

Influence of Microcredit on Individual Entrepreneurship

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Abstract. In recent years, with the deepening of inclusive finance's strategy, China's microfinance service system and supporting policies have made remarkable progress-from product supply expansion, interest rate marketization reform to regulatory details optimization, and gradually build a financial support network covering urban and rural areas and connecting small and micro entities. This study explores the impact of microcredit on individual entrepreneurship and Small and Micro Enterprises (SMEs) and promotes some suggestions based on the existing shortages of the system. By concluding past essays, this study finds out positive influences of microcredit on the inception and subsequent development of individual entrepreneurship. However, microcredit products' differentiation, completion and risk control of microcredit-providing institutions still need to be improved in order to empower more members of disadvantaged groups to start businesses. The finding contributes to the support of universal effect of the microcredit and benefits the future development and completion of microcredit service system. It also underscores the importance of microcredit on SMEs and individual entrepreneurship.

Keywords: Microcredit; individual entrepreneurship; small and micro enterprises; disadvantaged group.

1. Introduction

The idea of inclusive finance first appears in the book *Banker to the Poor: Micro-Lending and the Battle Against World Poverty* [1]. The influence of microcredit on individual income has drawn growing public attention. Longing to increase SMEs to boost economic development, growing number of countries now focus on microcredit service systems improvement. Indeed, with the development of technology and complement of policies, microcredit system is steadily expanding its reach and influence. According to the report of The People's Bank of China (PBOC), until the end of June 2025, the microcredit in China had reached 35.6 trillion yuan, which is a significant increase [2].

However, whether the influence of microcredit is universally effective or heterogeneous effective has long been debated. Study supports that it is universally effective stands that microcredit provide improvement to income inequality [3]. Other studies support that it has heterogeneous effect. For instance, it is pointed out in a study that microcredit has no obvious effect on families with low and middle income but has positive effect on families with high income, and the intensity of the effect depends on extent of business experience of the family [4]. What is the real influence of microcredit on individual entrepreneurship? How can we enhance the efficiency of the service? These questions are meaningful to improvement of microcredit system and development of disadvantages groups.

This study will conclude past essays and explore the influence of microcredit on individual entrepreneurship. First, the study concludes the evolution and key tool of the microcredit policy mainly based on policies in China. Second, it will explore the positive influence on individual entrepreneurship. Then, based on the existing problems concluded in the previous studies, this paper will propose some suggestions for the improvement of microcredit system.

2. The Evolution and Key Tool of the Policy

2.1. Evolution

The evolution process of microcredit policy consists of three stages. First, from 2004 to 2012, policies mainly focused on solving the financing constraints of micro entrepreneurs in rural and

underdeveloped areas. Joint-liability group leading policy was published in 2005, organized by Rural Credit Cooperatives (RCCs). Furthermore, nearly 97 percent of RCCs offered microcredit for farmers in 2005 [5]. Hence, in this period, microcredit services are mainly served in undeveloped regions. The second period is from 2013 to 2019. In this time, microcredit policies turned from poverty alleviation-focusing to commercial sustainability. The Income of farmers increased significantly by 12.4 percent in 2013, according to a report published by the National Bureau of Statistics of China (NBS). Thus, microcredit switched its aim from simply solving financial problems in rural and undeveloped areas to improving commercial sustainability for SMEs. Published in 2013, paper from Chinese state council proposed to improve commercial sustainability of financial services provided for SMEs. In 2015, Chinese state council emphasized the importance of completion, expansion of coverage, and increment of satisfaction of financial services for SMEs. Thus, microcredit service is no longer restrained in specific areas but has steadily increased coverage around the country in this phase. From 2020 to 2025, the policy making enters the third stage which is diversification and use of technology. In 2020, PBOC underlined the importance of diversified development and use of technology in improving the service level of micro finance. In 2023, National Financial Regulatory Administration (NFRA) also calls for promoting the digital transformation of micro finance services. Hence, during this stage, financial institutions launch a series of specialized loan products for SMEs and experience a digital transformation.

