Blended Finance: A Tool for Inciting Commercial Financial Institutions to Provide Financing for Machinery Acquisition for SMEs in Cameroon

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Abstract

As is the case of most economies around the world, the relevance of SMEs to the well-being of the Cameroonian economy is quite significant as they contribute meaningfully to employment creation, GDP as well as poverty alleviation. However, this category of businesses in Cameroon tends to implement very low levels of automation due to the lack of financing for equipment/machinery acquisition. This inevitably leads to high production costs and the inability to scale up production as multiple tasks are carried out manually. Certain opportunities cannot even be exploited as SMEs tend to congregate in sectors that are labor-intensive while avoiding technology and machinery-intensive sectors. Despite this situation, the OECD developed the blended finance tool which involves the usage of non-business funds such as developmental/philanthropic funds to mobilize and orientate private capital towards sectors that will otherwise be neglected. It was therefore the purpose of this study to investigate if this tool can have a statistically significant impact on the willingness of financial institutions to finance machinery/equipment acquisition in SMEs in Cameroon. Data collected from 232 bank and microfinance employees across Cameroon using a pretested questionnaire was analyzed using the One-way ANOVA analysis in SPSS. The results revealed a statistically significant impact of blended finance on the willingness of financial institutions to finance machinery/equipment acquisition in SMEs in Cameroon. It is therefore recommended that the governments as well as NGOs interested in SMEs make use of this tool to incite financial institutions to provide financing for this category of businesses.

Keywords: Blended Finance, SME, Machinery, Finance.

1. Introduction

Background

The economic and social relevance of Small and Medium Sized Enterprises (SMEs) is no longer a subject of debate as it is a truism. Though small in size, these economic actors remain the biggest category of business in almost every economy on the planet. Their contribution to
vital economic indicators is generally significant (Bunyaminu, et al., 2019; Civelek, 2021; Gyimah, et al., 2019; Leboea, 2017; Lu et al., 2020; Shakeyev et al., 2021). In Cameroon, Small and Medium Sized Enterprises constitute 99% of the business population. They are responsible for the creation of about 61% of the total employment in the economy. As for the country’s GDP, they generate 36% (Tsambou, & Fomba, 2017). The case of SMEs in Cameroon is not unique as they constitute about 90% of the business population in Africa. They are also responsible for the creation of 50% of the African GDP as well as employment in the continent (Akinboade, 2015; Muriithi, 2017). In the same light, it is reported by multiple studies that this category of businesses contributes substantially to the fight against poverty and extreme hunger in developing economies as they provide a faceable outlet from these life-threatening conditions (Akinboade, 2015; Elijah, & Usaini, 2021 Ndindah, & Tripathi, 2022; Ogujiuba, 2023).

Despite their extreme importance, it is well documented that the use of technology in the operations of SMEs is highly limited. Most of the operations of these businesses are carried out manually (Cheng et al. 2023; Prassana et al. 2019). The limited use of technology therefore limits the level of automation in such businesses which inevitably increases the cost of production and keeps the production scale low (Prassana et al. 2019; Tsambou, & Fomba, 2017; Dore-Okuimose, 2023). Such conditions will eventually reduce business growth and might even contribute to the failure of the business (Siow et al., 2011; Tsambou, & Fomba, 2017). Studies on this issue in Cameroon and other developing economies have revealed the limited access of SMEs to formal financing is one of the main barriers to technology acquisition (Prassana et al. 2019; St-Pierre, et al. 2015). This reduced access of SMEs to financing is reported by multiple studies as the main contributor to high SME failure rates (Wang, Lin, & Luo, 2019; Wasiuzzaman, & Nurdin, 2019, Schammo, 2019; Gyimah, Marom, & Lussier, 2019; Akinboade, 2015, Bunyaminu et al., 2019). Multiple studies indicate that the principles of the formal financial system to a great extent exclude SMEs and low-income earners from formal financing (Clement 2022; Schammo, 2019; Gyimah, et al, 2019). Formal financial institutions especially commercial banks generally require collateral security to provide loans which SMEs generally do not have (Wang, Lin, & Luo, 2019; Rade et al., 2014). Given this situation, SME access to formal financing is quite low in multiple African economies (Osano, & Languitone, 2016; Thompson Agyapong, et al. 2017). In fact in Cameroon, despite numerous government initiatives to improve SME access to formal financing, only 22% of SMEs in this economy have access to formal financing (Chamber of Commerce Industry, Mines and Crafts, 2017).

