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Cameroon Microfinance Outlook

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Introduction

Microfinance was born as a poverty reduction instrument. It was to empower and give voice to the poor and vulnerable, mostly women living in rural communities and excluded from conventional banking practices. It was to be instrumental in highlighting the entrepreneurial spirit of the poor by providing microloans or microc

redit for them to operate in the informal sector. Since it had to reach out to the unbanked, microloans had the expectation of bringing about change for many households. In developing economies, conventional banking fails to serve the poor and rural. This is explained by the fact that they lack collateral securities and guarantees. Most rural and poor people depend on their lands but complex land regimes even complicate proof of ownership further dampening the chances of the poor to get access to loans.

In the course of time, a shift in the discourse is noticed. Before, the central topic was microcredit. It then shifted to microfinance and today, more attention is being paid to the wider aspects of financial inclusion and how to make financial markets efficient and workable for the poor. In terms of delivery, different products pose different risk and challenges such that a single class of service provider will not be able to deliver effectively to the poor all the services they need. Challenging therefore is how to link the broader interconnected ecosystem of market actors and infrastructure needed for a safe and efficient delivery of products to the poor (Ehrbeck et al.2012, p. 1).

In this regard, financial inclusion has gained credibility in policy framing as policy makers now pioneer it in their economic programs. The widely held view is that financial access improves the ability of consumers to access markets. This gives a monetary value to products and services, pools risk, allows value storage, favors economic growth and stability of the overall system. This is in line with previously held views in the 1960s and 1970s in which economists called for investments for growth to occur. This was supported by the Bretton Woods institutions (World Bank and IMF) who pressured governments in developing countries to adopt the Structural Adjustment Program and privatize several sectors.

Broadly speaking, experts in the 1960s and beyond considered savings and capital productivity a driving tool for economic growth (Harodd-Domar Theory). For a country

to witness growth, there must be investment (Olajide, 2004). This has severe implications for developing countries with low income resulting from lack of or low savings which in turn leads to low investments, low average productivity and income per capita. In this vein, external financing or borrowing may be required to trigger investment and development. But borrowing requirements at the individual level means that many in developing nations are excluded from conventional banking institutions and may remain poor. With over two billion excluded from financial services, the World Bank's Independent Evaluation Group (IEG) posits that financial inclusion directly lifts people out of poverty. Financial inclusion refers to access by poor families and microenterprises to financial products and services. Being a long time World Bank Group objective, it was reaffirmed in 2013 by then President Jim Kim who committed to the Universal Access Goal by 2020.

Microfinance is generally viewed as a fixing mechanism to the credit markets that unleashes the productive prowess of the poor who solely depend on self-employment (Hulme and Mosley 1996). It has a moral and social character of not just poverty reduction but improving the standing of the poor in society. However, some opinions point that microfinance has lost 'its moral compass'' as it focuses more on lenders profitability than on customers poverty (Hulme and Maitrot 2014). Pioneers in microfinance had argued that they were helping to remove the barriers for small-scale-entrepreneurs and broadening their opportunities to earn. Microfinance would provide much needed capital at lower interest rates than moneylenders and diminish dependence on trader-lenders adept at extracting surpluses (US House of Representatives 1986). Microfinance promised new optimism in raising income, and with newfound resources improve education and health, and empower women. This vision saw finance as a tool for personal transformation, capturing the minds of those seeking different ways of social and economic change (Yunus 2008).

Whether microfinance has been able to reduce poverty, improve living conditions, and fuel micro-businesses is yet to be determined.

This Thesis studies the Cameroon microfinance outlook. A first chapter will prioritize development theories to understand why capital ownership and investment is necessary for economic growth. Chapter two will discuss the evolution of microfinance in Cameroon dealing with legal aspects. Chapter three takes on the governance aspects of

microfinance. It will also deal with small and medium size enterprises (SMEs) which constitute the backbone of the national economy and desperately seek microfinancing. Chapter four will examine challenges faced by the sector in Cameroon followed by some recommendations. Thereafter, I will conclude.

Chapter 1
Economic Development Theories

To understand the investment-growth nexus, it is imperative to understand economic development by its accompanying theories. Economic growth refers to the improvement or increase in the inflation adjusted market value of goods and services produced over time in an economy. Statistically, it refers to an increase in real gross domestic product. Economic development on the other hand, refers to the programs, policies or activities that promote the economic well-being and the life quality of a community. Since each community has its own opportunities, challenges and priorities, economic development may mean differently to different communities. Development theories are not uniquely suitable to all countries. Every region and country have its specific characteristics such that what worked well for one may not work well for the other. This explains why there was successful economic growth in East Asian countries to the detriment of their African counterparts. The investment-growth connection is paradoxical especially in SSA. What appropriate theory suits this sub region is still an unanswered question. With several billions of dollars of foreign aid, loans, grants, and billions of dollars in debt cancellation, this region is still lagging with looming underdevelopment, poverty, and insecurity. Though widely written, the reciprocal impact of investment shocks on growth remains a contentious issue. Max Weber's modernization theory (1864-1920) and later developed by Talcott Parsons (1902-1979) affirm that inflows of financial investment into recipient nations push economic growth. The theory maintains that pumping finances can usher economic structural change in the economy. The same theory is reputed by the dependency theory, which states that inflows of FDI are an exploitation mechanism by developed countries of their developing counterparts. But before him, Adam Smith in his 1776 publication 'the wealth of nations' stated that nations originate wealth from division of labor. This leads to specialization and increased output and efficiency. Therefore, there will be exchange. This leads to consumption of other goods and generate capital. He argued that in the pursuit of personal interest, private agents promote the welfare of all guided by the invisible hand. To him, the maximization of output was the outcome of the market economy.

The Harrod-Domar model on its part linked economic growth to saving and capital productivity. Though the model is applicable to the experience of developed nations, it

describes the rate of income growth necessary to keep smooth and consistent economic development (Olajide 2004). The emphasis in this model is investment including FDI inflows. The model has severe implicationsfor developing countries as they share similar characteristics such as low income due to lack of or low savings which in turn leads to low investments, low average productivity and income per capita, shortage of capital and low productivity: features that cannot be easily overcome thus income remains at subsistent level. Harrod-Domar theory served as the main policy instrument to help developing economies develop rapidly with the help of financial and technical assistance from the world bank. The widely spread view in the 1960s was that injecting capital would lead to high growth rates and would be sufficient to promote modernization and development of developing countries. But Harrod-Domar's model in many cases did not resolve looming problems of growth and underdevelopment in developing countries especially those in Sub Saharan Africa. A new approach will be the differentiation of economic growth which focusses on an increase in GDP growth rate and economic development referring to a broader concept of not only GDP growth but looks at development to include health, education, social development, and institutions.

In another vein, the growth model of Solow, which is a modification of Harrod-Domar's, in its simplicity shows how savings, population growth, and technical progress affect the level of grossnational product (GNP) over time. It is empirically found by Kalai and Zghidi (2019) that FDI is complimentary to home investment thereby inducing an expansion of the economy especially in North Africa and the Middle East. This claim follows with existing studies like Pradhan et al. (2019) and Sarkodie and Strezov (2019). On the contrary, Goh et al. (2017) and Khobai et al. (2018)maintained that perceived investment is fallacious and not real.

In 1960, Rostow analyzed development as a long-term process in a historical perspective based on the experience of developing countries. He illustrates development as a sequence of historical stagesof economic development over two and a half centuries, from early 1700 to the 1960s. His theory identified five stages in the economic development process:

- Traditional society (early 18th century): This was an agricultural dependent economy with mainlysubsistent farming. Trade was limited and local. There was low quality capital stock with labor productivity also very low. There was usually very small surplus to sell

on the market.

- Pre-conditions for take-off (mid-18th century): In this stage of the economy, agriculture is increasingly mechanized. Trade increases as output increases. Savings and investments grow butremain a small percentage of output. External funding is needed either by remittances from migrants or foreign aids.
- Take-off stage (late 18th century): This stage is marked by the growth of manufacturing industries,infrastructural development, advancement in political and social institutions, growth in savings andinvestments equal to 15% of GDP (external fundings may still be required). Here agriculture is lessimportant. This is typically a dual economy with manufacturing (rising productivity) versus agriculture (low productivity and income).
- Drive to maturity (early 20th century): This developmental stage represents industrial diversification and technological advancement. Growth spreads throughout the entire economy suchthat the economy moves from being dependent on factor inputs for growth towards making better use of inputs (innovation). In this way, income per capita increases.
- Age of high mass consumption: This is the stage in which output grows, enabling increased consumer expenditure. This stage is also the level where there is a shift towards the tertiary sector.Middle-class consumers multiply thereby sustaining growth.

As for Rosenstein-Rodan (1943, 1966), developing countries require what they called a big push to liberate themselves from problems of underdevelopment. They need a major push to start fast industrialization. There should be high investment in physical and human capital. The theory highlights that there should be a minimum rate of investment as a key condition for overcoming underdevelopment. They underpin that the government has an important role to play for success to be attained.

In 1955, Francois Perroux highlighted the importance of the concentration of investment and development efforts. In this regard, to have positive effects for the whole economy it is fundamental to initially have a spatial and temporal concentration of investment in certain zones. He referred to industrial districts and poles of development. Perroux sustained and favored the creation of industrial and economic zones to boost growth and development. This later became common and today we have many economic and free trade zones globally.

In the 1950s and 1960s, Alexandar Gerschenkron viewed economic backwardness from

a historicalperspective. He advocated that there is a cost for delayed industrialization and emphasized that developed countries have a responsibility. He argued that the industrialization process is not identical. For relative backwardness can be an advantage that can contribute to rapid development. Developing countries can rely on modern and advanced technology imported from developed countries. They can learn from other countries, thus can grow relatively faster and catch up. He argued that development is not a linear process. Countries can jump from a low level of development to a higher level by drawing from the experience and importing technology from developed nations.

In a related vein, Hollis Chenery (late 1950s-1980s) also advanced the non-linearity of development. His view stated that economic development can be viewed as a set of interrelated structural changes. Countries can pursue distinct development paths. They may miss some states of development or become locked up in a particular stage for a long period of time or even regress if they are lacking in skilled labor and technology. These ideas have been recently revived by many contributions on the "middle income trap" of today's middle-income countries. The 1960s and 1970slaid emphasis on structural change models. By structural change, we mean patterns of development. Economic development seen as a process of long-term structural change, with the redeployment of labor from the agricultural sector towards industry and services. It became a worldwide general trend from agricultural, towards industrial and service driven economies, measured by the contribution of the three main sectors. The argument is that reallocating labor from the agricultural to the industrial sector is one of the engines of economic growth. This theory has important policy implication: investment should concentrate mainly in the industrial sector, for three main reasons:

- productivity in the industrial sector rises faster than in agriculture.
- industrial products often have higher prices on the international market than agriculture products.
- an industrial economy engages more labor than an agricultural economy.

Developing countries need a process of faster industrialization. This approach has led to the wrong neglect of the agricultural sector. The structural change model was widely represented by Lewis Chenery and Arthur Lewis. In 1963, Lewis introduced the two-sector model, an economy in which only the agriculture and industrial sector operate. In

the traditional agriculture sector, there is an unlimited labor supply, so workers receive only subsistence wages. In the modern industrial sector,profits are higher than wages prompting reinvestment, which contributes to economic growth and employment opportunities. There is a structural transformation from a traditional subsistence economy to a more modern, industrial, and developed economy.

Hollis Chenery in 1960 outlined the important role savings play on investment. There should be asteady accumulation of physical and human capital as the main ingredient for economic growth. Therefore, to launch accelerated economic development, it is necessary to have a saving rate of 12-15 percent of GDP. Structural changes also occur in consumer demand, which shift from food and necessities towards manufactured goods and services. The above theories are all united by a common approach, "the poverty trap". There is a "vicious cycle that keeps underdeveloped countries in a low-income equilibrium. Various interconnected forces keep these countries in a state of stagnation and backwardness in which poverty is repeatedlyreproduced. With low income, saving rates are low and so too is investment, leading to low capital formation and accumulation, which in turn leads to low productivity and low income. This is addedto the issues of limited infrastructure, lack of qualified labor and a small internal market. There is just no easy solution to escape the poverty trap. Today we speak of the problem of middle-income trap. These are constraints on economic development of middle-income countries that are unable to develop faster due to persistence of long-term structural problems, limited internal savings and investment, high dependence on foreign capital inflows, dual labor markets and low labor skills.

The Latin American school promoted by Raul Prebisch (1950), Hans Singer (1973), A. Emmanuel,Gunder Frank etc. detailed more on the dependence of developing countries on their developed counterpart for capital and market. To them, the existing division of labor is not the result of the free market but has emerged under the strong influence of developed countries-colonialism has permitted exploitation of developing countries resulting in cheap supply of labor and raw materials. The result is a relationship of unequal exchange as free trade proved to be a conventional instrument of exploitation of developing countries. Specialization patterns imposed by developed countries have not permitted developing nations to accumulate capital and develop. There is an asymmetry of the two groups of countries on the world market. The Prebisch and Singer hypothesis

stated that developing countries worsen their situation on the world market due to deteriorating terms of trade (ratio between prices of exports and prices of imports). The relative decline of pricesof primary goods (commodities and raw materials) produced and exported by developing countrieswith respect to prices of industrial products or finished goods produced by developed countries and imported by developing countries, has worsened the position on the world market of developing countries. They advocated therefore the industrialization of developing countries as a strategy to render them less dependent on imports from their developed counterparts plus a diversification of the structure of their exports. This they referred to as import substitution strategies of development.This was the initial strategy of China, India, Tanzania, and Albania but only temporarily.

As seen above from the numerous theories of economic development, keen interest therefore was taken by international organizations especially by the World Bank and other United Nations agencies after the second world war. They outlined several programs that to them would spur development of developing countries. To end the relationship of dependence of developing countries on developed countries, they advanced the establishment of a new international economicorder in favor of developing world which was much debated in the UN in 1974.They devised development policies initially based on existing theories of economic growth. In the 1950s and 1960s, economic development of developing countries attracted a lot of general interest. The specific context here was the decolonization process as well as the cold war championed by the USA and the USSR. Both blocks attempted to push their ideologies in the newly independent countries.

Another development theory is the double gap theory. Here, industrialization requires modern machinery and technology which must be imported from the developed countries, but these importsmust be paid with convertible currencies. Developing countries lack internal savings to invest in modern technology and foreign exchange reserve to pay for importing technology. The best way to overcome both gaps is to rely on international assistance such as grants from western governments and international financial institutions, loans from international organizations or borrowing from the financial markets. Reliance on external finance creates other problems like aid addiction. This was the case of Bosnia and Herzegovina, Kosovo, Ethiopia, Congo, and Niger. It also faces the risk of economic collapse in case of withdrawal of aid (growth cannot be sustained

without foreign capital inflow). Foreign capital dependency is very much present today in many countries in Africa, the Balkans, etc. with low domestic savings and low investment rate constituting a heavy reliance on FDI, donors' assistance, remittances, and foreign loans. In case of sudden external shock like the 2008 financial crisis forced a halt in foreign capital inflow, economies face a major deterioration in GDP growth and other indicators.

