Business Education and Microenterprise Revisited: Productivity, Entrepreneurship, and Job Creation

David R. Befus
Northwestern College (Iowa)
david.befus@nwciowa.edu

ABSTRACT: This article begins with a review of "Business Education and Microenterprise: A Millennial Marriage," presented in *JBIB* in 1999. It provides an update on the microenterprise arena, where a more critical evaluation of small loan programs has generated significant controversy and criticism. However, the author proposes that the growing recognition in the industry of the need for promotion of productivity, entrepreneurship, and job creation is precisely why business student involvement is important. Students can help organizations do more than simply disburse and collect microloans by applying what they have learned in their business classes to become change agents in microfinance programs and also for "business as mission" projects.

INTRODUCTION

The "Business Education and Microenterprise: A Millenial Marriage" article, presented by Ron Webb in the 1999 *JBIB* special edition, presents a positive overview of the micro-credit sector and several practical approaches for Christian business programs to partner with such programs as "an opportunity for service and impact in the world." The special edition article provided background definitions and history of microenterprise development and then six "compelling yet practical reasons" for Christian schools of business to become involved in partnership programs in this area (Webb, 1999, p. 202). The article presented a variety of specific ways for Christian colleges to incorporate the study of microenterprise in their programs to better prepare students "to help the church of the 21st century chart new waters" (Webb, 1999, p. 202).

The purpose of this paper is to provide an update for the microenterprise arena, where a more critical evaluation of small loan programs in the past decade has generated significant controversy. Micro credit was referred to only briefly in the 2012 *JBIB* issue on "hybridization" as "an area of scholarship that has a longer history and is further along in its development" (Rundle, 2012, p. 76) and generally includes programs that are not supposed to require subsidy or involve charity. Microenterprise is focused on funding viable small businesses in the real-world marketplace through financially viable service delivery mechanisms, principally through leverage capital.

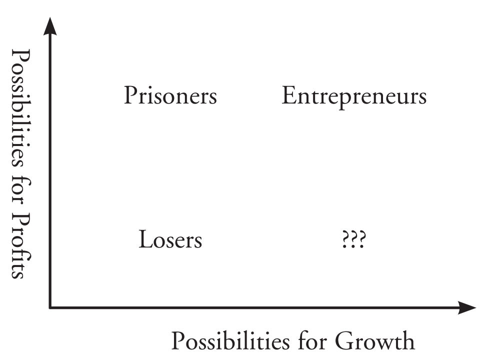
Based on updated information and analysis presented in this paper, the author proposes that new expectations for micro-credit programs, including a focus on productivity and job creation, actually provide the foundation for more serious involvement of business students. The same opportunities for student involvement exist in the related area of "business as mission (BAM)" (Gillespie & Lucas, 2012, p. 14), a relatively new area that was discussed in the 2012 *JBIB* issue. The paper concludes, as did the Webb article, with a practical proposed agenda for both microenterprise and BAM in Christian business programs, in light of the environment in 2013.

A MORE CRITICAL APPRAISAL OF MICROENTERPRISE

Perhaps the most significant issue to acknowledge, at the outset, is that the literature on microenterprise in the past decade is quite critical, contrary to the positive appraisal presented in the 1999 *JBIB* article. What can we learn from this criticism, and how might it apply to the teaching, practice, and the involvement of our business students?

The principal change in the discussion of micro credit is the serious doubts raised about whether it actually helps the poor. And though questions about the viability and impact of the micro-credit sector may appear to be recent, they were actually part of the Kenya project referred to in the Webb article as the "first major breakthrough" of the informal sector (Webb, 1999, p. 89). An evaluation of that project characterized the program not as a success but rather "a form of social blotting paper capable of absorbing large numbers and providing urban subsistence levels of income, thus helping to avoid consideration of alternative means of job creation" (Allen, 1977). One of the first Christian organizations in the micro-credit sector, the Institute for International Development, requested evaluations of its field programs at a 1980 conference, and a paper was presented there that identified very diverse outcomes for clients, predicting that many were "losers," or "prisoners" (Befus, 1980). A special emphasis on entrepreneurial education was proposed at that time.

