Swedish University of Agricultural Sciences
Faculty of Natural Resources and Agricultural Sciences
Department of Economics

# The Impact of Microfinance Institutions (MFIs) in the Development of Small and Medium Size Businesses (SMEs) in Cameroon

## A case study of CamCCUL

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# Abstract/ Summary

Microfinance is a term used by many in different domains to fight poverty. Poverty is a syndrome that is affecting the developing countries and especially in sub Saharan Africa. This thesis is focused on three specific objectives:

The first of them is to investigate whether CamCCUL helps its members and/or customers in developing their small or medium size businesses. The second aim is to find out whether rural SMEs can secure micro-financing with ease and on reasonable terms. Lastly, to determine if there are underlying factors, such as size of operation, securable wealth, or gender of application, is a factor in getting a loan.

In other to accomplish the task, we had to gather data from primary and secondary sources in the rural areas of Cameroon. The primary sources where from questionnaires and interviews. The population was drawn from two different groups; the members of CamCCUL and the credit unions constituting CamCCUL league. We made used of closed and open ended questions. The responses were analysed using percentage frequency tables.

From the information that we have, it is realised that CamCCUL has a positive impact in the development of the members' businesses. CamCCUL provide its members with financial and social intermediation services to help improve their businesses.

Securing micro-financing by SMEs is determined by the stage or level of development in which the business is. Businesses that are viewed as growing had it easy to get a loan. But the main criteria used were the ability to pay back and to meet the set requirements to obtain a loan. The main requirement is fixed tangible assets such as land.

We noticed that the poorest of the poor were not included in designing and implementing their policies. The entry requirements are difficult for the poorest to meet thus they do not enjoy the services of CamCCUL. We can say that the poorest are those who are not involve in any income generating activities.

**Key words: Key words:** CamCCUL, microfinance, SME Development, Cameroon, rural areas

# Abbreviatons

ADAF- Appropriate Development for Africa Foundation
CAMCCUL- Cameroon Cooperative Credit Union League
CEMAC -Central African Economic and Monetary Community
CIDA- Canadian International Development Agency
CVECA -Village Savings and self-managed credit Bank
FIMAC-Investment Fund for Agricultural and Communal Micro Projects
FONADER- National Fund for Rural Development
GDP- Gross Domestic Product
IMF- International Monetary Fund
IPFR - International Food Policy Research
MC²-Mutuelle Communuataire de croissance (Community Growth Mutual Funds)
MDGs-Millennium Development Goals
MFs- Microfinance
MFIs- Microfinance Institutions
NGOs- Non Governmental Organizations
POT- Pecking order Theory
SAP- Structural Adjustment Program
SHG-Self-Help Groups
SMEs- Small and Medium Size Enterprises
SSA-Sub-Sahara Africa
ROSCAs -Rotating Savings and Credit Associations

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# CHAPTER 1

## 1. Introduction

Microfinance is not a new concept. It is dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. The informal financial institutions constitute; village banks, cooperative credit unions, state owned banks, and social venture capital funds to help the poor. These institutions are are those that provide savings and credit services for small and medium size enterprises. They mobilise rural savings and have simple and straight foward procedures that originates from local cultures and are easily understood by the population (Germidis et al., 1991). These funds are to finance the informal sector SMEs in developing countries and it known that these SMEs are more likely to fail (Maloney, 2003). The creation of SMEs generates employment but these enterprises are short live and consequently are bound to die after a short while causing those who gained job positions to lose them and even go poorer than how they were. It is not until recent that microfinance had gained recognition thanks to the noble prize winner Yunus Muhammad of the Grameen Bank. It should be noted that microfinance is not a panacea but it is a main tool that foster development in developing countries. It is known worldwide that the poor cannot borrow from the banks. Banks do not lend to them because they do not have what is required to be granted a loan or to be provided with the bank services. The lack of financial power is a contributing factor to most of the societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition, Microfinance has proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998). Researchers have viewed microfinance in different dimensions. Microfinance gives people new opportunities by helping them to get and secure finances so as to equalise the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Microfinance Radio Netherlands, 2010). These improvements are in a nutshell to alleviate poverty, and according to this project, it will be seen from the point of the development of small and medium size enterprises SMEs and focusing mostly in the rural areas

The UN millennium goal to alleviate poverty by the year 2015 is far from fetch despite the enormous works that microfinance institutions are doing to contribute in this domain (Hiderink and Kok, 2009). The main challenge facing the poor is to gain financial power to enable them boost their income generating activities (Yunus, 2003).

## 1.1Background to the problem

Since independence, the government of Cameroon has embarked on several attempts aimed at promoting agricultural development in the country. In the first few years after independence in 1961; the government embarked on the policy of "Green Revolution", which was aimed at encouraging the development of agriculture in the country (Simarski, 1992). Other efforts included the setting up of agencies like the National Fund for Rural Development (FONADER) and other rural agricultural extension programmes. In spite of all these attempts, much is still needed to boost this sector, which is considered very vital in the economic life wire of the state. A recent development in this sector has been the increasing involvement of NGOs and the microfinance institutions in the process of enhancing the development of SMEs particularly at the rural level. The question now is; why microfinance at this point in time? A Roman Catholic priest from Holland by name Rev. Father Anthony Jansen brought the notion of credit unions into the country. This was as a result of complaints that were coming up from farmers and inhabitants in the locality in which he was living. Among the difficulties or complaints faced by these locals; was the issue that most of them often save their money by hiding in some parts of the house, in which case ants often eat them up; again some farmers sold their crops before harvest due to fear of the lack of storage facilities. It was then that, in 1963 the first credit union was formed such that farmers could have a bit of financial power to afford for better seedlings (www.camccul.org ). How then are these microfinance institutions of significance to the sustainable development of the country? Further still, why are farmers not cultivating in large scale to increase their wealth and improve on their living standard? It is important to look at this because even though the government promotes SMEs in the rural areas through different institutions, microfinance institutions are not leaving any stone unturned to make sure that the acute poverty striking the rural population is redressed. Agriculture and SMEs are the key sectors to the government and of course has a great influence in the socioeconomic development of the country but productivity and development keeps on dropping with a rising population.

## 1.2Statement of problem

Cameroon has valuable natural resources for a strong agricultural sector. This resource base should provide a platform for the development of rural SMEs, and contribute to the country's fight against poverty. Business development, however, requires more than natural resources, and it is not clear what challenges and opportunities in development rural SMEs are facing in Cameroon. What markets are available? Is there sufficient access to technology and labour resources? Do firms have access to financial capital to fund development? This study will investigate the underlying issues rural small firms are facing in their development. Particular attention will be given to the issue of financing firm development, where the major microfinance institution in Cameroon, CamCCUL, plays an active role. CamCCUL has for many years aimed to support Cameroon's SMEs with micro-financing, but it is unclear whether their administrative practices support their efforts or create additional hurdles for rural firms in need of financing for the development of their businesses. The specific questions that shall guide the research in this project are:

-Do farmers have access to the financial resources they need for developing their businesses?
-Are microfinance institutions providing funding to developing rural small businesses in Cameroon in an acceptable way and on reasonable terms?

## 1.3Objectives of Research

This study is intended to investigate the problems and opportunities that rural small businesses face in their development efforts, with a particular interest in the role that micro-finance institutions may be playing. In addition to gaining a more general understanding of the challenges facing developing rural firms, the study will identify how NGOs are contributing to the development of rural small businesses and why rural small businesses succeed or fail in their efforts to acquire financing for their development.

This study is focus on the resource needs of developing rural small and medium size firms, and how micro-finance may be contributing to rural firms' development, and thus the sustainable development of rural agricultural infrastructure in Cameroon. The specific objectives in this study are:

-To investigate the extent in which CamCCUL helps its members in developing their small or medium size businesses.

-To find out whether CamCCUL's members feel they have reasonable and fair access micro-financing.

## 1.4 Significance/Justification of Study

In trying to justify why the current study is important, it is vital to mention that researchers have found this area of study very important to the development of the socio-economic activities in developing countries and their contributions to the development of small and medium size businesses in Cameroon. Extensive research has been carried out on the role of the financial management aspects. This research will therefore focus on CamCCUL which has not been exploited in terms of its contributions to the development of small and medium size businesses and particularly in the farming domain. A study of this nature is equally very important because it is going to enlighten the government and the public on the role CamCCUL is playing in the SMEs sector since it is in partnership with some international NGOs and with the government.

Microfinance as a whole provides the rural population a means to have access to financial services in their localities to boost their living standards in a sustainable manner in line with the millennium development goals of alleviating poverty in developing countries. They can contribute in the fight against poverty by improving the agricultural sector which is the main source of living to the inhabitants of such developing nations. Thus it will pave a way forward for potential NGOs wishing to help in the sustainable development of SMEs to understand the difficulties they may come across and how they can succeed in their endeavours.

## 1.5 Scope and delimitation of study

CamCCUL is a league of all credit unions scattered in the entire geographical landscape of the Cameroon with its main objective of providing financial services to the poor which cannot be done bu macro financial institutions and as such helping in poverty alliviationand alleviating poverty. To cover all the regions in the entire country will be impossible because of the limited time frame and amount of pages required for this research. For this reason, the research will be limited to activities in the Central, North West and the South West regions of Cameroon. The impact of microfinance to the development of SMEs in this area will be analyzed, looking at its contributions, and in what form, and of course the response of entrepreneurs to the contributions of this institution to them.

## 1.6 Outline

This research involves six chapters, with chapter one providing an introduction of how credit union was formed in Cameroon, problem statement, objectives of the research, significance/ justification of the study, scope and delimitation of the study and finally, the outline. Chapter two gives the theoretical perspective. Chapter three describes the scientific methods used. Chapter four gives the background information about Cameroon. Chapter five is the analysis and discussion. And lastly, chapter six is the conclusion

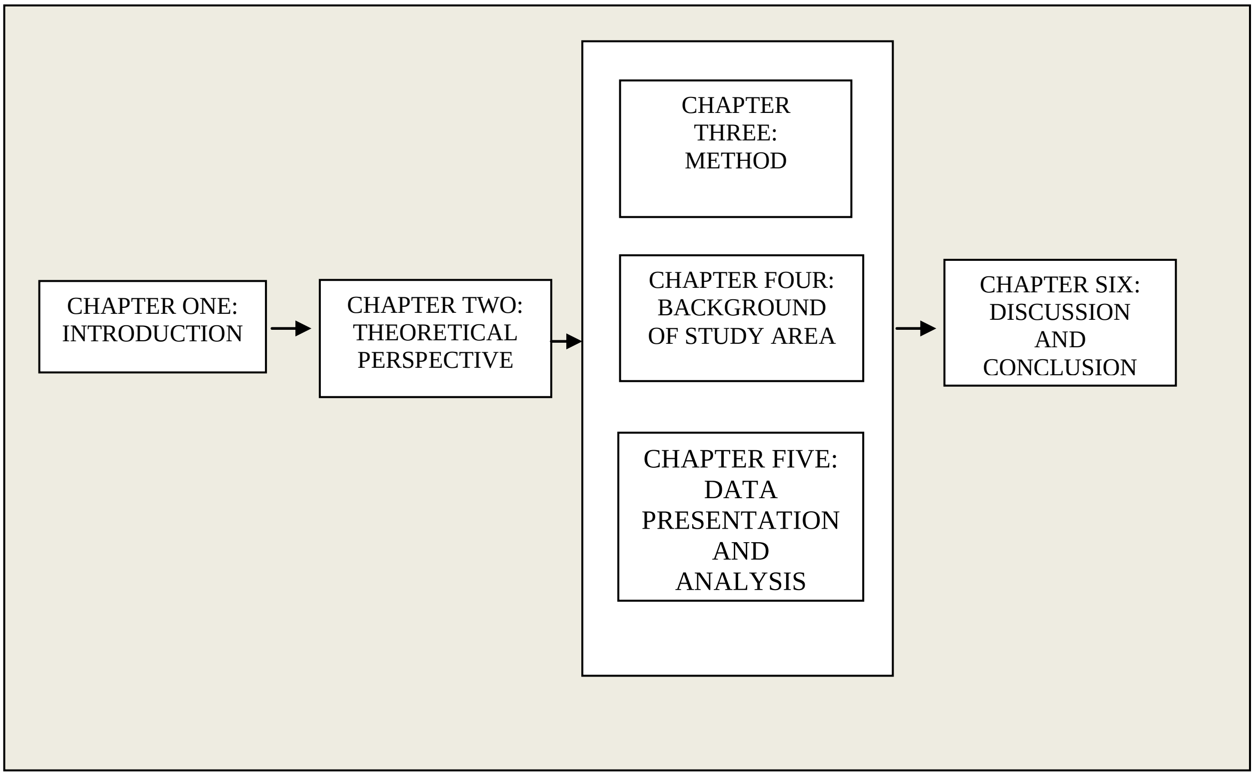


**Figure 1: Illustration of the outline**

# CHAPTER TWO

## 2 A theoretical perspective

This chapter focus on some of the concepts of microfinance and the role they play in the development of SMEs. The concepts chosen are those that are in relation with the area of this thesis. The chapter opens with an overview of microfinance. This shows the various products and services that MFIs have and explain how they are of importance to the development of SMEs, and also the extent to which transaction cost affects the delivery of these products and services. The next centre of attention is SME growth and development. This gives an idea on how firms are considered by financial institutions before they are offered their services. The type of microfinance is of significant importance in getting the services. This is explained and further to look for what determines the capital structure of a business. This will explain why some firms prefer borrow to equity capital and vice versa. The next concern is to investigate hey some firms face problems to get loans. Further, the methodology of MFI is presented and moving forward we shall also illustrate and explain what the MF triangle is and how it is achieved. Lastly, we tried to show the theoretical links between microfinance and SME development.

