Journal of Economics Library
www.kspjournals.org
Volume 9 March 2022 Issue 1

How do SMEs ensure a balanced financial structure despite bank credit rationing?

By Noé NDJECK [a†] & Anita NGOM [b]

Abstract. The aim of this article is to highlight ex-ante financial imbalance so as to propose means of funding the long and medium term needs of SMEs confronting excessive bank credit rationing in order to achieve a balanced financial structure. It is based on two surveys, the first one was carried out in 2011 on 70 Cameroonian SMEs; it enabled to highlight the frequency of occurrence of alternative funding methods for SMEs' long and medium term needs. The second one was conducted between 2013 and 2016 on 452 SMEs in Cameroon; we resorted to the above-mentioned frequencies of occurrence to spotlight the funding methods used by SMEs in a context of bank credit rationing. We then brought out the mechanisms by which SMEs achieve financial equilibrium. So our first investigation pointed to the following constantly used funding methods: equity, tontines (savings and loan associations), help from relatives, microfinance institutions, bank loans, leasing. As for the second study, there are tontines (savings and loan associations), microfinance institutions, inter-company credit, help from relatives, help from friends, contributions from associates, leasing institutions, associations, capital increase. The results thus obtained could constitute a hopeful prospect in line with the models by Modigliani and Miller, Myers and Majluf, and Quintart for those showing interest in the funding of SMEs in a context of excessive credit rationing.
Keywords. SME; Rationing; Structure.
JEL. E50; G21; G24; N10; O16.

1. Introduction

The funding of small and medium-sized enterprises remains topical in the developing countries located in sub-Saharan Africa. As a matter of fact, these SMEs undergo excessive rationing of bank credit (Ndjeck, 2016, 2017). This pushes them to look for local alternative funding methods, mainly short-term ones, to cover their long- and medium-term needs on the one hand, and their short-term needs on the other hand (Ndjeck, 2022). So short-term resources are used to finance long- and medium-term needs; thus calling into question their balanced financial structure.

Indeed, small businesses have a turnover of between 15 and 250 million FCFA and employ between 6 and 20 people. Medium-sized enterprises achieve a turnover of more than 250 million and less than or equal to 3 billion FCFA and employ between 21 and 100 people (NIS, 2015).

[a†] FSEGA, University of Douala, Cameroon.
☎. (237) 699 30 85 45 ✉. ndjeck@yahoo.com
[b] FSEGA, University of Douala, Cameroon.
☎. (237) 696 80 75 76 ✉. ngom_anita@yahoo.fr

There are several reasons why we want to ensure the survival and development of SMEs (Ndjeck, 2017). In Cameroon, 22.7% of companies are SMEs (NIS, 2015). The economic and social role of SMEs is great as they are the main job provider: 55% of jobs nationally and 68% of jobs in the private sector (Ndong-Ntah, 2002; Kasereka-Mbaweka, 2009). They contribute for nearly 57% of the private sector production and 53% of tax revenue at the national level (Taka, 2010). Not surprising that SMEs are considered by the Cameroonian public authorities as an instrument for the densification of the industrial fabric, a basic dynamic for growth and development (Um-Ngouem, 1996; Edding, 2002). They therefore attract particular attention evidenced by the creation of supervisory bodies and numerous actions in their favour (Yamb & Ndjeck, 2016, Ndjeck, 2017, Ndjeck, 2022).

These supervisory bodies and actions in favour of SMEs disappeared with the recent economic crisis. The rationing of bank credit to SMEs was hence reinforced, even exaggerated (Bekolo-Ebe, 1996, Joseph, 2000, Tchouassi & Ndjanyou, 2002, Ndong-Ntah, 2002).

The use of essentially short-term alternative funding methods (Bekolo-Ebe, 1993, Edding, 2002; Assiga, 2002; Wamba, 2003) has become unavoidable. But since Assiga SMEs particularly need long and medium-term resources to finance their investment cycle, the concern for a balanced financial structure becomes crucial. In an environment of bank credit rationing and absence of a financial market or inaccessibility to the existing financial market, the balanced financial structure is even more worrying.

The objective of this work is to highlight the financial imbalance of SMEs, so as to propose means of financing their long and medium-term needs with a view to achieving a balanced financial structure. A survey of 70 SMEs in miscellaneous business sectors carried out in 2011, enabled us to highlight how SMEs manage to ensure a balanced financial structure through the frequency tables. This will lead us to propose an appropriate financing structure. The rest of this article covers three points. Point 2 offers a review of the literature on the financial structure of firms, point 3 presents the statistical properties of the data and the methodology of the mechanisms used to achieve financial equilibrium, point 4 presents the results as well as their discussion and point 5 concludes the article.

