Financing Dynamics and Growth of SMEs: A Life Cycle Perspective

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Abstract: *The problem of accessing finance has been the main reason why most SMEs die young or do not reach maturity. It has been noticed that modes of finance change as the stages of the lifecycle of SMEs change. The aim of this study was to know the impact of life cycle on modes of financing of SMEs in Cameroon. A mixed-methods research design was used, with primary data collected through a survey questionnaire and an ordinary least squares regression model. The findings show that SMEs in infancy and adolescence rely more on internal owner-manager financing and informal sources of finance, while as firms mature, they tend to use retained earnings and formal financing modes. The choice of financing mode has a positive impact on SMEs' growth in Cameroon. The study emphasizes the need for financial institutions to adapt their credit policies and services to accommodate SMEs' evolving financing needs, as well as the importance of developing a robust ecosystem to support SMEs in accessing appropriate financing at different stages of development.*
Keywords: Life cycle, financing modes, SMEs
Jel Classification Codes : G30; G34

Résumé: *L'accès limité au financement constitue un obstacle majeur à la survie et à la croissance des PME, empêchant nombre d'entre elles d'atteindre leur maturité. Il a été observé que les modes de financement évoluent en fonction des étapes du cycle de vie des PME. Cette étude vise à examiner l'impact du cycle de vie sur le mode de financement des PME au Cameroun. A cette fin, une méthodologie mixte a été mobilisée, combinant la collecte de données primaires par questionnaire et l'analyse à l'aide d'un modèle de régression par les moindres carrés ordinaires. Les résultats révèlent que les PME en phases de démarrage et de croissance initiale dépendent principalement du financement interne assuré par le propriétaire-dirigeant ainsi que de sources de financement informelles, tandis qu'en phase de maturité, elles privilégient l'utilisation des bénéfices non distribués et des modes de financement formels. Le choix du mode de financement se révèle avoir un impact positif sur la croissance des PME au Cameroun. L'étude met en exergue la nécessité pour les institutions financières d'ajuster leurs politiques et services de crédit afin de répondre aux besoins financiers changeants des PME, tout en soulignant l'importance de développer un écosystème robuste pour faciliter l'accès à un financement adapté à chaque étape du développement des PME.*
Mots clés: Cycle de vie, modes de financement, PME
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I. Introduction

SMEs play a key role in the Cameroonian economy, contributing significantly to job creation, innovation, and economic growth. More than 90% of the country's businesses are SMEs, forming the backbone of the economy and fostering competition and entrepreneurship (Wansi & Burrell, 2023). With their ability to quickly adapt to changing market conditions and innovate across industries, SMEs are a key driver of economic diversification and sustainability in Cameroon (Oludele et al., 2012). The success and growth of SMEs in Cameroon is crucial to reducing poverty, promoting sustainable development, and diversifying the economy beyond traditional sectors (Nguena, 2013). Supporting and promoting the growth of SMEs should therefore be a top priority for Cameroonian policymakers and stakeholders.

The theory of the corporate life cycle assumes that, like living organisms, a company goes through a series of predictable development patterns, with the company's resources, capabilities, strategies, structures, and capabilities changing significantly during the corresponding development stages (Miller and Friesen 1980, 1984; Quinn and Cameron 1983). Researchers and scholars who have studied the stages of the life cycle have used various parameters to determine a particular stage. Stage determinants used include the age of the company, its size, and its growth rate. Organisational science and strategic management studies have long recognised the existence and importance of the business life cycle. The life cycle theory provides management with several parameters, guidelines, and diagnostic tools to assess a company's transition from one stage to the next. Understanding the nature of the life cycle can therefore help companies optimally utilise their valuable resources to outperform their competitors and achieve and maintain the best life stage. Recent research in financial economics and accounting (e.g., De Angelo et al. 2006, 2010; Dickinson 2011) recognises that each stage of a firm's life cycle has important implications for understanding a firm's financial performance.

