# Chapter 15
# The Evolution of Microfinance Products to Promote Microentrepreneurship Towards Social Progress of African Countries

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## ABSTRACT

*Microfinance deployment is an important measure of development to the low-income entrepreneurs and households in their journey of poverty and social upliftment in the African countries. Microfinancial services, which were previously randomly available to the low-income, financially excluded households are presently a possible pathway to improve the way they could utilize to develop their small businesses and achieve their business goals. Although the provision of microfinancial services in the African countries continue to grow, the results show that the microfinance organizations are not strategically market-prone in the delivery of services. In this era of fierce competition, key marketing strategies and approaches are required such as the need for proper market orientation and planning, competitive edge in their marketing mix, training and development, among others to promote social progress to the low-income entrepreneurs.*

## INTRODUCTION AND AIM

One of the measures of addressing poverty mitigation and social upliftment in the 1990's was through microentrepreneurship, social microenterpreneurship and microfinancing for the third world countries where African economies mainly form part of (DeSoto, 2000). Nowadays these concepts have gained in popularity in both the developed and more in the developing world. Microenterprises are typically small, employs less people than nine and runs informally (Mersha, Sriram, & Hailu, 2010). Although

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in the African countries, each of the microenterprise often has not got more than three people, in other developed countries more than three people generally exist in a microenterprise. Since the context of this chapter targets developing African countries the microenterprises of African economies have played an in important contribution exceeding 90% of the businesses in the private area hence has led to exceeding 50% of GDP and job creation (African Economic Outlook, 2017). In Africa, some microenterprises exist mainly on profit basis generally referred to non-social ones which main primary objective is not coupled with a social purpose. This makes microenterprises a major foundation of employment, hence a source of reliable income to various households in Africa.

On the other hand, social microentrepreneurship forming part of the big tent of social entrepreneurship innovations were pioneered from emerging countries and comprise of new models of business used to target basic human necessities (Elkington & Hartigan, 2008). Social microentrepreneurship is coupled with an embedded social purpose that has gained a lot of momentum globally (Dacin & Dacin, 2010). Social microentrepreneurs often begin their business operations on small scale, however address common problems such as waste management, water management, sanitation facilities among others. The creative solutions that the social entrepreneurs address regularly in their localities often occur in other provinces and countries that can have a bearing on other markets (Zahra et al., 2009). For instance, this practice has led to a development of the microfinance industry throughout the world (Seelos & Mair, 2005) which now reaches more than 123 million clients worldwide (Microfinance Barometer, 2017). Social microentrepreneurship is thus having profound implications in the economic system: creating new industries such as microfinance, validating new business models, and re-directing resources to neglected societal problems.

The development of social microenterprises or non-social ones has been viewed as the main means towards refining general standard of living of the African population. Although having this major advantage, microentrepreneurs face lack of funds supported by formal financial institutions such as credit. This happens because they are not able to prepare the necessary collateral securities demanded by the formal institutions. Moreover, it is difficult for the banks to restore the high cost in facing microentreprises. MEs have many associated risks in borrowing the credit such as low literacy, lack of information available on the prospective microentrepreneurs hinder formal banking institutions to advance them access to funding, so it is uninviting by the banks to agree with them. Since the microenterprises are pivotal means to impart employment and alleviate poverty therefore an urgent need for social funding intervention was needed for microentrepreneurs.

Microenterprises can be financed either through a local group, a non-governmental organization or by the government. Alternatively, it could be financed through microcredit from development institutions and cooperatives. The incapacity of MEs to fulfil the requirement of the formal financial institutions for loan creates an idea for informal institutions. It attempts to fill the gap based on informal social networks. This idea gives birth to microfinance. “Micro” or small financial services access to the poor of $50 minimum as loan for those normally collecting less than $2 per day has been seen an important mitigation of poverty strategy (Yunus, 2007).

The challenges associated with microcredit forming part of the big umbrella of microfinance can lead a microentrepreneur into debt spiral due to his/her lack of literacy, costly credit, unaffordability for the outreach and carelessness. Further high transaction cost or processing cost associated with the small transaction size tend to make the microfinance product less expensive for providers to the low-income customers and therefore may choose to remain excluded. Therefore, whether microfinance can assist those

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