FINANCING OF SMALL AND MEDIUM-SIZE ENTERPRISES IN CAMEROON

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Abstract: The study was conducted to determine the problems Small and Medium Size Enterprises (SMES) face in obtaining credits which could be a constraint to their creation and growth. Available data from the banking sector shows that as much as 78.7% of all commercial bank loans go to SMEs and large companies. This includes 862% of all medium term, 18.9% of all long term and 3.6% of all short term loans. SMEs and large companies pay back their loans better than the other classes of borrowers. Today the average loan repayment by all groups of bank clientele stands at 52.5% which is below World Bank standards. Even the SME loan repayment rate of 62.9% is still low by World Bank standards.

From a survey conducted in the city of Douala in 1992 it was found that the problem of SME financing in Cameroon today is not so much that of inadequacy of funds. Rather it is poor management of resources, the absence of collateral, and the absence of legality, which prevents many SMEs from obtaining loans from formal financing institutions. There is a lot of liquidity in informal financing houses but their lending is limited to members. The government must assist in creating and promoting a reliable environment for informal banking institutions which will attract these funds from informal sources so as to make them available to a wider population of borrowers.

To further improve on the financing environment of SMEs in Cameroon we may want to switch ,from the so called hardware support approach to the software approach which facilitates access to money market information, research findings; which encourages linkages with large firms, within or out of the country; and finally, encourages the development of an entrepreneurial class.

BACKGROUND TO THE STUDY

Small and Medium-size Enterprises (SMEs) were introduced in developing countries (especially those of Africa south of the Sahara after independence) as part of an employment policy. The proponents of such a development policy argue that SMEs are low capital-intensive, do not require very high managerial skills but are training grounds for future managers (Staley *et al*,1966; Edgar and Richard 1965; Chuta and Allan, 1979; Neck, 1987 or Anderson, 1982). The development of a robust small business sector in an economy would contribute to national growth and the distribution of national income. In the past many economists pleaded for special intervention in favour of small enterprises because they do not have access to financial and technical services that are already available to large firms (World Bank, 1978; Hoselitz, 1968)).

Based on the above development strategy Cameroon set up institutions to cater for the financing needs of SUEs like the *Fonds de Garantie pour les Petites et Moyennes Entreprises (FOGAPE), Centre dassistance aux Petites et Moyennes Entreprises (CAPME), Banque Cameronnaise de Development* (BCD) and the *Societe'Nationale d'Investissement (SNI).*

The History of SME Financing in Cameroon

BCD was created in 1960 to provide credit facilities to SMEs at relatively low interest rates. The shareholders were the state and *Caisse Centrale de Cooperation Economique* (CCCE), now *called Caisse Francaise de Development* (CFD). Majority of the management personnel were bureaucrats from the public service whose poor managerial skills led to very dismal recovery rate of loans by the bank. As of 30th June, 1985 the total amount of unrecovered loans stood at 6.3 billion francs CFA (4 times the capital of the bank). It was liquidated in 1989 as part of the restructuring of the banking sector under the IMF structural adjustment plan (BEAC, 1989)[1].

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[1] BEAC is *Banque des Etats de l'Afrique Centrale*, that is the Bank for Central African States, including Cameroon, Chad, Central African Republic, Congo (Brazaville), Gabon and Equitorial Guinea.

CAPME was created in 1970 with mission to carry out feasibility and market studies for SMEs, assist them in the preparation of applications for investment code facilities, bank loans, and also help train their personnel. Though the funding for CAPME came from the German Technical Cooperation Organization (GTZ) and the state, it was the state that provided the management personnel. Just like the BCD, it was liquidated in 1990 as a result of the economic crisis and poor management.

FOGAPE was created in 1994 with the objective of providing collateral for SME loans by commercial banks. Later it was restructured and given the additional function of giving loans to SMES. By 1986, it held shares in 18 SMEs amounting to 27% of their combined share capital. By 1990, government started finding difficulties in providing funds to FOGAPE for its operations and it was liquidated in 1992 for the same reasons as the others.

The Societe Nationale d'Investissement (SNI) was created in 1963 to act as the state's main agent for equity participation in businesses in the private sector. By 1986 the SNI had invested over I billion francs CFA in SMES. It is currently being restructured and its shares in poorly performing companies and SMEs are being sold to the public. It follows from the above discussion that right now in Cameroon there is no state owned establishment charged with the financing of loans to SMEs.

