

ORIGINAL WORK 2019

# A GUIDE TO ENTREPRENEURSHIP IN NICARAGUA: HOW TO START AND MAINTAIN A FORMAL BUSINESS FOR ASPIRING NICARAGUAN ENTREPRENEURS



Flag-map of Nicaragua. (n.d.). photograph. Retrieved from [https://commons.wikimedia.org/wiki/File:Flag-map\\_of\\_Nicaragua.png](https://commons.wikimedia.org/wiki/File:Flag-map_of_Nicaragua.png)

**PREPARED BY**

ANVITHA MAKINENI  
JUNIOR ISM I - SOCIAL ENTREPRENEURSHIP

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*A brief*

# INTRODUCTION

This guide can be used as a tool for aspiring entrepreneurs in Nicaragua as of December 2019.

This guide provides a basic outline of various financing mechanisms, formal legal procedures and documentation required, entrepreneurial education services available, tools for scaling and supporting business growth, and other supplementary information. Emphasis will also be placed on the development of an entrepreneurial mindset along with the generation of business ideas that foster innovation.

Although this guide will go in depth regarding the above topics, it is important to keep in mind that this guide may not include every detail necessary to developing a business in Nicaragua. This guide should be used as a way to gain a general understanding of the required procedures while providing helpful tools to finance and expand. This guide will primarily target aspiring entrepreneurs that lack formal business education and knowledge.

**CURRENT ECONOMIC SITUATION IN NICARAGUA** - After having positive levels of growth with a rate of 4.6 percent in 2016 and a slightly higher growth rate of 4.7 percent in 2017, Nicaragua has experienced economic deflation in the year 2018 because of much social and political tension (The World Bank, 2019).

Although poverty levels in Nicaragua have generally dropped from 29.6 to 24.9 (between 2014 and 2016), poverty levels are projected to increase by more than 3 percent (between 2016 and 2019) as Nicaragua still remains one of Latin America's least developed countries (The World Bank, 2019). This is primarily why I have chosen to investigate entrepreneurship in Nicaragua.

**THE RELATIONSHIP BETWEEN ENTREPRENEURSHIP AND POVERTY ALLEVIATION** - Entrepreneurship has long been seen as a way to combat poverty and raise employment in less-developed countries (Thorpe, 2017). In fact, it has been termed as one of the most effective means to alleviate poverty (Frese, Gielnik, & Mensmann, 2016).

The concept of charitable donations and philanthropic fundraising is widely associated as being an essential component in many non-profit organizations (Nonprofit Expert, 2017). Although these methods are effective, they are merely temporary solutions that do not promote long-term self sufficiency or address the root cause of poverty (Hawthorne, Jereme, DeJong, & Jereme, 2017). Entrepreneurship, however, allows families to generate a steady income on their own without becoming dependent and reliant on short-term material donations. When unemployed families become self-employed, they are given life-changing job opportunities that allow them to generate an income and accrue savings (Sutter, Bruton, & Chen, 2019).

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# FORMAL V.S. INFORMAL BUSINESSES

*Informal work is still a tremendous economic issue. About 140 million Latin Americans (around 55% of working population) labor in the informal economy while around 241 million Latin Americans do not have any access to Latin American social protection programs (Herranz & Adecco Group Latin America, 2018).*

## Informal Business

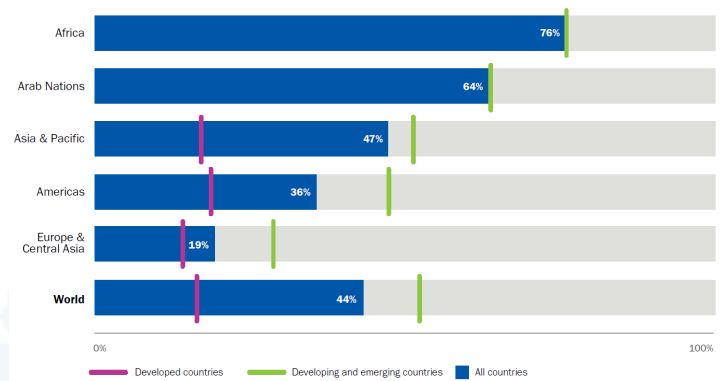
The informal economy is the economic enterprises, jobs, workers, and other activities that are not formally regulated / protected by the state. The concept is associated with self-employment in small enterprises / businesses as they ultimately are not registered, regulated, or protected by any current legal documentation (Dasgupta, 2016).

*Evidence proves that a large portion of entrepreneurs conducting business in the informal economy lack business awareness. The majority of informal businesses operate as survivalist groups that lack growth potential and the ability to develop / be successful (Temkin, 2009).*

- lack of economic rights
- lack of social protection
- lack of organization and representation
- lack of motivating environment

(Dasgupta, 2016)

Figure 1 | Half or more of all employment in the global South is informal, with the highest rates in Africa (and South Asia)



Sow, M. (2018, June 1). Brookings. Brookings. Retrieved from <https://www.brookings.edu/blog/africa-in-focus/2018/06/01/figures-of-the-week-informal-employment-in-african-cities/>

## Formal Business

The formal economy is the legal economic activities that are paying taxes on all incomes (U.S. Small Business Administration, 2019).

