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## **The Role of Informal Financing on the Sustainability of Entrepreneurship in Kumba Municipality**

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**Abstract:**

**Purpose:** *The main objective of this study was to identify the importance of informal financing in underlying the sustainability of businesses.*

**Design/methodology/approach:** *In carrying out this research information was gathered from Kumba Municipality using primary sources of data, with the help of simple random sampling technique. A questionnaire was designed and administered and observations related to the main objective of this study were gathered. The study employed descriptive methods to summarize the opinions of the respondents and used the Probit regression model to assess the role of informal financing in explaining business sustainability in Kumba.*

**Findings:** *Findings indicated that entrepreneurs mobilize majority (67.7%) of their funds from informal sources of financing out of which 38.7% come from njangi groups, 12.9% from friends and families and the remainder is gotten informally from credit unions. This is a clear indication that informal financing contributes greatly to the growth of entrepreneurship in Kumba municipality. The probit regression results indicated that borrowing from a financial institution does not play a significant role in boosting the survival of businesses in Kumba.*

**Practical implications:** *The paper affirms that borrowing from family and friends has a significant likelihood to improve business survival in Kumba municipally. The probit regression results also indicated that funds borrowed from njangi groups have a significant likelihood to boosting business survival in this municipally.*

**Originality/value:** *Studies on business survival and informal financing are rare in Cameroon. Businesses operating in Kumba Municipality should make good use of the informal financing available in their locality especially njangi groups, as this has important bearings on their sustainability.*

**Keywords:** *Entrepreneurship, funds, growth, sustainability.*

**JEL codes:** *G03, G30.*

**Paper type:** *Research paper.*

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## **1. Introduction**

This research situates informal financing as a minor, though underestimated, part of financing generally undertaken by financial institutions. Financial institutions deal with the provision of services as intermediaries of financial markets Hayes (2021). These institutions most often operate formally and do operate informally at times: formally when regularized and bound by policies and/or laws and informally when unregularized.

The primary focus of this work is to capture the role played by informal financing in the growth of entrepreneurship. The study thus entitled “The Role of Informal Financing in the Growth and Sustainability of Entrepreneurship in Kumba Municipality” focuses on identifying the importance of informal financing in the growth of entrepreneurship. Informal financing, means funds gotten informally from family and friends, njangi groups, funds raised informally from credit unions, personal savings, and earnings through human resources (training on-the-job, while you learn and earn a wage at the same time).

Allen (2014), also defines informal financing as funds from interpersonal borrowing, trade credits pawnshops, private money houses and community cooperatives; to name but these. Sumili (2017) also confirms that where one sources out funds to start and sustain any business be it in the primary, secondary or tertiary sector of the economy for at least six months is crucial in determining its success or failure. Entrepreneurs will choose to use informal sources of finance rather than formal sources because they do not have contract documents as required by most formal sources, making it easier for them to obtain funds; all they require is the basic knowledge of the lender and interpersonal relationship. Sumilu’s (2017) publication affirms that in Tanzania the mostly common forms of informal financing are credit associations, relatives and friends, rotating savings and money lenders.

Entrepreneurs according to Hayes (2021) are individuals who take the risk of beginning a business venture in order to realize their preconceived ideas. These ideas otherwise known as entrepreneurship bring together labour and capital in the right mix to produce goods and/or services for profit. They are often considered as social and academic misfits, inventors, extreme risk takers, doers and not thinkers (Molem, 2020). Entrepreneurs again are individuals who, rather than working as employees, found, fund and run small business, assuming all the risks and rewards of the venture. They are commonly seen as innovators, source of new ideas, goods, services and business/or procedures. They play a key role in any economy (Hayes, 2021).

Entrepreneurship is the act of creating a business or businesses with the hope of generating profits after bearing some elements of financial risks. Entrepreneurs therefore crave to make a living by creating businesses be it in the primary sector (sourcing of raw materials for production), secondary sector (the actual production

of goods and/or services) or in the tertiary sector (the provision of services like education, communication, transportation) of the economy. Being risk takers and inventive/innovative persons, entrepreneurs will seek to obtain funds from sources that will minimize cost. They therefore turn to the informal ways that require no regulations but a general understanding between the lender and the borrower. With this in mind, the researcher seeks to find out how these informal sources contribute to their starting, growth and sustenance.

Other researchers had in their studies a link between finance and entrepreneurship. We have for example Gang *et al.* (2020) who found strong evidence to the fact that financial access promotes entrepreneurship especially amongst firms in the informal sector of the economy. Klapper *et al.* (2011) pictured the determinants of access to finance in young entrepreneurial firms and how these help the firms grow. Bygrave (2006) in his report observed that world poverty could be reduced by investing more on entrepreneurs. He further suggests that leaders or heads or managers of public, private and/or civil society organizations should embrace entrepreneurship and innovation as a strategy to reduce poverty. He went ahead to identify the following sources of funds for entrepreneurs: close family members, work colleagues, other relatives, stranger, friend/neighbor, all of whom are informal sources.

### **1.1 Statement of the Problem**

Many researchers have written broadly on informal financing and entrepreneurship but each of them focuses on different aspects: Veneranda (2017), a Tanzanian private sector foundation reporter looks at the informal sources of funds for entrepreneurs, focusing on its sustainability; Franklin Allen (2014), views it from 'Understanding Informal Finance', paying attention to the mechanisms that foster this understanding based on systematic information enforcement that fosters good firm performance; Alalekan (2016), looks at the financial challenges confronting informal entrepreneurs in Southwest Nigeria; Waithaka and Njera (2015), focuses on accessing the effects of informal financing on the performance of SMEs; Nguyen *et al.* (2020), explains the financial determinants of firms.

Other authors that have written on determinants of entrepreneurship include: Ndamsa *et al.* (2020), testified that the number of entrepreneurs can actually increase with an increase in National income, De Wit *et al.* (2020), focuses was on human capital, financial capital and social capital; Ujwary *et al.* (2020), whose emphasis was on the cohesiveness of the group and reciprocity of exchange; Cala *et al.* (2015) explained how these determinants influence the design of entrepreneurial policies; Ojiaku *et al.* (2018) views young graduates' attitudes towards entrepreneurship from unemployment, self-employed and employed; Diallo (2019), presents entrepreneurship in Cameroon as the solution to the saturated economy; Wujung (2019) looks at resource availability and population expansion; Fouda *et al.* (2015) based their arguments on government subsidies, infrastructure and financial resources.

Going through these researchers' views concerning informal financing and entrepreneurship, the researcher observes that very little or nothing is said about the practical role played by informal financing on the sustainability and growth of entrepreneurship. And basing the studies within Kumba Municipality in the South West Region of Cameroon, Central Africa, the researcher sought to verify this.

Again, looking at the country's economic activities from the macroeconomic point of view, through the eye of the Growth and Employment Strategy paper (GESP) for Cameroon (2010), it was observed that the government undertook to revise the economic growth and poverty reduction strategy through the generation of wealth and employment opportunities in order to achieve the Sustainable Development Goals (SDGs).

Great enough, the participation of the population at the grass roots and private sector development was involved. These are areas that mostly practice informal financing. Worthy of note according to this paper, was that the banking or formal sector do not carry out funding activities that support sustainable growth. (only informal financing strive to achieve this.) This motivated researcher to:

- a) Point out the role of funds from njangi groups in boasting entrepreneurship (starting and running) in Kumba Municipality,
- b) Isolate the importance of funds from family and friends to the growth of businesses in Kumba Municipality,
- c) Point out the role of funds raised informally from credit unions in sustaining the running of businesses.

In Kumba Municipality, young vibrant talented entrepreneurs, are unable to mobilize themselves and start up enterprises as a result of inadequate funds. Some do not know where to turn to for financial needs. With these great plans for sustainability, growth and development in the grass roads areas and private sectors, where formal financing is inadequate or completely absent, informal financing still remains valuable. The researcher's interest is to highlight these values or roles in line with the sustainability and growth of entrepreneurship.