Financing SME Loans in the Philippines

The Philippines is one of the developing countries of the world in which government assistance has caused the creation and growth of a large number of SMEs through loans by private financing institutions. It achieved all this without directly obliging the banks to give loans to SME operators. According to World Bank (1981), it did this through the setting up of two assistance programmemes: MASICAP and SBAC; and the creation of the Development Bank of the Philippines (DBP).

The Medium and Small Scale Industries Coordinated Action Plan (MASICAP) was created in 1974 to train entrepreneurs, study and analyze their projects and prepare their applications for loans by banks. It was believed that the programme would reduce transaction costs of loans to both the borrowing SUEs and the lending banks. Secondly, with increased successful projects financed, the financing institutions would be more willing to increase their lending to small businesses. It had the following features:

1). MASICAP ended its assistance to a SME once it had helped the SME to prepare its application form for loan. The SME then went ahead, independently, to request for loans from a bank.
2). The staffing policy of the programme included the hiring of senior students from universities since July 13, 1998.

The Small Businesses Advisory Centers (SBAC) programme started also in 1974. It consisted in setting up advisory services for SMEs in 12 regions of the country. The services were provided free of charge and covered most aspects and stages of small business activity. Its professional staff variously specialized in engineering, finance and business management.

In an appraisal survey conducted in 1977 by the Ministry of Industry, it was found out that of all the loan files prepared by the above two extension programmemes 50% were actually financed, 30% were withdrawn or rejected after screening by the banks, while the rest were still awaiting decision. The new SME projects had an annual closure rate of 9% and the total arrears on principal and interest outstanding at the time of the survey was 165%. Before the programmes the annual closure rates were 3% to 5% but there were only few SMEs selected under very restrictive conditions of availability of collaterals or good standing with a bank (Itao A., 1980).

The Development Bank of the Philippines (DBP) was created in 1958 as an autonomous government owned development bank with mandate to give long term loans to the lending sector of the economy. As of 30th June 1978, 64.8% of its lending went to industry. Of this 80% went to large industries, 16% to small and medium industries, while 6% went to home (or cottage) industries. Its funding came from savings and time deposits; from long term foreign borrowing from international institutions like the IBRD, and bond issues. Loans were made at local and branch levels on the basis of character, collateral and personal knowledge of the local enterprises. Such a procedure helped cut down on both administrative costs and risks.

France Experience of SME Lending

Lips (1967) reports that long term loans to SMEs in France are obtained from specialized organizations. Short term loans (loans of up to 1 year) and medium term loans (loans of over I year to 5 years) can be obtained directly from commercial banks.

Long term loans (loans of 5 to 20 years) can be obtained from organizations such as the CCCHCI *(Caisse Centrale de Credit Hoteliere Commercial et Industriel), the CrÁdit National* (which loans mostly to large firms and medium-sized businesses) and a good number of *SociÁtÁs de DÁvÁlopment RÁgional* (SDR). The SDR are found in most economic areas in France except the Paris area. There are some finance companies like the *SociÁtÁs de Promotion Economique* (SOPROMEC) which specialize in minority holdings in firms as a means of financing. For a credit house to grant a loan to a firm in France it must do the following:

1). The firm must submit to it a detailed programme of activities which must be precise (giving details of machinery to be purchased, building to be erected, etc).
2). It must give as exact estimates as possible and must convince the credit house that the plan of action is within the firm's possibilities.
3). The proposed plan will then be submitted to experts for examination. The experts may be industrial consultants, qualified members of the industry in which financing is to be made.
4). The firm must submit financial statements of the firm such as balance sheets, operating profits and loss accounts for at least three years.
5). It will also want to have the firm's business forecast in the light of the projected investment.

One can observe here in passing that the notion of risk in SME loans is not as serious in a developed country, like France, as is apparently the case in a developing country like Cameroon or the Philippines. Most firms which start off as small businesses can always aspire to obtain reorganizational financing that will eventually graduate them into large enterprises.

World Bank's Experience of Financing SMEs in Africa

The World Bank started creating credit lines specifically for SME loans in 1970 with the following objectives:

1. To strengthen financial and technical assistance to institutions that serve SMEs.
2. To create jobs at low capital costs.
3. To increase access to financial and technical services not currently available or only partially available.

