

OBSTACLES FACE BY SMALL AND MEDIUM-SIZED ENTERPRISES (Smes) IN CAMEROON TO APPLY FOR BANK LOANS

^{1*}Forbeneh Agha Jude, ²Chi Collins Penn1

¹Department of Finance and Accounting, Faculty of Economics and Applied Management, University of Douala

²School of Business and Management Sciences, Saint Jerome Catholic University Institute-Douala

Abstract: -The objective of this paper is to understand issues constraining SMEs to apply for bank loans. The study differs from previous findings because it highlights various obstacles impeding SMEs to apply for bank loans. Likewise, previous studies emphasise on the challenges SMEs encounter to access bank loans. To achieve the objective of the study, we used a qualitative research approach characterised by semi-structure interviews with 25 owners of SMEs. Owing to the objective of the study, the sample frame consists of SMEs that did not resort to bank loans. The respondents were asked question about their decisions not to apply bank loans. The interviews were recorded, transcribed and analysed using content analysis. The result of the study revealed that excessive rate of interest applied on loans, unawareness about lending procedure and conditions, elaboration of a business plan, the delay by banks in granting loans to SMEs, and lack of real assets as collateral mostly hinder SMEs to apply for bank loans. Therefore, to instigate SMEs to apply for bank loans, commercial banks should revise their lending conditions and practices.

Keywords: apply, bank loans, commercial banks, decisions, SMEs

1. Introduction

The late 80's worldwide financial and economic crises resulted to the subsequent privatization and restructuring of state owned enterprises combined with the introduction of market forces resulted to the emergence of new small firms and a decline of old inefficient ones. Moreover, a key objective for both politicians in developing countries and providers of external aid was the development of the small and medium size enterprise (SME) sector (Hutchinson and Xavier, 2006). Hitherto, defining the small firm is somewhat arbitrary as criteria used to classify entities as such include size, number of employees, sales volume, asset size, type of customer, capital requirements and market share (Danielle and Carson, 2003). From the last Cameroonian enterprise survey, conducted by the National Institute of Statistics (NIS), about 98 % of enterprises are small and medium-sized enterprises (SMEs) (NIS, 2009). In Cameroon, reduction of

poverty is the most important agenda item in development policy. The government particularly positions SMEs promotion as the key subject on its agenda, in that the SMEs sector can serve as a driving force for economic growth. According to Kenmegni (2015), Cameroonian Government launched institutional reforms in December 2004, including the establishment of Ministry of Small and Medium-Sized Enterprises, Social Economy, and Handicrafts for the formulation of SMEs' promotion policies and programmes. These programmes include the SMEs promotion agency and SMEs Cameroonian bank. SMEs account for 62% of permanent employees and 31% of turnover before tax of all enterprises in Cameroon (NIS, 2009). The ability of SMEs to create jobs and to contribute to development is directly related to their ability to grow. However, the growth and development of SMEs are restricted because SMEs face enormous obstacles. The World Bank Enterprise Survey (2009) for Cameroon shows that

54.0% and 56.5% of SEs and MEs respectively, reported limited access to finance as a major obstacle to their business. Mandiefe, Baye and Tieguhong (2015) found that higher financial constraints reported by Cameroonian SMEs translate into low productivity. Oliveira and Fortunato (2006) suggest that financial constraints on firm growth may be relatively more severe for small and young firm than their larger counterpart. Even in transition economies micro and SMEs face great difficulties in accessing external sources of finance (Hutchinson and Xavier, 2006). Kenneth (1986) contends that among the most serious constraints to the development of small and medium businesses (SMBs) are the difficulty of access to credit, and the fiscal policies and practices which effectively discriminate against the small business. SMEs contribute to employment and GDP across different countries worldwide (Ayyagari, Beck and Demirguc-Kunt, 2007). SMEs face some difficulties related to financial needs due to the quantitative and qualitative rationing imposed by the traditional financial system against them (Hachimi, Abdelouhab and Hamid , 2017). The availability and cost of finance is one of the factors which affect the ability of a business to grow (Binks and Ennew, 1996).

