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European Return Fund 2008-2013
Annual Programme 2013

RETURN REINTEGRATION and MICROFINANCE

Microfinance as a tool for the socio-economic reinsertion of migrants in their countries of origin

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IOM International Organization for Migration
OIM Organizzazione Internazionale per le Migrazioni

RETURN
REINTEGRATION
and MICROFINANCE

Microfinance as a tool for the socio-economic reinsertion
of migrants in their countries of origin

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INDEX

WHY THIS TOOLKIT? 6

1 THE ENTREPRENEURIAL IDEA
- How is a business idea born? 8
- How to turn the idea into a project 8

2 THE BUSINESS PLAN
- Why is the business plan so important? 9
- What is a business plan for? 9
- How to build a business plan 9

3 THE ENTERPRISE
- What to do to start your own enterprise 11
- Where can you independently find the financial resources? 11

4 MICROFINANCE
- What is microfinance? 13
- What is a microfinance institution? 14
- Microcredit for business 15

5 THE ELEMENTS OF THE MICROCREDIT FOR BUSINESS
- The loan 16
- Interest rate 18
- Amortization schedule 19
- Guarantee 19
- Procedures 20

6 FOCUS ON...
GHANA
- Microfinance in Ghana 22
- The Akosua's cornermarke 23
- The Organization cooperating with our project 24
- Contact us 24
- IOM in Ghana 25

WHY THIS TOOLKIT?

This *toolkit* has been created by Etimos Foundation, in partnership with the International Organization for Migration (IOM) and the "Vocational training Association of the Patronato San Vincenzo", in the framework of the REMPLOY III project, funded by the Ministry of the Interior, Department for Civil Rights and Immigration and by the European Return Fund, year 2013, Action 3 "Support to the experimentation of new roadmaps for the voluntary return of particular immigrants categories".

The REMPLOY programme was born in 2012 to answer to the needs and the ambitions of those immigrants working and residing in Italy who, due to the economic crisis, had lost their job and were running the risk of losing their permit of stay, thus becoming irregular on the territory. This is why some people started considering the possibility to go back to their countries of origin and start a new business there, being able to provide for their families.

The aim of the programme is to help these migrants and provide them with the adequate tools for their reintegration, as pre-departure tutoring activities on how to start a micro-enterprise in the country of origin, or how to elaborate a business plan to get funds by the IOM in the form of goods and services.

The first two phases of REMPLOY have obtained positive results. The vast majority of the assisted migrants have been able to start a micro-enterprise and were satisfied by the assistance received. Some migrants have shown to have great entrepreneurial abilities and ambitions. Thanks to these initial experiences the idea to expand the project was born, including the possibility to get even more resources, is to say the access to micro-credit, every time the socio-economic potential of the reintegration project represents an added value at local level, especially in the job creation process.

Through the elaboration of this *toolkit* and the assistance in accessing micro-credit (a tutoring service led by experts specialized in the micro-finance of the countries of origin), REMPLOY III aims at making this possibility come true and make it accessible to every potential migrant.

As a matter of fact, micro-finance allows accessing a credit even in absence of financial guarantees or stable incomes. Altogether, these reasons make micro-finance particularly suitable to returning migrants, who cannot meet the requirements set by traditional banks to access loans or mortgages.

In this context, the REMPLOY III toolkit wants to be a guide for all those immigrants willing to strengthen their reintegration project in their country of origin with an added micro-credit. This toolkit focuses on some of the main countries of origin of the migrants residing in Italy: Bolivia, Ecuador, Ghana, Morocco, Peru, Senegal and Tunisia. It includes the addresses of financial institutes and cooperatives, as well as practical tips for the guidance of the migrants in this field.

1 THE ENTREPRENEURIAL IDEA

How is a business idea born?

A business idea is born from the intuition of an individual or of a group of people who wants to meet the necessities of a community. Besides the intuition, an effective perceptiveness is essential to identify the real needs and satisfy them offering a good or a service at an established price.

