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Rotating Savings and Credit Associations, An Alternative Source of SME Financing: The Case of the Inhabitants of the Western Region of Cameroon

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ABSTRACT

The relevance of SMEs to the economy is a globally accepted truth. These small actors generally constitute the largest category of businesses and contribute significantly to vital economic indicators. Despite their relevance, this category of businesses experiences considerable challenges obtaining financing: especially formal financing. This limited access to capital has been reported to constitute a major cause of high SME failure rates. This is mainly because these businesses lack the collateral necessary to access formal financing. Despite the above literature, it is reported that inhabitants of the Western Region of Cameroon, also referred to as the Bamelikes make extensive use of Rotating Savings and Credit Associations (ROSCA) for business financing and that this is partly responsible for their increased success in entrepreneurial activities. However, empirical studies establishing the impact of the usage of ROSCAs on SME access to capital in this region are almost inexistent. Given the above, it is the aim of this study to investigate and empirically establish whether the usage of ROSCAs significantly impacts SME access to capital in the Western Region of Cameroon. Using stratified random sampling, 500 participants from the major settlements of the Western Region of Cameroon were selected for this study. The questionnaire for the study was administered to these participants. 414 questionnaires were returned and after consistency verification, data from 401 respondents were retained for this study. The data was analyzed using the One-Way ANOVA analytical tool in the IBM SPSS software (version 21). The finding disclosed that ROSCAs usage has a statistically significant impact on SME's access to capital in the Western Region of Cameroon. It is therefore recommended that SME owners/managers join such associations or come together to create such associations to improve their access to capital. In addition to that, since these organizations are widely spread across Africa and developing economies, they could be repurposed for business financing reasons instead of consumption.

Keywords: ROSCA, SME financing, Bamileke, Network, Microfinance, Interest rates, and Loans.

INTRODUCTION:

The social and economic relevance of SMEs is a globally accepted truth. These small actors generally constitute the largest category of businesses and contribute significantly to vital economic indicators (Civelek, 2021; Lu *et al*., 2020; Shakeyev *et al.,* 2021; Leboea, 2017; Gyimah *et al*., 2019; Bunyaminu *et al.,* 2019). In Cameroon, SMEs constitute 99% of all business; account for 61% of employment, and generate 36% of the country's GDP (Tsambou & Fomba, 2017). This is not unique to Cameroon since, in Africa, they constitute 90% of all businesses, generate half of Africa's

GDP, and account for half the overall employment in the continent (Akinboade, 2015; Akter, 2020; and Muriithi, 2017).

Despite their relevance, this category of businesses experiences considerable difficulties in accessing financing, reported by multiple studies as a major cause of high SME failure rates (Wang, Lin, & Luo, 2019; Wasiuzzaman, & Nurdin, 2019, Schammo, 2019; Gyimah, Marom, & Lussier, 2019; Akinboade, 2015, Bunyaminu *et al.,* 2019). Multiple reports blame this limited access to capital on the principles that govern the formal financial system. These principles to a significant extent disfavor SMEs and low-income earners (Schammo, 2019; Gyimah *et al,* 2019; Hamza oui & Bousalam, 2015). SMEs generally lack the collateral security required by such institutions (especi ally commercial banks) to provide loans (Wang, Lin, & Luo, 2019; Rade *et al.,* 2014). African economies are no exception when it comes to this issue. In Mozambique for example, only about 5% of SMEs access formal financing meanwhile this category of businesses constitute 98% of businesses in that economy (Osano, & Languitone, 2016). In the same light, Thompson Agyapong, *et al.* (2017), point out the issue of access to formal financing for Ghanaian SMEs. As for Cameroon, despite multiple efforts on the part of the government to improve SME financing, only 22% of SMEs access formal financing (Chamber of Commerce Industry, Mines and Crafts, 2017). This configuration then leaves SMEs considerably dependent on informal financing like personal savings, and assistance from families and friends to start and run businesses (Akinboade, 2015, Bunyaminu *et al.,* 2019). Informal financing is limited thereby leaving such businesses underfinanced, hence increasing their chances of failure.

Despite the above, it is observed and documented that natives of the Western Region of Cameroon, also known as the Bamelikes make extensive use of Rotating Savings and Credit Associations (ROSCA), locally called "tontines" or "njangi" for business financing (Kamdem, 2001; Carr & Chen, 2004; Kemayou *et al,* 2011; Nomoto, 2004; Henry, 2003; Clement & Tripathi, 2022). The inhabitants of this region are equally known for their distinctive success in entrepreneurial activities (Hogenboom & Jilberto, 2007; Arriola, 2012; Nomoto, 2004; Clement & Tripathi, 2022). Komo and Takor, (2019) call their business success an "economic miracle".

