

# Identification of Challenges Faced by Entrepreneurs in Madagascar: Case Study of Cash Point Entrepreneurs in Toliara City

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**Abstract:-** Cash point entrepreneurs are those who act in facilitating payment via mobile money service within the unbanked population. They are partner with the mobile phone operators, acting as an agent distributor to facilitate community's lives by providing deposit, withdrawal and transfer of money through their kiosk that exist everywhere in the country.

This study uses a qualitative approach with a case study design, in which researcher tries to identify the challenges faced by cash point entrepreneurs in Madagascar. Data collection techniques include participant observation, in-depth interviews, and documentation studies.

The findings of this study can be described as follows. First, the importance of cash point entrepreneurs in developing economy: (1) working as a traditional bank agent; (2) improving access to financial services; (3) facilitate the deposit, withdraw and transfer of money; (4) supporting bill payments and marketplace purchases; and (5) financial resilience. Second, the challenges faced by cash point entrepreneurs in Madagascar: (1) internal factors such as financial limitation and wrong cash point store location; (2) external factors such as network error, lack of operator support, small commissions and rewards, and insecurity issue.

**Keywords:-** Challenges; Mobile Money; Cash Point; Entrepreneurs.

## I. INTRODUCTION

As a result of the high unemployment rate and poverty, numerous people have been inspired to be creative and launch their own enterprises and this is the most important reason for them to choose the entrepreneurship way (Gindling and Newhouse, 2014). People expect that "by having a large income, it is easily to enjoy a pleasant life, free from debt bondage, and have an adequate life" (DeGhetto, Gray & Kiggundu, 2016). Entrepreneurs are individuals who build and develop business. They combine various factors of production to create a profitable new venture or business (Tchamyu, 2018). Entrepreneurs themselves are an important factor of production and an essential aspect of the usefulness of a free-market economy (Asongu & Odhiambo, 2017). Entrepreneurship is crucial to promoting and achieving economic development, wealth creation, and job creation

(Nieman, 2001). Entrepreneurship is described as the process of "discovering, evaluating, and pursuing opportunities to generate future goods and services" (Shane & Venkataraman, 2000). It is impossible to overstate the importance and role of the entrepreneurial sector in the economy. The country's social and economic development can be facilitated by entrepreneurship.

Entrepreneurs are often considered a national asset to be developed, motivated, and financially supported as much as possible. Great entrepreneurs have the ability to change the way people live and work (Nieman, 2001). If entrepreneurs succeed, the innovations they develop can raise living standards (Agwu et al., 2017).

Since the scope of entrepreneurship is broad, it is imperative for researchers to recommend regional context definitions. As this study focuses on Madagascar, a developing country, much emphasis will be placed on the context of entrepreneurship in developing countries. Indeed, the theory of entrepreneurship within developing countries has become a constant area of interest due to the rise and complexity of entrepreneurial activity in the Global south. It is worth nothing that, entrepreneurship has been used interchangeably in literature related to developing countries (Acs & Virgill, 2009). Prominent among the economists who have attempted to define and describe entrepreneurial activities in developing countries is Harvey Leibenstein. He theorizes that, "entrepreneurship in least developed countries involves the creation of channels for input supply and/or for sale of outputs, in conditions where routinized market mechanisms such as exist in the more developed economies are not available" (Leibenstein, 1968). In his work, *Entrepreneurship and Development*, Leibenstein (1968) further explains that in developing countries, markets are neither well defined nor efficient. So, the entrepreneur must fill these market inefficiencies by adopting four principal roles: a gap filler, an input-completer, a connector of different markets, and a creator of firms to enhance economic activity and efficiencies in the market (Leibenstein, 1968).

Additionally, Leff (1979) proposed that, "in an underdeveloped country, entrepreneurship may take on dimensions that are absent or less important in more-developed economies. He argues that in developing countries, the success of entrepreneurship during its "intervening years" resulted in the rise of "oligopoly capitalism" and inequality, which created problems in these countries. According to Leff, the success "has led to serious economic distortions .... developing

countries have taken factor-market imperfections and transmuted them into product market imperfections” (Leff, 1979). Leff’s theory maintains that the conditions of entrepreneurs in developing countries may constrain development. His hypothesis was later emphasized by Baumol (1990) and has been formalized more recently by Acemoglu (1995), Mehlum et al. (2003), and Naude (2011) among others.

