GUIDEBOOK FOR BUILDING SUSTAINABLE MICROFINANCE PROGRAMS

PREPARED BY THE ROTARIAN ACTION GROUP FOR MICROFINANCE AND COMMUNITY

Eliminating Poverty by Empowering People
Thank you for your interest in building Entrepreneurship in your community.

The Rotarian Action Group for Microfinance & Community Development (RAGM) has developed this guidebook to walk you through the steps necessary to build a sustainable Microfinance program that meets the needs of your target community.

A successful, sustainable Microfinance Program requires more than making loans. It requires helping the beneficiaries create a business plan and continuing support during the business creation or expansion process. Our Rotary members have extensive experience not only in Fund Acquisition, but also basic Business Education, Mentoring, Networking, Community Needs Assessment and Evaluation.

We have learned that the most effective programs are those where Rotarians don’t do all the work themselves. Instead, they partner with leaders in their community to identify needs and then jointly implement a solution. Rotarians are uniquely positioned to use their skills in project management and networking to bring their community together. We hope this guide gives you the confidence to move forward!

Our website www.ragm.org has significantly more information including links, forms and helpful tips.

If you are not yet a member of Rotarian Action Group for Microfinance & Community Development, please join us to access incredible tools that will save you time and help you build an amazing Entrepreneurship program!

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A. **Who is RAGM?**

   The Rotarian Action Group for Microfinance and Community Development is a group of Rotarians whose purpose is to provide global leadership to assist clubs and districts to participate in effective Microfinance and Community Development programs. We are the official microfinance vehicle of Rotarians focusing on alleviating poverty. RAGM boasts over 750 members with email circulation of more than 1,550. Our mission is to broaden and deepen Rotarians' understanding of microfinance and enable them to participate in effective microfinance programs.

B. **What is Microfinance?**

   Microfinance, also called microcredit, is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. Over the past decades, financial institutions have been developing a range of products to meet the diverse needs of this broad and underserved market across regions. The World Bank reports that nearly 1.1 billion people have moved out of extreme poverty since 1990.

C. **How does Microfinance work?**

   Microfinance can be a critical component of helping an entrepreneur build a business because it allows the purchase of equipment or products. With the proceeds from their business, the entrepreneur pays the loan back and is then often eligible for a larger loan. RAGM advocates a 6-pronged approach to build entrepreneurship that includes not just Loans but also Needs Assessment, Education, Mentors, Networking and Evaluation.

D. **How does Microfinance benefit the individual and the community?**

   The idea behind microfinance is to empower borrowers by helping them build a business which can create income and grow. When many individual businesses in a community prosper together, their community thrives. In 2015, for the first time in history, less than 10% of the world’s population was living in extreme poverty (less than US $1.90 a day). This is remarkable considering The World Bank reports 44% lived in extreme poverty in 1981!

E. **Why are Rotarians interested in Microfinance?**

   Microfinance has built a solid track record as a critical tool in the fight against poverty and has entered the financial mainstream. The rapid growth of microfinance has reached 150 million clients since 1976 and been a powerful catalyst for empowering women. Yet it still reaches only a fraction of low-income families who could benefit from this powerful tool.
F. Evaluate the Possibility of Bringing Microfinance to Your Community

The Rotary Foundation and RAGM Microfinance partners have assessment tools that can help guide you in understanding the needs of the community and its readiness for microfinance as well as help you select the microfinance options that will ensure a successful and sustainable project.

RAGM has access to a variety of educational tools. For example, RAGM has been licensed by Grameen Foundation to offer their dynamic entrepreneurial curriculum through facilitators trained to deliver 30-minute dialog based education sessions. For sustainability and quality control, consider paying the local facilitator.