Table 1: A Model for Evaluation of the Potential Micro-Credit



Losers are clients who seemed to have limited possibilities for increasing profits and little possibilities of growth.

Prisoners are clients who had niche businesses that were profitable but do not appear to grow.

Entrepreneurs are clients that exhibited both profit and growth potential.

The provision of credit, in itself, did not necessarily help people. But a debate began in the mid-1980s over whether the inclusion of entrepreneurial training for micro-credit clients was possible, given the financial sustainability constraints of the lending agencies. The term "minimalist" was used for programs providing no training but rather expecting that access to capital, alone, would generate positive outcomes. The U.S. government, which was providing seed capital for the creation of many micro-credit programs, sent out a Department of State unclassified directive on "Performance Standard Guidelines for Small Scale Enterprise Credit Project" in December, 1987, that was interpreted as support for the "minimalist," non-training approach (Johnson, 1987). Increasingly, the only evaluation of outcomes that were measured included (1) loan payback and (2) financial viability of the lender.

The concern that many clients might pay back loans but not be able to grow viable business enterprises through micro credit was debated, and a warning was presented in a chapter of a popular book on micro credit written by two employees of Opportunity International, another Christian microfinance agency. That chapter was entitled "Transformation Lending: Helping Microenterprises Become Small Businesses," (Befus & Reed, 1994) and presents the limitations of microfinance in creating viable and growing companies. It also cites cases from the IDH program in Honduras referred to in the 1980 study. At the time, in the 1990s, only the "minimalist" programs were being funded by government and international agencies, but now, almost two decades later, the "minimalist" micro-credit approach to promoting economic development has been largely discredited because it has not demonstrated serious economic development impact.

CURRENT MICROENTERPRISE CONTROVERSIES

Outside of the agencies that promote microfinance and their respective fundraisers, an increasingly negative view of the sector has been presented in the past years due to many factors. Perhaps the most basic question, posed aggressively by Dr. Aneel Karnani, one of the most outspoken critics of microfinance, is "if microfinance is as great as Muhammad Yunus says, how come Bangladesh is so poor?" (Karnani, 2012). The critical issues can be summarized in a discussion of subsidy, consumption, and impact.

The Issue of Subsidy

As the microfinance sector grew in the 1990s, the concept of creating sustainable businesses through small loans was accompanied by the goal of creating sustainable service delivery systems, where the fees charged to the clients would cover all costs. Loan programs that could not reach financial sustainability were discredited and not eligible for "second-tier" funding; agencies that demonstrated a net profit margin were presented as models.

However, review of the performance of microfinance programs used as exemplary cases by international funders, such as the Grameen Bank (Bangladesh) and Banco Sol (Bolivia), found that these "model" institutions received a great deal of external donated support (Hume & Mosley, 1996). According to their study, Grameen Bank had received more than $25 million in grants, and Banco Sol over $4.6 million.

The need to generate a profit at the institutional level created a shift from more risky small industry or agricultural production to commerce. Microfinance agencies basically took over the large market of short-term, high interest loans that had previously been serviced by "loan sharks." Though interest rates were generally quite high, in excess of a U.S. dollar rate of 30 percent per year, this was considered to be much lower than the rates charged previously in most commercial markets. To lower risks, loans were provided for a very short period of time, not usually more that three months. To lower costs, most microfinance agencies also eliminated their entrepreneurial training programs, which in the case of commerce, were not considered relevant, and pursued the "minimalist" approach to microfinance.

For an example, consider a poor country such as Haiti, where micro-credit interest rates are quoted on the basis of "flat" payments, not declining balance, and the duration of a loan is six months or less. (See Table 2.)