The study seeks to help entrepreneurs, policy makers, researchers, academicians in decision making. To the entrepreneurs, it will motivate them to seek funds informally for their business ventures rather than idling about depending on formal source which may never come by.

The policy makers (the government and financial institutions) will be encouraged to come up with policies that will encourage formal financing in rural areas to boast sustainability equal distribution of national resources across the nation, not only in developed or urbanizes areas. The researcher and academicians too will through this study understand the role that informal financing plays in the growth and sustainability of entrepreneurship.

## **1.2 Research Questions**

*Main research question:* What role does informal financing play in underlying entrepreneurship sustainability?

*Specific research questions:* To what extent can funds from njangi groups promote business sustainability? What is the relationship between funds from family and friends and business sustainability? To what extent do funds raised informally from credit unions sustain existing businesses?

## **1.3 Research Objectives**

The general research objective of this study is to identify the importance of informal financing in underlying business sustainability in Kumba Municipality. This will be achieved through the following specific objectives:

1. To investigate the extent to which funds from njangi groups can promote business sustainability in Kumba Municipality,
2. To assess the relationship between funds from family and friends and the sustainability of entrepreneurship,
3. To examine the extent to which funds raised informally from credit unions can sustain existing businesses.

## **1.4 Research Hypotheses**

H<sub>01</sub>: Funds from njangi groups do not significantly promote business sustainability in Kumba municipality.

H<sub>02</sub>: Funds from family and friends play no significant role in boosting business sustainability.

H<sub>03</sub>: Funds raised informally from credit unions play no significant role in sustaining existing businesses.

## **1.5 Significance of Study**

The outcome of this study will be of great importance entrepreneurs who want to venture into business; managers and owners of small and medium size enterprises, financial institutions, the government, researchers, welfare organizations, academicians and the researcher herself. This will be looked at from two different angles: significance to policy and scientific significance or relevance.

## **1.6 Significance to Policy**

This section looks at the importance of this research to the Government, Financial Institutions, managers and owners of Small and Medium size Enterprises and to entrepreneurs. To the government, the study will help them come up with policies

that can help entrepreneurs and SMEs access formal credit facilities, thus contributing to the growth of the economy. To financial institutions, it will enable them come up with better lending instruments to favour entrepreneurs so as to absorb idle money in the hands of individuals and boost the economy, thereby enhancing performance. To the managers and owners of small and medium size enterprises, the study will help them manage their financial challenges by giving them alternative sources of finance for better survival. To the entrepreneurs, it will help them know where to source for funds for their business at relatively lower risks.

### **1.7 Scientific Significance or Relevance**

Here our concern is on the usefulness of this work to other researchers and academicians and the researcher herself. To the researcher, the study will help her fulfill part of her requirements for the MBA program in Banking, Tax Administration and Financial Services in CATUC, Bamenda. To the researchers and academicians, the study will help them understand the role that informal financing play in the growth of entrepreneurship.

### **1.8 Organization of Study**

By organization of study, the researcher means how she will construct each chapter to help her achieve her research objectives, or how to address the research questions systematically. The first chapter of this study looks at the background to the study, statement of problem, research questions – main and specific - , research objectives, the significance of study and lastly the organization of study. The second chapter is concerned with conceptual and theoretical reviews, empirical literature and the observed literature gaps the study is trying to bridge. The third chapter focuses more on the scope and area of study, the research designs involved, sources of data, the population of the study including sample and sampling techniques used, techniques of data analysis and model specification. The fourth chapter presents and discusses the results of the study. The fifth and last chapter summarizes the research findings, concludes the study, provides recommendations and outlines the way forward for future research.

## **2. Literature Review**

This chapter treats literature. It presents in a Scholarly manner current knowledge about informal financing and entrepreneur growth including practical findings, theoretical and empirical knowledge or contributions to “informal financing and entrepreneur growth” in general. This is more of secondary information or data without any original work from the researcher. She merely represents what other researchers have said in line with the topic Creswell (2013).

The researcher captures this chapter under conceptual review, theoretical review, empirical review and finally identifies the literature gaps she wishes to explore and

brings forth. Some writers have affirmed that informal capital is backbone or unique source of firm financing since formal sources have additional controlled measures as seen in mature economies (Wu *et al.*, 2016). According to them, informal finance affects innovation positively

## **2.1 Conceptual Review**

A concept according to Waithakan (2015) is a general idea or an abstract derived from specific realities under observation. A conceptual review therefore sets out broad ideas and concepts derived the field of study. This helps to present in an orderly manner the findings from this field of study for better appreciation and alternative ways forward. Considering our topic of study: 'The Role of Informal Financing in the Growth of Entrepreneurship', we will examine what informal finance is all about, the various forms that exist, what entrepreneurship is all about, how it relates with informal financing from its very beginning, growth and sustainability

### **2.1.1 Informal Finance**

Informal finance is referred to as agreements, contracts or treaties undertaken without any reference to the rules and regulations guiding the exchange of money now for exchange of cash in the short run or long run time interval, Schreiner (2001). According to Schreiner, informal finance originates from the grassroots to cater for the needs of the poor who desires appropriate financial services in their day-to-day activities and who do not have accounts with the formal financial sector.

Here also, loans are taken based on private contracts for new business or to finance the operations of already existing businesses (Zanier, 2014). According to Valeria, the informal sector works best by exploiting or taking advantage of social capital for the growth of the common good. Allen (2014) is of the opinion that productive informal financing prevails in regions where bank loans procedures are extensive. He equally observes that in regions where bank loans are affordable, the role of informal financing in the growth of firms decreases

### **2.1.2 Types of Informal Financing**

Allen (2014) identifies two distinctive forms under which informal financing can be classified, constructive informal financing and underground informal financing. Constructive informal financing makes use of business, personal and community relationships for collaterals. It identifies registered pawnshops, small loan companies, trade credits, family and friends lending. On the other hand, underground informal financing involves unregistered pawn shops, loan brokers, loan sharks and lending agencies. These are least concerned the recovery of the funds. Sometimes they use violence methods to recover the funds.

Existing forms of informal finance have previously been identified as: shylock financing, lending from family and friends, self-help groups (Njangi houses,

Rotating Saving and Credit Association - ROSCAs), trade credits, interpersonal lending, money lenders, loan sharks, credit organizations, mutual assistance societies, commercial finance, accumulating savings and credit associations (ASCAs) (Waithaka, 2015; Nguyen, 2020; Festus *et al.*, 2020)

Limiting our research to our case study, we will focus more on the following sources of informal financing identified in this locality: Njangi groups, family and friends, informal finance from credit unions.

### ***Njangi groups:***

Njangi groups constitute an old African community-based tradition that manages money. Despite its old practices, it is still very useful in our days (Mundi, 2019). Njangis are part of the constructive forms of informal financing. They support families through tough times, allows parents to educate their children from the little 'income' it brings, helps the community or individuals within the community to benefit from other facilities (small businesses, trade, water/road/market projects, etc.) thereby developing their locality. Again, njangi groups help members to save money. They allow them enjoy some financial relief from formal financial houses that require monetary regulations including terms of payments. The basic operation of these groups is based on a level of trust. This may differ from one culture to another. Typically, a provider of financial aid to those in the grassroots areas, njangis also provide a social medium for friends and family members to meet and discuss.

Njangis are known by different names in different parts of the world: 'pari' in French West African countries, 'sousou' in Liberia and Ghana, 'family lottery' or 'ojoh' in Nigeria and 'tontins' or 'njangi' in Cameroon.

Individuals or friends or even family members can decide to put their agreed contributions (financial resources) together and help the member who is in need of money. Or they come together, decides the minimum amount of money to contribute, days of meeting, fines for those who will fail to contribute and use ballots to select the order in which members are to benefit from the common purse.

These contributions now serve as a strong financial resource to each member who uses it for their various developmental projects including home managements. The recipient of these contributions can now invest it in some form of business, child welfare, community project or anything that will improve their status. Based on this the researcher seeks to point out how this financial resource helps to boost entrepreneurship in Kumba locality. The proceeding chapter will clearly do that highlighting its starting and continuity (from the researcher).