## 2.1 The concept of microfinance

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998). In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). There are different providers of microfinance (MF) services and some of them are; nongovernmental organisations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non bank financial institutions. The target group of MFIs are self employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

## 2.2 Microfinance products and services for SMEs development

According to Bennett (1994) and Ledgerwood (1999) MFIs can offer their clients who are mostly the men and women who could be below or slightly above the poverty line a variety of products and services. The most prominent their services is financial, that they often render to their clients without tangible assets and these clents mostly live in the rural areas, a majority of whom may be illiterate. Formal financial institutions do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the financial institutions find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral (farms) due to distance. It is by this that the cost to lend a dollar will be very high and also there is no tangible security for the loan. The high lending cost is explained by the the transaction cost theory.

The transaction cost can be conceptualised as a non financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinising loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, the borrowers may incur cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings, etc (Bhatt and Shui-Yan, 1998). The parties involved in a project will determine the transaction cost rate. They have the sole responsibility to reduce the risk they may come across (Stiglitz, 1990).

Microfinance triangle comprise of financial sustainability, outreach to the poor, and institutional impact. There are costs to be incurred when reaching out to the poor and most especially with small loans (Christabell, 2009). The financial institutions always try to keep this cost as minimum as possible and when the poor are in a dispersed and vast geographical area, the cost of outreach increases. The provision of financial services to the poor is expensive and to make the financial institutions sustainable requires patience and attention to avoid excessive cost and risks (Adam and Von Piscke, 1992).

The deliveries of MF products and services have transaction cost consequences in order to have greater outreach. Some microfinance institutions visit their clients instead of them to come to the institution thereby reducing the cost that clients may suffer from (FAO, 2005). For MFIs to be sustainable, it is important for them to have break-even interest rates. This interest rates need to be much higher so that the financial institution's revenue can cover the total expenditure (Hulme and Mosley, 1996a). The break-even rate which is higher than the market rate is defined as the difference between the cost of supply and the cost of demand of the products and services. The loan interest rates are often subsidised (Robinson, 2003).

The loans demanded by smaller enterprises are smaller than those requested by larger onse but the interest rates remain the same. This indicates that, per unit cost is high for MFIs targeting customers with very small loans and possessing small savings accounts (Robinson, 2003). Even though the interest rate is high for applicants requesting very small loans, they are able to repay and even seek repeatedly for new loans. The social benefits that are gained by clients of MFIs superceeds the high interest charged (Rosenberg, 1996). The high interst rate is also as a means to tackle the problem of adverse selection where a chioce is made between risky and non risky projects. The good clients suffer at the expense of the bad ones (Graham Bannok and partners, 1997). Microfinance clients admit that conviniece is more important to then than return (Schmidt and Zeitinger, 1994).

Low-income men and women have a serious hindrance in gaining access to finance from formal financial institutions. Ordinary financial intermediation is not more often than not enough to help them participate, and therefore MFIs have to adopt tools to bridge the gaps created by poverty, gender, illiteracy and remoteness. The clients also need to be trained so as to have the skills for specific production and business management as well as better access to markets so as to make profitable use of the financial resource they receive (Bennett, 1994). In providing effective financial services to the poor requires social intermediation. This is "the process of creating social capital as a support to sustainable financial intermediation with poor and disadvantaged groups or individuals" (Bennett, 1997). Some microfinance institutions provide services such as skills training, marketing, bookkeeping, and production to develop enterprises. Social services such as health care, education and literacy training are also provided by some MFIs and both enterprise development and social services can improve the ability of the low-income earners to operate enterprises either directly or indirectly (Legerwood, 1999).

The services provided to microfinance clients can be categorise into four broad different categories:

- Financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards, and payment systems should not require ongoing subsidies.

- Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor. Subsidies should be eliminated but social intermediation may require subsidies for a longer period than financial intermediation.

- Enterprise development services or non financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis. This may or may not require subsidies and this depends on the ability and willingness of the clients to pay for these services.

- Social services or non financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training. These social services are like to require ongoing subsidies and are always provided by donor supporting NGOs or the state (Bennett, 1997; Legerwwod, 1999)

## 2.3 SME growth and development

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organisation whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995). The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

Enterprise development services or business development services or nonfinancial services are provided by some MFIs adopting the integrated approach. The services provided by nonfinancial MFI services are; marketing and technology services, business training, production training and subsector analysis and interventions (Ledgerwood, 1999). Enterprise development services can be sorted out into two categories. The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business. The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing. Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge. These charges are subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFI. The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 1999).

### 2.3.1 Minimal equity requirement

Firms rely mostly on informal sources of finance for start-up capital for their businesses since credit markets are limited. A majority of the start-up capital is from personal savings and borrowed money from friends and relatives. Minimal amount of funds as start-up is borrowed from the formal institutions such as banks. The granting of loans is much easier to large firms than small ones (Gary and Guy, 2003). MFIs consider client’s ability to repay debt and assess the minimal sum small scale businesses can contribute as equity before offering a loan. This is to say a business should not be financed entirely with borrowed money. When a business is in the start-up phase, it requires at least a certain amount resources for the MFI to consider the application for a loan. In a situation where the firm is unable to provide the said equity capital, some MFIs require household items to be pledge as a security before the loan can be granted. These MFIs also apply some sort of financial and psychological measurements and when they consider that correct to any prospective borrower it is then that the loan can be granted. It is generally said that people care more on things that they have worked for or items that they own (Zeller, 2003). This and other reasons explain why MFIs deem it necessary for borrowers to have minimal equity contribution before applying for a loan. The source of the minimal equity capital is known by the MFIs because the client may be at high risk of non respecting the terms of repayment had it been the funds were borrowed from somewhere. This means that a business with little borrowed capital with good market standing will have a upper hand in getting financial assistance from the MFIs (Ledgerwood, 1999).

### 2.3.2 Market size

The size of the microenterprise market is estimated by the MFIs to know if it can be benefited from financial services, in case self reported credit need be confused with the repayment capacity and effective demand. The market for MFIs takes into consideration the type of microenterprise being financed and the characteristics of the population group.

### 2.3.3 Characteristics of the target population

**Female clients:** The main focus in many MFIs is to empower the women by increasing their financial power and position in the society so as to have equal opportunity as men (Moyoux, 2001). The poorest people in the society are known to be women and they also are responsible for the child up bringing including education, health, and nutrition. There are cultural barriers that exist between the women that make them to stay at home making them to have the constraint to have access to financial services. Some banks are unwilling to lend to the women because their access to property is limited and they also have fewer sources of collateral security. Based on experience, women generally are very responsible and are affected by social forces. When the income of a woman is increased, the effect is noticed throughout the household and to the community than when that same amount is increased to a man. They also have a high repayment loan and savings rate than their male counterparts (Ledgerwood, 1999). A study carried out by the World Bank‘s sustainable banking for the poor with the title of the project " Worldwide Inventory of Microfinance Institutions" found that female programs are group based with the characteristic of having small loan size and short loan term (Paxton,1996).

**The level of poverty:** poverty alleviation is the focal point of microfinance institutions and the poorest form a majority of the population. The outreach of MF services to the poor is measured in terms of scale, the number of clients that is reached and the depth of the clients they reach (Ledgerwood, 1999). Institutions that are contributing in the fight against poverty are very effective in the improvement of the welfare of those under and those just above the poverty line (Hulme and Mosley, 1996).

**Geographic focus:** MFIs serve both urban and rural areas but their focus is more in the rural areas. Products and services offered by the MFIs are aimed towards meeting the expectations of the target location or area. Those in the rural areas are different from those in the urban areas and the infrastructural development in these areas also matters. Markets are very important for microenterprises irrespective of the area where the firm is located. The difficulty to produce and distribute or deliver the goods because of lack of infrastructure will hinder or retard the growth of businesses thus limiting the financial services that will be demanded. An example of a reduce transaction cost will be the availability of good road network. Grameen Banks is a typical MFI that is successful and it has branches in the same geographical areas where their clients live (Ledgerwood, 1999).

## 2.4 Types of microenterprises

The type of population to be serve and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFIs. SMEs differ in the level in which they are and the products and services offered to them by the MFIs are towards meeting the demands of the market. SMEs are financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. The type of activities that the business is involve in is also determined and this can be; production, commercial or services activities (Ledgerwood, 1999).

### 2.4.1 Existing or start-up microenterprises

In identifying the market, MFIs consider whether to focus on already existing entrepreneurs or on potential entrepreneurs seeking for funds to start up a business venture. Working capital is the main hindrance in the development of already existing SMEs and to meet up, the borrow finance mostly from informal financial services such as; families, friends, suppliers or moneylenders. The finances got from these informal financial services have high interest rates and services offered by the formal sector or not offered by these informal financial services.

MFIs see it less risky to work with existing microenterprises because they have a history of success (Ledgerwood, 1999).

Businesses that are financed by MF from scratch consider that they will create an impact in the society by alleviating poverty by increasing their level of income. An integrated approach lay down the foundation for start-up businesses to pick up since financial services alone will not help them. They need other services such as skills training and to equip them with all the necessary tools that can hinder them from obtaining loans. Existing businesses with part of their capital being equity is preferred by most MFIs to work with since the level of involvement is high and consequently lower risk (Ledgerwood, 1999).

### 2.4.2 Level of business development

MFIs provide their products and services based on the level of development of the businesses. SMEs can be grouped into three main levels of business development that profit from access to financial services.

- Unstable survivors are groups that are considered not credit worthy for financial services to be provided in a sustainable way. Their enterprise are unstable and it is believe they will survive only for a limited time and when MFIs focus on time to revert the situation by providing them other extra services, it is noticed that costs increases and time is also wasted.

- Stable survivors are those who benefit in having access to the financial services provided by MFIs to meet up with their production and consumption needs. Stable survivors are mainly women who engage in some sort of business activities to provide basic needs such as food, child health, water, cooking for the household, etc. These types of microenterprises rarely grow due to low profit margins which inhibit them to reinvest and an unstable environment due to seasonal changes which makes them to consume rather than to invest in the business.

- Growth enterprises are SMEs with high possibility to grow. MFIs focusing on these types of microenterprise are those that have as objective to create jobs, and to move micro entrepreneurs from an informal sector to a formal sector. MFIs prefer to provide products and services to meet the needs of this group since they are more reliable and posing them the least risk (Ledgerwood, 1999).

### 2.4.3 Type of business activities

The business activity of a microenterprise is equally as important as the level of business development. There are three main primary sector where an enterprise may be classified; production, agriculture and services. Each of these sectors has its own risk and financing needs that are specific to that sector. MFIs are motivated to finance in a particular sector by providing the products and services that are relevant to that sector after analysing the purpose for the loan, term of the loan, and the collateral on hand for each of the sectors. Some MFIs target only one sector where as others provide products and services for more than one sector. Their actions are determined by their objectives and the impact the wish to achieve (Ledgerwood, 1999).

## 2.5 The supply of microfinance services to clients

The approach taken by an MFI will depend on the degree to which these MFIs will provide each of these services and whether it follows a “minimalist” approach or “integrated” approach.

The minimalist approach offers only financial intermediation but they can sometimes offer partial social intermediation services. This approach is based on the fact that there is a single “missing piece” for the growth of enterprises and it is assumed to be the lack of affordable, accessible, short-term credit which the MFIs can offer.

The integrated approach takes a more holistic view of the client. This approach creates avenue for a combination or range of financial and social intermediation, enterprise development and social services. MFIs take advantage of its nearness to the clients and based on its objectives, it provides those services that are recognised as most needed or those that have a comparative advantage in providing. The demand and supply of these services will determine the approach that a MFI will choose and also the circumstances in which it is operating (Ledgerwwod, 1999, p. 65). Figure 2 is a minimalist and integrated approaches to microfinance model which depicts what approach a financial institution will adopt in other to provide its intermediation services.

