



Manual for coaches and mentors to set up and implement a Financial Health Action and Enhancement Plan for Micro-entrepreneurs

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1.

Why this manual?

This manual has been written for business advisors, mentors, coaches, and/or trainers working with micro-entrepreneurs to help them deal effectively with financial issues. It contains a comprehensive approach to measure financial health, methods to enhance and deepen financial understanding and the capacity to deal with financial issues.

Financial support from J.P. Morgan enabled the European Microfinance Network (EMN) and Appui au Développement Autonome (ADA) to produce this manual. It is based on the outcome of a joint research project carried out in 2019 and subsequent testing in 2020.

While testing the first version of this manual, the world was confronted with the Covid-19 pandemic. Both micro-entrepreneurs, FSPs and NFSPs were suddenly confronted with a new reality. A 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. In 2019 the future might have been characterised by optimism and opportunity, but since early 2020 that future is a shaky and uncertain one. In this revised version of the report, special attention is dedicated to dealing with financial health problems when things go wrong. In this environment, it is absolutely critical to find out what can be done by the entrepreneur alone or in cooperation with mentor, coach, or staff of the FSP or NFSP.

EMN and ADA have come to conclude that: programmes related to the financial health of micro-enterprises must not only focus on assessing a micro-entrepreneur's understanding of the financial issues related to his/her business and build up their capacity to deal with such issues, but more relevantly, such programmes must lead to actions that broaden and deepen the understanding and capacity of micro-entrepreneurs¹.

Micro-entrepreneurs are not keen on simply answering questionnaires. They prefer receiving active guidance, information, support and/or advice on dealing with the financial issues that may affect their financial health and well-being. Micro-entrepreneurs also prefer close cooperation (indirectly or directly) with coaches or mentors, and they expect follow-up actions to help them to deal with financial issues in a structured way.

¹ See also Enhancing the Financial Health of Micro-entrepreneurs: beyond a mere assessment, by M. Bauwin (ADA) and K. Molenaar (Timpoc Consultants), revised version published in 2020.

The manual provides suggestions for mentors, coaches, staff working with non-financial service providers (NFSPs) and financial service providers (FSPs) as well as other professionals to:

- i. Develop a process to assist (micro-) entrepreneurs understand financial issues and build their capacity to deal with selected financial issues;
- ii. Segment markets and categorize clients, thus deepening knowledge on the clients served;
- iii. Determine appropriate coaching or mentoring approaches;
- iv. Assess financial health and capabilities of micro-entrepreneurs; and,
- v. Set up and implement action plans together with (micro-) entrepreneurs who want to know how to deal with financial challenges.

The manual also contains:

- vi. A selection of illustrative programmes and relevant websites and applications (Apps); and,
- vii. A set of (interrelated) tools to be used (mainly) by coaches and mentors, including a set of tools to deal with sudden crises (e.g. Covid-19).

All tools are presented in parallel with brief “how to” boxes.



CONTEXTUALISATION WORKS

The process and tools presented in in this manual can be used in different forms. One may opt to follow the process and use the tool as presented in this manual. However, we recommend adapting it to local conditions and the type of entrepreneurs targeted by the FSP or NFSP. Contextualisation will benefit all parties: the coaches or mentors will feel more comfortable, the micro-entrepreneurs will grasp issues faster and the FSP/NFSP will see that that services are more tailored to the needs of clients with better financial health and understanding.

2. Knowing more about your client: micro-entrepreneurs

In this manual, we focus primarily on entrepreneurs and their financial health. There are many ways to define micro-enterprises and micro-entrepreneurs. For staff of FSPs and NFSPs, coaches, trainers, and mentors, it is important to have a precise view on the kind of micro-entrepreneurs they work with.

As a result, the need to define micro-entrepreneurs, segment the MSME universe, and subsequently determine how best one can ensure that micro-entrepreneurs actively engage in the process to enhance and improve their financial health.

2.1 Defining the client (micro-entrepreneurs) by EMN/ADA

The economic activity of women and men alike depend on their aspirations, entrepreneurial capabilities, and their asset base. That asset base can be further differentiated into three types of capital: human, financial/material, and social capital. However, not all entrepreneurial individuals possess the same capability mix. As a result, the type of businesses they create and manage will differ.

Although there are numerous definitions and descriptions of micro-entrepreneurs, there is not a universal definition. It is therefore better to describe the “micro-entrepreneur” in general terms according to the type of clients served by the FSP/NFSPs related to EMN or ADA, e.g. work primarily with micro-entrepreneurs with less than five workers/employees.



Financial health in this manual primarily deals with micro-entrepreneurs with less than five workers/employees.

2.2 Segmentation

Entrepreneurial activities range from survival activities that generate some additional income to self-employment, micro-enterprises and small or medium enterprises that exploit opportunities and target high growth.

A general classification to describe income-generating activities and business types is presented visually in Figure 1. The classification covers all types of economic self-employment activities, ranging from survival self-employment to the medium-sized entrepreneurial venture.

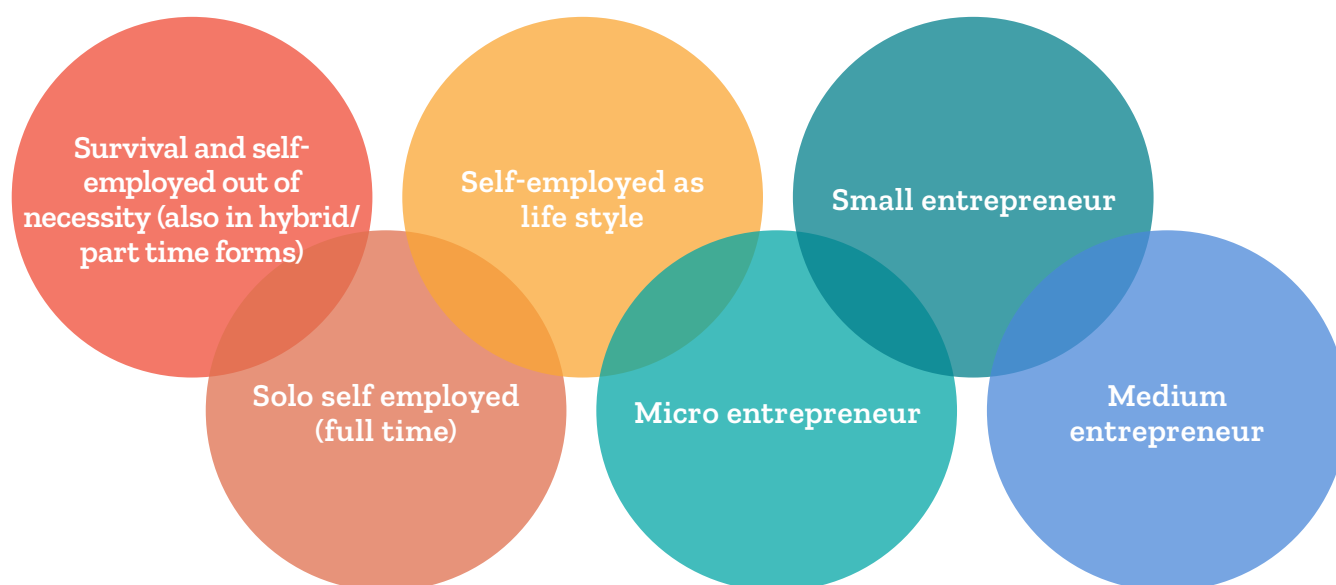
This classification should be viewed as a continuum since there is substantial overlap between categories and oftentimes some transition from one category to another.

Management of FSPs and NFSPs can make a general assessment of the segments they intend to serve.

Coaches and mentors are expected to assess more precisely the client segments they are expected to assist or support and identify the specific financial issues of the segment.

Coaches and mentors may opt to discuss this with the entrepreneur and seek acceptance from the entrepreneur of the assessment made.

Figure 1 // Classification of income generating activities and types of businesses



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



WARNING

International research has revealed that graduation from solo self-employed to micro-entrepreneur or from micro-entrepreneur to small enterprise rarely exists. Care must be exercised in assuming that entrepreneurs and enterprises will graduate. The determining factors in such graduation are entrepreneurial qualities and entrepreneurial acumen. Entrepreneurs may have taken deliberate decisions to start below one's capacities. In such cases an –upward– adjustment of the assessment may be justified and defensible.

Tool 1 // Classifying (segmenting) self-employed micro, and small, entrepreneurs/enterprises

Type of economic activity	Indicative number of jobs affected ²	Entrepreneur's objective/ aspiration/ financial strength	Main financial challenges	Assessment of the coach/ Mentor and assessment of potential to graduate	Self-assessment of entrepreneur of his/ her present situation and indication of aspirations
Survival and self-employed out of necessity (might as well be in combination with gainful employment or social welfare benefits)	Less than 1 FTE	Not focusing on economic expansion but aiming at survival; survival mentality by combining personal and business finance	Struggling to make ends meets, mixing personal with business finance; various sources of household income		
Solo Self-employed – opportunity driven	1 FTE	No real vision to expand; investing (relatively small) own funds; sense of ownership; prudent control over funds	Striving to get control over financial matters; difficulty on setting prices based on costs; debt collection problems; weak administration		
Micro entrepreneur – opportunity driven; Activity often related to professional qualities of owner; and opportunities in the marketw	1 to 4 FTE	Exploiting opportunities in the market with gradual, organic growth if chances occur; technical skills and ability to adjust to new opportunities; costs consciousness	Focus still on obtaining financing from traditional sources that are less interested in this category, some control over liquidity; problems in bookkeeping and accounting		
Self-employed / lifestyle Growth oriented; Often in hybrid form and sometimes even virtual	1 FTE	Combination of focus on fast earning and self-development; not necessarily with longer term horizon; own funds and assets; capability to operate on the internet	Often tempted to solve problems on their own; seeking financing on the internet; short horizon		
Micro-enterprise – growth oriented	1-5 FTE	Growth orientation and capital accumulation; Stabilization of income; accumulated reserves and savings; business experience and relations with third parties such as accountants, advisers, financiers	Interested in complete financing packages and need of well-balanced growth and financing plan; over optimism might be bottleneck		

Source: Adapted classification – see also: They are not yet seen ... but...Hybrid Entrepreneurship in a changing society (Molenaar, 2016)

² FTE includes the entrepreneur.

