

Research Study about the Role of Microfinance Institutions in the Development of Entrepreneurs

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Abstract—The Case Study is to have its Focus for entrepreneurs who want to run a business and yet can't afford a piece of equipment and merchandise. A research whereby providing equipment or merchandise to enable the project to run a self funding profitable project. In turn, A share in the project plus getting the full costs of the asset equipment or merchandise including an interest. So, direct seed finance is not needed to be put in a project. Microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self employed, who traditionally lack access to banking and related services. Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. As Micro finance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs.

Index Terms—Entrepreneurs, Funding for start-ups Micro-finance, Seed funding.

I. MICROFINANCE IN AFRICA

Microfinance is the provision that provides access to various financial services such as credit, savings, micro insurance, remittances, leasing to low-income clients including consumers and the self employed, who traditionally lack access to banking and related services. Its main objective is to provide a permanent access to appropriate financial services including insurance, savings, and fund transfer. It is rather an important tool for the eradication of poverty. Poor will be able to deal with emergency and also make significant investment expenditures. As microfinance becomes more widely accepted and moves into main stream, the supply of services to poor may also increase, improving the efficiency and outreach while lowering the costs. Microfinance must involve the people themselves in examining the problems and creating solutions if it is to be sustainable with those upon whom development is targeted. To meet unsatisfied demand for financial services, a variety of microfinance institutions (MFIs) has emerged over time in Africa.

A. Need of Microfinance in Africa

- Only 6 % of Africans borrow money to start a business where as 13 % borrow to buy food.
- 50 % of the population live with less than 1US\$ or less per day.

- Africa's saving performance over time displays a downturn of saving rates over the past decades.
- High Interest rates make people harder to get credit.

B. Key Principles endorsed by CGAP and G8 Summit:

- Poor People need a variety of financial services not just loans.
- Microfinance is a powerful tool to fight poverty.
- Microfinance means building financial systems that serve the poor.
- Microfinance can pay for itself and must do so if it is to reach number of people.
- Microfinance is about building permanent local financial institutions
- Interest rate ceilings hurt poor people by making it harder for them to get credit.
- The role of government is to enable financial services not to provide them directly.
- Donor funds complete private capital not competes with it.
- The key bottleneck is the shortage of strong institutions and managers.
- Microfinance works best when it measures -and discloses – its performance.

C. Achievements of Microfinance in Africa

- 164 MFIs are the most important
- 500 MFIs belong to AFMIN (The Africa Microfinance Network)
- 700 Institutions With Respect to WAEMU (West African Economy Monetary Union)
- 5,328 Service points
- 10 million beneficiaries

II. TYPES OF MFIS

A. Banks

- Commercial Banks.
- Agricultural Credit Banks.

B. Project/State funds

- International aid Programs.
- Para-public organizations.

C. Informal Resources

- Family
- Traditional Savings
- Tontines
- Money Lenders

D. Microfinance

- Credit & Savings
- Direct Credit

Non Governmental Organizations(NGOs)

Performance of the Micro financial Institutions can be judged through their institutional financial viability and their outreach to the poor people. These performances could be influenced by the technical, political and the social factors to combine traditional and modern Micro-finance approaches.

III. MICROFINANCE-HOW TO MAKE IT SUCCESS IN AFRICA

Many approaches have been used that ranges from the traditional group based systems to specialized lending by banks and funded by international Non-Governmental Organizations (NGO) financial intermediaries. Growing linkages between MFIs and the banking system in Africa appear to be mutually beneficial as MFIs rely on banks for a variety of services, including deposit facilities, liquidity management services, and emergency credit lines to cover cash shortfalls in some cases.

OSCAL (Office of the Special Coordinator for Africa and Least developed countries) developed four principles

- Pooling together people’s resources
- Relying and building upon what people know
- Reinforcing microfinance to empower the African private sector
- Striving for efficiency, which include maintenance of tools and better working

In last twenty years Africa has made significant advances in understanding and providing financial services to better advance development and eradicate poverty. In 2006, government of Rwanda ordered to close the country’s largest MFI’s for bankruptcy due to gross mismanagement of funds and poor credit practices. In Benin, there are very small number bank branches (35 nationwide for population of 7 million) mostly concentrated around the capital city. Against this backdrop SLCs (Saving and Loan cooperatives) are the only MFIs that collect savings. In Guinea, reach of banking sectors is constrained by the limited number of deposit money banks, and credit is concentrated on largest domestic companies. MFIs have started to fill this gap. In Ghana, MFIs has a strong savings orientation and a greater role is played by Non Governmental Organizations (NGOs). Rural and Community Banks (RCBs), The Savings and Loans companies (S&Ls) account for most of the microfinance activities. In Tanzania, only six percent of the population has a bank account. The primary sources of microfinance services are Savings and Credit Cooperatives (SACCOs), The National Microfinance Bank (NMB), Cooperative and Rural Development Bank (CRDB), Akiba Commercial Bank (ACB). In addition there are few regional and rural banks engaged in deposit-based microfinance operations which lack branch network.