**Minimalist approach** **integrated approach**

One “missing piece-credit financial and nonfinancial services

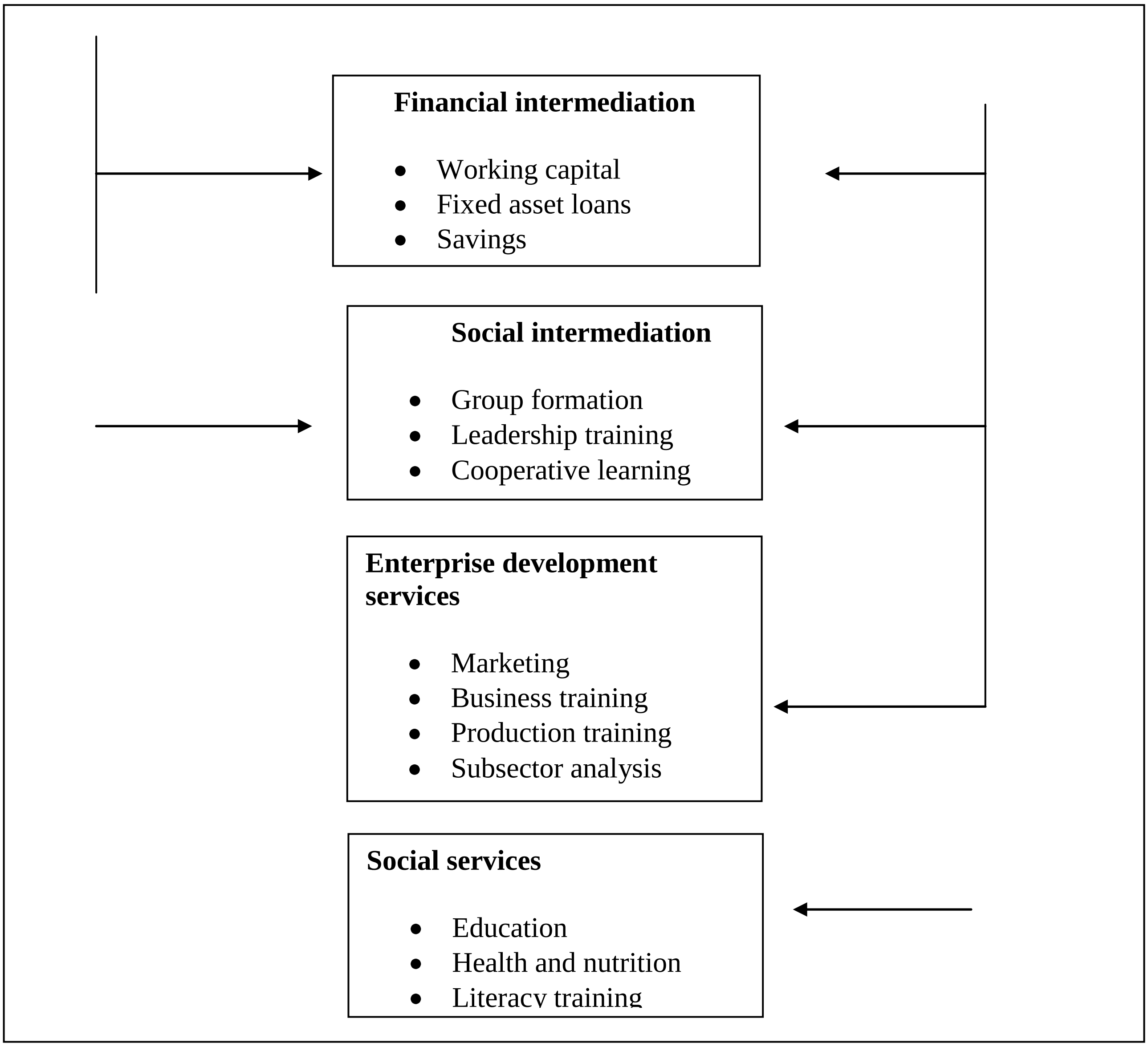


Fig 2: A model of minimalist and integrated approaches to microfinance (Ledgerwwod, 1999, p. 65)

## 2.5.1 Financial intermediation

MFIs have as main objective to provide financial intermediation which involves the transfer of capital or liquidity from those who have excess to those who are in need both at the same time. “Finance in the form of savings and credit arises to permit coordination. Savings and credit are made more efficient when intermediaries begin to transfer funds from firms and individuals that have accumulated funds and are willing to shed liquidity, to those that desire to acquire liquidity" (Von Pischke, 1991, p27). It is visually known that almost all MFIs provide credit services. Other MFIs also provide some financial products such as; savings, insurance, and payment services. Each MFI has its objectives and the choice of the financial service to provide depends on the demands of its target market and its institutional structure. Two important considerations when providing financial services are; to respond effectively to the demand and preference of clients and to design products that are simple and easy to understand by the clients and easily managed by the MFI.

The common products that MFIs provide include; credit, savings, insurance, credit cards, and payment services. These points are briefly described and also show how financial services are provided to SMEs.

**Credit:** These are borrowed funds with specified terms for repayment. People borrow when there are insufficient accumulated savings to finance a business. They also take into consideration if the return on borrowed funds exceeds the interest rate charged on the loan and if it is advantageous to borrow rather than to postpone the business operations until when it is possible to accumulate sufficient savings, assuming the capacity to service the debt is certain (Waterfield and Duval, 1996). Loans are usually acquired for productivity reasons; that is to generate revenue within a business.

**Savings:** Savings mobilisation in microfinance is a very controversial issue. They have been increase awareness among policy makers and practitioners on the vast number of informal savings schemes. MFIs such as credit union organisations around the world have been very successful in rallying clients to save (Paxton, 1996a, p8).

**Insurance:** This is one of the services and products that are experimented by MFIs. Many group lending programs offer insurance or guarantee scheme as collateral and the Grameen bank is a typical example of MFI in this scheme. One percent of the loan is required to be presented by the group member as their contribution for the insurance for the loan (Ledgerwood, 1999).

**Credit cards:** These are cards that allow borrowers to have access to a line of credit if and when they need it. This card is also use to make purchase assuming the supplier of the goods will accept the credit card or when there is a need for cash. The card is also called a debit card when the client is accessing his or her own savings (Ledgerwood, 1999).

**Payment Services:** payment services include cheque cashing and cheque writing opportunities for clients who retain deposits (Caskey, 1994). In addition to cheque cashing and cheque writing privileges, payment services comprise the transfer and remittance of funds from one area to another (Ledgerwood, 1999).

## 2.6 Determinants of capital structure by SMEs

SMEs have some important aspects that are considered when taking decisions on their financial structure. A firm's history is a more important factor in determining the capital structure than its characteristics. The cost of debt to equity is compared; the increase in risk and the cost of equity as debt increases is also compared before taking the decision. The advantage of debt by SMEs due to tax reduction is also considered. The costs of capital remain unchanged when there is a deduction in taxes and interest charges. This indicates that using cheaper debt will be favourable to the business than using equity capital due to increase risk (Modigliani and Miller, 1958 and 1963). Firms would seek a good portion of their capital structure as debt to a certain level so as to take these tax advantages. An over reliance on debt as capital by SMEs will have a negative effect in the business activity in that it will increase the probability of the firm to go bankrupt (Myers, 1984).

Myers (1977) determines the capital structure of SMEs. The pecking order theory (POT) was used to explain why firms will choose a particular capital structure than the other. The POT stipulates that SMEs average debt ratio will vary from industry to industry because these industries have varied asset risks, asset type and the requirements for external capital (Myers, 1984). Firms in one industry will have certain aspects that are common to most than to firms in a different industry (Harris and Raviv, 1991). The decisions are made taking into consideration information asymmetry, agency theory, and the signalling theory. The signaling theory describes signs and the effectiveness or how a venture will progress in an uncertain environment (Busenitz et al., 2005). The main idea behind this theory is that there is an information signal that alerts the stakeholders of what is happening in the business (Deeds et al., 1997). The success of a business in the future is determined by the availability of information to the firm. The stakeholders of a business require signals to find the way of the asymmetry of information between what is known and what is unknown (Janney and Folta, 2003). The outsiders get to know about a particular venture based on the signals it sends out. These signals need to be favourable because it is from it that potential investors will be informed and thus show the intention to invest in the venture. The cost of equity will be high when poor signals are noticed by outsiders and this will restrain potential investors (Busenitz et al., 2005). Firms get access to venture capital when they have a good goodwill (Prasad, Bruton and Vozikis, 2000, p168). Good signals to the outsiders of a firm can be described as equal to due diligence with reduced time and input (Harvey and Lusch, 1995).

New businesses have problems in getting a favourable position in the market. Their existence is determined by their size and age. If it continues to exist, it means it is capable of maintaining its size or it is expanding. This of course goes with time and when they continue to exist, it means resources are acquired or unlimited (Freeman, 1982). This process of gaining stability and to survive makes the firm to gain legitimacy and thus can be trusted as a successful business since it emits positive signals (Singh, Tucker and House, 1986). Firms with unlimited resources at the infancy stage are easy to go bankrupt and die in this early stage (Aldrich and Auster, 1986; Carroll and Delacroix, 1982; Freeman, Carroll and Hannan, 1983; Romanelli, 1989; Singh, Tucker and House, 1986; and Stinchcomb, 1965). Firms that are young and small are incapable of getting the available resources for the proper functioning of its business activities and they are always associated with external organisations in a vertical manner for support (Stinchcomb, 1965). The integration of the young firm with a well established one gains ground for available resources such as funding and legitimacy (Hannan and Freeman, 1984; Singh et al., 1986). Businesses employing this approach to gain legitimacy are at risk since they are not independent. The other activities will have an influence in the outcome of the other. Its competitors along with others get to know the inner dependent firm which the competitor will use it as its strength. They get to know the weaknesses of the opposing firm but at the same time they will enjoy the benefit of transaction cost. The reduction of costs is due to the fact that they integrate with others to realise their objectives. This is done by gaining the inside of the quality of work, production and ideas within its top level.

It is realised that there is no target equity mix and this is due to the fact that they exist two different kinds of equity. The two are at extremes meaning one at the top and the other at the bottom of the pecking order. These differences are caused by the costs of information asymmetry. External sources of funding have more moral hazard problems and consequently the demand for own or internal finances are of paramount to the firm (Myers, 1984). This moral hazard is explained by the fact that SMEs are very close entities; that is owned and or controlled by one person or few people (Watson and Wilson, 2002). POT emphasises; Ang (1991) on the use of owned capital rather than outside capital by SMEs and also explain why SMEs are denied or has a hindering factor in seeking for external sources of finance. World Bank (2000) reiterates the fact that SMEs are more likely to be denied new loans for their businesses than larger firms when in need. They consider SMEs to lack the skills to manage risk and the high transaction costs in lending to them compared to the amount that is borrowed (Hallberg, 1994).

SME lack managerial skills, resources and experience to motivate the potential investors to invest on them. They view them as high risk business concerns and some well to do SMEs may be hindered critical financing (Kanichiro and Lacktorin, 2000). SMEs and providers of debt and equity need to have a cordial relationship to avoid the problem of information asymmetry and conflicts of interests. All SMEs require financing to grow and the source may be internal or external. The external sources constitute loans, equity infusions, subsidies, or government grants. The internal source is income generated from cash flows that are reinvested. Many SMEs are self –financing by friends and family members at the beginning stage of development but when it gets to a later stage in development, external financing become necessary. Banks find it hard to grant loans to SMEs until when they find it have a stable growth. More so they need to have a track record of their activities, sufficient collateral or adequate guarantees. Businesses that are viable and have good market positions during periods of recession will have difficulties in obtaining bank financing.

Credit availability to SMEs depends on the financial structures in place, legal systems, and the information environment. SMEs in countries with more effective legal system have less financing obstacles since the laws protect property rights and their enforcement are implemented to financial transactions (Beck et al., 2005b)

## 2.7 Some problems faced by SMEs to acquire capital from formal financial institutions

Formal financial institutions have failed to provide credit to the poor and most of whom are found in developing countries and to be more specific in the rural areas. The reasons given by

Von Pischke (1991: 143-168) is that their policies are not meant to favour the poor. The poor are mostly illiterate and banks lack those skills to target these rural customers. In these areas, the population density is very low causing high transaction cost by the financial institutions since they need to move for long distances and also takes time to meet the customers (Devereux et al 1990:11). SMEs in developing countries are considered to be too unstable by banks to invest in. Due to this instability, the banks consider SMEs to have high risk and the costs these banks suffer to monitor the activities of the SMEs are high. Hossain (1998), Bhattacharya, et al. (2000) and Sia (2003) identify that formal financial institutions (banks) are reluctant to lend to SMEs since investing in SME activities is considered by banks to be very risky. They find it risky in the sense that if invested in, and in an event of unfavourable business conditions, they have low financial power, assets, and easily go bankrupt (Sia, 2003). The cost of borrowing from banks is very high and this prevents SMEs to borrow from this institution but these costs to borrow are sometimes subsidised by the government (Meagher, 1998). The application process for a loan is long and difficult for SMEs to meet up with the demands (Hossain, 1998). The collateral demanded by banks for a loan is based on fixed assets and which are very high in other to hinder these businesses to acquire loans. They cannot afford these collaterals which include; estates, and other fixed assets valued usually at 200% of the loan (Meagher, 1998). The major setback that prevents SMEs to get funding from external sources is the problem of information asymmetry. That is the magnitude of the deviation of the correct information that is needed by the lending institution (Bakker, Udell, & Klapper, 2004).

Banks use cash flows and profitability to measure or to assess the worthiness of a business. This is a very expensive and, not a good method to measure the credit strength of rural SME. Production and distribution in the rural areas is influenced by social factors that are often neglected by enterprises in developing countries (Otero et al 1994: 13). Agriculture dominates rural activities in developing countries and is dependent on the weather conditions for its output. An enterprise in this sector is considered risky because its outcome is undetermined.

## 2.8 Organisation of microfinance institutions

### 2.8.1 Cooperative financial institution:

This is a financial institution that can be termed semiformal. It constitutes credit unions, savings and loan cooperatives and other financial cooperatives. They are generally identified as credit unions or savings and loan cooperatives and provide savings and credit services to its members. There are no external shareholders and run the same as a cooperative and implementing all its principles. Members who are at the same time customers make the policy of the cooperative. They are either elected or work on voluntary bases. They are not often subjected to banking regulations but have their own regulations and are under the supervision of the ministry of finance of the country. Individual financial cooperatives in a country are often govern by a league that coordinate activities of these credit unions, trains and assist its affiliates, act as a place where the deposit and provide inter lending facilities and act as a link between external donors and the cooperative system (Schmidt, 1997).They raise capital through savings but to receive loans is not easy. Loans are delivered following the minimalist approach where the requirements for loans are not often difficult to meet by customers; little collateral, character and co-signing for loans between members. These loans are usually loans within the savings of the member (Schmidt, 1997).

### 2.8.2 Group Lending:

This method of providing small credits to the poor is most use by microfinance that provides loans without collateral. The interest charge is around not much different from that of commercial banks but far lower than interest charge by individual by money lenders (Natarajan, 2004). The Grameen bank is a typical example of microfinance institution using this method. The repayment rate is very high since each member is liable for the debt of a group member (Stiglitz, 1990). Group formation is made by members who know themselves very well or have some social ties. Loans are not granted to individuals on their own but to individuals belonging to a group; and the group acts as a collateral which is term social collateral. This is to avoid the problems of adverse selection and also to reduce costs of monitoring loans to the members who must make sure the loan is paid or they become liable for it (Armendariz, 1994).

