

International Committee for the Development of the People (CISP)
Somalia Programme

Income generating activities and support to small enterprises



Business Information Service Centre (BISC) Training Manual

FOREWORD

Starting and owning successful business can be many things to small scale entrepreneurs. For some it is a matter of life and death and it can ensure the economic health of themselves and their family. It can be their source of creativity, giving them an outlet for all of those ideas they have. It can be their security, the comfort that comes from knowing that there is no boss who can fire them. It can even be their pride and joy, an accomplishment that they point to with satisfaction, knowing that they alone created it out of nothing.

But more than anything else, owning a business and being an entrepreneur is about freedom. The money that comes from a successful business is great and being energized and enthused about one's day is special. Being free however is priceless. Being free from hunger and want, dependence and employment is really priceless. If done right, one is free to start whatever sort of business one wants. One is free to start it where one wants, and free to work the hours he chooses. He is free to make as much money as he is capable of, without yearly limits.

But you will notice that all this only comes about if the entrepreneur does it right. An entrepreneur has no guarantees. Success or failure is up to the entrepreneur. So, how does he do it right?

This manual is dedicated to helping small scale entrepreneurs succeed. Unlike other entrepreneurship and income generating activities training in the market, this manual treats all entrepreneurs as potentially equal regardless of their station in life at the commencement of their business. Research has shown that entrepreneurs have similar characteristics but may be nurtured in different circumstances. This manual is designed to provide the trainees with skills they need to start their own business and grow it without burdening them with complex models. What sets this manual apart from others is that it offers not only the main areas of the curriculum required by all such manuals but it gives the potential entrepreneurs information that the trainee can use.

The manual is designed around the elements that are required to start a business; Market, Capital, Materials, People's skills and Products. The starting point of a business is an idea. An idea will result from identifying a need and turning it into an opportunity. Once the opportunity is deemed viable all the elements can be combined to create and run a business. That is the gist of this manual.

How to use this manual

This training manual is designed for those beginning their business life and those who are already running small businesses and wish to improve their business skills.

It is arranged into 5 individual training modules. Each of these is broken into separate learning units so that a trainer can adapt the material to the specific needs of trainees. In each module, the overall subject is introduced, learning objectives are stated, individual units are studied theoretically and through exercises and finally trainees' understanding is tested.

The trainer can adapt the length of individual study sessions according to circumstances, particularly the needs and abilities of the trainees. The trainer may use more than one training unit in any particular study session. The trainer can also choose to vary the order in which modules and training units are delivered according to the interest of trainees.

Each training unit is presented firstly by defining the unit learning objectives. The idea of the unit is then presented in a step-by-step way, with the trainer being encouraged to work by drawing out trainees' current experience. Where appropriate, worked examples are then offered before trainees are invited to demonstrate their understanding of the unit through an exercise. At this point, the trainer will need to judge how well trainees have understood the unit; if necessary, the trainer should ask the trainees to do similar exercises created by the trainer until satisfied that the trainees have understood the unit fully.

Finally, the manual provides detailed course materials are provided for the trainer to generate handouts and extra learning materials.

At the end of each module is a training unit to be used for review and testing of the overall module.

The overall loose-leaf design of the manual is designed to enable trainers to photocopy exercises, tests and handouts easily. Additionally, it allows trainers to add any material that they themselves develop as part of delivering the training.

Once all the modules are covered, trainees should be able to:

Assess and strengthen their entrepreneurial skills

- ❑ Determine how businesses work and know what factors contribute to creating a successful business
- ❑ Know how to cost, price, market and sell their products
- ❑ Keep good records and use them to manage their businesses
- ❑ Design, write and use a business plan
- ❑ Know something of the regulatory environment in which they work

Guidelines for the Course Trainer

- Read the curriculum and prepare for the session beforehand.
- Prepare all materials and aids before starting the session. Searching for materials during the training session may reduce its effectiveness.
- Use all training materials in the right sequence. Improper use of the materials may diminish learning.
- Begin the session with some informal discussion about the participants' lives. This will allow the learner to think that you are one of them.
- Be friendly, confident, easy and cheerful at all times.
- Keep the session in good humor. Consciously try to create a pleasant learning environment.
- Stories are used in different sessions of this course. Read the stories slowly and artfully so that the participants feel excited while you are reading and can easily understand them.
- Don't cite examples related to any participant, as this may cause embarrassment.
- Avoid favouritism. Pay equal attention to all learners. Your function is to link the ideas of the participants.
- Be careful to ensure that everyone participates. All learners do not have the same ability and speed of learning. Some are more comfortable than others speaking up in a large group.
- Don't get excited if participants cannot easily answer a question. In such a situation, encourage them by complimenting them on what they know and not focusing on what they do not know.
- Follow the time schedule. But also respect learners' opinions, especially if they need more time.
- Believe in the creativity and worth of the participants. Let the learners speak more, practice more, and try more. Remember that the learner is the subject of all your efforts.

A training curriculum is a guide that helps the facilitator identify an easy way of transferring certain knowledge, skills and attitudes to learners in order to achieve the predetermined objectives of the course. There is no need to follow the curriculum exactly. Make changes according to your circumstances and the proficiency of the participants.

Table of Contents

Foreword.....	ii
TABLE CONTENTS.....	v
SECTION 1: BUSINESS MANAGEMENT TRAINING.....	1
MODULE ONE- SMALL BUSINESS MANAGEMENT.....	2
1.1 Learning Objectives.....	2
1.2 Learning Activities.....	2
1.3 Management.....	2
1.3.1 Planning.....	2
1.3.2 Organizing.....	6
1.3.3 Leadership.....	7
1.3.4 Controlling	7
MODULE TWO: MARKETING YOUR BUSINESS.....	9
2.1 Learning Objectives.....	9
2.2 Learning Activities.....	9
2.3 Marketing your business.....	9
2.4 Where is the market for your products?	11
2.5 Marketing on a Budget.....	12
2.6 Advertising.....	14
2.6.1 Advertising Alternatives.....	14
2.6.2 How to make a good advert.....	15
2.6.3 Essential information in any advert.....	16
2.6.4 Possible distribution channels	16
2.7 Principles of Marketing.....	18
2.7.1 Market Research.....	18
2.7.2 The marketing plan.....	19
2.7.3 The Marketing mix.....	20
2.7.4 Market Positioning.....	21
2.7.5 Research the Market.....	22
MODULE THREE: CARING FOR CUSTOMERS.....	25
3.1 Learning Objectives	25
3.2 Learning Activities	25
3.3 Caring for Customers.....	25
3.3.1 Why do customers leave?	26
3.3.2 What Is Great Customer Service?	27
3.3.3 Great Customer Service.....	27
MODULE FOUR: BOOKKEEPING AND BUSINESS RECORDS.....	28

4.1	Learning Objectives	28
4.2	Learning Activities	28
4.3	Basic Business	29
4.3.1	Profit Margin.....	29
4.3.2	Sales Price.....	29
4.3.3	Costs.....	30
4.3.4	Volume of Sales.....	30
4.3.5	Production Capacity.....	30
4.3.6	Making It Pay.....	30
4.3.7	New Products & Unmet / Under-Met Needs.....	31
4.3.8	Under-met need.....	31
4.3.9	The Value Chain: Capturing & Adding Value.....	31
4.3.10	Economies of Scale & the Division of Labour.....	32
4.4	Bookkeeping and Business Records.....	32
4.4.1	Record Keeping.....	35
4.4.2	Financial Management.....	35
4.4.3	What you need.....	35
4.4.4	Simple rules for small business bookkeeping.....	36
4.5	Drawings from the Business.....	35
	MODULE FIVE: RECRUITING PEOPLE	38
5.1	Learning Objectives	38
5.2	Learning Activities	38
5.3	Recruiting Staff	38
5.3.1	Recruiting staff	38
5.3.2	Business and family	39
	SECTION 2: BUSINESS IDEA AND BUSINESS PLAN DEVELOPMENT TRAINING.....	41
	MODULE ONE: GENERATING BUSINESS IDEAS.....	42
1.1	Learning Objectives	42
1.2	Learning Activities	42
1.3	What is a Business?	44
1.3.1	Forms of Business organizations.....	46
1.3.2	Business owned by a Single Person – Sole proprietorship.....	47
1.3.3	Partnership or Group Business.....	47
1.3.4	Company.....	48
1.3.5	Starting a Business.....	48
1.3.6	Business Idea.....	49
1.3.7	Sources of Business Ideas.....	52

1.3.8	Analyzing Your Start-Up Costs.....	53
1.3.9	Conducting Market Research.....	53
1.3.10	Overcoming Fear	53
1.4	Qualities and Skills for Entrepreneurial Success	54
1.4.1.	Entrepreneurial Qualities	55
MODULE 2: IDENTIFYING BUSINESS OPPORTUNITIES		58
2.1	Learning Objectives.	58
2.2	Learning Activities	58
2.3	Identifying Business Opportunities	58
2.3.1	Invent a New Product or Service	58
2.3.2	Assemble a Product	59
2.3.3	Become a Supplier.....	61
2.3.4	Find Uses for Waste Materials.....	62
2.3.5	Start a Co-operative.....	63
2.3.6	Market Someone Else’s Product.....	64
2.3.7	Become an Agent.....	65
2.3.8.	Become a Distributor.....	66
2.3.9	Become an Import Distributor or Agent	66
2.3.10	Other Opportunities	68
MODULE THREE: BUSINESS PLANNING.....		69
3.1	Learning Activities	69
3.2	Learning Objectives	66
3.3	Business Planning	69
3.3.1	Purpose of Planning	69
3.3.2	Factors to be considered in making a good business plan	70
3.3.3	Factors to be considered in Business Planning	70
3.4	Business Plans.....	70
3.4.1	How a business plan can help in starting a business	70
3.5	Business Plan Outline.....	73
3.5.1	Cover Page.....	73
3.5.2	Table of Contents.....	74
3.5.3	Executive Summary.....	74
3.5.4	Background Information.....	74
3.5.5	Description of Products or Services.....	75
3.5.6	The Market Plan.....	75
3.5.7	Management Structure and Organization.....	76
3.5.8	Business Operations.....	77

3.5.9	Financial Plan.....	77
3.5.10	Conclusion.....	78
3.6	Tips for Writing a Good Business Plan.....	78
	MODULE FOUR: FINANCING THE BUSINESS.....	79
4.1	Learning Objectives	79
4.2	Learning Activities	79
4.3	Financing the Business	79
4.4	Getting Business Capital.....	81
4.5	Starting a business with little or no capital.....	82
	MODULE FIVE: BUSINESS LOCATION.....	85
5.1	Learning Objectives.....	85
5.2	Learning Activities.....	85
5.3	Business Location.....	85
5.3.1	Check Population Areas.....	85
5.3.2	Look for Your Competitors	86
5.3.3	Do You Need advice.....	87
5.3.4	Knowing What to Ask.....	87
	MODULE SIX: GRANT APPLICATION.....	88
6.1	Learning Objectives.....	88
6.2	Learning Activities.....	88
6.3	Grant Application	88
6.1.1	Build partners - not donors!.....	89
6.1.1.1	What's the problem we are addressing?.....	89
6.1.1.2	How are we proposing to address the problem?.....	89
6.1.1.3	What do you need in order to try to solve the problem?.....	90
6.4	What are Grants?.....	90
6.5	Grant Application Formats.....	91
6.6	Funders Considerations.....	91
6.6.1	Location.....	91
6.6.2	Type of organization.....	91
6.6.3	Size.....	91
6.6.4	Project Purpose.....	91
6.7	Match Funding.....	91
6.8	Meeting Funders' Objectives.....	92
6.9	Preparing to Make an Application.....	92
6.10	Making a Successful Application.....	93
6.11	Presentation.....	96

6.12	Summary.....	98
SECTION 3: LEADERSHIP AND GROUP MANAGEMENT TRAINING.....		99
MODULE ONE: LEADERSHIP		100
1.1	Learning Objectives.....	100
1.2	Learning Activities.....	100
1.3	Who is a leader?	100
1.4	Qualities of the good leader.....	101
1.5	Styles of Leadership.....	103
	1.5.1 Authoritarian (autocratic).....	103
	1.5.2 Participative (democratic)	103
	1.5.3 Delegative (free reign)	103
1.6	Principles of Leadership.....	103
MODULE TWO: GROUP MANAGEMENT.....		105
2.1	Learning Objectives.....	105
2.2	Learning Activities.....	105
2.3	Group Formation.....	105
2.4	Participation.....	105
2.5	Communication.....	106
	2.5.1 Helpful hints for effective communication.....	106
2.6	Problem solving.....	107
2.7	Leadership.....	107
2.8	Development of Groups.....	107
2.9	Stages.....	107
	2.9.1 First Stage: Forming.....	108
	2.9.2 Second Stage: Storming.....	108
	2.9.3 Third Stage: Norming.....	108
	2.9.4 Fourth Stage: Performing.....	108
	2.9.5 Fifth Stage: Adjourning.....	108
2.10	Facilitating a Group.....	109
2.11	Group Diagnosis.....	109
SECTION 4: SAVINGS AND REVOLVING FUND TRAINING.....		107
MODULE ONE: SAVINGS AND BORROWING.....		111
1.1	Learning Objectives.....	111
1.2	Learning Activities.....	111
1.3	What is saving?.....	111
	1.3.1 Why people save.....	111
	1.3.2 How people save.....	112

1.3.3	Risks of Informal Savings.....	113
1.3.4	What about borrowing?.....	113
1.3.5	How can the poor save more?.....	114
1.4	Getting Started.....	115
1.5	Group Formation.....	116
1.6	Keys to success.....	119
1.7	Saving as a group.....	120
MODULE TWO: ROTATING SAVINGS AND CREDIT ASSOCIATION (ROSCA)		
(MERRY-GO-ROUND SAVINGS).....		122
2.1	Learning Objectives.....	122
2.2	Learning Activities.....	122
2.3	Rotating Savings and Credit Association (ROSCA) (Merry-go-round Savings).....	122
2.3.1	How a ROSCA works.....	122
2.3.2	Lump sum distribution methods.....	123
2.3.3	Record keeping.....	124
2.3.4	Auction ROSCA.....	124
MODULE THREE: ACCUMULATIVE SAVINGS AND CREDIT ASSOCIATION (ASCA).....		126
3.1	Learning Objectives.....	126
3.2	Learning Activities.....	126
3.3	Accumulative Savings and Credit Association (ASCA).....	126
3.3.1	How an ASCA works.....	126
3.4	Some rules on lending.....	128
3.5	Record keeping.....	129
MODULE FOUR: SAVINGS AND CREDIT COOPERATIVE UNIONS.....		131
4.1	Learning Objectives.....	131
4.2	Learning Activities.....	131
4.3	Savings and Credit Cooperative Unions.....	131
4.3.1	How a credit union works.....	131
4.3.2	What it's used for.....	132
4.4	Record keeping.....	133
REFERENCE		135

SECTION 1: BUSINESS MANAGEMENT TRAINING

MODULE ONE: SMALL BUSINESS MANAGEMENT

1.1 Learning Objectives:

By the end of this session trainees are able to:

1. Define what management is.
2. Identify the pillars of Management
3. Apply the Management concepts to their own business
4. Appreciate SWOT analysis in its basic form

1.2 Learning Activities:

Ask the trainees the following questions:

1. What do you understand by Management?
2. What is the function of a manager?
3. Is management the same thing as leadership?
4. Identify situations in which management skills are required
5. In groups of four, discuss the role of a manager and report to the class in five minutes what you have discussed.

1.3 Management

The word “management” designates all activities carried out in the course of running a business venture. Management is supported by four basic pillars without which success would be difficult to achieve.

These pillars include

- planning,
- organizing,
- leading
- Controlling.

1.3.1 Planning

Planning can be defined as “the thinking that takes place before the action”. This is the anticipation of future business environmental trends, predetermining future activities and resource use to meet the challenges and opportunities therein.

Planning happens in two phases

Pre-project planning

- involves development of the business idea
- gives a guide to future development and expansion
- Helps identify any potential bottlenecks in a business process and improve productivity.

Day-to-day planning

Involves planning on a daily basis to ensure production takes place correctly.

The planning process involves

- Determining the objectives to be attained in the future. This calls for complex processes of perception, anticipation and forecasting future circumstances and requirements.
- Assessing the present limitations to the achievements of the set goals and determining how these could be overcome. At this point the entrepreneur should do a SWOT analysis and weigh the possible options

i. Strengths

Strong points of the proposed Business

ii. Weaknesses

Weak areas that could be encountered in the project

iii. Opportunities

Environmental functions that can be manipulated to future advantage for the project.

iv. Threats

Environmental conditions that can cause danger to the project in the future.

- Designing actions and programs for progress towards the set goals.
- Determining future problems likely to occur, the techniques on how to handle them and alternative courses of action. This involves the ability to anticipate unforeseen circumstances.

It has to be noted that planning in itself:

1. Facilitates the accomplishment of objectives. The orderliness of planned activities, minimize unnecessary waste of time because everyone involved knows what to do and all other resources are in their proper places.
2. Provides the basis for all other managerial functions (organization and control) as planning defines what is to be done, who should do what, and what resources are required. Organization arranges and relates these resources so as to meet the set objectives.
3. Provides the management with the best possible foresight. It provides the instrument for monitoring and control.
4. Provides the basis for the efficient utilization of resources, avoiding waste of time, material and human resources.

These are some of the basic questions often asked during a planning process:

- What is our problem or need? Who are we? Where are we? What are our norms and values in business?
- What is our goal?
- Which way do we all accept to take? Is it feasible? Have we got the resources we need?
- What are the different ways to reach our goal, what are the advantages and disadvantages of each way?
- What tasks must we do to move this way towards our goal?
- Who will be responsible for the tasks? Who will do what, when and where?
- When will we evaluate our progress?

- Evaluate the project (self performance, products). Evaluation needs to be both formative and summative i.e. Before the start of the project and after completion to check on any deviations from set targets.

- Monitoring should be continuous to be able to correct any deviations in the process.
- Once all these questions have been discussed in a proposal then the plan can be executed.

Planning a Business Project

A project is any activity in which productive resources (human, capital and natural) are used in expectation of returns. A project lends itself to planning financial and implementation as a unit, (Gittinger, 1994). The project cycle has five stages:

- Identification
- Formulation
- Design for appraisal
- Appraisal and selection and
- Implementation

Project planning is the process of organizing, controlling and at the end of it leading the activities of your venture. The venture is the project that one embarks on. Planning is an important component in any business as it entails correct recording of all activities that proceed in the business. A well planned business with good communication is a good motivator to workmates within the project cycle.

Some common characteristics of a project are

- A project is finite: it has a specific starting point (where a project activity is to begin) and a defined end (when the activity stops because the tasks have been accomplished as defined objectives).
- A project is intended to achieve specific objectives.
- A project is homogeneous, all the activities are part and parcel of the process towards accomplishment of set objectives, and therefore they are complimentary and interdependent.
- A project is measurable in costs and returns.
- A project has a boundary
- A project has a geographic location that is, it takes place at a specific geographic position, within certain geographic limits.

A project is the work done for one to survive and the survival of others, e.g. poultry, horticulture, etc.

- project is a programme carried out to produce money e.g. poultry, dairy, gardening
- projects should be run by honest people
- a project should be selected by the owner
- rumours and lies disrupt projects

A project is a plan of the things one wants to do.

- planning on how to carryout the project plan
- objectives should be set
- time and season of doing the project should be defined
- Expected setbacks should be outlined and advantages of the venture highlighted.
- Inputs required should be spelt out.
- There should be a physical location where the project will be carried out.

A project is any activity in which productive resources; human, capital, natural, are used in expectation of returns and lends itself to planning, financing and implementation. A project is an act based on the use of money, land and labour looking forward to making money.

A project is a programme that can be done by a single person or a group. It is a programme that gives money which can be used to keep the family.

A project is a job planned by yourself or a group. It can be successful if well managed and it can fail if mismanaged. It can be short, medium or long term depending on the type of the project.

1.3.2 Organizing

Organizing involves the assignment of tasks, authority and allocation of resources across the organization. This entails the design of systems to ensure effective coordination of resources (human, capital and natural) across the organizational divide.

Now that you have a plan, you have to make it happen. Is everything ready ahead of your implementation so that the right stuff will be channelled to the proper position at the right time? Are your subordinates (family) prepared to do their part of the plan? Is the down

stream organization (your customer) ready for what your institution will deliver and will the outputs being on time?

1.3.3 Leadership

Once plans are in place and resources have been organized, then the project will be ready for implementation. Implementation is not ad-hoc. It should have a leader who defines and controls the processes.

Leadership is therefore the ability to initiate action, guide directly and supervise others in pursuit of a common goal.

Leadership comes in different types and can be viewed as

- Centralized or decentralized (depending on the organizational structure and size).
- Broad or focused (dependent on the number of work areas within an institution).
- Decision-oriented or moral-centered (work or people focused)
- Intrinsic or derived from some authority.

It is however important to clearly distinguish between management and leadership.

There is a reciprocal relationship between leadership and management, implying that “an effective manager should possess leadership skills whilst an effective leader should demonstrate management skills”. The information box outlines some of the differences between management and leadership.

It has to be appreciated that a leader's mood has some effects on the group he/ she leads. The leader creates situations and events that lead to positive or negative emotional responses. It should be over-emphasized that leadership without empathy and effective communication yields no results.

Communication is the best motivator for people at the workplace (or even at household level).

A manager with good leadership skills should be communicative and be able to motivate family and employees so that they have a sense of belonging (sense of ownership). This leads to a shared vision of the future of the business venture.

Where communication is weak, and there are no strong motivating points within an institution the resultant scenario can be a failure.

1.3.4 Controlling

Coordination and control are linked activities which are concerned with monitoring the set tasks and return them to the correct path if any deviation occurs.

Coordination is the act of coordinating, making different people or things work together for a goal or effect.

Control is the setting of standards, measuring actual performance and taking corrective action. Control comprises three main functions.

- Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring.
- Control is checking correct performance against pre-determined standards contained in the plans, with a view to ensure adequate progress and satisfactory performance.
- Controlling is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are accomplished.

Characteristics of Control

- Control is a continuous process
- Control is a management process
- Control is embedded in each level of organizational hierarchy
- Control is forward looking
- Control is linked with planning
- Controlling is a tool for achieving organizational activities.

Control is affected through information flow showing the need and importance of communication. Information flow whether verbal or written is a form of communication from one party to the other.

MODULE TWO: MARKETING YOUR BUSINESS

2.1 Learning Objectives

By the end of this lesson the trainees should be able to:

- Understand the importance of marketing to a business
- Appreciate the various approaches to marketing products and services
- Identify various ways of collecting information about products marketability
- Understand the importance of advertising to a business and identify the various alternatives of advertising a business
- Understand how to create a good advert
- Appreciate the various alternative channels of distribution

2.2 Learning Activities

Ask the trainees to divide themselves into groups of 3 or 4 people. Each group should choose a product.

They should discuss the chosen product or service under the following headings:

- **People:** What are the characteristics of the people the trainees wish to sell the product to: Age, gender, education, income, and culture?
- **Product:** Why is the chosen product different from similar products in the market?
- **Place:** Which locality will be the most suitable place for selling such a product? Why did you choose that locality?
- **Price:** What would be the suitable price for the product? Can the price be raised if the quality is improved or there is added advantage of delivery? Can it be lowered to increase volume of sales?
- **Promotion:** What time will the product be on sale? What methods would you employ to sell the product? Would you give discounts? How would you attract and retain your customers.

2.3 Marketing your business

For you to make money from business you must be able to sell goods or provide services. Goods and services are bought by customers. Customers do not just dream about what you are selling, they need to get informed about

them by someone. They also have to get those goods in a place they can access. For example, if you start the business of making beautiful dresses for ladies, all the ladies with the area must know about it before they buy.