2.3 Contracting

Support services and assistance will have a more positive effect when the micro-entrepreneur knows in advance what (s)he will receive and why, and when the person delivering the service is also aware what is expected from them. This is best established through a contract between both parties and experience has shown that such contracts contribute to better service delivery by coaches/mentors and a more effective use of services rendered by clients. As a result, services should be explicitly defined with a specified time horizon.

Entrepreneurs will appreciate services more when the real price or costs of the services are mentioned explicitly in such contracts.

Clear and transparent contracting is also helpful as it allows NFSPs or FSPs to communicate the services rendered and the expectations of the entrepreneurs.

- Well-structured contracts contain:
- Clear specification of the services rendered by FSP/NFSPs (e.g. by the coaches or mentors);
- Clear timeline of when and how (dates and times) services will be delivered;
- Clear specification of what is expected from the entrepreneur for each service;
- The real cost of the service to be delivered, with clear details on how much will be paid by third parties (and the identity of those third parties);
- The price to be paid by the entrepreneur; and,
- Clear procedures to provide feedback on the quality of the services delivered.

Two procedures to implement contracting include:

- i. The NFSP/FSP enters into a contract with the entrepreneur promising that a third party will deliver the agreed upon services. There will be no direct contracting between the entrepreneur and coach/mentor and all communications come from the NFSP/FSP.
- ii. The NFSP/FSP arranges a contract between the entrepreneur and the coach/mentor directly (even if the coach/mentor works for the NFSP/FSP). In this case, the contracting party is the entrepreneur (even when the service is co-financed by the service provider or any other third party). Experience has demonstrated that this form of contacting, with the entrepreneur in the driver's seat, adds to their empowerment and leads to better quality assurance. Entrepreneurs feel more freedom to express dissatisfaction with the service provider regarding the quality or format of service provision.

2.4 Commitment of micro-entrepreneurs

When micro-entrepreneurs receive coaching or training from NFSPs, we may expect that they have made a deliberate decision to seek such guidance or attend training programmes. However, (micro-) entrepreneurs are often not that familiar with coaching and mentoring and most likely do not know what to expect. This is particularly the case when business support services are offered to them by FSPs as part of financing. At the pre-loan stage, clients may consider it as an obligation to be eligible for financing. During the post-loan stage, they may feel it as a burden placed on them by the FSP simply to ensure that they adhere to the repayment schedule. In both cases, the challenge for coaches, trainers or mentors will be to motivate entrepreneurs and stimulate them to make use of the service. The key is to highlight the added value of the coaching services.

The best way to ensure that entrepreneurs understand the relevance of the support service, and make use of it, is to offer it as a recognisable product with an easy-to-understand structure.

To create such commitment, the AIDA principles have been followed and are described in the following chapters. The AIDA principles include:

- a. Creating Awareness of the importance of financial health among entrepreneurs;
- b. Generating Interest to actively participate in a process;
- c. Stimulating the Desire of the entrepreneur to act to improve his/her financial health; and,
- d. Ensuring willingness to Act (i.e. the entrepreneur takes action that leads to improved health).

See Table 1.



ENTREPRENEURS IN THE DRIVER'S SEAT

A contract with entrepreneurs as contracting partner enables them to voice their opinion about the quality of services rendered. A second advantage: When business advisers would claim that the co-financing of their services by the service provider would not be adequate, the service provider could refer the business advisers again to the entrepreneurs and ask them whether they would be willing to pay more.

Table 1 // The elements that lead to sustained change in behavior related to the financial health of micro-entrepreneurs

	Awareness	Interest	Desire	Action
Objectives	Make entrepreneurs aware of the relevance and added value of coaching and mentoring in financial health	Generate interest amongst micro- entrepreneurs in coaching and mentoring to improve the financial health at enterprise level and financial well-being at household level	Micro-entrepreneurs have the desire to improve their financial health and are willing to take actions to enhance their understanding of financial issues.	The entrepreneur takes actions to participate in the process that leads to enhanced financial understanding and improved capacity to deal with financial issues.
What coaches and mentors need to know and be able to do	Coaches and mentors have acquired the adequate information about financial health and well-being and know how to share it with entrepreneurs	Coaches and mentors have the skills and ability to transfer know how and insights to entrepreneurs and know how to train entrepreneurs	Coaches and mentors have the skills and ability to train in action related areas	Coaches and mentors work closely with entrepreneurs in defining action plans, supporting entrappner in their actions ad with the entrepreneurs monitor an evaluate the actions
What coaches and mentors will do	Acquire information Systematize Make information accessible for entrepreneurs Make entrepreneurs curious	Set up training programmes on financial issues Run training and information sessions	Set up training and information sessions that build up the capability of entrepreneurs to act	Develop action plans together with entrepreneur Set up monitoring plans
Key element of service rendered	Share information	Train, transfer information	Train, coach, advise	Counsel, support, motivate, feedback
The effect of steps taken in this stage process	The entrepreneur is aware of the relevance and importance to ensure that the enterprise becomes/ is financial healthy	The entrepreneur has acquired adequate insights, information and knowledge about issues may affect the financial health and financial well-being	The entrepreneur has the intention (desire) and adequate capabilities to act	The entrepreneur sets goals (s)he wishes to achieve, has set up an action plan and will take actions to improve his/ her financial health

3. Understanding financial health

In this chapter, we present a working definition of financial health, describe the financial issues that play a role for specific types of the self-employed and propose a process to measure financial health and assist micro-entrepreneurs in building up the capacity to deal with financial issues and improve their financial health.

To carry out a structured financial health process, the key actors (FSPs/NFSPs, coaches, mentors, and micro-entrepreneur) need to become acquainted and familiar with key concepts, definitions, and procedures. Each actor has a specific role to play. FSPs/NFSPs need to organise training and orientation for coaches/mentors. A concrete timeline for the process with clear expectations is also required.

3.1 Financial health defined

For micro-entrepreneurs with less than five workers/employees, EMN and ADA have selected the following practical definition of financial health (embracing both assessments and actions that deepen understanding of financial health and broaden the capacity to deal with financial issues):

A micro-entrepreneur is considered financially healthy if (s)he possesses the capacity to deal with financial issues in his/her business, understands how to manage his/her finances and plans the future of the business in line with aspirations and capabilities.

The implicit assumption is that once the financial health of the business is enhanced, this will subsequently contribute to the financial well-being of the micro-entrepreneur at the household level.

There are four focal areas where micro-entrepreneur face financial challenges:

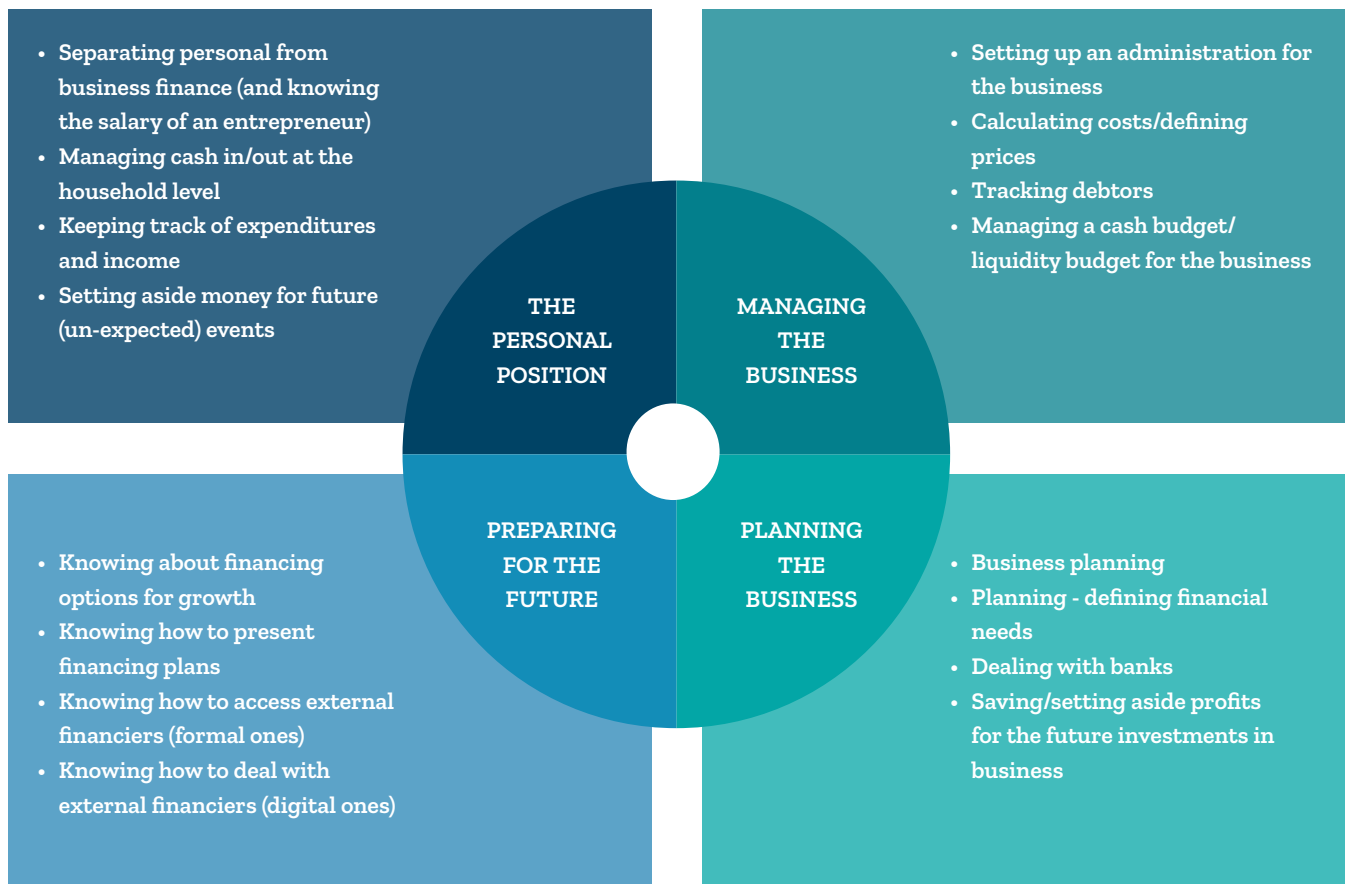
- i. The personal situation and how personal finances are dealt with,
- ii. The way (s)he manages his/her business,
- iii. The plans for the business and the way this will be financed, and,
- iv. The plans for the future and the way the financing is arranged for the future.