### 2.8.3 Individual Lending:

This is the lending of loans to individuals with collateral. Besley and Coate (1995) say despite the advantages of lending to groups, some members of the group may fail to repay their loan. Montgomery (1996) stresses that this method of lending avoids the social costs of repayment pressure that is exerted to some group members. Stiglitz (1990) highlights that members in group lending bear high risk because they are not only liable for their loans but to that of group members. Navajas et al. (2003) and Zeitingner (1996) recommend the importance of routine visits to the clients to make sure the loan is use for the project intended for. These monitoring is vital but at the same time increases the cost of the microfinance institution.

### 2.8.4 Self-help groups (SHG):

This is common among women in the rural areas who are involved in one income generating activity or another (Ajai 2005). Making credit available to women through SHGs is a means to empower them. This group is an institution that helps its members sustainably with the necessary inputs to foster their lives.SHG provides its members with not only the financial intermediation services like the creating of awareness of health hazards, environmental problems, educating them etc. These SHGs are provided with support both financial, technical and other wise to enable them engage in income generating activities such as; tailoring, bee keeping, hairdressing, weaving etc. It has a bureaucratic approach of management and are unregistered group of about 10 – 20 members who have as main priority savings and credit in mind (Ajai, 2005). The members in the SHG have set dates where they contribute a constant and equal sum as savings. These savings are then given out as loans to members in need for a fixed interest rate (Bowman, 1995).

### 2.8.5 Village Banking:

This is a method of lending to individual members to have constant access to money for their Micro-enterprise daily transactions (Mk Nelly and Stock, 1998). Borrowers are uplifted using this method because they own SME that earn money sustainably. This enables them to acquire a larger loan sum which gives them higher profit when introduced into the business and of course the interest with this high sum is high making the bank financial sustainable. Village banking as of the 90s has gained grounds and certain adjustments are made to suit partner institutions (Nelson et al; 1996). Hatch and Hatch (1998) Village banking loan and savings growth rate increases as the bank continue to exist.

## 2.9 The triangle of microfinance

The performance of the financial sector in providing financial intermediation for small and medium size enterprises can be evaluated in three vital dimensions: financial sustainability, outreach, and welfare impact (Zeller and Mayer, 2002). They went further to say that this microfinance triangle is the main policy objective of these microfinance institutions which are aimed towards development. The internationally agreed objectives of development are the Millennium development Goals (MDGs). These MDGs are to alleviate poverty and this is done in many dimensions of welfare such as increasing access to education, health, nutrition, women's empowerment and of course basic needs (Morduch et al, 2003). Donor organisations and governments differ in the microfinance objective which is of prominence to them; i.e. financial sustainability, depth of outreach, and welfare impact. This influences their perceptions on the relative efficiency on the different microfinance institutions and how financial policies are designed and evolve (Stiglitz, 1992; Krahnen and Schmidt, 1994). The financial sector can contribute to the development of SMEs either directly or indirectly. The direct influence is by increasing the access to financial services to the poor. There are three distinguished ways to how access to financial services can influence income generation activities and consumption stabilization of the poor (Zeller et al, 1997). The indirect method is by supporting a sustainable financial system as a prerequisite for social and economic growth. There has been a paradigm shift in thinking about relevant policies for the development of the financial sector and precisely in the field of microfinance in the 1990s. This shift is as a consequence of the failures of small farmer credit and successes of some few MFI. The financial policy has changed due to this shift and it is based on the assumed lapses between the demand for credit and savings services, and how these services can be access by a specific target group. It was before now more emphases were laid on improving the outreach to small farmers in the 1960s and 1970s, and in the 1980s and 1990s to the poor. This was focused on serving more of the poor (breadth of outreach) and the poorest of the poor (depth of outreach) (Zeller and Mayer, 2002). MFIs were focusing on the poor and in order to have access to or supply of MF services with demand has been constant for MFIs trying to serve clientele outside the border line of formal financial institutions (Von Pischke, 1991).

In the 1960s and 1970s the government was the main actor in the provision of these services to the population, and parastatal development banks and agricultural credit projects of prime concern. The new approach to microfinance started in the mid 1980 due to the awful failures of development banks and the good outcome of some microfinance innovations to serve the poor (Adams,1998). Some institutions cropped up with permanent financial institutions that became sustainable by building up a cost effective MFI. These institutions with the innovative approaches recognises that risks and high transaction costs which results partly from information asymmetries and moral hazards are the core causes of the difference between demand and supply for financial services(Stiglitz and Weiss, 1981).

The main objectives of microfinance institutions are prioritised differently by different authors. Researchers like Otero and Rhyne, (1994); Christen et al., (1995) argues that increasing access to reach the poorest of the poor (depth of outreach) and sustainability are compatible objectives. Although Hulme and Mosley (1996), Lapenu and Zeller (2002), with others argue that they may be a trade-off between augmenting outreach to the poorest and attaining financial sustainability. This trade-off is as a result from the fact that MFI transaction costs have a high fixed cost element which makes unit cost for smaller savings and smaller loans high as compared to larger financial transactions. This rule of reducing unit transaction costs with larger transaction size generates the trade-off between better outreach to the poor and financial sustainability, regardless of the borrowing technology used (Zeller and Mayer, 2002). The financial sustainability of the financial institutions and outreach to the poor is two of the three policy objectives of the contemporary developments in the field of microfinance. Welfare impact is the third policy objective that relates to the development of the financial system and precisely on economic growth and poverty alleviation and food insecurity.

Innovation in the institutional domain and the expansion of microfinance institutions rely on public intervention and financial support. The state and donor transfers such as international NGOs subsidises the costs of most microfinance institutions reaching a greater number of clients below the poverty line. These costs include the opportunity costs of forgoing other assistance to public investments such as in primary education when limited funds are used for microfinance (Zeller et al.1997). The subsidy dependent index Yaron (1992) has become the universally accepted measure to quantify the amount of social costs involved in running the activities of a financial institution. Zeller and Sharma (1997) argue whether public sector development are economically or financially sustainable and to find out that they compared social costs with social benefits to know which one will have a greater impact on the society.

The crucial triangle of microfinance is a triangle that reflects the three policy objectives of MF of outreach, financial sustainability and impact. Some of these objectives contribute more impact and at the same time inadequate outreach. The other objectives may produce limited impacts but are very much financially sustainable (Zeller and Mayer, 2002). The impact of finance can be increased through complementing non financial services such as SMEs or marketing services, or training of borrowers that raise the profitability of loan financed projects (Sharma and Buchenrieder, 2002). The MF impact assessment studies reviewed suggested that the poorest amongst the poor can gain from microfinance by having a constant consumption through the management of their savings and borrowing habits.

It is noted that the management of loans for productive purposes with the aim to raise income and assets is effectively done by those just below or just above the poverty line. An increase in financial services will have a positive outcome in the welfare of the poorest but not necessarily to lift them from poverty because of the lack of access to market, technology, and other factors that raise production.

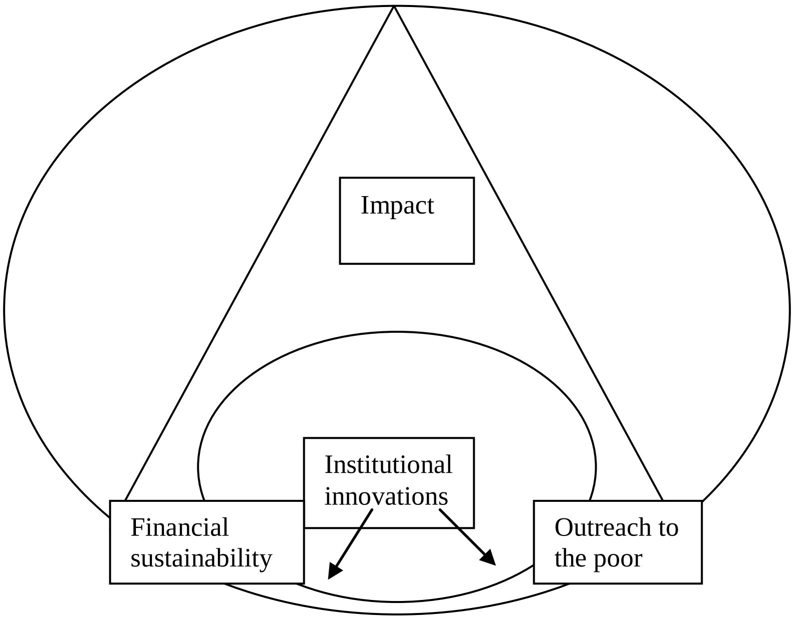


**Fig 2: the critical triangle in achieving economic sustainability of microfinance**

The microfinance triangle illustrated in the figure above consist of an inner circle that represents the different types of institutional innovations such as employment of costs reducing information that improves financial sustainability. Institutional innovations that contribute to improving the impact are designing demand-oriented services for the poor and more effective training for the clients. Outreach to the poor such as more effective targeting mechanisms or to introduce lending technologies that attract a particular group of clients. The outer circle presents the socio-economic environment as well as the macroeconomic and the sector policies that in one way or the other affect the performance of financial institutions (Zeller and Mayer, 2002).

## 2.10 Theoretical links between microfinance and SME development

Accessing credit is considered to be an important factor in increasing the development of SMEs. It is thought that credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995). The main objective of microcredit according to Navajas et al, (2000) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SME's risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, microfinance is assumed to improve the welfare of the poor.

It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor (Rhyne and Otero, 1992).

Buckley (1997) argue that, the indicators of success of microcredit programs namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on "microfinance evangelism". Carrying out research in three countries; Kenya, Malawi and Ghana, Buckle (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment. The focus in this augment is that improvement to access to microfinance and market for the poor people was not sufficient unless the change or improvement is accompanied by changes in technology and or technique.

Zeller and Sharma (1998) argue that microfinance can aid in the improvement or establishment of family enterprise, potentially making the difference between alleviating poverty and economically secure life. On the other hand, Burger (1989) indicates that microfinance tends to stabilise rather than increase income and tends to preserve rather than to create jobs.

Facts by Coleman (1999) suggest that the village bank credit did not have any significant and physical asset accumulation. The women ended up in a vicious cycle of debt as they use the money from the village banks for consumption purposes and were forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans. The main observation from this study was that credit was not an effective tool to help the poor out of poverty or enhance their economic condition. It also concluded that the poor are too poor because of some other hindering factors such as lack of access to markets, price stocks, unequal land distribution but not lack of access to credit. This view was also shared by Adams and Von Pischke (1992).

A study of thirteen MFIs in seven countries carried out by (Mosley and Hulme (1998) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improve. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SME development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed.

Some studies have also argued that using gender empowerment as an impact indicator; microcredit has a negative impact (Goetz and Gupta, 1994; Ackerly, 1995; Montgomery et al, 1996). Using a “managerial control” index as an indicator of women empowerment, it came to conclusion that the majority of women did not have control over loans taken by them when married. Meanwhile, it was the women who were the main target of the credit program. The management of the loans were made by the men hence not making the development objective of lending to the women to be met (Goetz and Gupta, 1994). Evidence from an accounting knowledge as an indicator of women empowerment concluded that women are marginalised when it comes to access to credit (Ackerly, 1995).

**CHAPTER THREE**

# 3 Method

## 3.1 Research purpose

Saunders *et al*. (2009) define research as something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge. There are two important phrases in this definition which are: ‘systematic way’, which suggests that research is based on logical relationships and not just belief (Ghauri and Gronhaug, 2005) and ‘To find out things’, which suggests there are multiplicities of possible purposes for your research. These may include describing, explaining, criticizing and analyzing (Ghauri and Gronhaug, 2005). Yin (2009) identified three different categories of research purposes; explanatory, descriptive and exploratory.

Explanatory research establishes causal relationship between variables, it study problems and situations with the main purpose of explaining relationships between variables (Saunders et al, 2003).

Descriptive research portrays and accurate profile events or situation (Robinson, 2002:59). Descriptive research also is known as statistical research which describes data and characteristics about a phenomenon being studied. Although the data description is factual, accurate and systematic, the research cannot describe what caused a situation. Thus it cannot be used to show a causal relationship where one variable affects another. From the above mention points, descriptive research is more of a qualitative research. (http://en.wikipedia.org/wiki/Descriptive_research,7-05-2010).

Description in business and management research has a clear place. However, it should be thought of as a means to an end rather than an end itself (Saunders et al., 2009). This means that if your research utilizes description it is likely to be a precursor to explanation. Such studies are known as descripto- explanatory studies (Saunders et al., 2009).

Exploratory research provides valuable means of finding out what is happening, seeking a new insight, asking questions, accessing a phenomenon in a new way (Saunders et al., 2003).

It is useful when you want to clarify your understanding of a particular problem, when you are not sure of the precise nature of the problem that you are looking at.

Based on the description of all the three research categories mention above, this project is based mainly on descriptive study since the study is focus on an accurate event trying to answer what, where, how, who and when questions through the use of different sources, information and already existing theories. Looking at the given situation of our research, the approach that we are going to used is the descriptive approach based on the case study of MFIs (CamCCUL) in the development of SMEs in Cameroon

## 3.2 Research approach

The two main types of research approaches used in social sciences are: quantitative and qualitative research approaches. There is no one best approach to study management research rather the approach that is the most effective for resolution of a given problem depends on a large number of factors such as nature of the problem etc (Gill & Johnson, 2006).

Quantitative research approach refers to the systematic empirical investigation of phenomena and quantitative properties and their relationships. That is to say, it emphasizes on collection of numerical data, which is a deductive approach (Bryman &Bell, 2003). This deductive approach develops theories, hypotheses and designs a research strategy to test the hypotheses (Saunders et al., 2003) .Quantitative research approach provides a relation between empirical observation and mathematical expression of quantitative relationships. Quantitative method is based on already decided and well-structured questions, whereby all the respondents will be asked the same questions. Open questions are used to give the respondent the flexibility to answer from different perspectives.

