

Applied Learning Through Student-Led Microfinance Programs

Scott Miller, University of Tampa, Florida, USA
Kristine Hilliard, Al Wooten Jr. Heritage Center, California, USA

ABSTRACT

The objective of this paper is to provide guidance that will assist in the development of an applied learning program in social entrepreneurship for undergraduate students. Providing students an opportunity to apply the business skills and knowledge they have acquired from their business education is a key element of the program. A general overview of recommendations on how to establish, implement and sustain a student-led microfinance program is provided. Within these boundaries, the effectiveness of a program offering assistance beyond a simple financial investment is analyzed. This paper serves as a valuable guide to universities that may consider developing a student-led microfinance program and discusses the overall positive impact to the university, students, and surrounding community. Properly implemented, such a program can provide a unique, highly visible, and innovative addition to a university's applied learning offerings.

Keywords: microfinance, applied learning, entrepreneurship, business skills

INTRODUCTION

Microfinance presents a unique applied learning opportunity for all participants. It can be an especially powerful tool when implemented within a university environment with the purpose of serving a local community. The objective of this paper is to provide guidance that will assist in the development of an applied program in social entrepreneurship for undergraduate students.

Microfinance, developed by Muhammad Yunus in 1976, is a form of a banking that is used to financially support individuals who lack the required resources, but do have strong aspirations of starting a small business (Rahman, 2010). However, due to difficult circumstances, these highly motivated entrepreneurs often lack the resources and the necessary capital to do so. Typically, normal bank loans are not available to these individuals. Ultimately, microfinance provides these under-resourced individuals access to capital with lower cost and favorable terms.

The overall concept of microfinance is based on the notion that an individual will need a dollar in order to earn a dollar (Sloan 2013). By providing struggling individuals with the necessary capital to fund entrepreneurial ideas, microfinance sets out to battle the generational poverty that defines so many communities and countries across the world. A common example of how microfinance is successfully implemented is the story of a seamstress, who was unable to turn a profit due to the high overhead of renting a sewing machine. With a microfinance loan of just \$27 and 0% interest, this woman was able to purchase a sewing machine. Within one year, this woman had made enough money to repay the loan and support her family and within five years, this woman was supporting her whole community (Martin and Osberg, 2007). Microfinance provides avenues and resources to essentially help people help themselves.

While microfinance has benefited millions of individuals throughout our world, it is not often implemented within the United States. Carr and Tong (2002) state that the lack of microfinance within the United States can be attributed to the highly concentrated markets and the significant amounts of capital required just to open a business for operation.

A student-led microfinance program can help address the challenges faced by struggling, inexperienced entrepreneurs who reside in underserved communities. Such a program can provide a unique, highly visible, and innovative addition to a university's applied learning offerings. While a microfinance initiative can be implemented in many different forms within an academic environment, the formation of a student-led microfinance club may provide the greatest ongoing benefit to all participants. Properly structured, this approach can:

Reinforce students' understanding of what they have learned in their classes, while experiencing real world application of the concepts;

Provide invaluable resources of knowledge, skills, encouragement, and funding to deserving individuals;

Promote an understanding of civic responsibility within the student population;
Significantly enhance university/community partnerships.

This paper discusses a method to successfully implement an applied learning activity based on a sustainable student-led microfinance program.

LITERATURE REVIEW AND THEORY

Carr and Tong (2002) found that the majority of businesses fail within the first two years of operations. Further analysis by Barr (2015) suggests that this low success rate can be attributed to a wide variety of factors, many of which focus around the entrepreneurs' lack of access to capital and business acumen.

Financing is a challenge everywhere in the world. However, in the United States, pure financing is not enough to support and sustain a business. It is a much more competitive environment and the entrepreneurs need to meet additional requirements related to licensing, and regulation, which make it a financial drain for an entrepreneur to establish even the beginning foundation for a profitable business. Crain and Hopkins (2001) find that small businesses, defined as firms employing fewer than 20 employees, bear the largest burden of federal regulations.

