

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

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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.

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.