REACHING THE HARD TO REACH:

Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas

CASE STUDY

Mutuelle Communautaire de Croissance (MC2s), Cameroon: Decentralized Community Banks for Remote Outreach

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Abbreviations

ADAF	Appropriate Development for Africa Foundation
AMC2	Association of MC2s
APECAM	Cameroon Association of Professional Credit Establishment
CABA	Caisses de Base
CamCCUL	Cameroon Cooperative Credit Union League
CFA	Communauté française d'Afrique
COBAC	Commission Bancaire de l'Afrique Centrale
CUROR	Central Office for Rural Organizations Reforms
CVECA	Caisses Villageoises d'Epargne et de Crédit Autogérées
FIMAC	Investment in Rural Micro-Projects Funds
MC2	Mutuelle Communautaire de Croissances
MFI	Microfinance institution
MINPAT	Ministry of Planning, Development Programming and Regional Development

Mutuelle Communautaire de Croissance (MC2s), Cameroon: Decentralized Community Banks for Remote Outreach[1]

Executive Summary

Mutual associations have a strong reputation in West Africa for their rural outreach. Cameroon's network of Mutuelle Communautaire de Croissances (MC2s) is an innovative example of these. It has its own apex structure that provides it with economies of scale but allows the associations at the local level to have a certain amount of discretion in terms of products and services, even reporting.

The MC2 network has over 60,000 members in rural areas. MC2s have been able to achieve this outreach through offering financial and other services to both individuals and groups including *tontines*—informal savings and loan groups affiliated with local agricultural and women's associations. Allowing groups, including traditional tontines, has also been an important aspect of remote outreach, particularly women. In fact, 70% of their membership is in groups.

The strategy for rural outreach is to ensure that every community (the area covered by a kingdom) has at least one MC2. This allows them to reduce the risk of default and has increased the identification of local populations to the institutions; for them, it is a part of their property. In fact, the inclusion of the traditional leaders such as the king in the Board constitutes has proven strong for credit risk control. When a member is delinquent with a high risk of non-payment, the problem is put before the chiefs and their assistants' attention. Members reported having a stronger respect for the chief's decision than that of the MC2 management.

While this use of local governance can be good for ownership and repayment, there are other risks involved. Elite domination can be a problem, particularly since migrants' equity forms such a high percentage of sources of funds. However, there are important mechanisms in place to curb this including member participation in twice-monthly general assemblies, regulatory requirements for external audits and internal control guidelines. They have found a way of balancing local with institutional governance though internal control could still be stronger. Systems, however, that are grafted onto local governance structures are prone to the same inequities that exist in that socio-cultural context. For this reason, women have a low rate of participation in the MC2s compared to men even though the ability to participate in groups has helped.

The MC2s also make effective use of migrant relatives as a key source of funds and other strategies to secure market linkages. While the MC2s are close to profitability, this model has used subsidies particularly at the beginning phase. Market penetration of MC2 Njinikom and Bambalang is high compared to other financial institutions inthe region. The opening of branches and the recruitment of daily savings collectors permit these MC2s to be close to their members, meet local demand for savings and lower costs.

Being networked has been a factor in remote outreach. In Cameroon, linkages or networking of microfinance institutions (MFIs) has proven to be essential for the growth of the sector. In fact,

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over 85% of the microfinance sector is either linked or networked due to recent regulatory policy changes. The apex has provided MC2s with a broader range of services such as daily savings, capital, oversight and policies for stronger financial management. The apex has also negotiated non-financial services on the market on behalf of their MC2 members.

The decentralized nature of MC2s linked to networks is crucial for breadth of outreach, diversified products and internal control. Standards are strengthened across all MC2s, while allowing flexibility at the local level to adapt products according to local demand. Some flexibility at the local MC2 level has led to important adaptations in the products offering services specific to Muslim communities, women, seasonal (fishing and farming) activities. Even the acceptance of more locally-relevant collateral such as grain stocks or clothes has ensured broader access. Borrowing cost is the lowest in the area, however, some members and non-members criticize that loan durations are too short for proper investment.

This case study examines two MC2s. Njinikom MC2 is in a competitive financial market with established cooperatives yet has managed to generate a profit for each of the last three years with subsidies from a private Bank. Bambalang MC2, the only formal institution in its area and with a larger membership than Njinikom has, under operating subsidies, seen losses in each of the last three years. Long term success will depend on the successful exiting of MC2s from these subsidies.

Supportive regulation has also played a role. Over the past decade, regulators have tried to strike a balance between increasing coverage (allowances for group membership, lower capital adequacy requirements for MOIs, and more efficient management of liquidity) and developing a sound microfinance sector (increased prudential and external audit requirements). Compared with MFIs of the second and third categories, the largely rural MFIs such as MC2s are only obliged to constitute a minimum capital for their operations to open which reduces the financial costs of start up, enabling smaller, more remote institutions to emerge.

