



Microfinancing and Its Benefits to Women Owned Micro-enterprises in Chad: A Case Study of the City of N'Djamena

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Abstract

This study examined the impact of finance on the profits derived by women owned micro-enterprises in Chad, through undertaking a case study of the city of N'Djamena. To achieve this objective, the study uses both the two-step Generalized Least Squares estimation method, and the Maximum Likelihood method, which are adopted to correct the problem of heteroscedasticity associated with the survey data. The data used is derived from a survey on the economic empowerment of women in the city of N'Djamena, which was carried out in 2016 by the Research Institute of Applied Economics and Management of the University of N'Djamena (LAEREAG). The results show that, financing is

significantly and positively correlated to profits in women owned micro-enterprises in Chad. This suggests that an improvement in microfinance lending conditions could improve women run businesses. Financing that is derived from private microfinance institutions and the support in terms of training and management consultancy services (accounting and marketing) has a positive effect on profits. Finally, an endogeneity test allowed us to highlight the absence of a correlation between the residue and the profit variable. Considering these results, it becomes necessary to improve lending conditions and intensify the support in training and management consultancy services in favour of women.

Introduction

The success of microfinance in Bangladesh has increased the interest of the research community in finance, notably in terms of its potential impact on poverty reduction, and the development of women's economic activities. This upsurge in interest has awakened the conscience of political authorities and economic and financial institutions on the practice and the importance of finance (Guérin, 2005). Furthermore, finance in general, and microfinance in particular, have been considered as a crucial tool to help in the achievement of the Millennium Development Goals (MDG). In this regard, several microfinance programmes will be developed that target the most vulnerable groups, which are largely comprised of women (Dahoun et al., 2013). Several of these programmes focus mostly on developing countries in general, and on African countries.

Considering the extent of poverty in Chad and the difficulties in its reduction, the government created the department of microfinance in July 2006 to promote and spread the practice of finance. Other programmes and agencies¹ were established in order to support the initiatives started by the youth by giving priority to projects started by women given that they comprise the gender that is the most vulnerable and that has the most numbers in terms of poverty. According to the report on the survey on consumption and the informal sector in Chad (ECOSIT3) undertaken in 2011, the rate of poverty in households headed by women is 42.6% against 47.4% in those households headed by men. Women are the majority and comprise 50.6% of the total population of which 50.1% is found in urban areas and 51.8% are in rural areas. Despite their number, statistics show that very few women benefit from the possibility of managing their own income. According to INSEED (2013), only 24% of women have accessed finance. Poor and non-poor women represent 9.4% and 13.4% of this proportion, respectively. Furthermore, women are also disadvantaged by their lack of education. They form the least educated section of the population in Chad.

1 The support programme for graduates with no experience, Credit agricole, the National Bureau for Youth and Sports (formerly the National Youth Fund).

According to the same sources, 68.59% of women have never been to school, and only 8.29% attained a secondary school level of education and 0.41% have attained the tertiary level of education, whereas these rates are, respectively, 56.17%, 14.1% and 1.72% for men. Access to finance depends on the capacity of women to conduct and develop business. This capacity is related to the level of education (Dahoun et al., 2013).

In Chad, women in general only run Very Small Enterprises (VSEs) (INSEED, 2015). VSEs, in the context of this study, are defined as any firm with less than ten people that sometimes escape the attention of the government in terms of tax registration. They are an important sector of the Chadian economy and supplement public structures in terms of recruitment of available manpower. The Chadian economy is dependent upon the activities of formal Very Small Enterprises² and Small and Medium-sized Enterprises (SMEs) which represent 97% of the total number of formal enterprises, employing more than half of the active population (INSEED, 2015). However, women face, in a recurrent manner, difficulties in terms of access to loans to finance their activities. The guarantees required, the restriction in terms of eligibility for loans, the high interest rates, and the informal status of VSEs are some of the factors which strongly limit access by many VSEs to loans. These factors force this category of firms to resort to other sources of finance (informal credit, usury, and commercial loans) which come at a high cost and do not favour the growth of VSEs in Chad.

