

Research Article

The Effect of Informal Financing on the Performance of Very Small and Small Enterprises (VSSEs) in the Buea Municipality, South West Region Cameroon

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Abstract

Objective –This article examines the effect of informal financing on the performance of Very Small and Small Enterprises (VSSEs) in Buea municipality, South West region Cameroon. Compared with past research, this work specifically aims: firstly to assess the effect of financing from informal money lenders on the performance of VSSEs. Secondly to evaluate the effect of financing from Rotating Savings and Credit Associations (ROSCAs) on the performance of VSSEs. And lastly to Investigate the effect of financing from family and friends on the performance of VSSEs. **Methodology/Technique** – This study adopts a descriptive research design and a stratified sampling strategy, with a sample size of 13 enterprises. Data were collected using questionnaires and analyzed with SPSS software through basic statistical tools such as frequencies and percentages. **Findings** – On one hand the findings reveal that, financing from ROSCAs and informal money lenders has a positive and significant effect on the performance of VSSEs. On the other hand, the findings show that financing from family and friends is not statistically significant. Meanwhile ROSCAs were found to be highly significant in improving performance. And despite the challenges in accessing funds from informal money lenders, their financing contributes positively to enterprise performance. **Novelty/Recommendations** – Compared with past research, this study emphasizes the role of informal financing sources in enhancing small enterprises performance. It recommends; Formalization and regulation of informal money lenders with clear guidelines on interest rates, repayment terms, and borrower protection. Another recommendation is strengthening the efficiency of ROSCAs through financial literacy, better record keeping and structured savings. And lastly by limiting reliance on family and friends financing to short-term or emergency support.

Keywords

Informal Financing, Money Lenders, Rotating Savings and Credit Associations, Family and Friends Financing, Small Enterprises

1. Introduction

The performance of Very Small and Small Enterprises (VSSEs) within the Buea Municipality is increasingly impeded by a multitude of challenges that are evidenced by

diminished profitability, stagnant or declining annual revenue, and limited job creation. Recent statistics provided by the Ministry of Small and Medium Enterprises, Social Economy

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and Handicrafts (MINPMEESA) reveal that over 65% of VSSEs within the South West Region, particularly in Buea Municipality, do not survive beyond their fifth year of operation owing to inadequate financial planning and limited access to capital. There is a worldwide consensus that the action of Very Small and Small Enterprises contributes to high rate of economic growth, and social development as well as poverty reduction. VSSE does not have any unique definition. This is due to the diverse and flexible nature of the sector that overcomes any minute categorization. Therefore, Very Small and Small Enterprises definition are based on the following features such as yearly turnover, size, capital and non-current assets. The economic environment in Africa is plagued by low income, low level of savings, and low investment, which makes it a challenge for the financial system to mobilize and provide financial services that will aid in the performance of Very Small and Small size Enterprises (VSSEs). Very Small and Small size Enterprises are one of the major engines in an economy and mostly emerging economies like Cameroon. According to World Bank reports VSSE account for about 90% of businesses and more than 50% of employment worldwide, whereby formal VSSE make up to 40% of the national income in emerging economies [26]. It is at the result of this that the government of Cameroon has been cultivating small business growth in recent years through initiatives such as one stop business registration centers. It also plans to open a bank to lend to very small and small business owners. A two-year tax exemption for new business owners to allow entrepreneurs to invest in their ideas to achieve the goals of Cameroon vision 2035. The 2023 MINPMEESA annual report elucidates that despite the registration of over 2,000 VSSEs in Buea Municipality the past five years, less than 40% demonstrated positive growth in profitability or employment [15]. Cumulatively, annual sales among these enterprises have stagnated, averaging below 1.5 million FCFA, while average operational costs continue to escalate, exerting pressure on the already meagre profits of these small enterprises. These indicators paint a troubling picture of the performance of VSSE ecosystem, suggesting systemic financial and managerial deficiencies.

In this article, informal finance is considered as small, unsecured and short-in-maturity funding capital sourced from private informal moneylenders, the relatives and friends of the business owners and Rotating Savings and Credit Associations. Informal finance is found to be positively associated with firm growth and performance in several developing countries, including China, India, Thailand, Madagascar, Egypt, Nepal and Vietnam [11]. The informal sources of finance are vital to meeting the needs of the poor in both the developed and the developing countries. These needs are grouped into three categories: managing basics (for example cash-flow management to transform erratic income flows into a reliable resource to meet daily needs), coping with risk, and raising lump sums to cover big expenses.