More importantly, Leff (1979) found that the problems in developing countries accentuate the disadvantages and gaps that the entrepreneur faces. These problems include, and are not limited to, the prevalence of incomplete and imperfect markets, the lack of capital markets, and the increased amount of uncertainty due to poorer information and rapid structural changes (Leff, 1979). These issues create major challenges for the entrepreneur to thrive and, so in developing countries, the entrepreneur tends to be her own banker while being more “involved in the psychological capacity of perceiving new economic opportunities and entering them with an aggressive investment policy” (Leff, 1979).

In the context of Madagascar, this study does not cover all the entrepreneurship case that exist in the country, it is limited to the mobile money or cash point entrepreneurship ‘case, more precisely the challenges faced by the cash point entrepreneurs in Toliara city of Madagascar. Mobile money is one of the innovative service models introduced by banks and other financial service providers such as mobile network operators (Paul, 2012). It has also been described as a new aspect of e-banking, providing a rich platform for automated banking and other financial services unlike traditional banking services (Zhou, 2010).

Mobile money is depicted by Donner & Tellez (2008) as referring to customers who conduct banking operations on their mobile device. Rajnish & Stephan (2007), among other authors, define mobile service as the delivery and use of banking and financial services through mobile telecommunications devices. The range of services available can include tools for trading on the stock market and in banks, as well as for accessing personalized data and managing accounts. Mobile money is defined by Porteous (2006) as incorporating mobile payments as well as access to a wider range of financial services via mobile devices, such as account-based savings or transactional products provided by banks and financial operators. According to Porteous, both mobile payment and mobile banking are subsets of the larger fields of e-payment and e-banking, respectively. He defined mobile payment as financial transactions carried out utilizing mobile devices such as a mobile phone.

Numerous services are supported by mobile money. It is acknowledged as a driver for socio-economic growth in emerging markets (Nir & Acharya, 2012). It helps on facilitating transfer of funds between people, which is crucial for developing economies since it gives unbanked people access to financial services. Nir & Acharya (2012) assert that it has facilitated disaster recovery and emergency response as well. Financial firms view mobile money as branchless banking because they have had trouble offering profitable banking services through conventional channels (Donner & Tellez,

2008). In a similar view, mobile money provides a range of banking services, such as micropayments to vendors, utility bill payments, person-to-person money transfers, and long-distance remittances (Donner & Tellez, 2008).

In addition to these advantages, Wessel & Drennan (2010) note that mobile money may be advantageous to everyone in many diverse ways. This is possible if everyone, including households, governments, and commercial providers, has access to secured savings accounts offered through technology-enabled retail networks and linked to the national payment systems. Wessel & Drennan make the point that poor people would benefit more from mobile money because it allows families to build up balances for one-time investments in their activities. Additionally, it helps in protecting individuals from unforeseen catastrophes and establishing a connection to the larger economy through electronic transfers, wage payments, and social contributions.

## II. METHOD

### A. Research Design

This study uses a descriptive qualitative method with a case study design. The case to be described in this study is the challenges faced by cash point entrepreneurs in Madagascar. As stated by Creswell (2014: 19) that "a case study is design research in which the researcher develops an in-depth analysis of a case, often a program, event, activity, process, or one individual or more". To achieve the objectives of this study, researcher conducted interviews with cash point entrepreneurs in Toliara city of Madagascar.

For the purpose of this study, research is the main data collection tool. Researcher conducted interviews through cell phones with informants and made study documentation.

Researcher’s presence occurred in three phases, namely: the orientation phase, the exploration and the member check phase.

### B. Data Collection

The data collection process has been carried out by conducting interviews with the informants. In addition, relevant documents about the entrepreneurship in developing country has been also examined.

### C. Data Analysis

This qualitative research uses a case study design, data analysis is carried out, namely individual case analysis. The analysis data presented in this study are in the form of verbal words with variations in quantity, quality, and intensity. This diversity needs to be processed to make it more concise, systematic and meaningful. Data processing starts from writing down the results of observations, interviews, then editing, clarifying, condensing to presenting the results.

**III. FINDINGS AND DISCUSSION**

*A. Findings*

Based on the data obtained from the field through observation, interviews and documentations, the importance of cash point entrepreneurs in the economy of Madagascar are stated in the following table 1.