2. The financial structure of firms: review of the literature

The balanced financial structure of firms is not actually a new concern in financial analysis. However, compliance with the rule of minimum financial equilibrium in the context of SMEs characterized by capital rationing and in particular bank credit seems to constitute an innovative area of research. Indeed, alongside the Pecking Order theory analyzed by Myers & Majluf (1984) describing the order of preference of the funding means: companies have a preference for internal funding compared to external financing. Besides, as concerns external financing, companies prefer debt to the issuance of new shares, financing by issuing hybrid securities such as bonds convertible into shares is seen as halfway between debt and the issuance of new shares. Three facets appear in the analysis of the financial structure (Quintart, 1997). The first is based on the breakdown between equity and debt. Thus, in 1958, Modigliani and Miler thought that the financial structure did not affect the value of the company. This can be understood insofar as an asset funded solely by either equity, or debt or by a combination of the two methods of funding does not change the asset, (Miller, 1958), the size of a Pizza did not depend on how it was cut (Miller, 1958). However, this analysis was based on the principle of asset additivity and a perfect financial market. They were based on a partial balanced model based on the notion of risk classes and the absence of taxation. In full, the taxation of results in their original analysis, Modigliani & Miller (1963) arrive at a financial structure with an impact on the value of the firm. The positive impact of the financial structure on the company value as a result of indebtedness which through financial charges, generates tax savings that are grafted onto the value of the non-leveraged company (Modigliani & Miller, 1963). In addition, debt is less expensive than equity. Thus, by going into debt, the cost of capital is reduced. However, by going into more debt, more than your financial capacity allows to, you run the risk of bankruptcy. A new approach to the impact of the financial structure on the value of the company appears at this level. Taking into account the costs of bankruptcy and the taxation of investments leads to revisiting the model of Modiliani & Miller (1963) in the taxation of results hypothesis. Indeed, Miller (1997) takes up the conclusions he reached with Modigliani in 1958 relating to the indifference of the financing structure on the value of the company. Miller (1997) argues that the effect of income tax on investors cancels out that of tax on results. Thus, the value of the economic asset is the same regardless of the financial structure. There is no optimal financial structure. The neutrality of the financial structure on the value of the company can constitute a limit when the costs of bankruptcy are taken into account. Bankruptcy and malfunction costs affect the value of the business. Thus, the value of a leveraged firm is greater than the non-leveraged firm. The company must then make a trade-off between the gains provided by tax savings on financial expenses and the losses caused by the costs of bankruptcy. It then becomes possible to determine an optimal structure (Ginglinger, 1997).

The second facet relates to the structure of ownership of the company, i.e. the composition of the shareholding, and consequently to the structure of the social capital. Social capital supposes a specific structure of management and control of the company (Ginglinger, 1997). In Cameroon, business promoters are allergic to the opening of capital and the economic fabric is dominated by family businesses (NIS, 2015).

The third facet concerns the duration of funds, i.e. the distribution between permanent resources and circulating resources. This third facet is characteristic of the necessary reconciliation between the duration of the resources and the lifespan of the assets acquired thanks to these resources (Vernimmen, 2010; Charreaux, 1991; Barreau & Delahaye, 2003, p.153). Cohen (1997) refers to it as the golden rule of financial equilibrium. It expresses an idea of financial security often summarized by the concept of working capital. If a company does not have a margin of financial safety, it must endeavour to avoid two often complementary pitfalls: firstly the "headlong rush", resulting from the acceptance of all the profitable projects of the company which can no longer self-finance its growth and then resorts abusively to short-term debt instead of providing structural financing or even recapitalizing itself; and secondly, under-investment resulting from voluntary capital rationing (linked for example to the refusal to open up the capital to external interests or to the desire to respect a given level of indebtedness), or a rationing of capital imposed by the market following a "headlong rush" which gives a perception of unacceptable risks for fund providers (Vernimmen, 2010, p.523). The fundamental financial adjustment that a company must ensure concerns the harmonization between the duration or the "maturity" or "term" of resources and that of jobs. It is then up to the financial analysis to assess whether the resources used are sufficiently stable, given the duration of the jobs to which they are assigned (Cohan, 1997).

This last facet constitutes the core of our work and urges us to reflect on the harmonization between the essentially short-term resources available to SMEs (Ndjeck, 2017) and the long- and medium-term needs to be covered by these short-term resources. This is why the following point justifies the methodology adopted on the basis of this literature as well as data collected in the field.

3. Statistical properties of data and methodology of the mechanisms used to achieve financial equilibrium

The methodology for estimating funding method decisions in the context of excessive bank credit rationing is closely linked to theoretical funding models but also and above all to the statistical properties of the survey data that we shall present beforehand.

3.1. Statistical properties of data on the mechanisms for achieving the balanced financial structure of SMEs

To highlight the funding of the long and medium-term needs of SMEs with a view to achieving a balanced financial structure, we carried out a survey of 70 SMEs relating to the coverage of the long-term and medium-term needs of SMEs. The sampling method used here is the multi-stage sample combined at the last stage with stratification to give all sectors of activity a better chance of being represented. The sample size here is obtained by the formula (Perrien *et al.*, 1983) $n=\frac{Z_{\alpha}^{2}P(1-P)}{E^{2}}$ where Z depends on the confidence threshold which is 95% in our case from the normal centered reduced law to the threshold of 5%, $Z_{\alpha} = 1.96$. E represents the accepted error which is 9.2% in our case, P is the observed proportion. After a pre-survey of 10 Cameroonian SMEs, only two of them fund their long-term and medium-term needs solely with stable resources, $n = \frac{(1{,}96)^2\ x\ 0{,}0{,}8}{(0{,}092)^2} = 73$.

Out of 73 SMEs surveyed, 70 agreed to contribute to our survey, representing a response rate of 95.89%. The characteristics of the sample are based on the SMEs questioned, their promoters or managers. The tables in the appendices summarize these characteristics (Tables 8 and 9 in the appendix). Indeed, it appears from these tables that sole proprietorships are the most numerous (60%) followed by limited liability companies (24.28%) and non-collective companies (15.72%). They are all owned by Cameroonians. They are spread across all business sectors. However, the provision of services holds the gold medal (47.14%) followed by trade (45.71%), industrial companies (5.71%) and extractive companies (1.42%). The capital held by these SMEs varies from FCFA 1.00 to more than FCFA 500,000: 30% have a capital greater than FCFA 500,000. Their turnover recorded over 5 years varies per year between CFAF 4,800,000 to FCFA 94,000,000. The sample is mostly made up of companies with 9 years of experience (68.6%). They are followed by SMEs with more than 10 years of existence (28.57%) and those of 5 years (2.85%).