The literature related to the financing of SMEs is replete with studies on access to finance. Notwithstanding, in the literature, a bulk of empirical works focused on the obstacles SMEs face to access bank loans (Abor and Biekpe, 2007, Fatoki and Asah, 2011, Koumetio 2016). These studies focused on the characteristics of SMEs, managerial traits and banking conditions to understand issues related to the financing challenges face by SMEs. The results from empirical findings revealed that SMEs do not access bank loans because commercial banks are reluctant to grant them loans. On the contrary, the results of plentiful empirical findings revealed that SMEs are reluctant to apply for bank loans. For example, in a recent study Ayuk, Bystryakov and Karpenko (2016) found that in a survey of 429 SMEs, only 0.5 per cent asked loans from a bank, with the bulk coming from personal and family sources. According to

Massimo and Luca (2007), only a minority of SMEs resorts to outside financing, and especially to bank debt. Following the same vein, Freel, Carter, Tagg and Mason (2012) find that twice as many businesses were discouraged from applying for a bank loan than had their loan request denied. Kon and Storey (2003) contend that there is a category of SMEs requiring finance that chooses not to apply to the bank. In the same vein, Fatoki (2014) cited that many entrepreneurs raise start-up capital from own or family savings, which is often inadequate; rather than, approaching formal institutions for external finance. Across all countries younger firms rely less on bank financing and more on informal financing (Larry, Klapper and Inessa, 2011). Using a convenience sample of 93, SMEs Koumetio (2016) found that only 11.8 per cent of SMEs have a high indebtedness, compared to 61.3 per cent of companies holding very little debts.

Specifically, loans from commercial banks are the most significant source of debt for SMEs (Coleman and Cohn, 2001) throughout the world (Petersen and Rajan, 1995), and the most common source of external finance for small businesses (Howorth and Moro, 2012). Indeed, previous findings focused on the category of SMEs that applied for bank credit, and attempted to distinguish between successful and unsuccessful borrowers (SMEs) of loans. Meanwhile, the category of SMEs that did not apply for bank loans has been completely ignored in the literature. In fact, there exist two categories of SMEs: applicant and non-applicants of bank loans. However, the literature focused on the applicants (SMEs) of bank loans. We firmly believe that applying for bank loans is the initially conditions to access it. Apparently, the financing lacuna experienced by SMEs might be more or less explained by the fact that SMEs do not apply for bank loans; rather than, the unwillingness on the side of commercial banks to offer loans. Obviously, SMEs might not access bank loans if they do not apply for it. Therefore, financing obstacles encountered by SMEs might be solved from the angle of understanding factors constraining them to seek for bank loans. As result, we attempt to bridge

the gap in the literature by highlighting the reasons causing SMEs not to apply for bank loans.

2. Literature review

2.1 The problem of information asymmetry

One of the principal findings of research in the small firm area is that due to a combination of factors related to their limited size and scope of activity, small firms exhibit a greater propensity to fail than large firms (Keasey and Watson, 1993; Storey, 1994; Timmons, 1994). Linked to this, studies have also found that the financial performance of small firms is inherently variable over time (Keasey and Watson, 1991, 1993) and a significant number will experience financial difficulty every now and then. These characteristics of the small firm sector can result in market failure which is caused by information asymmetry along the following lines (Myers and Majluf, 1984): a fundamentally viable firm with good long term prospects experiences temporary financial difficulty. Those "inside" the firm (e.g., the owners) are aware that the current problems are not existence-threatening. However, the creditors contracting with the firm from the "outside" are not so well informed about the specifics of the enterprise and, armed with general knowledge about the likelihood of small firm failure, decide to withdraw their support and retrieve as much of their assets as possible before it is too late. Their actions are self-fulfilling and a viable firm fails (Aghion, Thibault and Stefano, 2007). This problem of information asymmetry is less acute for larger firms as internal information increases in quantity and quality with firm size (Storey, 1994) and so external stakeholders are more likely to make decisions based on data rather than assumption.

A model of imperfect information, uncertainty and credit rationing was earlier published by Dwight and Russell (1976). The model shows that the loan market is composed of borrowers who detain more information about their likelihood of default than the lenders. One of the reasons size may play a role in the financing behaviour of firms is asymmetry of information. Most SEs are said to be less

transparent with information. This is because most SMEs keep their operations private, lack publicly available information such as detailed financial information and have no credit history which providers of external finance can use to assess their creditworthiness and monitor their performance resulting to higher cost of lending to SMEs, which makes it difficult for SMEs to obtain bank loan (Berger and Udell, 1998). Asymmetry of information results in adverse selection and moral hazard problems which can constrain SE's access to finance. Adverse selection problems arise when providers of external finance have incomplete information about the quality of project by SMEs. Adverse selection may arise when a pool of riskier borrowers are willing to access external financing. On the other hand moral hazard problems arise when management of SEs fail to perform as expected and when providers of external finance fail to effectively enforce the agreed contracts.