Problem statement

Though SMEs suffer significantly from insufficient financing (Wang *et al.,* 2019; Wasiuzzaman & Nurdin, 2019, Schammo, 2019; Gyimah *et al.,* 2019), it is documented that natives of the Western Region of Cameroon make significant usage of ROSCA for business financing (Kamdem, 2001; Carr & Chen, 2004; Kemayou *et al,* 2011; Nomoto, 2004; Henry, 2003; Clement & Tripathi, 2022; Tchuindjo, 1999). Some reports even accounttheir outstanding success in entrepreneurial activities on the use of these associations (Clement, & Tripathi, 2022; Nomoto, 2004; Henry, 2003). Given that multiple studies have reported insufficient capital as a significant inhibitor to the performance and survival of SMEs (Wang*et al.,* 2019; Wasiuzzaman & Nurdin, 2019, Schammo, 2019; Gyimah *et al.,* 2019), the question that follows logically is: does the use of ROSCAs significantly enhance access to capital? Alhough this issue is of considerable importance, given the extensive use of these associations, empirical studies that establish whether or not ROSCAs' usage significantly improves SME access to capital in the Western Region of Cameroon are almost inexistent.

Purpose Statement.

In view of the above, the purpose of this research effort aims to investigate and empirically establish whether or not the usage of these ROSCAs signifycantly impacts SME access to capital in the Western Region of Cameroon.That is: in this region, is there a statistically significant difference in the access to capital for SMEs that use ROSCAs compared to those that do not?

Review of Literature

Rotating Savings and credit association (ROSCA).

As brought out above, there exist documented studies that attest to the extensive usage of ROSCAs by natives of the Western Region of Cameroon (Kamdem, 2001; Carr & Chen, 2004; Kemayou *et al,* 2011; Nomoto, 2004; Henry, 2003; Clement & Tripathi, 2022). It is equally suspected that ROSCAs constitute a significant source of informal financing for entrepreneurs in this region (Henry, 2003; Clement & Tripathi, 2022; Tchuindjo, 1999). Given the relevance of access to capital for SMEs (Ibrahim & Ibrahim, 2015; Petković *et al.,* 2016; Agyemang & Ansong, 2017; Akinboade, 2015), it is relevant for this study to take a close look at these associations.

Ajija and Siddiqui, (2021) declared that a ROSCA is an organization of self-selected persons. Participants in the ROSCA usually share the same network which can be the same neighborhood, workplace, religious or ethnic group. In these organizations, participants usual ly meet regularly and each contributed a chosen amount. The chosen amount is contributed by each participant is affordable for everyone in the association. The collected contributions are handed to one or more participants depending on the internal organization. The person(s) receiving the fund chooses to do what he or she wishes with the money. After each participant in the group receives, contributions are either stopped or a new rotation is started (Gugerty, 2007). ROSCAs, therefore, constitutean informal yet highly organized association that pulls a fixed amount of financial resources from all participants at regular intervals and makes the collected finances available to all participants at a given interval. Onda, (2021) in describing the ROSCA refers to it as a mutual help network. Anderson and Baland, (2002) on their part argue that finances from these associations are generally used for consumption.

While ROSCAs generally function as described above, vibration in their organizationis also reported (Hamzaoui & Bousalam, 2015). For instance, though not documented, it is observed that in some ROSCAs of the Western Region of Cameroon, participants collectively oblige themselves to use collected funds exclusively for business purposes. For instance, the group may choose to use collected funds to be receiv ed by the participants to secure business supplies or even set up a business for that participant.

These associations are not only limited to this economy; reports declare that they are present in multiple economies around the globe (Onda, 2021; Ajija & Siddiqui 2021). According Sadr, (2017) ROS-CAs are present in three continents on the planet: namely Asia, Africa, and Latin America. He posits that about 50% to 95% of the adult population of most African countries take part in ROSCAs. In the 1970s, about 10% of the Ethiopian GDP originatedfrom ROSCA participation. It is equally used extensively amongst the rural population of Africa, especially in Nigeria, Cameroon, Congo, Liberia, Togo, and Ivory Coast, where more than half of the rural population partake in ROSCAs. Sadr, (2017) also reports some outstanding cases in Asia: in Bangladesh about 70 % of people who share the same neighborhood or work-space take part in ROSCAs; in Taiwan, about 20% of the population do participate in ROSCA. Onda, (2021), on his part, declares that these associations are highly present in East Asian countries and take on different names in thesecountries. Ajija and Siddiqui, (2021) declare that these associations are extensively present in low-income countries, especially in cases where there is limited access to formal capital. Hamzaoui and Bousalam, (2015), go further by declaring that these informal finance associations have gained so much ground in low-income countries because formal banking services have not been customized or tailored to meet the financing need of these low-income earners.