Customers do not appear out of nowhere. They must hear of your business before they will ever call you, and that is the purpose of marketing.

What is marketing? Essentially, it is anything you do to promote your business, get your name remembered, and generate sales. It encompasses promotions, giveaways, publicity, customer relations, public speaking, signs—anything that keeps your business in the public eye and brings customers in the door.

Make a list or just name of ten sources of business or ten ways you can attract customers. If you are going to make your business a success, you will need to be creative and come up with many different ways to generate sales.

There are many different methods that you can use to promote your business:

1. Signs. A big, bold sign in the right location can be a very effective way to bring in new business. Retail businesses swear by good signage. A number of different factors need to be considered when choosing a sign:

- From what distance do you want the sign to be seen?
- Do you want it to be seen at night?
- What kind of weather will it be exposed to?
- How much can you afford to spend? Shop around.
- Can you legally put up the sign you desire? Check the local requirements in your area. If your proposed sign is illegal, you will first need to get a clearance from the authority.

2. Testimonials.

Satisfied customers can be your best sales tools as they lend credibility to your business.

3. Excellence

It costs five times more to create a new client than to retain an existing one. A satisfied customer will spread the good word about your business to at least one other person, while an unhappy customer will likely complain to many more than that. Doing great work and offering superior customer service can go a long way toward creating continuing revenue.

4. Networking

Networking begins with your friends and family. Make sure that they know how much you value new business and appreciate referrals. Networking is particularly critical in local service businesses. For certain types of specialized professional consulting fields, such as salon and beauty shops or tailors, networking can make a huge difference.

5. Advertising on Radio: Advertising on radio is a simple way of making a lot of people know about your product.

2.4 Where is the market for your product?

The following steps can be used to check whether there is likely to be a market for your product:

Step 1. Observe the various activities within your community

Where do the people come together or congregate? Check for Hospitals, Schools, Public Offices, Religious institutions, industries, and local produce markets. What do people need in those areas? For example non-prescription medicine, school uniforms, refreshments and food etc.

Step 2. What are the needs of the people in your community?

Ask the people in your community what products or services they are interested in.

Step 3. Find out what activities are allowed in those areas

- What is and is not allowed in the business
- Where and when not to make business

Step 4: Collect information about similar businesses

- How many similar businesses are in your locality?
- From where do they sell? Home? Open air market? Shops? Stalls? Vending?
- What are their prices?
- Do they sell all the time or do they sell on season's basis?
- What equipment do they use?
- How many businesses failed and why did they fail?

Step 5: Find out about the buyers of your product

- Estimate the number of people who will buy from you
- Who are your customers? Age? Income? Other?
- Why will they buy from you and not the next person?
- Where do they usually buy?

Step 6: Find out about the source of your product; where will you get it from?

- Where will you buy your stock?
- Is it only one place or more than one place?
- How far is their location from your business? Is transport readily available? Will they deliver the goods to your place of business?
- What are the prices? What are their terms of payments?
- Are there alternative sources of the stock if the existing ones are not good?

Step 7: What are some of the things that can harm your business?

- Culture
- Competition
- Insecurity
- Suppliers
- Climate
- Local by-laws
- Weather and Climate
- Environment
- Others

Step 8: What are the skills needed to run this business?

- Do you have the knowledge and skills to run this type of business?
- Do you have knowledge of the product you want to sell?
- Where will you sell? (Home, Open Air Market, Stalls, Shop, Vending, Pushcarts)

2.5 Marketing on a Budget

Marketing is a strategy to get your name known by the public so that when they need a product or service, they think of your business. The great thing

about marketing is that there are plenty of cheap ways of getting business without spending a lot of money. The following cost-effective ideas can definitely increase sales and they need not cost a fortune. The key is to choose the methods that are appropriate for your business, marketplace, and style.

- **Gift and Samples.** Gift allow present customers to introduce you to new customers. Even better: Because you get paid up front, they help your cash flow. Giveaways. A free gift reminds your customer of you and your service. Just about anything can be engraved, imprinted, silk-screened, or embroidered with your company name and phone number—pens, key chains, coffee mugs, refrigerator magnets, caps, paperweights, etc. Giving potential customers a free sample is an excellent way to attract attention and make a positive impression. And, if your product is too expensive to give away outright, offer a free trial to qualified customers.
- **Brochures.** A good brochure is a great selling tool that allows you to provide plenty of information about your business quickly and inexpensively.
- **Packaging.** The plastic bags that customers leave your store with can be great, cost-effective signs. With your name, address, phone number, and logo on the side, bags can be a valuable marketing tool.
- **Speeches.** Depending on your topic and your market, you might want to speak before business meetings, Barazas, parent groups, senior citizens, or other local organizations.
- **Word-of-mouth advertising.** The best source of repeat business is through happy customers. Make sure that your current customers know how valuable they are to you. Give something for free to a loyal customer as a way to say thank you.
- **Donations.** Donating your product or service to a charitable cause often results in positive exposure.
- **Press releases.** A well-written press release sent to the right media outlet can generate a free story about you and your business that can be used for sales and be reproduced and used again and again to create credibility.
- **Trade shows.** Specialized trade shows allow small business owners to promote, sell, network, and check out the competition in one location.

Trade shows are great for the small business entrepreneur because they pack a lot of potential into a short time and need not cost a lot. To be successful at a trade show, you need a booth that attracts some attention because there are so many booths. That means you need to be creative and put some time in planning your booth before the show.

2.6 Advertising

Not advertising is like being alone in a dark room—you know you are there, but no one else does. The whole idea of almost all advertising is to turn on the light and let people know you are there. You have to get people to come in the store. Advertising will do that. If you have very high quality goods or can provide excellent services and you the only one who knows that you have these products, then it will do you no good. If you run a private school that is integrated has excellent classes, good teachers and a library and parents in the town do not know that, then it will be of no use. Advertising is a method of making your customers aware of what you have, where you are and what kind of service they expect from you. Sometimes it is a way of attracting customers to new business, others it is a way of reminding of an existing business or product.

2.6.1 Advertising Alternatives

Advertising in the newspaper is a great, inexpensive way to reach a big audience. Newspaper ads can be used to promote a sale, grab attention, or offer specials on your product or service. The downside is that newspapers carry lots of ads, so yours can get lost.

Magazine ads cost more than those in the paper, but magazines stay in the house longer than a newspaper, so the price may be worth it. Magazines are especially good for promoting your image and building your brand. Trade magazines are useful for business-to-business advertising. Magazines come out periodically and are usually targeting a specific audience..

Radio can be an inexpensive, high-impact way to reach a specific market. Repetition is essential with radio advertising as studies show that it often takes someone hearing your ad six times before it sinks in. One needs to understand radio station's differences and their target audience as well as their coverage before one places an advert. Radio advertising works and helps in informing potential clients about your products and services.

Radio can be a very cost-effective way to advertise your business; it is fairly easy to target your market by advertising on the appropriate show. As there are two stations in most areas catering to dozens of different tastes, your job is to find the station and the show that best attracts your desired demographic. Once you do that, call the station and make an appointment with a sales representative. He or she will be glad to help you write an ad,

and will even produce it for you for little or no cost. The trick with radio advertising is to be clever and grab the listener's attention. Humour, music, and sound effects can all be used to great effect on the radio. Notice which ads grab your attention and model your own ad after that. There is no need to reinvent the wheel. The important thing to remember with radio ads is that repetition is the key. Repetition is the key. Repetition is the key. Say it enough, and your audience will remember your ad.

Television advertising is very effective, but is correspondingly expensive. Television advertising works, but there are no clear television station targeting these region and it may not be cost effective for a small businessperson to place an ad in any of the main television stations.

Internet advertising is not expensive, but not all that effective in many cases either.

Outdoor advertising or billboards offers high visibility, and the cost per viewer is relatively low. Billboards are like signs and are visible to many people.

2.6.2 How to make a good advert

You need to create an ad that pulls customers if you choose to advertise. Interestingly, all ads, no matter the media, are fairly similar in structure. They all must grab attention and make an offer. One simple way to create a successful ad for radio is to follow the following steps.

1. Attention. The first thing you have to do is grab their attention. Once you do that, you can get a potential customer interested in what you are selling. If you don't get their attention, they will not receive your message among the distractions of the headline news, sports stories, and other more distinctive ads. You must first hit your prospect between the eyes with a powerful headline. A good headline will grab a customer by the throat, show them the benefit of hearing more, and do so in two or three seconds. When writing your ad, keep in mind the benefits that are most likely to get attention include saving money, saving time, making money, and better health.

2. Interest and Desire. After you have the prospect's attention, you have to make your pitch in the body of the ad. You do that by making the customer a compelling offer and describing as many benefits as possible in simple and interesting terms. Because the product or service must fill a market need to be successful, you must explain how it does that. Your ad must be well written so it clearly explains the benefits to customers and keeps their attention.

3. Action. Finally, you must ask for the order. Give reasons for the customer to buy now, and make it easy for him or her to do so. This will involve a coupon for mail orders, a toll-free order line, an e-mail address, an online order form, a fax order line, or any other means to make it easy and simple to order. Be sure to take the fear out of the purchase as much as possible by giving guarantees, offering testimonials, and showing how the customer is going to miss out if he doesn't order NOW!

2.6.3 Essential information in any advert:

- What is the business
- What are products and services on sale
- The place of the business
- Why should the buyers visit the business
- If there special prices or sale
- Contact phone number
- Times the business is open.

2.6.4 Possible distribution channels

a) Direct to Consumers

Can maintain the full retailing price without paying margins to wholesalers and retailers.

Self retailing aids active promotion.

Some types of product may not require packaging

Transport problems may be limited

Direct communication from customers getting constructive criticism.

BUT

- Time consuming (compromises on processing and focuses on product movement)
- Business expansion may be limited as distribution is limited to a few locations.
- Transport logistics may be costly especially where little product is concerned.
- Compromise on pricing if produce is continuously not bought.

b) Selling to Retailers

- large volumes can be moved as more outlets can be reached

- Increased devotion to processing thus improving on quality.

BUT

- compromise on the selling price as some proceeds go to the retailer
- Product needs to be transported and stocks replenished when they run out may be likely to be bought at a fixed price rather than negotiated.

c) Selling to wholesalers

Wholesalers are visited by a large number of retailers hence are able to give your products a much greater exposure and sell them over a wider area than you could do on your own

BUT

wholesalers' minimum quantity requirements are huge and may be difficult for small scale producers to fulfill

Prices offered are too low because they need to take a margin to make profit.

d) Selling to government institutions, International Organizations and the hospitality industry

- Can be supplied under fixed agreements including quantity.
- No need to worry about promotion
-

BUT

Government institutions are normally too slow in settling their bills.

e) Selling to visiting traders

- No worries about transport and packaging as they purchase from the farm gate
- Minimizes the trader's workload in time spent selling produce.

BUT

- traders may have insufficient funds
- too many negotiations resulting in lower prices

2.7 Principles of Marketing

Marketing is the management process that identifies, anticipates and satisfies customer requirements profitably. This satisfaction is achieved through provision of the products the market requires

- Setting prices the market is willing to pay
- Getting products and/or services to the market
- Making information available and attracting the market to buy your products and services.

Marketing is an important part of starting and running a business. It does not matter how good your product or service is, if you do not market it in the right way no one will buy it. Marketing never stops, all the time you are running your business, you should listen to your customers' wishes, sell good products or provide good service.

Your marketing starts with your business idea. Using your business idea as the starting point, you need to learn more about your customers and competitors through market research to make your marketing plan.

In essence, marketing is a four step process that begins with

- Analyzing and defining a qualified universe of potential users and buyers.
- Capturing the attention of the intended buyers within the targeted zone.
- Systematic effort being put into getting the prospects to accept the concepts or propositions offered via the marketing effort.
- conversion of the prospective buyer into an actual buyer by
- Getting them to take the desired action.

When you decide to get into serious business, for success to be registered

- Have a clear intention. Know what you want to be, do and have.
- Take consistent action. Do the things necessary to achieve the desired outcome.

2.7.1 Market Research

Market research is the carrying out of a feasibility study to determine market trends in a given area or population. The process of investigating a market in order to find out the sales prospects for a product and how to achieve success. It is more than the analysis of raw data. It is the opportunity to look outside your company to factors that may affect your success.

Market research is essential before beginning any venture because there is a risk that consumers do not need or want the product, do not like it or its packaging and presentation. There is also the possibility that the price the processor wants to charge is too high for the customers to afford. Hence market research is essential to ensure that agro-processing can be carried out efficiently, effectively and profitably.

Starting from the developed business idea, you must learn more about prospective customers and competitors through market research. From experience and from developing the business idea, you may know quite a lot about your market, but the more you research, the better it is. So you probably need to find more from other sources.

There are several ways of carrying out market research:

- Talking to potential customers, asking them what products or services they want to buy what they think about your competitors
- Study your competitors' business. Find out about their products or services, e.g. Quality design, pricing, how they attract customers
- Ask suppliers and business friends which goods sell well in their businesses, what they think about their businesses, what they think about your competitors' products
- Read newspapers, catalogues, trade journals and magazines to get information and ideas on new products or services.
- Having done a thorough research on the market, the marketing plan would then need to be put in place.

2.7.2 The marketing plan

A marketing plan is the map that when complete will reveal a clear route to your prospective customers. A good marketing plan must reveal specific items of information. A marketing plan should help you accomplish the following:

- Prove that you understand your industry. Knowing your product is not enough.
- Identify your market. These are the people most likely to buy your product or use your services.
- Identify your competitors. Who's out there and what are they doing?
- Establish your pricing, distribution, and product positioning. How much will it cost plus a fair profit? How will you get there? And where do you fit into the market place?

- Get someone to subsidise your dream. If you want to attract tors, a written marketing plan is essential.
- Focus on a single effective marketing concept. Define your best strength and lead with that.

A successful marketing plan is based on research and analysis. But because information can be manipulated to prove almost anything, insight is equally important. Once market research has been done and a marketing plan drawn, the marketing mix should come into play where there is interplay of the product, pricing, positioning and promotion to effect organizational profits

2.7.3 The Marketing mix

The marketing mix is traditionally a complement of 4 Ps but recently three more Ps were coined hence it is now known as the 7 Ps. These elements include

Product: should be of high quality and well presented. The attributes to consider are branding, packaging and appearance as they relate to customer needs and wants.

Price: refers to the process of setting the price for the product, including discounts. Commodity price should be commensurate with production costs and quality. There is also need to understand the competitors' pricing policies and demand driven pricing.

Placement (distribution): This refers to how the product gets to the customer. This also refers to how the environment in which the product is sold in can affect sales. On deciding where to sell the product, one has to consider:-

- ✓ The perishability of the commodity
- ✓ The consumer of the production
- ✓ The competing products
- ✓ Transport availability and cost
- ✓ The quantities that can go through that particular market

Promotion: This is making people aware of what you have on offer and enticing them to buy. This involves public relations, sales promotions and advertising.

People: Self presentation for market appreciation. Any person coming into contact with customers can have an impact on the overall satisfaction. Whether as part of a supporting service to a product or involved in a total service, people are particularly important because in the customer's eyes, they are generally inseparable from the total service. Proof is often no more vice. These people should be appropriately trained, well motivated and be the right person.

Process: this is the process involved in providing a service and the behaviour of people which can be crucial to customer satisfaction. When production and marketing start, there should be continuity and uniformity of purpose.

Physical evidence: Unlike a product, a service cannot be experienced before it is delivered, which makes it intangible. This, therefore, means that potential customers could perceive greater risk when deciding whether to use a service. To reduce the feeling of risk, thus improving the chance for success, it is often vital to offer potential customers the chance to see what a service would be like. This is done by providing physical evidence, such as case studies, testimonials or demonstrations.

Once the marketing plan has been drawn and the marketing mix modeled, the farmer should be ready to introduce the product to the market. However, marketing mix modelling is not a once off event but is a continuous process in the life of the enterprise. Once the market has been penetrated, the farmer should position the product as one of the best.

2.7.4 Market Positioning

Market positioning is the ability to create an image within the market. An image is the outward representation of being who you want to be, doing what you want to do, and having what you want to have. Positioning yourself can lead to personal fulfillment. Being positioned by someone else restricts your choices and limits your opportunities. Your position in the market place evolves from defining the characteristics of your product. If you don't define your product, competition will do it for you. The primary elements of positioning are:-

Pricing: is your product a luxury item, somewhere in the middle or cheap.

Quality: total quality is a much used and abused phrase. But is your product well produced? What controls are in place to assure consistency?

Do you back your quality claim with customer-friendly guarantees?

Service: do you offer the added value of customer service and decisions?

Market positioning can also give way to market segmentation. Which involves breaking up the market into identical subsets. These subsets are divided according to their needs for purposes of marketing intensity. This makes it easy to:

- target profitable areas
- satisfy customers
- create a territory for one's products
- Introduce new products.

However, the challenges faced by small scale traders are manifold, most of them being man-made. Traders usually lack business management skills

- lack marketing skills
- do not do any market research
- depend on ad hoc marketing
- approach the market at the end of the production cycle

There is therefore need to change this behaviour and inculcate a sense of entrepreneurship so that they realize the potential they have. Having noted that farmers are not keen on conducting market research, they can get information from market information services.

2.7.5 Research the Market

By now you may already have a few ideas about which kinds of activities and products will offer the best opportunities for generating income. You've already considered the local market, now's the time to test your assumptions and actually research it. Lack of sufficient market research is a major factor in why so many new enterprises fail. Don't just assume - do some research!

1. Assessing Demand

How you assess demand, how easy it is, and how accurate, will depend on whether the product is more or less identical to an existing product already sold e.g. milk, meat, grain etc. For such products the greater the demand, the greater the opportunity for sales – if you can produce it at the right price of course! Where products are new to your

market, or differ substantially based on their quality, they will be harder to assess.

Observation

For products similar to ones already on sale, simple observation can be enough to provide a good idea of demand.

- How much of the product is sold in an hour?
- At what price?
- What types of customer are buying it?

The more outlets you can look at, the better your understanding will be of the factors that shape demand.

- How does the price of the product affect sales?
- How much does the price vary between different outlets?
- How does the type of outlet affect sales?
- How does the location of the outlet affect sales?
- How does the presentation of the outlet / product affect sales?

2. Market Surveys

For new markets, or new products, surveys can be a good way of assessing likely demand.

Surveys can take the form of a questionnaire conducted in person, or by mail.

The larger the number of people surveyed the better your results will be. The more focused the questions, and the more limited the choice of answers you offer participants, the easier you will find it to draw conclusions from the results.

Asking as wide a cross-section of the population as possible - i.e. old, young, men, women, rich, poor etc. - to take part in your survey is very useful. If you asked only young people or only older people for instance it is likely that you would get different results.

By including a diverse mix of people you will get a good idea not only of demand, but also of who your best target market might be. This can then help you to select a suitable group of people to take part in a focus group.

3. Focus Groups

A complementary approach to surveys, which is used more and more, is that of focus groups. Here you take a small group of people from

your target market and get them talking in a very open way about themselves and your product.

By listening carefully to what they like, and dislike about your product, and how it fits into their lives, you will get very useful information on the factors that shape demand.

The information from surveys and focus groups will not only give you a good picture of demand, but it can also be used to help you improve your product, and to decide how to best promote it.

MODULE THREE: CARING FOR CUSTOMERS

3.1 Learning Objectives:

By the end of this session the learners should be able to:

- Understand why customers are vital to business
- Appreciate the hard work needed to get new clients continuously
- Identify steps taken to care for and retain customers
- Understand that losing customers is part of business and sometimes inevitable

3.2 Learning Activities:

Ask the trainees the following questions to elicit responses:

- Which products or service do you like?
- Where do you buy it from usually?
- Is it available in other places?
- Why do you specifically buy it from that place? Is it because you like the seller or you don't like the other sellers of that product?
- How are you treated by the seller of that product? Are you likely to continue buying it from the current seller?

3.3 Caring for Customers

Advertising and marketing have the same goal in mind: to bring customers in the door. After that, what happens is up to you. If customers like what they see, if they find great products or service, if they are treated well, they will return. When that happens, you have the most prized of all things: a valued, loyal, returning customer.

Experience has shown that it costs five times more to create a new customer than it does to retain a current one. Similarly, there is a rule of thumb that says that 80 percent of your business comes from 20 percent of your customers (the 80/20 rule). The best thing you can do to stay successful in business is make new customers consistent customers by treating them well, giving them exceptional service, and doing what you say you will do when you say you will do it. By the same token, you also need to care for your employees. Employees are the backbone of your business. If they are happy, your business runs well; if they are not, well, you know. Your job once you get your business up and running (among your many other jobs) is to care for these two constituencies. Take care of your customers and employees, and they will take care of you.

Almost every business will have three different types of customers: new customers, existing customers, and exiting customers. You need to know how to handle all three correctly if you want to succeed in business. Creating new customers is an ongoing process, and it is one of the fun aspects of business.

Many entrepreneurs enjoy spending their time figuring out ways to lure in new business. Where many drop the ball, however, is after the initial sale. Flush with success, a new entrepreneur often neglects the new customer after that sale, inadvertently failing to realize that that new customer may become one of the valued 20 percent if treated properly. You turn that new customer into a returning customer by treating him or her well from the start. If you don't, it's the business equivalent of a one-night stand.

Existing customers are one of your most valuable business assets and cannot be taken for granted. They usually make up the bulk of your business, so it is incumbent upon you to nurture that relationship and let those customers know how important they are. Existing customers should be given special services and discounts when appropriate, and should always be shown appreciation for their patronage.

Finally, all business will have customers who are ending their relationship for one reason or another, and even this customer needs special treatment. The ending may just be the natural course of the relationship; for example a customer who is moving away. Because you never know who they talk to or who they may refer to you, this customer needs to be cared for just as well as the others.

3.3.1 Why do customers leave?

- Some customers leave a business because they have moved away.
- Some people change their purchasing habits, meaning they are not buying the same kind of products anymore.
- Some of the customers decide that they like the competition better.
- Some customers become angry with a business's overall service.
- The bulk of feel unappreciated, meaning the businessperson does not care about them.

The lesson is clear: Unless you want to lose the bulk of your hard-earned customers, you had better make sure they know that you appreciate their patronage. As old customers leave, you need to constantly be bringing in new customers to take their place. And as you do that, you need to be converting your new customers into existing, loyal customers. This important cycle of your business cannot be ignored. Old customers will leave (because they do),

and if there are no new customers coming in to pick up the slack, you will soon be out of business.

3.3.2 What Is Great Customer Service?

Few businesses actually incorporate great customer service into their business operation. It may be because they have never given it much thought, or because it is simply not a priority, or that the culture of the company may be so hectic that employees feel stressed. Unless you want to be on a never-ending quest for new customers because you have no returning, loyal ones, you had better make customer service a priority. Furthermore, serving your customers well is also a great way to distinguish your business from the competition.

You have to give people a reason to patronize your business:

- Better prices,
- Better location
- Better products,
- Better service.

The essence of superb customer service is that service becomes one of the guiding principles of your business. You need to put pen to paper, create a policy, and then see that every employee receives and understands it. Also, make sure that it is made a part of the employee manual. For employees to realize how important you take customer service, it must be stressed every day, in many ways.

3.3.3 Great Customer Service

- **Be attentive.** Think like a customer. What do they want from you? What are their needs? The better you can meet those needs, the better your customer service.
- **Make it personal.** Endeavour generally to anticipate the needs of particularly special customers. Offer recommendations and ideas that they might be able to use. Become their partner. They won't forget it.
- **Give them a discount.** A discount on future purchases is a great way to make customers feel special (and remain loyal)
- **Keep them informed.** Know your customers and call to inform the about any new products or services you have introduced.
- **Take personal responsibility.** Make sure you or your workers act promptly, keep promises, and follow up. The idea is to have one person accept responsibility for fixing a problem, do more than the client expected, and do so in a positive, helpful way.