For each area, four specific issues determine the financial health of the enterprise and the micro-entrepreneur, which are presented in Figure 2.

Entrepreneurs face a broad range of challenges and problems. Many of these challenges have both direct and indirect effects on the financial performance of the business and subsequently on the financial well-being of the entrepreneur and his or her household. At the aggregate level, the most common issues include:

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

Figure 2 // Financial health of micro-entrepreneurs



Source: Bauwin, Molenaar (2020) partly adapted from working definition used by CFSI/ FHN (2018)³

3.2 Financial issues affecting financial health

Although there is a unique set of issues for each of the five categories of entrepreneurs, some issues are more relevant and important than others as illustrated in Table 2.

³ See Cummings L., Ruales A. (2018). Addressing the Financial Health Needs of Small Business Owners. Chicago, IL: CFSI.

Table 2 // Common financial issues across segments of the MSME universe

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

● Key issues ● Issues that deserve attention

⁴ Including setting a salary for the entrepreneur

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

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

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

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

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

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

3.3 Financial health actors and their roles

The three main actors in the process to enhance the financial health of micro-entrepreneurs include:

- i. Management of FSPs and NFSPs
 - a. Becoming familiar with financial health concepts, definitions, and approaches;
 - b. Organising training and orientation for coaches and mentors;
 - c. Promoting the financial health process amongst clients; and,
 - d. Contacting and contracting clients.
- ii. Coaches and mentors (including loan officers or credit analysts performing the role of coach or business advisor)
 - a. Becoming familiar with financial health concepts, definitions, and approaches;
 - b. Attending training and orientation for coaches and mentors;
 - c. Assisting in the promotion of the financial health process amongst clients;
 - d. Assisting in the contacting and contracting of clients; and,
 - e. Implementing the process (measuring, action plans, supporting clients, monitoring).
- iii. Micro-entrepreneurs who are clients of financial health services offered by the NFSPs/FSPs
 - a. Informing themselves about financial health (being open for promotional messages);
 - b. Receiving mentors or coaches; and,
 - c. Participating in the financial health process (measuring, action plans, actions).

The specific roles for each actor are illustrated in Figure 3.

Figure 3 // The logical steps in the Financial Health Process, the actors, and their roles



3.4 Process and suggested timeline

The ideal timeline for the financial health process is visualized on the following page (Table 3). In Chapter 4 contains further details on the actions and tools to be used. This starts after the training and orientation phase organised by FSPs/NFSPs for the coaches and mentors has taken place.

Table 3 // Ideal timeline in the Financial Health Process

Preparatory period		Action period		Feedback - evaluation period
Month 1	Month 2	Month 3	Month 3 - 6	Month 7
Defining/classifying clients/ defining working methods	Contacting and contracting	(Self)-assessment and defining action plan	Implementation and monitoring	Measuring progress
Key role for the coach/mentor is to prepare him/herself		Key role: entrepreneur implementing action plan with active support from coach/ mentor		Joint key roles of entrepreneur and coach/ mentor
<ul style="list-style-type: none"> The segmentation matrix (tool no. 1) The business life cycle assessment tools nos. 2, 3, 4 and 5 		<ul style="list-style-type: none"> The questionnaires Template Action plan Tool no. 6. Pre-selected apps, websites Tool no. 8 		<ul style="list-style-type: none"> The questionnaires If needed: revised action plan

⁵ To be drawn up locally per individual FSP/ NFSP

4. The role of coaches and mentors in the financial health process

To ensure that entrepreneurs are methodically assisted in assessing and enhancing their financial health, a number of interrelated steps need to be taken by both entrepreneurs and coaches/mentors.

Ideally, these steps are embedded in the overall process of business support services that FSPs or NFSPs offer to clients.

4.1 The Process and Tools for coaches and mentors

The process consists of a series of steps. Different tools have been developed for each step and are discussed in more detail in this manual (see Figure 4).

Figure 4 // The Financial Health process (for coaches and mentors to follow)



All tools, questionnaires and references to websites, applications, background reading and relevant programmes can also be found at the special Dropbox folder set up by EMN-ADA see also <https://bit.ly/2G3NvPD>

The various steps, the role of the coach or mentor to play and the tools to be used in each step are as follows:

Defining/ classifying clients

Step 1

In preparation of the visit to the client/entrepreneur, the coach has studied the file of the clients (provided by the NFSP or FSP with whom the coach is working with) to determine the type of entrepreneur/enterprise to be assisted.



The segmentation matrix (tool no. 1- Chapter 1) and the business life cycle assessment (Tool nos. 2, 3, 4 – chapter 3.2 and 5 – Chapter 3.3).

Contacting and contracting

Step 2

Contacting and commitment of the entrepreneur and explaining the importance and relevance of assessing financial health. The result may be to jointly define the process to be followed. The coach/mentor may leave the entrepreneur with the “stand-alone” questionnaire.

After the first visit, the coach/mentor assesses the level of urgency and the type of intervention techniques that are most desirable for the client.

Please note: in cases of emergency and crises it might be more appropriate to concentrate on the question “How to deal with the crisis?” In this case, refer to Chapter 5.



A standard contract (see Chapter 1.3); the segmentation tool (Tool No. 1 – Chapter 1) and if needed the tool No. 5 – Chapter 3.3.

Coaches and mentors can then also decide whether to share the stand-alone questionnaire with those entrepreneurs whom they consider capable of acting and measuring financial health on their own.



The stand-alone questionnaire (Chapter 5.1)

(Self)- assessment

Step 3

First assessment of the level of financial health. This can be done in two ways:

- Together with the entrepreneur, complete the “joint” questionnaire; process the data; and discuss the results.
- Provide the micro-entrepreneur with the stand-alone questionnaire (see step 1). One may also leave it up to the entrepreneur to study the outcome and then discuss this during the next visit.



The “joint” questionnaire (Chapter 5.1)

Defining action plan

Step 4

Based on the outcome the discussion between the entrepreneur and coach/ mentor, a discussion of the actions to be taken and identification of the priority areas. Together, the timing and desired outcome of the actions is decided. The coach then offers to prepare an action plan.

The coach/mentor drafts an action plan and presents it to the entrepreneur during the next visit. Together, they review the plan and agree on its implementation.

During this visit, the coach/mentor can already tackle one of more financial issues that need attention; for instance, updating a liquidity or cash plan, assisting in structuring the administration, arranging to open bank accounts or sitting down to discuss costs (and prices) of products/services.

The coach/mentor may also refer the entrepreneur to various websites or apps (pre-selected).



Template Action plan (tool no. 6 – Chapter 4.2); pre-selected apps, websites (tool no. 8 – Chapter 4.3, and Annex A).

Implementation

Step 5⁶

Subsequent visits by the coach in accordance with the action plan to discuss progress and deal with specific issues that have been listed in the action plan.



The coach/mentor may present the entrepreneur with pre-selected templates (e.g. cash plan, cost calculation or organizing an administration).⁷

Monitoring

Step 6

Discuss the entrepreneur's progress, identify the actions that have been implemented according to plan and detect deviations. Determine together with the entrepreneur the reason for the deviations and define whether the original action plan needs to be adjusted. In case the plan needs modification, the coach/mentor can offer to do so for the entrepreneur.



Monitoring plan (tool no. 7 – Chapter 5.2)

Measuring progress

Step 7

During this step (normally after 4 to 6 months), the entrepreneur and coach may also decide to complete the joint questionnaire again to assess the current financial health of the entrepreneur and his/her enterprise. This can also take place at a – mutually agreed – later moment in time.



