

Sample Chapter of **“Where There Are No Jobs: Enterprise solutions for Employment and Public Goods for the Poor”** by David Befus

**Chapter IV**

**First Steps in Organizing the Project**

The promotion of productive economic activity, independent of methodology, should begin with a focus on the target group, or the “clients.” The objectives should be defined in relation to the needs of the potential beneficiaries, with the recognition that there may be multiple goals that result in a combination of economic project methodologies. For example, in the case of the water delivery business presented earlier, the demand for water (client #1 – newly displaced to Cartagena to escape violence) is coupled with a service business that can be funded either through the business incubator approach, or through a micro loan methodology. (client #2 – the entrepreneur receiving funding/training for the water delivery enterprise.) Economic programs for internally displaced people in Colombia also benefit greatly from the fact that clients often have business experience from previous occupations, and that they are highly motivated to find some means to support their families.

Research regarding the target group should include information and interviews with other organizations offering similar services, to evaluate other points of view about what the critical needs are and how they can be addressed or satisfied. The purpose of this investigation is not just to arrive at a clear definition of the target group, but also to promote positive relationships with other organizations that might also be trying to help, and whose programs might be complementary. In some cases it might be a good idea simply to work with others rather than create a new economic development program. Or there may be training programs or other resources available from partner organizations. However, the focus and orientation of the group desiring to start new social enterprise projects often is very different from that of other organizations, so this kind of cooperation does not always work in practice.

There are also several basic principles to consider before starting a program:

1. **The program should be seen as a means for promoting a social impact, and not as an end in itself.**

The key objective of the community is to help the poor and support programs with a social impact. What is seen in many programs is that this objective can be lost, and the considerable work of promoting economic activity becomes, in the worst case, another commercial business that benefits a select few. There are many schools and hospitals that started as strategic social outreach for the poor, and today are completely oriented to serving the wealthy. They are sustainable, often profitable, and may even help poor people with some social outreach, but they have lost the principal vision for which they were created.

The same phenomenon has taken place in many micro credit programs, some of which were created quite recently by government and NGOs. In a period of less than a decade some of these have essentially lost all connection with social impact objectives, as the financial sustainability of the service delivery system has taken priority. They may still have promotional information that they use in English fund-raising materials that point to social development foundations or background, but in their field programs they minimize any contact with the poor communities “to promote a better collection performance” or to placate government and institutional donors. It is interesting how quickly this phenomenon of “mission creep” can happen.

Perhaps most surprising are the organizations started to help the poor which today have evolved into big businesses, or into service organizations focused principally on the upper class. A model project in micro finance that was created to replace the market moneylenders becomes, itself, a very high interest moneylender. A school designed to help the poor and disadvantaged becomes the school for the upper class. A clinic that began as a program for the indigent is now focused only on treatment for the wealthy. Such cases exist in many places, and serve to remind us of the danger of losing the

vision, and also the need to begin with a focus on the targeted beneficiaries of the program. The well-being of the organization offering the services can easily become a higher priority than the well-being of the people it was created to help. The main focus of management then turns inward. However, the institutionalization of the program is important as a basis for serving others, not for serving the institution and its employees.

**2. It is necessary to plan from the very beginning for a sustainable or viable project, which also requires a sustainable service system.**

The success of economic programs is perhaps more visible than that of other types of projects because they depend on having a viable project design. When programs offer services that are subsidized, it is often hard to tell whether the projects are really effective. People are generally happy to receive the product or services free, even if the quality is poor or the service not really necessary. When subsidies are depleted, such projects simply disappear.

The operational design of economic projects has to be viable. If local people cannot pay for curative medicine available when doctors work at no cost, it is unlikely that paid local doctors are a viable alternative, and perhaps the medical objectives need to be met through less expensive, more transferable preventive approaches. If local people cannot pay for private schooling available when volunteer teachers work at no cost, it is unlikely that paid local teachers are a viable alternative, and perhaps the school will either have to shift its focus to a mix of lower and middle- class families, or change its educational delivery (two shifts per day, larger classes, etc.) to be viable in the long run. These are the types of questions that need to be considered from the very beginning of a project.