MODULE FOUR: BOOKKEEPING AND BUSINESS RECORDS

4.1 Learning Objectives

By the end of this session the learners should be able to:

- Understand the importance of book-keeping to a business
- Understand the effects of various business activities
- To record simple business transactions and keep a cash book
- Compute profit and loss from business activity
- Calculate the amount of debtors and creditors at the end of each period

4.2 Learning Activities

Dictate the following case to the trainees

On 1st January 2011, Mohamed opened a small hotel in town with a loan from his brother of Shs. 10,000 and Shs. 5,000 from his own savings.

Using the money he bought chairs and tables at Shs. 3,000 and bought cooking and catering equipment (5 sufurias, 20 plates, 20 spoons) amounting Shs. 5,000 on 5th of January.

On 8th of January, he purchased stock of raw materials as follows; Shs. 3,000 worth of dry goods from Rafiq Wholesalers on 7 day credit and Shs. 3,000 worth of fresh supplies in cash.

On 15th January Rafiq Wholesalers wanted to be repaid their money in full and his brother also wanted Shs. 3,000 back of his loan. He only paid Rafiq Wholesalers Shs. 3,000.

He finally started selling on 16th of December. By 25th of December she had made cash sales worth Shs. 8,000 and credit sales Shs. 2,000 (Abdullahi Shs. 1,000, Abdulle Shs. 1,000). The stock of raw materials he used was worth Shs. 4000.

In the course of that month he incurred Shs. 200 on transport, Shs. 100 on local authority tax and Shs. 200 on airtime.

- On 28th December, Abdullahi and Abdulle paid their debts of Shs. 2,000.
- On 29th December, he paid her father Shs. 5,000 as part of the loan.
- On 30th December, he paid her assistant his salary of Shs. 1,000.
- On 31st December, he paid rent Shs. 1,000.

Record Mohamed's activities and do the following:

1. What is the total of each of the following:
 - a. What he owns (Assets) = Shs: _____
 - b. What he is owes (Liabilities) = Shs: _____
 - c. What is his capital (Owners Contribution) = Shs: _____
 - d. What is his income (Sales) = Shs _____
 - e. What is his expense (Cost of goods sold and indirect costs) = Shs _____
2. Add up all the sources and uses of funds and make sure they balance (Sources = Uses)
3. Compare what Mohamed Hotel owns (Assets) with where it came from (Liabilities and Owners Contribution) (**$Assets = Liabilities + Capital$**)
4. Work out Mohamed's profit. (**$Profit = Income - expenses$**).

4.3 Basic Business

You've had a few ideas about what to produce, and from your research you now know which products there's a market for.

But which of these products will generate the most income?

It's worth reminding ourselves of some very basic economic truths before going any further.

The greater the volume of sales and the greater the profit margin for your product, the more income it will generate. Considering the extent to which you can maximize these will help you decide which activity to begin with.

4.3.1 Profit Margin

The profit margin is the difference between the sales prices and the cost of that product.

Increasing the sales price or lowering product costs will therefore always improve the profit margin.

4.3.2 Sales Price

During your research you should have got a good idea of the range of prices that might be suitable your product. For standard agricultural products, prices are often more or less fixed in a fairly tight price range. For less standard products and services prices can vary more considerably.

The sales price directly affects a product's profit margin. It is particularly important however because it also affects demand, and therefore the volume of sales.

Generally the higher the sales price, the lower the volume of sales and vice versa. The level at which you set the price will therefore have a dramatic impact on income generated.

4.3.3 Costs

Lowering costs is a simple way on increasing your profit margin. Doing this successfully can however be complicated! It is easy to know the sales price of a product, but much harder to know the product cost accurately – yet without this we cannot be sure what the real profit margin, and therefore whether we are really generating income or not.

Income Generated = Volume of Sales x Profit Margin

Profit Margin = Sales Price – Product Cost

4.3.4 Volume of Sales

The volume of sales that can be achieved depends first and foremost on demand, which is heavily influenced by the sales price as already mentioned. When starting up a new income generating activity production capacity will also be an important factor in the volume of sales that can be achieved.

4.3.5 Production Capacity

The resources you are able to dedicate to your income generating activity will determine your production capacity. Production capacity will be affected by a number of fixed factors - for example how much land you have - as well as others over which you have more discretion, e.g. how much land is needed for other educational activities.

It is worth considering at this stage how easy it will be to increase production capacity if your product is successful. Depending on your local environment hiring extra workers may be easier than acquiring extra land, or vice versa.

4.3.6 Making It Pay

Strategies for maximizing income generation Entrepreneurship is about seeing the opportunities that exist to make money, and employing all your skills and resources to exploit them.

A person who wants to generate income has two choices:

- To produce standard goods better than everyone else
- To serve unmet or under-met needs with new products and services.

Within each choice there will be a number of standard strategies for maximizing income generation which build on the basic economics outlined earlier.

4.3.7 New Products & Unmet / Under-Met Needs

When competition is high, as is often the case with standard agricultural products, profit margins are likely to be low. Unless you can be a better producer than your competitors – with higher yields and lower costs – it may be difficult to generate useful income for you from these products.

4.3.8 Under-met need.

Unless this is the case, demand will be weak, and the product will not generate much income – hence the importance of proper market research.

4.3.9 The Value Chain: Capturing & Adding Value

There are a lot of stages involved before a product is sold to the final customer. Where each stage is undertaken by someone new, they too will have to make a profit on their part of the chain.

A simple example might be a tomato farmer, who sells to a stall-holder, who sells to the public. The farmer and the stall-holder each have to make a profit for it to be worth their while. If the farmer could sell directly to the public without incurring too many additional costs, he might be able to capture more of the value of his product, and therefore generate more income this way.

When competition is low, as with new products, profit margins are likely to be much higher. A new product does not have to be entirely new (in fact it is probably better if it's not!), but just one that is not widely available locally. Any successful new product should fulfil an unmet or a different example would be if a tomato farmer sold his produce to someone who dried them, and then sold them for more money.

The person drying the tomatoes is adding value to them, which is why they can then be sold for more money. If the farmer can add value to his tomatoes by drying them himself, but without incurring too many additional costs, he can again generate more income in this way.

Depending on the local operating environment, persons may find it a useful strategy to try and capture more of the value of their produce – e.g. by selling it through a person-run outlet. An even better strategy if they are able would be to add value to their produce - transforming standard products into higher value ones.

4.3.10 Economies of Scale & the Division of Labour

Normally the more you can produce of one product the lower your costs will be. This is known as economies of scale. There are very good reasons for a person to sell many products -principally so that students can learn as wide a variety of skills as possible.

Where however a person has a particular advantage in a certain activity, it may find it can generate much more income by focusing on this particular product, and producing it on a much larger scale.

Another way to lower production costs is to use the people you have as efficiently as possible. We note earlier the obvious link between production capacity and volume of sales – i.e. you can only sell the quantity you're able to produce.

More important almost is the way in which how much you produce, and how you produce it, can impact your profit margin.

4.4 Bookkeeping and Business Records

Record keeping in business what its size is very important. Initially when one is thinking of starting a business, the need to keep a record of all activities undertaken is not apparent but once the business has started running then the owner realizes the need for book-keeping and accounting. Record keeping should begin from the first minute one spends a shilling on any business idea. Recording all transactions will help the businessperson keep abreast of establishment costs initially and the running expenses and the business revenue one the business starts bringing in cash.

If you are like most entrepreneurs, you feel passionately about your business idea. You are convinced you will succeed. Setting up a record-keeping system may not be at the top of your list of things to do as you put together a plan and struggle to find the capital to start your business. But keeping good records may be the key to success.

Unless you maintain an accurate account of sales, expenses, and cash flow, the best idea in the world will not yield concrete results. Your accounting system provides the information to make solid, informed decisions about the operation of your business. It also provides the basis for income-tax and sales-tax reporting.

If you plan to hire employees, your business must maintain records meeting the requirements of the federal, state, and local agencies that levy taxes and regulate employer-employee relations. If you expect to have more than one or two employees, consider hiring a payroll service to maintain these records

and see that your payroll taxes are paid on time. You don't have to be a certified public accountant to operate a small business, but you should have a rudimentary understanding of accounting before you open the doors.

Book-keeping can be a very simple exercise where one records in an exercise book, all the activities that is undertaken for business purposes. The owner of the business should record such important issues as:

1. Amounts paid for licenses and permits initially
2. Costs incurred to secure the location
3. Costs spent on travel for purposes of the business
4. Amount used to buy the initial stock and how much was actually bought
5. Daily sales, cash and credit.
6. Daily expenses and withdrawals
7. Daily purchases
8. Daily cash balances

A simple book-keeping and accounting assists the businessperson in determining whether a profit or loss is the end result of the business. The records will also help in actually pinpointing which activities are taken up more cash than they should and which activities are bringing in more money. The businessperson can set a saving target and a collections target from customers taking goods on credit.

When recording credit transactions it is important to record dates, type and amount of goods, amount paid as deposit and the amount pending. It has been known that credit transactions cause conflict between people if they are not recorded properly.

Cash transactions should also be recorded properly so that the type, cost and price of goods sold can be determined. Cash balances should be determined every end of the day so that the balances at the beginning of the day and the balances at the end of the day can be determined.

It is prudent to keep complete records of business transactions and to consult some who understands accounting to set up an easy method of keeping records that is useful and also tracks the performance of the business.

Accounting is the language of business, without accounting, business will be dumb. Somalis usual say, it is because of accountability that Xamar was established. Xamar being the capital city of Somalia, business was the main

occupation of its populations and accounting and accountability is the language of business. A trader or a person engaged in business at any level, from the milk sellers on the roadside to the owners of the big wholesaling businesses, cannot escape the idea of accounting and record-keeping. Accounting is just a tool of recording, storing and analyzing business activities in terms of money.

Accounting operates on the idea that all business activities are of two kinds; one that receives and the other that gives. For example if you sell an item for cash, you give away the item and get the cash. Your cash increases while your stock decreases. When you pay salary, your cash decreases, and salary payments to your employees increase. In accounting the world is also divided in just two things; what you own, called your assets and what you owe to other people called your liabilities. Using these two simple ideas, accounting undertaken by recording business transactions in books of accounts which can be very simple entries in an exercise book or a complex accounting system using computer programmes.

It is important that a businessperson keeps an updated cash book and a ledger. The cash book records all activities related to the cash transactions. It records how much cash has come and how much has gone out. All cash receipts and payments are traced in this book. The ledger records each lists items and records dates and amounts under them. For example a salary entry in the ledger will have the amount paid, the period for which it was paid, the day and date it was paid and to whom it was paid.

Many of the activities of the businesses undertaken are usually dependent upon trust and are kept in mind by people. Oral agreements are entered without evidence of the agreements. Trust is good but keeping and witnessing records are better. Anything can happen to an individual and the memory is fickle. Records keep the truth. They prevent fraud and other malpractices and protect business assets.

Since accounting and record keeping are not profit-making activities, they should be kept simple and easy to understand and afford. If well-managed, accounting records help in making decisions and also offer security for the business assets. At the end of the period, revenues are totalled and the expenses are subtracted to arrive at a profit or loss. Also a statement is made of the assets the business owns and debts it owes to calculate the profit of the business. A statement of income and expenses is known as an income statement and the statements of assets and liabilities, is called a balance sheet. The information from these statements helps the business owner to know whether the business is profitable or not. The information also assists the businessperson to reach a decision about the business, whether to expand or to close or to continue with the current operations as they are. A statement to show all the cash received from the business and the way they

have been spent can also help in showing the sources and the uses of the cash in the business.

A business without records and proper financial accounting is bound to face challenges. Effective business planning and control encompasses good record keeping (material and financial) and effective financial accounting.

4.4.1 Record Keeping

Business planning depends on analysing past performance, identifying the strengths and weaknesses of the business and using this knowledge to make both present and future decisions. The basis for such analysis is sound, accurate information and this can be obtained only from good records. Although a great number of records can be kept, the farmer must decide what information he/she requires for his planning. Records that are never used are a waste of time and resources.

4.4.2 Financial management

Financial management is about planning income and expenditure, and making decisions that will enable you to survive financially.

Financial planning is about:

- Making sure that the business can survive
- Making sure the money is being spent in the most efficient way
- Making sure that the money is being spent to fulfill the objectives of the business
- Being able to plan for the future of the business in a realistic way.

The financial accounts of a business, the profit and loss accounts and the balance sheet, can be calculated from the financial records, the wage book, cash book, invoices, etc.

4.4.3 What you need

You have to record all money coming into your business and all money going out. This is to keep track of the cash flow. To do this you will need:

1. To record every sale.
 - a. Cash Sales in receipts
 - b. Non-cash sales in invoices
2. Receive Invoices or issue receipts for every purchase or make simple journal entry

- a. Purchases Paid
 - b. Purchases Unpaid
3. Record of all payments in and out of your cash
 4. Keep a simple cashbook for recording such information. It records all cash coming in and going out of the business.

8.4.2 Cashbook

Money in			Money out		
Date	Particulars	Amount	Date	Particulars	Amount

4.4.4 Simple rules for small business bookkeeping

- Record every sale as cash or credit
- Separate records of sales into cash or credit
- Keep the sales to every credit customer separate
- When a customer pays keep proper record of that payment or issues a receipt and update the customer's balance.
- Record your non-sales income such as grants and asset disposals in your cash book
- Record every purchase as cash or credit
- Separate records of purchases into cash or credit
- Keep purchases from every supplier separate.
- When you pay a supplier deduct the amount from the cash book and update the suppliers balance.
- At the end of the month, update all your records
- Calculate your total sales, purchases, expenses and cash.
- To arrive at the profit= Total Sales-Total Purchases-Expenses

4.5 Drawings from the business

When running a business, the owner may have to withdraw some money out of the business once in a while. The capital invested in the business is seed money and needs to be protected until it grows and matures. When the business is growing, it is important to reinvest the profits in the business. The expenses of the owner should be limited to enough to make life comfortable

and no luxury expense may be withdrawn from the business while it is still in its infancy.

The purpose of doing business is to improve one's life, to care for one's family and to contribute to society. The success of the business is vital for all these objectives to be achieved. Removing money from the business reduces the funds available to the business for investments and affects its cash flows.

When withdrawing funds from the business, it is important to look at the business performance. You can only withdraw if the business is doing well enough to make a sufficient profit. You also have to consider timing of the withdrawal. There must be sufficient cash to pay debts and other obligations before you can withdraw for personal reasons.

The business owner may need to withdraw money for personal survival purposes. These will be treated as a salary as an employee of the business. These drawings will help the owner meet food, shelter, clothing and education needs of his or her family. The business can only make profit if it can pay those who work for it including the owner sufficient wages to survive. The owner may not get paid at market rate but should at least be paid enough to be able to pay for important expenses.

When the business is successful and money is available, the owner should have the liberty to spend money rightly and contribute to society generously without jeopardizing the business operations.

MODULE FIVE: RECRUITING PEOPLE

5.1 Learning Objectives

By the end of this session the learners should be able to:

- Understand various approaches to recruitment of staff
- Appreciate the value of proper recruitment of staff to business success
- Understand the role of family members in starting and operating a new business

5.2 Learning Activities

Ask the trainees the following questions:

- When would you know you need staff?
- How would you get suitable people to employ?
- How will you employ them?
- How do you determine what you pay them?
- What is the role of family members in the recruitment of employees?
Can family members also act as employees?

5.3 Recruiting Staff

When starting your new business you may not have the time or the skills to do all the work yourself. You will then need employees in your business. If you employ staff you will need skills to manage them. You should set objectives for your staff, encourage and motivate them to be productive, supervise them and pay them correctly. You should also follow the laws and regulations which apply to the labour market.

5.3.1 Recruiting staff

The productivity of your business will, to a large extent, depend on the people you employ and the way they are managed by you. The selection of your staff will therefore greatly influence the results of your business. Your productivity and profits will be higher when you recruit the right people for the right job.

You will not need full time employees for every task, but as the tasks will need to be carried out by someone in the business, decide who will be responsible for each task. Make sure that you as the owner can handle all tasks. This will help you to understand your employees, to step in when needed, and eventually to reduce your costs.

When you decide to hire staff, it is important to describe exactly what skills and qualifications are required. Unskilled workers may be suitable for some jobs, but other jobs might need staff with special competences or a certain experience. So, the first thing you do is to make sure that you know what work is to be done, how much time is to be spent on it and what skills and experience are required.

You make a **job description** for every position in writing by doing the following:

- 1: Describe the kind of work (tasks, responsibilities and position).
- 2: Estimate the amount of work involved.
- 3: List the qualifications, skills and attitudes needed.

Then select the right people by identifying possible candidates or by advertising the job. Some candidates may be promoted heavily by your friends or family: focus on what they are able to do and what they know – not on who they know! Interview qualified applicants and choose the best person. As soon as you know who to recruit, make a **written contract**.

Make sure that the contract corresponds with the labour law and regulations. Examples of these contracts can be obtained from labour offices, employers' organizations, chambers or private advisors.

As soon as you have recruited your new workers, prepare and think through an **induction programme** to ensure that a new worker quickly settles, understands your business, the tasks and responsibilities and your expectations.

5.3.2 Business and family

Your family and close friends are often a most important support for the business. Consider the following:

- Your family and friends are important in providing the moral support needed to start your business.
- You may obtain guarantees and perhaps some of your start-up capital from members of your family and friends.
- Family members and friends may easily step-in when you run into start-up problems (lack of financial resources and/or personnel).
- Family members and friends may help you to get in contact with important customers and suppliers.
- Many small businesses involve family members and relatives of close friends as employees. If you want to employ family members

or relatives of close friends as staff, you must think about possible problems and make clear “rules”, for example:

- All personal matters should be kept separate from the business.
- Members of the family and relatives of close friends who are employees should be treated the same as any other staff member. They should be paid the same wage and have the same opportunities for training and career promotion as other staff.

To benefit from your family and relations, you should remember this advice:

- Make your family and relatives understand that you want your business to be self-sustained and that you will not depend on the support from family and friends forever.
- Make your family and friends understand that the business is yours and that their influence on business decisions should be limited.
- Keep the money of your business well separated from your private money and from the money of your family.
- Educate your family members and friends on the basic business principles and explain that money that comes in the business is to make the business run and to pay for its costs. If you maintain good and constructive relations with your family and friends, you can count on them as good ambassadors for your business. This will help your business towards improved productivity and higher profits.

SECTION 2: BUSINESS IDEA AND BUSINESS PLAN DEVELOPMENT TRAINING

MODULE ONE: GENERATING BUSINESS IDEAS

1.1. Learning Objectives

By the end of this session the participants should be able:

To clearly understand the definition of business.

To name various existing businesses within the immediate environment.

To generate business ideas using the knowledge gained.

To clearly analyse the viability of a business idea using simple insight.

1.2 Learning Activities

Ask the trainees to identify various ways in which men and women to earn a living: Various kinds of work men/women do to earn money include:

- Shop keeping
- House-maid
- Day labourer
- Milk selling
- Poultry raising
- Livestock rearing
- Clothes and apparel selling
- Making bricks
- House construction
- Petty trade
- Small tuck shops
- Washing clothes
- Operating a tea stall
- Cooking at a restaurant
- Other

Ask the trainees to discuss the examples above in line with employment and self-employment.

Advantages and Disadvantages of Wage-Earning and Self-Employment

Advantages and Disadvantages of Wage-earning

Advantages

- Regular and fixed income
- Low risk
- Advice from others not often required

Disadvantages

- Less possibility of increase in income
- Increasing dependency
- Difficult to find a new job
- Limited scope to apply one's own ideas
- Work may not always be available
- Always have to obey somebody else
- No work available in old age
- Sometimes have to work even when ill

Advantages and Disadvantages of Self-employment

Being self-employed (using one's own initiative, intelligence and capital to earn and perhaps employ others) has many advantages and disadvantages.

Advantages

- Skills improved day by day
- Possibility of increased income
- One can work at one's own discretion
- No need to be dependent on others
- No risk of losing a job

Disadvantages

- One has to make continuous efforts to improve skills
- Risk is involved
- Requires own capital
- Requires updated knowledge of the market situation
- One may incur loss

Ask the trainees:

- What is a business? From the definition they give ask them to give examples of what is not a business (Living off their relatives, receiving food relief from NGOs).
- What is the objective of a business? Can you give more than one objective?
- Ask each trainee to write on a piece of paper all the businesses he would like to engage in. Tell them to exchange the pieces of paper and each to read loudly what his or her colleague likes to do as a business.
- In how many ways can a business be owned? This question may not be understood by some of the trainees but the answer required is to elicit responses of various forms of business organization (One person business, Partnership, Company etc)
- Who is an entrepreneur? What are the qualities that make one a good entrepreneur? Can you name one person in the neighbourhood who is an entrepreneur?
- Divide into groups of 3 people and decide on one business you would like to run together. Discuss the business idea in terms of:
 - **Market:** Where is the market? Orders, Tenders, Local neighbourhood
 - **Capital:** How much capital is required? Is it possible to start with no capital at all? Money, equipment, tools, Buildings.
 - **Materials:** What raw materials are needed? Will the customers bring their own for processing e.g. to a tailor? Cloth, Meat, Timber
 - **People:** Skills to make a product (Vocational) or business skills are required.
 - **Product:** Is the business a product based or a service business? Dresses, Mats, Food, Henna Patterns, Made-up hair etc.

The trainees are then asked to present their ideas to the main group for discussion.

Ask the trainees to identify various ways in which men and women earn a living:

1.3 What is a Business?

A business is any activity that is intended to add value or create wealth through making profit or enhancing survival.

Buying and selling livestock

brokerage in livestock

trading in milk,

a butchery,
hides and skins,
firewood selling,
running a private school
transport of goods and people,
shoe making,
shoe shining,
bakery
supplying bread
keeping livestock for resale
small hotels
hawking goods
selling kerosene, petrol and diesel
selling vegetable
running a small shop
running a wholesale shop
Many others

Business is any activity that does not include being employed by someone else. Many people do not believe that they are engaged in business. Those who sell milk may believe that they are not in real business; the brokers at the market may not take their business seriously because they believe they are not engaged in business. Any person who earns a living on his own without depending on someone else for work as an employee is in business.

Business means providing services or goods. It means that one either sells items like food, clothing, building materials or even living animals or is engaged in providing services like taxi, transport, shoe shining and repair or garage services where mechanics repair motor vehicles. The main objective of business is to make profit. Business involves selling goods or services to customers.

Many people who are involved in productive activities like animal husbandry do not treat their engagements as business. The purpose of keeping animals to benefit from their products like milk, meat and hides and to exchange these products and the live animals for other materials the owner needs. Keeping livestock is therefore both a lifestyle and a business.

People engage in business or are employed by business people in order to make a living. People engaged in business are involved in exchanging goods for money or goods for goods. In the old days when there was no money,

people used to exchange goods for goods. If someone wanted clothes, he or she will have to look someone who has clothes and willing to exchange it for a goat for example. Nowadays money has made it easier for exchanging goods and services.

A business can be small, medium or large depending on the level of activity involved. Small businesses grow large and large businesses may become small if they lose value. The growth of business helps the economy of the country to grow.

To start a business one needs capital. Capital could be in form of money or goods. The capital could be saved or borrowed from others. Business capital enables the businessperson to start and run the business. Some businesses require a lot of capital like building a factory while others may require little capital like brokerage at the livestock market.

Business is important for the development of the country and the region. Business creates employment and produces goods and services for the people to consume. Business is also a source of taxation money for the government. Economic development of the country is dependent on the number of people involved in productive businesses. Business is an important engine for the country and its people.

