Sustainable Business Development Services: Microcredit linking model

Good practice in the musseques of Luanda

The current socio-economic situation in urban areas does not allow everyone to find a job that meets the survival needs of families. Recent research indicates that approximately 67% of the active population in Angola does not have a regular paid job and therefore 65% of heads of households are self-employed and depend on the informal sector as the main source of income. Among the most disadvantaged groups in urban areas, there are now income generation initiatives underway that support the development of small businesses and increase household economic security.

Income generation initiatives are leading to the creation of small economic units in different sectors of society. Examples include small trade activities (national trade, cross-border trade, and urban-rural initiatives), service delivery (health, education, mechanics, transport and the hotel industry), small-scale enterprises (carpentry, steel, and fishing). Generally these are small-scale enterprises, with limited capital, sometimes characterised by a lack of accounting and poor data, and also not in a position to benefit from institutionalised credit. Despite this, these small enterprises can involve large sums of cash received from goods and services produced. Small-scale business activity and the informal sector constitute the livelihoods of the majority of the Angolan population and are an important component in the economic growth of the country.

These small-scale businesses and their managers have already shown the potential for sustainability and resistance to all kinds of shocks, including the war. However, they will not be able to reveal their full potential as forces of development unless certain policy constraints are removed. In Angola there are various constraints in relation to carrying out small economic activities, including a lack of internal capacity (weak management culture and an absence of assets and savings as a means of mobilising capital) and external factors such as the absence of advisory services, a lack of appropriate policies, an unfavourable regulatory environment, and lack of infrastructure. The model of sustainable business development services (BDS) implemented by LUPP in its fight against urban poverty, aims to support small business people and enterprises not only to overcome these constraints, but, above all to improve their status, competitiveness, and access to markets by facilitating connections between small business people and service providers. This will be achieved through training, micro-enterprise capacity building in good economic management, and connecting a growing business with financial institutions (banks and credit co-operatives).

The successful increase of the informal sector in Angola is a result of a clear vision and business capacity and a model that links business development service with credit.

LUPP Principles for Good Practice

- Partnership with community members and key stakeholders, such as public service providers, is key to promote participation and sustainability
- Solutions must be affordable to urban poor, yet financially sustainable
- It is important to focus on strengthening community capacity to improve their lives
- Ensure community and government ownership of initiatives with clear roles and responsibilities and accountability mechanisms in place
- Mobilise community members and key stakeholders to best develop and plan sustainable solutions
- Establish a code of conduct for key stakeholders to follow
- Value existing knowledge and ideas
- The impact of initiatives must be assessed at the household level
- Find ways to ensure the voices of women and children are listened to and they are active participants in the decision-making processes
- Ensure child protection policies are available to stakeholders and community members
- Promote equality, non-discrimination and inclusion

The successful increase of the informal sector in Angola is a result of a clear vision and business capacity and a model that links business development service with credit.
Identifying and strengthening successful small businesses

To achieve this it is important to assess training needs as well as to identify key success factors such as experience in business management, understanding of the market, knowledge on how to execute a business plan, capacity to negotiate, savings practices, and business connections.

Use successful business people as ‘business mentors’

In accordance with specific needs and gaps in the activities of small businesses, providing targeted programmes to encourage growth and at the same time having the ability to inspire, guide and communicate experiences and techniques to other business people. The training enables business people to develop business plans, re-organise business management systems, and reshape their finances according to the new plan. Also, if necessary, the training also includes the development of a new business plan with new investments, identifying new sources of finance.

Increased demand for the service of business mentors

Business mentors have been successfully used to mobilise micro/small business people, and young people trained in universities, professional training colleges and secondary schools, to initiate their small businesses or explore the possibilities of growth in an existing business. The request for and use of mentoring services is secured by paying the equivalent of US$4 per session per person.

Intermediary financial services

The connection between small business people and financial service providers (savings, credit, guarantee and funds) is an essential component for the growth of small companies. The service of establishing a guarantee fund at Banco Sol has minimised financial risks. It has enabled small business people to bring their business plans to life, and negotiate new finance through commercial banks (Banco Sol). The request for and use of fund management services requires a payment of a 2–6% of the finance granted.