What are MC2s?

Mutuelle Communautaire de Croissances (MC2s) are microfinance institutions, with a mission primarily for rural development, established and managed by community members. Cameroon's network of 64 MC2s covers 62,744 members. Approximately 90% of MC2s are located in remote and rural towns of 5,000-25,000 residents. Their services target rural populations within the boundaries of a traditional kingdom. The MC2 concept, developed by Dr. Paul Fokam, co-founder and chairman of Afriland First Bank, states: The victory against poverty (VP) is possible if the means (M) and the competences (C) of the community (C) are combined: (VP=M x C x C=MC2). The first MC2 was created in 1992 in Bayam, a rural community of the west province of Cameroon. The network has since grown rapidly in terms of numbers of institutions and of people reached.

Figure 1: Evolution of the MC2 Network

	June 2001	June 2002	Dec. 2002	Dec. 2003	Dec. 2006
No. of institutions	37	40	41	53	64
No. of members	24876	29985	32869	43097	62744

MC2s provide a wide range of savings and loan products to rural members, competing with informal tontines, moneylenders, MFIs linked in networks such as village banks, credit unions, development projects and other MFIs. During their evolution, MC2s have received technical and financial assistance from ADAF, a private national NGO experienced in training, monitoring, and feasibility studies of microfinance activities; and Afriland First Bank, a private bank that has for a long time served as an umbrella for MC2s. Afriland was initially the driving force behind MC2 formation and held the excess funds of the MC2s.

Regulatory changes in 2003 required all MFIs in Cameroon and other Central Africa countries linked in a network to have a headquarters that centralize their liquidities. In response, that year AMC2 (Association of MC2s) was created to link the MC2 network of rural banks and MUFFA (specific products developed within the MC2 network to serve women in urban areas). AMC2 supervises the activities of MC2s and plays the role of central liquidity office of the network, previously carried out by Afriland. This is a first step toward network self-sufficiency, but the AMC2 will still receive support from ADAF in: Management training for staff; monitoring and control; and research and development of new products and innovation.

The first MC2s were primarily savings institutions, however, the network has evolved and individual MC2s now offer a wide range of products including loans, insurance and even a form of travellers' cheques. Village elites initiate the formation of new MC2s by mobilizing support and preparing the necessary documentation before approaching ADAF and Afriland. Wealthy elites who have migrated to urban centres inject the start-up capital by purchasing share equity in the new MC2. ADAF carries out a feasibility study, sensitizes the local population, and trains the staff and board on bylaws, norms and procedures.

Context and Case Selection

The Economic Context of Cameroon

In Cameroon, poverty is essentially rural. 55% of the population is concentrated in rural areas (ECAM III, 2007), while 51% of the total population is considered poor and 23% very poor, 84% of the poor live in rural areas and 61% of the rural population is poor (UNDP, 2005). Rural populations do not have access to formal financial services provided by commercial banks. They deal mainly with private rural banks, MFIs and informal sources of funds.

Cameroon experienced two decades of sustained economic growth following independence in 1960. The GDP average annual growth rate was 6.8% between 1973 and 1983. Production was heavily reliant on agriculture, constituting about 24% of GDP. Mining and industry also grew strongly (32% of GDP). Petroleum became the major export in 1980 only three years after extraction began, and this helped to offset the effects of fluctuations in export crop prices.

The Cameroon economy entered a phase of crisis in 1985 when the prices of export crops (coffee, cotton, cacoa) dropped. The prices of the main export products dropped by more than 50%, reducing GDP by 6.3% per year between 1985 and 1993, with a subsequent decrease in the consumption per inhabitant by 40% in 8 years (World Bank, 2002). The huge external deficit of the country and the other countries of the CFA zone, led to a 50% devaluation of the national currency in 1994, without major policies to offset the negative effects (IMF, 2006). The rural poor were particularly hard hit during this period and in spite of economic growth averaging rate of 4% since 1997, they have yet to recover.

Rural Financial Landscape in Cameroon

The microfinance movement is not new in Cameroon. In 1950, the Caisse Centrale de Coopération Economique established Mutual Credit Cooperatives in the territory administrated by France, while in the British-controlled region, Loans and Thrift Associations were created in 1955. In 1963 the Reverend Father Anthony Jensen established the first credit union in Njinikom. More credit unions then opened in the region (23 in 1965, 28 in 1967, and 34 in 1968). In 1968, these institutions created the first microfinance network: CamCCUL. Credit unions operated under the law of 1973 on Associations, providing savings and loan products to rural poor populations.