A report from the World Bank, (2019) attests to this as it declares that despite the advent of mobile banking, about 1.7 billion adults on the planet do not use banking services. This is especially pronounced among low-income earners like small traders and farmers.

While ROSCAs are used extensively in these low-income economies, it is usually difficult to measure the extent and impact of these organizations. This is because financial transactions within these informal organizations aregenerallynot reported outside the group (Hamzaoui & Bousalam, 2015). It is therefore difficult to have exact measures of the overall effect ROSCAs have on the economy (Hamzaoui & Bousalam, 2015). That notwithstanding, the importance of these associations to the economy cannot be denied, particularly in low-income economies, where formal financing is not quite accessible to a considerable part of the population (Hamzaoui & Bousalam, 2015). This difficulty in measuring the extent and impact of ROS-CAs might explain why though they are extensively used in the Western Region of Cameroon, empirical studies on their usage are almost inexistent.

SME access to formal financing in Cameroon and Developing Economies

As stated above, accessing financing remains a considerable challenge for SMEs. According to the World Bank, (2019), SME access to loans is significantly low when compared to big businesses. The International Financial Corporation (in World Bank, 2019) declared that the borrowing need of about 40% (that is about 65 million businesses) of SMEs in developing economies is not met. This amount is currently estimated at about 5.2 trillion dollars annually and is 1.4 times higher than the total amount of loans provided to SMEs in such economies. They equally state in Eastern Asia, the gap between SME financing needs and actual loans provided to SMEs by banks is approximately of 46%. In Europe and Central Asia: which are mostly developed economies, the gap is only about 15%.

Figures on the Middle East as well as the African continent are the most elevated on the planet. According to this report, the average gap between SME demand for financing and the actual supply of financing here ranges from 87% to 89% (World Bank, 2019). This declaration can be triangulated with that reported by the Centre for Strategic and International Studies which declared that only about one-fifth to one-third of SMEs in Sub-Saharan Africa have bank loans or credit lines (Rude *et al.,* 2021).

Moreover, Lu *et al.* (2020) state clearly that the issue of reduced SME access to financing is much more severe in developing economies compared to developed economies. Multiple studies on SMEs in economies across Africa report highly limited access to capital. In Mozambique for example, only about 5% of SMEs obtain financing from banks and other formal financing institutions declares Osano, and Languitone, (2016) whereas SMEs constitute more than 98% of businesses in that economy. In the same light, Thompson Agyapong *et al.* (2017), point out the issue of access to formal financing for Ghanaian SMEs. As for Cameroon, despite multiple efforts on the part of the government to improve SME financing, only 22% of SMEs access formal financing (Chamber of Commerce Industry, Mines and Crafts, 2017). While these statistics in Cameroon are alarming, it is reported that banks operating in Cameroon possess surplus liquidity (Njimanted *et al.,* 2017; Kamta *et al.,* 2020). However, their willingness to provide loans to SMEs is quite low as they maintain their old preference of working with big businesses and well-established organizations (St. Pierre *et al.,* 2015).

Access to loans is just one of themultiple issues with SME financing. The cost of loans from formal intuitions are also reported to be a considerable issue in Sub-Saharan Africa (Rude *et al.,* 2021; Sulistya & Darwanto, 2016). Cameroon is not an exception to this widespread problem on the high cost of financing for SMEs. The cost of financing in this continent is considerably high and the financing need of SMEs is far from being met (World bank, 2019; Rude *et al.,* 2021). In Cameroon, the interest rates of commercial banks loans fluctuate around 15%. This compound with the high cost of processing the loans (Sulistya & Darwanto, 2016) makes financing from such struc-tures highly inconvenient for SMEs. It is equally worth mentioning that the financial market in this economy is highly dominated by huge international banks (St. Pierre *et al.,* 2015). As declared by Lu *et al.* (2020), in such configurations, SMEs suffer considerable discrimination.