Institutional and organisational strengthening of local service providers

The methods, systems, individuals and cost recovery involved in the service provision of business mentors and the provision of financial services has resulted in the establishment of autonomous and sustainable institutions. Business mentors can create associations of small businesses (e.g. ATREINE, AMEH and ACDEZA), while fund management services can become independent consulting agencies or companies (e.g. Fundo Zimboda and Total Fina Angola).
Achievements

- The first module on the development of small family businesses had four components (1) business motivation, (2) exchange of experiences with successful businesses, (3) development of business plans, and (4) negotiation of new financing.

- From March to August 2003, 15 successful micro business people were trained as ‘business mentors’ in Luanda. Business mentors, as well as being willing and available, must also have successfully passed all training stages, including the successful negotiation of new investments.

- CARE negotiated a partnership agreement with Banco Sol (bank) for preferential treatment of small business people, through the concession of credit. This agreement, facilitated through the principles of a guarantee fund, aims to link micro-credit with business viability, reflected in a comprehensive business plan. Under this agreement, 121 small businesses negotiated directly, or through the guarantee fund, loans up to $10,000.

- CARE assisted in the establishment of an association of successful small ‘business mentors’ in Luanda; the Support and Training Agency for Small Business, ATREINE. ATREINE is specialised in training and technical assistance to other micro and small business people in Angola, based on demand. Since its establishment on 11 July 2004, ATREINE has trained 900 micro and small business people, in particular young people in job training centres. Also HIV/AIDS positive women in Luanda and Lubango provinces were trained and supported by ATREINE.

- ATREINE has an independent financial management mechanism that allows it to recover 100% of its service costs, estimated at US$37 per client.

- Linking the vocational training and employment centres (MAPESS) with ATREINE for the training of trainers and professionals (people with vocations such as carpentry, construction, etc.).

- Setting up a consortium of NGOs and local BDS suppliers (SNV, MAFIKU ADRA-Huila, AMEH) for advocacy and promotion of good practices.

Impact of BDS

Changes in traditional banking services

The engagement and linkage with some local commercial banks enabled the creation of individual micro-credit products up to US$20,000, based on a risk analysis with interest rates similar to normal credit (8–41% per annum depending on the repayment period) of commercial banks (Banco Sol, Banco Totta & Acores, and BAI).

Adoption of BDS principles in Angola

A replication initiative is under way in the provinces of Huila and Benguela, through the Huila Business Women’s Association and the Benguela Association of Small Businessmen ‘Zone A’. Also, the Zimbo Fund Guarantee programme of Total Fina Angola that is in operation in four provinces, namely Zaire, Huambo, Cunene and Namibe, provides BDS services.

Creation of local jobs

66 permanent jobs were created between 2004 and 2005 by the 30 small businesses that were supported.

Observing a change in business culture among businesses and service providers

- Valuing the business plan.
- Legalising trade activities.
- Payment for training services and business advice.
- Increase in demand for training services and business advice.
- Vulnerable and marginalised groups have joined the BDS services (people with HIV/AIDS, the disabled).
- Engagement of micro and small business people and service providers with banks and financial institutions by (1) opening of bank accounts, (2) visits by bank officials and analysts to micro-businesses, and (3) presentation of bank products to micro-business people during trainings.
Mr. Vemba Gabriel, 50 years of age and head of a family of 6 people, has been a resident of Kilamba Kiaxi municipality for over 10 years. In 1998, Vemba lost the ability to walk and became disabled due to an injury that he suffered during the Angolan war of independence. Since his disability, the family has been sustained by his wife, who started selling goods in a market in Luanda.

Identification of a business opportunity

In 1999, at his mother’s funeral, Vemba went to a local church close to his house to borrow chairs and benches to accommodate those present. The pastor handed over the chairs and benches after the payment of a rental charge. After the funeral service, Vemba realised that his area was characterised by a large number of churches (some without the items such as chairs), and a culture of funerals and parties attracting a lot of people, which created a demand for chairs. This encouraged Vemba to start a business for loaning chairs, tables and canvas sheets for a fee. In this way in 2000, having received his medical pension, he bought 86 chairs for US$430 and started renting them for a fee.