### ***Family and friends:***

Family and friends are very close personnel when it comes to relationship. Lee and Persson (2016) observe that a greater part of informal financing in most developing



and developed countries comes from family and friends. They are your biggest fans when it comes to business and provide an easy way to raise capital, (Rodeck, 2019). Their approval process for lending money is manageable compared to traditional lenders.

Friends and family members tend to overlook the generally required endorsement agreements like, negotiation of interest rate, review of business plan, written loan agreement, and checking your business credit in any formal loan process when giving you a business cheque. They may merely give you the interest rate and methods of payment. All your friend or family member will need from you is your business plans and how his/her money will enrich your plans.

Sometimes depending on the agreement between you and your friend, his kind gesture may cost more than your investments. This tends to sour the relationship you had with your friend or family member.

***Informal funds from credit unions:***

Grant (2021) defines credit unions as financial cooperatives engaged in the provision of old-style or traditional banking services to members with fewer options in terms of transactions. They do not pay corporate income tax on their earnings. Members of any credit union bring their money together in a common fund; buy shares through which they generate income. This is used to carry out activities that prove to be beneficial to the community. Membership is restricted to people with a common bond; people who live in one community and/or work in the same enterprise. Members have an account with the credit union. This is always a nominal account. In order to make money credit unions attract deposits which they in turn give out to members or customers as loans attracting interest on the loan for a given period of time.

According to Geffner (2021), a credit union is a lending and nonprofit savings cooperative, owned by members. Apart from financial products and services, credit unions do offer credit cards, auto loans, equity loans, checking and savings accounts, mortgages and informal services to community members who are not liable enough to maintain and sustain accounts with them. This last function of credit unions is what motivates the researcher to carry out her studies; to point out the role of funds raised informally from credit unions in sustaining the running of businesses.

***2.1.3 Entrepreneurship***

This refers to the ability to develop a plan of business activity, carry it out - enduring all the risks involved in order to make profits and/or grow. It is connected with the factors of production: land, capital, labour and natural resources (website). Land to set up the premises for the business; capital to acquire the land, build the premises, obtain materials for the business and acquire resources; labour to put all the resources of the business together in the right proportion or combination so as to minimize cost and maximize profits for the growth of the business; and finally

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natural resources to harness this with existing labour and come up with innovations and/or inventions – the creativity of the entrepreneur! To be able to do these successfully, the entrepreneur needs funds at minimal cost. The most convenient source of funds is gotten informally, bypassing the regulations associated with formal financing.

The researcher seeks to identify the role played by informal financing in the growth of entrepreneurship. She identifies four types of entrepreneurship: small business entrepreneurship, scalable startup entrepreneurship, large company entrepreneurship and social entrepreneurship. Social entrepreneurship includes those business activities that produce goods and/or services to handle social issues.

Large company entrepreneurship focuses on creating new products or making innovations that centered on their main products. For instance, a detergent powder producing company could decide and produce varieties of detergent powder in terms of sizes, packaging and scents. These new products are within the broad product produced by the company. Scalable startup entrepreneurship is businesses that start with the aim of expanding as large as they could. They need enough funds to sustain their growth, Chang (2020).

Finally, small business entrepreneurship is made up of individuals who own their businesses with the sole aim of sustaining their family. Most of their funds come from family and friends.

These types of entrepreneurship run across the three business categories: the primary sector (dealing with raw materials), the secondary sector (dealing with the production process) and the tertiary sector (dealing with the provision of service). In the course of the study, the researcher seeks equally to examine the sensitivity of informal financing in determining entrepreneurship across business categories.

Entrepreneurship therefore will be measured through administration of questionnaires to a sampled population under study. This will be administered through random sampling. The answered questionnaires will be analyzed in line with the research questions and objectives.

## **2.2 Theoretical Review**

In the theories of entrepreneurship growth, O'Reilly (2016) compares money to gasoline during a trip, O'Reilly (2016) while Tony Hsieh urged entrepreneurs to chase their vision with hope and money will emerge (Lee A. Swanson in *Entrepreneurship an Innovation Toolkit: Financing Entrepreneurship*). These then are used to actually carry out the envisaged vision for the common good of all. We will examine financial theories of liquidity some of which include: Pecking order theory, signaling theory, liquidity theory, real options theory, stewardship theory, agency theory and information asymmetry.

***Pecking order theory:***

The pecking theory of entrepreneurship seeks to understand why firms prefer one funding source over another, (Myers and Majluf, 1984). These funding sources include informal sources (personal, family and friends, njangi groups) and formal sources (bank loans, debts, selling equity to interested investors). Veneranda (2017) urges that informal sources of finance are more suitable for entrepreneurs. They provide funds at minimal rates compared to formal sources. Based on the pecking theory firms will prefer this source to evade rules and regulations associated with formal sources. This research paper seeks to through more light on this theory.

***Signaling theory:***

This theory fosters the relationship between firms and donors or financial contributors. It merely clarifies which set of entrepreneurs will raise funds from investors and which will not, (Connelly *et al.*, 2011). This depends solely on the type /form of business activity to be carried out. The location and environment of the firm contributes to this choice for the common good. The donors will rather fund those business activities geared for the promotion of the common good rather than individuals concerned.

***Liquidity Theory:***

This theory assumes that capital is the determinant of entrepreneurship. It facilitates the acquisition of other resources for a successful business activity, (Agarwal, 2021). Individuals from rich backgrounds find it easier to enter business than those at the grassroots. They easily acquire this from friends, family members or associations they belong to – primarily informal.

***Real options theory:***

This theory urges those in entrepreneurial ventures to look at failure as learning opportunities for learning to handle future businesses better. According to Lee (2007) bank rules and regulations on loans to small businesses should encouraged entrepreneurs gain access to these facilities. Once these are high business seekers opt for less risky facilities in the informal services including credit unions.

***Stewardship theory:***

The stewardship theory is concerned with governance of entrepreneurs. It assumes that entrepreneurs are sole owners of their businesses and are vested with the governance of their businesses. Their relationship with potential investors or contributors enhances their operations thus maximizing output.

***The effectuation theory:***

This theory was proposed by an Indian business professor, Saras Sarasvathy, in the early 2000s (Sarasvathy, 2001). From the study of expert entrepreneurs from different backgrounds, it was quite clear that entrepreneurs do create new ventures. The theory explains the process of creating new ventures from available resources, how entrepreneurs go about solving problems in their line of business from the

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available resources they have, (Sarasvathy, 2001). Each entrepreneur begins with a goal, then seek for the resources to enable him attain the goal. The effectuation theory makes use of the already available resources to come up with something new from which goals are set for future production. Some of these resources are financial in nature. The researcher is interested in pointing out how those from informal sources are relevant to entrepreneurs at start up and growing process.

These theories and assumptions help potential entrepreneurs select their funding sources carefully to enable them maximize their relationship and minimize costs. With a good relationship and the ability to minimize costs, they are able to harness inbuilt financial resources to add up to their initial capital. This boasts sustainability and therefore continuity in business.

### **3. Empirical Review**

This section focuses on what other scholars have done on informal financing and entrepreneurial growth and sustainability. Before we take a look at informal financing, we will like to look generally at sources of finance for start-ups or for entrepreneurial businesses.

#### ***Financing entrepreneurship:***

The free encyclopedia defines entrepreneur financing as the study, applied to new ventures, of value and resource allocation. It focuses on answering the challenges faced by entrepreneurs: how much funds and from who should be raised. Their aspirations determine the quality and sources of funds. Generally, small businesses or start-ups obtain their capital either through debt financing or equity financing. Others range from personal finance, commercial bank loans, business angel, buyouts, and assistance from government to funds from family and/or friends. Based on our study the most convenient would more likely be personal savings and funds obtained from family and/or friends. Again, the forms of equity and debt financing relating to our area of study are retained earnings and financing from family and friends.