Webster (1989) reports the average spread for SME loans before 1989 as 4.5%. This rate was judged to be low such that after 1989 the World Bank decided to allow the financial intermediaries (FI) to set interest rates at market levels or based on lending costs.

Technical Assistance Component (TA)

About 4% of the total SME loans between 1970 and 1991 went to technical assistance. The TA programmes were meant:

1. To enhance the capacities of the financial intermediaries to tend to small borrows.

2). To build institutional capacity of organizations that provide technical assistance to small firms.

Performance of SME loans in Africa

Webster et al (1996) measures performance in terms of average sub-loan size (this is a measure of the loan to reach small borrowers), number of jobs created per sub-loan and the average repayment rate. Africa had the lowest repayment rate of 62% as opposed to the Latin American countries which had 92% and Asia 81%. Africa had the highest sub-loan size of $143,366, while the average for all the regions involved was $36,643. The average number of jobs seated per sub-loan was 13 for Africa and 11 for all the regions put together. Finally, the average cost of a loan per job created was $9,738 for Africa, $3,971 for Asia and $6,684 for Latin American countries. Judged by all these measurements, African countries (including Cameroon) performed very poorly in World Bank SME loans for the period 1970 to 1991.

The foregoing discussion raises a lot of questions: How have SMEs in Cameroon been fairing after the collapse of all the government institutions meant to support them? What are the problems they face in obtaining loans to finance both their creation and growth? Are SME loans more risky than other classes of loans? Should there be special intervention in capital markets to support SME loans or would risk reflecting interest rates encourage bank lending to SMEs.

OBJECTIVES OF THE STUDY

The main objective of this study was to determine the extent of financing available to SMEs in Cameroon and the problems they face in obtaining credits. It has the following specific objectives:

a) To find out about the sources and adequacy of financing SMEs in Cameroon;
b) To determine the problems faced by SMEs in obtaining credits;
c) To determine the extent of commercial bank lending to SMEs in Cameroon.
d) To verify whether SME lending is more risky than other classes of loan in Cameroon.
e) To make recommendations based on the findings.

Definition of a Small and Medium-Size Enterprise (SME)

The 1990 Investment Code defines an SME for the purpose of the benefits under the Code as an enterprise which meets three criteria.[2] First, it must be capable of creating permanent jobs for Cameroonians at the rate of one, for an investment of up to 5 million francs. Secondly, the enterprise's investments must not exceed 1,500 million francs and thirdly, 35% of its equity must be in Cameroonian hands. From the first two conditions one concludes that a SME should be able to provide jobs to up to 300 persons.

The World Bank defines an SME as an enterprise having 10 to 200 workers. An enterprise having less than 10 workers is called a micro-enterprise (Webster *et al*, 1996: 3). For the purposes of this study we will use this definition so as to standardize and permit comparison with other countries.

MATERIAL AND METHODS

The data used for this study were collected in a sample survey, from interviews using the key informants method and from BEAC reports.

Sampling Plan

In 1992 we conducted a survey in the city of Douala to study the constraints to the creation and functioning of SMEs in that city. In the survey we used a stratified random sample of 101 SME operators out of 21,235 enumerated in an earlier census in Douala. In this paper an attempt will be made to analyse the results of

[2]Cameroon Investment Code, 1990, section 25.

this survey relating to the financing of SMEs. Though the study was limited to enterprises employing up to 20 workers, their problems of financing can equally be extended to enterprises employing up to 200 workers.

Key Informants Method

This is a procedure whereby a select group of individuals are interviewed based on their specialized knowledge of the subject matter (Krushna, 1993). Key informants interviews are essentially qualitative interviews and are carried out with interview guides that list topics and issues to be covered in a session. The interviewer frames the questions in the course of interview and probes the informant to elicit more information. The interviewer takes extensive notes that are developed later.

The key informants in this case were the Credit Managers in the 7 banks that feature in the BEAC reports. Three of these Banks (*Banque International du Cameroun pour l'Epargne et le CrÁdit* (BICEC), *SociÁtÁ GÁnÁral des Banques au Cameroun* (SGBC) and Cameroon Bank of Commerce (CBC) refused to cooperate. The four institutions that agreed to have the oral interviews were: Amity Bank Cameroon (ABC), Standard Chartered Bank Cameroon (SCBC), CCEIBK and *SCB-Credit Lyonnais Cameroun* (SCB-CLC).