In later studying the alternative funding of SMEs undergoing bank credit rationing, a simple random sampling was carried out. As we are unable to determine an approximate P value through a survey, i.e. the proportion of SMEs surveyed as part of a preliminary study, we set P at *0.5*. This value represents the worst case, i.e. the value that gives the largest possible standard deviation for the sampling distribution of P^{-}. In this case, the sample size required to ensure a margin of error E (in absolute value) not exceeding 4% with a confidence level of 95% will be approximately (Baillargeon, 1989, p.256-257):

$$n = \frac{Z_{\alpha/2}^2 P(1-P^{\cdot\cdot})}{E^2} = \frac{Z_{\alpha/2}^2 \mathrm{x}(0{,}5)(0{,}5)}{E^2} = \frac{(1{,}96)^2}{4(0{,}04)^2} \approx 600$$

In this formula, E refers to the margin of error; Z, the reduced centered normal distribution; P^{-}*is* the estimator of P in the preliminary study. 500 SMEs in the city of Douala in all business sectors were consulted and among them, 452 returned the correctly completed questionnaire, i.e. a return rate of around 90%.

The characteristics of the sample are based on the SMEs questioned, their promoters or main associates as well as their managers. The tables in the appendix summarize these different characteristics. Indeed, it appears from these tables that limited liability companies (Ltd) are the most numerous (56% of the population of SMEs having collaborated), followed by sole proprietorships (21.9%), public limited companies (19, 9%), general partnerships (1.8%) and other legal forms (0.4%). The dominant capital ownership structure of the SMEs studied is belonging to a single individual (42.9%), then family (31%), friends (18.6%), other forms of belonging (4%), and colleagues or former colleagues (2.7%). The dominant nationality of promoters is Cameroonian (90.5%) followed by Europeans (6.9%).

SMEs are distributed in all sectors of activity. However, the provision of services constitutes the dominant sector (44.2%). They are followed by commerce (28.8%), the manufacture of plastic packaging, the metallurgical industry and public work (8%), the food industry (6.6%), the timber sector (4.6%), microfinance institutions (4%), agriculture, fishing and livestock (1.8%), quarrying sector (0.90%), the industry clothing (0.90%).

64.6% of SMEs achieve a turnover excluding tax of between 15 and 100 million FCFA, 33.4% get a turnover of between 100 million and 1 billion FCFA. 69.3% of the SMEs surveyed most often make a profit. 11.6% have at least 19 years of experience, 25.6% at least 15 years, 51.20% at least 6 years and 81.40% at least 4 years. 92.3% of SMEs keep accounts. However, the mere fact of keeping a single account book is considered as keeping accounts.

The majority of SME promoters have higher education (77.9%). They have long experience (65.5% have more than 10 years of experience) and are mostly from West Cameroon (63.5%). 58% of these promoters are between 30 and 50 years old. They are followed by those over 50 (39.8%). The managers are also mostly university graduates (77.9%). They are also experienced (50.9% have more than 10 years' experience). They are also mostly from the West region (63.1%) and are members of *tontines* (65.3%) (as promoters) and associations (67.5%).

Finally, 55.1% of the SMEs surveyed believe that they are victims of qualitative rationing. 43 SMEs out of the 199 having benefited from bank funding were unable to obtain the amount of credit requested, i.e. approximately 9.5% of SMEs having participated in the study and 21.60% of SMEs having benefited from bank funding are subject to of quantitative rationing.

3.2. Methodology for determining the mechanisms used for the balanced financial structure

The surveys of 70 and 452 SMEs respectively led us to mobilize the frequencies of funding methods for long and medium-term needs (Tables 1 and 2) and the frequencies of funding methods for SMEs in credit rationing bank (Table 3).

4. Presentation and discussion of the results

4.1. Presentation of the results

The surveys carried out have enabled us to highlight the resources that are requested or renewed to ensure financial equilibrium.

With regard to long- and medium-term needs, they come from the increase in fixed assets and the reduction in permanent capital. This survey as concerns the increase in fixed assets that (Table 10 in appendix):

• 18.6% of SMEs acquire patents, licenses, concessions and similar rights;
• 22.9% acquire software;

• 5.7% buy businesses;
• 21.4% acquire the right to lease;
• 17.1% acquire land;
• 31.4% buy or carry out constructions, technical installations and fittings);
• 82.9% buy materials;
• 80% acquire furniture;
• 2.8% buy livestock: breeding and guarding draft animals;
• 27.1% make advanced payments on fixed assets orders;
• 57.1% make deposits and guarantees;
• 17.1% grant loans to staff;
• 38.6% immobilize notary fees;
• 81.4% immobilize taxes and duties;
• 27.1% spread prospecting, advertising and launch costs over several years;
• 17.1% spread capital modification and restructuring costs over several years;
• 1.42% charge research and development costs.

The most expressed need is the acquisition of equipment (82.9%). It is followed by the capitalization of taxes and duties (81.4%), the acquisition of furniture (80%), deposits and guarantees (57.1%), the capitalization of notary fees (38. 6%), buildings, technical installations and fittings (31.4%). The high frequency of these needs is accounted for by the fact that on the one hand, technical capital is essential despite its scarcity and the difficulties in acquiring it because of lack of adequate resources in developing countries south of the Sahara; on the other hand, SMEs do not have qualified staff to ensure their accounting and tax management. They thus find themselves with a high volume of taxes and duties resulting from fines and penalties. They are unaware of their tax obligations. The importance of deposits and guarantees comes from the fact that SMEs being a more risky category of business, they are required to have greater security when signing their contracts.