Qualitative research approach refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Saunders et al, 2009). It can range from a short list of responses to open-ended questions in an online questionnaire to more complex data such as transcripts of in-depth interviews or entire policy documents. (Saunders et al, 2009). This method emphasizes on inductive approach (Saunders et al, 2003). The researcher collects data and develops theory from data analysis (Saunders et al, 2003)

Also, qualitative and quantitative methods can be used in the same study. They can bring together the depth and the width into a research. We think that a combination of qualitative and quantitative research methods will give us a good deal since we mailed some of the structured questions to some actors.

With our set objectives, and to understand our chosen subject, we will lay emphasis on the qualitative research method, though we induced some level of quantitative approach realized through interviews with some representatives.

## 3.3 Research strategy

### 3.3.1 Case Study

This method of research is one of the many ways of carrying out social science research. Others include experiments, histories, surveys, and the analysis of archival information (Yin 2003). Each of these methods has its own advantages and disadvantages, depending on the type of research questions, the control than an investigator has over actual behavioral events, and the focus on the contemporary as opposed to historical phenomena.

Case study is good when we asked “how” and “why” questions, when investigators have little control over events, and when they focus on a contemporary real life events. In brief, the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events such as individual life cycles, organizational and managerial processes, neighbourhood change, international relations, and the maturation of industries (Yin 2003, p.2).

Definition of case study: The essence of a case study, the central tendency among all types of case study, is that it tries to illustrate a decision or set of decisions: why they were taken, how they were implemented, and with what result (Schramm, 1971,emphasis added, Yin 2003,p.12). Bryman and Bell, (2003) said that case study is mostly associated to qualitative research method use to study organization.

We think case study is the best research strategy to be used in writing this our thesis since its investigates a real-life phenomena, an gives answers to what extent of the impact of microfinance in the development of SMEs in Cameroon. This is done by using a qualitative approach.

## 3.4 Data collection

Evidence for case studies may come from six sources: documents, archival records, interviews, direct observation, participant-observation and physical artifacts (Yin, 2003 p. 83). It should be noted that no single source has an advantage over all the others. In fact, all the sources are highly complementary, and a good case will therefore incorporate as many sources as possible (Yin, 2003 p85).

Since incorporating as many sources as possible is highly complementary (Yin, 2003) therefore triangulation will be good for researchers to combine primary and secondary information in a single case study to ensure that the data they had is telling what they think the data is telling them (Saunders et al, 2003). For example, semi structured interviews may be valuable way of triangulating data collected by others means, such as questionnaire (Yin, 2003). With all of these we have chosen to use only one source to answer our research questions, which is by an interview using questionnaires.

Data is to test the validity and to provide answers to the research questions. Data was collected through primary and secondary means. The primary sources include questionnaires, which rely on observation, interviews and records of information of interest. Questionnaires were administered to randomly selected credit unions and small businesses owner. For the credit unions we had to choose those that are found in the rural areas and for the small businesses, we told our field representatives to go to those rural areas where these credit unions that we choose and ask if they belong to the credit union in their locality. And if they did, they need to show their membership card before they were given the questionnaire to fill. This was to ensure that it is the members that we are in contact with. For secondary data, this was taken from articles, textbooks and already prepared materials from libraries, from Small and Medium Size Enterprises, as well as website of CamCCUL. Going to the part of analyzing our data, we use the SPSS soft wear to do the analysis.

## 3.5 Interview

An interview is a purposeful discussion between two or more people (Kalm and Cannell, 1957). Using the method of interviewing, it helps the researcher to get reliable and valid data which are relevant to the research questions. This means of collecting information for a case study is a very essential.

There are two main types of interviews: which are formalized and structured, using standardized questions for each research participants (often called a respondent), or they may be informal and unstructured conversation (Mark Saunders, et al, 2009, p320).

Structured interviews use questionnaires based on a predetermined and 'standardized' or identical set of questions and we refer to it as interviewer-administered questionnaires (Mark Saunders, et al, 2009). Each question is being read and response is done on a standardized schedule, while it's a social interaction between the participants. As structured interview are used to get a quantifiable results, they are referred to as quantitative research interview (Mark Saunders, et al 2009). On the other hand, semi-structured and in depth interview are 'non-standardized'. These are often referred to as 'qualitative research interviews' (King, 2004).

We did interview some loan officers in some credit unions asking them if gender do play a role to get a loan. This was done between May 10 to 15, 2010 via telephone and email. Gill & Johnson (2006) pointed out the importance of email and telephone interview as against postal equivalents in that email and telephone is much quicker to conduct especially when the researchers have limited time to collect data. And due to that, we had to used email and telephone calls to collect information regarding gender and loan. This was because we noticed on both questionnaires that we did not mention if gender play a role in getting a loan. We think we were biased here in the sense that we did not interview both parties that are credit unions and SMEs owners but instead we interviewed only the credit unions.

CHAPTER FOUR

# 4 Background for empirical study

The back ground of Cameroon will be portrayed and more emphasis is put in the economic sector. The chapter starts with the economy of Cameroon and the economic crisis that the country suffered. The next centre of concern is micro-credit, financial sector reforms and welfare in Cameroon followed by the role of the financial sector in the intermediation process between its actors (lenders and borrowers). This will then be concluded by a general overview of the Cameroon cooperative credit union league (CAMCCUL)


**Fig 4: Map of Cameroon**

## 4.1 Cameroon, economy and economic crisis

Cameroon is a country located in the central part of Africa and slightly to the North of the equator. It is located between 2 degrees and 13 degrees North latitude and bounded to the Northeast by the Republic of Chad, to the North West by the Federal Republic of Nigeria, to the Southeast by Central African Republic, to the South by Equatorial Guinea, Gabon, Republic of Congo, and to the South West by the Gulf of Guinea. The country is divided into ten administrative units (referred to as provinces), with the Capital being Yaoundé, and Douala serving as the economic capital and the main port city (Clarke 1996, p232). Cameroon has a surface area of 475,440 $km^2$ and a population of 18,879,301according to July, 2009 estimates (CIA, 2010). After independence in 1960, the economy of Cameroon was considered amongst the fastest growing in Africa. The theoretical framework by Mckinnon (1973) and Shaw (1973) to analyse the financial sector is explained by Odedokun (1996). According to him, the frame work is based on the premise that finance has a positive relationship with development. The more viable or wealthy a country or an individual is, the more the potential to afford or to invest or to develop taking into consideration that the means are available. But this framework was further develop by Odedokun (1996), and encompass an aggregate production function in one sector with one of the inputs being the development of finance. Finance has a great role in the development of the real sector and this role affects how production is undertaken. This is a sector in which the production of goods and services are through the combination of raw materials and other factors of production such as land, labour force, and capital.

Crude oil exportation started in 1978 that helped in the improvement of the economy (Alibert 1992). The country witnesses an increase of 4.8% annually between the period of 1960 and 1978. The growth rate was at a record height of 4.8% annually in real terms between 1978 and 1986. It was not until 1978 that crude oil was among the list of export products, agriculture and other products that contributed 30% and 74% respectively to the GDP. During the period 1978 and 1986 the exporting product contribution to GDP declined to 22% and 51% respectively (Ntangsi 1991).

Agriculture remains the mainstay of Cameroon's economy, employing about 70 percent of its workforce but most of the people involved in this sector are cultivating on a subsistence level. Agriculture provides about 44 percent of country’s GDP and 85 percent of its export revenue

(Amin 2002).The country is made up of four geographic zones which makes it peculiar in Africa. It is often called Africa in miniature. The geographic zones are; southern coastal lowlands, the western highlands, the central and southern plateaus, and the Chad basin in the northern part of Cameroon (Delancey and Mokeba 1990). The too much concentration on agriculture is determined by the geographical environment. Cameroon has a diverse geographical landscape that runs through the tropical rain forest to the Savanna vegetation. A cross section of the country is fertile and a wide range of agricultural products are cultivated for local consumption and for export. Coffee and cocoa are grown in central and southern regions which are covered by the tropical rain forest, bananas in South Western areas, and cotton in the Northern Sahel Regions. Apart from the export commodities, Cameroonian farmers also produce numerous subsistence crops with the use of simple equipments and techniques for household consumption. The principal food crops include millet, sorghum, peanuts, plantains, sweet potatoes, and manioc. Animal husbandry is practiced throughout the country but it is particularly dominant in the Northern Regions where you have Fulani settlements (Amin 2002).

Rural finance plays an important role in capital formation, increase in agricultural productivity, and economic development in rural areas (IFAD, 2009). Microfinance in the rural areas is adapted to meet the aspirations of the rural customers. The package put in place in these areas by the financial institutions is aimed at improving the SMEs. When SMEs are created and develop, production is increased, food is secured, education is affordable, health and other social responsibilities are taken care of (Heidhues 1990, 1995). Formerly, credits were made available to the rural inhabitants to increase their productivity level by the government and international donors through specialised agricultural banks. This method was not so effective in that outreach was not achieved and the repayment rates were very low. The informal sector is viewed by policy makers and researchers as a key developer of the well being of rural population in developing countries. This sector provides financial intermediaries to the poor group that are not targeted by the formal financial sector (African Studies Centre 1978). Group lending schemes are the widely used lending method in this sector. The financial institutions encourage this method since it reduces their transaction costs per unit lent than individual lending method when dealing with rural borrowers who usually borrow less (Schmidt and Zeitinger 1994).

## 4.2 Micro-credit, financial sector reforms and welfare in Cameroon

In the mid 1980's, the country was strongly hit by the economic crises that motivated it along side some Saharan African countries (SSA) to institute the Structural Adjustment Program (SAP) in their struggle to foster development. This SAP was as a result of the recommendations to the various countries by the World Bank and the International Monetary Fund (IMF) to resolve the economic crises at the time. This sector is influenced by the government who is a customer, owner and regulator but at the same time inefficient in its endeavours. It was characterised with a lot of mismanagement and bad regulatory policies. During this period of the economic crises, banks had a lot of problems with their customers in terms of repayment rates, the effectiveness of the loans or loan usage were poor and clients too had lost that good faith with the banks. The financial sector reform was meant to address these issues with it s main focus on creating means that the rate of loan defaulters will be minimal, intermediating between savers and investors, and to redirect the economy to the economic development pathway (Tawah, Amin & Ewane, 2008).

The informal financial sector provides financial services to the poor and more especially to the rural poor in Cameroon. These services have some short comings in the sense that loans are short term and do not profit investors who want to engage in long term business activities. Differentiating formal and informal financial institutions can be confusing (Ghate et al, 1992). The differences should not be fixed and should be in context to a particular country (Roth, 1997). The approach or manner in which it functions will depict the financial system. Informal financial systems are noted to have close services to the borrower. There are much flexible in terms of loan repayment, interest rates, collateral requirement, maturity period etc (Ghate et al 1992).

Microfinance institutions such as NGOs and credit unions popularly known as cooperative society and savings societies are the main actors in providing financial services to the poor and especially to those involve in small businesses in the rural areas. NGOs are noticed to lend to groups and making use of joint liability, peer selection, and investing in routine transactions which they are aware of to limit the problem of information asymmetry in the financial market (Zeller et al. 2001). The MFIs in Cameroon in the fight to meet the aspirations of its customers, the do organise trainings, book keeping, auditing and supervisory services. These services are not offered by the regular commercial banks.

The informal sector is the most viable in the economy of Cameroon and its impact is influenced by the financial sector. The informal sector employs 60% of the active population and a majority of them are involved in SME business activities Yenshu, 2008).

## 4.3 The role of the financial sector in the intermediation process between its actors (lenders and borrowers)

The financial sector is an important sector in the development of a country. It serves as a mechanism that allows borrowers and lenders to consolidate and provides effective and efficient financial claims and with an agreement put in place. This lending and borrowing is to fill the financial gap that exists between this sector since one of the actors is facing a deficit and the other a surplus. This scenario is of the premise that, the lender has excess financial resources to preserve and the borrower who is in need of it to meet up with its current obligations. In a situation where someone has money and wants to save, there is an option to choose who to give to. This is done by looking for somebody who is in need to give to (Yenshu, 2008). This is not just given to anyone in need but to someone who after personal judgements is found to be credit worthy that will pay back and in due time. It should be noted that this process of savings is risky and high cost is incurred in looking for who is in need of money to invest. Some savers will prefer to keep the money by themselves at home which may not be safe or to investing the money on assets that are safer to keep and can easily be converted to cash when need arises. Looking the other way round, if a potential money seeker finds it difficult to locate someone who wants to lend money to may finance his project with the limited funds at hand. We can conclude that financing a project with insufficient funds in the envisaged investment implies low earnings (Yenshu, 2008).

In the search for the partners in the lending/borrowing process, high costs are suffered. Here the financial intermediaries play a vital role to remedy the situation. They are the institutions that serve both parties to meet up their needs. The transaction costs of the clients are also reduced meanwhile the financial institutions try to avoid the problem of information asymmetry by making sure they get all what they need from both the borrower and the investor. They make their terms to favour both the loan seekers and the investors (Amin et al, 2008).

### 4.3.1 Composition of the informal financial sector

The most popular form of credit institution in Cameroon is what we called “njangi” in the English speaking section and in the French speaking “tontines”. This usually is made up of people of the same class who have almost the same income or who are engaged in similar activities. This type of savings is rotating and stable and it has been in existence since the colonial period. There are three types as described in tackling the down side by (Mayoux, 2001).

**Rotating funds:** This is usually called ROSCA. It is a type of savings that involves groups of individuals who come together with agreed fixed sum of money that is collected and given to one of the group member in a lump sum. Sika and Strasser (2001) retain that the member who receives the money is decided in advance by a consensus and the number of members determine the loan period. The money received is interest free. Some members in the time of getting the loan may not be in desperate need of money and may swap it with somebody in high need. On the other hand, another type of rotating savings exists that is flexible and made up of individuals with different income brackets. The money collected is auctioned and those who have not yet received their own loan may bid for it and the person with the highest bid gets the loan.