INTERNAL SOURCES OF FINANCING SMES IN CAMEROON

In our 1992 sample survey described above, we asked each SME operator to identify one main source from which it obtained its financing.

- 24 sole proprietors responded out of 27 sampled giving a response rate of 88.9% for this stratum;
- 6 out of 7 Small and Medium -size Companies responded giving a response rate of 85.7% for this stratum;
- 44 out of 50 grocery stores and operators of general commerce responded giving a response rate of 88% for the stratum;
- 16 out of 17 bar operators responded giving a response rate of over 94% for the stratum.

The very high response rate of over 85% for each of the strata shows how important the respondents considered the question of financing. After examination the responses were classified into the following categories:

- Formal sources which include commercial banks, the *CrÁdit Foncier* (building loans fund for civil servants) and officially recognized credit unions *(Caisse Communes)*.
- Informal sources which include family savings, savings in small informal groupings like the *njangis and tontines.*
- Sources from owners. These include savings of a one person business or new shares from share holders of a company etc. The results are given in table 4.1 below.

Table 4. 1: *Sources of Financing for SMEs in Douala* (% calculated are based on valid responses)

Type of SME	*Formal Source*	*Informal Source*	*Owner(s) Source*
Sole Proprietors	7 (29.1%)	12 (50%)	5(20.9%)
Companies	4(66.7%)	00 (0%)	2(33.3%)
Grocery Stores & General Commerce	7(14%)	31(62%)	6(12%)
Bars	00(0%)	14(87.5%)	2(12.5%)

The table shows that 66.6% of the companies obtained their financing from formal source while bars never even use this source. 29. 1% of the sole proprietors and only 14% of general commerce obtained financing from formal sources. The reason for this disparity is obvious; while companies can more easily meet the lending criteria of the formal financial institutions, the others in their large majority cannot.

From table 4.1 grocery stores and general commerce obtained 62% , sole proprietors obtained 50% while bars obtained up to 87.5%

of their financing from informal sources. A major disadvantage here is that this source is highly limited in the amount of money one can borrow. It is usually the savings of group members who borrow only to members. Very often the interest rates are very high and differ from one *njangi or tontine* to another. Because membership vary from year to year or from one period to another in these informal groupings, only very short term loans can be obtained.

From the same table companies obtained 33.4%, grocery stores and general commerce obtained 24%, sole proprietors 20.8% and bars 12.5% of their financing from the owner(s) source. It will be understood here that the companies that reported this obtained financing from new shares from their share holders. With the current financial squeeze in Cameroon characterized by heavily slashed wages in the public sector and devaluation of the franc CFA in 1994, personal savings are non-existent for most persons hence the amount of money that investors can obtain from the personal source to finance operations will be very limited.

Adequacy of Financing From These Sources

Since a major aspect of borrowing is to be able to borrow the right amount one requires, we further asked the operators whether financing was adequately available from their favourite sources:

- 48.1% of sole proprietors said their financing was adequate, as against;
- 57.1% for limited companies;
- ab35.12% for food stores and general commerce; and
- 62.5% for bars, whose sources are practically informal.

Based on this information, it can be concluded that even the informal sources of financing provided readily available and adequate financing. Such a conclusion may or may not be misleading. For a small business the informal sector may have sufficient financing but if the business has to grow financing from the informal sector will definitely be inadequate. On the other hand, the informal sector in Cameroon is known to control a lot of liquidity following series of bank failures which caused a lot of untold hardship to customers. Secondly, the formal financial institutions have so much bureaucracy and usually impose a lot of conditions with a lot of hassling before a loan can be obtained. In the informal sector lending is based on trust and once the minimal conditions are attained the loan is usually given without much delay.

The 57.1 % adequacy in financing for the limited companies, whose main sources are the formal and owners, is clear indication that more resources in the formal sector are needed. With more than 35% adequacy of financing in all the strata considered one can conclude that availability and adequacy of financing was therefore not a serious constraint to the creation and Functioning of a SME.

Interest Rates as Constraints to the Growth of SMEs.

Another measure of the financial constraint was interest rates, Percentages of ratings from valid responses are summarized in Table 4.2 below.

