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# Microfinance Institutions' Criteria on Small Business Financing in Cameroon

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**ABSTRACT**

This study uses MFIs as a unit of analysis to examine the factors of human, financial and social capital that increase the financing of microenterprises' identification of opportunities and exploitation in Cameroon .To attain this objective, a questionnaire was used to collect data from 207 MFIs and analyzed using descriptive and multiple linear regression models. The results revealed that when it concerns the financing of opportunity identification, only human capital variables of Prior knowledge and Business training increase the financing of microenterprises by MFIs in Cameroon. Regarding the opportunity exploitation on the contrary, accumulated business knowledge, business skills and customer networks positively and significantly boost the financing of microenterprise owners by MFIs in Cameroon.

Keywords: Cameroon**;** Financing, Human, financial and social capital; Opportunity identification and exploitation; Microfinance; Microenterprises.

JEL Codes**:** G21; G32; L22; O15

## I. Introduction

Finance is critical for the development of enterprises (Ramadani, 2012) as it provides financial capital for the production of goods or services. The firm in carrying out its activities generates income that permits it to finance its operations. In other words, by creating value, the enterprise reduces its cost of capital. It also shows its capacity to generate revenue necessary for debt financing which not only creates confidence and long-term relationships but offers many financing benefits to the business (Diamond, 1984; 1991). But market conditions and friction do distort such financial relations (Myers, 1977) especially as concerns the financing of small businesses like microenterprises.

Due to the nature of their operations, microenterprises have difficulties meeting the criteria to obtain financing from formal financial sector. For instance, most microenterprises in developing countries are informal and use informal sources of finance (Brau, Cardell & Woodworth, 2015; Montalieu, 2002). As such, they cannot afford physical and financial collaterals or adequate information required for their financing and as a result, become excluded from formal financing. The need to satisfy this marginalized segment of borrowers from classical banks has led to the emergence of alternative sources of funding especially from microfinance institutions.

The modern microfinance started its activities in the 1970s when Muhammad Yunus lent from his own pocket to poor women of Chittagong in Bangladesh to enable them expand their business activities (Etsy, 2011). Subsequently the Grameen Bank was created in 1976 to formalize such financial services. Microfinance was then considered an innovation which combined the technologies of commercial banks and informal financial institutions. Microfinancing invariably introduced new variables such as human and social capital that were either not taken into account or were given little attention in lending by commercial banks (Woolcock, 1999). According to Lochner et al. (2002), Unger, Rauch, Frese & Rosenenbusch (2009) and Panda (2016) human, financial and social capital play important roles in the financing of the microenterprises. In Cameroon, many microenterprises are still excluded from regulated sources of finance despite that they are more than 45% of enterprises operating in Cameroon economy (Informal Sector Enterprise Survey, 2010). According to the Survey of International Labour Organization (ILO) (2017), only 9.4%% of microenterprises have access to formal sources of finance in Cameroon made up of commercial banks: 2.8%, the Government: 0.2% and Regulated Microfinance Institutions: 6.5%. This then shows how is acute for these enterprises to get finances in Cameroon. The main reason justifying the exclusion of these enterprises from financing is their lack of financial and physical collaterals and their high cost of financing (Messomo, 2013c). Microfinance uses mechanisms like social proximity and collateral, social intermediation to finance microenterprises and to empower microbusinesses'owners. These instruments are associated with social and human capital respectively. The latter contributes to the development of financial capital in entrepreneurship. The resource-based entrepreneurship theory (Alvarez & Busenitz, 2001) acknowledges this and recognizes that entrepreneurs are owners of many types of resources that are financial, human and social capital. They enable them to be successful in entrepreneurship. We extend this theory to financing to examine what factors of financial, human and social capitals increase the financing of microenterprises by Microfinance Institutions at two levels of financing that are opportunity identification and opportunity exploitation in Cameroon?

The aim of this paper is to examine the factors of financial, human and social capital that increase the financing of microenterprises by MFIs at the opportunity identification and exploitation in Cameroon. We expect to show that MFIs use financial, human and social capital factors at opportunity identification different from the ones of opportunity exploitation to finance microenterprises in Cameroon. Additionally, we show that financial, human and social capital increase the success of financing of microenterprises in Cameroon as stated by the entrepreneurship resource based theory. Based on the above, we generate for this study two hypotheses as follows:

*$H_1$:* Personal savings, education, business training and prior knowledge, family and friends networks and business networks increase the financing of Microenterprises' opportunity identification by MFIs in Cameroon.

*$H_2$:* Repayment capacity, income reinvestment, accumulated business knowledge, business experience, business skills and customer networks augment the financing of Microenterprises' business exploitation by MFIs in Cameroon.

Our study contributes to the existing literature in three ways: First it shows the nature of enterprises' capital amongst financial, human and social capital that increases the financing of microenterprises by MFIs in Cameroon. Second, it shows the nature of the successful capital

factors of capital above that increases the financing of microenterprises at the opportunity identification and exploitation by MFIs in Cameroon. Third, it enables also to understand whether the capitals related to the entrepreneurship resource based theory contributes to the successful financing of microenterprises by MFIs in Cameroon.

The rest of the paper is organized as follows. Section 2 reviews the literature of the financing of microenterprises based on financial and social capital. Section 3 presents the methodology while section 4 provides the empirical results and Section 5 concludes the study.

## II. Literature Review

### *A. Financial, human and social capital of Microenterprises and the theoretical framework*

Enterprises have various definitions depending on the variables considered. They are defined as units having the same legal status with business owners (Severino & Pecoud, 2008). They also have between one and nine employees. This category constitutes 79% of microenterprises in Lesotho, 61% in Malawi and 47% in South Africa (Montalieu, 2002). The businesses use archaic methods of production and belong mostly to the informal sector (Mayoux, 2001 & Chowdbury, 2009). Among others, financial, human and social capital indicators are critical to the financing of the entrepreneurial process, as explained in the following paragraphs.

