Financing of Small and Medium-Sized Enterprises: A Supply-Side Approach Based on the Lending Decisions of Commercial Banks

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Abstract

The objective of this paper is to determine the primary issue causing commercial banks to lend to SMEs. Indeed, this paper focuses on the supply side approach to bridge the research gap in understanding the financing lacuna, which has often been overlooked due to the tendency to analyse financing gap from the demand side only. The paper discusses the nature of the decision-making process from interviews with bank loan officers utilising verbal protocol analysis to give insights into the decision making of bank loan officers in the processing of bank funding proposals. To achieve the objective of the study, we used a qualitative research approach characterised by the collection of information through semi-structured interviews with loan officers responsible for small and medium-sized enterprises of four (4) commercial banks in Cameroon. The information resulting from the transcription of interviews was analysed using content analysis. The result derived from the analysis revealed that confidence is the paramount issue urging commercial banks to grant loans to SMEs. Indeed, from existing embedded relationship overtime, commercial banks obtain valuable information about the behaviours of SMEs. Based on this information a certain degree of confidence and trust emerges causing banks to supply loans to SMEs. From the aforementioned analysis, we formulate: "**The theory of confidence lending decisions of commercial banks**."

Keywords: bank loans, commercial banks, confidence, lending decision, SMEs

1 - **Introduction**

Small and medium scale enterprises (SMEs) are universally acknowledged as effective instruments for employment generation and economic growth [3]. In Africa, where the private sector is not well developed, SMEs could play a critical role in stimulating development and alleviating poverty [17]. However, SMEs have very limited access to deposit and credit facilities provided by formal financial institutions [59, 28]. The vast majority of firms around the world fall into the category of micro, small- or medium-sized enterprises [8]. While SMEs thus constitute an important component of the private sector in the developing world, they report significantly higher obstacles to their operation and growth than large enterprises [30]. Among these obstacles, the lack of access to appropriate financial services, especially lending services, looms large [45]. The bank survey showed that the top reasons for turning down financial requests were the firms' poor credit history, insufficient collateral, and insufficient sales, income or cash flow, unstable business type, and poor business plan [56].

The role of commercial bank credit is very important in the development of entrepreneurship and Small and Medium Scale Enterprises [43]. Basically, loans from commercial banks are the most significant source of debt for SMEs throughout the world [35]. For instance, [36] showed that commercial banks' credit to SMEs have significant effect on economic growth by positively affecting gross domestic product. This also implies that SMEs financing is a great catalyst and a driving force for economic growth. According to [10], small businesses using bank services to support their exports have a higher probability of being better placed in both the intensive and the extensive margin.

Financing has always been a perennial problem among SMEs. Many studies have been done to analyse the problems of SME financing. The most common approach is to analyse SME financing problems from the demand-side [33, 39, 49]. Small and medium size enterprises lie on the demand side while commercial banks lie on the supply side. This paper attempts to fill the research gap on SME financing by discussing the supply-side focusing on the practices of the supplier of credit, the environment that influences the supply of funds to SMEs. A key issue of interest in the recent literature on financial intermediation has been the role of relationship lending. Specifically, the result of some empirical findings revealed that the ability of SMEs to access bank loans depends on cordial relationship with suppliers [41]. Relationship lending is particularly common in the case of small business lending because small businesses typically rely on bank loans for a substantial part of their financing needs but tend to be informationally opaque [52]. Banks may acquire private information over the course of a relationship and use this information to refine the contract terms offered to the borrower [13]. The results of recent empirical findings proved that relationship with banks is the bed rock of the lending decisions of Commercial banks [22, 46, 47, 11]. [54, 55] called attention to distinction between impersonal lending and relationship lending. According to these authors, the former identifies situations in which banks rely on the borrowers' balance sheets in order to assess creditworthiness. The latter applies when banks engage in acquiring additional information by interacting with their customers. Much emphasis is placed upon the benefits to both parties of a 'good' relationship between banks and their small business customer [19]. For example, [48] find that building close inter-firm and bank/firm relationships enables SMEs to get preferential access to credit over their competitors and employ more debt, especially short term debt, in their capital structure. According to [66] firms are able to gain better access to bank financing at a more competitive price when their transactions with financiers are embedded in social relationships.