How to turn the idea into a project

Once you have defined the idea, you should decide where to establish your business, whom to sell your product or service and its price. It is also crucial to understand where to find the money you need to develop your idea. If you do not have enough money or you are not assisted by a VAR (voluntary assisted return) programme – which offers a grant for your reintegration – you can access bank loans or other funders. In fact, remember that they will ask you much detailed information and they will assess your proposal.

Here below you can see all the elements that are essential to turn an idea into a project.

The entrepreneur
is the businessman, who is totally responsible for the enterprise and decides how to use the resources necessary to develop it.

After the intuition, you need to structure your idea within a real business plan, if you want to become a good entrepreneur. This effort will let you have a middle- and long-term outlook.

THE BUSINESS PLAN 2

Why is the business plan so important?

The business plan is one of the essential elements of every entrepreneurial project. It is the real roadmap that allows you to understand your goals and the best way to reach them.
Dedicating a little bit of time to write down a business plan it is not worthless, because then you will have a clear action plan to follow and a method to fulfil it. Just an overall view that will allow you to start a new successful activity.

The business plan is a document summing up the contents and the characteristics of an entrepreneurial project. It is used to plan and manage enterprises as well as to communicate your project with the outside, especially with potential funders or investors.

What is a business plan for?

- Thinking over about your business idea
- Planning your new activity identifying the ways, the time and the resources you will need
- Simulating the costs of the activity and, if needed, "fix" the project
- Verifying the coherence and the feasibility of the activity, analysing the different juridical, financial, marketing and organizational aspects in detail
- Testing and improving your own entrepreneurial abilities
- Convincing the future funders and investors on the feasibility and profitability of your idea.

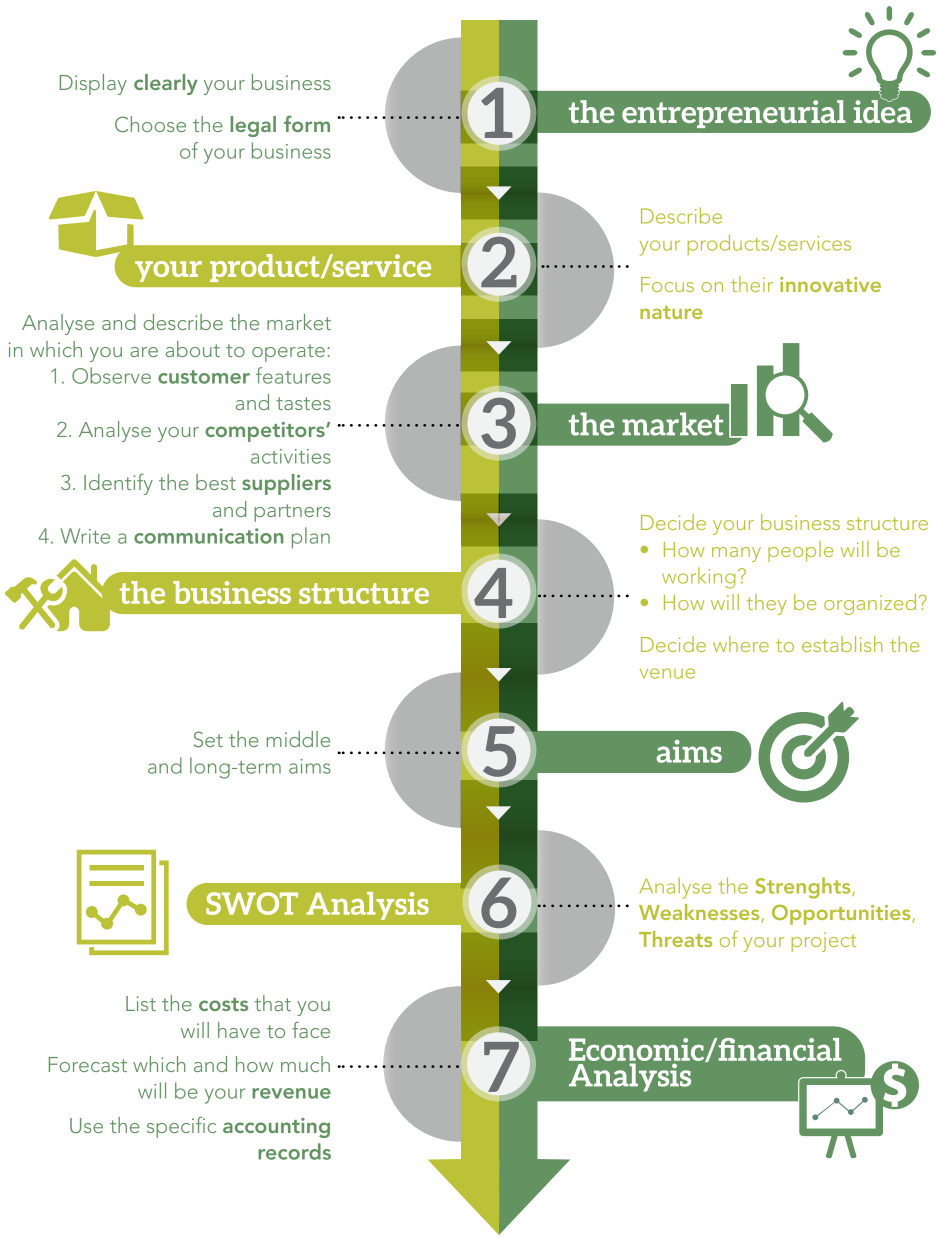
How to build a business plan?

