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Financing Sustainable Development of Small and Medium Enterprises in Cameroon

Justin A. Ayuk, Aleksandr Y. Bystryakov, and Oksana A. Karpenko

Department of Finance and Credit Peoples' Friendship University, RUSSIA.

ABSTRACT

Small and medium sized enterprise despite their huge presence in all economies have been identified to have similar challenges with respect to their sustainable development. Access to finance, managerial skills and the absence of an entrepreneurial class have been a call for concern. Policy response has been financial and technical assistance as instruments with the employment generation as the main objective. This has been the case in Cameroon with 81% of enterprises falling in the micro category despite significant state support to promote the sector since 2005. An economic transformation that increasingly relies on domestic finance sources and innovative systems or mechanisms that are capable of combining entrepreneurship and financing can translate SME development into sustained and inclusive development is what nations without a strong private sector require.

KEYWORDS
Small and Medium-Sized Enterprise (SMEs), SME's sustainable development in Cameroon, micro, small and medium sized enterprises, entrepreneurship promotion.

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Introduction

Sub Saharan Africa and Cameroon in particular, has witnessed perceived growth performance in recent years without an accompanying social development, concurrent industrial development and structural transformation. In addition, Cameroon for almost a decade is confronted with a highly liquid financial sector amidst serious scarcity of investment financing for a limping private sector (Ayuk J.A., 2012). With persistent calls on developing countries to improve on the business climate, it is evident there exist a missing link between sourcing or resource mobilization and reallocation. This raises the question of Small and Medium-Sized Enterprises (SMEs) financing and their sustainable development in Cameroon, considering that this category plays an important part in resource reallocation and private sector development (Walters R., 2006).

Cameroon is a member of Central African Economic and Monetary Community (Communauté Économique et Monétaire de l'Afrique Centrale/ CEMAC). This is a union of six States: Gabon, Cameroon, the Central African Republic (CAR), Chad, the Republic of Congo and Equatorial Guinea. With a total

CORRESPONDENCE Oksana A. Karpenko ✉ karpenox@list.ru

population of about 44.1 million, it covers a total surface of around 3 million km². Together with the larger Economic Community of Central African States (ECCAS) and the mainly inactive Economic Community of Great Lake Countries (CEPGL), CEMAC presents one of the Central African regional Communities established to promote cooperation and exchange among its members (CAMYOSFOP) .

Cameroon is one of the African Countries in which the informal sector makes the biggest contribution to employing the economically active population (90% of jobs) and producing national wealth (50% of GDP) (Business in Cameroon, 2014). It has one of the highest education rates amongst people working in the informal sector. It is a country with great individual and collective potential yet it suffers from insufficient organization at business community and institutional level.

Literature review

In the economic literature the issues of sustainable development of small and medium entrepreneurship has not received a very comprehensive and complete lighting. For the development of this scientific direction significant contribution has been made by the works of prominent economists, in particular, N. Siropolis, A. Beck, A. Demirgüç-Kunt, L. Klapper, L. Laeven, R. Aghion, T Fally, and S. Scarpetta, C. Karlsson, A. Dahlberg, M. Trabelsi, D. Rachida and others. At the same time, approaches to the study of sustainable development of small and medium enterprises and their financing do not give a comprehensive understanding of its mechanism and effectiveness.

This research was initially set out to understand the financing and sustainability challenges in the small and medium- sized enterprise sector in Cameroon. Financing initiatives for the sector have left little to be desired, development of enterprises and the growth of an entrepreneurial class remain a daunting challenge. Data collected in a survey we carried out, suggest that a large majority of the economy of the private sector are micro enterprises. Support initiatives have targeted employment generation rather than building an entrepreneurial society capable of reallocating existing resources to high productive areas. Furthermore, the survey reveals that literature on SME tends to downplay the importance of micro enterprise transition and sustainable development from start-up to mature SMEs in the growth process of many developing economies(Ayyagari,2007). Thus, there is evidence that transitioning in the sector would require a policy shift from employment generation to enterprise creation through entrepreneurial mind-set mining and mechanisms that seek to provide platforms through which sourcing and financing would find an appropriate equilibrium to generate more than the expected results**.** This work thus seeks to suggest mechanisms through which financial resources and an entrepreneurial class can produce synergy and sustainable development of the SME architecture in Cameroon and Africa at large.