Information asymmetry is sought for many decades to be the main hindrance for SMEs to access bank loans [14]. According to financial intermediation literature, banks produce private information about borrower quality [25, 26, 57, 20]. Additionally, the literature contends that being in a relationship, banks source valuable information from SMEs [54, 55]. For instance, [65] suggest that loan officers play a critical role in relationship lending by producing soft information about SMEs. In the same vein, [13] advocate that banks accumulate increasing amounts of this private information over the duration of the bank-borrower relationship and use this information to refine their loan contract terms. However, the literature did not mention the nature and type of information banks source from the relationship with SMEs. Indeed, relationship alone might not be exclusively the main issue urging banks to service loans to SMEs. Apparently, the literature seems to ignore an important aspect that might nurse from a relationship between banks and SMEs, which might produce an incentive for banks to lend to SMEs. According to [53], it is important to assess the credit management practices of banks. This study attempts to bridge the gap in the literature by highlighting the type of information banks source from SMEs being in a relationship susceptible to influence their lending decisions.

2 - Literature review

The financing of small and medium enterprises (SMEs) has been a topic of great interest among both policy-makers and researchers because of the growing importance of SMEs in the economic development around the world [1]. It is revealed that access to finance by SMEs is still a major challenge impeding the realisation of the full potential of SMEs as engines of poverty alleviation, employment creation and economic growth at large [44]. SMEs' reliance on bank finance to maintain financial and operational sustainability is also globally accepted [22]. Bank lending is the most common source of external finance for many SMEs and entrepreneurs, which are often heavily reliant on traditional debt to fulfil their start-up, cash flow and investment needs. According to [7] firms with bank financing grow faster than similar firms without bank financing. While it is commonly used by small businesses, however, traditional bank finance poses challenges to SMEs, in particular to newer, innovative and fast growing companies, with a higher risk-return profile. It implies that a negative trend in the provision with bank credit may thus adversely affect growth and employment [60].

2.1 - Overview of commercial banks

Lending is one of the central activities of banks [53] from which commercial banks earn their profit [6]. Commercial bank lending is an important source of finance to many businesses especially the SMEs, which are more reliant on traditional debt to fulfil their business financial needs .However, lending to SMEs by commercial banks poses the most serious credit risks. Credit risk constitutes the likelihood that the SME would default on interest and/or principal payment [50]. Credit risk is a major concern to all financial institutions that are involved in lending to SMEs because the risk of default by SME clients can jeopardize the performance and survival of the lending institution. According to [6], bad loans seriously affect the performance of bank.

Commercial banks play a significant role in economic resource allocation of many countries around the globe. They channel funds from depositors to investors as well as generating the necessary income to cover their operational costs. Commercial banks' lending significantly plays crucial roles in catalysing industrialization in the economy, by facilitating the mobilisation and transfer of funds for economic production. Therefore, well-functioning commercial banks spur technological innovations by identifying and funding entrepreneurs, thus creating chances of successfully implementing innovative products and production process. One of the objectives of commercial bank lending is to improve private sector business activity, to enhance their contribution to economic growth. However, commercial banks have basic lending principles that act as a check on their lending activities [31].

In most of the developing economies, commercial banks are often unable or reluctant to grant loans to small and medium enterprises. Instead, they prefer lending to well establish businesses that have well maintained financial statements and credit histories. According to [2], formal financing to SMEs is mostly obstructed by the collateral requirement in conventional banking. According to these authors, this can be attributed to the SMEs size and age, lack of business strategy, collateral, financial information, bank requirements as well as the owners or manager's educational background and business experience. SMEs also suffer financing shortage due to information asymmetry, and their inaccessibility to debt finance forces them to use informal financing or internal capital, which may be insufficient for expansion. Bank credit is one of the major ways of addressing the challenge of inadequate funding that exists in the SME sector; however, SMEs have limited access to bank credit. Credit rationing depends on firm and entrepreneur characteristics, relationship characteristics and loan characteristics and supply conditions [42]. However, the conditions of accessing credits and their prices exert a decisive influence on the profitability and business opportunities of SMEs [64].

From the traditional view, that asymmetric or incomplete information restricts access to external funds [14]. Broadly, it is has been reported that access to credits by SMEs is hindered by the characteristics of the firm, owner/manager features, banking conditions and country-specific features [38]. In the literature a wide range of factors is sought to influence the accessibility of bank loans by SMEs. Empirically, access to finance is sought to be influenced by information asymmetry [54], banking consolidation [28], economic and financial crises [24, 51], ownership structure of business [18, 69], bank internal policy such as the demand for collateral and high interest rate charged [38, 29], liquidity ratio of banks and credit risk [40], characteristics of both the firm [1], reputation of the firm [7], functional distance between bank headquarters and branches [63], quality of financial statement [21, 5], social networks and embedded relationship between a firm and its bank [34, 32, 58, 4, 41, 15, 46], economic performance or profitability of firms [37, 62], savings habits of individuals [42], Access to information [67], age, gender, educational and experience of the entrepreneurs [30], bankruptcy codes [61, 68], banking system [12], economics conditions [64], and financial and legal system [23]. Indeed, the results of previous empirical findings showed that a multitude of factors explain the possibility of SMEs accessing bank loans. None of these studies highlighted the specific features of commercial banks influencing their decisions to grant loans to SMEs.

