



Micro finance and entrepreneurship at the basic of pyramid

Suman Kumari

E-mail ID - sumaneconomics1990@gmail.com

Abstract

Microfinance may be defined as a kind of financial service that gives people and small enterprises who do not generally have access to conventional banking services the opportunity to get modest loans, savings accounts, and other financial products. In recent years, particularly in developing countries, the concept of microfinance has gained popularity as a means of promoting entrepreneurship and economic development at the base of the pyramid. This popularity can be attributed to the fact that microfinance is seen as a means of levelling the economic playing field. The enormous number of low-income people and families in developing nations that survive on less than \$2.50 per day is referred to as the base of the pyramid (BOP). A significant portion of these people are self-employed company owners who get their income from operations on a more modest scale (Aldrich HE, Cliff JE. 2003). These company owners have access to low-interest loans from microfinance institutions (MFIs), which they may use toward either the launch of new ventures or the expansion of existing ones. Microfinance institutions may contribute to the growth of entrepreneurship and the economy by offering financial services to the bottom billion of the world's population. The ability for company owners to acquire new tools, personnel, and expand their operations via the use of modest loans may result in higher levels of revenue and the development of new employment opportunities. In addition, customers of microfinance institutions are often provided with financial education and training as well as business training, which may assist in improving the clients' financial literacy as well as their managerial abilities.

Keywords : Necessity Entrepreneurship; Microenterprise; Microfinance; Microcredit; Base of the Pyramid (BOP); Emerging Economies; Economic Development; Access to Finance

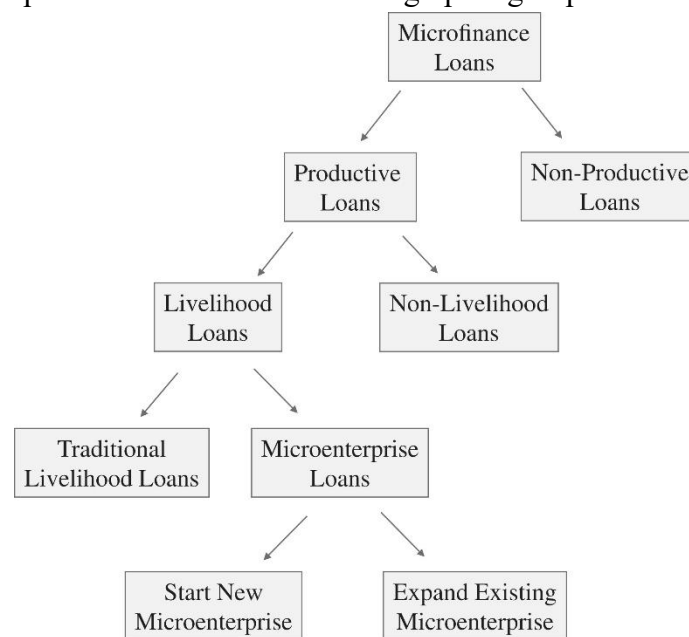
Introduction

Microfinance is a potent instrument that may be used to encourage business growth and entrepreneurship at the lower levels of the economic pyramid. Traditional banking services are typically unavailable to many people and small enterprises in developing nations owing to a lack of collateral, credit history, or official identity. This is especially the case in countries where there is a shortage of financial infrastructure (Allison TH, McKenny AF, Short JC. 2013). In order to bridge this gap, microfinance companies provide modest loans, savings accounts, and a variety of other financial services to people who, under normal circumstances, would be barred from participating in the official financial system.

There is a significant community of low-income people and families that survive on less than \$2.50 per day at the very bottom of the economic pyramid. “A significant portion of these people are self-employed company owners who get their income from operations on a more



modest scale. These individuals are able to get access to money and receive instruction on financial management thanks to the assistance of microfinance organisations, which play a vital role in the process. (Altonji JG, Elder TE, Taber CR. 2005) A common service that customers of microfinance organisations may expect, in addition to receiving loans, is instruction in financial literacy and company management. This may help them develop their abilities in financial management, which in turn increases the probability of their enterprises being successful. Microfinance institutions are able to contribute to the promotion of economic growth and the reduction of poverty at the base of the pyramid by offering financial services and assistance to local business owners. It is essential to acknowledge that microfinance is not a silver bullet for eradicating the problems caused by poverty. It is only one strategy among many others that may be utilised to help boost economic growth and decrease the amount of people living in poverty. (Armendáriz B, Morduch J. 2010.) In addition, there is the possibility of undesirable outcomes associated with microfinance, such as the over-indebtedness of borrowers and the exploitation of vulnerable demographic groups.



