Chapter 2

Literature Review:
Microfinance and Entrepreneurship

2.1 Introduction

Citing the work by Hart (1998), Randolph, (2009) justifies the conduct of review of literature for the following purposes. It helps in distinguishing what has been done from what needs to be done. It enables the discovery of the variables that are relevant to the topic. It facilitates synthesizing and gaining a new perspective. It aids in establishing the context of the topic or problem, rationalizing the significance of the problem, enhancing and acquiring the subject vocabulary, understanding the structure of the subject. Literature review also helps in identifying the main methodologies and research techniques that have been used. Without establishing the state of the previous research, it is impossible to establish how the new research advances the previous research (Randolph, 2009). The focus of this chapter on literature review would be to analyze previous research with a goal of identifying central issues and problems that are addressed by the existing literature related to the field of microfinance and entrepreneurship.

The research led to the concept of the "critical triangle of microfinance", the need for any Microfinance Institution (MFI) to manage simultaneously the problems of outreach (reaching the poor both in terms of numbers and depth of poverty), financial sustainability (meeting operating and financial costs over the long term), and impact (having discernible effect upon clients' quality of life). The book edited by Zeller & Meyer titled “The triangle of microfinance: financial sustainability, outreach, and impact” (2002) elaborates on these objectives and shows that the most successful
MFIs expand all sides of that triangle. Tradeoffs are sometimes inevitable, but even so, synergies among the three make the concept valuable (Zeller & Meyer, 2002).

2.1.1 Impact on Women Empowerment & household vulnerability

Considerable amount of literature is available with impact assessment analysis of microfinance programmes aiming at women empowerment. Page & Czuba (1999), defines empowerment as a multi-dimensional social process that helps people gain control over their own lives. It is a process that fosters power in people for use in their own lives, their communities and in their society, by acting on issues they define as important. Page & Czuba (1999) suggest that three components of empowerment definition are basic to any understanding of the concept: empowerment is multi-dimensional, social, and a process. It is multi-dimensional in that it occurs within sociological, psychological, economic, and other dimensions. Empowerment also occurs at various levels, such as individual, group, and community. Empowerment is a social process, since it occurs in relationship to others, and it is a process along the continuum. Other aspects of empowerment may vary according to the specific context and people involved, but these three remain constant. How empowerment is understood also varies among perspectives and context (Page & Czuba, 1999). We have selected the following literature for this section because it represents some of the few studies that have rigorously examined the link between microfinance and women’s empowerment. This literature analyses the impact of microfinance initiatives on some important socio-economic dimensions related to the concept of women empowerment, which we have considered relevant in the context of our study.

The paper by Swain & Wallentin (2007) contributes to the existing literature on Self Help Groups in India by estimating the impact of the Self Help Group (SHG) on women empowerment. They argue that women empowerment takes place when women challenge the existing social norms and culture, to effectively improve their well being. Swain & Wallentin (2012), evaluate the impact of economic and non-economic factors on women’s empowerment of Self-Help Group (SHG) members. They estimate a structural equation model (SEM) and correct for ordinality in the data to account for the impact of the latent factors on women’s empowerment. Their SEM
results reveal that for the SHG members, the economic factor is the most effective in empowering women. This confirms that programmes such as SHGs, which focus on the income generation by women in low-income households, have the double advantage of leading to an improved economic situation of the respondent and being the most effective factor in empowering women (Swain & Wallentin, 2012). Greater autonomy and social attitudes also have a significant women empowerment impact. Therefore, the focus on income generation should continue as the primary objective of the SHG programme. The results of their study clearly indicate that participation in an economic activity, the opportunity to access credit and arrange crucial inputs play a significant role in empowering women. Greater confidence to meet the financial crisis and having independent savings is also empowering. Thus, the provision of ‘minimalist’ microfinance through its economic impact remains the most important cause for promoting women empowerment of SHG members (Swain & Wallentin, 2012). Swain & Wallentin (2014) mention that the impact of Self Help Groups- Bank Linkage Programme (SBLP) critically depends on the quality of SHGs and it is important to identify how the SHGs are promoted. Creating and maintaining SHGs is a time-consuming process that requires nurturing and as such is more suitable to the social-development perspectives of NGOs. Banks on the other hand are more interested in ensuring safety of their loans. If women’s empowerment has to be pursued as a serious objective, the expansion of SBLP to the other states has to remain focused on the effective economic empowerment of women through livelihood creation. Greater emphasis also needs to be placed on training, education and creating awareness about empowerment related issues with increased investment in social intermediation. Otherwise, SBLP will result in positive outcomes but the process of women’s empowerment will remain incomplete (Swain & Wallentin, 2014).

Swain & Varghese (2009), evaluated the effect of Self Help Group participation on a long-term impact parameter, namely, asset creation. By comparing the impact on current borrowers vis-a-vis future self-selected borrowers, longer membership duration in SHGs positively impacts asset creation. These results are robust to various specifications of assets. However, they do not find any impact on short-term impact variables such as total current income. The impact on asset accumulation stems from the savings requirement in the programme and livestock accumulation which then
leads to income diversification. Swain & Varghese (2010), further argues that the provision of business training with microfinance leads to a positive impact on assets for the participating households. Training by NGOs positively impacts asset creation but the type of SHG linkage per se has no effect.

Swain & Floro (2012), finds that vulnerability in SHG members is not significantly higher than in non-SHG members, even though the SHG members have a high incidence of poverty. However, vulnerability declines significantly for those that have been SHG members for more than one year. This article explores an important dimension of household welfare that conventional measures of poverty do not address, namely vulnerability. They examine the likely effect of Self-Help Groups (SHG) on the vulnerability of participating member households using an Indian household sample survey data from 2003. They argue that a household’s ability to mitigate risk and cope with shocks is enhanced through SHG participation by increasing household earnings through provision of microfinance and training, aiding the households in the face of shocks by providing consumption loans, and enhancing their resilience by strengthening social support and improving women’s empowerment.

Thus we may conclude this section stating that Swain & Wallentin (2007) determine the empowerment level of women in terms of their behavioural reactions to situations that reflect their well-being and indirect empowerment that they attain due to participation in labour market or greater economic independence. The other aspects such as perceptions about economic independence, willingness to participate in training programmes, perceived constraints to labour market participation etc. could have been of greater significance in understanding the impact of microfinance on women empowerment at the individual level.

Swain & Varghese’s (2010) conclusion that training intervention by NGOs having positive impacts on asset creation and a type of SHG linkage per se having no effect, needs to be further examined. Especially, in a situation when there is an increase competition between the various MFIs serving their clients and trying to expand their market share.
Similarly, asset creation impact of training in the urban setting could be different from what is observed by Swain & Varghese (2009). The impact occurs primarily through livestock accumulation and savings in the rural areas. Members move away from pure agriculture as an income source toward other types of income (Swain & Varghese, 2009). It would be interesting to understand the effects of training interventions on the assets accumulation by the microfinance clients in urban areas. Apart from this, participation in the training programmes may be influenced by the perceived value of one’s time or the opportunity cost of one’s time in the urban areas.

### 2.1.2 Entrepreneurship Development & Empowerment

The promotion of micro and small enterprises (MSEs) has been recognised as an important strategy for advancing the economic empowerment of women while reducing poverty and gender inequality. Small businesses are engines of growth and considered a backbone for economic expansion by many Governments. At the household level, women’s microenterprises and small subsistence business play a crucial role ensuring the survival of poor households and in building up women’s confidence, skills and socioeconomic status with social benefits accruing to the community and future generations (United Nations, 2014).

As mentioned by Parvin, Rahman, & Jia (2012) women “entrepreneurship development” is one of the crucial issues of contemporary development agenda in many developing countries. Entrepreneurship development and empowerment are complementary to each other. Women entrepreneur can be defined as a person who has alone or with one or more partners started or inherited a business, eager to take financial, administrative, and social risks and responsibilities, and participating day-to-day management activities. Women involvement in various entrepreneurial activities has empowered them in social, economic and cultural fields (Parvin, Rahman, & Jia, 2012). A study by Parvin, Rahman & Jia (2012) employs the binary “probit” model approach to determine factors influencing women micro entrepreneurship development in rural Bangladesh. Parvin, Rahman & Jia (2012) points out that factors influencing entrepreneurship development in the Western
economy context and that of Asian developing countries contexts are different. Literature from Asian developing countries have considered three aspects of women entrepreneurs such as “chance”, “forced” and “created” (Raju, 200013; Seymour, 200114; Sharma and Dhameja, 200215; and Sinha, 200316). Chance entrepreneur means start a business without any clear goals or plans, forced entrepreneurs compelled by circumstances (e.g., death of a spouse, the family facing financial difficulties) and created entrepreneurs means “located, motivated, encouraged and developed” through entrepreneurship development programmes. This study highlights the significance of entrepreneurial skills/training for fostering entrepreneurship development in Asian economies.

Dwivedi & Dwivedi (2011), state that women entrepreneurship is an important tool for empowering women. Empowerment of women through entrepreneurship involves access to resources and markets, actual ownership and active control; these may be the three important factors for empowering women. In the process of empowerment, women should consider their strength, weakness, opportunities and threats and move forward to unfold their own potential to achieve their goals through self development. In our country with such a huge population and problems of unemployment, women entrepreneurship happens to be one of the best tools for women empowerment (Dwivedi & Dwivedi, 2011). Dwivedi & Dwivedi (2011), identifies the entrepreneurial competencies of women in our society and argues that in a conservative society, where there are restrictions on women’s freedom to choose occupation outside home, encouraging home based small scale business activity among women would be a best policy to tap this potential in the short run.

