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CAN MICRO FINANCING INCREASE ITS ROLE IN SUPPORT OF ACCOMMODATION INVESTMENTS OF FAMILY OWNED TOURIST ENTERPRISES?

¹Zoran Temelkov, ²Dejan Metodijeski

Abstract

Microfinance has proven its success in augmenting the living standards of population in poverty regions. Its financing products have supported numerous entrepreneurial activities and have contributed toward the local and regional economic growth. Having proven success in supporting entrepreneur's need of capital, the purpose is to analyse the manner in which micro financing products could provide benefits for the increase in accommodation capacity of a family owned tourist enterprises.

These enterprises are faced with numerous obstacles in the desire for expansion of their activities. They are faced with lost profits and low productivity due to long period required for full utilization of their accommodating capacities. One thing is directly responsible for these problems, which is the lack of investment capital. More precisely, increasing the accommodation capacity requires higher level of initial capital. For this reason, a recommendation is given regarding the needed direction of micro financing development. In addition, it is concluded that, aside of its criticisms, micro financing could prove itself as a viable solution for supporting tourist enterprises growth, but the prerequisite is the modification of products suitable for the needs of tourist enterprise.

Key words: Micro financing, enterprises, tourism, accommodation capacity, capital accumulation

1. INTRODUCTION

Although there is a vast literature on issues related to micro financing, entrepreneurial promotion and economic development, little attention has been given to the role of microfinance in development of accommodation capacities of family owned enterprises. These enterprises need higher level of capital as well as long term repayment period, not offered by the microfinance products. At the beginning the basic notion behind the micro financing and its products is presented. The brief presentation is in manner that will point out the functioning and purpose of micro financing.

The problems of tourist enterprises related to the increase of accommodation capacity and productivity improvement are considered. Namely, most of the obstacles of these enterprises are closely

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related with the need to accumulate investment capital. Accumulating the necessary funds through savings requires a longer period, because of the low profitability. The role of microfinance in reducing this accumulation period is of crucial importance for the expansion of tourist enterprises. The challenge is to modify micro financing products, for the purpose of fulfilling identified needs.

2. THE ROLE AND IMPORTANCE OF MICRO FINANCING IN ENTREPRENEURIAL DEVELOPMENT

The main objectives behind the creation of micro financing institutions were the alleviation of poverty and economic development in poverty regions and developing countries. Purpose of micro financing is to provide access to capital for entrepreneurs excluded from the commercial lending channels. Therefore, provide capital for their small scale entrepreneurial activities. Consequently, micro loans have been directly responsible for increase in the entrepreneurial activity in poverty regions as well as developing countries (Fried, R., 2009). According to Ravindarn A.M. and Vinodan A. (2009) enterprise development is one of the factors that have crucial role in achievement of sustainable development, on local and regional level. Thus, globally, the entrepreneurial activity is highly supported through numerous financial and non-financial products and services. Therefore, Zeller and Sharma (1998) emphasis the importance of microfinance institutions in the process of establishing a new, or growth of an existing family business.

The reason behind the success of microfinance in supporting an entrepreneurial activity, is consisted in the category of clients served. Namely, the poor are faced with financial constraints, not only in terms of lack of personal capital, but also lack of ability to borrow from conventional lending channels (Aigbokhan, B. E., and Asemota, A. E., 2011). The justification of conventional lending institutions is that this category of clients usually lack collateral, are associated with higher risk and the profitability in serving these clients is relatively low. Therefore, microfinance serves as a concept with which these constrains for promotion of entrepreneurial activity are bridged. Another characteristic of micro financing that has contributed to its success is the concept of group lending i.e. the peer monitoring process (Aigbokhan, B. E., and Asemota, A. E., 2011). The group lending not only supports the individual business activities, it also ensures adequate repayment history for each borrowers. Consequently, the borrowers are able to continually apply for new (higher amount) loan for the purpose of enterprise growth.

