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THE ROLE OF MICRO FINANCE INSTITUTION IN THE DEVELOPMENT OF SME IN CAMEROON

Agyati Cooperative Credit Union Limited (agyaccul)
This study explains the role of microfinance institutions in the growth and development of small and medium size enterprises in Cameroon, it examines the profiles of small and medium size enterprises in Cameroon. The role played and challenges faced by microfinance institutions in granting loans and the challenges faced by individuals and business people in obtaining credits is analyzed. This research work also shows the economic role played by small and medium size business that is creating employment opportunities and provision of goods and services to customers especially in rural areas. Some of the challenges faced by investors in accessing credit is about having a good collateral security for a loan such as land.

This research was analyzed based on the questionnaires which were issued to 50 respondents in some three regions in Cameroon. Some recommendations were made, firstly the commissioner should moderate the charges involved in the loan granting process and issuing of the loan. The commissioner should also moderate the security measures put in place to back up the loan to encourage more business people. Most small and medium size business people are unable to use bank finance because of the unreasonable level of security that is required by the microfinance institutions.

**Key words**

Access to finance, Bank finance, Loans, Micro finance institution, Small and Medium Size Enterprises
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1 INTRODUCTION

The reason for this research is to analyze the role micro finance institution plays in the development of small and medium size enterprises in Cameroon. The outcome of this thesis will be of much importance not only to the microfinance institution but also to other researchers and scholars. I find this topic worth researching because of the challenges small scale holders face in accessing credit from financial institution and the role this financial institution plays in managing the challenges the small-scale business holders faced.

The aim of this thesis is to examine the role Micro finance institutions play in the development of small and medium size businesses in Cameroon. The objective is to know the drawback business people face in developing their business. Also, in identifying the resources that are needed by businesses to help them grow, to know the different sources of finance available to SME in Cameroon, identifying the difficulties encountered by SMEs when acquiring finance from micro finance institutions. Another objective is to identify the main source of finance available to SMEs and identifying the level in which Agyati cooperative credit union assists its members in developing their businesses.

The concepts chosen for this study focus on micro finance institution and small and medium size enterprise development, the role these microfinance institutions play in the development of SME. The concepts and theories chosen are based on what other researchers have written on. Selected concepts such as the economic role of SME, the financial difficulties faced by the SMEs and the sources of finance used by these SMEs were analyzed. Other concept of MFI was also considered such as MFI involvement with SMEs, the lending procedures to SMEs, the contribution of microfinance institutions in financing SMEs, the potential for MFI fighting rural poverty and the supply of financial services by MFI.

A questionnaire was used for collecting data. The questionnaire was divided into two main sections that is the general and financial sections. This questionnaire was made up of both the open and closed ended questions. The sample size for this research was 50 and it was targeted to the owners of small and medium size enterprises specifically in three regions in Cameroon that is the North West Region, littoral region and the center region. The responses to the questionnaire were analyzed and presented. Some recommendations were made based on the responses of the questionnaire. Conclusion was made based on the analysis of the data collected.
Agyati cooperative credit union (Lum 2018) is a micro finance institution that started with a membership of 16 and a share capital of 32 euro per member equivalent to 21000fcfa. The main aim was to build up capital to meet up with the challenges of children education, the idea of the formation of the credit union in Agyati was suggested by late Rev Aaron Su, late Mr Che Hosea and late Mr Ngwa Neba. They got experience from a coffee and palm kernel cooperative society where they had been as a member. They officially started savings and deposits transactions on 21 April 1985 till date. They now have over 5000 members with objective to alleviate poverty and foster development and growth of small and medium size enterprises.
2 COMMISSIONER (AGYATI COOPERATIVE CREDIT UNION LTD)

This chapter gives the description of the commissioner of this thesis and the various product and services it offers to entrepreneurs in Cameroon. Agyati Cooperative credit union ltd is a microfinance institution operating under the leadership of Cameroon cooperative credit union Ltd. This microfinance was created in 1985 by some group of people namely late Rev Aaron Su, late Mr Che Hosea and late Mr Ngwa Neba. They started this institution with a membership of 16 and with a share capital of 32 euro per member which is equivalent to 21000fcfa. This institution now has over 5000 members and a share capital of 79 euro per member which is equivalent to 52000fcfa. The institution has since creation been progressing because of the numerous products and services it offers to its members. This institution has as objective to alleviate poverty in the region and to foster growth and development in businesses. (Lum 2018.)

Micro finance institutions are fast growing financial institutions in Cameroon with numerous products and services offered to the clients. According to CamCCUL Journal of 2006 Micro finance institution offers variety of products and services to its clients especially those below or slightly above the poverty line. Most of these clients are mostly from rural areas and this microfinance usually provide them with financial services which will help them set up businesses. Most of their clients are those who cannot meet up with the services of formal financial institutions (banks). This institution provides variety of products as well as services, but the services are divided in to three different categories, which include financial intermediation, social intermediation, and enterprise development services. (Ngehnevù & Nembo 2010.)

Deposit account, that is with this account the clients pay charges to the MFI for keeping their money and the charges always vary according to the institution. Customers can withdraw their money at any time without any prior notice. The transactions of the deposit accounts are recorded in the books of the institution and the balance is recorded as a liability, it shows the amount the bank owes to it members. Savings account, with this product the Micro finance pays interest on the amount of money saved annually. The interest paid on this account varies according to the microfinance institution. But customers are often required to give a prior notice to the institution before withdrawal can be made. (Abdulaziz 2016.)

Loans, this is the most profitable product of the organization. For this is the amount of money that the institution borrowed to it members and the members in return pay the principal plus interest back to the microfinance. Microfinance institutions in Cameroon offers different types of loans to its clients such as
social and consumption loans, business loans, emergency loans, agricultural loans, real estate loans, special operations such as overdraft, syndicate loans, and short-term loans. (Ledgerwood 1999.)

Salary Payments, AgyaCCUL pays salaries of his members. Daily savings accounts, these are accounts owned by both members and nonmembers of the credit union. This account enables holders to deposit very little amount of money. Holders of this account usually do not move from door to door to save their money rather workers move to their houses or business centers to collect their savings. This account is mostly for small scale business people. (Fotabong 2012.)

Money Transfer to both members and the public, the credit union in Cameroon uses a system of money transfer called the Telecash. This is a system of money transfer used to transfer money from one credit union to another within the CamCCUL network. It operates just like any other system of money transfer just that it is available only to credit unions under the CamCCUL network. (Lum 2018.)

Financial Intermediation that is microfinance institutions act as the intermediation between savers and borrowers. The microfinance help delivers financial assistance to it members through the granting of loans. The credit union does this by charging and interest rate to the member. Non-financial services such as education and training of entrepreneurs, business training, networking, consultancy, information support and other services leading to business growth. (Ngehnevu & Nembo 2010.)