Lack of reliable information about the creditworthiness of borrowers (SMEs) makes banks to be reluctant to grant loans to SMEs. However, to avoid the risk of loan delinquency banks ration credit to SMEs (Stiglitz and Weiss, 1981) and in some situations prefer to grant short-term debts to them. Amoako (2013) reports that majority of SMEs fails to maintain complete accounting records as they think there is no need to keep accounting records. Sincerely, the lack of accounting documents makes it difficult for banks to assess the financial positions of SMEs. Thus, to avoid moral hazard and adverse selection, banks are reluctant to grant credit to SMEs or demand collateral security. Ndjanyou (2001) argues that asymmetric information gives rise to excessive bank credits, and in turn, contributes to excessive rates of failure. To redress the underlying asymmetry, banks should adopt an adaptive risk model, particularly in the context of small business firms in a developing country context such as the Cameroon. Somewhat, an adaptive risk model integrates the geographic and institutional proximity issue in ways that can improve the allocation of credit in the presence of risk and uncertainty. According to Hongjiang, Wenxu and Chen (2006), banks had taken a simple

way to protect themselves against information between SMEs. For example, banks may demand collateral to secure the loans. The collateral issue is extensively discussed in literature – preventing moral hazard, the alignment the interests (Stiglitz and Weiss, 1981; Yuk-Shee and Thakor, 1987), a means to discipline the borrowers behaviour (ex post) given the existence of a credible threat (Aghion and Bolton, 1992), or even banking behaviour on the market (Manove, Padilla and Pagano, 2001). Nonetheless, information asymmetry results to moral hazard and adverse selection.

Moral hazard in financial markets occurs when the borrower has already acquired loan. Due to the financial institutions are unable to supervise the borrowing company all the time and obtain effective information about the borrower's willingness to pay back loans, business performance, and where the loans go, there are chances that borrowing company may violate the original commitment they made when signing the loan contract, and engage in high-risk investment or intentionally flight from debt. In other words, as banks cannot completely know and control what indeed the borrowers use loans for and whether they would pay the money back or not, the borrowers are likely to take risks to default on the engagement. This opportunistic practice, what we know as moral hazard, could lead to bad debt which could take its toll on banks. To guarantee loan safety and profitability, banks and other financial institutions, for one thing, will implement "credit rationing" policy. That is reducing lending to SMEs to avoid moral hazard, which is what is known as the second Act of "credit rationing". Explicitly, the applicant's borrowing requirement will only partially be met, which can lead to atrophy of the SME loan market. For the other, financial institutions may raise loan threshold, strengthen SMEs credit appraisal and management, in order to reduce the lending losses arise from moral hazard. However, this reaction will boost the transaction costs between banks and enterprises dramatically. In addition, SMEs also have the difficulty to come up with satisfying mortgages to the financial institutions. Therefore,

financial institutions may not dare to lend any loans to SMEs. Conclusively, asymmetric information leads to moral hazard, which would further exacerbate the financing difficulties of SMEs.

In fact, the literature related to information asymmetry contends that the borrowers are the holder of credible information about the business performance than the lenders. Besides, being aware of the fact that their borrowing decisions are highly constraint by information disparity, there is likelihood that the borrowers utilize this information effectively when willing to seek for bank loans. Thus, SMEs may disclose the information they have through one way or the other in order to reduce the effect of information asymmetry costs on the borrowing decisions. The essence here is to make banks to have a positive appraisal in their applications. Therefore, for SMEs to apply for bank loans, they are obliged to overcome issues related to external financing decisions such as high costs of information asymmetry and transaction. Consequently, it is important for them to value specific characteristics related to the firm, and owners/managers, because banks considers such aspects when appraising the demand for loans.