The rural finance market in Cameroon was dominated by state-owned development banks and projects from 1960 to 1989 which were highly subsidized by state and international organizations to channel funds to rural areas. They provided only loan products; the savings aspect was neglected. A period of economic crisis beginning in 1985 found the state withdrawing from certain economic activities making it difficult for those institutions and projects to survive. Their low institutional capacity and corruption further limited their outreach to the poor rural population. At the same time the commercial banking sector responded to the crisis by restricting their operations and closing their marginal operations such as branches in rural areas. These combined factors created a vacuum that necessitated new institutions for the poor rural and urban populations.

The laws of 1990 on Associations and 1992 on MFIs renewed the promotion of rural credit and the fight against poverty. Under the supervision of the Governor of the Central Bank, institutions aimed to help rural organizations were created: Investment in Rural Micro-Projects Funds (FIMAC) and Central Office for Rural Organizations Reforms (CUROR). These institutions have boosted the creation of MFIs all over the national territory (268 institutions in 1995, 650 institutions in 2003). Each of these newly created institutions has an objective and a target group. We can distinguish:

- Business MFIs: generally created in urban centres by former bankers (unemployed by commercial bank closures resulting from the financial crisis). Their main objective is profit, targeting traders and civil servants, providing the same products as commercial banks.
- Projects: generally international and financed with external funds (eg. ACEP-Cameroon financed by French Cooperation, FAMM-Cameroon financed by World Bank and UNDP)
- Rural MFIs: generally community based and member-owned institutions established in networks. They provide a variety of adapted products to low income populations mainly in rural areas (such as CamCCUL, MC2, CVECA, CABA and Village Banks networks).

The law of 1992 on microfinance in Cameroon provided guidelines only for the banking sector which could not be applied to the emerging microfinance sector. There was no control mechanism as the sector was placed by law under the responsibility of the Ministry of Agriculture, while other institutions were established under the law of 1990 on associations and linked with the Ministry of Territorial Administration. The confusion led to opportunism by some promoters who, after some months of operation, disappeared with clients' savings leaving negative effects in rural areas. The decree of 98/300 of September 1998 came in time to stop the general disorder in the sector by transferring control and supervision to the ministry of finance and many regulations (qualification of promoters, minimum capital requirement) were published to restrict the access to the sector to professionals. The reform of the microfinance sector in Cameroon culminated with the law of 2002 which regulated and reorganized the sector. MFIs in Cameroon are now divided into three categories (Figure 2), with new prudential norms published, including restrictions on funding sources (external funds should represent less than 10% of the total assets), the constitution of a minimum capital and the obligatory reserves to cover risks. This has brought more confidence to rural savers and has reduced the incidences of deliberate mismanagement and bankruptcies.

Figure 2: Organisation of the Microfinance Sector in Cameroon

Categories	Characteristics	Requirements	Institutions
1st category	Savings collection from their members and credit operations only with them.	No requirement caution but a minimum capital adequacy is needed. They must keep reserves (at least 20% of their results each year) to cover their losses.	Village banks, Credit Unions of CamCCUL Network, MC2s. About 65% of total sector and 85% of volume of activities.
2nd category	Savings collection and provision of credits to members and non-members	Requirement caution of 50 million Francs CFA to be held in a bank.	Independent MFIs. About 30% of the sector, 10% of the volume of activities
3rd category	Institutions providing only credit services to the public	Requirement caution of 25 million Francs CFA to be held in a bank.	Projects, institutions of credit. 5% of the sectors

The MFI sector in Cameroon reaches around 44% of the population using formal financial services and covers 287 localities of the country (compared with 15 for the commercial banks), with a big geographic concentration of MFIs in the North West, West and South West provinces, and the two main cities of the country, Douala and Yaoundé (Republic of Cameroon, 2002). Most MFI clients are located in semi-urban areas, and 35% are in rural areas, while 75% of MOIs are located in remote areas. This sector came to be recognized as a tool to fight against poverty in Cameroon at the beginning of the 1990s, following the closure of most of the banks and development projects.