Agyati Coperative credit union is made up of members and each member has the right to participate in the decision process of the organization. These members elect their representative called the board of directors and the board is made up of the president, vice president, board secretry, credit and the audit committee. Then the appointed workers in AgyaCCUL include the General Manager, Accountant, loans officer, bank teller and collectors and other auxiliary workers such as guards, cleaners. This is illustrated on the graph below
FIGURE 1. Organigram AgyaCCUL (Lum 2018.)
The general assembly of this organization is made up the members. They all form the general assembly and have the right for decision making in the organization. They elect their representatives called the board of directors. The board of directors are elected by the general assembly of AgyaCCUL to work on their behalf. They supervise the activities of this organization. The board is made up of, the president who is the general supervisor of this institution and he/she is in charge in the decision making of the organization in activities that relates to members. He is assisted by the vice president who helps the president in the organization and works on his behalf in his absents. The board secretary is in charge in taking down the minutes of the meetings and presenting them when necessary. The board of directors is made up of two committees, the credit committee makes sure that members meet up with the requirement required to obtain a loan before a loan is granted and they also make sure members pay back their loans on time. The audit committee review the accounting records of the institution on behalf of members and make sure funds are well managed.

The general manager is being appointed not elected as the case of the board members, they managed both financial and human resources of the institutions and ensure that AgyaCCUL meets up with its objectives. The loan officer helps members apply for loans. They analyze the members’ credit worthiness before taking the decision for the loan. Bank tellers are responsible for cash checks, deposits, and processes members accounts for withdrawal, they are answerable to the accountant and are also called cashiers. The collectors are responsible for the door to door or from one area to another collecting deposit/savings from members and bring them to the institution. And the auxiliary workers that are made up of cleaners who ensure that the environment is clean and security guard who ensure that there is security.
3 ECONOMIC ROLE OF SMALL AND MEDIUM SIZE ENTERPRISES

Small and medium size Enterprises are made up of the traditional and modern enterprises. The traditional or local cottage and household industries which include handicraft and village industry, they are mostly located in village or rural areas. Modern Small and Medium Size Enterprises are mostly defined in areas of labor force, size, and investment, and to fully understand the meaning of the modern small and medium size Enterprises also abbreviated (MSME). This enterprise category has so many definitions from different institutions and countries based on the guidelines the institution or country uses. (Zafar & Mustafa 2017.)

In Cameroon the official definition is obtained from law 2010/001 of April 13, 2010 this law states as follows. Small (MICRO) enterprises refers to organizations with employees below five personnel’s and having and annual revenue of 15 million FCFA. Small firms refer to firms having between 6-20 personnel’s with and annual turnover of 15-100 million. And medium size enterprises refer to those with employees between 21-100 workers with and annual turnover of 100 million to 1 billion FCFA. Small and medium size Enterprises plays a vital role in the development of a country economically. They play a major role in the areas of job creation, production, export contribution and facilitating distribution of income. Small and medium size enterprises are more important in developing countries than in developed countries. Statistics have shown that SMEs is a major accelerating tool for most small investors it represents about 85% of sole proprietor business ownership and about 50% employment and Gross domestic product in most African countries. (Johnson & Soenen 2003.)

In Africa especially in Cameroon the small-scale businesses are very common since most of the population is made up of the poor and this has really helped in boosting the economy that is by making available goods and services to individuals, businesses and bringing growth and innovation to the community. These small-scale businesses are often considered to be less powerful, low productivity, employ few workers, less sophisticated businesses. Unlike large firms where productivity and every other aspect is done in large scale and they enjoy economic of scale because of large scale production. (Herr & Nettekoven 2017.)

Small and medium size enterprises promote competition. That is, they play a positive role in the creation of a competitive economy. They promote competition in the form of product design and price. Big companies would have held a monopoly in their area of activities if these small and medium size enterprises
where not existing. The small and medium size enterprises is one of the main sources of income to the government through Taxes, VAT, thus contributing to a steady and sustainable economic environment. (Johnson & Soenen 2003.)

3.1 Financial difficulty of small and medium size enterprises

Despite the advantages of Small and medium size enterprises in economic development the face so much difficulty in obtaining finance for business growth. Some of the reason SMEs faces difficulty in accessing credit is the inability to pledge acceptable collateral security. In Cameroon the most valuable collateral security for a loan is landed property. Due to lack of clear land titles from such small-scale investors it becomes much difficult for the financial institution to give out credit. It is very difficult and expensive to acquire a land title in Cameroon thus making it more complicated for investors to get credit. So many investors do not have landed or other valuable property to pledge for a loan and as a result difficult to negotiate for a credit. (Avevor 2016.)

Small scale businesses also face difficulties in obtaining credit from formal financial institutions such as banks due to the high cost require by the bank to obtain loan and much bureaucratic control which makes it so difficult for small businesses to meet up. Although there are organizations in Cameroon that promotes small scale firms such as Midino Cooperative Limited which assist mostly those investing in agriculture but still yet there is no Formal entity that finances business ideas in Cameroon. Also, most small-scale business owners in Cameroon does not really have that formal knowledge on entrepreneurship thus making it difficult for them to manage and utilize the small available resources they have. Also, this makes most financial institution to be skeptical in granting out loans to such investors.

3.2 Small and medium size enterprises growth and development

The objective of any organization is to make profit and to grow. An organization is seen to be an administrative entity whose legal personality may grow in time together with the bringing together of tangible resources. The term growth in this text refers to the process of increasing in size or the increase in size of an organization. The main determinant of a firm’s growth is the size of the organization. It is worth
noted that the growth of an organization is a process while the organization size is a state. An organization growth can be determined by the amount of capital available, labor availability, good management and other profitable opportunities for investment.

Development and growth services or the non-financial services of an organization are provided by some microfinance institution practicing the integrated approach. The nonfinancial microfinance institution provides numerous services which include, business and production training, marketing and technological services. The development services of an organization can be divided into two categories that is enterprise formation and the enterprise transformation program. The enterprise formation means giving training to individuals to acquire skills in a particular area such as individuals who wants to commence a business on their own. Enterprise transformation program being the second category of enterprise development service refers to giving technical assistance, training and technological advancement to small and medium size so as to enable old or already existing enterprises to grow in terms of marketing and production. Enterprise development services is not a requirement of getting financial services and such services are not free. The government subsidies the charges since it will be too costly for the microfinance institution to recover the full cost. The enterprise development services could be very useful to business organizations but the idea that is obtain cannot be measured. There is no difference between organization that receives loans and those that receive both loans packages and enterprise development services. (Abor & Quartey 2010.)

3.2.1 Minimum capital requirement

Small and Medium size businesses mostly depend on informal sources of finance as their source of capital for their business. Since there are limited credit market most organization start up their businesses mostly with their own personal savings or money borrowed from friends or relatives. The minimum amount of capital required by these SMEs as starting capital are also obtain from formal financial institutions such as banks, micro financial institutions and other financial houses. The granting of credit is much easier to big organizations than smaller organizations. Micro financial institutions take into consideration customers or members’ ability to loans and considers the minimum sum the organization can offer as capital before giving a loan. This is generally to say a business should not be entirely funded with borrowed money. (Izquierdo, Munoz, Rubio & Ulloa 2017.)
MFI takes into consideration a good number of factors when granting credits to new business operators. If an organization is unable to provide a startup capital MFI will require them to provide acceptable collateral securities before any loan can be granted. This then points out why MFI deems necessary for business men to have a minimum capital contribution before they can apply for a loan. The source of the capital must be owned by the SME so as to be sure of the customer before granting any loan, because the minimum capital could also have been borrowed from somewhere else.