3. MAIN OBSTACLES OF SMALL SCALE TOURIST ENTERPRISES GROWTH

There are numerous obstacles which are obstructing the expansion of a small scale accommodation enterprises. But, maybe the most important, or at least, the starting problem, is the lack of capital needed for long term investment directed at the increasing of accommodation capacity. Although micro financing is offering loans for tourism sector directed toward community based activities, it does not provide direct support for investment in the accommodation capacity. The problem, as to why micro financing does not support investments in the accommodation tourist enterprises, is the need for high capital level as well

as the time frame for the required capital (World Tourism Organization, 2005). Namely, Mighri, Z. (2013) state that the drawback of micro finance loans for financing capital investments is the repayment period of these loans. Meaning that microfinance loans maturity period is from few weeks up to a year, whereas the investments in accommodation require a long term loan. Jos van der Sterren (2008) is arguing that this financing gap is directly responsible for impediment of the growth rate of tourist sector, and improvement of living standard of local population. Furthermore, Jos van der Sterren (2008) is stating that this financing gap is hindering the competitiveness of small scale tourist enterprises against international companies within the tourist sector. In regards to the aforementioned, Milana, C. and Ashta, A. (2012) are pointing out that finance has a central role in the development of an enterprise, especially an enterprises which is faced with low level of capital accumulation. Moreover, they argue that access to finance will ensure timely fulfillment of real investments. Consequently, this is the weak side of the tourist enterprises in accomplishing any growth rate in the medium run. Namely, for the purpose of increasing their accommodation capacity of their enterprise, entrepreneurs are in need of high level of investment capital. Saving the needed capital is a lengthy process due to low profit margin. For this reason, the potential of their local tourism is underutilized due to the inadequate capacity. Table 1 is describing the characteristics and the asset base for accumulation of the different types of enterprises.

Table 1: Characteristics of enterprises

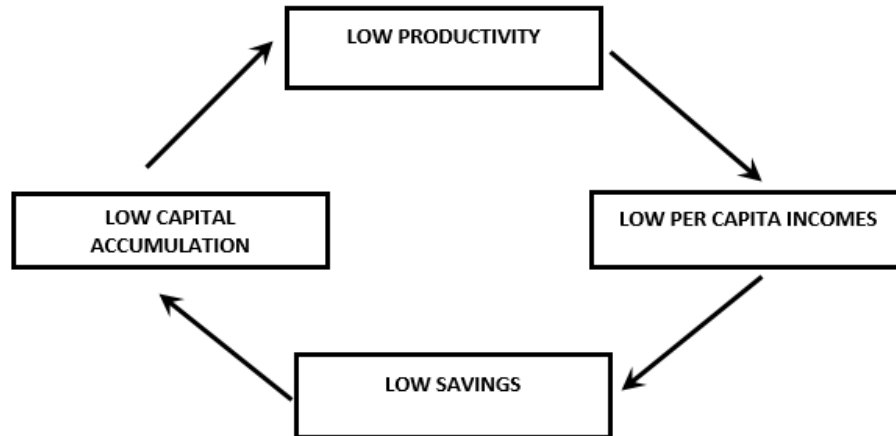
Type	Characteristics	Asset base for accumulation
Self-employed poor	Mostly part-time labor, temporary, sometimes seasonal activity, family based labor. Main aim – additional family income	No permanent asset base, no capital accumulation, permanent cash shortage. Business only as survival strategy
Micro enterprise	Not focused on economic expansion. Fixed business premises, limited fixed assets. Family labor, informal or formal status. Little orientation to growth Tourism is one of multiple family income resources	Permanent availability of liquid assets, some savings. Little capital accumulation. Business as main strategy. Income stabilization as main purpose.
Small enterprise	Partly formalized, operating license. Profit / growth oriented. Specialized tourism business possible.	Business as main strategy, non-permanent availability of fixed assets, capital accumulation, income and return oriented.

Source: Josvander Sterren (2008) Financial Markets, Microfinance and Tourism in Developing Countries, Working paper, V1.1, pp. 38.

The characteristics presented in table 1 illustrate the weakness of enterprises, primarily in their strategy, and most importantly the main obstacles, responsible for obstructed enterprise growth. Namely, the need for investment capital is obvious, and the accumulation of investment capital is a lengthy process

because of the low profit and low saving rate. Problems faced by small scale entrepreneurs regarding their investments in accommodation capacity is best described by the vicious cycle of poverty presented by Guy Vincent (2004) in figure 1.