The "joint" questionnaire (Chapter 5.1.) and/or stand-alone questionnaire (Chapter 5.1).

⁶ After step 4 there are a number of undefined steps to be taken that depend on the actions outlined in the action plan.

⁷ It is assumed that coaches/mentors will have their own templates.

4.2 The business life cycle and roles of coaches and mentors

Assistance for micro-entrepreneurs, also in financial health related issues, will likely vary over time depending on where the entrepreneur is in their business lifecycle (e.g. contemplating self-employment, starting phase, growth stage, consolidation, or declining/diversification stage) (Figure 5).

Figure 5 // The various stages in the business lifecycle



Depending on the stage in the business life cycle, the entrepreneur could benefit from different forms of external support.

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

Effective support in financial health processes depends on a clear understanding of the type of service needed at a certain point in time. Therefore, FSP/NFSP staff and volunteers should possess coaching/mentoring skills to know when to act as a coach/adviser or as a mentor/counsellor. As is the case in other businesses, micro-entrepreneurs typically advance through stages of the business life cycle. Financial issues typically differ by stage and thus, each stage requires different coaching and mentoring methods.

Tool 2 helps coaches/mentors and staff of FSPs/NFSPs to determine the appropriate method for each category of the MSME universe, the stage the micro-enterprise has reached and the typical financial problems micro entrepreneurs may face then..

Tool 2 // Business life-cycle related to financial health and coaching

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

Source: developed by authors (2019) based on classification of Entrepreneurs as discussed in (Molenaar, They are not yet seen ... but...Hybrid Entrepreneurship in a changing society, 2016) and adapted to the MSME universe of micro entrepreneurs supported by of FSPs/ NFSPs in eight pre-selected countries

Tool 3 presents the role that should be emphasised at various phases in the entrepreneurial journey. Before contacting the micro-entrepreneurs, mentors and coaches are advised to assess in advance which role (s)he can best play and which working methods can best be adopted. This can be done by entering answers into the last column.

Tool 3 // Business life cycle, needs for coaching/mentoring and prevailing roles to enhance financial health

Phases	Most prominent need with special reference to health financial issues	Prevailing role of coach or mentor assigned to the client ⁸		Role play ⁹
		Coach	Mentor	
Idea to start a business or to become self-employed	Information <i>Knowing which market and business opportunities exist and what self-employment options prevail</i>	● Information provider		
Decision to become self-employed	Understanding what it is to become self-employed <i>Becoming aware of financial (personal and business related) implications of engaging in business</i>		● Sounding board/ guide	
Preparing the business plan	Information, guidance, assuring business, referral to source of information, market and technology data <i>Detailing cost, prices, cash budget, financing/ investment plans, searching financiers</i>	● Business plan formulation		
Preparation for the start	Taking final discussions, seeking external partners <i>Committing one's own funds, presenting financing plans, attracting partners</i>		● Sounding board	
Actual start	Implementation plan, solving unexpected problems that were not included in the business plan <i>Dealing with external parties (banks, financiers, government, suppliers, client)</i>	● Business adviser, expert	● Motivator	
First years of operation	Dealing with daily problems <i>Administration, debtors/ creditors control, prices/ costs/ cash control</i>	● Problem solver	● Counsellor	
Growth	Dealing with growth <i>Financial planning, setting aside funds for future</i>	● Expert		
Diversification or winding up/down the business	Discussions in which direction to go and developing of diversification or exit plan <i>Financing plans, knowing which financier to approach, financing packages</i>	● Expert in exit or diversification plan	● Sounding board	

⁸ ● Dominant role as coach ● Dominant role as mentor

⁹ To be answered by coach or mentor

Before starting the coaching or mentoring process, the mentor/coach needs to know the type of entrepreneur asking for assistance as well as the most effective learning and working methods for each category of entrepreneur: hybrid or solo self-employed, opportunity-driven, or growth-oriented micro-entrepreneurs. Entrepreneurial type is determined by the prevailing attributes (attitude, skills, or capabilities).

Tool 4 can be used to identify the recommended type of training/coaching. In this process, identification is based on the general MSME universe (i.e. no scoring is used). To come to a balanced decision, the coach or mentor needs to understand the MSME universe and entrepreneurial characteristics. The mix of working methods can be identified by linking the type of self-employment activity or enterprise of the client to the observed learning objective of the clients.

Tool 4 // Segmentation, learning and coaching methods for financial health

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

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

4.3 Define urgency, characteristics, educational backgrounds, and business experience

Clients of financial health programmes have different characteristics, educational backgrounds, and business experiences. They find themselves at different stages of (personal and business) development and are subject to different types of financial crises. At this stage, it is important to find out the severity of the financial problem facing the micro-entrepreneur and the urgency to act.

With the ongoing Covid-19 pandemic and the various measures taken by public authorities, micro-entrepreneurs have been confronted with unexpected challenges (and sometimes opportunities). Since their financial health will certainly be affected by Covid-19, mentors and coaches, as well as the staff of FSPs and NFSPs need to be aware of the crisis' impact on micro-entrepreneurs. See Chapter 11 for additional guidance and related tools.

Tool 5 provides a score that can be used to define the type of coaching or mentoring that might be required.

Tool 5 // Scoring prevailing characteristics and levels of understanding/ capabilities to deal with financial issues and determining required intervention

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

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

4.4 Establish contact

Entrepreneurs are “Einzelgänger.” When sudden problems arise, their natural reaction is to solve them on their own, provided they do not deny that such a problem indeed exists. Further, upon tackling the problems, entrepreneurs tend to forget to seek advice from third parties, even their coach or mentor.

The standard way to sustain contact with micro-entrepreneurs is a regular visit by the coach or mentor. In recent months, with Covid-19 still impacting society, it has become clear that

communications should primarily take place online. This requires significant changes in communication style in support systems (all parties need to be in possession of proper hardware and related software). There are a variety of online methods, which are summarised in Table 4.

It is up to staff of FSP/NFSP, coaches and mentors to decide with method(s) to use, which depends on the type of entrepreneur, the facilities available and comfort with a given method.

Table 4 // Staying in contact with micro-entrepreneurs

	Engagement of micro-entrepreneur		Contact between FSP/ NFSP and micro-entrepreneur		Contact between client and other (micro-) entrepreneurs		Possible effect
	LOW	HIGH	INDIRECT	DIRECT	NO	YES	
Call by phone or WhatsApp by coach/mentor	●		●		●		Sharing of experiences; coach/mentor can provide (general) advice and refer to special measures
Call by phone or WhatsApp by Staff of FSP/NFSP	●			●	●		Sharing of experiences; staff of FSP/NFSP can provide (general) advice and refer to special measures
Webinars to share information	●		●		●		Sharing of experiences; staff of FSP/NFSP can provide (general) advice and refer to special measures
Digital training on selected topics	●			●			Trained/informed micro-entrepreneurs
Zoom meetings (or Microsoft Teams/ Skype) between micro-entrepreneur and mentor, coach, or staff of FSP/NFSP		●	●		●	●	Sharing of experiences; coach/mentor or staff of FSP/NFSP can provide (general) advice and refer to special measures
Digital community between micro-entrepreneurs facilitated by mentor coach or staff of FSP/NFSP							Sharing of experiences; micro-entrepreneurs start assisting and coaching each other
Visit in person by coach/mentor		●	●		●	●	Direct coaching to tackle problems in the enterprise
Visit in person by staff of FSP/NFSP		●		●	●		Possibility to discuss new condition of existing financing or new financing arrangements and decision on the spot

5. And action!

The key elements in the financial health process include initial measurement, explanations, reflections, defining actions and measuring progress. Coaches and mentors are expected to play an active role in that process since they have a better understanding of their clients, their financial needs, and business issues. As a result, mentoring and coaching can be more focused and tailored.

5.1 Financial health measurement tools

Measurement of financial health can take place at any time; however, it would best fit in a predetermined series of steps in the process and then systematically measured over time.

The first measurement serves as a baseline. Once this has been established, the mentor and mentee can formulate and evaluate an intervention process and its potential effectiveness.

There are two questionnaires to assess financial health levels one to go through together with the coach or mentor and a simplified one that the entrepreneur can use on his/ her one.

5.1.1 The “joint-use” questionnaire

The joint-use questionnaire is to be completed by both the micro-entrepreneur and the coach/mentor. Based on the answers obtained through, both parties can then discuss which area requires attention and the specific actions that need to be taken to enhance the entrepreneur’s understanding of a relevant financial issue or strengthen his/her capacity to deal with the selected issues.

The answers to the questions in the “joint-use” questionnaire are weighted, and the results are presented through a “spider” diagram. Rather than a single, unique score, the spider diagram is a visual presentation of the main factors, e.g. the personal situation and degree of preparation for the future and the capacity to manage the business and degree of business (growth) planning. This visualisation is subsequently analysed and discussed with the entrepreneur by both the mentor and mentee. This process is expected to bring issues to the table and enable discussion concerning the steps of action (if required). Table 5 presents the weighting method, answers, and value.

Table 5 // Weighting values for questionnaire on Financial health for micro entrepreneurs

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

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



The “joint-use” questionnaire and related instructions can be found at <https://bit.ly/2G3NvPD>



WARNING

Measurement alone will not inform much about financial health. It will only indicate something about the situation at a given moment, not how one has arrived at the situation, how one perceives it and what one's intentions and plans are. (Self)-reflection and discussions will lead to a more profound understanding of the actual financial health, the problems that an entrepreneur may face and the intentions to do something about it

5.1.2 The stand-alone questionnaire

The stand-alone questionnaire is a survey that micro-entrepreneurs can use independently (without the help of third parties).