The 1970s represented a new view to economic development. The Indian economist Amartya Sen introduced his "capabilities" approach. Sen introduced a novel approach to the conceptualization of multidimensional poverty and well-being. Sen put forward strong arguments why the concept of development ought to shift from problems of the national economy to those of the individual. He expands the concept of economic performance not to mean only GDP or material well-being but "capabilities" such as education, nutrition, social status, security, and the overall well-being of the individual (capabilities as the method for evaluating a person's welfare). Well-being must therefore beconceived as " the freedom people must enjoy valuable activities and states". It should be vieweddirectly in terms of functioning and capabilities instead of utility or resources. Functioning's applied broadly refers to the activities and situations that people spontaneously recognize to be important like health, knowledge or having a meaningly job. Sen's theory greatly influenced new approaches in international organizations for the measurement of well-being. The United Nations

Development Program officially adopted a new indicator of well-being known as the Human Development Index (HDI). In sum, most classical theories of economic development stress the lack of domestic savings and domestic capital as a prime barrier for economic development. Low income in developing countriesleads to low propensity to save as almost all income goes into consumption. This low saving rate leads to low investment which results to slow or no growth. In this regard, international financial assistance be it bilateral or multilateral becomes very important to compensate for low internal savings and investment. FDI will not only pump in fresh capital but will entail restructuring and upgrade of technological and production processes.

In the 1980s, there emerged the neoclassical counter revolution in which there was the return ofstrong faith in the liberal market economy. This was the approach of the Reagan and Thatcher administrations of the USA and the UK respectively. The free-market

approach was strongly recommended to developing countries by the World Bank and the IMF.

The above theories priorities capital investment to develop. But Looming poverty makes saving impossible for many people in developing nations like Cameroon. Available capital in most cases does not suffice food and medical care. This leaves gaps in education and other essential needs. Women and girls are chiefly affected in case of food rationing. On the other hand, the state itself lacks adequate finances to carry on development projects. It depends on foreign assistance, grants, donations and borrowing. Borrowing comes with high interest which only adds to the misery of future generations. This explains why microfinance was greatly encouraged from the 1970s. It was seen as the financial alternative of the poor and excluded from mainstream banking practices. It will provide microloans for small business which are mostly informal. It will operate in areas where major banks failed. It will stir the agricultural sector and micro businesses reducing poverty, creating self-confidence, and improving the social status of the poor in society.

Chapter 2
The Evolution of Microfinance in Cameroon

Microfinance is historically associated to poverty reduction. Activities related to cooperative savings and credit date back to the 18th century with the establishment of the Irish Loan Fund System by Jonathan Swift to provide loan to poor farmers with no loan collaterals (Amendariz et al., 2010). This loan fund program helped 20% of poor farmers obtains loan. In 1849 Raiffeisen founded in Rhineland the first cooperative society of savings and credit. But it was only in 1976 when Yunus created the Grameen Bank that we talk of modern microfinance (Blondeau, 2006). The original conception of microfinance was to serve as an alternative to banks and informal moneylenders, whose service in most developing nations touches only about 5 to 20% of the entire population (Gallardo et al.., 2003). The microfinance sector has expanded over time with more than 100 million customers and a high loans repayment rate (Cull et al.., 2009). The industry's expansion attracted calls for regulation. As these calls were welcomed by the wider public, they bore costs on microfinance institutions to implement compliance and supervision (Cull et al., 2009). Regulations in a broader sense attracted funding and reduced the over reliance on subsidies (Aghion and Murdoch, 2005). Microfinance is an efficient way of replacing collaterals in delivering and recovering short-term loans to small businesses (CGAP, 2003). The social agenda of microfinance lies in its outreach in poverty eradication. Recently, focus is not on eradicating poverty but an economic motive of sustainable and market base financial services (Rauf and Mahmood, 2009). Microfinance can be differentiated from conventional banking lending procedures. According to Gine (2003), joint liability and group lending promote the growth in loan over time, and uninterrupted repayment plans. Issues related to adverse selection and moral hazard can be curbed by joint liability. This is because borrowers are informed firsthand who in their community represents a credit risk and they can police each other. Lenders themselves can implement and impose strict auditing mechanisms should there be default and apply social sanction regimes (Ghatak and Guinnane, 1999). This type of collateral system benefits lending in states with porous legal regimes and borrowers lacking assets in the borrowing exercise.

Cameroon's microfinance sector spans over a century as it was primarily practiced in the traditional way locally known as Njangi or Tontine. Modern microfinance was introduced

in Cameroon in 1962 in the town of Njinikom by a catholic priest Reverend Albert Jansen (Creusot, 2006). He launched the St Anthony Discussion Group with 16 members with a small contribution amounting to FCFA 2,100 which at the time was USD 3.5 (Long, 2009). This credit unionism idea quickly spread all over the Northwest and Southwest provinces of Cameroon which are English speaking.

It was however in the 1980s during the commercial banking crisis and insolvency that microfinance gained weight. Numerous government interventions, irresponsible management and a conspicuous lack of monitoring and enforcement of regulation crumbled the banking sector in Cameroon creating a liquidity crisis (Brownbridge and Kirkpatrick, 2009). Since then, the microfinance market and microfinance institutions have been rising steadily. Official government figures show a record 850 registered microfinance institutions (data from the ministry of finance of Cameroon). In the CEMAC sub region (Central African Economic and Monetary Community), Cameroon's microfinance constitutes the largest in the area with deposits of over 68% of the total area and a loan portfolio of over 78% of the gross total (Coulter and Abena, 2010). The registered microfinance organizations in Cameroon sum up to FCFA 258 billion accumulated by way of deposits from over 1 million clients (Gwasi and Ngambi, 2014).

The 1990s will be remembered for the record losses registered by microfinance and cooperative institutions in Cameroon. This could be attributed to the underpricing of the risk associated to uncollateralized loans given to the poor and the rush to open offices across the country to capture new customers. The result was high arrears in loan repayment and bad debts totaling a quarter of the overall loan size (Elle, 2012). This paved the way for a revolution of the regulatory framework of the microfinance sector of Cameroon. The regulatory, supervisory, monitory and governance platforms of microfinance became government priority. Sweeping changes in the sector means that its services were no longer reserved for social Non-Governmental Organizations (NGOs) as the boundaries between microfinance institutions and commercial banking services are getting blurred. In the 1960s and onwards, the activities of microcredit services were not properly defined until the early 1990s.

As the banking crisis rocked the country in the 1980s, several branches of commercial banks were closed alongside developmental banks in some rural areas. Top bankers and executives lost their jobs in a massive worker lay-off exercise (Akume and Badjo, 2017).

These experienced executives then formed cooperative credit unions functioning like mini banks. With the advancement of microfinance services, supervisory bodies swiftly stepped in to define the role of every stakeholder in the microfinance service sector of Cameroon:

-Network of microfinance institutions: composed of institutions locally developed like MC2, Cameroon Cooperative Credit Union League (CAMCCUL).
-Two independent microcredit institutions formed by individuals, based mainly in urban dwellings, three non-governmental organizations with a development orientation, agro-industrial activities, and credit component such as Cameroon Cotton Company known in French as (SODECOTON) and the Southwest Development Authority (SOWEDA).
As interest in the sector grew coupled with the lack of a governance system, control of the microfinance domain which was originally under the ministry of agriculture was taken over by the ministry of finance. This led to the signing of a series of texts relating to sub regional integration, cooperation, and supervision of microfinance activities. These were texts unanimously adopted in 2005 by finance ministers of the Economic Community of Central African States otherwise known by its French acronym as CEMAC. Therefore, the new regulation with effectiveness as from 14th April 2005, organized the sector and made three classifications of microfinance: the first group fits in MFIS accepting credits and savings only from their members. Group two MFIs include those which accept credit and savings from both members and non-members alike. The third category represent MFIs granting just credit to the public. They do not collect savings but extend credit to third parties.
The classification of MFIs has increased commercial banks involvement in microfinance. Afriland first bank created MC2, its microfinance brand in 1992. BICEC, another banking giant formed ACEP and CVECA. CAMCCUL gave birth to UBC but it did not harness from the vast opportunities in the sector. SGBC on its part introduced ADVANS, a microcredit body and ECOBANK brought in EB-ACCION which became a competitor in 2009 (Ministry of Finance).

2.1. The Legal and Regulatory Framework

Prior to the 1960s, microfinance activities did not have any formal regulatory mechanism. In fact, it was even under the ministry of Agriculture and Rural Development. Being an agricultural producing country, most Cameroonians are farmers and live in rural areas. The majority are poor and lack access to loans from banks which operate mainly in cities and demand collaterals for loans. Savings are usually done at home or in small rotating savings associations. The ministry of Agriculture ran small holder projects in which farmers benefited from loans and equipment to produce cash crops. Cameroon was a one-party dictatorship. But as the wind of change blew across Africa and the third world in general, Cameroon was forced to democratize and introduce sweeping reforms. Pressure from international institutions left the government with only the choice of freeing various sectors of the economic, social, and political landscape. To better understand the legal framework regulating the microfinance and banking sector in Cameroon, a chronology of the various laws will be listed below, and they will be categorized into national and community.

2.1.1. National Laws

As early as 1962, Cameroon had a national law which controlled the banking profession. Decree No 62/DF/90 of 24th March 1960 did not only regulate banks but equally created institutions researching credit policy and ensuring its application. The Decree was replaced by Ordinance No 73/27 of 30th August 1973 regulating the practice of banking.

In 1985, another Ordinance No 85/002 of 31st August 1985 stipulating the creation of credit institutions and loan houses was passed. It is the backbone of modern financial law in Cameroon.

The ratification of this Ordinance was by law No 88/006 and law No 90/019 of 10th August 1990. Both laws brought a new flavor into the financial sector. They repealed previous laws which allowed only Cameroonian nationals to head financial institutions in Cameroon.

Another Ordinance, No 90/6 of 26th October 1990 made exemptions on banking institutions from fee payments and stamp duties on all Deeds and Judgements linked to

transfer or resale of immovable property.

Law No 90/053 of 19 December 1990 relating to freedom of association and cooperative societies paved the way for the expansion of the sector (Ministry of Agriculture and Rural Development). It should be noted that before this time associations and cooperative societies were outlawed in the single party dictatorship. In 1992, law no 92/006 was passed on 14 August 1992. This law reorganized cooperatives and common initiative groups.

On the 9th of September 1998, a Prime Ministerial Decree No 98/300/PM laid down the modalities of saving. An amendment was followed by law No 2018/022 of 11 December 2018 regulating bank loans. This was followed by law No 2019/021 of 24 December 2019 laying forth rules relating to credit activities in the banking and microfinance domains.

Law No 2019/021 of 24 December 2019 which is the newest national law regulating the sector puts forth conditions for granting credit by banks and microfinance bodies. Article 4 (2) stipulates that natural persons requesting for loans have the obligation to furnish to the financial institution of interest the following documents.

- For an employee, his/her monthly pay slips and also those of spouses if in possession.
- Information from other financial generating activities like rents, investments etc.
- Disability pensions, alimony, copy rights should the need arise.
- List of assets owned.
- If he is a tenant, the rental charges must be made known to the financial institution.
- Property tax and charges to maintain the asset if he/she is the owner.
- Declaration of any compensation benefits paid by him/her.
- Wage garnishments and other deductions stemming from a conviction.
- Should there be any revolving loans, they must be declared.
- Taxes and duties paid.
- Insurance policy and premiums including any additional that may accrue should the loan be granted.
- Any other information of relevance to the financial institution.

Paragraph 3 of this law instructs on companies and paragraph 4 makes specifications that the list of documents in paragraphs 2 and 3 are not final. The financial institution may reserve the right to request further documentation if the credibility of the legal person

requesting the loan is put to doubt.

An analysis of these laws and provisions clearly shows how difficult access to credit is to millions of Cameroonians. Upon the listed constraints, two stand particularly notorious: Firstly, is the plethora of requirements that borrowers must fulfill before their credit request can be granted. A second impediment to credit lies in the vagueness and incomprehensive nature of most of the texts and provisions of some laws and decrees. Section 5 of the 24 December 2019 Law which stipulates conditions and rules relating to the microcredit and banking sector in Cameroon remains unclear on modalities, obligations, necessary information, and advice institutional providers must release to their clients. This calls for recommendations to amend the legal framework of the microfinance and banking service sector of the country. National regulators include the Finance ministry, National Agency for Financial Investigations (ANIF), and National Credit Council and Professional Association of Credit Institutions (APECAM) who are charged with oversight and control of financial, credit and banking matters.

2.1.2 Community and International Norms

The CEMAC sub region which includes Cameroon adopted and implemented the COBAC regulations on cooperative societies in 2002 (COBAC, 2002) in compliance with OHADA guidelines. COBAC being the only monetary authority in central Africa (CEMAC), was invited to regulate microfinance activities just as it had done for commercial banks due to huge losses incurred by MFIs in the late 1990s. After the convention held on 17 January 1992 with the harmonisation and the regulation of banking activities of MFIs in the Central African sub region on the agenda, and following irregularities that blurred the microfinance sector, COBAC instituted the regulation governing the practice and control of MFIs activities in the entire sub region (COBAC, 2002). COBAC extracted and instituted Articles in the French colonial law of 1930 dealing with associations and the 1990 Cameroon law on associations (Bocqueraz, 2001). In the CEMAC sub region regulations were crucial as it was believed that most of the MFIs had attained financial sustainability and were now trying to function as either commercial banks or financial institutions (Tucker and Miles, 2004). It resulted to a rise in competition between the micro credit providers, thereby affecting lenders, decreased

accountability, and distorted governance practices within the sector (McIntosh et al., 2005). The high number of MFIs operating in the sub region led to increased competition for poor borrowers which in turn led to poor pricing of the risk attached to uncollateralised loans they gave out to these borrowers. This led to abusing the system as most of these poor customers profited from the situation and took loans from more than one micro credit provider for which they were unable to repay. It ended up in bad debt and high delinquency rate seen in the late 1990s (Dixon et al., 2007). In the loan recovery process, MFIs applied very unorthodox methods (Dixon et al., 2007). To protect borrowers from systemic abuse by lenders, COBAC acted by instituting a chain of regulations: the first regulation outlawed the use of the appellation ''bank'' or ''financial institution'' by microcredit bodies. It was compulsory for them to be called ''microfinance institution'' (COBAC, 2002, Art. 6).Secondly, COBAC grouped microfinance institutions into three separate groups, affixing a fixed minimum capital requirement to each of them (since 2012 a parliamentary Act has increased this minimum capital requirement), and also outlined the types of activities and services they are to offer their customers (COBAC, 2002, Art. 5,7 and 9).