Writing a business plan should be as clear, comprehensible and coherent with your entrepreneurial project as possible.
Keep in mind that you need a business plan to display what you want and to make it clear also to your funders, in order to convince them to invest in your project.

2

THE BUSINESS PLAN

In this scheme we have tried to display the steps you should follow to build a business plan:



What to do to start your own enterprise?

Once you have outlined your business plan, you are ready to build your enterprise. Before starting looking for funding, you should know what the law allows and which documents you should present during the establishment phase.
It is important now to mark a clear difference between the terms "enterprise" and "company":

It is fundamental to distinguish the two concepts. As a matter of fact, so far we have talked about enterprise, especially in the phases forerunning its material starting. Now we should move the attention to the company, so to understand what you have to do to establish it in your country.
However, first of all you should keep in mind who will detain the rights and the obligations of the new business.

Remember also the difference between who represents the enterprise and who manages it. We use the concepts of *juridical* and *physical* person to distinguish them.

Enterprise and company
We use the word **enterprise** to refer to any economical activity aiming at producing or exchanging goods or services. We use **company** to refer to the juridical subject responsible for the business activity, who has rights and obligations deriving from the business itself.

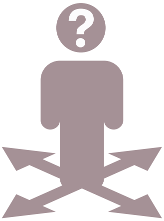
Physical person
is just you, considered as an individual among all the other humans.

Juridical person
is your enterprise, which is entitled by the law to have rights and obligations. The juridical person is also allowed to act and perform juridical acts by means of the physical people, who act as internal bodies.

Where can you independently find the financial resources?

Now that you know exactly what an enterprise is, that you have planned your entrepreneurial project and built the business plan, you are ready to find the funds you need to start your activity. Keep in mind that either you borrow some money from your relatives, or banks, or financial institutions or microfinance, you will have to pay it down, adding also an interest rate. This is the reason why, when you go and ask for a loan, you must have clear ideas and be well informed about the credit products that you can access.

Summing up:



1

Developing an entrepreneurial project you may feel confused and unsure on how to fund it.
Thus, read up very well on your business idea and what you have to do to build it.
After preparing the **Business Plan** you can go to the potential funders (banks, financial and microfinance institutions) in order to let your project been assessed.

2

The potential funder will assess your project and your will to make it happen. In case of a positive answer, a first loan will be granted, to start your business.
The **loan** you have received is not a present, you will have to pay it down according to the conditions agreed with the financial institution, adding an **interest rate** to every instalment.

3

With the amount received you can finally begin your project and start your business.
Thanks to your **earnings** you will be able to give back the money that you borrowed, interests included, and you will also be able to provide for your family.
In the best-case scenario you may even contract other people, if you are earning enough.

MICROFINANCE 4

What is microfinance?

Basically, the microfinance task is to grant small loans (**microcredits**) to "ineligible" people, in other words people who cannot offer guarantees to traditional banks but want – or would like – to do a particular cost-effective economic activity.