**Savings and loans funds:** Members may also contribute more than the agreed regular sum of money into a savings fund that can be loaned to other members who are in need with an interest of 20% to 25%. The saver may also withdraw the money but with the condition that a request notification is given to the association. This money often earns interest to the saver.

**Trouble funds:** These funds are got from a portion of the regular savings that is kept aside for emergencies to members such as serious health problems and funerals.

These associations are created when the need for funding is of paramount to importance to some group of individuals who are seen as ineligible for credit from the bank (Agenor 1995). They are usually short lived but the duration of a loan will depend on the number of members in the group. Loans of this nature cannot be invested in long term business activities, and people cannot have access to loan large sums of money due to the number of members and the amount contributed per member. Despite the attempts made in the informal financial sector to meet the financial needs of people and most especially the poor in the rural areas, they still do have some short comings. Institutions like credit unions, NGOs, cooperative savings and loans societies have been created with the aim of closing the gap that exists in the informal sector. Amin et al., (1999) categorises these institutions as semi formal because their services are limited to savings and credit activities.

### 4.3.2 Semi formal financial institutions

Microfinance in Cameroon is largely managed by associations or savings and credit cooperatives (80%).They have to ask for an agreement in order to carry out their activities. The conditions to carry out microfinance activities are defined at the sub-regional level by the Economic and Monetary Community of Central Africa. There are three categories of MFIs: those that only deal with their members (associations, cooperatives); those that offer financial services to third parties (they must be a public limited company); and those that only offer credits. There are few recent statistics available. According to estimates, 558 MFIs were active in the country in 2005. Among them,379 (68%) represented the three most important networks (3)of the country, holding more than 60%of savings and serving more than 80%of clients. The importance of this sector is still relatively modest. In 2000, the level of market penetration was 7% and the savings volume represented 6% of the national total and credits 4.3% of the national figures. It is fair to assume that these levels have risen in recent years, yet accurate statistics are lacking. MFIs are not evenly spread: only 48% of them were active in rural areas. The sector also shows another remarkable characteristic that indicates the progression of captured savings is followed by a weak increase in the volume of credits.

### 4.3.3 Presentation of MC²

What does the acronym MC² stand for? We could imagine it is a way to multiply the means (M) and the competence (C) of the community (C). The Community Growth Mutual Funds were created to integrate rural areas into the development process. They are micro-banks created and managed by the members of a community with respect to their socio-cultural values and with the technical assistance of the ADAF NGO and the sponsorship of Afriland First Bank. The principal mission of an MC² is to provide rural populations with a tool that favours the development of the individual and the entire rural community in their activities which are mostly farming. The loans provided by MC² which are usually small are well adapted to meet the needs of the rural population who are engage in their small business activities to have access to the services that will impact them positively. Their set up can be divided in different phases. These are; raising awareness among the people and local ‘elites’, feasibility study, establishing a social fund (social capital on average of 15 million FCFA per mutual fund), setting up a general assembly, election of bodies and recruitment of staff. The executive board plays the role of the credit committee and are supervised and supported in this function by an ADAF or AFRI LAND representative who gives the necessary advice and innovations and also ensuring that they respect the prudential ratio. The three employees (treasurer, accountant, and cashier) each receive six-month training from ADAF and AFRILAND, opening of the rural branch, mobilising savings and deposits. ADAF trains this staffs who are the main actors in the institution to work according to the standards that are desired and also serve as an intermediary between local and international NGOs.

In order to have access to them, one must pay an average of 2,500 FCFA, purchase 10 social parts (10,000 FCFA) and commit oneself to save in either one of the following three 3 MFIs; Village Savings and self-managed credit Bank (CVECA), Cameroon Cooperative Credit Union League (CAMCCUL) and MC2 (Community Growth Mutual Funds) (Djeudja, and Heidhues, 2005).

## 4.4 Cameroon cooperative credit union league (CAMCCUL)

The Cameroon Cooperative Credit Union League (CamCCUL) is an umbrella financial institution coordinating the activities of 268 cooperative credit unions in Cameroon. It is a semi-formal financial institution. They provide products and services that are between formal and informal financial institutions. They are not regulated by a banking authority but are supervised by a body have a license.  It was formed in 1968 in Bamenda, the headquarters of the North West region of Cameroon. CamCCUL was an English affaire and had its activities were mainly in the two English speaking parts of Cameroon; that is the South and North West regions. It was until the late 70s that CamCCUL had to expand into the other regions of the country to meet the needs of those who could not enjoy the products and services of a regular commercial bank. Today it is the top diversified MFI in Cameroon and the Central African Economic and Monetary Community (CEMAC) sub region having total shares of about 76% and 36% respectively of the microfinance market. These credit unions have a membership of about 196,922 with a turnover of about 41,000,000,000F CFA francs (1 US dollar =536.321F

CFA francs, http://www.xe.com/ucc/). (http://www.camccul.org/home.htm). These credit unions that make up CamCCUL has as main objective to collect savings for its members and also to reallocate them to interested members who wish to invest in the form of loans so as to end interest in return. CamCCUL also have as main aim to organise, protect, expand, strengthen and promote the growth and development of the cooperative credit union movement in Cameroon. This is done by the provision of products and services, and programs to members to meet their needs. They also represent their interest to other cooperative related institutions and government (CamCCUL, 1993). These credit unions are autonomous in the daily operations when it concerns the mobilisation of customers to save or to take loans. CamCCUL is a central organ that lays down the principles for all the credit unions to follow. The credit unions are owned by the members who have shares and also save. Part of these shares and savings (25%) of each credit union is deposited to CamCCUL's central liquidity account as its own contribution as stipulated in the statutes. These money are used to refinance the credit unions and also in the provision of technical assistance to its member credit unions. During this period, the act of borrowing increased but at a slow rate because of the strict policy and later drop in 1994. The level of savings was increased as a result of the increase in membership and the need for these financial services began to gain grounds. Some international NGOs like the Canadian International Development Agency (CIDA) provide some incentives in the form of improving the achievements of its objectives. They provided them with institutional support, improve their skills and operating systems, increase access to productive microcredit, provides affiliates with modern and computerised systems and also improve their financial endeavours (www.cida.gc.ca). Yunus (2003) depicts that MFIs have specialised loan officers who are very versed with the businesses in their rural environment. Their function is to make sure that the members seeking for loans should be able to convince them with their loan application. When they find that the project is worth taking and profitable to the loan seeker, they then try to come out with a business plan and the strategy to follow to meet the set goals.

Loan officers are in charge of handling members seeking for loans and are very much familiar with them and their needs. They are specially trained to handle such situations and to scrutinise applications for loans and to short list some that will be decided upon by the board of directors to be awarded the loan. They also initiate training sessions for their members who own businesses.

## 4.5 Relationship between the government and MFIs

Cameroon was among the worst hit economies in Sub Sahara Africa (SSA) during the economic crises. The financial sector was the most affected. Ten commercial banks at the time closed their doors with customers' money causing them to bear huge losses. The public has lost confidence in the commercial banks that are even viable and stable. Most MFIs came up to provide the needed services to the local dwellers who are involved in farming and or business (Amin et al 2008). The government at that time opted to support MFIs activities so as to restore the economy in its growth path. Some policies are made to favour the MFIs in other to meet up with their objectives (IFAD, 1999).

- The government has enacted and enforced legislation and to regulated the MFI sector favourably. The legislation makes depositors' money well secured.
- A plat form is laid that creates incentives to the MFIs to better their operations. They do also have some services that are rendered to the MFIs to have good management practices.
- The government sets a play ground for all the stake holders in the financial sector to lay down their concerns so that it can be deliberated and a solution passed. These problems are often of customers and of course the national interest.

The government has noticed the importance of CamCCUL and the impact it is creating in developing the economy and to drive the inhabitants out of poverty. FIMAC funds that were meant for the grass root areas were not succeeding at the implementation phase. Their task was given to CamCCUL so that they could cater and bridge the gap that exists in the quest for the increase in their production. Its structures like the National Fund for Rural Development (FONADER) and Credit Agricole Bank that were structured to meet the financial needs of the local people in the rural areas failed and were dissolved. These were the provision of small loans, farm inputs, training etc (www.edennewspaper.com).

# CHAPTER FIVE

## 5 Empirical study

## Data presentation and analysis

## 5.1 Presentation of data

Since, this study is focused on the impact of microfinance institutions in the development of rural SMEs business in Cameroon, and CamCCUL used as a cased study, this section is to show how the presentation of data and analysing it.

We had two sets of questionnaires for both the credit unions and the members who own small businesses.The questionnaires that went out to the SMEs was made up of 13 questions of which a total of 23 questionnaires was distributed across the North West, South West and the Central regions of Cameroon of which only a total of 16 were answered and there was no response from 7.

The other set that was design for credit unions were made up of 8 questions was distributed to 12 credit unions and were all answered. Table 1 and table 11 show the detailed breakdown of the questionnaires administration to both SMEs and Credit Unions respectively. So in general we had a total of 35 questionnaires that was sent out to both credit unions and SMEs and the total that we had response was 28.

We did interview some loan officers in some credit unions asking them if gender do play a role to get a loan. This was done between May 10 to15, 2010 via telephone and email. This was because we noticed on our questionnaires that we did not mention if gender play a role in getting a loan. We think we were biased here in the sense that we did not interview both parties that are credit unions and SMEs owners but instead we interviewed only the credit unions which we had the same response throughout that gender do not play a role in acquiring a loan but if any person meets up with the requirements to get a loan he or she will be granted. The function of the loan officers is to; educate the members on how to get a loan, give out loans within savings and lastly channel applications for loans out of saving that require collaterals to the loan committee so that they can deliberate on the loan and this committee is made up of elected members of the credit union.

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## 5.2 Data presentation of members

Table 1: Questionnaires administered to members (owners of SMEs)

| Regions | Sex | Sex | Number of respondent selected | Actual response | Response rate |
|---|---|---|---|---|---|
| | Male | Female | | | |
| North west | 5 | 3 | 12 | 8 | 66.7 |
| South west | 3 | 2 | 8 | 5 | 62.5 |
| Central | 2 | 1 | 3 | 3 | 100 |
| Total | 10 | 6 | 23 | 16 | 69.6 |

Source: Researchers' survey, 2010

The questionnaires were distributed at random to the members of CamCCUL in three of the regions of Cameroon. A total of 23 were distributed according to the following divisions; North West 12, South West 8 and Centre region 3. All the questionnaires sent out were not answered. The actual response was 8 for North West and constituted 5 males and 3 females. The total response rate was 50%. In the South West region, a total of 8 questionnaires were distributed. The number of males who responded was 3 and female 2 making a total of 5. The total response rate stood at 31.25%. The Centre region had the least number of questionnaires and had a response rate of 18.75%. A total of 3 questionnaires were distributed and 2 males and 1 female responded. The geographical nature of the country accounted for the way the questionnaires were distributed and the history of CamCCUL also taken into consideration.

### 5.2.1 Current development of business

Table 2: Current development of business

| | | Frequency | Percent |
|---|---|---|---|
| Valid | newly started | 1 | 6.3 |
| | young but established | 2 | 12.5 |
| | Growing | 10 | 62.5 |
| | mature but needs renewal | 3 | 18.8 |
| | Total | 16 | 100.0 |

Source: researchers' survey, 2010

This question tries to look at how established are the businesses. We notice from the responses that we got from the questionnaires sent to the members (owners of Small businesses) that, one firm was just newly started, two firms was young but established, ten firms which is over 60% were in their growing stage and finally three firms was mature but needs renewal.

## 5.2.2 Types of business activities and gender of loan recipients

Table 3: Cross-tabulation of gender by type of business

| | | | business type | | | | Total |
|---|---|---|---|---|---|---|---|
| | | | Farming | Trading | Artisan | Other | |
| sex | female | Count | 2 | 2 | 1 | 1 | 6 |
| | | % within sex | 33.3% | 33.3% | 16.7% | 16.7% | 100.0% |
| | male | Count | 1 | 3 | 1 | 5 | 10 |
| | | % within sex | 10.0% | 30.0% | 10.0% | 50.0% | 100.0% |
| Total | | Count | 3 | 5 | 2 | 6 | 16 |
| | | % within sex | 18.8% | 31.3% | 12.5% | 37.5% | 100.0% |

Source: researchers' survey, 2010

Looking at the table above which shows a cross tabulation of sex and business type, we noticed that 18.8% of the members are farmers whereby 2 are females and 1 male. 31.3% are traders with 2 being females and 3 men. With artisan, a total of 2 people are in the artisan sector, one being male and the other is a female making a percentage of 12.5. A total of 37.5% are doing other trade with 5 being men and only one female.

### 5.2.3 Share of borrowed equity capital at business start up

Table 4: Share of borrowed capital to start business (borrowed capital)

| Percentage proportion | | Frequency | Percent |
|---|---|---|---|
| Valid | 0 | 5 | 31.3 |
| | 30 | 1 | 6.3 |
| | 40 | 2 | 12.5 |
| | 50 | 2 | 12.5 |
| | 60 | 2 | 12.5 |
| | 75 | 1 | 6.3 |
| | 100 | 3 | 18.8 |
| | Total | 16 | 100.0 |

Source: researchers' survey, 2010

The percentage frequency table shows that 31.3% of the small businesses owners start their business exclusively with their own money. Looking at it critically, 18.8% says their start up capital is completely borrowed from the credit unions. 12.5% of business owners indicates that their borrowed capitals are in the following percentages 40% is borrowed while 60% is own capital, 50% is borrowed while 50% is own capital, and 75% is borrowed while 25% is own capital. 6.3% said 75% of their capital is from the credit union and 25% is personal savings, meanwhile another 6.3% said they borrowed 30% of their capital and the remaining 70% is from their personal savings.