*Entering into the formal economy is a desired goal for many emerging entrepreneurs. However, different views exist about what formalization really means and how it can be achieved (IGI Global, 1970).*

*Some people are self-employed in the informal sector because of a desire to avoid registration and taxation. There are, however, many benefits that exist when one enters into the formal sector. Some of these benefits are listed below:*

- **Legal commercial contracts**
- **Tax breaks and incentive packages to raise business competitiveness** (Roberts, 2019)
- **Membership in trade union organizations**
- **Access to government subsidies and other government incentives** (International Labour Organization (ILO), 2019)
- **Job security and other legal protections**
- **Pensions and unemployment benefits (long-term sustainability)**
- **Higher growth potential and ability to develop successfully** (Ceni, 2017)

## BENEFITS OF CREATING A FORMAL BUSINESS

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Temkin, B. (2009). Informal Self-Employment in Developing Countries: Entrepreneurship or Survivalist Strategy? Some Implications for Public Policy. *Analyses of Social Issues and Public Policy*, 9(1). Retrieved from <https://doi.org/10.1111/j.1530-2415.2009.01174.x>

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# OBTAINING AN ENTREPRENEURIAL MINDSET

ENTREPRENEURSHIP IN NICARAGUA

## A PSYCHOLOGICAL APPROACH TO ENTREPRENEURSHIP



Photograph of Luis Montalvan. (2017). photograph. Retrieved from <https://medium.com/intheirshoes/luis-montalvan-starting-a-startup-in-nicaragua-is-like-playing-the-hardest-video-game-you-know-c032df7cd91f>

In an interview conducted by Sam Sawchuk, Founder & Editor-In-Chief at InTheirShoes (Sawchuk, 2019), Luis Montalvan talks about his experiences and challenges with starting an enterprise in Nicaragua. Listed below are some main points extracted from his interview (Montalvan & Sawchuk, 2017):

- Entrepreneurship is all about finding opportunity in the most uncommon places
- There will be many challenges and points in your journey where you fail - during these times it is important to write down your goals and have a step-by-step plan to achieve them
- Maintain a flexible mindset
- Focus on a couple of things that you do not enjoy doing, but will take you to the next level
- Focus on building the things that really matter at the stage you are in
- Be grateful everyday for having the ability to create something that is your own

(Montalvan & Sawchuk, 2017)

Luis Montalvan is the Co-Founder of Vinyl in Nicaragua, a mobile app directed at millennial nomads that enables them to connect with exotic & exciting experiences (Montalvan & Sawchuk, 2017).

"The beauty of entrepreneurship is to see music where others just see gibberish" (Montalvan & Sawchuk, 2017, para. 3).

"Flexibility on the roads you take to achieve your goal is not only necessary but required" (Montalvan & Sawchuk, 2017, para. 10).

"Focus on the most important task on your current stage" (Montalvan & Sawchuk, 2017, para. 16).

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### Obtaining an Entrepreneurial Mindset

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DEVELOPING  
PERSONAL INITIATIVE

ENTREPRENEURSHIP IN  
NICARAGUA

A PSYCHOLOGICAL APPROACH TO ENTREPRENEURSHIP

The development of psychological factors such as personal initiative, persistence, and self-starting behaviors are essential in creating a successful business. Effective entrepreneurship requires one to take initiative and develop a concrete plan of action, enhancing entrepreneurial skills and motivation (Frese, Gielnik, & Mensmann, 2016).

	Self-starting	Long-term orientation	Persistence
Goal setting	Action principle: Set a goal that makes your business different from your competitors' businesses!  Underlying learning goal: Entrepreneurs shall set themselves unique goals in order to differentiate their products and services from the rest of the market.	Action principle: Identify possible trends in the market and set a goal to meet future market needs!  Underlying learning goal: Entrepreneurs shall formulate not only short-term goals but also long-term goals, to prepare their business for the future.	Action principle: Keep on pursuing your goal, even when barriers appear!  Underlying learning goal: Entrepreneurs shall not let external problems, such as a lack of finances, or internal problems, such as frustration, destroy their goal pursuit.
Environmental knowledge generation	Action principle: Look for information that is difficult to get!  Underlying learning goal: Entrepreneurs shall use sources of information that are different from those that their competitors use.	Action principle: Think of how your sources of information might develop in the future!  Underlying learning goal: Entrepreneurs shall ensure future information flow for their businesses.	Action principle: If you don't find the information that you need, try other sources!  Underlying learning goal: Entrepreneurs shall persist in finding information to be prepared for current and future obstacles and opportunities.
Action planning/ execution	Action principle: Make plans that allow you to flexibly react to situational demands!  Underlying learning goal: Entrepreneurs shall ensure that they can actively and flexibly react to market developments.	Action principle: Consider future opportunities and threats and integrate them into your plans!  Underlying learning goal: Entrepreneurs shall detect possible future conditions that might impact their planning.	Action principle: If you have to put your plans on hold because of barriers, get back to them as quickly as possible!  Underlying learning goal: Entrepreneurs shall make sure that they do not permanently lose track of their plans when problems arise.
Monitoring/feedback seeking	Action principle: Ask former customers why they stopped buying your products!  Underlying learning goal: Entrepreneurs shall actively search for negative feedback, as this reveals areas for improvement.	Action principle: Ask customers, competitors, and suppliers what they see as the biggest challenges and opportunities for your business in the future!  Underlying learning goal: Entrepreneurs shall not only focus on the present state of their business but also use all available information to prepare for future business threats and opportunities.	Action principle: Don't give up if you don't find the information that you need—try other sources of feedback!  Underlying learning goal: Entrepreneurs shall persist despite frustration that arises from setbacks in feedback search.