This questionnaire gives micro-entrepreneurs direct feedback on their comprehension of financial issues and their capacity to deal with them. The tool may also refer the user to a coach and mentor for any follow up action if additional assistance is advisable.

The questionnaire asks entrepreneurs to provide a simple “Yes/No” response for questions subdivided in two major categories: (1) questions related to familiarity about a certain issue and (2) questions related to actually dealing with (or using) a specific financial product, service or issue. Depending on the respondent's score, additional questions will ask whether the entrepreneur wishes to seek guidance from a coach or mentor.



The stand-alone questionnaire and related instructions can be found at <https://bit.ly/2G3NvPD>

5.2 The action and monitoring plan

Simply assessing the level of financial health is not sufficient. Follow-up actions are often needed to deepen and broaden the financial understanding of micro-entrepreneurs. This requires mentors and coaches to formulate an action plan together with the entrepreneur and its implementation needs to be monitored over time as well.

This process can be visualized through a series of iterative steps as presented in Figure 6.

Figure 6 // Steps to arrive at an action plan to deepen financial understanding¹⁰



5.2.1 The action plan

The action plan must be SMART+S:

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

¹⁰ All steps to be taken collaboratively.

¹¹ This can be by using the questionnaires mentioned in section 4.1. However, both mentor/coach and entrepreneur may also decide to apply other methods to assess financial health and well-being.

5.2.2 The monitoring plan

Monitoring and evaluation need to take place at regular intervals. At the beginning, a rather straight forward approach can be taken by measuring the changes that have occurred relative to the targets established in the initial action plan. By following deviations from the original targets, both parties can agree on the new actions to be taken and draw up a revised action plan.

Tool 7 can be used in this monitoring process. The guidance and feedback that the micro-entrepreneur receives from the mentor or coach will lead to changes in behaviour, which in turn could lead to the desired level of independence when dealing with financing issues.

Tool 7 // Monitoring and evaluation action plans for the improvement of financial health for micro-entrepreneurs

Financial health topics		Targets ¹²		Analysis		
General	Specific	Original target in action plan	Situation at moment of monitoring ¹³	Deviation ¹⁴	Reason for deviation ¹⁵	Proposed action to redress situation ¹⁶
Dealing with personal finance	Separating personal from business finance					
	Managing cash in/out at the household level					
	Keeping track of expenditures and income					
	Setting aside money for future (un-expected) events					
Dealing with financial problems of business	Setting up an administration for the business					
	Calculating costs/defining prices					
	Tracking debtors					
	Managing a cash budget/liquidity budget for the business					
Dealing with general planning problems	Business planning					
	Planning - defining financial needs					
	Dealing with banks					
	Saving/setting aside profits for the future investments in business					
Dealing with financing options	Knowing about financing options for growth					
	Knowing how to present financing plans					
	Knowing how to access external financiers (formal)					
	Knowing how to deal with external financiers (digital)					

^{12/17} To be copied from the action plan

¹³ To be observed by the coach / mentor and/ or entrepreneur

¹⁴ To be observed by the coach / mentor

¹⁵ To be discussed with the entrepreneur

¹⁶ To be proposed by coach/ mentor and discussed and to be agreed by entrepreneur

5.3 Supporting Websites and Apps

Coaches and mentors can refer clients to a variety of programmes, websites or apps that can be used to tackle specific financial problems.

5.3.1 Websites

Annex A lists a selection of interesting websites, platforms and programmes identified during the 2019 research that deal with financial health issues.

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



WARNING

To date, there are no systems or programmes offered through websites or platforms that assess both financial health or financial well-being and allow for the creation of an action plan to improve financial health.

5.3.2 Apps

In addition to the various websites, micro-entrepreneurs, coaches, and mentors can also use specific apps that deal with financial issues. The number of apps dealing with financial issues has been quickly growing over the past years. Nearly every financial issue today has a dedicated app. Coaches and mentors often have difficulties in finding out which ones would be most suitable for clients.

The most relevant apps for micro-entrepreneurs and coaches working on financial health issues are presented in Tool 8. FSPs and NFSPs (and their staff) can add other applications over time.

For interested professionals to keep abreast with the latest developments and usefulness of (new) Apps, it is recommended that mentors/coaches working for the same FSPs/NFSPs build up an internal shared document where they list relevant apps/tools including the language in which they are available (many of the Apps can be used to work with migrants/immigrants). Those lists can then be shared with EMN/ADA for further dissemination. Over time coaches and mentors can also share their own experiences with specific apps that can be made available on a shared platform.¹⁸



WARNING

Making use of applications and related IT/ FinTech instruments is not yet common practices amongst mentors and coaches. FSP and NFSP are urged to pay attention to this in their training and orientation programmes. By sharing new applications mentors and coaches will also help each other.

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

¹⁸ To be developed later by EMN-ADA

Tool 8 // Selected apps that deal with financial problems for micro-entrepreneurs¹⁹

Name application	Founded/ launched	Purpose/ use	Strengths/ special features	Recommended to entrepreneur to use during the action plan	Reason for recommending
Mint	2006	Money management / Personal finance	Simple personal budgeting		
You Need a Budget	2010	Debt management	Budgeting (multiuser) and encouraging financial planning		
Prism	2012	Controlling bills/ invoices	Fast collection of bills without third party		
Every Dollar	2015	Budgeting	Personal budget tool with active stimulation of the user		
Wally	2013	Tracking expenses	Easy uploading expenses		
Acorns	2012	Easy saving	Automatic investing of savings		
Coinbase	2012	Cryptocurrency	Crypto currency exchange platform		
Robinhood	2013	Investing issues	Partly free investing and guides in investing and learning site		
Tycoon	2015	App for freelancers	Attractive for debt collection/ debt control		
Unbury me	2011	Debt control	Controlling and managing personal debts		
Venmo	2009	Cost-splitting	Sharing cost between individuals; fast collection of (personal) debts		
Funding options		Presenting offer of financial services	Mediating for funding for self-employed and micro-entrepreneurs		
Hatch	2017/2019	Alternative credit scoring	n.a.		
Settle go	2015	International transfers	Cross border collection of payments		
Coconut	2016	Day to day financial matters	Personal control over financial administration and control over costs		
Solna- F6S		Day to day financial matters	Day-to-day business management including invoicing, payments and cash flow analysis and empowering entrepreneurs		
ENVision	2018	Working capital control	Day to day liquidity control and working capital control		

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

¹⁹ This list will be updated regularly, see <https://bit.ly/2G3NvPD>

6. When sudden problems arise

The outbreak of Covid-19 and the subsequent measures taken by central and local authorities impose several effects on existing businesses and people aspiring to become self-employed. Many micro-entrepreneurs felt the negative short-term implications of low liquidity, which seriously threatened the continuity of their operations. And in the long-term, existing businesses will also have to face dramatic changes in market structure and conditions. Nevertheless, new opportunities may also emerge, although these new opportunities may also require a new mind-set. Original plans may have to be changed because of fast-changing market, economic and social conditions. Consumer behaviour will also have changed substantially compared to earlier market explorations or studies.

6.1 Determine the problems first

It is important to start by writing down what may be assumed to be an endless list. In reality, there are a lot of things to be done at both the household and enterprise level; many of which require immediate attention. By encouraging micro-entrepreneurs to jot down all tasks and implicitly consider who will take the respective actions, a first structuring of thoughts will emerge. The key in this process is to take a step back and observe - preferably together with the mentor/coach - what the immediate problems might be.

Tool 9 helps to generate a preliminary list of potential problems that the entrepreneur may face. It enables the entrepreneur to identify immediate problems, assess their urgency and start forming an action plan.

Tool 9 // Identify possible Covid-19 related problems affecting financial health of micro-entrepreneurs

Type of problem	Briefly describe symptoms or characteristics	Indicate whether the problems can be tackled (controllable/non-controllable)	Urgency of the problem (high/low)	Who needs to act?
Personal issues				
Personal stress, distraction, fear				
Stress and concerns about co-workers or their employees				
Uncertainty about future and/or inability to plan for the future				
Unable to take necessary decisions				
Declining sales				
Lockdown (shops/businesses are closed)				
Movement restrictions, social distancing, customers not allowed to come to shops/businesses				
Economic recession and customers adjust spending habits				
Specific activities are impossible to undertake				
Operational challenges				
Social distancing creates problems for co-workers/employees (safely) carry out their tasks				
Supply of goods interrupted/difficult due to restrictions on mobility and the limited availability of transportation				
Logistics interrupted				
Specific measures (such as school closures) force co-workers or employees to stay at home				
Online working not possible				
Financial issues				
Liquidity shortage due to declining sales and operational challenges				
Difficulty to access additional working capital				
Financiers are difficult to approach (e.g. not working in their offices)				
Financiers unwilling to extend or renew financing				
Financiers calling in existing loans				