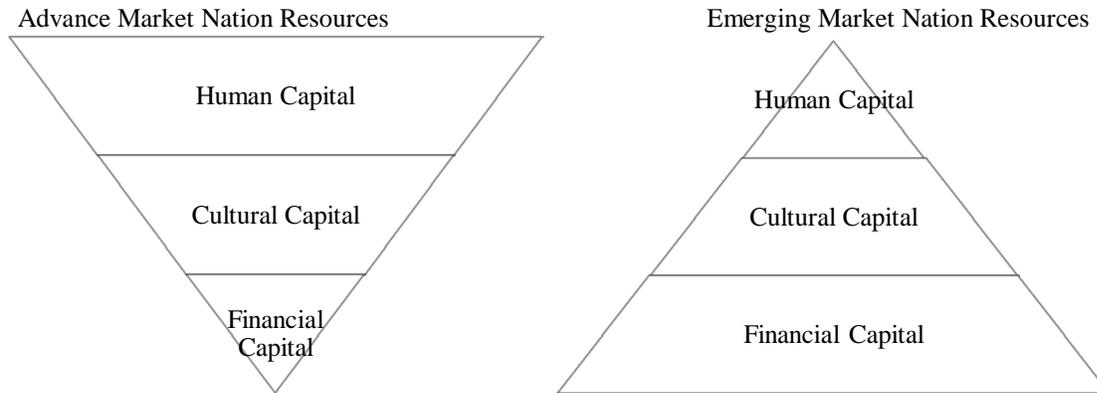
The microfinance model is targeted at the communities in need of additional resources. Jensen (2009) finds that many of these lower income communities are characterized by generational poverty, which is defined as being in "poverty for at least two generations." In addition, many residents of these underserved communities have a survival-like mentality and an ideology that they are not able to break free from their current situation. Therefore, it is important to help provide the knowledge, support and resources that are often lacking in these communities. Ashe (2000) found that one of the greatest benefits of microfinance in the United States is the continuous learning and feedback that entrepreneurs receive through the process.

It is our belief that the model of entrepreneurship differs in developed countries and developing countries. Busenitz, Gomez and Spencer (2000) find that entrepreneurs can develop a competitive advantage based on their country's institutional profile of regulatory, cognitive and normative dimensions. Lingelbach, de la Vina and Asel (2005) identify the distinctions of entrepreneurship between emerging market and advanced market nations. In other words, a country's culture and level of economic development can affect its business systems.

Kim, Aldrich and Keister (2006) identify three categories of resources that are essential to pursuing start-up ventures: financial, human and cultural. They find that within the United States, neither financial nor cultural capital resources are a singularly necessary condition for a successful startup. However, human capital, especially in the forms of education and managerial experience, can provide entrepreneurs with a significant competitive advantage. Therefore, the approach to microfinance within the United States must differ from the approach toward underdeveloped and developing countries.

More specifically, it is our hypothesis that the culture and economic development of a country will change the importance of the categories defined by Kim, Aldrich and Keister (2006). In more advanced economies, the competitive environment rewards more education and experience making human capital most important. Whereas financial markets are very well developed in these countries and capital is easier to acquire. In emerging market economies, financial capital is most important because financial markets are less developed and capital is much more difficult to acquire. However, human capital is less crucial in less developed countries since the market is typically less competitive and most entrepreneurs already know their craft, they just need the financial means to perform it. Therefore, this results in a top down structure for advanced-market nations and a bottom up structure for less developed markets.

Figure 1: Structure of Resources



The microfinance model provides an opportunity for many individuals to break free from the generational poverty that defines their community and to serve as a positive example to other individuals in these uncondusive environments. Litzky, Godshalk and Walton-Bongers (2009) recognized the benefits of the implementation of this model through an institution of higher learning as it creates partnerships between the university, its students and the community.

METHODOLOGY AND IMPLEMENTATION

The development of a microfinance program provides an applied learning opportunity in which members are exposed to real life business scenarios, experience true entrepreneurialism, and are provided with the opportunity to give back to their community. In response to this unique opportunity, the Microfinance Club of a major private university in the Los Angeles area allocated a portion of its funds to initiate a local micro-lending endeavor in South-Central Los Angeles in conjunction with a well-known inner city urban community center. The initial funding for the program was provided by a supportive alumnus of the university.