Very small and small businesses perform a significant duty

in social and economic growth of a country such as contributing to the growth of self-employment [16] which leads to an increase in the capacity of the economy to produce goods and services within a specific period of time. According to Ariyo, Very Small and small businesses assist in contributing 30% of the global Gross Domestic Product (GDP) through generating employment, act as an income generator by providing employment opportunities resulting to rural development through the shifting of businesses to rural areas due to available resources in terms of land, cheap labor and raw materials [3]. This has enabled development of the location in which these businesses operate. Along with that, Very Small and Small size Enterprises facilitate in the proper utilization of local resources as well as industrialization and economic growth [21] which further results in higher living standards. Employment is generated because with unemployment on an increase, most of the youths, school graduates and retired people are now opting to entrepreneurship. Thus, unemployment is substantially decreasing through entrepreneurship in many countries. Along with that, government and other multilateral institutions are ready to educate people regarding entrepreneurial development. The performance of these Very Small and Small Enterprises (VSSEs) also plays a vital role in stimulating government finances by enhancing tax revenues. This enables the government to earn extra income for the further development of an economy.

In order to perform the above duties, the enterprises have to be financially viable because finance is one of the main factors that determines the performance of an enterprise hence financial access is an essential aspect for the growth and sustainability of any business venture. Loan repayment period is very critical and Very Small and Small Enterprises (VSSEs) clients prefer long duration because it is associated with affordable instalments [4].

The principal catalyst for this sluggish performance appears to be the characteristics and composition of the financing modalities available to these enterprises. Due to stringent requirements and substantial collateral stipulations imposed by formal financial institutions, numerous VSSEs in Buea Municipality resort to informal financing alternatives. Such alternatives encompass money lenders, Rotating Savings and Credit Associations (ROSCAs), and financial assistance from family and friends. Although these informal sources provide relatively easier access to capital, they frequently entail exorbitant interest rates (in the case of money lenders), constrained fund sizes (for ROSCAs), or irregular and unpredictable terms (when borrowing from family and friends). These elements profoundly impact the stability, scalability, and sustainability of these enterprises [2, 25]. Consequently, informal financing plays a critical yet underexplored role in influencing the performance of VSSEs in this region.

The study seeks to evaluate the effects of informal financing on VSSE performance in Buea Municipality. Specifically, it examines the contributions of money lenders, ROSCAs, and family and friends in shaping business outcomes such as

profitability, revenue growth, employment levels, and operational expenditures.

2. Theoretical Literature

To comprehensively understand informal financing and the performance of Very Small and Small Enterprises, it is important to explore relevant theories;

1- *Enterprise growth theory*, developed by Penrose. Emphasizes that firm growth is primarily driven by the efficient use of internal resources and managerial capabilities rather than solely by external demand [22]. The theory highlights the role of excess productive capacity, cumulative learning and managerial decision-making in expanding operations. However critics argue that the model overemphasizes internal factors and assumes rational management, overlooking external market and institutional barriers [12].

2- *Credit Rationing theory*, Stiglitz and Weiss introduced the Credit Rationing theory, which explains how asymmetric information in credit markets leads lenders to ration credit rather than raise interest rates. Higher rates can increase adverse selection- attracting riskier borrowers – and moral hazard, where borrowers may be denied loans. However the theory has been criticized for focusing narrowly on supply-side dynamics and underestimating the role of institutional and technological innovations in reducing information asymmetric [9].

3- *The Financing Growth theory*, this theory was introduced by Berger and Udell links financing patterns to the life cycle of firms, suggesting that business cycle typically progress from using internal and informal funding at inception to accessing structured external finance such as bank loans, ventures capital, or public equity as they mature [7]. Financing access involves with firm size, age, and transparency, as information asymmetry decreases over time. Critics note, however that the theory assumes a linear progression and underplays persistent barriers-such as institutional weaknesses- that continue to limit financing opportunities even for growing firms [5, 6].

Together, these theories explain the importance of informal financing in supporting the growth of small enterprises in a context where formal financial access is limited.

3. Empirical Literature

Empirical evidence highlights the widespread reliance on informal financing among small enterprises in developing countries. Kislat observed that informal finance positively influences firm growth and performance in countries such as China, India, Thailand, Madagascar, Egypt, Nepal, and Vietnam [11]. Similarly, Mungiru and Njeru emphasized that small enterprises significantly contribute to employment and economic output when supported by accessible financing

[16]. In the African context, Amoako and Tchamyu noted that entrepreneurs often resort to informal finance due to severe collateral requirements imposed by banks [2, 25]. While money lenders provide quick capital, they often charge exploitative interest rates that undermine profitability. ROSCAs foster community-based savings and lending but are constrained by limited sizes. Family and friends may offer flexible repayment arrangements, but these are often unpredictable and insufficient to meet long-term business needs [23].