3-Research question

What determine(s) the decisions of commercial banks to grant loans to SMEs?

4-Methodology

We adopted a qualitative research methodology characterised by semi-structured interviews with loan officers of commercial banks in the city of Douala-Cameroon. The interviews were done at the convenience time of the loan officers prior to a rendez-vous. Indeed, we interviewed loan officers responsible for SMEs of four (4) commercial banks operating in the city of Douala. Averagely, each interview took 40 minutes. All the interviews were conducted within the premises of the bank and at the convenient time of the loan officer (during break or closing time). However, access to the banking institutions was constraints by a written application. Nonetheless, the respondents were asked question about issues characterising their decisions to grant loans to SMEs. The interviews were recorded using a mobile phone, transcript and analysed using content analysis.

5- Presentation of the interviews with bank officers

Participant 1 – BICEC

A - Characteristics of SME

A.1- Collateral

Collateral is not the major issue causing bank to grant loans to SMEs. Specifically, the bank finances profitable projects. Most often, the bank should be aware of the activity it is going to finance. Specifically, collateral comes as a last resort; that is, whenever borrowing conditions have been fulfilled. Indeed, collateral is being mentioned when all possible eventualities related to lending conditions have been considered. Actually, we think of the means to recover the loans; supposedly, the business experiences a downturn. Generally, the demand for collateral is intended to limit possibility of credit risk stemming from business failure.

A.2 - Accounting documents

Accounting documents make it possible to forecast the activity, and to have an idea on the potential of SMEs to reimburse loans. However, 9 out of 10 financial documents prepared by SMEs are tricked. Somewhat, SMEs have three distinct financial documents with specific objectives. For example, there might be respective balance sheets for the company, the tax authority, and the bank. However, we do not limit our analyses exclusively on financial documents, but we go further to apprehend the reality on the field. The essence is to reconcile figures and the reality of the enterprise. Sometimes, on the paper everything is painted white, but does not reflect the observations on the field. As a result, accounting documents do not guarantee the accessibility to bank loans.

A.3 - Sector of activity, age, size and location of SMEs

We do not have any preference on a particular sector. We are interested in the reliability of the sector and current economic trends worldwide. Likewise, there are sectors that we cannot take the risk to service loans, because it is affected by severe economic downturn. Besides, the activity should be profitable enough to attract financing. We always have an ear open to the world to obtain recent business tendency in order to be aware of fertile sector to invest. The location of SMEs is not important. Meanwhile, wherever the location of any SME, we go to the site in order to perceive the reality at the spot. Therefore, location is not a significant issue concerning the lending decision of the bank. Similarly, the age and size of the enterprise do not matter as well. Basically, it is the activity that is essential.

A.4- Network and relationship

The relationship between bank and SMEs gets established and strengthened in the long-term. However, relationship might induce a certain degree of confidence caused by the behaviour of the client. Explicitly, in any relationship, the bank sources valuable information about the borrower's behaviour (character) susceptible to induce trust and confidence between both parties. For instance, confidence may occur when the borrower has initially honoured debt obligations within the deadline. In addition, a customer who has been loyal and honest with the bank for many years may access credit even without any collateral. Meanwhile, there are people who demand for loan immediately they have opened accounts; whereas, the bank has not appreciated their behaviours. Yet, the bank does not trust them, and may not take the risk to grant credit.

B - Profile of the entrepreneur

The profile of the manager provides valuable information to the bank. For example, is the borrower married? If yes, which marital regime? Explicitly, the level of education, experience, skills, expertise and competence of the managers are important indicators to be considered in lending decisions of the bank. Indeed, the level of education and competence in the field are valuable information not to be neglected. On the other hand, if the owners are not competent, we may be interested in the quality of the management team surrounding them. As regards to age, supposed the owner is old, we are interested in the implication of a family member in the management so as to assure progressively the succession of the enterprises.

Generally, SMEs lack managerial skills and proper training. In most cases, there is lack of distinction between the property of the owner and the assets of the firm. In fact, there is absolutely confusion between business properties and owner's assets. Additionally, a burgeoning of SMEs are family business entities, and most of the work is provided by inexperienced family members. At times, the borrowed funds may not be used for the required purpose. The funds may be allocated for other uses. Therefore, the technical knowledge and experience of the managers are of high significance. Imperatively, it is important for the banker to know if the manager is competent enough to manage the activity of the business. Most often, entrepreneurs are not trained from the base. They might acquire entrepreneurial skills, but still lack managerial competence. Sometimes, they externalise their accounting services, but they themselves are unable to understand and interpret the content of accounting documents. Basically, the problem of SMEs is situated at the level of training. The owners of SMEs ought to be trained for them to acquire the necessary skills to manage their business.