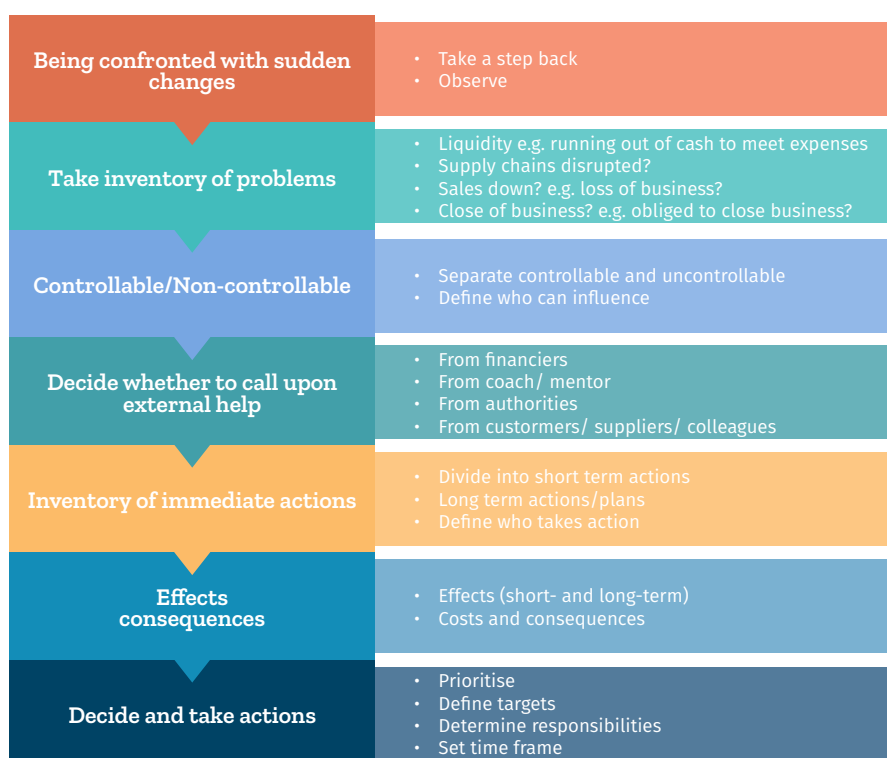
6.2 Short term problems

The liquidity position of the business is the key parameter to know whether the business will survive and with less cash flowing in than out the business will come to a grinding standstill. The continuity of any self-employment activity depends on a positive cash position. Cash shortfalls from falling sales or from forced closings implies that over time, no payments can be made and that the entrepreneurs/enterprise will become bankrupt after cash reserves are depleted.

Under lockdown, it does not matter whether a micro-entrepreneur enjoys high profit margins: if nobody pays, the micro-entrepreneur will be forced out of business. Only through accessing additional sources of cash (e.g. savings, capital injection, new loans, or government grants) can such financial health problems be solved in times of crisis.

External help might help the entrepreneur to identify issues that are controllable or can be influenced by the entrepreneurs and persons in his/her direct environment from those issues which are non-controllable. It only makes sense to concentrate on actions and steps that indeed can be taken by the entrepreneur and his/ her direct environment and which may lead to direct effects on business viability. As a result, actions need to be prioritised. Only then can a realistic Action Plan with specific targets be drawn up (see Figure 7).

Figure 7 // From facing a financial problem to a realistic plan of action



Trainers, coaches, and staff of FSPs and NFSPs can help micro-entrepreneurs assess problems and in prioritising action to be taken with two sets of tools.

- i. One set to identify and prioritize actions to meet financial problems at household level
- ii. One set to identify and prioritize actions to meet financial problems at enterprise level that are short term related

At the household level, there are three specific aspects to consider:

- a. The possibility to reduce recurrent costs and/or postponing/rescheduling incidental costs;
- b. The possibilities to increase or reschedule the income generated by members of the household
- c. The possibilities to raise additional financing (loans, grants/donations, and subsidies).

Tools 10, 11 and 12 can be used to identify and prioritise actions related to these three aspects, respectively.

Tool 10 // Identify and prioritise options to control and reduce expenditures in times of crisis at the household level

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	I will take this action Y/N ²⁰
Assess which regular costs/expenses can be reduced	Temporary increase of available cash/improved cash budget	Possibility to continue living with less costs; structural improvement of cash position			
Assess which incidental expenses can be avoided (e.g. stop spending on specific items)	Temporary or even structural increase of household budget	Possibility to avoid these costs in the future			
Assess which subscriptions can be cancelled	Temporary or even structural increase of household budget	Possibility to avoid these costs in the future			
Assess which items can be sold	Incidental increase of household budget	Loss of specific assets			
Assess portfolio of private insurances	Temporary or even structural improvement of household budget (may take some to result in cash savings)	Possibility to continue living with less costs; structural improvement of cash position – at the expense of higher risk exposure when insurances are stopped			
Renegotiate rental agreements	Temporary improvement of liquidity position and household budget	Rental payments may increase over time			
Renegotiate conditions of private loans	Temporary improvement of liquidity position and household budget	Repayment period may be extended; cost (interest charges) may increase			
Renegotiate conditions of existing mortgages	Temporary improvement of liquidity position and household budget	Repayment period may be extended; cost (interest charges) may increase			

²⁰ If “High” in the two columns left, recommended to take that action

Tool 11 // Identify and prioritise actions to adjust/increase income at the household level

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	I will take this action Y/N ²¹
Verify whether existing wages can be paid at more appropriate intervals	Temporary improvement of liquidity position	No changes			
Assess whether special payments due at later stages (such as leave payments) can be paid in advance	Temporary improvement of liquidity position	Payments that were originally due at a later stage will not be received; will cause a reduction in future liquidity			
Assess which additional paid jobs can be taken up by head of household (if entrepreneur)	Temporary improvement of liquidity position if entrepreneur can continue in function in this (hybrid) way	Reduced income once entrepreneur returns to core business: spreading attention over two jobs (running enterprise and formal job)			
Assess which sources of income can be secured by other members of the household	Overview of actions that members of household can take; additional income can improve the liquidity position of household	May result in structural improvement of income for the household			
Assess whether part of the premises can be rented out	Temporary or structural improvement of liquidity position	Reduced living space			

²¹ If "High" in the two columns left, recommended to take that action

Tool 12 // Seek additional financing for the household – diversify sources of financing level

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	I will take this action Y/N ²²
Assess where – temporary – savings can be used	Temporary improvement of liquidity position and household budget	Increased risk exposure for household with less savings to meet unexpected expenses			
Borrow from family or friends	Temporary improvement of liquidity position and household budget	Increased financial burden (repayments and interest charges); increased dependency on family and friends			
Formal borrowing	Temporary improvement of liquidity position and household budget	Increased financial burden (repayments and interest charges)			
Informal financing	Depending on the type of scheme, improvement of liquidity	Longer term engagement (e.g. community-based savings and loans schemes) or dependence on third parties in crowdfunding, remittances or private lenders			
Renegotiate terms on mortgage for premises/ house or increase loan amount (if possible)	Temporary improvement of liquidity position and household budget	Increased financial burden (repayments and interest charges) over longer periods			
Apply for social welfare support	Temporary improvement of liquidity position and household budget; interference with private life by public sector	Gradual deterioration of income level with social welfare payments gradually being reduced over time. Sudden drop of regular income once entrepreneurial activities are taken up again.			

At the enterprise level, there are also three aspects to consider:

- Reducing recurring costs and/or postponing/rescheduling incidental costs;
- Increasing or rescheduling the revenue streams of the enterprise; and,
- Adjusting the short-term financing arrangements with formal or informal sources of capital and making use of special measures from public authorities (and sometimes private entities), including loans, grants/ donations, and subsidies.

Tools 13, 14 and 15 can be used to identify and prioritise actions related to those aspects, respectively.

²² If “High” in the two columns left, recommended to take that action



WARNING

Take home pay/salary of the entrepreneur is one of the easiest costs to adjust as it can be reduced without much resistance. However, it can also directly affect the income stream, budget and well-being at the household level and therefore needs to be carefully assessed.

Tool 13 // Short-term actions to control or reduce expenditures at the enterprise level

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	Risks for the continuity of the enterprise (high/low)	I will take this action Y/N ²³
Assess and reduce entrepreneurial salary	Temporary improvement of liquidity position	Structural improvement of liquidity position unless entrepreneur intends to return to former salary				
Assess fixed costs/expenditures and cut where possible (including wages and salaries)	Temporary and structural improvement of liquidity position	Structural improvement of liquidity position				
Re-plan production processes/ service delivery processes	Increased efficiency may result in cost/expense reduction	Structural improvement of liquidity position				
Renegotiate rental agreements	Temporary and structural improvement of liquidity position	Rental payments may increase over time				
Reschedule lease payments	Temporary and structural improvement of liquidity position	Repayment period may be extended; cost (lease payments) may increase				
Negotiate terms with suppliers	Temporary and structural improvement of liquidity position	Increased dependency on (key) suppliers; suppliers may increase prices over time				
Check stock and classify which items can be procured/obtained	Temporary and structural improvement of liquidity position	If lower stock levels are maintained, dependency on suppliers can increase; vulnerable to not delivering products on time				
Reschedule loan repayments	Temporary and structural improvement of liquidity position	Repayment period may be extended; cost (interest charges) may increase				
Renegotiate terms and conditions mortgages on premises	Temporary and structural improvement of liquidity position	Increased financial burden (repayments and interest charges) over longer periods with increased dependency on bank/financier				

²³ If "High" answered in both columns to the left, recommended to take that action

Tool 14 // Identify and prioritise short-term related actions to increase payments and revenue streams at the enterprise level