While previous studies have explored the difficulties small and medium-sized enterprises (SMEs) face in securing financing and the relationship between different stages of SME development and financing types (Nguena, 2012; Wansi and Burrell, 2023), there is a lack of knowledge on how these financing preferences affect the long-term sustainability and growth of SMEs in a specific local context, such as Cameroon. Furthermore, a more comprehensive analysis is required to understand how financial institutions can effectively tailor their products and services to support SMEs at various stages of their life cycle. This study aims to address these gaps by investigating the dynamic interplay between life cycle stages, financing types, and SME growth in Cameroon, as well as identifying specific strategies that financial institutions can adopt to better support SME development throughout their life cycle. This study adds to the existing literature on capital structure by investigating how the life cycle affects SMEs financing and their corresponding financing modes

in Cameroon. It highlights that early-stage SMEs can rely on internal and informal financing, while more mature SMEs move towards formal retained profits-based financing. The study highlights the positive impact of these evolving financing options on SME growth and provides a nuanced understanding that can help policymakers, financial institutions, and SME managers adapt their lending strategies to each stage of development. Furthermore, it highlights the importance of building a supportive financial ecosystem, making a valuable contribution to both scholarship and practice in the SME financing environment in emerging economies such as Cameroon.To achieve this goal, we structure this study by first reviewing the theoretical and empirical literature, then moving on to data and methods, results and discussion, and finally concluding.

II. Financing Dynamics and Growth of Sme's: Lessons from the Literature

In this section, we analyse the direct relationship between financing dynamics and SME growth and then discuss the mechanisms that help explain this relationship.

II.1 Theoretical Underpinnings

we try to find the relevant arguments between financing dynamics and SME growth in this subsection. Several theories and concepts have established the relationship between types of financing and SME growth. These relationships are often complex and vary depending on historical, geographical and economic backgrounds. These include the pecking order theory, principal-agent theory, life cycle theory, trade-off theory, bank capital channel model and market timing theory. The hierarchical ordering hypothesis arose from the existence of knowledge asymmetries between firms and their financial partners. According to Myers and Majluf (1984), the pecking order theory suggests that firms prioritise financing by first using capital already present within the company, then resorting to debt capital, and finally seeking external equity capital. The pecking order theory, which prioritises internal financing over debt and equity, can be applied to SMEs at different stages of their life cycle. Research has shown that SMEs often prefer internal financing in the early stages (start-up and growth) due to the higher costs and risks associated with external financing. As SMEs mature, they may start to raise more debt capital but continue to avoid equity financing unless absolutely necessary (Mabrouk & Boubaker, 2019). This practice is widespread among SMEs, and it has been shown that there is an inverse

correlation between profitability and the use of external credit by such firms. Although these authors emphasise the virtues of hierarchical order, it remains heavily criticised. Indeed, Frank and Goyal (2003) find that pecking order theory fails to consistently explain corporate financing behavior.

Empirical studies have shown that many firms do not adhere to the strict hierarchy of financing (internal funds, debt, then equity) that the theory predicts. Instead, companies often issue equity even when equity or debt options are available, which directly contradicts the theory's assumptions. Principal-agent theory offers an alternative perspective. Jensen and Meckling (1976) outlined a number of potentially costly principal-agent relationships in publicly traded companies that arise because agents do not always operate in the principal's best interest. The company's security holders (debtors and shareholders) are viewed as the principal, and management is viewed as the agent who manages the principal's assets. Although some of these relationships are relevant for small businesses, the main agency conflicts in small businesses generally occur not between owners and managers, but between inside and outside investors (Hand et al., 1982: 27). Potential agency problems in small businesses are exacerbated by information asymmetries resulting from the lack of consistent, publicly available, detailed accounting information. A major concern for outside investors arises from moral hazard, the possibility that small business managers will change their behavior after receiving a loan to the detriment of investors. To minimise agency costs, banks often lend to small businesses on the basis of collateral (Kon and Storey, 2003). The ubiquity of the use of collateral has been confirmed by many studies. B. Black et al. (1996) found that 85% of SME loans in the UK had a loan-to-collateral ratio greater than one.

The life cycle strategy outlined by Weston and Brigham (1981) was premised on rapid expansion and limited access to finance from the financial sector. SMEs were thought to start up using only their owners' resources. If these enterprises survived, they would soon be at risk of capital shortages and would likely have to turn to alternative sources of finance such as trade credit or short-term loans from banks. Rapid expansion could increase illiquidity problems.