Research and development costs rank last in terms of long- and medium-term needs expressed by the increase in assets (1.42%). This weakness is justified by the scarcity of resources, especially long-term resources in SMEs. Moreover, their personnel do not often have the skills required to conduct research.

According to the survey of 70 SMEs relating to reductions in stable resources as long- and medium-term needs, we can note (Table 10 in the appendix):

- 38.6% of SMEs repay debts in more than one year;
- 5.7% redeem or reduce their capital;
- 11.4% distribute the reserves to the partners;
- 10% convert reserves into capital;
- 11.4% convert profits into capital.

Other than the repayment of debts at more than one year, the long- and medium-term need for the reduction in stable resources is less expressed. This is understandable given that the financial capacity of SMEs is fragile. Indeed, the social or personal capital of SMEs is weak. Their profitability is usually weak and unstable. They are victims of the exaggerated rationing of capital. Consequently, the reduction of capital, the distribution of reserves to partners, the conversion of profits and reserves into capital are dependent on it.

After having mentioned the long-term and medium-term needs of SMEs, we will highlight their financing resources at their creation and the renewal of these resources.

The results of the survey of 70 Cameroonian SMEs relating to the funding of long- and medium-term needs appear in Tables 1 and 2 below.

Table 1. *Methods of funding the long and medium-term needs of SMEs upon creation*

Resources	Equity	Bank credits		Tontines			Help from relatives
				2 years and more (L)	1year		
Frequencies		+1year	1 year		(L)	(C)	
Absolute frequencies	49	4	5	14	16	7	23
Relative frequencies	70%	5.71%	7.14%	20%	22.85%	10%	32.85%

Source: the author based on a survey; L = raising from tontines; C = tontine credits

This Table shows that when creating a business to finance their long- and medium-term needs, SMEs resort to equity (70%), bank loans for more than one year (5.71%), bank loans for up to one year (7.14%), tontines for up to two years (20%), tontines for up to one year (22.85%), tontine loans up to one year (10%) and to assistance from relatives (32.85%). Equity comes on top of the list, followed by help from relatives, raisings from tontines for up to one year.

Bank-financed SMEs are SMEs whose promoter has either a history with the bank or a personal relationship with the bank. The following table shows the constantly renewed short-term resources and the long- and medium-term funding of stable needs after creation, with a view to achieving financial equilibrium.

Table 2. *Constantly renewed short-term resources for funding the long-term needs of SMEs after creation with a view to achieving financial equilibrium.*

Resources	Equity(*)	Bank credits		Tontines			Help from relatives	Microfinance institutions		Leasing (*)
				2 years at most (L)	1 year			2 years at most	1 most	
Frequencies		+1year	1 year		(L)	(C)				
Absolute frequencies	62	4	5	20	24	8	29	3	4	2
Relative frequencies	88.57%	5.71%	7.14%	28.57%	34.28%	11.42%	41.42%	4.28%	5.71%	2.85%

Source: the author based on a survey; L = raising from tontines; C = tontine credits; (*) Long-term funding used with a view to achieving financial equilibrium.

After their creation, to meet their long- and medium-term needs, SMEs are funded by equity (88.57), by bank loans at more than one year (5.71%), by one-year bank loans at most (7.14%), by tontines for up to two years at most (28.57%), by tontines for up to one year at most (34.28%), by tontine credits for up to one year (11.42%), by help from relatives (41.42%), by loans for of up to two years, by microfinance institutions (4.28%), by loans for one year at most by the same institutions (5.71%) and by leasing (2.85%).

Equity occupies the first place as it was at creation. They are replaced by help from relatives, resources for up to one year from *tontines*, resources for up to two years from *tontines*. Leasing comes last.

SMEs funded by banks at creation are the same after creation. Thus the SMEs in our sample only benefit from bank funding through personal relationships.

The survey carried out on 452 SMEs presents below the short-term resources requested by SMEs under bank credit rationing.

Table 3. *Short-term resources requested by SMEs due to bank credit rationing*

Method of funding	Number of SMEs having chosen the method of funding				Total	Position
	Operating rationing	Medium-term rationing	Long-term rationing	Quantitative rationing		
Business-to-business credit *	65	28	2	10	105	5th
Tontines *	112	49	14	28	203	1st
Associations *	56	10	-	16	82	6th
Family help *	62	27	8	22	119	3rd
Help from friends *	60	28	4	21	113	4th
Microfinance institutions *	62	39	6	25	132	2nd
Associates' contributions *	31	21	2	-	54	7th
Increase in capital **	5	8	12	-	25	Joint 8th
Leasing companies **	-	21	4	-	25	Joint 8th
Venture capital companies **	-	4	-	-	4	11th
Disposals of fixed assets **	-	8	4	-	12	10th
Individuals (usurers)*	-	1	-	-	1	12th

Source: The author based on a survey; *Short-term funding methods; **Long- and medium-term funding methods

Not only do tontines and microfinance institutions occupy the first positions in the order of preference, they are also the most sought after. However, the results are not strictly identical within each type of bank credit rationing.

The rationing of operating bank credit leads more to informal, company-to-company and microfinance institution funding.

The rationing of medium-term bank credit leads more to informal, company-to-company funding and by microfinance institutions.

The rationing of long-term bank credit leads more to informal, company-to-company and microfinance institution funding.