Small and Medium-Sized Enterprise (SMEs) are expected to contribute a good portion of the GDP in most countries especially in developing countries where the majority of enterprises are within this category(Cassar, G., & Holmes, S.,2003). Their development in recent years has been a priority in policy formulation in many governments after realizing their importance as vectors of development. However, policy formation has not been preceded by proper implementation in these countries.

SMEs bring growth and jobs. In Europe 99% of businesses are SMEs. That equates to over 20 million SMEs. In the past five years, they have created around 85% of new jobs and provided two-thirds of the total private sector employment in the EU. The European Commission considers SMEs and entrepreneurship as key to ensuring economic growth, innovation, job creation, and social integration in the EU (OECD, 2014).

In the same light, Small and Medium sized Enterprises (SMEs) are important drivers of growth in economies across Sub Saharan Africa, accounting for up to 90% of all businesses in these markets (United Nations Economic Commission for Africa, 2014).

The term SME covers widely different types of firms. Everything is included, from fragile zero growth micro-firms (normally employing up to a couple of workers generating subsistence level revenues) to fast growing medium sized firms with up to 250 employees. The role these firms play for developing economies and the challenges they face are often completely different(Patrick, Hugh T.1995) Micro firms often struggle with fluctuating revenues, red tape complexity, and lack of knowledge and relevant competencies. For medium sized firms, access to sufficient amounts of risk capital, access to technology and access to stable electricity supply may be more of a challenge. This work primarily devotes attention to the small and medium size categories, scaling down the focus on the role of micro firms.

According to data from the World Bank, many Sub-Saharan African countries report a high number of SMEs in the economy. As seen in Figure 1, there is a large difference between regions and countries with regard to the number of SMEs (World Bank, 2015). The variation between countries in Sub-Saharan Africa is large and data uncertainty is high.

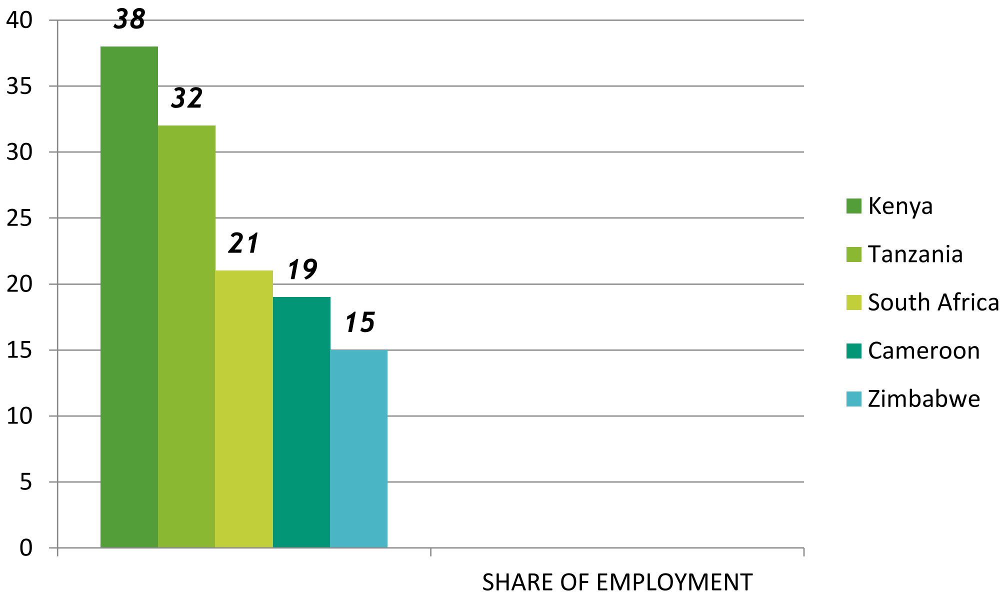

Figure 1. SME’s share of employment (Source: World Bank)

In Cameroon, only 19% of population are employed in SMEs. The number of SMEs and share of employment in a developing economy are determined by many institutional factors and by the importance of the SMEs in the overall economy. That is why it is necessary to analyze the concept "small and medium enterprises" and its role in modern economic system in the world.