Therefore, dynamic small businesses must decide whether to slow down their growth to keep pace with internally generated funds, go public on the stock market at high prices, or seek venture capital, the hardest form of financing to find (Weston and Brigham, 1981). This suggests a tendency among small businesses that expanding small businesses are more likely to take on increasing short-term debt and little or no long-term debt.

The trade-off theory explains why firms' debt ratios are actually moderate, as are the methods they use to finance investments with a combination of loans and equity. According to this theory, debt has advantages and disadvantages. Thus, firms adopt an appropriate capital structure to balance these advantages and disadvantages (Mayer and Sussman, 2002). The trade-off theory predicts that weaker firms will rely mainly on bank borrowings.

Van den Heuvel's (2002) bank capital channel model analysis examines how the need for sufficient capital affects banks' lending practices to small and medium-sized enterprises (SMEs). The bank capital channel hypothesis assumes that more capitalised banks have greater lending capacity during economic downturns, while less capitalised banks may restrict lending, which may affect small and medium-sized enterprises (SMEs) in particular. According to Obamuyi (2007), the bank capital channel interprets changes in interest rates as the impact of banks' capital on lending, especially when bank lending is regulated by capital requirements. As a result, rising interest rates increase banks' external funding costs while reducing their profits and capital. When capital restrictions are mandated, banks tend to extend less credit.

Market timing theory assumes that companies try to take advantage of market conditions to optimise their financing decisions, such as issuing additional equity or debt. This theory has been proposed and supported by various authors, including Baker and Wurgler (2002), who suggest that companies prefer to issue equity when they are overvalued and to issue debt or repurchase equity when they are undervalued. They note that companies with higher market value relative to book value are more likely to issue equity. Myers and Majluf (1984) suggest that corporate managers, who have more information

about the real value of their companies than investors, may choose to fund their endeavors by issuing equity when they are overvalued. Loughran and Ritter (1995) examine the performance of equity issued in initial public offerings (IPOs) and show that these new issues are often followed by poor long-term performance, suggesting that companies try to time their issuances to favorable market conditions. Market timing can change a company's capital structure over time. Companies that typically issue equity during periods of high valuations and favor debt during periods of low valuations may end up with a capital structure that reflects past market conditions rather than an optimal financing strategy. Critics of market timing theory point out that markets are inherently unpredictable, making it difficult to time the market on a regular basis. However, empirical evidence indicates that certain organisations engage in market timing, thereby altering their financing decisions and capital structure.

II. 2 Empirical Literature Review and hypotheses

In general, the characteristics of SMEs affect financial decisions and actions and ultimately the performance and growth of the companies. In this context, several characteristics have been identified in the literature that are particularly relevant to the SME sector and that influence the financial behavior of companies in this sector. These include the size and age of the firm, the type and legal form of ownership, geographic location, industry sector and asset structure (reflecting the ability to provide collateral).

The size and age of the firm have a significant impact on the type of financing used. Although there is no consensus among researchers on which criteria should be used to measure firm size (usually total assets, sales and number of employees), there seems to be general agreement on the idea that firm size affects the activity and expansion potential of SMEs. Find. Firm size is usually related to age, as these factors tend to have similar effects on the life cycle of a firm. This effect can be strongly observed in the firm's decision-making process regarding which type of financing to choose and use (Cassar, 2004). Cassar (2004) investigated firm financing and capital structure using a sample of 292 Australian firms and concluded that "larger" SMEs rely more heavily on external financing, including long-term debt and bank loans. This is consistent with Storey (1994), who found that owner/manager personal savings are more important as a start-up source of financing for SMEs than external financing such as bank loans and overdrafts.

SMEs' debt levels and the type of organisational structure are positively correlated (Coleman & Cohn, 2000). This is in line with Abor (2008) who found that one of the factors influencing the capital structure choice of Ghanaian SMEs is their mode of operation. Furthermore, ownership structure and type of enterprise were found to have a significant impact on the use of bootstrap finance. "Owners who start their businesses as sole proprietors or non-construction/manufacturing businesses should be prepared to utilise more self-financing than other businesses," Van Auken and Neeley (1996, p. 247) explain. Enterprises operating in such businesses should be prepared to develop financial strategies with more diverse financing options compared to sole proprietors and non-construction/manufacturing businesses. Therefore, small business owners who are not in the construction or manufacturing industries should be aware that they may face greater limitations and challenges in obtaining start-up capital.