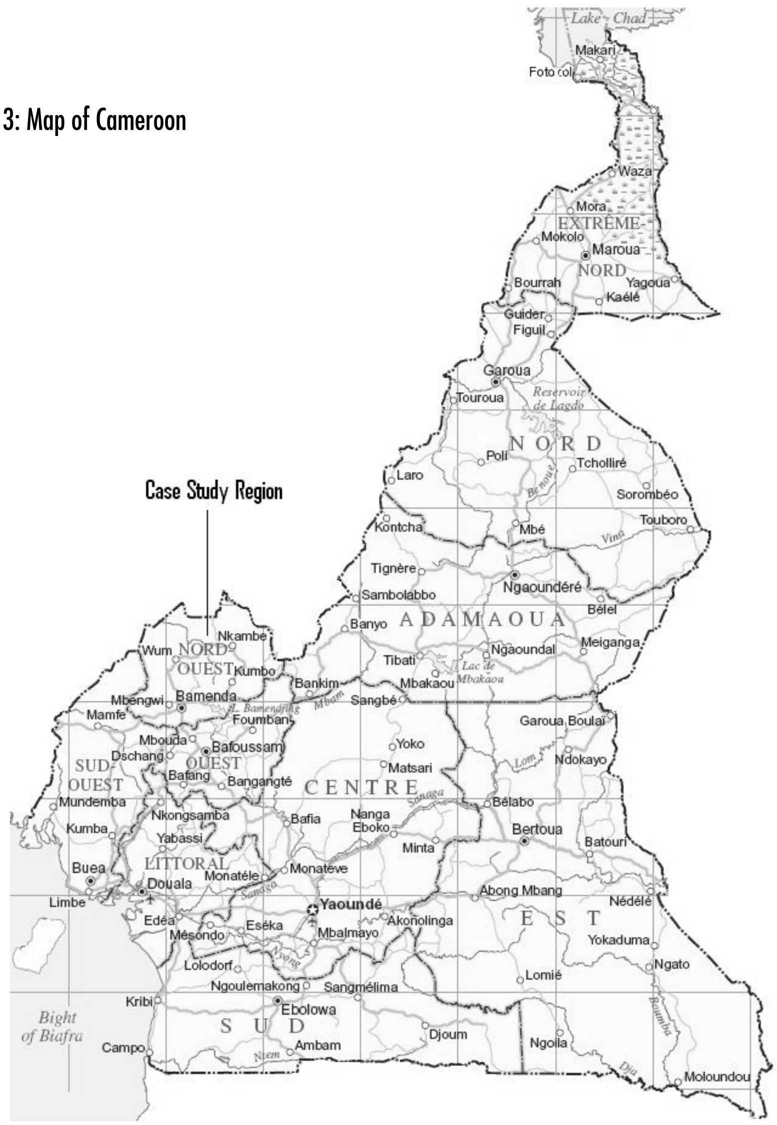
In Cameroon, linkages or networking of MFIs has proven to be essential for the growth of the sector. Cultural diversity, the variety of livelihood activities and the geographic dispersion of institutions all over the country can be an incentive for regional linkages of MFIs. Linking or networking allows institutions to discuss at the network level problems relevant to their respective environment or categories and constitute themselves as pressure groups in front of the regulatory body. The two biggest networks in the country (CamCCUL network and MC2 network) account for more than 85% of the activity of the sector. The two networks represent the whole sector in the national association of MFIs (APECAM) as President (CamCCUL) and vice-President (MC2s) and are more likely to influence the regulation and laws concerning the microfinance sector. The national association of MFIs is the first partner of the government and the supervision body COBAC (Commission Bancaire de l'Afrique Centrale) for matters concerning the microfinance sector in Cameroon. APECAM meets officially twice a year to discuss the problems of the sector and develop solutions to be proposed to the government. The board can call for extraordinary meetings when needed, especially when there are crucial problems in the sector which need immediate solutions through discussion with the government. It has contributed subsequently through its negotiations in 2005 with the government and COBAC to the postpone of the date of application of the new law of 2003 as most MFIs needed some more time to fulfill all law inquiries.

Local Context and Case Selection

Njinikom and Bambalang are rural localities in the Northwest province of Cameroon situated 65 km and 85 km respectively from Bamenda, the main city of the province. They host MC2s established more than five years ago. Njinikom can be considered the cradle of rural microfinance in Cameroon as the first member-owned credit union was created here in 1963. It currently hosts about seven other MFIs, mostly MOIs from CamCCUL network. MC2 Bambalang is the only formal financial institution in its locality. Past efforts to establish institutions there failed due to fund mismanagement and low internal control systems which led to important loan losses. Both localities have a variety of economic activities and a big potential for economic and human development, thus the conditions are right for building sustainable institutions.

Groups and individuals were interviewed for our study. The groups interviewed differ according to their income levels, their activities and their composition and the social structure of the localities. Institution staff and board members were also interviewed (3 for each MC2, plus 2 regional and 3 headquarter staff from ADAF). Individual members were selected by social status in the two localities: 5 very poor women and 5 very poor men; 7 poor men and 6 poor women; 5 less poor men and 5 less poor women; 5 relative wealthy men and 2 relative wealthy women.

Figure 3: Map of Cameroon



Adapted from United Nations Map 4227, Cameroon, 2004.