Several interventions have been proposed to strengthen informal financing mechanisms. Abor and Quartey suggested integrating ROSCAs into formal banking systems to enhance transparency and fund management [1]. Kira and He advocated for government-backed credit guarantee schemes to ease the credit constraints of VSSEs [10]. Moreover, capacity-building programs, financial literacy training, and regulatory frameworks have been recommended to maximize the developmental potential of informal financing. Despite these recommendations, stagnation and sluggish growth remain common among VSSEs in Buea Municipality. Informal finance continues to dominate the entrepreneurial ecosystem, but its effects on business performance are not fully understood. This creates a research gap that warrants further investigation into how money lenders, ROSCAs, and family/friends financing, influence key performance indicators such as revenue, profitability, employment, and sustainability.

4. Methodology

The study was based on a descriptive research design and the data collection for this study was done with the use of questionnaire, using a sample size of 130 respondents drawn from 192 enterprises in Buea starting from the primary, secondary and tertiary sectors. The sampling was achieved with the help of the stratified sampling technique. After data collection and analysis, the following results were made available using SPSS Version 25.

This research chapter presents results of data analysis from the collected data from the field, presentation as well as interpretation of findings. The purpose of the study was aimed at examining the effect of informal financing on the performance of Very Small and Small Enterprises in Buea.

This study focuses on informal money lender, Rotating Savings and Credit Associations and family and friends financing on the performance of Very Small and Small Enterprises in Buea. The research data was collected using a questionnaire. And the data was analyzed using Statistical Package for Social Science (SPSS). The researcher makes use of descriptive statistics and regression analysis in order to validate the results.

5. Presentation of Findings

Table 1. Money Lenders (ML) affects the Performance of Very Small and Small Enterprises.

Statement	SD	D	N	A	SA
Access to money lenders has affected the way the enterprise sources funds for urgent business needs.	14 (10.8%)	17 (13.1%)	49 (37.7%)	31 (23.8%)	19 (14.6%)
The interest rates charged by money lenders have impacted this enterprise's operating costs.	22 (16.9%)	18 (13.8%)	39 (30.0%)	26 (20.0%)	25 (19.2%)
The repayment schedules of money lenders have influenced the enterprise's ability to manage cash flow.	39 (30.0%)	22 (16.9%)	33 (25.4%)	23 (17.7%)	13 (10.0%)
Timely access to funds from money lenders has affected the continuity of this enterprise's operations.	41 (31.5%)	19 (14.6%)	30 (23.1%)	21 (16.2%)	19 (14.6%)

Source: Field work (2025)

The results in Table 1 reveal the distribution of respondents' views on how money lenders affect their businesses. The findings indicate that access to money lenders influences how enterprises source funds for urgent business needs, although opinions vary. A total of 50 respondents (31 agreed, 23.8%, and 19 strongly agreed, 14.6%) confirmed that money lenders play a role in shaping their funding strategies during urgent situations. However, a significant portion of respondents, 31 in total, disagreed, with 14 (10.8%) strongly disagreeing and 17 (13.1%) disagreeing, suggesting that many enterprises do not rely heavily on money lenders for urgent finance. Meanwhile, 49 respondents (37.7%) were neutral, indicating uncertainty or mixed experiences with money lenders in this regard. Regarding the interest rates charged by money lenders, responses reveal a considerable impact on enterprise operating costs. A combined 51 respondents (26 agreed, 20.0%, and 25 strongly agreed, 19.2%) acknowledged that these rates affect their expenses. Conversely, 40 respondents disagreed (22 strongly disagreed, 16.9%, and 18 disagreed, 13.8%), highlighting a significant divide in perceptions about the burden of interest rates. A sizeable group of 39 respondents (30.0%) remained neutral

on this issue.

When it comes to the influence of money lenders' repayment schedules on cash flow management, the majority of respondents expressed concern. Specifically, 61 respondents (39 strongly disagreed, 30.0%, and 22 disagreed, 16.9%) indicated that repayment terms negatively affect their ability to manage cash flow effectively. In contrast, only 36 respondents (23 agreed, 17.7%, and 13 strongly agreed, 10.0%) felt that repayment schedules had a positive influence or were manageable. Meanwhile, 33 respondents (25.4%) were neutral, neither agreeing nor disagreeing. Regarding the timely availability of funds from money lenders and its effect on business continuity, the responses were mixed but tended towards skepticism. A total of 40 respondents (41 strongly disagreed, 31.5%, and 19 disagreed, 14.6%) felt that access to money lender funds did not sufficiently support ongoing business operations. On the other hand, 40 respondents (21 agreed, 16.2%, and 19 strongly agreed, 14.6%) believed timely access to funds had a positive impact on maintaining operations. Meanwhile, 30 respondents (23.1%) held a neutral view on this matter.

Table 2. Rotating Savings and Credit Associations (ROSCAs) affects the Performance of Very Small and Small Enterprises.