Geographic proximity to banks also affects a business's ability to obtain external financing. For example, small businesses outside major cities have more difficulty obtaining external financing, especially long-term loans, than their urban counterparts (Abor, 2008).

Asset structure also plays an important role in SMEs' access to credit through collateral provision. SMEs with more fixed assets tend to use higher levels of debt financing (Bradley, Jarrell, & Kim, 1984). This is because these firms can obtain loans at lower interest rates because they have secured the loans. For this reason, Coco (2000) considers collateral as a lender's second line of defense. The personal characteristics of the owner-manager also affect the firm's ability and likelihood to obtain external capital (Irwin & Scott, 2010; Cassar, 2004). The reason is that in SMEs, the owner-manager holds a dominant position as the key decision maker in the organisation. For example, Berggren, Olofsson, and Silver (2000) argued that most owner-managers in SMEs do not prefer to fund their business operations through external funds, especially when financing involves a change in ownership structure that leads to control avoidance. Gender also has a significant impact on debt decisions. Entrepreneurs typically fund their companies in a variety of ways (Verhuel & Thurik, 2001; Carter & Rosa, 1998). As pointed out in the business literature, the issue of gender differences in sources of finance among SMEs becomes more pronounced during the introduction (startup) stage. Verhuel and Thurik (2001) found that while there is no significant difference in the type of capital held by men and women, female SME owners seem to have less start-up capital.

II.2.1. Relationship between SME Financing Type and Life Cycle Stage

The main objective of this study was to investigate the impact of life cycle on SME financing type. To achieve this goal, we started from the following hypotheses:

The firm life cycle theory assumes that firms go through different development stages, each characterized by its own financial needs and challenges (Perényi et al., 2008). In the early stages of a firm's life cycle, such as the infancy and adolescence stages, firms typically face greater uncertainty, limited revenue sources, and reduced access to formal financial markets. Thus, they tend to rely on internal funds, owner-manager financing, and informal sources of capital (Ngassa et al., 2021). As firms mature and their market presence becomes more stable, they gain access to formal financial institutions and can utilise external financing options such as retained earnings, bank loans, and equity investments. This evolution in financing types reflects the evolution of a firm's risk profile, financial stability and creditworthiness throughout its life cycle. We hypothesise that these observed patterns of financing behavior also hold true for SMEs in Cameroon, with different types of financing being more appropriate and accessible at different stages of SME development.

H1: Different modes of finance are applicable to different stages of life cycle of SMEs in Cameroon

II.2.2. Relationship between modes of finance and the growth of SMEs

Access to finance is important for SMEs, as it allows them to invest in productive assets, expand their operations, innovate and respond to market opportunities (Nguena, 2012,2013). Different types of financing, including internal funds, bank loans, equity financing, and informal sources, provide different levels of support depending on the firm's stage of development and specific needs. The impact of financing on growth may be even more pronounced in Cameroon, where SMEs face many barriers to accessing formal financial services. Access to adequate and timely financing enhances firms' ability to grow, overcome operational challenges, invest in new opportunities, and build resilience to economic fluctuations (Ngassa et al., 2021). We expect that the type of financing SMEs use will significantly influence their growth trajectory, leading to stronger expansion and longer-term success.

H2: The type of financing has a positive impact on the growth of SMEs in Cameroon.

III. Data and Methodology

III.1. Data

The data used in this study is primary data. The principal primary data was collected using a questionnaire. This questionnaire was designed among SME owners in Cameroon, specifically in the city of Yaoundé. The study consisted of a sample of closed questions administered in the form of a questionnaire (direct questionnaire) to a sample of 100 SMEs. Small and medium-sized enterprises from different sectors were studied, such as commercial, service, agriculture, and livestock. In addition to primary data, secondary data was also used. This was

done through research on the Internet, books and magazines, especially to understand the approach of other scientists. Secondary data on changes in output, interest rates, debt ratios and new investments were collected from company records.

