



# *Microcredit and Entrepreneurship*

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# The World of Micro...

- **Microfinance:** loans, savings, insurance, transfer services and other financial products targeted at low-income clients.
- **Microcredit:** small loan to a client by a bank or other institution.
- **Microsavings:** deposit services allowing storage of small amounts of money for later use (e.g., unexpected expenses or future investment), many have no minimum balance requirements
- **Microinsurance:** system by which people, businesses and other organizations make a small payment to share risk.

# Two main types of

## microcredit

- **Group lending**, or solidarity lending, allows a number of individuals to provide collateral or guarantee a loan through a group repayment pledge.
  - The incentive to repay is based on peer pressure; if one person in the group defaults, the other group members make up the payment amount.
- **Individual lending**, focuses on one client and does not require other people to provide collateral or guarantee a loan
- Lots of different lending models—Grameen is only one type

» Source: International Year of Microcredit



# Varieties of microcredit

1. Traditional informal microcredit (such as, moneylender's credit, pawn shops, friends and relatives, etc.)
2. Microcredit based on traditional informal groups
3. Activity-based microcredit through conventional or specialised banks (such as, agricultural credit, livestock credit, fisheries credit, handloom credit, etc.)
4. Rural credit through specialised banks.
5. Cooperative microcredit
6. Consumer microcredit
7. Bank-NGO partnership based microcredit
8. Grameen type microcredit or Grameencredit

• Source: Grameen Bank Info “Microcredit” page

# Grameen Credit

- Promotes credit as a human right.
  - It is targeted to the poor, particularly poor women.
  - No collateral, or legally enforceable contracts. It is based on "trust", not on legal procedures and system.
  - Promotes income generation, not consumption
  - Created in opposition to traditional banking practice
  - People should not go to the bank, bank should go to the people.
  - Group-lending based approach
  - It comes with both obligatory and voluntary savings programs for the borrowers.
  - Sustainability of business model is key
  - Grameencredit gives high priority on building social capital.
- Source: Grameen Bank Info "Microcredit Page"

# Microfinance Video

- Sources for video:
- <http://www.youtube.com/watch?v=s3I9ThVww3k>
- <http://www.grameenfoundation.org/video/fullscreen.html>

# When is microcredit NOT appropriate?

- When conditions pose severe challenges to loan repayment (e.g., high disease burden, geographic isolation, business communities, famine, natural disaster, war, etc.)
- According to most microcredit sources, under these conditions, more traditional development techniques work better
- In general, clients must have the capacity to repay the loan under the terms by which it is provided in order for loans to be effective

» Source: International Year of Microcredit



# Many examples

- Grameen, FINCA, Accion International, Opportunity International, Namaste Direct, Fonkoze (Haiti), etc. etc. etc.
- As of December 31, 2004
  - 3,164 microcredit institutions
  - 92,270,289 clients, 66,614,871 of which were among the poorest of the poor
  - 83.5 percent, or 55,622,406 million, of these poorest people were women

(source: STATE OF THE MICROCREDIT SUMMIT CAMPAIGN REPORT 2005)