There is no international unified definition of micro, small and medium-sized business. In the majority of developed countries there is a detailed division of the enterprises based on their sizes: micro, small and medium-sized enterprises. This fact, first, seriously complicates intercountry comparability of subjects of business. Secondly, it slows down formation of a flexible state tax policy in relation to SMEs. Thirdly, it creates considerable deficiency of information and analytical approaches.

In Cameroon the law on Small and Medium-Sized Enterprises promotion makes a quantitative distinction between three categories; (i) micro; (ii) small; and (iii) medium-sized enterprises and goes further to define them clearly as in Table 1 below. And, in the event of classification difficulties, the annual sales turnover, tax exclusive criterion becomes dominant.

Table 1. Definition of SME in Cameroon

Category	Number of employees	Annual sales turnover (US$)[1]
Micro	0-5	0-30 000
Small	6-20	>30 000 ≤ 200 000
Medium-sized	21-100	>200 000 ≤ 2000 000

Source: MINPMEESA[2]

According to the Cameroon Law, SMEs are subdivided into three groups; Very Small Enterprises (VSEs), Small-sized Enterprises (SEs) and Medium-Sized Enterprises (MEs). SMEs are categorized in the National SME file on the basis of the number of permanent employees and turnover when they registered. A company is considered a VSE if it has no more than 5 employees and an annual pre-tax turnover of no more than 15 (fifteen) million CFA francs. SEs are companies with 6 (six) to 20 (twenty) employees and an annual pre-tax turnover ranging from 15 (fifteen) million to 100 (one hundred) million CFA francs (National Assembly of Cameroon, 2010). An enterprise shall be considered an ME if it has 21 (twenty one) to 100 (one hundred) employees and an annual pre-tax turnover of more than 100 (one hundred) million CFA francs and less than 1 (one) billion CFA francs. Some difficulties might arise when trying to classify an enterprise, in that case the main criterion considered becomes the annual pre-tax return. However, for an SME to be considered as being setup it must fulfill the conditions for legal existence and the formalities specified by the law and regulations in force (Walters R., 2006).

[1] US$ 1=500 FCFA(XAF) and values are exclusive of tax
[2] Ministry of Small and Medium-sized Enterprises, Social Economy and Arts and Crafts

Thus in Cameroon small business (including the microenterprises) possesses some qualitative features, distinguishing it from small business of the majority of the foreign countries. The most significant of them are:

• aspiration to maximum independence, while the considerable part of foreign small enterprises work at conditions of subcontract, franchising, etc.;

• low technological equipment in combination with the innovative potential;

• lack of knowledge, experience and culture of market relations;

• high degree of adaptability to the economic difficulties;

• underdeveloped system of self-organization and infrastructure of support subjects of small businesses;

• they work in conditions of lack of full and reliable information about state and market condition, lack of sophistication in the system of information, consulting and training services.

Nevertheless, it is difficult to overestimate the importance of sustainable development of small business in the country, because they use essential capital investments to expand production of many consumer goods and services and to achieve the target indicators of economic growth. With stimulus packages changing in their form, the sector remains without development. SME's sustainable development in Cameroon for more than a decade has witness stagnation with most enterprises unable to make any significant difference after the start up stage.

The approach to SME's sustainable development in developing countries has been that of, "one solution fits all", with the same needs assumed and a cut across policy implemented from one country to the other. Lack of access to finance and lack of managerial skills have often been cited as the main challenges while a policy framework that makes provision for financial and technical assistance adopted and implemented as a remedy in most cases .

Besides, small and medium enterprise in all countries have the specific features that demand to elaborate the system of their financing. Financing SMEs activity represents providing enterprises with necessary financial resources at all stages of their functioning. In order to distinguish the system of financing we shall proceed to provide a definition (Douglass P., & Sarah F.,2014).

The system of financing of small and medium enterprises includes sources, subjects and organizational forms (methods) of financing. However a binding element of systems of financing is the financial mechanisms which unites all parts of the system.

Financial mechanism refers to the methods through which a business, organization, or program receives the funding necessary for it to remain operational. SMEs receive such funding through a variety of means, including revenue generated from the sale of services and products as well as from loans or the sale of stock. Other organizations typically receive funding through various means, such as donations provided by individuals and companies as well as fund-raising events. The method of financing represents organizational structure of sources of financing (self-financing, joint-stock, leasing, etc.), the ways of mobilization and utilisation of financial resources (Aghion P., Fally S., and Scarpetta S.)