That notwithstanding, the blended finance concept is gaining growing attention as a mechanism to unlock or incite private sector actors like commercial banks and investors to finance value-generating activities where they will otherwise be unwilling to invest. Developed by the OECD to foster growth in developing economies, blended finance involves the use of developmental funds or public sector funds to mobilize private sector capital or investment in targeted areas (OECD, 2018; Jung, 2020). Structured as such, there is risk sharing between the private sector financial actor and the development or philanthropic fund. This then reduces the private
investor’s risk perception of the otherwise neglected domain, thereby inciting private sector investment in this domain.

**Problem Statement**

The level of acquisition of technology is considerably low in SMEs in Cameroon principally due to reduced access to financing (Intarakumnerd, 2016; Mallinguh et al., 2020; Pellegrino, 2017; Prasanna et al. 2019; Subrahmanya, 2014), it is reported that formal financial institution in Cameroon has significant liquidity (Njimanted et al., 2017; Kamta et al., 2020). However, their inclination to lend to SMEs is quite reduced principally due to SMEs’ lack of collateral security or guarantee (Agyemang, & Ansong, 2017; Akinboade, 2015; Ibrahim, & Ibrahim, 2015; St. Pierre, et al., 2015). The issue of improving SME access to formal financing is reported to be quite considerable, especially in Africa. In fact, according to the World Bank (2019), in Africa, the gap between SME demand for financing and the actual supply of financing ranges from 87% to 89%. Such limited access to finance inevitably impacts technology acquisition in SMEs, hence low levels of automation in this category of businesses.

Given this alarming situation, the problem that calls for research is: can the blended finance tool be adapted to incite formal financial institutions to finance technology acquisition to SMEs become quite relevant?

Despite its relevance, studies on blended finance adaptation to SME financing in Cameroon are almost inexistent. This can be considered part of the problem on the general problem of lack of studies on blended finance since the focus on blended finance is still growing (Jung, 2020; Widyastuti, et al., 2023).

**Purpose Statement**

Given the above, it is the purpose of this study to empirically investigate the factors to be considered in the adaptations of blended finance to effectively incite formal financial institutions in Cameroon to finance technology acquisition for SMEs without sufficient collateral security.

2. Literature Review

**SME access to formal financing in Cameroon and Developing Economies**

As brought up above, accessing formal finance access is still considerably difficult for SMEs. World Bank (2019), declared that the access of SMEs to loans is considerably low with respect to that of big businesses. The International Financial Corporation (in World Bank, 2019) posits in developing economies, 40% of SME borrowing needs are not met. This represents an amount of about 5.2 trillion dollars annually which is 140% of the cumulative value of loans provided to SMEs in developing economies. This report also indicates clearly that the case of the Middle East, as well as the African continent, is the worst on the planet. It reports that the gap between SME demand for financing and the actual supply of financing in these parts of the world ranges from 87% to 89%. (World Bank, 2019). The Centre for Strategic and International Studies in
the same light acknowledged that only about 20% to 33.3% of SMEs in Sub-Saharan Africa have bank loans or credit lines (Rude, et al., 2021).