The financial resources employed to finance the working and investment capital are often identified as financial capital (Hutin, 2010). They result from many sources which are personal savings of the microentrepreneur, from family and friends and borrowings from informal financial institutions, MFIs, and other sources like government subsidies and retained earnings (Redis, 2009, Brau et al., 2015). Private enterprises also lend to microenterprises using their social capital. These types of enterprises use little capital shared between working capital and investment expenditures (Ledgerwood, 1998) because they lack of enough financial resources. Among the above sources of financial capital, only personal savings, retained earnings and to an extent funds from family and friends are considered as microenterprises' financial capital. Family and friends' financing are not considered as such because they are both gifts and free-interest loans that do not align with the principles and cannons of lending like screening, monitoring and collateral provision. Other definitions of financial capital, such as Honig (1998), limit financial capital to profits generated from business activities by microenterprises. These profits take the form of value creation because they are returns beyond operating costs and taxes.

Profit generation assists microenterprises to get additional funding for their businesses. The literature shows that the access of microenterprises to various sources of finance varies with the stage of development of the business and their efficiency in production (Hernandez-Trillo, Pagan & Paxton, 2007; Panda, 2016; Chouksey & Kamarkar, 2017). Microenterprises use many sources of finance in their activities. Their presentation and role are given as follows: Families, friends and owner's capital help the microenterprise to initiate and launch the business. On their part, money lenders, bank loans, carry over capital, credit from clients and suppliers fund the survival, success and growth stages of the microenterprises and contribute to their efficiency (Hernández-Trillo et al., 2007; Panda, 2016; Chouksey & Kamarkar, 2017).

According to Bridge, Neil & Cromie (2003), there is no clear boundary between the developmental stages of enterprises. They do not strictly follow the growth stages as mentioned above. "They can grow, stagnate and decline in any order" (Gupta, Guha & Krishnaswami, 2013). According to Chouksey & Karmarkar (2017), since financial capital is not enough to guarantee the success of microenterprises, there is also a need for owners of these enterprises to have business training, region-specific training (Sen & Taylor, 2007) and knowledge and competences. Then human capital is important in microentrepreneurship.

Many definitions have been given to human capital. Mincer (1958) and Becker (1964) have identified for example education, experience and training as human capital indicators. According to Unger et al. (2009), this capital generates knowledge and skills that are considered outcomes of human capital and not the investment in human capital. They are used by holders to get access to entrepreneurial and non-entrepreneurial benefits. As the business benefits, it facilitates access to financial and physical capital (Brush, Greene, Hart & Haller, 2001). In addition, the capital contributes to the accumulation of future knowledge and skills used in the business (Ackerman & Humphreys, 1990). Non-business benefits permit those who retain them to improve on their personal income distribution and earnings (Becker, 1964). Based on the benefits above, human capital should lead to a multidimensional development of entrepreneurs namely economically, socially, politically and educationally (Sen, 1997). However many other studies have shown that human capital is not always the key or a sufficient factor to get access to other capital, to be highly remunerated in jobs or to get a high financial scheme (Honig, 1998). The individual or the enterprise needs to have other qualities like a good reputation, good social networks or a high level of productivity to have elevated financial rewards (Davidsson & Honig, 2003). Despite these limitations, human capital still retains a veritable position as far as financing of microenterprises is concerned. For instance, human capital has been defined as skills, competences and knowledge employed by these enterprises in business activities. It then takes the meaning of specific and task related human capital adapted only to peculiar microbusiness activities.

Human capital is construed in this study from a task-related perspective. It shows that human capital provides outcomes like knowledge, experience, competences and skills. These outcomes enable the holders to access financial, physical and informational capital as new knowledge and skills. Human and financial capital would have more meaning to the extent that they contribute to attain a specific objective such as the financing of microenterprises. This is also the case with social capital.

Social capital has evolved in definitions over time. It was first defined by Hanifan (1920) as relational capital contributing to improve the well-being of members of the community. In the 1970s and 1980s, it was perceived as a theory by Loury (1977), Bourdieu (1980, 1985) and Coleman (1988). This perception was retained in 2000 by Putnam (2000). Social capital can be considered as the capacity of actors to get benefits from their social structures' networks (Lin et al.1981). For microenterprises in Cameroon, social capital represents good reputation, confidence, close ties and networks providing commercial and financial benefits (Messomo, 2015). All these capitals presented are identified within the entrepreneurship resource based theory. The latter is used as the analytical theory of this study.

Many entrepreneurship theories have been used to explain the financing of entreprises by lenders. These theories result from different field of studies like economics, anthropology, sociology, finance and management. This study as far as it concerns uses the entrepreneurship

resource-based view developed by Alvarez & Busenitz (2001) to explain the role of entrepreneurial resources of finance, human and social in the financing of the entrepreneurial process of microentreprises by MFIs in Cameroon. This theory advocates that an entrepreneur has competences that enable to identify an opportunity and mobilize resources for entrepreneurial activities (Alvarez & Busenitz, 2001). The core capitals or resources that this theory asserts as contributing to entrepreneurial successes are financial, human and social. They increase the success and growth of entrepreneurial ventures and their financing **(**Brush, Edelman, Tatiana & Manolova, 2008; Davidsson & Honig, 2003; Yadav, Venkata & Pradhan (2018). We then use this theory in this study to assess the financial, human and social factors that increase the financing of microenterprises by MFIs in Cameroon.