Again, COBAC regulations govern and control the exercise of activities in the CEMAC sub region such as spelling out a difference between independently operating MFIs and those who function as an umbrella organisation, such as CAMCCUL and MC2 Networks (COBAC, 2002, Article 12 & 13). Article 15 stipulates the prerogatives of microfinance institutions which group up as an umbrella body and their affiliates, such as how to protect the organisation's liquidity, questions regarding the financial health of the network should one or more affiliates run bankrupt, norms and procedures the organisation should follow, the definition of its accounting plan, the consolidation of accounting documents following the stated procedures stipulated by the banking commission etc.

These regulations in Cameroon have paved the way for the openness of the microfinance market to private individuals, who alongside the indigenes strive to formulate long standing solutions for the eradication of poverty (Mersland, 2009). Mersland (2009) goes further to argue that this situation has brought in different stake holders at different cost of performing their activities. In this regard, to understand the governance challenges faced by different microfinance institutions, we should understand the stakeholder-based governance (Mersland, 2011).

In Cameroon therefore, regulation no. 01/00/CEMAC/UMAC/COBAC of January 2002 set forth compliance measures for the registration of microfinance companies. This regulation defined a microfinance as any business undertaken by accredited institutions which are not considered as banks or financial bodies. This consideration derives from the convention on the 17th of January 1992 which harmonised banking regulations in Central African States. This convention prides itself in the regulation of habitual credit operations, savings collection, and offer specific financial services to the public. Microfinance regulatory bodies are responsible for the illustration of the registration process of microfinance institutions. Each of these bodies has a role in the birth, purpose, and scope of a microfinance company.

Cameroon is a member of the Central Africa Economic and Monetary Authority otherwise known as CEMAC in its French acronym. Other members include Gabon, Congo, Chad, Equatorial Guinea, and the Central Africa Republic. It is also a member of the wider African body, the Africa Union, and other institutional bodies. Its economy is the largest in the CEMAC region and one of the most diversified. The creation of CEMAC was to encourage cooperation and exchange among member states. Principally, CEMAC'S goal is to promote a harmonized development of member countries by a common market. Key objectives of the bloc include the strengthening of economic and financial competitiveness through a harmonized system of the regulations governing them, converge economic and financial sustainability through the coordination of economic policies such that national budgetary and the common monetary policy should be consistent, the creation of a common market with freedom of movements of persons, goods, services and capital, national sector policy coordination in agriculture, fishery, livestock, commerce, telecommunications, transport, industry, education, research, energy, and environment. These countries use a common currency, the FCFA.

The banking sector in the CEMAC sub region has undergone sweeping reforms with series of regulations obliging its member states to follow including Cameroon. Competent regulatory bodies of the banking sector in the CEMAC zone include Bank of central Africa states referred to as BEAC in its French appellation, Central African Banking Commission or COBAC, Central African Economic and Monetary Community otherwise called CEMAC, Central African Monetary Union or UMAC, and the Central African Financial Market Oversight Commission known as COSUMAF in its French appellation.

The banking sector in the CEMAC zone is regulated by the following treaties and conventions:

- The convention which harmonizes banking regulation in its member states. This convention deals with issues relating to access conditions to the field of banking, what form credit institutions will take, authorization formalities, and share capital of credit bodies.
- Regulation No 02/04/CEMAC/UMAC/COBAC/C detailing how to deal with credit institutions facing challenges in the sub region. It tackles issues related to the closure, bankruptcy, and liquidation of banks and credit institutions.
- Regulation No 01/CEMAC/UMAC/CM focusses on the prevention and repression of activities related to money laundry, financing crime and terrorism in the region. The regulation laws down strict rules on money laundering and terrorism activities.
- Regulation No 02/18/CEMAC/UMAC/CM regulation foreign exchange. It provides rules to monitor the position of foreign exchange and to all foreign exchange transactions. It was followed by regulation No 04/UMAC directing on payment services in the bloc. The rules target electronic money institutions like mobile money services of MTN and Orange telephone companies. It lays emphasis on supervision and oversight of electronic money payment services. In another vein, regulation No 06/03/CEMAC/UMAC oversees the organization, operation, and supervision of the region's financial market.

For Cameroon, the main sub-regional bank laws are the 16th of October 1990 convention creating the Banking Commission of Central African States (COBAC), and the 17th January 1992 Convention which harmonizes banking regulations in Central African countries. The COBAC text of January 17th, 1992, separates banks from other financial services. It makes provisions for licensing framework of financial institutions appointment of executive, sanctioning financial bodies that contravene, indicates minimum paid-up capital, determines capital adequacy for running of financial services, and dictates on risk coverage sharing and liquidity ratios.

2.1.3 The OHADA System

In June 2002, during the G8 summit at Kananaskis, the New Partnership for African Development (NEPAD) came to light to booster sustainable growth and good governance (Waal, 2002). It was to open African markets, attract foreign investors to lighten up economies thereby enabling African economies attain the 7% yearly growth rate required to half poverty by 2015. Waal (2002) argues that a partnership to transform the aid relationship was put forward. NEPAD had to restore stability in the macroeconomy. It had to standardize its fiscal and monetary policies and provide solid institutions (Kanbur, 2002: 6). It is in this light that the Organization for the Harmonization of Business Laws in Africa called OHADA in French was born as an accounting treaty (Enonchong, 2007). As soon as the Kananaskis Summit ended, there was a hasty adoption of the treaty by African states just to benefit from aid (Enonchong, 2007).

The OHADA accounting system in Cameroon blends the Anglo-Saxon accounting model with the French accounting system (Elad and Tumnde, 2007: 1). The treaty is currently ratified by 17 countries on the continent, 14 of which are French speaking.

OHADA has failed to live its purpose of sustainable growth and good governance practices for organisations operating in Africa. It is sadly ratified by only 17 states out of the 55 that constitute the African Union. A stumbling block in the treaty's ratification is its article 42, which makes French the treaty's working language (Enonchong, 2007). Countries with an Anglo-Saxon culture find ambiguities in the implementation of the treaty: linguistic and conceptual.

Linguistics constitute a severe setback for organisations doing business in Anglophone Africa. This is purely because there is no authoritative version of the treaty in English and any attempt at translating the treaty's provisions to English introduces a different meaning altogether (Enonchong, 2007). This results in additional cost incurred by firms and organisations doing business in Anglophone parts of Africa as they will be compelled to hire consultants for the translation and implementation of the treaty before doing business. Conceptually, certain accounting terms in Francophone Africa mean differently when used in Anglophone sections of the continent. For instance, ''income'', translated into French means either ''produit or revenue''. These two terms under both systems could mean the same but in treating the term, two different methods are used. Another

conceptual ambiguity of the OHADA accounting system is seen when dealing with income and revenue. French accounting system considers income as a production factor, recognised whether it was sold or not, on its part, income is recognised only when it is sold in British accounting if used in production terms (Elad, 1992). Gross profit calculation under the British accounting system considers the organisation's entire operations, whereas, in the French accounting system gross profit relates only to goods and services bought externally for resale by the organisation (Elad, 1992).

It is in this terrain of total ambiguity that the OHADA accounting system was adopted and implemented in Cameroon. Though initially planned for large organisations and corporations, it became mandatory for all organisations operating in the CEMAC sub region and Cameroon from July 2011 (OHADA, 2011).

In Cameroon, like in the other CEMAC member states, the OHADA treaty regulating cooperative societies is the same. It provides a guideline for regional monetary bodies to use when developing regulations and laws governing the activities of MFIs. The treaty has four main divisions: firstly, it guides on how cooperative societies in Africa are to be formed. Secondly, it directs on the necessary steps to take should a cooperative society be dissolved. A third provision relates to penalties and sanctions to defaulting cooperatives and microfinance providing services and fourthly, it broadly informs on cooperatives activities on the continent (OHADA, 2011).

2.2 Bank Regulation Mechanisms in Cameroon

The regulation of banks and microfinance institutions in Cameroon is in line with economic liberalization program adopted by the government at the advent of multi-party politics. It follows the desire by the state to put order in a sector crippled by multiple failures and shortcomings. A look into core aspects of the regulations is the point of interest here.

- Regulating Capital requirements: Capital adequacy is prime for the smooth function of financial institutions. Most Cameroonian banks especially the locally owned face undercapitalization. Their capital adequacy ratio is below 8%. With an increase of the minimum capital recently moved from $2 million to $4 million, it is still noted that Cameroonian banks are undercapitalized as their leverage ratios are lower than 5%.

Capital especially equity prevents moral hazard by making sure banks indulging in risky tendencies make losses. Capital is the cushion for negative shocks which ensures banks do not fail. If sound regulation is not put in place to counter undercapitalization, the banking and microfinance sector will be flooded leaving regulatory bodies with an overwhelming request for assistance by failed banks exhausting their lender of last resort resources.

- Regulating Incorporation: The 1985 Ordinance places no ownership restrictions meanwhile that of 1990 made it possible for foreign nationals too to own and run banks and financial institutions in Cameroon. This was in the new code of investment which gave equal rights to both nationals and foreign citizens to invest in Cameroon. Later Ordinances made only commercial banks to operate in Cameroon. They must operate as public limited liability companies even if their shares are not yet publicly traded. The new investment Ordinance aimed at encouraging productive investment in Cameroon. Several guarantees are vested in the Code. All natural persons and corporate bodies can invest in Cameroon no matter where they live. The law protects both foreign nationals and Cameroonians in the same way. These rights pertain to ownership of property, administrative authorizations, and concessions. In case of illegal expropriation, compensation will be accorded. The labor and social security legislations guide the hire and fire of workers by potential employers. The right to transfer proceeds from investments is guaranteed. They are also paid the balance of the liquidation should they cease to operate. They also have the right to transfer out of Cameroon funds in the form or normal and current payments for supplies and services performed abroad especially in the form or royalties and sundry payments.

- Regulation that Promptly Corrects, Chartering and Examination: It is the responsibility of COBAC which is the regulatory and supervisory wing of the central bank of the region alongside national ministry of finance to ensure that banks stick to rules. COBAC actions must be prompt and corrective. The problem is the lack of human resources to allow COBAC to efficiently run its activities. Considering the geography of the region, the regulatory agency may carry out limited controls and prompt actions to deal with contraventions. Again, conflict of jurisdictional issues arise as two agencies are tasked with same job. This may cause neglect of certain areas or simply duplication of roles. Prompt, corrective action may be stalled affecting the sanity of the financial sector.

Mishkin (2010), highlights the importance of prudential supervision in stemming moral hazard and adverse selection in the financial service domain (Mishkin, 2010). Chartering on its part deals with screening of new proposals of financial service to stop unworthy institutions from controlling the sector. The bi-regulatory setup adds up to waiting time as both bodies must give their approval before a license is granted. It is a similar issue with the role of bank examination. Whose jurisdiction is it to examine banking services? Both COBAC and the finance ministry still conflict even though efforts have been made to lay down boundaries. Inadequate staffing at COBAC hinders it from making appropriate rating touching the six aspects of capital adequacy, asset quality, Management earnings, Liquidity, and sensitivity to market risk. When quality information is not gathered, regulators may not fairly assess the health of a bank and enforcing laid down rules will be nearly impossible.

- The Assessment of Risk Management Regulation: Risk management is an important strategy of any business. With high betting rates due to innovation in the financial sector, the lack of an adequate risk management regulation poses problems. Risk management should include the oversight performance of senior management and board, adequacy of policies and limits to all forms of activities that present risk, the quality of risk measurement and monitoring system, adequate internal control mechanisms to prevent fraud or illicit activities by employees (US Federal Reserve).
- Consumer Protection Regulation: The system has failed to provide any meaningful regulation that broadly protects consumers but for the transaction charges imposed by the finance ministry. We cannot forget so soon how consumers were exposed during the subprime crisis, in which millions of borrowers lacked understanding of the terms to their loans. A way forward could be the imposition of substantive disclosure legislations.
- Lending Limit and Government Safety Net: Regulation here sets the ceiling for lending. Banks must not lend to a single borrower over 45% of their funds. Though only a few benefits from credit lines in Cameroon, there is still high risk. Cameroon has no deposit insurance. This ties with World Bank findings. Accordingly, deposit insurance is an impediment to the development of the financial sector and thus economic growth (World Bank). They however noted that where deposit insurance represented negative effects, such countries have weak institutional environments, there was no rule of law,

regulation and supervision of the financial sector was inefficient, and corruption was very high (World Bank). This is the case of Cameroon. Since there is no deposit insurance, the safety net mechanism of the state is its central bank playing the lender of last resort. Bureaucratic bottlenecks means that state intervention is often slow and late.

- Asset Holding Laws: This regulation is in a bit to limit moral hazard tendencies of banks which are a heavy cost to ordinary citizens bailing them out. The absence of government safety nets in Cameroon dos does not scare banks from indulging into risky operations as they are more profitable should they pay off. With information asymmetry depositors cannot control the activities of bankers. It is only the state by way of regulation that discipline in the market can be restored. Regulators can stop banks from holding high risk assets in the form of common stocks.
- Laws on Bank Secrecy. Banking secrecy in Cameroon is highlighted in the internal regulations of banks and in employment contracts. Section 73 and 310 of the Penal Code establishes the punishment for confidentiality breach. It also sanctions counterfeiting and laundry. Usury is well known in Cameroon, with non-financial bodies and persons lending at skyrocketing rates of sometimes over 30% while normal bank rates stand at 22%. This is illegal and punishable in Section 325 of the Penal Code.

Chapter 3
Governance Mechanisms of Microfinance in Cameroon

Cameroon witnessed a crash in the banking sector in the late 1980s and 1990s (Ministry of Economy and Finance). Several top banks due to mismanagement, inappropriate practices and no supervision collapsed constituting a huge burden on the taxpayer. Government intervention to rescue and protect customers was a bitter pill. The already limited to loans banking sector saw credit possibilities even lower with this unprecedented banking crisis leading to severe poverty especially in rural areas (Ministry of Agriculture and Rural Development, 1992). There followed a slowed economic growth and the devaluation of the currency (Ministry of the Economy and Finance, 1992). Being the largest economy in the Central African Economic and Monetary Union, Cameroon's financial crisis spread to its neighbors and the CEMAC zone witnessed a financial meltdown (COBAC, 1992). In this light, sweeping reforms and measures in the form of legislations and reorganization of the banking and financial service sector was introduced. A convention held in Douala, Cameroon's economic city on January 17, 1992, saw the harmonization of the banking regulations of the CEMAC sub region (CEMAC, 1992). This convention had important outcomes. It laid down several Articles distinguishing banks from non-bank financial service providers. It formulated necessary conditions financial operators must meet and above all, laid the ground rules for the microfinance sector.