What this means, for projects designed to create employment, is even more serious, because technical review of proposed investments in projects will be necessary to determine whether the projects can succeed. It is frequently easier to make a better margin selling products than to produce them, but many people may know more about production than sales. Through qualified technical staff assigned to the project, it may be necessary to learn first about potential markets before financing projects, with the goal of

obtaining a higher margin and better profits for producers. This type of concern has led many organizations that work in economic development to create marketing cooperatives, identify export markets, and recommend to new business entrepreneurs only strategies that allow for sufficient product differentiation to obtain sufficient profit margins.

The world marketplace is becoming increasingly competitive, and this affects small business as well as big business. The small businessperson is at a disadvantage because he or she may not have technology or market knowledge. For this reason it is important that information be provided to help the small company compete with quality products. The assistance of consultants from the established business community, short term or long term, can play an important role in promoting innovation, attractive product design, and alternative markets. Another way to help improve margins is to cut costs, and within the development community there is tremendous potential for businesses to work together in both collective purchasing and assistance with marketing.

It is generally these types of competitive considerations that make the business incubators work: a special market, a proprietary technology, etc. These factors are often more important, in the success of a project, than the financing of the endeavor. The assumption is that programs of economic development will be viable in the real world marketplace, and that is not an easy task. Donors who provide capital for economic projects without questioning the viability of the business model may actually have a negative impact on the outcome of the funded project.

**3. The program should not represent a burden for the community.**

This is another reason to separate these projects organizationally and financially through the creation of a specialized operational entity. For all categories of economic development programs, the goals of financial sustainability must be balanced with other objectives, and this is a tough balancing act. One may desire to charge very little for health care, schooling, or the use of financial resources. However, the fees must cover costs, or the “rental fee” on financial assets (i.e.

interest). Revenues must be sufficient to cover the costs of services provided, must offset deflation/devaluation, and must provide a reserve for bad debts or depreciation. Special services like training may need to be funded with specific fees, and any legal or registration costs also must be taken into account.

**4. There must be adequate financial systems and internal controls.**

The task of creating economic enterprises for social benefits has all of the complications of the world of commerce and banking, but is often staffed not by paid professionals, but by volunteers and leaders from the local community. This is a great challenge! For many volunteers, these types of projects are a source of great fulfillment, because they find in them a way to use their professional skills in helping others. It is often the case, however, that the human resources for oversight of these programs are limited, and it may even be necessary to look for help from other communities, professional organizations, chamber of commerce, or even the formal business sector.

Whatever the capacity of the leadership committee, with economic projects it is necessary to define, from the very beginning, the financial system and controls for accounting, to guarantee a proper functioning of the program. These are projects that involve investment of money, and there can be temptations to take advantage of this for personal benefit. Though separate from the community operationally, these projects do impact the reputation of the community, and should therefore be done in an orderly manner.

**5. Reporting and evaluations are required of all programs.**

Monitoring of the project through monthly reports is very important, and should include both financial and social information. All members of the organizing committee should read and evaluate these reports, and the leadership of the program should also share them with the community leadership. In cases where donors are involved, they will also need to receive periodic reports.

For the project to be operational, basic definitions of reports are required. The form of reporting depends on the methodology of the project, but usually includes basic financial performance information, reports on what management and staff did during the period, identification of special problem issues that may require board awareness and participation, and descriptive information about project impact. It is very important that information on social indicators and changed lives be presented in reporting, to help maintain the vision for which the program was created.