IV. METHODS IN MICRO FINANCE

To maintain a sustainable microfinance Institute various methods can be followed. Some of them are listed below.

A. Community based Approach

Many MFIs rely on local communities to support the development of MFIs, outside the formal banking sector. Traditional Community based cooperative groups such as village associations and local groups play a central role in the savings mobilization effort and expansion of other microfinance services. Microfinance seems to be rooted in local culture which is more participatory because clients are more ready to identify with and thus involve in making financial decisions and actions that shape their life.

- The Unique features involved are:
- It is simply and easily adapted to illiterate group members.
- Promotes group solidarity, learning and establish a vehicle for addressing community development issues.
- Doesn’t rely on infusion of outside funds.
- Doesn’t require physical infrastructure

TABLE 1. AFRICAN COUNTRIES GDP

Country	% population below poverty line	GDP Per Capita (US\$)
Angola	---	2058
Benin Botswana	73.3	508
Burkina Faso	55.5	5,846
Burundi	71.8	391
Cameroon	87.6	106
Cape Verde	50.6	1,034
Chad	---	102
C.A.R	64.0	561
Comoros	84.0	339
Congo Congo	---	654
DR	---	1,273
Cote d’Ivoire	---	123
Djibouti	48.8	900
Equatorial Guinea	---	894
Guinea	---	6,416
Eritrea	---	---
Ethiopia	53.0	220
Gabon	77.8	157
Gambia	---	5,821
Ghana	82.9	304
Guinea	78.5	485
Guinea-Bissau	40.0	350
Kenya Lesotho	---	190
Liberia	58.3	547
Madagascar	56.1	808
Malawi	---	---
Mali Mauritania	85.1	271
Mauritius	62.9	161
Mozambique	72.1	392
Namibia Niger	63.1	605
Nigeria	65.0	5,059
Rwanda	74.1	335
Sao Tome e	55.8	3,016
Principe	85.8	244
Senegal	92.4	752
Seychelles	87.8	238
Sierra Leone	---	451
Somalia South Africa	56.2	707
Swaziland	50.0	8,209
Tanzania Togo	74.5	216
Uganda	---	---
Zambia	34.1	5,109
	77.8	2,414
	89.9	316
	32.2	358
	37.7	303
	87.2	623

B. Informal Methods for Financial Intermediation

Various Informal traditional methodologies used by licensed MFIs have been instrumental in mobilizing savings from poor income households and giving them access to financial services.

C. Group formation and Networking

MFIs can use and support with regular meeting to emphasize group solidarity, discipline and consequent repayments. Some of them are commonly focused on women; they may also benefit other social groups. The efforts of MFIs to work through group schemes yield a wide range of benefits, developed by the Grameen Bank. MFIs that serve groups and communities could empower underprivileged social constituencies to encourage economic development and poverty reduction.

TABLE 2. AFRICAN COUNTRIES MFI BORROWERS

Country	% population below poverty line	Borrowers from MFIs
Angola	---	11,056
Benin Botswana	73.3	110,728
Burkina Faso	55.5	0
Burundi	71.8	136,888
Cameroon Cape Verde	87.6	10,272
Chad	50.6	86,289
C.A.R	---	0
Comoros	64.0	15,348
Congo Congo	84.0	2,176
DR	---	---
Cote d'Ivoire	---	2,719
Djibouti	---	196,244
Equatorial	48.8	5,117
Guinea Eritrea	---	---
Ethiopia	---	---
Gabon	---	---
Gambia	53.0	---
Ghana Guinea	77.8	1,795,559
Guinea-Bissau	---	65
Kenya Lesotho	82.9	574
Liberia	78.5	213,341
Madagascar	40.0	99,105
Malawi	---	---
Mali Mauritania	58.3	857,953
Mauritius	56.1	---
Mozambique	---	2,711
Namibia Niger	85.1	28,815
Nigeria	62.9	60,536
Rwanda	72.1	194,649
Sao Tome e	63.1	---
Principe Senegal	65.0	---
Seychelles Sierra Leone	74.1	49,327
Somalia	55.8	---
South Africa	85.8	97,495
Swaziland	92.4	404,683
Tanzania Togo	87.8	39,000
Uganda	---	0
Zambia	---	---
	56.2	206,125
	50.0	---
	74.5	10,318
	---	---
	34.1	636,387
	77.8	14,430
	89.9	238,613
	32.2	88,964
	37.7	207,200
	87.2	14,354

D. Microfinance

If Microfinance has a sustainable impact on poverty eradication, then it must level up as into starting a private sector of entrepreneurs who function in formal economy. It can support inventiveness for direct supply and market linkages to small and medium businesses that targets entrepreneurs in non-traditional, low volume but high value added products in potential role growth areas of economy.

