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# MICROFINANCE AND ENTREPRENEURSHIP DEVELOPMENT AMONG THE POOR

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**A** Microcredits are small financial loans provided to poor individuals seeking to start their own businesses. Many economists worldwide define microcredits as the latest revolution and this is a concept strongly related to entrepreneurship and self-employment. Microcredit has shown to have a significant effect on poverty alleviation, through stimulating entrepreneurship and increasing employment among the poor. Entrepreneurship is one of the most important components of economic development in any country, even among those developing economies, with high levels of self-employed people and with a GDP structure of mostly agriculture of small family farms. The aim of this paper is to analyse the dependency between microfinance and entrepreneurship development among the poor by using a specific descriptive analyses methodology and concluding how the first is effecting the creation of the start-ups and this way impacting the economic development of the country.

**K** microfinance, entrepreneurship, impact.

## МІКРОФІНАНСУВАННЯ І РОЗВИТОК ПІДПРИЄМНИЦТВА СЕРЕД БІДНИХ ВЕРСТВ НАСЕЛЕННЯ

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**A** Мікрокредити – це невеликі фінансові позики, які надаються бідним людям, котрі бажають розпочати власний бізнес. Багато економістів у світі визначають кредити як останнє революційне рішення, і ця концепція тісно пов'язана з підприємництвом і самозайнятістю. Мікрокредити суттєво впливають на боротьбу з бідністю завдяки стимулюванню розвитку підприємництва та зростанню рівня зайнятості серед бідних верств населення. Підприємництво є однією з найважливіших складових економічного розвитку в будь-якій країні, навіть в економічно розвинених країнах з високим рівнем самозайнятості та структурою ВВП, в якій переважає частка малих сільськогосподарських ферм. Метою статті є аналіз залежності між мікрофінансуванням і розвитком підприємництва серед бідних верств населення шляхом використання спеціальної методики описового аналізу і висновків про те, як мікрофінансування сприяє створенню стартапів і, таким чином, впливає на економічний розвиток країни.

**K** мікрофінансування, підприємництво, вплив.

## МИКРОФИНАНСИРОВАНИЕ И РАЗВИТИЕ ПРЕДПРИНИМАТЕЛЬСТВА СРЕДИ БЕДНЫХ СЛОЕВ НАСЕЛЕНИЯ

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**A** Микрокредиты – это небольшие финансовые ссуды, предоставляемые бедным людям, которые хотят открыть свой собственный бизнес. Многие экономисты во всем мире определяют микрокредиты как последнее революционное решение, и эта концепция тесно связана с предпринимательством и самозанятостью. Микрокредиты оказывают значительное воздействие на борьбу с нищетой посредством стимулирования предпринимательства и увеличения занятости среди бедных слоев населения.

Предпринимательство является одной из важнейших составляющих экономического развития в любой стране, даже среди развитых стран с высоким уровнем самозанятых и структурой ВВП, в которой преобладает доля малых сельскохозяйственных ферм.

Целью статьи является анализ зависимости между микрофинансированием и развитием предпринимательства среди бедных слоев населения посредством использования специальной методики описательного анализа и выводов о том, как микрофинансирование приводит к созданию стартапов и, таким образом, влияет на экономическое развитие страны.

**K** микрофинансирование, предпринимательство, влияние.

### Introduction

About fifty-five percent of entrepreneurs worldwide expect to create at least one job in the next five years (Global Entrepreneurship Monitor – GEM 2016/17). According to the Global Entrepreneurship Monitor (GEM) 2016 Global Report:

a) Over the past year, *entrepreneurial activity* remained stable or increased in approximately

two-thirds of all economies surveyed in both 2015 and 2016.

b) More than two-thirds of all adults see *entrepreneurship* as a good career choice, and the same believe entrepreneurs are seen as high status.

c) Sixty percent believe *entrepreneurs* receive positive media attention. Among the highest levels reported are China, Thailand, and

Indonesia, where more than three-fourths of adults see positive media attention for entrepreneurs, Greece, India, and Mexico report around half this level.