2.2 Accessing bank loans

There are many factors that affect SMEs' ability to borrow from bank. Differences in the capital structure choices of SMEs are explained by firm-specific rather than country facts (Psillaki and Daskalakis, 2009). Hongjiang, Wenxu and Chen (2006) find that whether SMEs can provide collateral or guarantee is a decisive factor; factors such as firm size, willingness to accept bank's clauses, close relationship with bank play an important role. Adair and Fhima (2014) show that the demand for bank credit is not determined by "endogenous" factors, i.e. the activity level and internal available resources of SMEs, but rather by "exogenous" factors, i.e. the cost of financing and guarantees required by banks. Small firms typically find it difficult to borrow from a commercial bank due to inadequate collateral value of assets and unstable cash flows. Moreover, costs of debt financing are usually higher for small firms than for

large firms due to the higher credit risk of small (Tze-Wei, Mei-Chu and Yen-Sheng, 2002). Hussaini and Muhammad (2017) show that the volume of credit demanded by SMEs and the interest rate constrained access to credit. SMEs desperately need support to fund investment projects. For example, Varouj and Santor (2008) find that in Sri Lanka, World Bank lending programs led to higher levels of investment for financially constrained firms. On the other hand, Ayyagari, Demirgüç-Kunt and Vojislav (2011) find that access to external financing is associated with greater firm innovation. Bahar and Mico (2014) contend that increases in bank funding costs and borrowers' debt-to-asset ratios are significantly and negatively associated with firms' access to finance. Overall, the level of corruption seems to play a role in the applications and in the outcomes of the applications for bank loans (Emma, Mascia, and Stefania, 2016). According to these authors, small firms chartered in high corrupt countries face a greater probability of rejection for their loan applications (more than 16%) compared to the small firms located in low corrupt economies (about 9%).

Traditional theory in the scope of corporate finance stipulates that SMEs may seek for debt to adjust towards an optimal capital structure. For instance, Aybar-Arias, Alejandro and López-Gracia (2012) provide empirical evidence on the determinants of target leverage and the speed of adjustment of SMEs. These authors demonstrate that, Spanish SMEs adjust rationally to their target. Contrary to conventional wisdom, Rocca, Tiziana and Cariola (2011) found that debt is shown to be fundamental to business activities in the early stages, representing the first choice. By contrast, in the maturity stage, firms re-balance their capital structure, gradually substituting debt for internal capital. According to Jensen (1986), debt is used as disciplinary tool. Indeed, debt subjects managers to financial discipline inducing them to invest excess cash-flows in profitable project, rather than, consuming them.

Badulescu (2011) ascertains that although the bank loan remains the favourite mean to support the

growth ambitions, the higher level of collateral or lending costs are seen as principal obstacles by the majority of manager in European Union. Wangui , Njeru And Ondabu (2014) revealed that the key challenges hindering micro and small enterprises in Kenya from accessing credit facilities to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period. In a recent study, Tsambou, Zamo, Ludwick and Tsafack (2015) found that the choice or method of financing for Cameroonian SMEs is determined by the size, asset tangibility, profitability and industry. Overall, Cameroonian SMEs establish a preference in their choice on the level of financing costs. According to Tsambou, Zamo, Ludwick and Tsafack (2015), the principal determinants of the bank credit financing of SMEs concern the availability of financial instruments, the quality of collateral being offered, the size of SME, profitability and social capital. Likewise, social relationship indicating the degree of confidence of SME ameliorates significantly the probability to access bank financing by reducing the level of opacity of SMEs towards banks. Uchida, Udell and Watanaba (2008) suggest that loan officers play a critical role in relationship lending by soft information about SMEs. This information source by commercial mitigates the influence of information opacity in lending to SMEs.

Rocca, Tiziana and Cariola (2011) show that, in a bank-oriented country, firms tend to adopt specific financing strategies and a different hierarchy of financial decision-making as they progress through the phases of their business life cycle. According to Tze-Wei, Mei-Chu and Yen-Sheng (2002), heavy reliance on debt financing for capital needs may be negatively related to the profitability of small firms. In contrast, internal equity such as retained earnings is under the discretion of managers and is a more convenient way of financing source for small firms. Van Stel, Storey and Thurik (2007) find the minimum capital requirement required to start a business lowers entrepreneurship rates across countries, as do labour market regulations. Small firms increasingly use formal bank financing over

time, these results suggest that information asymmetry plays an important role in decreasing a young firm's ability to obtain bank finance (Larry, Klapper and Inessa, 2011).

