Governance of Microfinance Institutions (MFIs) in Cameroon; What Lessons can we learn?

Abstract:

The aim of this paper is to find out the effects of the COBAC regulations regulating the Microfinance industry on the governance of MFIs in Cameroon.

The paper is based on 35 in-depth interviews carried out between May to June 2011 and June to July 2012 with Managers and Accountants from MFIs in Cameroon, MFI clients and non clients, regulatory authorities in the Ministry of Finance and accounting professionals.

The findings show that the regulations have broken down the governance within the MFIs in Cameroon thus turning MFIs into hybrid organisations with managers striving to meet their shareholder interest

Introduction

> *"Microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples' lives for the better - especially the lives of those who need it most" (Kofi Annan, UN Secretary General, 18 November 2004) quoted in (Dixon et al., 2007: 48).*

EVEN THOUGH MICROFINANCE HAS PROVED its worth as a weapon against poverty, it is going through a critical phase especially with the governance practices within these organisations (Labie, 2001). Most Microfinance Institutions (MFIs) face the challenge of achieving sustainability, but are also faced with the problem of governance (Mersland and Øystein Strøm, 2009). Mersland and Øystein Strøm (2009) argue that, in order to improve the performance of MFIs and make microfinance a much more effective weapon against poverty and hunger, it is important that we start by understanding the influence of governance on the industry.

Good governance of MFIs requires a clear strategic vision of the organisation, transparency and efficient management strategy acceptable by all involved with the organisation (Lapenu and Pierret, 2006). According to Lapenu and Pierret (2006), the governance within MFIs is situated at the crossroads of two approaches: a political/ethical approach and an economic/managerial approach. They argue that the political/ethical approach emphasises the need for MFIs to have in place a strategic vision for the institution, the legitimacy of its decision-makers and the integration of the institution into its environment. On the other hand, the economic/managerial approach emphasises MFIs having in place a system of good governance that can improve the organisation's efficiency, reduce most of the costs incurred in the running of the organisation and optimise resources. At the same time, Kyereboah-Coleman and Osei (2008) and Bakker et al., (2014) argue that, as MFIs increase in their numbers and outreach, increase their assets and the savings of the poor, not only are they supposed to submit to some form of regulatory regime, but should be forced to assume good governance practices (Labie, 2001). Therefore, in order to differentiate between governance within other industries and MFIs, the Council of Microfinance Equity Funds (CMEF) in 2005 published the governance guidelines for *The Practice of Corporate Governance in Shareholder-Owned Microfinance Institutions* (CMEF, 2012). In the four years since the publication of these guidelines, there has been a radical transformation of the Microfinance industry and good governance is now highly regarded as essential for any successful MFIs financial sustainability and impact (Bakker et al., 2014). Unfortunately, one of the stumbling blocks to good governance practices by MFIs according to Rutherford (2003) and Weiss and Montgomery (2005) is the fact that different MFIs grew/emerged in different countries with different ideological, political, social, cultural and economic conditions therefore adopting different and or distinctive characteristics of governance practices along the way.

Despite the growing importance of good governance practices by MFIs, not many studies have looked at this. Only studies by Kyereboah-Coleman and Biekpe (2005), Hartarska (2005), Cull et al., (2007), Kyereboah-Coleman and Osei (2008) Bassem (2009), and Mersland and Øystein Strøm (2009) have looked at the impact of governance on MFIs, their impact, outreach and sustainability. But unfortunately none has looked at shareholder/privately owned MFIs as the case of Cameroon.

In this paper, we are using the case of the governance of MFIs in Cameroon to answer the question what are the effects of the COBAC (French acronym Commission Bacaire d'Afrique Centrale or Banking Commission for Central African States) regulations regulating the Microfinance industry on the governance of MFIs in Cameroon? Through this paper, we therefore will try to see if there are any lessons that we can learn from the governance practices of MFIs in Cameroon.

This paper is structured as follows: in the next section, we give a brief history of Microfinance in Cameroon, which is followed by an examination of the emergence of governance practices within the MFIs in Cameroon; we then present our research method and methodology, followed by some empirical findings. The last section draws some conclusions and any lessons that we can learn from the effects of COBAC regulations on the governance practices of MFIs in Cameroon.