Microfinance and entrepreneurship at the base of the pyramid

Muhammad Yunus, who later won the Nobel Peace Prize for his efforts, established the Grameen Bank in Bangladesh in the 1970s. This was the beginning of the modern practise of microfinance. Since that time, the concept of microfinance has extended around the globe, and there are now hundreds of institutions that provide services to millions of customers in countries that are still economically developing. One of the primary advantages of microfinance is that it may help more people become part of the financial system. Microfinance organisations may contribute to the expansion of the economy and the narrowing of income



gaps by making financial services available to those who, under normal circumstances, would be denied entry into the official financial sector. In addition, microfinance institutions may contribute to the reduction of poverty and the improvement of the lives of people at the base of the pyramid if they direct their services toward individuals and families with low incomes. The field of microfinance is not devoid of difficulties in any way. (Ault JK, Spicer A. 2014) The possibility of customers being too indebted is one of the most significant challenges that microfinance firms must contend with. Clients may take on more debt than they are able to manage if they are not provided with proper financial education and assistance, which may result in financial trouble and default. In addition, the restricted resources and high transaction costs that are often associated with microfinance institutions may make it challenging for these organisations to expand their client base and scale up their operations. One of the advantages of microfinance is that it has the ability to give women more agency. Access to financial services and participation in the formal economy may be difficult for women in many developing countries due to the presence of major obstacles. Microfinance institutions may contribute to the removal of these obstacles and the advancement of gender equality by extending loans to female business owners and teaching them about money management. Other services, such as savings accounts and insurance products, may also be available from microfinance companies, in addition to loans and educational programming on personal finance. It is important to note that microfinance is not a one-size-fits-all solution to the problems of poverty and inequality (Ault JK. 2016). These services can help clients manage risk and build assets, which can lead to increased economic security and stability. However, it is also important to note that microfinance can help clients manage risk and build assets. When developing microfinance programmes, it is important to keep in mind the many communities and people involved, since each may have distinct requirements and obstacles to overcome. In addition, the implementation of microfinance must be done so in a responsible and sustainable manner, with the primary emphasis being placed on the protection of the customers' rights and interests. At the bottom of the pyramid, microfinance has the potential to become a significant instrument for encouraging entrepreneurship and fostering economic growth. Microfinance institutions may assist to unleash the potential of millions of aspiring business owners throughout the globe by giving access to cash and financial education. This, in turn, drives economic development and reduces the amount of people living in poverty. In order to accomplish these objectives, microfinance must be administered in a manner that is both responsible and sustainable, with a primary emphasis placed on safeguarding the legal rights and financial interests of customers. (Barney JB. 2001) One of the advantages of microfinance is that it has the ability to give women more independence". Access to financial services and participation in the formal economy may be difficult for women in many developing countries due to the presence of major obstacles. Microfinance institutions may contribute to the removal of these obstacles and the advancement of gender equality by extending loans to female business owners and teaching them about money management. Other services, such as savings accounts and insurance products, may also be available from microfinance companies, in



addition to loans and educational programming on personal finance. The provision of these services to customers may assist them in mitigating risk and accumulating assets, both of which can ultimately result in enhanced economic security and stability. (Banerjee AV. 2013) It is essential to keep in mind that microfinance is not a problem-solving approach that can be used universally to eradicate poverty and injustice. When developing microfinance programmes, it is important to keep in mind the many communities and people involved, since each may have distinct requirements and obstacles to overcome. In addition, the implementation of microfinance must be done so in a responsible and sustainable manner, with the primary emphasis being placed on the protection of the customers' rights and interests.

Empowering the Underserved with Microfinance

Around the globe, microfinance has proven to be a strong instrument in the process of empowering underprivileged communities and people. Microfinance institutions make it possible for people living on a low income to create their own enterprises and improve their standard of living by giving them access to low-interest small loans, savings accounts, and other financial services. (Banerjee AV, Breza E, Duflo E, Kinnan C. 2019) This kind of funding has shown to be especially useful in promoting entrepreneurial activity at the bottom of the pyramid, where conventional financial institutions may not be willing or able to provide loans to businesses operating on a smaller scale. In disadvantaged areas, the provision of microloans and other financial services by microfinance firms helps to contribute to the creation of employment and the stimulation of economic development. Customers of microfinance organisations are often offered educational opportunities and training in personal finance in addition to the financial services that the institutions provide. With the right knowledge, people will be able to better manage their own finances and make choices about how to invest their money based on accurate information.