2.3 The banking sector in Cameroon

Financial intermediation involves banks and other institutional investors playing pivotal roles in transforming savings into investment, thereby facilitating liquidity, information, and consumption smoothing. Financial intermediaries also serve as a commitment mechanism and provide delegated monitoring to organization to which they provide capital (Cumming, Fleming and Armin, 2008). In recent years, the market share of foreign banks has increased significantly in many transition countries; the situation is similar in Latin America countries, whereas in Asian and African countries, foreign bank entry is modest. It has been suggested that foreign bank entry has had a range of effects in transition countries, both positive, improving competition and efficiency, and negative, in eluding a lack of "loyalty" during economic difficulties. Empirical studies on foreign bank entry and small firms' credit in developing countries suggest that foreign bank entry reduces credit availability to small firms (Clarke, Cull and Soledad, 2006; Linsink, Meesters and Naaborg, 2008); however, studies for Latin America and the United States provide the opposite view (Clarke, Cull and Soledad, 2006).

In Cameroon, the financial market is embryonic, very few companies are listed. Thus, many firms are obliged to rely on the credit market to funds their working capital and investment needs. However, banks are reluctant when it comes to granting loans to SMEs, who are the biggest victims of bank credit rationing (Um-Ngouem, 1996; Stiglitz and Weiss, 1981). For instance, credits for SMEs are usually short-term (Abor and Biekpe, 2007). According to Subramanian and Umakrishnan (2004), the uniqueness of bank debt is evident in its many flexible loan schemes and credit sanctions as well as in options that exist which facilitate tailor-made structuring of debt. On the other hand, Mariarosaria and Francesco (2010) advocate that a more intense

banking competition may lead to better credit conditions for small and medium-sized firms. Aghion, Thibault and Stefano (2007) find that access to finance matters most for the entry of small firms and in sectors that are more dependent upon external finance. According to Subramanian and Umakrishnan (2004), financing pattern of firms is dependent to a great extent on the degree of maturity of the financial system within which they function. Sources of funds for firms can be classified as internal and external. Internal sources include re- invested earnings while external sources include: (i) equity capital and equity premium, (ii) bonds, and (iii) borrowings (from banks and financial institutions). According to theory, with growing maturity of the financial system, the financing pattern of firms undergoes change. A shift from internal to external mode of financing of firms is expected with the deepening of financial sector. Also with firms able to bypass the banking system or other intermediaries and directly access the securities market for their fund requirements, the share of intermediaries as providers of capital to firms is expected to come down.

Oludele and Kinfaek (2014) suggested that in Cameroon, during the pre-reform period, the country as well as the financial sector excelled the most, partly due to the discovery of oil in 1978. However, the mid 1980s economic shock experiences of Cameroon significantly affected the financial sector. Subsequent financial sector development policies of Cameroon have failed to improve the economic situation. During the 1980s, the World Bank and the International Monetary Fund (IMF) promoted financial liberalization policies, often to the detriment of the stability of financial systems. The implementation of structural reforms measures by different countries resulted to the participation of the private sector in financial and economic activities. According to Ningaye and Feudjio (2018), financial liberalisation has had mixed effects on the banking sector of Cameroon because many transmission channels were either insensitive; or they evolved in an unexpected direction due to a decline in loans to the economy. Consequently, there are currently 15 banks

operating in the country: Afriland First Bank, Atlantic Bank Cameroon, Banque International du Cameroun pour l'Épargne et le Crédit (BICEC), BGF Bank Cameroon, SCB Cameroun, Citibank, Commercial Bank of Cameroon, Ecobank Cameroon - Acquired Oceanic Bank Cameroon, National Financial Credit Bank (NFCB), Société Commerciale de Banque du Cameroun - (Formerly SCB Credit Agricole), Societe Generale des Banques au Cameroun (SGBC), Standard Chartered Bank, Union Bank of Cameroon (UBC), United Bank for Africa (UBA), and Attijari Securities Central Africa (ASCA). This notwithstanding, the foreign-owned banks have been found to add stability to the local banking sector by being better capitalized and more regulatory compliant than their domestic-owned counterparts who are more vulnerable to credit risk and less regulatory compliant. Their profitability and solvency are under pressure due to decreasing interest margins (IMF, 2009). In 2007, ownership of banks in Cameroon was as follows; Cameroon government 9.8%, Cameroon nationals 33.3% and foreign nationals 56.9%. The recent entry of banks such as Oceanic Bank and the buying of majority stake by a Moroccan banking group in SCB-CL and Atlantic bank in Amity bank have tilted things in the favour of foreign nationals. This state of affairs could be blame on the Douala Stock Exchange which since inaugurated in 2003 has failed to mobilize funds from the Cameroonian public to the favour of foreign investor with huge capital to buy big stakes into the country's banks.

