



# Informal microfinance institutions and development-led tourism entrepreneurship



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## HIGHLIGHTS

- Informal microfinance institutions promote development-led tourism entrepreneurship.
- The theoretical framework integrates resilience, social capital, collective action and entrepreneurship concepts.
- Collective action in informal microfinance institutions enable entrepreneurial members to create small tourism firms.
- Social capital and collective action are key predictors of development-led tourism entrepreneurship.
- Legislating informal microfinance institutions does not guarantee development-led tourism entrepreneurship.

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## ABSTRACT

This paper explores how informal microfinance institutions (IMFIs) support development-led tourism entrepreneurship through providing microcredit and development opportunities to small tourism firms (STFs), as well as undertaking communitarian projects and outreach activities that promote the business activities of STFs. Drawing on resilience and social capital as central concepts, the paper argues that the form of collective action found in IMFIs can be examined to understand their impact on development-led tourism entrepreneurship. Using Cameroon as a case study important policy challenges in destinations where regulatory constraints cause many STFs to become dependent on IMFIs as opposed to formal (regulated) financial institutions in development-led tourism are highlighted.

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## 1. Introduction

Informal microfinance institutions (IMFIs) are recognized as attractive alternatives to formal (regulated) financial institutions for enabling new business creation (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2010; Seibel, 2000), with the potential to contribute to development-led tourism (Kimbu, 2010). Development-led tourism occurs when small tourism firms (STFs) and community groups are empowered through enterprise policies that support tourism businesses and community projects that promote tourism (Brown, 1998a; Kwaramba, Lovetta, Louwb, & Chipumuroc, 2012).

IMFIs pursue a similar empowerment goal, with members/clients seen as both contributors and beneficiaries of community development (Ayyagari et al., 2010). STFs are important for “providing a wide range of tourism and hospitality services” (Zhao, Ritchie, & Echtner, 2011, p. 1573) despite insufficient state-supported funding and governance mechanisms (Kimbu & Ngoasong, 2013). Given that many owners of STFs in Sub-Saharan Africa are members of IMFIs (Kimbu, 2010), the role of IMFIs can be crucial in supporting development-led tourism entrepreneurship.

The tourism-development thrust of this study reflects the interdependence, linkages, and complementary relationships that tourism has with different economic sectors and localities. Previous studies have examined the development potential of STFs (Steel, 2012) and community tourism projects (Jones, 2005; Kwaramba et al., 2012). Recently there have been calls for more research that articulate the complementary relationships (Ohe & Kurihara, 2013)

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between STFs, communitarian projects (Marti, Courpasson, & Barbosa, 2013) and the tourism industry. In response to these calls, this study critically examines the complementary relationships between the direct effects of IMFIs (e.g. through providing microcredit and development opportunities to STFs), and indirect effects (e.g. communitarian projects and outreach activities) on development-led tourism. This research contributes to the literature debating the impacts of IMFIs on development (Banerjee & Duflo, 2011; Mayoux, 2001; WTO, 2005) by uncovering the nature of the collective action that enables IMFIs to impact on a specific economic sector, in this case development-led tourism entrepreneurship.

Collective action reflects the mobilization and use of social capital by a microfinance institution (Woolcock, 1999) to achieve its goals and to adapt to risks/threats in the environment (Woolcock, 2010). Social capital constitutes the shared trust, reciprocal exchanges, and rules that shape the collective action that organizations need to be resilient (Adger, 2003). It does not always produce desired outcomes (Pretty & Ward, 2001). In the face of threats that may prevent desired outcomes, resilience enables the organization to adapt by improvising (Coutu, 2002) and utilizing indigenous resources to respond to these threats (O'Brien & Hope, 2010). This adaptive ability, in the case of IMFIs, provides opportunities for individual entrepreneur members (Jones, 2005) to create resilient STFs (Biggs, Hall, & Stoeckl, 2012; Sullivan-Taylor & Wilson, 2009).

As organizations, IMFIs and most of the STFs they support “engage with tourists and the tourism industry, [but] are not members of any formal association or trade organization, are not recognized by the local tourism boards, and their legal goods or services are often unlicensed or unregulated by local, regional, or national governments” (Slocum, Backman, & Robinson, 2011, p. 45). This informality exposes them to market uncertainties and the threat of government sanctions requiring them to be resilient to sustain their activities. This leads to two research questions explored in this study: 1) How does the collective action found in IMFIs enable an understanding of their impact on development-led tourism entrepreneurship? 2) In what ways can STFs depend on IMFIs to contribute to development-led tourism?