3.2.2 Characteristics of the target population

Female clients, the focus of many MFI is to empower women by giving them more financial help and power in the community to have equal openings as men. Women are the poorest people in the community of which they are the once responsible for the child upbringing such as health, education and nutrition. In a nutshell woman are more responsible that is if the income of a woman increases both her household and her community feels the impact. Most women stay at home because of cultural barriers, which makes them stay at home thus limiting them from certain financial benefits. (Mayoux 2001.)

Most financial institutions are always reluctant to grant credit to women because they lack the ability to back up the loan. Micro finance organization usually give a longer payback period for women than men since they know of the social forces that affects them. Microfinance institutions do not grant credit to individuals or projects which are not profitable. The target population of microfinance institutions are mostly those in the rural areas that are made up of the poor.

3.2.3 Geographical location

MFI focuses more in the rural areas than in the urban areas. Microfinance institutions provide services that are aimed at meeting up with the needs of the area. There exists a difference between those in urban areas and those in rural areas at the level of infrastructural and economic development. Market availability is very important for every small and medium size enterprises no matter the area where the enterprise is found because the target of every organization is to get more customers for his products or services. (Okpara & Wynn 2007.)
The difficulties faced by Small and Medium Size Enterprises in rural areas in producing and delivering goods and services to his customers on time due to lack of good roads network and infrastructure hinder the growth of business thus hindering them from some financial services from MFI. The geographical location of a company also determines its possibility to obtain a loan from financial institutions. Organizations located in urban areas have more access to credit than those in rural areas. Small businesses located near these microfinance institutions also have more chances of obtaining credit due to the relationship they have with the financial institution.

3.3 Sources of finance to small and medium size enterprises

Having an appropriate source of finance is very useful for the day to day running of an organization’s activities both in the short and long run. There exist four different reasons why SME may need to raise more finance. Firstly, SME needs finances to start up the business (startup capital), that is to make the business grow. Secondly SME needs finance for business expansion and growth such as in areas of production, personnel, purchase of building/machinery and other growth potentials of the business. The third point is finance needed to carry out innovation for the company, innovation here refers to purchase of new equipment for the company or upgrading old equipment to required standard. Lastly SME needs finance to modify the existing capital structure of the company such as either replacing a percentage of equity to debt or by changing long term debts to short term debts.

There are different methods of raising finance by small and medium size businesses, that is the internal source (Equity finance) and the external source (debt finance). The internal source of finance is advantageous to an organization such as giving the firm financial autonomy and avoiding the interest rate to be paid if it was debt capital. The disadvantage involves in acquiring the equity capital include, the company will have insufficient funds in managing its activities and therefore limiting the organization from growing faster. External financing is necessary for small and medium size enterprises that do not have enough startup capital. The external source of finance includes grants, loans and capital market instruments. The need for external financing in an organization arises when the company expenses also increase. (Oncioiu 2012.)
3.4 Equity Finance

Equity capital is the amount of money contributed and invested into the business by the owners of the business from their personal savings. It is always challenging when organizations need more funds and must depend solely on equity capital. As the organization grows the need for more capital comes in and they need to look for alternative means of raising more money for the organization. Equity finance is the amount of money put into the business without a repayment date in situations where the provider of the equity finance is also investing in the business. There exist two main method of raising equity in an organization that is the internal and external method. Internal equity are funds raised by the owners of the business, family or friends or from earning gotten from the business. While the external equity financing is financing gotten from sources other than those of the owners of the business. (Ou & Haynes 2006.)

As seen above capital provide by the owners of the business is better than debts financing especially for a newly establish business since they also have limited resources (collateral securities) to back up their loans. Equity financing is disadvantageous in two main ways according to Ou & Haynes (2006). The equity capital provides finance on long term bases and a minimum interest cash outflow. Secondly it helps to build the credibility of a newly establish firm by showing its financial standings. According to Ou & Haynes (2006) there exist two instances when SME will need more financing from equity shares to meet up with its needs. Firstly, when the organization is faced with financial difficulties and lacks other methods of raising funds for the business. When the amount of cash inflow is less than the amount of cash outflow.

3.5 Debt Financing

The decision of the capital structure in both large and small organizations is based on the use of either equity or debts financing or using the both method of financing. SMEs usually face difficulties in acquiring the full amount of capital required for the business and for its day to day financing making the SME to look for alternative methods of financing. Thus, in other to maintain full ownership of the business the shareholders prefer to use debt financing as an alternative method. There are two main differences between debts financing for small and medium size enterprises and that of large organizations. Firstly, big organization have a wider opportunity for debt financing since they own bigger asset that can be used as collateral security to back up the loan. While small organizations are more closely attach
to institutional or commercial lenders where they can easily renew or convert their short-term debt financing to long term debts financing. And lack of accurate information turns to be a problem with SME as it is very important in long term lending. (Wu, Hedges & Zhang 2007.)

When seeking additional source of finance for your organization it is very important to choose between short and long-term debts. Choosing between the short-term debts is always influence by the advantages and disadvantages involved. The advantages include little or no interest rate especially when dealing with trade credit. Secondly short-term loan has a low nominal interest rate when compared to long term loans. In addition, short term loans are better in dealing with since firms have a shorter period in repaying back the loans and charges. On the other hand, the main disadvantage is the risk associated with it. Small firms with weak financial backing will prefer long term debts over short term debts hence long-term loans will be more beneficial to such firms as it will help them grow. (Garcia-Teruel & Martinez-Solano 2007.)
4 MICROFINANCE INVOLVEMENT WITH SME

Microfinance is an old concept back in the 19th century where the role of formal financial institution was informally performed by money lenders, such informal financial groups include, village banks, cooperatives and social venture capital funds aimed at helping the poor. Such institutions provided savings and credit for most small and medium size businesses. They brought together local savings and develop procedures that originates from local customs. MFI was fully developed in Cameroon in the 1980 when the banking sector had a serious financial crisis where so many banks had to close. Due to the problems encountered by banks during that period people had to open accounts with the microfinance institution. Small and medium size enterprises need the factors of production in other to grow which include Land, Labor, capital and these are the factors that set up the effective growth of these small and medium size businesses. Small and Medium size enterprises have really helped foster development and reduce the rate of unemployment in Cameroon. (Abdulaziz 2016.)

This enterprise category has so many definitions from different institutions and countries based on the guidelines the institution or country uses. The World Bank for instance has his own definition, the European Union has his own definition and other countries as well. The main difference in the definition is the total number of personnel employed and the total annual turnover. In Cameroon small and medium size enterprises refer to enterprises with personnel ranging from 1 to 100 and annual turnover up to 1 billion Fcfa. SMEs represent over 90% of Cameroons Economy, with an estimated share of the gross domestic product at 34%. In the world today, the main problem face by small and medium size enterprises are competition from giant businesses. Cameroon financial sector have over the past years been unable to regularly finance small and medium size business in Cameroon due to lack of collateral security from the enterprises and other administrative complications at the level of obtaining loans by business.

Small and medium size enterprises represent a profitable area in financial institutions, this is the perspective of microfinance. This can be proven by the fact that SMEs have been served with financial assistance by microfinance institutions. Financial institution does not only grant credit or provide capital to SMEs to start up or developed their businesses they also have different services that they provide to SMEs. There is a good number of factors favoring financial institutions as providers of finance and other services to SMEs. The first factor is that of profitability, that is the involvement of MFI with SMEs. The
possibility of having many clients through their relationship with bigger firms or clients. (Beck, Kunt & Peria 2008.)