People engage in business for various reasons, some want to earn a living, others want to create wealth and yet others may just want to make themselves busy while doing business.

There are various laws and regulations that guide business which a businessperson is supposed to know; there are laws about registration of business, health standards of business, taxation of business, import and export laws and other regulations intended to manage business.

A businessperson needs to have knowledge of business for he or she to be able to know when a profit has been made or a loss has occurred. The owner of business incurs expenses in buying the goods to sell, the transport of the goods and has to pay for survival. After all the expenses incurred in the business have been paid, a profit is made.

1.3.1 Forms of Business organizations

Business can be started and run by one person, more than one person and many people. The forms of business organizations may be dependent on the size of the business and the intentions of the business owner.

1.3.2 Business owned by a Single Person – Sole proprietorship

One person may start a business, selling goods or providing services. This is the simplest form of business organization and the least expensive to establish.

As sole proprietor, you bear the full risk and responsibility for operating your business. You have full control, but you also are personally liable for debts incurred by the business. Any income you receive from the business is treated as personal income.

A sole proprietor has a limited ability to raise capital. Once you are a sole proprietor, the amount of money you can raise to start a business is limited to your savings and what you can borrow from friends and relatives. Banks and credit institutions usually do not give credit to sole traders, except in exceptional circumstances.

1.3.3 Partnership or group business

A business maybe formed and run by a group of people who have similar interests. A partnership may be formed by two or more people contributing agreed proportion of capital and agreeing to run the business together. Traditionally there are three forms of partnerships, partnerships among equals where each partner agrees to contribute equal amount of capital and own equal shares of capital; Proportional partnerships where one partner may contribute more or less than the rest of the partners and owns a proportion equal to his or her contribution; or a partnership between labour and capital where one partner contributes the capital while another runs the business and they share the profit of the business. Partnerships are necessary when two or more persons wish to enter into business together and have the advantage of combining the resources or skills of two or more people into the enterprise. A partner, for example, might provide a source of needed start-up capital for a business while the other brings the contacts and business skills.

A written partnership agreement is always a practical necessity. It describes each person's responsibilities, how profits and losses will be divided, how a partner can leave the business, and what happens in case of a partner's death, disability or serious discord. Partnerships may create conflict between partners when there is no formal agreement on responsibilities and obligations of the business owners.

Partnerships do not have permanence; if one partner dies or leaves, the partnership is dissolved. Partners are personally liable for all liabilities of the partnership.

1.3.4 Company

A company is formed by law and is seen by the government as separate from its owners. A company can own property, can buy, sell, borrow or engage in activities that are beneficial to the objectives for which it is created, all in its own name.

When forming a company, a legal document is created that lays down the purpose for which the company is formed. The owners of the business are separate from the business and will only carry out activities as laid down in the company charter called articles of association.

The owners of the business are not liable for the debt of the company.

1.3.5 Starting a Business

A business is any activity intended to generate profit. A business involves either selling of goods or providing services. Trade is the process of selling of goods and services.

Starting a business first begins with a business idea. Ideas of business are generated from the environment. If you want to start a business you first look at your environment. Business idea will come from the need of the people around your area. The need of the area provides an opportunity to start a successful business.

Many of the world's most known businesses started very small probably with only one employee. Therefore, starting small and expanding gradually is normal path of growth of a business.

Traditionally, Somalis were herders and small scale farmers. Although livestock keeping and small scale farming still exist, urbanization has ensured that most of the people are nowadays engaged in various forms of business. In a typical trading centre the following business may be found:

1. Small retail shops
2. Wholesale shops
3. Livestock sellers
4. Groceries and vegetable sellers
5. Milk Sellers
6. Hotels and food joints
7. Dealers in electronics

8. Dealers in fabric and clothes
9. Transporters
10. Petrol, diesel and kerosene sellers

These businesses need each and serve one another. For example retail shops buy goods from wholesale shops, hotels buy from both retail and wholesale shops and groceries and milk sellers. This interdependence helps business grow.

1.3.6 Business Idea

A business is any activity that adds value to life or enhances survival. It does not matter the size or the nature of business, important thing is whether the business makes profit or creates value or helps its owner lives a better life.

Traditionally, the people of the Horn of Africa region in general were pastoralists who keep cattle, camel, goats, sheep, horses, donkeys and dogs. These animals were kept mainly for purposes of survival but also as a means of exchange where someone could exchange one animal for another or for such things as crop products, clothes and medicine. Because of the nature of the lifestyle of the population, everyone was actively engaged in keeping his own livestock; nobody was known to be a worker. In fact, it was shameful for a grown up person to work for another unless in extreme circumstances and on very temporary purposes.

These people were businessmen who perfected the art of animal husbandry under the dictate of the environment they lived. It was also respected that every adult was expected to be self-sufficient and worked hard. The spirit of entrepreneurship was nurtured by the people.

In the modern times, the emergence of modern commerce and town life has changed everything. The spirit of entrepreneurship has been replaced by the expectation to get a job and work for another person. As the population who are looking for work increases it is difficult to get employed. There are hundreds of thousands of job-seekers and few jobs. It is therefore important to look back into the past and borrow from the culture of being an employer or self-employed rather than an employee.

A business person employs himself and others, contributes to the growth of the economy, pays tax to the government and participates in social issues of the society. An employee will not be able to effectively undertake these tasks and once the job is complete, the employee may be left with nothing to continue with.

Creation of wealth is through business and not employment. Many of the rich people in this country are not employees but are owners of business. Wealth creation is not related to education either. While education may help someone get a better grasp of issues, it is not usually a factor in the accumulation of business skill or acumen. Many businessmen who started by selling hides and skins at the local market have become rich businessmen who now own many businesses and properties. Business is sheer hard work and ability to identify profit-making opportunities. It is the ability to identify good business ideas that can propel a person to become successful businessmen.

The size of the business idea is dependent on the ability and objective of the businessperson. A mother taking care of her children think of an idea to sell home-cooked food in a kiosk at the livestock markets. Many mothers have done such business and have educated their children through such very small businesses. Many ladies run stalls at the local markets and have been carrying such business activities for many years. A business idea that is very profitable and satisfying to one person may not be so to another.

How to generate business ideas

The kind of business to start will depend on the needs of the customers perceived by the businessperson. Many people do business that is closely related to other existing businesses in the area. They do not look at the needs of the people but they just copy what already exists in an area engage in them. The problem with such approach is that it may lead to saturation of the market with the same kind of business.

The common businesses in this region are hotels, clothes, wholesale and retail shops and kiosks, Tomato firms, livestock and livestock product selling and pharmacies. Nowadays private schools have also become common place. There are very few businesses in the region that actually engage in production. There no factories or foundry works that produce anything of value. There few consultancy businesses or knowledge based businesses.

There are always businesses that you can start because everybody else is doing the same business. You might have considered a stall or a shop selling clothes, or selling livestock. While this is still not a bad idea, it is definitely harder to make money an already crowded market. The problem with this idea is that there are already hundreds of people engaged in the same activity and this will reduce the market needed for the business to be successful. Starting a business based on a trend or copying what every other businessperson is engaged in can be a recipe for disaster. Instead, you should ask yourself the following five questions. The answers to these questions will be much more helpful than any list of hot businesses.

A. What is something that I do well that I like to do?

As in life, we tend to succeed and do well when we are engaged in something that we really enjoy. Your business should be no different. You may start a bakery because you like baking and you can do it very well. You may start a tailoring shop because you think you can create stylish clothes and you enjoy making clothes and designs. Do what you love, the money will follow.

B. Is there a market for this business?

Let's say that the thing you love doing is a barbershop and a salon. Well, there is no shortage of businesses that revolve around that concept, such as salons and barbershops. But what if the thing you love most is training bulls for a fight. There is likely to be very little interest in that initially. However interesting it may be to you, you don't have a business if no one is willing to pay you for your expertise. So you have to be realistic— there must be a market willing to buy what you want to sell.

C. Can I afford to start this business?

Some businesses are very inexpensive to start, most notably, home-based businesses. Others can be quite expensive. In addition to picking a business that you like for whom you have a market, you also must make sure that it is one you can afford to start.

D. What will distinguish my business?

Your business must offer something unique if you are to attract customers. After all, they already shop somewhere else. Why will they choose to buy from you? You must offer better quality, cheaper prices, a more convenient location, better service, a unique product—something that makes you stand out from the crowd.

E. Can I make a profit?

Whatever business you start, whatever product or service you sell, you have to be able to sell it at a price high enough to make a profit, but low enough that people will buy it. Setting this price is not always an easy task. Why do so many stores and wholesale in go out of business? Because often their overhead is too high, despite having good product. Before jumping into a business, look at some numbers.

You need to look at the revenues and expenses of the business. Although all of these issues are important, they should point toward one direction, namely, your passion. As you know, working with passion is one of the great joys in life. This is even truer when choosing a business. This business is going to become your baby. You will love it, care for it, nurse it along, and obsess over it. You will also be putting an extraordinary number of hours into it. You will be

working at it all day, every day, hopefully for many years. Unless you love it deeply and are passionate about it, working so hard will be difficult.

1.3.7 Sources of business ideas

1. **People's needs and problems:** This can be identified by observing the needs of people in a particular area. For example an area that has high concentration of shops and wholesale may require transport.
2. **Entrepreneur's talents and hobbies:** This refers to the person's ability and what the person likes doing. For example someone who likes cooking may start a catering business
3. **Entrepreneur's skills and experiences:** This is the training of the entrepreneur and ability to apply such training; an individual trained as a mechanic may start a vehicle repair garage, a mason may start a small construction company and a trained waiter may start a hotel business.
4. **Available resources:** This means the various valuable items available in the environment that can be used to produce goods or services. For example where there is a slaughterhouse, hides and skins can be obtained, tanned and made into shoes and handbags.
5. **Trends and fashion.** This means in the current wave of products in the market. Which are selling fast. The kind of clothes, ornaments or shoes that people like at particular time is a source of business idea.

The kind of business to start is dependent on the environment around which the businessperson lives. A person living in Somalia may have no market for say an art gallery but may find a tannery which tans leather for export. The business idea must take into consideration the culture and customs of the population. This does not mean the businessperson should not be creative, it just means that the businessperson should be careful not to engage in exotic ventures that may not be profitable in the end. Creativity in this case may include starting a fish farm at the river banks. Fish is widely consumed and will certainly have a market in an urban setting. A poultry farm, fattening young sheep for mutton production, pure leather shoe production, public bath system where customers are charged for using the baths and toilets, A modern hotel made of purely *Horio* huts and many other creative businesses are needed.

The size of the business is dependent on the capital requirement. A housewife will be comfortable starting a house-call beauty business where she visits her lady customers at their homes for hair care and beautification. When the funds are available she can convert her business into a walk-in beauty shop and she can expand to several towns hiring other ladies who can take care of her customers. She can then start her own cosmetic shops to supply her salons and also sell to the general public.

Not all business ideas will be successful. The businessperson must try many ideas and examine their success. Once one idea works, that idea can be used as a launch pad for many other businesses.

Deciding on an area that you love is only the first step when choosing a business to start. The rest of the required analysis is much more reasoned, more analytical. It consists of two steps:

- Looking at how much you have to invest
- Conducting market research

1.3.8 Analyzing Your Start-Up Costs

As important as it is to choose a business you will love, the business you pick must be one you can afford. You probably already have a fairly good idea how much you will have to get started. Needless to say, the business you choose must fit within those parameters. Essentially, there are two types of businesses: service-based businesses and product-based businesses. Of the two, service businesses are far less expensive to start. If you open a brokerage business and want to sell plots of land on behalf of its owners, for example, all you may need to get started is letterhead, an office, and a computer. On the other hand, if you want to start a food store, you need to have inventory, shelving, fixtures, and display cases, not to mention retail space, a security system, and a sales staff.

One of the first things you must do is analyze your start-up costs to determine if you can afford to start the business that you love. We will walk you through the process of determining how much money you will need to get started, but as you go about deciding what sort of business to start, keep in mind financial considerations.

1.3.9 Conducting Market Research

The other aspect of choosing the right business is making sure that there is a need for the business you want to start. There are few things worse in life than putting a lot of money, time, and effort into creating a new business, only to find that there is no market for what you are selling. We will later in the programme help you understand how to conduct market research. The important thing is that you choose a business that fits your personality, is something you love, and can be successfully implemented with the resources available to you. If that means scaling your idea back a bit in the beginning, that's fine. Once you get your baby off the ground, you can grow as much as you are able.

1.3.10 Overcoming Fear

- *No one ever said taking the leap was easy.* Fun, exciting, inspiring, and maybe even a little nauseating? Yes. But easy? No. Starting your own business is a big step worthy of a second look. Whether

you succeed or fail, every aspect of your life—from bank accounts to friendships—is affected. Although fear can be debilitating, avoidance is not the answer. Here are seven tips to help you overcome fear and get started living the dream:

- *Remember that you can start slowly.* You don't have to do it that way if you don't want to. Making a gradual transition gives you time to think, plan, and work on potential problems, which should help lessen your anxiety.
- *Help is available.* And much of this help is free. Your partners, your friends, and business associates will be available to help you along the way.
- *Plan.* Nothing beats preparation to quell the panicky feelings that can keep small entrepreneurs awake at night.
- *Expect the unexpected.* Unless you are blessed with unlimited monetary resources, starting a business means taking a financial risk. Although you may not be able to keep all problems at bay, you can accept the reality that being in business brings risks along with the rewards. That's the name of the game.
- *Put fear to work.* Why view fear as a negative when it can be a powerful motivator? Fear of failure pushes many entrepreneurs to work around the clock to get their businesses up and running. Remember that most successful entrepreneurs have been afraid at one time or another.
- *Build a support network.* Talking to fellow entrepreneurs who have walked the same path you're about to embark on can help assuage your fears. Attend conferences, join associations, and talk with others who started as you did but who have moved on to the next step.
- *Remember that you may have more assets than you realize.* For example, you might have money in the bank, friends in the industry, a supportive family, a good attitude, a great idea, an awesome partner, chutzpah, or a good education. Either of these might propel you to start a very profitable business.

1.4 Qualities and Skills for Entrepreneurial Success

It takes a certain kind of person to make a successful entrepreneur. It's not easy to go out on your own and embark on a new venture. A new venture is risky, and will make heavy demands on your time and your resources, both personal and financial.

But with a strong inner drive to take control of your own destiny and reap the fruits of your own labour – and with as many of the qualities below as you can muster – success can be yours.

1.4.1. Entrepreneurial Qualities

These following personal qualities are advocated by business trainers as the keys to success as an entrepreneur. Ask yourself these questions, and be honest with yourself – to be successful, you must be aware of your strengths and weaknesses. Many of these qualities can be cultivated, and you can draw on outside resources to fill in any gaps.

1. Do you have commitment, determination and perseverance? Total dedication and perseverance will be the key to your business success. Finish what you start, even under difficult circumstances. Recognize that success doesn't happen overnight.
2. Are you confident that you can succeed? Believe in yourself and focus on what you must do to succeed rather than what you will do if you fail. If you believe in yourself, others will too.
3. Are you creative and innovative? An ability to come up with good ideas and see things from many angles will ensure you continue to meet market needs.
4. Do you recognize opportunities when they arise? Not only will you always need to be on the lookout for opportunities, but you must be willing to act on them decisively when the time is ripe.
5. Are you willing to work hard? Starting a business will be hard work, but the rewards can be great. The sense of satisfaction at your successes, both small and large, will compensate for all your time and effort.
6. Can you handle responsibility? You are the only one who can make your business succeed. The buck stops at you; set high standards for your own work and meet them.
7. Do you have a need to achieve? Complacency is the downfall of a business owner. Aspirations for success and a need to excel must be your driving force. A need to achieve is much more important than a desire for power and status. Money is not the best measure of success – you must derive satisfaction from seeing your hard work lead to results.
8. Are you goal-oriented? Focus on the future, with a clear sense of direction. To realize your goals, you must know where you are going and what you want to achieve
9. Are you action-oriented? You will need to take the initiative and start producing results - be a self-starter and take control of your destiny.
10. Do you like to solve problems? You must be willing to tackle problems and identify solutions. Analytical ability is important, because business decisions often involve complex and sometimes conflicting considerations. Ensure you make decisions based on all the facts.

11. Are you comfortable with uncertainty? You will need to make decisions even when the best option is not totally clear. Follow your instincts but make sure you are well informed.
12. Are you willing to take calculated risks? There are no guarantees for an entrepreneur, but the risks you take should be well thought-out. You may need to push yourself past your comfort zone, but be realistic about the risks you take.
13. Are you a realist? You must recognize your strengths and weaknesses know when there's a problem and admit when you're wrong. Don't blame others.
14. Are you open to feedback? You will need to learn from your successes and mistakes in order to improve and grow your business.
15. Are you a quick learner? View mistakes and failures as temporary setbacks and use what you learned from them as an opportunity to improve.
16. Are you adaptable? Accept that change is a part of life and use it to your advantage. Successful business people watch trends, take advantage of technological advances, make improvements over the competition and maintain an open mind. Flexibility is important, as you may need to alter plans quickly to address unforeseen circumstances.
17. Are you self-reliant? Independence and trust in your own abilities will ensure you are in control of your own destiny. You can't count on anyone but yourself - as the owner, you are the only one who can fulfil your role.
18. Are you self-confident? Belief in yourself will enable you to overcome the challenges you encounter and achieve your goals.
19. Are you a leader? A business owner is a leader, both to employees and to customers. Set an example for how the business should be operated, and be fair and consistent.
20. Do you believe there's always a better way to get the job done? Be dissatisfied with the status quo and find ways to improve it. You should be highly motivated by a desire to innovate and bring your own approach to doing things. Non-conformists are adept at spotting opportunities others have missed.

21. Can you market yourself? When you are in business, people will associate you with your product. Proper marketing is essential to your success.
22. Do you have integrity? Honesty in business and a willingness to do a good job will create lasting customers. Customers don't want to give their business to someone who is dishonest or unethical.
23. Are you reliable? You must come through for your customer – follow through on your promises.
24. Are you a good organizer? You will need organizational skills to run your own business. Paying attention to details, both in your product or service and in your management, can make the difference between success and failure.
25. Are you a good communicator? Good communication skills are needed to have good rapport with customers, to understand what your customers want, to communicate what you can deliver, and to be clear with your employees in your directions.
26. Do you have high energy and good health? Self-employment requires long work hours; you'll need stamina and lots of energy.
27. Do you have a good support network? Support from your family, friends and colleagues will make all the difference; you will need their understanding when your business has to take priority. A network of professionals from whom you can solicit advice, information and referrals will also help immensely.

MODULE 2: IDENTIFYING BUSINESS OPPORTUNITIES

2.1 Learning Objectives

By the end of this lesson, the learners should:

1. Identify business opportunities within their environment
2. Ask critical questions on generation of business opportunities.
3. Relate the needs and challenges of the population in their locality to a business opportunity
4. Search for business opportunities on their own and assess its viability in their locality
5. Understand the global nature of business opportunities.

2.2 Learning Activities

1. Ask the trainees to name the most well known products in their locality and who sells them. From the answers they give ask if the product is locally made or imported. Then ask if anyone knows any defect in that product that could be improved. Is there a business opportunity there?
2. Divide the trainees into groups of 3 or 4 and ask them to come up with one product or service that is needed in their locality but is either not available at all or is hard to find. Tell them to discuss how that product could be made available.

2.3 Identifying Business Opportunities

In order to identify a business idea an entrepreneur must find a need and create an Opportunity. This is done by literally looking around your environment and analyzing the needs of the population around the area you live.

Needs of potential customers vary and the size of the opportunity created can vary from one entrepreneur to another.

2.3.1 Invent a New Product or Service

Inventing a product or service that meets an existing but unaddressed demand can create an excellent business opportunity.

Some Examples:-

- A businessman saw the difficult people were having with receiving money from their relatives abroad, and then he solved the problem with Hawala Money Transfer.

- An entrepreneur saw the work hospital staff went through to prop patients up in their beds and invented the mechanical hospital bed.
- Recognizing the opportunity arising from the growth in computers in businesses, a businessman developed the first company to provide computer cleaning services. The company is now franchised internationally.

Activity:

Suggest needs that exist in your location and what new products that can be invented so that such needs is addressed.

How to Do It

- Concentrating on products and processes that are familiar to you, try to think of ideas for products, processes or services that would enhance or improve existing situations. (“What we need here is something that would . . .”)
- Observe products or services that could be made more effective to save time, effort or money.
- Look for products and services that people are requesting, but do not exist.
- Examine current products and services from various perspectives to see if they could be improved by adding, subtracting, changing or combining elements.
- Use creative thinking to come up with an entirely new product or service.

Key Questions

- What services or products are needed but don't exist?
- What consumer needs could be met by a new invention?
- What familiar processes could I improve by inventing a new procedure, product or service?
- What ideas do I have that I could develop into inventions?
- Is there a market for my invention?

2.3.2 Assemble a Product

Assembling a product involves purchasing all of the parts for a product and putting them together to produce the finished item. It can also mean providing an assembly service for parts purchased by others.

Some Examples:-

- A technician assembles office furniture on contract for customers of office supply stores, at the customer's home or place of business.
- A mechanic offers an assembly service for customers who purchase car kits.
- A technician assembles toys bought from shops in town for kids to play with.

How to Do It

- 1 Look for products that are made of several parts and meet one or more of these conditions:
 - The assembly process is expensive for individuals, and there is a need for a central assembly service to reduce costs;
 - The product is assembled from parts made in different locations, and you are centrally located to become a convenient assembly point;
 - The product needs to be assembled into its finished form before being shipped from your area to other locations;
 - It is too expensive to ship the assembled product into your area as a completed unit, but the unassembled parts can be shipped less expensively and then be put together by you;
 - The product is sold unassembled to consumers, but the average person is not willing or able to assemble it; and
 - The assembled product is a bulky item that is difficult to transport, but the separate parts are easy to ship.
2. Analyze various products and assembly operations to find situations where you can save yourself or someone else time, effort or money by setting up your own assembly operation.
3. Identify and talk to potential customers for the assembled product to determine whether there is a need for the item.

Key Questions

- What product could I assemble to save someone time, effort or money?
- Can I offer this product or service at a reasonable enough price that people would use it?
- Is there a market for the product? Have potential customers stated that they would buy the product?

2.3.3 Become a Supplier

A supplier produces a product or service that is then used by someone else as part of a larger product or service. A supplier may provide a single specialized part or a large number of simple parts. Sometimes there is an opportunity to become a secondary supplier, when the larger producer does not want to rely on a single source of supply for critical parts.

Some Examples

- A women group supplies milk to a large hotel in town.
- A young businessman supplies bread from his bicycle to customer in town. He specializes in bread delivery to customers a round his area.
- A businesswoman provides an editing and proofreading service to help consultants in various industries produce professional project reports for their clients.
- A young businessman supplies mineral water to offices and businesses in town from a water depot on the outskirts of the town.
- An enterprising businessman supplied various commodities to shops and supermarkets in town.
- A company is contracted to supply maize and beans by a humanitarian NGO every month.

How to Do It

- Consider the components required to manufacture a product with which you are familiar with. Determine how you can provide one or more of those components with improved quality, cost or reliability. For example, become a supplier of eggs to bakeries.
- Contact purchasing agents who work for manufacturing companies. Ask them about their supply needs, to identify supplies that are difficult to obtain, too expensive or come from a single source that may be at risk.
- Look for request-for-supply notices in newspapers or public notice areas.
- Identify a product or service you can offer and analyze the range of producing organizations that could use it as part of their process.

Key Questions

- What products or services could I supply?
- Could these products or services be used as a component by another producer or supplier?

- Could supplying my products or services to another company save the company time or money, improve their product or service, or help them realize other efficiencies?
- Is there a market for these products or services?

