

The Microfinance Institution in Cameroon: Historical Perspectives

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ABSTRACT

Using the sociological approach to critical analysis, my paper examines the evolution of the microfinance institution in Cameroon from a historical perspective. It argues that due to a number of significant changes on the national and international scene, the institution has undergone a number of palpable changes to become what it is obvious today. I aim at showing how these varied changes on the socioeconomic landscape have been informing templates of the banking sector and, by extension, the microfinance sector in the country today.

Keywords: Microfinance, History, Sociological theory, Change.

INTRODUCTION

This paper examines the intersection between finance, sociology, and history in Cameroon as it traces the historical evolution of the microfinance sector in the country. The idea is to understand how this entity has come to occupy the central place it has in the country's finance sector today. The objective is to underscore the fact that while the microfinance institution has received considerable attention as a financial instrument per se, an evaluation of the different socioeconomic developments that have informed the sector in significant ways, is worth the kind of attention I pay to it in the paper. However, before I proceed along these lines, it would be expedient to define what the microfinance institution is.

Several scholars have noted the complexity in the definition of a microfinance institution (see). This may stem from the confusion often noticed between the concept of 'microcredit' and the broader 'microfinance'. While these terms are sometimes employed interchangeably, it is crucial to underscore that they represent distinct concepts. In general, microcredit refers to the practice of providing modest loans to persons with low incomes, particularly women, who are unable to get credit from traditional mainstream banks. The notion of microfinance, on the other hand, encompasses a wider scope in comparative terms. The range of services offered by microfinance includes microcredit, micro saving, microinsurance, money transfer, health care, business training, education, and many other financial services (Van Rooyen et al., 2012). Microcredit is thus among the diverse range of services under the domain of microfinance. In definitional terms, (Robinson 2001) says a microfinance institution provides small-scale financial services, such as credit and savings, to individuals engaged in microenterprises. These microenterprises constitute various activities like the production, recycling, repair, and sale of goods, as well as the provision of services. Additionally, microfinance targets individuals who earn wages or commissions, generate income from renting out small amounts of land, vehicles, draught animals, or machinery and tools, and other individuals and groups at the local levels of

developing countries In the Cameroon context which informs my paper, the Central African Banking Commission, known by its French acronym COBAC, refers to microfinance as the operations conducted by authorised businesses that are not classified as banks or financial institutions. These entities engage in the collection of savings or deposits, provision of credits or loans, and offer specialised financial products to individuals who are often excluded from traditional banking networks. Both definitions indicate that this sector deals primarily with the population that cannot easily liaise with banks for their activities. To have evolve over time in its dealings with small scale enterprises is an indication of the historical importance of this sector on a global scale. But what about Cameroon, my focus in this paper? How has this important economic sector evolved over time? What are the significant historical milestones that have informed it? These questions and more constitute the motivation of this paper.

I employ sociological criticism in my evaluation of how the microfinance sector in Cameroon has come to occupy the place it has in the economic sector of the country. While the study of financial markets, money and banking has been the purview of economics, the discipline of sociology, Lisa A. Kiester (2002) affirms, has contributed greatly to understanding financial relations since the early history of this discipline. This means that the discipline of sociology is crucial in coming to terms with situations of how the microfinance sector has come to play an important role in the finance space in the country today. For instance, the sociological approach can enable one examine questions of process, transition, and outcomes regarding the banking sector; issues which definitely hinge on the sociological. In this light, Bruce G. Carruthers (2018) affirms this when he notes in “What is Sociological about Banks and Banking?”, that banks and banking are sociologically interesting even so because they are embedded in a variety of social and economic networks and have played significant roles in the modern economy over time. This critical tool is important in my paper because it is useful in underlining how different socioeconomic parameters have undergird the microfinance space in Cameroon. The question then remains, how has this sector evolved over time in the country? What are the significant markers of its growth? Before I answer these questions, it would be important to briefly talk about the growth of this sector globally, given that microfinance banking is not indigenous to Cameroon, even if it occupies a strategic place in the country’s economic development.

BACKWARD GLANCES: MICROFINANCE SECTOR IN THE GLOBAL ARENA

Generally, the beginnings of microfinance are traceable to countries like Indonesia, India, Nigeria, Pakistan, and Germany (Mia et al., 2019). Morduch (1999) isolates Germany as the birthplace of contemporary microfinance because of Friedrich Wilhelm Raiffeisen’s inaugural credit cooperative in the country in 1864 (Guinnane 2001). For Morduch, the German credit cooperative movement was meant to enhance the well-being of rural communities by means of microfinance with the ultimate goal of liberating them from the clutches of informal moneylenders. From this time onward, the cooperative movement grew to embrace Europe, North America, and some emerging nations globally (Helms 2006).