### 5.2.4 Age of business and stages of development

Table 5: Cross tabulation of age of business by stages of development

| | | | current development of business | | | | Total |
|---|---|---|---|---|---|---|---|
| | | | newly started | young but established | growing | mature but needs renewal | |
| Years in Business | 0 to 1 | Count | 1 | 0 | 0 | 0 | 1 |
| | | % of Total | 6.3% | .0% | .0% | .0% | 6.3% |
| | 1 to 5 | Count | 0 | 1 | 3 | 2 | 6 |
| | | % of Total | .0% | 6.3% | 18.8% | 12.5% | 37.5% |
| | 5 to 10 | Count | 0 | 0 | 4 | 1 | 5 |
| | | % of Total | .0% | .0% | 25.0% | 6.3% | 31.3% |
| | 10 and above | Count | 0 | 0 | 3 | 1 | 4 |
| | | % of Total | .0% | .0% | 18.8% | 6.3% | 25.0% |
| Total | | Count | 1 | 1 | 10 | 4 | 16 |
| | | % of Total | 6.3% | 6.3% | 62.5% | 25.0% | 100.0% |

Source: researchers' survey 2010

This table is a cross tabulation between duration of business and the stage of development. The table illustrates that 6.3% of members say their businesses are between 0-1 years old and are newly started. Those who say their business are between 1-5 years old occupy 37.5% and amongst them, 6.3% are young but established, 18.3% are growing, and 12.5% say they are matured but needs renewal. A total of 5 businesses with a total percentage of 31.3 say they are between 5 and 10 years old. 25% of them are still growing meanwhile 6.3% say it is matured but needs renewal. Businesses of 10 years and above are 4 and a percentage of 6.3 is at the mature stage but needs renewal. 18.8% are in the growing stage. To summarise the table, it can be said that businesses of 0-1 year is 6.3%, 1-5 years old 37.5%, 5-10 years old 31.3 and 10 and above years 25%. These percentages represent total percentages of the whole sample.

### 5.2.5 Assessing criteria used to give out loans

The frequency distribution table depicts that 37.5% of members of CamCCUL who own businesses say to obtain a loan is easy. Those who said it is not easy represented 62.5%.

## 5.2.6 Criteria used by CamCCUL to give out loans

Table 6: Criteria to get a loan

| | | Frequency | Percent |
|---|---|---|---|
| Valid | have 1/3 of loan in your account plus collateral | 12 | 75.0 |
| | land as security | 2 | 12.5 |
| | repayment capacity and collateral | 2 | 12.5 |
| | Total | 16 | 100.0 |

Source: researchers' survey 2010

Looking at the first column of this frequency distribution table, it is noticed that the criteria in given out loans is based on various types of securities .It is seen that 75% of the small business owners say that you must have at least 25% of the amount you want to borrow in your account. Also, 12.5% says you must present collateral of land certificate or valid documents of property ownership, open cheques are also considered as a security to take a loan. Another 12.5% say that your previous loans records are looked to see if you were doing your regular payments and your current business status to see if you have the repayment ability.

## 5.2. Problems encountered in paying back loans

Table 7: Cross tabulation of gender by problems encounter by paying loans

| | | | problems paying back | | |
|---|---|---|---|---|---|
| | | | Yes | No | Total |
| Sex | female | Count | 1 | 5 | 6 |
| | | % within sex | 16.7% | 83.3% | 100.0% |
| | Male | Count | 2 | 8 | 10 |
| | | % within sex | 20.0% | 80.0% | 100.0% |
| Total | | Count | 3 | 13 | 16 |
| | | % within sex | 18.8% | 81.3% | 100.0% |

Source: researchers' survey, 2010

A cross tabulation is made between sex of those who applied and had loans and the whether they experienced problem in paying back the loan. The table shows that, a total of 6 female applied and their loan application was granted. Amongst the women, 83.3% complained of having had difficulties in paying back the loan and 16.7% did not face any problem. Males had a total of 10 who actually received loans and invested in their businesses. 80% of them say they do not have problems in paying back money that is borrowed but 20% did complain of having difficulties to meet up with the payments as arranged. In total, the level of repayment is 81.3% as against 18.8% for difficult repayments. In general, 13 members had no problem in paying back their loans and 3 had problems.

### 5.2.8 How members pay back loans

Table 8: How loan was paid

| | | Frequency | Percent |
|---|---|---|---|
| Valid | instalment payment | 8 | 50.0 |
| | collateral exchange for loan | 3 | 18.7 |
| | no problem to pay back | 5 | 31.3 |
| | Total | 16 | 100.0 |

Source: researchers' survey, 2010

The table above shows that some members actually experience problems in paying back their loans. 50% had to pay in instalments, 18.7 had to exchange the collateral for the loan and 31.3 did not have any problems to pay back.

### 5.2.9 How CamCCUL helps its members

From the responses we have, which was answered by the credit unions, it clearly shows that, the credit unions are totally affirmative that CamCCUL helps them in developing their businesses.

Table 9: How do you help members?

| | | Frequency | Percent |
|---|---|---|---|
| Valid | set business plans and regular control of business | 5 | 41.7 |
| | provide the necessary skills and counselling | 5 | 41.7 |
| | give loans to all levels of business and educate them | 1 | 8.3 |
| | reschedule loans and counselling | 1 | 8.3 |
| | Total | 12 | 100.0 |

Source: researchers' survey 2010

Here respondents were asked if they actually help their members and in what way. The various credit unions gave different responses but the percentage distribution of the responses stands at; 41.7% said CamCCUL helps them in setting up their business plans and control their business activities and also make sure that they are provided with the necessary skills needed to move ahead. 41.7% also said the credit union counsels them and equip them with the business skills to better manage their business. A percentage of 8.3 represented the fact that loans are given to all levels of business rather than to specific levels and thus educate them on how to proceed in the business endeavour. The remaining 8.3% says they reschedule loans so that the customer will be able to pay with ease.

## 5.3 Data presentation of credit unions

Table 10: Questionnaires administered to credit unions

| Regions | Number of selected respondent | Actual Response | Share of Response |
|---|---|---|---|
| North West | 6 | 6 | 50 |
| South west | 4 | 4 | 33.3 |
| Centre | 2 | 2 | 16.7 |
| Total | 12 | 12 | 100 |

Source: researchers' survey 2010

Based on the table, we had a 100% response rate in the questionnaires that were administered to the credit unions. The distribution were as follows; 6 representing 50% was distributed to the North West region because it is the most spaced and densely populated of the Anglo-Saxon part of the country were CamCCUL is mostly present. The South West region had four questionnaires and was equally responded to and representing 33.3%, meanwhile the remaining 16.7% to the centre region.

### 5.3.1 Does credit unions have special products design for SMEs?

When this question was ask, all the credit unions gave a yes, meaning they do have special services for SMEs.

### 5.3.2 Objectives for these products and services?

Table 11: Cross tabulation between regions and objectives of products and services

| | | regions | | | Total |
|---|---|---|---|---|---|
| | | south west | north west | centre | |
| What objectives of the products and services? | provides loans, savings, and insurance services and low interest rate on borrowing for business development | 1 | 0 | 0 | 1 |
| | improve living conditions and alleviate poverty | 2 | 3 | 2 | 7 |
| | educating on business development and empower the poor | 0 | 2 | 0 | 2 |
| | profitability of both the credit union and members and improve society | 1 | 1 | 0 | 2 |
| Total | | 4 | 6 | 2 | 12 |

Source: researchers' survey, 2010

The objectives of the credit unions are given and presented in a tabular form and are represented by the number of credit unions agreeing to it. In the South West region, 1 credit union had as objective to provide loans, savings and insurance services and low interest rate on borrowing for business development. 7 credit unions distributed as follows; 2 from the South West, 3 from the North West and 2 from the Centre regions have as objective to improve the living condition of its members and to alleviate poverty. The North West has 2 credit unions as main objective to educate the members in the development of their businesses and to empower the poor. One from the North West and one from the South West say their objective is to make the credit unions and the members to both be profitable from their actions. This in summary is to improve the society.

### 5.3.3 Sector of the economy with high preference

All the credit unions did answer this question, showing that they focus primarily on agriculture and retail trading giving a valid percentage of 100.

### 5.3.4 Assessing the level of awareness of members by CamCCUL

Table 12: Cross tabulation between regions and level of awareness

| | | Regions | | | Total |
|---|---|---|---|---|---|
| | | South west | North west | Centre | |
| How can you access the level of awareness? | high | 2 | 3 | 0 | 5 |
| | fair | 1 | 1 | 0 | 2 |
| | average | 0 | 0 | 1 | 1 |
| | Below average | 1 | 2 | 1 | 4 |
| Total | | 4 | 6 | 2 | 12 |

Source: Rsearchs' survey 2010

The three regions that we focused on as seen on the table are the North West, South West and the Centre regions. The level of awareness of the products and services offered by CamCCUL to its members vary from region to region. The awareness is rated by the credit unions and ranges from high to below average. 5 credit unions have high level of awareness and among which are 2 from the South West and 3 from the North West regions. 4 of the credit unions say the level of awareness is below average and are distributed as; 1 from the South West, 2 from the North West and 1 from the Centre regions. Those who say they have a fair level of awareness are 2 and 1 of them is from the South West and the other from the North West regions. Only 1 credit union says it has an average level of awareness and this is from the Centre region.

### 5.3.5 Performance based on primary target

Table 13: How would you evaluate performance?

| | | Frequency | Percent |
|---|---|---|---|
| Valid | High | 5 | 41.7 |
| | Fair | 5 | 41.7 |
| | Average | 2 | 16.7 |
| | Total | 12 | 100.0 |

Source: researchers' survey 2010

Based on the products and services rendered to the members, the credit unions are asked how they can evaluate the performance of their products and services in terms of, number of customers, amount of loan, interest rate, rate of repayment etc. 41.7% of the credit unions say the performance is high and 41.7 said it is fair. The remaining 16.7% said the performance is average.

### 5.3.6 How CamCCUL helps its members

From the responses we have, it clearly shows that, the members are totally affirmative that CamCCUL helps them in developing their businesses. They provide them with financial services, education, agricultural training and business development services.

### 5.3.6 Innovations going on

Table 14: What innovations are you doing?

| | | Frequency | Percent |
|---|---|---|---|
| Valid | initiate daily savings, provide express credit and computerisation | 7 | 58.3 |
| | educating members on the products and services offered | 1 | 8.3 |
| | computerisation and educate staff | 4 | 33.3 |
| | Total | 12 | 100.0 |

Source: researchers' survey 2010

This question has varied responses but they are summarised into three categories. 53% of the total credit union that were administered questionnaire says they initiate daily savings, provide express credit and computerisation. 8.3% says they the innovation they are doing is in the form of educating members on the products and services, and 33.35 are innovating in the form of educating staff and computerising their system.

# CHAPTER SIX

## 6 Discussion, Conclusion and Recommendation

### 6.1 Discussion

In this part of the paper, we shall take each of the specific objectives to compare with theory. A conclusion will then be drawn whether there are any discrepancies or the findings are in line with theory. We shall then try to find out why these inconsistency and suggest possible solutions.

The main focuses of our investigation were:
To investigate how CamCCUL tries to help its members in developing their small or medium size businesses.
To find out whether CamCCUL's members feel they have reasonable and fair access to microfinancing.

#### 6.1.1 CamCCUL, its members and the development of their businesses

CamCCUL in its mission statement has as priority to improve the welfare of its members by promoting them to become financially strong. This microfinance institution is a semi formal financial institution providing banking services to the poor. They do not cater for the poorest. The criteria set up are difficult for the poorest to meet and hence they cannot be a member and cannot benefit from CamCCUL's intermediation services. They give out loans to boost the economic sector and also train members how to judiciously use the money granted to them so as to repay back without any difficulty. According to Ledgerwood (1999), some MFIs provide financial and social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management. We can say here that, this study realised the similarity of the empirical study and theory.

They have services and products that members or inhabitants of rural localities never use to have. The services that were only meant for the rich can now be enjoyed by the poor though not the poorest, who were unable to finance their economic activities previousely due to lack of access to commercial banks.

Making a comparative analysis, both the members and the credit unions confirmed that the CamCCUL is helping them in most of their business activities. When a business is flourishing, it means the living standards of the family concern will be better and also the expansion and consequently job opportunities will come up.

The increase in membership indicates that there is a positive impact in CamCCUL's activities. They have rated the level of awareness of their products and services to members as high. They notice this by the influx of new members and that the number increases at an increasing rate. Here some of the staffs are deployed to the various localities to sensitize on the availability and need for small businesses to contact them for the services they offer and that it will help them. They also go around mobilising their members to save and this is done from business to business.

We can also say that agriculture stands as the dominant activity that every household is involve in and that contributes most in the GDP. For CamCCUL to go to the rural areas to meet the needs of the people means it is in line in developing their activities. It should be noted that most women farmers cultivate at a subsistence level, and little or none of their produce is taken to the market. Cash crops such as cocoa rubber, palm oil, coffee etc are seasonal and it is in this domain that men are involved; meanwhile the perishable are mostly cultivated by the women (Quisumbing, 1995). The credit unions provide them with the necessary assistance needed to better develop their farm in the name of providing them with loans, and save for them. In a nutshell, Bennett (1994), and Ledgerwood (1999) admits that the goal of MFIs is to meet the demands of the primary sector.