It is also a good idea to plan for evaluations that compare the initial plan to the actual outcomes. The presentation of financial reports for evaluation is important to measure some very important goals, but not all of them. For this reason, other information needs to be presented in the evaluation. How does the scale of the project, in terms of numbers of people impacted, compare with expectations? How does the efficiency of the services, for example, the time between a request for a loan and its disbursement, compare to other organizations? What has been the impact of the project on the people it was designed to serve? Perhaps they are the ones most important in evaluating the success of the program.

Reporting is greatly facilitated by computerized systems, which help not only with financial records, but also in keeping a database of information on the clients of the program. Social enterprise projects that are successful quickly develop a capacity to handle reporting with computers. Especially in micro enterprise programs, it is almost impossible to keep track of loans, payments, and client information without a micro computer. As the organization grows, or if there is substantial outside funding, it is also often necessary to contract external auditors to report on an annual basis.

### **The Process**

The evolution of an economic development project usually follows a growth pattern along these lines:

**1. Identify and organize the start-up committee**

Recruit the initial leadership group from people in the community that can implement the vision over time.

**2. Initial investigation of the target group**

Begin to identify potential clients; analyze their needs, potential, resources, and the environment in which they live. This also includes research of other organizations that may be serving similar groups, and openness to network and partner with others.

**3. Recruit volunteer staff**

Volunteers are needed at the beginning to help with the project organization, and generally are people with potential to become employees, who could promote an efficient administration of the program and who have a vision for the project.

**4. Further develop the vision**

Define the specific nature of the program, goals, objectives, and policies. Begin to develop and circulate a written draft of the plan for the project. Also begin to define basic policies and procedures for operation. Since projects are often born out of other projects in the community, it may be useful to start with the written policy and procedures manual of these other projects, and develop additional statements relevant to the project being organized. It is especially important to define, from the beginning, all necessary controls dealing with how money is handled.

**5. Select the director**

Choose a person who will be responsible for managing the project. This should be done with input from the community, and participation of members of the committee, which will also grow into a first board of directors for the project. The search for responsible managers with integrity and initiative is a critical success factor in promoting economic development.

Economic programs often start within the community with a group of volunteers. As the project takes shape and volunteers can no longer do the work, a full-time employee is often chosen, supervised by the community committee, who can assume the overall responsibility for the program. This person coordinates the work of volunteers, and is responsible for reports and the development of the organization phase of the project. As the project takes on its own identity, the director also becomes involved in the contracting of other personnel, as well as overseeing the drafts of the plan, budget, policies, and related forms.

**6. Begin with government registrations**

In most cases the project will require a special legal status, depending on the laws governing the particular project. Sometimes communities begin economic projects, and even schools and clinics, without getting government approval, and this can result in unfortunate consequences. The principle of “submitting to authority” applies, as the project should also have a positive relation to civil society for good work, and work done well.

**7. Write a strategic plan outline**

In many cases the initial idea has been developed with creative thinking, input from external donors, and reference to other organizations. All of this must now be placed into the context of the research and findings from steps a-f, and a pilot plan for 3-5 years documented in writing, that includes not only a definition of service delivery methods, but also a financial analysis of project sustainability.

**8. Define the basic policies**

Depending on the local conditions and analysis of the clients, the initial operational policies are drafted, including reporting expectations. This may also require the cooperation of the community leaders, as well as participation of members of the newly formed board. The policy definitions should also include the forms that are proposed for analysis of projects, presentation of business

plans, documentation for authorization of investments, oversight of field staff, etc...

#### **9. Define the services**

The needs of the target group having been evaluated, a program is designed based on the local environment, and taking into account available resources as well as sustainability targets.

#### **10. Define the geographic focus**

It is often important to limit initial services to a specific area, generally where the community is located or where it is involved in other projects, as there are limited resources available.

#### **11. Recruit and contract personnel**

If some have been working as volunteers on the start-up of the project, they may have already proven themselves for possible full-time employment in the project. Often the first opportunity is given to community leaders, though it is very important to make sure the selection is based on qualifications, not political or family ties.