To begin this historical overview thus is not to negate the development of the notion of microfinance which goes back several centuries with the establishment of pawnshops in Europe around the early 1500s. These substitutions for exploitative money lending methods (Helms, 2006), constitute early indications of microfinance banking even if they weren’t as developed along the lines that we have today. At another level, official financial institutions, attending to the needs of the unbanked population, have existed in Europe for several years.

For instance, Jonathan Swift, a prominent figure in Irish nationalism, established the Irish Loan Fund System in 1720 providing small loans to the poor in his country (Hollis and Sweetman, 2001). The changing fortunes of the scheme notwithstanding (Helms 2006, Hollis and Sweetman 2004, Seibel 2005), the system served as an early illustration of financial inclusion, which is a hallmark of the microfinance sector. In Africa where Cameroon is found, the practice dates back to the 17th century with Nigeria establishing indigenous rotating saving and credit associations (RoSCA), also referred to as 'ajo' and 'esusu' (Mia et al., 2019; Seibel, 2005).

As the institution evolved globally, a number of noteworthy regional/local trajectories, came to define it. In 1895 Indonesia, for instance, the People's Credit Banks/Bank Pembiayaan Rakyat Syariah (BPRs) emerged as the most expansive microfinance system in the country, with around 9,000 branches, thanks to its emphasis on financial inclusion (Helms 2006). In Latin America, during the early 1900s, a number of rural financial initiatives saw the light of day whose ownership and operation included commercial banks and government organisations. Their major objectives were to alleviate burdensome lending practises for the rural impoverished population, stimulate investment through credit, encourage savings mobilisation, and facilitate the modernization of the agricultural sector. Between the 1950s and the 1970s, several donors and governmental entities, in these contexts, provided agricultural loans to small and disadvantaged farmers, with the aim of improving their production and income levels (Helms, 2006). At the same time, farmers' cooperatives and state-owned development finance institutions were active in providing help to farmers through lending initiatives. Even though resultant corruption and the inability of some clients to adhere to repayment obligations depleted capital reserves, leading sometimes to the closure of these institutions, suffice it to say that they showed the development of the microfinance sector over time.

From the 1970s, ACCION International of the USA and Grameen Bank of Bangladesh were instrumental in the establishment of the contemporary microfinance system, through provision of modest credit to individuals engaged in petty trading activities in Latin America and South Asia (Chiu, 2015). Their achievements in this domain have inspired several other organisations in this regard. The Grameen Bank, in particular, has emerged as a well-recognised banking paradigm on a global scale. When one comes to the 1990s the emergence of Islamic microfinance institutions (MFIs) that introduced a profit-sharing loan model, aimed at offering interest-free loans to those living in poverty across Asia and Africa, stand out. This has contributed in no small way to the global evolution of the microfinance sector. As it were, the Islamic model has proven its success in mitigating poverty. This brief global overview helps us to understand how, from a social level, the advancement of contemporary microfinance is informed by the progressive growth of credit unions/cooperatives and other associated microfinance initiatives, which have benefited from centuries of experiential learning, hinged on both failures and successes (Mia et al., 2019). I now move on to examine the evolution of this institution in Cameroon.

THE MICROFINANCE SPACE IN CAMEROON: HISTORICAL ANTECEDENTS

As far as Cameroon is concerned, history has it that the beginnings of the microfinance institutions (MFIs) are traceable to the establishment, in 1963, of the first credit union in Njinikom, located in the Northwest Region. This, however, does not deny the existence of tontines/njangis all over the national territory before this time. Tontines/njangis refer to

informal community-based organisations that facilitate the borrowing and saving of funds among individuals within a localised setting. The establishment of cooperative credit unions signified the initial stride towards the formalisation of inclusive banking. It must be stressed that the majority of the initial cooperatives primarily focused their activities in the agricultural sector. This explains the rationale behind their oversight falling under the purview of the ministry of agriculture, as opposed to the ministry of finance which oversees banking operations in the country. In addition to overseeing their activities, the ministry of agriculture occasionally allocated financial resources to the cooperatives, which were then disbursed by the MFIs to their farmers or breeders at reduced interest rates.