2.3.4 Find Uses for Waste Materials

Sometimes uses can be found for waste materials-by-products, left-over materials or other resources discarded by individuals or companies. These materials can often be obtained free or at a very low cost and then processed to produce useful goods.

Some Examples:-

1. A businessman takes pieces of lumber that are too short to be usable and joints them together to create longer pieces. These are then sold for door frames and trim.
2. With simple technology, plastic bags and bottles can be recycled to produce roofing tiles.
3. An entrepreneur contacted a chicken processing plant that discarded large volumes of chicken feet and asked to take them away. He froze the feet, then sold and shipped them to China where they were cooked, combined with sauces, packaged and exported back to other countries. as a dim sum delicacy.
4. Daily food waste from hotels can be turned into animal feed so long as they are collected under clean and healthy environment and in separate containers.

How to Do It

To find waste materials that can be reused:

- Take inventory of all products discarded from your existing business or other businesses;
- Identify obsolete products which, although no longer used by a business or industry, remain in storage; and
- Observe materials collected by recycling companies, local waste product dumps, demolition specialists and junk pick-up services.
- Analyze the value of waste products to other producers. Consider whether these waste products may be used in their original form, as parts or as material in a recycled form.
- Identify or develop new uses for existing materials to create a more valuable end product.
- Study ways in which waste products are recycled in other parts of the world, and develop similar systems in your area.

- Talk to potential customers to determine whether they would buy your product.

Key Questions

- What waste materials are available to me?
- Which of these waste materials could be used to produce something useful and saleable?
- What waste products are costly or difficult for an industry or business to dispose of, which would therefore be available to me at little cost?
- Is there a market for the end product I am considering? Have potential customers said they would buy it?

2.3.5 Start a Co-operative

Co-operatives are found in business and community sectors including in the forestry, fisheries, childcare, housing, entertainment, tourism, transportation, agriculture and high-tech industries.

Co-operatives operate much like other businesses, but they are owned and operated equally by their members, who are also their shareholders. Each member of a co-op has one vote to ensure every member has an equal opportunity to participate in the decision-making process.

Co-ops can provide a creative alternative to traditional businesses. By working together, co-operative members can pool resources for start-up costs and achieve better purchasing power, more dynamic joint marketing and less individual risk.

Some Examples

- A livestock rearing cooperatives that keeps goats, cows and chicken and supplies milk meat and eggs to their locality.
- A co-op offering office and business support services to non-profit societies and other community organizations affords economies of scale that enable the co-op to provide services such as word processing, desktop design and printing at costs lower than a society would pay a private company.
- A cooperative that runs a number of small shops that sell basic products to public. The members work for the cooperative and share in the profits.
- A cooperative that guarantees its members grants from a development organization and monitors that all their members benefit from the grants and repay them.

- A cooperative that operates mobile airtime and money transfer shops as well as sells mobile phones and accessories.

How to Do It

- Identify the type of business you'd like to start up.
- Determine whether you could add value to or reduce the cost of the product or service by joining with other entrepreneurs in the same or a related field to form a co-operative.
- Talk to other entrepreneurs who could be potential members of the co-operative to see if they are interested in forming a cooperatively structured venture.
- Determine if a market exists for your cooperatively offered products or services.

Key Questions

- Can I add value to my products or services by offering them in conjunction with other entrepreneurs?
- Are there other entrepreneurs who recognize the opportunity presented by offering the products or services in a co-operative arrangement?
- Can the co-operative structure achieve better economies of scale, or add value to the products or services, thereby passing along benefits to the consumer?
- Would taking a co-operative approach to starting a business work for me?

2.3.6 Market Someone Else's Product

If you are more interested in marketing than production, you may choose to find a good product made by someone else and assume full responsibility for all aspects of marketing it. There is also potential for you to build on this idea by offering a range of marketing services to a large number of clients.

Some Examples

- A marketing agent marketing shoes imported from Thailand by an importer. The marketing agent assumes all the aspect of distribution and selling of the shoes.

How to Do It

- Look for products that have not been marketed at all (hard to find) or that have been marketed poorly.

- Look for new businesses that need marketing services but have not established a marketing department.
- Look for existing manufacturers that cannot afford to directly market to rural areas or specialized niche markets.
- Contact importers of new products who need their products to be marketed so that they can capture a market.

Key Questions

- Where can I find a good product requiring marketing?
- Which products have a potential for increased sales if marketing is improved? Is there a strong market for the product?
- What marketing skills and services can I offer?

2.3.7 Become an Agent

Becoming an agent involves contracting to sell products or services for a fee or commission. The contract may be with either a producer or distributor.

Some Examples:-

- A sales agent for airlines sells tickets on behalf of the airline for a commission.
- A sales agent for Mineral Water Company sells the product on behalf of the manufacturer and makes a margin profit.
- An agent is contracted by a computer company to sell its equipment to computer retailers in the region.
- Any distributor needs a sales agent so that his products can be available to the public.

How to Do It

- Identify a type of product or service you believe you can sell directly to customers.
- Find producers or distributors who need someone to handle the direct sales of their product or service.
- Join or start a sales and marketing groups and attend their meetings and share ideas.

Key Questions

- For what type of product or service could I act as a sales agent?
- What manufacturers can I find who need the services of a sales agent?
- Is there a market for the products or services I would like to represent?

2.3.8. Become a Distributor

When you become a distributor, you buy a producer's products or services and then resell them to retail outlets, manufacturers or other businesses. In some cases, you may sell the products directly to consumers.

Some Examples:-

- A businessman buys large quantities of sand and resells it by the truckload to construction companies building houses.
- A cooperative distributes cement and building materials by buying them in bulk and selling to hardware shops.

How to Do It

- Analyze your current purchasing volumes and discounts to identify situations where you could take advantage of your buying power to act as a distributor.
- Find producers or manufacturers who would give you exclusive rights to distribute their products in return for prepayment of orders.
- Find a producer who only wants to handle large orders, but whose products require distribution in small-order lots. This is an opportunity for you to become a distributor and relieve the producer of problems relating to small orders.
- Find a group of retailers or customers who have to wait for delivery of products from a manufacturer because of distance or production time. You may be able to become a distributor by carrying stock on hand and offering immediate delivery.

Key Questions

- What producers can I find that require a distributor for a product or service?
- What product or service could I buy, stock and wholesale in my region?
- Could I distribute the product profitably?
- What potential retailers or customers have indicated a need for the product I am thinking of distributing?

2.3.9 Become an Import Distributor or Agent

An import distributor or agent brings products and services from another country into the country for distribution and resale. A wide variety of products and services are available around the world, and many producers are looking

for distributors or agents outside their country to expand the market for their goods and services.

An import distributor buys products for resale, while an import agent sells products on a commission basis.

Some Examples:-

- A local Somali businessman could not find high quality cosmetics and beauty products, but located a supply in Brazil. He now imports them, along with other products into East Africa and is a sole supplier.
- A businessman had a health problem and could not find a needed medicine of sufficient quality. He searched abroad, found suitable drugs in Malaysia and is now the sole importer for this medicine.
- Each year, a company established by young Somali businessmen imports tyre sealants in bulk from the U.K. The sealants are then packaged and resold to fuel stations and garages all over East Africa. This is an example of importing, packaging and breaking bulk.
- A company imports hand-crafted ostrich and buffalo leather products from Africa, selling them to retailers and on-line all over the world.

How to Do It

- Read overseas trade magazines.
- Identify marketable items made in other countries and not currently available in your country or region.
- Contact trade associations and consulates in other countries to ask for information on possible import products.
- Identify a client group with special needs that can be met only by products from another country.
- Look for new and innovative items made in other countries by travelling to those countries or reading advertisements in their magazines or searching through the internet.
- Join import/export associations, read their newsletters and attend their meetings.
- Look for products that have been successfully imported to other countries but have not been imported to Somalia.
- Ask friends who travel frequently about products they may have seen that could be successful in your market.
- Ask potential customers whether they would buy the product you want to import.

Key Questions

- What products or services can I import to sell in my country?

- What needs in my marketplace could be met by imported products or services?
- Taking into consideration currency exchange rates and shipping costs, is it profitable to import these products or services?
- Is there a local market for the product or service I am thinking of importing?

2.3.10 Other Opportunities

1. **Become an Export Distributor or Agent**

An export distributor promotes and ships local-made products and services to other countries. Livestock, hides and skins, traditional curios and other products can be exported to other countries and sold easily.

2. **Replace Imports**

Import replacement means finding a product or service currently being imported into your region from another country, then replacing the imported item by producing a similar product locally.

3. **Recycle an Existing Product**

When you recycle an existing product, you take a product that has come to the end of its useful condition and either rebuild it to a “like new” state or remanufacture it into another product.

MODULE THREE: BUSINESS PLANNING

3.1 Learning Objectives

- By the end of this session the trainees should be able to:
- Identify the components of a simple business plan
- Understand the objectives and uses of a business plan
- Relate the idea of planning to the success of business
- Prepare a simple business plan template for their business

3.2 Learning Activities

- Divide the learners in to groups of 3 or 4 and ask them to write a short description of a business of their choice in terms of type of products, ownership, operations and running of business, main income sources, main expenses, expected periodic profit and projection for next year. Let them present to the whole group and write their answers on a flip chart or white board.
- Relate the answers give by the trainers to an a template of a business plan at the end of this section and explain to the trainees how their small effort can be turned into a fairly good business plan

3.3 Business planning

It is good to think about a task before starting to do it. This thinking helps to accomplish the work smoothly. When thinking is done logically and sequentially, then it is called planning.

A few basic questions always help in thinking logically:

- Who will do the work?
- Why?
- How will it be done?
- When will it be done?
- What materials are required?

The final answers to these questions become your plan.

3.3.1 Purpose of Planning

A good plan helps us in many ways:

- To get ideas about the business
- To facilitate in getting financial support

- To reduce risk of loss
- To develop self-confidence
- To help solve problems
- To help run the business smoothly
- To help select an appropriate business

3.3.2 Factors to be considered in making a good business plan

One should consider some key factors in preparing a good business plan. Some of these include:

- Income
- Expenditure/cost
- Credit/source of investment
- Amount of credit and rate of interest
- Marketing channels
- Storage
- Profit

3.3.3 Factors to be considered in Business Planning

- What type of business will it be?
- Does the entrepreneur have enough experience to run the business?
- What risks are involved?
- What is the demand for the products/goods/services provided by the business?
- Will it be profitable?
- How much capital will be required?
- Are there sources of adequate capital?
- How will the capital be mobilized?
- Are the required facilities and infrastructure available?

3.4 Business Plans

A business plan covers all important aspects to be considered before starting a business.

It is a guide for you to follow so that you do not overlook important aspects when preparing for your new business. This chapter will cover, step by step, each part of the Business Plan. When you have worked through all the steps you should be able to complete your own Business Plan.

3.4.1 How a business plan can help in starting a business.

As soon as you are clear about your business idea, you need to collect detailed information and do some calculations to be able to see if the new business will be profitable and if you should really take the risk to start it. Lack of proper planning and preparation is one major cause for the high rate of failure among new businesses.

A business plan helps you to:

Decide if you should start your business or not. Starting a business will change your life completely. Therefore you need to make sure that you take the right decision. The business plan will help you make the right judgment.

Organize your ideas so that you will know how to start and run your business in the best way. The business plan follows a standard sequence of relevant topics and it will therefore help you to be clear on what you want.

Present your business plan to a lending institution such as a bank for obtaining a loan for your business. By preparing the business plan yourself, you will be able to answer most questions they may ask.

The following are the main steps for writing an effective Business Plan:

1. Describe your business idea

All business plans are based on one single business idea. It is about which needs the products or services will satisfy, what product you are going to produce, what service you are going to provide or what goods you are going to sell, who you are going to sell it to and how you are going to sell it to them.

2. Prepare your marketing plan

After you have described your business idea you should think in detail about how you are going to market your products or services. Marketing is everything you do to find out who your customers are, what they need and want and how much they are willing to pay.

Marketing is about knowing how to reach and satisfy your customer while making a profit with your business.

3. Estimate your sales

As soon as you know your customers and products or services better and you know how to get these to your customer, you will be able to estimate your monthly sales (in volume and value). These sales estimates form the basis for all further calculations about costs and the profit the business will make.

4. Know how much to buy and to produce

When you know your sales plan, you should be able to work out your production plan and subsequently be able to calculate what materials and services you need, how much you need and when you need it.

5. Decide what and how many staff you need

Based on your business idea and your sales plan you will now need to think about the staff you need for this business. What skills and experience are needed? How many workers do you need? Of course you will then also need to find out how much you need to pay for salaries and salary costs (including your own).

6. Identify the fixed assets you need to acquire

Most businesses need certain land, buildings and equipment to be able to produce or to provide the intended services effectively. Fixed assets are those items that will last longer than one year and their value is reduced over the lifetime of the asset. This reduction in the value of fixed assets is called depreciation.

7. Know your costs and plan for profit

The previous steps have provided you with most information about the costs you will incur by running your business. You will now need to complete and summarize the costs, in order to plan for profit. By making a cash-flow plan you make sure that any shortfalls in finance will be avoided as these will negatively affect your business performance and the planned profit.

8. Calculate your product costs and set your prices

To be able to set your prices correctly, to plan for the best possible profit margin and not just passively respond to prices set by your competitors, you need to estimate the cost of your products or services as accurately as possible.

9. Estimate your start-up capital and your loan requirement

Start-up capital is the financial resources you need to start your business. You need money for fixed assets, but you also need money to cover your expenses during the first two or three months after the business has started, as very little money is coming in yet. When you know how much start-up capital you need, you make sure that the full amount is available. If your financial resources are insufficient you decide about how much of the required start-up capital should be obtained through loans.

10. Choose the legal form and know your responsibilities

There are different legal forms to choose for your business. They all have advantages and disadvantages and which form you choose depends on the characteristics of your own business, the ownership structure you wish to pursue and the amount of capital you wish to invest in the beginning. When you run a business you also have additional legal responsibilities. The manual will help you to understand the legal requirements and obligations that apply to the form of business you choose.

11. The executive summary

The executive summary is the first page of your business plan and gives an outline of your future business. It contains some of the most important information from the Business Plan. You will therefore need to complete all other parts of the Business Plan before you fill in the executive summary. It is important that the executive summary is clearly worked out and looks tidy, because it is the first impression one gets when opening your business plan!

3.5 Business Plan Outline

3.5.1 Cover Page

Name, address, and phone number of business

Give your plan a professional appearance by printing it on high quality paper and placing it in a vinyl or cardstock binder.

- A. Name of company
- B. Company address
- C. Company phone numbers
- D. Logo (if you have one)
- E. Names, titles, and addresses of owners
- F. Month and year in which the plan was completed

G. Indicate that the plan is “Confidential”

3.5.2 Table of Contents

Enumerates the contents of the documents and gives the page numbers for easy reference.

3.5.3 Executive Summary

This is a brief, one-page summary representing the various sections of your business plan. Address the following questions and add additional information that will help you achieve your goals.

NOTE: The executive summary is written last, but is the most important part of your plan.

3.5.4 Background Information

A. Business concept

- Mission statement
- Goals and objectives of business
- Description of business

B. Answer as many of the following questions as are appropriate:

1. What business are you in?

- (a) Merchandising
- (b) Manufacturing
- (c) Wholesale
- (d) Service

2. What is the nature of your product(s) or service(s)

3. What will be special about your business?

C. What market do you intend to serve?

- What is the total market?
- What is your expected share?

D. How can you serve the market better than your competition?

E. Present status of the business: start-up, expansion of growing, or take over of an existing business?

F. If you will be doing any contract work, what are the terms?

Reference any firm contracts and include them as supporting documents.

G. Do you have letters of intent from prospective suppliers?

Add for Existing Business:

H. What is the history of the business?

I. Why does the owner wish to sell at this time?

J. If the business is declining, why? How can you turn it around?

K. How will your management make the business more profitable?

L. What changes do you plan to make in the business?

M. What is the purchase price formula? Give breakdown for building, improvements, equipment, inventory, and good will.

NOTE: If your business will be a seasonal business, make sure the seasonality is reflected in your narrative and financial projections with appropriate footnotes.

3.5.5. Description of Products or Services

- Features of proposed products/services
- Describe benefits to your customer
- Intellectual property and proprietary rights issues
- Production plans
- Future products/services

3.5.6. The Market Plan

A. Description of industry

- Background of industry
- Current and future industry trends
- Business fit in industry

B. Your market

- Customer profile and target market

- Description of your trade area
- Size of your market
- Market potential
- Market trends

C. Competition

- Direct competition - businesses with the same product or service and same target market. (Include three to five businesses and locations)
- Indirect competition - a product that is in a different category altogether but which is seen as an alternative purchase choice; for example, coffee and mineral water are indirect competitors.
- Evaluation of competition - strengths, weaknesses, size, age, status
- Your competitive advantage
- Briefly describe your competition and tell how their operations are similar AND dissimilar to yours.
- What is your unique selling proposition, and how will you use it to control your market share?

D. Market strategies

- Market positioning
- Marketing tactics
- Packaging
- Pricing
- Promotion
- Distribution
- Advertising
- Public relations
- Customer service

3.5.7. Management Structure and organization

- Legal form of ownership
- Management and personnel
- How does your background and business experience help you in this business?

- Describe your management team
 - Identify their strengths and weaknesses?
 - What will be their duties and responsibilities?
 - Do you have job descriptions that clearly define their duties?
 - Are there additional resources available to your business?
 - Will you have to train people and at what cost?
-
- Describe your organizational structure, and include a brief description of who does what (include an organizational chart, if necessary)
 - Are there additional resources or advisors?

3.5.8. Business Operations

A. Business location

- What is your business address and why did you choose that location?
- Will the building be leased or owned?
- What are the terms and length of the lease contract?
- What renovations will be needed and at what cost?
- Describe the neighbourhood (e.g., stable, changing, improving, and deteriorating)
- What other kinds of businesses are in the area?

B. Licenses and permits

- Is your business name registered?
- How will you be affected by local zoning regulations?
- What other licenses or permits will you be required to obtain?

3.5.9. Financial Plan

A. Start-up investment requirements

- Start-up costs
- Business needs/capital equipment list
- Source and application of funds statement

B. Cash flow projections

- Monthly estimate of revenue and expenses

- Assumptions - the basis upon which the revenue and expense numbers are determined.
 - Projected income statement
 - Detail by month for the first year
 - Detail by quarter for the second year
 - Notes of explanation and assumptions
- C. Projected balance sheet (with notes of explanation and assumptions)
- D. Break-even analysis (at what level of operation do your expenses equal your sales?)
- E. Summary of financial plans and needs
- F. For an existing business (include one or more of the following)
- Income statements
 - Balance sheets
 - Tax returns for past three years

3.5.10 Conclusion

- Statement of feasibility
- Action plan
- Supporting documents

3.6 Tips for Writing a Good Business Plan

- Keep it simple and focused
- Make it easy to read
- Use understandable language, a layout that is pleasing to the eye, and charts or graphs to explain difficult concepts.
- Be objective
- Review the plan with the critical eye of an outsider who doesn't know your business and isn't committed to the business.
- Be honest
- Acknowledge your weaknesses as well as your strengths.
- Review and revise the document regularly

MODULE FOUR: FINANCING THE BUSINESS

4.1 Learning Objectives

By the end of this session the learner should be able to:

- Understand the uses of business capital
- Understand the different sources of business capital
- Work out the capital requirement for a small business
- Understand and appreciate the requirements of starting a business without any capital

4.2 Learning Activities

Ask the trainees the following questions

- How much capital do you need to start your business?
- Should it in cash form or in other forms like stock, guarantees, furniture or other assets?
- How did you determine the amount of capital you need?
- What are the sources of capital for business?
- Are these sources readily available?
- What challenges will you face if you want to raise capital for business?
- Are there businesses you can start without any capital? How would you commence such a business?
- Is debt available in your areas for people who want to start business? What are the usual terms? What is the length of the repayment period?

4.3 Financing the Business

The money you will need can be divided into three categories: one-time costs, working capital, and ongoing costs. One-time costs are things that you will need to spend money on to start your business but will unlikely see again, such as:

- Starting up costs.
- Licenses and permits
- Furniture and fixtures
- Decorating and remodeling costs
- Initial inventory
- Security deposits
- Equipment purchases
- Supplies

- Payroll and owner's draw until cash flow is positive

Working capital is the money you will need to keep your business going until you start to make a profit. The old adage "it takes money to make money" is true and real. It is critical to have enough working capital on hand to cover the following costs:

- Debt payments. If you will be borrowing money to get started, you will want to begin repaying it right away.
- Inventory and replacement inventory. Service businesses have little, if any, inventory, but retail and wholesale companies often spend large sums in this area. Bills (utilities e.g. Water)
- Advertising and marketing costs (e.g., flyers, sales letters, radio adverts, signs, brochures) Office supplies, other supplies, cleaning service, etc.
- Ongoing payroll if you need to employ a hand help.

So how much working capital do you actually need? A rule of thumb is that you have enough money at hand when you get started to get things going and to feed, cloth, and house you and your family for six months. But a rule of thumb is only that. You can come up with some actual numbers by answering the following three questions and doing the accompanying exercises:

- How much money do you have?
- How much money will you need to start your business?
- How much money will you need to stay in business?

As you calculate these numbers, remember that one of the smartest things you can do is to keep your overhead costs low. Don't buy brand-new office furniture if you do not need to. Buy items that are cheap and functional for your business. When you start to turn a profit, then you can indulge a bit. But right now, be conservative. You will be glad you did.

If you are starting a home-based business that only goods to sell you may just need to have enough merchandise to sell and you are in business. If you are doing your business out of the stalls, you will need rudimentary furniture and some goods to sell. You will need to consider all your business needs before you open shop. It is foolhardy to open a business today only to close a month later because of non-payment of rent. It is therefore usually prudent to have six months supply of cash to ensure the business survives.

4.4 Getting Business Capital

- **Use your savings.** It is not uncommon for entrepreneurs to have to put dreams off for a while until they have saved enough to get started. Even if you plan on getting an outside investor, he or she will still likely want to see that you have your own money on the line too. You also can sell your existing property for example a plot of land, some livestock or your share of existing business to generate cash for starting the business.
- **Borrow from family and friends.** Other people's money has been a source for new businesses for as long as there have been businesses. The first place to look is your friends and family. Maybe your dad would be willing to give you a loan or you might have a good friend who believes in you and who will invest in your business. Borrowing money for the sole purpose of starting a business is always better than for consumption purposes.
- **Find a partner or start a group business.** You can always ask another person to be your partner in the business. The amount that can be raised by two partners is always more than just one person. The partner will share with you the profit and losses of the business and may also be part of the management. Once you have decided to have a partner, ensure there is an agreement witnessed by two honest individuals that will govern the business dealings.
- **Use bank Loans and NGO grants.** While it is basically true that a loan is a loan, lenders have different criteria for making a small business loan. You must understand what the lender is looking for so that you can meet those conditions. Because an element of risk is involved in every loan a lender makes, your job is to make your lender feel that your loan's risk is low. You can do this if you understand the four conditions of business lending. A lender or grant-maker that considers a business loan will analyze your loan application through the filter of this Four Conditions:
 - **Character.** What is the character and integrity of the borrower? To smaller, independent banks, character means a lot, whereas credit scoring dominates the approval process in many larger banks. If you work with a smaller bank, character can be the critical factor between approval and denial. Because your character is so important in the loan approval process, it cannot be underestimated. Character is determined by your past credit history, payment history, letters of reference, and so on.
 - **Capacity.** What is the ability of your business to repay the loan? When it comes to lending, banks are most concerned with cash flow. Many bankers feel that a small business's cash flow statement is the single

most important financial document to consider in a loan request, because in it the bank can see if the borrower has the capacity to repay the loan. Make sure you can show your banker that your cash flow picture will work, even with the principal and interest payments included.

