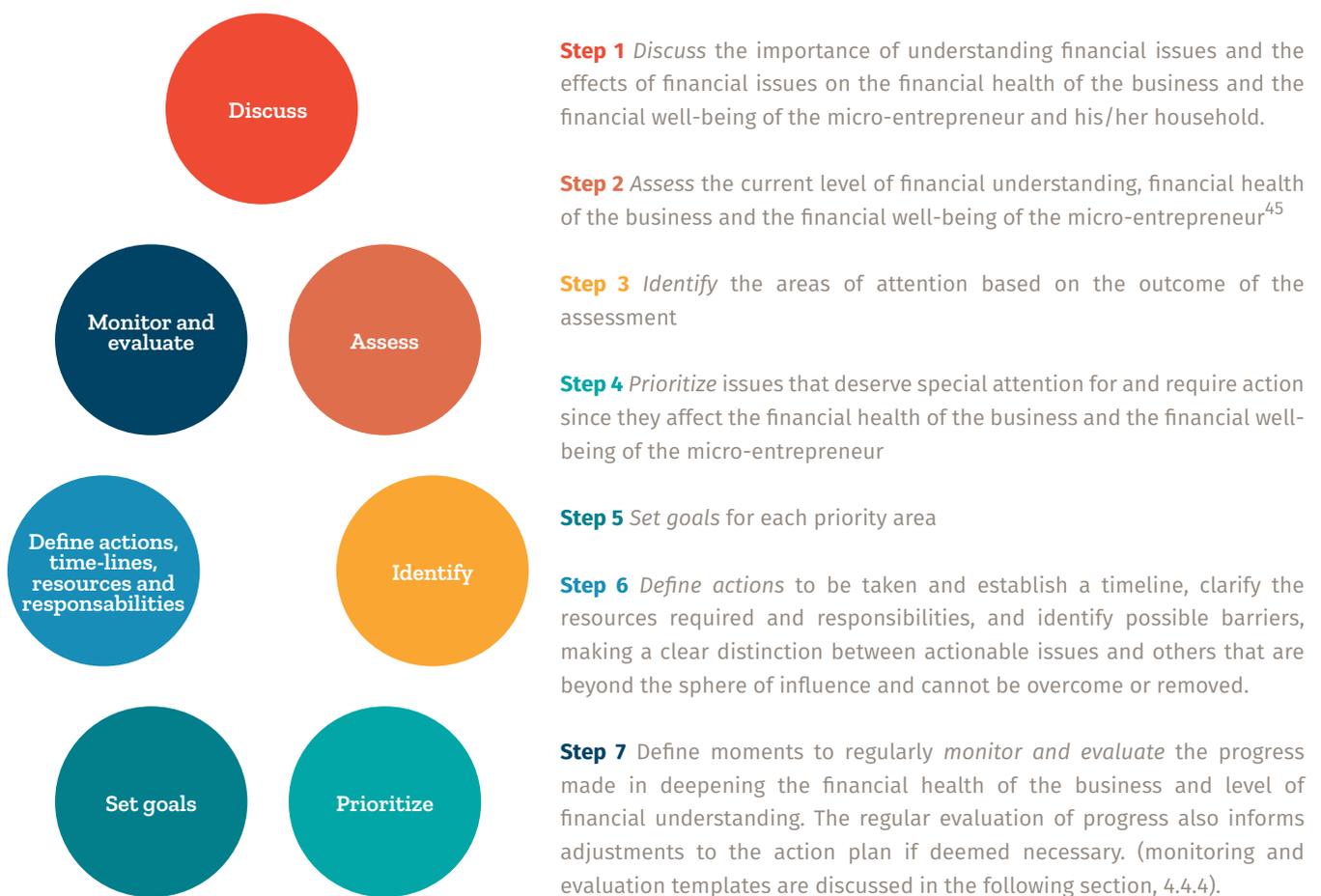
**Table 11 // Weighting values for questionnaire on Financial health for micro entrepreneurs**

| Answers and values              |  |   |  |  |
|---------------------------------|--|---|--|--|
| Understanding                   |  |   |  |  |
| <b>Possible answers</b>         | I know what this is about and know how to use it | I know what this is about but do not know how to use it | I do not know what is meant here and want to learn more about it | I do not know what is meant here and I am not in position to learn more about it |
| <b>Value assigned to answer</b> | 0  | 1   | 2  | 3  |
| Dealing with problems           |  |   |  |  |
| <b>Possible answers</b>         | It is not a problem for me                       | It is a problem, but I know how to solve it             | It is a problem and I want to solve it with the help of a mentor | It is a problem, but I don't think it can be solved                              |
| <b>Value assigned to answer</b> | 0  | 1   | 2  | 3  |

The purpose of the measurement is to make the level of financial health visible, to reflect upon the results and to discuss the implications of financial health and. The aim of the assessment is to stimulate the entrepreneur to accept that (s) he need sto give attention to financial health issues of his or her enterprise and if needed to formulate an action plan to improve financial health if deemed necessary.

#### 4.4.3. Action planning to enhance financial health<sup>44</sup>

Simply assessing the level of financial health is not sufficient. Follow-up actions are often needed to deepen and broaden the financial understanding of micro-entrepreneurs. This requires mentors and coaches to formulate an action plan together with the entrepreneur. This process can be visualized through a series of iterative steps as presented in Figure 5.



The action plan mentioned in step 6 is best formulated SMART-ly:

- **Specific:** goals need to be clear and detailed.
- **Measurable:** expected results need to be measurable.
- **Agreeable:** both micro-entrepreneur and mentor/coach must agree on the necessary actions.
- **Realistic:** the micro-entrepreneur must believe the action plan is possible to achieve.
- **Time-specific:** the set timelines must contain pre-agreed milestones at certain moments.
- **Support.** Not everything can be done by the micro-entrepreneur or the mentor/coach alone. For this reason, the FSP/ NFSP must also arrange necessary support (such as regular training courses and business clinics, access to information platforms, and sector related advisory services).

Table 12 on the next page provides a practical example of an action plan, with an illustration of one action further defined.

<sup>44</sup> All steps to be taken collaboratively.

<sup>45</sup> This can be by using the questionnaires mentioned in section 4.4.2. However, both mentor/coach and entrepreneur may also decide to apply other methods to assess financial health and well-being.

