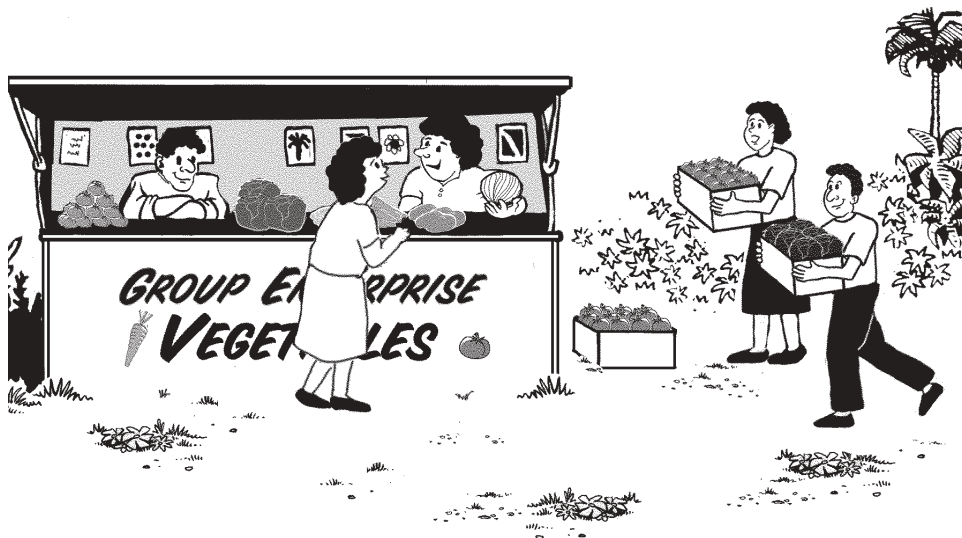




The group enterprise book

A practical guide for Group Promoters to assist groups in setting up and running successful small enterprises



Food
and Agriculture
Organization
of the United Nations

The group enterprise book

Note to Users

**If you have any comments on or
suggestions for improvements to this
book, please write to:**

**Senior Officer
Cooperatives and Rural Organizations
People's Participation Programme
FAO/SDW
Via delle Terme di Caracalla
00100 Rome, Italy.**

**Your comments and suggestions
will help us to improve
future editions**

Food and Agriculture Organization of the United Nations

Text, illustrations and layout by
Ester Bonitatibus
Jonathan F. Cook

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying or otherwise, without the prior permission of the copyright owner. Applications for such permission, with a statement of the purpose and the extent of the reproduction, should be addressed to the Director, Publications Division, Food and Agriculture Organization of the United Nations, Viale delle Terme di Caracalla, 00100 Rome, Italy.

© FAO 1995

Contents

Introduction	I
How is the book structured?	3
A note for Islamic countries	5
How does the book need to be adapted?	6
Part 1: Choosing the Business	9
Step 1: Does the group really want to start a small enterprise?	9
Advantages of running an enterprise as a group	10
Possible problems in group enterprises	12
Step 2: Choosing a business idea	18
The most promising idea	20
Step 3: Carry out a feasibility study	27
Part 2: Planning the Business	41
Step 1: Separate start-up and running operations	42
Step 2: Decide who will do what	44
Step 3: Agreeing rules for the group business	52
Step 4: Decide how big the business will be	53
Step 5: Getting started	55

Part 3: Managing the Business **69**

Keeping records	69
Why should the group keep records?	69
The Balance Sheet	72
The Profit and Loss Account	77
Cash Flow	88
Profit or loss sharing among the group members	93
Maintenance of premises and equipment	94
Monitoring the business	95
Marketing	97
Expanding the business	101

Part 4: The Role of Inter-Group Associations **109**

Which groups should form an IGA?	111
Forming an IGA	113
Running an IGA	115
What services can IGAs provide to members?	116

Acknowledgements

This book draws on more than a decade of experience in Africa and Asia gained in group business management under the FAO People's Participation Programme and from comments provided by project field staff on earlier drafts, for which the authors are grateful.

Introduction

Employment opportunities are usually very limited in rural areas. Self employment in small enterprises can make it possible to generate the income to satisfy needs and improve the standards of living.

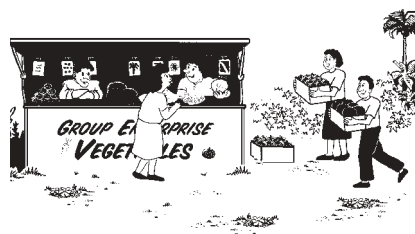
This book shows how small enterprises can be developed and run by small groups in rural communities using a participative approach. It is intended for use by Group Promoters (GPs), extension workers and other rural development staff to help existing groups to set up and run their enterprises.

Formation of the groups themselves is covered in 'The Group Promoter's Resource Book' - also available from FAO.

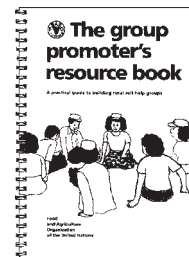
The language in the book has been kept simple and examples, illustrations and exercises have been included to help GPs to explain the ideas to their rural community groups. Pictures are included throughout the book and can be used by the GP to help the group understand the various concepts explained.

A group run small enterprise can have better chances of success than an individually run business. Since individuals have different skills, working in

groups instead of as individuals makes it possible to combine the different abilities and makes work lighter and easier. Groups also have greater bargaining power than individuals and easier access to services such as advice and assistance from government and international agencies.