III.2. Methodology

This study uses a hypothetico-deductive approach, which allows us to formulate hypotheses and test them through empirical deduction. A structured questionnaire was used to collect primary data and was administered to a sample of 100 SMEs in the Central Region of Cameroon. The selection of SMEs was done using a simple random method, taking into account the characteristics and business sector of each enterprise. The questionnaire used in this study aimed to determine the respondents' understanding of the financing life cycle and modalities. For this purpose, the respondents were expected to respond directly by selecting the options provided. Descriptive research involves a method of collecting information known as "correlational" research. The study used a descriptive design to enable the researcher to uncover the correlation between the life cycle of SMEs and different financing methods. In terms of the data analysis approach, statistical and econometric models were used. PCA was used to reduce the dimensionality of the data and Pearson correlation was used to assess the interrelationships between the variables. Ordinary least squares regression models were used to examine the data; for this, we had dependent and independent variables. The expansion of SMEs is the dependent variable, whereas the formal means of finance, informal modes of finance, turnover, retained earnings, and number of employees are the independent factors. The methodology utilised in this work is the hypothetico-deductive methodology, which allows us to fix hypotheses and derive them empirically.

IV. Results and Discussion

In this section, we examine how a firm's financing structures change throughout its life cycle and try to understand how these types of financing affect the firm's growth.

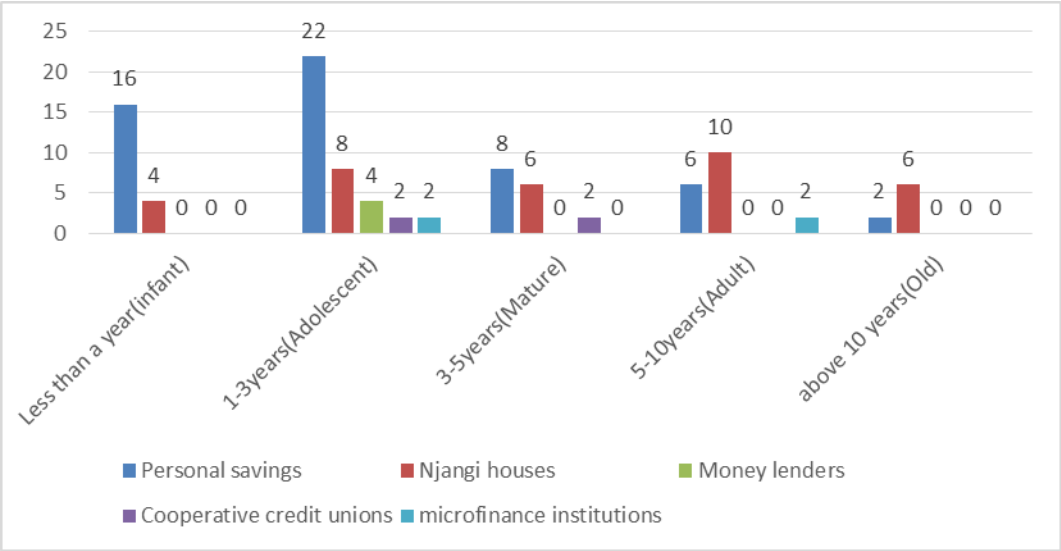
IV.1. Life cycle and types of financing

We looked at the relationship between life cycle and types of financing during the start-up stage, as well as the impact of life cycle on the type of financing when the firm is already active or expanding.

IV.1.1 Relationship between life cycle and start-up financing sources

We also investigated the relationship between financing type and life cycle. The study aims to highlight different sources of financing at different stages of a firm's life cycle.