### *B. Financial, human and social capital and the financing of the entrepreneurial process in Microfinance*

Financing is an operation of financial intermediation. It establishes a financial liaison between the lender and the borrower. According to Bradley, McMullen, Artz & Simiyu (2012), this relationship is affected by asymmetric information and uncertainty-generating credit risk. The asymmetric information theory is used in the literature as well as in this study to explain the lender and borrower's interactions. Indirect Financial Intermediaries (IFI) overcomes it through risk asset transformation. Classical IFI like commercial banks use screening, monitoring, physical and financial collaterals to inform their decision to finance borrowers. In the case of informal borrowers like microenterprises, these tools have limits (Seck Fall, 2011). This is because banking procedures in developing countries do not tend to match the nature and practices of these borrowers who generally lack of financial and physical collaterals as well as information on their business transactions. Microfinance Institutions are known to put in place technology to control these difficulties in lending. This is done through group lending with joint liability, peer pressure, social and geographical proximity and social exclusion. These mechanisms enable MFIs to handle adverse selection and moral hazard associated with financing. Group lending with joint liability enable the other members to repay the loan in case of a default of one or other members. The latter, to avoid this, peer only with members with good reputation in their group formation (Ghatak, 2000). Peer pressure and social exclusion are incentives for group loan repayment. They contribute to compelling potential default members to repay their share of group loan received. Social and physical proximities assist MFIs in the monitoring of the group and its borrowing members.

The group lending instruments do not apply to individual loans which are our focus in this study in terms of the financing of the entrepreneurial process of microenterprises by MFIs. At the opposite of group lending mechanisms, this study considers human, financial and social capital to control adverse selection and moral hazard associated with MFI's financing of the entrepreneurial process of microenterprises. This process as far as this study is concerned is analyzed in terms of opportunity identification and opportunity exploitation (Venkataraman, 1997).

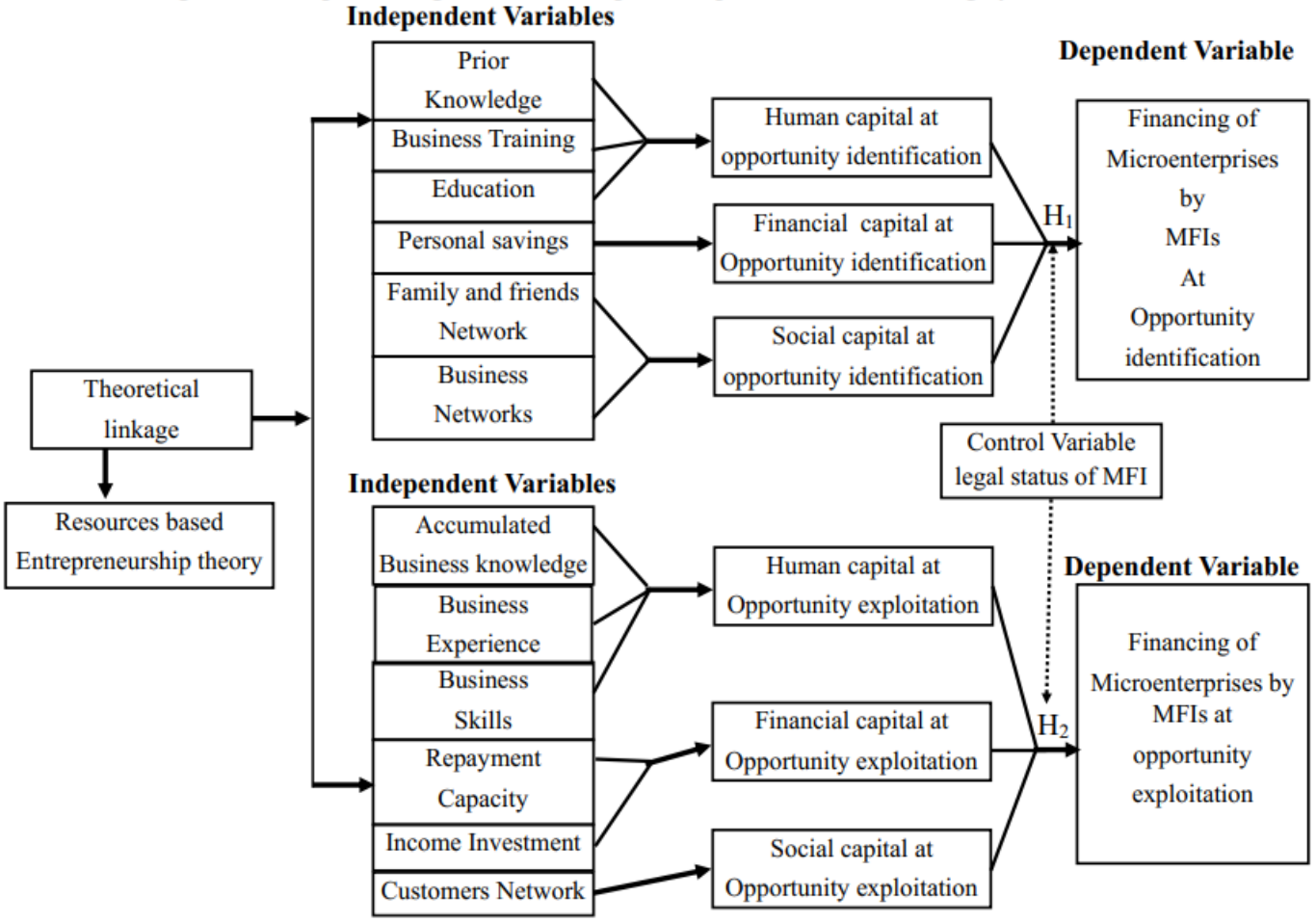
As regards opportunity identification, the entrepreneurship resource based theory states that entrepreneurs have capitals that enable them to identify business opportunities, to accumulate and attract resources from lenders (Alvarez & Busenitz, 2001). Examples of lenders in this study are MFIs. MFIs use many criteria to finance microenterprises among them are human, financial and social capital (Messomo 2013c, 2015). Thus, their funding of the entrepreneurial process of microenterprises made up of opportunity identification and exploitation focus on many variables

of these capitals. At the opportunity identification level, these financial institutions easily finance microentrepreneurs with business knowledge, business skills and business experience. According to Edgcomb (2002), this choice is made because such entrepreneurs are already empowered in business activities and have a greater probability to succeed in the venture being financed. In addition, such entrepreneurs reduce the cost of financing of MFIs in the minimalist approach of finance as opposed to the integrated approach, which is expensive because of training and funding of unqualified microentrepreneurs. MFIs also consider at this stage of financing, the social capital of microenterprises namely, the family and friend and business networks (Anis & Mohamed, 2012). The first is a source of information for MFIs to reduce the asymmetric information between the MFIs and the borrowing microenterprise and dissuade MFIs from making an adverse selection in screening the borrower. In addition, social capital assists microenterprises to get a surety or social collateral for their financing from their community who is also a customer in the lending MFI. The second social capital permits MFIs not only to mobilize information on business relationships of the microenterprises requesting for loans, but also to assess the risks and potentialities associated with the market development of the project financed. MFIs in the financing of microenterprises also assess their capital, which is their financial wealth. Thus, MFIs require microenterprises to have personal savings in the financial institution to be used as financial collateral in case of credit default (Messomo, 2012). Based on these arguments the first research hypothesis of this study was generated.