Participant 2 – Société Générale de Banque au Cameroun (SGC)

A. Opinion about SMEs

It is a booming and rapidly expanding sector. It is the sector that occupies the lion's share of the economic fabric in Cameroon at the moment. For the case of SMEs, we observed a precarious organisation style to a semi-developed one. A sector that should be prioritised in terms of sustainable development and financial support schemes. Commercial banks, especially, SGC has resolutely turned towards the financial supports of SMEs in a regular basis. However, there exists a proliferation of SMEs with a very short life-span of maximum 5 years.

B. Characteristics of SMEs

B.1 - Collateral

In Cameroon, the legal collateral recovery procedure is cumbersome. Consequently, collateral comes as a last option in the lending decisions of the bank. Primarily, we should be assured that the activity is profitable enough to be confidence of recovering the loan. However, the demand for collateral is to safeguard against any risk of default related to the activity of the enterprise. Therefore, collateral makes it possible to recover at least the invested capital prior to any loss. Initially, the paramount preoccupation of the bank is to diagnose the profitability of the activity. Afterwards, we begin to think about possibility to recover the loan, supposed, the business infringes bankruptcy. Probably, an activity sought to be profitable today might encounter severe crises. From this perspective, collateral makes it possible to recover the loan of savers. Obviously, collateral is necessary to cover the bank from any risk allegedly occurred from the activity of the enterprise. Specifically, collateral is not a determining factor in the lending decisions of banks.

B.2 - Accounting documents

Most often, the bank develops a specific preference on SMEs practising book-keeping. Financial documents are supposed to reflect the reality concerning the image of the enterprise. Meanwhile, in many occasions figures are painted in white. Despite the figures communicated by the borrower to the bank, we check thoroughly whether they correspond with the reality of the firm. Therefore, it is important for SMEs to keep records of their activities, which could be of help in the demand for bank loans.

B.3 - Sector of activity, age and size of SMEs

Primarily, it is important to finance a project whose activity is profitable. Generally, the life span of most SMEs is at most 5 years. Therefore, we are interested in the quality of the activity undertaken by the business. As a result, we should know if the project is profitable before deciding to engage funds. As a result, borrowers should have a profitable activity whenever they aspire to seek for bank loans. Moreover, we have to be aware of the fundamental orchestrating the demand for loan. The bank is entitled to minimise the risk of any loan delinquency, because the money constitutes the savings of individuals. Furthermore, there is lack of preference on a particular sector of activity. Generally, we provide financing to an enterprise whose activity is sought to be booming; irrespective of the industry (sector) in which it belongs. However, there are sectors that the bank is prohibited to allocate funds; albeit, their immense profitable characteristics. For examples, banks might not sponsor terrorism or the fabrication of arms. Conclusively, size, age and business location are not decisive factors in lending decisions of the bank. Above all, it is the activity that we finance. However, we do not finance start-ups.

B.4 - Network and relationship

The bank provides financial supports to someone whose activity is known. Initially, there should have been an existence of a cordial relationship between the bank and the person seeking for finance. Besides, the person should be a customer of the bank. On the other hand, the bank must be familiar to the activity. In some situations, we refuse to grant loans to borrowers with consistent collateral of about 1 billion, simply because the bank is not acquainted to them. In fact, the pledging of collateral is necessary, but not sine qua non in the lending decisions of banks. The bank is supposed to know the person with whom it intends to deal with very well, and have a good mastery of the activity as well. Additionally, the way the borrower manages relationship with business partners is an important indicator to the banker. For instance, the bank might not take the risk to transact with individuals who do not settle their invoice regularly with suppliers, do not pay salaries to workers and lack courtesy business relationships with clients.

C – Profile of the entrepreneur

The technical knowledge of the person seeking for loans is appraised by the bank. Generally, granting loan to SMEs is an activity in which both parties mutually benefit. The person asking for credit is supposed to have a minimum level of competence in managing the business. Therefore, it is vital that the manager be armed with appropriate managerial skills and business knowledge. For, we do not get up one morning and start a business for which we do not have reliable skills or experience. Thus, we are interested in the background of the owners of SMEs. They should have the necessary background and experience to manage a business venture. Most often, when the owner is implicated in the activity of the business, it substantiates the impression that the bank has towards the enterprise.