There exist different factors that delay the engagement of financial institutions with SMEs in different countries. Some analysis was made in relation to information, legal, contractual and macro-economic environment towards credit financing by MFI to SME in several industrialized and third world economies. In an industrialized country the high level of competition within SMEs is seen to be the main barrier of microfinance from serving SMEs, other barriers stated by banks in these economies are limited demand by SMEs. In third world countries the most vital deliberation is given at all level in the macro-economy. Regulations in the SMEs market is also considered as a big barrier. (Torre, Peria, Schmukler & Sergio 2010.)

4.1 Microfinance lending to Small and Medium Size Enterprises

Microfinance institutions plays a very useful role in funding SMEs since these organizations have difficulties in raising capital themselves. Bank loans refers to a specific sum of money under terms and condition given to individuals and entrepreneurs to start, develop or sustain their business activities. However, it becomes so challenging when MFI wants to grant credit especially when they do not have a good collateral, therefore to insure a loan is secured the SME must provide acceptable collateral security.

The lending strategy adopted by MFI in granting credit to SME include, financial statement lending, asset-based lending, credit scoring lending and relationship lending. The procedures for lending are the combination of customer information, selecting policies, form of the loan contract, and observation techniques. The above classifications are broadly divided into two that is hard data referring to quantitative data and lending relationship which is based on soft that is qualitative data. (Berger & Udell 2004.)

4.1.1 Financial Statement Lending

Financial statement are records showing the financial situation of an organization. The financial statement of a company is divided into three namely the balance sheet, income statement, and the cashflow statement. The balance sheet shows the company’s asset and liabilities and the owners’ equity for a
specified period. The income statement shows a company income and expenditure for a period and the net profit. And the cash flow statement shows the organizations in and out movement of cash specifically in investing and financing activities.

The main objective here is by evaluating the financial statement of the borrowers. Two essential hard information is needed with this requirement, firstly the organization must provide a legal and certified financial statement audited and prepared by recognize auditing firm and secondly the financial calculation gotten from the financial statement must reflect a powerful financial requirement. The main source of repayment of the company debts will be analyze from the company expected cash flow. The result gotten from analyzing the financial statement may also show the firms capability in different areas such as collateral and personal guarantee. (Allen, William & Tara 2014.)

4.1.2 Asset based lending

This is the safest and most secured form of granting credit to SMEs, with this method financial institution base their effort on collateral security to be pledged by the SMEs. The collateral here may include valuable such as land, gold, account receivables and inventory. This occurs when a financial institution grants loan to a firm based on the value of asset pledged as security. The conditions necessary for an asset-based loan is determined by the value of the asset offered to the bank. The higher the value of the security the higher the loan.

The financial institutions must evaluate the securities on daily bases to be sure that the value of the security exceeds the loan. The most common criteria for loan granting is the provision of valuable collateral securities by the SMEs. Other security which can also be pledged by SMEs include account receivables, inventory, and this is mostly in the case of financial statement lending, credit scoring and relationship lending. The duration of the credit in the asset-based lending is based on the value of the security pledged by the organization. (Udell 2004.)

4.1.3 Credit Scoring Lending

This is a statistical evaluation carried out when giving out loans to SMEs by financial institutions. It is aimed at accessing the organizations credit worthiness before a loan can be issued. This strategy of
lending is used to decide on a loan if it should be accepted or not. Credit scoring is determined by the following factors, Payment history that is the most concern and interest of a bank is for the customers to pay his or her debts on time. The way the customer has been repaying his loan determined the amount of credit scoring the customer would have. Debt level, with this strategy the bank looks at the amount of debt the organization have and the amount of money the organization is requesting. This process is known as credit utilization. The length of credit history is the next strategy where the bank looks at the duration of credit history of an organization, it is advantageous when the duration is longer. (Abdou & Pointon 2011.)

The number of credit score usually ranges between 300 to 850 credit rating. Credit scoring lending do not need a long time to gather the statistics needed for analysis unlike in relationship lending which needs a longer time to gather information for evaluation. Statistical weight are the main bases of analyzing credit scoring, the loan performance and the past records of the small and medium size enterprises. Credit scoring gives more chances for SMEs to acquire credit. (Berger, Frame & Miller 2005.)

### 4.1.4 Relationship Lending

This is a lending method in which the financial institution provide credit to his clients based on relationship ties. The SMEs relationship with the MFI here is based on the level of interaction between the SME and the financial institution. The MFI through his interaction with the SMEs gets more and adequate soft (confidential) information. The information will be useful when analyzing the credit worthiness of the organization as part of the procedure for loan granting. The level of bank to customer relationship is based on the amount of credit available. For SMEs to have more credit available to them trust based relationship is more relevant than longer bank to customers relationship. (Hernandez-Canovas & Martine- Solano.2010). The intermediaries (Suppliers and customers) involved in the relationship lending makes the process more expensive.

As in the case of other lending methods such as credit scoring and asset-based lending where a strong loan guarantee is needed, a weak lending guarantee may require the use of other lending strategies such as factoring and leasing (Berger & Udell 2006). Factoring refers to a financial transaction whereby and organization sells his invoices (Account receivables) at a reduced price (discount) to a factor (Third Party). The main objective of factoring is when and organization needs immediate cash, factoring enables organizations to have enough means of raising additional finance regardless of the SMEs credit
situation and gives the possibility for unlimited funding that can be added into the business. While Leasing refers to using a property for a period on bases of rentals such as cars, machines, buildings. Leasing often depends on the type of business the entrepreneur is operating. Different leasing options are available for entrepreneurs they include, financial leasing, operational leasing, and maintenance leasing. In leasing there exist the option of returning the leased item or taking a new item. (Nakusera, Kadhikwa & Mushendami 2008.)

4.2 Contribution of MFI in financing SME

Micro finance institutions have played a great role in alleviating poverty by making provisions for the poor and small-scale business people in less developed countries. The main objectives of microfinance institutions are to provide financial services and products such as insurance, savings and small loans to individuals who cannot meetup with the terms and conditions required from traditional banks. In Cameroon the most common example of micro finance institutions are the credit unions which their activities are being manage by Cameroon cooperative credit union Limited (CamCCUL). The credit unions are made up of members that come together to save money and the money save is in turn borrowed to needy members at a very low interest rate. Each member forms the shareholders of that credit union and they get interest added on their savings at the end of every year and this has help to alleviate so many small-scale business men from poverty. (Lum 2018.)

There are also independent financial and business expert that helps to analyzed business ideas and help direct members to either exhibit the idea of or change it. They help developed and advice business men on the best and possible investment opportunities to invest in. Most financial institution such as cooperatives, micro finance institutions assist small scale business owners in various ways. That is by providing loans at very low interest rate to investors, providing finance at times to investors without collateral security. This is often when the micro finance institution sees the business idea to be fully profitable and the investor must meet up with some terms and conditions with the financial organization. (Akpan & Nneji 2015.)