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Onyuma & Shem (2005), citing the work by others, mention that microfinance programmes should empower poor women, in three positive ways (Mayoux, 1995; Onyuma, 2000): First, by providing independent sources of income outside home and reducing economic dependency of women on their husbands, thus enhancing autonomy. Second, the same independent source of income together with women's exposure to new sets of ideas, values and social support should make these women more assertive of their rights. Finally, by providing control over material resources, micro-lending programmes should raise women's prestige and status in the eyes of husbands thereby promoting inter-spouse consultations on household decisions (Onyuma & Shem, 2005). Onyuma & Shem (2005) emphasizing the holistic approach, points out that the poor need more than micro loans. They need holistic rural development approaches and other comprehensive programmes that address their lack of access to and control of productive resources, difficulties in accessing labour opportunities, formal education, work skills and gender bias (Onyuma & Shem, 2005).

We may state that microfinance programmes can be designed to tap entrepreneurship development potentials for empowering people given the limits of their economic, social and cultural settings.

2.1.3 Micro-Entrepreneurship Development through SHGs

The characteristic features of Self-Help Groups (SHGs) and the norms for their linkage with banks were first enumerated in the guidelines of NABARD circular dated 26 February 1992. Over two decades hence the SHG-Bank Linkage Programme (SHG-BLP) continues to be the mainstay of the Indian Microfinance scene with 74 lakh SHGs covering over 10 crore households saving with the formal banking system with savings balance of over Rs. 7,000 crore as on 31 March 2011. About 49 lakh of these SHGs have also accessed bank credit and have over Rs 31,000 crore as outstanding credit from the banking system (NABARD, 2012). In other words, the SHG-BLP has so far been the most preferred and viable model for financial inclusion.

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of the hitherto unreached poor (NABARD, 2012). NABARD is working all over the country with the groups for last two decades and more. There are high numbers of those groups who have reached maturity level and many of them are in a position to take up some micro-enterprise activities based at local level. It is proved that the micro-enterprise activities have the potential to increase the level of income and assets of poor households (Batra & Sumanjeet, 2011). Thus with the proper capacity building and business development services those matured SHGs should move towards next step (microenterprise).

The gender gaps impose real costs on society. When women do not participate equally in entrepreneurship, economies lose the benefits that would otherwise be provided by new products and services, additional revenues and new jobs; economies also lose out due to the long-term negative effects on workforce skills and education occurring when half of the potential pool of labour is not developed. The clear consequences of women’s economic marginalisation further emphasise the pressing need for gender equality and the economic empowerment of women (UNIDO).

This chapter presents the overview of the select literature related to the research topic. **Section 2.1** on introduction highlights three important aspects of microfinance viz. outreach, financial sustainability and impact of microfinance initiatives involved in the evaluation of the success of MFIs’ activities. This section presents the significance of exploring the entrepreneurship development potentials of microfinance programmes/policies in the context of the developing countries. **Section 2.2** elaborates on the policy tool dimensions of microfinance. **Section 2.3** reviews how the concept of entrepreneurship is dealt with in the economic theory by various researchers. **Section 2.4** discusses the determinants of entrepreneurship. Determinants of Entrepreneurship are classified into two sub sections. Sub section 2.4.1 covers the literature on the determinant of the entrepreneurship in the context of the Developed Countries of the world. Sub section 2.4.2 covers literature related to the determinants of the entrepreneurship in the context of the Developing Countries. **Section 2.5** concludes the chapter pointing out that the present study is an enquiry concerning the personal attributes and the perceived entrepreneurial constraints that may limit the entrepreneurial choice of the SHG members.
2.2 Microfinance: as a policy tool

Angelucci, Karlan, & Zinman (2014), examine a debatable question that whether microfinance is actually an effective development tool. Expanded access to credit may improve the welfare of its recipients by lowering transaction costs and mitigating information asymmetries. Yet theories and empirical evidence from behavioural economics raise concerns about over borrowing at available rates, and microcredit debt traps have drawn much media and political attention in India, Bolivia, the United States, Mexico, and elsewhere. The possibility of positive or negative spillovers from borrowers to non-borrowers adds to the possibility of large net impacts in either direction (Angelucci, Karlan, & Zinman, 2014).

2.2.1 Credit: as a human right

The paper by Hudon (2009) explores the ethical dimensions surrounding the concept of a human right to credit. If access to credit is directly instrumental to economic development, poverty reduction and the improved welfare of all citizens, then one can proclaim, as Nobel Prize Laureate Muhammad Yunus has done, that it is a moral necessity to establish credit as a right. While there may be general agreement that access to financial services may provide a pathway out of poverty, granting a universal right could induce perverse effects such as over indebtedness (Hudon, 2009).

According to Gershman & Morduch (2014) the argument for credit as a human right is, ultimately, based on an empirical assertion. That assertion is clearly and strongly-stated by Muhammad Yunus: that microcredit deserves to be a human right based on its strong role in reducing poverty. Gershman & Morduch (2014) have argued, also on empirical grounds, that the assertion is in fact weak and not sustained by the best available evidence. Gershman & Morduch (2014) question whether a rights-based approach to microcredit will in fact be effective in achieving the goal of substantial
global poverty reduction. But a right to non-discrimination with regard to financial access has appeal on its own terms (Gershman & Morduch, 2014).

2.2.2 Identifying target groups for Microfinance Operations

According to Khandelwal (2007), microfinance programmes targeting women became a major plank of donor driven poverty alleviation and gender strategies in the 1990s. Increasing evidence of the centrality of gender equality to poverty reduction and women's higher credit repayment rates led to a general consensus on the desirability of targeting women. Through their contribution to women's ability to earn an income these financing activities have the potential to initiate a series of "virtuous spirals" of economic empowerment, increased well-being of women and their families and wider social and political empowerment (Khandelwal, 2007). Microfinance services and groups involving men also have the potential to question and significantly change men's attitudes and behaviour as an essential component of achieving gender equality.

Khandelwal (2007) in his article, highlighted the key issues in the Microfinance Development Strategy for Indian banks. He suggests that the most important task for our commercial banks is to examine and identify first the target groups for microfinance operations. Once identified, they can start their activities by focusing on these people's total needs - as deprived people require much broader interventions. For instance, micro-entrepreneurs with meagre capital not only need financial capital or services but also a home, good health, education for their children, etc. The Indian banks have to create specialist cells to study the total requirements of these groups and come out with tailor-made products and services for them (Khandelwal, 2007). They must also understand that these groups are heterogeneous in nature and, hence, the banking products/services developed for them have to be highly diversified and target specific. The continuous flow of innovations in designing new products and services would produce the desired results on a sustainable basis. The strong and firm commitment of the top management of the bank to microfinance operations is the essential precondition for the sustainability of this business in any commercial bank (Khandelwal, 2007). Khandelwal (2007) admits the necessity to accept that microfinance is not a panacea but is one of the effective tools to help poor people
from a self-development perspective. **Extremely poor people like people suffering from under and/or malnourishment, illnesses, lack of skills, etc. cannot be a target for microfinance.** This is because intervention in the form of microfinance will not be an efficient solution for them. The problems of such people have to be tackled at the government level through an appropriate mix of welfare measures. For these people, as Robinson has said - "Microfinance is the next step - after they are able to work" (Khandelwal, 2007).

Morduch, in the article titled “The Microfinance Promise” (1999) mentions that credit from microfinance programmes helps fund self employment activities that most often supplement income for borrowers rather than drive fundamental shifts in employment patterns. It rarely generates new jobs for others, and success has been especially limited in regions with highly seasonal income patterns and low population densities. The best evidence to date suggests that making a real dent in poverty rates will require increasing overall levels of economic growth and employment generation. Microfinance may be able to help some households take advantage of those processes, but nothing so far suggests that it will ever drive them (Morduch, The Microfinance Promise , 1999).

The paper by Littlefield, Morduch, & Hashmi (2003) reviews the mounting body of evidence showing that the availability of financial services for poor households (“microfinance”) is a critical contextual factor with strong impact on the achievement of the United Nation’s Millennium Development Goals (MDGs)\(^{19}\). Littlefield, Morduch, & Hashmi (2003), tries to assesses the role of microfinance in the areas of eradicating poverty, promoting children's education, improving health outcomes for women and children, and empowering women. Littlefield, Morduch, & Hashmi (2003) conclude that no single intervention can defeat poverty. Poor people need employment, schooling, and health care. Some of the poorest require immediate income transfers or relief to survive. Access to financial services forms a fundamental

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\(^{19}\) The Millennium Development Goals (MDGs) are the world's time-bound and quantified targets for addressing extreme poverty in its many dimensions-income poverty, hunger, disease, lack of adequate shelter, and exclusion-while promoting gender equality, education, and environmental sustainability. They are also basic human rights-the rights of each person on the planet to health, education, shelter, and security. For details check www.un.org/millenniumgoals
basis on which many of the other essential interventions depend. Moreover, improvements in health care, nutritional advice and education can be sustained only when households have increased earnings and greater control over financial resources. Financial services thus reduce poverty and its effects in multiple concrete ways. And the beauty of microfinance is that, as programmes approach financial sustainability, they can reach far beyond the limits of scarce donor resources (Littlefield, Morduch, & Hashmi, 2003).