Informal funding, company-to-company funding and by microfinance institutions are the most sought after in a situation of qualitative rationing of bank credit.

Informal, company-to-company and microfinance institution funding are the most sought after in a context of quantitative rationing.

For long- and medium-term funding, we would expect long- and medium-term sources of funding (capital increase, leasing, and venture capital) to be the most requested to ensure financial equilibrium.

From the foregoing, we can conclude that the stable jobs of SMEs (long-term and medium-term needs) are funded by short-term resources; thus infringing the balanced financial structure. However, this sprain is compensated by the constant renewal of these short-term resources.

4.2. Discussion of results

The field study revealed that the funding structure of SMEs constitutes an infringement of the rule of minimum financial equilibrium. We therefore want to propose the ways and means that can enable SMEs to ensure compliance with this rule so that they can ensure financial security.

The proposals made here are aimed at SMEs, banks and public authorities.

To SMEs

SMEs have an interest in seeking ways and means to obtain sufficient capital and external resources. To acquire equity, they must improve their profitability. Improving their profitability requires the use of competent human resources and not just family resources, through feasibility studies before their creation, through the choice of alternative funding methods. As for external resources, SMEs can resort to leasing institutions, venture capital companies, reduction of information asymmetry and risk, increase in capital. However, it is regrettable that firstly, leasing institutions increasingly carry out risk analysis themselves than banks (Dépallens & Jobard, 1990, p.737). In addition to assessing the risk relating to the future solvency of the tenant, the leasing company must determine the use it will make of the property if it has to recover it. This will encourage the leasing company to carry out operations relating mainly to standard equipment that can be easily sold on the market in order to avoid storage (Depallens & Jobard, 1990, p.737). Leasing can appear, if we consider only the rates applied, as an expensive method of funding investments. It is therefore obvious that a rapid analysis can encourage companies to prefer traditional funding techniques (Barreau & Jibard, 1983, p.300; Mayer, 1985, p.272). However, the essentially short-term alternative funding methods towards which SMEs rush are even more expensive than financing by leasing, because of the high interest rates sometimes likened to those of usurers. Some require the company to make a deposit which is only reimbursed at the end of the lease, generally 20% in the case of real estate leasing. Leasing fees are paid at the start of the period, unlike traditional loans (Charreaux, 1991, p.541). Secondly, although venture capital companies intervene simultaneously in the social capital, in the financial debts and in the management of the company (Bessis, 1997; Lachman, 1997), they are unsuitable in the Cameroonian environment because of the fact that the Cameroonian economic fabric is dominated by family and individual businesses that do not accept to open their capital (NIS, 2015). Moreover, this intervention in equity and in management is temporary; it varies from 5 to 7 years (Etoundi, 2003). Thirdly, the capital increase brings new life in terms of equity and strengthens its financial security as well as its debt capacity. However, the reluctance of Cameroonian companies to the opening of capital constitutes an obstacle to this funding method. Sometimes, the low profitability of some SMEs does not favour this funding method. The current contributions of associates are commendable if the partners have the funding means and consent to it. Reducing the asymmetry of information and risk that characterizes SMEs can lead to bank funding. Indeed, SMEs have an interest in providing honest and real-time accounting and financial information concerning them. They should refrain from keeping accounts according to destination (Wamba & Tchamanbe-Djine, 2002; Wamba, 2003). The information they provide must be relevant and exhaustive in order to produce a faithful image. However, the Cameroonian business world seems to be characterized by dishonesty, it takes time to clear consciences. Public authorities are challenged.

The quality of management as well as the group loans also contributes to the reduction of the risk.

To banks

Banks can also help reduce information asymmetry and risk.

Customer relations, cooperation agreements and the participation of banks in the capital of SMEs have a positive effect on the reduction of information asymmetry. Participation in the management of SMEs, selection, monitoring or control and covenants reduce the risk. Banks can participate in the management of SMEs through help in keeping accounting documents and their intervention in some decisions. They may also have the right to information on the assets of SMEs. Banks and SMEs must agree on how to manage the funds granted. SMEs must integrate and follow advice given by banks. SMEs must cultivate a transparent and trusting financial relationship with banks by avoiding distorting the information necessary to analyse risk. The banker must work to improve the behaviour of the SME so as to make the SME respect the provisions of the contract. Effective selection is an essential requirement for credit risk management (Ndjanyou, 2001). And to make an effective selection, lenders must collect reliable information on potential borrowers. Supervision by the creditor reinforces the importance of the customer relationship. The multiplication of controls reduces information asymmetry and, by extension, the risk of credit rationing (Cieply *et al.*, 2000). Controls must be reinforced and more frequent when the company's activity declines or when its financial situation deteriorates. But let's not lose sight of the fact that SMEs are reluctant, particularly in our environment, as concerns the transparency of their accounting information. Also it is not easy for them to accept cooperation and surveillance. Undoubtedly, cooperation and surveillance constitute means of getting an insight of SMEs in order to reduce the bank rationing they are victims of. On the one hand, banks favour loans with guarantees and, on the other, low-risk activities with high earnings expectations; that is, commercial transactions at the expense of investment (Assiga-Ateba, 2002). The guarantees required by banks are most often excessive compared to the bank credit requested. This situation sometimes stems from a poor assessment of the SME risk. Banks therefore have the duty to carry out a relevant financial analysis of SMEs. They must, beyond the modern tools of financial analysis borrowed from the West, resort to tools adapted to the context of SMEs which have difficulties in providing sufficient accounting and financial information. They can resort to proximity, for example, as tontines and microfinance institutions do. They should make use of all their interpersonal skills to identify and understand the SME client. One can also reproach levelled at banks is claiming all the time that SMEs constitute a section of high-risk customers insofar as they have a database on these customers. In addition, for the loans granted, they charge a guarantee fund. What is the purpose of the guarantee fund taken from the amount of credit granted by the bank?