Figure 1: Relationship between life cycle and sources of funding during start-up



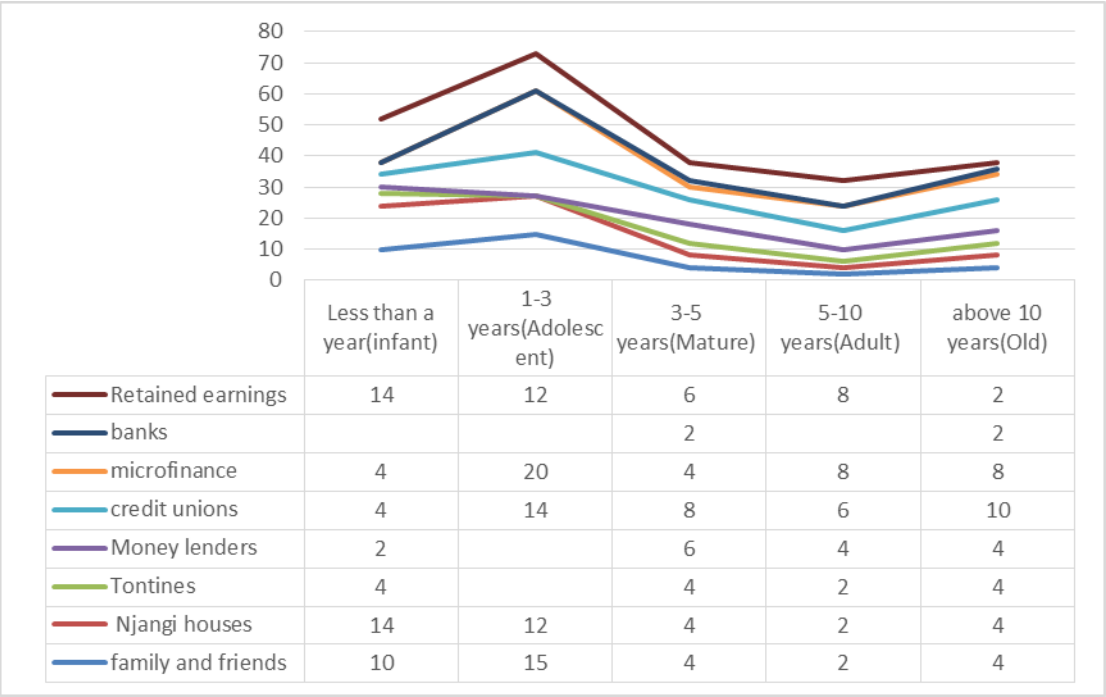
Source: Field data (2024).

Figure 1 depicts the distribution of personal savings and loans among "Njangi" households at all stages of their life cycle. Younger and older enterprises in our sample only utilised these two types of loans at the time of inception, while younger enterprises relied on personal savings, Njangi housing, money lenders, cooperative credit unions and microfinance institutions. Figure 1 clearly shows the spread of personal and informal finance. These results support the study conducted by Piabou and Baffon (2015) who investigated the factors influencing the utilisation of internal finance by SMEs. Their results show that SMEs rely mainly on personal savings as an internal source of finance in the initial stage. When seeking external finance, SMEs usually turn to informal sources of finance before considering formal options. Formal financing is considered a last resort when attempts to raise funds from friends and relatives fail. Finally, we have also explored the relationship between the life cycle and financing during business operations.

IV.1.2 Relationship between the impact of financing modes on the growth of SMEs

If a business is already operating, it may require additional funds for various reasons, such as short-term or long-term debt to expand production scale, meet growing demand, or meet short-term needs. Figure 2 below shows the different forms of financing used by businesses at different stages of their life cycle.

Figure 2: Trends in SME Financing Options over Lifecycle Phases in Cameroon



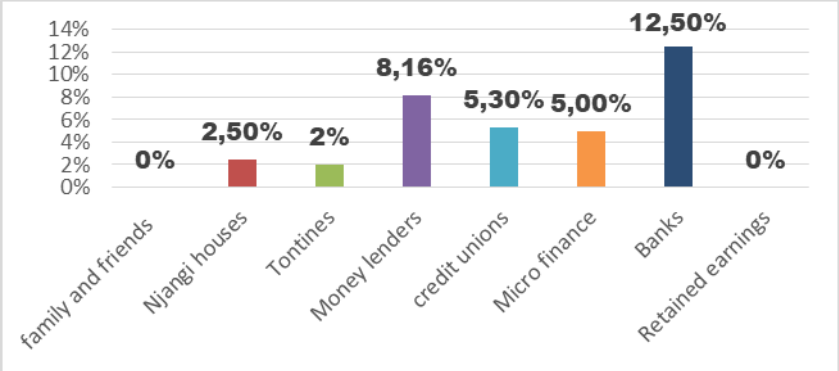
	Less than a year(infant)	1-3 years(Adolescent)	3-5 years(Mature)	5-10 years(Adult)	above 10 years(Old)
Retained earnings	14	12	6	8	2
banks			2		2
microfinance	4	20	4	8	8
credit unions	4	14	8	6	10
Money lenders	2		6	4	4
Tontines	4		4	2	4
Njangi houses	14	12	4	2	4
family and friends	10	15	4	2	4

Source: Field data (2024).