*Table 1. The importance of cash point entrepreneurs*

The importance of cash point entrepreneurs
➤ Working as a traditional bank agent
➤ Improving access to financial services
➤ Facilitate the cash-in and cash-out transactions
➤ Supporting fund transfers between person to person
➤ Supporting mobile phone airtime purchases
➤ Supporting internet data purchases
➤ Supporting bill payments
➤ Helping the community to deal with more inclusive marketplace
➤ Financial resilience
➤ Increasing financial inclusion in rural and hard-to-reach areas

At every stage in life, it is normal for a problem to arise. Everyone hopes to have a perfect life without experiencing problems and challenges, and away from risks. However, we must always be aware that the occurrence of problems and obstacles in life can strengthen and assist in growth to move towards a more success way. In the world of entrepreneurship, entrepreneurs can also feel and experience various obstacles and challenges, hence the challenges they face can be classified in two different part which are the internal and the external factors-based problems. The findings of the internal factors-based challenges are stated in the following table 2.

*Table 2. Internal factors-based challenges*

Internal factors-based challenges
➤ Financial limitations
➤ Employee skills and competency
➤ No clear business goals and objectives
➤ Lack of patience
➤ Mistake on choosing the right cash point location

The following table 3 shows the findings of the external factors-based challenges.

*Table 3. External factors-based challenges*

External factors-based challenges
➤ Government regulation and policies
➤ Corruption within the procedure of becoming a formal sector
➤ Operator network error
➤ Operator support
➤ Small commissions and rewards from the operator
➤ Procedure for borrowing money from a bank is complicated
➤ High rate of bank interest
➤ Lack of access to electricity
➤ Problem of insecurity

*B. Discussion*

Different characteristics make Africa a favorable market for the establishment of Mobile Money: a low banking rate, a scarcity of small denominations, a high rate of telephone equipment, a significant network of telephone companies and a strong need for transfer of money from cities to more remote areas (Afutu-Kotey et al., 2017).

With many unbanked people and a low rate of equipment in Total Potential Exposure (TPE) of traders, "cash" transactions have an important place in Africa since long time, whether for deposits, withdrawals, transfers of money, paying electricity bills, settling rents or online shopping (Asongu & Asongu, 2018).

Talking about the reasons for the success of mobile money in Africa, initially, the objective of phone operators is commercial: to retain a volatile customer by facilitating mobile credit recharges. Now, it is more like a daily need of customers (Asongu, 2013). It becomes easier for people who live in the city to transfer money to their families who have remained in rural areas through the Mobile Money solution (Murendo et al., 2018).

Concretely, with the basic services of Mobile Money, the users can credit their phone, pay bills, make payments/transfers between individuals or merchants/big brands. The enrollment is easy: an identity document and a telephone number are enough to subscribe to the solution (Lashitew et al., 2019).

For more than ten years, Mobile Money in Africa has done much more than address a real need. It is a solution that allows financial inclusion and therefore the social development of the unbanked populations of the region, in particular rural people, women and entrepreneurs / traders in the informal sector. For the banks, the service is like a catalyst that facilitates the challenges of winning over unbanked populations (Asongu, 2015).

Talking about the obstacles to the development of the mobile money, for governments, this solution appears to be an undeniable source of tax revenue. In Madagascar, mobile telephone operators have been subject of a tax of 7,2 % of turnover of monetary transactions via mobile money service since January 2019 (Asongu & Nwachukwu, 2016). This may raise questions about a possible brake on the growth of services offered by telephone operators in the years to come.

Other obstacles exist. Like all financial institutions, telephone operators are required to identify users of Mobile Money. Simple and quick identification have to be done to strengthen the safety and the transparency of the services, but it is not yet optimal and it is not as regulated as the verification carried out in the traditional banking establishments (Waverman & Koutroumpis, 2011).

Mobile Money is then a part of everyday life in Africa and allow to address certain development needs in the region, for example financial inclusion, a development factor (Asongu & Asongu, 2018). The tax and regulatory constraints that have

emerged in recent years, although a priori binding, represent opportunities for innovation combining compliance with regulatory requirements, simplicity of the process and fluidity of the customer experience (Asongu & Nwachukwu, 2016).

To optimize and maintain the proper functioning of these mobile phone operators, more precisely the cash point services, all entrepreneurs dealing with the field play a very important role. Their main missions are to register new customers, to manage customer transactions (deposit and withdrawal), and to inform customers about the services (Minkoua et al., 2018).