There are few legitimate businesses in Haiti that generate such returns, and the net result is that microfinance clients generally have to liquidate their loan capital to pay back loans, and therefore continue to need new injections of capital to be able to continue their businesses. This phenomenon only works with "petite commerce," where all the fruit, cosmetics, or whatever the person was selling (usually on the street) must be sold off to pay the loan. But then, in order to have income, the person needs another loan. This explains (1) why microfinance targets "commerce." Businesses that invest a loan in production equipment will not have the liquidity to provide the capital flows every four to six months to pay back the loan. This also explains (2) why people who get these loans may not be better off in the long run. The interest rates, plus the short period of time to pay back capital, make it impossible to "capitalize" a business. This has happened not only in Haiti but everywhere. The director of the Honduran national network of 27 microfinance agencies with 170,843 clients says that over 85 percent of them are in small commerce. She also says that donors are worried "because they see little impact" (Salgado, 2012).

The Issue of Consumption vs. Investment

As mentioned previously, questioning of microfinance results is not new, but in the 1990s development economists began to forcefully argue that the financing of small business projects, in itself, does not necessarily help the poor. A hierarchy of usage of credit was proposed: "consumption-smoothening, production effectivisation (sic), productivity enhancement, and diversification" (Fischer & Sriram, 2002). It became increasingly obvious that, to help the poor, there must be a specific focus on income generation and employment. An article in Forbes in 2006 questions microfinance results in India, where "women say the loans haven't turned into new income, and funds were not used as seed money for new enterprise, but as handouts spent on consumption" (Miller, 2006).

When the paper "Microfinance Misses Its Mark" appeared in the *Stanford Social Innovation Review* in 2007, this caught the attention of both the academic business community and the popular press. Some saw this as a "new" controversy because they were hearing for the first time that "the macroeconomic data suggests that although microcredit yields some noneconomic benefits, it does not significantly alleviate poverty" (Karnani, 2007). It

Table 2: "Flat" Interest Rates of the Major Microfinance Agencies in Haiti

Institutions	Interest rate for Microenterprise
SFF (Sèvis Finansye Fonkoze)	5% per month
ACME (Action pour la cooperation avec la Micro-Entreprise)	3.5% per month
GRAIFSI (Groupe d'Appui pour l'Intégration de la Femme du Secteur Informel)	4% per month
SOGESOL	4.5% per month
CAPITAL BANK	4.5% per month
UNIBANK	5.5% per month

should be noted that the contrast of the Karnani article to the promotion of microfinance by proponents such as Muhammad Yunus, Nobel laureate and founder of the Grameen Bank, could not have been more acute, as Yunus was promoting the challenge "to completely eradicate poverty by 2030 through microenterprise" (Yunus, 2007a). He published a book the following year with the title *Creating a World Without Poverty* (Yunas, 2007b).

Karnani presents a very different perspective. "Given the intensity of interest in microcredit, the resources devoted to it, and the claims of success, it is reasonable to ask, How much do the poor really benefit from microcredit?" (Karnani, 2011, p. 25). He argues that (1) micro credit does not work, (2) that in general, micro loans are for consumption, not investment, and (3) loans that are used for economic activity usually result in businesses that are not profitable or viable.

The Issue of Net Social Impact

Academic research clearly demonstrates that the development impact of microfinance is often overstated. Indeed, except for anecdotal evidence based on case analysis, it is difficult to find an appreciable impact of microfinance on national economies. Furthermore, in relation to the anecdotal cases, there are also many where clients claim that they are not better off and may actually have had to go back to the "loan sharks" to pay off the microfinance agency (Hulme & Mosley, 2006).

Some critics of the sector go further and believe that microfinance actually does damage and is harmful. "The widening gap between reality and propaganda causes as much harm as help," says Thomas Dichter, as these programs "are not focused on productivity, job creation, and enterprise growth in an increasingly competitive and global economy" (Dichter, 2005, p. 14). A 2010 report on microfinance in Africa concludes with the statement that "some people are made poorer, and not richer, by microfinance, particularly micro-credit clients" (Stewart, 2010, p. 6).