2.2.3 Role of subsidies in Microfinance

According to Mordoch (1999) despite reporting profits, Grameen is in fact subsidized on a continuing basis. Optimism about the bank’s performance over time has reduced the urgency to bring the tensions to the foreground, and, as a result, a serious conversation on the costs and benefits of subsidization has hardly started. Morduch (1999), highlights the importance of openly addressing the costs and benefits of subsidization. The objective of this study is not to argue that the bank should necessarily transform itself into a commercial bank that operates free of subsidies. Instead, the narrow focus on costs and subsidies provides a context with which to view the growing microfinance literature that asserts with limited evidence the ‘‘win–win’’ possibility of poverty alleviation with full cost recovery (Morduch, 1999). The paper also describes recent difficulties in maintaining high repayment rates. Morduch (1999), states that in principle, where credit markets function imperfectly, interest rate subsidies may bring allocations closer to efficiency. Even if not, they may be desirable on grounds of equity: if raising interest rates means losing clients or decreasing social impacts, subsidies may be justifiable, provided social benefits are commensurate and institutional efficiency can be maintained. Morduch (1999) raises a question whether subsidizing microfinance can offer greater social returns than alternative uses of funds. Morduch (2000) in the article “The Microfinance Schism” states that the microfinance movement encompasses diverse programmes, all of which focus on providing financial services to poor households. Some programmes have made financial sustainability the chief goal, and others have focus on economic and social impacts. While there is much common ground, there are also critical differences.
There appears to be ample room, however, for a diversity of programmes, with competing methods and financial arrangements. Addressing the schism opens up the chance to address misconceptions. It is not profit maximization that makes a programme efficient. Instead, what matters is having a hard budget constraint, something possible even with subsidies. Subsidization need not necessarily leads to mistargeting. Fear of mistargeting may limit the size of the optimal subsidy, but it does not necessarily make it zero (Morduch, The Microfinance Schism, 2000). The analysis of the records of 346 microfinance providers in 67 countries by Morduch (2013) shows that while more than 90 percent claimed they were profitable, half relied on subsidies of one kind or another. Moreover, the institutions serving the poorest customers leaned most heavily on subsidy. A big question, then, is whether microfinance is worth that external support. Morduch (2013) tries to answer this question. Research so far on the short-term impacts of microfinance on customers’ businesses and on broader measures of household well-being (including household consumption) fails to find the kind of social returns that will keep social investors excited. But few studies have looked beyond two-year horizons and perhaps bigger impacts will show up with longer time frames. Morduch (2013) suggests that policymakers and impact investors ought to be thinking less about the time frame of social returns and more about the ultimate goals of microfinance. Most of the time, microfinance generates only modest gains for household businesses and doesn’t catalyze great leaps in household income. Rather, improved financial access gives poor people a means to make the most of what they have and to pay for big purchases over time. Financial access may never create the self-employment revolution whose prospect inspired policymakers and investors. But financial access is best thought of as a platform, and it might just be the foundation that billions of poor families need to build more secure lives on their own terms (Morduch, 2013).

2.2.4 Individual liability vs. group lending mechanism

Aghion & Morduch (2000) described the various mechanisms in the microcredit programmes in Eastern Europe, Russia and China that helped in successful penetration of these programmes in new segments of the credit markets. These mechanisms allowed the programmes to generate high repayment rates from low
income borrower without requiring collateral or group lending contracts (main feature of joint liability model). Aghion & Morduch (2000), concludes that new programmes in Russia and Eastern Europe have demonstrated the advantages of employing individual based contracts instead of only using group lending contracts. Thus Aghion & Morduch (2000) argue that microfinance programme of group lending with joint liability mechanism, where it is used, group lending is just one part of a set of overlapping mechanisms employed to aid loan repayment rates. Unlike the group lending these new programmes requires borrowers to put up collateral or to find a third party guarantor and they serve, the better off clients.

Giné, Jakiela, Karlan, & Morduch (2010) follows the experimental approach and draws conclusions based on a series of experimental "microfinance games" conducted over seven months in Lima, Peru. They find that cutting off defaulting borrowers from access to future loans powerfully reduces risky project choice, even when lenders use individual-liability contracts. These results on the power of dynamic incentives are consistent with recent shifts by micro-lenders from group-based mechanisms toward individual loans. Risk-taking broadly conforms to theoretical predictions, with dynamic incentives strongly reducing risk-taking even without group-based mechanisms (Giné, Jakiela, Karlan, & Morduch, 2010). Group lending increases risk-taking, especially for risk-averse borrowers, but this is moderated when borrowers form their own groups. Group contracts benefit borrowers by creating implicit insurance against investment losses, but the costs are borne by other borrowers, especially the most risk averse. Giné, Jakiela, Karlan, & Morduch (2010) concludes that microfinance banks use group-based lending contracts to strengthen borrowers' incentives for diligence, but the contracts are vulnerable to free-riding and collusion.

Giné & Karlan (2009) in the paper titled “Group versus Individual Liability: Long Term Evidence from Philippine Microcredit Lending Groups” concludes that the recent trend of microfinance institutions expanding their individual lending products (or in some cases, shifting from group liability to individual liability) may help deepen outreach and provide more flexible microfinance products for the poor. Their findings
suggest that the innovators finding methods of lending individually to the poor may be moving in the right direction (Giné & Karlan, 2009).

2.2.5 Principal-Agent Theory and microfinance management

The book titled “The Economics of Microfinance” by Aghion & Morduch (2005) is about the ideas that have driven the microfinance movement. It is also about lessons that the movement holds for economics and, more specifically, for thinking about why poor people stay poor. Microfinance successes force economists to rethink assumptions about how poor households save and build assets, and how institutions can overcome market failures. In telling the story, authors draw on new developments in economic theories of contracts and incentives, and they also point to unanswered questions and ways to reframe old debates related to the various issues in microfinance. Aghion & Morduch (2005), applies the principal-agent theory (or simply “agency” theory) to examine relationships between lenders and borrowers. But in applying principal-agent theory to microfinance management, they instead identify the top management as the “principal” and loan officers (and other field staff) as the “agents.” The framework then focuses on difficulties that managers have in working with staff members to whom daily decisions have been delegated. The bargaining power of field staff is strengthened here since some of their efforts cannot be fully observed. Managers must then figure out how to adequately reward their unobserved effort in order to most effectively maximize the institution’s objectives. Tensions in designing optimal incentive schemes hinge on the multitask nature of microfinance, in which institutions seek both profit and social impact. In principle, the task of managers is to give staff members incentives to pursue both ends, although in practice the goals are not always aligned (Aghion & Morduch, 2005).

According to Bauchet & Morduch (2013), SMEs (Small and Medium Enterprises) finance is gaining attention as a possible alternative to microcredit investment in the fight for poverty reduction, notably because SMEs provide employment on a much larger scale than microenterprises supported by microcredit. The evidence suggests that in Bangladesh the two forms of support are complements, not substitutes. Bauchet & Morduch (2013) presents the result of their study for Bangladesh and rejects the
idea that SME finance more efficiently creates jobs for the population currently served by microcredit.

According to Morduch (2013) micro lending has been sold as a practical means to get capital into the hands of small-scale entrepreneurs who can then earn their way out of poverty. New studies that better financial access does give families improved ways to cope with poverty, but seldom offers the means to escape it. What microfinance offers most fundamentally is a set of money-management services. Providers offer simple loans, often coupled with basic savings accounts and a bit of insurance. These help customers to obtain the money they need in the right amounts at the right times – money for health care, schooling, housing, nutrition, transportation and unexpected emergencies (Morduch, 2013). Thus, Business investment is just one use of microloans among many. The move away from lending to farmers was a big step, but it’s now clear that the move could have gone further, abandoning the exclusive focus on business lending. Microfinance loans have always been described as business loans. But, the fact is, they look more like consumer loans – and that opens the way to thinking more broadly about the customer base. By tethering to self-employment, microfinance institutions prevent themselves from serving wage workers who may need financial services just as much as entrepreneurs (Morduch, 2013). In practice, microfinance instalments are paid from a combination of wage income, self-employment income and whatever other money can be put together by households. Recognizing this, some micro lenders gauge creditworthiness on the basis of household cash flows alone, without considering the viability of the enterprise. This means that loans have a good chance of being repaid even if investments fail—or if the investments are never made (Morduch, 2013).

### 2.2.6 Institutional framework & Microfinance

Cull, Demirgüç-Kunt, & Morduch (2014) examine the question whether the presence of banks affects the profitability and outreach of microfinance institutions. They found evidence that competition matters. Greater bank penetration in the overall economy is associated with microbanks pushing toward poorer markets, as reflected in smaller
average loans sizes and greater outreach to women. The evidence is particularly strong for microbanks relying on commercial-funding and using traditional bilateral lending contracts (rather than group lending methods favoured by microfinance NGOs). The data did not allow them to explore the specific mechanisms behind the results. From a theoretical perspective, the result could emerge because microfinance institutions find it difficult to maintain dynamic incentives (created by the credible threat to deny loans in the future to defaulters) when better-off customers gain opportunities to obtain financial access in the broader banking system. Cull, Demirgüç-Kunt, & Morduch (2014) suggest three lessons for the policy makers. First, empirical evidence suggest that there are systematic differences in the behaviours of particular types of microfinance institutions. Nonprofits respond to market pressure differently from for-profits. Those with a social orientation respond differently to regulations from those with a commercial ethos. Cull, Demirgüç-Kunt, & Morduch (2014) mentions that the evidence on competition here is particularly strong for if a regulator’s goal is to promote access to finance, regulating commercial banks can help through indirect channels. Specifically, their results suggest that regulation that affects the spread of the commercial banking sector can have (seemingly) beneficial positive spillovers by inducing commercial microfinance organizations to focus more sharply on poorer populations and women. Cull, Demirgüç-Kunt, & Morduch (2014) found that the microfinance organizations are economically responsive, and their forms can shift. In the absence of competition, commercialized microfinance tends to focus on better-off customers. But the focus shifts depending on the economic environment, and can move to a broader spectrum of customers (Cull, Demirgüç-Kunt, & Morduch, 2014).

A note on the dark side of microfinance by Hulme (2000a), focuses on the ‘downside’ of microfinance: on the way in which some microfinance activities can damage the prospects of poor people. He reminds those who provide micro financial services that there is a need to monitor carefully not only their positive impacts but also their negative effects. MFIs should look to the future, and not rest on their past laurels. Hulme (2000a) observes that the microfinance industry has ossified. It promotes group-based microenterprise loan products and is obstructing the development of the full range of services and products that poor people want and need—flexible savings, contractual savings, loans for education and health, micro insurance and lines of
credit. Hulme (2000a) in this note concludes that the microfinance industry should focus now of developing institutions that can create and provide the broad range of micro financial services that will support poor people in their efforts to improve their own and their children’s prospects.