Table 12 // Action plan to plan an intervention to enhance Financial health for Micro-entrepreneurs

| Topics to work on                           |   | Target and actions to implement |                                 | Period        |            | Resources      |                    | Barriers     |                  | Success criteria                          |
|---|---|---------------------------------|---------------------------------|---------------|------------|----------------|--------------------|--------------|------------------|---|
| General                                     | Specific  | By whom                         | Details action                  | Starting date | Deadline   | Material/human | Budget             | Controllable | Non-controllable | Expected outputs                          |
| Dealing with personal finance               | Separating personal from business finance                             | Entrepreneur                    | Open 2 bank accounts at FH Bank | 15/11/2019    | 31/12/2019 |                | Ledger fees EUR 50 | Yes          |                  | Two bank accounts (business and personal) |
|   | Managing cash in /out at the household level                          |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Keeping track of expenditures and income                              |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Setting aside money for future (un-expected) events                   |                                 |                                 |               |            |                |                    |              |                  |   |
| Dealing with financial problems of business | Setting up an administration for the business                         |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Calculating costs/ defining prices                                    |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Tracking debtors  |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Managing a cash budget/ liquidity budget for the business             |                                 |                                 |               |            |                |                    |              |                  |   |
| Dealing with general planning problems      | Business planning   |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Planning – defining financial needs                                   |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Dealing with banks  |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Saving / setting aside profits for the future investments in business |                                 |                                 |               |            |                |                    |              |                  |   |
| Dealing with financing options              | Knowing about financing options for growth                            |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Knowing how to present financing plans                                |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Knowing how to access external financiers (formal)                    |                                 |                                 |               |            |                |                    |              |                  |   |
|   | Knowing how to deal with external financiers (digital)                |                                 |                                 |               |            |                |                    |              |                  |   |

● Example of possible actions

#### 4.4.4. Evaluation and monitoring templates

The action plan and its implementation are instrumental in the learning process and the related personal development of micro-entrepreneurs. And it is not simply leading to acquiring knowledge and understanding. Micro-entrepreneurs must eventually act and thus also need to acquire the skills and capabilities to make use of their newly acquired know-how and insights. To do so effectively will depend on his/her behaviour. As a result, there are three distinct (but interrelated) areas to monitor and evaluate the implementation of the action plan:

- *Knowledge*: this may be enhanced, deepened or broadened by trainings offered or organized by FSPs/NFSPs, individual sessions by mentors and coaches, the sharing of information and self-learning.
- *Skills*: the way micro-entrepreneurs apply newly acquired know-how and insights, to be achieved by coaches and mentors stimulating micro-entrepreneurs to put new insights into practice.
- *Attitudes and values*<sup>47</sup>: a process of unleashing entrepreneurial traits through focused entrepreneurial education sessions (either group based or in individual sessions with mentors/coaches).

Changes may take place in all three areas. The effectiveness of changes will be influenced by the behaviour of the entrepreneur (e.g. ability to respond to the financial issues encountered).

Rather than developing a theoretical model to measure changes across these three areas for all entrepreneurs, we believe that an individualised system could be more effective. Such individualised measurement of changes in knowledge, skills and attitudes/values will of course be subjective where coaches and mentors compare the initial stage with the changes over time. However, it will generate rapid insights into the effectiveness of the action plan. Part of the subjectivity can be reduced by inviting staff of the FSP/NFSP who are not directly engaged in implementing the action plans to participate in the change measurement process. The staff can subsequently plough back their observations and opinions to the management teams of FSPs and NFSPs for future programmes.

The ultimate goal is that, over time, the entrepreneur will gradually become fully independent when making decisions, running the business and dealing with financial issues.

Balanced monitoring and evaluation should normally be related to all three areas. At the beginning, a rather straight forward approach can be taken by measuring the changes that have occurred relative to the targets established in the initial action plan. By following deviations from the original targets both parties can agree on the new actions to be taken and draw up a revised action plan. This process is illustrated in Table 13 (again with an example of the monitoring of a single action).

The guidance and feedback that the micro-entrepreneur receives from the mentor or coach may then lead to changes in behaviour, which in turn could lead to the desired level of independence when dealing with financing issues.

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<sup>47</sup> Such as opportunity-seeking, persistence, commitment to work/contract, demand for quality and efficiency, risk-taking, information seeking, goal setting, systematic, planning and monitoring, networking and persuasion, and self-confidence – see also Molenaar, N. They are not yet seen... but... Hybrid Entrepreneurship emerging in a changing society (2016)

Table 13 // Monitoring an evaluation action plans for the improvement of financial health for micro-entrepreneurs

| Topic to work on                                   |   | Targets                         |                                   |               |   |   |
|--|---|---------------------------------|-----------------------------------|---------------|---|---|
| General  | Specific  | Set target                      | Situation at moment of monitoring | Deviation     | Reason for deviation  | Proposed action to redress situation                |
| <b>Dealing with personal finance</b>               | Separating personal from business finance                           | Open two separate bank accounts | Two Accounts opened;              | Only one used | Entrepreneur still not clear of the added value of two accounts | Explain; and simulate what positive effect could be |
|  | Managing cash in/out at the household level                         |                                 |                                   |               |   |   |
|  | Keeping track of expenditures and income                            |                                 |                                   |               |   |   |
|  | Setting aside money for future (un-expected) events                 |                                 |                                   |               |   |   |
| <b>Dealing with financial problems of business</b> | Setting up an administration for the business                       |                                 |                                   |               |   |   |
|  | Calculating costs/defining prices                                   |                                 |                                   |               |   |   |
|  | Tracking debtors  |                                 |                                   |               |   |   |
|  | Managing a cash budget/ liquidity budget for the business           |                                 |                                   |               |   |   |
| <b>Dealing with general planning problems</b>      | Business planning   |                                 |                                   |               |   |   |
|  | Planning - defining financial needs                                 |                                 |                                   |               |   |   |
|  | Dealing with banks  |                                 |                                   |               |   |   |
|  | Saving/setting aside profits for the future investments in business |                                 |                                   |               |   |   |
| <b>Dealing with financing options</b>              | Knowing about financing options for growth                          |                                 |                                   |               |   |   |
|  | Knowing how to present financing plans                              |                                 |                                   |               |   |   |
|  | Knowing how to access external financiers (formal)                  |                                 |                                   |               |   |   |
|  | Knowing how to deal with external financiers (digital)              |                                 |                                   |               |   |   |

● Example of monitoring (based on action plan in section 4.4.4)

## Financial health means action!

A variety of initiatives have been deployed over the past decade to understand more about the financial health of individuals and micro-entrepreneurs. There is a growing awareness that the well-being of a micro-entrepreneur is directly affected by the financial performance of his or her enterprise. If things do not go well in business, quality of life also deteriorates at home. The poor financial performance of a business will lead to fluctuations in income and subsequently have a negative impact on the household. As a result, it is important to know what is going on in the business and be able to measure its financial health at any given time. However, measurement alone is not sufficient. Measurement only provides information at a single moment, not necessarily how financial health has evolved over time or could be improved in the future.

A micro-entrepreneur is considered financially healthy if (s)he possesses the capacity to deal with financial issues in his/her business, understands how to manage business finances and is able to plan the future of the business in line with his/her aspirations and capabilities. This will also influence the well-being of the individual and his/her household.

The micro-entrepreneurs interviewed over the past year for this study have clearly stated that they would not be interested in simply measuring the financial health of their business. They know that much depends on their own understanding of financial issues, and they are aware that they need to act when things are not going as expected. Once confronted with financial challenges, these entrepreneurs are interested in actions that enhance and deepen their knowledge about the financial issues that are relevant and important for their businesses. They want to learn how to take action.

The staff of FSPs and NFSPs also have a role to play in a process towards better financial health of the enterprises and better financial well-being of the entrepreneurs, particularly those who are not directly engaged in extending finance.

For many FSPs and NFSPs, there is growing awareness that coaching and mentoring (on financial issues) should be offered in a structured manner and that coaches and mentors ought to be equipped with adequate tools and instruments to support micro-entrepreneurs in the running and development of their business.

