

# Implications of Access to Microcredit and Social Capital for Female Entrepreneurship in Cameroon

By

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## EXECUTIVE SUMMARY

By investigating the effects of microcredit and social capital on female entrepreneurship in Cameroon, this study attempts to:

- (a) Construct a social capital indicator for Cameroon;
- (b) Identify individual and community characteristics that affect female entrepreneurship; and
- (c) Compare welfare outcomes for female entrepreneurs having access to both social capital and credit with those of their counterparts, who do not have such access in Cameroon.

Results indicate that the main cause for women constituting social capital is purely for financial reasons. Microcredit, social capital literacy, health, experience, proportion of

active household members and access to electricity increase the probability of female entrepreneurship in Cameroon.

Lastly, welfare levels among female entrepreneurs with access to both microcredit and social capital dominate that of those with neither access to social capital nor access to credit.

Policy implications indicate that promoting microcredit access and networking among women, ameliorating the climate, and encouraging female entrepreneurs to increasingly venture into formal sector activities, would be instrumental in encouraging female entrepreneurship in Cameroon.

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## INTRODUCTION

Given the important role women play at the familial and societal levels, empowering an entrepreneurial woman makes a sound case for sustainable development, and increasing household and societal welfare. Difficulty in accessing microcredit may push the entrepreneurial woman to use social capital as an asset to obtain funds to start a business.

Take for example the following story: Violet is a young lady working at a “call box”, selling airtime in an impoverished locality in Yaoundé. Needing less than USD 100 to start her business, she could not venture to apply for microcredit because she had no collateral. Being ingenious she joins a local “njanguï”, a meeting group or an association. Her goal is to borrow funding and ensure her colleagues in this association become her main clients. Violet’s story is that of thousand female entrepreneurs who need either microcredit or social capital to start or run their petty trading activities in Cameroon.

According to Alvarez and Barney (2006), entrepreneurial action is perceived as any activity entrepreneurs might take—including identifying opportunities, amassing resources to take advantage of existing opportunities, generating and appropriating the economic profits created by exploiting such opportunities, and producing new products or services.

Microfinance for loans (known as “microcredit”) is the provision of small-scale financial services to poor and vulnerable people who lack access to traditional banking services (Khander, 2001; Karland and Golberg, 2007). By and large, several studies indicate that access to microfinance can help reduce poverty, (Yunus, 1999; and Duflo et al., 2009) among women in particular (Sikod and Baye, 2010).

As for social capital, it is considered as features of social organizations, such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated actions (Portes, 1998; Coleman, 1990). Associations and networks constitute a vital aspect of social capital for start-ups, growing firms and women entrepreneurs.

This is especially true in developing countries where formal social connections are a source of information on how to access micro-finance (Olomola, 2002).

Understanding how microcredit and social capital relates to female entrepreneurship in Cameroon offers important input into the policy debate. It may help create an efficient mix of policies geared at identifying ways of encouraging female entrepreneurship in Cameroon.

The main objective of this research was to assess the effects of microcredit and social capital on female entrepreneurship in Cameroon. Specific objectives were: (a) to construct a social capital indicator for Cameroon using the 2007 Cameroon household consumption survey; (b) to identify individual and community characteristics that affect female entrepreneurship overall and by location; (c) to investigate welfare outcomes for female entrepreneurs having both access to social capital and credit, compared to those entrepreneurs who do not have access to social capital and credit in Cameroon; and (d) formulate policies on the basis of findings emanating from this study.

**Policy implications indicate that promoting microcredit access and networking among women, ameliorating the climate, and encouraging female entrepreneurs to venture into formal sector activities would be instrumental in encouraging female entrepreneurship.**

## METHODOLOGY

Using the third Cameroonian household consumption survey undertaken by the National Institute of Statistics in 2007, the methodological framework used in this study combines three different methodologies, each targeting specific objectives. First, we use the multiple correspondence analysis (MCA) approach to construct a synthetic indicator for social capital. Second, we adopt a Logit regression framework to identify individual and community characteristics that affect the probability of being a female entrepreneur in Cameroon

focusing on access to credit and social capital. Third, we use standard welfare indices and dominance analysis framework to evaluate gaps in welfare between female entrepreneurs having both social capital and credit against female entrepreneurs being only able to access credit.

## RESULTS

Results indicate that:

- The main driver for female entrepreneurs in Cameroon to constitute social capital is purely financial. Other variables that push female entrepreneurs to constitute social capital are the need to belong to an association, the position occupied in an association, the type of association, the ability to receive help from family or from relations and belonging to a religious orientation. Inversely, being married does not contribute favourably in the construction of social capital for female entrepreneurs. A potential explanation may be pointing to a possible trade-off between activities in an association and household duties for married women, which decreases efforts in constituting their social capital.
- Microcredit and social capital largely increase the probability of female entrepreneurship in Cameroon. Other variables that increase the probability of being a female entrepreneur are literacy, health, experience, proportion of active household members and access to electricity. Among others, some variables that may reduce the likelihood of a woman to undertake entrepreneurial activities were corruption, regional unemployment levels, household size and working in the formal sector.
- Comparing welfare outcomes, inequality within the group of female entrepreneurs who had neither social capital nor access to credit was higher than those female entrepreneurs who had both access to social capital and credit. Furthermore, those female entrepreneurs who had neither some form of social capital nor accessed credit were less well-off than their corresponding counterpart. For the inequality dominance, the distribution of female entrepreneurs who had access to social capital and credit largely dominated those who had only access to credit over the entire distribution. Concerning the poverty dominance analysis, female entrepreneurs who enjoy higher levels of welfare are those who had access to social capital and credit, and they were more well-off than those who only had access to credit.

## RECOMMENDATIONS

This study derives its policy relevance from the 2009 Cameroon Growth and employment Strategy Paper (GESP), which indicates the important role of creating enterprises that will employ individuals and reduce unemployment for sustainable growth. Policy should aim to:

- Scale down corruption and improve microcredit by formulating legislation that encourages group lending by the Ministry of Small and Medium Size Enterprises and the Ministry of Finance. This legislation should focus on rural areas and women's associations. Special dispensations should be taken in case these associations do not have enough collateral to enable them to borrow. This could be made possible by creating government agencies specialized in providing backing, when necessary;
- Enact legislation that harnesses procedural formats in organising the informal sector and local associations to network and increase the radius of trust. Legislation should be eased for enterprises that want to switch from the informal sector to the formal sector. This legislation should be more tolerant for female entrepreneurs by fast tracking their administrative procedures. Special offices can be open to accompany female entrepreneurs deciding to switch to the formal sector. Sensitization campaigns can be designed, which focus on female entrepreneurs in semi-urban areas. These campaigns may adopt a participative approach when designing their strategies;
- Improving access to education and training that empower women and rural dwellers, enabling them to accumulate assets or increase returns on existing assets. Educational programmes that are accessible and focus

on managerial actions should be taught to female entrepreneurs. A school of female entrepreneurs might be created in collaboration with the Ministry of Vocational Training to train

young women with nascent entrepreneurial activities. This may reduce their vulnerability to idiosyncratic shocks and helps them acquire skills to boost their entrepreneurial activities.

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