Table 4.2: *Evaluation of Interest Rates as % of Responses*

Type of SME	*Too High*	*Moderate*	*No Response*
Sole Proprietor	63.0	22.2	14.8
Companies	1403	28.6	57.1
Grocery Stores & Gen Commerce	29.7	35.1	35.1
Bars	61.5	38.5	0.0

Table 4.2 shows that sole proprietors and bar owners considered interest rates as a constraint since 63% of them perceived it to be too high. 61.5% of bar owners consider interest rates to be very high. Since their source of financing is mainly informal (specifically tontines), this therefore confirms the fact that interest rates in informal financial institutions are too high.

On the other hand only 14.3% of the companies interviewed said interest rates in the formal financial institutions, which are their main source of financing, are high.

Modalities of Loan Repayment

The modalities of repaying loans can have an effect on entrepreneurs' willingness to take a loan. We tested this by asking the entrepreneurs whether they made their loan repayments monthly, as a lump sum, or based on some other arrangements. The results are summarized in Table 4.3 below.

Table 4.3: *Evaluation of Methods of Loan Repayments in %*

Type of SME	*Monthly*	*Lump Sum*	*Others*
Sole Proprietors	63.2	5.3	31.6
Companies	57.0	29.0	14.0
Grocery Stores & Gen Commerce	22.9	11.4	65.7
Bars	13.3	40.0	46.7

For the sole proprietors and private companies, the monthly repayment method was more common, whereas other arrangements were more popular with grocery stores and bars. We cannot conclude whether or not method of loan repayment constituted a constraint in financing SMEs

Other Views of Financial Constraints

From the preceding discussion one observes that the informal sources that provide much of the financing for SMEs have high interest rates. The entrepreneurs surveyed did not consider the availability and adequacy of financing, whether from formal or informal sources, as an important constraint.

These conclusions seem to confirm views which emerged at an Abidjan conferences.[3] First, that the focus in Africa has been on finance to the neglect of other, equally, if not more important factors.[4] Secondly, that credit should not be emphasized in isolation since it is only one aspect of the problem.[5] Thirdly, that some bad management problems show up as credit problems,[6] suggesting that the financial problems of SMEs have, in some cases, been over-stated. There is nothing objectionable in financial assistance as such, but care should be taken to ensure that it is market driven since subsidized credit is likely to introduce distortions in the sector.

A major problem that SMEs face in obtaining credit from the formal financing institutions is the availability of collateral. In a seminar organized by the Islamic Development Bank (IDB) to find out ways of encouraging the private sector borrowing from the bank, the problem of collateral was identified as the major problem that barred many SMEs from obtaining credits from banks. [7]

As the literature on SMEs shows, many countries have switched from purely "hardware" support, namely, support in the form of factors of production (some of which Cameroon has extensively used, such as capital and labour), to "software" support such as facilitating access to market information, research findings, encouragement of linkages with large-scale enterprises, development of entrepreneurship and so on. This system which has yielded high returns in some EEC and South East Asian countries, has a double advantage. First, "software" support is cheaper and secondly, what is needed to enhance their effectiveness is an enabling environment without which the provision of "hardware" support which is more expensive, would be ineffective. This is clearly borne out in the dismal performance of the state

[3] Conference on "Agents of Change in Policy Development and Implementation for Small EnteipÁs" held in Abidjan, C^te d'Ivoire from November 30 to December 2, 1993.

[4] Statement made by Mr. William F. Steel of the World Bank.

[5] Statement by Mr. Sagawawa of the African Development B^te d'Ivoire.

[6] Statement by Professor Donald Mead of Michigan State University

[7] Le Messager in an article: *Que peut faire la BID*, Le Messager no. 784 of Friday 3rd April, 1998.

corporations in Cameroon as discussed earlier. What Cameroon needs today is an enabling business environment for the development of a genuine private sector devoid of state intervention.

FINANCING OF SMES BY COMMERCIAL BANKS

The study was started by conducting key informants interviews with credit managers in 4 of the 7 major commercial banks in Cameroon as reported by BEAC (1998) which participates in the Cameroonian money market. The names of these banks are given above. The findings from these interviews' are summarized below

SME Loan Conditions

All customers of a bank start their loan process by completing a standard form. Then they must provide proof that they will be able to pay back by demonstrating their future sources of income and guarantees that they will actually pay the loan. The guarantee may be in the form of a guarantor, who has an account with the bank or collateral. In the past people presented land titles and houses as collateral but now the banks will prefer liquid security like a savings account. The banks claim that the legal system makes it very difficult to sell a landed property in case of a loan default. Very often now the bank will require that a person applying for loan takes a life insurance or simply an insurance for the business for which loan is applied.