1st Option: Identify a local lender already operating in your community
2nd Option: RAGM uses Grameen’s database to identify a regional lender or consider Kiva.org
3rd Option: For projects exceeding $30,000USD, consider a Rotary Global Grant

1st Option: Rotarians volunteer to be Mentors. RAGM is developing a 3-hour Training Program to be delivered online or in person.
2nd Option: Rotarians recruit, train and pay local Business Advisors. Each Business Advisor has responsibility for 5-8 entrepreneurs and visits them regularly.

Rotarians invite entrepreneurs to visit their club and introduce them to their business network, community leaders and prospective customers.

Evaluation enables you to determine the community impact of your project and make changes as needed. Tools are available from The Rotary Foundation and from RAGM Microfinance partners. In addition, your financial partner will often have tools to assist you in project evaluation.
G. Needs Assessment

Sample Community Needs Assessment Questions

Rotary Foundation Global Grants must include a community needs assessment. Any of your other partners will also want to understand the needs of the community, the goals of your project and their role in its success. The following are representative community needs assessment questions.

1. Name and location of community.

2. Describe the targeted benefiting community. Include any relevant statistics as well as geographic and demographic information about the community. Where applicable, cite your resources.

3. What groups, persons, or organizations were consulted and/or surveyed for the assessment?

4. What methods were employed to survey the community and to collect and evaluate its feedback?

5. What community needs were identified?

6. Could this community benefit from a microfinance project?

7. What is already being done to respond to the needs (e.g. government programs, NGO projects, community action, municipal activity, or prior Rotary projects)?

8. What resources are already available locally to help meet the needs (government agencies, NGOs, etc.)?

9. What is the literacy level of this community? Can your prospective participants read/write and have some basic understanding of mathematics/financial?

10. What might be the average size of a loan needed by your participants?

11. How much is the typical income of a family in this community that may be interested in a loan?

12. Would you expect that most loan recipients have children? If so, what is the common education level most children achieve in this community? Example: 5 years, 8 years, 12 years.

13. Is there a Rotary club in or near this community? Are the club leaders interested in participating in this project?

14. Where would you find an Education Partner to provide training?

15. Where could you find a Mentor Partner willing to find and train business mentors who are good listeners and have business experience?

16. Is the travel time/distance between entrepreneurs and the Program Partners close enough to allow regular meetings and easy participation?
17. What challenges to implementation of this microfinance project did you identify?

18. How will the benefiting community be involved in the project?

19. Estimate the number of people expected to benefit from the project.

20. Describe the viability of the project and how it will be sustained after the initial project leaders move on to other projects.

H. Education

RAGM has access to a variety of educational tools to help Rotarians support Entrepreneurship in their communities. For example, RAGM has been licensed by Grameen Foundation to offer their dynamic entrepreneurial curriculum through facilitators trained to deliver 30-minute dialog-based education sessions that includes Teacher’s Guides. Contact RAGM to learn more about how you can bring this proven curriculum to your community.
Representative Education Curriculum
This sample curriculum is provided generously by Grameen Foundation USA

1. Budgeting: Use Money Wisely
Set Financial Goals
Make a Budget
Make Spending Decisions
Track Daily/Monthly Income and Expenses
Keep Records to Manage Your Money

2. Savings: You Can Do It!
The Importance of Savings
Set Savings Goals
Save for Emergencies
Compare Savings Services
Make a Savings Plan

3. Debt Management: Handle With Care
My Money and Somebody Else’s Money
Good Loans / Bad Loans
The Costs of Borrowing
How Much Debt Can You Afford
The Dangers of Default

4. Bank Services: Know Your Options
Household Financial Needs
Sources of Financial Services
Advantages of Using Banks
How to Use a Bank
Bank Cards, ATMs and Debit Cards

5. Financial Negotiations: Communicate with Confidence
What is Financial Negotiation?
How to Prepare for Financial Negotiations
Negotiating Techniques
Practice Negotiation

6. 4 Steps to a Better Business
Talk with Your Customers to Improve Your Business
Estimate Your Earnings and Business Costs
Calculate Your Profit
Reduce Your Business Costs
Prepare for Unexpected Events

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I. Loan Capital

It is common that the best source for Microloans in your community is a local lender already lending in your community. If you approach that lender and tell them your program can provide them with applicants who graduated from an 8-week business curriculum and have mentors to help them be successful, your local lender will be very interested!