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	Risks for the continuity of the enterprise (high/low)	I will take this action Y/N ²⁴
Clients/accounts receivables control (general)	Insight into overall cash position and identification of areas for interventions	Better insight into the liquidity position over time				
Follow-up on outstanding accounts receivables	Control – speeding up payments – increasing cash inflows	Structural improvement of cash inflow is an action that can be continued to ensure that relations with customers are well managed				
Offer discount for early payments to existing clients (for repeat services such as hairdressing)	Speeding up payments – increased receipts of cash	Possible structural reduction of sales prices with clients expecting lower prices to be the norm				
Frequent invoicing (especially for larger contracts)	Spreading of cash inflows	Structural improvement of cash inflow if actions are continued				
Require down-payment for larger contracts	Improved - temporarily -cash position	Structural improvement of cash inflow if actions are continued; customers may decide to seek another provider				
Offer subscriptions to clients (for repeat services)	Improved - temporarily -cash position	Structural improvements of cash and client loyalty				
Selling coupons for future delivery of products/services (at a discount)	Improved - temporarily -cash position	Drop in cash once goods/services are delivered				

²⁴ If “High” answered in both columns to the left, recommended to take that action

Tool 15 // Identify and prioritise short-term related actions to increase external financing at the enterprise level

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	Risks for the continuity of the enterprise (high/low)	I will take this action Y/N ²⁵
Use factoring (e.g. selling invoices to financiers)	Improved - temporarily -cash position	Less income as result of factoring charges				
Seek short term/ working capital financing from bank	Improved - temporarily -cash position	Increased financial charges and dependency on WC financier				
Seek short term/ working capital financing from family, friends	Improved - temporarily -cash position	Increased engagement by friends/ family in business affairs				
Seek short term/ working capital financing from internet-based intermediaries	Improved - temporarily -cash position	Increased financial charges and dependency				
Seek short term/ working capital financing from informal sources	Improved - temporarily -cash position	Additional time spent on participating in informal schemes; in case of private lenders increased dependency on external persons				
Sell assets	Improved - temporarily -cash position	Possibility that production cannot increase adequately over time as result of loss of assets				
Renting out part of premises or machinery to third parties	Improved - temporarily -cash position	External parties may stay in premises in the future; reduced possibilities to increase production				
Request for bridging finance/loan	Improved financial position	Increased financial burden (repayments and interest charges) over longer periods with increased dependency on financiers; less possibility to apply for finance for new plans				
Apply for social welfare support for co-workers	Improved liquidity position; retaining of (key) personnel	If not phasing out gradually, steep increase in financial obligations upon termination				
Identify and make use of public support measures	Improved - temporarily -cash position	Increased administrative burden and interference by public sector				



WARNING

New, additional financing arrangements increase the financial obligations of the enterprise. Failure to meet regular payments will directly impact the overall financial burden of the enterprise, which is particularly acute for the solo self-employed. Keep in mind that an entrepreneur can only sustain severe income reductions for a relatively short period.

²⁵ If "High" answered in both columns to the left, recommended to take that action

6.3 Long-term problems

Predicting future business development in the current environment is particularly challenging. Additionally, current support programmes might also undergo modifications or be subject to policy changes. We advise taking a step back to assess the situation and anticipate what might be expected to happen in the coming months to identify potential opportunities. After this initial assessment, outside assistance from coaches, mentors, or staff of the FSP or NFSP may be effective.

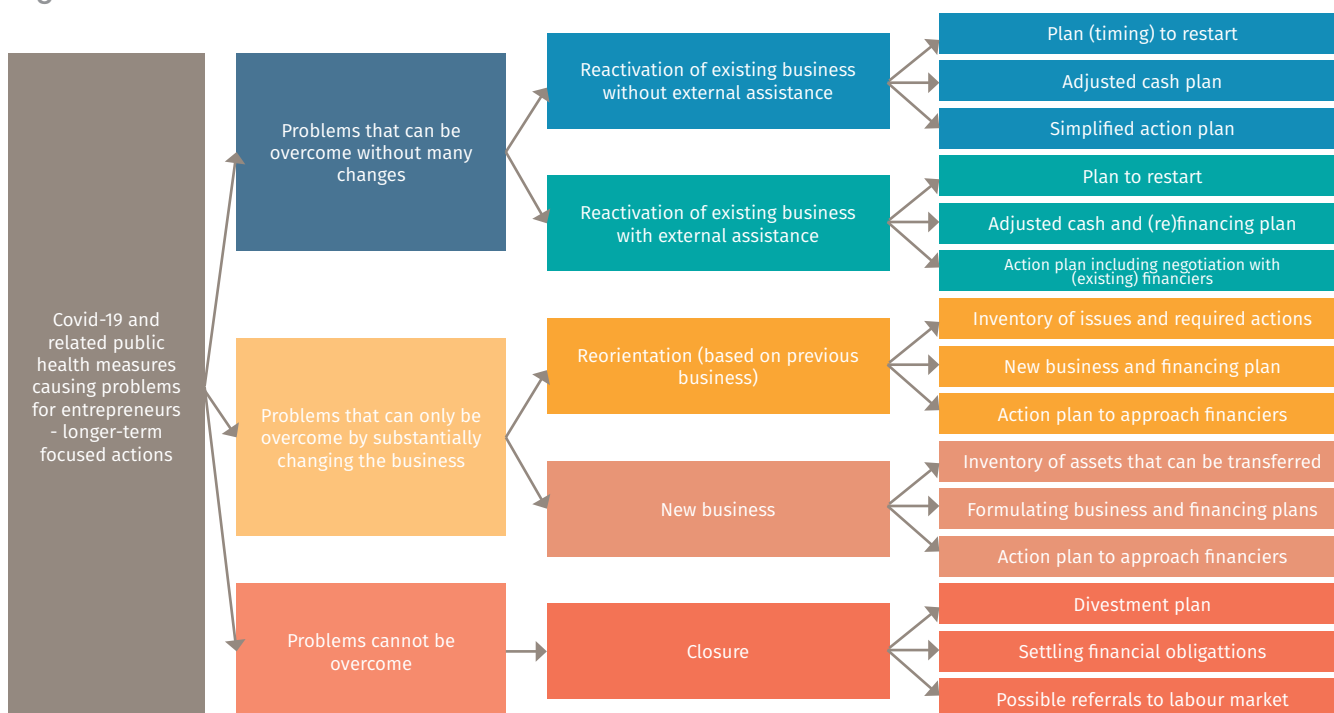
FSPs may offer financing under - temporary- relaxed conditions, which may often be supported by national and multilateral or EU supported facilities and new financing possibilities. Other options might emerge as well. For example, governments might intend to stimulate the economy by creating special – often temporary – new facilities. Alternatively, new financing parties may enter the market – physically or virtually – and offer new types of financing (for example, crowdfunding). Finally, some spontaneous initiatives may emerge (e.g. community-based savings and loans schemes, groups with a preference for more regionally-focused solutions).

Not all problems related to the Covid-19 crisis can be solved in a rational manner nor can all new opportunities be exploited. Entrepreneurs need to ask themselves what they really wish to do and achieve over time. Crises often force reflection and retrospection. Taking a step back can help entrepreneurs to evaluate the situation and ask questions such as:

- What major changes in society are creating new market opportunities?
- What are the current financing trends from the identified funders?
- What financing options exist? What new financing opportunities (both physical and virtual ones) have become available?
- What special measures are authorities and private organisations taking to support the small and micro-enterprise sector (and what are the conditions and possible effects)?
- What do I want to do myself?

Answering the above questions is important to draw up an action plan (see Figure 8).

Figure 8 // Post-Covid19 scenarios



Trainers, coaches, and staff of FSPs and NFSPs can assist micro-entrepreneurs deal with long-term problems with the following tools:

- A tool to identify and prioritise actions to meet long-term financing problems at the enterprise level (Tool 16); and,
- A tool to assess selected public (National/European) measures that assist the MSME sector that are relevant and accessible for micro-enterprises (Tool 17).

Tool 16 // Defining actions to meet financing problems at the enterprise level (long-term related)

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	I will take this action Y/ N ²⁶
Assess investment plans (with an eye on the future/post Covid-19)	Better insight into financial position and possibility to reflect on original plans	Possibility to reformulate plans- better position to raise external funds			
Request for bridging finance/ loan from current financier in line with ongoing LT financing	Improved financial position	Increased financial burden (repayments and interest charges) over longer periods with increased dependency on financiers; lower possibility to apply for finance for new plans			
Leasing instead of investing	Improved short-term liquidity position	Extended lease period and possibly higher lease costs; freeing capital to invest still available			
Reschedule investments – free capital for investments for ST financing	Improved short-term liquidity position	Fewer opportunities to invest and introduce new plans			
Seek partners to increase capital	n.a.	Loss of full ownership; strengthening of capital base and better positioned to raise additional/new external loan financing			
Identify alternative sources/ channels of financing	Better insight	Diversifying financing			
Seek formal external financing	n.a. unless in combination with short-term arrangements	New financing opportunities with increased long-term financial obligations			
Seek external financing via internet (peer-to-peer or other)	n.a.	New financing opportunities with increased long-term financial obligations			
Seek informal financing (family, friends, community, social networks)	n.a. unless in combination with short-term arrangements	Increased dependency on informal networks and family/ friends			
Drop expansion plans	No changes	Time and energy free to reactivate business after crisis period			

²⁶ If “High” answered in both columns to the left, recommended to take that action

6.4 On measures

In recent months, national and local governments across Europe have developed a broad range of measures to help the MSME sector cope with the Covid-19 crisis. The measures typically offer to help MSMEs overcome temporary liquidity problems and/or offer arrangements to prepare for a new future.