Figure 2 above shows that **14 infant stage** enterprises use "njangi" and retained earnings as a form of capital, whereas 10 use funds from family and friends. Only 2 enterprises use money lenders and 4 use credit unions **at present** and **none have** bank loans. This shows that enterprises use retained earnings and funds from family and friends at the the infancy stage and if that is not enough, they first seek informal external loans such as “njangi” housing and then turn to moneylenders and later credit unions. At the present stage, they are unable to access bank loans. From the graph, we can see that the form of financing changes as enterprises move through their teenage, adult and old. Here, we can see that as an organisation grows, the mode of financing changes. Mature, mature and old enterprises mainly use retained earnings and formal borrowed funds. Figure 3 below explains the financing options available. It shows that money from family and friends, as well as retained earnings, is free. Meanwhile, the interest rates of informal financial institutions (Njangi and Tontine) were 2.5% and 2% respectively. We also see that moneylenders have the highest interest rates with an average interest rate of 8.16%. Generally, formal institutions have higher costs. Credit unions and microfinance have lower interest rates of 5.3% and 5%, respectively, while bank interest rates are very high at 12.5%, the highest interest rate among all types of loans available. This indicates that interest rates, among other constraints, are a major obstacle to obtaining bank loans. These results are consistent with the study of Piabuo et al. (2015) who investigated the impact of

credit constraints on the production of small and medium-sized enterprises in Cameroon.

Figure 3: Average interest rate per mode of financing.



Source: Field data (2021).

The table 1 below shows the results of the Pearson correlation analysis.

Table 1.Pearson Correlation matrix of variables

Variables	(1)	(2)	(3)	(4)	(5)
(1) Estimated annual turnover?	1.000				
(2) Number of employees	0.497***	1.000			
(3) Informal source of finance	0.156	0.242**	1.000		
(4) Formal source of finance	0.102	0.117	0.501***	1.000	
(5) Growth of enterprises	0.275***	0.280***	0.403***	0.453***	1.000

***p < 0.01, **p < 0.05, *p < 0.1. N =100

Table 1 above shows that there is a clear and significant relationship between informal financing methods and business growth. However, we also realise that this is a tenuous relationship. This is mainly because the graph above shows that early stage and early stage businesses use more informal sources of financing as they are easily available and have low cost. This equates to 1% significance. We also see that there is a weak positive and significant relationship between formal financing methods and SME growth. This is especially true for microfinance and cooperative credit unions, which have lower interest rates and are more accessible than banks to SMEs with less stringent needs. Banks offer the highest interest rates, but their entry criteria are generally stricter than other sources of finance.

We also find another modest but positive relationship between estimated sales and firm expansion, which is significant (1%). This can be explained by increases in production, number of employees, and firm profits. The table also shows that there is a moderate, positive and significant relationship between the number of employees and the growth of small businesses. According to National Institute of Statistics (NIS) (2009), the number of employees is the most important measure of the size of an organisation.

Table 2: Regression Results.

Growth of enterprises	Less than a year(infant)	1-3 Years(Adolescent)	3-5 Years(Mature)	5-10 Years(Adult)	above 10 years(Old)
Informal source of finance	0.185** (0.015)	0.173 (0.138)	-0.064 (0.142)	0.977 (1.096)	0.126 (0.085)
Formal source of finance	0.328** (0.011)	0.312** (0.038)	0.229 (0.15)	-0.793 (0.706)	0.147** (0.08)
Retained earnings	0.954 (0.458)	0.454 (0.228)	0.834** (0.038)	0.433*** (0.008)	0.733* (0.059)
annual turnover	0.149 (0.168)	0.445** (0.036)	-0.548*** (0.004)	1.141 (2.75)	-0.177* (0.204)
number of employees (Size)	0.124 (0.137)	0.721** (0.044)	1.156** (0.017)	-1.595 (2.366)	0.777*** (0.005)
Constant	-0.763*** (0.005)	0.787 (0.528)	-0.095 (0.562)	-1.383 (2.204)	-0.95 (0.695)
Observations	100	100	100	100	100
R-squared	0.600	0.6337	0.789	0.595	0.951
Adjusted R-squared	0.529	0.5372	0.721	0.506	0.929
Sig.	0.000	0.000	0.000	0.034	0.000