Statement	SD	D	N	A	SA
Access to ROSCAs has affected the way this enterprise meets short-term financial needs.	18 (13.8%)	22 (16.9%)	40 (30.8%)	28 (21.5%)	22 (16.9%)
The need for regular ROSCA contributions has influenced this enterprise's cash management.	30 (23.1%)	17 (13.1%)	28 (21.5%)	26 (20.0%)	29 (22.3%)
The flexibility in accessing funds through ROSCAs has affected the financing strategy of this enterprise.	14 (10.8%)	20 (15.4%)	27 (20.8%)	40 (30.8%)	29 (22.3%)
The size of funds received from ROSCAs has impacted how much this	26	33	20	31	20

Statement	SD	D	N	A	SA
enterprise can invest.	(20.0%)	(25.4%)	(15.4%)	(23.8%)	(15.4%)

Source: Field work (2025)

The responses in Table 2 reflect how ROSCAs influence various aspects of the enterprises' operations. The data shows that access to ROSCAs has a notable effect on how enterprises meet their short-term financial needs. A combined total of 50 respondents, comprising 28 (21.5%) who agreed and 22 (16.9%) who strongly agreed, indicated that ROSCAs have influenced their ability to manage immediate financial requirements. Meanwhile, 40 respondents (30.8%) remained neutral, suggesting some uncertainty or mixed experiences. However, 40 respondents disagreed, including 18 (13.8%) who strongly disagreed and 22 (16.9%) who disagreed, indicating that a significant portion of enterprises did not find ROSCAs access to be impactful in this area.

Regarding the impact of regular ROSCAs contributions on cash management, the responses were more evenly distributed. A total of 55 respondents (26 agreed, 20.0%, and 29 strongly agreed, 22.3%) reported that these contributions influenced how they manage cash flows. However, there were also 47 respondents who disagreed (30 strongly disagreed, 23.1%, and 17 disagreed, 13.1%), highlighting that for some enterprises, the requirement to contribute regularly might be viewed as a constraint. Meanwhile, 28 respondents (21.5%) neither agreed nor disagreed, reflecting a neutral

stance on the influence of ROSCAs contribution schedules. When asked about the flexibility in accessing ROSCAs funds and its effect on financing strategies, 69 respondents (40 agreed, 30.8%, and 29 strongly agreed, 22.3%) acknowledged that this flexibility plays a significant role in shaping how they finance their businesses. This suggests that many enterprises value the ability to draw funds as needed. Meanwhile, 27 respondents (20.8%) were neutral, neither agreeing nor disagreeing with this statement. On the other hand, 34 respondents (14 strongly disagreed, 10.8%, and 20 disagreed, 15.4%) did not see flexibility as influencing their financing strategies.

Regarding the size of funds received from ROSCAs and its impact on investment capacity, the responses were mixed. A combined 51 respondents (31 agreed, 23.8%, and 20 strongly agreed, 15.4%) felt that the amount of funds they receive influenced how much they can invest in their enterprises. However, a larger group of 59 respondents expressed disagreement, with 26 strongly disagreeing (20.0%) and 33 disagreeing (25.4%), implying that for many, the size of ROSCAs funds might be insufficient or not directly linked to their investment decisions. Additionally, 20 respondents (15.4%) held a neutral position on this issue.

Table 3. Family and Friends (FF) affects the Performance of Very Small and Small Enterprises.

Statement	SD	D	N	A	SA
Support from family and friends has affected the enterprise's ability to meet urgent funding needs.	14 (10.8%)	14 (10.8%)	39 (30.0%)	32 (24.6%)	31 (23.8%)
Loans from family and friends with little or no interest have affected the enterprise's capital structure.	26 (20.0%)	21 (16.2%)	26 (20.0%)	27 (20.8%)	30 (23.1%)
Flexible repayment terms from family and friends have affected the enterprise's cash flow management.	18 (13.8%)	17 (13.1%)	45 (34.6%)	29 (22.3%)	21 (16.2%)
The quickness of funds from family and friends has affected how the enterprise manages urgent finances.	31 (23.8%)	27 (20.8%)	37 (28.5%)	21 (16.2%)	14 (10.8%)

Source: Field work (2025)

The responses in Table 3 reveal how support from family and friends (FF) influences various financial aspects of the enterprises. The data suggests that support from family and friends plays a significant role in helping enterprises meet urgent funding needs. A combined total of 63 respondents, with 32 (24.6%) agreeing and 31 (23.8%) strongly agreeing, acknowledged that such support positively affects their abil-

ity to access urgent funds. However, 28 respondents disagreed, including 14 (10.8%) who strongly disagreed and 14 (10.8%) who disagreed, indicating some enterprises may not rely on or benefit from family and friends in this way. Additionally, 39 respondents (30.0%) remained neutral, suggesting varied experiences or uncertainty regarding this form of support.