Figure 1: Vicious Cycle of Poverty



Source: Guy Vincent (2004) Sustainable Micro entrepreneurship: The Roles of Microfinance, Entrepreneurship and Sustainability in Reducing Poverty in Developing Countries. Available at: http://www.gdrc.org/icm/micro/guy_sust-micro.pdf

The vicious cycle is showing the causes behind the capital accumulation problem of entrepreneurs in developing countries. Meaning that, due to small accommodation capacity, they are not able to increase their productivity. Even though the productivity as defined by Nicholas Bloom, et al. (2010) refers to the ratio of output to inputs, it could be argued that for small scale tourist enterprises, the input side of productivity is relatively low. This is in a sense that they cannot utilize the full capacity of their fixed asset, since they are increasing the accommodation capacity, in phases. In other words, they are additionally building new accommodation (rooms) in stages i.e. when they accumulate enough capital for the next construction stage.¹ Thus the productivity is hindered in a sense that it might be a substantial period for additional increase of the capacity, instead of building the entire capacity at once and increase the input level. This increase in input level would result in higher output and possibility for growth of tourist enterprise expansion. The problem with productivity is additionally emphasized considering the government campaign in developing countries for increasing the tourist activity. More precisely, the government measures are attracting new tourists (if successful) whereas the local accommodation capacity are limited. This is creating also the problem of competitiveness. International companies, have the needed capital for building a large scale accommodation capacities, which further decrease the income of micro entrepreneurs even more. In relation to the vicious cycle, the low (hindered) productivity is producing low level of income, which is directly reflected in low savings rate of enterprises. Unable to save the needed amount of capital, results in low capital accumulation.

¹The logic behind would be that in circumstances when the entrepreneur is planning to have capacity of 12 rooms situated on three floors, he/she will build the first floor (four rooms), and the money earned from these rooms would be accumulated for the construction of the next four rooms (i.e. the second floor).

The common point of the aforementioned issues which are obstructing the enterprise expansion is the lack of adequate level of capital. Namely, not only these small scale enterprises don't have the capacity to accumulate sufficient capital for their investments in accommodation capacity, they are also faced with difficulties in obtaining external capital. Meaning that, they are not able to finance their activities through loans, since in most cases financial institutions consider them a high risk borrower. Therefore, they are either excluding these clients or impose strict lending conditions.

4. CAN MICROFINANCE SUPPORT THE INCREASE IN ACCOMMODATION CAPACITY OF ENTERPRISES?

Analyzing the problems in the previous sections is imposing the need to understand the way in which micro financing could help the accommodation capacity building of tourist enterprises. Stated differently, whether micro financing products could act as a mechanism for providing the needed investment capital. Before, making any kind of recommendation, there is a need for the presentation of the major critic of micro financing concept. Deneweth, H., et al. (2014) are criticizing the micro financing in terms of the loan amounts and the repayment period. Namely, they state that although the current microfinancing modes are applicable in the high poverty regions, they are not entirely adequate for providing financial support in developing countries. They add that the small loans offered by the microfinance institutions are not satisfying the entrepreneur's financial needs. This is especially true for the case of family owned tourist enterprises, which require high initial capital for building the fixed assets i.e. accommodation capacity.

The answer to the question whether micro financing can provide support for tourist enterprises in current form is negative. This is so because there is the need for micro financing to modify its products in terms of loan amount and repayment period, in accordance to the need of tourist enterprises in developing countries. This modification should be made only with the purpose of designing the products to suit the needs of enterprises that are family managed. Thus, helping them in their competitiveness against the major hospitality companies, who are grasping the benefits of a country's tourism promotional policy, hence hindering the growth of the small entrepreneur.

5. CONCLUSION

Micro financing is directly responsible for improving the living standards of millions of people in poverty regions. In addition, it has significantly contributed toward the development of poor entrepreneur's activities and family owned businesses. Irrespective of the success of micro financing, its current products are not suitable to support the development of family owned tourist enterprises. More precisely, microfinance products cannot support the increase of accommodation capacity of tourist enterprises. Consequently, these enterprises are faced with decreased productivity and low profitability.

The conclusion is that microfinance should accommodate its products in accordance to the needs of these enterprises. Namely, they should reconsider the repayment period along with the loan amount issues to the entrepreneurs in developing countries issued for investments in their accommodation

capacity.

The recommendation is that further research should be conducted regarding the need of these enterprises independently for each developing county. Meaning that, the modifications could not be generalized, because of the different economic situation in the countries.

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