The research study by Guha & Ghosh (2015) attempts to find out the correlation between institutional structure of MFIs and the benefits of the clients. In India, there is no unique legal framework for MFIs. There are four forms of institutionalised MFIs: NGO–MFIs are registered under the Indian Trusts Act 1882 and Societies Registration Act 1860, community-based MFIs are registered under the Cooperative Societies Act 1912 and the Mutually Aided Cooperative Societies Act 1995, NBFC–MFIs are registered under Section 25 of the Companies Act 1956, the RBI Act and the Formal Sector Bank under RBI Act (Guha & Ghosh, Institutional Framework of MFIs and Economic Benefit to Clients in Mumbai Slums, 2015). With this background it would be interesting to understand the relationship between institutional structure of MFI and the economic gains to the microfinance clients. The study points out that micro-entrepreneur always prefer to join community-based MFI for the incentive of dividend and low interest rate over the informal moneylenders and NBFC–MFIs. The same entrepreneurs prefer NBFC–MFI over informal moneylenders if this MFI charges lower interest rate than the informal moneylenders. From the empirical study, Guha & Ghosh (2015) concludes that micro-entrepreneurs accrue more economic gains if they borrow from the MFIs instead of informal moneylenders and earn high level of profit per sale ratio if they invest high start-up capital, bear low costs per month and borrow from any type of MFI. The younger MEs (Micro Enterprises) have a higher chance of achieving higher profit per sale ratio. The community-based MFI structure is found to be more suitable institutional structure of MFI that helps clients to achieve higher economic gain in terms of asset accumulation by the microfinance clients (Guha & Ghosh, 2015).
2.2.7 Impact assessment methodologies for microfinance

The paper by Mosley & Hulme (1998) reports on a research project which estimated the impact of 13 microfinance institutions in seven developing countries on poverty and other target variables, and attempted to relate such impact to the institutions’ design features. For each of the institutions studied, the impact of lending on the recipient household’s income tended to increase, at a decreasing rate, as the recipient’s income and asset position improved. The relationship which can easily be explained in terms of the greater preference of the poor for consumption loans, their greater vulnerability to asset sales forced by adverse income shocks and their limited range of investment opportunities. This relationship defines, in the short term, an “impact frontier” which serves as a trade off: lenders can either focus their lending on the poorest and accept a relatively low total impact on household income, or alternatively focus on the not-so-poor and achieve higher impact (Mosley and Hulme, 1998). The position and slope of the estimated impact curve vary however with the design of the institution: for “well-designed” schemes impact, at all levels of income, is higher than for ill-designed schemes. Hence for many lender institutions the trade off can often is resolved by appropriate innovations in institutional design, in particular modifications to savings, loan collection, and incentive arrangements for borrowers and staff (Mosley & Hulme, 1998).

Hulme (2000b) in the paper titled “Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice” argues that microfinance programmes and institutions are increasingly important in development strategies but knowledge about their impacts is partial and contested. This paper reviews the methodological options for the impact assessment (IA) of microfinance. Following a discussion of the varying objectives of IA it examines the choice of conceptual frameworks and presents three paradigms of impact assessment: the scientific method, the humanities tradition and participatory learning and action (PLA). Key issues and lessons in the practice of microfinance IAs are then explored and it is argued that the central issue in IA design is how to combine different methodological approaches so that a “fit” is achieved between IA objectives, programme context and the constraints of IA costs, human resources and timing. The conclusion argues for a
greater focus on internal impact monitoring by microfinance institutions (Hulme, Impact Assessment Methodologies for Microfinance: Theory, Experience and Better Practice, 2000).

Matin, Hulme, & Rutherford (2002) mentions that we need to design and deliver better financial products to the poor, especially the poorest. They argue that financial services for the poor are essentially a matter of helping the poor turn their savings into sums large enough to satisfy a wide range of business, consumption, personal, social and asset-building needs. The range of such ‘swaps’ should be wide enough to cater for short, medium and long-term needs, and they must be delivered in ways which are convenient, appropriate, safe and affordable. Providing poor people with effective financial services helps them deal with vulnerability and can thereby help reduce poverty (Matin, Hulmes, & Rutherford, 2002).

2.2.8 Empirical Evidence on impacts of microfinance

Using a large-scale clustered randomized trial that substantially expanded access to group lending in north-central Sonora, Mexico, Angelucci, Karlan, & Zinman (2014), provide evidence on impacts of expanded access to microcredit on credit use and a broad set of more-ultimate outcomes measured from household surveys of eligible borrowers and their businesses. They estimate impacts from an expansion of group lending at 110% APR (Annual Percentage Rate) by the largest micro lender in Mexico. Angelucci, Karlan, & Zinman (2014) conclude that average effects on a rich set of outcomes measured 18-34 months post expansion suggest no transformative impacts. They observed no large increase (or decrease) on household/business income, consumption, or wealth. Their results show modest effects on borrowers and prospective borrowers which helped Angelucci, Karlan, & Zinman (2014) to draw following inferences.

- Increasing access to microcredit increases borrowing and does not crowd-out other loans.
- Loans seem to be used for both investment—in particular for expanding previously existing businesses—and risk management
• There is evidence of average increases in business size, reliance on/need for aid, lack of depression, trust, and female decision making.

• There is little evidence of posited consequences from debt traps, such as asset sales, or of higher expenditure on temptation goods as a result of access to credit (Angelucci, Karlan, & Zinman, 2014).

Bauchet, Morduch, & Ravi (2015) report on an asset transfer programme aimed at ultra-poor households in rural India, part of a set of pilot programmes designed to test efficacy in different sites and conditions. They have analysed a randomized trial of an innovative anti-poverty programme in South India, part of a series of pilot programmes that provide “ultra-poor” households with inputs to create new, sustainable livelihoods (often tending livestock). The programme aims to permanently shift ultra-poor households' living conditions by providing resources (including training, an asset, and other support) intensively but for a limited time, rather than simply providing an ongoing safety net. The basic idea of the programme was for households to establish a microenterprise with a regular cash flow such that they can move out of extreme poverty. Over the 18 months of the programme, households received support in the form of incentive. Bauchet, Morduch, & Ravi (2015) found no significant long term net impacts of the programme on income and asset accumulation of ultra-poor households. Even though, the data were imperfect, but the results were robust to a series of checks and alternative specifications. According to Bauchet, Morduch, & Ravi (2015) taken as a whole, the study showed that the programme helped some households create new livelihoods as intended. The study also showed that the treatment group engaged less in the labour market, creating an offsetting impact on income and time use. The region had depended most heavily on wage labour before the intervention, and during the study period wages in agricultural labour markets were rising steadily. This created the context for displacement. Bauchet, Morduch, & Ravi (2015) found that all households with available labour (whether in the treatment or control groups) were able to substantially improve their economic conditions. Households in the treatment group, though, had the choice to either participate in the ultra-poor programme or work more intensively in the labour market. Bauchet, Morduch, & Ravi (2015) concluded that while 70% of eligible households opted to participate in the programme and 89% of these were given
livestock, a large number of them later dropped out of the programme. The strong labour market created incentives for households in the treatment group to sell their assets, pay off debt, and turn to wage labour. Thus, the central findings of their study was that wages for unskilled labour rose sharply in the area while the study was implemented, blunting the net impact of the intervention and highlighting that treatment effects depend on factors external to the intervention itself, such as broader employment opportunities (Bauchet, Morduch, & Ravi, 2015).

The meta analysis and the two recent systematic reviews of existing evidence on the effectiveness of micro-credit carried out by Yang & Stanley (2012), highlight that the existing programmes and/or the research that evaluates them have been poorly designed and current micro-credit programmes have very small or no effects on the income of their participants. They suggest that the microfinance programmes will remain ineffective unless accompanied by significant training, support or empowerment components. A marginal increase in the availability of small loans, by itself, is unlikely to cause a notable reduction in poverty (Yang & Stanley, 2012).

2.2.9 Social Mission of Microfinance Institutions

Hulme & Maitrot (2014) argues that microfinance in South Asia, like mainstream finance in North America and Europe, “has lost its moral compass”. Urgent action is needed, particularly from the leaders of the microfinance industry, to refocus their organizations and workforce on achieving both financial and social performance targets. Microfinance institutions (MFIs) have increasingly focussed on financial performance and have neglected their declared social mission of poverty reduction and empowerment. Loans officers in the field are under enormous pressure to achieve individual financial targets and now routinely mistreat clients – especially poor women. The values of neo-liberal mainstream finance in the rich world have spread to microcredit in the villages of Bangladesh and India (Hulme & Maitrot, 2014). This paper has highlighted the significance of MFIs increasingly focussing purely on financial performance in their management systems. In effect, many MFIs have “neo-liberalised” themselves since the late 1990s. Their activity is programmed almost entirely by market-based forces and they have abandoned their moral compass. Two
specific factors can be identified as supporting this neo-liberalisation: the fostering of links between mainstream finance and microfinance and the promotion of organisational norms that focus only on financial performance (Hulme & Maitrot, 2014). As MFIs have moved upstream to access funds from global financial markets then financial performance (size of portfolio, Portfolio at Risk (PAR), return on assets, repayment rate, profit/surplus) has shaped staff behaviour in ways that contradict the social missions MFIs proclaim. The neo-liberalisation of the mainstream finance sector that began in the London and New York in the 1980s has now contaminated microfinance in rural Bangladesh and India (Hulme & Maitrot, 2014).

Hulme & Arun (2011) mentions that despite charges of poor treatment of clients, exaggeration of the impact on the poorest as well as the risks of credit bubbles, the microfinance sector can play an important role in reaching financial services to low-income households. In regulating the (Indian microfinance) sector, there is need for caution in setting interest rate ceilings on micro-loans and for greater openness to micro-savings products.

2.3 Entrepreneurship in Economic Theory

Hébert & Link (1989) classify entrepreneurial theories (in a dynamic framework) into three major intellectual traditions, each tracing its origin to Richard Cantillon (1680 - 1734). These three traditions may loosely be grouped as the German Tradition (Thünen-Schumpeter), the Chicago Tradition (Knight-Schultz), and the Austrian Tradition (Mises-Kirzner-Shackle).