Waithakan (2015), affirms on his paper *the effects of Informal Finance on the performance of small businesses* that formal and informal sources of finance are available for small businesses and start-ups but that most informal loans were relatively interest free. Lee and Person (2015) are of the opinion that entrepreneurs relied totally on informal financing. They assert that among the poor, family loans are almost interest free encouraging small businesses to obtain funds for their business activities.

#### ***Informal financing and growth:***

In their study on *Understanding Informal Finance*, Meijun and Jing (2014) found out that informal financing is more common in small, young and less audited firms and positively affects firm's growth.

Yildirim and Yang (2017) confirmed that most entrepreneurs find it challenging obtaining funds from banks. They end up resorting to informal sources which ends up correlating with entrepreneurial growth and performance.

Wujung, Ndamsa and Akumbom (2020) examine the determinants and supply of entrepreneurship in Cameroon, using the Engel and Granger's error correction model and the Johansen's contingent test for the period 1980 to 2014. Their results testify that tertiary education really affects the supply of entrepreneurship in Cameroon.

Nguyen *et al.* (2020) came up with the facts that entrepreneurs face trade-offs deciding the best source of finance for their businesses. According to them, informal financial sources prove attractive due to their relative speed, low transaction fees, freedom from collaterals; and formal sources offer low interest rates with a longer loan processing time.

***Sustainability of entrepreneurship:***

In Larson's (2021) unpublished book, *Sustainability, Innovation and Entrepreneurship* he described sustainable entrepreneurship as a process of starting up an entirely new business or creating a new service and/or product in an existing business. He concluded that its impact is felt in both the smallest as well as the largest form of world's businesses. Tom and Farrington (2010), on *Sustainability* upholds that its greater concern is with the wellbeing of the next generation especially that of the irreplaceable natural resources.

Rajni (2013) in his work on *Financial Determinants of Firm's Value: Evidence from Indian Firm* pointed out that the capital structure (funds) of firms do not influence the value of firms. This already disagrees with the researcher's view of pointing out the role of funds (from informal sources) on the growth and sustainability of firms. De Wit and Co (2020) in their work on *Determinants of Successful Entrepreneurship* agrees that, social capital (informal in nature) helps entrepreneurs achieve or make 80% more profits than those without this determinant in their enterprise.

***Literature:***

Many scholars have undertaken studies based on informal finance and entrepreneurship from different dimensions: Veneranda (2017) focused on 'Informal sources of business finance for entrepreneurs'; Alalekan (2016) evaluated the challenges of informal entrepreneurs in Southwest Nigeria; Nguyen *et al.* (2020) brought forth the formal and informal financing decisions for small businesses; Mundi (2019) expounded on the Njangi – an African financial support; Samuel and Petra (2015) explained on 'Financing from Family and Friends'; Rodeck (2019) equally explored on 'Borrowing Money from Friends and Family – the good the bad and the ugly'. Despite their fruitful efforts in their various fields of study, the researcher wishes yet to explore on another dynamic part of this topic which to her will create a deep impact on the society and an overall economic growth if it is

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considered and supported. This involves the role played by informal financing in the growth and sustainability of entrepreneurship.

#### **4. Materials and Methods**

This chapter focuses on the methods employed in the course of this study. To help us explore these methods better, will look briefly at the scope of the study, the area of study, the various designs employed in the course of the study, sources of data, the population of study, sample & sampling techniques, techniques of data analysis used and lastly model specification.

##### **4.1 Study Site**

Here we discussed the scope of the study and the area where this study is carried out to bring out meaningful results digest the objectives of this study and fill the gap of knowledge identified by the researcher before undertaking this study.

###### **4.1.1 Scope of Study**

The scope of this study covers material based on sources of financing for entrepreneurship start up, growth and sustainability. Our concern here is on the informal sources of finance. The ones identified in our Locality are from friends and family, njangi groups and informal sources from credit unions. Our concern here is on how these identified informal sources of finance contribute to the growth of entrepreneurship in Kumba Locality.

###### **4.1.2 Area of Study**

Kumba is one of the main commercial towns in the Southwest Regions of Cameroon. It is found in Meme Division now Department, popularly known as 'k-town'. It is one of the largest and most developed cities in Meme Division with a population estimate of over 400,000 inhabitants, Ngo (2020). Most of these inhabitants trade in rubber, cocoa, timber and food stuffs produced by farmers. From here we see that they deal mostly with primary products from the earth. It has two main markets, the Fiango and Kumba Markets. The influx of farm products to the markets generates a high level of activity in the town. This in turn has attracted people from other parts of the country and neighboring Nigeria.

The Nigerians are mostly business inclined (entrepreneurs). With this mind set the researcher sought to investigate how they fund their businesses, what keeps them ongoing, how they survive given that these small businessmen lack the collaterals to obtain formal finances from Banks.

###### **4.1.3 Research/Study/Design**

This section describes the structure and design of data collection and analysis to meet the objectives of the study. In other words, it describes how data will be collected and analyzed to give convincing answers to the fore mentioned research

questions. McCombes (2021) defines a research design as an outline for planning the research and providing answers to the research questions.

The study also employed the descriptive research design to assess the role of informal financing on the sustainability of businesses in the Kumba municipality. Questionnaires were used by the researcher based on a descriptive case – study of Kumba locality. The questionnaires will seek to analyze and provide in descriptive and causal forms answers to the specific and general research questions raised in chapter one.

#### ***4.1.4 Study Population***

According to Rafeedie (2018) population is a group of individuals, objects or things that have the common interest of the researcher. Hassan (2021) defines population as a collection of objects and/or individuals that form the main focus of the study. Population of study refers to the total number of individuals involved in small businesses within Kumba municipality who seek some form of funding for their businesses. They include persons in the various njangi house, family and friends, credit union workers/customers, business men and women. The sample size of 31 respondents was used.

#### ***4.1.5 Sample Size Calculation***

Houghton (2020) defines a sample as a smaller portion of a population chosen as representation of a population. Statistically, it represents the subset of the population under study. This was selected from the given population of small business owners in Kumba Municipality sponsored by various njangi groups, concerned family members and friends and from the various existing credit unions. These represented the funding sources and entrepreneurs within our area of study.

#### ***4.1.6 Sampling Procedures/Techniques***

Sampling techniques involves the various ways of studying a population and gathering useful data for further analysis to provide useful information about the study area. In our case, we used purposive sampling technique based on the knowledge of the researcher to get the required information from the sample population. We chose purposeful sampling technique the participants in our locality can easily provide detailed and in-depth information related to informal financing and entrepreneurship. We also used snowball sampling technique. The researcher identified someone in the locality with the requisite information on the area of study and through him got to know others. From these now random sampling techniques were applied using the designed questionnaires. The results of these were then analyzed based on the research objectives and questions.

## **4.2 Instrumentation/Model Specification**

The researcher used the Probit Model of specification in analyzing the data gotten from the field. This model is chosen because the researcher is working with two

variables – the dependent variable and the independent variable. It was assumed that business sustainability to be the dependent variable represented by ‘ $y_i$ ’, and sources of funds the independent variable represented by ‘ $x_i$ ’, such that ‘ $y_i$ ’ is a function of ‘ $x_i$ ’.

Again, assume that a sample of data  $(y_i, x_i)$ , for,  $i = 1, \dots, N$ , is observed, where:

- $y_i$  is an output variable that can take only two values, either 1 or 0 (it is a Bernoulli random variable);
- $x_i$  is a  $1 \times k$  vector of inputs.

The conditional probability that the output  $y_i$  is equal to 1, given the inputs  $x_i$ , is assumed to be  $P(y_i=1 | x_i) = F(x_i b)$  where  $F(t)$  is the cumulative distribution function of the standard normal distribution and  $b$  is a  $(k \times 1)$  vector of coefficients.

Moreover, if  $y_i$  is not equal to 1, then it is equal to 0 (no other values are possible), and the probabilities of the two values need to sum up to 1, so that

$$P(y_i=0 | x_i) = 1 - P(y_i=1 | x_i) = 1 - F(x_i b) \text{ (Marco Taboga, year not included)}$$

The outcome variable which is the dependent variable has two possibilities. In the case we are considering, business sustainability can either be boasted by the independent variable (sources of funds) or not, i.e., any source of funding considered will either boast business sustainability or not. Thus in order to capture the relationship between the dependent and independent variables of this study, a questionnaire will be set and administered to respondents. The results will then be analyzed using the probit model of specification and the findings interpreted for decision making and proposals for further research.