Regarding microfinance, it was first important to define it and make provisions for its establishment and operational activities. According to the Convention of 1992 in Douala, microfinance refers to activities accredited entities with no bank or financial institution status perform. The Convention also regulates savings collection, credit operations and makes specific financial services available to the public. As of January 2002, regulation No. 01/00/CEMAC/UMAC/COBAC put forward the conditions for the registration and operation of a microfinance institution. In this light, any physical or corporate individual with intentions to register a microfinance activity in the country would require the services of a qualified attorney. The attorney's legal advice to the investor will range from documentation preparation and submission to operational modalities and conduct of the activity. The attorney shall also advice on the institutional arrangements regulating the sector in Cameroon and the wider CEMAC zone. Legally, a microfinance's position is

that of a public limited company (PLC), a sleeping partnership, a cooperative, credit bank or an association in accordance with EMF/2002/21/COBAC. In Cameroon therefore, microfinance institutions are grouped in to 3 sub-groups with each of them having specific funds collection procedure. This is in line with Article 5 of regulation No. 01/02/CEMAC/UMAC/COBAC of 13th April 2002. The Central Africa Banking Commission provides the legal form of each category in the following way: Class 1 microfinance institutions are those who have members. They accept deposits and grant loans only to members. They include associations, cooperative societies, and credit unions. As for class 2 microfinance institutions, they accept deposits from both members and customers (third parties). Limited liability companies that function as microbanks are grouped under this heading. The third category on the other hand comprises of microfinance entities which only lend. Savings and deposit collection is not their business. Micro-credit and project finance are typical examples in this category (Kima & Partners Firm).

Apart from the above-mentioned categories, some other networks exist which are not primarily microfinance organizations and therefore not falling into any category, but which must fulfill special requirements as regard their legal existence. The first step to run a microcredit company in Cameroon requires registering for the sole purpose of providing microcredit services. Two reasons explain this registration formality. Firstly, the registration certificates of the company will be part of the documents to be presented during the formal registration of the microfinance institution. Secondly, the company after the registration and obtention of the operational license cannot perform any other activity other than that stipulated on his registration certificate. Since every microfinance category has its own specific requirements, it is imperative to specify the category for which the company intends to operate during the registration process (COBAC). The next step is to provide accompanying documents to the attorney representing the company. Some of these documents are: an application form for the related category bearing a duty stamp, a license showing that the company has been formed otherwise referred to as a certificate of incorporation, minutes of the general assembly showing the unanimity of the board and members in the formation of the company, the constitution of the company better known as the articles or memorandum of association, and a comprehensive list of the names of all members and their professions (COBAC, CEMAC). These are just general

requirements. Specific demands from the regulatory body may be applied where and when necessary. There is also the possibility of accredited microfinance institutions forming networks. This however must come only after the Banking Commissions authorization. Certain conditions govern the integration of microcredit companies: COBAC request an explanatory statement detailing the reason for the integration, there should be two separate minutes. The first should be minutes of the company's general assemble which authorizes it to be a member of the network and the other minutes are those of the general assemble of the network authorizing the institution to be a member, the accounting exhibits of the recent three exercises should be provided, and other conditions relative to the type of network company should be fulfilled upon the favorable response of the regulatory body (COBAC). Overall, COBAC's key instrument and control mechanism at the inception level of microfinance components happen to be ''Accreditation'' or ''Licensing''. However, the prudential merits of early licensing system as a control mechanism are not visible as in the CEMAC sub region, it is still possible to operate microfinance activities without any initial authorization from anybody. This is typically the case of churches, a growing number of domestic non-governmental bodies some of which have been known to manage portfolio of financial assets large enough to pose potential systemic risk.

Managers of microfinance institutions are also required by law to get approval from the regulatory body before assuming their functions. The monetary authority approved a manager after being notified by the Banking Commission. Some of the documents subject to such authorization include: a copy of birth certificate, 2 passport size photographs, a copy of his/her curriculum vitae, copy of the national identity card, copy of the highest qualifications/certifications and his/her appointment decision or letter. Still in line with authorizations, auditors and chartered accountants are not exempted. They are also subjected to the documentation routine, and they must attach a copy of the CEMAC approval or decision permitting them to operate as auditors and chartered accountants in the bloc. It should be noted that provision of stipulated documents does not give an automatic positive response from the governing body. Power lies in the COBAC which can decide otherwise and even revoke licenses of existing institutions and place sanctions when non-compliance occurs (Kima &Partners Firm). The microfinance registration process in Cameroon can therefore only be initiated when an attorney has received on

behalf of those wishing to operate microfinance companies all the necessary information and compiled the above-mentioned documents. After the registration, there is a 3-month deadline period for the grant of licenses when all documents have been successfully presented to the bodies in charge. Upon having been granted a license, activities must commence within 12 months, or the license will be withdrawn by the monetary authorities.

In the CEMAC Zone, microfinance regulations embody specific features. Primarily, the COBAC text recommends the creation of a unique professional body in each member country, ready to serve as a linchpin between policy makers, donors, and MFIs. This body will help in informed policy and strategic development of microcredit. They are to foster and enhance transparency and sustainability in the sector through professional and innovative practices.

Again, the merging of microcredit companies into representative bodies is highly favored by CEMAC regulators even though independent microfinance companies are not discouraged by COBAC. The rules for representation within the network, management and control procedures have been laid down by regulators. On behalf of their members, networks apply for accreditation, vet the management team, and develop internal control and reporting systems. In exchange, COBAC will apply softer requirements to the mini microfinance institutions that belong to a network especially with regards to management selection, control, reporting and other compliance requirements. There is no justification of this choice by COBAC. The 2002 annual activity report stated that ‘’organizational structures determine certain aspects of microfinance regulations. The will to favor the development of networks is considered. To motivate this choice, could be the fact that resources and manpower are scarce. Networks by vetting organizations and checking authorization requirements reduce strain on resources and therefore simplify the job of COBAC. If small cooperatives seek authorization but have a small membership base, the ideal solution will be to join networks to benefit from regulatory and other services against a commission. Networks are advantageous as they enjoy economies of scale and can reach out to many people than individual microfinance institutions. They also reduce operational risk as MFIs outsource registration and other compliance issues to them. A problem, however, may stem from them growing too large. This may breed systemic risk. In 2005, COBAC in its annual report hinted that it had requested the managers of a

microfinance network to produce a restructuring plan for its affiliate member organizations deemed to be in a vulnerable situation. Networks dominate the microfinance sector in the CEMAC zone, but it is unclear if they are deliberately favored by legislators. A long run consideration is whether this dominance will pose a major distortion of the competitive environment. According to the Swedish International Development Agency (SIDA), regulators risk a lot in this area and there will be consequences. They pointed out that ‘’public regulation is also concerned with the functioning of the financial market. Markets shaped by sound competition, rather than predominance by monopolistic providers serves better the customer. Competition they argued will provide clients with correct and comparable information leading to efficient and innovative service delivery beneficial in its reduced rate of interest and product diversification (SIDA).

Thirdly, CEMAC requires microfinance operators in member states to form professional associations known in generic form as the association of microfinance operators. Each country must have only one umbrella body. In Cameroon, the ANEM-CAM (Association Nationale des Etablissement de Microfinance) was formed in 2003 to defend the interest of its members. It has been representing its members since then at state organized forums, monetary and banking authorities, and serves as a source of information for members.

3.1 Microfinance Institution and the Provision of Services

The history of formal microfinance service in Cameroon dates to 1963, when in the town of Njinikom in the then Northwest Province the first credit union was established. Back then, the church played an important role in social cohesion and development. Christians were encouraged to form small groups where they could save on a rotating basis to help one another improve their economic situation. Since then, the credit union has grown to become the main microfinance service provider in the country. Cameroon Cooperative Credit Union League better known as CAMCCUL owns the largest share of the market. As the 1980s signaled a banking crisis, as several commercial and development banks went bankrupt, establishing microfinance institutions was discouraging. The failures and eventual closures of commercial bank branches across the country including the few that operated in rural areas only expanded the existing gap in the supply of financial and micro credit services in the vastly rural Cameroon.

This increased prospects in the sector and major players propelled by the New Deal Policy of President Biya calling on both elites and the masses to develop different strategies to help their various communities fight poverty and underdevelopment, ceased the opportunity to setup microfinance institutions. This was further backed by Law no 19/053 of 19 December 1990 liberalizing associations and Law no 92/006 of 14 August 1992 relating to cooperatives and common initiative groups. New microfinance institutions were born such as MC2-Microbank affiliated to Afriland First Bank Group, First Investments and Savings, Village Savings and Self-Managed Credit known in French as CVECA, just to name a few. They were all placed under the Ministry of Agriculture which had no supervisory and control experience. As irregularities and malpractices became the order of the day within these institutions, there was the need to protect public interest. In this light, a Prime Ministerial Decree transferred the granting of licenses, supervision, and control of micro credit institutions from the Ministry of Agriculture to the Ministry of Finance.

As per the banking commission, 652 microfinance institutions operated in Cameroon in the year 2002. This slightly dropped a few years later to 645 before reaching the 856 we have today. Three categories of MFIs exist in Cameroon: Category one or class one institutions are those that have just members, accept deposits and grant loans only to the

members. Included in this group are associations, cooperatives, and credit unions. Category two or class two microfinance institutions accept deposits both from members and third parties or customers. Here, we have limited liability companies functioning more like micro banks. The third category represents institutions whose primary activity is lending. They do not collect deposits and savings. Micro credit and project financing institutions are included in this class.

For majority of microfinance organizations, three principal services offered: they accept micro savings, they grant micro loans, and services in money transfer. While services such as micro insurance are still being developed and are at the experimental stage, in Cameroon today, mobile money has been widely advanced.

In terms of value and volume, category institutions headed by the Cameroon Credit Union League, Mutuelle Communitaire de Croissance and Caisse Villageoises champion the Cameroon microfinance market with an outright 68% of the total number of clients/members, deposits, and outstanding credits while prominent class two institutions control less than 30% of the entire sector. Locals especially women, classmates, colleagues at work, friends etc. in both rural and urban dwellings team up providing roving cash collection services, daily or monthly savings opportunities. Members also adhere to a monthly fee which is an installment equivalent to their daily contributions. These traditional and informal financial bodies have the major constraint of geographical and societal boundaries hampering the aspiration to expand. In the Southwest region, new players like Access and Dominion Finance render accessible house to house services such that the payment of electricity and water bills are facilitated at the cheap rate of only F CFA 200 per bill. Each microfinance institution charges its own interest rate since there is no interest rate ceiling imposed by regulators. Interest rates on savings varies from 3.25% to as much as 15% yearly. Interest rates on loans varies between 3 to 10% monthly for overdrafts. This excludes other related charges like file fees and insurance and subscription charges. Interest on credits is above 30% except for MC2 Micro bank Network which charges not more than 15% interest rates on loans to its members. To be offered any credit, some microfinance bodies compel members to save for a particular period. This is to observe and know their worthiness. It is a unique feature of category institutions. The MC2 Micro bank for instance encourages members to take full control of their destinies by building their very savings before asking from external support in the

form of loans.
Observations portray a rise in the activities, membership, and number of MFIs in Cameroon but despite this increase, information from the main regulatory body COBAC points out that only 10% of the potentials in the microfinance domain have been exploited (COBAC). There is still a vast untapped geographical territory, customer base and services. The huge growth potential is enhanced by the favorable agricultural landscape and the reluctance of commercial banks to tap in from rural areas and certain sectors like agriculture. Additionally, no efforts are being made to maximize the already created network of some of these microfinance institutions by commercial banks to deliver both financial and non-financial products and services. Despite this, prominent market leaders in the commercial banking sector have long considered important micro banking. Afriland First Bank Group for instance launched the MC2 micro bank brand since 1992 as SGBC partnered with Horus Finance to introduce Advans Cameroon. Recently, Ecobank joined a partnership with ACCION to come up with EB-Accion. As for CAMCCUL, the micro bank it created known as Union Bank of Cameroon failed to benefit from established networks and the pool of advantages credit unions offered. It was therefore sold to Oceanic Banking Group from Nigeria in 2008, just ten years after it went operational. Since it is unlikely that the potentials of the microfinance sector would be tapped and satisfied within a short or medium term, opportunities abound for any MFI capable of innovative strategies. Sadly, major MFIs like CCA and Fist Trust Savings and Loans Limited are rather vying for commercial banking licenses while big ticket is in the microfinance sector.
It is observed that, no microfinance institution list on the Douala stock exchange in Cameroon nor in the regional CEMAC stock exchange based in Libreville-Gabon. This is because is explained by the fact that majority of these companies have orientation towards family or community services. Therefore, the maintenance and preservation of this identity is focal. In June 2004, the Kribi national workshop which implemented the national policy of microfinance and reinforced in a panel discussion in 2011, made the following observations:

- There is an uneven distribution of microfinance institutions across the national territory
- Savings collection is remarkably expanding, though accompanied by a low coefficient

of transformation of these resources into credit
- Deposits are concentrated among small number of microfinance institutions
- Microfinance resources alone are insufficient to satisfy the short-, medium- and long-term clientele
- Access to external financing for MFIs is severely hindered by the lack of appropriate security mechanisms
- Most players display unprofessional behaviors
- Different stake holders dialogue little
- The link between banks and microfinance institutions is weak
- Lack of resources and state support of expansion in deprived areas
- The role of the state in the growth of the sector is still insufficient due to limited resources

The unmet needs include mainly:
- There is a lack of long-term funding resources
- Difficulties in implementing an effective security system
- Difficulties in creating a channel for donors' intervention
- Coverage of the national territory
- High loan delinquency rate
- Building solid governance and a transparent system by improving the capacity of the advisory board
- Insufficient and low-quality professionals

To overcome these weaknesses, the following points were advanced:

- Formulation of sector appropriate mechanisms
- Using IT to implement reliable, compatible, and easily accessed information systems
- Human resource management policy should be identified and defined
- Adherence to an ethics code
- Designing systems to guard against risk and internal control
- Business plans and strategic development should be developed
- Product diversification
- Proper management of database, resource center, documentation, information, and

training.