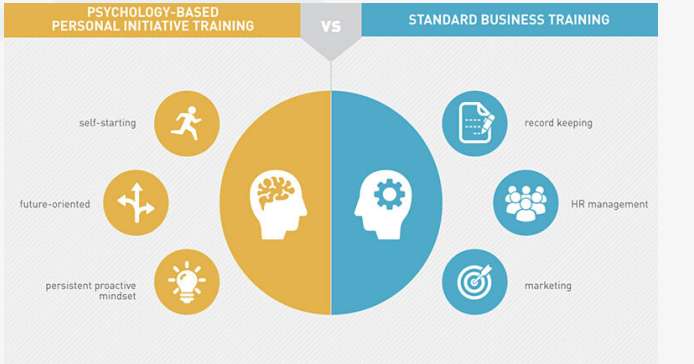
On the left is a chart that focuses on different psychological approaches that enable entrepreneurs to take action and develop personal initiative behaviors. It is separated vertically by self-starting, long-term orientation, and persistence behaviors and horizontally by goal setting, environmental knowledge generation, action planning/execution, and monitoring/feedback seeking approaches. Emphasis is placed on goal-setting and making plans that allow one to remain flexible in any situation. It is important to always be detecting possible future opportunities, allowing an entrepreneur to actively think ahead and prepare for future obstacles and potential challenges. This approach urges entrepreneurs to take immediate action to pursue their goals instead of waiting for solutions and opportunities to simply come to them. These approaches ultimately lead to a cycle of developing positive ideas and goals, awareness of the economic environment, and planning methods (Frese, Gielnik, & Mensmann, 2016). This leads to effective business development, helping secure entrepreneurial success and continuous reinforcement that enables one to effectively deal with entrepreneurial challenges (Alstete, 2014) .

Raposo, M. do, & Paco, A. do. (n.d.). Psicothema. Psicothema. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=a9h&AN=64466005> Chicago/Turabian: Author-Date Reference List

There are often personal initiative training programs locally available. These programs are designed to build persistent behaviors that promote the development of personal initiative. Programs generally take into consideration the local conditions of a country as well (Leuphana, 2019). Seek out opportunities in your area where you might be able to receive personal initiative training (Francisco, Michael, Markus, Leonardo, Hillary, David, & Mona, 2018).



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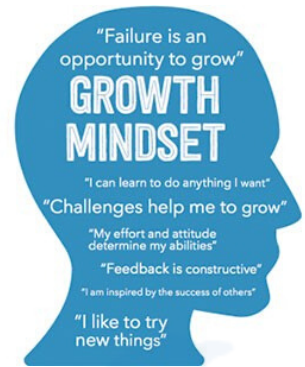
Leuphana. (2019, November 1). Projects- PI Training. Retrieved from <https://pi-training.org/projects/>.

# ENTREPRENEURIAL EDUCATION

## A BUSINESS APPROACH TO ENTREPRENEURSHIP

### WHAT IS ENTREPRENEURIAL EDUCATION?

While traditional education is referred to only the development of skills and knowledge, entrepreneurship education is the foundation for a changing mindset and attitude. It seeks to provoke purpose and responsibility in enterprise seekers to contribute to economic development and long-term growth (Raposo & Paco, 2011). It includes the idea generation, creativity, innovation, personal initiative, and persistence needed to achieve business objectives, allowing entrepreneurs to be more aware of their surroundings and take advantage of opportunities presented (Frese, Gielnik, & Mensmann, 2016). It develops a basis of continued learning for entrepreneurs who are building an idea or brand. The acquisition of business knowledge and other abilities is not the only component to entrepreneurial education (WE Charity, 2019).

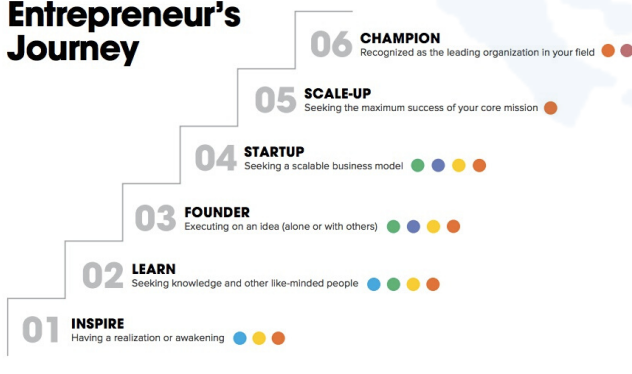


Excelsior. (2017). Growth Mindset. photograph. Retrieved from <https://www.excelsior.edu/article/growth-mindset/>