Also according to this report, globally, many factors are in play that could hinder such *entrepreneurial growth*. These include sophisticated technologies and communications that may enable entrepreneurs to operate on their own, rigid labor regulations, poor availability of skilled or educated labor, limited access to entrepreneurial finance, and the decision to stay small to avoid the complexities of formalization.

But what can be said regarding *limited access to finance* as a problem to supporting financially the new entrepreneurs? What is the role of microfinance in developing the *entrepreneurship* in case of Albania? What are some aspects of the Albanian economy regarding the rural agricultural sector which seems to be the least financed ?

Since the privatization of land in 1991, the dominating business model in Albanian agricultural production is the family (*household*) farm. In addition, a small number of cooperative associations and state enterprises do exist as well, though their number and importance is almost insignificant.

Among the main factors influencing the development of the household farm, one can count:

- a) the small size of individual available land parcels, and
- b) the high degree of fragmentation of farms.

Agriculture remains one of the most determinative sectors of the Albanian national economy, though over years its contribution has been decreasing and it is estimated at about 20% of the GDP. But the increase of agricultural sector is still under the national level and far from the real potential of this sector. The rural families continue to dominate the national economy. With more than 55 percent of the population living in the rural areas, agriculture is the main working alternative of people living in these areas.

The vast majority of the rural enterprises seem to perceive the process of obtaining a loan from financial institutions to be difficult. Three major reasons why finding obtaining a loan difficult are cited:

- (a) *High interest rates,*
- (b) *Difficulties to loan procedures that are too long,*
- (c) *Complicated and lack of collateral is a hindrance to obtaining a loan.*

Still the agricultural sector in Albania is under-developed. Some factors that affect the development of agricultural sector are:

- The small, limited farm size and highly fragmented;

- Low-productivity farms;
- Unclear state of land ownership and registration;
- Low technology level;
- High input prices and a disorganized and ineffective system of production and distribution of agricultural products;
- Effectiveness of low agricultural credit;
- Lack of marketing channels;
- The presence of an under-developed agro-processing industry;
- Ineffective services research, extension, marketing and information.

These conditions have their negative effects on the agricultural investments.

Following there are a few factors of banks' non-lending to farmer economies that are:

- Banks consider the activity of farmer economies as risky;
- Farms' low capacity and their insufficient income do not favor the absorption of formal investments in rural sector and other sectors related to it.
- The relatively high interest rates (*due to the very high credit risk premium*) are another factor. Small farmers cannot repay commercial term credits provided by the banks.

Small farmers frequently lack collateral to meet commercial bank claims. And because of these problems, the Microfinance Institutions (MFIs) seem to be a solution for increasing the financial support to this sector and to these agricultural entrepreneurs.

### Literature Review

The role of microcredit for poor entrepreneurs, in particular for women, for alleviating poverty was emphasized in many research papers by many scientific institutions. Most of them are always calling for increasing the number of households having access to microcredit from less than ten million of households in 1997 to about 100 million households by 2005, to about 91 million clients in 2014.

There are varying underlying motivations for pursuing SMEs growth. Microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay for school fees, or to bridge a cash-flow gap can be a first step in breaking the cycle of poverty.

Similarly poor households will use a safe, convenient savings account to accumulate enough cash to buy assets such as inventory for a small business enterprise, to fix a leaky roof, to pay for health care, or to invest more in children education.

Microfinance also helps safeguard poor households against the extreme vulnerability that characterizes their everyday existence. Loans, savings, and insurance help smooth out income fluctuations and maintain consumption levels even during lean periods (Brockhaus, 2001).

Various writers have indicated microfinance as means of SMEs growth. Bengston states that micro-financing for individuals aims to make their micro-enterprises more financially rewarding this should contribute to a measure of economic empowerment within the family and in social and political spheres. The rationale for supporting microfinance and the targeting microfinance programs is that microfinance is an effective means or entry point for empowering individuals (Cheston and Kuhn 2002).

Implementing training programmes and business development services can be used to enhance capacity building among entrepreneurs. Establishing and nurturing business associations so that they can organize workshops, provide support and mentoring programmes, facilitate access to credit and to markets, undertake advocacy, and provide best practice exchanges.

However, it is observed that due to the lack of special focus on entrepreneurship development program on the side of MFIs and the insufficient willingness to invest resources, this additional type of intervention has not yet been widely used in most developing countries (Cheston and Kuhn 2001).