- **Capital.** How much money are you asking for and is the amount requested justified by your supporting documentation? The more money you ask for, the more people will review your loan and the more scrutiny your request will get. Smaller loans are easier to get. If you are unsure how your capital requirement fits with your proposal and with your banker, then it is a good idea to have a preliminary meeting to talk about this to make sure that your request fits all requirements.
- **Collateral.** Do you have something to pledge to the bank as a security? If you fail to pay the loan the bank will take the security. There are new structures and conditions for the Shariah compliant banks and grant-making NGOs as they may consider there other three conditions more than security. A small business can offer many different types of collateral—house or inventory and accounts receivable, for example. Collateral makes bankers' jobs easier, helps them sleep, and allows them to say yes to loan requests.

If you need capital, think like a banker and understand these four concepts before you apply.

4.5 Starting a business with little or no capital

You may want to start a business but do not have enough money to do so. Are you out of luck? Actually, it is safe to say that most businesses start with less than optimum funding or are undercapitalized. If you are going to start a business with little or no capital, there are some rules of the road you should know. As you go about getting the money you need to get started, it will help enormously to keep these ten tips in mind.

- **You don't need a fortune to get started.** It would be great if you had enough money, but just because you don't, it doesn't mean that you can't start a business. Most personal services businesses require skill, not capital. Brokerage businesses are mainly marketing oriented and not capital oriented. Resellers usually need space to sell and they can get merchandise on sell easily.
- **Not all debt is bad debt.** If you don't have enough money, then it is possible that you may have to incur debt to get going. But not all debt is bad debt.

Some debt is good debt when it enables you to get ahead in life—to start a business, buy a home, finance college, etc. Most millionaires start out deeply in debt to finance their dream. Is it ideal? Of course not. But if you can take on some debt and see a way to pay it back through your business, it's not a bad option.

- **Be frugal.** If you are an employee, you can waste supplies, make many phone calls, make too many photocopies, and spend your budget without a second thought because someone else is paying for it. But as a businessperson on a budget, you will have to learn to be lean and mean.
- **Invest only in your best ideas.** Remember that no business survives unless it is serving a market need. You may have many ideas, but faced with less money than ideal, you cannot afford to make mistakes. You must invest your time, money, and energy in only your best, most profitable ideas.
- **Do what it takes.** If you only are going to have 25 percent of the money that you need to start, then you must be willing to put in the other 75 percent in the form of time and effort. You will have to work harder and smarter than your competitors. You have to be willing to go the extra mile as a cash-strapped businessperson
- **Look big.** You may be starting a business out of your garage with no funds, but no one needs to know that. It is critical to your success that you project the image of a big, professional business. Until the business does get big and have some money, remember these two important words: Fake it!
- **Be creative.** No money to hire the lady who is excellent in hair care? Teach yourself how to do so and learn. If you cannot buy something with cash, barter. If you cannot hire an accountant, hire a student. As a small businessperson, you have to constantly be on guard for new ideas and new ways to bring in money.
- **You need to believe!** Successful shoestring entrepreneurs typically never owned a business before, have no business education, and, of course, do not have enough money to start but they do anyway. In short, they didn't know enough to be afraid.
- **Have a passion.** You need not be unique, smart than any anybody else. So the only thing you can do harder and focus in on something you are consumed by and like doing. It becomes a passion.”

- ***Take care of your customers.*** If you take care of your customers, your customers will take care of you. You may not have as much money as the next businessperson, but that does not mean you cannot be the best. One of the best ways to be the best is to offer personal, superior service to your customers.

MODULE: FIVE BUSINESS LOCATION

5.1 Learning Objectives

By the end of this session the learner should be able to:

- Understand the importance of location to a business set-up
- Identify the ideal location for their proposed business
- Ask relevant questions relating to suitability of a specific location
- Appreciate the importance of competition and clustering to the location of a business.

5.2 Learning Objectives

Ask the trainees the following questions

- Which street in your town has the highest concentration of specific businesses?
- Why do you think that particular street has such high concentration of businesses?
- Which street has the highest number of street vendors, hawkers and pushcarts? Why do they cluster on that particular street?
- Is competition important in locating a business?

5.3 Business Location

This section provides a guide to choosing a location for your retail business.

If you're preparing to open a food or retail business with a storefront, putting your business in the proper location might be the single most important thing you do at start-up. Of course you need a winning product, too, but how will anyone know about that product unless you get them through the door?

In the retail world, it's said that the most important decisions is location. Careful determination of new sites is critical for most retail and consumer service businesses.

5.3.1 Check population areas

You should look at neighbourhood traffic generators, such as other retailers that draw people to the area, industrial or office parks, schools, colleges and hospital complexes. You'll also want to look at both highway and foot traffic.

5.3.2 Look for Your Competitors

The best place to be is as close to your biggest competitor as you can be. Foot traffic is obviously important, but landing the 'perfect' customer is far more crucial. By being in close proximity to your competitors, you can benefit from their marketing efforts."

In other words, your competitors chose their locations based on the ideal demographics of a particular area. In many cases, they've also devoted large portions of their advertising budget toward driving traffic to their locations.

What's more, being located near your competition can be a boon to business, provided you're confident enough in your product to outsell your competitors. Competition makes the retailer or the restaurant better. Competition breeds more business, more traffic, and that's a positive.

5.3.3 Do You Need advice

Being aware of all the location costs involved with starting your business will do wonders for your ability to weather any storms that might-and likely will-come your way. Underestimating the costs and the time involved with launching your business-especially when it comes to your location-is one of the most common start-up mistakes, and one you can avoid if you plan properly. If you take into account everything you can see that both the costs and the time to start-up can vary widely.

Talk to other people in the business-learn from them what they've experienced, what the pitfalls are what things to look out for.

5.3.4 Knowing What to Ask

Answering these 21 questions for each of the sites you're considering can help you decide on the best retail location for your business:

- Is the facility located in an area zoned for your type of business?
- Is the facility large enough for your business? Does it offer room for all the retail, office, storage or workroom space you need?
- Does it meet your layout requirements?
- Does the building need any repairs?
- Do the existing utilities-lighting, heating and cooling-meet your needs or will you have to do any rewiring or plumbing work? Is ventilation adequate?
- Are the lease terms and rent favourable?
- Is the location convenient to where you live?

- Can you find a number of qualified employees in the area in which the facility is located?
- Do people you want for customers live nearby? Is the population density of the area sufficient for your sales needs?
- Is the trade area heavily dependent on seasonal business?
- If you choose a location that's relatively remote from your customer base, will you be able to afford the higher advertising expenses?
- Is the facility consistent with the image you'd like to maintain?
- Is the facility located in a safe neighbourhood with a low crime rate?
- Is exterior lighting in the area adequate to attract evening shoppers and make them feel safe?
- Are neighbouring businesses likely to attract customers who will also patronize your business?
- Are there any competitors located close to the facility? If so, can you compete with them successfully?
- Is the facility easily accessible to your potential customers?
- Is parking space available and adequate?
- Is the area served by public transportation?
- Can suppliers make deliveries conveniently at this location?
- If your business expands in the future, will the facility be able to accommodate this growth?

MODULE SIX: GRANT APPLICATION

6.1 Learning Objectives

1. By the end of this module the learners should:
2. Understand what grant is and why is given
3. Identify the process involved in application for grants
4. Prepare a grant application
5. Appreciate the concept of match-funding
6. Understand the grant-givers expectations

6.2 Learning Activities

Ask the trainees the following sets of questions to elicit discussion:

1. What is a grant?
2. Why are grants granted?
3. Has anyone in the group ever received any grant?
4. How did you apply for a grant?
5. Divide the trainees into two groups; one group should discuss the grant-givers' expectations and the other the grant-seekers' expectations. When do the two expectations meet?

6.3 Grant Application

Process of applying for a business loan or grant is a stringent one. The first element of a grant proposal is an executive summary, providing short descriptions of the type of business and the industry, the purpose and usage of the loan, the proposed repayment conditions as well as the intended loan period. After that, the company information is provided, enriching the reader with the nature of the business, the location of the business, company history, the products or services provided, key differentiation factors of the company or the product, the general growth of the industry, competitive information, growth potential and target customers.

It would help if you could include your company marketing strategy, detailed product information, historical information as well as projected growth plans for the company. Apart from that, if you plan to incorporate product or service extensions in the future, you should provide these descriptions within your loan proposal. If possible, geographical expansion plans will help in the proposal.

The next area that needs to be showcased in the proposal would be the credentials and experience of each member of the management team.

Impressive credentials will provide assurance to the lender that the company is managed by individuals who are responsible and capable. This is important as having the wrong people managing the company could be detrimental for the business.

In any loan application, historical records are essential to be used in evaluating the performance of a company. As new companies do not yet have these records, the financial records of the owners will be used as the basis of evaluation. Income tax returns forms are also required by lenders. All of these records provided should be the latest copies less than 90 days old, with the exception of the income tax returns form. If the loan is applied for an existing company in active operations, company financial statements, including profit and loss accounts, balance sheets and the net worth reconciliation record should be included in the loan proposal. Again, all of this information should also be the latest and less than 90 days old. Additionally, a listing of accounts receivables and other short term and long term debt should be attached. Inally, other documents normally required for a loan application would be items like the article of incorporation, lease agreements, partnership agreements, license, references, etc. As the list of required documentation, information and attachments differs between lenders, it is best to check with the individual lender on their specific information and documents required to be attached with the Grant Proposal.

Finance Program Planning and grant planning are intimately linked. Ideally, grant planning should be only one phase in the whole program development, program implementation, and evaluation cycle. Too often, it is treated as something separate and foreign. The best results in fund development will come when your grant and solicitation strategies are closely intertwined with your goals and program strategies.

6.1.1 Build partners - not donors!

Having said that, if you can answer the following questions, you will be well on your way to both solid program development and successful fund development.

6.1.1.1 What's the problem we are addressing?

Remember - the problem is not your need - it's the community's need!

Who else is addressing, and what are the gaps in how it is being addressed?

Gaps can be programmatic, population, time/seasonal, or material. Gaps are the reason that you have a need!

6.1.1.2 How are we proposing to address the problem?

Paint a clear and specific picture of your program! Can your prospect see it in action in their mind? How will things be different/will the problem be solved or

improved, when you are done? How will you know that you are succeeding? What will you measure in order to understand how you are doing and what needs to change or be adjusted?

6.1.1.3 What do you need in order to try to solve the problem?

This must tie to the approach you have described above. It's an opportunity to once again paint a picture of what you will be doing!

6.4 What are Grants?

A grant is a great way to get a project off the ground and is possibly the best source of funding available. There is no interest to be paid and funds are generally non-returnable, except in exceptional circumstances, where grant terms and conditions are not met. Grants are often referred to as 'free money', but there are usually a number of strings attached. Anyone who has ever tried to secure a grant will be familiar with the fact that grants are notoriously difficult to get.

It is hard work convincing the awarding body that you deserve such support, and a considerable amount of effort and time is involved in making an application.

Grants are provided by a myriad of sources, and may come from central, regional and local government, the European Commission, or various other national and local bodies such as Regional Development Agencies, charities and community foundations.

It is important to find the right grant before starting work on your application, as you may be wasting your time and that of the awarding body. As such, it is essential to keep informed about the grants that are available to you. Grants are continuously being introduced and, as there is no easy way to keep on top of such information,

6.5 Grant Application Formats

Application forms are the means by which applicants can communicate with the funding body. It is, quite simply, the method of telling the funder who you are, what you are doing, what you need the money for, and generally presenting your case for their support. Most funders will request written communication of some kind to enable them to consider a particular project, whether it be an application form, a letter or report with a set of defined questions, or a free-form letter or report where groups simply apply in writing and have to make their own assumptions as to what the funder is looking for. Whilst application forms and procedures vary, there are a number of common points regarding the information funders require.

6.6 Funders Considerations

In most cases, qualification for grant assistance is dependent on four criteria: location; type of organization; size; and project purpose.

6.6.1 Location

Eligibility for funding schemes, no matter what the type of organization, is usually dependent in part on the location of the activity for which funding is being sought.

Some areas are looked upon more favourably than others, for example a project may be eligible for a special grant if it is creating a business in an economically disadvantaged area.

6.6.2 Type of organization

Although many grants are available across all sectors, some activities such as the arts, crafts, tourism, agriculture and other specialist interests may be targeted for additional funding.

6.6.3 Size

Grants may be aimed at businesses or groups of a certain size, employing a minimum or maximum number of people, targeting growing businesses as opposed to self-employed individuals or large, well-established organizations.

6.6.4. Project Purpose

Finally, one of the most significant factors for the qualification of grant assistance is the focus of the proposed project or activity. This may be on research and development, exporting, environmental improvements, community development, rural diversification, or training and skills development. It is, therefore, important to explain what it is you want the money for, being clear about the intended outcomes of your project. Many schemes will not fund day-to-day running expenses, but are happy to help fund identified costs.

6.7 Match Funding

To reach your specified funding target, it may be necessary to match fund costs by applying to more than one funding source, or to supplement grants by utilising your own budget or income. Whilst some funds offer financial aid of up to 100% of the costs, you may need to demonstrate written confirmation of assistance from additional sources. This can be quite common when searching for support, so do not make the assumption that you will need only one source to meet your total funding requirements.

Match funding can cause significant problems when attempting to synchronize the funding to fit the timescale of your project. Some funders may not operate within your year, and your project may end up working to two or more timescales. This issue can, however, be solved quite easily by planning your project in stages (eg September-March and April-July).

Furthermore, funding bodies may accept in-kind contributions as part of match funding. This provision is particularly useful for small-scale community-based projects that may not attract the necessary matching investment in cash, but will receive assistance in non-financial support. In-kind contributions may take the form of equipment or materials, research or professional support, an interest in land or buildings, or unpaid voluntary work. Where an in-kind contribution takes the form of unpaid voluntary work, you may need to assess the nature and scale of the work (this could include valuations, timesheets etc) provided by the volunteer, in order to calculate an appropriate value of their work and convince the funding body that such assistance can be accepted as match funding.

6.8 Meeting Funders' Objectives

It is important to be absolutely clear about why you are seeking funding and, if your application is going to stand a chance, you must make sure that it meets the objectives of the funder. When you receive the guidelines from the sponsoring body, read them very carefully. If you are still unsure, it is always better to contact them to discuss your project - in fact, some funders prefer this approach.

This can save you a lot of time and effort, as it doesn't matter how good you think your project is, if you fail to meet the criteria and requirements of the funder, there is no point in applying in the first place.

When writing an application, try to see it from the funder's perspective. Make sure you answer every question, write as concisely and as accurately as possible, and do not make assumptions about what the funding body may or may not know about your project or organization. Paint a simple and understandable picture of your project and, most importantly, try to keep it free from technical terms and jargon, or any phrases that a layperson will not understand. If you do have to use such terms, ensure that you define them first.

6.9 Preparing to Make an Application

Before you make an application, look at the set-up of your organization. Is it well run? Some organizations are more successful at securing grants due to their commitment, hard work and, above all, the reputation they have built for

delivering results. It is essential that you demonstrate that your organization: is reputable and efficiently run; has a clear and specific vision of what it wishes to do, how it aims to achieve its goals, and the benefits/differences that will be derived from the project for its target group; has a strong management committee that is dedicated and democratic; has finances that are regulated and in order; has a long-term business plan if it is a company; has a good, clear and precise understanding of the project and its purpose; is aware of, and complies with, any legislation in relation to the project .

When completing an application form, make sure that you give a few details and background information about your organization. As discussed above, funders often decide on whether to award grant aid not just on the proposed project, but also on how credible an organization is. A project may be approved, but funders often decline applications if there appears to be a risk where the organization is concerned.

To prevent this from happening, try to give a brief account of how and why your group/organization was started, how it is run, what area it covers, what ethos it is based on, what additional support it has in place etc. Basically, give the funder an insight into the type and breadth of work that you are currently capable of. It is essential to emphasize the fact that your organization is well run.

Do you have a management committee/Board with the skills to govern your project responsibly, and do they share the same interests? Do you have a constitution setting out your aims and objectives? If you are applying for public or charitable money, funders will require evidence that there are sufficient systems in place to prevent grants from being used for private gain.

6.10 Making a Successful Application

There is no right or wrong way to make a grant application, but it is possible to increase your chances of successfully securing a grant by taking the following aspects into account:

- Demonstrate a need for your project.
- Show that your project is well planned.
- Accurately cost your project.
- Provide evidence of good management.
- Illustrate how the project will make a difference.

1. *Demonstrate a need for your project*

In a lot of cases, applications are rejected because funders do not believe that there is a need for the project, or because they are not persuaded that

your idea will solve a particular problem or is what people want. Ask yourself the following questions:

- What needs do your target group have?
- How do you know that they have such needs?
- Why is it important that these needs are met?
- How will your proposed project fulfill those needs?

'Needs' can cover a number of aspects such as unemployment levels, a lack of educational achievement, crime levels etc. To demonstrate the extent of your target group's 'need', you must have facts and figures to support your case. You could use statistics from a recognized source or conduct your own survey/ questionnaire asking people about their views - this can be particularly useful if you are seeking funding for a smaller project. If you are looking for finance for a large project, you may need to carry out a fully costed appraisal and show that you have researched the various ways you can meet the need, indicating which option you have chosen and why.

It is important, however, not to rely solely on statistics to paint a picture of your project. Bring in the human aspect wherever possible to communicate to the awarding body what the situation is like for your target group, such as including quotes from clients. Overall, make sure it is clear to the funder that you have done your homework and researched your project!

2. Show that your project is well planned

Funders will always want to see evidence that your project is well planned. To do this, you must specify the main aspects that will help to achieve your aims and make your project possible. You must tell the sponsor:

- What it is you are going to do;
- What difference your project will make in terms of benefits to your target group;
- When and where your project is going to happen;
- How you are going to carry out your project and what you need to do it (ie equipment, premises, staff);
- Who will be responsible for conducting the project; and
- How you are going to measure whether your project has achieved its aims and made a difference.

From the funder's point of view, it is essential that applicants show that they are serious and will be able to successfully deliver projects, no matter how good a proposal it appears to be on paper.

Most sponsoring bodies will not give out grants simply for a good cause. They will want evidence of relevant research and forward planning in accordance with the amount of money being requested and the type of work. For example, a group looking for money to buy a few pieces of equipment may only need to supply a couple of quotes, while an organization wanting new premises or additional staff may need to provide cash-flow projections, a business plan, job descriptions, planning consents etc. Essentially, the more money you want and the more risky your activity, the more work, planning and evidence you will need!

3. Accurately cost your project

Once you have devised your project plan you will need to calculate how much money you require to enable you to carry it out, justifying the amount you have requested. It may be that you draw up a budget for your organization's work as a whole, a separate budget for a particular activity, or a single figure for a one-off item of equipment. Whatever you require funding for, when drawing up a budget you should include all aspects of your project - even the hidden costs like salaries/cost of the staff involved in the administration of your project, premises and related expenditure (rates/rent/fuel), communications (telephone/postage), and any travel or training. Make sure that you do not guess what the costs may be, but get estimates or quotes to illustrate how you have worked the costs out. You could even review what you have spent in previous years or look at the accounts of other organizations that have carried out similar activities in the past to give you an idea of the value.

Always remember - don't over or under-estimate your project costs. Be as realistic as possible! And, at the same time as telling the funder how much you need and what the funding will be used for, make sure that you tell them over what period of time the project is likely to run.

4. Provide evidence of good management

Funding bodies will always want to see evidence of good management and that your organization is capable of delivering the project. It is extremely important that you have efficient procedures for the handling of finances within your organization (i.e. a good bookkeeping system and properly prepared accounts) and that you can provide evidence that you will be able to account for the money that is given to you.

5. Illustrate how the project will make a difference

With any grant application, funders will always want to know that the grant they have provided is making a long-term difference to the lives of the people benefiting from the activity. They need to be sure that the money they are giving is being spent wisely. As such, the awarding body is interested in the

positive outcomes derived from the assistance they are offering, and its significance to the beneficiaries rather than to the applying organization.

The grant schemes prevalent in today's funding world strongly highlight this point. For example, funding for a new sports centre will not be offered simply to provide better facilities for its members; it must lead to further benefits for the community as a whole, such as opening up facilities to the general public and integrating the disadvantaged into the community. It is essential that you emphasize you are working 'with' the community and that their views and needs are taken into account within your project plans.

When approaching the subject of how your project will make a difference within your application, think laterally. Take a step back from what your project is actually doing and look at what impact it might have on the community, environment and/or local economy as a whole. This way you are more likely to meet the aims and objectives of the funder, and thus increase your chances of securing the funding you desire.

Once you have been awarded a grant, a large number of funding bodies will wish to see information illustrating how you are achieving your aims and how your project is progressing. Most funders will expect to see project monitoring and a number of measurable outputs to enable them to assess how successful their investment has been, and to judge whether a group/project is really making a difference. Again, monitoring is very time-consuming but very important. It may require a worker to keep a record of what has been achieved against what was planned, such as a record of how many people attended an event, how many phone calls were received, how many jobs were created etc. Monitoring can even include methods such as interviews, questionnaires or surveys to determine how people or their views have changed since the implementation of your project.

You must think about monitoring at the planning stages of your project and try not to leave it until you get your grant. Set specific targets that you want to measure or milestones that you want to reach, and make a decision about how you are going to measure whether you have achieved them. This will also show funders that you really do care about your project and the difference it will make.

6.11 Presentation

As well as the content of your application, the layout and presentation is vital. Make the structure stand out by using clearly defined titles and subtitles, with consistent use of capital letters, bold and underlined text etc, and select a font that is easy to read and makes the best use of space. This way the reader can follow where they are in an application immediately from the appearance on the page. Also, always be aware that information can often be presented

in a more helpful and easy to understand manner in tables, graphics or figures rather than in text.

If an application form specifies how you must complete it, make sure you double check that you have obeyed all rules and instructions with regard to format, headings, enclosures, signatures etc, as you will get a lot of credit for simply following instructions! In addition, try to pay attention to detail. Get the name of the individual and the funding body right (including the spelling) by ringing to enquire who you should address your application to. By avoiding statements like 'To whom it may concern' or 'Dear sir/madam', you are letting the funder know that you have made the effort to find out about them.

Why are Applications Unsuccessful?

One of the main reasons proposals are unsuccessful is because they have been submitted to the wrong funding scheme in the first place. It is common for people to spend too much time on writing the proposal and not enough time on analyzing the key features of a programme. Rather than attempting to make your proposal fit into the format and eligibility criteria required, identify the most appropriate scheme and spend time producing a well structured proposal with key aims that are aligned with the programme's funding objectives.

As discussed earlier, it is often the case that many funding providers do not have sufficient budgets to meet all requests for funding due to the increasing number of applicants who approach them for support. It is, therefore, a good idea to be familiar with the common reasons why funding bodies reject applications, in order to prevent such issues from arising.

The most prevailing factors include the following:

- Applicants fail to illustrate why their project is needed, and do not make their plans explicit and concise on their application form.
- The project is poorly planned and there is no indication of what the money will be spent on.
- The funder's guidelines have not been examined accurately and applications fail to demonstrate that they fulfil the criteria.
- Applicants budget inaccurately and do not display good financial management.
- It is not shown that the organisation is well managed and is capable of successfully running the project, including effective monitoring and evaluation of the activity.

6.12 Summary

Overall, there is no right or wrong way to complete an application form, but bearing in mind the issues discussed in this article may increase your chances of success.