Tool 17 helps coaches and mentors identify measures (most of which have been taken this year by various governments in the EU- countries) that are relevant for their clients. Before embarking on actions to make use of measures, we recommend verifying whether the measures are relevant for the clients, whether clients are eligible, as well as how difficult it is to make use of it eligibility, relevance, and applicability.

They should also verify the specific actions that need to be taken to access and make use of those measures and which type of their clients can best can take advantage of such measures. Before seeking access, coaches, mentors and FSP/NFSP staff should consult with micro-entrepreneurs to obtain their consent and help them understand the possible benefits and consequences of making use of such measures.

Tool 17 // Measures to support MSMEs in times of crisis (during Covid-19)²⁷

Type of measure	Known in my country as...	Relevant for my clients Y/N (and possible effect)	Are clients eligible Y/N	Is it practical to make use of it Y/N	Action to take
Measures related to shorter working periods, temporary lay-offs, and sick leave, some targeted directly at MSMEs					
Measures on the deferral of tax, social security payments, debt payments and rent and utility payments					
Extension or simplification of loan guarantees to enable commercial banks to expand lending to MSMEs					
Direct lending to MSMEs through public institutions					
Providing grants and subsidies to MSMEs					
Use of non-banking financial support intermediaries					
Establishing structural policies to help SMEs adopt new working methods and (digital) technologies to find new markets and sales channels					

²⁷ See also OECD, https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses

Tool 18 // Assess relevance of Covid-19 related measures and define related actions

Action to take	Expected results/effects in the short term	Long-term consequences	Degree of urgency (high/low)	Possibility to generate effect (high/low)	I will take this action Y/N ²⁸
Keep administration up to date (to be prepared to apply for any kind of support)	Direct insight into performance of the business - well prepared to apply for support facilities	Continued insight in performance of business if pursued			
Assess which measures apply (availability, eligibility, implications, effects, and consequences)	Insight into the possibility to overcome (partly) short-term liquidity problems	Insight into the possibility to receive assistance to tackle long-term problems and develop new, longer term plans			
Select appropriate measure and prepare application	Insight into possible support – preparing to make use of it once received	Requirements to submit reports at regular moment to – regular accounting requirements			
Apply for special support under selected measure	Leaving lethargy; Adds to sense of self-confidence; subsidy improves financial position	Possibility to continue functioning after crisis period			

**WARNING**

It is often assumed that the self-employed and micro-entrepreneurs will make use of MSME measures during times of crisis. However, two issues commonly arise. First, micro-entrepreneurs may be hesitant to admit that they are in a difficult position. Second, the administrative procedures to receive the support are often too complicated (designed in a bureaucratic way). Active support by coaches and mentors is required.

²⁸ If “High” answered in both columns to the left, recommended to take that action

Annexes

List of websites

Annex A // Platforms, websites and programmes related to financial health by entrepreneurial segment

Method/name and segment of target groups	Organisation applying the method	Main features dealing with financial health	Individual consumer; loan user ²⁹	Solo self-employed; necessity driven; opportunity driven	Hybrid self-employed; lifestyle entrepreneur	Micro-entrepreneur; opportunity driven	Micro/small entrepreneur; growth-oriented ³⁰
Financial Health Measurement project	CFSI – FHN (USA)	Research, tools, advisory work	●	●	●		
EWE - Early Warning Europe	Team U (Spain, Poland, Italy, Greece) ³¹	Assisting entrepreneurs in distress, comprehensive method, training coaches		●		●	●
Crisis support and avoiding insolvency³²	Team U (Germany)	Financial crisis support with hotline, app, advisory services		●	●	●	●
Check Your Financial Health	MFC (Eastern and Central Europe)	Measuring financial well-being, quiz, advisory services, app ³³	●			●	●
Firmenhilfe³⁴	Everts and Jung (Germany)	Financial crisis support by telephone counselling email, online advice, blogs/templates		●		●	●
Global Financial Health Plan	IPA - Global project (Global South focus)	Quantitative metrics to measure financial health; programme design	●				
Poverty Probability Index	Innovations for Poverty Action (Global)	Tool for organisations and businesses to	●				
Financial Capabilities Index (MFO)	MFO (Global South)	measure financial well-being at the household level	●	●			

²⁹ Might also relate to necessity driven self-employed

³⁰ Primary focus on small (and medium) enterprises

³¹ To be rolled out in Europe at a later date

³² In German only

³³ Under development (in cooperation with CFI)

³⁴ In German only

Annex A // Platforms, websites and programmes related to financial health by entrepreneurial segment

Method/name and segment of target groups	Organisation applying the method	Main features dealing with financial health	Individual consumer; loan user	Solo self-employed; necessity driven; opportunity driven	Hybrid self-employed; lifestyle entrepreneur	Micro-entrepreneur; opportunity driven	Micro/small entrepreneur; growth-oriented
Poverty Stoplight (platform)	Fundación Paraguaya ³⁵	Technology platform offers a self-assessment survey and intervention model; links to solutions	●	●	●	●	●
Business debt line	Money Activity Trust (United Kingdom)	Website with guides, fact sheets, budgeting tools and templates	●	●	●	●	●
Financial ratio analysis	Global	Set of tools to measure financial health position of enterprises				● ³⁶	●
Mesquestionsdargent.fr	Banque de France (France) ³⁷	Comprehensive website dealing with all financial (health) issues, including information and training materials	●	●	●	●	●
Crésus	Crésus/ France	Platform to link expertise on financial issues ³⁸	●	●	●	●	
Outset online	YTKO Group (United Kingdom)	Interactive online learning tool content and tools information, video tutorials, resources				●	●
Dilemme	Crésus (France) ³⁹	Interactive game, websites, tools, guides, applications	●	●	●	●	●
PROMIFIN Educación Financiera project	FACET BV (Central America)	Guide, games on financial education for individuals and micro-entrepreneurs	●	●		●	

35 In Spanish and English

36 Provided ratios are adjusted to this category of enterprises

37 In French only

38 See also Dilemme, developed by Crésus Foundation

39 All tools in French with some explanations in English

Annex B // Internet banks with special programmes related to financial health by entrepreneurial segment

Method/name and segment of target groups	Organisation applying the method	Main features dealing with financial health	Individual consumer; loans users ⁴⁰	Solo self-employed; necessity driven; opportunity driven	Hybrid self-employed; lifestyle entrepreneur	Micro-entrepreneur; opportunity driven	Micro/small ⁴¹ entrepreneur; growth-oriented
Hi Bruno,	Hi Bruno (France)	Internet bank with instructive tools to manage finance and savings	●	●	●	●	●
Shine Finance	Shine Finance (Virtual)	Internet bank offering advice on financial issues	●				●
Chime Bank	Various venture capital funds (Virtual)	Internet bank with instructive video and blogs dealing with financial issues	●		●	●	●

⁴⁰ Might also relate to necessity driven self-employed

⁴¹ Primary focus on small (and medium) enterprises

Further reading?

Reports/ papers (selected)

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- <http://mfc.org.pl/financial-health-2/>
- <https://finhealthnetwork.org/who-we-are/our-mission/>
- <https://www.youthbusiness.org/>
- <https://www.mesquestionsdargent.fr/>
- <https://www.team-u.de/en/ewe>
- <https://www.european-microfinance.org/publication/microfinance-europe-survey-report>
- <https://www.jp.morganchase.com/corporate/Corporate-Responsibility/financial-capability.htm>
- <https://www.investopedia.com/personal-finance/personal-finance-apps/>
- <https://www.enterprise-development.org/training-offers-on-private-sector-engagement-and-partnerships/>

On Covid 19 and (M)SME support (selected)

- SME policy responses - OECD <https://www.oecd.org/coronavirus/policy-responses/coronavirus-covid-19-sme-policy-responses-04440101/>
- Small business COVID Resource Center | Thomson Reuters <https://www.thomsonreuters.com/en/resources/covid-19-small-business-resources.html>
- Digital Solutions by European SMEs in times of COVID-19 <https://www.digitalsme.eu/solutions/>
- SME United <https://smeunited.eu/publications/the-economic-impact-of-covid-19-on-smes-in-europe>
- McKinsey www.mckinsey.com/industries/public-and-social-sector/our-insights/covid-19-and-european-small-and-medium-size-enterprises-how-they-are-weathering-the-storm
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About the Author

Klaas Molenaar

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

About EMN, ADA and J.P. Morgan

EMN

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

ADA

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

J.P. Morgan

JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of \$3.2 trillion and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, and asset management. A component of the Dow Jones Industrial Average, JPMorgan Chase & Co. serves millions of customers in the United States and many of the world's most prominent corporate, institutional and government clients under its J.P. Morgan and Chase brands. Information about JPMorgan Chase & Co. is available at www.jpmorganchase.com.

JPMorgan Chase's made a \$250 million global business and philanthropic commitment to support immediate and long-term economic and public health challenges of the COVID-19 crisis. The firm is using data-driven solutions to support the most vulnerable individuals, small businesses and communities as they face financial hardship and uncertain work opportunities, the shifting business landscape and increased pressure to access or maintain affordable housing. JPMorgan Chase will continue to leverage its core businesses, areas of expertise and existing partners to develop an ongoing response to COVID-19. For more information, visit jpmorganchase.com/covid-19.

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