4.3 The Potential for Microfinance in fighting Rural Poverty

In developing countries there exist so many households that are held up in circle of poverty. Productivity being a major factor of production may also be a problem to household liquidity. Economist argue that
to divide the different cycle of poverty there need to be an external factor that will push the cycle to increase their level of demand of household goods and services leading to increase in productivity. In theory MFI has the ability not only to divide the different chain of poverty by providing liquidity, but also bringing a new cycle of very important aspects of self-motivating goals that leads to an increase of a household wellbeing. (Kiiru & Kenia 2007.)

![Diagram of Microfinance and Poverty Cycle]

**FIGURE 2.** The potential for Micro finance (Kiiru & Kenia 2007)

The above is the model that have made microfinance institutions in Cameroon be what they are today. These models can be interpreted base on certain assumptions. Firstly, it is assumed that those with little or no income can become entrepreneurs if they are given access to credit by these financial institutions.
This model further explains that there is already a big market for the products, but these entrepreneurs need to be linked up to these markets. Lastly the model also assumes that since the poor can repay their interest rate is a sign that there is improvement in their financial situation. Before the existence of microfinance institutions, it was believed that most of the informal money lenders where exploiting the poor by charging them high interest on loans. That is why these micro finance institutions easily gain ground because of the low interest rate they brought to their clients.

4.4 Categories of Micro finance institutions in Cameroon

Micro finance institutions are regulated by three different regulations in Cameroon. They include, the Economic community of central African states (CEMAC) through the Banking Commission of Central African States (COBAC), The National Law and the Pan African Harmonization of Business Laws in Africa (OHAD). Each institution is bound to respect all the regulations put in place by these regulatory body by paying special attention to the prudential norms implemented by COBAC. (Akanga 2017.)

The main document produced by COBAC for the regulation of the activities of Micro finance activities in Cameroon is directed mainly towards the activities of the MFI institutions and not their legal forms. In real terms MFI is defined as legalized and authorized entities not having the status of a bank but rather offer services such as savings and offer loans mostly for low income earners. The categories of micro finance institutions where equally publish in this same document. These microfinance institutions are divided in to three categories that is the category one MFI, the category two MFI and the category three MFI. (Fotabong 2012.)

Category one microfinance institutions are Micro finance institutions that accept savings and deposits from its members and give out loans to them. Category one Microfinance institutions include cooperatives, associations and credit union such as the Agyati cooperative credit union ltd. The capital requirement for this category one microfinance institution is not defined. Rather the Banking Commission for central African states (COBAC) requires that the said institutions in these category needs enough capital to meet up with its activities and the prudential norms. The principal objectives of organizations under this category is not to make profit but rather for the main purpose of empowering their members to be able to meet up with their activities (Akanga 2017.)
Category two are Microfinance institutions that accept savings, deposits and lends them out to third parties. This category has a stipulated minimum amount of capital which is 50 million FCFA. This amount must be shown to the regulatory bodies in the form of a bank statement from any legalized commercial bank. Institutions under this category are out to make profit example include UNICS. This category differs from the first category in that the first category deals with members and only lends out money to its members. While category two receives deposits and savings from customers and give out loans to third party or to the public (Akume & Anicet 2017.)

The third category of MFI is made up of financial institutions that lends money but do not collect savings and deposit. Such institutions include institutions that finance projects. The minimum capital requirement for the category three institutions is 25 million FCFA. This amount must be paid in full and shown as evident in the form of a bank statement in a legalized commercial bank as at the time for the application for registration/accreditation. The category three institutions are profit oriented, that is they are out to make profit. The main difference between the category two institutions and category three institutions is that the category two receives savings and deposits while the category three does not receive savings nor deposit. But they all have as objectives to make profit. (Fotabong 2012.)

4.5 Supply of Financial services by Micro finance institutions in Cameroon

The idea of micro finance institution can be traced back in 1963 the time when the very first credit union was created in the North West region of Cameroon specifically in Njinikom. The idea was initiated by a catholic priest who encourage Christians to help others economically by forming groups. Today credit union market has grown to be the biggest in the microfinance market in Cameroon under the umbrella organ of Cameroon cooperative credit union limited (CamCCUL). Micro finance services in Cameroon was being discourage until in 1980 when Cameroon experience a serious banking crisis which led to the collapse of so many commercial and developmental banks. This led to the closure of so many banks in rural areas which then led to the supply of micro financial services in this area.

The Banking crises of 1980 makes the head of state to come out with a deal policy to come up with remedy to the crises by bringing the youths and the masses to bring up different strategies to remedy the problem to fight against poverty. This was strengthened in the 1990 law no 90/053 of 19/12/1990 in connection with law no.92/006 of 14/08/1992 leading to cooperatives and common initiatives groups (CIGs). New form of MFI was created starting with the category 2 MFI such as la regional and a host of
different MFI also emerged. All these MFI were put under the of the minister of agriculture with very small control expertise. Due to the lack of this control and supervisory expertise led to misappropriation of funds which led to a prime ministerial decree granting licenses to supervisory bodies (Ledgerwood 1999.)

Microfinance institutions provides three major services to its customers or members. The services include they accepts micro savings, grants micro credits, and carry out money transfer services. They also provide other services such as insurance, mobile money transfer and other social services. The category 1 MFI is dominated by the Cameroon cooperative credit union league (CamCCUL), thus is in terms of value shares the mutuelle communitaire de croissance and the caisse village leads the MFI in Cameroon controlling 68 percent of the total number of members/customers of MFI. Prominent category 2 MFI such as la CCA, First trust controls less than 30 percent of the sector. Concerning Credit there is no interest rate ceiling charged by MFI, the interest rate varies from one institution to another. MFI interest rate based on savings from 3.25 percent to 15 percent yearly meanwhile interest rate charged on loans range between 3 to 10 percent monthly. Some institutions require their members to be members and save up to some period before they can be eligible to acquire credit mostly with the category one MFI. Below is a statistical review of MFI in Cameroon (Fotabong 2012.)

<table>
<thead>
<tr>
<th>Name of institutions</th>
<th>Customers/members</th>
<th>Deposit outstanding</th>
<th>Credit outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>CamCCUL</td>
<td>586000</td>
<td>138.3</td>
<td>83.2</td>
</tr>
<tr>
<td>CCA</td>
<td>199000</td>
<td>66.6</td>
<td>29.4</td>
</tr>
<tr>
<td>MC2</td>
<td>132097</td>
<td>28.5</td>
<td>12.5</td>
</tr>
<tr>
<td>La Regional</td>
<td>17256</td>
<td>10.2</td>
<td>5.4</td>
</tr>
<tr>
<td>First Trust</td>
<td>33563</td>
<td>11.3</td>
<td>6.5</td>
</tr>
<tr>
<td>Others</td>
<td>541452</td>
<td>49.7</td>
<td>25.7</td>
</tr>
<tr>
<td>Total</td>
<td>1509368</td>
<td>311.3</td>
<td>162.7</td>
</tr>
</tbody>
</table>

TABLE1. CAM-Market insight -market research, market intelligence newspapers and estimate 2011
5 THE STUDY

The main objective of this study is to analyze the role microfinance institution plays in the growth and development of small and medium size enterprises in Cameroon. This research is divided into two main parts that is the theoretical and empirical parts. The theoretical parts focused on the theories and concepts of the role of microfinance institutions in the development of small and medium size enterprises in Cameroon. The concepts and theories chosen are based on what other researchers have written on while the empirical part is focused on the presentation and analysis of data on the role Microfinance institutions plays in developing small and medium size businesses. A questionnaire was used as the tool for data collection and the respondents were holders of small and medium size businesses. The questionnaires which includes printed documents containing relevant questions to be answered by the respondents, the sample size chosen was 50. The stratified sampling was used which gives the respondents equal opportunities to be part of this research and both the closed and open-ended questions where used. The questionnaire was in two parts that is the general and the financing section.