### 4.3 Data Collection/Sources of Data

The data for this research is primary data obtained from research questionnaires administered to selected identified sources of informal financing in Kumba locality. The researcher got in touch with a native of Kumba, shared the research topic and aim with him. He got interested and decided to work with the researcher. Through him the researcher got to the various entrepreneurs, njangi houses credit unions within the municipality to administer the questionnaires. This gave the researcher first hand primary data. Analysis served to provide responses to the research objectives. Primary data was used because of its originality and lack of bias.

The instrument of data collection for this research was mainly paper questionnaire. The respondent was given the paper questionnaire together with the letter of authorization from the institution (in this case CATUC) to allow him/her provide useful information that will help the researcher attain the objectives of this research. The respondent was then allowed to read and digest the questions before responding.



Some asked questions for clarification, others asked to take it home and bring the following day, while others answered.

#### **4.4 Data Analysis/Techniques of Data Analysis**

These are the various procedures employed by the researcher to explore the data and come out with meaningful information that answered the research questions objectively and covered the gap identified by the researcher before undertaking this research.

According to Priya (2019), data analysis techniques are grouped into two categories, the first is based on mathematical and statistical approaches and the second on artificial intelligence and machine learning. We used as first technique in our study, the mathematical and statistical approach. We based our analysis on the descriptive approach as well as analysis of causality with the use of a probit regression model. We endeavored to provide the standard of data description and the relationship amongst the variables under study.

#### **4.5 Ethical Consideration**

To effectively carry out the research properly, the researcher together with her team observed and respected the ethical norms/values emphasized in the field of academics (Bryman and Bell, 2007):

- The research participants were respected for their worth and their dignity prioritized.
- Their consent was sought for before administering the questionnaires,
- They were treated as individuals and their responses held confidentially by the researcher, thus respecting their privacy
- The researcher was very transparent in administering the questionnaires: made self-introduction, presented the cover letter from school that authorized her to carry out the research to each participant and answered questions from the participants to clarify them before administering the questionnaires.
- The privacy of each participant was ensured,
- The findings were analyzed from primary data collected from the field just as they were using the probit model without any biased
- No conflict of interest was allowed as unwilling participants were not allowed to be part of the study when they made their points cleared.
- The participants freely took part in the study, none of them put under duress and their personal identities withheld.
- The aims and objectives of the study were clearly spelt out to each participant.

## 5. Presentation and Discussion of Findings

This chapter hosts the summary statistics of respondents and enterprises sampled in Kumba municipally, the opinions of sampled respondents on funding sources and amount borrowed, and the opinions of the business operators on growth and sustainability. It also hosts the probit regression model on the importance of informal financing in underlying entrepreneurship growth and survival in Kumba municipality.

### 5.1 Demographic Information of Respondents

Table 1 presents the summary statistics of the characteristics of entrepreneurs considered in our study. From the table, it can be observed that an equal number of male and female business operators were considered; 15 male and female business operators. It can also be observed that majority of the respondents sampled fall in the age groups 21-30years and 31-40 years, followed by those aged 41-50 and above 50 years. The least number of business operators were less than 20 years.

**Table 1.** Summary statistics of the characteristics of entrepreneurs considered

	FREQUENCY	PERCENT
	Your gender	
Male	15	48.4
Female	15	48.4
Non response	1	3.2
Total	31	100.0
	How old are you?	
Less than 20	1	3.2
21-30Yrs	9	29.0
31-40Yrs	9	29.0
41-50Yrs	6	19.4
More than 50Yrs	6	19.4
Total	31	100.0
	Level of education:	
Primary	1	3.2
Secondary	9	29.0
High school	9	29.0
University	10	32.3
No formal education	1	3.2
Non response	1	3.2
Total	31	100.0

*Source:* Compiled by author using field survey 2021.

This clearly indicates that:

- Both male and female have the same potentials to become entrepreneurs.
- Young people are more inclined to carry out business ventures or become young entrepreneurs as compared to the aged, talk less of the young. They are full of creative ideas and longed to be guided to put them into creative use for the common good. If their creative ideas are guided by matured minds backed by good finances, their innovative and creative ideas will transform their immediate environment and the nation at large. The aged, above 50 years and 41-50 years exhibits diminishing returns when it comes to business ideas/ activities.

It can also be observed from the table that majority of the respondents were university graduates with a percentage of 32.3%, followed by secondary and high school graduates (29.0%). The rest except for the sole non-response were primary school leavers or those with no formal education (3.2%). This simply implied that the respondents understood the questionnaires and gave accurate/valid responses guided by their level of education (Table 2).

**Table 2. Summary statistics of the characteristics of entrepreneurs considered**

	<b>FREQUENCY</b>	<b>PERCENT</b>
	<b>How long have you been in business?</b>	
less than one year	3	9.7
2-5Yrs	12	38.7
6-10Yrs	4	12.9
More than 10Yrs	12	38.7
Total	31	100.0
	<b>How many workers do you have?</b>	
Self-employed	17	54.8
1-10 workers	11	35.5
11-20 workers	1	3.2
21 and above	2	6.5
Total	31	100.0
	<b>Are you a member of any informal financial institution in your locality?</b>	
Yes	22	71.0
No	7	22.6
Non response	2	6.4
Total	31	100.0
	<b>If yes which one</b>	
njangi group	16	51.6

credit union (informal)	5	16.1
Non response	10	32.3
Total	31	100.0

*Source: Compiled by author using field survey 2021.*

The credit union is not an informal financial institution but observation and experience have shown that in most localities where they operate, the inhabitants still find it challenging to obtain funds from there for their small businesses. The researcher observed that notwithstanding, they still support the common good of the environment by providing funds informally to indigenes who have a genuine reason to borrow but lack the requisites to help them obtain these funds. It is this aspect of credit union that the researcher focuses on.

We can observe from Table 2 that majority of our respondents (38.7%) have been in business for more than 10 years and from 2 – 5 years, followed by 12.9% who have been operating for 6 – 10 years. The least group 9.7% have not operated for up to one year. Hence majority of the respondents were experienced as they have been in business for a good period of time.

Again, a good number of businesses (54.7%) were self-employed, 35.5% of them had 1 - 10 workers, 6.5% of them had more than 21 workers and 3.2% had 11 – 20 workers. This indicates that a good number of businesses within Kumba municipality have few workers. Most of them are self-employed.

It is interesting to notice that 71% of these businesses are members of informal financial institutions. Of this number, 51% of them belong to njangi groups and 16.1% obtain their funds informally from credit unions. 32.3% failed to indicate the type of informal financing they rely on for the growth of their businesses. This indicates a total dependence on informal financing for small businesses

## 5.2 Funding Sources

Table 3 presents the opinions on funding sources and amount borrowed. 10 out of the 31 (32.3%) businesses borrowed money from a financial institution within the last five years. A large majority (67.7%) did not borrow from a financial institution within the last five years. Worthy of note, most of those who borrowed from a financial institution within the last five years took more than 100,000 CFA francs across all the years.

*Table 3. Opinions on funding sources and amount borrowed*

	Frequency	Percent	If yes indicate how much				
	Have you borrowed money from any financial institution within the last five years?			Less than 50,000 FCFA	51,000 to 100,000 FCFA	More than 100,000 FCFA	Non response
Yes	10	32.3	2021	0	0	3	28

No	21	67.7	2020	0	0	4	27
Total	31	100.0	2019	1	0	3	27
			2018	0	1	4	27
			2017	1	0	5	25
	Have you borrowed money from njangi groups within the last five years?			Less than 50,000 FCFA	51,000 to 100,000F CFA	More than 100,000F CFA	Non response
Yes	12	38.7	2021	1	1	2	27
No	19	61.3	2020	0	1	2	28
Total	31	100.0	2019	0	0	4	27
			2018	1	0	2	28
			2017	0	0	3	28

Source: Calculated by author using field survey 2021.