The subject of financing here refers to the management personnel of the innovation-active organization realizing a financing process.

Financial Sustainability

There is a relationship between enterprises and funding sources, we can tell this by verifying their affinity level. This indicator is important in the sense that it presents the level of awareness of business swings within the entrepreneurial group and where they possibly ran to, for short term solutions or financing to take advantage of up turns and hedge against downturns.

Start up and running capital tend to present the source of start-up capital and how they met liquidity needs in the course of the life of the business. It presents the relationship that exists between businesses and financial institutions both formal and informal. It looks at source of start-up capital, access to credit and source of such credit (Douglass P., & Sarah F..

As concerns source of capital (table 1 below), the data reveal that, only 2.8% out of 434 respondents got start-up capital from a financial institution, 3.2 % from rotatory credit associations, 38.9% used self-generated income, 17.4% from family sources, 30% from family and self and 7.7% coming from other sources or a combination of more than one as indicated on the table.

In addition to a majority of the enterprises being micro, operated for more than three years without development, there is another factor, evidence of the financial system exclusion, to buttress the rudimentary state of the financial presented in chapter one (Table 2).

Table 2. Source of start-up capital

	Category of activity				
Source	**Retail**	**Service**	**Transformation**	**Maintenance**	**Total**
Self	83	40	24	22	169
Family	31	17	12	17	77
Family & self	48	38	23	21	130
Rotatory credit association	6	5	2	1	14
Credit Union/ microfinance	4	6	0	0	10
Bank	1	1	0	0	2
Joint venture	3	5	1	1	10
Self and RCA	4	2	0	1	7
Self & MFI or CU	0	2	0	0	2
Family and RCA	1	0	0	0	1
Family and CU	0	0	1	0	1
Self, family& RCA	2	1	3	0	6
Self, family & CU or MFI	1	0	0	0	1
Self, family & others	1	0	0	0	1
Others	2	1	0	0	3
Total	**187**	**118**	**66**	**63**	**434**

Source: Primary data from survey by author, July 2014

Further analysis of financial capital worries, attempts to obtain capital, sources of such capital and if capital was obtained presents the data that follows (see Table 3).

Table 3. Limited Capital

		Category of Activities				Total
		Retail	Service	Transformation	Maintenance	
Limited Capital	Yes	118	70	45	46	279
	No	66	45	20	16	147
Total		184	115	65	62	426

Source: Primary data from survey by author, July 2014

Furthermore, 65.5% out of a total of 426 respondents say that one of the challenges they face is limited capital (Table 3), while 34.5 think that the challenge does not lie at the level of capital.

Table 4. Limited access to credit

		Category of Activities				Total
		Retail	Service	Transformation	Maintenance	
Limited access to credit	Yes	43	30	13	14	100
	No	142	85	52	48	327
Total		185	115	65	62	427

Source: Primary data from survey by author, July 2014

Upon verification of access to credit the data reveal that 76.6 % from a total of 427 respondents think that access to credit is not an issue while 23.4 think that access to credit is a major challenge (Table 4). Yet 58.6% of 435 respondents have never requested for a loan from any source while 41.4% have done so (Table 5). 35 respondents from 182 requested for a loan from a bank, 48 from credit union, 16 from other microfinance, while 92 have requested for a loan from a rotatory credit association or a combination of this and family. Great majority of respondents (141 out of 146) said that loan was granted.

Table 5. Requested for a loan

		Category of Activities				Total
		Retail	Service	Transformation	Maintenance	
Have you ever requested for a loan from any institution?	Yes	91	44	27	18	180
	No	97	75	39	44	255
Total		188	119	66	62	435

Source: Primary data from survey by author, July 2014

Table 6. Has asked loan from a Bank

		Category of Activities				Total
		Retail	Service	Transformation	Maintenance	
Has asked loan from banks	Yes	24	3	3	5	35
	No	65	42	26	14	147
Total		89	45	29	19	182
Has asked loan from micro finance	Yes	11	3	2	0	16
	No	78	42	27	19	166
Total		89	45	29	19	182
Has asked loan from credit union	Yes	24	15	6	3	48
	No	65	30	23	16	134
Total		89	45	29	19	182
Has asked loan from "njangi" houses	Yes	36	25	21	10	92
	No	53	20	8	9	90
Total		89	45	29	19	182
Has asked loan from friends and family	Yes	12	5	1	4	22
	No	77	40	28	15	160
Total		89	45	29	19	182
Was a loan granted?	Yes	72	36	22	16	146
	No	13	6	4	2	25
Total		85	42	26	18	171