The public authorities also have a share of the responsibility in the rationing of bank credit. For this, we also turn to them.

To the public authorities

The intervention of the public authorities revolves around the following points: the creation of support organizations for SMEs, the improvement of the macroeconomic environment and collaboration with the central bank.

The creation of an SME bank is not on the agenda. It should be restructured to meet the expectations of the economic fabric.

The creation of an SME bank would not be a panacea for the funding of this category of companies as some companies still have difficulties keeping accounts and providing reliable financial information. Maybe we could count on the close relationship with SMEs and their specific financial analysis. To facilitate the task for new organizations, SMEs will themselves have to bring together technical, managerial, accounting and financial skills. In everyone’s best interest, credits must not lose their destination to finance luxury goods, as it is sometimes the case in developing countries. Banking supervision and banking supervisory authorities can guarantee the proper destination of the credits granted.

Beyond the SME bank, we want the creation of an aid and guarantee body for SMEs, just like FOGAPE in the past. This body would grant aid directly to SMEs, would guarantee loans granted by banks to SMEs and would assist in their management if necessary. The funds for this body would come from the credit distribution tax and state budget allocations. The rate of this tax would be between 0.5% and 1%. The institution of a credit distribution tax may not be accompanied by an increase in the lending rate of banks as one can simply reduce the bank margin rate, a reduction that can be offset by the volume of credits granted (economy of scale). By reducing this margin, we believe that it will not be insignificant when we take into account the current gap between the lending rate and the deposit rate of the banks. And even, the worsening of the lending rate of banks would not be perceived as damaging to the economy as the microfinance resources to which SMEs have access are more expensive.

Governments may also consider the creation of bodies whose purpose is to reduce information asymmetry and risk. The creation of a guarantee fund and a risk management bureau are possible.

The guarantee fund could provide a direct response to the failures of SMEs. The body responsible for guaranteeing loans, helping and participating in the management of SMEs would come in the second position, i.e. when the guarantee fund levied by the bank and the guarantees given by the SMEs are not sufficient.

Without a body dedicated for this purpose it is regrettable that the banks levy funds from their customers as a guarantee when granting credits; and this does not cause the rationing of bank credit to decrease significantly. The risk management bureau should serve as a database for banks to measure the risk of SMEs besides the information they already hold. We can still regret that despite banks holding information on their customers and BEAC having a department which plays the role of a risk management bureau (Taka, 2010) the SMEs problem of asymmetry of information and risk still remains. Let's hope that the new start will be successful.

The public authorities with the help of neighbouring countries can also create an SME observatory with a regional competence, specifically in the CEMAC zone.

The macroeconomic environment has an undeniable influence in business management. It is important to keep it healthy. Cameroon has a great asset, political stability. Political stability implies economic stability. However, the public authorities still need to make additional efforts to fight against corruption and organized crime. Cameroonians' standards of living in general and those of state agents in particular are still low. There are strong social discrepancies in Cameroon (Tchekoumi, 2006). The heaviness and slowness of the legal system often make it difficult to resolve disputes in a timely manner. The enforcement of guarantees in the event of SME defaults is thus lagging behind and making banks reluctant to grant SME loans. The alert procedures for companies in difficulty and the application of the reform of insolvency proceedings should be quickly accelerated. The dishonesty of some customers leads banks to have guarantees that are not reliable and therefore fail to cover the credit granted. In short, the gap between the credit granted and the guarantee given is often very significant. The justice system should look into this.

In its credit granting policy BEAC, with the assistance of the public authorities, should set the credit quotas to be granted to SMEs and ensure that these credits have arrived at the right destination. BEAC is used to setting these quotas, but it seems to us that the destination of these credits is not very rigorously monitored. Rediscounting loans in favour of SMEs and refinancing medium-term loans should be one of the priorities of BAAC, if it wants to support this category of businesses.

The public authorities and the Central Bank must come together for a credit policy favourable to SMEs, without deteriorating the business environment and the general balance. The public authorities can, for example, guarantee the central bank concerning rediscounting loans in favour of SMEs and refinancing medium-term loans to SMEs.

5. Conclusion

The financial structure of businesses in general and those of SMEs in Sub-Saharan Africa remains a concern. The financial structure of SMEs in this part of the world does not comply with financial orthodoxy, and more precisely with the golden rule of minimum financial equilibrium. Indeed, two studies, one of 70 Cameroonian SMEs and the other of 452 SMEs, showed that SMEs use short-term resources to fund their long- and medium-term needs. The first study revealed that SMEs essentially fund their long- and medium-term needs through tontines, help from relatives, microfinance institutions and bank loans for up to one year. The second study in turn showed that when SMEs are victims of qualitative bank credit rationing, they resort to tontines, company-to-company credit, help from relatives, microfinance institutions, current contributions of associates, associations. And when it comes to quantitative rationing, they rely on tontines, microfinance institutions, help from relatives, associations and company-to-company loans. The results thus obtained constitute a worthy addition to the financial theory which can overshadow the rule of minimum financial equilibrium. Empirically, other companies can learn from the experience of SMEs to overcome their problem of financing stable jobs. However, with regard to short-term resources, these must be constantly renewed to meet the long-term needs expressed. Similarly, new pathways offered can benefit both SMEs and other categories of businesses. This work is far from being a masterpiece because it could be methodologically completed by an interview to enable the researcher to immerse himself in the intricacies of the funding mechanisms of SMEs confronting the rationing of capital. However, this work seems to meet the objective it set for itself. But, to go further, we have assigned ourselves the task to resort to the interview technique with SMEs in the coming days so as to have more information about them and consequently be more useful.