### THE THREE-CATEGORY FRAMEWORK

- 1.) **Education about Enterprise:** awareness creation - education regarding the initial set-up procedures and methods to start and maintain a formal business (Raposo & Paco, 2011)
  - Analyze potential markets (market research), identify needs (materials, capital), think of investor perspective, draft marketing plan and overall business plan, meet legal requirements, etc. (Davis, 2017)
- 2.) **Education for Enterprise:** this is the actual entrepreneurial training and education involved with running a formal business. Entrepreneurs are taught the business skills and knowledge necessary to actually execute a business plan and put it into direct action. (Raposo & Paco, 2011).
- 3.) **Education in Enterprise:** deals with the effective management of a now established business as entrepreneurs find methods to expand and develop their business for the future, promoting long-term self-sufficiency and permanent growth (Raposo & Paco, 2011).
  - Growth training, product development courses, building relationships/partnerships, expansion of team, etc. (Dempsey, 2018)

#### Entrepreneur's Journey



Topalian, C. (2014, May 22). Tech Stars. Tech Stars. Retrieved from <https://www.techstars.com/content/entrepreneur-resources/entrepreneurs-journey-model/>

Table 1  
Linking education with entrepreneurial activity: main research lines

Research areas	Authors
1. Entrepreneurial Education and Venture Creation	Charney & Libecap (2000) Dumas (2001) Kolvereid & Moen (1997) McLarty (2005) Monroe, Allen & Price (1995) Osborne, Falcone & Nagendra (2000) Van der Sluis, Van Praag & Vijverberg (2005)
2. Entrepreneurial Education and Entrepreneurial Intentions	Autio et al. (1997) Galloway & Brown (2002) Klapper (2004) Noel (2000) Peterman & Kennedy (2003)
3. Entrepreneurial Education and Opportunity Recognition	Brännback et al. (2005) DeTienne & Chandler (2004) Dimov (2003)
4. Entrepreneurial Education, Entrepreneurial Self Efficacy, and Entrepreneurial Orientation	Alvarez & Jung (2003) Ehrlich et al. (2000) Frank et al. (2005) Galloway et al. (2005)
5. Entrepreneurial Education and Need for Achievement and Locus of Control	Hansemark (1998)
6. Entrepreneurial Education and Other Entrepreneurial Knowledge	Kourilsky & Esfandiari (1997)

Raposo, M. do, & Paco, A. do. (n.d.). Psicothema. Psicothema. Retrieved from <http://search.ebscohost.com/login.aspx?direct=true&db=a9h&AN=64466005>  
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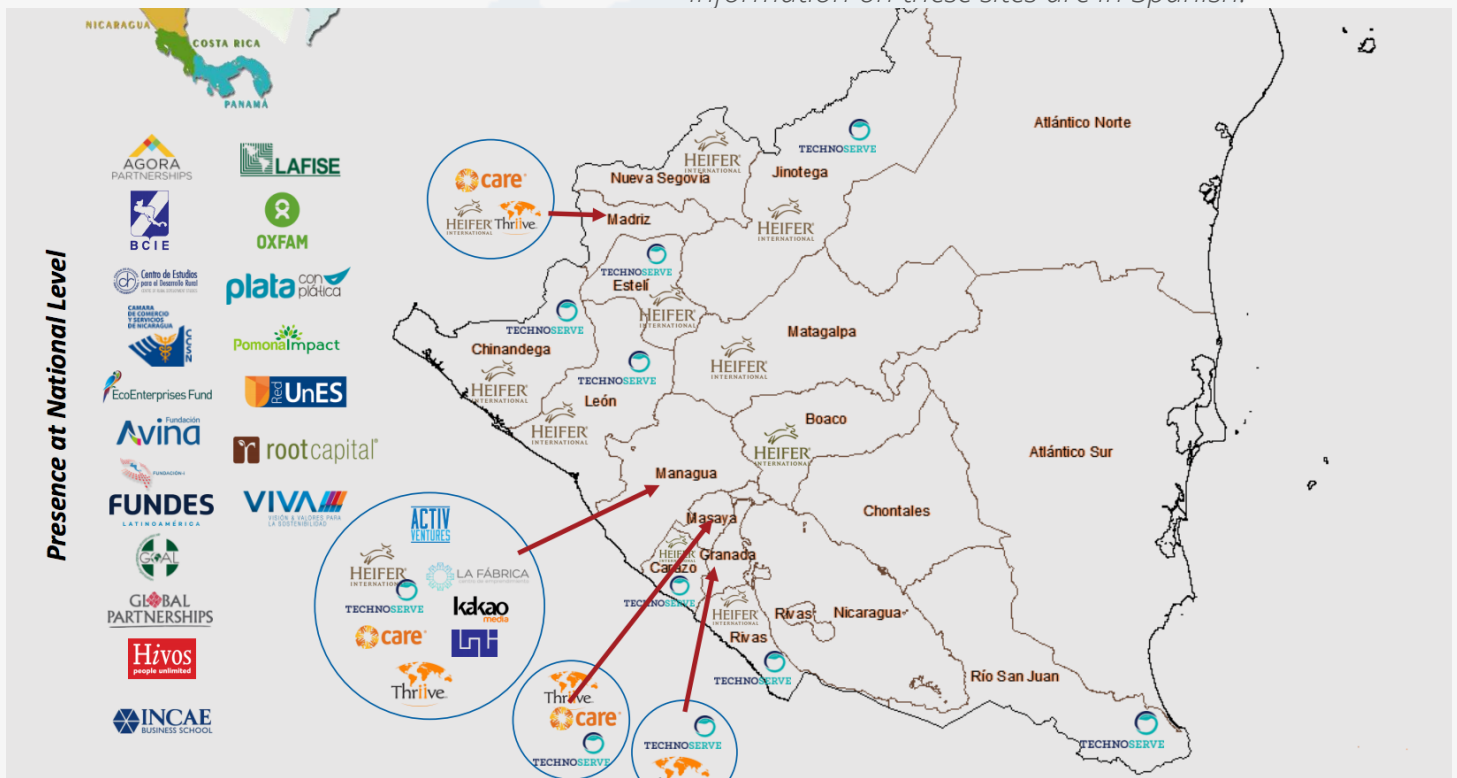