Hébert & Link (1989) elaborate on the Scumpeter’s theory and state that for Schumpeter, the circular flow is a mere foil. The really relevant problem is not how capitalism administers existing structures, but how it creates and destroys them. This process — what Schumpeter called "creative destruction" — is the essence of economic development. In other words, development is a disturbance of the circular flow. It occurs in industrial and commercial life, not in consumption. It is a process defined by the carrying out of new combinations in production. It is accomplished by
the entrepreneur (Hébert & Link, 1989). The theory maintained that the essential function of the entrepreneur is distinct from that of capitalist, landowner, labourer, and inventor. According to Schumpeter, the entrepreneur may be any and all of these things, but if he is, it is by coincidence rather than by nature of function (Hébert & Link, 1989).

Hébert & Link (1989) further explains Schultz's contribution. It consists of two major advances. First, he redefined the concept of entrepreneurship as "the ability to deal with disequilibria," and extended the notion to nonmarket activities (e.g., household decisions, allocation of time, etc.) as well as market activities. Second, he has produced evidence on the effects of education on people's ability to perceive and react to disequilibria. This human capital approach to entrepreneurship rejects the idea of entrepreneurial rewards as a return to risk. Schultz chooses to define entrepreneurship as the ability to deal with disequilibria rather than the ability to deal with uncertainty, risk does not enter prominently into his concept (Hébert & Link, 1989).

Israel Kirzner defines the essence of entrepreneurship as alertness to profit opportunities. Kirzner emphasizes the quality of perception, recognizing an opportunity that is a sure thing: whereas in reality every profit opportunity is uncertain. Kirzner's best known case for illustrating alertness is that of the arbitrageur, the person who discovers the opportunity to buy at low prices and sell the same items at high prices, because of differences in inter temporal or inter spatial demands. In these cases, Kirzner's entrepreneur requires neither capital, as does Mises's entrepreneur, nor imagination, as does Shackle's enterpriser (Hébert & Link, 1989).

The crucial role of the entrepreneur in economic theory was first and foremost recognized by Richard Cantillon (Hébert & Link, 1989). Cantillon argued that the origin of entrepreneurship lies in the lack of perfect foresight. Individuals cannot know the future and/or its impact on economic life. Cantillon did not, however, consider this lack of foresight a defect of the market system; rather he accepted it as part of the human condition. Uncertainty is a pervasive fact of everyday life, and those who must deal with it continually in their economic decisions are entrepreneurs (Hébert & Link, 1989). Cantillon's entrepreneur is someone who engages in
exchanges for profit; specifically, he exercises business judgements in the face of uncertainty. Cantillon broke with convention in emphasizing the economic function of the entrepreneur over his/her social status. Social standing is irrelevant to Cantillon's notion of entrepreneurship. In fact, he went so far as to identify even beggars and robbers as entrepreneurs, provided they take chances (i.e., face economic uncertainty). Cantillon stressed the function, not the personality of the entrepreneur. He generalized the function of the entrepreneur so that it embraced many different occupations and cut across production, distribution, and exchange (Hébert & Link, 1989).

According to Hébert & Link (1989) the entrepreneur is someone who specializes in taking responsibility for and making Judgemental decisions that affect the location, form, and the use of goods, resources, or institution. This definition is 'synthetic' because it incorporates the main historical themes of entrepreneurship: risk, uncertainty, innovation, perception, and change. It accommodates a range of entrepreneurial activities within a market system, including but not limited to: coordination, arbitrage, ownership, speculation, innovation and resource allocation. It does not deny that entrepreneurship is typically mixed with other forms of economic activity, but it holds nevertheless that the essence of entrepreneurship can be conceptually isolated and separately analyzed.

According to Grieco (2007) the various existing interpretations and strands of research related to entrepreneurship can be grouped in several ways. Among the others, Bull et al. (1996) suggest five broad categories: literature that is not directly concerned with the theory, but that focuses on the attempt of providing a definition for the word “entrepreneur”; analyses of the psychological traits of individuals defined as entrepreneurs; investigations on the formation of new ventures; studies on the strategies recognized as crucial to explain the success of business ventures; works on the environmental factors affecting entrepreneurial actions (Sorrentino, 2003).

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However, entrepreneurship is still “one of the most elusive and least understood forms of economic behaviour” (Eboli, 1997)\(^22\).

Baumol (1968) suggested that a careful study of the rewards of entrepreneurship is very important. Without awaiting a change in the entrepreneurial drive exhibited in our society, we can try to focus on how one can stimulate the volume and intensity of entrepreneurial activity. Baumol (1968) makes a distinction between the entrepreneurial and the managerial functions. According to Baumol (1968), the manager is the individual who oversees the ongoing efficiency of continuing processes. It is his task to see that available processes and techniques are combined in proportions appropriate for current output levels and for the future outputs that are already in prospect. He sees to it that inputs are not wasted, that schedules and contracts are met, he makes routine pricing and advertising outlay decisions, etc. In short, he takes charge of the activities and decisions encompassed in our traditional models. Baumol (1968) explains that the entrepreneur has a different function. It is his job to locate new ideas and to put them into effect. He must lead, perhaps even inspire, he cannot allow things to get into a rut and for him today's practice is never good enough for tomorrow. In short, he is the Schumpeterian innovator and some more. He is the individual who exercises "leadership." Baumol (1968) accepts the role of favourable social & psychological climate for increasing the supply of entrepreneurs in our society. Economic theory cannot effectively deal with the determinants of the supply of entrepreneurs because the supply of entrepreneurs is assumed to be exogenous in the traditional model of the firm. But economic policy framework can lead to the encouragement of the entrepreneur which is the key to the stimulation of growth. Thus Baumol (1968) concludes that we may not be able to analyze in detail the supply of entrepreneurship, the entrepreneur's strategy choices, his attitudes to risk, or the sources of his ideas. But one can examine fruitfully what can be done to encourage his activity. The policies that encourage entrepreneurship may consider not the means which the entrepreneur employs or the process whereby

he arrives at his decisions but should examine instead the determinants of the payoff to his activity (Baumol, 1968).

Arthur H. Cole (1946) in his speech paying homage to Professor Edwin F. Gay, First President of Economic History Association titled “An Approach to the Study of Entrepreneurship: A Tribute to Edwin F. Gay” mentions that Jean-Baptiste Say had suggested David Ricardo to distinguish the entrepreneur clearly from the other agents of production. But Ricardo had neglected the term entrepreneur in Ricardo’s Principles. Say had formalized the term "entrepreneur" and given it definition some fifteen years before Ricardo’s Principles appeared. According to Cole (1946), entrepreneurship may be described as follows: the integrated sequence of actions, taken by individuals or by groups operating for individual business units, in a world characterized by a large measure of uncertainty, such actions being modified in greater or less degree by contemporary economic and social forces. This sequence of actions is intended to increase the residual element in business income for those business units, namely, profits, or to achieve some other business gain, for example, power, efficiency, or the survival and growth of these units (or the avoidance of loss). Thereby an advantage or satisfaction is hoped for (directly or indirectly, immediately or shortly) by those planning and executing these actions either for themselves or for the institutions with which they are affiliated and have identified themselves.

As mentioned by Cole (1946) in his speech, the three main driving forces of entrepreneurial activity are innovation, management, and the adjustment to external forces. Entrepreneurial activity includes the following phases:

1. The determination of the business objectives of the enterprise and the change of those objectives as conditions require or make advantageous,
2. The development and maintenance of an organization, including efficient relations with subordinates and all employees,
3. The securing of adequate financial resources, the retention of them, and the nurture of good relations with existing and potential investors,
4. The acquisition of efficient technological equipment, and the revision of it as new machinery appears,
5. The development of a market for products, and the devising of new products to meet or anticipate consumer demands,
6. The maintenance of good relations with public authorities and with society at large.

In any of these phases of entrepreneurial activity there is constant need for decisions. In every phase there is opportunity for innovation, management, and the adjustment to external conditions, including alterations. It is through these avenues of operation that entrepreneurial power functions. Thus, in brief, we have at the base of our pyramid a half-dozen lines or avenues of activity—from organizing the enterprise to getting along with the general public. The actions in response to the three driving forces along any of the six lines are the resultant of executive decisions (either taken by the individual or by the group) at or near the top of individual business units. These decisions are made in response to diverse psychological imperatives and are conditioned by various and changing environmental forces (Cole, 1946). Thus Cole concludes that to study the “entrepreneur” is to study the central figure in modern economic history, and the central figure in economics. A study of entrepreneurship in its historical setting provides an opportunity to synthesize the work going forward in economics and in business administration, in economic history, business history, and social history, in the history of entrepreneurial thought and the history of social thought. Entrepreneurial history stands open to the present generation of research workers, almost unworked. The study of entrepreneurship offers a rich opportunity from the fact, suggested in the definition of the economic function, of the entrepreneur, “an individual or group operating for an individual business unit” takes an “integrated sequence of actions”. The entrepreneur, whether individual or multiple, does not “decide” in the abstract, “adjust” in the abstract, innovate, or maintain an organization in the abstract. Always such actions are taken relative to concrete living institutions, and therefore they can best be examined in concrete historical settings.

Evans (1949), try to distinguish the activities of the three types of entrepreneur—the managing, the innovating, and the controlling entrepreneur, but he had not made isolated studies of each for due to the lack of purity in types and the possibility of shifting from one type to another. Entrepreneurs who are predominantly of the
innovating and the controlling types are rather difficult to study because of both the wide range of their operations and the uniqueness of many of their decisions. The entrepreneur who is essentially a manager, trying to conserve the gains achieved by others, might, however, be expected to act in a more predictable manner. According to Evans (1949), in spite of the difficulties, we should strive for a fairly definite set of rules of entrepreneurship concerning the following: the choice of products, methods of production, determination of current input and output, size and location of plant, mobility of investments, relations with competitors, marketing procedures, relations with government, and relations between entrepreneurs within a single business. The breakdown of the problem cannot, however, stop there. Actions concerning these matters cannot be expected to be the same in all situations: in all phases of the business cycle, for business units of different size, for growing as well as contracting units, in progressive, stationary, and declining industries, and in peace and war. All this indicates a most complicated problem, which can become even more complex if one takes cognizance of the changing personal situations under which the entrepreneur operates (Evans, 1949).