Demography and Livelihood Activities

The northwest province of Cameroon spans 17,300 square kilometres (km²), with a population of 1,850,000 for a density of 107 people/km². Approximately 65% of the province's total population is rural (MINPAT, 2005). With no major industry, the main livelihood activities in the region are farming, livestock production, fishing and trade. The major export crop is coffee, representing less than 10% of the national coffee production. Other main crops consist of foodstuffs marketed and consumed locally to keep farmers' costs low. Farmers lack direct access to major markets because they have no access to transport facilities. Traders from neighbouring cities come to the villages to buy goods from farmers at very low prices. Market places are generally located in the middle of the village or the king's palace where people can buy manufactured goods. The local economy is highly monetized although exchanges of goods are still possible between rural households.

Culture and Economic Status

There are almost one hundred chiefdoms in the northwest province occupied by the Grassfield people. Each chiefdom is ruled by a divine king, who is the only land owner, taking responsibility to distribute it to the inhabitants. While most kingdoms have patrilineal or dual descent kinship systems, the Kom, along with a few others, are matrilineal (Feldman-Savelsberg, 2007). The respect of the king, culture, traditional values and beliefs in ancestors are very important. A quarter represents the boundaries of a sub-kingdom under the responsibilities of a 2nd or 3rd degree chief. A quarter can have 1,000 to 1,500 inhabitants. The majority Muslim population, according to their beliefs, reject credit with interest, so they do not participate in interest-based transactions.

Women farmers grow staple foods for family consumption, while men focus on cash crops. In pastoralist communities, women are responsible for dairy production and men herd the livestock. Women are denied many rights that men maintain such as legal rights regarding marriage, divorce, land tenure, legal access and political participation. However, due to their control of subsistence activities and their recognition as "conduits" to female ancestors, women do hold informal power at the household level (Feldman-Savelsberg, 2007).

Socio-economic position is visibly demonstrated through housing, where wealthier families can afford well-furnished concrete buildings in walled compounds, while poor families construct mud houses with thatched or corrugated iron (CI) roofing, and possess few household goods. According to MC2 members in Njinikom and Bambalang, a very poor person is defined as someone who does not have a relatively comfortable house and is landless. Most of the houses in the localities are constructed using local material (mud, wood), but the roofing is generally of CI sheets. For them, someone living in a house without a CI sheet roof and cement floor is considered very poor. The very poor do not possess household assets like chairs, tables, radio or a clock, which are used as collateral for credit needs. Traditional objects, received from the king, are seen as a sign of power in the community and hold a very high social and monetary value. To lose such items in default of a loan results in a loss of social status in addition to the loss of the object itself which is returned to the king.

Member-Owned Institution Remote Outreach

Breadth

In Bambalang, there are no other formal financial service providers primarily due to the distance from Bamenda and road quality. MC2s, limited to traditional kingdom areas, reach a large number of people by providing services in Bambalang to 14 of 17 quarters, and 12 of 14 quarters in Njinikom. With their limited financial means, the question remains how these institutions can continue to grow while meeting the needs of rural poor populations.

Technical assistance (audit, control, monitoring and training) to the MC2s is provided below market costs by ADAF and Afriland until the MC2s are able to cover their costs. This constitutes a big advantage in cost reduction, enabling MC2s to reach their target groups while ensuring long term sustainability through investments in extension offices, mobile collectors, and member and staff training. This is shown by the overall evolution in membership in MC2s in the localities of Njinikom and Bambalang particularly, and in the network in general.

The group approach is an option for MFIs to increase their outreach especially in rural areas. Over 70% of the MC2s membership is groups. With the group approach well developed in the network, MC2s have succeeded in reaching more people, particularly women and the very poor, while reducing their operating costs which would have been higher if working with individuals only. Most associations in the region—small farmers, small traders or fishermen associations—also have a tontine. They don't individually have enough financial means and collateral to meet loan demand to carry out their activities or to register individually in MFIs, as found in a group discussion. They prefer to join their efforts in order to have access to financial services. All groups visited and others have a savings and credit scheme, but due to the limited financial means of the members, they have to join a financial institution like MC2. Groups vary according to their size and their financial situations.

Membership growth is greater through groups than individuals in both communities (Figure 4). Each group has about 12 members. Some members stated it is only through groups that they can afford the cost of joining any institution. The two other MC2s in the province (Bali and Santa) are in semi-urban areas where people mostly join individually, so their group percentage is lower.