# ENTREPRENEURIAL EDUCATION

## A BUSINESS APPROACH TO ENTREPRENEURSHIP

### ENTREPRENEURSHIP EDUCATION RESOURCES IN NICARAGUA

Although levels of entrepreneurship in Nicaragua are relatively low, there are many active organizations providing resources by supporting entrepreneurs through business plan development, providing financial resources, and entrepreneur business education (Aspen Network of Development Entrepreneurs, 2016). Below are notable entrepreneur education organizations in Nicaragua and a link to access more information about them. Most information on these sites are in Spanish.

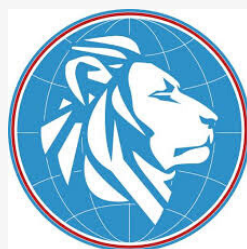


Aspen Network of Development Entrepreneurs. (n.d.). Retrieved from [https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/cam/Nicaragua\\_Entrepreneurship\\_E.pdf](https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/cam/Nicaragua_Entrepreneurship_E.pdf)

**\*\*The following company descriptions and logos are taken from the specified company website URLs\***

**<https://aclnegocios.mx/>**

### AC LOGÍSTICA DE NEGOCIOS



AC Logística de Negocios supports entrepreneurs primarily in acquiring financial capital, offering an optimal response time and allowing enterprise seekers to quickly materialize their growth project. AC Logística de Negocios provides entrepreneurs with the tools necessary to promote business success and obtain a line of credit for their business ("AC LOGÍSTICA DE NEGOCIOS").

**AGORA**



<https://agora2030.org/>

Agora is a group of entrepreneurs, investors, and partners who empower entrepreneurs in Washington DC, Managua, Mexico City, and Chile with the knowledge and capital necessary. They promote entrepreneurial attitudes of leadership and self-determination to enable business success ("Agora").

**BCIE**



<https://www.bcie.org/>

The Banco Centroamericano de Integración Económica provides business plan development / incubation services, business acceleration programs, and financial / accounting support ("BCIE", 2019).

**CARE  
INTERNATIONAL**



<https://www.care-international.org/>

CARE is an international humanitarian non-governmental organization providing emergency relief and sustainable development projects. This relief has included projects in economic development, general education, and agricultural development ("Care International").

**CENTRO DE  
ESTUDIOS PARA  
EL DESARROLLO  
RURAL**



<http://cdr.or.cr/>

Centro de Estudios Para el Desarrollo Rural is a team of consultants and researchers that provide entrepreneurial support in business planning, financial management, human development, and environmental development in primarily rural areas ("Centro de Estudios para el Desarrollo Rural").

**FUNDES**



<https://www.fundes.org/en/>

FUNDES is a consultancy firm that supports the growth of micro, small, and medium enterprises to build their network and become connected with the competitive entrepreneurial environment of larger corporations ("Fundes").

**HEIFER  
INTERNATIONAL**



<https://www.heifer.org/>

Heifer works with local families and communities to provide both livestock and business training in sustainable agriculture to raise family self-sufficiency in an effort to reduce poverty and cultivate entrepreneurship. They support farmers by providing training to improve the quality and quantity of their goods while connecting them to markets to raise sales ("Heifer International").

KAKAO



<https://kakaomedia.website/>

Kakao media helps Nicaraguan businesses grow through media development. Kakao provides services in web development, graphic design, app design, and E-commerce ("Kakao Media", 2019).

OXFAM



<https://www.oxfam.org/en/what-we-do/countries/nicaragua>

In Nicaragua, Oxfam works with local professionals to increase the resilience of small, developing farmers, allowing them to grow in a more profitable and sustainable way. They help farmers find access to new markets to sell their produce as well ("Oxfam International", 2019).

TECHNO  
SERVE



<https://www.technoserve.org/>

Techno Serve understands the relationship between business development and poverty alleviation as they provide entrepreneurial support to aspiring entrepreneurs in the developing world. They actively work to connect emerging businesses and farms to a better supplier and more accessible markets ("TechnoServe", 2019).

EO  
NICARAGUA



<https://www.eonetwork.org/nicaragua>

The Entrepreneurs' Organization (EO) is a global network of influential business owners. The EO offers leadership-development programs and educational opportunities that enable entrepreneurs to learn and grow, leading to greater success in business ("Entrepreneurs Organization").