Apart from this financial activity, microfinance offers also other services, usually free, for example business **back up** during the first steps, or **assistance** in the activity management, **training** in matter of education, social aspects, literacy programmes.

The typical microfinance clients are:
- **rural areas**: small farmers, breeders, artisans, traders
- **urban areas**: peddlers, small shopkeepers, services or trade providers.

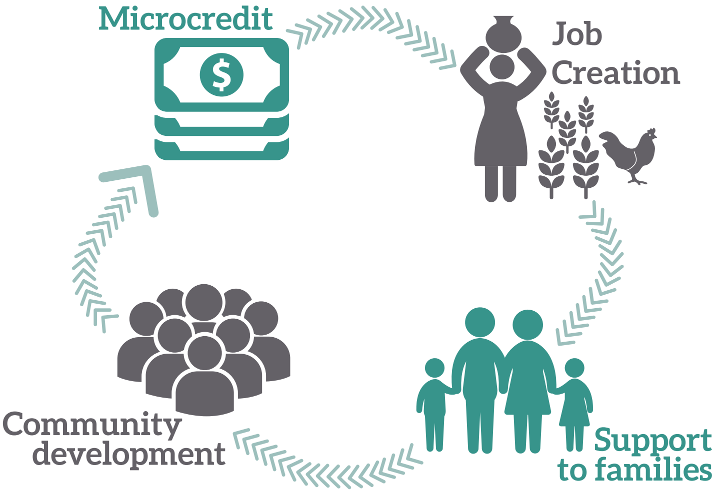
Thanks especially to microcredit, microfinance develops a positive growth within the community and gives everyone the opportunity to fulfil a business idea. What is more, by means of this idea, the micro entrepreneur (you, actually) will also be able to fulfil a personal economic project, through the following activities:
- Economically speaking, providing for your own family, assuring your children education and a respectable lifestyle to all the members.
- Giving to other people the possibility to find a job within your activity.
- Contributing to the development of the whole community you live in.

In your case, microfinance can be important for these reasons:

Microfinance

Microfinance concern the supply of:
- *Financial services*: credit, savings, management of payment systems, money transfer service and insurance policy offer.
- *Non-financial services*: technical assistance for the implementation of the business activities.

Directed to people who are developing a cost-effective activity and who cannot access the traditional institutions because of their weak economic profile (they do not have a fixed income or guarantees).



- It helps you creating your business, because it lends you the money you need and it teaches you how to use it
- It helps you generating income through your business activity
- It helps you improving the life conditions of your family.

What is a microfinance institution?

Microfinance institution

A Microfinance Institution (MFI) is an organization, which provide microcredits to customers who have difficulties to access the traditional financial sector. A MFI supports the beneficiaries also with tutoring services and assistance in the business establishment and management and often helps managing the future profits of the enterprise.

A microfinance institution can belong to one of these main categories:

- **Formal institution**: rural banks, development banks, cooperatives
- **Semi-formal institution**: non-governmental organizations (NGO)
- **Informal sector**: local lenders and shop keepers

The kind of institutions varies from country to country, from region to region: development banks are flourishing more in Latin America than in other regions, cooperative financial and saving institutions are mainly developed in central and western Africa, whilst rural banks prevail in countries like Ghana, Indonesia and Philippines.

Microcredit for business occurs when a microfinance institution supplies a little loan to microentrepreneurs willing to start and develop a small entrepreneurial activity.

IMPORTANT

When you get a **microcredit** for your activity you should consider that developing a sense of **responsibility** by your side is essential for your final success in a microfinance programme. When you get a loan you sign a contract, and so you take charge of returning the money you agreed, within the dates you agreed. Thus, you are facing a **risk** because if your activity should not give you the expected profits, you may risk running into debt beyond your possibilities.

The entrepreneurs getting microcredits do manage small economic activities (microenterprises), which can range from the individual enterprise (made up by just one person) to the cooperative (made up by more people).

The characteristic elements of the microcredit for business are:

- Loans
- Interest rate
- Amortization schedule
- Guarantee
- Procedures.