It is well understood that professional coaches and mentors need some discretion when deciding which intervention is best suited to meet the specific needs of their clients. The staff of FSPs and NFSPs, as well as the external professionals working as volunteers, will be more effective if they provide their services in a structured manner and make use of state-of-the-art tools and instruments related to financial health. Coaching and mentoring on financial issues can be more effective when it is offered in a logical way and on the basis of the capacity and capabilities of clients.

This explorative research has revealed that an integrated programme to enhance the financial health of micro-enterprises and financial well-being of micro-entrepreneurs is warranted and needed. This integrated programme covers assessment, measurement and follow-up actions where coaches and mentors working with FSPs and NFSPs are expected to play a proactive and stimulating role.

An integrated programme includes guides to segment the MSME universe and identify financial issues for the five main categories of entrepreneurs: (1) self-employed out of necessity, (2) sole self-employed (including lifestyle entrepreneurs), (3) opportunity-driven micro-entrepreneurs and (4/5) growth-oriented small and micro-entrepreneurs. In addition, the programme will contain templates to identify the financial issues entrepreneurs face, a guide to assess financial health and wellbeing (in a systematic way) and templates for action plans to enhance the understanding of financial issues and ways to handle them.

FSPs and NFSPs are free to use the tools and implement the programme developed through this explorative work to offer the best possible services to their clients, which will optimistically lead to the creation and development of sustainable businesses that create decent work conditions and ensure the generation of adequate income for micro-entrepreneurs and their households.

## Further reading?

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- <https://finhealthnetwork.org/who-we-are/our-mission/>
- <https://www.youthbusiness.org/>
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## About the Authors

### Mathilde Bauwin

Mathilde Bauwin is a Research and Development senior project officer at ADA. She works on knowledge management on various topics related to financial inclusion, such as the social performance of microfinance institutions, green microfinance or agricultural finance, and contributes to the designing of monitoring and evaluation systems for ADA's projects. She previously worked for the Tunisian microfinance institution Enda inter-arabe as a research officer and the French association ADICE as an international project manager. She holds a PhD in Development Economics from Paris Dauphine University and a master's degree in political science from Sciences Po Lille.

### Klaas Molenaar

Hybrid entrepreneur, consultant, trainer, academic, crossing borders in search for new ways to promote inclusion in society. Founder/director of Timpoc Consultants, with expertise in inclusive entrepreneurship and SME/microfinance. Emeritus Professor in Financial Inclusion and New Entrepreneurship at The Hague University of Applied Sciences and former member of the National Advisory Council for Micro Finance in The Netherlands and former President of the board of the European Micro Finance Network (EMN). Motto: Let us think outside the box and look for the other solutions by continuously asking "will people make use of that service?" Hobbies: long distance skating, sailing, cycling.

## About EMN, ADA and JPMorgan Chase Foundation

### EMN

The European Microfinance Network's (EMN) mission is to build up universal and open access to appropriate financial and complementary support services suited to society's needs at affordable prices allowing people to deploy their talents in order to create wealth and value while having a positive social impact. EMN is empowering its members to become acknowledged actors and partners in the financial sector that reach out to a large number of enterprising people who, in turn, create jobs and contribute to sustainable growth. EMN primarily focusses its activities in the European Union and EFTA/EEA member states.

### ADA

Since 1994, ADA has been working to foster the financial inclusion of populations excluded from the conventional banking systems. ADA's action is designed to reinforce autonomy and capacities of microfinance institutions (MFIs), professional associations and networks. ADA also assists governments in their efforts to support and structure the microfinance sector at the regional and national level. More recently, ADA has started working with other kinds of organisations such as incubators, in order to better support micro- and small entrepreneurs and facilitate their access to finance. ADA is a non-governmental organisation based in Luxembourg, working with 43 employees and an annual budget of 10 million EUR.

### JPMorgan Chase Foundation

The JPMorgan Chase Foundation is the charitable arm of JPMorgan Chase & Co. (NYSE: JPM), a leading global financial services firm with assets of \$2.7 trillion and operations worldwide. The Foundation focuses on driving economic growth and strengthening communities across the globe, by partnering with local efforts to advance skills-based training, help small businesses and improve financial capability for underserved people. The Firm, through its foundation gives approximately \$250 million annually to non-profit organisations around the world and lead volunteer service activities for employees in local communities, utilizing its many resources, including access to capital, strength, global reach and expertise.

# Appendices

## Details of the sixteen organisations participating in this research - EU Member States

| Country                               | Name (FSP/NFSP)               | Founding year                              | Legal status  | Key features  | Indicative size (# of clients)  | Typical products/services   |
|---------------------------------------|-------------------------------|--|---|---|---|---|
| <b>Financial service provider</b>     |                               |  |   |   |   |   |
| France                                | Adie                          | 1988                                       | NGO - Non-profit association (under French Law 1901)                                | Throughout France in urban (6%) and rural areas (24%) / HQ in Paris | Active borrowers (2017) 39.804  | Micro loans and business support services (by volunteers and own staff)   |
| Spain                                 | Oportunitas SL                |  | Private limited company (Ltd) - NBFi  | HQ in Barcelona<br>Also active in Madrid and Valencia.              | 49 clients (2018)   | Business loans, mentoring and training (by staff and volunteers)  |
| Italy                                 | PerMicro                      | 2007                                       | Public limited company (Ltd.) - (S.p. A)  | HQ in Turin<br>Throughout Italy - mainly urban areas                | 1.750 micro-entrepreneurs/ self employed  | Business loans, personal loans and business support services through sister company Micro Lab Onlus (with volunteers)   |
| United Kingdom                        | Nwes                          | 1982; since 2018 under NWES                | Company limited by guarantee -NBFi  | HQ in London<br>Active in mid-England                               | 290 enterprises indirectly financed and > 3.000 clients trained / advised / informed (2018)                         | Business advice and plan formulation leading to financial access (with staff; operates as quasi financier by administering lending operations on behalf of Start UP Loan Fund)  |
| <b>Non-Financial service provider</b> |                               |  |   |   |   |   |
| France                                | Positive Planet               | 2006                                       | Non-profit association (association loi 1901) - Part of the Positive Planet network | Throughout France in urban and semi urban areas<br>HQ in Paris      | 1.200 small/micro- entrepreneurs trained/advised (2017)   | Training (pre-loan) by own staff and business advise Post loan by volunteers  |
| Spain                                 | Incyde                        | 1999                                       | Non-profit foundation belonging to National Chamber of Commerce                     | HQ in Madrid<br>Throughout Spain                                    | 4.000 persons per annum trained and advised   | Training a business advise by subcontracted business advisers (paid)  |
| Italy                                 | Fondazione Welfare Ambrosiano | 2011                                       | Non-profit foundation   | Milan outskirts only  | 49 clients (approx. 30 solo self-employed)  | Guarantee funds with direct links to partner banks - with additional business advice by own staff and volunteers  |
| United Kingdom                        | Outset Finance/ YTKO- Ltd     | Outset Finance since 2014. YTKO since 1989 | Outset is project of private limited company YKTO Ltd.                              | Operating from Plymouth - active in Southern England                | 500 clients lead to finance and > 1.000 assisted with business support services (through sister project Outset BDS) | Business advise and plan formulation leading to access to financing (by staff; operates as quasi financier by administering lending operations on behalf of Start UP Loan Fund) |