The second aspect of the entrepreneurial process is the exploitation of the opportunity. It comes after the disbursement of the finances to the microenterprises to enable exploit their business opportunities already identified. Hence, two key elements are important here: the monitoring of the loan by the MFI and the repayment of the loan to the MFI. The monitoring ensures the repayment of the loan by the microenterprise at maturity. The types of capital that MFIs request from microenterprises to achieve this objective is human capital, specifically business skills and business experience and also social capital related to customer networks to ensure that customers consume goods or services produced by microenterprises to produce enough income from the entrepreneurial activity **(**Yadav et al., 2018**;** Messomo, 2015**).** The other capital assessed in the exploitation of microenterprises is financial capital, which is the level of income generated by the business being financed over the loan span necessary for the repayment of the credit granted (McNaughton, 1992). From this, the second hypothesis of this research was developed.

Figure 1 summarizes the conceptual model. The latter are presented according to the two levels of entrepreneurial process financed by MFIs and the entrepreneurship resource-based theory's capitals of entrepreneurs for entrepreneurial ventures' growth and resources' mobilization and accumulation.

**Figure 1:Conceptual Design of Microenterprises Capitals and the Financing by MFI**




## III. Methodology

Economically, Cameroon is the leading Country in the CEMAC zone with a Gross Domestic Product of 3.8% in 2018 (International Monetary Fund, 2018). In terms of its financial landscape, it has a capital market (Douala Stock Exchange Market) and many financial institutions among them are Microfinance Institutions (MFIs), the focus of our study. In December 2016, these institutions had a total asset standing at 15.2% of the Commercial banks' assets value while their deposits and credits were 14.3% and 13% of deposits and credits of Commercial banks respectively. The number of customer accounts in MFIs in 2016 stood at 2863694 while those of the Commercial banks were 2017044 (National Credit Council, 2016). Our focus in this study is on MFIs in Cameroon's financial system as shown in the Research design.

This study contrasts with other studies (Honig, 1998; Anderson and Miller, 2003) which used human, financial and social capital to determine the success factors of microenterprises in their businesses. It uses MFIs to explain the human, financial and social factors that explain the financing of the entrepreneurial process of microenterprises, unlike past studies like that of Naoko & Yutaka (2014), Marshall (2005) and Lechner, Kirschenhofer & Dowling (2016) which employ microenterprises as objects of data collection and analyses to examine the successful factors in the

microenterprises' entrepreneurial process. The study examines at two separate levels of opportunity identification and business exploitation, factors of financial, human and social capital used by MFIs to finance microenterprises. The study portrays that the nature of financial, human and social capital considered by MFIs to finance microenterprises at the opportunity identification and exploitation is different. Therefore, at the opportunity identification, the nature of financial, human and social capital requested by MFIs to finance microenterprises is personal savings, education, business training, business knowledge, family and friends and business networks respectively while at the opportunity exploitation, and we have business income, business skills and experience and the customers' networks respectively in this study. We chose this approach because beginning and existing microenterprises do not have the same financial, human and social capital (Ledgerwood, 1998). Moreover, the decision to finance the entrepreneurial process is an endogenous factor that does not depend on the microenterprises**.** Beginning microenterprises are microenterprises related to opportunity identification while existing microenterprises are associated with opportunity exploitation. MFIs as lenders are the ones that define the criteria of good borrowers depending on their loan policy and their level of risk tolerance. Hence, some microenterprises' entrepreneurial process will be financed and others will not be. Therefore, this study is explanatory, aiming to look at the factors of financial, human and social capital that explain MFIs' financing of opportunity identification and exploitation by microenterprises in Cameroon. The quantitative design was chosen because our respondents were managers of MFIs who we estimated had more reliable information than customers and henceforth could provide the exact data on the practices of lending of these financial institutions. The variables used for this purpose are provided below.

To validate the reliability of our variables at the opportunity identification, for H1, the cronbach coefficients were Prior knowledge = 0.73, business training = 0.71, Educa = 0.75, personal savings = 0.76, Family and friend networks = 0.8 and business networks = 0.82 and financing of opportunity identification by MFIs = 0.73. For $H_2$, at the exploitation of the opportunity, the cronbach coefficients of variables are accumulated business knowledge = 0.75, business experience = 0.71, business skills = 0.70, customer networks = 0.75, Repayment capacity = 0.72 and Income reinvestment = 0.73.

This study employs two sets of variables that are independent and dependent variables. The independent variables for $H_1$ are education, business training and knowledge from human capital. Education is measured by the number of years of acquisition of knowledge from secondary to tertiary levels of education useful for financing the opportunity identified by the MFI. Business training is reflected in the number of years the beginning entrepreneur was exposed to business learning either from his/her family, friends or other third party or an institution before his request for financing of the opportunity identified by the MFI. Prior Knowledge was quantified by the number of managerial skills acquired by the microentrepreneur as a result to his prior knowledge in business training (Karlan & Valdivia, 2007) requested by MFIs to finance the opportunity exploitation. Financial capital is related to personal savings. It was gauged in this study by the number of times per month savings must be made by the microenterprise to get finances from the MFI. Social capital refers to community and business networks in this study (Marshall, 2015). Family and friends' networks are measured by the number of friends and family members ready to support the microenterprise at the application for funding the opportunity identified. The business networks are measured by the number of business networks targeted or developed by the microenterprise at the time of placing the demand for financing of the opportunity identified.