Furthermore, Lu, et al. (2020) come out clear that the problem of low SME access to formal finance is much more pronounced in developing economies compared to developed economies. Multiple studies on this category of businesses in economies across Africa report considerably low access to capital. In Mozambique, about 5% of all SMEs get loans from formal financing institutions even though this category of businesses represents more than 98% of businesses in that economy (Osano, & Languitone, 2016). Thompson Agyapong, et al. (2017), equally point out the issue of limited SME access to formal financing in Ghana. In Cameroon, though diverse measures have been put in place to enhance SME access to formal financing, only 22% of registered SMEs do access formal finances (Chamber of Commerce Industry, Mines and Crafts, 2017). This does not include the informal sector of this economy which constitute the greater part of SMEs in Cameroon and whose population is not known. While SMEs in the Cameroonian economy struggle with reduced access to financing, it is reported that formal financial institutions in Cameroon have significant liquidity (Njimanted et al., 2017; Kamta et al., 2020). In that same light, Etogo (2020), argues that just like in most developing economies, SME access to formal financing in Cameroon is highly limited and this is having a significant impact on the performance of this category of businesses. Tsambou and Fomba (2017) make a similar argument as they state that SME access to finance remains a considerable challenge to SMEs in the Cameroonian economy. In addition, they point out clearly that lack, as well as the quality of collateral security, constitute a considerable barrier to SME access to loans.

However, their inclination to lend to SMEs is quite reduced principally due to SMEs’ lack of collateral security or guarantee; they tend to maintain their old tradition of working big business (Agyemang, & Ansong, 2017; Akinboade, 2015; Ibrahim, & Ibrahim, 2015; St. Pierre, et al., 2015).

**Automation in SMEs**

It is long-standing truth that automation which comes from the use of machinery (technology) in operations increases production scale and reduces cost (Alamanda et al., 2023; Anas et al., 2023; Becker, 2023; Cheng, 2023). Anas et al. (2023) argue that with the incorporation of machinery, some critical tasks cannot be accomplished and scale cannot be achieved. In the same light, Peppe and Dore-Okuiomse (2023) point out that machinery is needed for bulk or scale production in small businesses. However, Cheng et al. (2023) argue that SMEs encounter significant difficulties acquiring machinery principally due to insufficient finance. Given that this machinery is cost-intensive (Expósito et al. 2019), in this light, Pellegrino (2017) posits that financial barriers are the most challenging when it comes to technology (Machinery and equipment) incorporation in SMEs. Worse still, challenges in accessing finances are even greater in developing economies compared to developed economies (El Alaoui et al., 2016; Williams, 2017). In fact, according to the World Bank (2019), the gap between SME demand for financing and the actual supply of financing in the Middle East and Africa ranges from 87% to 89% which is the worst in the world. Due to this considerable financing limitation in developing economies like Cameroon, Prassana et al. (2019) point out that SMEs tend to
establish in sectors that are unskilled labor-intensive, where operations can be easily carried out manually and the pay is low. This implies forgoing opportunities due to the lack of access to finance to acquire the machinery.

**Blended Finance**

According to the OECD (2018), blended finance involves the use of non-business funds like philanthropic and/or developmental funds to incite a flow of private capital funds to markets or relevant sectors that need financing. Such financing might or might not include subsidies. In such a setting, the philanthropic or non-business funds serve as an enabler or inciter for greater private capital to be mobilized to sectors that are neglected or which otherwise will not receive private sector funding (Jung, 2020; Schmidt, 2023; Pamplona, et al. 2023). According to the European Commission (2019), this mechanism permits the combination of EU grants as loans to sustainable finance targeted domains. This, therefore, involves a considerable amount of risk-sharing between donor funds and commercial funds such as banks and private investors, with the orientating as much private sector funds as possible towards identified domains (Jung, 2020; One Planet Lab & Grantham Research Institute on Climate Change and the Environment, 2021). The risk-sharing characteristic is fundamental to the blended instrument in that donor or non-business funding, though relatively limited in amount, is generally high risk tolerant given that it does not generally pursue the objective of gaining returns on investment. It can therefore serve to a great extent as a risk mitigator for greater private capital which is high-risk sensitive (Enclude, 2018; Javier, 2017).