Interest Rates

Since 1991 interest rates have ranged between 14% and 16%. BEAC gives the minimum interest rate and the banks then determine their working rates.

Bank Training and Support Services for SME Loans

There are not such services in the banks as has been seen in the case of the Philippines discussed above. Feasibility studies are carried out by the customer and the bank only sees the project at the level of financing. Customers may want to consult with specialized services to put together their projects, usually for a fee. Once a loan is approved for a project, the bank assigns a credit officer who follows up the progress of the operation. The credit officer is not a specialist but if the follow up requires the use of a consultant, the bank will higher one and the customer will have to pay for the services.

Bad Debts

In the analyses to follow bad debts are classified as follows:

a) Doubtful account ("compte douteuse") is a loan for which payment has not been made for 3 consecutive periods and above or if the account would have remained dormant for at least 6 months (for an overdraft account).
b) Contentious account ("compte contensieuse") is a situation when the bank takes the customer to court or *vise versa.*
c) Unpaid account ("compte impayee") is a clear case of bad debt where the customer can no longer pay. Most loans are insured but the insurance only pays in cases of death.

It was not possible to obtain financing data directly form the banks because most of them claimed they were confidential. They however submit periodic returns to the Central Bank (BEAC) and it is from this source that data were obtained for the analysis that follows.

Extent of Commercial Banks Financing of Loans to SMEs

Table 5.1 below gives the distribution of credits by the 7 banks in the money market as at 30th November, 1998. SMEs are not identified directly as a distribution class but they are grouped together with large companies in the category of private enterprises.

Table 5.1: *Distribution of Credits by Type of Clientele as at 30th November, 1998*

Types of Customers	*Loan by Different Types*			
	Long Term	*Medium Term*	*Short Term*	*Total*
Private Individuals	134	10,715	11,896	22,745 (11.4%)
Sole Proprietors	192	4,366	3,179	7,737 (3.9%)
Private Enterprises	85	95,219	61,006	156,310 (78,7%)
Others	39	157	11,702	11,898 (16%)
Total	450	110,457	87,783	198,690

Source: BEAC

Table 5.1 shows that as at 30th November, 1998 198 billion francs were distributed as credits by the 7 banks in Cameroon money market distributed as follows among the different classes of customers:

- 156 billions or 78.7% went to private enterprises, which include SMEs and large private companies;
- 23 billions or 11.4% went to private individuals;
- 8 billions or 3. 8% went to sole proprietors, while
- 12 billions or 6% went to the rest of the economy.

From the above analysis the SMEs and the large companies received the lion share of credits (78.7% of the total credits distributed). This suggests (as has been mentioned earlier) that the financing problems of SMEs may lie more at the level of satisfying conditions for obtaining bank loans rather than the availability of credits.

One can also look at the distribution of credits according to the 3 classes of loans. The above table shows that:

- 450 billions or 0.2% went for long term loans, that is loans of more than 5 years duration;
- 110 billions or 55.6% went for medium term loans, that is loans of 1 to 5 year duration,
- 88 billions or 44.2% wet for short term loans, that is loans of up to 1 year duration.

Of the 450 billions given out in long term loans:

- 134 billions or 29.8% went to private individuals,
- 192 billions or 42.7% went to sole proprietors, while only
- 85 billions or 18.9% went to private companies (SMEs and large private companies).

Most of the long term loans went instead to private individuals and one person businesses (sole proprietors) which might have been used essentially to finance consumption goods. To encourage productivity of the private sector more long term financing ought to go to SMEs and large companies which enjoy now only 18.9% of long term financing.

The largest volume of credits (I 10 billions or 55.6% of the total credits) went for medium term (from above I to 5 years) financing. Of this:

- 95 billions or 86.2% went to private enterprises (SMEs and large private companies);
- 11 billions or 9.7% went to private individuals;
- 4 billions or 4% went to sole proprietors; and
- 0. 1% went to the rest of the economy.

It therefore follows that the SMEs and large companies received the largest share of credits (78.7%) including 86.2% of all medium term, 18.9% of all long term and 3.6% of all short term loans.