This clearly indicates that majority of businessmen and young entrepreneurs still depend mostly on informal financing for their business ventures. From the results in Table 23, the few who attempted to borrow from financial sources could only get large amounts which relatively attracted collaterals and other signing requirements. From the results, these discouraged formal financing and encouraged informal financing shown clearly by their percentages.

Back to Table 3 again, the 67.7% that did not borrow from a financial institution got their funds informally. The table reveals that 38.7% of those who got their funds informally borrowed from njangi groups. These could borrow as low as less than 50,000 CFA to sums more than 100,000 CFA depending on their capacity to turnover and repay. The remaining 61.3% of those who did not borrow from financial institutions used other forms of informal financing for their funding (family and friends, personal savings, credit unions). This reveals that funds from njangi groups significantly boast entrepreneurial activities in Kumba municipality.

Table 4 represents the opinions on funding sources and average amount borrowed. 2 out of the 31 (6.5%) have borrowed money informally from credit unions in their locality within the last five years. A good number (93.5%) did not borrow money informally from credit unions. Most of those who approached the credit unions informally borrowed more than 100,000FCFA though some borrowed between 50,000FCFA and 100,000FCFA. This indicates that the credit unions do not function strictly as micro-financial institutions but relax their rules to meet the common good through the needs of young entrepreneurs.

**Table 4. Opinions on funding sources and average amount borrowed**

	Frequency	Percent		If yes indicate how much			
	Have you borrowed money informally from any existing credit unions?			Less than 50,000FCF A	51,000 to 100,000FCF A	More than 100,000FCF A	Non response
Yes	2	6.5	2021	0	2	5	24
No	29	93.5	2020	0	2	5	24
Total	31	100.0	2019	1	2	5	23
			2018	0	1	4	26

			2017	0	0	7	24
	Have you borrowed funds from any other source apart from the ones mentioned above within the past five years?			Less than 50,000FCF A	51,000 to 100,000FCF A	More than 100,000FCF A	Non response
Yes	4	12.9	2021	0	0	2	29
No	27	87.1	2020	0	0	1	30
Total	31	100.0	2019	0	0	2	29
			2018	0	0	2	29
			2017	0	0	1	30

*Source:* Calculated by author using field survey 2021.

The result also reveals that 12.9% of businesses under consideration did not obtain their funds from all the sources considered in the survey within the last five years. Interestingly, they could get more than 100,000CFA. This strongly highlights the importance of entrepreneurial ingenuity. The quest to survive within the limited resources. The undeniable creativity embedded in the young entrepreneurs!

### 5.3 Growth and Sustainability<sup>2</sup>

#### 5.3.1 Growth

Table 5 shows the statistics of the opinions on whether the entrepreneurs keep records of sales, turn over and net profit of their businesses within the past five years. A good number of them (51.6%) keep a record of sales, 41.9% keep a record of turnover and only 38.7% of them keep a record of net profits. This shows that they focus more on the daily running of the business captured in the higher percentage in the volume of sales as compared with the net profit. Their focus is growth oriented.

**Table 5.** Opinion on whether the entrepreneurs keep records of sales, turn over and net profit

	FREQUENCY	PERCENT
	As a business man, have you taken some time off to measure the volume of your sales within the past five years?	
Yes	16	51.6
No	15	48.4
Total	31	100.0
	As a business man, have you taken some time off to measure your business turn over within the past five years?	
Yes	13	41.9
No	18	58.1
Total	31	100.0
	As a business man, have you taken some time off to measure your net profits within the past five years?	
Yes	12	38.7
No	19	61.3

<sup>2</sup>See volume of sales, turn over and net profit in Appendix A2

Total	31	100.0
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Source: Calculated by author using field survey 2021

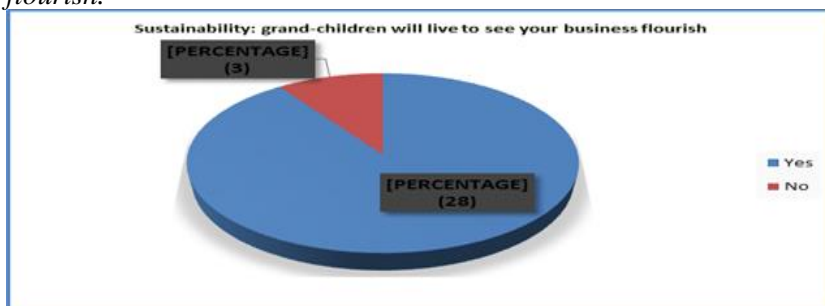
Of those who measure their volume of sales, we realize from our findings that of the 51.6% respondents who keep record of sales; in 2021, 5 realized a 50% turnover, two 60%, another 40%, 85%, some 2,5million, 20million and 20 others couldn't give quantitative measures of their turn over.(see appendix A2 on volume of sales). This indicates that talented and indigenous young men and women who go into business fail to keep proper records of the progress of their business. A few who do are encouraged with the turnover. This keeps them on in business. The appendix reveals similar results for 2020, 2019, ... .. 2017.

As noted from Table 5, a smaller proportion of the participants (41.9%) keep records of turn-over and a least (38.7%) records their net profit. Using the same analysis we did for volume of sales using appendix A2, and applying it to table A2 (on volume of turn over) and table A3 (on volume of net profit) all in appendix A2, we observe a similar trend for the past five years. Entrepreneurs care so much about the day to day running of their small businesses; very few measure its growth and for those who do, majority focuses only on volume of sales. If they are encouraged to take time and record these measures, they will be amazed at the level of growth of their respective entities. This is indicated from the results of the few who took their time to measure the volume of sales as shown from their percentages (40%, 50%, 60%, 85%) and money at hand (2.5 million, 20 million). Even those who measured and could not keep quantitative values acknowledged that there experience growth; that is why they stayed on in business.

**5.3.2 Sustainability**

Figure 1 presents the opinions of sampled business operators on whether their children and grand-children will live to see their business flourish. It is evident that majority (90%) of the businesses in the Kumba municipally will sustain unto the third generation (that is, the grand-children will see their business flourish). Only 10% (3 out of the 31 businesses) will not sustain unto the third generation.

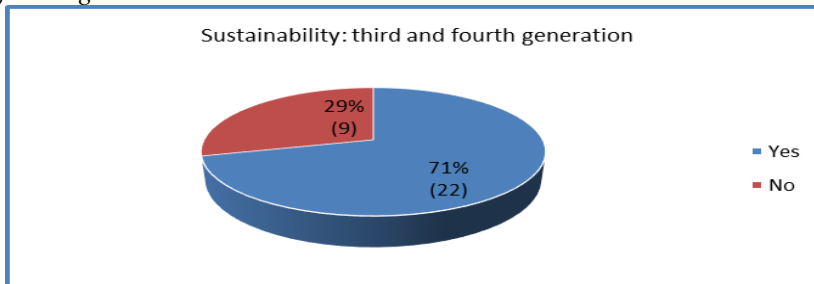
**Figure 1.** Opinions of children and grand-children to live and see your business flourish.



Source: Designed by author using field survey 2021.

Figure 2 presents the opinions of sampled business operators on whether their business will survive up to the third and fourth generations. Again from our study 71% of the businesses operating in Kumba municipality will survive up to the third and fourth generations. Only about 29% (9 out of 31 businesses) may not see the third and fourth generation; this indicates that the businesses are sustainable.

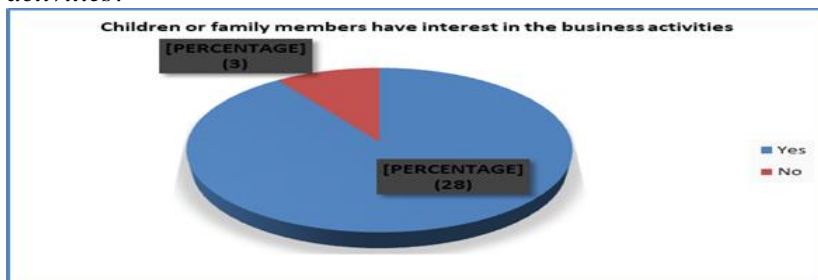
**Figure 2.** Respondents’ opinion on their business surviving up to the third and fourth generations?