Unlocking Entrepreneurial Potential at the Base of the Pyramid

The term base of the pyramid (BoP) refers to the vast proportion of the world's population that exists on salaries that are considered to be very meagre. This group is often disregarded. These people often do not have access to fundamental financial services and encounter major obstacles when attempting to launch and expand their own enterprises. Microfinance institutions and other organisations that concentrate on business development among the world's poor have been putting in effort to help people in these communities and individuals realise their full potential (Banerjee AV, Duflo E. 2011). These organisations make it possible for entrepreneurs at the bottom of the economic pyramid to establish and expand their firms by offering access to microloans, savings accounts, and other financial services. In addition to receiving financial assistance, business owners at the bottom of the pyramid often benefit from the training and mentoring programmes that are offered by the organisations that help them. These programmes may be helpful in developing the skills and information necessary to manage a successful company and overcome the problems that come along with being an entrepreneur. There are tremendous social and economic advantages to be gained through releasing the business potential of the Bottom of the Pyramid. It has the potential to provide



employment opportunities, boost economic development, and contribute to the alleviation of poverty and inequality. We can assist to establish more resilient and sustainable communities, as well as contribute to the creation of a global economy that is more inclusive and fair, if we provide support to entrepreneurs at the bottom of the economic pyramid.

Microfinance: A Catalyst for Economic Development

It is now well acknowledged that microfinance may serve as a tremendous impetus for economic growth in communities all over the globe that have low levels of income. Individuals and communities are able to start and grow businesses, invest in education and healthcare, and build a more secure financial future with the help of individuals and communities that have access to microfinance institutions, which provide access to small loans, savings accounts, and other financial services. “Microfinance has a number of important advantages, but the capacity to foster economic expansion and job creation is one of the most important ones. Microfinance institutions contribute to the creation of new enterprises and industries by assisting small-scale entrepreneurs in obtaining financing and other forms of assistance. (Banerjee AV, Karlan D, Zinman J. 2015) This, in turn, results in the creation of new employment and the generation of income for people and families. Microfinance has been proved to have a good influence on education, healthcare, and other areas of social development, in addition to its role in encouraging entrepreneurship and the creation of new employment opportunities. Individuals and families are able to invest in education and healthcare because microfinance makes it possible for them to have access to financial services. This, in turn, may lead to improved health outcomes, greater earnings, and a higher overall quality of life. Microfinance has the potential to be a driving force behind sustainable economic growth as well as a contributor to the reduction of global poverty and inequality. Microfinance institutions are making a significant contribution to economic growth and development in low-income communities. (Cabral LMB, Mata J. 2003) They do this by encouraging business owners to start their own companies, creating new employment opportunities, and expanding access to financial services and opportunities for social development.

MANAGEMENT LITERATURE RELATED TO MICROFINANCE

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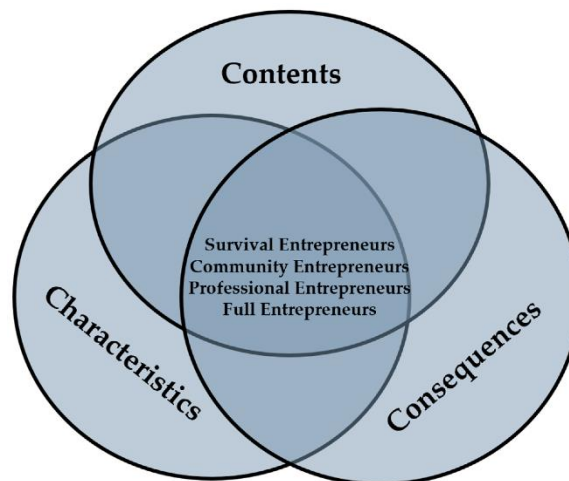
Microfinance has been proved to have a good influence on education, healthcare, and other areas of social development, in addition to its role in encouraging entrepreneurship and the creation of new employment opportunities. Individuals and families are able to invest in education and healthcare because microfinance makes it possible for them to have access to financial services. (Canales R. 2014) This, in turn, may lead to improved health outcomes, greater earnings, and a higher overall quality of life. Microfinance has the potential to be a driving force behind sustainable economic growth as well as a contributor to the reduction of global poverty and inequality. Microfinance institutions are making a significant contribution to economic growth and development in low-income communities. They do this by encouraging business owners to start their own companies, creating new employment opportunities, and expanding access to financial services and opportunities for social development.