The expectation is that microenterprise program fund clients that have viable, growing businesses that are competitive. Unhappily, this is generally not the case, as the clients are marginal resellers in the marketplaces that demonstrate little potential for job creation or growth or even to be able to capitalize their businesses.

CHRISTIAN BUSINESS PROGRAMS AND MICROENTERPRISE: A NEW AGENDA

The large gap between what is expected of microfinance and what exists in reality is precisely the space in which Christian business programs can find a worthy challenge for their students. Christian business programs acknowledge that God worked and created man in his image to work and support himself and his family (I Thessalonians 4:11, 12). Business students can assist micro-credit programs to rediscover their purpose in job creation.

The actual environment of many microfinance programs is that they need a new vision for promoting productivity, job creation, and innovation. The criticism of the sector has had a positive impact in creating a new degree of accountability of micro-credit programs, and Christian micro-credit agencies are striving to differentiate their services from the "industry" as a whole (Moll, 2011). Students can help in many ways, and there are six specific opportunities for students involvement.

1) Offer Students to Microenterprise Projects As a Resource for Change:

We want our students to be leaders and connect to the real world. They can take their business training to the real world of small business development and with fresh vision confront the need to promote viable economic activity in the marketplace. Student interns should view their involvement from an entrepreneurial perspective, as well as the service perspective that is described in the Webb (1999) *JBIB* article. They can promote a vision for job creation and enterprise growth that will be welcomed by many microfinance practitioners.

Involvement in such projects is possible for both short-term and semester internships. For example, six MBA students from a Michigan university recently provided consulting support to prepare top clients of micro-credit agencies in Honduras for commercial bank financing ("graduation"). This was a semester class project that included one week on-site in Honduras. Several Christian colleges and Inter Varsity chapters have placed business individual student semester interns, generally with language capability, with micro finance organizations, with the specific task of helping promote innovation, job creation, and productivity. This has lead to career opportunities in some cases and always helps to build resumes.[1]

2) Help Students to Distinguish Between "Hype" and Truth

We want to teach critical thinking, but for some reason, when it comes to programs that purport to help the poor or religious causes, business professionals often fail to utilize their heads and rather respond with their heart. The case of "micro credit" can be utilized in business classes to prepare students to become better future donors to whatever cause they choose to support. The general promotion of micro credit seems so positive, but what happens when one evaluates cash flows and impact? On a superficial level, every cause seems worthy, but one must ask questions regarding what the outcomes are.

Student involvement in specific microfinance projects should be predicated on a review of the organization's IRS 990 form available on *www.guidestar.org,* prior research of the financial statements of the project to which they are assigned, and research that goes beyond the public relations materials of the specific organization. This type of research should be recommended for other worthy causes. Accountability is a good thing.

3) Prepare Students to Contribute: Basic Management Seminars

We train our students in basic management, and their involvement training small business clients offers them the opportunity to use these same skills in teaching others. The requirement to summarize their learning to teach others is, in itself, a good learning experience. Furthermore, most will also have to adapt their college learning to other environments and cultures, which requires additional learning.

Teaching basic management skills is the area that is perhaps most relevant to practical involvement of students in micro-credit programs and does not need to be restricted to overseas projects. For example, at Northwestern College we are developing an entrepreneurial training program focused on the Hispanic community of Sioux County, Iowa, where we use the same principles that some of the students apply in micro-credit training programs in overseas experiences in Latin America; the materials are similar. Some of the problems of unemployment are also quite similar.

4) Prepare Students to Contribute: Productivity

We need to increase productivity in our own country and already prepare our students through business education that will contribute to this in the U.S. It should, therefore, be possible to extend this thinking to other environments. This may require adaption of our course assignments to assist in student preparation; for example, if a student is going to work on a project in Bolivia, they should be required to learn about the economic environment in that country. We should also remember that "it is God that gives us the ability to produce wealth," (Deuteronomy 8:18) and pray for wisdom as the global environment is competitive and complex.