Appendices

Table 8. *Breakdown of companies questioned and having responded according to the nature of the activities*

		Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid	Services	9	12.9	12.9	12.9
	General trade	11	15.7	15.7	28.6
	Pharmacies	4	5.7	5.7	34.3
	Cyber cafes	2	2.9	2.9	37.1
	General trade	2	2.9	2.9	40.0
	Food and restaurants	2	2.9	2.9	42.9
	Fishmongers, butchers and shellfish sales	11	15.7	15.7	58.6
	Sales of petroleum products	2	2.9	2.9	61.4
	Beauty salons	2	2.9	2.9	64.3
	Seams & Tailors	2	2.9	2.9	67.1
	Clothing	2	2.9	2.9	70.0
	Telephones	2	2.9	2.9	72.9
	Photographers	1	1.4	1.4	74.3
	Extractive companies	1	1.4	1.4	75.7
	Study Offices	4	5.7	5.7	81.4
	Transports	6	8.6	8.6	90.0
	Bookshops	2	2.9	2.9	92.9
	Machine rentals	1	1.4	1.4	94.3
	Industrial companies	4	5.7	5.7	100.0
	Total	70	100.0	100.0	

Table 9. *Nature of the activity, legal status and methods of funding*

Activities	Legal status	Bank credits		Tontines			Help from relatives, friends and donations	Microfinance institutions		Leasing
		+1 year	1 year	+ 1 year (L)	1 year (L)	1 year (C)		+ 1 year	1 year	
Valid for										
industrial companies, industrial maintenance and rental machinery	Ltd	3	1	2	2	0	3	0	0	0
Services	Ltd	0	2	3	4	1	10	0	1	0
General trade	SNC	0	0	2	1	1	1	0	0	0
Transport	Individual	0	0	1	2	1	0	0	0	2
Pharmacies	-//-	0	0	1	3	0	3	1	1	0
Fishmongers, butchers and fresh food	-//-	0	0	3	5	2	4	1	1	0
Supermarkets	-//-	1	1	0	1	0	0	0	0	0
Others	-//-	0	1	8	6	3	8	1	1	0
Total		4	5	20	24	8	29	3	4	2

Source: the author based on survey; L = raisings from tontines; C = tontine credits

Table 10. *Long- and medium-term needs of SMEs (long-term and medium-term needs)*

	Frequencies	
Long-term and medium-term needs	Absolute	Relative (en %)
Acquisitions, patents, licenses, concessions and similar rights	13	18.6
Software acquisition	16	22.9
Goodwill acquisitions	15	21.4
Acquisitions of lease rights	15	21.4
Land acquisitions	12	17.1
Acquisitions / building constructions	22	31.4
Material acquisitions	58	82.9
Furniture acquisitions	56	80
Livestock acquisitions: draft animals, breeding animals, guard animals	2	2.8
Advances and down payments on fixed asset orders	19	27.1
Deposits and bonds with electricity, water and telecommunications companies	40	57.1
Loans for more than one year	12	17.1
Fixed assets of notary fees	27	38.6
Fixed assets of taxes and duties	57	81.4
Capitalization of prospecting, advertising and launch costs	19	27.1
Capitalization of capital modification and restructuring costs	12	17.1
Capitalization of research and development costs	1	14
Capital repayment or reduction	4	5.7
Distribution of Reserves	8	11.4
Repayment of debts over one year	27	38.6
Conversion of reserves into capital 0	7	10
Conversion of profits into capital	8	11.4

Source: The author based on survey

References

Assiga-Ateba, E.M. (2002), *Système d'intermédiation dualiste: comportement des agents, marchés du crédit et asymétries d'information*, presses universitaires de Yaoundé, sous la direction de Bekolo- Ebe. [Retrieved from].

Barreau, J. & Delahaye, J. (2003). *Gestion Financière*, 12e édition, Dunod, Paris.

Bekolo-Egbe, B. (1996). *Contrats, Agence et Tontines: une application de la théorie des contrats à l'Analyse des tontines camerounaises, Mondes en développement*. [Retrieved from].

Bekolo-Ebe, B. (1993). *Les tontines: Lieu d'Anticipations Financières et de réputation du pouvoir économique*, in l'esprit d'Entreprise, Aupelf-Uref. [Retrieved from].

Bessis, J. (1997). Risque de contrepartie des banques, *in Simon Y., Encyclopédie des marchés financiers,* Tome 2, 2e édition, art. 82, Economica, Paris.

Beyina-Onguene, E. (2008). *Financement et rentabilité des PME innovantes camerounaises*, thèse de doctorat ès sciences de gestion, Université Louis Pasteur, Strasbourg I, Finance.

Charreaux, G. (1991). *Gestion Financière*, 3e édition, Litec, Paris.

Cieply, S. & Grondin, M. (2000). L'octroi de crédit par les banques en situation d'asymétrie d'information: les résultats d'une enquête auprès d'un échantillon de chargés de clientèle PME, Association Internationale de Recherche en PME, CIFPME 2000, 5ème congrès international francophone sur la PME 25, 26 et 27 Octobre, Lille.