The questionnaires were distributed in three regions in Cameroon namely the North west, the littoral region and the center region of Cameroon and the respondents where owners of small and medium size businesses. This study was carried out for a period of 5 weeks that is from 06/10/2018 to 10/11/2018. The questionnaires were sent by emails to friends where they assist in the distribution and collection from the three mention regions from holders of small and medium size businesses.

5.1 Quantitative Research

Quantitative research method refers to data or information in numerical form such as percentage, statistics through questionnaires. It concentrates in bringing together numerical or statistical data to a group of people or to explain a specific activity. The quantitative research method is an interdisciplinary area where different methods of research are used. This means the way human experience can be made clear using statistics and numbers. (Corbetta 2003.)

Quantitative research is aimed at determining the relationship between variables that is either the independent or dependent variable in a population. This research method is usually measured once which is
descriptive research or measured before and after the treatment. Quantitative research method must identify the research problem, review the literature and describe the theoretical framework. It also includes feature such as information (data) in numerical form and statistics that are arranged either on a chart, table, or other non-textual forms. The research results are based on the responses from the respondents of the chosen area by selecting a sample of the population. The data are usually collected using organized research instruments. All the features of the study are carefully planned prior to the data collection. The researcher uses different tool in carrying out research such as questionnaires. (Yin 2009.)

5.2 Reliability and Validity of the study

Reliability and validity are methods of determining the value of measurement strategy used in gathering information in a research work for the result of the research to be approved. Validity here shows how sound the research work is. The validity of every research work means that the result must represent the case the researcher attests to have measured. Validity is divided into two groups that is internal validity and external validity. Internal validity refers to how facts finding matches the actual phenomenon. External validity refers to the level at which the outcome of a research can be generalized to other situations or contexts. A study is reliable when it can be used by different groups/individuals/researchers under good condition with a uniform result. (Healy & Perry 2000.)

Reliability refers to a uniform use of a text. Uniformity of a text here can also be using same information several times, and across different researchers. Reliability is considered as the level at which a test is free from mistakes. The more errors exist the less reliable the outcome. The more mistakes are found in and evaluation the higher unreliable it becomes. Reliability is a very vital aspect of evaluation and is a contributing factor to validity. Research shows that reliability index was analyzed showing if study can be redone in the same way if given to another sample population or similar abilities. (Neuman 2003.)

The objective of a researcher by using the construct validity is to know if the data obtained from an evaluation is useful and help for the purpose it is intended for. Construct validity is the overall validity of a measurement device. To be specific construct validity is more about effectiveness of a test to help researchers get more knowledge in the various topics respectively. The test sample must be applicable, suitable and used appropriately. The main idea or focus is the assimilation of facts which give a valid conclusion of result. The outcome/conclusion must be relevant, reliable, and fulfill the purpose for the evaluation to enable construct validity meet up with it objective. (Mcmillian & Schumacher 2010.)
The questionnaires were issued to 50 respondents and all the respondents responded to the questions. If a research is to be made on similar topic again it may still have similar number of respondents. Moreover since all the respondents reacted to these questionnaires the result may still be the same incase another study is done. The questions on the questionnaire where all in English simple and easy to understand. These questionnaires were administered in the three biggest regions of Cameroon being the north West, littoral and center region and the respondents where current owners of small and medium size businesses.
6 RESULT, ANALYSIS

The objective of this study is to analyze the role microfinance institutions play in the development of small and medium size enterprises in Cameroon. The aim of this chapter is to analyze the result of the responses from the questionnaires which was targeted to small and medium size business owner. The questionnaires were issued to know and understand the views of SMEs towards acquiring finance from microfinance institution. This chapter has the following research objective, to know the different sources of finance available to SME in Cameroon, identifying the main sources of finance available to SMEs and identifying the different sources of finance available to owners of SMEs.

A questionnaire is a group of questions written with alternative answers with the aim of carrying out surveys. This questionnaire was administered in Cameroon specifically in three regions that is the north west, littoral and center regions of Cameroon. A total of 50 questionnaires were distributed to these regions and answers were given to all the distributed questionnaires. The questionnaires were divided into two sections that is the section for general information and that of financing information. The general section was made up of information such as sex of the respondents, age group, company’s activity, the form of the business and the duration the business have been in operation. The financing section includes information such as the form of opening capital used by the organization, different financing methods used by the company, the purpose of bank finance, types of collateral provided by the company to backup loans and the difficulties these organizations faces when obtaining a loan.

6.1 General Information

This includes basic information concerning the respondents such as the sex of the respondents, the age group of the respondents, the main activities the companies are involved in, the form of the business that is whether it is a sole ownership or a joint ownership and the duration the organization have been in operation.
6.1.1 Sex and Age group

The questionnaires were randomly distributed to small and medium size business men and women specifically in the three regions of Cameroon. A total of 50 questionnaires were distributed and answers were given to all the questionnaires. From the responses of the questionnaires there were 30 males and 20 Females giving a percentage count of 60% and 40% respectively.

FIGURE 3. Sex of the respondents

Age group refers to the different ages of the respondents. Most of the business men and women are in the age range of between 26 to 35 years with a total of 28 respondents giving a percentage count of 56 followed by those between the ages of 36 to 45 with 10 respondents attesting to this, giving a percentage count of 20. Those between the ages of 15 to 25 years where 8 of them giving a percentage of 16 and the least are those from 45 years and above with a percentage count of 8. Those within the age range of 26 to 35 are the highest that are involve in business.

FIGURE 4. Age Group
6.1.2 Companies Activities and form of the companies

Cameroon is a developing country with most of its economic activity being that of trading. According to the responses of this questionnaire out 25 of the respondents were involved in trading activity giving a percentage count of 50. Followed by the manufacturing companies with 19 respondents responding to this giving 38 and the service sector with 6 responses for this with a 12% count.

FIGURE 5. Companies Activities

The various forms of businesses that was included in the questionnaire include, Sole proprietorship, Limited partnership and shareholding firms. From the responses the sole proprietorship represents the highest number of respondents with 31 respondents giving 62%. Followed by the limited partnership with 16 responses giving a count of 32% and lastly the shareholding firms representing 3 out of the total questionnaire giving a percentage count of 6. Thus, showing that most small and medium size businesses in Cameroon are solely owned.
6.1.3 Duration of the Business

This includes the duration the businesses have been in operation. According to the responses from the questionnaires most of the businesses have been in operation between 6 to 10 years with 20 responses for this giving a percentage count of 40. 14 respondents have been in operation between 11 to 15 years giving a percentage count of 28, 10 responses for companies between 0 to 5 years representing 20% and companies that have been in operation above 16 years had 6 respondents giving a percentage count of 12.
6.2 Financing Information

This section includes information concerning the financing of business activities of the companies such as the form of opening capital used by the organization, the different financing methods used by the company, the purpose of bank finance, types of collateral provided by the company to backup loans and the difficulties these organizations faces when obtaining a loan.