Growth potential

As time passed, the number of clients increased, demanding more and more chairs. However the system Vemba was using became complicated, as transportation was now required. In December 2002, Vemba was able to purchase 300 additional chairs and employ three family members, including his wife. Despite this purchase, the business was unable to meet the growing demand for the service. His limited capital base prevented further expansion of his business, as did his knowledge for organising and managing the business. This presented him with the challenge of where he should go for assistance.

Intervention of BDS

Vemba and two members of his family enrolled on a BDS training program organised by ATREINE. Vemba learnt the basic knowledge of creating, organising and managing a business, including the elaboration of a business plan, market analysis, property management, cost-benefit analysis, production, dealing with clients, etc. The total cost for participating in the training was US$230.

Result of the BDS training

After the training, the profile of the business changed. Vemba’s business became a family business called VGKA, comprised of 5 partners: the father, the mother and three sons, all of whom signed a social pact.

After elaborating his business plan, Vemba asked for credit from Banco Sol to increase his activities to meet the growing demand of his service. Credit amounting to US$1,500 was acquired for the business, which enabled the purchase of 300 additional chairs, 10 tables and 5 canvas sheets. This resulted in an increase in monthly profit from US$150 to US$1,200 during the last month of loan repayment.

Effects of BDS on VGKA’s growth

Before the BDS intervention, the business was considered an activity that generated income to meet the basic needs of the family and not a structured, organised and well managed business. The increasing activities forced the business to adopt an appropriate organisational and management structure, which needed to be learnt.

The increase in the number and type of clients, as well as increased income, resulted in the creation of two further permanent jobs for non-family members, each earning a salary of US$150 per month, whilst family members, who are business partners, earn according to the terms of the social pact related to dividends.

The example of Vemba Gabriel
Strategic information

A sustainable service acceptable for poor urban residents

Financial sustainability is often the factor that makes services expensive and therefore inaccessible to the poor. The model of BDS implemented by LUPP can adjust the costs of services, based on the level of profit of disadvantaged families, at real market costs. The average investment made by the business people following BDS, in monetary terms, is US$37 per month. This is equal to the monthly income of a person who survives on US$1 per day. As well guaranteeing access for extremely poor people with state-run institutions such as INEFOP, the Agricultural Development Institute and Artisan Fishery Institute.

Small business vitality is based on participation and inclusion

The success of small businesses is based on the effective inclusion of women, young people, and people living with HIV and further depends on a combination of factors that minimise risks, such as (1) the participation of family members or collectives (increase of the family and social capital and guaranteeing business continuity) (2) the participation of Financial Institutions (3) the participation of larger businesses to improve reputation and increase sales and (4) the participation of various service suppliers in partnership schemes for increased capacity and joint action.

Operational information

Technical aspects

- BDS is totally focused on business development and local economic impact. The products (services) offered to small businesses should not be generic, but linked to value chain analysis and addressing the needs of clients and financial service providers. As a basic reference point, a small business with a monthly cash flow of US$150 is able to increase its financial transactions by 5–10% after a BDS training.

- BDS is an innovate approach for transferring competences and for technical training of business people to carry out the role of ‘business mentor’ with other micro and small business people.

- BDS contributes to changes in mentality and business habits. Also training and ‘mentoring’ in the activities of small business people helps develop an effective and economically viable business plan.

- BDS supports the transformation of business structures. The training of small businesses in the classic business management, investments risk analysis, communication and negotiation with suppliers increase the productivity and competitiveness of small businesses.

- Although a non-financial service, BDS guarantees business growth. The financing of business plans, and the guarantee of credit based on classic risk management criteria should be supported by official financial institutions.

Social Aspects

Although available to anyone, BDS has mostly a multiplying effect for people with capacity. While it can be argued that BDS tends to benefit those who are less poor, BDS as implemented by LUPP, places local job creation as a key criteria for eligibility to the credit guarantee fund. An average of 2 to 3 full-time jobs for non-family members are created over 12–18 months. In this way, by supporting an individual with capacity, a multiplying effect is established within the community, which allows poorer people to secure a job as well.