- Get informed! Make sure you find out what support is available to you.
- Refrain from starting your project before applying.
- Apply as soon as possible.
- Needs - does your project proposal match the sponsor's objectives?
- Talk to the awarding body to get their advice before you apply for assistance.
- Form a project/business plan. Most grant applications will require one.
- Imagination! Consider all angles of your project. Think laterally!
- Need match funding? If so, make sure you have the funds available.
- Demonstrate that your project cannot proceed without assistance.
- Ensure your application is in respect of your project.

To conclude, treat applications for grant assistance as you would a job application and include the same level of detail. Ensure that you are addressing the criteria fully and make your application memorable. If you can, refrain from sending your application out straightaway. Ask someone else to read over it to see if it makes sense, or give yourself plenty of time to complete it and then leave it to 'blossom'. When you look at it with fresh eyes, ideas might spring to mind which you had not previously thought of or you might pick things up that could be re-worded to get your point across better. It might even help to put yourself in the shoes of the funder and imagine it is your money.

SECTION 3: LEADERSHIP AND GROUP MANAGEMENT TRAINING

MODULE ONE: LEADERSHIP

1.1 Learning Objectives

By the end of this session, the learners should be able to:

- understand the true definition of leadership
- build the confidence to undertake major responsibilities for bringing economic change in their communities
- Understand how to realize their un-realized leadership potential
- Internalize how to run and lead their networks effectively.
- To appreciate how young people can be change makers in their communities

1.2 Learning Activities

- Ask the group what comes in your mind when you hear the word leader?
- List their responses on the board
- Then ask the group to close their eyes for five minutes. Think of a leader and list his or her attributes that characterize the leader you remember. Indicate lessons that you learned from the leader and that has been valuable in your personal life.
- Ask participants to discuss their leader with the entire group.
- At the end summarize the discussion using your expertise and material provided

1.3 Who is a leader?

A survey of successful business leaders on the attributes most valuable in leadership came up with the following:

- Ability to take decisions
- Leadership
- Integrity
- Enthusiasm
- Imagination
- Willingness to work hard
- Analytical ability
- Understanding of others
- Ability to spot opportunities

- Ability to meet unpleasant situations
- Ability to adapt quickly to change
- Willingness to take risks
- Enterprise
- Capacity to speak lucidly
- Astuteness
- Ability to administer efficiently
- Open-mindedness
- Ability to 'stick to it'
- Willingness to work long hours
- Ambition
- Single-mindedness
- Capacity for lucid writing
- Curiosity
- Skill with numbers
- Capacity for abstract thought

Are you a leader just because you run a small business? No. But you need to be. Without leadership, the ship that is your small business will aimlessly circle and eventually run out of power or run aground it's not having followers that define leadership. Cool-headed, farseeing, visionary, courageous – whichever adjectives you choose, leadership is a winning combination of personal traits and the ability to think and act as a leader, a person who directs the activities of others for the good of all. Anyone can be a leader, even if the only person they're leading is themselves.

But you can't become a leader just by saying you are. Leadership needs to be worked at. Transform yourself into a leader with these five keys of leadership.

1.4 Qualities of the good leader

1. Planning

The core of leadership is being proactive rather than reactive. Sure, leaders are good in crises – but that doesn't mean they sit around letting crises develop. Leadership involves identifying potential problems and solving them before they reach crisis proportions – and the ability to identify and reap potential windfalls. So good leaders analyze and plan and adapt their plans to new circumstances and opportunities.

2. Vision.

Vision is essential to good leadership. Vision provides direction and without direction, there's not much point to all that planning; your small business will still flail about. So if you don't have one already, take your first step towards leadership by creating a Vision Statement for your business. Because it embodies your dreams and your passions, a vision statement will also serve as a leadership vision.

3. Sharing the vision.

Sharing your leadership vision helps your vision grows and your leadership develop. As you tell your leadership vision to others, you will strengthen your own belief in your vision and strengthen your determination to make your leadership vision become reality. And other people will start to see you as a person who's "going places". Your leadership skills will grow as you and other people recognize you as a person with leadership potential.

4. Taking charge.

At this stage of leadership, you put together your planning and your leadership vision and take action. Whether it's implementing a specific plan to improve your business's bottom line or responding to a crisis, you, as the leader, are the one who makes the decisions and sees that the appropriate actions are carried out. You can't just "talk a good game" to be a leader; you need to act and to be seen as taking effective action for the good of your small business.

5. Inspiring through example.

If I asked you, you could easily name three people whose leadership qualities inspire you. If I asked you why, you'd tell me about the things these inspiring people did or are doing. Leadership is defined through action. Therefore, in developing your own leadership skills, you have to act in ways that are fitting to your leadership vision and your self – all the time. We can all name many actions of other people whom we admire, but what inspires us is the integrity that gives these actions meaning.

Becoming a leader isn't easy because it takes a conscious commitment and consistent effort to develop one's leadership skills. But on the positive side, anyone who is willing to make the effort can become a good leader.

And as good leadership is critical to business success, your efforts to improve your leadership skills will be amply rewarded. By working on these five keys of leadership, you can become the leader your small business needs.

1.5 Styles of Leadership

There are three different styles of leadership: (1) authoritarian (autocratic), participative (democratic), and delegative (free reign).

Although most leaders use all three styles, one of them becomes the dominate one.

1.5.1 Authoritarian (autocratic)

This type is used when the leader tells her employees what she wants done and how she wants it done, without getting the advice of her people. Some of the appropriate conditions to use it is when you have all the information to solve the problem, you are short on time, and your employees are well motivated.

Some people think that this style includes yelling, using demeaning language, and leading by threats and abuse of power. This is not the authoritarian style...it is an abusive, unprofessional style of leadership.

However, if you have the time and you want to gain more commitment and motivation from your employee, then you should use the participative style.

1.5.2 Participative (democratic)

This type of style involves the leader including one or more employees in on the decision making process (determining what to do and how to do it). However, the leader maintains the final decision making authority. Using this style is not a sign of weakness, it is a sign of strength that your employees will respect.

This is normally used when you have some of the information, and your employees have some of the information. This allows them to become part of the team and allows you to make a better decision.

1.5.3 Delegative (free reign)

In this style, the leader allows the employees to make the decision. However, the leader is still responsible for the decisions that are made. This is used when employees are able to analyze the situation and determine what needs to be done and how to do it. You cannot do everything! You must set priorities and delegate certain tasks.

1.6 Principles of Leadership

Know yourself and seek self-improvement. In order to know yourself, you have to understand yourself, be, know, and do, attributes. Seeking self-improvement means continually strengthening your attributes. This can be accomplished through reading, self-study, classes, etc.

- **Be technically proficient.** As a leader, you must know your job and have a solid familiarity with our employees' jobs.
- **Seek responsibility and take responsibility for your actions.** Search for ways to guide your network to new heights. And when things go wrong, they will sooner or later, do not blame others. Analyze the situation, take corrective action, and move on to the next challenge.
- **Make sound and timely decisions.** Use good problem solving, decision making, and planning tools.
- **Set the example.** Be a good role model for you employees. They must not only hear what they are expected to do, but also see.
- **Know your people and look out for their well-being.** Know human nature and the importance of sincerely caring for your workers.
- **Keep your people informed.** Know how to communicate with your people, seniors, and other key people within the network.
- **Develop a sense of responsibility in your people.** Develop good character traits within your people that will help them carry out their professional responsibilities.
- **Ensure that tasks are understood, supervised, and accomplished.** Communication is the key to this responsibility.
- **Train your people as a team.** Although many so called leaders call their organization, department, section, etc. a team; they are not really teams...they are just a group of people doing their jobs.
- **Use the full capabilities of your organization.** By developing a team spirit, you will be able to employ your organization, department, section, etc. to its fullest capabilities.

MODULE TWO: GROUP MANAGEMENT

2.1 Learning Objectives

1. Understand what a business group is
2. Understand how business groups are set up
3. Understand what helps business groups to work well
4. Identify the main principles of group management and problem-solving

2.2 Learning Activities

Divide the members into groups of 4 and let them choose from the list below and discuss the contribution of each point in the list to the success or failure of a group. Let them present to the entire class.

- Interest and commitment from all members
- Equality between members
- Fair and efficient division of work
- Rules that everyone agrees on
- Good leadership
- Good communication
- Problem solving capacity
- Good financial management.

2.3 Group Formation

A group is able to share experiences, to provide feedback, to pool ideas, to generate insights, and provide an arena for analysis of experiences.

The group provides a measure of support and reassurance. Moreover, as a group, learners may also plan collectively for change action. Group discussion is a very effective learning method.

2.4 Participation

Participation is a fundamental process within a group, because many of the other processes depend upon participation of the various members.

Levels and degrees of participation vary. Some members are active participants while others are more withdrawn and passive. In essence, participation means involvement, concern for the task, and direct or indirect contribution to the group goal. If members do not participate, the group ceases to exist.

Factors which affect members' participation

- i. **The content or task of the group**- is it of interest, importance and relevance?
- ii. **The physical atmosphere** - is it comfortable physically, socially and psychologically?
- iii. **The psychological atmosphere** - is it accepting, non-threatening?
- iv. **Member's personal preoccupations** - are there any distracting thoughts in their mind?
- v. **The level of interaction and discussions** - is adequate information provided for everyone to understand? - is it at a level everyone understands?
- vi. **Familiarity** - between group members- do members know each other from before?

2.5 Communication

Communication within a group deals with the spoken and the unspoken, the verbal and the non-verbal, the explicit and the implied messages that are conveyed and exchanged relating to information and ideas, and feelings.

Two-way communication implies a situation where not only the two parties talk to each other, but that they are listening to each other as well. It helps in

- Clarification of doubts, confusions and misconceptions
- Both parties understanding each other
- Receiving and giving of feedback
- It indicates the degree of respect between the two parties

2.5.1 Helpful hints for effective communication

1. Have a circular seating arrangement so that everyone can see and interact with everyone else
2. If there are two facilitators, they should sit apart so that communication flow is not in one direction
3. Respect individuals- let everyone call everyone else by name respectfully
4. Encourage and support the quiet members to voice their opinions
5. Try and persuade the people who speak too much to give others a chance
6. Ensure that only one person speaks at a time or no one else will be heard

7. Discourage sub groups from indulging in side talk

2.6 Problem solving

Most groups find themselves unable to solve problems because they address the problem at a superficial level. After that they find themselves blocked because they cannot figure out why the problem occurred and how they can tackle it. Therefore an effective problem solving procedure would be to:

- Clearly define the problem: Is it what appears on the surface or are there deep hidden aspects?
- Try to thoroughly explore and understand the causes behind the problem
- Collect additional information, from elsewhere if necessary, and analyze it to understand the problem further
- The group should suspend criticism and judgment for a while and try to combine each other's ideas or add on improvements. The objectives should be to generate as many ideas and suggestions as possible. This is called "brainstorming" in a group, when individuals try lateral thinking.

2.7 Leadership

Leadership involves focusing the efforts of the people towards a common goal and to enable them to work together as one. In general we designate one individual as a leader. This individual may be chosen from within or appointed from outside. Thus, one member may provide leadership with respect to achieving the goal while a different individual may be providing leadership in maintaining the group as a group. These roles can switch and change.

2.8 Development of Groups

The developmental process of small groups can be viewed in several ways. Firstly, it is useful to know the persons who compose a particular small group.

- People bring their past experiences
- People come with their personalities (their perceptions, attitudes and values)
- People also come with a particular set of expectations

The priorities and expectations of persons comprising a group can influence the manner in which the group develops over a period of time

2.9 Stages

Viewing the group as a whole we observe definite patterns of behaviour occurring within a group. These can be grouped into stages.

2.9.1 First Stage: Forming

The initial stage in the life of a group is concerned with forming a group. This stage is characterized by members seeking safety and protection, tentativeness of response, seeking superficial contact with others, demonstrating dependency on existing authority figures. Members at this stage either engage in busy type of activity or show apathy.

2.9.2 Second Stage: Storming

The second stage in this group is marked by the formation of dyads and triads. Members seek out familiar or similar individuals and begin a deeper sharing of self. Continued attention to the subgroup creates a differentiation in the group and tensions across the dyads /triads may appear. Pairing is a common phenomenon.

2.9.3 Third Stage: Norming

The third developmental stage is marked by a more serious concern about task performance. The dyads/triads begin to open up and seek out other members in the group. Efforts are made to establish various norms for task performance. Members begin to take greater responsibility for their own group and relationship while the authority figure becomes relaxed.

2.9.4 Fourth Stage: Performing

This is a stage of a fully functional group where members see themselves as a group and get involved in the task. Each person makes a contribution and the authority figure is also seen as a part of the group.

Group norms are followed and collective pressure is exerted to ensure the effectiveness of the group. The group redefines its goals in the light of information from the outside environment and shows an autonomous will to pursue those goals. The long-term viability of the group is established and nurtured.

2.9.5 Fifth Stage: Adjourning

During this phase, the group will resort to some form of closure that includes rites and rituals suitable to the event. These may include socials and parties, or ceremonies that exhibit emotional support or celebration of their success.

2.10 Facilitating a Group

A group cannot automatically function effectively, it needs to be facilitated. Facilitation can be described as a conscious process of assisting a group to successfully achieve its task while functioning as a group. Facilitation can be performed by members themselves, or with the help of an outsider.

To facilitate effectively the facilitator needs to.

- Understand what is happening within the group
- Be aware of his/her own personality
- And know how to facilitate

2.11 Group Diagnosis

The process of finding out what is going on in a group may be called diagnosing. It is an essential skill of a facilitator. Diagnosis involves understanding the causes after looking for clues within the group and outside the group. Some examples follow to illustrate the point.

Problem: Not everyone participates or shows interest and a few remain silent.

Possible causes: Perhaps the goal or task is not relevant to some of the participants. Some of the members may feel insecure or dominant on the basis of caste, class, education or gender.

Problem: Some members ignore or disregard contributions from other members

Possible causes: Members of the group may be nervous and unaware of others' needs.

Problem: The group is not able to come to consensus or is unable to devise a plan to implement the decision.

Possible causes: Perhaps the group lacks adequate information or skills to solve the problem. Perhaps the decision is threatening to some of the group members. Perhaps the group fears failure.

SECTION 4: SAVINGS AND REVOLVING FUND TRAINING

MODULE ONE: SAVINGS AND BORROWING

1.1 Learning Objectives

1. At the end of this session the learner should be able to:
2. Understand why individuals save money
3. Identify the various methods of saving
4. Appreciate the risks associated with saving and borrowing

1.2 Learning Activities

Ask the trainees the following questions:

1. Do you save any money?
2. Why do you save money?
3. How do you save your money?
4. From the answers given ask the trainees to explain the various traditional ways of saving in their local community and which one they consider the most effective.

1.3 What is saving?

Saving means withholding something valuable for future use. Saving is defined as consumption foregone. Money saved is for future use. When people have a choice, they often choose to save. Savings is made by the poor out of the income from economic activities. In rural areas, money is saved from sale of agricultural produce, wages and income from enterprise while urban poor save mainly from wages earned. There are two key elements of any saving activity:

Discipline and sacrifice: Withholding something valuable for future use instead of consuming it immediately.

Planning for the future: Saving is all about the future, about anticipating and preparing for possible risks and emergencies (a bad harvest, sickness or death), preparing for upcoming events and expenditures (payment of school fees, a marriage, old age, or funeral) or starting a new business or expanding an existing one.

1.3.1 Why people save

Everybody saves, even the poor. It's just that the poor have fewer resources to start with, and so can only save in small amounts. People save for a variety of reasons:

- To prepare for future emergencies or risks (natural disasters, injuries, death).
- To smooth out variations in income and consumption: Saving during surplus periods to use during difficult periods.
- To educate their children.
- To be prepared for old age and disability.
- To invest in opportunities potentially profitable (purchasing a cow, starting a small enterprise, storing grain to resell during high price season, etc.).
- To fulfill social and religious obligations (marriage, funeral).

1.3.2 How people save

People save in many ways, as individuals or in a group. They may save in kind, in cash (at home or in a bank), or by giving.

1. In kind: When prices are continually rising (high inflation), when there is little cash in circulation (barter economy), or when there is no bank around, saving in kind may make sense. In kind savers normally save in food-grains, like maize or rice, or in livestock, such as cattle, goats, or chickens, and sometimes in items like jewelry or gold or other valuable goods which increase in value as prices rise and can be easily resold for cash at a later date.

The disadvantages of in kind savings are that they tend to be less portable, more difficult to store and maintain (cattle are vulnerable to diseases, grains can be attacked by insects or rodents), less easily converted into cash, and more visible (sometimes people don't want others to see that they now have more chickens or cows than they used to have).

2. In cash: Almost everyone, including the very poor, has some need for cash: to buy medicine or pay for school fees or buy new clothes, etc. The main advantages of saving in cash are that cash is very portable, storable, not very visible and can be exchanged for almost anything. In view of these features, saving in cash is generally preferred. The main weakness of keeping cash is that it can lose its value during high inflation. That's why many choose a mixed strategy of saving in kind and in cash.

3. At home or in a bank: Saving at home has its benefits. The savings are nearby and easily accessed, but this means that it is also more easily accessed by other family members or can be easily stolen.

Saving at a bank may be a safer option. The problem is that banks only accept cash savings, the cost of opening and maintaining a savings account can be quite high and there are few banks, if any, located in rural areas.

4. By giving: People give gifts or offer services not just out of generosity, but also sometimes with the hope of receiving the favour back when needed.

A typical example would be volunteering to help a neighbour harvest his crop. By doing this, you expect him to help you when it comes time to harvest your crop.

1.3.3 Risks of Informal Savings

The informal saving system is fraught with many risks:

- Savings in kind is illiquid, indivisible, price fluctuations
- At home
- Theft and destruction
- Relatives demand
- Trivial spending
- No returns
- Community Savings
- Scope of money depending on fund availability
- Wait for turn
- Pay high interest
- Rigid rules
- Limited sources

1.3.4 What about borrowing?

On the surface, using someone else's money and then paying it back, later, seems easier than saving. Borrowing doesn't require any immediate sacrifice. You get the money quickly and don't have to worry about paying it back until later. But is it really easier than saving?

- **Borrowing can be expensive:** The borrower will have to pay back the loan itself, plus pay additional interest on the amount

received. This can get expensive! There can also be “hidden” interests. For example, a shopkeeper may lend person money without charging interest directly on the loan, but instead increase the price of the items the borrower must buy from him (medicines, food, and other household items).

- **Borrowing can be risky:** Since the poor are more exposed to risks caused by weather, income fluctuations, diseases, theft and death, they may have repayment problems. Suppose that after borrowing some money a family member becomes ill. The money may then have to be spent on medicine rather than on the planned investment. This will make repayment difficult and worsen their situation.
- **Borrowing can be difficult:** For the above reasons, the poor may also have more difficulties in obtaining loans than would the rich. Lenders, whether a friend, a local moneylender or a bank, are unlikely to lend to people they think will have problems in repaying.
- **Borrowing can be stressful:** A loan involves a promise to repay the lender. Normally the full amount must be repaid within a fixed period of time, often with interest. Failure to repay may mean losing valuable possessions (jewellery, a cow, a plot of land, etc.) or one’s good reputation, being threatened and/or becoming more indebted by building up fines and interest payments.

1.3.5 How can the poor save more?

The poor do save. It may be just a few bags of rice, sorghum or maize, money to pay for school fees, but they usually save something. However, they have difficulties in becoming better off since they face a lot of problems. By adopting group saving approaches they can overcome some of these problems.

Let’s see how.

- The poor can save only small amounts individually, which are usually not enough to invest in productive resources.
- By saving as a group, the poor can accumulate a larger amount of money more quickly by pooling their savings in a common fund which can then be used by the group or a member of the group for productive investment.
- Low level of literacy and numeracy skills make it difficult for the poor to keep track of their savings and to manage their money.

- By saving as a group, the poor can help each other learn these skills. As a group, they can more easily receive literacy and money management training from group promoters or trainers from NGOs, and also learn from other more literate members.
- More vulnerability to risks like bad harvest, food shortage, sickness, flood, income shortage, etc.
- By saving as a group, these risks can be shared between the members. Individual members can rely on other members for help in time of need. Group savings can be used like an insurance scheme to help members deal with these emergencies when they arise.
- No access to safe saving facilities, such as banks.
- By saving as a group, the poor can create a safe place to put their money. Some groups saving methods do not require storing at all, since the money is immediately redistributed after collection. The group can also buy or make a cash box that will be safeguarded by several members.
- Social values which expect individual savings to be redistributed to the extended family and regard individual accumulation of resources as selfish behaviour.
 - By saving as a group, the poor can protect themselves from accusations of being selfish, since the savings belong to many individuals, not just one. The threat against a single member of the group is a threat against all members.

1.4 Getting started

When looking into starting a saving activity with a group, first find out how people in the village manage their money and other productive and social resources. If you are an external facilitator, one of your most important tasks will be to gain acceptance by the village.

This can take a long time, but it is important that you obtain the support of the village leader(s) and villagers themselves. Work to gain their trust by talking with them regularly. Listen and show respect. You can prepare yourself by gathering information about the village from the local district office, non-governmental organizations (NGOs) and local leaders.

Examples of information to be gathered

- The living conditions of different socio-economic groups in the community - where is the nearest local bank, what are some traditional saving methods, where and when do households get their income from and how do they spend it?
- The needs of the community and, especially of the poor.

- The way the community solves its problems.
- Social patterns in the community - who talks to whom and why?
- The community power structure - who are the leaders and opinion makers?
- Informal and formal organizations of men and women (both mixed and separate).
- Links between the community and supply of services and who controls them.

Make sure to always crosscheck the information collected from different sources, until you have a good idea of how accurate the information is.

1.5 Group Formation

- **Identify the poor:** Use your own knowledge together with suggestions from villagers to identify the poorer men and women. In a rural community, often, you will find three broad wealth categories: the big farmers, with land and access to development services, the middle farmers, with sufficient resources to meet their basic needs, and the poor, who live at subsistence level. Remember that identifying and assisting the poor is a sensitive issue. People may not like to be identified as poor, just like the better-off may not want to be identified as rich for fear of being left out of possible assistance. You can get information on socio-economic differences through informal interviews or by doing a wealth ranking if necessary.
- **Discuss group formation:** Identify poor members of the village who are interested in working in a group. Organize one or more meetings with them to discuss their situation and financial needs and explain what you can do to assist them. It is best to keep the meeting small. A group of 8 to 15 people is ideal, since it allows for more open face-to-face discussions. If the group is too big, form sub-groups with people who have common interests. Large meetings tend to be less effective, since opinions and interests are more diverse which makes reaching agreement more difficult.
- **Identify a clear development goal:** Help the group express their goals and expectations clearly. People usually express their goals in general terms, such as “to generate income for the family”. It is important to establish realistic goals with specific actions. Let the group express their goals and discuss whether they are clear or vague. For example, “I want to improve my children’s education” is vague. “I want to buy school books and uniforms for my children for the next school year” is clearer.
- **Discuss saving:** Discuss how they intend to achieve their goals through saving. What are the advantages and disadvantages of saving? Illustrate your discussion with real stories of successful or failed savings groups. Do they know of any similar stories? How do people save? What are some

traditional saving methods? How do people deal with emergencies? Discuss the different factors enabling and constraining saving in the community. It may be easier to start a saving activity with an existing group. Saving activities tend to be more successful when group members know and trust each other. However, if there is enough interest and enthusiasm you can always start a new group.