Microenterprise

A microenterprise is a business activity “on a small scale”, that benefits of simplified establishment and management procedures. The definition changes according to the countries: generally speaking, microenterprises are made up by at most 5 employees.

5 THE ELEMENTS OF THE MICROCREDIT FOR BUSINESS

The loan

It is the amount that you have been lent and that you will have to return. Initially, it will be quite **small** but it will grow with the time if you show to be a reliable client.
On the basis of this amount the interest rate and the amortization plan will be calculated. The loan can be **granted to you**, for your project, or to **a group of beneficiaries**, whom you will be part of and you will be sharing rights and duties, depending on the nature of the loan granted (individual or group loan).

The individual loan

It is the most similar method to the one applied by a traditional bank, but with some innovative elements. Basically, you will apply for a loan to the microfinance institution, which will collect all the necessary data to assess your application; it will examine your business plan and try to understand your needs. Sometimes, in the individual loan only, a guarantee may also be required to you or to a third person, usually a relative of yours.

The guarantee is different from the one asked by the traditional bank system: in this case you just need it to show your serious intentions of starting an economic activity and you will agree directly with the Microfinance Institution what you can pawn in the credit relation.

Here are the **elements of this kind** of loan:

Beneficiaries	Individual microentrepreneurs
The Microfinance Institution relation with beneficiaries	Really close relationship of the credit relation, from the assessment to the monitoring phase
Loan approval	Based on a careful analysis of the project to be financed

Characteristics of the loan	Loans are "tailored" according to the client and the economic activity characteristics. The various amounts of the loan depend on a careful assessment of the client patrimonial situation and the proposed activity. Rapidity in the loan grant
Guarantees	Collaterals and/or co-warrantor (relatives)
Saving	This is not a fundamental element

The group loan

Groups of clients are formed and the loan is granted on an individual base; this loan should be returned periodically and usually does not require any guarantee. Every member of the group is responsible for returning the loan also for the other members (**joint responsibility**). In this case we go beyond the concept of collateral, since the other members of the group give their own guarantee.

It is a kind of loan especially spread in Latin America. Here you see the **characteristic elements**:

Beneficiaries	Individual micro-entrepreneurs
The Microfinance Institution relation with beneficiaries	Relative close relationship, focused in two moments: before approving the loan and upon repayment
Loan approval	Based on minimal analysis of the project
Characteristics of the loan	The credit conditions are constraining: firstly, the new members get small and identical amounts of money and then, they can ask for higher amounts, provided that they are able to return in time the previous loans. In addition to this, while the clients gradually pay back the loans and the organization gains confidence with them, it will grant loans more and more rapidly

Guarantees	Joint liability of all the participants, in other words every member guarantees the loans of the other group members and nobody will be able to get other loans until each of the members will not have returned the amount received
Saving	Often clients are required to pay a compulsory savings rate, usually withheld at the beginning of the relation
Group Characteristics	The groups self-select their members, even though the last ones must not be relatives and should have a similar socio-economic situation

Interest rate

It represents the price you will pay for the loan are entitled with. It can be calculated with two different methods:

- **Declining balance:** the interest in every period is calculated according to the residual balance. The example here below takes into consideration (for simplicity) the constant share capitals to which the interest of the period will be added, so to obtain the monthly instalment. This is

DECLINING BALANCE

Loan amount: 1.000 $

Annual interest rate: 20%

Loan expiration: 12 months

Frequency: monthly instalment

Month	Instalment	Interest	Capital	Balance
0				1.000,00
1	100,00	16,67	83,33	916,67
2	98,61	15,28	83,33	833,33
3	97,22	13,89	83,33	750,00
4	95,83	12,50	83,33	666,67
5	94,44	11,11	83,33	583,33
6	93,06	9,72	83,33	500,00
7	91,67	8,33	83,33	416,67
8	90,28	6,94	83,33	333,33
9	88,89	5,56	83,33	250,00
10	87,50	4,17	83,33	166,67
11	86,11	2,78	83,33	83,33
12	84,72	1,39	83,33	-
Total	1.108,00	108,33	1.000,00	

a more complex method if compared to the FLAT one, used especially in the urban areas.

