

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

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## Why this report?

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

This cross-country research activity, including testing of the manuals and tools developed, covered sixteen pre-selected FSPs and NFSPs across four European countries and four emerging economies. The data and information obtained from the sixteen organisations generated in-depth understanding on the financial health issues of micro-enterprises, the financial well-being of the micro-entrepreneurs and the ways in which their financial health and well-being might be enhanced.

The research was carried out between July 2018 and September 2020 by Klaas Molenaar (Timpoc Consultants) as lead researcher

contracted by EMN, and Mathilde Bauwin as field researcher, working for ADA. The research was based on literature reviews, surveys, field studies, interviews, and consultative discussions with a strong qualitative approach.

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

During the testing phase of this research, the world was confronted with the Covid-19 pandemic. Micro-entrepreneurs, FSPs and NFSPs were suddenly confronted with a new reality that not only caused economic and financial health problems, but most certainly also led to mental and psychological health issues for the micro-entrepreneurs. While in 2019 the future might have been characterised by optimism and opportunity, since early 2020 that same future is now shaky and uncertain. In this revised version of the report, special attention is dedicated to dealing with financial health problems when things go wrong. The micro-entrepreneurs consulted made it pretty clear that when things go wrong, it is absolutely critical that mentors, coaches, or staff of the FSP or NFSP seek contact with those entrepreneur by to

find out what can be done. Tools and methods to assist during crises are presented in a new chapter (chapter 6) of this report.

The two major outputs of the work done are:

i. This second, revised version of the technical report, which synthesises the major findings and serves as a reference

document for those who wish to learn more about the financial health of micro-entrepreneurs; and,

ii. A revised version (including tools to deal with financial health issues in times of crisis) of the manual or operational guide for FSPs and NFSPs, coaches, and mentors to use in their work.

## Financial health means action!

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

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

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

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

For many FSPs and NFSPs, there is growing awareness that coaching and mentoring (on financial issues) should be offered in a structured manner and that coaches and mentors ought to

be equipped with adequate tools and instruments to support micro-entrepreneurs in the running and development of their business.

The staff of FSPs and NFSPs, as well as the external professionals working as volunteers, will be more effective if they provide their services in a structured manner and make use of state-of-the-art tools and instruments related to financial health. Coaching and mentoring on financial issues can be more effective when it is offered in a logical way and on the basis of the capacity and capabilities of clients.

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

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

Initial feedback from coaches, mentors, and staff of FSPs/NFSPs suggests the methodology and toolbox are most effective if they are adapted to local conditions, which will optimistically lead to the creation and development of sustainable businesses that create decent work conditions and ensure the generation of adequate income for micro-entrepreneurs and their households. In other words, it contributes to both the financial health of the enterprises and the financial well-being of the entrepreneurs, and brings satisfaction to the staff of FSP/NFSP, coaches and mentors who deliver the work!