## Details of the sixteen organisations participating in this research - Emerging economies

| Country                               | Name (FSP/ NFSP)             | Founding year | Legal status  | Key features   | Indicative size (# of clients)  | Typical products/services   |
|---------------------------------------|------------------------------|---------------|---|--|---|---|
| <b>Financial service provider</b>     |                              |               |   |  |   |   |
| Brazil                                | Credisol                     | 1999          | Civil society organisation of public interest (NGO) | - HQ in Criciúma, Santa Catarina province<br>- Active in 3 states Parana, Santa Catarina and Rio Grande do Sul                           | 6.531 clients in 2018   | Individual loans and micro-insurance.<br>Business management services through a partnership with SEBRAE.<br>Educational materials and templates (spreadsheets) aimed at improving microentrepreneurs' businesses, |
| Mexico                                | ProMujer                     | 2001          | Multi-purpose financial company                     | - HQ in Pachuca, Hidalgo State<br>- Active in Mexico City, Mexico State, Hidalgo, Puebla, Oaxaca, Veracruz, Tlaxcala, Querétaro          | More than 24.000 clients in 2018 (mostly women)   | Group and individual micro-loans; pre-loan training for all new clients, then continuing training for those who want. Trainings focus on personal development, finance, basic entrepreneurial skills.             |
| Peru                                  | Norandino                    | 2005          | Savings and credit cooperative                      | - HQ Jaen, Cajamarca<br>- Active 15 provinces in North and North East of Peru  | 22.700 clients in 2018  | Loans (working capital, consumption, investment). Savings products.<br>Non-financial services: financial education, budgeting and financial goal setting.   |
| South Africa                          | SEF                          | 1992          | Non-profit company                                  | - HQ in Tzaneen, Limpopo province<br>- Active in Limpopo, Mpumalanga, Eastern Cape, Kwa-Zulu Natal, and Northwest regions (mostly rural) | 195 000 group loan clients, 100 individual loan clients   | Group loans, saving services, loans for MSMEs,<br>Financial education for all clients, training for clients on business management, planning and personal development   |
| <b>Non-financial service provider</b> |                              |               |   |  |   |   |
| Brazil                                | Aliança Empreendedora        | 2005          | Non-profit association                              | - HQ in Curitiba (Paraná state)<br>- Presence in all Brazilian states through 107 allied organizations.                                  | More than 86.000 micro-entrepreneurs supported since creation (15.000 in 2018) through more than 160 projects | Face-to-face and on-line, group training and individual mentoring with focus on business and financial management as well as personal development and empowerment.  |
| Mexico                                | ProEmpleo                    | 1994          | Non-profit association                              | - HQ in Mexico City<br>- Active in the whole country   | 163 micro-entrepreneurs in 2018 for mentoring and consulting services; more than 4.000 for trainings          | Group training on human development, marketing, sales and finance, to end up with a business plan; consulting, mentoring and networking services  |
| Peru                                  | ADEC ATC                     | 1988          | Association   | - HQ in Lima,<br>- 2nd office in the city of Chimbote, in Ancash region  | 240 micro-entrepreneurs in 2018   | Training (including seminars), consulting, productive technical assistance, in specific activity sectors, such as metalworking, textile and handicraft.   |
| South Africa                          | SAICA Enterprise Development | 2018          | For profit company                                  | - HQ in Johannesburg,<br>- Active in Gauteng province  | 44 entrepreneurs supported in 2018  | Collective finance bootcamp, individual finance coaching and business mentoring, accounting and back office support, and personal development mentorship.   |

# Four case studies

## Permicro - The cash budget central

Created in 2007, PerMicro is a company that specialises in offering microfinance (small loans) and additional business development services. Initially only operating in Torino, PerMicro now (2019) operates in eleven Italian regions. It is the first and the only Italian microcredit company that professionally manages all phases of a micro company project: scouting, preliminary inquiry, risk assessment, and follow-up. The company belongs to the Italian and international network of microfinance organisations. PerMicro finances up to 25,000 EUR for companies or families, and it is designed for people who do not have easy access to traditional bank credits. PerMicro relies on a strong and diversified ownership structure and good governance system. The main shareholder (BNL BNP Paribas) is also a strategic partner, greatly supporting PerMicro in different areas such as funding, capacity building, market opportunities and operating expenses.

PerMicro also receives financial support from two Italian Foundations. It is an active member of the Italian network of microfinance institutions, Ritmi, and the European Microfinance Network (EMN).

PerMicro's primary target groups are people who have difficulty accessing traditional bank loans. Migrants in Italy wishing to set up a small business or engage in self-employment are also eligible for financing.

The company provides loans up to EUR 25.000 for companies or enterprising individuals. Financing by PerMicro is supplemented with business development services by both PerMicro staff and mentors (volunteers). It also provides personal loans up to EUR 6.000. Financing for growth-oriented entrepreneurs is not that obvious given its upper limit in lending (EUR 25.000).

To be eligible for financing, prospective clients of PerMicro need to:

- Present a viable business plan;
- Demonstrate appropriate technical and entrepreneurial skills; and,
- Utilise their social network to find someone to provide a guarantee the micro-entrepreneur.

PerMicro has access to the Italian Credit Reference Bureau, which enables it to check the credit history of a prospective client. There are two main reasons to verify data at the credit bureau:

- To see whether there is a risk of over-indebtedness; and,
- Most importantly to check whether clients truthfully represent their credit history.



The man is a woodworker specialising in wooden models of luxury yachts for shipbuilders (who give them as gifts to yacht buyers). With his wife, they tried to set up their own business. They came across a nice working space but faced problems with the owner of the premises. Suddenly, they ran out of money and "a loan seemed to be the solution." However, when the couple approached traditional banks they were bluntly turned down. One of the banks did, however, refer the couple to Per Micro, without explaining why.

A coach from PerMicro Onlus was assigned to the couple. With the coach, they first set up a comprehensive cash budget to capture money in/out flows, especially the private cash flows for their household. The couple states "that gave us a real insight in our liquidity position." They now have a better grip on their finances, "we keep of track of all daily payments and receipts and we know now what we really earn." With the new plan, they obtained a small loan of EUR 20.000 from PerMicro. "Working constantly with our coach on our cash budget has really contributed to our self-confidence" "We are now planning to change banks. We are not satisfied with service we have received so far although we know they referred us first to Per Micro"

If clients withhold information, the application for support is almost always automatically rejected.

PerMicro offers guidance to entrepreneurs during the pre-loan stage mainly to help potential clients write a business plan and in the post-loan stage by providing general guidance during start-up and implementation. This business development support is organized by a specialised subsidiary of PerMicro, operating under the name MicroLab Onlus, and is provided by volunteers (experienced professionals and businesspeople).

In the pre-loan stage, PerMicro staff spends time helping entrepreneurs create a comprehensive cash budget/cash plan (in combination with projected balance sheets and P&L statements). Mentors and entrepreneurs try to incorporate all cash flows into the budget, including both cash flows related to the household and those related to the existing and planned business activities. During this process, the staff of PerMicro guide clients and train them on a one-to-one basis.

After loan approval/disbursement, clients receive support from mentors working for Micro Lab Onlus (see below).

The most important advice is to give the entrepreneur confidence.