The success of any group saving activity will depend on a number of conditions that may either promote or discourage these approaches. Therefore it is important to know what they are and design a saving activity adapted to the local environment. Careful assessment of the local conditions as well as the skills and resources of group members (existing or potential) should be made. Some of these factors include:

- **Use of cash:** The more cash that is in circulation in the community, the more likely saving in cash will be useful. Although this manual focuses on saving in cash, saving in kind (livestock, grain, jewellery) can also be important. Many find, for example, saving in livestock (cattle, goats, sheep, and poultry) a better store of value since the livestock produce offspring and/or by-products (meat, hides, wool, eggs) which add value and can be converted back into cash when needed. The main problems with in-kind savings are that they are not as portable as cash; they are more visible and more difficult to hide from needy friends and relatives; and they may be more subject to diseases as well as to theft. This type of saving requires good knowledge of taking care of livestock and/or storing grains, etc. How useful would saving in cash be for the group members?
- **Access to banking services:** Banks are usually safe places to store money but few are located in rural areas, they often have expensive service fees and very few are interested in providing services to small savers. This may make saving in a group the next best option for safekeeping one's money. As the group and its savings fund grow, it may need to purchase a cash box or a safe to safely store its cash. The group or individual members may eventually also consider linking-up with a nearby credit union or a bank.
- **Inflation:** Rapidly rising prices decrease the value of the money you save. In other words, as prices continue to rise you find that your cash savings can buy less and less goods. Inflation may discourage people from saving in cash. If prices are rising, saving in kind may be a better option.
- **Social and economic differences:** Friends and neighbours, people of the same ethnic background, gender, age group, religious or social group, or those with similar incomes and expenses may be more inclined to form a savings group than those who have little in common. That's because they trust each other or have similar potential to save. Forming a savings group with persons of very different backgrounds may be much more difficult and is not encouraged.

- **Traditional saving practices and social values:** In some societies, failure to share one's own resources with friends and family can result in being called selfish or even a witch, and these attitudes may discourage saving. What are the different ways people save in the village and which ways are preferred and why? What are the traditional values associated with saving? Do they encourage or discourage saving? If you are able to accumulate money or resources, are you considered as being selfish, and as taking money from someone else? Do people become jealous? Would saving in a group help one avoid these accusations?
- **Gender:** In most cultures, forming mixed savings groups with male and female members is accepted. However, in some mixed groups, men can dominate decision-making and leadership positions, leaving women members few opportunities to develop and acquire leadership skills or benefit from common resources. Women savings groups can create a legitimate opportunity for women to meet and work together, and gain leadership skills. Separate groups of men and women can be practical as long as both sides are aware of each other's opinions and activities and do not enter into conflict with each other. Raising awareness about gender issues with men is as equally important as empowering women.
- **Investment opportunities:** Raising funds to start a small enterprise, to purchase land, livestock or farming equipment, or simply to meet family food needs, are important saving objectives for many. Using one's own savings for productive investments, as opposed to getting a loan from someone else, may take more time, but it is a safer way for the poor to escape the poverty trap. To succeed, their investments must be well-planned and profitable.
- **Existing groups:** It is easier to organize group saving activities with an active self-help group rather than to start a new one. Promoting saving within a small group is also easier because members know and trust each other and learn more quickly. Record keeping is also less of a problem in smaller groups.
- **Living nearby:** People who live near each other are more likely to have similar problems and needs. They also tend to know more about each other and who is trustworthy and who is not. Also, the closer people live to each other, the easier it will be for them to meet on a regular basis.
- **Education:** Groups with higher literacy rates are better able to keep track of their savings, maintain good records of meetings, etc. Although some group saving methods require little record keeping, the group should continuously encourage members to improve their literacy and numeracy skills and their knowledge of the world around them.
- **Health:** Diseases, such as HIV/AIDS, TB, malaria, and disabilities reduce a household's capacity to save. These will affect a group's saving capacity, when some members are no longer able to contribute their savings or when loans are not paid back. Groups should take careful measures to safeguard the savings of all members by helping members in those situations better manage their resources. For example, the group can start a savings fund that will help finance the healthcare or funeral

costs associated with the illness. Funeral societies (savings groups providing funeral services to their members) are commonly found throughout the world.

- ***Institutions and policies:*** As long as saving groups operate informally and on a small scale, they can set their own rules and regulations. But as the group's savings grow, it may want to open a bank account and this may require that the group be legally registered. Legal status may bring more opportunities, but may also come with more rules and regulations, hence less flexibility. Find out what process is involved to be registered, and what benefits or constraints are linked with this legal status.

1.6 Keys to success

What then, are the basic factors that can contribute to group saving success? There are some key elements which the group should have and these include:

- ***A common bond:*** The more similar each member's interests, goals, backgrounds and incomes are, the less likely members are to get into conflicts and arguments and the more likely they are to make quicker decisions that satisfy most members' concerns.
- ***A clear saving objective:*** Savings should be mobilized for productive uses (that will directly or indirectly increase members incomes and their ability to save). The group can choose a common goal, such as saving to buy fertilizer for all members, or each member of the group can choose his/her own savings objective, depending on his/her priority and capacity.
- ***Small groups:*** Successful saving groups tend to be small rather than large. The average size of successful self-help groups is between 8-15 members, but this number can vary. In smaller groups, there is more face-to-face contact, making trust-building among members easier, and decision-making and collective learning more efficient. Small size also means small mistakes. So start small and let the group grow as it gains more experience and when it is ready to do so.
- ***Discipline:*** Saving requires discipline since it means withholding something for future use instead of consuming it right away. All group members must have discipline and agree on a common set of rules to follow. If the rules are not enforced, then all members suffer. Groups solve this problem by using peer pressure or punishing those members who do not follow the agreed rules. This may include a fine for late payment or for missing a meeting, and even expulsion from the group.

- **Team spirit:** Sometimes having a common interest and being disciplined are not enough. “Team spirit” is also needed. Good group leaders can develop this spirit, but it can also be strengthened by other means: by giving a special name to the group which all members can identify with or coming up with a group song. The group can also develop a simple list of principles all members agree are important and worth preserving.
- **Trust:** Group saving not only requires that all members adhere to and respect a set of rules but that they trust each other. If they don’t, benefits will quickly disappear. Trust is built by showing commitment and discipline. If a member fails to honour his/her commitment, then it should not be left unpunished. Rules that aren’t enforced are seldom obeyed.

Features of a successful group

- Members have a common bond.
- Members have clear objectives.
- Members have agreed upon rules to follow.
- Members are honest and work hard to achieve their objectives.
- Members hold regular meetings and participate in discussions and decision-making.
- Members demonstrate leadership.
- Members keep accurate records of their activities and meetings

1.7 Saving as a group

There are many ways to save in a group, but they tend to be variations of three basic forms. The simplest and most common form of savings group is called the Rotating Savings and Credit Association (ROSCA). A more flexible variation of this is called the Accumulating Savings and Credit Association (ASCA) and a more complex form, is the Credit Union or Savings and Credit Cooperative.

The best advice in starting a group savings activity is to start on a small scale and keep it simple. If group members make mistakes, they will be little ones. As the group gains experience in money management, members may want to try out new, more flexible ways to meet their growing financial needs.

The ROSCA method is the simplest form; it does not require much record keeping. It also usually serves a smaller group (8 to 15 members), although larger ROSCAs do exist. It is less flexible than an ASCA since individual members cannot withdraw their savings or take loans whenever they like.

ASCAs offer more flexible savings and credit options to its members, but require more record keeping than ROSCAs. Credit Unions offer the widest range of services to their members and therefore require an even more complex record system.

All these informal and semi-formal group saving methods have the potential of linking up with either other groups or to the formal financial system, such as banks, in order to have access to more flexible services.

At the start, keep things simple!

NOTE: Names of savings methods may be changed to make it easier for members to understand.

MODULE TWO: ROTATING SAVINGS AND CREDIT ASSOCIATION (ROSCA) (MERRY-GO-ROUND SAVINGS)

2.1 Learning Objectives:

By the end of this session the learners should be able to:

1. To understand how Merry-go-round schemes work
2. Initiate and manage a merry-go-round scheme in their locality

2.2 Learning Activities

Ask the trainees if they understand a merry-go-round system of saving.

Initiate a simple ROSCA in class and demonstrate to the trainees how it should work

2.3 Rotating Savings and Credit Association (ROSCA) (Merry-go-round Savings)

The ROSCA is the most widely used method of informal group savings around. Various types of ROSCAs exist in almost every developing country and go by different names: njangi (Cameroon), susu (Ghana), arisan (Indonesia), ekub (Ethiopia), upatu (Tanzania), tontines (West Africa), Ayuuta (Somalia) etc.

A ROSCA is commonly described simply as an informal association of participants who make regular contributions to a common fund which is given in whole or in part to each contributor in turn.

2.3.1 How a ROSCA works

Members of a ROSCA may meet every day, week or month and contribute a pre-determined sum at every meeting. At each meeting (or round), the money is collected and given to one member. Once a member has received the collected money (or lump sum), s/he must continue to contribute but will not receive the lump sum until all the members have had a chance to receive it once. When the last member has received the lump sum, the group may decide to start a new cycle. This way, ROSCAs serve both loan and savings needs.

What it's used for

- Meeting individual needs of members
- Access to lump sum cash for working capital
- Small investments

Advantages

- Simple rules and procedure
- No record keeping skills needed
- No external mediator (money lender) involved
- No storage facility needed as money is redistributed at the same time it is collected

Disadvantages

- Not much flexibility to meet immediate cash needs, since members receive the money in turns
- Risk of default by a member who receives the lump-sum early in the cycle
- Periodic and equal contributions require a regular income
- Members who receive their lump-sum towards the end of the cycle may benefit less than those who receive it earlier

Steps

- Decide on what amount members can afford to contribute on a regular basis.
- How often will the group meet? Usually it is daily or weekly. If the meetings are infrequent, it will take too long for the last persons to receive their collection. This would discourage members.
- How will the collected funds be distributed? It can be done either by taking turns in a set order, by chance draws, or by bidding for it.
- Decide on who will organize the meetings and where they will take place (member's house, local community centre).
- Who will keep the records? ROSCAs don't normally require much record keeping since the money is redistributed as soon as it is collected, but some distribution methods may need record keeping.

2.3.2 Lump sum distribution methods

The group can choose any distribution method it likes. Here are some suggestions:

- Each member takes the lump sum in strict turn (by age, alphabetical order of name, etc.), which the group decides. One way is to give the money to the person who hosts the meeting. The next meeting, can be at another member's house, etc.;
- In order to compensate those members who received the lump sum at the end of the cycle, the group may decide to change the order of distribution, so that the last person in the first cycle will be the first to receive the lump sum in the second cycle, and that the first in the first round will be the last in this cycle. In the third cycle, members may decide to change the order again and so on;
- The group picks a person randomly like in a lottery draw. The person who wins cannot participate in the next draw, but must continue to contribute until everyone has 'won' once;
- Members decide to give it to the person they think needs the money most at the time of the meeting; or
- The lump sum is sold to the member who is willing to pay the most for it. This is called an auction. The money gained from the auction is collected and redistributed equally to all the members at the end of the cycle.

2.3.3 Record keeping

ROSCAs require very little, if any, record keeping. But it is always safe and useful to keep a record of the amounts collected, attendance at each meeting, and who received the lump sum on which date. In case there is a conflict between members regarding the procedure, or if the group decides to continue its activities, and begin another cycle, such records help everyone remember what was decided and agreed on at each meeting.

2.3.4 Auction ROSCA

In a typical ROSCA, the amount of the lump sum remains the same each round and no additional income is earned. Some members may not want to receive the lump sum last (as they have to wait a longer time). To compensate for this and also to help the group fund grow more quickly, some ROSCAs require that members, who want to use the fund before others, pay extra for this privilege. This is usually done by auctioning. Let's see how that works in practice:

Key Questions

- How much will each member contribute?

- How often will the group meet?
- Who will receive the lump sum first?
- Who will receive the lump sum next?
- Where will the meeting take place?

MODULE THREE: ACCUMULATIVE SAVINGS AND CREDIT ASSOCIATION (ASCA)

3.1 Learning Objectives:

By the end of this session the learners should be able to:

- To understand how ASCA schemes work
- Initiate and manage a merry-go-round scheme in their locality

3.2 Learning Activities

Ask the trainees how the merry-go-round system can be modified.

- Initiate a simple ASCA in class and demonstrate to the trainees how it should work

3.3 *Accumulative Savings and Credit Association (ASCA)*

The ASCA method is a more flexible form of savings group, but it's also a bit more complicated. In an ASCA, the contributions collected at each meeting are accumulated, rather than redistributed at the end of each meeting like in a ROSCA. With this accumulating fund, the group can do many things. It can lend to its members free of interest or with interest. Interest earned on loans can become income earned for savers, adding incentive for members to keep their savings with the group. This method can serve both savings and credit needs in a flexible way.

3.3.1 *How an ASCA works*

In an ASCA, members contribute a fixed sum at regular intervals (weekly or monthly) for a period of one year or more. After the group has saved enough money, say after 2 months, it can start giving out loans to members. The loans can be paid back in installments, or in whole, free-of-charge, or with an additional interest charge.

Charging interest on loans generates additional income which can be used to help the group savings fund grow, to cover any costs in running the group, and/or to pay members an income on their savings.

The group can also decide to accept regular or irregular contributions of equal or unequal amounts from members, to keep the fund with the group or in a

bank account, to lend the money to more than one member and charge interest on it, and a combination of these.

The group will have to decide on which way it will run its ASCA to satisfy the needs and capacities of its members.

What it's used for:

- Expected expenses (marriage, education, health care)
- Unexpected emergencies (death, accident, fire)
- Investments (buying a cow, starting a small enterprise)

Advantages

Interest earned on savings can be used to fulfil individual and/or group interests

Larger amount of savings can be accumulated overtime

More flexible individual savings and loans options than ROSCAs

Disadvantages

Management and record keeping skills needed

Risk of default by a borrower

Safekeeping of funds required (in a cash box or a bank account)

Steps

- Decide on how often the group will meet.
- How much can each member contribute at every meeting? Will every member contribute the same amount or different amounts?
- Agree on a set of rules and regulations to ensure discipline and trust. For example, fines for missing a meeting or late payment of contribution or loan, and expulsion from the group for more serious misbehaviour.
- Decide on who will be the leaders and for how long. Leaders can consist of a chairperson to facilitate the meetings, a secretary to keep minutes of the meetings and records on the transactions, and a treasurer to keep the money. It is highly advisable to divide these duties to increase transparency and avoid mismanagement of the funds.

- Find a safe place to keep the money, either in a bank or in a cash box. One way to safeguard the savings is for one trusted member to keep the box, while another trusted member keeps the key. Another way is to put two locks on the cash box and have each key kept by a different member. This provides some protection against temptation overcoming one person.
- Decide on how long the group will save before starting to give out loans. Never lend out all the accumulated savings to one person only. Remember, the money belongs to all members of the group. Minimize the risk of loss, and always keep some money in reserve.
- Decide on the conditions members must meet to receive loans and the terms of repayment. The size of the loan should be limited to a proportion of the total amount saved by the borrower. Each borrower should present one or two members with savings to stand as guarantors in case the borrower cannot pay back. If loans are not repaid on time, a fine should be charged.
- Close accounts periodically, say at the end of each year, and return the savings to the members. This step helps ensure transparency and members trust that their money has been properly handled.

3.4 Some rules on lending

Rule 1: Offer a loan that the borrower is able to repay

Set loan terms that match the cash patterns of borrowers. Loan repayments can be made on an instalment basis (weekly, biweekly, monthly) or in a lump sum at the end of the loan period. For example, for seasonal activities, it may be more appropriate to design the loan such that a lump sum payment is made once the activity is completed (for example, after harvesting). However, care needs to be taken with lump sum payments, particularly if there is risk that the harvest (or other seasonal activity) may fail. One way to protect against this type of risk is to combine instalment with lump sum payments, by collecting a minimum amount of the loan through instalments, with the remainder paid at the end of the harvest.

Rule 2: Motivate borrowers to repay loans Create incentives.

Groups should have a maximum loan size for first-time borrowers (you can test-start with a loan equal to the size of the borrower's savings), which can increase with each subsequent loan. This creates an incentive (the promise of a future larger loan) to repay the loans. You can also have the borrower pledge a valuable object or property as a guarantee (collateral) in case s/he cannot repay the loan.

Rule 3: Charge loan fees and interest set an interest rate that covers risks.

Lending can be risky and may involve costs. Sometimes loans may be repaid late (delinquency) or simply left unpaid (default), the accumulating fund is subject to inflation, and the management of loans and savings may involve administrative costs (paying a secretary and/or treasurer, bank transaction fees, transportation costs, etc.). If the interest rate is set right, it can cover these costs and provide in addition an income on members' savings. Interest rates are expressed as a percentage of the loan over a period of time (usually annually). Find out what interest rates have been set by the nearest commercial bank or other organizations providing loans in order to get an idea.

Three main ways to cover these risks can be used:

- **Charge an initial loan service fee:** The simplest way is to charge a service fee at the time of disbursing the loan. The fee is usually a percentage of the initial loan amount and is collected up front.
- **Set a flat interest rate:** The interest rate is set as a percentage of the loan amount at the time of disbursement and stays the same from the time the money is lent until it is fully paid back. This is easier to calculate as the interest payment amount remains the same throughout the repayment plan.
- **Set a declining interest rate:** The interest rate is set as a percentage of the loan amount at the time of disbursement, but the rate decreases in proportion to the amount the borrower has left to pay. This method is used most often, as it is also an incentive for borrowers to pay back quickly. However, this requires more advanced record keeping skills.

Minimize your risks! Always remember, loans are the savings of all members!

3.5 Record keeping

An ASCA requires very careful record keeping. Here's an example of record keeping for a group (for simplicity, this group has only 3 members) that meets once a week and each member contributes 10 weekly. The group has a savings book indicating the date of the meeting, names of the members (1st column), individual member's deposit for that meeting (2nd column) and each member's total savings (3rd column).

The Starting Balance shows the group's total savings at the start of the meeting. The Ending Balance shows the group's total savings at the end of the meeting, after deposits have been collected.

At the end of each meeting, the group should count how much cash they have in-hand and make sure that the amount matches the records. Everyone should participate, not just the treasurer, so that transparency is ensured.

Starting balance¹ + Savings deposited² + Cash in³ - Cash out⁴ = Ending balance⁵

1. Ending balance from the previous meeting
2. Savings deposited by members on that meeting
3. Loan repaid + interest + any late fees
 - a. Loan given out
 - b. Real cash amount left in the group's savings

Key Questions

- How much will each member contribute?
- How often will the group meet?
- Will members contribute the same amount or different
- What will happen to a member if s/he does not pay his/her contribution?
- Who will keep the money?
- Where will the money be kept?
- When can a member take a loan out?
- How much interest will be charged?

MODULE FOUR: SAVINGS AND CREDIT COOPERATIVE UNIONS

4.1 Learning Objectives:

By the end of this session the learners should be able to:

- To understand how ASCA schemes work
- Initiate and manage a merry-go-round scheme in their locality

4.2 Learning Activities

Ask the trainees how the merry-go-round system can be modified.

Initiate a simple ASCA in class and demonstrate to the trainees how it should work

4.3 Savings and Credit Cooperative Unions

A credit union operates like an ASCA but serves a much larger membership (from a low of 100 to several thousands) and offers a wider range of savings and credit services to its members. Credit unions are usually chartered under a cooperative or credit union law of the respective country. Their status must be approved by the agency that regulates credit unions in order to be operational. Credit union funds are also normally kept in a bank for safekeeping.

Members are free to come to the credit union office anytime during office hours, and no regular attendance of meeting is required. They can operate individual accounts, make saving deposits and withdrawals, earn an interest (called 'a dividend') on their savings and pay interest on loans they take from the credit union.

4.3.1 How a credit union works

A credit union uses member savings deposits to fund loans to members and pays savers a dividend for the use of their money. This payment provides an incentive to save more. Members who take a loan from the funds pay interest for the use of the money.

This interest is the credit union's main source of income. The total income must be enough to cover the dividends paid to savers, the credit union's operating expenses, and still have something left for additional services to members.

- **Member shares:** To become a member of the credit union, each person is required to purchase at least one member share. A member share is like a certificate of ownership in the credit union and can be resold when leaving the credit union. The purchase value of the member share is set by the credit union and is the same for all members. The money raised in this way becomes the initial pool of savings the credit union uses to provide loans to members.
- **Individual savings accounts:** Most credit unions offer individual savings accounts. This allows each member to deposit any amount of savings into his/her account and withdraw it when s/he wishes. Members find this saving service much more attractive than purchasing more shares since it gives them a safe place to save their surplus cash and withdraw it when they need to.
- **Certificates of deposit:** Some credit unions offer a special savings contract where the member agrees to keep his/her savings in the credit union for a fixed period of time, say one year, without touching any of the savings until after that time. The credit union normally pays the member a higher dividend than on his/her member shares or individual savings account balance.

4.3.2 What it's used for

- Serving a larger membership
- Providing more individualized savings and credit services
- Serving clients normally not reached by local commercial banks

Advantages

- Larger membership means a bigger pool of funds for lending to members
- Savings are voluntary, not compulsory
 - More individualized savings and credit options for members
 - Interest earned on savings. Members may also receive an extra dividend at the end of
 - the year if the credit union makes a surplus that year.
 - Safe deposit facilities

Disadvantages

- Larger pool of funds requires more secure storage
- Individualized accounts and larger membership require more complex accounting system
- No close collective monitoring of transactions can create opportunities for favouritism

Steps

- Identify a group with some common bond. Members of a credit union usually have the same employer or employment, belong to the same church, or live in the same village, etc.
- Form an organizing committee. The committee's first job is to find out what is required to obtain legal approval and to prepare a business plan. The business plan should include an analysis of the environment in which the credit union will operate, short and long-term goals and planned activities to achieve them.
- The group members vote on a set of rules to adopt. Application form and fee, bylaws, elected members' statement of worthiness to serve, deposit pledges, and business plan. The credit union cannot begin official operations until it is given legal status by the agency that regulates credit unions.
- Members elect a board and other required committees. The Board of Directors is composed of a President, Secretary and Treasurer and several member representatives. The Board supervises the management of the credit union, approves member loan applications and may select and hire a full-time manager, if necessary.
- Each member must purchase a member share at a fixed price. The money collected from these share purchases is then used to provide loans to members.
- Member loan requests are first reviewed by a credit union committee composed of other members to ensure the loan will be paid back. The borrower is also required to pay interest to the credit union which is based on a percentage of the amount of the loan.
- When the loan is repaid, an additional interest charge is paid by the borrower to the credit union. This interest is then used to cover any operating expenses of the credit union. If anything is left over a dividend is paid to members in proportion to the shares they have in the credit union.

4.4 *Record keeping*

Since credit unions serve a large number of members and provide more individualized services to them, their record systems are more complicated

than for a small savings group. Every credit union must have a system for accurately recording all money transactions, including each member's deposits, withdrawals, loan advances and payments. It must also record other receipts and payments that the credit union makes in the course of doing business. The basic record books for all credit unions are similar and usually include:

A cash book: This is the main transaction book of the credit union which keeps track of all cash transactions of all members as well as other credit union business transactions.

A member passbook: This book serves a dual purpose: (1) as the member's personal identification card, since it contains basic information on each member (an identification number, the member's full name and address, etc.) and (2) as a personal receipt or voucher book. When members come to the credit union, they bring their passbook, the treasurer of the credit union then records the date and amount of the transaction made and signs the member passbook to verify that the money has been paid or received by the member.

The member card: Once the member transaction is recorded in the cash book and member passbook, the Treasurer makes a similar entry on a card containing all savings and loans transactions related to that particular member. When a member applies for a loan, the loan committee reviews the information on the loan applicant's member card to determine his/her credit worthiness.

The general ledger: This record contains information on all the more detailed accounts of the credit union and is used in preparing the Balance Sheet and Income Statement of the credit union.

Key Questions

- Do you have enough members with a common bond?
- How important is security of savings?
- How easily do you want to make deposits and withdrawals of your savings?
- How much dividend do you want to earn on your savings?
- How will you safely store the money?

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