Source: Primary data from survey by author, July 2014

On verifying source of capital, the survey reveals that from a total of 429 respondents, 2.3% obtained financing from microfinance institutions, 3.2% from rotatory credit associations ("njangi"), 0.5% from banks, with the bulk coming from personal, family and "personal &family" sources; 38.9% , 17% and 29.9% respectively. Furthermore, out of 433 respondents only 41.3% ever asked for a loan from either bank or microfinance institutions. Yet 65.8% of 424 respondents agreed that one of the difficulties they faced was limited capital, but upon verification of access to credit 23.5% of 425 respondents think that limited access was a major concern while 76.5% percent disagree. As regards slow turnover, high rents and insecurity concerns; 90.9%, 93.5% and 98.1% respectively, said that this were not major concerns in their day to day business.

We have been able to establish that only 2.8 % of the start-up capital was obtained from formal sources of finance implying complete bank exclusion from financing small business enterprise start-ups. Table 7 below provides a summary of loans requests and the source institutions, in running capital or sustaining businesses. A total of 182 enterprises, requested loans from different sources with nine cases of multiple request.

Table 7. Contribution to the capital of small enterprises by institution

Source	Category			
	Retail	Service	Transformation	Maintenance
Bank	24	3	3	5
Microfinance	11	3	2	0
Credit Union	24	15	6	3
Rotatory Credit Ass.	36	25	21	10
Total	95	46	32	18

Source: Primary data from Survey by author July 2014

It is evident that retail enterprises solicited loans more than any other category, followed by the service sector. Maintenance and transformation trail the list of loan request. We can also see clearly that the rotatory credit associations are very important with almost half the credit market share. The position occupied by the rotatory credit associations confirms the 2.8% contribution of the formal sector, the strength of the informal sector and a privilege enjoyed by relation lending. The outstanding position of the retail sector is also an indication of the existence of short term credit considering that they buy and resell.

Next, the position occupied by maintenance and transformation, and their relationship with credit unions and rotatory credit associations leads us to the conclusion that industrializing or transitioning is far-fetched. This is explained by the fact that the prime objective of rotatory credit association is savings, and will hardly provide expansion capital each member goes home with their entire savings when it's their turn.

Conclusion

Financing is a necessary but not a sufficient condition for SME's sustainable development as the situation of Cameroon economy clearly reveals. Despite, it's under development and scarcity of investment financing, the financial system remains highly liquid, with a shallow financial depth. The failure of this liquidity to attract investments or investors is proof of the need of a reallocation mechanism in the economy. This is evidence of an underdevelopment trap which may require an inclusive transformation framework capable of generating a compatibles mix between financing source, skills and needs for sustainable organic growth. Among others, developing countries need, financing, financial infrastructure and an entrepreneurial mind-set capable of making productive use of resources to lift the economy towards an improved trajectory of "real growth" and sustainable development.

Top down formulation and implementation of programmes, without regards for causal factors only provide fashionable mechanisms rather than creating a conducive environment for sustainable development. An economic transformation that increasingly relies on domestic finance sources and innovative systems or mechanisms that are capable of combining entrepreneurship and financing at minimum cost to translate SME development into sustained and inclusive development is what nations without a strong private sector require.

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes on contributors

Justin Asah Ayuk, Post-graduate student of Department of Finance and Credit, Peoples' Friendship University of Russia, Miklukho-Maklaya str. 6, Moscow, 117198, Russia ayukjustin@yahoo.fr

Aleksandr Y. Bystryakov, Head of Department of Finance and Credit, Peoples' Friendship University of Russia, Miklukho-Maklaya str. 6, Moscow, 117198, Russia.

Oksana A. Karpenko, Assistant professor of Department of Finance and Credit, Peoples' Friendship University of Russia. Miklukho-Maklaya str. 6, Moscow, 117198, Russia corresponding author karpenox@list.ru

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