Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.8, No.7, 2018

Micro Finance in Cameroon the Need to Empower Customers

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Abstract
The growth of Micro finance in Cameroon has been on a rise and many unscrupulous investors mingle themselves in this sector to perpetuate acts which leave the sector credibility questionable. This article use development around the world, theories like stake holder and free market theory, and recent crises in Cameroon to state the fact empowering customers to make informed investment decisions will held stamp out such investors and improve credibility in this sector

Introduction

The desire to fight poverty has pushed both the government and citizens of Cameroon to adopt different activities and businesses over the years. One of these is the development of Micro Finance Institution (MFI) which history date its existence in the country as far back as the seventies (Akume & Martial, 2017). It development was slow but in the years after the millennium year, it numbers has increased tremendously. It number as at 2014 stood at 120 within Cameroon but grow to 500 by 2015, falls to 418 by 2016 and 412 by 2017 (Koigi, 2017). The primary objective of these micro financial institutions at their inception was to finance rural projects, this later shifted to the financing of micro projects and today MFIs carry out most of the activities of commercial banks even though at very high risk at the detriment of their fund providers especially their depositors.

The development of Microfinance involved different stakeholders with different, and sometimes conflicting interest. The functioning of MFI are expected to be for the benefit of all these stakeholders but some stakeholders have much power over the MFI such that they can influence the activities of the MFI to their interest. This therefor call for the creation of an environment where MFI can function for the interest of all its participants. Such environment is ensured by regulations which does not only force the MFI to function for the interest of all it stakeholders but also empowered the stakeholders to participate in the regulations of the MFIs.

The Cameroon government was the first within the CEMAC zone to identify the need for regulations within this sector and in 1998 place it under the supervisor of the ministry of finance and COBAC which designs rules to regulate the activities of this sector. The regulations of COBAC place MFI in to three categories and of these three, the second category has experienced growth more than the other two over the years (Ajonakoh 2012) due to its ability to collect deposits from third parties. Unfortunately, little is done by these regulators to empower this third party (the customer) to participate in the regulations of these Microfinance institutions. This article is design to show the need to empower the customers of MFI to be involved in the regulations of MFI.

Empowering customers is the force in successful Micro Finance Models in some developing countries

Around the globe, the call to empowered customers of financial service providers has been on a rising, especially with the emergence of digital financial services. The argument laid emphasis on the financial service providers empowering their customers in other to build trust and increased the usage of financial services in carrying out transactions.

(Antonique & Monique, Customers Empowerment, 2014) In" Enabling Customer Empowerment; Choice. Use and Voice" argued that when customers are empowered, they make more informed choices, trust the institutions they interact with, are comfortable using those financial services they value, and feel more in control of their financial lives. In turn, customers may become more loyal to and transact more regularly with their FSPs, which may bring greater consistency in transactions, positively affect provider sustainability, and generate greater value for customers. They further argue that the greatest empowerment of customers of financial institution is providing them with information to help them make informed choice of their options, so that they can evaluate the suitability of financial institution's product.

Customer's empowerment initiative has been carried out in some part of the developing world with success. Some examples include;

The Kshetriya Gramin Financial Services (KGFS) Model in India, designed by IFMR Trust to work with households to enable them identify financial product features and developed financial expertise with expectation that Financial institution customers will make right choice of financial institution and product on their own emphasizes on financial institutions providing information to customers and, it's implementation has seen increase in their customers by over 50% within 18 months

In Latin America, Foundation Capital a nonprofit making organization introduced the Lista initiative which provide women with tablets and a software which enables these women to developed their financial capabilities and so monitor the activity of the financial system, did not only enable these women to make informed decisions but also saw them increasing their use of financial services. These examples clearly demonstrate that the idea of empowering financial institution customers is not new to the developing world.

The issue is that most customers of MFI are the most risk stakeholders of the institution, especially the second category of MFI defined by the COBAC regulations. These third party contributes their money to MFI but has no influence on the management of their fund even though any mismanagement will mean them losing their money. It therefore justify for them to be empowered to regulate the activities of the management of MFI as illustrated below.