3.2 Case Study- Cameroon Cooperative Credit Union League (CAMCCUL)

In Cameroon, the notion of credit union was introduced by a catholic priest, Reverend Father Anthony Jansen. The Dutch national formed the first credit union of its kind in 1963 in the town of Njinikom in the then Northwest province. It first enrolled 16 members and registered savings of 2.100 Frs. The original conception was to help one another through small rotatory savings. This idea then spread throughout the Anglophone provinces of Cameroon, the Northwest, and the Southwest provinces. By 1968, a merger of 34 credit unions gave birth to the Cameroon Cooperative Credit Union League (CamCCUL) Limited. Since then, CamCCUL has been the flagbearer of cooperative credit unions and it is the largest microfinance institution both in Cameroon and the entire CEMAC sub region.

Its first registration occurred on the 8th of June 1968 and in August 1992 with the passing of cooperative law No. 92/006 of 14th August, it re-registered having Bamenda as its national headquarters. The registration of the league by the banking commission of Central Africa, COBAC is in same capacity as the apex organization of the credit union it is affiliated to. Currently there are 220 affiliates across the country with over 1.6 million people benefiting from its services.

CamCCUL carries out various activities other than just collecting savings and granting loans. It promotes agriculture and rural development through its Agri Business Unit whose Agribusiness Finance Program sensitizes credit unions to diversify their loans portfolio focusing on financing commercially oriented agriculture value chains with a higher rate of profitability mainly in the fisheries, agropastoral and transportation related activities in agribusiness, retail sales popularly known locally as buyam sellams, processing and commercializing opportunities. Recently, the World Bank in its support for agriculture shortlisted CamCCUL in its agriculture financing program. This brought a change in the lending routine of the institution. With its expertise in the rural areas, CamCCUL is committed in financing agriculture and the capacity building of farmers. Training constitutes part of the activities of CamCCUL in line with its vision to professional practice, service innovation and efficiency. The body organizes training to

all staff members. Training is both scheduled and unscheduled as well as on the spot training. Staff members are trained on auditing, statistics, information technology, lending, marketing, and rural development. So far, CamCCUL has carried out over 5,704,000 audits on affiliates and other MFIs and has received 26 awards for role in alleviating poverty and rural inclusion.

Principles and Values of CamCCUL

The guidelines by which cooperatives put their values into practice are referred to as principles. The principal idea of the cooperative lies on certain values. These values such as self-help, democracy, self-responsibility, equality, equity, and solidarity, are foundational pillars of cooperatives. In the traditions of their founding fathers, society associates stand for the ethical morals promoting honest and responsible behavior, transparency, social inclusiveness, caring for others and common development. For CamCCUL, 7 main principles can be distinguished.

1. Voluntary and open membership: Cooperatives are voluntary bodies with open membership. The public is invited to benefit from its services though responsible behavior is expected from all members irrespective of gender, race, cultural, religious, social, and political orientation.

2. Democratic member control: Cooperatives are democratically controlled by their members, who actively participate in policy and decision making. All elective executives are accountable to the members. Primarily, members have equal rights to vote (one member, one vote).

3. Economic participation of members: Capital contribution is equitable to all members and control of capital is democratic. As a rule, the cooperative assigns as common property some of its capital. Members have limited liability. Gains are used to set up reserves and promote activities of the cooperative.

4. Independence and autonomy: Cooperatives are autonomous self-help institutions controlled by their members. When they enter into agreements and unions with other

organizations, such as governments, or raise capital from outside sources, they do so in a way that protects the democratic control of the cooperative by its members and avoid losing its autonomous status.

5. Education, training, and information: Members of the cooperative, employees, its board and elected officers receive training so that they can be effective and efficient in delivery of services and enhance the wider development of the cooperative. The wider public, mainly the young and opinion leaders are informed regularly about the nature and merits of the cooperation.

6. Wider cooperation among cooperatives: To effectively serve their members and strengthen the cooperative movement, cooperative organizations make use of both local, national, and international channels.

7. Concern for community: Cooperatives by consensus work for the sustainable good of their communities. This is the social appeal tied to the cooperative and micro credit network. Community development through helping the poor get funds for private initiatives would empower them and when successful, they may create jobs at least for themselves remedy poverty and hunger, send children to school, have access to health and generally improve their status in society.

Competitive Position of CamCCUL

It is the largest market leader of the microfinance sector in the country. It is currently affiliated to 220 credit unions with a membership of over 550,000. CamCCUL remains strategic in the Cameroon microfinance sector despite having lost up to USD 2.5 million when in 2002, two banks hosting their accounts collapsed.
It ranks number one in total number of outlets, deposits, profitability, and credit outstanding in the microfinance domain of Cameroon. It out rightly controls more than 55% in all categories. Its shares in the microfinance market keep growing as opportunities in the sector abound and the lack of competitive resources by competing credit unions to challenge CamCCUL.

CamCCUL prides itself in developing, instituting, and promoting an efficient gender sensitive cooperative network by making available sustained quality products to affiliates, encourage equitable, apolitical, and full participation from all stakeholders. In most rural environments, besides the informal financial markets credit unions are still the main source of deposits and credits. With their social as well as commercial goals, credit unions may have a key role to play in offering pro-poor financial services. Most of the credit unions affiliated to CamCCUL have attained financial self-sufficiency. The table below highlights the position of CamCCUL in the microfinance market (CamCCUL.org).

3.3 The case of Micro Banks MC2 (Mutuelles Communautaires de Croissance)

It is a rural development institution. It is a community service institution formed and ran by locals who are vested with their very customs, resources, and potentials. The micro-bank is more advanced and corrects the imperfections of microcredit. It relies on the premise that savings is the engine of progress and awareness is fuel that keeps the engine rolling, while loans serve as lubricants and finally appended and related service solution to the issue of poverty. It emphasizes on social inclusion, ethical values, and environmental protection principles.

Though social inclusion and outreach constitute foundational pillars of the existence of microbanks, the economic and financial dimensions cannot be left out. These banks reach out to the poor and assist small businesses gain confidence. In this way the holistic approach of given back the destinies of the poor to them is achieved.

The MC2 is widely favored to other microcredit institutions because it is community driven, its creation, ownership and control is vested upon the same people of the community where it operates. This is in line with their own customary norms, which puts reality at the core of decision making. The partner with major banks like Afriland to provide convenient banking services in the rural geographies. This is extended by mobile money services guaranteed by a solid relationship with telecommunication giant MTN Cameroon. Its presence benefits more than 7 regions in Cameroon, and it enjoys partnerships both nationally and internationally with partners such as ADAF and FMO. Created in 1992, MC2s today in Cameroon number over 91 branches serving directly over 1000000 people.

The Microbank Formation Process

Unlike most international aids and donor funded programs ill-adapted and unsuitable to local values and customs, the MC2 model is not a packaged readymade one size fit all. Although the core principles from one community to another stay same, five stages are involved in the creation of an MC2 micro bank in Cameroon.

- Stage 1 involves sensitizing the poor and raising their awareness. The target community usually the poor are sensitized on the importance of savings in their struggle for self-reliance. The strategy used is by community gatherings, associations gathering and empowerment forums. They are made to understand the need to first rely on oneself before seeking external assistance. They are told of the pride to remain the sole masters of their very destinies.
- Stage 2 is the mobilization of resources. This builds from stage one in which a sensitization and awareness campaign is carried out. Stage 2 is considered the engine as savings and other resources are mobilized. Here, a task is to get stakeholders committed, raising the startup capital, paying individual share subscription and fees, registering the microbank and opening of individual accounts. The mobilized or collected resources in stage 2 permit the microbank to commence with its lending activities in stage 3 of the microbank development.
- In stage 3, individual income generating activities are financed. The microbank starts granting credit in line with financing the various income generating activities customers present. These finance which were generated in stage 2 are then used as fuel for the entrepreneurial development of its members. At this level, the microbank therefore finalizes its role of intermediation by distributing resources from areas of excess to those of deficit.
- Stage 4 is the financing of economic projects of common interest. At this point, the microbank institution becomes a partner of community development financing economic activities such as hospital construction, health centers, community halls, schools, public taps, books, and scholarships to primary and secondary school pupils etc. Communities are however cautious that the best moment to in stage 4 of MC2 development is after 2 or 3 years such that it must have achieved both administrative and

financial autonomy. That is the time when the institution can meet up with its various expenses such as salaries, electricity, telephone bills, office equipment and other consumables. At this stage, the microbank should be able to raise enough finances from loans and other services rendered to pay off fixed cost and even generate a surplus.

- Stage 5 represents the hallmark of the MC2 microbank. It is the stage where the institution practically prides itself in carrying out social development projects. The microbank at this stage uses the resources generated in stage 3 and 4 to fund community development projects for non-profit. For this stage to materialize, positive results must be seen in stage three and four to make available resources for stage five.

Competitive Positioning

MC2 microbanks are active in both rural and urban dwellings. They reach out mainly to the poor who are not benefiting from conventional banking services. They serve the public in areas such as savings, insurance, money transfer, and custody. Their services and overall market share keep growing. Currently they rank third in the microfinance market of Cameroon with a 6% share of savings.

The company shares continue to expand at an increasing rate. This is because of the brand equity the MC2 brand enjoys as it represents Afriland First Bank in local communities. Afriland, it should be noted is the market leader in the banking industry in terms of portfolio. Imperfections in microfinance is an eye opener for microbanks. Their modus operandi is such that planning, and resource utilization should meet the immediate needs and reality of the specific locality where the microbank is situated. It rests on the premise that savings is the engine of progress and awareness is the fuel that keeps the engine rolling, while loans serve as lubricants for the solutions to poverty reduction. Replicating this principle is difficult for competing models.

MC2s combine professional behavior and banking practice with high technology in micro insurance to serve the unbanked. Community growth mutual funds are second to none in meeting the needs of the poor with their moderate interest rates.

A peculiar feature of MC2 banks is the inferior interest rates on loans as compared to commercial banks interest rates. Also, they are more accessible especially to the rural poor than conventional banking services.

The supremacy of the model over others is due to its strong community orientation. The banks are created, managed, and controlled by the people in line with their customs,

values, realities, and traditions. Its four-pillar formula and practical interest rate remain unique.
The model again gains competitive advantage through its four pillars (the local populations, the non-governmental organizations, appropriate development for Africa known as ADAF, Afriland First Bank Group and some national and international partners.

Benefits of the MC2 Microbank
The microbank institution comes with numerous benefits for the locals and their community at large.
As shareholders, members can purchase stocks to provide members with services from the initial capital plus dividends earned. The purchase of these stocks also allows MC2 microbanks to earn and retain profits.
The principle of one man one vote is very democratic and gives equal voice to all members irrespective of number of shares owned. Similarly, is the open-door policy or voluntary and open membership.
Another advantage of the microbank is the principle of limited interest on capital. This principle signals the fact that the cooperatives interest on capital are deducted. In line with this principle is that of pro rata refund transactions which allows members to be refunded for services not benefited from.
The principle of cooperative education serves to create awareness and inform the public about the objectives of the microbank. This education helps would be members make decisions in relation to their very needs and therefore prevents them from falling into certain traps in the future.
The sale of shares generates capital funds and defines each person's property in a clear manner. These generated funds could be injected in projects that members deem could be profitable to them or simply of poverty alleviation nature.
When members purchase shares, the financial sustainability of the microbank is guaranteed. This encourages members to increase savings. These savings in turn represent a gauge to MC2 microbanks greatly increasing internal revenues and reducing dependence on external sources of funding.
The MC2 microbank strategy favors practical training banking operations and products, information technology, and on the job training. Microbank recruits are trained by

Afriland First Bank, while the NGO, Appropriate Development for Africa Foundation otherwise known as ADAF provides entrepreneurial and community education. This improves literacy and social standing of members.

Individuals and groups through the MC2 micro bank model increase their financial literacy capacity. This has a positive spillover effect on individual's empowerment, self-esteem, and social recognition. Generated funds from shareholders and other benefits and profits could go a long way in rural development by improving health, hygiene and sanitation, water, community halls and household education and health.

3.4 Microfinance and Small and Medium Size Enterprises (SME)

In the 19th Century, money lenders performed the roles of now formal financial institutions. Informal financial institutions refer to village banks, cooperative credit unions and other financial setups not registered as banks. They are the life blood of small SMEs. They gather rural savings and have straight forward simple procedures stemming from local cultures and are easily accepted and understood by the locals (Germidis et al., 1991). They finance the informal sector in developing nations. These small and medium sized enterprises are more likely to fail (Maloney, 2003). While small and medium sized businesses create employment, the fact that they have a short life cycle returns owners to joblessness and even deeper poverty. It is not until recently that Nobel winner Yunus shed light into microfinance through his Grameen Bank. Microfinance however is not the remedy but a springboard in fostering development in developing countries. Since the poor lack collaterals, commercial banks do not loan to them. Most of the societal problems emanate from the lack of financial and economic power. Lacking economic means leaves the poor in difficult states like lack of access to health, education, nutrition and standing in society. Microfinance though has challenged conventional banking by targeting the poor seen as risky but with high repayment rates (Zeller and Sharma, 1998). Experts view microfinance from various angles. Some posit that it offers new opportunities to the disadvantaged by providing them with finances to be able to champion their very future. It broadens the horizons by improving living standards of the poor and again playing both economic and social roles (Microfinance Radio Netherlands, 2010). The principal beneficiaries are small and medium sized businesses in mainly rural communities.

Unfortunately, there is still much to be done as microfinance has not outlived poverty and underdevelopment. The Millennium Development Goals of the United Nations aiming at poverty alleviation by 2015 has seen little results despite the increasing role of microfinance institutions towards this objective (Hiderink and Kok, 2009). As Yunus sums it in 2003, the main problem of the poor is to gain financial power to enable them to boost their income generating activities (Yunus, 2003).

The History of Microfinance and SME

Immediately after independence in 1960, the Cameroon government sponsored several initiatives to promote agricultural development in Cameroon. The famous ''Green Revolution'' program was launched by President Ahmadou Ahidjo to encourage citizens to develop agriculture (Simarski, 1992). In this regard, the National Fund for Rural Development (FONADER) and several rural agricultural extension services were sponsored. Despite this, there is still much to be done to tap from the vast agricultural potentials of the country. This is also because agriculture represents the life blood of the nation. Recent phenomenon has seen the entrance of NGOs and microfinance institutions into play to enhance small and medium size enterprises particularly at the rural level. Facing severe setbacks, farmers in the town of Njinikom constantly complaint to their parish priest Reverend Anthony Jansen from Holland who then introduced the concept of credit union in Cameroon. Complaints launched by farmers included the fact that most of them lost their savings as rats ate them at home or that they had to sell their produce before time and in this case cheaper due to lack of storage facilities. The forming therefore in 1963 of the first credit union was to give farmers and locals financial power to be able to purchase better seedlings and storage facilities (www.camccul.org). The government's focus on the agriculture sector explains the fact that most of the country is rural and agriculture dependent. During the 1970s and 1980s the Ahidjo government encouraged cooperative farming movements grouping farmers specialized in certain cash crops like cocoa, coffee, palm oil, cotton, and millet. These farmers were then trained by government agriculture officers, given high yielding seeds and high breeding animal species for animal breeders mainly in the northern parts of Cameroon, provided with feed, fertilizers, cutlasses, hoes and general farm inputs. They were encouraged to sell their output through the cooperatives to gain a strong bargaining power. The state also created

many subsidized schemes to enable farmers to become small holders in its broad small holder scheme. The state organized yearly agricultural shows where farmers were encouraged to participate in regional and nationwide contests. Those with best produce were given prices. The government also created the National Produce Marketing Board which dealt with problems related to farming from providing material aid to local small holders to marketing of their products for them. In this way, farmers were certain their products will get to the market.