Though relatively recent (Widyastuti, et al., 2023), early studies are reporting positive results on the usage of blended finance. Pamplona, et al. (2023), report the positive result of the usage of this tool as leverage to mobilize private finance for sustainable developmental goals. Schmidt (2023), in his paper on impact investment and market failure, highlights the positive contribution of this tool to improving market efficiency and mitigating market failure effects. Isah et al. (2023) in their study on renewable energy in Nigeria and Brazil come out clear that alongside other financing instruments, the blended finance instrument is critical in mobilizing financing for renewable energy. Murafa, and Cojoianu, (2023) in their discussion on decarbonization in the Romanian economy state clearly that blended finance has a considerable potential of accelerating the walk toward a Carbon zero economy. Furthermore, Anago (2022) drawing from Spain and Portugal's transport infrastructure experience posits that blended finance is better compared to traditional developmental funding. Havemann et al. (2020) in the same light declare that blended finance has a considerable potential of addressing sectors that developing economies are struggling with.

In addition to the above, Widyastuti, et al. (2023) point out that there is growing research interest in blended finance. Jung (2020), even argues that the blended finance tool can be used to bridge gaps in investment and the mechanism can pull commercial finances to otherwise neglected sectors or activities. He adds that this tool is highly adaptable and can be adjusted to fit the local context. In the same light Vikas, and Hari, (2023) point out that in the blended finance tool, the non-business fund (philanthropic, public, developmental fund) creates a de-risking effect. This then renders the targeted sector more attractive to commercial funds. This implies that non-business fund creates a catalytic effect for private financing (Vikas, and Hari,
2023; Jung, 2020). Blended finance, therefore, has a higher risk capacity compared to classical commercial finance. It can therefore be argued that the blended finance tool can be used to compensate for market failures of the commercial financial sectors. The reported gap between SME needs for financing and actual financing provided to SMEs in developing economies (World Bank, 2019), is a clear illustration of the market failure of the financial sector since the distribution of finance is inefficient when it comes to SMEs. Given the literature on blended finance, it can reasonably be expected that this tool can fill in this gap.

3. Methodology

Sampling and Data Collection.

This study made use of a pretested questionnaire that was administered to a randomly selected sample of 240 employees with a minimum of two years of experience across financial institutions in Cameroon. Participants with experience in loan processing were recruited from both commercial banks as well as microfinances institutions. The questionnaire was administered face-to-face and online. After retrieval and consistency checks, 232 questionnaires were retained.

Variables and Measurement

The willingness of financial institutions to provide loans to SMEs with and without the blended finance tools was measured using a Likert scale.

Data Analysis

Given the nature of the variables used and the purpose of the study, the One-Way ANOVA in SPSS analysis was used to draw meaning from the collected data. This was deemed suitable for this study because it allows for the effect of the blended finance tool on the willingness of the financial institution to provide loans to SMEs to be evaluated.

4. Results

The analysis of the collected data is shown in the tables below

<table>
<thead>
<tr>
<th>Table 4.1. ANOVA</th>
<th>Willingness to Provide Loans to SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of Squares</td>
<td>df</td>
</tr>
<tr>
<td>Between Groups</td>
<td>504.155</td>
</tr>
<tr>
<td>Within Groups</td>
<td>4441.759</td>
</tr>
<tr>
<td>Total</td>
<td>4945.914</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 4.2. Robust Tests of Equality of Means</th>
<th>Willingness to Provide Loans to SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistic</td>
<td>df1</td>
</tr>
<tr>
<td>Welch</td>
<td>26.106</td>
</tr>
<tr>
<td>Brown-Forsythe</td>
<td>26.106</td>
</tr>
</tbody>
</table>

a. Asymptotically F distributed.
Interpretation of Tables

Table 4.1 shows the ANOVA analysis results which is a measurement of the ratio of the means between the groups and the means within the groups (the F statistics). The F statistic on this is 26.106 with a significance value of p-value of .000. Since $p < 0.05$, it implies that statistically significant differences in the willingness of financial institutions to provide loans to SMEs when the blended finance tool is used compared to when the blended finance tool is not used. Thus the blended finance tool has a statistically significant impact on the willingness of financial institutions to provide loans to SMEs for machinery acquisition.

Table 4.2 on its part presents two robust tests: the Brown-Forsythe test and the Welch test. The Brown-Forsythe test is similar to the ANOVA but adjusts for non-normal distribution in the dependent variable. As for the Welch test, it accounts for unequal sizes in the groups being compared as well as heterogeneous variances. The results from these two robust tests are statistically significant ($p = 0.000 < 0.05$) for both tests.