Regarding loans from family and friends that carry little or no interest, 57 respondents (27 agreed, 20.8%, and 30 strongly agreed, 23.1%) believed that these loans have influenced their enterprise's capital structure, likely by reducing the cost of capital. On the other hand, 47 respondents (26 strongly disagreed, 20.0%, and 21 disagreed, 16.2%) disagreed with this, signaling that for some enterprises, these loans may not play a significant role in their financial structuring. A further 26 respondents (20.0%) were neutral on this matter. Flexible repayment terms from family and friends were perceived to affect cash flow management positively by 50 respondents (29 agreed, 22.3%, and 21 strongly agreed, 16.2%). Nevertheless, 35 respondents expressed disagreement (18 strongly disagreed, 13.8%, and 17 disagreed,

13.1%), indicating that not all enterprises benefit equally from flexible repayment arrangements. The largest group, 45 respondents (34.6%), were neutral, reflecting uncertainty or mixed experiences with repayment flexibility.

In contrast to the other statements, the quickness of funds from family and friends received more skepticism. A total of 58 respondents (31 strongly disagreed, 23.8%, and 27 disagreed, 20.8%) felt that the speed of receiving funds from family and friends does not significantly help in managing urgent financial needs. Meanwhile, only 35 respondents (21 agreed, 16.2%, and 14 strongly agreed, 10.8%) viewed quick access to funds as beneficial. The remaining 37 respondents (28.5%) were neutral, indicating mixed perceptions regarding the timeliness of family and friends' financial support.

Table 4. Performance of Very Small and Small Enterprises (PVSSes).

Statement	SD	D	N	A	SA
Informal financing affects how efficiently the enterprise uses its assets to generate income.	15 (11.5%)	18 (13.8%)	31 (23.8%)	37 (28.5%)	29 (22.3%)
Informal financing affects the enterprise's ability to acquire productive assets.	16 (12.3%)	18 (13.8%)	54 (41.5%)	15 (11.5%)	27 (20.8%)
Informal financing affects the return generated on owners' capital in the enterprise.	40 (30.8%)	24 (18.5%)	18 (13.8%)	31 (23.8%)	17 (13.1%)
The use of informal financing has influenced changes in the retained earnings of the business.	34 (26.2%)	22 (16.9%)	12 (9.2%)	25 (19.2%)	37 (28.5%)

Source: Field work (2025)

The responses in Table 4 highlight the perceived effects of informal financing on the performance of Very Small and Small Enterprises (PVSSes). The results indicate that informal financing has a notable impact on how efficiently enterprises use their assets to generate income. A total of 66 respondents, with 37 (28.5%) agreeing and 29 (22.3%) strongly agreeing, acknowledged that informal financing influences asset utilization. However, 33 respondents disagreed, consisting of 15 (11.5%) who strongly disagreed and 18 (13.8%) who disagreed. Meanwhile, 31 respondents (23.8%) remained neutral, reflecting a mixed perception about this influence. When it comes to acquiring productive assets, informal financing appears to have a less direct impact according to the respondents. The majority, 54 respondents (41.5%), were neutral, indicating uncertainty or that this factor is less clear in affecting asset acquisition. Meanwhile, 42 respondents (15 agreed, 11.5%, and 27 strongly agreed, 20.8%) believe informal financing positively affects their ability to acquire productive assets. On the other hand, 34 respondents (16 strongly disagreed, 12.3%, and 18 disagreed, 13.8%) did not perceive informal financing as significant in

this regard. Regarding the return generated on owners' capital, perceptions are more negative. A majority of 64 respondents, with 40 (30.8%) strongly disagreeing and 24 (18.5%) disagreeing, felt that informal financing does not positively affect returns on capital. Only 48 respondents (31 agreed, 23.8%, and 17 strongly agreed, 13.1%) believed informal financing improves return on capital, while 18 respondents (13.8%) were neutral on the issue. This suggests concerns among many enterprise owners about the profitability impact of informal financing.

Opinions are somewhat divided on the influence of informal financing on changes in retained earnings. A combined 62 respondents (25 agreed, 19.2%, and 37 strongly agreed, 28.5%) agreed that informal financing has affected retained earnings. However, 56 respondents (34 strongly disagreed, 26.2%, and 22 disagreed, 16.9%) disagreed with this statement. Additionally, 12 respondents (9.2%) were neutral. This reflects contrasting views on whether informal financing translates into improved profitability retained within the business.

Table 5. Summary Descriptive Statistics.