Those who were not small holders but did subsistence farming also had to secure a means to survive especially during non-farming seasons. Endemic poverty meant that many kids in the family will miss out on schooling, would not afford for health, and may go malnourished. Parents therefore constituted their ‘’njangi’’ otherwise known as meetings. They did rotate savings and handed over to one member who could then use it for whatever he or she deemed important. This was an easy process as group members all knew each other. They were either age mate’s groups, school groups, village groups or even those in the same quarter. The njangis took various names depending on culture and town and members did not only end in rotating savings but also had a fund to condole with members during funerals. This is particularly important in Cameroon considering how expensive and lengthy funeral celebrations are. Meetings which began slowly in the 1960s have now become a national phenomenon and even those in the civil service are particularly active in it. Noteworthy is the fact that Cameroonians have exported this idea of meetings even abroad as it is very present in Cameroonian communities in the diaspora.

Microfinance Products and Service for the Development of SME

MFIs can offer their clients who are primarily the poor with limited access to banks different packages (Bennet 1994, Legerwood 1999). Financial services rank first and are offered mainly to the poor in rural areas with no tangible collateral securities and probably illiterate. Conventional or formal financial institutions do not usually serve small informal business managed by the poor. Communication or information asymmetry could be a deterring factor for small business owners to get loan. Banks often cannot get access to their collaterals (usually farmlands) due to distance and lack of accessibility and titleship documents coupled with illiteracy. Therefore, the little loans they requests are often turned down. This results to high lending cost in which the transaction cost theory can explain.

By transaction cost, reference is made to non-financial cost incurred in credit delivery by both borrower and lender before, during and after the loan disbursement. Cost incurred by the lender are costs such as those for searching for loanable funds, cost of designing credit contracts, cost of screening borrowers, cost of assessing project feasibility, loan application scrutiny cost, credit training to staff and borrowers cost and the cost of oversight cost and cost of implementing the contract. The borrower on his part may incur cost ranging from cost related to screening group member in case of group borrowing, group formation cost, contract negotiation cost, bureaucratic cost, expenses on transportation, project appraisal cost and the opportunity cost for participating in meetings (Batt and Shui-Yan, 1998). Transaction cost rate will be determined by the parties involved in a project. It is their sole responsibility to reduce the risk they may have to incur (Stiglitz, 1990).

The triangle of microfinance consists of financial sustainability, institutional impact, and outreach to the poor. Costs are borne when reaching out to the poor especially dishing out small loans (Christabell, 2009). The cost of outreach increases especially when the poor to be served are dispersed in a vast geography. Financial bodies always try to keep these costs at the minimum. Financial service provision to the poor is expensive such that for these providers to be sustainable, patience and attention to avoid excess costs and risks is required (Adam and Von Pischke, 1992).

For greater outreach to be attained, the deliveries of microfinance products have transaction cost consequences. Some institutions pay visits to their clients instead of them coming to the institution. This reduces transaction cost in the form of transportation for the borrower which is then incurred by the service provider (FAO, 2005). Hulme and Mosley (1996a) propose a much higher break-even interest rate for microfinance institutions to be sustainable. According to them this will enable the institution’s revenue to cover the total expenditures. The difference between supply and demand cost of the product is known as the break-even rate. It is usually above the market rate such that interest on loans are subsidized (Robinson, 2003).

The loan needs of smaller enterprises are relatively lower than those of larger companies but strangely, interest rates for both remains the same. This makes per unit cost high for microfinance institutions serving clients with very small loans and in possession of small

savings accounts (Robinson, 2003). This high interest on small loan seekers does not deter them from borrowing and defaulting from repayment. Many of them can repay and even borrow multiple times. The social benefits gained by clients of small loans exceeds the highly charged interest rate (Rosenberg, 1996). The high interest rate also goes to tackle the issue of adverse selection where a choice is made between risky and non-risky projects. The good customers suffer at the expense of the bad ones (Graham Bannok and Partners, 1997). Clients of microfinance admit that they prefer convenience to returns (Schmidt and Zeitinger, 1994).

The hindrance low-income men and women have in getting loans from conventional financial institutions is well known. Ordinary financial mediation on its own does not help include them in the game. Therefore, microfinance institutions must adopt and adapt tools to bridge the gaps tied to being poor, gender, lack of education and underdevelopment. Customers should acquire skills to better understand and manage products and their businesses. They should put their financial resources into profitable and efficient use for better market prospects (Bennet, 1994). Social intermediation, the process of social capital creation is an appropriate way for financial delivery to the poor (Bennett, 1997). Some microcredit companies offer practical insight in marketing, healthcare, bookkeeping and production to develop as part of their social agenda. Developing the entrepreneurial capacity and providing social services to low-income earners improves the ability to operate enterprises (Legerwood, 1999) directly or indirectly. Four broad categorizations of these services' microfinance institutions offer their clients follows below:

- Intermediation through the provision of financial packages like savings, credit, insurance, credit cards and payment systems. These do not require subsidies.
- Intermediation by building human and social capital for sustainable financial services for the poor. The scrapping of subsidies is advised though social intermediation may require in the long run subsidies than financial intermediation.
- Enterprise development services or non-financial services that encourage micro entrepreneurship such as business training, skills development, marketing and technology services and sub sector analysis. Subsidies may or may not be required and depends on the willingness and ability of the clients to pay for the services.

- Social services or non-financial services focusing on promoting the welfare of micro entrepreneurs including education, health, nutrition, and literacy training. These social services are likely to require subsidies and are always provided by donor supporting NGOs or the state (Bennett, 1997; Legerwood, 1999).

The Growth and Development of SME

Profit maximization and growth is the main goal of the firm. Penrose (1995) coins a firm as an administrative organization whose legal entity may expand in time with the collection of both tangible, physical, and human resources. Growth in this context refers to increase in size or other quantifiable objects or a process of change and improvements (Penrose, 1995). The firm size is the result of firm growth over a period, and it should be remembered that firm growth is a process while firm size is a state (Penrose, 1995). Firm growth can be determined by capital injection, labor and appropriate management, and profitable investment opportunities. Firms grow when they have resources at their disposal (Ghoshal, Halm, and Moran, 2002).
Microfinance institutions adopting the integrated approach provide enterprise development services. Non-financial microfinance institutions provide services like marketing and technology, business training, production training and subsector analysis and interventions (Legerwood, 1999). We can divide enterprise development services into two groups. Firstly, is enterprise formation referring to the offering of training to individuals so they can acquire skills in specific domains like sewing, weaving as well as for start-ups. Category two enterprise development services entail more of enterprise transformation programs through the provision of technical assistance, training, and technology for existing small and medium enterprises to advance in production, management, and marketing. Enterprise development services which are not offered free of charge do not present a condition to access financial services. The government or an external part subsidizes these services since the microfinance organizations may not be able to recover the full cost of providing the services. Though enterprise development services could have positive effects on businesses, its impact and knowledge gained cannot be measured since no quantifiable commodity is involved. Noteworthy is the observation that little or no difference exist between enterprises which get only financial

services and those that benefit from both credit packages and integrated enterprise development services (Legerwood, 1999).
For microfinance to efficiently serve small and medium size businesses, certain conditions are to be met. These include:

-Minimum entry requirements: Limited credit markets make informal sources of finance an important source for firm's start-up capital. Most of this start-up capital is from personal savings and borrowed capital from friends and relatives. Minimal amounts are borrowed from formal institutions like banks. Large firms have a much easier passage to loans than small firms (Gary and Guy, 2003). Microfinance institutions consider repayment ability of customers and assess the minimal sum small businesses can contribute as equity before loans are granted. This means that a business should not be entirely financed by loans. Businesses at the start-up phase are required to have minimum resources to be eligible for microfinance loan. In the absence thereof, some microcredit bodies require the pledging of household items as collaterals for loans. These MFIs also apply some financial and psychological measurements after which the loan is granted to the eligible. Generally, it is held that people take more care over things they have worked for or over possessions they own (Zeller, 2003). This is among the reasons microfinance institutions consider it necessary for borrowers to have minimal equity contribution before loan application. The source of the minimal equity capital is known by the microfinance institutions because the customer may be at high risk of not respecting repayment terms if the fund is borrowed. Therefore, a business with little debt and promising market characteristics will have advantage in accessing financial assistance offered by MFIs (Legerwood, 1999).

-Market Size and Positioning: Microfinance institutions lay emphasis on business type the microenterprises engages in. The market aspects considered include population segment and geography. Important too is the market positioning of the microenterprise. What portion of the market it has captured or will capture within a specified future is taken into consideration.

-Characteristics of the target Population: Many microfinance institutions aim at empowering women, improving their societal status, and bridging the gap with men (Moyoux, 2001). Women are usually the poorest in society yet the burden of child bringing, their education, nutrition and health care lies on their shoulders. Cultural barriers in Cameroon and in other developing countries constraint women from access to finance and keep them at home. They are even limited from schooling and served smaller portions of household meals than males. Many banks would not lend to women since they have limited access to property and no collateral. But experience shows that women are often more responsible than the men. If the women have an increase in income, the entire household benefits from the changes as compared benefits households get when men have a similar increase. Women also have the tendency to save and repay loans than men (Legerwood, 1999). The World Bank's sustainable banking for the poor carried out a study titled ''Worldwide Inventory of Microfinance Institutions'' discovered that female programs are group based characterized by small loan size and short loan term (Paxton, 1996).

-Poverty Level: Poverty reduction is the focal point of microfinance institutions. The poor constitute the majority in the total population. Microfinance outreach to the poor is measured in terms of scale, the number of clients reached and the depth of the clients they reach (Legerwood, 1999). Hulme and Mosley in 1996 point out that institutions fighting against poverty are make progress dealing with those below and those immediately above the poverty line (Hulme and Mosley, 1996).

-Geography: Products and services of microfinance institutions serve both urban and rural areas, but the rural regions remain the primary focus. Therefore, products and service offered by MFIs are designed to suit the target area. People in rural areas differ from those in cities and the infrastructural development of these geographic zones vary. Irrespective of firm location, markets are very important for microenterprises. The constraint to produce and distribute goods and services due to lack of infrastructure will retard the growth of the business thereby hindering and limiting the financial services that would be demanded. Poor infrastructure increase transaction cost but where there are good roads will reduce such costs. Grameen Bank has been very successful in microfinance, and it

has opened branches in the same locations where its clients live (Legerwood, 1999).

Types of Small and Medium Size Enterprises

The microfinance institution determines the target population to be served plus the activities the target market is active in and the developmental stage of the business to be financed. Small and medium size enterprises differ in their developmental stages and in business they conduct. They also seek different types of products and services from microfinance institutions. They are financed differently. This financing depends on whether the firm is in the start-up level or existing level and whether it is stable, unstable, or growing. Also, to be determined is the type of activity carried out by the firm such as production, commercial or services (Legerwood, 1999).

When identifying markets, microfinance institutions ponder whether to focus on already existing businesses or on potential newcomers seeking for funds for a start-up venture. Since working capital represents a major hindrance of growth of already existing businesses, borrowing is the main source if they are to meet up. Informal sources are useful such as friends, family, moneylenders, and suppliers. This results in high interest payment on the borrowed funds. A wiser consideration for MFIs will be to work with already existing enterprises which show a history of success (Legerwood, 1999).

When microcredit companies finance a business from the very start, the main consideration is that of alleviating poverty, increasing income and social improvement. Since financial services alone does not help start-ups, the way forward is an integrated approach. The inclusion of other services like skills and training will equip them with the necessary tools that can aid them obtain loans. Existing businesses with equity capital represent lower risk, thus highly preferred by microfinance institutions to deal with (Legerwood, 1999).

Microfinance companies also dish out their servicers based on the level in which the business has grown. Three main categories of small and medium size enterprises can benefit from financial services based on their development level.

Stable survivors are those that benefit from financial services of microfinance to meet up with production and consumption requirements. In this group are women providing certain businesses to provide certain services like food, child health and care, water, and

cooking services for the household. Their low profit margins make these types of enterprises not to grow. The problem with low profit margins is that of reinvestment. The business is unstable due to seasonal changes. This prompts them to consume rather than reinvest.

Growth enterprises are small business with a high propensity to grow. MFIs focusing on these types of enterprises are those which create jobs and intend to move the micro entrepreneur from the informal to the formal sector. Their reliability and little risk posed makes them an interesting focus for microfinance institutions (Legerwood, 1999).

Unstable survivors represent groups of businesses seen as not credit worthy for sustainable financial products and services. Their instability is insecurity. If MFIs try to focus on them with tailored services, the result is time consuming and expensive.

Another important feature that determines level of microfinance involvement in microbusinesses is the type of business activity. Businesses could be in the production, manufacturing, or service sectors. Each of these has its own financial needs and risks involved. Microfinance entities analyze the specific risks associated to a particular sector before providing tailored products and services. They consider the loan purpose, loan term, and the collateral security available. While some MFIs target just one sector, their counterparts serve different sectors. Objectives and impacts justify their actions (Legerwood, 1999).

How Microfinance Institutions serve their customers

Any approach taken by a microfinance institution will depend on the level to which these institutions will provide each of their services and whether they will follow the ‘’minimalist’’ or ‘’integrated’’ approach.

The minimalist approach renders only financial intermediation, but they can sometimes offer partial social intermediation services. The approach considers that there is a single ‘’missing piece’’ to enterprise growth and it is the unavailability of cheap, accessible short-term credit offered by the microfinance institutions.

On the other hand, the integrated approach holistically views the costumer. The idea of this approach is to combine a range of financial and non-financial services or social

intermediation, enterprise development and social services which provides much needed finances but also skills needed to gain access to and manage funds. Taking advantage of its proximity to its customers and considering its objectives, MFSs provide most needed services and those with comparative advantage. The service demand and supply determine which approach the microcredit organization will go for and the circumstances to which it will operate (Legerwood, 1999, p.65.