6.2.1 Sources of Startup Capital and method used in financing business activities

From the responses of the questionnaire it shows that most entrepreneurs uses bank finances as startup capital making it convincing that microfinance institutions actually play a major role in the development of SMEs as 34 of the respondents uses bank finance as a source of finance for startup with a percentage count of 68% followed by 14 of the respondents that uses personal savings giving a percentage count of 28, 2 of the respondents said they have assistance from family and friends with a percentage counts of 4 and none of the respondents receives any assistance from government.

![Sources of Startup Capital](source.png)

FIGURE 8. Sources of Startup Capital

Most of the companies uses internal funds in running their business activities, with 28 respondents using this method of financing representing 56%, followed by 14 respondents that uses bank finance to finance their business activities given a percentage count of 28. And 8 of the respondents uses equity finance to finance their business activities representing 16% and none of the respondents attest of using Government assistance.
6.2.2 Does your firm uses Bank Finance and why does your company uses bank finance

Bank finance represent the highest source of finance used by small and medium size enterprises in Cameroon with 40 of the respondents attesting of using bank finance giving a percentage count of 80 and 10 uses other means of finance other than bank finance representing 20%.

Bank financing is the most accessible method of financing according to the responses 32 of the 40 respondents uses bank financing representing 80%, followed by 4 of the respondent that attest that they...
uses bank financing because of their close relationship with the microfinance institution giving a percentage count of 10. And 4 acknowledges that less it is a less costly and affordable means of financing representing 10%.

FIGURE 11. Why does your firm use bank financing?

6.2.3 Main purpose of bank finance and the type of collateral provided by the company

Majority of the business people uses bank financing to enter into a new market with 15 of the respondents attest for these giving a percentage count of 37.5, followed by 10 of the respondents that uses bank financing for expansion representing 25%, 8 of the respondents uses bank finance as working capital giving a percentage count of 20 and lastly for modernization purposes with 7 responses giving a percentage count of 17.5, 10 of the respondents did not give answers to this.

FIGURE 12. Purpose for Bank financing
Providing security for a loan is one of the highest challenging part of a loan granting process. According to the responses the most common collateral that is usually provided to back up a loan is real estate/land having 33 responses for this and a percentage count of 89.19, 4 of the respondents providing machineries and equipment as security giving 10.19% and 3 out of the 40 respondents that uses bank financing did not give answer to these questions.

![Types of collateral Provided](image)

**FIGURE 13.** Types of collateral Provided

**6.2.4 Opinion in the process of loan Application and Difficulties face in obtaining a loan**

According to the responses from the questionnaires the process of granting a loan is easy to obtain, 38 of the respondents attest to it giving a percentage count of 76. 11 of the respondents said is difficult to obtain representing 22% and only 1 respondent said is very easy to obtain giving a percentage count of 2. According to this analysis it shows that the process of obtaining a loan is easy.

![Opinion in the process of loan application](image)

**FIGURE 14.** Opinion in the process of loan application
Due to lack of trust micro finance institutions makes it more difficult to obtain a loan requiring unreasonable level of security as 22 of the respondents attest to this giving 44%. 10 of the respondents said the conditions for repayment was difficult and not convenient for them giving a percentage count of 20. 8 of the respondent’s complaint of high interest rate as being the difficulties they faced representing 16% of the total counts. Followed by 5 respondents who complaint that the financial institution makes the loan duration to be too short giving it 10% of the counts. 3 of the respondent’s complaint of the time the MFI takes to grants the credit with 6% counts, and 2 of the respondent’s complaint of the too much paper work involves in granting a loan giving 4%.

![Main Difficulties faced when obtaining a loan](image)

FIGURE 15. Main Difficulties faced when obtaining a loan

### 6.2.5 Reason why your loan Application was declined and How MFI have helped SMEs

The lack of acceptable collateral security by business people has been a major problem in the process of granting a loan. According to responses from the questionnaires 30 of the respondent’s loan application have been declined due to lack of acceptable collateral security with 60% count, followed by the high risk associated with the project where 10 respondents gave responses to this representing 20%. Lack of track records of the customer is another reason why customers loans are declined where 5 respondents attest to this giving 5%, and inadequate source of repayment with 5 respondents attesting to this giving a percentage count of 10.
FIGURE 16. Reason why your loan application was declined.

Microfinance institutions have a great role to play as far as financing of small and medium size businesses are concern in Cameroon, from the responses of the questionnaires at least each of the respondents have applied for a bank finance though not all of them are using it due to one reason or another. The development of small and medium size enterprises in Cameroon today is thanks to microfinance institutions for the access to finance they provide.

6.3 Summary and Recommendation

This thesis is divided into seven chapters including this chapter, they include. The introduction which started by explaining an overview of this research topic, this chapter further shows the context involved in the research and the motivation for carrying out this research including the aim and objective. The second chapter gives a summary of the commissioner of this thesis and the third and fourth chapter explain the theoretical review of this research, these chapters explain the economic role of small and medium size enterprises, analyzing in detail the financial difficulties SMEs face and the various financing methods available to the small-scale business owners, and microfinance involvement with SMEs by looking in detail MFI lending to SMEs, contribution of MFI to SME, the potential of MFI in fighting rural poverty in Cameroon.

Chapter five was made up of the empirical part with the questionnaire analysis. A questionnaire was issued to respondents, particularly owners of small and medium size enterprises. 50 questionnaires were distributed to the three regions of Cameroon that is the north west, littoral and center region, answers
were given to all the 50 questionnaires. The questions were based on some general information concerning the respondent and the methods they use in financing their businesses. The general information such as sex, their ages, activities carried out by the company, the form of the business and the duration the company have been in existence, while the financing section include information such as the source of finance they use in starting up their businesses which was seen that bank finance is the most used source of finance for startup. The financing method used by the company in financing it activities was also analyzed which shows that internal funds is the most common used method of financing business activities, inquiry about the company’s knowledge on bank financing was also asked. The respondents attest to the fact that bank finance is the most accessible means of financing and they also used bank financing when entering new market. And the most commonly used collateral is land/real estate. The respondents’ opinion on the process of obtaining and applying for a loan was easy to them and they faced difficulties on the high level of collateral security required by the microfinance institution in granting loan. The lack of collateral security account for the most common reason for a declined in a loan application. According to the response at least every respondent has at least applied for a loan.

From the responses of the questionnaire and analysis it was proven that microfinance institution has a great role to play in the development of SMEs in Cameroon, as bank finance is the most common method of finance used by SMEs in financing their businesses. Though some SMEs still face some challenges in acquiring finance from microfinance institutions but most of the companies benefit from these financial institutions.

The researcher made some recommendations to the thesis commissioner based on the responses from the questionnaire and from the theoretical part of these thesis. Firstly, the commissioner should moderate the charges involve in the loan granting process and issuing of the loan. The commissioner should also moderate the security measures put in place to back up the loan to encourage more business people. Most small and medium size business people are unable to use bank finance because of the unreasonable level of security that is required by the microfinance institutions. The researcher outlines some analysis that will help the MFI in its strength, weaknesses, opportunities and threats of the company also known as the SWOT analysis.