$H_2$ also uses the human capital variables with the only difference being in the measures of these variables. They are captured by the number of years in business skills, experience and knowledge required by MFI to finance the exploitation of the business opportunity of existing microenterprise. The financial capital in $H_2$ is measured by the repayment capacity of the loan granted defined in this study as the expected number of installments of the loan of the MFI paid from the income of the exploitation of the opportunity by the microenterprise. The reinvested income is captured by the number of times the income generated is reinvested in the business exploited by the microenterprise as approved by the MFI to ensure the growth of the opportunity and the repayment of loans granted. The customer networks are controlled by the number of customer networks requested by the MFI to fund a microenterprise at the time of the exploitation of the business opportunity.

The dependent variables are MFIs' financing of Microenterprises' opportunity identification for $H_1$ and microenterprises' opportunity exploitation for $H_2$. The first dependent variable is defined as the financing of the discovery and the analysis of the business opportunity by the microenterprise in the entrepreneurial process. It is measured by the number of requests for loans granted per month to beginning microenterprises to finance opportunities identified. The second variable relates to the implementation of the opportunity identified to create value. It is quantified by the number of requests for business exploitation granted per month to existing microenterprises to finance opportunity exploitation and expansion. The validity of all the variables of this study was done using cronbach coefficient. Only variables having a Cronbach coefficient fluctuating between 0.7 and 0.8 were considered for the validity of variables of this study.

*Control Variable:* The legal status of MFIs studied was considered as a control variable and it was measured by the value related to the category number of types of MFIs studied. Hence according to the regulation of 27th September, 2017, Cooperatives belong to category 1, thus their legal status was given 1 and Corporation MFIs are associated with Category 2 and their related legal status value was associated with 2. The variables of this study and their measures are shortened in Table 1**.**

Cooperatives and Corporation Microbanks were used in this study to collect data on the financing of the entrepreneurial process of microenterprises in Cameroon. According to Regulation No 01/17/CEMAC/UMAC/COBAC of 27th September, 2017 relating to conditions of operating microfinance activities in the Economic and Monetary Community of Central Africa made up of six States which are Cameroon, Central Africa Republic, Congo-Brazzaville, Gabon Equatorial Guinea and Chad, Cooperative MFIs are MFIs that collect savings and give out credit to their members. They dominate Cameroon's microfinance Sector. They were 412 MFIs in 2018 (Ministry of Finance (MINFI), 2018). Corporation MFIs on the other hand are MFIs that collect savings from the general public and provide credit out to public as a whole. In 2018, they were 47 MFIs (MINFI, 2018) in Cameroon. The total number of MFI Cooperatives and Corporations was 459 MFIs. These MFIs are spread out in all the regions of Cameroon. But four regions gather about 68.9 % of the locations of MFIs in Cameroon. They are Center, Littoral, North-West and West. These towns constituted the population of MFIs in this study that is 282 MFIs.

**Table 1. Operationalisation of Variables Used**

| Research Hypotheses | Variables | Measures |
|---|---|---|
| **H1** | **Independent Variables:**<br>-Prior knowledge | Number of managerial skills acquired by the Microfinance before his or her training |
| | -Business Training | Number of years the beginning entrepreneur was exposed to business learning training |
| | -Education | Number of years of acquisition of knowledge from secondary to tertiary levels |
| | -Personal savings | Number of times per month savings are made by the enterprise for the funding of the opportunity identification |
| | -Family and friends' networks | Number of friends and family members ready to support the entrepreneur in funding opportunity identification |
| | - Business networks | -Number of Business network Prior to the demand for funding opportunity Identification |
| | **Dependent Variable:**<br>-Financing of this enterprise by the MFIs at opportunity identification | -Number of requests for loan granted per month for opportunity identification |
| | **Control variable:**<br>-Legal status | Cooperative MFI=1<br>Corporation MFI=2 |
| **H2** | | |
| | **Independent Variables:**<br>-Accumulated Business knowledge | - Number of Years required in business knowledge to fund opportunity exploitation |
| | - Business Experience | -Number of years of experience to fund an opportunity exploitation |
| | -Business skills | -Number Of skills expected by the MFIs to fund an opportunity exploitation |
| | -Repayment Capacity | -Number of instalments stated by the MFI to recover the loan granted |
| | -Income Investment | -Number of times the income generated is reinvested on the enterprise during the period of the loan |
| | -Customer Networks | -Number of Customer networks requested by the MFI to fund the opportunity exploitation |
| | **Dependent Variable:**<br>-Financing of microentrepreneurs by MFIs at opportunity exploitation | -Number of requests for loan granted per month for opportunity identification |
| | **Control Variable:**<br>-Legal status | Cooperative MFI=1<br>-Corporation MFI=2 |

A stratified random sampling was designed to collect data from MFIs in the four regions mentioned above. The questionnaire had two core sections that were independent variables of financial, human and social capital of microenterprises and dependent variables were made up of

MFIs' financing of opportunity identification and exploitation by microenterprises. The sample for the questionnaire administration was designed based on the principles of relational studies which according to Gay and Diehl (1991) stand at least to 60% of the population and that of stratified random sampling. In this case, we set the desired sample size to be 80% of the population of MFIs studied (Center, Littoral, North-West and West), that is 226 MFIs. Cooperative and Corporation MFIs then made up 92.2% and 7.8% respectively of the sample of study and were in line with their proportional representations in the population of study. Henceforth, we had 208 MFIs for Cooperatives (226 MFIs from our stratified random sampling in the four regions mentioned above multiplied by 92.2%) and 18 Corporation MFIs (226 MFIs from the stratified random sampling in four regions mentioned above times 7.8%). Thus 226 questionnaires were prepared to collect data on MFIs. They were administered randomly to loan officers of MFIs amongst 208 Cooperatives and 18 Corporation MFIs. The administration was face to face and was done by third – year undergraduate students of the Banking and Finance programme of the University of Buea, Cameroon. These questionnaires were collected after three weeks from their date of reception. Thus, at the collection, 200 questionnaires were received from Cooperatives and 18 from Corporation MFIs making us a total of 218 questionnaires collected from two sets of MFIs above. Among the 218 collected, 207 were appropriately filled up; 193 from Cooperative MFIs and 14 from Corporation MFIs making 73.4 percentage (207/282 multiplied by 100) of the population of the study. 207 questionnaires were thus used for the analyses.