To answer the above questions, this paper provides a micro-ethnographic study (Kwaramba et al., 2012; Mitas, Yarnal, & Chick, 2012) of three types of IMFIs, namely: hometown associations, rotating savings and credits associations, and accumulating savings and credits associations in Cameroon (Tche, 2009) in supporting development-led tourism entrepreneurship. If well supported STFs can be crucial private actors in the provision of tourism and hospitality services, especially in regions not served by large firms (Kimbu & Ngoasong, 2013). Our findings contribute to knowledge of the role of IMFIs, as complementary to state-regulated programmes, in providing such support.

Section 2 presents a theoretical framework for understanding the forms of collective action in IMFIs that determine their ability to be resilient in the face of uncertainties and threats in their operating environment. Section 3 presents our study method while section 4 presents an empirical analysis of the role of IMFIs in supporting development-led tourism entrepreneurship. A discussion is provided in section 5 while section 6 concludes the study.

## 2. Theoretical framework

### 2.1. Microfinance institutions and development-led tourism entrepreneurship

Development-led tourism entrepreneurship is a process where small private firms and local communities (Brown, 1998a, 1998b) are encouraged and supported to use tourism to promote local

development and vice versa (Akama & Kieti, 2007; Brown, 1998a; Ramukumba, Mmbengwa, Mwamayi, & Groenewald, 2012). Notable examples are duration-specific IMF/World Bank-funded state-run initiatives on nature tourism in the 1980s (Brown, 1998b); and recent state-regulated funding, business training, and marketing support to small tourism firms (STFs) (Kwaramba et al., 2012; Ramukumba et al., 2012). However, state-regulated programmes are not entirely successful due to unsustainable funding and poor infrastructure (Kimbu & Ngoasong, 2013; Kwaramba et al., 2012). Furthermore, STFs struggle to “secure credit from commercial banks” due to lack of collateral (Zhao et al., 2011, p. 1573). It is from this context that this study contributes to understanding how informal microfinance institutions (IMFIs) can complement state-regulated development-led tourism entrepreneurship initiatives.

As organizations, IMFIs provide micro-credit loans and development opportunities that facilitate the creation of businesses by their members (Banerjee & Duflo, 2011; Lyon, 2005). This combination of a development and banking logic (Battilana & Dorado, 2010) can enable IMFIs to provide direct and indirect support to development-led tourism entrepreneurship. Direct support may include funding for creating STFs that in turn serve the tourism industry value chain (e.g. Slocum et al., 2011). Any member of an IMFI who creates, owns and/or manages an STF is a tourism entrepreneur, defined as “a prominent actor” that sees “windows of opportunity in chaotic environments” (Strobl & Peters, 2013, p. 63). STFs include accommodation (B&Bs and hotels) and ancillary businesses (cafes, pubs, visitor centers, village shops, galleries, street vending) (Bosworth & Farrell, 2011; Rogerson, 2005; Steel, 2012). Indirect support in this context take the form of IMF-led projects that represent what Crowe (2013) calls outreach and enrichment activities that attract and retain tourists.

Another important reason for studying IMFIs is the significance of the informal sector, which accounts for the largest share of domestic economic activities in Sub-Saharan Africa (Rogerson, 2005; Slocum et al., 2011; Spring, 2009). Our focus is on microfinance institutions (MFIs) and some STFs that operate in the informal sector, widely acknowledged as the norm among the poor (Slocum et al., 2011; Spring, 2009; Yotsumoto, 2013). While the internal operations of formal MFIs are well researched (Banerjee & Duflo, 2011; Woolcock, 1999), there is a relative neglect of IMFIs. By operating outside direct government control, success depends not on profit maximization, but a sense of community and individual circumstances (Thomas, Page & Shaw, 2011). Examining such informal relationships through what Thomas, Shaw, and Page (2011, p. 970) call “novel conceptual and methodological approaches” is necessary for understanding how IMFIs promote development-led tourism entrepreneurship.

### 2.2. Collective action in IMFIs: the role of resilience and social capital

To understand forms of collective action that enable IMFIs to support development-led tourism entrepreneurship, we draw on the literature linking resilience, social capital, and community development. IMFIs and STFs are exposed to a number of vulnerabilities, threats, and/or risks that require them to be resilient to sustain their operations. The very fact of operating in the informal sector is risky due to the difficulties of scaling up operations, operating in unregulated competitive markets, limited government support through investments in infrastructure, and lack of support from local tourism boards (Slocum et al., 2011; Spring, 2009). The possibility of government sanctions on their unregistered businesses and the “poverty of their everyday lives” (Bruton, Khavul, & Chavez, 2011, p. 723) also threatens the sustainability of their

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