<table>
<thead>
<tr>
<th>Strength</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Interest rate charge is lower than that of commercial banks.</td>
<td>• The types of credit needed by the customers is not always provided by the microfinance.</td>
</tr>
</tbody>
</table>
- Highly accessible by those living in rural areas where there are no banks.
- They benefit from assistance given to them by the Government and other institutions.
- Nearness to low income earners thus providing them with financial services to meet up with their needs.

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• So many small and medium size business operators need financial assistance and cannot get it from Banks.</td>
<td>• Microfinance institutions in Cameroon don’t have a unique tax system.</td>
</tr>
<tr>
<td>• Microfinance institution provide other services such as salaries payment, pension funds and insurance services.</td>
<td>• Most of the local population still have the system of investing and serving their money either in Njangi houses or by using other local means.</td>
</tr>
<tr>
<td></td>
<td>• Poor infrastructural development thus limiting the expansion of microfinance institutions.</td>
</tr>
</tbody>
</table>
7 CONCLUSION

The conclusion of this study on the role of microfinance institution in the development of SMEs in Cameroon is a very important topic of research because about 70% of the Cameroons economy is made up of small and medium size enterprises. One of the major factors affecting these organizations is that of finance. So many of these SMEs lack the access to finance their businesses, thanks to these microfinance institutions that grants them credit. Thus, according to the aims and objectives of this study microfinance institutions have greatly help in boosting the small and medium size business sector in Cameroon by contributing in their growth and providing these SMEs with the finance needed.

Some important concepts concerning SMEs development was also examined such as the financial difficulties they faced, small and medium size businesses growth and development and the various sources of finance available to these SMEs, this shows the various forms of financing available to these SMEs which include equity and debts financing. Other concepts such as the MFI lending to SMEs, the contribution of MFI in financing SME and the potential of microfinance institutions in fighting rural poverty. The debts financing is the most common used financing method used by these SMEs owners through the granting of bank finance by MFI, thus contributing to the development of SMEs.

The result obtain from the questionnaires were analyzed and some recommendations were made to better the performance of these microfinance institutions and SMEs. According to the study 50 questionnaires were randomly administered to some owners of SMEs in 3 regions of Cameroon and responses were given for all the questions. SMEs are mostly owned by male and the age range of most of these SMEs business operators are between 26 to 35 years of age. These businesses are mostly trading organizations and solely owned. The financing method used by this SMEs is mostly bank financing and most of the SMEs faces problem at the level of collateral that is they see the collateral requirements to be unreasonable.

Micro finance institutions are very important institutions in a developing country such as Cameroon as their services provided are geared to meet the need of the poor and to finance small and medium size businesses. The products and services provided by the microfinance institutions are not the solution to the challenges face by these business people but other factors such as lack of business skills, lack of financial intermediation services, lack of technology and market to help boost the business sector. MFI cannot give solutions to all the problem facing SMEs and the poor, but it helps them improve their
economic and financial situation. Micro finance institutions are of great importance to those who are unable to meet up with the requirement of commercial banks, they help create and develop businesses by providing the finances needed, they help to raise income for business men and help in developing new market. Despite the high interest rate charge by micro finance institutions they still provide a range of very useful products and services which is always still demanded by the small-scale business people. It is seen that this study has helped in developing a good mastery of bank financing for small and medium size enterprises in Cameroon.

This study which is aimed at analyzing the role microfinance institutions play in the development of small and medium size enterprises in Cameroon. In other to have a better knowledge of this topic of research there is still another opportunity of extending it. The sample was done in three regions of Cameroon that is the North West, center and the Littoral region of Cameroon due to reason of practicality and limited resources. There would have been a significant difference in the result if the research was done in all the regions of Cameroon. It will be more interesting if an analysis can be done in the whole country using this same topic and even include other banks to have a better result. There is need for future research to develop the findings. More factors can be included to get a better knowledge on accessing bank finance by SMEs holders. More studies should be done on facts concerning SMEs means to get more finances for startup.
REFERENCES


QUESTIONNAIRE

Dear sir/Madam

I am an undergraduate student studying international Business in Centria University of applied sciences Finland. Carrying out a research on the topic, the role of Microfinance institution in the development of small and medium size enterprises in Cameroon with the case study of Agyati Cooperative credit union limited. This research work is in partial fulfilment of the requirement of the award of a bachelor’s degree in international business. I would be grateful if you would spend some time to answer these questions. You are assured that any information collected shall be used only for the intended purpose.

Instructions: Please tick ( ) or fill in the blank spaces for each of the following questions

A. General information

1. Sex?
   - Male
   - Female

2. Age group?
   - 15-25
   - 26-35
   - 36-45
   - 46 and above

2. What is the main activity of your company?
   - Trade
   - Service
   - Manufacturing

3. Which of the following best describe the form of your business?
   - Sole Proprietor
   - Limited Partnership
   - Shareholding Firm

4. How long has your organisation been operating?
   - 0-5 Years
   - 6-10 Years
   - 11-15 Years
   - 16 Years and above

B) Financing Information

6) Which of the following sources of finance did you used when starting your business?
   - Personal Savings
   - Assistance from family and friends
   - Bank finance
   - Government Assistance

Others (Please Specify)...........................................................................................................................................................................................

7. What are the Financing methods you use to finance your business activities?
   - Internal Funds
8. Does your Firm use Bank Finance?

9. A) If yes: why does your firm use Bank Financing?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Uncertain</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most accessible method of financing</td>
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<tr>
<td>Close relationship with the Micro finance</td>
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<td>Least costly type of finance</td>
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<td>Other (Please specify)</td>
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</table>

B. What was the main purpose for the micro credit?

- Modernization
- Entering new market
- Expansion
- Working Capital

C) What was the type of collateral you provided to secure access to Bank Finance?

- Real estate/land
- Machineries and equipment’s
- Personal guarantees

D) What was your opinion in the process of applying and obtaining the loan?

- Very easy to obtain
- Easy to obtain
- Difficult to obtain
- Very difficult to obtain

E) What were some of the main difficulties you faced?

- High interest rate
- Unreasonable level of security
- Short duration of loan
10. According to your case answer (a) or (b)

A. If your application was decline. What was the reason?

<table>
<thead>
<tr>
<th>Reason</th>
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<tbody>
<tr>
<td>High risk associated with the project</td>
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<tr>
<td>Lack of track records</td>
</tr>
<tr>
<td>Lack of collateral</td>
</tr>
<tr>
<td>Inadequate source of repayment</td>
</tr>
</tbody>
</table>

Others (Please specify).................................................................................................................................

B. If your firm have never applied for a bank credit. What was the main reason?

<table>
<thead>
<tr>
<th>Reason</th>
</tr>
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<tbody>
<tr>
<td>The inability to provide collateral</td>
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<tr>
<td>Weak financial position of the firm</td>
</tr>
<tr>
<td>Inconsistence cash flow</td>
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<tr>
<td>Lack of good relationship with the MFI</td>
</tr>
</tbody>
</table>

Others (Please specify).................................................................................................................................

11. Can you conclude that Micro finance institution have help you in developing your business?

Explain Why and How?...........................................................................................................................................