Not all groups however are suited to carrying out income generating activities together. There are a few characteristics common to all groups



who are successful in running small businesses. The GP should first consider whether the group has most of these characteristics before introducing the idea of running a business together:

- A sound leadership, recognised and accepted by the whole group
- Commitment by all group members to work well together
- Group discipline, i.e. holding regular activities, regular meetings, having a set of rules
- Existing group savings and willingness to contribute regularly to them
- Resources within the group (i.e. materials, skills) which could be used to develop a small business
- Preferably a maximum of 15 members (it is more difficult for bigger groups to run a small business)
- Realism regarding possible achievements
- At least one group member who is numerate (can do simple arithmetic)
- At least one member who is literate (can read a write simple text).



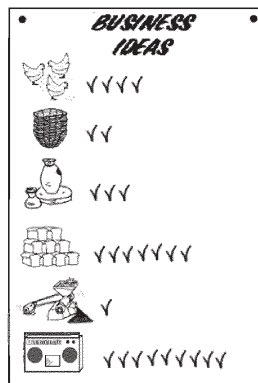
The more group members who are numerate and literate the better, but if none can read, write or count, it will be very difficult for them to run a business on their own. If they need to use relatives or others to keep group accounts this can cause difficulties as they can easily be cheated and it will be difficult to check for themselves if this is happening.

Some of these characteristics can be developed or overcome if they are missing. In such cases, the GP may be able to suggest ways to deal with them. For example, if there are 30 members, he may wish to suggest two or more enterprises.

How is the book structured?

The book is divided into four sections:

Part I Choosing the Business



This section covers the process for selecting an appropriate group enterprise. It begins with a consideration of advantages, disadvantages and risks of running a group business. It then looks at business ideas, opportunities in the area where the group lives, as well as at resources and skills available.

After covering these aspects, the section sets up a structure for the group to draw up a shortlist of ideas with the best potential for success. This will contain rough estimates of what each idea would need and how likely it is to succeed, as

well as such aspects as materials needed, costs and financing, skills required, existing or potential demand, competition, and risks involved.

Part II Planning the Business

This section outlines the main aspects of planning for a new small group enterprise including detailed estimation of costs and profitability, financing the enterprise, input supplies, identifying the market for the proposed product or service and other factors which could affect the success of the business. It gradually takes the group through a feasibility study and the steps and actions needed to get ready to start the business.



Aspects of running a business such as recording sales and purchases, cash flow, simple profit and loss accounts, sharing of profits among the group members and monitoring the business progress are covered in this section. External finance and possibilities for expanding the business if it is successful are considered. The section also looks at some basic marketing principles and briefly outlines issues such as maintenance of equipment and monitoring.



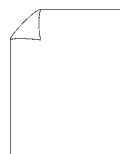
Part IV The Role of Inter- Group Associations



The final section considers how Inter-Group Associations (IGAs) can help the group through exchange of ideas, networking with similar groups and provision of services. The particular services an IGA can offer will depend on what groups are organized together in an IGA (all operating the same enterprise or different enterprises, size and number of groups, location etc.) What activities the IGA could carry out, such as bulk provision of inputs, marketing services, training opportunities and liaison with relevant institutions are discussed, as well as how such activities should be financed.

Throughout the book the word “product” is often used to refer to what the business sells to their customers. In most cases this includes services as well as physical products.

The following symbols are used throughout the text to make it easier to locate information:



When examples of specific aspects of different business activities are given



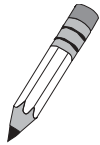
When group discussions or group exercises should be conducted



When a main step in a process is described



When the main points covered in the section are summarised



Space for the GP's own notes.

A note for Islamic countries

Many of the ideas for developing and running small businesses can be also used in Islamic countries, despite the often different cultural and business conditions.

However, it is suggested that a number of points are taken into consideration when revising the document to make it more suitable and relevant to the local conditions. In particular, the role of women (in both the text and illustrations), should be reviewed and when necessary changed to reflect the social and cultural situation. In some areas, separate group enterprises might be preferable for men and women, while in other countries mixed groups might be more acceptable.

In Islamic countries, bank interest is not charged. However, fees and bank charges are made and will have a similar impact on the group accounts. The reference to "bank interest" should therefore be revised to reflect the local banking system.

How does the book need to be adapted?

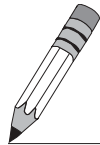
The book should not be seen as a rigid set of rules but as a set of guidelines and suggestions for adaptation to different circumstances. While many of the examples, suggestions and illustrations used in the book are practical for all regions, some of them will be more useful if they are revised to suit the particular cultural, environment and business conditions of the region where the book is to be used. This should preferably be discussed in a group meeting or training workshop with other development workers to develop a locally adapted version of the book before use in the villages.

In general, the more closely the text and illustrations can be adapted to the local circumstances, the more useful the book will be.

Examples of points which should be adapted are:

- Text should be translated into the local language (including text in illustrations) to ensure all group promoters use the same terms.
- Examples of enterprises should be changed to those which are practical and relevant to the area
- Illustrations should be changed to show these enterprises
- Local measurements should be used if different to those in the book
- The US\$ which has been used throughout the book should be changed into the local currency
- Organizations and administrative terms should be those used locally
- Additional information to suit the local area might also be needed
- Unfamiliar items shown in the illustrations should be substituted with familiar and culturally acceptable items
- Clothing may need to be adapted.

When the illustrations are to be used directly with groups, draft revised illustrations should be pre-tested with villagers before finalisation. Misinterpretation of drawings is extremely common when they are prepared by people with a different level of education and background to the intended user, resulting in distortion of the message. Understanding of pictures is learned in much the same way as understanding written text. A semi-literate audience will often see different things in the picture compared to a college graduate because they have not learnt to interpret common representations and symbols.



Introduction