INTER-  
AMERICAN  
FOUNDATION



<https://www.iaf.gov/country/nicaragua/>

The Inter-American Foundation assists in areas such as job skills and enterprise development, legal assistance, leadership skills, agriculture and food security, and civic engagement ("Inter-American Foundation", 2019).

EDUCATION IN  
NICARAGUA

\*Data from graphic taken from

WE Charity. (2019). Our Development Work in Nicaragua: WE Villages at WE.org. Retrieved from <https://www.we.org/our-work/we-villages/countries-we-work-in/nicaragua>.

82.2%

Literacy Rate

6.7

Average years of  
schooling

25.9%

Of 10-17 year olds  
engaged in economic  
activity

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# LEGAL PROCEDURES

## MAKING YOUR BUSINESS LEGAL

Listed below are general legal procedures currently necessary in Nicaragua to initiate a formal business. These steps are based on a report by the World Bank on the Ease of Doing Business in Nicaragua (World Bank Group, 2019).

### 1. Sign the papers of incorporation

AGENCY: LOCAL PUBLIC NOTARY

Incorporating is a huge first step in the journey of a small business. Incorporation papers are legally necessary to the formation of a company or formal business, and incorporating a business is usually a straightforward process as long as you present all the needed documents. First, the necessary incorporation documents and company bylaws should be outlined by a notary public. It is traditional to include the company bylaws along with all other documents in this process as well. Many public notaries also have the ability to conduct the below steps for a small fee (World Bank Group, 2019).

### 2. Buy the company's commercial books (Bookkeeping)

AGENCY: LOCAL BOOKSTORE

A formal business is legally required to maintain formal book records as they are a tool for organizing finances, such as by keeping track of income and expenditure (Fishman & J.d., 2012). This ultimately makes sure that you are maintaining a positive contribution margin (Davis, 2017). A business will need to maintain two accounting records and two corporate books. These books can be found in a local bookstore with the price of each being dependent on the store (World Bank Group, 2019).

### 3. Register the accounting books and register as a trader with the Commercial Registry

AGENCY: LOCAL ONE-STOP SHOP WHICH CAN BE AT THE VENTANILLA ÚNICA DE INVERSIONES

Nicaragua is now allowing incoming business owners to submit the company's incorporation documents, register the commercial books, and register as a trader all at a local Nicaraguan one-stop shop (World Bank Group, 2019).

#### Commercial Registration

- Signature of constitution of company records: NIO 100.
  - Certification bill of commercial records: NIO 350.00.
  - Certification as a trader: NIO 300.
  - Method for city license: NIO 5.
  - City license: for funding lower than NIO 50,000 is NIO 500
  - City license documentation: 1% of the total license fee paid
- (World Bank Group, 2019)

The receipt of payment must be presented at this time as well. Even if the company created currently does not have a formal income, the company must present itself to the Nicaraguan Tax Administration (PWC, 2019). No tax amount will be charged to companies / business owners that have no sales because there is ultimately no income generated at their current stage (World Bank Group, 2019).



#### 4 . Pay the fees of inscription

AGENCY: LOCAL COMMERCIAL BANK

Fees can be paid to any local commercial bank, but the most current receipt is given to a representative at the one-stop shop (World Bank Group, 2019).

#### 5 .Register the Single Document (DUR) to secure registration with Tax Authorities (RUC), social security (INSS), and the pre-municipal license

AGENCY: LOCAL ONE-STOP SHOP (VUI) OR THE NICARAGUAN TAX AUTHORITIES ALSO KNOWN AS THE DIRECCIÓN GENERAL DE INGRESOS OR DGI

A formal business must receive the Single Registration Document, which is a form that enables a formal company to register for sales tax, the pre-municipal license, and the pre-registration at social security (INSS) all at once at the one-stop shop (World Bank Group, 2019).

#### 6 .Receive a municipal license

AGENCY: LOCAL ONE-STOP SHOP EX.) VENTANILLA ÚNICA DE INVERSIONES

After receiving the pre-municipal license, entrepreneurs / business owners must then get their official license (World Bank Group, 2019).

#### 7 .Receive a Social Security certificate and register the company's current employees

AGENCY: THE LOCAL SOCIAL SECURITY INSTITUTE (INSS – INSTITUTO NICARAGUENSE DE SEGURIDAD SOCIAL)

Entrepreneurs should have already received an employer's identification number with the Single Document or DUR. From here, they should ask for an Employer's Certificate (certificado patronal) to show at the Social Security Institute (INSS – Instituto Nicaraguense de Seguridad Social) (World Bank Group, 2019).

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### Legal Procedures

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# FINANCING YOUR BUSINESS

## WAYS TO GENERATE FUNDING FOR YOUR BUSINESS

Many entrepreneurs, especially in the developing world, often have trouble when it comes to generating funding / financing their entrepreneurial venture. It is usually difficult to attain business loans for small/medium enterprises because of a lack of credit and experience running a business. Unlike large companies who have this business experience, small enterprises are usually financed from non-banking institutions or specialized banks for this specific purpose (Effah, 2013). Listed below are different ways that entrepreneurs can use to generate funding in order to initiate and maintain their business:

### 1. CROWDFUNDING

- Crowdfunding is a relatively new business mechanism that has more recently helped fund and empower small-medium, and micro-sized enterprises (SMMEs) for establishment.
- It allows individuals and others to get their projects and business ideas funded by the general public, who are considered business backers, through an online crowdfunding site.
- It is important that entrepreneurs understand how to effectively use a crowdfunding site as a means to initiate a business venture. If successful, the crowdfunding model has the ability to eliminate a lot of the obstacles and other challenges associated with finding capital / market funds. It can open up opportunities for developing countries to create their business and has the ability to gain the necessary resources for a business to be successful permanently.