The methodology behind this initiative was founded on the belief that in order to fully empower entrepreneurs, resources beyond financial funding must be made available. A willingness to also provide entrepreneurs with a complete set of tools needed to become successful is essential to ensuring a positive result. Through this endeavor, the university provided participating entrepreneurs with additional, personalized assistance in the form of consultation, resources, supplies and other forms of direct, individual support. Due to the dynamic nature of these needs, this project involved collaboration of the University Microfinance Club, the Community Center, and a capstone Service Leadership class from the business college to support the efforts and boost the success of small businesses.

The participants and their roles in the program are shown in the table below:

Table 1: Student-Led Microfinance Program Participants

Participant	Role	Source
Entrepreneur	Present an accepted proposal to participate in the program. Work with the students to develop and execute a successful business plan. Prepare and present a business needs assessment to support needed funding.	Identified and nominated by local community organizations.
Students	Work closely with entrepreneurs to develop a successful business plan. Serve as a readily available resource to provide advice, guidance and encouragement on business related issues.	Members of the University Microfinance Club and/or the Capstone Service Leadership Class.
Faculty Advisor	Establish a strong working relationship with a local community organization. Work closely with students to evaluate entrepreneur proposals, manage funds, anticipate and resolve issues. Provide ongoing oversight, advice and guidance to the student-led team.	Microfinance club advisor and/or Service Leadership Class Instructor
Community Organization	A well-established organization within the community that has strong ties and familiarity with the youth and young adults in the community. Assists in the identification and nomination of deserving entrepreneurs in need of financial and human capital assistance to start their own business.	
Donor of funds	Provides initial funding of the program to allow the student-led operation to make small loans to selected entrepreneurs.	May be University alumnus, local business or interested patron.

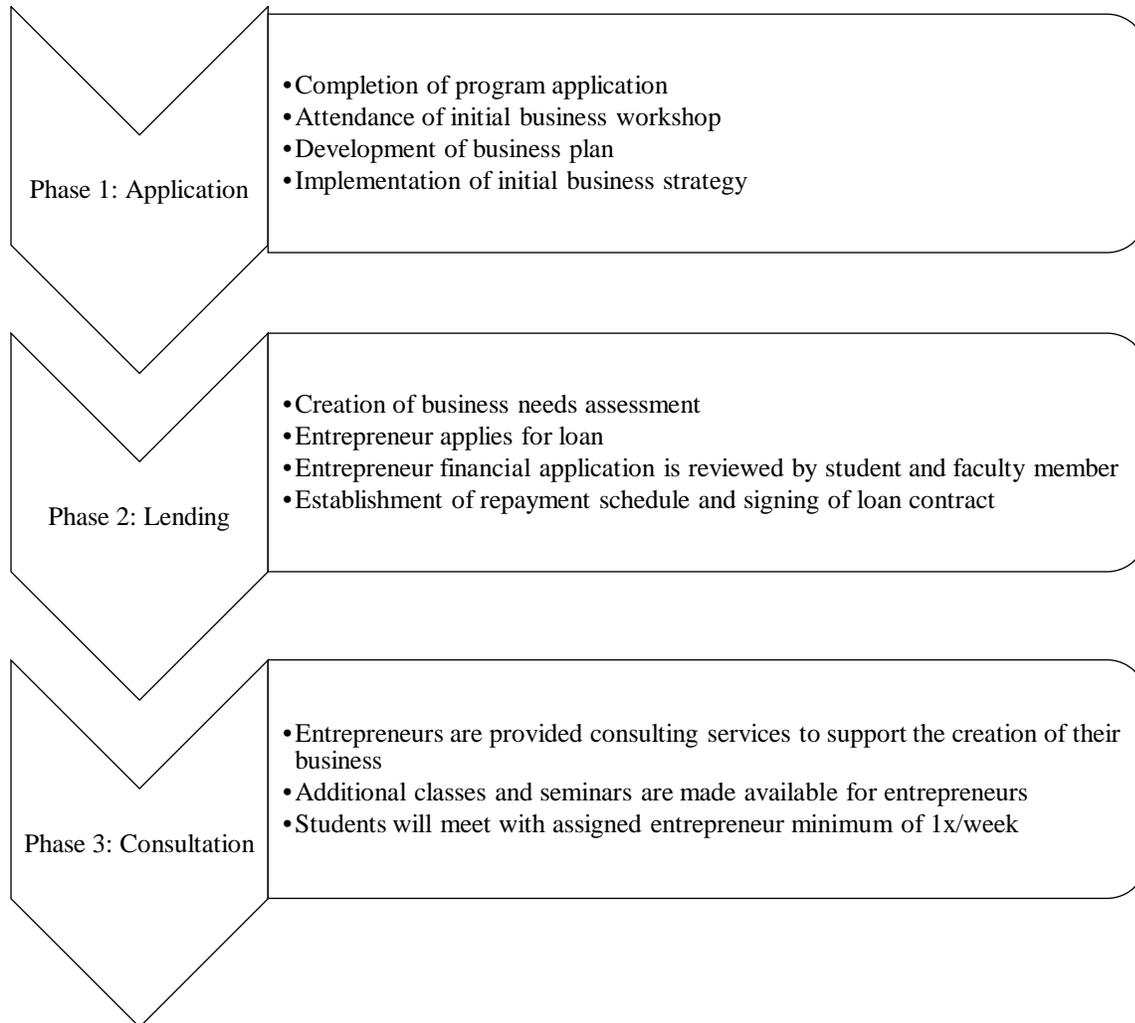
The process consisted of three distinct phases:

Application Phase

Lending Phase

Consultation Phase

Figure 2: Microfinance Program Phases



The direct, personalized involvement of students to provide business-oriented assistance is a unique element of this program. The innovative approach allows students to gain real world experience through this opportunity to apply newly acquired knowledge and skills, while also providing valuable support to the otherwise struggling entrepreneurs.

For the duration of the program, each entrepreneur is supported by a minimum of two students. The students assigned to each entrepreneur will setup a structured schedule to follow up on the progress of this business and provide any assistance that is necessary to ensure the success of the business endeavor. Each student is expected to dedicate a minimum of one hour per week and a mandatory, direct-contact bi-weekly check-in to ensure the entrepreneur has all of the necessary support he or she needs.

Application phase

The application phase requires that each potential entrepreneur complete an application that provides student consultants the information needed to effectively assist in the creation of a business plan that exhibits the qualities

required for business profitability and success. The application includes the basic structure of the entrepreneurs' business plan.

The purpose of the application phase is to not only create the foundation of the entrepreneur's business plan, but also a way to identify applicants that are serious and committed to following through in the event they are granted a microloan. For this reason, it is critically important to the process that the application itself takes a substantial amount of time and effort to complete.

Throughout the application phase, students will have the opportunity to review the application and provide the entrepreneur with feedback and suggestions for improvement. This phase invites both the students and the entrepreneur to collaborate as a group in an effort to build the foundation for their future business.

Initial workshop

Upon acceptance of the application, a workshop is hosted, in which students are able to assist each entrepreneur with his or her unique business needs. The overarching goal of this workshop is to have each entrepreneur leave the session with an initial business plan that will be drawn from the application information.

Each business plan will include:

- An executive summary (including a mission statement and description of the business)
- A market overview (including demographics, competitors and cyclical considerations)
- A financial plan (including the repayment terms of the microloan and anticipated sources of revenue)
- A marketing proposal (including methods for promotion and advertising)
- A management strategy (including a plan for managing the growth of the business)
- A legal assessment (including the identification of permits, licenses or registrations that are required)

Prior to the workshop, each student should be assigned to one entrepreneur. From this point forward, the students will be working directly with that entrepreneur to assist in identifying and addressing specific business needs. Experience has found that assigning at least two students per entrepreneur, each from different education backgrounds, has proven to be most beneficial to ensuring the entrepreneur's success.