Microfinance is a key element in the creation of employment that could increase the revenue of VSEs (Saïd, 2017; Waiswa & Phelps, 2017). Echaudemaison (2013) defined this as being short-term credit of a low amount, awarded generally to poor people who are excluded from traditional finance, especially women, to help them conduct small businesses that generate income. In this regard, the concept of microfinance, through its microcredit component, could be considered as an opportunity to reduce constraints related to the financing of the activities of VSEs whose success risks are confused for failure risks (Koloma & Ratsimalahelo, 2015). Its relationship to poverty or the empowerment of women has been the focus of empirical studies (Huque, 2017; Dahoun et al., 2013, etc.). Huque (2017) conclude that microcredit is a powerful tool for poverty reduction and transforming the lives of members of vulnerable groups, particularly women. According to Huque, microcredit affects women through increasing their income, the stabilization and professionalization of their business activity, the improvement of their status within the family unit, and the strengthening of their capacity for self-organization. However, as a tool for fighting poverty, microfinance has its limits. According to Banerjee and al. (2015), microfinance offers an option for supplementary financing and expands the range of

2 These are VSEs registered in the Commercial Register or those that have a taxpayer identification number at the local level.

choices. However, it is also probable that these new sources of finance destabilize some families insofar as they encourage them to go into debt in order to satisfy their expenditure needs, not for the purposes of investing, but in order to simply benefit from the availability of finance.

Even though microfinance is proving to be an important tool for income generating activities, and an improvement in the living standards of vulnerable groups in other countries, there is no study which has demonstrated the same in the case of Chad, where women are less educated and highly concentrated in rural areas. Also, previous studies focusing on this problem in sub-Saharan Africa focused upon the relationship between credit and the empowerment of women (Abalo, 2016; Hadizatou, 2017). To this end, the analysis of the impacts of finance on the profits of women owned VSEs in Chad will bridge this literature gap in countries where high levels of illiteracy among women limits the possibility of their receiving support in terms of training and management consultancy services which are available to beneficiaries of financing.

This study aims at determining the effect of credit on the activities of women owned [VSEs] in the city of N'Djamena. More specifically, it examines the effect of credit on the profits of women owned [VSEs.] In order to achieve this objective, the study uses data from a survey on the economic empowerment of women in the city of N'Djamena carried out in 2016 by the Research Institute of Applied Economics and Management of the University of N'Djamena (LAEREAG). The two-step Generalized Least Squares method was used. Also, to correct the problem of heteroscedasticity related to the survey data, the Maximum Likelihood method is used. The results show that finance is significantly and positively correlated to profits in women owned micro-enterprises in Chad. Financing that is derived from private microfinance institutions, the level of education of the husband and support in training and management consultancy services (accounting and marketing) have a positive impact on the profits. Finally, an endogeneity test allowed us to highlight the absence of a correlation between the residue and the profit variable.

Methodology

Since the 1970s, several studies have focused on the analysis of effects of finance on the empowerment of women, notably in developing countries. In Africa particularly, the studies carried out in this manner focused on Cameroun, Ghana, Senegal, South Africa, Zimbabwe, Benin, etc. (Dahoun et al., 2013; Ganle et al., 2015). In order to properly appreciate the influence of credit on the development of women owned VSEs in Chad, this study has adopted a linear model approach, given the type of data used, in order to take into account the effect of credit on the profits of women owned enterprises.

Conclusion and policy recommendations

The importance of microfinance in the fight against poverty on the one hand, and the empowerment of women on the other hand, has been the focus of several empirical studies. This study continues in the same vein, to examine the impact of finance on the monthly profits of women owned VSEs in Chad, through a case study of the city of N'Djamena. In order to achieve this objective, the study uses both the two-step Generalized Least Squares estimation method, and also the Maximum Likelihood method which is adopted for the correction of the problem of heteroscedasticity associated with the survey data. The data used is derived from a survey on the economic empowerment of women in the city of N'Djamena carried out in 2016 by the Research Institute of Applied Economics and Management of the University of N'Djamena (LAEREAG).

The results show that finance is significantly and positively correlated to profits in women owned micro-enterprises in Chad. This suggests that an improvement in microfinance lending conditions could improve women run businesses. Financing that is derived from private microfinance institutions and the support in terms of training and management consultancy services (accounting and marketing) has a positive effect on profits.

Considering these results, it becomes necessary to improve lending conditions and intensify the support in training and management consultancy services in favour of women. Microfinance institutions should reduce their interest rates, increase the amount of loans awarded and systematically provide support in terms of training and management consultancy services to the women who benefit from microcredit because management consultancy would allow them to be accountable and manage their expenditure in a better manner. Also, these institutions should include these women in their training plans. The government should support microfinance institutions to make it easier for them to provide credit facilities.

The scope of this study goes beyond the city of N'Djamena but does not cover the entire country. The database does not allow for having a control group which should serve as an element of comparison with the group under study (the beneficiaries) and does not consider the cultural and religious aspects. Consequently, the results arrived at are only based on the 301 women who were granted loans by public and private microfinance institutions, which is perhaps the major handicap of this study. Because the sampling is from women who live in N'Djamena, the study cannot be generalized to apply to the whole of Chad. Future studies could be undertaken using a larger sample of beneficiaries and non-beneficiaries of finance who are owners of VSEs in several provinces of Chad, so as to ensure that the results are solid and could apply to the entire country.

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