Leff (1979), conclude that earlier theoretical concerns that lack of entrepreneurship would prove a serious barrier for economic development have turned out to be much exaggerated. In an ideal-type market system, without uncertainty, factor-market imperfections, and externalities, entrepreneurship would not be necessary. These conditions are clearly not satisfied in the LDCs. But government interventionism and the Groups (which internalize uncertainty, information, and factor-market flows) have emerged to substitute both for a perfect market and for pure entrepreneurship. The problem has now become the new economic distortions, social imbalances, and political dissension engendered by successful entrepreneurial performance in the context of LDCs. As a result of this transformation, Schumpeter's Capitalism, Socialism and Democracy (1942) has become more relevant for many current LDCs than the entrepreneurship sections of his Theory of Economic Development (1934). Recognition that public and private responses have largely overcome the original problems of entrepreneurship has permitted a new perspective on the nature of the development problem. Most importantly, it has become clear that economic development in most current LDCs can proceed without these countries having to wait
for a psycho-cultural transformation that would increase the supply of entrepreneurs (Leff, 1979).

2.4 Determinants of Entrepreneurship

Theories that assign the entrepreneur non-routine functions recognize in him the presence of very peculiar personal traits: attitude in coping with uncertainty for Knight\textsuperscript{23}, alertness for Kirzner\textsuperscript{24}, creativeness for Schumpeter\textsuperscript{25}, imagination for Shackle\textsuperscript{26}. The determinants of the entrepreneurial decisions do not lie in the expectation of maximizing a wealth depending on the characteristics of a temporary disequilibrium of the market, but in the individual manifestation of specific attitudes. These traits might be linked to an agent’s preferences (as happens for their willingness to bear risk) or to his ability in making use of information (Grieco, 2007). The literature explicitly related to entrepreneurship has been classified according to decision making criteria, theories have been grouped on the basis of the fact that a part of them (the older ones) assign the entrepreneur only routine functions concerned with coordination, while the other attributes a non-ordinary role to the entrepreneur, who should exhibit peculiar personal traits linked to his preferences or inferential skills. The former group sheds light on the contextual determinants of the entrepreneur’s choice: the entrepreneurial decision is stimulated by the entrepreneur’s expectation of maximizing wealth in dependence of the possibility of optimally allocating resources, the latter focuses on the characteristics of the “entrepreneurial type” and consequently on internal aspects. The synthesis operated by scholars like Casson\textsuperscript{27} in shifting the


accent on the relationship between agents’ incomplete information and market opportunities allows to account for both demand and supply of entrepreneurship (Grieco, 2007).

Acs, Desai, & Hessels (2008), contribute to the understanding of the nexus among entrepreneurship, economic development and institutions. Acs, Desai, & Hessels (2008), illustrated that institutional arrangements, including educational provisions, social security arrangements and other businesses, may affect various types of entrepreneurial activity directly or indirectly. Also, their paper illustrate that the impact of institutional arrangements on various types of entrepreneurial activity may differ depending on country level of economic development and even on the type of "entrepreneurship" measure examined. They highlight the critical importance of the nature of entrepreneurship for example, formal versus informal -and the ultimate purpose and effects of the activities -for example, necessity, opportunity, export-oriented, etc. For countries in the innovation-driven stage the results highlight that policy makers can positively affect entrepreneurship, including several ambitious types of entrepreneurship, by fostering entrepreneurship education and training, by stimulating outward FDI (Foreign Direct Investment) and international trade to facilitate export spillovers and by supporting role models. Countries in the factor-driven stage should work towards the efficiency-driven stage by focusing on achieving stable institutional and macro-economic environments and by increasing entrepreneurial capacity, e.g., by enabling individuals and businesses to absorb knowledge spillovers. Acs, Desai, & Hessels (2008), reveal that complex interdependencies may exist between individual level factors, such as opportunity perception and start-up motivations on the one hand, and between national environmental or institutional conditions on the other hand. In particular, the results suggest individual-level perceptions and motivations can have a mediating role between national environmental conditions on the one hand, and levels of entrepreneurial activity in general and ambitious entrepreneurial activity, on the other hand (Acs, Desai, & Hessels, 2008). The examination of institutional and environmental conditions is especially useful for public policy planning because they are more quickly sensitive to policy reforms, whereas individual-level factors may require more time to be affected by public policy (Acs, Desai, & Hessels, 2008).
This part of the chapter divides literature related to the determinants of entrepreneurship into two sections. Section 2.4.1 covers developed world & section 2.4.2 deals with the developing world.

2.4.1 Determinants of Entrepreneurship in the Developed World

Grilo & Thurik (2004) use an Eclectic Framework explaining entrepreneurship incorporating different streams of literature and spanning different disciplines. The Eclectic Framework integrates factors shaping the demand for entrepreneurship on the one hand, with those influencing the supply of entrepreneurs on the other hand. It also creates insight into the role of public policy identifying the channels through which the demand or the supply of entrepreneurship can be shifted. In its empirical part the paper estimates a multinomial logit using survey data from the 15 EU member states, Norway, Iceland, Liechtenstein and the US to establish the effect of demographic and other variables on various entrepreneurial engagement levels. Data of two Entrepreneurship Flash Euro barometer surveys (2003 and 2004)\textsuperscript{28} containing over 20,000 observations are used. Other than demographic variables, the set of explanatory variables used includes the perception by respondents of administrative complexities, of availability of financial support, a rough measure of risk tolerance, the respondents’ preference for self-employment and country specific effects. The most striking result is that the perception of lack of financial support has no discriminative effect across the various levels of entrepreneurial engagement. According to Grilo & Thurik (2004) the Entrepreneurship is a multidimensional concept: its definition depends largely on the focus of the research undertaken.

\textsuperscript{28} The European Commission’s Directorate-General "Enterprise and Industry" has been studying the development of entrepreneurship in EU Member States for over a decade through a survey on entrepreneurial mindsets. The results help EU policy makers to understand problems and develop future policy responses, in particular in the European Commission's Europe 2020 strategy. The latest edition of the survey - “Entrepreneurship in the EU and beyond” - covers the 27 countries currently comprising the EU, as well as the EEA/EFTA countries (Norway, Iceland, and Switzerland), and 10 more non-EU countries; for the first time Brazil, Israel, India and Russia.
Verheul, Stel, & Thurik (2005) deal with the methodological aspects of investigating (female) entrepreneurship. They distinguish between two measures of female entrepreneurship: the number of female entrepreneurs and the share of women in the total number of entrepreneurs. The first measure is used to investigate whether variables have an impact on entrepreneurship in general (influencing both the number of female and male entrepreneurs). The second measure is used to investigate whether factors have a differential relative impact on female and male entrepreneurship, i.e., whether they influence the diversity or gender composition of entrepreneurship. Findings based on Global Entrepreneurship Monitor, (2002) data for 29 countries, indicate that – by and large – female and male entrepreneurial activity rates are influenced by the same factors and in the same direction. However, for some factors (e.g., unemployment, life satisfaction) they find a differential impact on female and male entrepreneurship. This study also shows that the factors influencing the number of female entrepreneurs may be different from those influencing the share of female entrepreneurs. In this light it is important that governments are aware of what they want to accomplish (i.e., do they want to stimulate the number of female entrepreneurs or the gender composition of entrepreneurship) to be able to select appropriate policy measures (Verheul, Stel, & Thurik, 2005). From a conceptual perspective this paper brings together several streams of literature and discusses the influence on (female) entrepreneurship of a large range of factors that are classified into five focal areas (i.e., technological, economic, demographic, institutional and cultural factors). From an empirical viewpoint this study shows the methodological implications of studying the determinants of female and male entrepreneurial activity. It is mentioned in the paper that there are different ways to measure female entrepreneurship at the macro-level (i.e., in absolute or relative terms). Findings in the study also indicate that there may be a considerable share of (particularly female) entrepreneurs active in the informal sector, especially in less developed countries. To be able to provide full understanding of the reasons why women become self-employed, future research exploring female entrepreneurial motivation should take into account both formal and informal economic sectors (Verheul, Stel, & Thurik, 2005). According to Verheul, Stel, & Thurik (2005) unemployment has a different effect on female than on male entrepreneurship. Hence, it may be interesting to study the mechanisms of the career choice of unemployed people. For instance, the effect of
unemployment on the self-employment decision is likely to be dependent upon the reasons for unemployment, where a distinction can be made between voluntary unemployment (e.g., because of maternity leave, child and elderly care) or involuntary unemployment (e.g., because of company downsizing).

Audretsch (2003) highlights those aspects of the entrepreneurship that can serve as a guiding light to direct policy makers in understanding the issues, the debates, the most important questions and issues. The paper begins by addressing the question of how entrepreneurship is understood and defined at the conceptual level. While it is clear that no singular definition of entrepreneurship exists, most studies conclude that it centres around the process of change. It provides an explanation of the evolution of entrepreneurship and why it has become more important in recent times. The links between entrepreneurship and economic performance are considered across a variety of units of analysis, spanning from the firm, to the region and the country. Performance measures include employment generation, growth, survival, innovation, productivity, and exports. Audretsch (2003) concludes that regardless of the unit of analysis and performance measure, the relationship between entrepreneurship and economic performance is remarkably robust. He also focuses on the determinants of entrepreneurship. Examining factors shaping the extent of entrepreneurial activity is important because it provides insights as to how policy could be used to promote entrepreneurship. In particular, the determinants of entrepreneurship are considered at the level of the individual, the enterprise, the region and the country. Finally he specifies the role of public policy. Two important policy distinctions are made. The first is that, in contrast to the prevalent public policy approach in the Post World War II era restraining enterprises, the new policy focuses on enabling rather than constraining economic actors. The second is that entrepreneurship policy has an orientation that is distinct from traditional SME or small business policy.