Statement	N	Minimum	Maximum	Mean	Std. Deviation
Money Lenders	130	1.00	5.00	2.8942	1.14114
Rotating Savings and Credit Associations	130	1.00	5.00	3.1096	1.23812
Family and Friends Financing	130	1.00	5.00	3.0846	1.17077
Age of business	130	1.00	3.00	1.6462	0.77621
Size of business	130	1.00	2.00	1.3000	0.46003
Performance of Very Small and Small Enterprises	130	1.00	5.00	3.0692	1.22396

Source: Field work (2025)

Table 5 presents the summary descriptive statistics for the key variables in the study based on responses from 130 businesses. The use of Money Lenders shows a moderate average score of 2.89 with a standard deviation of 1.14, indicating varied reliance on this financing source among respondents. Rotating Savings and Credit Associations (ROSCAs) have a slightly higher average score of 3.11 and greater variability (standard deviation of 1.24), suggesting they are a commonly used financing method with diverse engagement levels. Similarly, Family and Friends Financing has an average score of 3.08, reflecting moderate to high utilization with some variation (standard deviation of 1.17).

The Age of Business averages 1.65 on a scale of 1 to 3, implying that most businesses are relatively young. The Size of Business averages 1.30 on a scale from 1 to 2, suggesting that the majority of the businesses are quite small. Finally, the Performance of Very Small and Small Enterprises scores an average of 3.07, indicating moderate performance with notable diversity among businesses (standard deviation of 1.22). Overall, these statistics highlight a moderate level of financing engagement and business performance with considerable variability across the sample.

Inferential Statistics

Table 6. Cronbach Alpha Reliability Test.

Variable	Test statistics
Money Lenders	0.884
Rotating Savings and Credit Associations	0.935
Family and Friends Financing	0.913
Performance of Very Small and Small Enterprises	0.894

Source: Field work (2025)

The results presented in Table 6 show the Cronbach's Alpha reliability coefficients for each of the main variables used in the study. All values exceed the commonly accepted threshold of 0.70, indicating high internal consistency among the items used to measure each construct. Specifically, Money Lenders recorded a Cronbach's Alpha of 0.884, Rotating Savings and Credit Associations (ROSCAs) had the highest reliability with a score of 0.935, and Family and

Friends Financing showed strong reliability at 0.913. Similarly, the dependent variable, Performance of Very Small and Small Enterprises, had a reliability coefficient of 0.894. These results confirm that the measurement scales used for all variables in the study are statistically reliable, and the items within each construct consistently reflect the intended concept.

Test of hypothesis

Table 7. Ordinary Least Square Regression Estimates.

Variable	Coef	Std. Error	t-Statistic	p-Value	95% Confidence Interval	VIF
(Constant)	0.427	0.157	2.727	0.007	(0.117, 0.737)	
Money Lenders	0.072	0.059	1.229	0.221	(-0.044, 0.189)	3.501
Rotating Savings and Credit Associations	0.509	0.068	7.540	0.000	(0.376, 0.643)	5.416
Family and Friends Financing	0.336	0.065	5.176	0.000	(0.208, 0.465)	4.478
Age of business	0.124	0.074	1.662	0.099	(-0.024, 0.271)	2.584
Size of business	-0.302	0.082	-3.667	0.000	(-0.465, -0.139)	1.109
Model Summary						
R Square	Adjusted R Square			F-statistic	Prob (F-statistic)	
0.893	0.889			207.155	0.000	

Source: Field work (2025)

The results presented in Table 7 show the output of an Ordinary Least Squares (OLS) regression model investigating the effect of Money Lenders, Rotating Savings and Credit Associations (ROSCAs), Family and Friends Financing, and two control variables (Age of Business and Size of Business) on the performance of Very Small and Small Enterprises (VSSEs). The overall model is robust and fits the data well, as indicated by an R Square value of 0.893 and an Adjusted R Square of 0.889. This means that approximately 89% of the variation in the performance of VSSEs is explained by the independent variables in the model. The F-statistic of 207.155 with a p-value of 0.000 confirms that the model is statistically significant overall.

The coefficient for Money Lenders is 0.072, indicating a positive relationship between money lender financing and the performance of Very Small and Small Enterprises (VSSEs). This means that a one-unit increase in money lender financing is associated with a 0.072 unit increase in the performance of VSSEs. However, this effect is not statistically significant at the 5% level, as the p-value is 0.221, which is greater than 0.05. Additionally, the 95% confidence interval (-0.044 to 0.189) includes zero, reinforcing the lack of significance. The Variance Inflation Factor (VIF) is 3.501, which is below the commonly accepted threshold of 10, indicating no multicollinearity concerns. For Rotating Savings and Credit Associations (ROSCAs), the coefficient is 0.509, suggesting a positive and substantial effect on the performance of Very Small and Small Enterprises. A one-unit increase in ROSCAs financing leads to a 0.509 unit increase in performance, holding other variables constant. This relationship is highly statistically significant, with a p-value of 0.000, well below the 0.01 level, and the confidence interval (0.376 to 0.643) does not include zero. The VIF value of 5.416 is below the critical threshold of 10, indicating that there are no multicollinearity issues, though some moderate correlation with other predictors may exist. The coefficient for Family

and Friends Financing is 0.336, indicating a positive effect on the performance of VSSEs. This means a one-unit increase in funding from family and friends will increase performance by 0.336 units. This result is statistically significant, with a p-value of 0.000, and the confidence interval (0.208 to 0.465) lies entirely above zero. The VIF is 4.478, which is well within the acceptable range, suggesting no multicollinearity concerns associated with this variable.