(Chukwuere, Adom, & Gorejena, 2019)

#### How it Works:

Crowdfunding is a customer-centered financing model that uses the a crowdfunding site to provide donation based funding for the public to fund projects and emerging small businesses. The general public is essentially able to contribute their money to an idea or innovation. An initiator / entrepreneur is able to upload their ideas / project description on a crowdfunding website for backers / the public to read and be excited to contribute to, so it is essential that the entrepreneur presents their idea effectively. If backers are not interested, inspired, or invested in the vision of an entrepreneur, they are less likely to want to donate or have equity in the business (Chukwuere, Adom, & Gorejena, 2019).

#### Types of Crowdfunding:

- Hedonism - Backers receive their contributions back if the goal amount is not reached
  - Altruism - Backers donate to a project charitably as there is nothing they receive in return for their contribution (selfless giving+support)
  - For-profit crowdfunding - Backers are offered equity of profit in the company
- (Chukwuere, Adom, & Gorejena, 2019)

#### The platform / Crowdfunding website:

Crowdfunding website providers have an important role in coordinating crowdfunding initiatives as they are essentially the line of connection between the entrepreneur and the backer (Chukwuere, Adom, & Gorejena, 2019).



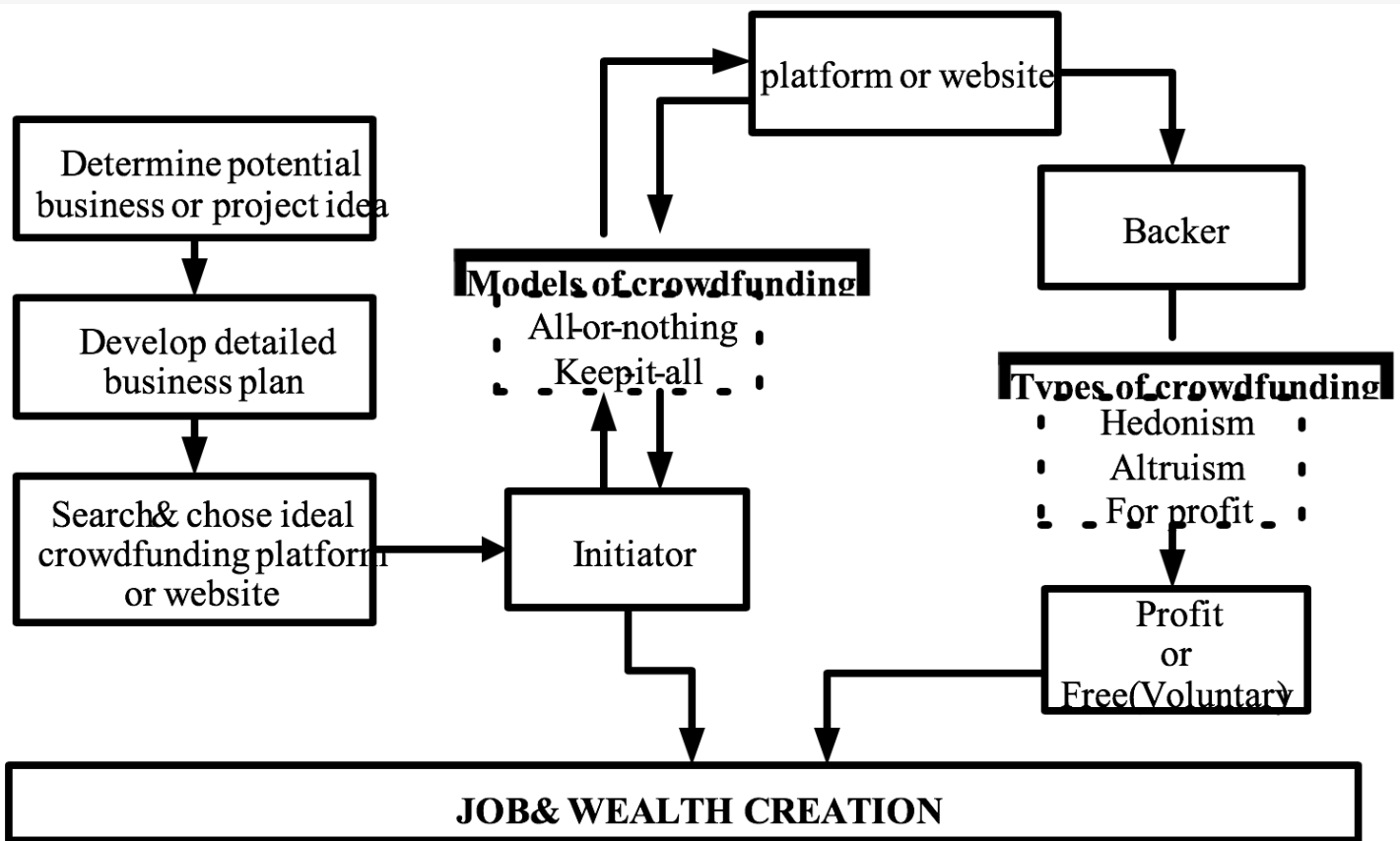
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## 2. MICRO FINANCING