In a nutshell, the profile of the entrepreneur is an indicator, but not a determining factor in the lending decisions of the bank. Sincerely, the profile of the owner is not an institutional benchmark to provide judgement on the credit worthiness of borrowers. Meanwhile, they provide complementary information likely to influence the lender's judgement concerning the creditworthiness of borrowers. Indeed, they are alerting factors relative to the lending decisions of the bank. However, if the owners lack experience, we are interested as well in the background of the management team. There is likelihood that the owner might not be competent, but is surrounded by a team of highly qualified persons. Furthermore, the age of the owner does not matter. Supposedly, the owner is old; we are interested in the implication of a family member in the management of the business, which marks a progressive succession of the firm prior to the death, inaptitude or retirement of the founder. The main issue here is to verify whether succession of the enterprise is prepared progressively. On the other hand, sex, age and religious belief of the owners are not important. However, such features may cause the bank to quest for further information about the borrower.

Participant 3 – Cameroon Bank of Small and Medium-sized enterprises (BC-PME)

A. Opinion about SMEs

It is a dense sector with high potential of development and growth, and susceptible to develop the economy of a country. Large companies are few; therefore, the economy of a country can be developed by the SMEs' sector. Meanwhile, it is a sector that enhances a sustainable development and promotes entrepreneurship. However, they are less structured in terms of organisation, which makes it difficult to either maintain proper accounting records or to distinguish the owners' wealth from the assets of the business. Most often, people get involved in entrepreneurship based on opportunity. Later on, it is from it that other skills are discovered and developed gradually.

B. **Characteristics of SMEs**

B.1 - Collateral

Generally, we avoid talking about collateral to borrowers. Many SMEs complain of collateral as the major obstacle to access bank loans, which is not true. Specifically, the reliability that the loan will be repaid is vital for the bank. Most often, it is the owners of SMEs, who deliberately propose to offer any collateral. Actually, we firmly belief collateral is not going to pay back loans. For example, a building pledged as collateral would not pay back the loan. Moreover, the court procedure to claim the collateral is not an easy task. It requires bottleneck and cumbersome court procedures; which might sometimes involve time and money costs. Imperatively, before granting loans, borrowers are constraints to satisfy pre-defined lending conditions. Later on, since there is no zero risk avoidance in business, the bank has to hedge against likelihood of loan delinquency by asking for collateral. Primarily, the project is supposed to be "bankable". Sometimes, we spare some borrowers from pledging collateral, whenever all the prerequisites related to lending conditions have been fulfilled.

B.2 -Accounting documents

Keeping good accounting records is important for both enterprise and bank. Financial documents are important for decision-making. These documents help to survey the financial health of the enterprises and the potential to pay back loans. Most often, SMEs dissimulate the figures on financial statements submitted to banks. Despite the fake figures, we still rely on them to compute financial ratios. The essence is to be able to establish the conformity of the figures in relation to what is being observed on the site. Thus, working in a context of information asymmetry is inherent in the duty of the bank.

B.3 - Sector of activity, size and age of SMEs

There are high-risk sectors for which the bank cannot take the risk to grant loans. Really, the bank seeks for sector with profitable activities in order to invest. Meanwhile, there are sectors for which the bank cannot supply funds such as weapons, drugs, etc. The size (in terms of turnover and number of employees) and age of SME express notoriety in business. Principally, age signals the famousness of the enterprise. However, they are minor indicators relative to the lending decisions of the bank.

B.4 -Network and relationship

Anglo-Saxons have an essential element that they call character. It is a non-quantifiable element, but is vital in any lending decisions of the bank. Sincerely, the bank might reject the application of borrowers simply because it lacks confidence in them. Indeed, many loans are refused to be granted, because of lack of trust and confidence towards the persons. In fact, confidence emerges from relationships with SMEs and is a paramount issue in the lending decisions of the bank. Most often, confidence gets strengthened with time from the little actions carried out by clients. Sometimes, desiring to quest for supplementary information about the behaviour of the borrower; we go further to seek information from the entourage of the borrower (clients, suppliers, workers, spouse, neighbours, etc.). Thus, it is important to critically assess the behaviour of the borrower even beyond business framework. Obviously, it is risky to grant loans to a borrower who is unable to meet financial obligations with suppliers, workers, and lacks cordial relationship with customers. For example, the groaning of suppliers and workers might testify that the borrower does not have pleasant relationship with business partners. Bank might not take the risk to grant loans to such an individual. Thus, the character of the borrower is an important issue, which is not supposed to be neglected in the lending decisions of the bank.

C –Profile of the entrepreneur

We are interested in the implication of the owner in the “life” of the business, technical knowledge and experience as well. Generally, a reliable business background enables the owner to be involved in the activity of the business; instead, to concede the management to a third party. If the owner is not competent, we are interested in the background of the management team surrounding the owner. Sincerely, the owners might not be competent, but they are surrounded by a team of highly skilful and competent individuals.