In some cases, social enterprise requires specialized personnel due to the nature of the project being funded. For example, the start-up of a clinic requires people with medical training, a school requires certified teachers, etc.

For incubator and micro finance projects, initial staffing requires project supervisors who can introduce the program to potential clients, visit existing projects and provide technical assistance, offer business training, and use formal and informal opportunities to build the program. The field supervisor is key to the success of these projects, both in terms of financial goals and social impact.

## **12. Design the Information System**

the accounting and financial controls are important to define before the project grows very large, and when possible, a micro computer system should be used to reduce costs.

An interesting aspect of the process of institutional development is that the people who are involved in the initial start-up are not able, in many cases, to manage the project as it matures. As the project grows, the capacity of the director and staff should be evaluated periodically, and it should be expected that changes may be needed. Also at the level of the organizing committee and board, there may be the need to recruit new people, even from outside the community's circle of contacts, resulting in lower levels of control in exchange for higher levels of professionalism. The difficulty in "letting the project loose" as it grows is similar, in some ways, to parents who begin to "let their children go" as they mature from adolescents to adults. This is a positive development, but not always easy to accept.

The organizational committee, drawn initially from the community, develops into a full board of directors. The need for a board is often defined when the legal registrations are investigated, and the names that are on the first legal documents may all be of people from the community. As the organization becomes operational, it will become apparent who is really interested and able to function on the board. The board is often important not only for oversight, but as a condition for obtaining funds and support from other organizations. The search for committed board members who serve without expectations of personal benefits is one of the greatest challenges of project organization.

### **The Role of the Board**

The principal role of the board is to supervise the director. It is not desirable that the board get involved in the daily operations or administration of the programs, but rather that it receive reports, participate and approve the annual plan, and evaluate results. There is a natural tension between a director and the board, because all of the authority of the program resides in the board, whereas the daily responsibility lies with the

director. The fact that board members are voluntary adds to this tension, and the occasional involvement of board members can be viewed by full-time staff as lack of commitment when it actually may be simply lack of time. There are at least six areas where the board should invest the time it does have to supervise the program:

**1) Maintain the vision for the program.**

This includes not only the financial goals of the business activity, but also the desire to balance goals related to financial sustainability with addressing the needs of the target group.

**2) Supervision of the finances.**

This includes the review and approval of the annual plan and budget, the monthly review of reports, and an evaluation at year's end. It is also a good idea, in the case of loan or business incubator projects, that one board member be a part of the committee that approves the specific projects.

**3) Promote the program with others.**

In Western societies it is usually expected that every board member be a donor, or bring other donors into the program, but in developing countries the board members principally give time, not money. However, they also represent the organization with other organizations, the local business community, and the local community.

**4) Provide specialized technical assistance.**

An important incentive for many board members is the opportunity to use their own skills and experience in consulting activity targeted either at the program management or at the businesses that it operates or funds.

**5) Legal representation of the organization.**

The legal charter generally designates the board members as the official representatives, from the perspective of the government.

**6) Personal oversight of the director.**

This includes an interest in his/her daily well-being as a person, and not only in relation to the performance and progress of the project.

The director also needs to understand and accept that the promotion of the participation of board members is one of his/her jobs, and a legitimate and necessary use of time. The director should be willing to seek out the advice of board members on specific issues, adjust work plans to adapt to schedules of board members, and organize meetings at an hour and a place that maximizes board member participation. It is very important for the director to remember that participation in the board is voluntary, whereas all of the others involved are getting paid for their time.

In summary, the project begins to function first as a community committee. Then, as it grows, it becomes a separate legal entity, developing as an organization with its own staff, management, and board of directors. At full maturity, the relationship with the community continues, even though all board members and staff may not live or have roots in the particular community that began the project. The initial vision is kept in focus, and the connection with the initiating community also is maintained-it is part of the family, no matter how big it grows.