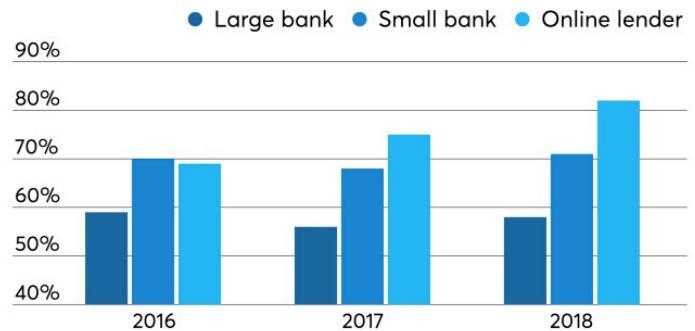
- Micro financing is an effective financing resource for entrepreneurs and has been declared as an effective method in reducing poverty. Because these SMEs generally do not have access to traditional financing institutions to access capital (loans, insurance, and other investments), microfinance provides loans, credit, and access to a savings account to the small business owner / entrepreneur. Microfinance institutions provide small loans and other resources to business owners to help them get their businesses running. Many of the recipients are in developing countries, who could otherwise not obtain a traditional loan from a major financial institution ( ZAREZANKOVA-POTEVSKA, 2017).

## 3. SEED CAPITAL FUNDS

- Seed funding is a type of equity-based funding where an investor puts capital into a business during its initial /starting stages in exchange for equity stake in the company. The business owner receives capital to fund their idea, and the investor acquires a share of ownership in the business. (Kopp, 2019)
- Sources of seed capital funds can come from friends / family, business angels investors, etc. (ZAREZANKOVA-POTEVSKA, 2017)
- This type of funding is usually extremely risky as the company has not fully been established yet (ZAREZANKOVA-POTEVSKA, 2017).

a. **4. Small business banks** are usually more conventional ways of obtaining funding for starting entrepreneurs / businesses that help finance its growth and expansion. These small business banks are generally created from sources such as government financial support as larger commercial banks are usually not willing to contribute. This is an effective alternative funding solution for starting entrepreneurs who lack previous experience / credit (ZAREZANKOVA-POTEVSKA, 2017) .

## Who's lending to small businesses



Source: Fed banks' survey of small-business owners  
Note: Bars show approval rate by lender type

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## Why Credit Guarantee Schemes Matter



Access to Finance, in particular to credit, is a critical enabler for the growth and development of small and medium enterprises (SMEs).



SME credit markets, however, are notoriously characterized by market failures and imperfections.

### THE TRILLION DOLLAR GAP

In emerging markets and developing economies, between 55 to 68 percent of formal SMEs are either unserved or underserved by financial institutions, leading to a total credit gap estimated in the range of \$0.9 to \$1.1 trillion.<sup>1</sup>

The World Bank. (2019). Worl Bank. Worl Bank. Retrieved from <https://www.worldbank.org/en/topic/financialsector/publication/principles-for-public-credit-guarantee-schemes-cgss-for-smes>

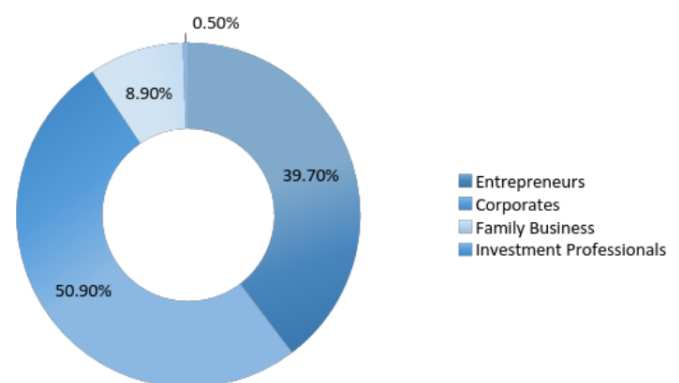
## 6. BUSINESS ANGELS

a. Business angels are individuals who invest their own money to provide capital for the development of a business venture. The business angel does not usually only provide money but rather also has interest in guiding a starting entrepreneur or becoming their mentor. They provide a network of connections and resources to help the entrepreneur and usually want a share in the company as well (ZAREZANKOVA-POTEVSKA, 2017).

## 5. CREDIT GUARANTEE FUNDS

a. Credit guarantee funds are usually in place to guarantee repayment of a loan (generally 80%) (ZAREZANKOVA-POTEVSKA, 2017). It is a loan that another group/organization takes up the debt obligation for in the circumstance that the borrower is unable to return the credit taken from the bank. A loan repayment can be guaranteed by a governmental party (Kagan, 2019) .

### Angel Investors by Experience



### Majority of investors are Senior Corporate Executives and Entrepreneurs

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