2.2. Key Tool

There are mainly three key tools of the microcredit policy. Increasing loan ceilings and lowering interest rates is the first key tool. According to the policy published in 2023, personal entrepreneurship-related loan ceiling reaches 300,000 yuan in most regions in China. In some regions, such as Shanghai, the ceiling even reaches 500,000 yuan, according to policy published by Shanghai government. Furthermore, the 2024 related policy proposed that government would offer full interest subsidies on individual credit for eligible SMEs. Enhanced loan ceilings and lower interest rates further release pressure of financial constraint for entrepreneurs. The second key tool is the low guaranteed fee rate. Based on the guidelines published by Chinese state council, guarantee fee rate for SMEs and Agriculture, Rural Areas, and Farmers (ARAF) whose individual guarantee amount is less than 500,000 yuan should be less than one percent. Innovation for credit approval is the third key tool. Credit approval has been difficult for most of the SME entrepreneurs since they lack ways to prove their credit level. Financial institutions now use various data as credit assessments such as online transaction records. Stable online transaction records can serve as a signal of stable income and further prove the ability to pay back. Implementation of tax-backed credit loans is another example. If one is able to avoid tax evasion, he proves to be trustworthy. Additionally, use of AI for credit scoring also eases the approval of credit. For instance, Webank uses a Federated Learning Model to assess personal credit. This technology allows the bank to precisely calculate credit level of customers with the protection of customers' privacy. Both low guaranteed fee rate and innovations on credit approval lower the barriers to entry for starting a business, paving the way for more SME entrepreneurs.

3. Positive Influence on Individual Entrepreneurship

3.1. Reducing Entry Barriers by Alleviating Financing Constraints

Because of the ease of approval to microcredit compared to other credits and low interest rate required, financial entry barriers are reduced by provision of microcredit which eases the startup of individual entrepreneurship. The study shows that financial resources, which microcredit provides, contribute to development of entrepreneurship [6]. What's more, microcredit positively affects low-income female entrepreneurship in Sri Lanka by addressing the shortfall of starting capital [7]. Thus, financing constraints, a surmountable barrier of individual start-ups for majority of people, is

alleviated by obtaining microcredit. This encourages establishment of more individual businesses by entrepreneurs from various backgrounds.

3.2. Promoting Innovation and Expansion

Microcredit serves as a significant role in long-term development of individual entrepreneurships by providing financial aid to their innovation and expansion. Lending services, including microcredit, are figured out to be helpful in innovation improvement of SMEs [6]. In addition, an increase in sales and stocks is one of the benefits that 93.8 of 152 recipients of micro finance service gained from micro credit, according to a study done in Makeni City [8]. Therefore, with microcredit, individual entrepreneurship is more likely to increase market share and improve product innovation due to sufficient financial support. Innovation of product lines is crucial factors for attraction and exploitation of diverse potential customers and for maintaining existing customers by bringing fresh to them. Furthermore, expansion allows the company to benefit from lower average cost due to mass production. Thus, both are favorable to future development of corporations.

3.3. Increasing Employment and Stimulating Economic Activation

Increased and expanded individual corporations create more job opportunities and further stimulate local economic activity. Study shows that about thirty percent of self-employment is able to provide job opportunities [9]. This means that microcredit indirectly benefits the economic growth in a region. This benefit is also substantiated by a study in Indonesia in which microcredit is shown to have positive influence on increasing local job opportunities and stimulating local economic development [10]. Furthermore, microcredit also directly promotes employment rate by playing a critical role in the switching process from unemployment to self-employment. Lower unemployment elevates the market liquidity and expands the market cycle. With elevated market liquidity and decreased unemployment, individual entrepreneurship can also benefit from it by enhancing profit owing to growing aggregate demand.

3.4. Enhancing Entrepreneurial Opportunities for Disadvantaged Group

Female and low-income population such as farmers and the young are thought as disadvantaged group when coming to entrepreneurial opportunities since they lack capital bases and entrepreneur skills to set up individual business. The existence of microcredit can mitigate this constraint. In a case study in Jordan, micro finance plays vital role in success of female entrepreneurs [11]. Another case study in Brazil Laos shows that microcredit service positively affects female population more [12]. In addition, study conducted in rural Nepal confirms that, by providing financial support and skills training, microcredit enhance SMEs performance and sustainability [13]. Besides, it is also shown that microcredit stimulates the expansion of youth entrepreneurship in South Korea [14]. Chinese report also figures out that proportion of undergraduate entrepreneurs among the beneficiaries of business loan policy, a specific category of microcredit, increased from 18 percent in 2020 to 23 percent in 2023 [15]. This indicates that microcredit is benefiting increased number of undergraduate entrepreneurs. Micro finance services enhance entrepreneurial opportunities for disadvantaged groups by increasing their access to financial resources and improving their entrepreneurial abilities.