The evolution of Microfinance and MFIs in Cameroon

MFIs are organisations such as credit unions, downscaled commercial banks, and financial cooperatives that provide financial services to the poor (Christen et al., 2003). These organisations might vary in their legal structure, mission, methodology, and sustainability (Siriaram and Upadhyayula, 2004), but they all have one thing in common, they provide a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low-income households and their micro-enterprises at cheap and affordable interest rates (Robinson, 2001).

Microfinance or Microcredit is not a new phenomenon as it is widely portrayed to be. Microfinance or Microcredit can be traced as far back as the 18th Century, when Jonathan Swift established the Irish Loan Fund System with the aim of providing loans to poor farmers who had no collateral and otherwise were unable to get loans (Armendáriz et al., 2010). According to Armendáriz et al., (2010), through this Irish Loan Fund System, 20% of Irish households and farmers were able to get small loans. This was followed by Friedrich Wilhelm Raiffeisen in the mid-19th century, who developed the financial Cooperative in Germany and which later spread to the rest of Europe (Esmail, 2008).

Even though Microfinance and MFIs started earlier in other countries around the world, it started in Cameroon in September 1963 with the St. Anthony’s Discussion Group (Long, 2009). This idea was introduced in Njinikom in the North West Province (today known as the North West Region) of Cameroon by a certain Rev. Father Anthony Jansen, a Roman Catholic priest from Holland. Initially, 16 members of this discussion group started with some small contributions that amounted to FCFA2,100 (US $3.5; the exchange rate at time of writing is US$1 = FCFA582) (Long, 2009).

However, it was not until the late 1980s, as a result of the commercial banking sector in Cameroon experiencing a serious crisis, with many major banks becoming illiquid and/or insolvent that Microfinance and MFIs really gained ground. At the root of the banking crisis in Cameroon was multifaceted government intervention, inadequate management, and a virtual lack of enforcement of banking regulations (Brownbridge and Kirkpatrick, 1999). Ever since, the Microfinance market and the number of MFIs in Cameroon have been increasing. Today, there are over 850 registered MFIs in Cameroon (statistics compiled by this researcher from official government figures). Cameroon is a member of CEMAC (Centre Monitaire d'Afrique Centrale or Monetary Authority of Central African States). Other member countries are Gabon, Chad, Central African Republic, The Republic of Congo, and Equatorial Guinea. Within the CEMAC sub region, Cameroon's MFIs constitute the largest in the area with deposits of more than 68% of the area total and loan portfolio of more than 78% of the area gross total (Coulter and Abena, 2010).

Unfortunately, the late 1990s witnessed some of the biggest losses incurred by the MFIs in Cameroon. These losses were the result of a range of errors by the MFIs under-pricing the risk of the uncollaterised loans they give to the poor and directly competing for customers by opening offices around the country. The MFIs experienced high arrears in loan repayment and bad debts which amounted to around a quarter of the overall total loan portfolio and losses registered in the sector (Elle, 2012). This situation thus prompted changes in the regulation, supervision, monitoring, control and governance of MFIs in Cameroon.

The emergence of governance practices for MFIs in Cameroon

Immediately after independence, the economies of the sub-Saharan African countries were booming and growing faster than countries of Asia, Latin America and Eastern Europe (Calderisi, 2006). According to Calderisi (2006), this trend changed between 1970 and 1990, when the world was faced with an economic recession and these African countries lost an estimated $70 bn per year and half of their world market share to other developing countries. This situation as Yunus (2003) describes it, left citizens of African countries as perpetual consumers and labourers rather than self-sufficient and sustainable individuals.

During the recession, Africans abandoned their farms, which were a major source of income and capital for the continent in pursuit of more industrialised forms of production, further creating misery and poverty to the extent that today in Africa, as Calderisi (2006: 2 - 3) describes it,

> "In every twelve hours, 3000 people, which is the same number of people killed in the World Trade Centre on September 11, 2001 perish from AIDS, and every year 150,000 African mothers, which is half the number of people who drowned in the Asian Tsunami of 2004 die giving birth".