- **Flat:** the interest rate is calculated every month on the share capital initially granted. It is an easier method, especially used in the rural areas.

FLAT

Loan amount: 1.000 $
Annual interest: 20%
Loan expiration: 12 months
Frequency: monthly instalment

Month	Instalment	Interest	Capital	Balance
0				1.000,00
1	100	16,67	83,33	916,67
2	100	16,67	83,33	833,33
3	100	16,67	83,33	750,00
4	100	16,67	83,33	666,67
5	100	16,67	83,33	583,33
6	100	16,67	83,33	500,00
7	100	16,67	83,33	416,67
8	100	16,67	83,33	333,33
9	100	16,67	83,33	250,00
10	100	16,67	83,33	166,67
11	100	16,67	83,33	83,33
12	100	16,67	83,33	-
Total	1.200,00	200,04	1.000,00	

Amortization schedule

It is the schedule you will plan with the microfinance Institution about the **dates in which you will return the loan** (capital + interest rates); there are two different methods to plan a schedule:

- One based on the reimbursement shares (capital + interest) on weekly, bi-weekly, or monthly basis. This represents the most used option.
- The other is structured in a first periodic payment of the interest rate and, at the end, the total refund of the capital in a single solution.

Guarantee

It is requested according the kind of activity you would like to start or you are already running and the kind of loan you have been granted. Sometimes it is not requested, for example in the group loan or in an activity already started, which does not need any guarantee because the earnings self represent a guarantee. It is much more flexible with respect to the guarantee of the traditional bank system.

Procedures

Once you will have started the relation, the microfinance Institution will put into act some specific procedures in order to grant a loan.
Analysing the application for the loan and its grant will take a short time. The relationship with the institution will be easy and clear and will follow more or less the steps here below:

1 Collection of information about you (beneficiary) and your business idea

MFI model of Beneficiaries/Clients interview:

- Description of the economic activities carried out by your family members
- How long have they been doing such activities?
- Is the activity individual or does it require other people? How many? Who are they (relatives and/or employees)?
- Where will the product be sold?
- Is there cooperation with other people doing the same economic activity?
- Is the economic activity officially registered?
- What is the capital invested in the economic activity in terms of goods and equipment?
- What is the value of the consumption goods and materials used?
- Which are the costs and the earnings of the economic activity?
- Did you ever borrow money to finance your economic activity? From who? (family, friends, bank, local lander, supplier, savings group)
- How much did you borrow, how long, and under which conditions?
- If you could get a loan, would you? Under which conditions?
- How long would it take to return the loan?
- Are you able to write a budget and a business plan?

2 Verify the information collected

3

Assessment of the information collected

4

Communication (to you) of the loan granting and planning of the amortization schedule for the returning of the money

5

Authorization to grant the loan and first microloan

6

Further advisory (if you will need it) on how to manage your first loan and activity

!

IMPORTANT

Refunding the microloans is important, because the microfinance Institution trusts you and your commitment in pay them back.

If you ever find yourself in **difficulty** go directly to the person who is helping you within the organization to agree a different way of refund, in order not to incur in penalties or added costs.

Trust in your possibilities, but also in the people who support you.

6 FOCUS ON...

GHANA

Microfinance in Ghana

Microfinance as an alternative financing tool to the traditional one is quite popular in Ghana. Traditionally, people are used to save small amounts of money, individually or in groups, helping and lending each other to support the farming activities and small businesses.

In Ghana the term *microfinance* is known as a financial sector subordinate to the traditional one, which comprises many kind of organizations, even very different among them, that can be gathered in four main categories:

- Formal Institutions: credit and savings companies, commercial, rural and development banks.
- Semi-formal Institutions: Credit Unions, NGOs, and cooperatives.
- Informal Institutions: Savings and credit associations, informal groups, family units.
- Government: governmental programmes that make credit available to the most weak population at favourable conditions.

