

Financial Constraints and Opportunities of Micro Enterprise Entrepreneurs: A Theoretical Framework

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Abstract— The objective of this paper is to analyse and present the financial opportunities and constraints faced by the micro enterprise entrepreneurs. In general micro enterprise entrepreneurs face financial difficulties particularly during the start up. A large number of micro enterprises have yet to tap into the funds provided by the banks. Only 13% thus far have successfully received this funding. This huge gap poses a question mark and triggers the need to conduct a study. While there are many programmes provided by the government, the rigidity of the procedures hampers the smooth success of the programmes.

Keywords- micro entrepreneurs, finance, entrepreneurs

I. INTRODUCTION

According to Tan Sri Tay Ah Lek [1], there are still a large number of micro enterprises which have yet to tap into the funds provided by the banks. Only 13% received financing. A large number of these micro enterprises entrepreneurs have not enjoyed these opportunities to expand their businesses. Based on a report, 80% of all SMEs in Malaysia are micro enterprises (micropreneurs and micro workers) [2]. Very few small and medium sized enterprises (SME) focus on innovation as a means to compete in the competitive business environment [15]. Most of these businesses were family owned and that they have difficulties to finance the research and development efforts. SMEs in Malaysia makes up 99% of all business entities in Malaysia, with the remaining 1% made up by large corporations including government-linked companies. Enhancing the performance of the small and medium sized enterprises might be a wrong policy [16]. The entrepreneurs may not require much assistance. Banks have been urged to extend advisory services to these enterprises before their condition worsens [3]. While the provision of funds is a necessity but it is not sufficient enough to ensure the success of the micro enterprises especially those from the rural area [4]. These entrepreneurs are basically those from the manufacturing, services and agriculture sectors. Each of them would have their own characteristics. The objective of this paper is to examine the opportunities and constraints faced by the micro entrepreneurs.

II. THE FINANCIAL ISSUES

The government of Malaysia through its Industrial Master Plans 2 and 3 together with the Eighth and Ninth Malaysia Plans has implemented numerous policies and strategies that will enhance the growth of the country's economy particularly the manufacturing, services and agriculture sectors [5]. In 2004, the government has set up the National Small and Medium sized Enterprise Development Council. The purpose of this council is to ensure the SME's development plans are focused. This council is also responsible for formulating the strategies and policies to develop the SMEs further. They are also responsible for ensuring the effective implementation of the policies and action plans. There are altogether 15 government ministries and 38 government agencies.

The Government provides an enabling environment for the growth and development of globally competitive and resilient SMEs. Initiatives and programmes by the Government are directed towards addressing constraints and enhancing capabilities of SMEs in areas such as financial accessibility, advisory services, marketing, technology and ICT. Incentives in the form of grants and soft loans are provided by the various Ministries and their agencies. Apart from the Government, funds are also channelled through commercial financial institutions.

Many micro firms lack collateral and insufficient documents to support their loan application [15]. Banks require collateral as a safe guard for their loan. The most common financial challenges faced by the SMEs especially the micro enterprises are the lack of capital and lack of access to credit. The government has initiated various funds to help the micro entrepreneurs in getting funds to start the business as well as to expand the business. In Malaysia, the government has set-up Amanah Ikhtiar Malaysia ("AIM") in the 1980s to help the poor to improve the quality of their life by getting them involved in the business. The idea of establishment of AIM is taken from the establishment of Grameen Bank in Bangladesh. This bank was incorporated with the aim to help the poor [6]. Therefore, micro entrepreneurs can obtain financial access from AIM where the minimum financing will start at RM2,000 with maximum financing of RM20,000 per individual.

Apart from AIM, the government has also established Yayasan Tekun Nasional (TEKUN) which focuses on micro credit financing. TEKUN provides micro financing from a minimum of RM500 up to a maximum of RM50,000. Credit Guarantee Corporation Malaysia Berhad has also been established to assist the micro companies. They have a scheme called the Small Entrepreneur Guarantee Scheme which offers financing from RM10,000 up to RM50,000. Other participating agencies which provide financial assistance to micro enterprises are Majlis Amanah Rakyat (MARA), Perbadanan Usahawan Nasional Berhad (PUNB), Bank Simpanan Nasional (BSN) and Agro Bank.

Despite the establishment of the SMEs division by the financial institutions, the financing problem faced by the SMEs especially the micro entrepreneurs still persist due to problems such as the facilities packaged by the banks. They were found not suitable to finance the working capital requirement. The participating agencies provide limited financial assistance to micro companies where the financing amount is relatively small and the type of facilities sometimes do not suit the micro companies business needs. Previous studies on the problems encountered by small businesses throughout Europe indicated that the main reason for their limited access to credit is the inability of the businesses to provide collateral needed to obtain lower cost and long-term loans [7],[13]. Other studies quoted limited access to finance and ongoing difficulties in obtaining funds from financial institutions and governments are the main challenges faced by the SMEs [8],[9].

If the micro enterprises entrepreneurs do manage to get the facilities from the financial institutions, they will face with another set of financial challenges such as high cost of borrowings, high banks charges and fees, high legal documentation fees and other charges as imposed by the financial institutions. The challenges facing the SMEs in Kenya revealed that the high cost of borrowings, high bank charges and fees has made the SMEs seeking other alternatives and soft credit with low interest rates such as Pyramid Scheme [10]. The turnaround time for disbursing the loan is too long. On the average, it takes about 3 to 6 months for the loan to be disbursed. Bureaucratic problems and too much documents requested by the banks also dampens the spirit of the micro entrepreneurs. These problems affect the cash flow. The micro entrepreneurs will need to rely on their financial reserves. Very often these micro entrepreneurs tended to focus their attention on unlicensed money lenders (or called "Ah Long" in Malaysia) as their last resort. These unlicensed money lenders disburse the money the next day and do not require much documentation and collateral.