Faced with the loss of $70 bn per year, an amount which exceeds the total amount of foreign aid spent by the rest of the world on Africa, Asia, and Latin America combined, Africans turned to the World Bank (WB) and International Monetary Fund (IMF) for support (Calderisi, 2006) to salvage what was left of the ailing African economy. The WB and IMF were set up as an arm of the United Nations Organisation (UNO) Breton Woods agreement in 1944, not as a bank operating banking services per se, but as a cooperative with the conviction of the Western powers to raise the living standards of the poorest countries. These institutions were not ready to lend "freely" to African countries (Calderisi, 2006: 17) because they thought that, "development lending would not be very productive if it supported economies that were headed into trouble" (Calderisi, 2006: 17). But realising that the African economic problem, which further worsened between 1980 and 1990 was almost becoming a "permanent economic problem", the WB and IMF decided to intervene through support for government budgets. This support came in the form of Structural Adjustment Programmes (SAP) that extend beyond financial issues and touch on geo-political issues as well (Riddell, 1992). Even with SAP, things did not get any better for Africa. While other economies of the less developed countries (LCDs) such as in Asia, Eastern Europe and Latin America were growing, those of African countries were shrinking and the governments did not bother to explain to their citizens what exactly was going on, but rather preferred to blame others for the economic mess (Calderisi, 2006). Viewing the ineffectiveness of governments of these LDCs to implement development programmes that could lead their people out of poverty, the WB, IMF and most donor organisation decided to intervene in these LDCs through non-governmental organisations (NGOs) (Unerman and O'Dwyer, 2006). Most of the support by these NGOs to the poor in these LDCs was channelled through MFIs, as they were seen as being directly involved with the wellbeing of the poor (Ledgerwood and White, 2006).

Unfortunately, Microfinance that has been seen by many especially after the experience of Professor Yunus and the Grameen Bank as helping lift the poor out of poverty has not helped alleviate poverty in Africa and Cameroon in particular. The main reason is the lack of sustainable growth and a system of good governance within African states and the MFIs (Waal, 2002).

According to Waal (2002), the New Partnership for African Development (NEPAD) was introduced as the best hope for African countries to achieve sustainable growth and promote good governance practices within organisations operating in Africa as agreed at the G8 Summit at Kananaskis in June 2002. NEPAD's aim was to open African markets for foreign investments that could help boost their economies and consequently help African economies achieve the overall 7 percent annual growth rate necessary to meet one of the Millennium Development Goals (MDG) which is halving poverty by 2015 (a deadline subsequently extended to 2017 through UN Resolution 63/230 of 17 March 2009). To help African countries achieve this growth rate, Waal (2002) argues that there was this enhanced partnership promise to transform the aid relationship.

One other aim that the NEPAD agreement was intended to achieve was "restoring and maintaining macroeconomic stability, especially by developing appropriate standards and targets for fiscal and monetary policies, and introducing appropriate institutional framework to achieve these standards" (Kanbur, 2002: 6). One such standard was the OHADA (French acronym l'Organisation pour l'Harmonisation en Afrique du Driots des Affaires) accounting treaty (Enonchong, 2007). Although the treaty was established in 1993, Enonchong (2007) argues that, immediately after the G8 Kananaskis summit, African countries hastily adopted the OHADA treaty so as to qualify for aid.

The OHADA accounting treaty as adopted by African countries and implemented in Cameroon is a blend of the Anglo-Saxon model of accounting with the French accounting system approach by codifying some of the provisions of International Financial Reporting Standards (IFRS) and incorporating them as Articles within the framework of OHADA in line with the French civil law tradition "wherein codes and statutes are highly structured and systematized" (Elad and Tumnde, 2007: 1). The OHADA treaty is currently ratified by 17 African countries: 14 of which are Francophone African states, one Spanish-speaking country (Equatorial Guinea), one Portuguese-speaking country (Guinea Bissau), and one bilingual country (Cameroon) that has both French and English as official languages.

Unfortunately, a treaty that was intended to achieve sustainable growth and promote good governance practices in organisations operating African states is still not ratified by all 52 member states of the African Union (AU). The main reason why not all members of the AU have ratified this treaty lies at the level of Article 42, which states that the working language of the treaty is French (Enonchong, 2007). The main reason that Article 42 of the

OHADA treaty is seen as a major problem for former British colonies is because of two ambiguities that arise from the implementation of the treaty; these are linguistic and conceptual.