Impact of microfinance loans

The traditional paradigm of microfinance is the provision of financial services to persons with low incomes who are otherwise ineligible for conventional financial services. The difficulty of risk assessment and management caused by a lack of suitable collateral or credit history is the primary obstacle that must be overcome in order to successfully lend to this demographic. Microfinance often makes use of two characteristics in order to circumvent this obstacle: a) extending modest, collateral-free loans to groups of underserved individuals under a joint liability model; and b) giving lending for livelihood reasons (such as launching a retail or a tailoring business, for example) priority over lending for purposes that are not related to livelihood (e.g., consumption). (Canales R, Greenberg J. 2016) The first feature seeks to alleviate problems of moral hazard and adverse selection by reaping the benefits of social capital and enforcing mutual accountability among group members to reduce the likelihood of default. The second feature seeks to reduce the risk of lending without collateral and conventional credit risk assessment by ensuring that the borrowed funds are invested into income-generating activities that help the borrower make loan repayments. Both features are designed to reduce the likelihood that a borrower will default on a loan. The traditional explanation for the social effect of microfinance centres on the way in which small loans help people maintain their livelihoods. Therefore, the differentiation between loans for livelihood and loans for non-livelihood purposes is often an essential component in the process of building microfinance models. Note that it is generally accepted as a given that the primary goal of microcredit is to facilitate the creation of sustainable livelihoods, primarily via the support of BOP microenterprises, with access to money serving as the critical bottleneck. In point of fact, microfinance encompasses not just business financing but also household financing in the form of loans for housing, education, and sometimes even consumption. (Cheng B, Ioannou I, Serafeim G. 2014) In light of this fact, it is important to investigate the relative effect of various loans taken out for either reasons related to one's livelihood or for purposes unrelated to one's livelihood.



Access to credit should support livelihoods by increasing incomes and helping people break out of the vicious cycle of low income, low savings, and low investment. If microcredit works as it is commonly assumed, it should follow almost by definition that livelihood loans should be associated with better economic outcomes for BOP households.



BoP Entrepreneur type

Small Loans, Big Impact: Microfinance and Entrepreneurship

By providing low-income people and communities with access to modest loans and other financial services, microfinance has had a substantial influence on the growth of the entrepreneurial sector. Individuals are given the opportunity to create and expand their own enterprises, as well as enhance their standard of living, with the assistance of these loans, which are normally unavailable from conventional financial institutions. Particularly notable has been the effect that microfinance has had on entrepreneurial activity in developing nations. These are places where access to traditional forms of financing is restricted and the informal sector plays a substantial part in the economy. Microfinance institutions have contributed to the creation of new enterprises and industries, as well as to the stimulation of economic development and the reduction of poverty, via the provision of microloans and other financial services. (Dalton PS, Ruschenpohler J, Uras B, Zia B. 2019) In addition to facilitating customers' access to financial resources, microfinance organisations often provide educational and advisory services for the people they serve. These programmes may be helpful in developing the knowledge and abilities necessary to operate a successful company, such as marketing, accounting, and financial management. Microfinance has had a major and far-reaching influence on entrepreneurial activity and activity overall. Microfinance institutions have helped to unlock the potential of entrepreneurs all over the world by providing small loans and other financial services to low-income individuals and communities. As a result, these institutions have contributed to the creation of new jobs, stimulated economic growth, and improved people's standard of living.

Conclusion



At the very bottom of the economic pyramid, microfinance has shown to be a very effective tool for fostering business growth and entrepreneurship. Microfinance institutions have made it possible for low-income people and communities to establish and expand their own enterprises, better their livelihoods, and create a more financially secure future by offering access to financial services such as modest loans, savings accounts, and insurance. In developing nations, where there is limited access to financing and the informal sector plays a considerable part in the economy, microfinance has had a tremendous influence on the entrepreneurial spirit of people in such countries”. Microfinance institutions have contributed to the creation of new enterprises and industries, as well as to the stimulation of economic development and the reduction of poverty, via the provision of modest loans and other financial services. (de Castro J, Khavul S, Bruton G. 2014) In addition to facilitating customers' access to financial resources, microfinance organisations often provide educational and advisory services for the people they serve. These programmes may be helpful in developing the knowledge and abilities necessary to operate a successful company, such as marketing, accounting, and financial management. Microfinance has the potential to play a significant role in the promotion of sustainable economic growth, as well as in the alleviation of poverty and inequality around the globe. Microfinance institutions are making a significant contribution to economic growth and development in low-income communities. They do this by encouraging business owners to start their own companies, creating new employment opportunities, and expanding access to financial services and opportunities for social development.

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