4. Suggestion

4.1. Differentiation

Microcredit service should increase differentiation by providing variable credit ceilings and loan term for specific customer groups such as undergraduate and disabled people. For instance, Chinese specific provinces such as Yunnan formulate microcredit policies targeted to undergraduate entrepreneurs, including providing one hundred thousand yuan unsecured, interest-free start-up loans. In addition, in some Chinese regions, different amount of interest subsidy policies is provided for

people with different grades of disabilities. Policies like these should increase their coverage and targeting precision. Study shows that there are still exorbitant barriers like high interest rate, complex approval process for disabled population to access microcredit [16]. Therefore, further completion of differential micro finance services is imperative.

Besides, microcredit services should deviate from businesses that are strongly influenced by economic cycle to those that are less influenced such as daily-life services, agriculture, and technology-based companies. This conduction can enhance the sustainability and safety of microcredit system by lowering the risk caused by unpredictable economic fluctuation.

4.2. Service System Complement and Improvement

It is shown that public's recognition of microcredit services still remains at low level [17]. Studies also suggest that microcredit institutions could use social media advertising strategy to increase service coverage [18]. Hence, microcredit-related policies and services should intensify publicity efforts to ensure majority of entrepreneurs make full use of the service by noticing relevant application requirements and benefits. Besides, lack of financial support is not the only challenge facing by entrepreneurs. Start-ups may also end up failing because of insufficient business knowledge, especially for those established by disadvantaged groups that are more likely to accept less business-related training and education before their entrepreneurship. It is shown that the combination of microcredit, training, and insurance has obvious positive correlation with entrepreneur performance, suggesting that financial institutions should provide package services like this. Study also shows that it is awareness ability training, instead of micro finance services, that is directly related to entrepreneurs' well-being. Thus, providing ability training is essential in enhancing positive effect of microcredit. Therefore, it is also necessary for microcredit institutions to combine products such as entrepreneurial training with microcredit services to attract more customers by enhancing the rate of success of start-ups after receiving their services.

4.3. Risk Control

Harsh requirements of application for credit in official banks are a traditional and long-existed problem for the promotion of micro loans. This is mainly caused by extreme prudence of banks owing to high risk they have to undertake that borrower may fail to pay back. Furthermore, microcredit borrowers are mainly those who lack of ways to prove their credit level and meet strict requirements of the banks. Hence, in order to solve this incongruity, banks should share risk with governments and insurance companies by corporations with them. Specifically, governments can provide a specific subsidy for the bank to compensate them when facing debt that can't be paid back. As for the insurance companies, loan guarantee insurance can be established so that after entrepreneurs purchase it, insurance companies will pay proportion of the debt if entrepreneurs' default. In this case, the risk is shared by banks, insurance companies, and governments, allowing banks to lend debt to more entrepreneurs.

Another way to lower the risk of the bank is to use the dynamic risk control method. By consistently monitoring the business condition of the company, banks are more likely to predict risks before entrepreneurs' default. Particularly, banks could monitor the online transaction records or customer traffic data from indoor smart cameras. If the vital signs of business conditions are lower than a specific value, a warning is sent to the bank. By doing so, banks find potential risks and are able to deal with these problems by providing support such as putting off the return date. In this case, risk of default from borrowers will decrease due to a lower business bankruptcy rate.

5. Conclusion

This finding finds that microcredit service has positive effect on individual entrepreneurs by improving their long-term development and providing increased opportunities for entrepreneurs from various backgrounds. Thus, microcredit service ought to be promoted at a wider scale and provide

more specific products for different groups of customers in order to improve the efficiency of the service and enhance the universal effect. This will benefit society by enhancing income of disadvantaged populations and stimulating economic activity.

This study objectively summarizes the impact of microcredit on individual entrepreneurship based on a comprehensive review of previous research in this field. With the study concludes that microcredit lowers the entry barrier of startups for all populations including disadvantaged ones, this study provides support to the universal effect of microcredit and refutes the argument that it has heterogeneous effect and disadvantaged groups benefit less from it.

Previous studies lack research on how provision of differential services for specific disadvantaged groups such as female and farmers can influence the universal effect of the microcredit service. As this study figures out, governments in some regions have already published differential micro finance products and this may further improve the positive effect on disadvantaged groups. Future studies can focus on research into these differential policies and their effectiveness.

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