### Methodology

In order to reach the intended objectives of this research and to gain appropriate information, it has been conducted a survey and some focus group meetings, as well as some discussions with

different entrepreneurs financed by the Microfinance Institutions.

Then, the impact side of microfinance products is analyzed regarding the entrepreneurship needs of different SMEs in Albania and a possible dependency between entrepreneurship development and microfinance products is specified based on the findings of the research study.

As a final step, recommendations to apply that dependency in the future were given, addressing different stakeholders. The survey was conducted in October 2016 which comprised face-to-face interviews using a structured questionnaire with a sample of 140 rural enterprises located in 14 districts of Albania.

The sample of enterprises was selected randomly by the interviewer upon arrival in pre-selected villages/towns from the economic sectors (about half in Agriculture) to represent the structure and regional pattern of the economy. It is composed of mature MFIs clients (35.0%), ex-MFIs clients (19.3%) and potential MFIs clients (45.7%) in order to represent the whole target group.

### Research Findings

For many entrepreneurs the professional and entrepreneurial aspirations varied among clients who represented various occupations from *small traders* to *mechanics* to *other professionals*. For many, their aspirations focused on entrepreneurial issues (*improving their training and skills*), and not solely on earning more money.

Out of the sample (MFIs clients), about 75.5% are planning to expand their business activities, or to start a new one, 15.8% have no intention to expand or initiate a business activity, while about 8.6% don't know what they are planning to do in the future. (Chart 1)