Linguistics were realised to pose a major problem for organisations operating in Anglophone Africa especially as the OHADA (Accounting Plan) treaty has no authoritative version in English and any attempt at translating the provisions of the treaty into English gives a completely different sense of the treaty (Enonchong, 2007). This therefore means that any organisation from Anglophone Africa that adopts the treaty will have to incur costs to hire consultants for the interpretation and implementation of the treaty within their organisation.

At the level of conceptual thinking, accounting in Francophone Africa and Anglophone Africa has different connotations with the use of certain accounting terms. For example, an accounting term such as “income” in English, if translated into French means either “produit or revenue”. These two terms under both the Anglophone and Francophone accounting systems might mean the same, but conceptually, they require two different methods of treating the term.

Another fundamental conceptual ambiguity that arises from the OHADA treaty is at the level of treatment of income and revenue. Under the French accounting system, income is treated as a production factor and recognised whether it was sold or not, whereas under the Anglophone (British) accounting system, income is recognised only when it is sold if used in production terms (Elad, 1992). As a result of these conceptual differences between the two accounting systems in Africa, under the British accounting system, gross profit is calculated based on the entire operations of the organisation whereas the Fancophones regard gross profit as only relating to goods and services purchased from external sources for resale by the organisation (Elad, 1992).

It is in this ambiguous accounting atmosphere that the OHADA treaty was adopted and implemented in Cameroon. Even though it was initially intended for large organisations and corporations, it became mandatory for MFIs operating in CEMAC sub-region and Cameroon from July 2011 (OHADA, 2011).

The OHADA treaty regulating the activities of Cooperative Societies in Cameroon is intended to be a guideline for the various regional monetary authorities to use in developing regulations governing the activities of MFIs in their various regions. This treaty is divided into four major parts (general guidance on formation of Cooperative Societies in Africa; guidance as to what should be done in case of dissolution of any Cooperative Society; penalties and sanctions; and other issues relating to the activities of Cooperative Societies in Africa) and into 390 Articles (OHADA, 2011). In compliance with this treaty, CEMAC sub-region, of which Cameroon is a member state, adopted the COBAC regulations on Cooperative Societies adopted and implemented in 2002 (COBAC, 2002). Even though this treaty was adopted and implemented in Cameroon and the CEMAC sub region well before the OHADA treaty, this regulation is in line with the guiding principles of OHADA treaty on cooperative societies.

As the sole monetary authority in the CEMAC sub-region and an organisation regulating the activities of Commercial banks, COBAC was called in to regulate the MFI industry in the CEMAC sub-region following huge losses incurred by MFIs in the late 1990s. As a result of the convention of 17 January 1992 requesting the harmonisation and regulation of the banking activities of the MFIs in the Central African States, and following irregularities that marred accountability in the MFI sector, COBAC instituted the regulation governing the exercise and control of MFI activities in the CEMAC sub region (COBAC, 2002). In doing so, COBAC modelled some of the articles in their regulation on the French law on associations of 1930 and the Cameroon law on associations of 1990 (Bocqueraz, 2001).

The reason that such regulation was important in the CEMAC sub-region was because most of the MFIs operating in the sub-region were believed to have reached financial sustainability and were now trying to operate as either commercial banks or Financial Institutions (Tucker and Miles, 2004). This led to a rise in competition between these MFIs thus affecting lenders, decreased accountability and distorted governance practices within the sector (McIntosh et al., 2005). As McIntosh et al (2005) argue, as a result of the rise in the number of MFIs operating in the sub-region, most of these MFIs competing directly for poor clients; therefore they were unable to price the risk associated with the uncollateralised loans they provided to these poor clients. Some of these poor therefore took advantage of the situation to take out multiple loans from different lenders and when it was time to repay, they were unable to do so. This resulted in the high level of bad debts incurred by MFIs and high delinquency rate witnessed in the late 1990s (Dixon et al., 2007). In order to recover these loans, MFIs were forced to employ various unorthodox methods (Dixon et al., 2007). In order to control this systematic abuse of lenders and protect the interest of the poor, COBAC put in place a series of regulations: firstly MFIs are forbidden to use the appellation of “bank” or “Financial Institution” and their denominations be followed by the phrase “Microfinance Institution” (COBAC, 2002, Article 6). Secondly, MFIs are grouped into three different categories, each of which has a fixed minimum capital requirement (this minimum capital requirement has since 2012 been increased by parliamentary act) and type of transaction they are required to offer their clients (COBAC, 2002, Articles 5, 7 & 9).