## PerMicro - Quantitative data

|   |  |              |
|---|--|--------------|
| <b>Year established</b>   | 2007   |              |
| <b>Legal status</b>   | Joint-stock company<br>PerMicro is a financial intermediary (NBFI) supervised by the Bank of Italy.  |              |
| <b>Principle characteristic(s) of the service provider</b>                        | Loans up to €25.000 for individuals starting or expanding a micro or small business activity without access to the formal banking sector.<br>In partnership with MicroLab Onlus, a non-profit organization, business development support (pre- and post-loan) services by volunteer coaches jointly with staff of Permicro |              |
| <b>Main area of operations</b>  | Headquarters in Turin, North Italy with 16 branches overall Italy  |              |
| <b>Quantitative data</b>  | <b>2017</b>  | <b>2018</b>  |
| <b>Number or staff working in PerMicro</b>  | 58   | 59           |
| <b>Number of volunteer coaches (through Onlus)</b>                                | 56   | 60           |
| <b>Total Portfolio (end of year)</b>  | € 24.181.050   | € 24.075.153 |
| <b>New clients -solo self employed</b>  | 218  | 250          |
| <b>New clients – Micro- entrepreneurs (&lt; 5 co-workers)</b>                     | 182  | 150          |
| <b>New clients – Micro<sup>49</sup> / small entrepreneurs (&gt; 5 co-workers)</b> | 33   | 22           |
| <b>Average loan size self employed</b>  | € 16.581   | € 18.532     |
| <b>Average loan size micro-entrepreneurs (&lt; 5 co-workers)</b>                  | € 21.502   | € 21.753     |
| <b>Average loan size micro/ small entrepreneurs (&gt; 5 co-workers)</b>           | € 24.977   | € 22.798     |

49 Defined by Per Micro as micro entrepreneurs with the loan ceilings still below Euro 25.000 (EU definition) – in this report actually considered small entrepreneurs

## Type of micro-entrepreneurs served

*Most clients are defined as self-employed/micro-entrepreneurs, but with a rather formal business structure; when growing they might decide to employ gradually one to two more salaried employees.*

The common denominator for PerMicro target groups are unbanked clients, e.g. persons who have no or difficult access to formal banks.

The basic characteristics of PerMicro business clients include:

- 80% < 45 years old
- 23% migrant (newcomers and longer staying)
- 48% were unemployed
- 70% of clients are located in smaller cities (less than 500k inhabitants)
- 35% women
- Almost 90% of the businesses supported by PerMicro are operational after two years.
- Almost half of PerMicro business clients graduate and receive financing from banks.

## Financial issues

In the business planning preparation stage, the staff and business advisors assist potential clients by translating business ideas and the desire to become self-employed into realistic investment and financing plans, with special emphasis on the related cash plan.

A significant number of prospective clients have difficulty to present a clear business and investment plan. This is attributable to the fact that household finance and personal finance are often intertwined, even when separate bank accounts (personal and business) are used. The cash plan and liquidity budget appear to be a very effective tool to analyse the situation and then come to realistic plans. Since most clients work on their own (e.g. without business partners or staff), they don't have many people to turn to in case of problems. Once a mentor has been assigned and trust has been established, clients tend to rely on them and continue working with them after having obtained a loan from PerMicro (or another external financier).

## Supporting mentoring and coaching through MicroLab Onlus<sup>50</sup>



Since 2003, Microlab Association, formerly called Atomi Onlus (a non-profit organisation), has been helping people in Italy who want to start their own business. The organisation is closely linked to PerMicro. While PerMicro focuses on extending microloans (up to EUR 25.000), Microlab Onlus provides business support services during the pre- and post-loan stages to clients.

Although it works very closely with PerMicro, Microlab Onlus is an independent organisation that makes its own decisions and has its own financing structure. This segregation of services makes it possible to structure business support services. It also gives insight into the true cost of such services (even when they are provided by volunteer advisors). This structural linking of pre- and post-loan advisory services is highly appreciated by clients.

For Microlab Onlus a mentoring relationship is a one-to-one interaction established between a mentor, an experienced businessperson, and a mentee, a less experienced entrepreneur. The aim of the relationship is to enhance the capacities of the mentee. However, there are particularities to this relationship that distinguish it from other relationships such as that between teacher and student. In the mentoring process, time is dedicated to reflecting on the learnings. Additionally, through practical support and encouragement, the mentor helps the mentee to develop and improve a new or existing business, by sharing their own skills and experiences.

After loan approval/ disbursement the mentors (visiting the clients approx. three times over a twelve-month period) discuss various topics with the entrepreneur among other things:

<sup>50</sup> <https://www.associazionemicrolab.it/?lang=en>

- Assisting entrepreneurs in appreciating the reality.
- Recalculating costs / process.
- Updating the original cash plan.

The aim of the mentoring process is the autonomy of the mentee and the nature of the mentor-mentee relationship is a peer-to-peer exchange since Microlab Onlus mentors are not a substitute for solving problems. For Microlab Onlus, mentoring must be a learning or personal development process for the mentee through a one-on-one relationship with a mentor. The process is designed to help the mentee acquire skills and insights on financial problems and enable them to deal with financial problems on his or her own.

Microlab Onlus has built up a national network of voluntary business mentors, who are professional mentors that help (young) businessmen and women start their own enterprise. New mentors receive a special induction course in mentoring.

Microlab has been a member of Youth Business International since 2013, and together, these two organisations started the project Youth Business Italy.

### Interesting lessons

- i. At an early stage, PerMicro consults the Italian Credit Reference Bureau, which enables it to check the credit history of a prospective client. In addition to verifying whether clients give accurate credit history and do not withhold information, this process gives insight into the financial position of the clients. This process can result in a rescheduling of outstanding debt(s), but, more importantly, it can reduce the risk of over-indebtedness of prospective clients by explaining to them the dangers of excessive credit.
- ii. Through Micro Lab Onlus, an independent entity, business support services are delivered to clients. This segregation of services makes it possible to structure business support services. It also gives insight into the cost of such services (even when they are provided by volunteer advisors). This structural linking of pre- and post-loan advisory services is highly appreciated by clients.
- iii. Concentrating on the cash budget appears to be very effective in detecting financial issues and in guiding the client through financial management and financial administration issues.
- iv. PerMicro and Microlab Onlus have succeeded in offering a pre- and post-loan mentoring services. Mentoring does not stop when a business plan has been formulated and submitted for financing. On the contrary, this helps to build cooperation between the mentor and client. Mentors take time to inform, guide and train clients in dealing with financial issues. A decision to discontinue such services is only made once clients have shown that they can deal with (financial) issues themselves.

## Positive Planet – Building trust is crucial

Positive Planet, the parent organisation of Positive Planet France, was created by Jacques Attali in 1998 to promote growth and fight against poverty in countries with emerging economies by enabling the independence of the most vulnerable populations and creating a better world for future generations through entrepreneurship. In 20 years, it has supported more than 11 million families around the world in more than 35 countries through its NGO, Positive Planet International.

In France, the NGO Positive Planet France runs a programme “Entrepreneurship in the suburbs.” In 2006, a venture capital company was set up to finance entrepreneurs mainly from the districts, either through equity investments or by granting equity loans. Positive Planet also develops, through Positive Economy Advocacy, its advocacy programmes to promote a “positive” economy, that is to say, taking into account the interest of future generations.