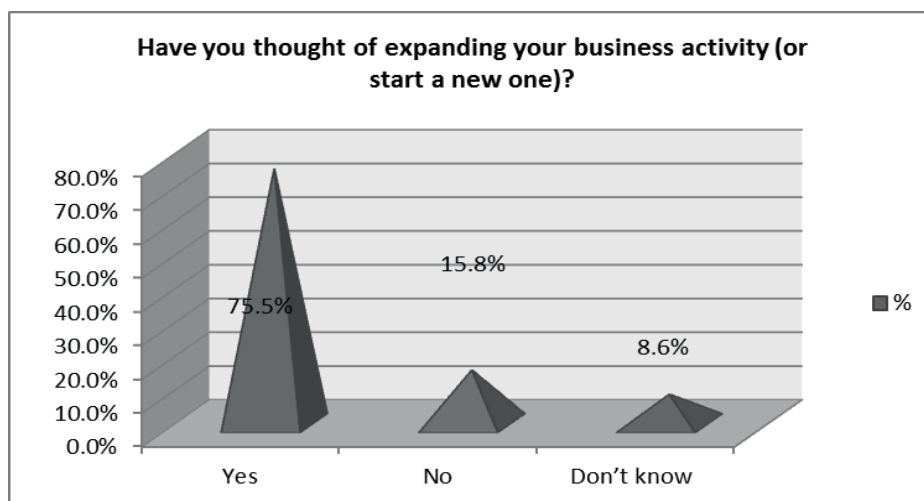


Chart 1. Future plans in investing

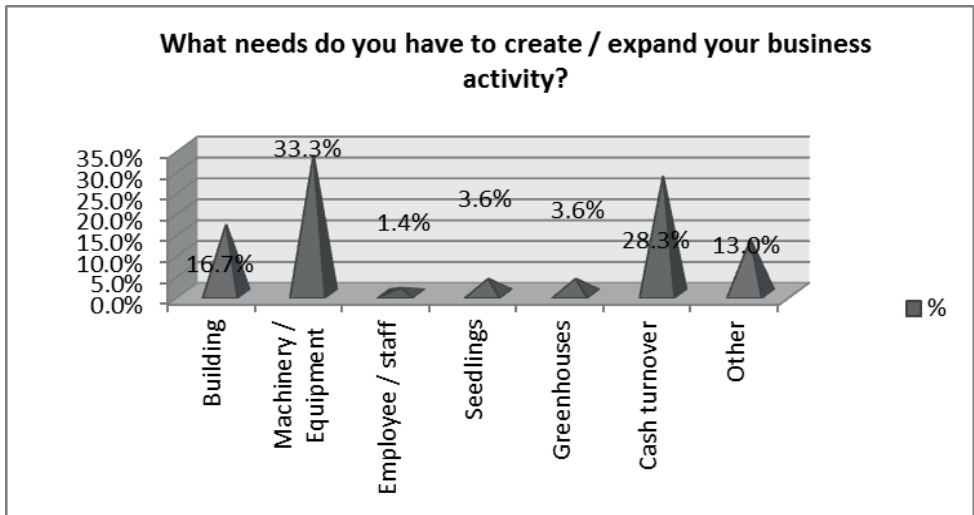


Chart 2. Future investments needs

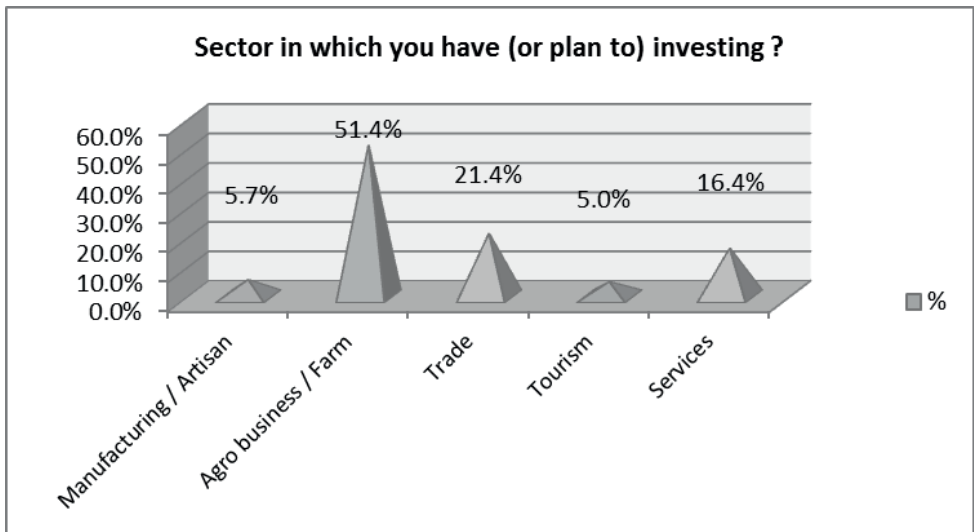


Chart 3. Sectors in which entrepreneurs plan to invest

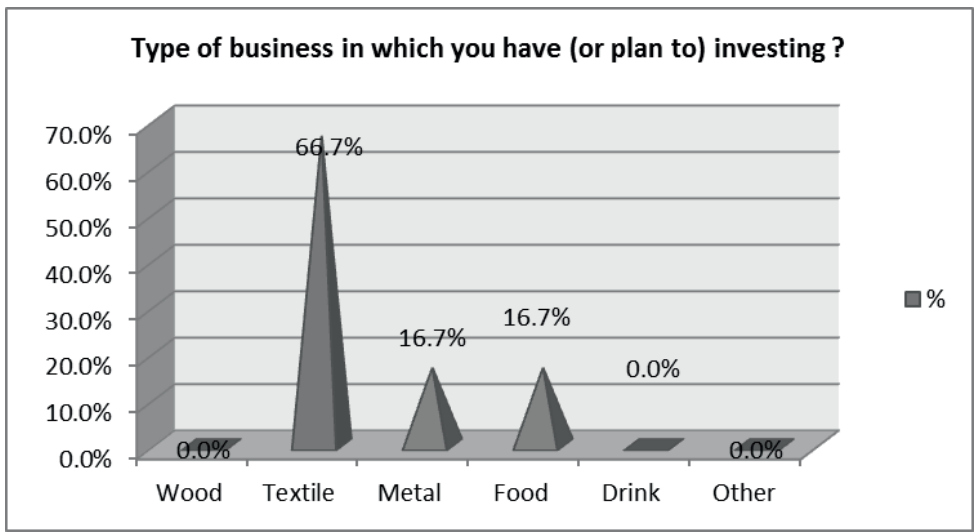


Chart 4. Type of business in which entrepreneurs plan to invest

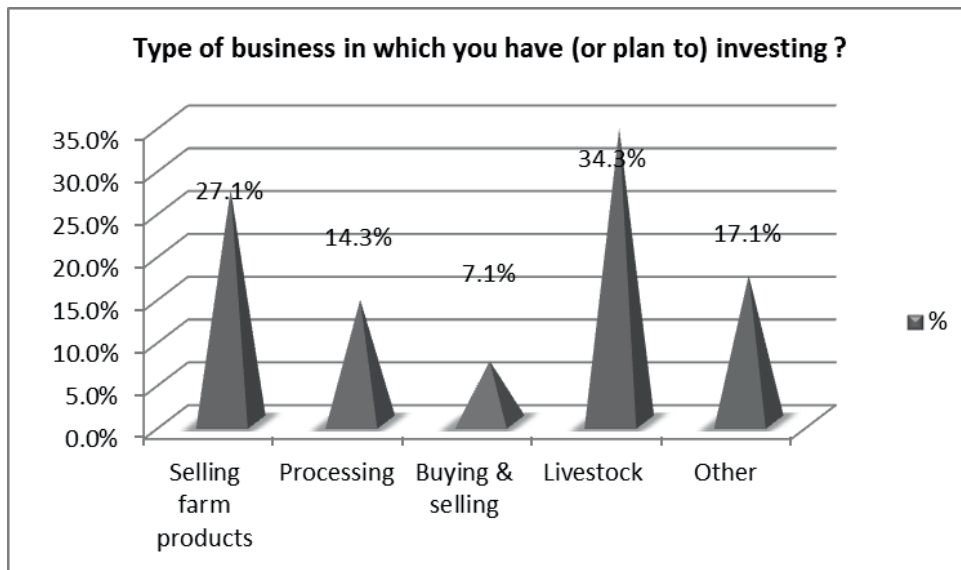


Chart 5. Type of business in which entrepreneurs plan to invest

The majority of future investments needs are for machinery and equipment (33.3%), followed by cash turnover (28.3%). **(Chart 2)**

Regarding their investment plans, about 51.4% wants to invest in Agriculture, followed by; Trade (21.4%), Services (16.4%), Production (5.7%) and Tourism (5.0%). **(Chart 3)**

The MFIs loans have enabled a few clients to reach, or nearly reach, their entrepreneurial professional goals. For others, their goals have not changed since receiving the loans.

As shown in the chart above, out of those investing in production sector, about 70% of the entrepreneurs supported by MFIs wanted to invest in textile industry and about 34% of those in agriculture choose livestock as the best alternative of investing **(Chart 5)**.

It seems microfinance services (*including microcredit*) had a very important impact in developing the entrepreneurial skills in different ways, such as in increasing the level of their qualifications (*trainings and skills*), or in increasing the number of *new start up-s* related to their professional background.

For eight clients, their professional goals were a function of their personal goals. Four women, four small traders, indicated that their goals were to be able to earn enough to take care of their children, which they have achieved, and in this case we do not see any entrepreneurial objective even a focus on earning some money.

But in general clients served by MFIs seem to have entrepreneurial objectives such as the willing to more invest in their business activity or greater ambitions to create new start-ups in different sectors.

In order to evidence the dependency between enterprenuerial development and microfinance, let's see the kind of financing they want to use for supporting their new business investments.

About 45% of actual and potential entrepreneurs are planning to take a loan from any of Microfinance Institutions to finance the creation/expansion of their business activity. **(Chart 6)**