***p < 0.01, **p < 0.05, *p < 0.1. N =100; *Source: Computed by author using SPSS V20*

This study investigates the different stages or phases that an organisation goes through during its life cycle. The regression results above indicate the experiment's conclusion. Table 2 above shows that institutional and informal sources of capital in young enterprises have a significant impact on their growth. A unit change in the informal sources of capital of infant enterprises leads to a 0.185 unit increase in the growth of infant enterprises, while a unit change in the formal sources of capital leads to a 0.328 unit increase in growth. This conclusion indicates that in the infant stage, both types of financing have a favorable and significant impact on firm growth but the magnitude of the impact differs. Formal sources of financing have a greater impact than informal sources. This is probably because formal sources of financing can provide large amounts of credit quickly that can be used for firm expansion. The table also shows that for young firms, only formal forms of financing have a significant positive

impact on firm growth. Informal profits and retained earnings all have a positive impact, but are not significant. This conclusion is mainly due to the increased availability of funds from credit unions and microfinance institutions. The results show that sales and size are comparable.

Mature and adult firms use retained earnings as their main refinancing tool. This explains why retained earnings have a positive and significant impact on firm growth. Other types of financing have a positive but insignificant effect. This is mainly because these companies have been in business for a long time and have accumulated retained earnings that can be easily reinvested in the business or used for payments. This explains why this type of financing has a positive and significant impact. The regression table also shows that the magnitude of these effects varies at different stages of the life cycle. A unit change in retained earnings leads to an increase in the growth rate of 0.834 units for mature companies, while it leads to an increase in the growth rate of 0.433 units for mature companies. The main reason is that at maturity, companies are optimal in terms of profitability, resulting in higher profits and potential retained earnings that can be reinvested. Older firms use formal and informal financing methods, but formal financing methods and retained earnings have a significant positive impact on firm growth. A unit change in retained earnings leads to a 0.733 unit increase in firm growth, while a unit change in the use of formal sources of financing leads to a 0.147 unit increase in growth. These results indicate that the financing methods used by firms change at different levels within their life cycle.

V. Conclusion

Departing from the ongoing discussion on the challenges SMEs face in accessing finance, this study addresses this debate by contrasting the view that informal finance limits growth with the view that formal finance is essential for development and empirically investigating the relationship between SMEs' life cycle stages and financing arrangements, highlighting the importance of aligning financial strategies with the business life cycle. Indeed, the results of this study show that the type of financing changes throughout the life cycle of a firm. At the early and teenage stages, the majority used informal forms of financing, while for mature adult and older firms, formal forms of financing and the use of retained earnings became the main forms of financing. Another result of the study also shows that the impact of different sources of financing in the life cycle is not uniform. The above analysis indicates that different types of financing have a positive impact on the growth of SMEs in Cameroon. Solutions to address these challenges include government support through direct financial assistance, training programs, and interest rate reductions, as well as regulations to facilitate SMEs' access to finance. In addition to the scientific contribution of this study,

our conclusions have significant implications for policymakers and financial institutions. This information can be used to develop targeted financing solutions and support mechanisms for SMEs at different stages of their life cycle. This can help entrepreneurs make more informed decisions about their financing options, reduce reliance on inappropriate financing sources, and promote economic growth. Our results also indicate that financing strategies targeted at SMEs can lead to improved business sustainability, job creation, and overall economic growth, especially in emerging countries such as Cameroon. Another outcome of this study is the development of a graded financing program, expanding access to formal financing, promoting financial literacy and management training, and encouraging profit reinvestment. However, the shortcomings of this study include limited sample size and geography, reliance on a single data collection method, time constraints, and omission of external economic aspects. Future studies should adopt longitudinal designs, conduct sector-specific financing analyses, conduct cross-country comparative studies, explore non-traditional financing sources, and investigate the impact of digital financial solutions on SMEs' financing situations. These insights may help SMEs adapt their financing strategies to internal growth and external economic factors.

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