To enable the most destitute to become self-reliant, without having to depend on charity to ensure the future of their children in dignity and fulfilment, the Positive Planet Foundation raises funds through events such as the Positive Planet Awards, the Positive Cinema Week in Cannes, gala dinners.

Since 2006, Positive Planet France has supported 5.000 positive entrepreneurs create their own business (including 1.335 during 2017), which has generated over 6.000 jobs.

Positive Planet France only provides intensive entrepreneurship development and business creation services, which covers promotion, intensive intake activities, group training and coaching at the pre-start stage and mentoring post start. The individual coaching (and training) services are aimed at assisting people develop their business plans. Coaching and counselling during the pre-loan or pre-start stage are undertaken by Positive Planet France staff members. Clients of Positive Planet France, who have completed the programme and have formulated their business plans have to seek for financing from third parties themselves, which can be found through organisation such as Adie, France Initiative or a regular bank.

Since 2017, mentors are assigned to clients after starting up their business. This mentoring is aimed at building an understanding of the implications of business decisions and helping clients deal with business problems on their own. The number of volunteers working with Positive Planet is quickly growing.



A young man came from Brazil arrived in France and began working as a technician to repair and install exhaust systems in restaurant kitchens. After a few years, his temporary contract came to an end and was not renewed. His boss did not want to employ him on a permanent basis. Since some earlier clients were not happy with the services from his previous boss, he decided to approach them himself. He managed to get some of them on board as clients, although it was in an informal way. He barely managed to make ends meet and his attention was focused on the technical installations. Then a friend told him about Positive Planet, *“They might be of help to you in structuring your thoughts... maybe they can also help you with a business plan...”* Positive Planet referred him to an accountant who was working as a volunteer. Together they went over the financials and immediately set up a cash plan. Step-by-step, the entrepreneur began to understand how important it was to separate personal finance from business finance. With the accountant, he drafted a business plan *“when I registered my business, I really felt a part of France.”* Today, he intends to employ two technicians to support more clients. His activities are still financed with retained earnings, *“I understand now the need to keep track of money in – money out every day and that clients need to pay in advance and on time... thanks to my coach, I keep track of all payments.”* He added, *“next year, I will apply for a small loan but first I will discuss it with my mentor.”*

## Positive Planet France - Quantitative data

|  |  |               |
|--|--|---------------|
| <b>Year established</b>  | 1998   |               |
| <b>Legal status</b>  | Part of the Positive Planet network and in France registered as a nonprofit association (association loi 1901)   |               |
| <b>Principle characteristic(s)</b>   | Providing non-financial services (coaching and incidental training) to the poor/excluded from formal financial systems, especially in poorer urban areas |               |
| <b>Main geographical area of operations:</b>   | Urban areas all over France  |               |
|  | <b>2017</b>  | <b>2018</b>   |
| <b>Number of staff (Positive Planet France) engaged in individual coaching at pre-loan/start stage</b>                 | 44   | 53            |
| <b>Number of volunteer coaches working for/with Positive Planet France working at post-loan/start stage as mentors</b> | N.a. <sup>51</sup>   | 37 volunteers |
| <b>Number of clients receiving coaching at pre-loan/start stage - solo self employed</b>                               | 798  | 912           |
| <b>Number of clients receiving coaching at pre-loan/start stage - micro-entrepreneurs</b>                              | 352  | 287           |

The volunteer mentors receive introductory training. After the initial training, mentors are expected to record the actions they have taken and what they have agreed with the entrepreneurs during the coaching sessions. At regular intervals, there are special sessions at Positive Planet France with the volunteer mentors to discuss the evolution of their work and the lessons that can be drawn.

Positive Planet France's client base is mainly composed of solo self-employed (90%) although clients might legally be registered as self-employed or micro-enterprises. Most of its clients were previously depending on some type of social welfare before they started their own business, which is in line with the explicit policy of Positive Planet France to reach this client group.

The basic characteristics of Positive Planet France clients:

- Average age 40 years
- >80% below 51 years
- 23% Migrant (newcomers and longer staying)
- ~75% of participants / clients do not need social welfare benefits after using the services
- 49% % women
- Almost 68% of the businesses supported still operational after three years.

After obtaining a loan from a bank or a specialist institution such as Adie or France Initiative, over 70% of entrepreneurs do not recruit personnel and remain working mainly as solo self-employed. About 16% also have a second source of income (in addition to the income generated by other family members).

The average age of its clients (approx. 40 years) reflects the fact that many clients face difficulties and depend on social welfare (approx. 75% of clients). Its client base is gender balanced, 51% male and 49% female. No explicit distinction is made between migrants and the indigenous population, however, relative to the population, a greater percentage of Positive Planet France clients come from a migrant background.

Positive Planet France can only refer clients to third parties for external finance to finance the start-up activities of their enterprise. However, other sources of financing also frequently become available since it appears that entrepreneurs might have access to informal second or third sources of finance.

Migrant entrepreneurs tend to start with their own funds or informal funds borrowed from relatives or friends. Over 60% of clients who started a business with external finance are still operational after three years.

<sup>51</sup> 2017 was the first year Positive Planet began working with volunteer mentors.

## Financial issues

The clients of Positive Planet France, most of whom are solo self-employed, often face the following financial issues:

- Their household finance and personal finance are intertwined, even when separate bank accounts (personal and business) are in use; and,
- Clients have difficulty to keep track of the way money flows to and from the business.

There are two reasons why clients face such financial health and financial management issues:

- First, the administrative aspects of the business are not well organized; and,
- Second, the financial implications of decisions are often underestimated, such as the effect of increasing monthly fixed costs and the ability to meet those costs regularly.

Since most clients work on their own (without business partners or staff), they don't have many people to turn to in case of problems. Although a minority, there are clients who successfully run their businesses and do not need any further assistance.

Since Positive Planet France began offering post-loan mentoring, more attention has been dedicated to clients facing financial problems. There is a group of clients who have taken the initiative to seek advice from their coaches (with whom they worked in the pre-loan stage). A second, much larger, group is composed of clients fully engaged in their business. They do not liaise with any third party and need to be contacted proactively by Positive Planet France staff or coaches. This requires a proactive attitude by the mentors and staff of Positive Planet.

## Interesting lessons

- i. According to the staff of Positive Planet France, the key to improving the financial health of micro-entrepreneurs lies in separating business from personal finance.
- ii. Positive Planet France makes a distinction between individualized coaching through its paid staff (before the start of business activities to help clients with idea generation and finalising a business plan) and mentoring services, which are provided after the start of business activities by volunteer professionals working with/for Positive Planet France.
- iii. Positive Planet France offers structured training and an induction course to professionals who want to work as volunteer mentors. During the mentoring process, regular feedback and intervention sessions are arranged to improve service delivery.

## Aliança Empreendedora - A different meaning of wealth and financial health



For four years, a 25-year old has been running a family business (baking and selling cakes). His mother and two cousins work with him. Before applying to a support programme of Aliança Empreendedora, he had management problems and difficulty setting the prices for his products. As there was no money left over after covering all of the expenses, he was left without any profit.