SMEs Repayment of Bank Loans

All attempts to get data strictly for large companies or strictly for SMEs using the definition given earlier failed for the banks claimed such information was confidential to them. One will be forced then to analyse data for both SMEs and large companies put together under private enterprises as of 30th November, 1998. Table 5.2 gives the distribution of bad and doubtful debts according to the classes of clientele.

Table 5.2: *Distribution of Bad and Doubtful Debts and Current Loans by Type of Clientele*

Type of Clientele	Bad & Doubtful Debts	Total Loans at 30/11/98	Bad Debts as % Loans
Private Individuals	14,168	22,745	62.3
Sole Proprietors	17,662	7,737	228.3
Private Enterprises	58,078	156,310	37.1
Others	5,160	11,898	43.3
Total	95,018	498,690	47.8

Source: BEAC

From Table 5.2 therefore, the amount of doubtful and bad debts represents 47.8% of current loans by banks. This is a measure of how poorly bank customers are paying their debts. 100 - 47.5 = 52.5% will be a crude measure of repayment rate. This can be compared with the repayment rate of 62% for World Bank SME loans in Africa or 92% for similar loans in the Latin American Countries (Webster *et al*, 1996: 25).

By World Bank standards a loan repayment rate of 52.5% will be considered as low.[8] Comparing the different classes of clientele, one finds that bad and doubtful debts stood at:

- 228.3% of current credits for sole proprietors;
- 62.3% of current credits for private individuals;
- 43.3% of current credits to the rest of the economy; and
- 37.1% of current credits to private enterprises (including SMEs and large companies).

The class of sole proprietors present a very poor record of repaying loans. The class of private individuals equally demonstrates a poor sense of loan repayment with a ratio of bad debt to current loan of 62.3%. The private enterprises (including SMEs and large companies) pay back their loans at a rate better than the other categories. A bad debt to current loans ratio of 37.1% can be approximated to a loan repayment rate of 62.9% which is still low by world bank standards.

The state has a lot to blame on this issue of bad debts. By law the state requires that the commercial banks reserve 20% of their loan portfolio to SMEs[9] (which by Cameroon definitions include the sole proprietors, reclassified by definition in sub-section 2.2 under micro-enterprises). This provision has led scrupulous civil servants to give huge loans to their friends and relatives knowing very well that they were not going to pay back. This has been possible because the state was legally entitled to subscribe to 1/3 of the equity of every commercial bank[10] and also to appoint General Managers of Banks.[11] This has led to the failure of several banks, that, in turn, led to a restructuring of the sector that started in 1989 (Keutchen, 1997).

DISCUSSION AND CONCLUSION

Some countries have tried to support SMEs by providing support services which help train andprepare SME operators on how to prepare a loan file and also apply for a loan. The

[8] According to Webster *et al* (1996), a loan project will be rated as high performing (with a repayment rate of 90% and above), average performing (with a repayment rage of 70% to 90%) and low performing (with a repayment rate of below 70%).

[9] See "Rapport d'Activite du FOGAPE 1986/87".

[10] Law no. 90/019 of August 1990 on the operation of credit establishments.

[11] Law no. 90/1471 of November 1990.

Philippines Government even went as far as creating a Development Bank to provide long term credits to SMEs strictly on commercial basis. In some cases they provide advisory and follow up services. The Cameroon Government also created similar institutions but due to poor management in the past all these institutions have been liquidated.

The Government also caused the collapse of several commercial banks by introducing corrupt and inexperienced civil servants into their management. These bad managers in turn gave out huge loans to their friends and relatives which ended as bad debt. Today the average loan repayment by all groups of bank clientele stands at 52% which is below World Bank standards. Even the SME loan repayment rate of 62.9% is still low by World Bank standards.

The problem of SME financing in Cameroon today is not so much that of inadequacy of funds. Rather it is poor management of resources, the absence of collateral and the absence of legality, which prevents many SMEs from obtaining loans from formal financial institutions. There is a lot of liquidity in informal financial houses but their lending is limited to members. The government must assist in creating and promoting a reliable environment in formal banking institutions which will attract these finds from informal sources so as to make them available to a wider population of borrowers.

To further improve on the financing environment of SMEs in Cameroon we may want to switch from the so call hardware support approach to the software approach which facilitates access to money market information, research findings; which encourages linkages with large firms, within or out of the country; and finally, encourages the development of an entrepreneurial class.

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