

# STUDENT - ENTREPRENEUR FINANCE NETWORK

*SEFN: CONNECTING KNOWLEDGE & FUNDS: MICROFINANCING IN KOH DACH*

TEAM 42

GLOBAL ENTERPRISE EXPERIENCE 2013



*Connecting Knowledge and Funds*

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## EXECUTIVE SUMMARY

The Student – Entrepreneur Finance Network (SEFN) will be a microfinance institution with a big twist. We will offer microloans of \$50 to \$150 to entrepreneurs in developing villages, these loans will give the entrepreneurs the capital they need to kick start their business. We will charge a competitive (slightly below average) microfinance interest rate of 2.75% per month in order to cover our costs and provide a return on investment for our investor(s).

The loans will not be funded by a bank nor will they be funded by solely financially motivated private investors. Each loan we provide to an entrepreneur will be directly funded by a single student studying in a developed nation. The student and the entrepreneur will have a one on one relationship, whereby the student can provide expertise and advice from his/her field of study. This will increase the entrepreneur’s chance of success, and improve their profitability.

In return the student will gain immeasurable experience not to mention a return on investment of more than 4.5% per annum.

The entrepreneurs will be grouped with five to ten other entrepreneurs from their local area; these groups will be collectively responsible for the repayment of each other’s loans. This will provide an incentive for them to support one another, once again improving their profitability and increasing their chance of success.

SEFN will begin with a pilot program in Koh Dach (Cambodia) and this will be our head office location. We expect 100 loans in the first year and once our processes have been established and the model is proven there, we will expand through Cambodia, then on through other Asian, African and Middle Eastern markets. In the early stages we will not be profitable, however given growth as SEFN expands we have forecasted that we will become profitable inside of five years, and recover our initial losses within seven years.

## HOW IT WORKS

SEFN will develop relationships between developed and developing nations through the provision of microfinance and support to kick start businesses in the developing world. We are ultimately a facilitator allowing a rich social and economic exchange to take place, part of this facilitation will involve the provision of loans on which interest will be charged in order to produce profit and allow this business to be a sustainable venture.

Students from developed countries will put forward small sums of money as microloans for entrepreneurs in developing countries. The entrepreneurs will work to create a profitable business with the support and expertise of the student(s) guiding them, while interest is charged on the loan.



At the end of loan period the loans will have been repaid with interest. The entrepreneurs business will have grown to the point where it can afford traditional bank finance, the student will have gained great experience that contributes to their degree and they will also receive a return on their investment. As an organisation we will be facilitating this process and leveraging the synergies while extracting a portion of the interest to cover our costs and generate a small profit which will be reinvested into further development of our business across the developing world.

## DEVELOPED COUNTRIES

We will work with students from universities in developed nations, initially beginning with Strathclyde University in Scotland and Victoria University of Wellington in New Zealand. Students will provide both their expertise as well as finance for the microloans of \$50-\$150.



The students will be involved directly with the project and communicate with the entrepreneurs, helping in whatever way possible; Marketing students can develop marketing strategy and accounting students can help with the books. This will help the entrepreneur succeed while providing valuable experience for the student.

At the end of the loan period, which is expected to be an average of 12 months, the loan will be repaid and the student will be returned the principal along with 13.5% of the interest we receive (4.5% return on investment per annum). This return on investment is very high for students in the developed world, where at the moment interest rates are very low (1% at the Bank of Scotland).

As SEFN is confined to microfinance, students will not be expected to risk vast sums of money, and this should increase the number of students who want to be involved with SEFN.

We plan to develop partnerships with universities and have student involvement with SEFN rewarded with course credit toward their programs of study. Ideally universities will offer SEFN involvement as part of a university course; this gives the students support and encouragement, while also building their professional networks with other students. Students will be able to work together to help each other's entrepreneurs, for instance an accounting student and a marketing student could help each other's entrepreneurs with their area of expertise, once again increasing the entrepreneurs potential for growth and profitability.



## DEVELOPING COUNTRIES

SEFN plans to help entrepreneurs develop a business proposal into a profitable business which will provide them with employment and a steady source of income. This will raise their quality of life and generate local and national growth.

SEFN will briefly analyze business proposals from entrepreneurs, any projects appearing to be financially viable (profitable), socially responsible and environmentally sustainable will be passed onto a student who will provide a microloan to the entrepreneur allowing them to begin their business. Interest will be charged on these loans at 2.75% per month.

Entrepreneurs will be connected with other entrepreneurs within their community in groups of five to ten. These groups will be collectively responsible for repaying each other's loans if for some reason one of the entrepreneurs is unable to repay their own loan at the end of the loan term. This will reduce risk for the students, but also provide another support network for the entrepreneurs as it will be in their interests to help each other succeed.