His problem was managing the business aspects of the enterprise, *“if you have a good product without good management, publicity or marketing, the business goes badly.”* He used to think that having a good product was enough.

To deal with these issues, he wanted to receive training and

attended a 1,5-year programme at Aliança Empreendedora. Aliança Empreendedora showed him what it was like to have a business, what it was like to be an entrepreneur. He accepted that he was not doing some things well and discovered how to correct his mistakes. He learned that he had to grow and achieve profitability. In particular, he learned a lot about product prices, cash management, operating margin, working with suppliers, and networking. At the end of the training, he realized that the menu of his restaurant did not have appropriate prices. He decided to cut expenses... putting the advice he received into action.

There was a "before" and an "after" in his training. By putting the knowledge he learned into practice, especially items related to the management system, his business started to grow, and today his business is profitable.

Founded in 2005, Aliança Empreendedora is a non-profit organisation in Curitiba Paraná that aims to provide low-income micro-entrepreneurs and productive community groups of all ages and sectors with the support they need to develop their businesses. In particular, Aliança Empreendedora's work consists of supporting companies, social organisations and governments to develop inclusive business models and projects that support low-income micro-entrepreneurs, expand access to knowledge, networks, markets and credit so that they can start or develop a business.

Today, the organisation is present in 27 Brazilian states, with three offices (Curitiba Parana, Sao Paulo and Recife) and 107 allied organisations that apply the Aliança Empreendedora methodology in their regions.

The activities of Aliança Empreendedora are organized around three pillars:

- Entrepreneurial inclusion projects;
- Consulting and implementation of inclusive businesses; and,
- Content production to raise awareness.

### Aliança Empreendedora in numbers

|   |           |
|---|-----------|
| <b>Date of creation</b>   | 2005      |
| <b>Presence in Brazil</b>   | 27 states |
| <b>Staff</b>  | 42        |
| <b>Number of women</b>  | 34        |
| <b>Number of men</b>  | 8         |
| <b>Funders (donors or clients)</b>  | +100      |
| <b>Trained delivery partners</b>  | 134       |
| <b>Supported micro-entrepreneurs</b>  | +86 000   |
| <b>Supported micro-entrepreneurs who improved on their Entrepreneurial Inclusion Index (2016)</b> | 84%       |

## Profile of the entrepreneurs and their financial issues

Aliança Empreendedora targets low-income entrepreneurs from levels “C”, “D” or “E” according to the classification of economic levels established by the Government of Brazil. These three levels respectively include middle-class individuals, individuals in poverty and individuals in extreme poverty.

There is no literacy requirement to attend the trainings. Aliança Empreendedora provides training to people who can manage a business even if they have learning limitations. Aliança Empreendedora tries to reduce the gaps in the educational level (if any) during the trainings by fostering mutual support and by providing additional specific assistance for those who need it.

Although some trainings have a specific target audience (such as young people or immigrants), the programmes are open to any type of individuals, with a stronger focus on African descendants and entrepreneurs from poor neighbourhoods (“favelas”).

Most entrepreneurs applying to an Aliança Empreendedora programme don’t usually have a specific problem to solve; rather, they want to gain a general idea of how to manage their business. For those facing financial difficulties, some of the delays in the payments of suppliers were related more to the current economic situation in Brazil rather than a managerial failure on the part of the micro-entrepreneurs. However, some of the entrepreneurs acknowledged that their companies had several areas for improvement. In particular, the entrepreneurs interviewed mentioned cash flow management, pricing strategy and monitoring of business costs as the main added value of the training sessions.

## An “Effectuation” methodology to support entrepreneurs

Aliança Empreendedora uses a methodology based on andragogy (pedagogy for adults), group dynamics and a theory of “Effectuation.”

- *Andragogy* considers participants’ life experiences and uses problem solving and translation of knowledge into practice as sources of motivation to learn.
- Using concepts from *group dynamics*, Aliança Empreendedora’s trainings are always planned for groups and follow a humanistic approach based on the idea that human beings can find solutions to their problems by themselves and can change their own behaviour.
- Finally, the “*Effectuation*” theory<sup>52</sup> suggests that it is not necessary to have a gift or to be born with an entrepreneurial mind to become an entrepreneur. On the contrary, this theory indicates that anyone can be an entrepreneur by acquiring a new set of skills through practice and experience.

As a result, instead of focusing on the creation of business plans, Aliança Empreendedora’s methodology uses the “Effectuation” theory to stimulate micro-entrepreneurs to develop or improve their own businesses starting with what they already have, which embodies three essential concepts:

1. Who they are (identity, dreams, self-image);
2. What they know (knowledge and experience); and,
3. Who they know (network).

The Effectuation theory was chosen not only because it is simple, but also because it is very efficient when dealing with low-income micro-entrepreneurs, who generally start their businesses with “whatever they have.”

## Services offered

The main programmes offered by Aliança Empreendedora include face-to-face and online trainings, which aim to support low-income populations in the development of entrepreneurial and business management skills. Most programmes last 12 months. In addition, mentorship by a former participant entrepreneur and advisory services by Aliança Empreendedora’s employees are provided.

<sup>52</sup> See (Sarasvathy, 2009)

The main face-to-face programme for individual micro-entrepreneurs is called the “Entrepreneurial Journey.” The *Entrepreneurial Journey* is focused on individual micro-entrepreneurs that already have an operating business (active micro-entrepreneurs) or that want to start their own businesses (beginners).

For beginners, the programme “*Vai que Dá*” consists of a series of meetings during which micro-entrepreneurs evaluate their own characteristics, knowledge, network and the resources they have in order to choose one or more business ideas with which they will work with throughout the training.

For active micro-entrepreneurs, the programme “*Vai ou Racha*” consists of meetings called the “Solution Cycle,” where participants determine, according to a self-evaluation, the main problems, doubts and difficulties to overcome. At the end of the cycle, micro-entrepreneurs are able to assess their business problems and identify solutions by themselves.

Finally, another programme called “*Financial Health for Microentrepreneurs*” is recommended for individual entrepreneurs or productive groups active in any sector who want to get a better grip on their business financially and look for alternative ways to boost the performance of their enterprise. The programme aims to integrate an entrepreneur’s business to their personal aspirations, enabling them to take control over their personal and professional development through simple actions. The programme also intends to promote a different meaning of wealth by identifying and activating non-financial relationships in their social networks. The programme attempts to reduce delinquency due to lack of information and/or consumer/immediate culture, as well as to demystify and offer access to responsible productive-oriented credit. The methodology concretely involves the business of the entrepreneur, enabling learning by doing. This model allows entrepreneurs to analyse their attitudes and rethink them by promoting changes that are necessary (and possible). In addition, the meetings stimulate entrepreneurs to become protagonists in the search for information through various channels, thereby encouraging their autonomy and independence.

*This process results in empowerment and acknowledgement of oneself as an entrepreneur.*

## SAICA Enterprise Development – It's all about self-confidence

SAICA Enterprise Development (SAICA E.D.) aims to grow South Africa's entrepreneurial ecosystem through advancing the sustainable growth of small black businesses, which in turn create employment opportunities. SAICA E.D. is a for-profit organisation created in 2018 by SAICA, the South African Institute of Chartered Accountants, to enhance the value of the SAICA profession by mobilizing its contribution to MSME development through developing financial excellence in entrepreneurs.