The data gathered were analyzed using the Cronbach coefficient to verify the reliability of the variables employed and to determine the descriptive values using Mean and Standard deviation, Minimum and Maximum values. The explanatory analyses used Ordinary Least Square Regressions (OLS) to test $H_1$ and $H_2$ hypotheses. The reliability contributed to ascertain whether our study used right and adequate variables in the analyses. Furthermore, it assesses the extent to which the study is replicable. The descriptive statistics using the mean and the standard deviation measured the variation of each of the variable chosen in relation to its mean. More importantly, the descriptive analysis enabled to evaluating the independent variables that are likely to affect MFIs' financing of opportunity identification and exploitation by microenterprises.

The OLS regressions examined which independent variables influence MFIs' financing of the entrepreneurial process of microenterprises. The OLS regressions were chosen because all our independent and dependent variables are quantitative. Besides they enable us to know which of the variables increase the financing of the entrepreneurial process as stated in our research hypotheses $H_1$ and $H_2$. The empirical models of OLS regressions used are given below. Their reliability was measured using the Variance Inflation Factor (VIF). VIF measures the severity of multicollinearity in an OLS. According to Hair, Black, Babin & Anderson (2010**)**, a VIF of 1 means lack of collinearity between predictors and a VIF between 1 and 4 indicates low correlation while a VIF beyond 4 is associated with high collinearity. The conservative approach tallies the acceptable VIF of predictors in OLS analyses to 2.5. The VIF of 2.5 is then retained in this work to measure the reliability of the empirical OLS models used below.

Models' Specification

Model estimate for $H_1$

$$MoifiMIs = a_0 + a_1Prikn + a_2Bustr + a_3Educa + a_4Persa + a_5Fafri + a_6Busne + a_7Lestus + e;$$

Where *MoifiM* = Microenterprises' opportunity identification financing by MFIs;
*Financial Capital:*
*Persa* = Personal savings;
*Human Capital:*
Educa = Education; Bustr = Business training; Prikn = Prior Knowledge;
*Social Capital:*
Fafri = Family and friends; *Busne* = Business Network;
*Control Variable:*
Lestus = Legal status of MFI;
e =error term.

Model Estimate for $H_2$
$MoexfiMIs = a_0 + a_1Acbuk + a_2Busex + a_3Buski + a_4Repca + a_5Inrei + a_6Cusne + a_7 Lestus + e;$

Where *MoexfiM* = Microenterprises' opportunity exploitation financing by MFIs;
*Financial Capital:*
Repca = Repayment capacity; Inrei = Income reinvestment;
*Human Capital:*
Acbuk = Accumulated business knowledge; Busex = Business experience; Buski = Business skills;
*Social Capital:*
Cusne = Customer networks;
*Control Variable:*
Lestus = Legal status of MFI
e =error term.

## III. Results and Discussions

### *A. Results*

Tables 2 and 3 below present the descriptive results of variables studied at opportunity identification and exploitation by microenterprises respectively and MFIs'financing. From Table 2 above**,** we noticed that at opportunity identification, the financial capital variable (Persa) has a higher mean than human (Educa, Bustr and Prikn) and social capital (Fafri and Busne) elements. This is a proof that MFIs give more importance to financial capital than human and social capital to finance the opportunity identifications of microenterprises. In opportunity exploitation (Table 2), the means of variables indicate that these institutions give priorities to financial **(**Repca**)** and social capital **(**Cusne**)** to finance microenterprises. This is because the means of repayment capacity (Repca) and customer networks (Cusne) are higher than the ones of human capital variables of accumulated business knowledge (Acbuk), business experience (Busex) and business skills (Buski). The mean of most variables at the opportunity identification are also higher than their counterparts at opportunity exploitation. These are the cases of prior knowledge (Prikn) that is more than Acbuk and this is similar with business training (Bustr) and Busex. On the contrary, business skills (Buski) is greater than Educa, as well as MoexfiM is more than MoifiM. These results in Table 2 and 3 from the mean perspective of variables studied show that, at opportunity

identification (MoexfiM), MFIs require from microenterprises, more prior knowledge (Prikn) and training (Bustr) to finance them, but at the opportunity exploitation, more business skills (Buski) instead are needed by these financial institutions to fund microenterprises. Moreover, MFIs on the average disburse more financial resources to opportunity exploitation (MoexfiM) than to opportunity identification (MoifiM). This is explained by the fact that MFIs must secure the success of microenterprises in the exploitation of their opportunity. Also, they want the business to start generating income faster to enable the microenterprises to repay their loan installments on time and regularly. The Standard deviation in MoexfiM also fluctuates less than in MoifiM. This confirms the observation, that MFIs trust more, the financing of Microenterprises' opportunity exploitation than identification.