While these mega financial institutions dominate this market, the presence of microfinance in the economy is quite considerable (Messomo Elle, 2017; Ofeh & Jeanne, 2017). Althoughthese small banking organizations provide smaller loans to individuals and businesses that are otherwise neglected by the mainstream banking system (OgechukwuObokoh *et al.,* 2016; Awuah & Addaney 2016; Geoffrey & Emenike, 2018; Moussa, 2020), interest rates on such loans can get quite high as the interest range for loans from such organization is usually quite large (Rude *et al.,* 2021). In Cameroon, the interest rate on loans from micro finances ranges from 6% to 33% per year (Ofeh & Jeanne, 2017). In addition to that, Bika *et al.* (2021) argue that small financial organizationsencourage subsistence and are not stimulatorsof meaningful change. They posit that these organizations simply make profits from very low-income earners and small businesses without really enabling substantial growth or significant change in their situation. These might then contribute to leaving Cameroonian SMEs and those other developing economies highly dependent on informal business financing.

ROSCAs Vs Formal Financial Institutions

ROSCAs are special in that, unlike banks and micro-finance, no interest rates are usually associated with funds received by participants. ROSCAs, therefore, constitute a unique form of informal microfinancial organizations in which networks can be leveraged for funding void of interest. They create informal savings and credit systems based entirely on trust within the network, thereby overcoming the lack of collateral which is a significant barrier to accessing formal finan cing (Ibrahim & Ibrahim, 2015; Agyemang & Ansong, 2017; Akinboade, 2015). However, in some ROSCAs, apart from the rotating funds, participants with extra funds can make them available to other part icipants for highly reduced interest rates. In addition to the fact that neither interest rates nor collaterals are associated with funds from these organ izations, information asymmetry is highly limited, since participants in the ROSCA generally share a common network (Anderson & Baland, 2002; Gugerty, 2007). Information asymmetry has been documented as a significant inhibitor to SME access to financing banks (Wang *et al.,* 2019). Information asymmetry, which is a situation in which two interacting parties are not at the same level of information is especially pronounced when it comes to the relationship between banks and SMEs. This is because although the owner/manager has very good knowledge about their small businesses, they generally have poor record-keeping habits (Ajibade & Khayundi, 2017; Hasanah *et al.,* 2018) and are therefore unable to provide trustworthy or certified financial statements for bank and other financial institutions to make informed lending decisions. They are thusviewed by such institutions as opaque and risky (Wangmo, 2015; Wasiuzzaman et-Nurdin, 2019) since banks are not at the same level of information as small business owners. This then renders them reticent to provide financing for such businesses (Wangmo, 2015; Wasiuzzaman & Nurdin, 2019). However, the common network shared by participants in ROSCA enablesthem overcome this problem as participants get sufficient or almost sufficient information to assess the trustworthiness of one another thanks to the informal flow of information within the ROSCA. This thus eliminates information asymmetry which has been reported as a significant inhibitor of SME access to formal financing (Wang *et al.,* 2019).

Furthermore, ROSCAs financing does not involve transaction or administrative expenses. It is documented by multiple studies that transactional cost associated with processing loans from formal financial institutions is considerable and places a non-negligible burden on SMEs that seek to obtain financing from these institutions (Bechri *et al.,* 2001; Sulistya & Darw anto, 2016; Ramlee, & Berma, 2013). Sulistya and Darwanto, (2016) posit that the obtention of a loan has transactional costs which may include: the cost of application, the cost associated with document preparation, security cost, cost of ensuring the guarantee, monitoring,and control cost as well as other costs. The borrower who in this case is the SME must compensate the lender for the cost of time and finances requireed to process the loan, thereby placing an additional financial burden on the SME. Given the highly informal nature of ROSCAs, these costs are not necessary and are therefore inexistent. As brought out above, in these organizations, the collected funds are simply handed over to persons whose turn it is to receive. This configuration then presents relief for SMEs and renders financing from the ROSCAs more adequate and attractive.

METHODOLOGY:

Sampling and Data Collection

Using an adequately developed questionnaire, primary data was collected from SME owners/ managers in the Western Region of Cameroon. Prior to the actual study, to ensure internal validity and limit the likelyhood of misrepresentation, a pilot study was conducted.

For the study proper, the research instrument was administered to 500 participants randomly selected participants from major settlements of the Western Region of Cameroon, using the stratified random sampling technique. 414 questionnaires were returned by the participants. After consistency verification, data from 401 respondents were retained for this study. Participants in this study were recruited from both the formal and informal sectors. The questionnaire was administered face-to-face.