The business person, apart from being a catalyst for economic growth, is also a regulator of social relations in communities. The creation of family run or collective businesses is a means of financial risk reduction, while the activity linked to small businesses, e.g. ATREINE, offers a social form of organisation that represents the interests of small businesses.
Lessons learnt

- General training on how to start and manage a business does not have a business impact if not complemented with specific business services to promote growth.

- Not all economic activities have growth capacity or can effectively use credit. For this category of businesses, BDS should also encourage a culture of savings as a secure source for reinvestment.

- Demand, willingness and availability to pay for non-financial services depends on the impact of these services on business financial transitions. In this way, investment to obtain and gain access to BDS will be repaid by financial returns.

- Specialisation in service provision by small businesses and the complementarity of services guarantees an increase of product quality and scale of impact.

- BDS services offer social benefits, cost recovery, as well as commercial linkages, represented in the following equation:

  \[ \text{Demand (D)} + \text{Quality Services (Q)} = \text{Value (V)} \]

  (D) Demand driven service delivery
  (Q) Quality Service Provision promotes the development of specialised institutions (small registered businesses, banks and the micro finance institutions, associations and other intermediary institutions)
  (V) Valued Service Provision with mechanisms and systems for 100% recovery of operational costs and remuneration of suppliers (business mentors, fund guarantee and banks)

Sustainability of the Model

- Supply of Services entirely based on demand
- Rendering of services with the recovering of 100% of the operational costs

Replication of BDS

BDS activities are already being replicated by other suppliers and in other provinces. Based on these experiences, it is important to bear the following in mind for replication:

- BDS “micro credit linking model” is a specialisation; therefore the replicating agency should choose the area of its specialisation, where it intends to offer services. One should avoid doing everything.

- The BDS “micro credit linking model” is based on linkages and partnerships between sectors; therefore replicating agencies should create a chain of partners who guarantee complementary services, and add value to the work.

- The BDS “micro credit linking model” links the supply of services as a social activity with strong commercial connections, therefore the replicating agency should adhere to the principles and good practices emerging from BDS promoted by the SDN consortium in Angola (such as increasing business culture, avoiding free service provision, and specific services focused on client impact).

- The direct costs for each beneficiary are US$37/month.
What is LUPP?

The Luanda Urban Poverty Programme (LUPP) is a partnership between CARE International, Development Workshop, Save the Children UK and One World Action. It is supported by the Department for International Development (DFID) and has been ongoing since 1999. The second phase, LUPP2, ran from April 2003 to September 2006. LUPP2 was implemented in four of nine municipalities in Luanda, namely Sambizanga, Cacuaco, Cazenga and Kilamba Kiaxi.

What does LUPP do?

LUPP partners work in collaboration with the Government of Angola to support the government to meet its declared goal of halving poverty levels by 2015. The programme is implemented in partnership with civil society organisations, NGOs, service providers and government departments/ministries. LUPP engages to promote pro-poor policies, especially in seeking to guarantee the provision of basic services to Angolan citizens.

The purpose of LUPP2 was to influence equitable, inclusive, pro-poor policies and best practices for Angola for poverty reduction in urban Luanda. The policy influencing agenda was the overarching framework of the programme. LUPP seeks to influence poverty reduction in Luanda by:

- Demonstrating effective, sustainable, inclusive and replicable best practice strategies (models, methods and approaches) for basic service delivery (water, sanitation, rubbish collection, community crèches), livelihood support (micro-credit, savings, Business Development Services (BDS) and consumer cooperatives), social capital, governance and poverty reduction more generally which can be effectively replicated in poor urban areas to bring about positive change in the lives of poor urban families;
- Facilitating active learning and understanding on urban poverty issues and policies by key stakeholders and producing strategic information on the lessons, messages and methods emerging from the models and approaches, adapted to demands for policy relevant information;
- Strengthening the commitment and capacity of local authorities and civil society to promote and implement inclusive and participatory local development;
- Promoting greater engagement, inclusion and accountability between government and civil society on urban issues, largely through the creation of spaces in which different actors can come into contact with the lessons, messages and methods, absorb their implications and take forward the work of integrating them into policy and practice.

More information on LUPP can be found at www.luppangola.org

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