The last state-owned bank in Cameroon was sold in January 2000, this was the last step in a Structural Adjustment Programme (SAP) recommended by the Bretton Wood Institutions for the country to reach the completion of the Highly Indebted Poor Countries' Initiative (HIPC). This initiative was recommended to re-launch the country's economy after a decade of economic crisis that seriously affected its banks. This crisis led to the liquidation of giants such as Cameroon Bank, Banque Meridien, Rural Development Fund-the development bank, the split winding of the Bank of Credit and Commerce of Cameroon (BCCC), with

transfers of its good assets to Standard Chartered Bank of Cameroon. The failure of these institutions was followed by a raising of the initial capital requirement of commercial banks from CFAF 300 million to CFAF 1 billion (Kouassi, Akpapuna and Soededje, 2007). This operation sped up the logic of consolidation in the early 1990s, however the sharp devaluation of the CFA Francs in 1994 accelerated the reserve of French banks towards a Cameroonian economy struggling to emerge from a strict regime of the IMF. Since this period the banking sector in the country has struggle to offer any substantive contribution to the growth of the economy, however the last five years or so have offer some hope with the entry of more players in the sector bringing the number of commercial banks to 15, with more still expected

Financial intermediation in Cameroon is carried out almost entirely by commercial banks. That is, if they are effective, they will stimulate economic growth through three channels. A banking system that functions normally identifies and funds entrepreneurs who have the best opportunities of success in their innovative activities (Schumpeter, 1912; Brou, 2010). The era of globalization tremendously affected the Banking Sector in Cameroon. It is thanks to globalization that most modern States have abandoned their fundamental principles and attitude of non-interference for interdependence and mutual suspicion for mutual interaction. The Banking Industry in Cameroon is governed by laws and regulations whose sources are listed seriatim: International Conventions, Customs Laws, Ordinances, Presidential Decrees, Ministerial Orders, Circulars and Court Decisions. These regulatory instruments are flexible in character, meaning they can be a subject of modification based on some socio-cultural, political and economic development within Cameroon. Banking regulations vary between jurisdictions.

The Ordinance N° 85/002 of 31 August 1985 relating to the establishment of Credit Institutions or Loan Houses is one of the most important Texts regulating the Banking Sector in Cameroon. This Ordinance has been ratified by Law N° 88/006 of

July 1988 and Law N° 90/019 of August 10, 1990. These laws repeal the old practice whereby only persons of Cameroonian nationality had the privilege to head banking institutions in Cameroon. Ordinance N° 90/6 of October 26, 1990 on its part exempts banking institutions from the payment of registration fees and stamp duties on all Deeds and Judgments relating to transfer and or resale of immovable property. The main banking regulatory instrument is the COBAC Text of 17 January 1992 harmonizing banking regulations in the six member States of BEAC. The Ministry of Finance controls all banking activities especially the terms and conditions for banking services. It also receives applications for licensing and the appointment of General Managers of banks and other financial institutions and passes same to COBAC for approval/rejection. COBAC has up to six months within which to decide on such applications. In conjunction with the National Credit Council, the Governor of the Central Bank rules on the following: - Minimum capital for banks and finance houses; - Conditions for opening up branch offices; - Anti-trust issues and collaboration amongst the institutions. The Central Bank performs the role of a Regional Central Bank as indicated above as well as issues notes. It also acts as clearing house for the banks. However, for its functions of directing monetary policy and acting as lender of last resort, it falls wide off the mark.