The age of the entrepreneur is important in two dimensions: firstly, the owners may lack experience when they are too young. Secondly, the owners may lack enough mobility when they are old. Concerning the age of owners, we recommend borrowers to establish a life insurance as a form of collateral for the bank. Indeed, majority of SMEs are sole ownership business entities, which mainly rely on a single individual. Consequently, the succession plan and delegation of power is important to avoid demise of activities owing to the inability or death of the owner. Therefore, it is significant to prepare a gradual succession plan of the enterprise.

Conclusively, structuring and organisation is a major obstacle to the activities of SMEs. There is lack of managerial capacity on the side of the managers; especially, the search for market opportunities and the negotiation of contracts with suppliers. As a result, SMEs should be accompanied regularly in various aspects related to business organisation and entrepreneurship. Additionally, the managerial capacity of SMEs is supposed to be strengthened.

Participant 4 – Afriland First Bank

A. Opinion about SMEs

The SME sector is an “engine” of economic growth and development. The economic tissue of Cameroon is dominated by 90% of SMEs. It is an important driver of wealth creation in a country. Importantly, a country which aspires to develop should concentrate resources in the SMEs’ sector as well.

B - Characteristics of SMEs

B.1- Collateral

Most often, we do not emphasise on the provision of collateral, but in the credibility and the reliability of the project. Thus, we have to be sure that the project is qualified to be financed. Sometimes, people bring a guarantee of 700 million CFA for a loan of 2,000, 000 million CFA, but we refuse to grant it to them. The court procedure to claim collateral is cumbersome. Generally, when a borrower encounters difficulties to pay the loan, we get closer to him in order to renegotiate the terms of the contract; instead of, brandishing the collateral for auctioning. Most often, it is our pride and publicity that a firm succeed with our loan.

B.2 - Accounting document

In the case of SMEs, keeping regular accounts is sought to be impossible. As a result, it becomes difficult to appraise their real financial needs, and the calculations of financial ratios as indicators that inform the financial situation of the enterprise. However, such tasks are difficult to undertake, since the majority of SMEs do not practise standard accounting system. In addition, most SMEs do not practice standard accounting system resulting to the establishment of Financial, Statistical and Declarations documents. Indeed, less than 20 per cent of SMEs keep regularised standard financial documents.

B.3 -Sector of activity, size and age of SMEs

We have to make good investment decisions because they are sectors, which are already saturated. However, industrial location is not important. Specifically, we look at both the project and the economic environment as well. The age of SMEs expresses notoriety in the sector of activity. It is obvious that ageing SMEs might have been able to sustain their activities from inflicted tribulations, have acquired enough experiences in the sector, occupied market position and became famous. As a result, the bank may have a particular consideration on old SMEs than new or start-ups. On the other hand, the size of SMEs does not matter in making lending decisions.

B.4 -Network and relationship

Relationships with SMEs are a capital issue in the lending decisions of the bank. Undoubtedly, business relationship might cause the bank to finance an activity without demanding for any collateral. Basically, confidence and trust escalate with time prior to a solid social network with customers. Sincerely, confidence is the bedrock of most lending decisions of the bank. Primarily, we do not lend to individuals whom we lack confidence. Therefore, it is the foundation of any lending decisions.

C. Profile of the manager

In one way, decisions to supply funds to SMEs depend on the outcomes of the financial analyses, and the perception the banker has about the borrower. Indeed, to finance the bank looks at certain characteristics of the owner, or the management team. It implies that, the banker is supposed to have a suitable perception about the character of the borrowers before deciding to grant loans. Sometimes, the process related to credit analyses process might stop prematurely; if the bank gets a bad perception about the borrower. In addition, we focused on the level of experience and judicial record of the borrower. The educational level is less important; meanwhile, the experience of the founder is vital. The bank cannot give money to someone who does not have experience in the business. Thus, financing a business being managed by an inexperienced individual is a risk to the bank. Generally, managers are poorly trained, which is observed in the ways of compliling a file relative to the application of the loan. In most cases, the training of SMEs is a major problem to the evolution of business. For example, SMEs may avoid a downturn in business, but lack negotiating potentials with third parties. Particularly, lack of cash management capacity is a huge obstacle to the success of SMEs. In most cases, there exist a mixed-up of the owner's wealth and those of the enterprise. As a result, it becomes difficult to assess business assets separately from owner's wealth.

Fundamentally, gender preference in lending decisions is out-dated. Just like men, women are now getting more involved in entrepreneurship. There are many women in the loan portfolio of the bank. Similarly to men, they are very enthusiastic and dynamics in business as well. The religious belief and ethnicity of the borrower are not important. However, the age of the owner involves risk that is covered by insurance companies. Marital status is not important, however, we may question on the matrimonial regime of the borrower. Nonetheless, it is subjective, but not factual.