Productivity is the focus for the work of the MBA student project, mentioned in the first point. For example, one business that they are assisting (a team of two students) makes candles, and has grown from a small company (less than 10 employees, less than $20,000 capitalization) to a large business (40 employees, requesting $100,000 expansion financing). What are the next steps in relation to technology as new machinery is financed? How can the company access export markets, especially in Central America? The bank has entirely new standards for financial reporting, from the potential client's perspective.

As they help to address these issues, the students are using their gifts in business to be a blessing, and this is an important concept for Christian college business education. The knowledge, skills, and resources of the Christian business professional contribute to the vital need for people to work, and this should be celebrated.

5) Prepare Students to Contribute: Innovation/ Entrepreneurship

Many of us teach our students to consider the possibility that they, at some time, may desire to start a business. The same knowledge and skills that we promote for this purpose can be invested with microfinance programs, which desperately need to identify and fund entrepreneurs. Furthermore, the outsider or expatriate often has many ideas that are unknown to local populations and can be a significant source of innovation.

The injection of innovation and entrepreneurial spirit may be a more important factor in promoting economic development than the injection of capital. It is ironic to note that there is new literature that contradicts the 1980s criticism of entrepreneurial training in micro-credit programs and not only cites it as necessary, but of considerable importance (Eze and Nawali, 2012).

6) Prepare Students to Evaluate Impact

Results are not just measured in money, and this is part of our present business teaching. This concept must also be applied to other environments like microfinance as students assist agencies to go beyond the simple placement and collection of loans and beyond the standard evaluation of financial sustainability. After all, if loans are placed and collected, and the agency in charge of service delivery makes a profit but the clients are not better off, what is this for?

Again, providing students with this mandate rather than simply accepting that all micro credit projects are doing good, is a learning experience that can be applied to many other areas of life. We need to think critically, evaluate, and judge what is worthy of our support. We also need to be skeptical of glossy promotions and funding appeals.

Another area where these same six principles are needed is in the field of "business as mission" (BAM), discussed in the Spring 2012 *JBIB* issue. Many cases of BAM, when considered closely, do not meet the dual requirements of *viable business* and *genuine ministry* that are part of the definition. Some overseas "businesses" are dependent on subsidized expatriate workers who are asked to raise support, and the recruitment of young people willing and able to raise support seems at odds with the idea of sustainable enterprise. At the other side of the equation are international business operations that demonstrate no connection to the local church or Christian outreach but rather are simply cases of direct foreign investment where the principals happen to be Christians. Activities like a church bake sale or a missionary handicraft-sales hobby are sometimes classified as BAM when these are not real businesses.

The topic of BAM, like microfinance, can become a way for fundraisers to promote donations, so information on projects must be analyzed carefully. BAM business plans should include adequate financial systems and internal controls. The task of creating economic enterprises for social benefits has all of the complications of the world of commerce and banking but is often staffed by volunteers and leaders from the local community. Business students can help because the human resources for oversight of these programs are limited.

The area of business as mission and microenterprise are wonderful contexts for business student involvement because they present interesting challenges. Organizations that work in these areas need to consider the serious requirements for developing successful programs and identify where students can help. It is not easy to start a successful business, whether microfinance or BAM, especially in the international environment. Christian business students can help organizations confront the challenge of creating viable microfinance and BAM programs and increase their effectiveness for the outreach of the church. The students will also learn a lot in this process that will serve them well in whatever career path that they choose.

ENDNOTES

[1] The author has one student from Northwestern College scheduled for summer deployment with the aforementioned project in Honduras and a fall semester intern scheduled to go to Colombia. His most recent intern in Colombia, sent by Inter Varsity from the University of Maryland, is now heading up the creation of Goodwill Industries in Brazil.

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