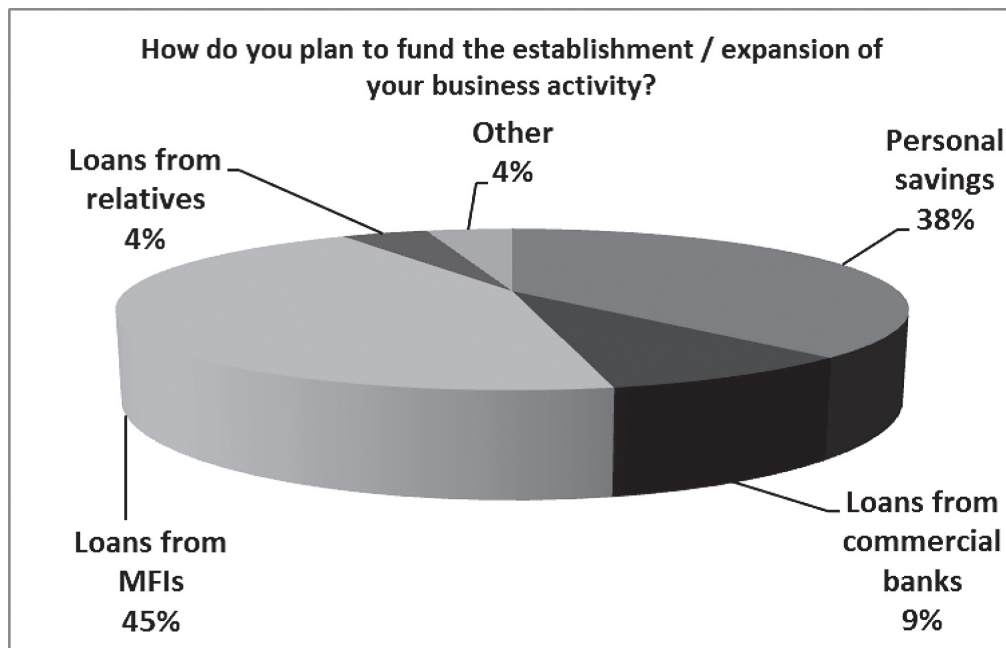
About 76% of surveyed entrepreneurs prefer to receive a loan from any of MFIs in Albania, compared to only 18% that prefer banks. **(Chart 7)**

### Conclusions

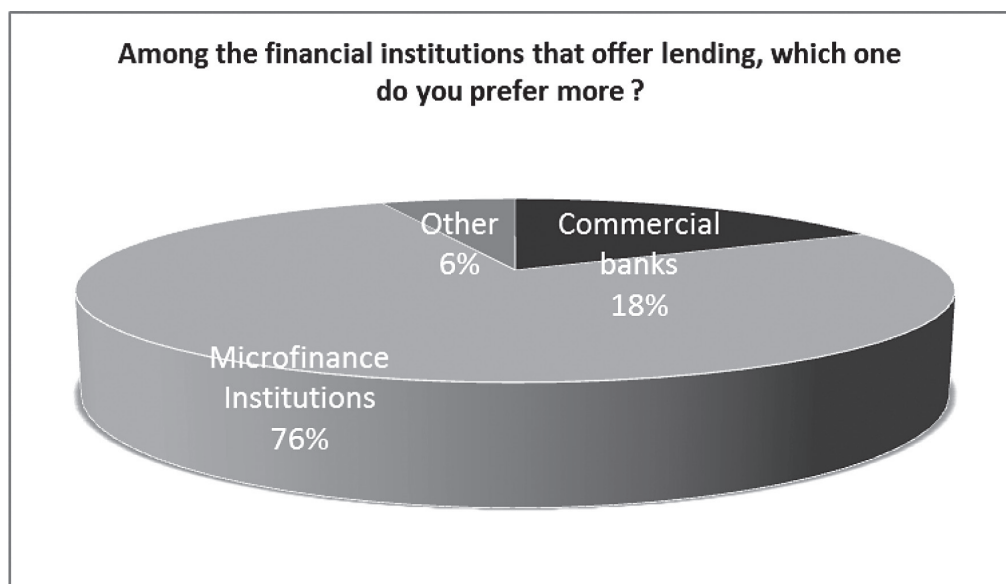
From the study findings, it seems that microfinance products/services (*including microcredit*) had a very important impact in developing the entrepreneurial skills in different ways, such as in increasing the level of their qualifications (*trainings and skills*), or in increasing the number of *new start up-s* related to their professional background.

In general the clients served by MFIs seem to have entrepreneurial objectives such as the willing to more invest in their business activity or greater ambitions to create new *start-ups* in different sectors.

This study finds that there is a dependency between microfinance and entrepreneurship development among the clients served by MFIs and it is evidenced that the first is effecting *new investments* in existing businesses and the creation of the *start-ups* and this way impacting the economic development of the country.



**Chart 6. Future plans for funding business investments**



**Chart 7. Preferences for the form of financing**

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