In conclusion, plentiful of SMEs suffer from an inappropriate organisational structure, incompetence and unfavourable business environment. Indeed, they suffer from an organisational deficit, with a single person doing all the jobs in the enterprise and may not want to relent some of his authority. They lack business visions and management capacity. SMEs suffer as well from unfavourable business climate that seriously hinders their development and growth. In fact, less than 15 per cent of SMEs have designed a proper business organisational structure. As a result, the problem of SMEs lies in the angle of technical skills and competence. The owners of SMEs ought to be trained for them to acquire the necessary skills to manage their business.

6-Analyses and discussion of interviews with bank officers

The outcome of the interviews with loan officers revealed that the challenges SMEs face to access bank loans is partially caused by both their organisational structures and the background of the entrepreneur. According to banks, most SMEs lack reliable organisational structure, appropriate managerial skills, and elementary business knowledge. In most cases, the wealth of the owners is managed simultaneously with those of the enterprise. Such a management style makes it very difficult to properly appraise owner's property from the wealth of the business.

From the above analysis, we observed that commercial banks take into consideration primarily the quality of the project. Contrary to opinions of most SMEs concerning collateral as a core issue to acquire bank loans, it results from interviews with bank officers that collateral is insignificant in the lending decisions of banks. Obviously, it is the activity that is being financed, but not the collateral. Thus, banks are interested in the capacity of the activity to generate substantial cash-flows such that firms honour their financial obligations. Therefore, banks are not interested either in the collateral to be pledged as security or the rate of interest accepted by the borrower. Sincerely, the project ought to be profitable enough in order to pull external funds. Most often, the court procedure to realise collateral necessitate a lot of time and cumbersome procedure. Sometimes, the loan application of some borrowers is rejected despite the availability of consistent collateral. Nonetheless, collateral might serves as a defence line to the banker. However, collateral is not preeminent in lending decisions of commercial banks. Fundamentally, the project is supposed to be profitable for it to attract financing.

Fundamentally, lending decision of commercial banks is based on confidence. Indeed, from the existence of a relationship, a certain degree of confidence emerges between banks and borrowers. Most often, embedded in social networks, confidence stems from the information the bank source relatively to the behaviour of a borrower. According to banks, it is the foundation of any lending decisions. It implies that, commercial banks grant loans to SMEs on the basis of confidence. Sincerely, banks insistently apprehend the character of borrowers thoroughly prior to any lending decision. For example, [48, 49] contend that for a small firm, social networks are of vital importance for broadening the availability of financial sources. However, the existence of a network and relationship is a result of a long-term dealing between banks and SMEs.

Accounting documents enable the determination of financial indicators, which are sine qua non to make lending decisions. However, submitting financial documents does not assure absolutely the accessibility of bank loans. Firstly, banks do not trust the financial documents communicated by SMEs. Secondly, SMEs lack appropriate skills to carry on standard accounting practices resulting to the establishment of Financial and Statistical Declaration documents. Additionally, banks stipulate that SMEs establish accounting documents according to pre-envisaged objectives. For example, the intention to lessen tax burden, might urge SMEs to manipulate figures on the financial documents. Additionally, they might adjust figures on accounting documents to capture the interest of banks. As a result, figures might be altered to dissimulate the poor financial health situation of the enterprise. Accordingly, banks acknowledge that many of the accounting documents submitted by SMEs are plagued with flawed figures. Notwithstanding, despite the unreliable nature of financial documents, banks always strive to compare the reality on the field with the figures on financial statements.

Furthermore, the profile of the entrepreneur is insignificant; however, it is a non-financial indicator that banks do not neglect in their lending decisions. Sometimes, banks are interested in both the age and experience of the entrepreneur. Apparently, a young entrepreneur may lack experience; meanwhile, an old one may lack enough mobility. On the other hand, banks are interested as well on the succession plan wherein the owner/manager is sought to be old. Accordingly, banks wish to know if the owners implicate members of the family in the management of the business; so as to assure a gradual succession of the enterprise. Moreover, the banks are interested in the experience of the entrepreneur. Supposedly, entrepreneur lacks experience, banks become interested in the experience and competence of the management team of the business. Most often, banks have high preference on SMEs whose owners have experience and implicate regularly in the management of the business; rather than, conceding it to a third party.