Parker (2004) mentions in his book that economists regard entrepreneurial ability and willingness to take risks as key factors determining who becomes an entrepreneur. Much work on estimating structural models to identify the empirical importance of these factors is not yet done but we know a fair amount about the specific characteristics of entrepreneurs. They often come from families with a tradition of
self-employment or business ownership; they are on average older, reasonably well educated and more likely to be married, and are generally over-optimistic about their prospects of success. Non-pecuniary factors appear to be more important than pecuniary factors in explaining why people choose to be entrepreneurs (Parker, 2004).

The study conducted by Roomi, Harrison, & Beaumont-Kerridge (2009) attempts to understand the nature and activities of growth-oriented women-owned businesses in the East of England by highlighting the problems faced by women entrepreneurs during the growth process. Their research indicates that most do not opt to develop growth-oriented businesses, choosing instead small, non-scalable, locally focused businesses providing services or operating in low-tech industries. Women who are growth-oriented appear to be inhibited due to a lack of access to, and control over such resources as, capital, business premises, information and technology, production inputs, appropriate childcare, qualifications, experience, training facilities and appropriate assistance from business development agencies. Non-effective accumulation and use of social capital hinders access to appropriate decision-making circles, and limits the probability of accessing critical management and financing resources, especially through the venture capital industry. This research has implications for government or other business development agencies seeking to understand the growth patterns and problems of women-owned enterprises in the East of England (Roomi, Harrison, & Beaumont-Kerridge, 2009).

According to Henry (2008) women as entrepreneurs make a valuable contribution to national economies around the world in terms of job creation, economic growth, and wealth generation. Contrary to traditional perceptions about women entrepreneurs starting mainly small and home-based enterprises, it has also been reported that women are now leading the so-called “new economy companies,” with success in high technology, life sciences, and professional services. Thus, the need to increase their participation in the enterprise arena is becoming more important. A major theme in the literature on women's entrepreneurship has been the barriers and challenges they face in their efforts to engage in entrepreneurship. Under this heading, the discussion covers the traditional role of women and their networking practices, access to finance, the tendency to undercapitalize their business, and growth perceptions
According to J. Watkins and D. Watkins (1984), the contribution that women make to the business sector was not actually recognized until the mid 1980s. This was when a number of studies relating to gender-specific barriers in entrepreneurship, motivation for starting a business, and comparisons with male entrepreneurs started to appear in the literature. Since then, studies on women's entrepreneurship have dealt with a wide range of topics, including those pertaining to characteristics and management style, entrepreneurial background, confidence and risk orientation, growth and financing strategies, policy and support, and the range of challenges facing both aspiring and established women entrepreneurs. The overriding message from all these studies is that while entrepreneurs share a number of core characteristics and challenges, women and men are different in their approach to entrepreneurship and, generally speaking, this is reflected in the type and size of businesses that women set up and in their growth aspirations. Such differences, while not always accounted for in policy and support initiatives, need to be recognized and accommodated if a steady supply of entrepreneurs is to be maintained and the growth of the economy is to be fully exploited. Henry (2008) cites the research in the United States by Langowitz (2001) and mentions that women led businesses have a tendency to be small-scale ventures that are non growth oriented, risk adverse, and undercapitalized. Indeed, they have often been negatively categorized as “lifestyle” or “typical women's businesses.” However, research in the United States by Langowitz (2001), among others, has provided evidence that women are also setting up and running the so-called “new economy” companies with highly successful ventures in non traditional sectors such as high tech and construction (Henry, 2008).

Susan Hanson (2009) tries to understand how women are using entrepreneurship to change their own lives and those of others and, in the process, are also changing the places where they live. Entrepreneurship is most often thought to change places by bringing employment, boosting exports, and increasing the tax base. While recognizing the importance of these contributions of entrepreneurship to places, Susan


Hanson had considered how women’s entrepreneurship has the potential to change places in other ways, such as through impacts on the quality of life of the community (including expanded opportunities for women) or by bringing about shifts in gender relations. Her primary interest in this article was to show how entrepreneurship can be a means of reducing gender-based inequality. As cited by Susan Hanson, the Global Entrepreneurship Monitor (GEM) study, which has been collecting data from around the world since 1999, offers a global overview of women’s entrepreneurship (Allen, Langowitz, and Minnitti, 2006) examined people’s motives for entrepreneurship, distinguishing between those who “want to exploit a perceived business opportunity (opportunity entrepreneurs)” and those who “are pushed into entrepreneurship because all other options for work are either absent or unsatisfactory (necessity entrepreneurs)” (Allen, Langowitz, and Minnitti, 2006). Although most early-stage entrepreneurs everywhere see themselves as opportunity driven, the proportion of entrepreneurs who are motivated by necessity is higher (especially among women) in low-/middle-income countries than in high-income countries (Hanson, 2009).

Giannetti & Simonov (2004) reviews the literature on the determinants of entrepreneurial activity and investigates to what extent differences in population, business environment and cultural values contribute to explaining differences in entrepreneurial activity across Swedish municipalities. Individual characteristics and business environment are the most important factors in explaining entrepreneurial choice. However, they found that cultural values and, most likely, social norms also matter. Local cultural values and the level of entrepreneurial activity affect the decision to become an entrepreneur. The evidence suggests that where the culture makes entrepreneurial activity attractive, more individuals become entrepreneurs even though entrepreneurial profits are lower. The results discussed suggest that some of the observed differences in entrepreneurial activity may be explained by social norms which, for instance, make different professions desirable and well regarded in different communities (Giannetti & Simonov, 2004).

2.4.2 Determinants of Entrepreneurship in Developing World

Anita Spring (2009) discusses the entrepreneurial landscape in Africa considering both the formal and informal sectors. It examines whether there can be mobility within and between sectors and whether upward movement, as seen elsewhere, is possible for most African entrepreneurs. The landscape displays the range of women entrepreneurs from traditional microenterprises to large informal-sector traders, from small- to large-scale formal-sector companies, as well as emerging globalists (the “new generation of African entrepreneurs”). Findings show the informal formal distinction is useful to disentangle the landscape, but that movement between informal sector categories is not substantial because of the entry requirements of education, capital, business networks, etc. Similarly, within the formal sector of small to large businesses, limited access to capital, networks, market niches, and product innovation hinders upward mobility for most. As cited by (Spring, 2009) the majority of women-owned enterprises are micro- and small-scale ones in the informal sector (Aspaas, 1998; Daniels, 1994, 1998; Daniels, Mead, and Musinga, 1995). Dual economies are a reality of the African landscape, but the boundaries are unclear. There is no conclusive definition of the informal sector, although the term has been in existence since the 1970s when Hart (2001) called it the self organized energies of people escaping government strictures. “Informal” usually refers to unregistered, unregulated, and untaxed businesses, including service enterprises, production activities, and street vendor sales. By contrast, the formal sector includes taxed,

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registered, and regulated businesses. Spring and McDade (1998) used this distinction in their book, African Entrepreneurship: Theory and Reality. But the distinctions are not so clear-cut. Movement upward is possible but depends on where women start and a variety of other factors: their educational and employment experience, business skills, capital sources, business skills, and luck. The informal-formal distinction is useful to disentangle the entrepreneurial landscape; in reality, there is fluidity but with limitations. Movement backward from the formal to the informal for failed businesses and retrenched workers occurs, and companies may find suppliers in the informal sector. But there is not a substantial movement from the informal to the formal sector because of the entry requirements of capital, education, networks, etc. Within the informal sector, the mobility from micro- to larger enterprises is rare and depends on capital and networks rather than on innovation and new products (Spring, 2009).

Booyens (2011) examines the relationship between innovation activity and firm size in the South African context. Based on data from the National Innovation Survey (2002–2004) the paper looks in particular at the nature of innovation by small, medium- and micro-sized enterprises (SMMEs). The main finding was that the innovation rate of SMMEs is relatively high, with small enterprises reporting the highest innovation rate. A limited dependent variable regression, however, determines a negative statistically significant relationship between the probability to innovate and firm size. SMMEs are therefore not more innovative than large enterprises in South Africa. This paper identifies innovative entrepreneurs and micro enterprises as important foci for entrepreneurship and innovation policy. The purpose of this study was to examine the nature of SMMEs’ innovation, investigate the relationship between the propensity to innovate and firm size in South Africa, and explore what this means for entrepreneurship and innovation policy.

Botha, Nieman, & Vuuren (2007) measure the effectiveness of the Women Entrepreneurship Programme (WEP) after the respondents had been through the training intervention. The findings highlight the WEP delegates’ acquisition of new entrepreneurial skills and knowledge. Furthermore, the respondents reported an increase in the number of employees, turnover, productivity and profit. It was statistically proven that the WEP is effective in training potential, start-up and established women entrepreneurs in South Africa.

Smith & Perks (2006) in their article outlines the results of a qualitative study, which investigates the nature of training interventions needed for developing black micro entrepreneurial skills in the informal sector. Four main types of entrepreneurial skills were identified, namely personal, technical, business operations and management skills. Of all the entrepreneurial skills, the lack of management skills appears to be the most obvious. The results of some of the personal skills, which could also be regarded as management skills (e.g. being a good organiser, problem-solving, leadership abilities, decision-making, delegation and team building) indicate the need for some form of training intervention to acquire these skills. The results of the control group confirm the need for training interventions to develop these entrepreneurial skills.

Morewagae, Seemule, & Rempel (1995) mentioned that the restricted access to formal sector sources of credit is a primary constraint to micro-enterprise development. The problem is especially acute for women and for would-be entrepreneurs with limited formal schooling. As a result, these owner-operators rely primarily on their own resources or on informal sources of credit to both start a business and to expand an existing business. The Botswana data portrays the existence of financial institutions with a mandate that includes lending to and supporting small businesses does not change significantly the basic difficulties faced by the micro-enterprises in urban and village locations in Botswana. At the initial stages of investment the financial institutions play an insignificant role in the financing of the non-formal activities of micro-enterprises. Commercial sources of credit, however, are identified as potential sources of finance at later stages of development of micro-enterprises. The Botswana experience indicates that the overall availability of funds for investment is not the
primary cause of the financial constraints faced by micro-enterprises. Rather, institutional and programme faults are the main cause (Morewagae, Seemule, & Rempel, 1995).