# Role of Technology

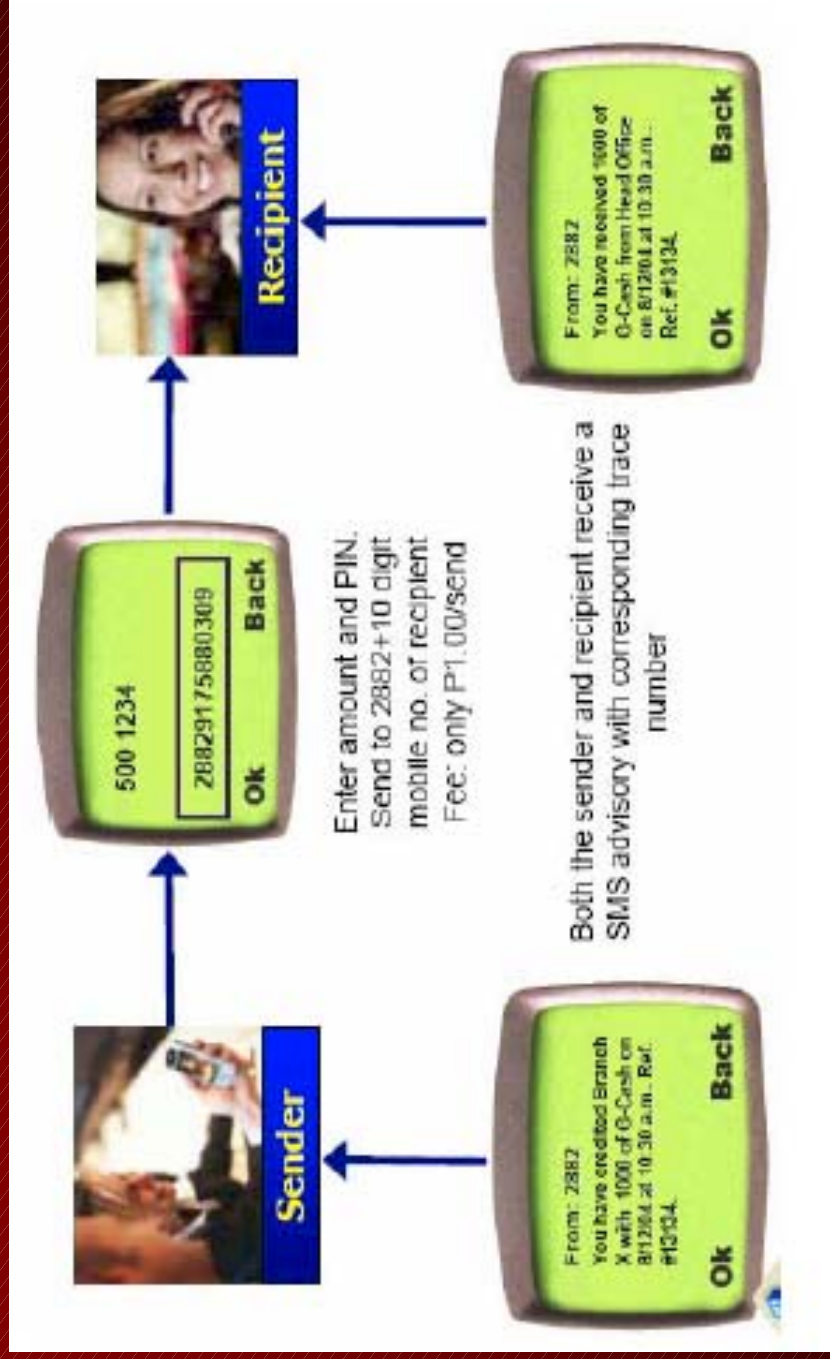


## Prodem Smart ATM in Bolivia

- Clients can get cash and do other transactions at ATMs without connectivity
- All account info stored on smart card
- Security based on fingerprint
- GUI designed for illiterate users (audio and video)
- Multilingual
- High rate of acceptance

Graphic taken from and Insead presentation, "The Myths & The Magic of Microfinance: Assessing the role that microfinance can play in private sector development in Africa," available online at: [http://www.insead.edu/indevor/documents/0606\\_MF\\_magicMyth1.pdf](http://www.insead.edu/indevor/documents/0606_MF_magicMyth1.pdf)

# G-Cash: Microfinance by phone





# Cautions

- Very difficult to determine whether microfinance has a significant impact on developing economies
  - Lots of anecdotal evidence and trends, little statistically significant proof
  - Evidence available suggests impact is greatest in poorest communities and families
  - Definitely helps people, but it isn't clear whether it lifts them out of poverty
- Most appropriate when household has on-going economic activity and existing cash flow or potential for cash flow → danger of creating large debt burden
  - Grameen, FINCA and a few others are exceptions
- Not a sure bet for investors—making a profit on microlending is hard!



# Cautions

- Not all microcredit lenders charge low interest rates
  - Generally 30-70% per year
  - But that's much lower than other potential sources
- Many people argue that the state should be providing microfinance services and a general social safety net
  - I don't find this convincing, do you?
- Not a solution for the destitute; must work in concert with other efforts
  - But what is in the real world?

# Cautions, cont.

- Creating increased debt burden for poorest of the poor
- Microenterprises require macrosupport to survive

## Entrepreneurship

- The microcredit trend has emerged simultaneously with two other development trends:
  - Social entrepreneurship
  - The notion that people in development communities should pay [what they can] for the goods and services that will improve their lives
    - increases likelihood that they will make good use of these goods and services
    - creates income-generating activities for community members (opportunities for old-fashioned entrepreneurs)
    - More sustainable than donor-led or government-led programs
    - Shift from charity and hand-outs to self-improvement and private initiative (again, a part of the neoliberal approach to development)
- Many of the most innovative approaches to development involve all three

# What is an

# entrepreneur?

- “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.”
  - Jean Baptiste Say, early 19th century French economist
- “Entrepreneurs ... reform or revolutionize patterns of production.”
  - Joseph Schumpeter, early 20th century economist
- “The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.”
  - Peter Drucker, 20th century business management guru
- “Entrepreneurial management [is] the pursuit of opportunity without regard to resources currently controlled.”
  - Howard Stevenson, Harvard B-School

Source: Tim Zak (CMU-Australia)



# What is social entrepreneurship?

- Applying the principles and practices of entrepreneurship to social problems
  - Generally with the goal of decreasing reliance on traditional sources of solutions (I.e., government, philanthropy, and corporations)

# Principles of SE

- Adopting a mission to create and sustain social (not just private) value
- Recognizing and relentlessly pursuing new opportunities to serve that mission
- Engaging in a process of continuous innovation, adaptation, and learning
- Acting boldly without being limited to resources currently in hand
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created

# Social Enterprise

- Taking social entrepreneurship to the institutional/institutional level
- “An organization or venture that advances its social mission through entrepreneurial, earned income strategies.”
  - Social Enterprise Alliance (draft definition)

# Social Entrepreneur Video

- Bill Drayton, “Entrepreneur for Society”
  - <http://www.youtube.com/watch?v=Boh9zKQ15oc>
- Bill Drayton, “Nothing More Powerful”
  - <http://www.youtube.com/watch?v=j-tK0ajUz0A>



# Resources

- Grameen Bank ([www.grameen-info.org](http://www.grameen-info.org))
- Grameen Foundation ([www.grameen-foundation.org](http://www.grameen-foundation.org))
- Year of Microcredit (<http://www.yearofmicrocredit.org/>)
- Ashoka ([www.ashoka.org](http://www.ashoka.org))
- Schwab Foundation
- Skoll Foundation ([www.skollfoundation.org](http://www.skollfoundation.org))
- CMU's Institute for Social Innovation ([www.heinz.cmu.edu/socialinnovation](http://www.heinz.cmu.edu/socialinnovation))

# Kickstart

- Kickstart video:
  - <http://link.brightcove.com/services/link/bcpid422541436/bclid225151913/bctid474435226>

# Discussion

- What are the problems that Kickstarter is trying to solve?
- What is the business model used by Kickstarter?
- What is the development model used by Kickstarter?
  - I.e. What is the most “appropriate” use of technology according to Kickstarter?
- How does Kickstarter’s solution to the problem of water differ from the one described in the Waters of Ayole?
- How do microcredit, entrepreneurship, and social entrepreneurship play into the story of Kickstarter?