This then confirms that the mean willingness to provide loans to SMEs for machinery acquisition when the blended finance tool is used is different from the mean willingness when the blended finance tool is not used.

5. Discussions and Conclusion

Discussions

The results from the analysis reveal that the usage of the blended finance tool significantly impacts the willingness of financial institutions to finance machinery acquisition in SMEs in Cameroon. These results suggest that overall access to formal financing can be considerably enhanced by the implementation of the blended finance tool. This goes in line with the position of Jung (2020) as well as Vikas, and Hari, (2023) who point out that blended finance is quite adaptable and can be adjusted to fit the local context. Though this is relatively recent, thus requiring further research, Widyastuti, et al. (2023), state that there is growing research interest in blended finance. Some recent research reports are indicating meaningful results of blended finance. Pamplona, et al. (2023), point out the usage of the blended finance structure by the Brazilian Development Bank to mobilize private sector financing for the attainment of set sustainable development goals. In the same light Isah et al. (2023), in their study on renewable energy in Nigeria and Brazil conclude that blended finance tools together with other financing instruments are essential for the mobilization of adequate investment in renewable energy. Still on the positive, Schmidt (2023) clearly states that this tool can contribute meaningfully to enhancing market efficiency. Havemann et al. (2020) even declare that this tool has great potential for addressing critical financing issues in developing economies. In this light, the issue of SME financing especially machinery acquisition remains a considerable challenge in Cameroon (Chamber of Commerce Industry, Mines and Crafts, 2017; Prassana et al., 2019; Ndindah, 2022; Njimanted et al., 2017; Kamta et al., 2020). Given the results from the analysis as well as reports from the literature, it is safe to state that blended finance will significantly increase the willingness of financial institutions
Limitation

The scope of the research can be considered broad since it does not focus on a specific industry. It is therefore quite general and does not address aspects that are specific to particular SME sectors. In addition, this is an early study that makes use of the quantitative correctional approach. This implies the possibility of not capturing some in-depth aspects.

Recommendation

From the above, it is recommended the government as well as developmental/philanthropic organizations interested in SMEs consider the usage of blended finance to enhance the access of SMEs to formal financing for machinery acquisition as well as the financing of other aspects that is relevant to the success of the SME.

As for future studies, given the fact blended finance is relatively recent, there is considerable need for triangulation: that is, there is a need for similar studies on how it can be adapted to address the financing needs of SMEs and as well as other relevant aspects that the Cameroonian economy is struggling with. Given the broad scope of this early study, as it does not focus on a particular industry or sector, there is a need for more sector/industry-specific studies that focus on how the blended finance tool can be adapted to incorporate unique industry aspects that are relevant to their financing.

Conclusion

Given the reported potential of the blended finance tool to mobilize private finance towards chosen sectors (Anago, 2022; Havemann et al. 2020; Murafa, & Cojoianu, 2023) and the critical need to improve SME access to finance especially for the acquisition of the machinery and equipment (Chamber of Commerce Industry, Mines and Crafts, 2017; Prassana et al., 2019; Ndindah, 2022; Njimanted et al., 2017; Kamta et al., 2020), this research seeks to find out if the usage of this tool significantly impacts the willingness of financial institutions to provide financing for SMEs in Cameroon. To achieve this purpose, data from 232 bank/ microfinance employees involved in loan processing was collected using a pretested questionnaire. Analyses revealed a statistically significant impact of blended fiancé on the willingness of financial institutions (banks and microfinances) to provide loans to SMEs for equipment/ machinery purposes. It is therefore recommended that the government as well as other local and international organizations interested in fostering SMEs make use of this tool to enhance SME access to financing in Cameroon. In addition, given the flexibility of this tool which renders it highly adapter (Vikas, and Hari, 2023; Jung, 2020), it is recommended that this tool be used to mobilize private sector finances that the Cameroonian government is struggling with.

References


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17) for the Sustainable Development Goals


20) https://doi.org/10.3917/rsg.249.163