Figure 4: Growth in Membership (Individual Members and Groups Served by MC2s)

Institution	2006		2005		2004		Change from 2005		%	
	Ind.	With group	Ind.	With group	Ind.	With group	Ind.	With group	Ind.	With group
MC2 Njinikom	501	1,194	415	968	340	890	86	226	9.3	10.15
MC2 Bambalang	529	1,288	440	1,009	376	912	89	279	9.1	12.14
MC2 in province	2,314	5,128	2,012	4,639	1,889	3,940	302	489	7.0	5.00
AMC2 (nationwide)	62,744		56,832		47,240		5,912		4.94	

Regarding penetration, competition is very high in Njinikom with experienced institutions like Njinikom Credit Union of the CamCCUL network. This credit union has used the group approach for three decades and has succeeded in covering the whole community. However, the MC2, with 7 years of experience in the field has succeeded in capturing a significant number of members and has a greater outreach than the Farmer Credit Union which has 10 years of experience in the field (Figure 5). AMC2, with a decentralized office in the province, covers only four communities.

Figure 5: Penetration Rate for Individual Members and Groups Served by MC2 (Dec. 2006)

Institution	Number of members		Population cover	Penetration rate	Penetration rate with groups
	Individuals	With groups*			
MC2 Njinikom	501	1,194	12,000	4.17%	9.95%
MC2 Bambalang	529	1,288	7,000	7.55%	18.4%
AMC2 in the Northwest	2,314	5,128	1,202,500	0.19%	0.42%
Njinikom Credit Union	2,437	4,125	12,000	20.33%	34.37%
Farmer Cooperative Ltd. Njinikom	297	411	12,000	2.47%	3.42%

Considering the Bambalang MC2 is the only MFI in the community it has a low market penetration rate (Figure 5) compared to the size of the local population. However, this is higher than Njinikom and the MC2 province-wide rate.

Depth

The very poor, women, and the young have a disadvantage in joining the MC2s because they do not own property as a source of collateral. Alternate forms of collateral such as salaries and traditional assets are mostly out of reach for these groups. Women do not have the right to possess land or other assets. In some cases, they must present a written or verbal authorization from their husbands to register as members in formal or informal institutions. Although this has never been a written law, social values are very important. As a result, women's participation is very low compared to men in all products (women's participation in savings products is 26% and 18.5% for loans). Women comprise only 28% of overall membership. Through group affiliations, the number is increasing. Women in groups are better able to have access since groups are registered as legal entities. For women and the very poor who cannot afford the minimum amount to open a savings account and purchase one share, groups are frequently the only way they can meet the share and fee requirements to join the MC2, and the only way they can meet loan collateral requirements.

According to the President of the women's group "Love Yourselves" in Njinikom, the ability to join MC2s in groups is what enabled them to have access. With the creation of a collective farm project, the group has received two loans (US$1,000-1,500) and most group members are earning personal income to help improve their living standards and empower them. Groups allow some women who were blocked by their husband from joining the MC2 to overcome the social expectation for the registration to an institution. Since 2005, a growing number of women have joined the MC2s.

Figure 6: Gender Distribution of MC2s Members

Institution	Number of members in 2006				Number of members in 2005			
	Male		Female		Male		Female	
	Ind.	Group	Ind.	Group	Ind.	Group	Ind.	Group
MC2 Bambalang	458	836	71	358	400	689	40	279
MC2 Njinikom	416	927	85	361	368	764	47	245

The ratios of men to women have changed from 8.7/1 to 5.9/1 in Njinikom and 11.2/1 to 7.5/1 in Bambalang. The ratios appear high, but this is not necessarily the case as women mostly join through groups and groups are registered as one individual. The number of all women's groups has increased in both communities (in 2005 from 2 to 6 groups in Bambalang; and from 4 to 7 in Njinikom). Also, many groups are mixed gender (70% on average in both communities) with about 30% of them dominated by women.

The MC2s carry out training and information campaigns to break down cultural barriers limiting certain groups such as women from access. Also, a new set of products has been developed and piloted to address the specific needs of women, youth and the Muslim community.

Scope of Outreach

MC2 Njinikom operates in a competitive environment with seven other formal MFIs, while in Bambalang, the MC2 is the only formal institution operating, but it competes with informal institutions like tontines, traditional associations and moneylenders. Income loans are products common to all other institutions, but the MC2's rate of 12.5 to 13% is lower than other MFIs in

Njinikom offering 15% annually. Tontines and traditional associations are the only other institutions providing loans and saving products in Bambalang. But in those institutions, savings are not remunerated at a fixed interest rate, and it depends on the willingness of members to borrow. People use moneylenders to solve extreme emergencies, but that it brings more problems in the end. The interest rate is very high and varies between 25 and 30% for a maximum of two months.