7. Conclusion

We observe from interviews with bank officers that commercial banks highly value the character of borrowers in their lending decisions. In the course of a relationship, banks readily obtain valuable information concerning the behaviour of borrowers. In fact, there is likelihood that relationship with customers nurtures a climate of trust and confidence that banks use as a tool in their lending decisions. Specifically, banks grant loans to SMEs based on the framework of confidence, which evolves from contact overtime between both parties. Sometimes, despite the existence of substantial collateral, it is only when banks have confidence in a borrower that they take the risk to supply funds. Thus, the information banks obtain from SMEs while in a relationship is related to the behaviours of borrowers. Consequently, the appraisal of the behaviours of borrowers induces a certain degree of confidence providing an incentive for commercial banks to lend to SMEs. Such a lending practice observed towards commercial banks result to the formulation of: **"The theory of confidence lending decisions of commercial banks".** This theory stipulates that the behaviour of SMEs overtime in a relationship with banks provide a certain degree of confidence and trust, which account for the decisions of banks to grant loans to SMEs. Indeed, being in a relationship, banks observe the behaviour of SMEs explaining their lending decisions. Therefore, the behaviour of SMEs towards commercial banks is sine qua non to apply and access bank loans. As a result, SMEs might find their demands for loans rejected despite the availability of reliable and consistent collateral; because, banks do not have confidence on them.

The most common findings in the extant literature are that large institutions have comparative advantages in transactions lending to more transparent SMEs based on hard information, while small institutions have comparative advantages in relationship lending to informationally opaque SMEs based on soft information. The relationship lending technology, in contrast, is based significantly on "soft" qualitative information gathered through contact over time with the SME and often with its owner and members of the local community. The soft information may include the character and reliability of the SME's owner based on direct contact over the time by the institution's loan officer, the payment and receipt history of the SME gathered from the past provision of loans, deposits, or other services to the SME by the institution; or the future prospects of the SME garnered from past communications with SME's suppliers, customers, or neighbouring businesses [16]. According to [29], trust has the potential to influence decisions and behaviour. Confidence might be expected to reduce agency costs, perceived credit risk and thus influence credit availability by reducing the request for personal collateral. Trustworthiness is associated with three attributes of SME owner managers' namely; ability, benevolence and integrity. This presumes that lending is premised on a lack of trustworthiness, which relies on an opportunistic assumption of human behaviour [9, 27]. For instance, [34] argue that a relationship based on trust is a better strategy to improve SMEs' access to finance than the establishment of longer or more concentrated relationships

8. Recommendations

Indeed, from the lenders point of view, the fact that entrepreneurs lack appropriate managerial skills and competence has been cited as one of the challenges constraining SMEs to access bank loans. As a result, proprietors of SMEs should participate in educational seminars, forums and workshops in order to acquire reliable managerial skills. Thus, training programmes and workshops would help to reinforce the managerial capacity of managers. Specifically, most entrepreneurs engage in entrepreneurship because of current opportunities. Meanwhile, they lack proper management skills and competence. However, banks prefer to lend to SMEs whose entrepreneurs are both competent and experienced. Besides, banks have a high preference on SMEs whose owners are implicated in the activity of the business. Therefore, it is important for entrepreneurs to acquire the necessary skills for them to implicate in the management of their businesses.

Owing to the fact that confidence is the bedrock of the lending decisions of commercial banks; SMEs should highly develop their social capital to establish and strengthen social network with banks. For instance, they should devise strategy to develop and consolidate relationships with banks. Indeed, the existence of solid relationship is essential for both banks and SMEs. In fact, SMEs are sought to be informationally opaque; therefore, from the relationship banks acquire information about their behaviours, which might be an incentive to grant loans. Thus, it is vital for SMEs to foster relationship with banks that is important to access bank debt.

In fact confidence is susceptible to be generated, whenever, SMEs open accounts with banks different from that of the owners. The fact that there is confusion between the accounts of the owners and that of the firm might shed doubts on the proper judgement that banks may have on the quality of the business. Thus, opening separate accounts discloses valuable information to banks about the quality of the business. As said before, confidence and trust get evolve over time when both parties deal together. As a result, it is important for SMEs to operate accounts different from those of the owners such that it consolidates the perception banks have on their activities.

SMEs dominate the economic fabric of Cameroon, which constitutes an enormous opportunity for the banking sector. Banks may benefit a lot when dealing with SMEs. There is likelihood that the volume of banking activities increases when dealing with SMEs. Large enterprises are few; therefore, banks should devise strategies in order to attract a pool of funds from SMEs. As a result, banks should assist SMEs in their daily operations by giving them advice on issues related to management. For examples, banks may organise workshops, training seminars, straighten business networks with SMEs, and organise educational forums on the elaboration of business plan and the practice of bookkeeping. On the other hand, banks may accompany start-ups in their vision for them to grow. Conclusively, further research works should assess quantitatively the empirical prediction of the aforementioned theory by using a wide range of commercial banks locally or internationally across the globe.

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