**Table 2. Financing of opportunity identification and human, financial and social capital of microentreprises**

| Variables | Observations | Mean | Std. Deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| MoifiM | 207 | 5.242 | 2.327 | 3.000 | 6.000 |
| ***Financial Capital:*** | | | | | |
| Persa | 207 | 4.045 | 1.182 | 1.000 | 5.000 |
| ***Human Capital:*** | | | | | |
| Educa | 207 | 3.364 | 1.394 | 1.000 | 5.000 |
| Prikn | 207 | 3.424 | 1.266 | 1.000 | 5.000 |
| Bustr | 207 | 3.845 | 1.303 | 1.000 | 5.000 |
| ***Social capital:*** | | | | | |
| Fafri | 207 | 3.060 | 1.330 | 1.000 | 5.000 |
| Busne | 207 | 3.409 | 1.080 | 1.000 | 5.000 |
| ***Control variable:*** | | | | | |
| Lestus | | 1.147 | 1.043 | 1 | 2 |

***Source:*** Field Study (2019)

**Table 3: Financing of opportunity exploitation and human, financial and social capital of microentreprises**

| Variables | Observations | Mean | Std. Deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| MoexfiM | 207 | 7.351 | 2.037 | 4.000 | 9.000 |
| ***Financial Capital:*** | | | | | |
| Repca | 207 | 4.245 | 1.352 | 1.000 | 5.000 |
| Inrei | 207 | 2.290 | 1.432 | 1.000 | 3.000 |
| ***Human Capital:*** | | | | | |
| Acbuk | 207 | 2.534 | 1.625 | 1.000 | 3.000 |
| Busex | 207 | 1.651 | 1.425 | 1.000 | 4.000 |
| Buski | 207 | 3.463 | 1.925 | 1.000 | 4.000 |
| ***Social capital:*** | | | | | |
| Cusne | 207 | 5.025 | 1.382 | 1.000 | 7.000 |
| ***Control variable:*** | | | | | |
| Lestus | | 1.173 | 1.062 | 1 | 2 |

***Source:*** Field Study (2019)

Social capital requirements by MFIs according to the mean of Customer networks (Cusne) (5.025) in Table 3 at opportunity exploitation are more than those in opportunity namely Family and Friends (Fafri) (3.060) and Business networks (Busne) (3.409) at Table 2. This can be justified by the fact that MFIs tend to finance mostly business activities that are sustainable and highly

competitive. This is because microenterprises operate in informal sector where no business unit really dominates the market. Thus, customer networks are very important generating sufficient income over the life span of the loan according to the expectations of MFIs. The financial capital personal savings (Persa)'s mean at opportunity identification (Table 2) is less than the repayment capacity (Repca) at the exploitation of the opportunity (Table 3). This is the reverse with the Income reinvested (Inrei) as Persa's mean is greater than that of Inrei. This can be explained by the fact that MFIs require from microbusinesses created (at opportunity exploitation) to generate more income than personal savings in order to ensure the repayments of loans granted for business activities, at their maturities. These results are confirmed in explanatory results starting with Table 4.

Table 4 presents the results of Hypothesis 1. The empirical model associated with this hypothesis is significant at $p < .01$. It shows that the independent variables chosen as a whole influence MFIs' financing of microenterprises' opportunities' identification. We hypothesized that Prior Knowledge (Prikn), Business training (Bustr), Education (Educa), Personal savings (Persa), Family and friend networks (Fafri) and Business networks (Busne) at the opportunity identification increase MFIs' financing of microenterprises. The results support Prikn ($a_1 = 0.440$; $p < .05$) and Bustr ($a_2 = 0.767$; $p < .01$) and not Educa ($a_3 = - 0.065$; $p > 0.10$), Persa ($a_4 = - 0.261$; $p > 0.10$), Fafri ($a_5 = - 0.097$; $p > 0.10$) and Busne ($a_6 = - 0.363$; $p > 0.10$). These results therefore prove that only human capital of Prior knowledge and Business training increase the financing of opportunity identification by MFIs in Cameroon.

**Table 4. The Influence of Human, financial and social capital on MFIs financing of Microenterprises'opportunity identification**

| **Dependent variable:** Microenterprises' opportunities' identification financing by MFIs (MoifiMIs) | | | | |
|---|---|---|---|---|
| Independent Variables | Coefficient | Std. Error | t-Statistic | Prob. |
| ***Human capital*** | | | | |
| Prikn | 0.440** | 0.207 | 2.124 | 0.038 |
| Bustr | 0.767*** | 0.212 | 3.620 | 0.000 |
| Educa | -0.065 | 0.208 | -0.314 | 0.755 |
| ***Financial capital*** | | | | |
| Persa | -0.261 | 0.249 | -1.046 | 0.299 |
| ***Social capital*** | | | | |
| Fafri | -0.097 | 0.193 | -0.502 | 0.617 |
| Busne | -0.363 | 0.238 | -1.523 | 0.133 |
| ***Control variable*** | | | | |
| Lestus | 2.296*** | 0.050 | 4.632 | 0.000 |
| Constant | 13.982*** | 1.540 | 9.073 | 0.000 |
| R-squared | 0.595 | | | |
| Adjusted R-squared | 0.429 | | | |
| F-statistic | 3.486 | | | |
| Prob(F-statistic) | 0.005 | | | |

***Source:*** Field Study (2019)

*P < .10; **P < .05; ***P < .01

The increase stands at 42.9% (Adjusted R-Squared). These findings contradict the outcomes of the entrepreneurship resource based theory stating that financial, human and social capital features increase the success and financing of entrepreneurial ventures. The findings got from this empirical model 1 are reliable because the VIFs of predictors studied are less than 2.5 as shown as follows: Prikn = 1.83, Bustr = 1.94, Educa = 1.79, Persa = 2.05, Fafri = 1.47, Busne = 2.14 and Lestus = 2.36. Table 5 below presents the results for microenterprises' opportunity exploitation and the financing by MFIs in Cameroon.