The micro enterprise entrepreneurs have the perception that being a small company they are not able to get financing from the banks due to various reasons and this has prevented them from approaching the banks and they tend to secure loans from other sources. In the survey conducted by the National Federation of Independent Business Research Foundation, UK on small business credit problems revealed that 55% of small businesses attempted to borrow in 2009;45% did not, although 55 of owners, so-called

discourage borrowers did not try because they did not think they could obtain credit. The survey also revealed that 40% of small businesses owners attempting to borrow in 2009 had all their credit needs met; 21% had some of their credit needs met; and 23% had none of their credit need met [11].

III. RECOMMENDATIONS

Most of the financial institutions and government agencies normally require the borrower to prepare detailed working paper together with the cash flow projections. Being a micro enterprise entrepreneur with a lack of knowledge in the financial and accounting aspect, is also another challenge faced. Due to lack of knowledge, most SMEs entrepreneurs are ignorant of proper accounting principles and values to reflect their financial position. Banks are reluctant to extend loans to SMEs for substantial amounts due to the risk involved [14].

It is suggested that government officials provide training for these micro entrepreneurs for them to understand the procedures involved in the loan or grant application. In terms of the accounting procedures, many of these micro enterprise entrepreneurs especially those who are from the rural area do not have proper accounting know how. The officials from the government agencies need to conduct periodical monitoring so that these entrepreneurs will not be left stranded. Giving training without periodical monitoring will not be fruitful as there is no follow up on the implementation of the programme. The government has created many innovative programmes to help the entrepreneurs to improve their business. However, without proper follow up, these programmes will not be successful. Further to that, these periodical monitoring should be at least between 1 to 5 years. The first few years of the business operation is the most crucial time. Sales for the first few years would be low as the enterprise has not created awareness among their targeted customers.

Banking procedures needs to be less rigid to accommodate those who do not have any collateral. For example, in the agriculture sector especially the farmer, they do not have any property of their own. Their house is wooden and banks would not give a high loan amount for a wooden house. Most banks now approve the bank loans within 14 working days. However, the disbursement period is long. If possible, allow for partial disbursement to allow the micro entrepreneurs to start their business operations and pay some of their bills. The partial disbursement is suggested to be within a month to enable the micro enterprise entrepreneurs to ease their working capital.

Financial institutions should adopt measures to create more credit facilities for small businesses and tailor-made them to fit the requirements of the micro enterprise entrepreneurs. Therefore, the growth of the small businesses should not be stymied by the excessively rigid procedures, prudent policies of the financial institutions. On the other hand, the government agencies which provide funds for the small business should improve the turnaround time in processing the funds application by "slimming down" the bureaucracies, red-tapes and favouritism.

In addition, the financial institution must make sure that they package a suitable credit facility to finance the operations of the business. The bank officers must have a detailed understanding of the whole operations such as the reasons behind this short fall of cash. Is it because the company has extended long credit terms to its customers or the company does not have a good cash management system? If the problem is due to the long credit term granted to its customers, then what would be the suitable credit facility to finance the gap in their working capital requirement, before they proceed to offer the credit facility? the For example, if the business needs fund to finance its working capital requirement such as to purchase materials and pay the operating expenses, the suitable facility would be a revolving credit such as overdraft and not Term Loan facility where the small businesses cannot roll over the fund. Instead, the bank will release the full amount of the term loan and this term loan need to be paid by monthly instalments. Unlike overdraft, the small businesses can utilized the fund whenever they need it and only pay interest on the amount that they utilized. This type of facility is more suitable for small businesses to finance its working capital requirement. It will be such a waste if the credit facility granted to the small businesses does not suit with its business requirement and thus unable to help the small businesses to ease their cash flow position.

The financial institutions and the government agencies should launch a massive information campaign for the small businesses so that these companies are aware of the grants, funds and credit facilities available for them. There are instances where some of the small businesses are not aware and ignorant of the funds and grants available for them to finance the business needs and as a result, small businesses are unable to expand their business due to lack of capital and access to credit. This situation particularly happens when the micro enterprise entrepreneurs are from the rural area.

The government agencies which provide loans and funds to the small business should have adopted measures on how to assist these small businesses in utilizing the funds and not only disbursed the loans and funds for the sake of achieving the target or the budget. The government officials should identify the potential small businesses which have viable and genuine businesses and extend the funds to the businesses. The government must work hand in hand with the owner of the business and try to know them, educate them and guide them on how to manage their business.

IV. CONCLUSION

While it is true that the small and medium enterprises controls almost 99% of the business establishments in Malaysia but 80% of these belonged to the micro enterprises entrepreneurs. Micro enterprise has been defined as companies having less than 5 employees [12]. Very often such companies belonged to family owned businesses [17]. Many of these micro enterprise entrepreneurs rely on their life savings and some of them are dependent on their family and relatives. These dependence leads to indebtedness. When they have exhausted this source of money, they would turn to the unlicensed money lenders or locally known as

“Ah Long” the loan sharks as a last resort. The Government of Malaysia has recognised the contributions of the SMEs particularly the micro enterprise entrepreneurs by introducing many programmes to assist them in their businesses. However, the success of the programmes is not as expected. According to Tan Sri Tay Ah Lek [1], there are still a large number of micro enterprises which have yet to tap into the funds provided by the banks. Only 13% received financing. In order to ensure the success, there is a need to guide and monitor their progress. Rigid procedures needs to be lightened while financial packages need to be tailor made to suit the need of the micro enterprise entrepreneurs.

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