## PILOT PROGRAM

SEFN will begin on the island of Koh Dach. Also known as the "island of silk", Koh Dach is a poor island in Cambodia located along the Mekong River which will give us the opportunity to test our model and develop accurate processes before expanding into the broader Asian and African Markets.

Beginning in Koh Dach will produce strong economic growth in the region by providing employment opportunities both working for our entrepreneurs as well as within the SEFN, high employment will lead to economic prosperity which in the longer term will lead to infrastructure investments which Koh Dach desperately requires. Koh Dach has many tourists but does not have the infrastructure to host them all currently.

For student involvement we will target Strathclyde University in Scotland and Victoria University of Wellington in New Zealand for the pilot project. SEFN's creators have strong ties to these universities and therefore are in a good position to encourage involvement. After we have developed our processes and tested our model with these universities in combination with Koh Dach, we will expand from the University of Strathclyde through the UK and eventually Europe, and from Victoria University of Wellington around New Zealand, Australia, the Pacific and the Americas.



## MARKETING/CAMPAIGNS

On the student side of SEFN, we will promote at universities' orientation weeks and introduction seminars. We will also make some students who are particularly active, student ambassadors who will be responsible for promoting SEFN at their university – in return student ambassadors will receive a higher percentage of the interest we receive. We will also use posters that will be posted in universities areas (libraries, lecture theatres, halls) and social networks such as Twitter, Facebook and Instagram. With fast technological improvements, younger people are eager to use internet to communicate and thus our objective is to have strong presence in digital spheres.

The marketing campaigns will be more focused on students as it is their financial participation and interest that principally makes the project viable. However, we will also have to attract potential entrepreneurs on that side of our business. To do this we will target specific community groups in the local area so that entrepreneurs are aware of our presence, we will speak at their events, hold seminars and also provide some limited training/education to ensure the market is familiar with us.

## PARTNERSHIPS AND ALLIANCES

SEFN will look to develop partnerships and alliances with a variety of organizations. Firstly we will need a strong relationship with universities (E.g. University of Strathclyde and Victoria University of Wellington). We will also look to partner with organizations that are active across a number of universities such as SIFE (Students in Free Enterprise) and AIESEC.



A head for business. A heart for the world.  
mainstream financing.

We will also look to partner with local community groups through whom we will be able to get in touch with entrepreneurs (E.g. Cambodian Christian Entrepreneurs Network). Finally we will also need to establish relationships with bank(s) in the developing world in order to assist our entrepreneurs from microfinance onto

## TECHNOLOGY

SEFN is all about connecting people around the world and leveraging synergies between them, to do this we will need to use information systems effectively to gather, store, track, retrieve and use information regarding our entrepreneurs and students, not to mention the receipt and disbursement of funds. Effectively utilizing technology will increase efficiency and allow us to improve our own profitability as well as the profitability of our entrepreneurs' businesses.



In particular, we plan to make use of tools such as Skype and QQ for video conferencing. To fulfill a number of purposes, our local office will provide internet services for entrepreneurs to collaborate with the students; by offering this we will achieve a number of objectives:

- Reducing costs due to economies of scale while allowing collaboration between the students and the local entrepreneurs
- Conduct/allow various skill development trainings and programs using human expertise from all around the world for the development of our local entrepreneurs

We will use the modern banking system for the collection and distribution of funds and in the process, encourage the local entrepreneurs to use the modern system of banking which will ensure a safe, secure and an easily traceable source and distribution of funds. However until we are on the ground in Koh Dach we cannot be certain our local entrepreneurs will have access to the modern banking system in which case we will utilise the Western Union's services.

## THE VALUE PROPOSITION

*"The value proposition of microfinance doesn't lie in it's being the strongest tool against poverty that we can possibly imagine. The value proposition lies in the fact that it is very helpful to cope with poverty, and it's a very good value for money." – Richard Rosenberg*

## STUDENTS' POINT OF VIEW

- a. Socially
  - i. By helping the borrowers with their expertise in the fields of communication, marketing, accounting, finance, entrepreneurship and IT, students who participate by enrolling for this subject through their universities, will gain immeasurable experience.
  - ii. Students are given a chance to help those in need, and to therefore change the world in which they live in

- b. Economic
  - i. Students will be given an insight into how to manage money and how to create a sustainable and profitable business
  - ii. Students will be repaid the amount which they lent as well as a competitive return on their investment
  - iii. Students can gain credit for their studies

#### LOANERS' POINT OF VIEW

- a. Socially
  - i. Microcredit taken would allow the inhabitants of Koh Dach to be better off, and have better living conditions
  - ii. The loan will be invested in a profitable and sustainable business that first has been approved by the students
  - iii. Better their position in society along with numerous others affected by their business
- b. Economic
  - i. Employment will be created, and future generations from this village will be given the opportunity to have a job.
  - ii. By approving how the business will be run and labor managed, wages will be higher than they used to be.
  - iii. As the business proposals must be approved, SEFN makes sure that the ventures are more likely to be profitable and sustainable.