Data Analysis

TheOne-Way ANOVA analytical tool in the IBM SPSS softwarewas used to analyze the collected data.

RESULTS:

Findings from the analysis are as follows:

Table 1: ANOVA

Access to capital					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	48.171	1	48.171	49.071	.000
Within Groups	391.684	399	.982		
Total	439.855	400			

Table 2: Robust Tests of Equality of Means.

Access to capital				
	Statistic[a]	df1	df2	Sig.
Welch	44.060	1	231.569	.000
Brown-Forsythe	44.060	1	231.569	.000
a. Asymptotically F distributed.				

Interpretation

Table 1 displays results of the ANOVA analysis which is an analysis of variance or differences in means. It displays an "F" value of 49.071 with a significance level of 0.000 which is less than .05. The difference in the mean access to capital for SMEs that make use of ROSCAs and the mean access to capital for SMEs which do not make use of ROSCAs is statistically significant ($p = 0.000 < 0.05$).

Table 2 displays the results of the Robust Test of Equality of Means. This table shows the Welch Test which analyses the means while accounting for heterogeneous variances and unequal sample sizes. It also displays the Brown-Forsythe Test which is similar to the Welch test but ensures that non-normally distributed data in the dependent variable does not impact the results. Both Robust tests indicate statistically significant results of 0.000 and 0.000. This, therefore, confirms that the difference in the mean access to capital for SMEs which make use of ROSCAs and the mean access to capital for SMEs which do not make use of ROSCAs is statistically significant. Given the above, one canstatethatthe use of ROSCA significantly impacts access to capital in the Western Region of Cameroon.

DISCUSSION:

The analysis reveals that the usage of ROSCAs significantly impacts access to capital for SMEs in the Western Region of Cameroon. This implies that SMEs in this region can improve their access to capital through the use of ROSCAs. Whilst these findings are generalizable to SMEs in the aforementioned region of Cameroon, ROSCAs are present in multiple sub-Saharan African and Developing countries (Onda, 2021; Sadr, 2017). The pull of financialresources generated by these associations creates a greater source of informal financing when comparedwith other informal sources of financing likepersonal savings and aid from family and friends. Instead of using these associations for consumption, entrepreneurs in this region and other parts of Sub-Saharan Africa where such associations are present could tap from them to get considerable financing. In these associations, the amount of finances contributedis dependent only on its members' financial capabilities. This implies ROSCAs can start offquite small and grow as the members' businesses develop, thereby providing growing amountsof financial resources to participants. This significant growth potential allows these associations to grow to extents where they are able of providing loans of magnitude that could rival those provided by banks and microfinances. Such finances, void of constraints associated with formal financing provide considerable funds to meet the financing for this vital category of businesses, thereby contributing to increasing their performance and success rates.

Recommendation

From the above, it is recommended that SMEs in this region make more use of such associations to improve their access to financing. Moreover, instead of using finances from these associations for consumption, they could be used for business or income-generating purposes which willthen grow alongside these associations. As for future studies, given the potential of such associations, it is recommended that multiple studies be conducted on ROSCA asan alternative source of financing for SMEs to triangulate and promote their usage for business purposes. More to that, with increasing globalization, instead of remaining limited to local networks, ROSCAs couldgo international. New models incorporating cross-border ROSCA activities which can bring together participants who do not necessarily meet physically or share other common networks are needed.

Limitation

The scope of the researchis relatively limited. Given that ROSCAs are present in multiple African and Asian countries, the scope could be widened to improve generalizability. Moreover, this research is a quantitative study. This implies some risk of misrepresentation as this approach is not designed to capture in-depth realities (Amina & Rosman, 2015; Alvi, 2016; Yilmaz, 2013; Tuli, 2010). Nevertheless, in this study, this risk is mitigated by a pilot study conducted prior to the actual study.

CONCLUSION:

Given the extensive use of ROSCAs in the Western Region of Cameroon for business purposes, this study seeks to investigate if ROSCA significantly impacts SME access to finance in this region. This issue is judged relevant because access to financing is extensively reported to be one major challenge faced by SMEs contributingto high failure rates in this category of business. After the analysis of data provided by 401 SME owners/managers, it is observed that the usage of ROSCAs significantly impacts SME access to capital in this region. It follows logically that SMEs in this region should make more use of such associations to improve their access to finances. Since these organizations are present in multiple African and Asian countries, it can be suggested that they should be used in such economies to contribute in meeting the financing needs of this vital category of business.

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CONFLICT OF INTEREST:

This study declares no conflict of interest.

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