For projects exceeding $30,000USD, consider a Rotary Global Grant.

Rotary Foundation Grants provide one of the best ways to “Do Good in the World.” They give individual Rotarians the ability to develop, initiate, and execute needs-based projects that have high sustainable and measurable outcomes and make an impact on individuals and communities. The Rotary Foundation enables Rotarians to invest in people to alleviate poverty by creating sustainable, measurable and long term economic and social improvements in their communities and livelihoods.

If your project exceeds $400,000USD, your Global Grant project may also be eligible for a match from a recent partnership agreement between Rotary and VisionFund. VisionFund has an established track record of successful microfinance projects in 29 countries and would act as your microfinance partner and provide quarterly reports directly to Rotary.

If your community does not yet have access to any banking or financial services, consider establishing a Savings Group instead of a Microloan program. Savings Groups provide members a secure place to save, the opportunity to borrow in small amounts and on flexible terms, and affordable basic insurance services. Savings Groups are composed of 15 to 25 self-selected individuals who meet regularly and frequently to save; amounts are based on each member’s ability. Groups then pool the savings to make loans on which they charge a relatively high service fee or interest rate which in turn increases the loan fund. Member’s savings and loans are recorded in individual passbooks Learn more at http://sites.worldvision.ca/savingsgroups/how-it-works

Rotarian Involvement: The idea for a microfinance project can be initiated by anyone. The host club is generally the key to initiating, promoting and executing the project. Because all Rotary Global Grants require a host club and an international partner club, the international club plays an important role in both financing and implementation. Often the international club draws funding from other clubs in their District.

Did you know The Rotary Foundation awarded $10.5 million in Economic and Community Development Grants in 2017-18?

Further details about Global Grants are available at these links:
A Guide to Global Grants

Terms and Conditions for TRF District Grants and Global Grants

Global Grant Application Template in WORD format
J. Mentors
Often mentors can help an entrepreneur be successful by explaining best business practices, encouraging prompt loan repayment and providing weekly encouragement. Rotarians who are patient and good listeners make excellent mentors! RAGM is developing a 3-hour Mentor Training Program. See RAGM.org for details. In remote areas where there are no Rotary clubs, Rotarians can recruit, train and pay local Business Advisors. Each Business Advisor has responsibility for 5-8 entrepreneurs and visits them regularly.

Sample Mentoring Agreement Form

We are voluntarily entering into this partnership. We wish this to be a rewarding experience, spending most of our time discussing developmental activities. We agree that…

1. The mentoring relationship will last for 6 months.

2. We will meet at an agreed upon time for about one hour. Meeting times, once agreed, should not be cancelled unless this is unavoidable and try to give 24-hour notice. At the end of each meeting we will agree a date for the next meeting. Decide on best method of communication: email / text?

3. We agree that the role of the mentor is to:
   - Listen. A good mentor will listen 80% of the time and speak 20%.
   - Guide the relationship. This includes initiating contact and setting meeting dates.
   - Communicate openly and honestly with compassion, tact and respect.
   - Be a Cheerleader! Your role is to uplift, encourage and provide constructive feedback.

4. We agree that the role of the mentee is to:
   - Accept feedback. Be coachable.
   - Don’t quit! Remember there are no wrong answers and you are succeeding so long as you are moving forward in your business!
   - Communicate with your mentor. Share your Business Canvas or Business Plan early to help your mentor understand your business. If you feel they are not helping you with a specific problem, tell them so they can approach the problem differently.
   - Before your first meeting write down 3-5 specific business challenges you’d like to work on with your mentor. Which are the most important right now?
   - If you apply for a loan, ask your Mentor to help you by reviewing your application.