Products provided by the MC2s Bambalang and Njinikom typical of other MC2s are comparable with those provided by other MFIs in the region but are more adapted to local needs. For detailed features of the MC2s products and services see Appendix 2. They differ in five aspects:

- Borrowers receive a training session on fund use before disbursement
- The field agent visits all borrowers at least once a week for check-up
- A grace period of two months is not given anywhere else
- Cash, agricultural stocks, and traditional objects such as caps, chairs and clothes highly valued in rural communities are accepted as collateral
- Daily savings collectors visit borrowers who live far from the MC2 to collect repayments. It reduces the costs to member but increases the operational costs of the MC2.
- Individual and group membership

As seen in Bambalang and Njinikom, the financial means of groups is linked to their size as the most important groups in term of size (60 members on average) are those with the largest deposits (US$2,000), and the smaller groups (10 members on average) have smaller value deposits (US$100-500). Members of a group are generally from the same social category with relatively the same level of incomes.

Groups register in MC2s as one member, but there are some requirements: the administrative registration of the group; the list of members; the composition of the board; and the last annual report (for old groups). Groups are treated differently from individual members as with the same costs, it is possible through groups to reach more people. To register as member, groups or individuals have to buy at least one share and pay the affiliation fees of US$5 to open a savings or current account. The principle is one person one voice. Groups are registered as one entity and individuals have the same right in meetings.

The group methodology presents some challenges for MC2s such as when group elites influence loan redistribution and individual group members use funds for alternate purposes, both of which affect repayment. MC2 boards have initiated training programs for groups prior to loan disbursement on the use of funds, and record keeping. However this has not change the attitude of some group members and has damaged the image of some groups which have become delinquent.

The flexibility offered through the grace period, collateral and daily savings are important for remote members. As earlier mentioned, the use of groups as members also brings in otherwise underrepresented rural groups. For credit purposes the group members are assessed as a whole and collateral is provided jointly. The group first has to assess the needs of their individual members and consolidate all for a common loan.

MC2s have made an adaptation to address the Muslim issue of usury. Because they do not participate in interest-earning activities, for Muslims, costs are deducted from the value of the loan before disbursement. Costs and interest have to be calculated in advance, and deducted so that the

Muslim borrowers will pay only what they have received. The costs are taken as compulsory savings prior to the disbursement of the loans.

Seasonal adaptations are also made for those involved in farming and fishing. For example, in Bambalang, fishermen receive loans generally in the period June to October to carry out other small activities of their choice as in the rainy season they cannot fish. They will start to repay their loans by February or March when they can go fishing. This coincides to the period farmers are in need of funds for their farm preparation.

MC2s Bambalang and Njinikom also provide non-financial services to their members. The non-financial services are in the context of a development approach by the MC2s focused on four phases:

- The mobilization of savings which in itself is the basis of investment ventures in every economy;
- Using the savings to finance economic activities which will create wealth;
- The realization of community projects which are signs of development of the community and an improvement of the standard of living of the population;
- The development of social activities financed by resources generated

The non-financial services are negotiated on the market by the MC2s and sold to members at a price that enable them to recover their costs while reducing the transaction cost members would have to pay if negotiating the services directly. These are:

- Training of members, especially groups, on leadership, management and governance of groups, and record keeping
- Selling of agricultural inputs to members. Due to the remoteness of their localities and the inability of most people to have direct access to market, the MC2s obtain inputs (fertilizer, chemicals, seeds etc.) in bulk at wholesale price in the cities and resell them to members at a price which includes their cost of transaction
- Bulk purchasing of other products like paper and note books for sale to members

Products proposed by the MC2s have the same characteristics in the whole network but are adapted to their members' needs. In the annual general assembly of members (extraordinary sessions can meet when there are crucial problems), problems of the community are discussed and solutions are found in terms of adapted financial products (loan and savings) and non financial products (training, communication and extension, provision of agricultural inputs). In Bambalang and Njinikom, the opening of extension offices (collecting point) and the adoption of daily savings collection were answers to local population demands.

Being part of the AMC2 network also allows access to other sources of capital and equity financing. MITFUND is a financial enterprise of the group Afriland First Bank. KAFINVEST S.A. MITFUND was established to fill a gap specifically in microenterprise financing in Cameroon and to create joint ventures with small entrepreneurs by taking shares in their enterprises. It is available to the general public, and networked MC2s have the possibility of accessing their services. Loans are distributed to individual members or associations. MC2s first assess the credit needs of their groups/members and make recommendations to MITFUND who can confirm or reject the prior assessment of the MC2. The MC2 provides guarantees on behalf of the borrower. If approved, funds are deposited to the account of the member in his MC2. So far, 12 loans for a total amount of around US$60,000 were disbursed by the enterprise to MC2's members in Njinikom and Bambalang for the construction of groups' warehouses and to acquire a motor pump for irrigation.