1.The Service of Financial Intermediation or Minimalist Approach

Financial intermediation is the process whereby excess capital or equity is transferred from those with surplus to those in need at the same time. It is a main goal of microfinance enterprises. Financial mediators coordinate savings to meet the needs of credit. In the intermediation process, those in need of capital bargain its cost through intermediaries who then upon agreement transfer from those with an accumulation of funds who wish to give out liquidity, to those desiring of acquiring liquidity'' (Von Pischke, 1991, p.27). Broadly speaking, almost all microfinance organizations provide credit services. Some on the other hand add other financial products like savings, insurance, and payment services. In Cameroon, microfinance institutions have partnered with mobile telephone providers like MTN and Orange Cameroon to facilitate money transfer in what is locally referred to as mobile money transfer (MoMo). This is a useful tool in its easy, quick, and accessible nature. Even rural areas are served using the mobile money system. Since each MFI has its objectives, the supply of its services will depend on the demand of the market it is serving and its institutional structure. Importantly microfinance in providing financial services must effectively respond to the demands and preferences of costumers and design products that are simple and easily understood by clients but also easily managed by the microfinance institution itself. Below is a brief explanation of the products provided by microfinance: credit, savings, credit cards, money transfers and insurance.

Credit: They represent borrowed funds with specified repayment terms. People borrow to satisfy a need or fund a business from accumulated savings. Before borrowing businessmen consider if the return on the loans exceeds the interest rate charged. The weigh the option of borrowing to allow continuity of the business to that of accumulating

savings thereby suspending business activities (Waterfield and Duval, 1996). The acquisition of loans is always for productivity purposes, that is to generate revenue within the business.

Savings: The mobilization of savings is so controversial in microfinance. The vast number of informal savings schemes have called for the attention of policy makers. Microfinance organizations especially credit unions have been very successful worldwide to in rallying customers to save (Paxton, 1996a, p.8). Savings is the accumulation of excesses income or simply the keeping aside of money not meant for immediate use. It is a very rampant phenomenon in Cameroonian culture.

Insurance: It is in its experimental phase in Cameroon as one of the products and services supplied by microfinance organizations. Many group lending schemes offer insurance or guarantee programs as collateral. Grameen Bank is a chief sponsor of such insurance programs. 1% of the loan is to be contributed by groups members as their insurance for the loan (Legerwood, 1999).

Credit Cards: They allow borrowers to access a line of credit when they need it. In case the supplier of the goods accepts the card, it can then be used for purchase and other payments. As the customer effects payment by accessing his own savings, it is debited from the card (Legerwood, 1999).

Payment Services: In this category is writing and catching checks, opportunities for customers who retain deposits (Caskey, 1994). Added to that, are the transfers and remittances of funds from one area to another and from one person to another (Legerwood, 1999). In Cameroon, the improvement in internet services and telecommunications in general has ushered in a new payment technology done using just a mobile phone. This commonly referred to as mobile money or simply MoMo is championed by the main mobile telephone network providers MTN and Orange. This is very accessible and needs no formal documentation. It is also very immediate and present all over the national territory. This is revolutionary in the finance sector as those in need may easily get it sparing the burden of filling forms, bureaucracy, and collaterals.

2. Social Intermediation

It involves group formation, networking and capacity building trough training and skills development in financial literacy, business management, bookkeeping, investment strategy, risk detection and management amongst many others. This is the role that qualifies microfinance institutions as tools of development. According to Bennet, it is a holistic investment combining human and institutional resources to make deprived persons independent and self-productive so that they will stand up to financial mediation. It promotes training, empowerment, and capacity development. Their programs have drilled participants on how to put to better use whatever social capital they have. This shifts the focus of microfinance from financial security to social security. Microfinance use trust to foster group cohesiveness through networking. Group members then benefit from low-cost marketing, diffusion of knowledge and awareness of opportunities. Since social intermediation unlikely brings financial sustainability, MFIs adopt different methods in its provision. These include self-help groups (SHG), individualized banking regimes, credit and saving unions.

Economic Role of SME

Small and medium size enterprises comprise of traditional and modern businesses. The traditional or household industry such as handicraft and local arts work are mainly located in rural communities. The modern day small and medium size enterprise differs in labor force, size, and investment. They are defined differently by different institutions in different countries based on the guidelines applicable to that institution or country (Zafar and Mustafa, 2017).

Officially in Cameroon, the definition of modern small and medium size enterprise is carved from law 2010/001 of April 13, 2010. According to this law, small (micro) enterprises refer to organizations having not more than 5 employees with an annual revenue of 15 million FCFA. Small firms refer to firms having between 6-20 workers with a yearly turnover of 15-100 million FCFA. And medium size enterprises are those with 21-100 workers, whose yearly turnover is from 100 million to 1 billion FCFA. Small and medium size businesses are very active in the economic development of a country.

They contribute to job creation, production, export contribution and income distribution. In this way, they reduce unemployment in the country. Small and medium size businesses are very important in developing countries with high unemployment. Those in developed countries are more advanced and sophisticated. Statistically, it represents about 85% of sole proprietorships, and about 50% of employment and Gross Domestic Product for most developing countries (Johnson and Soenen, 2003).

In Cameroon, small scale businesses are visibly present since most of the population are poor and rural. They boost the economy by making available goods and services to individuals, businesses, and they champion growth and innovation to the community. They are however seen as less powerful, employ few people, low productivity and less sophisticated. In this way they cannot benefit from economies of scale like their large and mechanized counterparts (Herr and Nettokoven, 2017).

Small and medium size enterprises steep up competition. They play a very positive role in the creation of a competitive economy. Competition is promoted through product design and price. Their presence prevents monopolistic tendencies from big companies. They are also a major income source for the state through taxes. This contributes to a steady and sustainable economic environment (Johnson and Soenen, 2003). They also encourage social cohesion and peace. Their importance led to the creation of the Ministry of Small and Medium Size Enterprises, the Social Economy, and Handicraft in Cameroon in 2004. According to the statistical yearbook of 2022 of this ministry, SME make up 99.8% of the enterprises in the national economy. Of this, 79.32% are very small enterprises, 19.43% are small enterprises while 1.25% are considered medium size businesses. A look at each sector puts the tertiary sector at 84.2%, secondary sector at 15.63% while the primary sector stands at 0.17% (Ministry sources). On July 20th, 2015, the SME bank created by the state of Cameroon went operational with the slogan ‘’access to finance for SMEs is no longer a dream”. With a capital of FCFA 10 billion, it gives loans at an interest rate of 11% which is better than the market average.

Chapter 4
Challenges and Recommendations

The goal of microfinance to poverty alleviation, social inclusion and giving voice to the voiceless which has been preached for over 4 decades has not fully materialized. Studies about the success of microfinance are mixed. There is no quantitative data as to global success. Most people who advocated it from the beginning have even deserted the concept today. If microfinance could live up to expectations is yet to be seen. In Cameroon, microfinance is very important as most of the people are poor, and the economy consist mainly of small and medium size businesses. Conventional banks fail to reach out to the poor and rural areas making liquidity far-fetched for millions. Microfinance is much needed to fill this gap and promote small businesses, increase self-reliance, ensure growth and marketing through cooperative unions. Though the sector is promising, and Cameroon still seem virgin, the activities of microfinance in Cameroon come with severe setbacks. This has been a major hindrance for the advancement of the sector. In this section, I will be treating some of these concerns followed by recommendations.

Problems facing the Microfinance Sector in Cameroon

The microfinance sector is very vital in the economy of Cameroon as it provides credit to the poor. It also directly employs over 10,000 people and more than 5000 indirectly as agents with over 1.5 million clients (IMF e-Library). It funds several private businesses and small and medium size enterprises. Microfinance in its social dimension as seen earlier goes far beyond lending funds to would be business developers. It facilitates group formation, networking, and capacity building by training on bookkeeping, financial literacy, and business management among group members. This role qualifies microfinance institutions as tools of development.
The recent decades have seen an advancement of the sector in Cameroon. This is due to the reorganization of the sector through decrees and set of regulations in the banking domain by the Central African Banking Commission (COBAC). Improvements in information and telecommunication technology have also eased the financial activities of microfinance as it can now carry out mobile money transfers and payments even in the most land locked areas. In 2013, the International Monetary Fund stated that there existed

409 microfinance institutions in Cameroon. This has almost doubled as today; official figures show that there are 850 microfinance institutions operating in the country. These institutions substitute conventional commercial banks in making available finances to the poor and small business holders whose lack of security guarantees hinder them from tapping from the services of major banks. The accessibility to microfinance and micro banks who often do not ask for collaterals or may accept personal property as a guarantee for access to loans make them very important in development. Their roles also show positively in the formations and trainings they give out to clients who then become confident and aware of financial management and business-related issues. They also improve the social standing of most of the poor beneficiaries in their societies. Microfinance institutions fuel the informal sector creating job and social stability. Their presence in rural areas and door to door services in some cases has been greeted with much enthusiasm by beneficiaries as their cost to access services is curtailed.

The sector provides a window of opportunities and today it has been very much diversified such that micro banks have emerged resulting from a collaboration of microcredit institutions and commercial banks. This widens the products and services the poor can benefit and at the same time community development is encouraged through projects like health centers, hospitals, water supply, community halls, just to name a few. Farmers and producers form cooperatives which benefit from extension services, fertilizers and high seed yielding species, equipment and tools, marketing services etc. Group members can also benefit from overdraft without the complicated procedures of commercial banks. In this way, they can easily solve pressing problems needing cash and spare themselves of eventual disasters.

Despite all the advantages of the microfinance sector in Cameroon, it has not witnessed a smooth transition. The sector is still under-utilized and underserved. Looming problems abound and expansion has been stalled. Evidently, the sector still offers great opportunities in the rural unexploited areas. But why has the microfinance sector in Cameroon not reached its full potential? What are the problems faced by the sector? What follows will be an outline of some of the issues the microfinance sector in Cameroon is facing which has acted detrimentally to the growth of the sector as in other parts of the world.

-Legal Complexity: With African economies collapsing, the World Bank's effort to rescue them through Structural adjustment Programs (SAP) failed to yield meaningful results. To reduce poverty, the International Monetary Fund and the World Bank funneled resources to non-government organizations operating in developing countries (Unerman and O'dwyer, 2006). With good governance recognized as one of the major problems related to the lack of development and growth in Africa, in the G8 summit of 2002, the New Partnership for African Development (NEPAD) was proposed based on governance and accountability for sustainable growth. To achieve this goal, business laws in Africa were harmonized in what became known as OHADA (l'Organisation pour l'Harmonisation en Afrique du Droits des Affaires) which translates in English as the Organization for the Harmonization of Business Laws in Africa (Enonchong, 2007). Although the treaty's establishment was in 1993, there was a haste by African governments to its adoption immediately after the 2002 G8 summit to be able to benefit from aids (Enonchong, 2007).

OHADA has failed to live its purpose of sustainable growth and good governance practices for organisations operating in Africa. It is sadly ratified by only 17 states out of the 55 that constitute the African Union. A stumbling block in the treaty's ratification is its article 42, which makes French the treaty's working language (Enonchong, 2007). Countries with an Anglo-Saxon culture find linguistic and conceptual ambiguities in the implementation of the treaty:

Linguistics constitute a severe setback for organisations doing business in Anglophone Africa. This is purely because there is no authoritative version of the treaty in English and any attempt at translating the treaty's provisions to English introduces a different meaning altogether (Enonchong, 2007). This results in additional cost incurred by firms and organisations doing business in Anglophone parts of Africa as they will be compelled to hire consultants for the translation and implementation of the treaty before doing business. Conceptually, certain accounting terms in Francophone Africa mean differently when used in Anglophone sections of the continent. For instance, ''income'', translated into French means either ''produit or revenue''. These two terms under both systems could mean the same but in treating the term, two different methods are used. Another conceptual ambiguity of the OHADA accounting system is seen when dealing with income and revenue. French accounting system considers income as a production factor,

recognised whether it was sold or not, on its part, income is recognised only when it is sold in British accounting if used in production terms (Elad, 1992). Gross profit calculation under the British accounting system considers the organisation's entire operations, whereas, in the French accounting system gross profit relates only to goods and services bought externally for resale by the organisation (Elad, 1992).

It is in this terrain of total ambiguity that the OHADA accounting system was adopted and implemented in Cameroon. Though initially planned for large organisations and corporations, it became mandatory for all organisations operating in the CEMAC sub region and Cameroon from July 2011 (OHADA, 2011). Therefore, organizations wishing to operate in the English-speaking parts of Cameroon will be faced with this ambiguity and extra cost.

-Indebtedness: Over indebtedness constitutes serious blow to the growth of the microfinance sector. This is because microfinance deals with the marginalized groups of Cameroonian society who quest to improve their living standards. Multiple borrowing by customers and ineffective risk management is a main factor that stresses the microfinance industry. The mere fact that loans are given without collaterals add the chances of bad debts. The non-compliance with debt by clients weighs negatively on the microfinance institutions. A major cause of the Cameroon banking crisis in the 1990s was high indebtedness.

-High Interest Rate: Microfinance institutions charge very high interest rates compared to commercial banks. They usually charge 10-20% which is very high for the poor. The high rates are due to lack of collaterals by borrowers and also since they do not have the numbers major banks have. It should be remembered that the principal idea of microfinance is for poverty alleviation and social inclusion. High interest falls short of these principles as it indebts or impoverishes the poor the more.

-Overdependence on the Cameroon Banking System: Being registered as non-profit, microfinance rely on financial institutions such as conventional banks for capital necessary to stay afloat. These commercial banks which are privately owned then charge exorbitant interest rates. Cameroonian microfinance institutions are incompetent institutions as they heavily rely on commercial banks.

-Investment Validation Issues: For smooth operation of microfinance institution, investment validation is a critical capability. Because the markets in which microfinance

institutions operate are still developing, there is often limited market activity. This results in difficulty for MFIs to lay hands on accurate market information to make valuations.

-Cameroon's Bilingual System: The bi-jural nature of Cameroon with two different national languages plus many cultures make the terrain difficult for microfinance institutions to function appropriately. Microfinance organizations are bound to translate all documents into English or French depending on the region in which they want to operate. This brings additional cost and is time consuming. Another problem here is the lack of bilingual employees to meet the needs of clients as most employees are fluent in only one of the national languages. The bilingual nature of the country also makes the legal interpretation of texts very complicated. Since the OHADA law is in French, any translation to English may be interpreted differently stirring further confusion.

-Lack of Public Awareness of Services: Cameroon is a developing country with low literacy rate. Illiteracy is even higher in rural areas. Financial knowledge is not known. The public is unaware of the financial services the microfinance industry provides. This lack of knowledge is a major hindrance to the rural population's access to microfinance credit to meet their financial obligations. It also contributes to Cameroon's widespread financial exclusion. MFIs also have the additional load of educating the public before dishing out loans. Microfinance find it difficult to operate in the competitive environment found in developing nations because there is a great lack of awareness about their policies and products (Akume and Annicet, 2017).