Microfinance in Ghana

- **15%** of the total population uses microfinance
- More than **560** microfinance organizations are grouped under the *Ghana Association of Microfinance Companies* (GAMC)
- **850 millions** of GHS (**216,5 millions**) of loans per year
- average monthly interest rate on the loans between **4%** and **6,5%**

According to the "2000 Population and Housing Census", the 80% of the Ghana active population finance itself through informal Institutions, because it is impossible for them to access the credit, since their vulnerable economic situation.
The impossibility for most of the population to access the credit is the reason why it is so difficult for the entrepreneurial system to expand and grow in Ghana; that is why microfinance is seen as an answer to this problem.
Microfinance clients in Ghana are mostly women, coming both from urban and rural contexts, working in activities such as farming, food-processing (food preparation and sale), manufacture, small trading and "door-to-door" services.

The Akosua's corner market

Akousa is the seventh client of the cooperative bank of Kumasi; she has been one of the first women to become part of the rural savings and credit bank of Ghana, which allows deposits and grants loans to its 300 members, 90% of which are women.

"Before starting to work, I was part of an ethic group made up of women and I had the right to small loans – says Akousa – but without any permanent activity I was forced to go to the village usurers for loans, running more and more in debts. In 2008 I joined the bank to improve my life conditions: with my first credit I bought cassava flour and I started to produce the fufu (a local dish made of cassava flour, typical in the Ghanaian cookery) and I resold it at the local market".

Akousa is fifty years old, has two sons, one of them has been studying and working in London for ten years as a waiter in a café, whilst the other works as postman in the native village. As years pass by, Akousa managed to radically change her condition: *"In the past it was me going to ask for help to other people, but now many people come and ask me for advice. I have a much bigger market stand now: I sell vegetables, corn cream, fish and palm oil. With the money I earn, I have been able to provide education at the university for my sons and I also bought a small land in England for my son living there. When he will come back, he will be able to build his own house"*.

The Organization cooperating with our project

MDF WA Training & Consultancy

MDF is a global agency specialized in advisory in international cooperation. It has been working for the sustainable development, the social equality and the financial inclusion of all the brackets of the global population for 30 years.

MDF West Africa offers the competences and advisory necessary to support the development of microfinance in the region, through a big network of offices and experts in the field.
MDF supports the micro-entrepreneurs during the entire establishment and management process of the economic activity, providing an effective assistance in microfinance and in the business planning activity.

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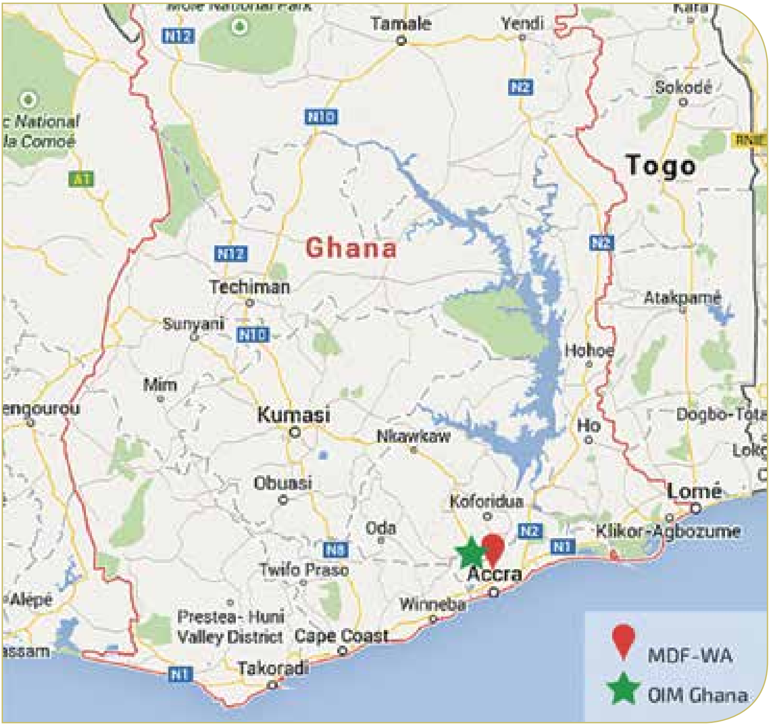

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Print ended in the month of May 2015
by Publistampa Arti Grafiche - Pergine

This guide has been realized by Etimos Foundation in the framework of the REMPLOY III project in partnership with the following institutions:

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