Source: Designed by author using field survey 2021.

Figure 3 captures the interest of children and family members of respondents in their business activities. Like figure 4.1, 90% of children and family members of respondents are very much interested in their business endeavors. Only about 10% (3 out of 31 respondents) indicated that their children and family members are not interested in their business activities.

**Figure 3.** Opinion of your children or family members’ interest in your business activities?



Source: Designed by author using field survey 2021.

Measures put in place to ensure that the business grows and flourishes is in Table 6.

**Table 6.** Measures put in place to ensure that your business grows and flourishes

	Frequency	Percent
After sales services, promotion and bonuses to	1	3.2
Avoid giving out credit to customers, cross-checking my	1	3.2
Borrow from friends	1	3.2
Business seminars	1	3.2
Constant improvement of customer service	1	3.2
Data collection on sales and expenses	1	3.2



Educate and train my workers on methods of operation	1	3.2
Get to know my customers' needs, maintain high	1	3.2
Identifying customers' needs	1	3.2
Improving on the products	1	3.2
keeping good customers service	1	3.2
Make the environment conducive, and attractive for	1	3.2
Modern designing	1	3.2
Praying always	1	3.2
Publicity, Lending loans and investing in my business	1	3.2
Putting more time and Savings in Njangi as Backup	1	3.2
Reinvesting profit into business	2	6.4
Remuneration, add more goods and varieties	1	3.2
Restocking the shop after sales	1	3.2
Saving money	1	3.2
Sustainable operation structure,2.strong finance	1	3.2
thinking out of the box, by implementing innovations	1	3.2
Very careful on the way I spend business money	1	3.2
Watch standard and introduce variety	1	3.2
Non response	6	19.4
<b>Total</b>	<b>31</b>	<b>100.0</b>

*Source: Calculated by author using field survey 2021.*

NB: identify similar measures and group them.

Looking at the measures put in place to see that businesses grow and flourish, we will group similar measures for easy analysis:

- **Customer services:** These mean offering after sales services, promotion and bonuses to customers; Constant improvement of customer service, identifying customers' needs, keeping good customer service, Make the environment conducive, and attractive for customers and personal savings; maintain high standard of excellence. 7 respondents with a percentage of 22.4% took this measure.
- **Sustainability:** Educating and training workers on the methods of business operations, watch and introduce variety, spend business money judiciously, think out of the box and implement innovations, set up sustainable operation structures – 2 strong finance reporting and controlling systems, attain business seminars, restock the shop after sales, add more goods and variety, improving on the products, reinvest profits into the business, introduce modern designing, pray to succeed, avoid giving out credit to customers, cross-checking my workers on daily basis, data collection on sales and expenses. 14 respondents indicated with a percentage of 44.8%
- **Funding:** Saving money, borrow from friends, Putting more time and Savings in Njangi as backup, taking loans and investing on the business. 4 respondents with a 12.8%
- **Non-respondents:** These were 6 with a percentage of 19.2%.

This clearly indicates that the most efficient measure to show that businesses grow and flourish is sustainability, closely followed by customer service and finally funding. Thus if sustainability measures are put in place for any business entity, it will grow and flourish.

**Table 7.** *Pertinent challenges encountered in the field before asking the informal sector for help*

	Frequency	Percent
Collateral	1	3.2
Delay in granting loans	1	3.2
Filling of forms, time constraint	1	3.2
Ghost towns	1	3.2
High demand for collateral security, and government	1	3.2
High interest rates with banks	1	3.2
Inadequate capital	2	6.5
Inadequate Capital	1	3.2
inadequate capital, overdue customer debts	1	3.2
Inadequate finance	1	3.2
Inadequate Funding	1	3.2
Inadequate funds	1	3.2
Insecurity as a result of the socio-political unrest	1	3.2
lack of collateral security	1	3.2
lack of proper business planning, lack of mentorship for	1	3.2
Light failure and theft	1	3.2
Low productivity, Excessive regulations and poverty	1	3.2
Non	1	3.2
Political unrest and mass exodus of persons	1	3.2
Trust	1	3.2
Very high taxes on small scale businesses	1	3.2
Non response	9	29.0
Total	31	100.0

*Source:* Calculated by author using field survey 2021.

Again looking at the various challenges encountered in the field before asking the informal sector for help, we will group similar challenges together for easier analysis:

- **Lack of collaterals/Securities for obtaining loans from banks:** Respondents indicated collaterals, high demand of collaterals securities and government documents, lack of collateral security, trust, high interest rate with banks, high taxes on small Scale businesses, filling of forms & time constraints, delay in granting loans; giving a response rate of 25.6%.
- **Inadequate capital/funds:** Responses centered on inadequate capital, inadequate funds, inadequate finance, and overdue customer debts. These had a response rate of 22.4%
- **Political barriers:** We had responses like political unrest and mass exodus of persons, insecurity as a result of political unrest, ghost town. These had a response rate of 12.8%.

- **Others:** These were light failure and theft, none, lack of proper business planning and lack of mentorship for young entrepreneurs. These had a response rate of 12.8%
- **Non-response:** We had a 29.0% response rate.

We see clearly from these observations that lack of collaterals/securities for obtaining loans from banks constitutes the greatest challenges (25.6%) faced by businessmen or entrepreneurs before approaching the informal sector for help.

#### 5.4 Importance of Informal Financing in Underlying Entrepreneurship Growth and Survival in Kumba Municipality

Table 8 presents the summary statistics used in the Probit regression model. From the table, it can be observed that 70.97% of the businesses sampled could survive up to the third and fourth generations, indicating that majority of the businesses sampled in Kumba are likely to survive. It is important to note that the rest of the variables were discussed in the previous sections.

**Table 8.** Summary statistics used in the Probit regression model

Variable	Obs	Mean	Std. Dev.	Min	Max
Survival_3 <sup>rd</sup> & 4 <sup>th</sup> generation	31	0.7097	0.461	0	1
borrow_financial institution	31	0.3226	0.475	0	1
borrow_family&friends	31	0.2667	0.450	0	1
borrow_njangi groups	31	0.3871	0.495	0	1
borrow_informal	31	0.0645	0.250	0	1
secondary_education	31	0.3000	0.466	0	1
university_education	31	0.3333	0.479	0	1

**Source:** Calculated by author using field survey 2021.

Table 9 hosts the probit regression of the role of informal financing in underlying entrepreneurial survival. The coefficient of borrowing from a financial institution is negative and insignificant (since, p-value of 0.435 is > 5%) showing that borrowing from a financial institution does not play any important role in boosting the survival of businesses in Kumba. Borrowing from family and friends is positively and significantly (p-value of 0.032 is < 5%) related to business survival. This is indication that an improvement in borrowing from family and friends is likely to improve business survival in Kumba municipally.

Borrowing from njangi groups is positively and significantly (p-value of 0.093 is < 10%) related to business survival. This shows that an improvement in borrowing from njangi groups is likely to increase business survival in Kumba municipally. This also shows that borrowing from njangi groups plays a very important role in boosting business survival in Kumba municipally.

**Table 9.** Probit regression of the role of informal financing in underlying entrepreneurial survival

Survival_3rd & 4th generation	Coef.	Std. Err.	Z	P-Value
borrow_financial institution	-0.6922	0.8875	-0.78	0.435
borrow_family&friends	1.1268	0.5574	2.02	0.032
borrow_njangi groups	1.5314	0.9119	1.68	0.093
borrow_informal	0.5192	1.4294	0.36	0.716
secondary_education	1.4658	0.8883	1.65	0.099
university_education	-1.3505	0.7367	-1.83	0.067
Constant	1.4428	0.8136	1.77	0.076
				Log likelihood = -11.077941
				Number of obs = 31
				LR chi <sup>2</sup> (7) = 9.94
				Prob > chi <sup>2</sup> = 0.043
				Pseudo R <sup>2</sup> = 0.3097

**Source:** Calculated by author using field survey 2021.

Borrowing informally from credit unions is positive but insignificant (p-value of 0.716 >5%) related to business survival. This shows that borrowing informally from credit unions encourages them but do not play any important role in boosting their survival. In other words, funds raised informally from credit union can help start-up businesses but not sustain existing ones.