**Table 5: Effects of Human, Financial and Social Capital on MFIs' Financing of Microentreprises' opportunity exploitation**

| **Dependent variable:** *MoexfiM* = Microenterprises' opportunities' exploitation financing by MFIs | | | | |
|---|---|---|---|---|
| Independent Variables | Coefficient | Std. Error | t-Statistic | Prob. |
| ***Human capital*** | | | | |
| Acbuk | 0.600** | 0.266 | 2.255 | 0.028 |
| Busex | -0.257 | 0.256 | -1.003 | 0.320 |
| Buski | 1.007*** | 0.269 | 3.736 | 0.000 |
| ***Financial capital*** | | | | |
| Repca | -0.448 | 0.313 | -1.434 | 0.157 |
| Inrei | -0.556** | 0.256 | -2.170 | 0.034 |
| ***Social capital*** | | | | |
| Cusne | 0.973*** | 0.312 | 3.121 | 0.003 |
| ***Control variable*** | | | | |
| Lestus | 1.907*** | 0.321 | 4.891 | 0.000 |
| Constant | 10.799*** | 1.804 | 5.986 | 0.000 |
| R-squared | 0.623 | | | |
| Adjusted R-squared | 0.566 | | | |
| F-statistic | 5.283 | | | |
| Prob(F-statistic) | 0.000 | | | |

***Source:*** Field Study (2019)

*P < .10; **P < .05; ***P < .01

Table 5 provides the results of Hypothesis 2. The empirical model used to measure this hypothesis is significant at 1% (prob (F-statistic) = 0.000). This implies that independent variables adopted influence MFIs' financing of opportunity exploitation by microenterprises. Hypothesis 2 states that Accumulated Busness Knowledge (Acbuk), Business experience (Busex), Business skills (Buski), Repayment capacity (Repca) and Income reinvested (Inrei) at opportunity exploitation increase the financing of business exploitation by MFIs. The results sustain only human capital variables of Acbuk ($a_1$ = 0.600; p < .05), Buski ($a_3$ = 1.007; p < .01) and social capital variable of Cusne ($a_6$ = 0.973; p < .01) are significant at the t-test and verify the Hypothesis 2. The outcomes of the statement in Hypothesis 2 are not true for the variables of financial capital for the MFIs' financing of opportunity exploitation by microenterprises. This is because the financial capital variables studied are neither positive nor significant. These are cases with Repca ($a_4$ = -0.448; p > 0.10) and Inrei ($a_5$ = - 0.556; p< .05). The explanatory results from the testing of Hypothesis 2 confirm the descriptive results of Table 3. This is true because Buski and Cusne are variables that have very high means at descriptive results as well as have both positive coefficients

and are significant at Hypothesis 2 testing. This therefore shows that human capital and social capital are the capitals on which MFIs focus on to finance microenterprises' opportunity exploitation in Cameroon. Thus, the empirical model 2 also opposes the thought of the entrepreneurship resource based theory because financial capital elements do not increase the financing of microenterprises by MFIs at the opportunity exploitation. These findings of the empirical Model 2 are also reliable because the predictors of this model have the following VIFs: Acbuk = 2.26, Busex = 2.21, Buski = 2.29, Repca = 2.39, Inrei = 2.22, Cusne = 2.37 and Lestus = 2.51. This analysis of results then leads us to their discussion.

### *B. Discussions*

Regarding the Hypothesis 1 which relates to the human, financial and social capital vis-a-vis MFIs' financing of microenterprises' opportunity identification, the results indicate that only human capital variables of prior knowledge and business training significantly increase MFIs' financing of microenterprises' identification of opportunities. This outcome can be explained by the fact that regulated MFIs which are our objects of study use a commercialized approach to lending which requires these institutions to minimize their cost of lending and to be profitable in this activity. Thus, they prefer to focus on beginning microenterprises that already have prior knowledge and business training in identifying successful opportunities. This therefore saves MFIs time and the burden of going through the process of searching for information needed to analyze the opportunity identified. Such a process is very expensive as untrained business microenterprises are usually considered for instance as very risky, and requiring high training and business skills at the beginning of their entrepreneurial process. This finding is in line with Edgcomb (2002) who reported that knowledge increases the MFIs' inclination to finance microenterprises' opportunities but opposes to the entrepreneurship theory used which states that three forms of capital of financial, human and social are important to increase entrepreneurial opportunities, amongst is financing.

The findings consistent with Hypothesis 2 point clearly to the fact that at the opportunity exploitation, MFIs tend to finance microenterprises that have significant human and social capital in terms of accumulated business knowledge and skills and customer networks. These results are justified by the fact that, MFIs perceive as successful, the financing of opportunity exploitation without any *moral hazard ex ante* or *ex post*. Microenterprises with business knowledge and skills can effectively execute the purpose of the loan and also repay the loan granted at maturity. Besides, MFIs require these enterprises to have a good customer network to ensure a continuous generation of income needed for the repayment of loans at maturity. This finding is in line with the results obtained by Bruton, Khavul & Chavez **(**2011**)** who in their study explained that social ties in group lending enable members to get more access to the financial resources of MFIs. More practically, MFIs in Cameroon will expect that microenterprises with strong and diversified social ties should generate suitable financial resources to repay their loans as shown in related literature (Hoanc & Antoncic, 2003; Burt, 1992). These findings on the contrary are not in line with the theoretical background mobilized in this study namely the entrepreneurship resource based theory which recognizes three core capitals that are financial, human and social for the successful exploitation and financing of entrepreneurial ventures. The next section provides the conclusion of the study.

## V. Conclusion

Many scientific engagements have been undertaken by researchers to identify and explain the factors that account for successful entrepreneurship initiatives. This study went a step further to identify the factors that can account for successful microentrepreneurship as perceived by MFIs in terms of identification of business activities and the exploitation of these opportunities for financing by these financial institutions. Put differently, the study set out to determine the human, financial and social capital factors that increase the financing of microenterprises' opportunities at the identification level or at the exploitation level. The findings, at the first stage, reveal that only human capital variables of prior knowledge and business skills were significant in determining MFIs' disposition to finance opportunity identification while at the second stage both human and social capital variables of accumulated business knowledge, business skills and customer networks were found to be capable of augmenting MFIs' willingness to finance microenterprises' opportunity exploitation. These findings add to the past research in this area by stating that successful factors in the management of businesses either at the identification of business opportunity or at their exploitation of such opportunities also contribute to their ease of access to the finances of MFIs. This study has a limitation in that it does not study MFIs' financing of the entrepreneurial process of microenterprises over time. Further studies can focus on this to understand the role of financial, human and social factors in MFIs' sustainable financing of microenterprises.

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