5. We agree to keep the content of these meetings confidential. Mentor understands some information shared by the mentee is proprietary and sensitive.

K. Networking
As the entrepreneur is establishing their business venture, they also need to be looking to the future and how they will grow and/or expand the business in future to ensure sustainability. Networking helps entrepreneurs grow businesses with support of local people and organizations who have knowledge, skills, and experience. Networking partners can include credit group members or education classmates, current or prospective customers, suppliers and successful community business leaders.
Networking can be formal or informal. It can as simple as exchanging ideas with someone who the entrepreneur believes, because of their line of business, local success or potential to be either a customer or a supplier, can help with business growth. The first networking experience will often be the members of a business training class or a credit group. They share a common interest and experience and frequently become each other’s customers or suppliers. Look around the community for networking groups that are already in place. They could be formal organizations that meet regularly and have specified objectives and goals. They could be informal groups that meet for a meal or a cup of coffee to exchange ideas. The objective is to introduce the business to others; learn from their experiences and identify areas where the business can grow as is or expand in scope. The experience with the networking group could result is ways to improve the current business model as well as ideas for expansion in terms of product or market. One of the most important outcomes of a networking group is discovering logical partnerships that can be beneficial to both businesses.

If there are no formal networking groups in your community, consider forming one. Begin with entrepreneurs who received microfinance loans at the same time. Agree to meet regularly to learn more about the community business environment and the experiences of others. Invite successful community business leaders to speak to the networking group. Visit each other’s businesses. Have fun while learning.

Take the ideas from the networking group; apply those at are appropriate and create the next level of business plan that takes the business from its current state to an enhanced one in terms of products, services or customer base. Apply the same rules to growing the business that were used to start the business – plan, fund, start, grow, evaluate. Networking, in its many forms, is an ongoing activity that is the key element of successful, sustainable businesses and continues through the entire life of the business.

L. Evaluation

Has your program been effective? Have you helped your entrepreneurs earn more money? When you use monitoring and evaluation tools you can learn the answers to these important questions and more.

Here’s how you do it:
- Establish clear project goals. What is your project going to accomplish and in what time frame?
- Determine how you will measure each goal.
- Establish a baseline that describes the state of your target community before your project begins. This information should be able to be derived from your community needs assessment.
- Establish a plan that indicates how you will collect the data, and how frequently you collect it.
- Compare expected goals to your data and evaluate the impact of your project on your beneficiaries and their community.
- Investigate the variances (both positive and negative) so you can make changes where necessary.
- Report status to your partners, your supporters and your beneficiaries.
- Maintain the data to help determine trends, total life-cycle benefits and recommendations to others who would like to duplicate your project in their own communities.
The goals of your entrepreneurship project may include:

- Build capacity of entrepreneurs, local organizations and community resources to provide economic opportunity to impoverished communities
- Develop opportunities for creation of entrepreneurial endeavors
- Reduce the poverty level of the target community

Specific metrics you may want to measure include:

- The number of people who attended training class
- The number of people who received loans
- The average size of the loan
- The loan payback rate
- The number of businesses still thriving at the end of one year
- Impact on the community in terms of revenue generated and jobs created
- The impact on beneficiaries such as the number raised above the poverty level and the number of children remaining in school.

M. Conclusion:
Thank you for your interest in bringing Microfinance to communities around the world. For more detailed information or to contact a RAGM member please access our website at www.ragm.org. View a template that shows Rotary Clubs how to build entrepreneurship at www.LaunchMyCity.org

Author’s Note: Matthew Kane serves on the RAGM Board as Developed World Microfinance Director. He is a member of the Rotary Club of North Raleigh, USA in District 7710 and a Past District Governor in 2014-15. He is the founder of two Rotary initiated entrepreneur programs: www.LaunchRALEIGH.org and www.LaunchMyCity.org He can be reached at mattkane@nc.rr.com

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