Other important aspects of the COBAC regulations relating to the conditions governing the exercise and control of Microfinance activities in the CEMAC sub-region include differentiating between MFIs that do operate as independent MFIs and those that decide to exercise their activities under an umbrella organisation, such as the CamCCUL and MC^2 networks (COBAC, 2002, Article 12 & 13). If MFIs decide to join forces to exercise their activities under an umbrella organisation, Article 15 clearly spells out the prerogatives of the umbrella organisation and affiliates, such as how to protect the network financial liquidity, what happens to the financial stability of the network should one or more affiliates become bankrupt, conditions of internal control of the network, the definition of which accounting plan, norms and procedures to follow within the network, how accounting documents can be consolidated following the stated procedures laid down by the Banking Commission and many more.

As a result of these regulations, the Microfinance market in Cameroon has been open to private individuals who alongside the indigenes strive to create lasting institutions that can help fight poverty (Mersland, 2009). As Mersland (2009) argues, this situation has resulted in different stakeholders getting involved in the sector with different costs associated with their activities. Therefore, in order to understand the governance challenges faced by different MFIs in different circumstances, we should understand the stakeholder base governance (Mersland, 2011).

Research method and Methodology

This paper is based on 35 in-depth interviews conducted in Cameroon between May to June 2011 and June to July 2012 with Managers and Accountants of two of the biggest Microfinance consortia in Cameroon; CamCCUL (Cameroon Cooperative Credit Union League) and MC^2 (Mutuelle du Croissance du Communitaire), MFI Clients and non clients, regulatory authorities in the Ministry of Finance and Accounting professionals. In addition to these interviews, there was fieldwork, document review and attendance of meetings of some of these MFIs to witness how governance is practised in MFIs in Cameroon.

In order to answer the research questions, 35 interviewees were randomly selected from an initial 75 respondents who agreed to participate in the research process following letters that were sent to the head offices of CamCCUL in Bamenda and MC^2 in Yaounde, officials at the Ministry of Finance and to professional consultants.

In order to choose the final 35, the key informant technique was used taking into account “the individual’s characteristics but also temporal, spatial and situational influences, that is, the context of the study” (Marshall, 1996: 524). The choice of 35 respondents was based on how long the respondent had been working within the Microfinance industry in Cameroon (a minimum of 5 years was used as the qualifying criteria), the respondent’s knowledge about the subject matter, their influence within the area and most important, that person’s availability, which were all made known to the researcher by the key informant. In all, 10 MFI managers, 10 MFI Accountants, eight respondents from the Ministry of Finance and seven professional consultants were selected.

Questions were centred on the relationship between managers and shareholders, relationships with regulators from the Ministry of Finance and MFIs, relationship between MFI Managers, Accountants other stakeholders, problems associated with the prescribed regulations of OHADA and COBAC among others. All of these questions were same for every respondent and the interviewer was only in control of the interview process. Interviews varied in length; between 45 minutes and one hour. The data was transcribed and analysed using content analysis technique. The necessary information required was placed under different themes of the theoretical framework.

In order for us to understand the stakeholder perspective on their choice of governance practices, we adopt Stakeholder Theory as the main theoretical framework to analyse the data.

The term stakeholder has different meaning to different people (Phillips et al., 2003). As a result, Donaldson and Preston (1995: 66) argue that this has resulted in a diverse amount of literature “in very different ways and supported (or critiqued) with diverse and often contradictory evidence and arguments”. The reason for these differences is that the stakeholder theory is used in three different perspectives; descriptive, instrumental and normative (Brummer, 1991, Donaldson and Preston, 1995). According to Donaldson and

Preston (1995, p. 74), proponents of the descriptive perspective of the theory "attempt to show that the concepts embedded in the theory correspond to observed reality. Instrumental justifications point to evidence of the connection between stakeholder management and corporate performance". Normative justifications use the theory to promote the underlying concepts such as individual or group "rights," "social contract," or utilitarianism.