Chirwa (2008) mentioned that women are increasingly venturing into ownership of micro and small enterprises, either on their own or in partnership with male entrepreneurs. Using national survey data from Malawi, this study compares the performance of enterprises owned by females with those owned by males. The results show that the relationship between gender and business performance is complex. While there are no significant differences in profit margins, female-owned enterprises tend to grow more rapidly in terms of employment than male-owned ones. Gender-based regression results also show that while there are common factors that affect the performance of both kinds of enterprise, there are also differential effects in which education is a critical factor for the success of female-owned enterprises.

Ekpe, Mat, & Razak (2011) examine the effect of individual attributes and business environment factors on the entrepreneurial activity of women entrepreneurs. Individual attributes such as education, working experience, attitude towards risk-taking, affect women entrepreneurial activity. Economic constraints such as lack of credit due to lack of asset collaterals and socio-cultural barriers, lack of savings due to low household income, and lack of labour skills due to low educational level also affect women entrepreneurial activity. The effect of these factors on entrepreneurial activity is worth studying because entrepreneurship development is considered a vital link to an overall economic growth of a nation through its positive impact on economic development especially at the grassroots. The paper is a descriptive study that reviews literature on individual attributes and environment factors on women entrepreneurial activity. The paper concludes that environment factors exert much more influence on women entrepreneurial activity than individual attributes. This paper is limited to a literature review that need further research by using a framework to investigate the factors on entrepreneurial activity. It shows the need for the government to support entrepreneurs through adequate provision of micro-finance (Ekpe, Mat, & Razak, 2011).
Williams & Gurtoo (2011) evaluate critically whether the women were necessity entrepreneurs participating in low paid, menial and exploitative work due to the absence of an alternative means of livelihood. Their findings reveal that both necessity and choice are co-present motives for the women entrepreneurs. They found that the women entrepreneurs may have entered the informal system due to economic necessity; many now operate within this sector as a rational economic choice. Social and informal institutional arrangements of credit, space and tradition were found to be significant drivers of their choice.

Female entrepreneurship is considered an important tool in enabling female empowerment and emancipation. Anwar & Rashid (2012) looks at the literature around female entrepreneurs, focusing on female entrepreneurship in the developing world - and more specifically in Pakistan - and proposes a conceptual framework of the phenomenon. This paper tries to analyze the phenomenon of female entrepreneurship especially with regards to motivations, constraints and consequences. The paper concludes that the overall entrepreneurial activity is pretty low in Pakistan and female entrepreneurship activity rate is even lower. It is crucial to research home-based as well as non-home-based female entrepreneurs in order to get an accurate picture of the status of female entrepreneurs in Pakistan. Especially with relation to the former, there is a dire need to give a voice to these faceless and voiceless females who play a big – yet in general unseen – role towards making a household financially stable. More research is needed in both the urban and rural areas of Pakistan to understand the phenomenon of female entrepreneurship also to understand the differences in home-based versus non-home-based female entrepreneurs (Anwar & Rashid, 2012).

O’Neill & Viljoen (2001) mentions that urban migration, especially in developing countries, is virtually unstoppable and that social and community dynamics will have no other option but to go with the flow. A successful urban future depends as much as anything else on engaging all members of the community, especially women and the poor in a constructive political process. O’Neill & Viljoen (2001) cite Nevin’s
(1996)\textsuperscript{38} report emphasising that women could play a key role in making cities sustainable in integrated plans that linked balanced development of rural and urban areas to the alleviation of poverty.

### 2.5 Conclusion

A study of entrepreneurship is a multidisciplinary study. It has generated interest amongst the various researchers from different disciplines. The determinants of entrepreneurship can be considered at the level of the individual, the enterprise, the region and the country. Considering the literature related to the determinants of entrepreneurship, this paper concludes that the factors responsible for the emergence of entrepreneurial activity in any county depends on variety of factors (macro level) such as level of economic development, nature of social, economic institutions, macroeconomic policy framework etc. Non-pecuniary factors appear to be more important than pecuniary factors in explaining why people choose to be entrepreneurs. At micro level people’s motive to become an entrepreneur (either by choice or by chance/economic compulsion) can also play an important role as the determinant of entrepreneurial activity in any society. Particularly women in less developed countries often choose to be self employed/an entrepreneur due to necessity and not due to choice. The entrepreneurs from different places share a number of core characteristics and challenges in common but women and men are different in their approach to entrepreneurship and, generally speaking, this is reflected in the type and size of businesses that women set up and in their growth aspirations. At the initial stages of investment the financial institutions play trivial role in the financing of the non-formal activities of micro-enterprises. Commercial sources of credit, however, are identified as potential sources of finance at later stages of development of micro-enterprises.

Examining factors shaping the extent of entrepreneurial activity is important because it provides insights as to how policy could be used to promote entrepreneurship. Policy makers can definitely promote entrepreneurial skills through appropriate training interventions. The effect of these factors on entrepreneurial activity is worth studying because entrepreneurship development is considered a vital link to an overall economic growth of a nation through its positive impact on economic development (Ekpe, Mat, & Razak, 2011).

Draghici & Albulescu (2014) have used two broad indicators for assessing the innovation and entrepreneurial level, namely the global innovation index (GII) and the total entrepreneurial activity (TEA). They have developed a theoretical framework which shows that the TEA can have either a negative or a positive influence on the innovativeness capacity, depending on the reasons which determine a person to become entrepreneur. At the same time, this influence should be more important when we consider only the innovation outputs: transfer of knowledge and creativity. The empirical findings partially confirm that overall entrepreneurial activity does not influence the national innovative capacity and its output component. The opportunity or innovation-driven entrepreneurs have a positive impact, both on the global innovation index (GII) and on the innovation output. However, the influence on the global innovation outputs index (GIOI) is not stronger than in case of GII. The results show that the role of innovation-driven entrepreneurs plays an important role in knowledge creation and diffusion, but also for the quality of institutions, infrastructure and human capital – the input component of the GII. Their approach contributes to the literature of innovation’s determinants, highlighting the role of entrepreneurship at macro-level. Their findings have also policy implications. Authorities should encourage the entrepreneurial initiative not only because it is important for knowledge transfer and job creation, but also because it contributes to improving the market functionality and the quality of the human capital (Draghici & Albulescu, 2014).

Social scientists studying the determinants of entrepreneurship have emphasised three distinct perspectives: the role of institutions, the role of social networks and the role of personal characteristics (Muhanna, 2007). A growing body of research emphasises the role of entrepreneurs and the development of a vibrant small and medium enterprise
sector in the process of economic development (World Bank, 2003). Understanding the factors that enable entrepreneurial activities is thus at the heart of this research study (Muhanna, 2007).

As stated earlier by Muhanna (2007) there are three distinct perspectives on entrepreneurship. The first perspective focuses on the role of economic, political, and legal institutions in fostering or restricting entrepreneurship in different countries at various times. Particularly relevant institutional constraints are seen in two aspects. One aspect has to do with the credit market in financing entrepreneurial activities. For example, a major body of research in economic development has emphasised the role of credit constraints making it impossible for the poor to borrow to set up their own businesses (Banerjee and Newman, 1993)\(^39\). Another aspect has to do with security of property rights in providing the right incentives for entrepreneurs (Muhanna, 2007).

The second perspective focuses on the sociological variables that are shaping entrepreneurship. Sociologists have long emphasised the role of values (Cochran, 1971)\(^40\) and social networks (Young, 1971)\(^41\) in promoting or discouraging entrepreneurial activities. Social networks may work through a variety of channels, such as family, relatives, friends, or social groups in general. Muhanna (2007) further state that the third perspective on entrepreneurship emphasises individual characteristics of entrepreneurs. For example, psychologists have hypothesised about the psychological traits associated with entrepreneurs – such as a personal need for achievement (McClellan, 1961)\(^42\), belief in the effect of personal effort on outcomes (McGhee and Crandall, 1968\(^43\); Lao, 1970\(^44\)), attitudes towards risk, and individual


self-confidence (Liles, 1974). Personal characteristics of entrepreneurs is also a major theme of a work by Lazear (2002), he concludes that individuals who become entrepreneurs have a special ability to acquire general skills, which they then apply to their own businesses (Muhanna, 2007). All three perspectives seem relevant, but there is no clear consensus on the determinants of entrepreneurship in social sciences. This means it is difficult to find consensus on the appropriate policies to encourage entrepreneurship. Policies to relax credit constraints will not be very helpful if insecurity of property rights is the main obstacle to entrepreneurship, and similarly, financial and legal reforms may not achieve much if the roots of entrepreneurship lie in cultural factors or even personality. How to promote entrepreneurship is still a mystery despite its obvious policy importance (Muhanna, 2007).

There are various studies reflecting on the issues of microfinance and SHG movement in India, but very few studies have looked into the issues involved at a grass root level in transition of SHGs and SHG members from microfinance users to microenterprise investors. Hence, there is a need for undertaking in depth empirical studies on various issues involved in graduation of SHGs and SHG members from micro finance users for consumption to microenterprise investors. The study by Suprabha (2014) therefore focuses on these areas of research which have far reaching implication for survival and sustainability of micro finance and SHG movement (Suprabha, 2014).

There is a lack of research at both the level of the entrepreneur and that of the microfinance institution that identifies the factors that foster entrepreneurial outcomes amongst borrowers (microfinance clients). Existing research, primarily in economics, has typically focused on how microfinance lending influences broad development outcomes such as poverty alleviation rather than its effects on entrepreneurial

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outcomes. Identifying this information gap, we will try to enhance understanding of whether and how microfinance fosters entrepreneurial activity in the urban setting. The present study is an enquiry concerning the personal attributes and the perceived entrepreneurial constraints that might limit the entrepreneurial choice of the SHG/JLG members.