In paying attention to these cooperatives, the Cameroonian government aimed to enhance the agriculture sector, which served as a primary source of livelihood for a substantial portion of its population. The cooperatives demonstrated their utility not only in facilitating local development, but also assumed paramount significance in light of the financial crisis that hit the country in the late 1980s and early 1990s, leading to the closure of bank branches in rural regions. In order to enhance the advancement of cooperatives, the government enacted two significant laws: Law n° 90/053 in December 1990, which pertains to the freedom of association, and Law n° 92/006 in August 1992, which pertains to cooperative societies and common initiative groups. The legislation, numbered 90/053, grants authorization for associations and cooperatives to engage in saving and loan activities. Additionally, the law, numbered 92/006, expressly addresses the operations of non-bank entities involved in financial intermediation, particularly saving and lending cooperatives. According to Mayoukou (2000), the establishment of cooperatives became contingent upon a straightforward registration process with the ministry of agriculture, rather than being subject to the approval of appropriate authorities. In addition, it is worth noting that cooperatives have gained the ability to operate autonomously, without necessary association with CAMCUL (say what this is), as highlighted by Mayoukou (2000). All these rules were the catalyst for the emergence of financial cooperatives in the country. It must be underlined that a significant number of the cooperatives that emerged, subsequent to the enactment of these legislations, were once structured as tontines, which we talked about above. As it were, the tontines/njangis took advantage of the newly enacted legislation to legitimise their operations.

The government, by means of the twin legislative measures, mentioned above, effectively gave impetus for the establishment of financial cooperatives, thereby reducing the barriers to entry and expanding financial access for those in the agricultural sector who had historically faced exclusion from the formal banking system. These measures further underlined Cameroon's uniqueness, globally, in promoting the microfinance movement in Cameroon. As it were, cooperatives could now offer savings and lending services to those who were situated on the periphery of the conventional banking sector, consequent on these legal frameworks. Interestingly, former bankers and entrepreneurs from many industries, who perceived microfinance banking as a lucrative economic prospect, took advantage of these laws to venture into the sector. This led established cooperatives, as well as pre-existing ones, to undertake activities that bore resemblance to those of traditional banks, as they expanded their operations by establishing branches around the nation, offering financial services to the wider public, rather than just catering to their own members. This expansion aimed to address the needs of those who had been excluded from the conventional financial system.

This period of the exponential growth of the microfinance space in the country, equally saw the notable rise of another type of microfinance organisation that aimed to operate similarly to traditional banks. This type offered loan and savings services to the public, even though it may not have possessed the necessary regulatory qualifications to do so. The functioning of this novel type of institution did not align with the cooperative model as stipulated by regulations, leading the government to enact a decree in 1998, mandating the placement of Microfinance Institutions (MFIs) under the supervision of the Ministry of Finance (MINFI).

It is important to stress that due to the lack of categorization for these emerging institutions, which did not align with the existing frameworks of cooperatives or banks, there were no established regulations controlling their operations. The result was that several of these institutions became involved in high-risk practices that posed a threat to the overall stability of the financial system in the country, even so because there was a notable absence of oversight by the appropriate regulatory bodies. Instances were reported where institutions implemented interest rates on loans as high as 78% per annum (Fouda Owoundi, 2010), leading to elevated levels of default. In response to an observed rise in fraudulent incidents and the evident lack of organisation and professionalism within the microfinance sector, the government opted to implement some regulations aimed at establishing a sense of order within the sector. It became crucial to include all the various types of microfinance institutions in terms of regulation and enhance the oversight and monitoring of the microfinance industry (Creusot, 2006). These developments at the social, political, and economic levels significantly informed the microfinance sector in Cameroon. At this juncture, it would be important to examine the legislature that has structured the sector in the country today.