In our case, a stakeholder refers to any individual or any group of individuals who can affect or is affected by the achievement of an organisation's objectives (Freeman, 2010) and therefore reflects the perspective of the descriptive proponents. In our case, we use the stakeholder theory to describe and explain those corporate specific behaviours and characteristics that help us understand the nature of the organisation (Donaldson and Preston, 1995). We also use stakeholder theory here to describe how managers of MFIs in Cameroon think about managing their organisations and the way these organisations are actually managed (Brenner and Molander, 1977, Halal, 1990, Clarkson, 1991) and expose the way board members of MFIs in Cameroon think about their interest within the organisation (Wang and Dewhirst, 1992) and how MFI management style affects their relationship with other stakeholders.

Stakeholder theory is a theory of organisational and management ethics (Phillips et al., 2003). Stakeholder theory can be credit to Freeman (1984) and his book *Strategic Management: A Stakeholder Approach* in which he brought up the idea that corporations are made up of stakeholders. According to Fontaine et al., (2006), Freeman built his work on the works of Ian Mitroff, Richard Mason and James Emshoff and an internal memo of the Stanford Research Institute (SRI) in the 1960s that first made use of the word "stakeholders" in reference to other groups involved with the corporation.

To Donaldson and Preston (1995), ever since the mention of the fact that corporations have stakeholders, both academic and professional literature have tried to help build a framework that will help managers overcome their concerns about "unprecedented levels of environmental turbulence and change" (Fontaine et al., 2006, p. 10). The main reason for these concerns according to Freeman (1984) and Fontaine et al., (2006) is because most of the traditional strategic framework are not helping managers develop new opportunities and new strategic directions.

Therefore, Freeman et al. (2004) argues that stakeholder theory pushes managers to think about the values they create and how that can bring their managers together. They argue that by making managers ask what is the purpose of the firm, managers help generate outstanding performances in terms of both market-place financial metrics and purpose. In order to deliver this purpose, managers are pushed to ask what type of relationship they intend to build with the stakeholders.

Stakeholders in our case are not only the shareholders who have provided the funds, but include customers, local communities, competitors, employees, government regulators and policy makers (Friedman and Miles, 2006) who all work together to make sure that MFIs meet their social responsibility of providing cheap loans to the poor to help alleviate poverty.

Data analysis and discussion

In this section, we present our findings from the interviews with Managers and Accountants of MFIs, Regulatory Officials in the Ministry of Finance, and Professional Consultants.

Cameroon has put in place a series of regulations aimed at regulating the Microfinance Industry and putting in place a system of good governance practices in line with the NEPAD agreement as argued by this Director;

> One of the principal objectives of the NEPAD agreement is promoting good governance practices within organisations. In order to achieve this objective, we need to strengthen some of the regulations that we saw as not promoting this objective.

One example is the COBAC regulations regulating the activities of MFIs in Cameroon. However, our main area of concern is with Articles 5, 7 and 9 that spell out membership of MFIs (COBAC, 2002, Articles 5, 7 & 9). According to a consultant, to become a member, you will need;

> A minimum share of FCFA10,000, solidarity fund which is 10% of share capital, registration fees of FCFA2,500, building fund of FCFA25,000. But what these institutions do is they require customers to buy at least 3 shares that should amount to FCFA30,000. So if we add up these sums, we see that in order to become a member of an MFI, you need at least FCFA45,000F (approximately $88.3), thus putting

microfinance above the reach of the ordinary poor who by definition lives on less than $1 or 2 a day

Our argument is that, if MFIs now have shareholders, then we should be talking about shareholder wealth maximisation as the corporate goal (Sundaram and Inkpen, 2004). On the contrary, the existing regulations in place should be regulations that take into consideration the interest of all stakeholders involved in the microfinance industry with the common objective of poverty alleviation and not just that of shareholders (Jawahar and McLaughlin, 2001). As a result of the MFIs in Cameroon having shareholders, another consultant argued that,

> The regulations in place have turned the Microfinance Industry in Cameroon into a lucrative investment

Unfortunately, in the case of Cameroon, with the Microfinance market now turned into a lucrative business investment, De Aghion and Morduch (2004) argue that, Micro lenders have lost that foresight or creative new innovative contracts that can both serve the organisation through generating profits and serve the underserved, in this case, the poor (Hartungi, 2007). In contrast, a Manager of an MFI affiliated with the CamCCUL Network told us,

> Collaterals are a must for granting of any loans. However, if any person does not have collateral, that person can seek someone who has savings which if added to the savings of the borrower, their total savings will cover the loan size.