However, doing business in Madagascar is not for someone with a weak heart. There are significant challenges that must be overcome (Asongu & Asongu, 2018). The good news is that entrepreneurs are made of tough stuff and will see every challenge as an opportunity to create a competitive advantage (Mas & Morawczynski, 2009). Perhaps the most glaring of all issues, raising startup finance is challenging for the majority of Madagascar entrepreneurs' start-ups. Entrepreneurs and small business owners confront many challenges while trying to grow their companies, such as the inability to assess financial offers, a lack of financial knowledge, and difficult access to venture capital (Ariss, 2010). Paul (2012) states that, "access to finance is arguably the biggest threat to entrepreneurs around the world. And more importantly for the passionate African entrepreneurs who will most likely end up and abandoning their business at an early stage due to the lack of proper capital".

Even though Madagascar's funding challenges are considered as being resolved, there is still a large infrastructure deficit that needs to be filled. The government must supply fundamental requirements like safe roads, an effective transit system, high-speed internet, consistent energy, and security in order for businesses to prosper (Asongu & Nwachukwu, 2016).

Competition is also another major issue for entrepreneurs. The general trending is that customers prefer to deal with companies that already have a good reputation and are well-known in their particular location (Koetter & Vins, 2008). Although this can be a significant challenge, it is not insurmountable. New startups entrepreneurs need to make sure that their business concepts are original, creative, and consistent with their sector (Boateng et al., 2018).

Moreover, for mobile money operators, it is required to guarantee the operational excellence of the mobile money solution they provide to the states (Mas & Morawczynski, 2009). They have to find in its deployment several opportunities such as to reach new customers, reactivate inactive users, increase the volume of transactions and increase their recipes for the continuous improvement of the customer experience and the development of the ecosystem (Issahaku et al., 2018). There is no doubt that mobile money transactions 'efficiency can be a lifesaver for families dealing with unanticipated challenges like unforeseen health problems and natural disasters. Family members and friends can send money each other quickly at any time (Mas & Morawczynski,

2009). Paul (2012) states that "mobile network operators play a major role in the provision of mobile money and improving financial inclusion". As a provider, they should continue to offer useful services and contribute financial inclusion, and an enabling regulatory environment (Abor et al., 2018). Environment has a considerable impact on both the development of the mobile money market and on the financial inclusion (Gosavi, 2018).

Apart of that, Government policies, a favorable business climate, and the economy are also another challenges. With leadership, everything rises and falls, just like it happens in other facets of life. Starting a business can be difficult due to a variety of government policies and restrictions, depending on the industry (Ariss, 2010). "A business-friendly environment can be created only when political leaders and policymakers constantly review their business policies across all sectors" (Humbani & Wiese, 2018).

#### IV. CONCLUSION

Based on the results of the research findings and discussion, it can be concluded as follows: (1) the importance of cash point entrepreneurs in developing economy: a) working as a traditional bank agent; (b) improving access to financial services; (c) facilitate the cash-in and cash-out transactions; (d) supporting fund transfers between person to person; (e) supporting mobile phone airtime purchases; (f) supporting internet data purchases; (g) supporting bill payments (electricity, water, school fee, ...); (h) helping the community to deal with more inclusive marketplace; (i) financial resilience; and (j) increasing financial inclusion in rural and hard-to-reach areas. (2) Identification of challenges faced by cash point entrepreneurs: first, for the internal factors-based challenges: (a) financial limitations; (b) employee skills and competency; (c) no clear business goals and objectives; (d) lack of patience; and (e) mistake on choosing the right cash point location. Second, for the external factors-based challenges: (a) government regulation and policies; (b) corruption within the procedure of becoming a formal sector; (c) operator network error; (d) operator support; (e) small commissions and rewards from the operator; (f) procedure for borrowing money from a bank is complicated; (g) high rate of bank interest; (h) lack of access to electricity; and (i) problem of insecurity.

Suggestions are made to the following parties: (1) for the government, (a) government should foster an entrepreneurial spirit among citizens in order to encourage the creation and development of businesses, and the remuneration of investment in the service of employment; and (b) play the role of facilitator and ensures the security of its entrepreneurs. (2) For mobile network operators, (a) to increase their support service toward their partners; and (b) to evaluate the bonus and reward allocated to their partners in manner to increase their motivation. (3) For cash point entrepreneurs, (a) to focus on the strategic management of their business; and (b) to always have a positive and a patience mindset while running their business. And (4) for other researchers who are interested in conducting further research on this research topic, the result of this study would help to develop and explore more deeply the aspects



related to the challenges faced by entrepreneurs in other developing countries.

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