Cameroon's financial system is the largest in the Economic and Monetary Community of Central Africa (CEMAC) accounting for about half of regional financial assets. The financial sector, characterized by excess liquidity, heavy concentration of loan and deposit activity and a low level of financial innovation is largely dominated by foreign banks. Non-bank financial institutions play a minor role, with the public insurance and pension systems in difficulties, and the publicly owned postal bank and real estate finance institution both struggling with insolvency. Problems in the legal enforcement of guarantees and the land tenure system also hamper the utilization of real estate as collateral, further constraining the expansion of the financial sector. In Cameroon, the banking sector

has been blamed for making very little contribution to the growth of the economy (IMF, 2009). The rate of penetration of banking services have been low, while banks have excess liquidity, they rely mainly on short-term deposits, and cover only a few high net worth individuals and corporate who are considered less risky while the greater part of the population and SMMEs are left without any form of financial services. Banks in Cameroon, both domestic- and foreign owned have been found to offer loans only to a few high net worth individuals and corporate, with a narrow range of product offering. This state of affairs has leaved most Cameroonian without any contact with the financial world. Even though one can point fingers to banks for not offering credit to ordinary Cameroon despite having excess liquidity on their balance sheet, the high number of non-performing loans and difficulties in recovering loans through the courts are major difficulties face by banks in this country. Cameroon's financial system is not fully developed, and the absence of a vibrant credit market has been found to hinder more dynamic economic growth. Most analysts see growth opportunities in offering financial services to the 'unbanked' and tapping the potential of the vast informal sector, which comprises approximately 45% of the economy.

3. Research question

What are the constraints faces by SMEs to apply for bank loans?

4. Objective of the study

The objective of this study is to understand issues impeding SMEs to apply for bank loans. In the study, we focused on SMEs (non-borrowers) that have not applied for bank loans in order to understand factors constraining them to apply for bank loans.

5. Methodology

To achieve the objective of the study, we have utilized a qualitative research approach. SMEs owners operating in Cameroon were the target population. A sampling frame was constructed using the lists of SMEs published on line by the Ministry of Small and Medium-sized Enterprises,

Economy and Handicraft. Data were sourced from semi-structured interviews with randomly selected owners/managers of 25 SMEs from diverse business sector. Indeed, SMEs sampled for the study involve those which have not applied for any bank loans. Therefore, SMEs that applied for bank loans were excluded for the study. The entrepreneurs were

asked questions on issues related to their decisions to apply for bank loans. The interviews were recorded using a phone, transcribed and analysed. The data were analysed using both content analyses, and descriptive statistics analyses. The statistical package SPSS 2.0 aided in analysing the data.

6. Presentation and discussion of result

Table 1 summarized result from respondents on reason why they did not apply for bank loans:

Reasons	Frequency	Percentage
No need for bank loans	10	40
Don't understand lending conditions	18	72
High interest rate applied on loans	21	84
Cumbersome procedure relative to the application of bank loans	4	16
Don't know procedure	19	76
Don't know sources of finance available	5	20
Delay to grant loans prior to application	16	64
Partial grants of borrowed amount	12	48
Never got reply from bank	11	44
Lack of financial deposits	8	32
Lack of real assets (collateral)	22	88
Poor business plan	17	68
Religious belief (loans with interest rate)	3	12
Low level of activities	5	20
Risk averse	12	48

Source: SPSS

From the table above, we noticed that SMEs did not apply for bank debt: because they do not need bank loans (40%), do not understand lending conditions (72%), high interest rate applied on loans (84%), cumbersome procedure relatively to the application of bank loans (16%), unawareness about procedure concerning the application of bank loans (76%), unawareness about the existence of bank financing (20%), delay by the banking institutions to grant loans (64%), partial grant of the amount demanded (48%), never got any reply from bank (44%), lack of financial deposits (32%), lack of real assets (88%), poor business plan (68%), religious belief (12%), level of activities (20%), and risk averse (48%). Explicitly, the outcome of the result shows in majority SMEs do not seek for banks loans

because of high rate of interest applied on loans, absence of real assets to pledge as collateral, poor business plan, the delay orchestrated by commercial prior to the demand of loans, and the fact that SMEs do not understand lending conditions and procedure. Indeed, lending conditions is sought to influence mostly the decisions of SMEs to apply for bank loans. However, religious belief, cumbersome procedure (that is, a lot of exigency) when demanding for bank loans and ignorance about the existence of bank loans are sought to be less important concerning the decisions of SMEs not to apply for bank loans. From the result, the fact that commercial banks secure loans through the request for collateral (88%), apply high rate of interest on loans (84%); including, poor business plan (68%),

ignorance about the procedure to demand for bank loans (76%), and difficult to understand lending conditions(72%) hinder SMEs to apply for bank loans. Additionally, SMEs owners who are risk adverse (48%) and/or have low level of activities (20%) shy from applying for bank loans. sincerely, owners of SMEs consider lending conditions; notably, collateral and the rate of interest as the main constrains to their loan seeking decisions.