Since MFIs have lost that foresight to develop innovative contracts Hartungi (2007) argues that MFI managers in Cameroon have little or no time to adapt their management practices to their environments and are pushed to take decisions “focusing instead on larger loans to better established, wealthier clients” (Armendariz and Morduch, 2004, p. 135). As an MFI

Accountant argued, “During Board meetings, most shareholders are not interested in whatever story you tell them. All they want to hear is how much dividend they are getting by the end of that financial year”

The end result is that, rather than managers establishing a relationship with stakeholders (Freeman, 1984), they concentrate only on maximising their shareholder value.

The end result is that MFIs and especially those of CamCCUL concentrate on opening offices all over the country. The reason for this according to a manager is:

> We have to do whatever it takes to meet up with the demands of our shareholders. This explains why you find our offices in big cities since it is there that we can get most business people who are willing to take out huge loans.

The system of governance within the Microfinance sector in Cameroon has led to the situation where the government has realised that most of the MFIs are making huge profits and do not operate under the strict licence for which they were registered are required to pay corporation taxes.

When we asked one of the Directors in the Ministry of Finance why an MFI which is for the interest of the poor should pay corporation taxes, the Director argued that, “MFIs in Cameroon are now purely business entities and make profits more than classical banks in the country. So if a classical bank should pay corporation taxes on profits, it is but normal that MFIs pay taxes as well”

The problem with corporation taxes for MFIs in Cameroon results from the fact that interest rates charged by MFIs are higher than commercial banks (Paul, 2010). According to Paul (2010), the reason why some MFIs charge higher interest rates than commercial banks is because of higher operating costs. In Cameroon, as this consultant states, “There are instances where people have paid up to 120 per cent interest rate for an overdraft taken out with a Microfinance whereas commercial banks charge between 25 and 40 percent on an overdraft”.

In the above argument, we realise that MFIs in Cameroon have departed from their social mission of providing loans to the poor at cheap and affordable interest rates. They tailor their services to target the rich who have collateral and can take out huge loans that can amount to huge profits as attested by this Accountant: “When we talk about loans, in terms of volumes, it is the poor, but when we talk in terms of value, it is the rich”.

Another area of concern for us with the COBAC regulations regulating the Microfinance sector in Cameroon is with Articles 30, 31, and 33 (COBAC, 2002). Articles 30 and 31 impose management of any MFI operating in Cameroon to hold a minimum qualification of a recognised university degree. According to Chao-Beroff (2007), the regulation fails to take into account the fact that in Cameroon as is the case in most LDCs, school enrolment is low due to parents inability to raise money to sponsor their children to university education levels. Secondly, rural exodus of youths is high because of unattractive living conditions in the rural areas where most of the MFIs have the majority of their activities (Elle, 2012). Article 33 compels microfinance institutions to use statutory Chartered Accountants once their total assets exceed FCFA50m (approximately $108,000). This situation seems suicidal for MFIs in Cameroon considering the fact that most MFIs operating in rural areas do not even meet their expenses even after five years of operation (Satta, 2004). Therefore requiring them to use statutory Chartered Accountants will imply even more cost to be incurred to pay for the services. The end result is that poor will bear the extra cost incurred by these MFIs through increase in cost of services these MFIs offer.

We caught up with an MFI manager with the MC^2 network to find out how they hire their managers. He argued that:

> Those who came up with these regulations do not take into consideration the local realities and the problems we as MFIs face and especially in the rural areas. Yes, we are required by law to employ only University graduates as Manager. The problem is, how many of these graduates are members of our MFIs where their managers are voted?