Cohen, E. (1997). *Analyse Financière*, in Simon, Y., & P. Joffre, Encyclopédie de Gestion, Tome 1, 2e édition, art.5, Economica, Paris.

Depallens, G., & Jobard J.P. (1990). *Gestion financière de l'entreprise*, 10e édition, Sirey, Paris.

Edding, C. (2002). *La problématique de financement de la P.M.E. au Cameroun: une étude empirique*, presses universitaires de Yaoundé, sous la direction de Bekolo- Ebe.

Ginglinger, E. (1997). *Marchés des capitaux et financement de l'entreprise*, Encyclopédie des marchés financiers, Tome 1, 2e édition, article 44, Economica, Paris.

Institut National de la Statistique, (2015). Recensement Général des Entreprises, loi modifiant et complétant certaines dispositions de la loi No.2010/001. [Retrieved from].

Joseph, A. (1998). *Le rôle des banques dans le financement de l'économie camerounaises*, GDR Monnaie et Financement, Nice.

Joseph, A. (2000). *Le rationnement du crédit dans les pays en développement: le cas du Cameroun et de Madagascar*, l'harmattan, Paris.

Kasereka, M. (2009). Financement non bancaire des investissements des PME: une étude empirique sur des données camerounaises et congolaises (RDC) du secteur industriel, Revue Camerounaise du Management, 18, 55-72..

Lachman, J. (1997). *Capital-risque*, in Simon Y. & Joffre P., *Encyclopédie de Gestion*, Tome 1, 2e édition, art.17, Economica, Paris.

Meyer, J. (1985). *Economie d'entreprise*, Dunod, Paris.

Miller, M. (1977). Debt and taxes, *Journal of Finance*, 32(2), 261-275. doi. 10.1111/j.1540-6261.1977.tb03267.x

Modigliani, F., & Miller M.H. (1958). The cost of capital, corporation finance and the theory of investment, *American Economic Review*, 48(3), 261-297.

Modigliani, F., & Miller M.H. (1963). *Corporate income taxes and the cost of capital: a corrections*, *American Economic Review*, 53(3), 433-443.

Myers, S., & Majluf, N.S. (1984). Corporate financing and investment decicisions when firms have information that investors do not have, *Journal of Finance*. 13(2), 187-221. doi. 10.1016/0304-405X(84)90023-0

Ndjeck, N. (2016). Rationnement du crédit bancaire et mécanisme de financement alternatif des PME, thèse de Doctorat/PH.D, université de Douala.

Ndjeck, N. (2017). Le classement des modes de financement alternatif des PME en situation de rationnement de crédit bancaire, REGA, No.13, juillet-décembre.

Ndjeck, N. (2022). *Alternative Sources of Funding for SMEs in Cameroon: a Theorical Evaluation*, KSP Books, Istanbul.

Ndjeck, N., & Yamb, B. (2019). Banking credit rationing and alternative financing methods for SMEs, in *Cameroon, in Socio-Economic Issues in Cameroon*, (pp.1-28), KSP books, Istanbul.

Ndong-Ntah, M.H. (2002). *Financement bancaire des PME camerounaises: crise et redynamisation par les mécanismes de garantie*, Presses universitaires de Yaoundé, sous la direction de Bekolo- Ebe. [Retrieved from].

Ondo-Ossa, A.(2002). *Intermédiation financière et marché concurrentiel en Afrique centrale*, Presses universitaires de Yaoundé, sous la direction de Bekolo- Ebe.

Perrien, J., Chéron, E.J., & Ziris, M. (1983). Recherche en marketing: méthodes et décisions, Gaétan Morin, Québec, Canada.

Quintart, A. (1997). *Planification financière*, in Simon Y. & Joffre P., *Encyclopédie de Gestion*, Tome 2, 2e édition, art.120.

Taka, A. (2010). *Pourquoi les banques sont-elles réticentes à financer les PME camerounaises?*, Revue camerounaise de Management.

Tchekoumi, L.B. (2006). Répartition des Revenus et Equité au Cameroun, thèse en vue de l'obtention du doctorat/Ph. D. ès sciences Economiques, université de Douala.

Tchouassi, G., & Ndjanyou, L. (2002). *Affaiblissement du rôle d'intermédiation financière dans les économies des pays d'Afrique au Sud du Sahara: un essai d'explication*, presses universitaires de yaoundé, sous la direction de Bekolo- Ebe.

Touna, M. (2008). *L'économie camerounaise: pour un nouveau départ*, Afrédit, France, presses de Langres-Saints Geosmes.

Um-Ngouem, M.T. (1996). Financement bancaire et gestion des PME camerounaises, thèse de doctorat, université de Bordeaux IV, France.

Um-Ngouem, M.T. (1997). *La spécificité de l'investissement dans les PME camerounaises*, Notes de recherches de l'aupelf-Uref, No.97-61. doi. 10.7202/1008492ar

Vernimmen, P. (2010). *Finances d'entreprises*, 8e édition, par Quirij, P. & le Fury, D. Paris.

Wamba, H. (2003). *Analyse diachronique du système de gestion des micro-entreprises informelles en milieu urbain africain: le cas du Cameroun*, Revue Gestion.

Wamba, H., & Tchamanbé-Djiné, L. (2002). *Information financière et politique d'offre de crédit bancaire aux PME: cas du Cameroun*, Revue internationale P.M.E.

Yamb, B., & Ndjeck, N. (2016). The determinants of the choice of alternative financing methods of SMEs in Bank credit Rationing: Evidence from Cameroon, *International Journal of Financing Research*, 7(5), 165-175. doi. 10.5430/ijfr.v7n5p165