In addition, it is important that the students use the initial workshop as an opportunity to establish a business relationship schedule with the entrepreneur that is a mutually agreed commitment for a specified period of time (suggestion is 3-6 months).

Follow up

After the initial workshop, each entrepreneur is given time to implement the strategies and ideas discussed at this meeting. As part of the finalized business plan, each entrepreneur is also asked to create a timeline for success. This timeline will include goals of achievement, milestones for success, and methods to ensure the microloan, if issued, is paid back on time and in entirety. This provides each entrepreneur an opportunity to track his or her progress and to stay on course to build and maintain a profitable business.

Lending phase

Once the application and the entrepreneur's business plan has been approved, he or she will have the opportunity to create a Business Needs Assessment Plan, in which they will identify the specific items needed, and associated costs to start their business. The Business Needs Assessment will be reviewed and approved by the assigned students and faculty advisor. In addition, the students and faculty advisor will analyze from a financial perspective the likelihood of the entrepreneur paying back the full amount of the loan on time.

Lastly, the students should work with the faculty advisor to determine the terms of the loan that are most favorable for the entrepreneur being able to pay back the loan in entirety. Throughout this program, participants must keep in mind that they are working with the entrepreneur, not against them; however, also understanding that this is a "social business" not a handout.

Once the entrepreneur has been approved for financial support, the faculty advisor and assigned students will use the loan amount to make necessary business purchases for the entrepreneur.

It is highly recommended that the microfinance program purchases the necessary items for the entrepreneur, rather than provide the entrepreneur the loan in a form of cash or check. This ensures that all funds are tracked and accounted for throughout the process. In previous instances where the money was given directly to the entrepreneur for use, it was more difficult to help the entrepreneur create and maintain a budget, track expenses, and in result, repay the loan on time in entirety.

Repayment period

The repayment period will be determined on an individual basis depending on the content of the entrepreneurial endeavor and current financial situation. These details will be outlined in the loan contract.

It is important that the loan repayment schedule be broken into small, incremental amounts throughout the life of the loan, rather than one large lump sum at the end. Requesting small repayment amounts at the beginning of the repayment plan reduces the risk of the entrepreneur missing payments, provides consistency, and continually gives the entrepreneur the incentive to keep their business on track. Figure 3 displays a 12-month proposed repayment plan for a \$500 loan.

Figure 3: Repayment Plan

Proposed Repayment Schedule (12-Month \$500 Loan)			
Month 1	\$5	Month 7	\$45
Month 2	\$5	Month 8	\$55
Month 3	\$10	Month 9	\$60
Month 4	\$15	Month 10	\$70
Month 5	\$25	Month 11	\$75
Month 6	\$35	Month 12	\$100
Grand Total			\$500

Consultation phase

While the lending component of the microfinance program is highly important, providing the entrepreneur with business and legal consultation is critical to their success. The University Microfinance Club, in collaboration with the Service Leadership class, created a program to provide entrepreneurs with the consultation and information necessary to pursue their business ventures. Throughout this initiative, students analyze potential markets, projects and local resources for the personalized consultation with clients to establish and improve their entrepreneurial enterprises. Consulting may take several forms including, but not limited to: finance, marketing, management and research. In addition to consultation support, the students will essentially act as “cheerleaders”, coaches, and colleagues to bounce ideas off of and work toward the same end goal.

Throughout the consultation phase, it is also recommended that the participating students contact university professors to donate time to hold classes and office hours for any remaining questions the students or entrepreneur may have. It is also helpful to ask university professors to host business or law classes for the entrepreneurs to attend and ask questions specific to their business strategy. Potential seminars or classes to host for the entrepreneurs include, but are not limited to, the following:

- Overview of Small Business Laws and Regulations
- Development of a Strong Brand Image
- Budgeting and Financial Management
- Project Management
- Website Development
- Product and Pricing Strategy Development

In addition to these added sessions, providing business examples and templates such as sample business plans, project plans, and expense trackers have proven to be highly beneficial to the entrepreneur.