As Freeman et al. (2004) and Friedman and Miles (2006) argue, the regulations in place should provide the management framework that should make managers think about the values they create for their organisation and the relationship with all other stakeholders. In contrast, the regulations push these institution to incur further costs that are transferred to the poor in the form of higher interest rates (Paul, 2010). To another manager of the CamCCUL network, “The regulations have created a conflict of interest not only between the managers, but the shareholders now are involved as they want to impose on management who to hire”

In Cameroon, the regulations have resulted in large boards often with different objectives. As a result, these large boards pose difficulties for managers thus resulting in a conflict of interest (Bassem, 2009). The end result is that these large boards have affected the performance of the MFIs and their ability to reach the poor/other stakeholders since they concentrate on meeting shareholder expectations (Kyereboah-Coleman and Biekpe, 2005). Bassem (2009) argues that the best way to avoid this conflict of interest within MFIs such as in the case of Cameroon is appointment of outside directors on boards of these MFIs as their presence improves the firms’ performance (Adams and Mehran, 2003). When we asked one of the directors in the Ministry of Finance about these issues, he argued that;

> The provisions of the COBAC regulations regulating the activities of MFIs in Cameroon are in line with most governance practices. At the same time do not forget

that private individuals have invested hugely in the MFIs in Cameroon and consequently have a say as to who takes care of their interest.

Article 63 gives COBAC the powers to appoint an administrator for any MFI in Cameroon should any deficiency be found in the MFI administration, management or leadership. Unfortunately, the main issue here is that the regulation does not specify what type of deficiency. According to Hartarska (2005), any external control on MFIs will further create more conflicts of interest as they are insiders with financial interest in the MFI. As in the case of Cameroon, where most category 1 MFIs are privately owned, requiring any form of external control creates more avenues for further costs to the MFIs and might result in situations where bureaucrats misuse such powers (Ashta and Hudon, 2012). As this consultant argues, "Most of the MFIs already pay huge fees to their umbrella organisations as patent rights. Therefore requiring them to use statutory chartered accountants entails further costs which will obviously be transferred to the poor".

And for this manager,

> It is for this reason why we charge the interest rates. We have many financial obligations to meet up. We have to pay our umbrella organisation, consultants to help with the implementation of the OHADA Accounting Plan, we have to pay our staff, and many other costs.

Conclusion

From the above analysis and findings, the Microfinance sector in Cameroon is unique and their operations differ from what we find in academic literature. As a result of the regulations governing the industry, MFIs in Cameroon are mostly privately owned. Unfortunately, MFIs in Cameroon have been forced to adopt an investor pathway rather than a means of granting cheap loans to the poor who otherwise are segregated by the classical banking system. Rather than providing the "Microfinance Promise" (Morduch, 1999), these institutions are helping to leave the poor in Cameroon as perpetual labourers and consumers (Yunus, 2003).

As we have shown, the complete breakdown in governance is the result of the regulations in place. Therefore, rather than helping to build a strong governance system within the MFIs, the regulations have helped to destroy the system it was intended to build

(Samuels and Oliga, 1982). In Cameroon, MFIs have become hybrid organisations that only strive to meet their shareholder demands. Paul (2010) argues that the best method to breach this gap and enable Microfinance to attain the “Microfinance Promise” of lifting the poor out of poverty through the provision of cheap loans is by opening up the capital markets and removing the capital constraints. MFIs can then acquire the for-profit organisation status which can help them get capital from the capital markets and thus provide loans at lower interest rates than are currently being charged. In the case of Cameroon, it can be argued that opening up the capital markets to MFIs will certainly not help the situation. What is required is a system of shared responsibilities between the four pillars of the MFIs in Cameroon: the stakeholders, MFIs, donors and government. Intervention is required not just at the level of regulations, but firstly at the level of licensing to make sure that an MFI operate strictly within the category for which it was registered. Secondly, the system of licensing in Cameroon should be changed so that an MFI should be issued a licence to operate at the sub-divisional level and after a period of time, say five years, its activities be assessed based on four basic criteria: objectives, impact, outreach, and sustainability of the MFI. If the MFI meet these four criteria, it should then be issued licence to operate at the divisional level. If it passes the same test, it should be issued with a licence to operate at Regional level and so on.

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