### 6.1.2 The requirements for rural SMEs to secure micro-financing

The micro-finance providers in the rural areas are the informal providers. The rural inhabitants do not find it easy to acquire a loan. Though their requirements are not easy to be met, it is easier than the requirements needed by a commercial bank. Loans that are within savings are not a problem to get but when it goes beyond the savings it become a problem. Other members can stand as a security for a loan for someone who does not have the needed security. The surety must be a trust worthy person and of course a faithful and high savings member. What it takes to get a loan is difficult to provide by the customers or members at a particular business level or of a particular business type. CamCCUL only accept fixed immovable assets and preferably land since it can be owned in this context. More so, the borrower must be investigated and found that he/she has the capacity to repay. This is done by an expert counselling the member and providing skills needed to proceed. According to the field study, it is noticed that CamCCUL has strict requirements for loans out of savings and this is because they do not target the very poor.

When a business is in its early stage, it requires at least a certain sum of money in its account for the MFI to consider the application for a loan. When the enterprise cannot provide the required equity capital, they are bound to provide household belongings as collateral for the loan. These MFIs also employ some kind of financial and psychological measurements and when they find out that the prospective borrowers meet the needs, it is then that the loan can be granted. It is generally said that people care more on things that they have worked for or items that they own. This and other reasons explain why MFIs deem it necessary for borrowers to have minimal equity contribution before applying for a loan. The source of the minimal equity capital is known by the MFIs because the client may be at high risk of non respecting the terms of repayment had it been the funds were borrowed from somewhere (Ledgerwood,1999).

### 6.1.3 Determining if gender or size of operation play a role in granting of a loan

The level or stage of development of a business is seen to have a positive effect in getting a loan. It is illustrated in table 2 above that most of the businesses are not yet established, they are still in the growing stage which indicates 62.5%. This further tells us that most of the business owners are in the process of gaining greater shares of the market. CamCCUL sees these businesses as promising since they are growing and less probability of not succeeding. When this is realised and confirmed by the MFI, they try to help them by providing them with financial and social services. The business will experience an increase in profit and this is independent of gender.

### 6.1.4 Gender and acquisition of loan

Women empowerment is at the lamp light of every financial scheme. It is believed that women are the foundation of every society. This holds in the African context where a woman is the sole person who caters for the family. Providing a woman with this financial services will empower her financially, socially and other wise (Mayoux, 2008). Women are better borrowers than the men. This proclamation is made by the International Food Policy Research Institute (IPFRI), 1997. They went further to say that women follow the schedule or meet the date lines to repay their loans. Based on the results, it is noticed that more small business owners were male. In our traditional context, women do not inherit property and it is only few of them who can acquire land. CamCCUL rely on a land (title) certificate as the basic document needed for them to have full collateral to grant a loan. The questionnaires were distributed at random and not taken into cognisance gender aspect before distributing. Defaulters are mostly men and it is believed that they have extra activities apart from the sole intended one meant for the loan. Gender issues have no role to play in deciding whether CamCCUL should distinguish between loan applicants or not. Their concern is to who meets the requirements for a loan.

Theoretically, women have high savings and repayment rates than men (Ledgerwood, 1999). The notion that women are favoured does not apply to CamCCUL and this is contrary to the appeal for those who advocate for the empowerment of women.

### 6.1.5 The effect of business size in securing financing for growth

Securing finance in the form of loans by SMEs is determined not only by the size of business operation but also of the type of business and the worth of it. CamCCUL does not only grant these aspiring businesses loans but also provide them with some training. These trainings are meant to feed the entrepreneur with the necessary business skills to better run the venture. The determining factor for a firm’s growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

Early stage businesses are not easily granted with loans. They represent a less significant percentage from the field data gotten. Most of them do not or find it difficult to meet the requirements for a loan. They cannot secure the necessary resources and has a possibility to die in this early stage. The granting of loans is much easier to large firms that small ones (Gary and Guy, 2003). MFIs consider client’s ability to repay debt and assess the minimal sum they can contribute as equity before offering a loan. Existing firms are considered to have a history that can be judge by the MFIs before granting a loan. A bad history means loan denial and a good history means the loan will be granted. A start up business does not have this history and MFIs do not rely on them because of not facing the problem of information asymmetry. This is in confirmation with Ledgerwood (1999) that MFIs prefer to provide products and services to meet the needs of growing businesses since they are considered more reliable and less risky.

### 6.1.6 Some answers brought up to the questions raised in the introduction of the work

Farmers are considered not worthy enough to be given loans. The reason is the outcome of their production cannot be determined. Their activities are riskier than non farming activities in that they cannot predict proceeds. Weather conditions and diseases determine if the farm will be productive or not. The case of animal husbandry, the animals may be stroke by an epidemic which if not well handled like in the rural areas which of course obvious will lead to a serious loss. Thus MFI's consider them risky to grant their loan request. But those with enough collateral find it easy to have these services.

Microfinance institutions are important in that they fill the gaps that exist between commercial banks and wealthy clients. They are to meet the needs of those who are considered not fit to use the bank's services and most especially the poorest. There is a mad rush of customers to the credit unions to enjoy their services which the banks do not offer. These services include; low interest rates, not so strict collateral, generally an encouraging banking conditions. Since more well to do people are rushing to become members, this has made the credit unions stricter in its liquidity criteria that has made it not easy for the poorest to meet up.

The country has been stroke by economic crisis thus making the inhabitants sceptical to save in commercial banks. During the crises period most banks were liquidated and made away with clients' money. They leave to suffer the consequences. With the credit union, which operates more or less like a cooperative, the customers are the owners. They are confident in it because they know how it is run and all decisions taken are taken by themselves (Tawah et al., 2008). There exist local NGO's who, with the help of the Government helps in meeting the needs of the local people. The NGO's are more concern with farmers. They provide them with subsidies popularly known as "subventions". These are in the form of tools, fertilizer, seedlings etc and manpower training. CIG's are groups of individuals with common goals in an area and whose activities are considered of paramount to the well being of the society. The government is more involve with these local groups than with individuals. The individuals that are considered are those with large pieces of land and who can be able to manage the inputs. They must have the knowhow to convince the actors concern.

## 6.2 Conclusion

Microfinance institutions are an asset to the developing and transition countries. The services they provide are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. The products and services put forth to the members are not by itself a solution to the numerous problems affecting the poor. These problems range from business skills, lack of financial intermediation services, and the lack of markets, technology etc. This financial intermediation services will only provide a plat-form for those who are considered not fit to meet the obligations of the banks to be a client. SMEs are very much affected by these constraints and these MFIs are towards bridging the gap between formal and informal financial services. These institutions with CamCCUL and its network being a typical example, provides a focal point that makes its members financially comfortable but with their hard work and commitment. It should be noted that microfinance does not serve or solve all the problems of the poor but it serves as a means of helping them to boost their economic activities or augmenting their status. According to Hulme et al (1996), microfinance schemes often are of paramount importance when the targeted problem is in its initial stage and not when it has emanated. Microfinance is only a portion of what is needed to boost an enterprise activity in the rural areas and who are incapable of getting the necessary assistance from a commercial bank. It develops new markets, increases income, creates and accumulates assets and promotes a culture of entrepreneurship. Besides infrastructural development, CamCCUL needs information from the poor micro entrepreneur about market trends and skills so as to create a favourable financial environment for them. CamCCUL has as mission statement to sustain and develop a secure and law abiding network of cooperatives credit unions that offer efficient development of their members and communities. It is noticed that MFIs has as main target the poor and the poorest. CamCCUL and its network can be considered as targeting the poor but not the poorest. The requirements needed by the credit unions to become a member are not easy to be met by these poorest individuals. The amount demanded to own a share is high for these poorest.

The products and services and also the convenience of the microfinance institutions is noted to be one of the driving forces behind its success. Despite the high interest rate charged sometimes, their products and services are still demanded but at times they are subsidized by the government or NGOs. The main underlying factor here is that commercial banks do not serve poor clients with small loans located in the rural areas.

## 6.3 Recommendation

The membership fee for new applicants should be reduced so as to incorporate the very poor into the system. This will enable them get access to the products and services that those just below or just above the poverty line enjoy.

The mode of repayment should be revised so that the poorest can borrow without collateral. This should be done in a way that will increase the frequency of repayments and this is known to reduce the risk of non payments. Evidence from Bangladesh by Armendariz and Morduch (2005) suggest that MFIs with high repayment rates have low moral hazard problems.

Group-based lending should be encouranged. This will serve as a means to increase its depth since some poor men and women can not have access to these products and services. But with the formation of a group, members of that group may apply for the services and members in the group act as guarantors for the others.

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## Personal Messages

Bong Yvette

Anye Cletus Bayelle

Ajong Ginneh Leku

**APPENDIX**

Agricultural Economics and Management
Environment Economic and Management
Department of Economics
Faculty of Natural Resources and Agricultural Sciences
Swedish University of Agricultural Sciences

Dear Respondent,

We are Masters Students in the above mentioned University undertaking a research on "THE IMPACT OF MICRO FINANCE INSTITUTIONS (MFIs) IN THE DEVELOPMENT OF SMALL AND MEDIUM SIZE BUSINESSES (SMEs) IN CAMEROON: The case of CAMCCUL"

Your assistance in filling out the questionnaire will help this study achieve its objectives. I will like to assure you most sincerely that whatever information is supplied by you through these questions will strictly be confidential and used for the research purpose only.

Yours faithfully,
Thanks
Chiyah Boma Ngehnevu
Forchu Zachary Nembo

# Questionnaire to camcull members who own small businesses

1) What is your gender?

Male……………                    Female………………

2) Your age is between

18-35        36-45        46-60        Above 60

3) Which of the following best describes the current development of your business?

(a) Newly started   (b) Young, but with established production and customers (c)Growing   (d)Well established, with steady production and customers (e) Mature, but in need of renewal

4) What type of business?

Farming ……………   Trading………………   Artisan works……………..   Others…………………..  Please specify………………………..

5) What percentage can you estimate to be the startup capital for your business?

Own savings…………   borrowed capital……………. If borrowed please give the source……………………………….
…………………………………………………………………………………………
…………………………………………………………………………………………
…………

6) How long have you been in business?

0-1year………….   1-5 years…………….
5-10years……………   Above 10…………….
Can't remember………………………..

7) Have you ever applied for a loan ("borrowed capital") to finance your business?

Yes……………………… No………………. If yes where? MFI………. Bank……………
others…………………………..
.......................................................................................................................................
.......................................................................................................................................
.......

**If you have applied for a loan for your business, please answer the following questions, 8-12.**

8) Was it easy to be given a loan?......................................................................................................................
.......................................................................................................................................
..........

9) What criteria does the MFI's use to offer loans?......................................................................................................................
.......................................................................................................................................
.......................................................................................................................................
...............

10) Are the criteria easy to be met?
Yes…………………………………………………..…………..
No……………………………………………………………………..

11a) if you have had problems in paying back the loan, what has happened to resolve them?
Yes…………………………………………………………………..…..
No……………………………………………………………………………..

11b) if yes how did you finally pay it?
……………………………………………………………………………………………
……………………………………………………………………………………………
…………

11c) Do you or can you conclude that CamCCUL has helped you in developing your business?
Explain why………………………………………………………………………………………

…………………………………………………………………………………………………
………

12) Apart from financial services offered by the credit unions under the umbrella of CamCCUL, has CamCCUL provided other services that have helped develop your business?
…………………………………………………………………………………………………
…………………………………………………………………………………………………
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13) Would you like to obtain another loan if need be and why?
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…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………

14) Give your personal thoughts**?.............................................................................................................................**
**..................................................................................................................................................**
**..........**

# Questionnaire to some credit unions in the rural areas

1) Does your credit union (CamCCUL) have special products and services design for SMEs (Loan scheme, training and education etc)?

   Yes …………… No………………….

   Please explain how.

   …………………………………………………………………………………………
   …………………………………………………………………………………………
   …………………………………………………………………………………………
   ………………………………………………………………………………………
   …………………………………………………………………………………………
   ……………….....

2) What are your objectives for these products (credit, Savings, Insurance, Payment services) and services?
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   ........................................................................................................................
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3) Do you have preferences for particular sectors of the economy (agriculture, fishing, artisan, retail trade, dairy etc) and why?...........................................................................................................
   ........................................................................................................................
   ........................................................................................................................
   ...............

4) How can you assess the level of awareness of this product, base on the number of customers demanding the product?.......................................................................................................
   ........................................................................................................................
   ........................................................................................................................
   ...............

5) After years of the initiation of this products and services, how can you evaluate its performance based on the primary targets you had put in place. (Number of customers, amount of loan, interest rate, rate of repayment etc?……………………………………………………………………………………..…
………………………………………………………………………………………………
………………………………………………………………………………………………
………….

6) How precisely do you help your customers in the development of their businesses?...........................................................................................................................
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7) What innovations are you doing to increase the depth and breadth of these products and services?..............................................................................................................................
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8) Are they any other actors seriously involve in the development of SMEs (NGOs, Government, Banks etc)……………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………
……….

9) Comments please?..............................................................................................................................
.....................................................................................................................................

SLU

Swedish University of Agricultural Sciences
Department of Ekonomics
Richard Ferguson

April 26, 2010

**Dear Sirs and Madams,**

With this letter, I wish to ask for your cooperation in an on-going study for an academic Master's thesis being conducted by MSc students, Chiyah Boma Ngehnevu and Forchu Zachary Nembo, at the Swedish University of Agricultural Sciences. Their study focuses on the impact of micro finance institutions in the development of small and medium size businesses in Cameroon, and is the final project in their education program.

As the academic supervisor of this project, I hope that you can complete and return the accompanying questionnaire. I wish to assure you that all responses will be strictly confidential and used only for academic purposes, and that no respondent's individual identity will be revealed in the thesis results.

Kind regards,

Richard Ferguson

Dr. Richard Ferguson
Associate Professor
Swedish University of Agricultural Sciences
Department of Economics

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