-Management Issues: It is very challenging to manage microfinance institutions in the 21st century. Improved technology and security concerns coupled with complex legal arrangements means that microfinance institutions must modernise to meet today's needs. High rate of illiteracy means professionals in the field are lacking. Most graduates would not accept jobs in rural areas making microfinance institutions to go for low quality labour (Akume and Annicet, 2017). This results only in poor management and unsustainability. Many institutions have shut down in Cameroon due to poor management leaving customers in most cases without compensation.

-Limited Resources: For any institution to properly function, it must possess key resources and potentials. This is not the case with many of the microfinance institutions in Cameroon. The lack of human, material and financial resources distorts the sustainable functioning of microfinance institutions in Cameroon.

-Unavailability of skilled staff: Most start-up microfinance organizations in Cameroon lack skilled personnels. The reason behind this is the lack of adequate resources to employ skilled professionals. Most graduates lack skills in computerized accounting. They are equipped mainly with theory and lack practical skills (Akume and Annicet). Again, computerized accounting courses are not common in Cameroonian universities.

-Donor Funding is Insufficient: There are limited donor funds entering in as most microfinance institutions register as non-governmental organizations (NGOs). Working under the banner of self-help groups is a strategy to evade taxes. The state on its part does not often fund financial organizations. This makes it very difficult for workers in these institutions to be paid. The lack of funds also hinders loans and other services to be sustainably served to the poor.

-Poor Government Support: The government of Cameroon does not support financial institutions since they are managed as private entities (CamCCUL.org). This leaves them with limited resources.

-Infrastructure Barriers: The lack of sufficient infrastructure is a hindrance for microfinance institutions to reach out to the poor who are mainly located in rural underdeveloped areas. Poor road networks, lack of electricity, lack of internet and telephone coverage are all hindrances to the proper functioning of modern-day microfinance institutions in Cameroon. This only adds to cost and poor service delivery (Orange Cameroon Network, Aziri Cooperative Credit Union).

-Geographical Distance: The principal idea of microfinance is for poverty alleviation and social inclusion. In Cameroon, most of the people are poor and live in rural areas. Their location is often inaccessible either by road, telephone, or internet. This makes it very difficult for efficient services to be rendered to them. Another difficulty stems from the fact that there are many poor people in Cameroon who need financial assistance for their start-ups. Microfinance institutions cannot meet the demands of everyone (Badjo Ngongue and Annicet, 2017).

-High Taxes: In Cameroon, the government charges high taxes on financial institutions. This is problematic for microfinance organizations with limited funds and often high debt due to low loan repayment by clients. Again, corrupt tax officials keep harassing operators in the microfinance sector for illicit gains. This has resulted in many folding up.

-High Cost of Transaction: The cost of service and product delivery is high. To reach out

to the poor in rural areas is costly as infrastructure is remote. Cost also stems from bureaucracy and paperwork as well as group formation and networks. The customers also incur cost from bureaucracy and distance to the offices of these institutions (CamCCUL.org).

-Territorial Arrangement of Cameroon: A dilemma for microfinance companies is the impossibility to serve the national territory. Cameroon is vastly underdeveloped making movements difficult. There is also a poor distribution of electricity, internet, and telecommunications (Badjo Ngongue, 2017). This has reduced the presence of microfinance institutions in the national territory.

Recommendations

The usefulness of microfinance in Cameroon's socioeconomic development need not over emphasized. Its role in poverty alleviation is crucial as well as that of social improvement. Microfinance provides funds for budding entrepreneurs. It also provides training in financial literacy, bookkeeping, management, and investment in general. In Cameroon conventional banks require collateral securities to give out loans. This is lacking to the poor and those in rural areas. Microfinance plays the crucial role of giving out these loans to the poor without collateral. These has culminated to a series of problems including the high risk of not recovering the loans. Problems faced by this sector in Cameroon are alarming and considering the importance of microfinance in Cameroon's development, there is the need to put forward measures to sustain the proper functioning of microfinance institutions to deliver in a sustainable way their products and services to the poor in the society. Below is a follow up of some measures to keep the sector at its best in Cameroon.

-Proper Regulation: During the emergent stage of the microfinance, innovative operational models are established. However, the sector needs restrictions in the form of regulation to protect the interest of stakeholders and promote growth. In Cameroon, regulation should take into consideration the two main national cultures of Anglo-Saxon and Francophone. The OHADA law is originally French, and it poses a problem in its translation and interpretation in the English-speaking parts of the country. Regulation therefore should provide equal opportunities for the integration of both cultures into a

prosperous and beneficial concept. Another issue worth recommending regarding regulation is the implementation of laws, texts or ordinances strictly outlining the poverty alleviation, social inclusion, and development motives of microfinance. So far, there are no texts specifically mentioning these aspects and therefore no microfinance institution in the entire CEMAC region has obligation to meet these objectives

-Field Monitoring: Added to proper regulation are field visits. This can be an accepted medium for monitoring the conditions on the ground to initiate corrective measures where necessary. This can serve as a watchdog on employee performance and the loan recovery practices of the microfinance institutions. Impromptu visits could help sit up management and staff for a better running of the institution.

-Encourage Rural Penetration: With poverty alleviation being the primary goal of microfinance institutions, a focus should be on the poor in rural areas. More branches should be opened to reach out to more in need. Over 75% of Cameroon's population are poor and live in rural areas but the distribution of microfinance services is far from covering 40% of the territory. This means that millions of poor people still lack access to financial services and the goal of poverty alleviation has not been met in Cameroon.

-Nature of Product Offering: Microfinance institutions should provide full packages of products together to reduce the overdependence of people on commercial banks. A full-service package includes credit, savings, remittances, financial advice, training and more.

-Interest Rate Transparency: Most customers in Cameroon are not aware of the real interest rate charged on their loans by microfinance institutions. There should be the complete release of all information in a transparent manner including the actual interest rate customers are expected to pay on their loans.

-Technology as a Cost cutting Measure: Microfinance institutions should be inspired to adopt cost cutting measures to scale back their operating cost. They should use cutting edge technology and IT tools to trim their operational cost (Akume and Annicet, 2017). The use of technology should also benefit their clients especially in receiving and making payments like using applications and the internet. Technology will also go a long with to curb transaction cost especially for rural enclaves since they may not require to physically move to the offices of the microfinance institution for products and services.

-Search for External Funding: The expansion of activities and reaching out to many people in different geographic areas becomes impossible in the absence of adequate

funds. To overcome this, MFIs could source for alternative funding of their loan portfolio. They could also partner with bigger institutions and banks or development-oriented businesses.

-Government Support: The state of Cameroon could intervene and support microfinance institutions by providing technical support, subventions, and training. It could also reduce taxes considering the development-oriented nature of these institutions. Its training could provide better professionals to manage the sector while technical support will help microfinance institutions understand the strategy of the government and hence give them a clear direction to stir the activities of their institutions. This is exactly the purpose of the department of computerized accounting at the university of Buea which will now train accountants with a focus in microfinance. Government could also send its professional auditors to check into the practices of these institutions. If conducted earlier, there could be the possibility to prevent certain malpractices or inappropriate behaviour within the institution that could possibly lead to bankruptcy to the detriment of customers.

-Improving Infrastructural Quality: If microfinance is to operate throughout the national territory, there must be infrastructural improvements. Very bad roads, no electricity in some areas, no internet coverage and lack of telecommunications in majority rural areas is a major problem in the supply of microfinance products and service to the poor in rural areas. This can only get better if the government takes upon itself to build roads and connect the country, improve on the electricity, internet, and telecommunications so that those in distant and inaccessible areas could be served using technology.

Conclusion

The period spanning the 1960s was widely considered as the period whereby several development theories came up. Economists and experts in development held the view that savings and capital productivity were instrumental for economic growth (Harodd-Domar Theory). Growth comes only after investment (Olajide, 2004). This may explain the underdevelopment in developing countries whose lack of savings leads to low investment, low-income productivity, and income per capita. External financing may then be sought after to motivate investment. This is a dilemma for millions in poor countries as borrowing requirements are beyond their reach. To fill this void of individual and small business financing left by commercial banks, microfinance institutions step in. Microfinance is widely considered as a fixing instrument to the credit markets capable of unleashing the productive prowess of the poor who solely lean on self-employment (Hulme and Mosley, 1996). Its upward expansion in the 1990s has ushered the way for social enterprises and social investment. According to Yunus (2016), microfinance would transform customer's businesses by providing much needed capital, that would increase borrower's earnings and thence eliminate poverty. The thought converged with influential economic theory linking productivity to failures in the financial system blaming borrowing contracts and lack of information (Stiglitz and Weiss, 1981).

Innovations in credit contracts chiefly group lending and instalment lending is a credit to microfinance (Ghatak and Guinnane, 1999, Armendariz and Murdoch, 2000). Broadly speaking, it represents a new model of development intervention which displaces governments as central actors switching to market mechanisms to deliver services through a range of institutions that merge social and financial goals (Cunning and Murdoch, 2011). The scope therefore of microfinance was not for profit but to reach out to the poor who are generally side-lined by conventional banking systems. It bears this social and development agenda as it targets the poor in rural communities. This was championed in 1976 by Yunus and his Grameen Bank by making small loans to the impoverished without demanding collaterals.

In Cameroon, microfinance has over a century of existence locally known as njangi. Its modern practice came into light in 1962 when catholic priest Albert Jansen in Njinikom launched the St. Anthony Discussion Group. It had 16 members with a small contribution of FCFA 2100 which then equalled USD 3.5 (Long, 2009). This unionist idea quickly

spread throughout the English-speaking provinces of Cameroon. The banking crisis in the 1980s paved the way for the consolidation of the microfinance sector. Mismanagement, numerous government interventions, lack of monitoring and enforcement mechanisms, weak regulations crumbled the banking sector. The result was a liquidity crisis (Brownbridge and Kirkpatrick, 2009). In 1990, the new deal policy of President Paul Biya required different strategies to fight poverty in the different Cameroonian communities. This was backed by law no 19/053 of December 1990 which liberalized associations and law no 92/006 passed in 1992 regarding cooperative societies and non-government rural development organizations. Many elites welcomed the opportunity and opened microfinance institutions. Today official figures show that there are 850 microfinance institutions in Cameroon. Cameroon is the largest economy in the Central African Economic Community known by its French acronym as CEMAC. It also represents the largest number of microfinance institutions with deposits of over 68% and a loan portfolio of over 78%.

Considering the high interest in microfinance and the rapid expansion of the sector, the state of Cameroon stepped up regulation and control. To begin with, microfinance and cooperative activities were moved from the ministry of agriculture and rural development to that of the economy and finance. Cameroon adopted and implemented the COBAC (Central African Banking Commission) regulations on cooperative societies in 2002. This complied with guidelines of OHADA (Organization for the Harmonization of Business Laws in Africa). COBAC then regulated microfinance activities just as it had done with banks in the whole of Central Africa sub region in the 1990s. COBAC modelled laws using articles in the 1930 French law of associations and the Cameroon 1990 law on associations (Bocqueraz, 2001).

But with most microfinance institutions attaining financial sustainability, many were now trying to function as commercial banks (Tucker and Miles, 2004). The result was competitive rivalry between microcredit providers, thereby affecting lenders, decreasing accountability and distorted governance practices withing the sector (McIntosh et al., 2005). The competition for poor borrowers led to unprofessional pricing of the risk attached to uncollateralized loans. The result was bad debt and high delinquency rate in the late 1990s (Dixon et al., 2007). COBAC ran to the rescue of borrowers by imposing certain measures. Microfinance institutions were banned from using the term banks or

financial institutions. It was compulsory for them to be called microfinance institutions. They were categorized into three with minimum capital requirements for each category. Again, regulations differentiated between independently functioning microfinance institutions and those who run as an umbrella organization. Furthermore, regulation no. 01/00/CEMAC/UMAC/COBAC of 2002 established compliance mechanisms for the registration of microfinance companies.

Major players in the industry include the Cameroon Cooperative Credit Union League (CAMCCUL) which is the largest and most represented, Mutuelle Communitaire de Croissance (MCC) which is a rural development micro bank, the Azire Cooperative Credit Union etc. They mainly function in rural and semi urban areas reaching out to the poor who cannot get loans from commercial banks. They provide tailored services ranging from savings, loans, overdraft, payments, money transfers, education, and training etc. In this way microfinance enforce two core principles, those of financial and social intermediation. Financial intermediations consist of providing financial products by transferring from those with excess to those in need. They help the poor and small and medium size enterprises get much needed funds to begin their businesses. This creates employment and financial independence. It also improves the status of the poor in society. As for social intermediation, it is conducted through the building of social networks, networking, meetings, group building and socializing.

All is not rosy for microfinance institutions. Severe problems hinder the sector from growing and fully utilizing the many opportunities. Firstly, is the high illiteracy rate in Cameroon. This brings in multiple problems. An uneducated mass is not aware of the financial products and services. This means that microfinance institutions must spend both time and resources to train them before offering them services. This only adds to cost. Again, with low education, microfinance management is poor as experts in computerized accounting and modern management are scarce. What worsens the situation is the fact that microfinance mainly operate in rural areas where graduates may not want to work and live. Another problem is geographical. The underdeveloped roads make movement difficult especially during the wet season. This hinders delivery of services and affects investors whose goods may not reach markets. Connected to this is the problem of no electricity and internet which are needed for modern business to flourish. Another problem which is even more serious is the risk attached to the loans. Most

borrowers don't pay back and only add to losses for the microfinance coupled with its lack of funds and donor support. The government of Cameroon itself does not assist financial institutions; this only darkens the picture for microfinance. Regulation itself is a huge problem as OHADA law originally in French must be translated before it can be used in the English-speaking regions of Cameroon. Often accounting terms and principles in French may be interpreted differently when translated into English. This is costly in resources and time for microfinance institutions who must hire professional translators to get work done. The good news for the sector is that it has still not reached its potentials and provides opportunities for future investments. But for investors to properly tap out and benefit from the abundance the sector offers, structural reforms and sustainable policies could be implemented to address systemic obstacles and widen Cameroon's economic space. The path to sustained and inclusive development is in modernizing the institutional landscape of the country. To foster the sector, policy makers should increase public investment efficiency, promote market competitiveness and productivity gains, improve infrastructure quality and tackle key bottlenecks in the logistics sector to promote regional trade and competition, accelerate financial and banking soundness and competition, narrowing competition gaps between men and women, developing public infrastructure and fostering private investment creating opportunities for more sophisticated products production and investing on innovative technology.

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