In a nutshell, some SMEs do not apply for bank loans simple because they do not need it (40%). It implies that they raise funds from other sources to satisfy their investment and working capital needs. Also, from the result, opening financial accounts at the premises of banking institutions constitutes an incentive for holders to demand for loans. In some situations, banks prefer to deal mainly with customers holding accounts with them. As a result, lack of financial deposits (32%) causes SMEs not to seek for bank debts. From this perspective, SMEs who are customers to financial institutions lodging their accounts are motivated to request for loans. On the contrary, SMEs lacking financial deposits (32%) shy away from bank loans. Moreover, SMEs' owners who are risk-adverse refuse to apply for bank loans (48%). Notwithstanding, bank loans subdue the borrower to specific financial obligations. Failure to honour these obligations might result to financial risk. As a result, owners may loss ownership and assets, and dissolution of business prior to any bankruptcy. Therefore, due to financial risk orchestrated by debt, risk-adverse owners of SMEs fear to apply for bank loans.

7. Conclusion

The objective of the study was to highlight issues susceptible to constraint SMEs to apply for bank loans. To achieve the objective of the study, we convoked a qualitative research approach characterised by semi-structure interviews with twenty (20) owners of SMEs. From the literature related to the financing of SMEs, we noticed that the outcome of a multitude of empirical findings highlighted the fact that commercial banks are reluctant to grant loans to SMEs, which explains the financing "gap" they experience. Meanwhile, we

firmly believe that SMEs do not access bank loans because they are unwilling to apply for loans; rather than, banks being reluctant to grant debts. Thus, there is likelihood that SMEs might encounter financing challenges because of the abstention to apply for bank loans. From the result, the decisions of SMEs to apply for bank loans is mostly impeded by lending conditions such as the demand for collateral and excessive rate of interest. Moreover, the unawareness of SMEs about lending procedure and conditions, the delay orchestrated by commercial banks to grant loans and the establishment of a reliable business plan hinder as well SMEs to demand for bank loans. Furthermore, the fact that commercial banks do not reply to borrowers about the situation of their applications, delay and partially grant loans constraint SMEs to apply for bank loans. Further, SMEs value the level of their activities, before deciding to seek for bank loans. Consequently, SMEs with low business activities and whose owners are risk adverse are unwilling to apply for bank loans.

We recommend that banks should lower their interest rates and also grant loans on the basis of business assets and income as collateral securities. In addition, entrepreneurs operating SMEs should be given some training in form of seminars through trade organisations on how to establish a business plan, and apply for bank loans. Additionally, commercial banks should treat applications file in reasonable time periods prior to the application, and inform applicants about the decisions of the loan committee. Besides, commercial banks should as well streamline the procedure related to the application of bank loans. Moreover, banks should adopt the relationship lending that has succeeded in other countries (see for example, Wamba and Niyonsaba, 2014). From this perspective, SME would provide adequate information to the banks, which would enhance trust between SME owners and banks eliminating the fear of high business risk.

The decision to take collateral or not is a function inter alia of the loan purpose where bankers match asset type to collateral type and relegate collateral to second place behind the viability of the business

and the business plan. It is natural that bankers would want to portray themselves in the best possible light and therefore understate the significance they attach to collateral and overstate their ability to correctly assess good project. The majority (22 out of 25) complained of lack of collateral as the main reasons for not applying for bank loans. As a result, savings and loan companies should accept other forms of collateral security apart from land collateral security, train operators of SMEs on proper business practices and SMEs should improve their business management skills as well as be transparent in providing business records and information in order to avoid information asymmetry. The study further recommends future researchers to utilise a broad data-base of SMEs in order to assess the result of the study to a wider range.

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