TABLE 3. AFRICAN COUNTRIES SAVERS FROM MFI

Country	% population below poverty line	Savers from MFIs
Angola	---	27,042
Benin Botswana	73.3	54,760
Burkina Faso	55.5	0
Burundi	71.8	515,747
Cameroon	87.6	2,796
Cape Verde	50.6	360,738
Chad	---	0
C.A.R	64.0	53,118
Comoros	84.0	34,724
Congo Congo	---	---
DR	---	20,398
Cote d'Ivoire	---	569,200
Djibouti	48.8	17,196
Equatorial	---	---
Guinea	---	---
Eritrea	---	---
Ethiopia	53.0	---
Gabon	77.8	856,903
Gambia	---	1,578
Ghana	82.9	8,825
Guinea	78.5	361,323
Guinea-Bissau	40.0	65,470
Kenya Lesotho	---	---
Liberia	58.3	3,142,155
Madagascar	56.1	---
Malawi	---	0
Mali Mauritania	85.1	157,806
Mauritius	62.9	147,405
Mozambique	72.1	382,233
Namibia Niger	63.1	---
Nigeria	65.0	---
Rwanda	74.1	91,567
Sao Tome e	55.8	---
Principe	85.8	141,372
Senegal	92.4	181,610
Seychelles	87.8	39,563
Sierra Leone	---	0
Somalia South Africa	56.2	524,428
Swaziland	50.0	---
Tanzania Togo	74.5	6,264
Uganda	---	---
Zambia	34.1	837,700
	77.8	0
	89.9	0
	32.2	318,952
	37.7	614,494
	87.2	---

E. Prioritisation of Operational Efficiency

If MFIs are to have a better impact on poverty eradication they must be capable, financially viable institutions that can develop the financial leverage to extend outreach at a sustainable level. Key Principles include

- Target the poorest of the poor.
- Mobilize the Savings.
- Charge less interest rates that only cover Operational

- Costs.
- Market Research.
- Modernizing and Spread out Operations.
- Utilizing Volunteer Staff.
- Prioritizing Women.
- Develop Monitoring and Assessment Tools.
- Investing in Training.
- Tackle the problems.
- Utilize Pre-Existing Support Organizations.
- Evade External Dependency.

V. FINANCIAL NEEDS OF ENTREPRENEURS IN AFRICA

Most of the Africans lack the understanding of what it would take to successful entrepreneurs. They lack necessary technical management skills and confidence. They lack personal ambition and willingness for fear of sharing ownership and failed to form partnership. Some basic tips to the entrepreneurs that helps in the effective handling of microfinance activities. These will help to expand the scope that scale up through state to the global community.

- Acknowledge and Empower African People.
- Set up Realistic Expectations.
- Perform Research.
- Approve Plans Supporting Microfinance Infrastructure.
- Start a Supportive Legal Environment.
- Develop Monitoring and Assessment Tools.
- Change the Public Structures.
- Encourage Microenterprise Initiatives.
- Reinforce Staff Training.
- Utilize pre-existing Institutions such as Postal Savings Banks (PSB).
- Encourage Networking and Cooperation.

On part of African government, rather than viewing local entrepreneurs and capitalists as social threats and passive owners pounded by external forces, they should consider them as potential creators of wealth and transformers of the same environment in which they fight to exist. Government leaders should adopt national development strategies that generate an investment environment conducive to long term business activities. This type of environment can attract a flow of better educated professionals, administrators and technicians into private business.

In Africa, Entrepreneurs:

- Must set high Standards of Personal achievements and strive to attain them.
- Should maintain considerable ingenuity and possess business skills.
- Should take tremendous risks in experimenting with new ideas.
- Should be ready to move from the “Profit for self and family” attitude to “Profit for business growth” philosophy.
- Must utilize higher levels of technology with proper training and specialization.
- Must obtain greater degrees of organizational competence and delegate responsibility.
- Must establish more impersonal systems of control.
- Must encourage wide range marketing.

Some of the elements to be considered for a start up of an Enterprise:

- The nature of the enterprise must be appropriate in economic, social and environmental terms.
- Enterprise Policies must be flexible to facilitate local circumstances.
- It should involve features that go beyond traditional enterprise policy.
- They should have special policies and programs for the development and channeling of entrepreneur talent.

VI. PROBLEMS FACED BY THE ENTREPRENEURS

- Technical Assistance
- High Costs
- Few Support Institutions
- Entrepreneurial Attitude
- Tendency towards isolation.
- Lack of organization and integration.
- Financing
- Limited access to financing, both for startup and expanding
- Lack of endorsement and guarantees
- Policy and Enabling Environment
- Excessive regulations and formalities
- Political and economic instability
- Market
- Problems in acquisition of inputs
- Lack of Expertise in domestic and external marketing.

VII. SOLUTIONS FOR THE PROBLEMS FACED

- National trainers/counselors can be prepared.
- Implementation of successful experiences
- Development of institutions for support services of technical kind
- Entrepreneurial training and preparation of young people
- Support to and cooperation with existing business/entrepreneurial
- Association-grouping
- Identification of specific obstacles
- Recommendations for change and environment within these areas
- Adaptation of legal framework
- Vertical Integration
- Information links, regional and international links

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