#### UNIVERSITIES POINT OF VIEW

- a. Socially
  - i. Universities offering involvement with SEFN as part of a course will be seen as socially responsible
  - ii. Universities will be seen to offer courses which involve real practical business management experience
- b. Economic
  - i. Offering a course with SEFN will be low cost as curriculum and assessment does not need to be designed as performance can be measured simply by students involvement with their entrepreneur
  - ii. Students involved with SEFN will have greater knowledge of the world around them and therefore when they enter the working world they will be strong ambassadors for the university

## MARKET ANALYSIS

### COMPETITORS

Our main competitors would be other Microfinance firms within the markets in which we operate, at the beginning this would be companies within Cambodia such as AMRET Microfinance Institution and Camma Microfinance Ltd, but eventually will include firms in other nations and even international microfinanciers.

### COMPETITIVE ADVANTAGE

SEFN is highly differentiated from other microfinance institutions as we focus on developing relationships between entrepreneurs and students which increases the entrepreneurs' chance and degree of success. We don't just provide funding, we connect knowledge and funds and by giving entrepreneurs this increased chance of success we have a strong competitive advantage over the rest of the microfinance market.

PEST ANALYSIS

STUDENT SIDE	OPPORTUNITIES	THREATS
POLITICAL FACTORS	Governments in developed nations are generally willing to support this kind of initiative. Therefore we may be able to secure funding to encourage student involvement.	Governments could be unhappy focusing students attentions on international issues when there are problems that need solving domestically.
ECONOMIC FACTORS	As we are only expecting \$50 to \$150 investment per person, our idea could extend beyond students to business professionals as they feel it is a way they could contribute.	As a result of the GFC students are unlikely to have as much money to invest through SEFN as they once would have.
SOCIAL FACTORS	People in developed nations are more aware than ever of issues in the developing world and many are looking for a way to help. Especially when it will contribute to their own experience.	Students could potentially lose interest in the projects if they do not find them engaging, this would result in a lack of guidance and assistance for entrepreneurs.
TECHNOLOGICAL FACTORS	These developed countries have strong technological infrastructure which is necessary for involvement in SEFN as it enables better and quicker communication.	SEFN is very reliant on technology to allow communication between students and entrepreneurs.

ENTREPRENEUR SIDE	OPPORTUNITIES	THREATS
POLITICAL FACTORS	Cambodia has recently gone through positive changes in political structure and is now more integrated in the global economy. Cambodia is also regarded as politically stable which is positive for SEFN.	Cambodia has a history of corruption, and despite recent political change, there is still some corruption within Cambodia, although this is reducing.
ECONOMIC FACTORS	Cambodia is a poor country relative to developed nations, which means entrepreneurs struggle to find investment to start businesses.	Due to poverty many young people have to drop out of school to help their families, this means our target market may have limited education.
SOCIAL FACTORS	School enrolment has increased by 126 % in 2011 which is a strong advantage for our business as this reflects potential skilled entrepreneurs.	Due to the GFC, some women cannot afford training for jobs, and therefore go into unskilled employment to support their families; this reduces the chances of finding female entrepreneurs.
TECHNOLOGICAL FACTORS	Cambodia is making strong efforts to develop infrastructure through investments in internet and mobile technology.	SEFN is very reliant on technology to allow communication between students and entrepreneurs, some parts of Cambodia may not have strong telecommunications which will restrict SEFN's ability to operate.

## FINANCIALS

	2014	2015	2016	2017	2018	2019	2020
<b>Forecasted Number of Loans:</b>	100	300	800	1,300	2,500	4,700	7,500
<b>Amount on Loan:</b>	\$10,000.00	\$30,000.00	\$80,000.00	\$130,000.00	\$250,000.00	\$470,000.00	\$750,000.00
<b>Interest received on Loans:</b>	\$ 3,477.21	\$ 10,431.64	\$ 27,817.71	\$ 45,203.79	\$ 86,930.36	\$ 163,429.07	\$ 260,791.08
<b>Amount Returned to Student:</b>	\$ 469.42	\$ 1,408.27	\$ 3,755.39	\$ 6,102.51	\$ 11,735.60	\$ 22,062.93	\$ 35,206.80
<b>Forecasted Expenses:</b>	\$ 21,234.78	\$ 29,876.53	\$ 45,150.23	\$ 60,283.91	\$ 74,985.31	\$ 109,304.22	\$ 123,514.87
<b>Total Expenses:</b>	\$21,704.20	\$31,284.80	\$48,905.62	\$66,386.42	\$86,720.91	\$131,367.15	\$158,721.67
<b>Net Profit:</b>	<b>-\$ 18,226.99</b>	<b>-\$ 20,853.16</b>	<b>-\$ 21,087.91</b>	<b>-\$ 21,182.63</b>	\$ 209.45	\$ 32,061.93	\$ 102,069.41