The principle of Good Governance and the perfect market theory

The principle of good governance holds that the agent must be accountable to the principal and the principal must be able to take actions to compel the agents to be accountable and responsible. The agency theory place the owners of the MFI as the principal because they are the providers of the funds of these businesses and the management is there as their stewards. It is important to realize here that these MFI customers equally provides funds to the MFI so should not be treated just as customers but as principals to an extent. It is therefore justify that they be provided with required information to enable them take action to make the MFI management to be responsible.

The perfect market theory insist on perfect knowledge of the market and the promoters of free market system argued that free market encourage efficiency because resource allocation is done by the action of the customers. Perfect knowledge of the market is a requirement for the success of a free market because the participant needs information of the activities of the different suppliers to be able to take actions to move resources from the less efficient to the more efficient suppliers. This is true in the financial industry. For there to be efficiency in the Micro finance industry in Cameroon, customers should be equipped with information to help them identify highly secured Micro Finance so that they can move fund to these more secured once at the detriment of the inefficient Micro Finance Institution. This will not only cause week Micro Financial Institutions to face out but will encourage most of the Micro Financial Institution to adopt best practices because they are convince it will yield benefits.

Inadequacy of the regulatory system: In Cameroon, MFIs are regulated by three different laws: (1) the national law, (2) the Economic and Monetary Community of Central Africa (CEMAC) law instituted through COBAC, (3) the Pan African Organization for Harmonization of Business Law in Africa (OHADA) (Koigi, 2017). Each institution is compelled to comply with these frameworks paying attention to the basic prudential norms as stated by COBAC

The methods used by these institutions to regulate Micro Finance Institution include capital requirement, risk management ratio, assets coverage ratio, and liquidity ratio just to name a few. In it totality, the methods put in place by these institutions are adequate to ensure prudent practices by the MFI and to protect the interest of all the stakeholders. However, as we know, Cameroonians are more capable to go round a law than respect it is implementation. Equally, the corrupt nature of Cameroon officials and couple with the fact that most of these MFI has government top officials as owners directly or indirectly, makes the supervision of the implementations of these laws in effective. The results is the collapse of some micro financial institutions creating panic in the financial market. In early 2011, the government announced the official closure of COFINEST with major shareholders arrested for malpractices and mismanagement in the market. This sparked fear within depositors and non-depositors who rushed in other microfinance institutions to withdraw their deposits. These was so alarming because it was a national recognized player but others has crash out of the market in other arrears before and after them with less signaling. This was the case of Dominion Finance, Raven Green Finance, and Global Finance in 2011. SALCOCAM Muyuka in 2002, Security Finance in 2016. The key problem that has been at the front of the bankruptcy of these MFI are said to be high loan delinquency. This will make us to believe that it was due to poor loan management. This is not true. This is due to fraudulent practices perpetuated by the owners and the managers. Most shareholders use their power to obtained huge loans from the MFI without the required collateral security and deliberately refused to pay it back. That explain why in the case of COFINEST shareholders were questioned.. Managers who accepted very low salary at their time of employment equally allowed these bad practice from shareholders to run through not just to protect their job but also because they equally enriched them self by granting loans to people without any security to received commission in return from these high risk borrowers. Unfortunately, in spite all these happening within the MFI, the only information available to the depositor are the buildings and the lies given to them by those of the front desks of these Micro Financial Institutions. Consequently, the depositor keeps on saving with these unscrupulous MFI just to realize when it goes bankrupt that it was dealing with the wrong financial service provider. It is there for justify that information be made available to these depositors to enable them take actions which will force the management of MFI to act prudently.

Conclusion

The points listed above may cause someone to thing that MFIs in Cameroon are not safe. That is not true. We know there are safe MFI in Cameroon on which the customers can rely but the present of the unscrupulous MFI is at risk to the sustainability of this industry. My cry here is that the Micro Finance regulators and other actors including the MFI them-self create an enabling environment to permit depositors access to some necessary information to help them make informed decisions when choosing an MFI to save their money. This is necessary to build customer confidence and loyalty thereby ensuring the sustainability of MFI industry in Cameroon.

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