The coefficient for Age of Business is 0.124, which implies a positive relationship between the number of years a business has been in operation and the performance of VSSEs. Specifically, a one-year increase in business age results in a 0.124 unit increase in performance. However, the effect is not statistically significant ($t = 1.662$, $p = 0.099$), as the p-value is greater than 0.05. The 95% confidence interval (-0.024 to 0.271) crosses zero, suggesting that the evidence is not conclusive. The VIF of 2.584 indicates no issues with multicollinearity. In contrast, the coefficient for Size of Business is -0.302, indicating a negative relationship between business size and the performance of VSSEs. A one-unit increase in business size is associated with a 0.302 unit decrease in performance. This finding is statistically significant, with a p-value of 0.000, and the 95% confidence interval (-0.465 to -0.139) confirms the significance of the negative effect. The VIF of 1.109 is very low, meaning there are no multicollinearity concerns related to this variable.

6. Discussion

The findings demonstrate strong measurement reliability and validity, with ROSCAs and money lenders showing significant effects on the growth of very small and small enterprises, while family and friends, business age, and business size were not significant predictors. These results align with prior studies emphasizing the importance of informal fi-

nancing. For example, Mungiru and Njeru highlighted the positive role of self-help groups and family support in SME performance [17], while Mago and Modiba confirmed the central role of informal finance in enterprise development [13]. Similarly, Owusu and Adoley identified the contributions of money lending institutions to SME profitability, though the present findings underscore the particularly strong influence of ROSCAs [20]. In contrast, Serem and Jagono reported that ROSCAs did not significantly impact women-led enterprises in Kenya, suggesting that contextual factors may moderate outcomes [24]. Additional evidence from Clement in Cameroon, Mbizi and Gwangwava in Zimbabwe, and Ojuwkwu et al. in Nigeria consistently supports the effectiveness of ROSCAs in facilitating SME growth and sustainability [8, 14, 19]. Collectively, these studies reinforce the present findings that informal financing, especially ROSCAs, serves as a vital mechanism for enhancing enterprise performance across diverse African contexts.

Due to the heavy reliance of VSSE on informal financing, this has caused a pressing need for inclusive financial policies that simplify access to formal credit through reduced collateral requirements and flexible repayment terms. Financial literacy and record keeping training for VSSE owners are essential to improve fund management and future access to formal financing. Business owners and aspiring business owners can get insights on growth factors affecting businesses and how to make business choices that will better grow their perspective businesses. This will in turn better the business ethics of the entire economy and reduce the risks of businesses closing down because of ignorance.

The findings of the study can also be of great help to various stakeholders such as government entities, micro and small business organisations, agencies, research companies and academic institutions. This is through the identification of problems and the provision of possible solutions that can be implemented to better the growth of the business enterprises and hence the economy at large. Finally, this study creates awareness among the formal financial institutions on the role of informal financing on the growth of MSEs. Therefore, the formal institutions especially banks will improve their customer services regarding the provision of financial services to MSEs.

7. Study Limitations and Future Research

The study on the Effect of Informal Financing on the growth of Very Small and Small Enterprises (VSSEs) in Buea Municipality provides useful insights but has some limitations. Its focus on VSSEs within Buea restricts the generalizability of findings to other regions in Cameroon, where variations in economic activities and financing conditions may yield different outcomes. Reliance on self-reported data from business owners introduces potential inaccuracies, particularly

due of weak record-keeping practices. The study primarily examined informal financing sources such as Personal savings, Family and Friends Financing, and Rotating Savings and Credit Associations, without deeply exploring other critical factors like managerial skills, market access, infrastructure and government policies. Furthermore, its cross-sectional design limits the ability to establish long-term causal relationships, as business performance can fluctuate over time due to social and economic changes.

To address these gaps, future research should expand geographical to include other municipalities, allowing for comparative analyses and broader generalizations. A longitudinal design is recommended to track enterprises over time, offering deeper insights into how informal financing affects growth at various stages. Additionally, exploring the interplay between informal and formal financing, while incorporating variables such as managerial competence innovation, and external economic conditions, would provide a more comprehensive understanding of enterprise growth. Qualitative methods such as interviews and case studies, could further enrich findings by capturing the nuanced experiences of entrepreneurs. These steps would enhance the understanding of financing dynamics and their role in fostering the growth of small enterprises in Cameroon. Finally, similar study could be carried out using the same variables but instead of focusing on Micro and Small Enterprises, the study could focus on other categories of enterprises such as Small and Medium size Enterprises, large enterprises in a different locality.