THE MICROFINANCE REGULATORY FRAMEWORK IN CAMEROON

As noted above, the enactment of the microfinance legislation was a direct response to the issues encountered by the government in relation to the operations conducted by cooperatives. Since the issuance of the 1998 decree, the Ministry of Finance has been responsible for overseeing Microfinance Institutions (MFIs) in the nation. In this wise, it collaborated with the Central African Banking Commission (COBAC); a collaboration that resulted in the emergence of a new legislation, law n° 01/02/CEMAC/UMAC/COBAC, in April 2002. The legislation pertains to the regulation of the parameters governing the implementation and oversight of microfinance operations within the Central African Economic and Monetary Community (CEMAC) zone. This regulatory framework established three distinct classifications for Microfinance Institutions (MFIs), namely, Category one which encompasses primarily cooperatives and mutual associations that exclusively provide financial services to individuals who become members of the MFI. Category two, for its part, consists of public limited companies that offer specialised financial services to the general public. Category three has to do with MFIs that solely operate as credit institutions. This law, which was ratified by the seven countries of the Central African Economic and Monetary Community (CEMAC), entrusted the Banking Commission for Central Africa (COBAC) with the responsibility of overseeing the microfinance industry throughout all its member countries. This notwithstanding, the responsibility for carrying out the control and supervision mission remains the preserve of the ministries of finance in each of the respective countries.

The regulatory framework was designed to guide the behaviour of practitioners in the microfinance industry and to combat the growing prevalence of dangerous practices that

followed the sector's development. Under the newly implemented legislation, it became mandatory for all Microfinance Institutions (MFIs) to get a licence. At another level, MFIs, falling under category two and three, were subjected to a minimum capital requirement. In light of the fact that microfinance institutions (MFIs) were offering financial services akin to banks, albeit on a smaller scale, the regulatory framework implemented in 2002 established 21 prudential norms. These norms englobe many aspects such as capital adequacy, liquidity, and portfolio quality. Microfinance institutions (MFIs) were granted a period of five years to adhere to the established standards and regulations. Although the 2002 regulatory framework had several limitations, it played a fundamental role in establishing the structure of the microfinance industry.

In 2008, the Cameroon government enacted a new law, (Law n° 04/08/CEMAC/UMAC/COBAC), in response to the inadequate governance practices observed in the microfinance sector. The purpose of this law was to promote the adoption of best practises in governance by microfinance institutions, with a specific focus on the composition and operations of their board of directors.

In the year 2010, COBAC enacted a regulation pertaining to the accounting plan of Microfinance Institutions (MFIs), in accordance with the standards set out by the Organisation for the Harmonisation of Corporate law in Africa (OHADA law) for commercial companies and economic interest groups. Microfinance institutions (MFIs) were mandated to produce their obligatory declarative/financial statements and annual accounts in accordance with the accounting plan of MFIs, which was developed in 2010. The purpose of implementing these reporting criteria was to provide uniformity in the account statements across microfinance institutions (MFIs) in the country.

In 2014, the regulatory authorities implemented law n° 02/14/CEMAC/UMAC/COBAC/CM, pertaining to the management of financial institutions, particularly microfinance institutions (MFIs), facing challenges within the Central African Economic and Monetary Community (CEMAC) area. The enactment of this legislation was prompted by the observation that a considerable proportion of authorised Microfinance Institutions (MFIs) were encountering financial challenges. This led to the temporary placement of several prominent MFIs under governmental control. A regulatory framework to address such problems and facilitate progress thus became necessary.

After a period of over a decade, it became evident that the regulatory framework established in 2002 had become outdated and no longer effective. The development of complementary legislation was deemed insufficient. The existing regulatory system required substantial modifications. In 2016, COBAC initiated a reform of the 2002 framework in order to align it with the current realities and developments in the microfinance industry. In late 2017, a new regulation was ratified and then enforced on January 1, 2018. By it, microfinance institutions (MFIs) were required to comply with the new rule within a timeframe of 24 months. The newly implemented legislation placed significant emphasis on the imperative for microfinance institutions (MFIs) to achieve financial sustainability, driven by the objective of mitigating the occurrence of many bankruptcies experienced in previous periods. One of the notable regulatory adjustments had to do with the minimum capital requirement, which rose from 50 to 500 million CFA francs for those microfinance bodies obtaining in category two.

CONCLUSION

This historical overview of the development of the microfinance sector in Cameroon has shown how socioeconomic as well as political and other issues have informed it. As far as the question of regulation is concerned, the sector, as I have shown above, has undergone significant changes, with regulators seeking to enhance their control and supervision of the industry. I have equally shown that this regulatory intervention has been driven by an increasing familiarity with the unique characteristics of the microfinance sector, and a desire to prevent the recurrence of previous failures. More stringent regulations with simultaneous ensuring that microfinance institutions (MFIs) are able to fulfil their purpose of promoting financial inclusion, come into play. While the legislation has made significant improvements and enhanced the professionalism of the microfinance sector, there are still regulatory concerns that hinder the ability of microfinance institutions (MFIs) to fulfil their social objectives.

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