In our first year, SEFN expects to be able to connect 100 students with 100 Entrepreneurs to finance 100 microloans. The number of loans SEFN is expecting will see considerable growth as we expand from Koh Dach through Cambodia and eventually across borders into the wider Asian, Middle Eastern and African markets.

<b>Average Loan Amount:</b>	\$ 100.00
<b>Loan Term (Months):</b>	12
<b>Revenue % Shared with Student:</b>	13.50%
<b>Monthly Interest Rate:</b>	2.75%
<b>Total Interest Rate over Loan Period:</b>	34.77%

SEFN's loans will range from \$50 to \$150 with an average loan of \$100 and we will charge 2.75% interest per month on these loans. This monthly rate equates to less than 34.77% per annum and although this appears high compared to many interest rates in the developed world, it is in fact less than the average microfinance interest rate in Cambodia.

The students who finance the loans will be returned their principal investment as well as 13.5% of the interest we receive. Based on the loan details alongside, this equates to an interest rate of more than 4.5% per annum which is higher than the deposit rates of many developed countries today.

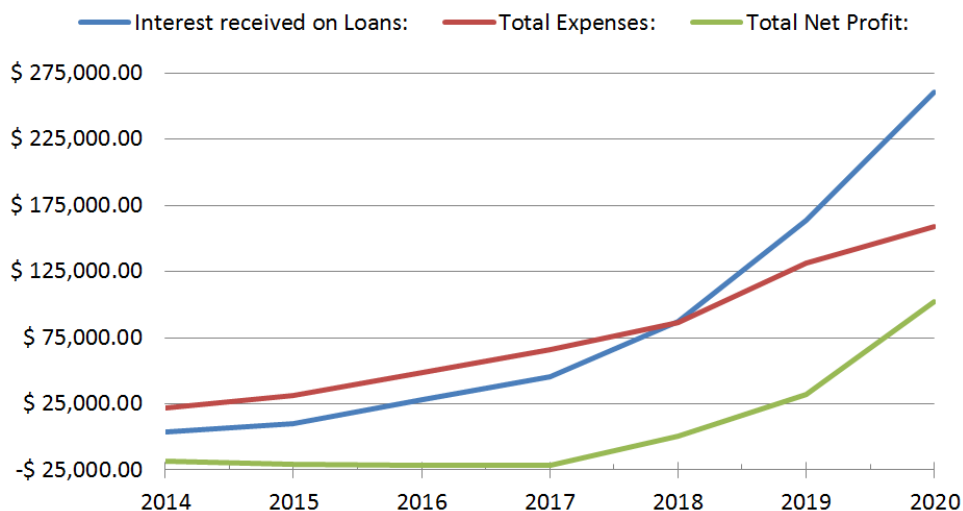
We are looking for a private investor to invest \$200,000 in SEFN. In return this investor will receive 49% ownership of our business, which will provide him with significant long term returns. An investment of \$200,000 will give us the capital necessary to set up an office in Koh Dach, develop relationships with entrepreneurs, begin marketing to students for involvement, and shoulder the initial expected losses, while also retaining some capital for future expansion.

We decided to locate our head office in Koh Dach, firstly as it is the location of our pilot program but also because of comparatively lower wages, rents and utilities charges to the developed world. This means we will get more for less with the initial investment of \$200,000.

Based on these financial details, we have

forecasted that SEFN be profitable within five years and as an investor you can expect significant dividends to be received in 2020; however this is dependent on our development strategy at that time as it may be beneficial to retain these earnings within the business and use them to develop our business into new territories.

Average Loan	
<b>Month 1</b>	\$ 100.00
<b>Month 2</b>	\$ 102.75
<b>Month 3</b>	\$ 105.58
<b>Month 4</b>	\$ 108.48
<b>Month 5</b>	\$ 111.46
<b>Month 6</b>	\$ 114.53
<b>Month 7</b>	\$ 117.68
<b>Month 8</b>	\$ 120.91
<b>Month 9</b>	\$ 124.24
<b>Month 10</b>	\$ 127.65
<b>Month 11</b>	\$ 131.17
<b>Month 12</b>	\$ 134.77
<b>Revenue per Loan</b>	<b>\$34.77</b>





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