SAICA E.D. is a subsidiary of the Hope Factory, a non-profit company also created by SAICA in 2001. While the Hope Factory is offering services to start-ups who are formally registered companies with at least one year of activity, informal enterprises or entrepreneurs who have not started their activity yet are also eligible to receive training, mentoring and coaching services.

### The South African context

The business model of SAICA E.D. is closely linked to the South African context, especially to the B-BBEE (Broad-Based Black Economic Empowerment) governmental programme created in 2005. The main aim of the programme is to empower black people economically and crowd them into the economic ecosystem. To achieve this objective, every South African company with a turnover of 10 million rand (~Euro 625 000) or more has to be audited on the basis of the B-BBEE scorecard. Although there is no legal obligation, as the B-BBEE is part of a code of good practice, a certain level on the scorecard is required to answer public calls for tenders or to get certain licenses. The scorecard now includes five pillars, one of which relates to enterprise and supplier development. As a result, companies can gain points on the scorecard by funding organisations that promote black-owned enterprise and supplier development. This is how SAICA E.D. receives funding to offer services to black entrepreneurs.

### Strengthening linkages in the economic ecosystem

While some companies funding SAICA E.D. are only interested in improving their scorecard, others expect that entrepreneurs who receive support from SAICA E.D. will become actors of their value chain, for instance as suppliers or subcontractors. Consequently, they want the funding provided to SAICA E.D. to be used to benefit entrepreneurs working in their sector or who run a business in a related field. Although this makes SAICA



Since 2013, a 40-year old woman has owned a transport company offering shuttle-services from the airport and trips in luxury or semi-luxury buses. She employs two full-time staff.

In 2018, she applied to the SAICA E.D. Flagship Programme because she was concerned about the survival of her business. She previously had two other businesses that failed, and she was facing various financing issues with her current business: she was not managing cash flow very well. Since some clients were paying late, she was not always able to pay her employees on time. She knew that she had some problems but had little financial knowledge and was not able to run a diagnostic.

Through the programme, she benefited from a finance bootcamp, alongside finance and business coaching and personal development mentoring.

The financial coaching helped her to understand the financial statement, and now she is more confident with formal financial documents. Previously, she was subcontracting a lot of services, but now, she is accumulating assets and saving money. She learned how to plan for the future.

Mentoring and coaching have been the most efficient kind of support, especially for personal development, *“running a business is first and foremost about you rather than the business... it is of course about knowledge but also about self-confidence.”*

E.D. dependent on its funders to select the entrepreneurial profile, it also facilitates access to market opportunities for the entrepreneurs supported, which is a typical obstacle faced by entrepreneurs.

SAICA E.D. also facilitates links with the accountants from SAICA who offer their services to MSMEs through the SAICA E.D. Flagship programme. These accountants have an interest since these MSMEs may become their clients after the programme, and many MSMEs resort to their services afterwards.

SAICA E.D. also deals with the unemployment of graduate accountants who lack the professional experience to find a job by involving them in their programme. These graduate accountants are paid by SAICA thanks to a public sponsorship that SAICA receives for hiring young unemployed people.

The funders of MSMEs are not yet integrated strongly into the programme, but this link is anticipated in the coming years.

## SAICA – selected quantitative data

| Staff members  |     |
|--|-----|
| <b>The Hope Factory + SAICA E.D.</b>   | 35  |
| <i>Number of women</i>   | 26  |
| <i>Number of men</i>   | 9   |
| Clients (SAICA E.D.) and jobs  |     |
| <b>Number of MSMEs supported through SAICA E.D. Flagship Programme</b>                                       | 35  |
| <b>Number of MSMEs supported through SAICA E.D. Customized Enterprise and Supplier Development Programme</b> | 9   |
| <b>Total number of jobs created by 35 businesses</b>   | 27  |
| Impact on financial issues for clients of SAICA E.D. Flagship Programme                                      |     |
| <b>Beneficiaries who improved financial management</b>   | 43% |
| <b>Businesses which experienced growth in turn over</b>  | 92% |
| <b>Businesses which experienced growth in net profit</b>   | 67% |

## Profile of entrepreneurs supported and their financial issues

SAICA E.D. targets black entrepreneurs with a formally registered company active for at least one year. Most target clients are educated, live in urban areas, and 55% are women. All activity sectors are represented, and most beneficiaries were opportunity-driven micro-entrepreneurs with less than 5 employees when they applied to the programme.

Although many clients appear to become growth-oriented micro-entrepreneurs after the programme, i.e. business growth was a common objective to all entrepreneurs interviewed, it was not necessarily the case before the programme. For instance, one entrepreneur defined herself as a “self-employed trying to survive” before the programme.

Most entrepreneurs are aware that they were facing financial issues before joining the programme, and for some of them, it was a key reason to apply for the programme. However, although most entrepreneurs knew that they lacked financial knowledge, they were not able to precisely identify the financial issues they were facing or the root of the problems. As a result, they needed support in the diagnostic phase.

From the point of view of SAICA E.D. trainers, coaches and mentors, the main financial issues encountered by the entrepreneurs are:

- Cash-flow management/cash collection;
- Separation of business and personal finances; and,
- Pricing/costing products and services.

Secondary issues include:

- Compliance;
- Access to markets; and,
- Access to funding.



## Services offered

The SAICA E.D. Flagship programme for entrepreneurs lasts one year, however, entrepreneurs can attend for two years if required. The programme attempts to foster Financial Excellence, enabling entrepreneurs to understand a financial statement without being dependent on their accountant and making them investment ready.

The programme includes:

- *Finance Bootcamp*: a one-week collective training to deliver basic finance knowledge;
- *Finance Coaching*: one-to-one

- financial coaching for entrepreneurs offered by an accountant from SAICA, who can be a volunteer or be paid on a cost-recovery basis. The meetings take place once a month and last two hours. The objectives are to improve entrepreneurs' skills in financial modelling and strategy, finance management, growth and expansion, planning for volatility, managing finances separately, etc.;
- *Accounting and back office support* offered by technical accountants, especially unemployed graduate accountants;
- *Support to facilitate access to funding*: workshops and events that gather investment ready MSMEs and funders interested in MSMEs;
- *Business mentorship*; and,
- *Personal Development mentorship*.

Although SAICA E.D. knows that focusing on financial excellence is not enough for entrepreneurs, they have decided to focus on what they do best in order to distinguish themselves from the large number of other organisations supporting entrepreneurs. Indeed, competition in the sector is high given the specific South African context. As a result, rather than offering everything, SAICA E.D. tries to create partnerships with other organisations to make sure beneficiaries receive appropriate services.

Finally, this programme has only been in place for one year and is thus still in the pilot phase: SAICA E.D. will refine and improve it over the coming years, to make it the best it can be.

## Lessons learned

- Most entrepreneurs know that they face financial issues but are not able to identify them and need support for an initial diagnosis;
- More than group classes or tools, entrepreneurs need individual coaching and mentoring in order to apply acquired financial knowledge to their specific situation and gain self-confidence, motivation and ambition; and,
- Supporting micro-entrepreneurs by involving various actors in the economic ecosystem enables all stakeholders to access new business opportunities and stimulates the whole ecosystem.