The coefficient of respondents who are secondary school graduates is positive and significant (since, p-value of 0.099 < 10%). This shows that secondary school graduates are good entrepreneurs whose zeal and ingenuity can boost the survival of businesses in Kumba Municipality. That for university graduates is negative yet significant (P-value of 0.067 <10%) related to business survival. This shows that university graduates are not good entrepreneurs. Their presence can boost business survival yet they themselves are not interested.

## 5.5 Results and Discussions

The findings of our study agrees with that of Waithakan and Agnes (2015), who conducted a study on *the effects of informal financing on the performance of small and medium size enterprises* in Kiambu County and found out that majority of their respondents who got funds informally borrowed it from family and friends. This indicates a positive significant link between family and friends and business performance. This equally disproves the null hypothesis (H<sub>0</sub><sub>2</sub>) in our study which states that:

H<sub>0</sub><sub>2</sub>: Funds from family and friends play no significant rule in boasting business sustainability. We see from Waithakan and Agnes (2015) study that funds from family and friends not only boast business operations but also enhance performance and sustainability.

The findings also agree with Lee and Persson (2015) in *financing from family and friends*, who agree that the overwhelming proportion of funds from informal finance raised within the social circle comes from family and friends. This knowledge helps owners small businesses know where to turn to for funds.

Yildirim and Yang (2017) on *informal lending and entrepreneurship* agrees that informal lending supports entrepreneurial activities, most especially the less wealthy but argues that as the volume of entrepreneurial activities increases, lenders tend to tighten lending ratio in a bit to make more profits to the detriments of these activities.

The findings disagree with Suman, Santoso and Puta (2021) in their paper *on the role of local informal financial activities for sustainability of farmers*. They agree on the dominant role of informal financial institutions for farming activities but laments that this dominant role causes farmers to remain helpless during harvesting seasons and cannot enjoy sustainability welfare.

## **6. Summary, Conclusions and Recommendations**

### **6.1 Summary of Findings**

The main objective of this research was to identify the importance of informal financing in underlying business sustainability in Kumba Municipality. This was achieved by: examining the extent to which funds from njangi groups can promote business sustainability; assessing the relationship between funds from family and friends and sustainability of entrepreneurship; and lastly by examining the extent to which funds raised informally from credit unions can sustain existing businesses. A questionnaire was administered to 31 respondents to capture their views regarding the objectives of this study. A probit regression model was chosen to analyze the responses gotten from the respondents. The findings indicate that:

- ✓ Majority of the businesses sampled in Kumba Municipality are likely to survive the third and fourth generation. This depends solely on the sources of funding for their businesses.
- ✓ Borrowing from a financial institution does not play any important role in boosting the survival of businesses in Kumba. This shows why the researcher was interested in identifying the importance of informal financing in underlying business sustainability in Kumba Municipality.

Borrowing from njangi groups plays a very important role in boosting business survival in Kumba municipally. This disproves the null hypothesis ( $H0_1$ ) which states that:

*$H0_1$ : Funds from njangi groups do not significantly promote business sustainability in Kumba municipality.*

Borrowing from family and friends is likely to improve business survival in Kumba municipally and boosts their sustainability. This finding also disproves the null hypothesis (H<sub>0</sub><sub>2</sub>) which states that:

*H<sub>0</sub><sub>2</sub>: Funds from family and friends play no significant role in boosting business sustainability.*

Funds raised informally from credit union can help start-up businesses but will not sustain existing ones. In line with the null hypothesis (H<sub>0</sub><sub>3</sub>) which states that:

*H<sub>0</sub><sub>3</sub>: Funds raised informally from credit unions play no significant role in sustaining existing businesses.*

We dare to agree with this based on findings from our study though these can as well state up businesses.

## 6.2 Conclusion

The study revealed that informal financing have a significant effect in the starting up and sustaining entrepreneurial activities in Kumba Municipality. Funds from njangi groups, family and friends play a very important role in the survival and sustainability of business activities. Funds borrowed informally from credit unions can help startup businesses but may not sustain them. Thus entrepreneurs are encouraged to use the informal sources of funds available to them, but should use the credit union only for startups.

## 6.3 Recommendations

Based on the findings from this study, the researcher recommends that:

- ✓ The formal financial institutions should relax their rules around collaterals and interest rates based on loans and harken to the needs of young entrepreneurs in the grass roots areas and among low income earners. This will enable them get reasonable loans for private sector development and in a long run idle cash in the hands of individuals will gradually be harnessed back to the formal institutions, boosting their liquidity. This interaction of the formal financial sector with young entrepreneurs will gradually control the circulation of money in the economy, improve private sector development, encourage owners of small businesses to borrow money from the formal sector for their business ventures.
- ✓ Young entrepreneurs should wake up and make good use of the funds at their disposal. They can get this from family and friends, njangi groups, credit unions and put their creativity and innovation into action. They can start by creating good relationship with those around them, their circle of friends, organizations around them and even with themselves. Once this relationship is developed, the basis for informal financing is created. We dare say this because the informal finance relies on

reputation and relationship. This therefore implies that lenders and borrowers need only to trust and understand themselves and funds will flow.

- ✓ The leader or executive body of the community should come up with norms that set interest rate limits to protect the borrower from being exploited by money lenders (who are not part of any njangi group, family or friend).
- ✓ Credit unions should decide and function either solely as a micro financial institution where it will follow the rules of this prestigious body or remain as an informal source of funds to the local populace where it will be able to help young entrepreneurs startup and sustain their businesses.
- ✓ Businesses operating in Kumba Municipality and any other Small and Medium size Enterprise should make good use of the sources of informal financing available in their locality especially njangi groups. If no njangi group exist as at now, they should create one and make good use of the funds from there to start up good businesses. These from the study conducted will survive the next third and fourth generations.
- ✓ Entrepreneurs operating small and medium size enterprises should not depend totally on financing their business from formal financial sources as these may not help them survive and sustain their businesses.
- ✓ Young secondary school graduates, especially those who cannot further their education should be encouraged to start up new ventures even if it means borrowing from family and friends to start the business,
- ✓ Existing businesses should endeavor to take records of their sales, turn over and net profit within a given time frame. The results will encourage them to invest more and expand instead of living from 'hand to mouth'.

That businessmen should put in place good sustainability measures to ensure that their businesses grow and flourish. This could be any of the following:

- ✓ Educate and train workers on the methods of business operations,
- ✓ Watch and introduce variety,
- ✓ Spend business money judiciously, reinvest profits into the business
- ✓ Think out of the box and implement innovations,
- ✓ Set up sustainable operation structures – 2 strong finance reporting and controlling systems,
- ✓ Attain business seminars,
- ✓ Restock the shop after sales, add more goods and variety, improving on the products,
- ✓ Introduce modern designing, pray to succeed,
- ✓ Avoid giving out credit to customers, cross-checking my workers on daily basis,
- ✓ Introduce data collection on sales and expenses.

## 6.4 Suggestions for Future Research

In the course of the research, the researcher dwelt mostly on informal financing from njangi groups, family and friends and credit unions for time constraints and other unforeseen irregularities.

Informal financing is a vast field of study with other forms like lending agencies, loan companies, pawnshops, shylock financing, mutual assistance societies. Similar study can still be carried out with any of these types of informal financing with the same objectives to see their effects on business growth and sustainability.

Again different sets of objectives can still be used to assess the role of informal financing on the growth of entrepreneurship. For example, to examine the sensitivity of informal financing in determining entrepreneurship across business categories. That is, will informal finance have the same effect on businesses the primary sector of the economy, the secondary sector and the tertiary sector, or will there be differences.

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