RESULTS

The process described in this paper was developed and necessarily modified over a period of time to achieve the desired results for the entrepreneurs, the students and the university. Following are two notable successes that are representative of the outcomes that can be expected. In each case providing an initial financial boost of less than \$1,000 in equipment and supplies along with a strong cast of supportive business students allowed the entrepreneurs to succeed.

Entrepreneur #1

Entrepreneur #1 is from South-Central Los Angeles and has lived his whole life exposed to the harsh realities that define his community. Prior to developing the desire to start his own business, Entrepreneur #1 sold drugs, was part of a gang, and was eventually arrested. Given a second chance by the University Microfinance Program, Entrepreneur #1 was provided with the necessary resources to support his dream of selling faith-based apparel, with the sole purpose of serving as a positive example to the young men and women in his surrounding community. The support, encouragement, and guidance provided through the program made a very visible and positive difference in this man's life. The "human capital", as defined by Kim, Aldrich and Keister (2006), that was provided by students participating in the University Microfinance Program was proven to be an essential component of the success achieved by Entrepreneur #1.

Entrepreneur #2

Entrepreneur #2 is also from South-Central Los Angeles and spent his adolescent years tagging buildings with graffiti. In efforts to turn his passion for art and photography into a positive example, Entrepreneur #2 worked with the University Microfinance Program to begin a business that provides photographic services to real estate agents. Entrepreneur #2 hopes that his story will serve as a positive example to the young adults in his life and show them that they can make a better life for themselves.

In a relatively short amount of time, the University Microfinance Program was able to provide the necessary financial and, most importantly, human capital resources to help these two individuals break free from the harsh realities of their communities. They were able to begin their own business that would help provide the financial support needed to make a better life for themselves and their families.

Student participants

While a student-led microfinance program has a profound effect on the entrepreneur, it also makes a positive impact on the students. By working directly with the entrepreneurs, the students are not only able to apply the teachings from university classes, but also are able to directly witness the impact that their positive contributions have on underserved communities. Throughout their participation in the University Microfinance Program, students continually expressed how this program acts as a two-way street of learning. They displayed genuine excitement about being able to apply their business knowledge and skills into real-world business scenarios. The student-led microfinance program embodies the concept of applied learning.

CONCLUSIONS AND RECOMMENDATIONS

In order to implement a student led microfinance program, a university should first establish a microfinance club or a microfinance class within the school. This program can be implemented through a class project or a volunteer club organization. It is important that whichever route is chosen to initiate this endeavor, the students and student leader participants are sincerely interested and committed to the program and to the entrepreneurs' success.

In addition to the establishment of the microfinance program, it is important that the microfinance faculty leader establish a relationship with a local community organization that will help identify aspiring entrepreneurs in need of financial and business acumen support. The identified local community organization will not only take part in sourcing participants to the program, but also reconfirm decisions with approval or disapproval opinions of applicants. Their first-hand knowledge of and experience with applicants is invaluable to the process.

The establishment of a student-led microfinance program has proven to be beneficial to the participating students, the entrepreneurs' and their surrounding community, and the university. By participating in this innovative program, students gain significant real world experience and are provided the opportunity to apply the concepts they have learned in the classroom. In addition, the community and entrepreneurs gain a sense of empowerment and gain

access to resources critical to their success. Lastly, the school enhances its reputation within the community and can be recognized for its contribution.

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Scott Miller is an Associate Professor of Finance in the John H. Sykes College of Business at the University of Tampa. He has served as the John and Francis Duggan Professor of Finance at Pepperdine University and as Visiting Professor of Economics at UCLA. Dr. Miller serves on the Board of Directors at the Al Wooten Jr. Heritage Center and has been actively involved in the development of applied learning programs and student-based contributions to the community for several years.

Kristine Hilliard has served as the Director of Microfinance and Entrepreneurship at the Al Wooten Jr. Heritage Center. She has been directly involved in the creation and promotion of numerous service-learning and social entrepreneurship activities within the Los Angeles area.