8. Conclusion

The analysis substantiates that all latent constructs demonstrate a high degree of internal consistency reliability, as evidenced by Cronbach's alpha, rho_a, and rho_c values surpassing the recommended threshold of 0.70, which denotes superior reliability. Furthermore, indicator loadings and Average Variance Extracted (AVE) values exhibit substantial convergent validity across all constructs, exceeding the critical thresholds of 0.6 and 0.50, respectively. The results from the Ordinary Least Squares regression indicate that Money Lenders and ROSCAs have a significant effect on the Growth of Very Small and Small Enterprises (GVSSSEs), with coefficients that are statistically significant, whereas Family and Friends, along with Business Age and Business Size categories, do not show a significant effect. The model accounts for 44% of the variance in GVSSSEs, demonstrating significant overall model fit, minimal multicollinearity, and normally distributed residuals, thereby confirming the validity and reliability of the analysis.

When contrasted with the empirical research conducted by Mungiru and Njeru, these results align closely [17, 18]. Mungiru and Njeru discovered that various informal funding sources, such as self-help groups and support from family and friends, have a positive effect on SME performance. The current study's demonstration of consistent measurement

across diverse informal funding methods and the strong connection between ROSCAs and business growth reflect and build on these prior findings, particularly emphasizing the significant impact of ROSCAs within a broader informal finance framework. Similarly, the systematic review by Mago and Modiba highlighted the practicality and crucial role of informal finance in promoting the launch and expansion of micro and small enterprises [13]. This study corroborates that perspective by showing how informal financial structures especially ROSCAs can significantly facilitate growth in very small and small enterprises. Both sets of research indicate that informal finance acts as an essential alternative to formal funding, thereby fostering entrepreneurial endeavours and business sustainability. Owusu and Adoley's analysis of money lending institutions in Ghana further supports the current study's focus on informal finance [20]. While Owusu and Adoley identified that loans from money lending institutions aid in increasing profits, inventory, and sales, the current findings expand on this narrative by indicating that even though various informal channels contribute to growth, ROSCAs seem to have the most substantial relationship with VSSE growth. This prompts intriguing inquiries about the comparative effectiveness of different informal financing modes.

Conversely, Serem and Jagongo noted that, in the case of women-led enterprises in Bomet County, Kenya, lending practices through ROSCAs did not show a statistically significant impact on business growth, though factors such as financial literacy had a notable influence [24]. This subtle distinction indicates that while the overall advantages of informal finance are clear, contextual elements such as specific demographics or regional obstacles may influence the efficacy of financial channels like ROSCAs. Thus, the strong findings regarding ROSCAs effectiveness from the current study may particularly represent broader or different segments of enterprises.

Clement and Mbizi and Gwangwava provide additional empirical support from varied African contexts [2, 14]. Clement's investigation in the Western Region of Cameroon validated that ROSCAs significantly improve access to capital for SMEs, which aligns well with the current study's finding of a strong relationship between ROSCAs and business growth. In addition, Mbizi and Gwangwava's study in Chinhoyi, Zimbabwe, emphasized the adaptability and efficacy of ROSCAs in maintaining business operations, contributing further evidence to the documented connection between informal financing mechanisms and microenterprise sustainability [14]. Lastly, Ojukwu et al. indicated that being a member of a ROSCA significantly increased the likelihood of improved SME performance in Anambra State, Nigeria [19]. This notably high odds ratio is consistent with the current findings, where ROSCAs emerged as the construct with the strongest correlation to the growth of very small and small enterprises. The alignment of these results across various contexts highlights the crucial function of ROSCAs as a

viable and effective financing route, ultimately aiding the overall success and sustainability of SMEs.

In conclusion, the empirical findings of this study not only bolster the reliability and predictive value of the measurement model but also resonate with a wide array of previous research. Collectively, these studies emphasize the importance of informal financing, particularly through ROSCAs, in enhancing SME performance while also noting that contextual variations may affect the effectiveness of different informal financing alternatives.

Abbreviations

AVE	Average Variance Extracted
GDP	Gross Domestic Product
MFIs	Micro Finance Institutions
MINPMEESA	Ministry of Small and Medium Enterprises, Social Economy and Handicrafts
MSEs	Micro and Small Enterprises
ROSCAs	Rotating Savings Credit Associations
SEM	Structural Equation Modelling
SMEs	Small and Medium Size Enterprises
SPSS	Statistical Package for Social Science
VSSEs	Very Small and Small Enterprises

Conflicts of Interest

The authors declare no conflicts of interest.

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