Worth of Outreach

The diversity of products offered to members (loans and savings products), their low costs (12.5-13% interest rate) compared to competitors, access through mobile savers make MC2s the member's first option in most situations. Figure 7 indicates the choice of members in different situations, based on interviews with thirty individual members and eight groups.

Figure 7: Preference for Alternative Financial Services According to Use of Finance

	Money-lenders	Friends/ relatives	Sell animals, jewellery, or assets	Group in general	MC2	Other MFIs	Tontines	Comments
Festivals	not used	1	not used	3	2	5	4	Selling assets is seen as a bad sign, so only credible finance options are used.
Life-cycle (LT) needs	not used	2	not used	3	1	not used	not used	Don't want to pay high interest
Investment	not used	3	not used	2	1	not used	4	
Emergency (Health)	6	1	5	3	2	2	4	Due to urgency of health issues all options are used
Education	not used	4	5	2	1	not used	3	Explore options but not at any cost, moneylenders are too expensive.
Short term loans	not used	3	not used	not used	1	2	4	

<u>Note</u>: - the numbers refer to ranking, 1 being the best option and 7 the worst.

Member expression of worth is also demonstrated by the 9.3% growth in membership over the last year and retention rate of 98%.

Loan products cover a range of needs, but access requirements can push members to use alternative solutions. Collateral for individual loans may not be affordable to members, especially the very poor. Also, the timing and the long procedure for loan disbursement reduces the capacity of the MC2s of both localities to react to emergency loan needs. Groups have overcome this by keeping emergency funds at the group leader's home, or in their saving accounts with MC2s. Also, groups generally combine their assets to constitute the required collateral for their loan applications. However, the MC2 remains their best option.

Members with other MFIs identified the number of years the institutions had been operating and their relationship with staff and board members as the most important factors influencing choice. The product cost was a secondary consideration with lower cost products seen as an added benefit. Group interviews with 20 non-participants in the two localities yielded the following explanations:

- In Njinikom some are members of other MFIs, but are willing to join MC2s
- Some had bad experiences with other financial institutions and are cautiously observing the experience of MC2 in their area
- Some former members had personal problems and had to withdraw from the MC2
- Others had problems with some board members which caused them to withdraw
- The rest said they have engagements with other microfinance institutions in the same community (Njinikom) and had to make a choice

Non-members also recognized the quality of the products proposed by the MC2 by the effects on their member-neighbours welfare. Nevertheless, they have reservations concerning the duration of loans and feel that longer terms would be beneficial. Members shared the same view and disliked it when they were required to pay the first installment with part of the loan received. However, they all recognized that the situation is the same with all the institutions in their communities.

Length of Outreach

The MC2s of Njinikom and Bambalang both perform relatively well in terms of sustainability. MC2 Njinikom had an operational sustainability ratio of 236% while Bambalang was only able to cover 35% of its costs with its own income.

Operating subsidies received by the MC2 Bambalang were given at their beginning stage to help them cover their costs of establishment. These subsidies were reduced progressively by 20% per year as the institution started to become profitable. Both MC2s kept costs low through group lending and efficiencies gained through staff training. Subsidy represents only 7% of total equity and liabilities for these MC2s.

They, however, are an exception. Since 1992, the date of the creation of the first MC2, very few of them, even those located in urban and semi-urban areas have succeeded in graduating from subsidies after five years of operations. ADAF staff felt that remote MC2s like those visited really need them to improve their outreach within rural poor population where non financial services (without returns) like training of members, communication and extension are so important and costly for institutions. Nevertheless, subsidy remains a threat to long-term sustainability of the MC2s.

Risk management is a potential risk to Bambalang due to governance issues. The portfolio at risk greater than 30 days is 4.1% in Njinikom, and an alarming 22% in Bambalang—a result of mismanagement in the year 2005/2006 by the former board. Loans were distributed to relatives of board members without proper diligence or guarantees, and the borrowers are repaying these loans as they want. Loan repayment has been a problem for most MFIs operating in rural areas in Cameroon. For the CamCCUL network, with 287 affiliated institutions and 142,000 members, the average loan recovery rate is around 69% (CamCCUL, 2005). In the MC2 network, this repayment rate is around 88%. At 79% in Njinikom and 72% Bambalang, the two MC2s are below the network average. This is explained by weak capacities at the boards and management level and lack of funds available for following up on loans.

Asset Management

Migrant relatives play an important role for the sustainability of MC2s by providing equity. More than 50% of the start-up funds are from migrant elites. They provide the institution with the capital adequacy that assists operations in the beginning stage.

In the MC2 network, there are policies on how the institutions should mobilize their funds: Maximum 10% from subsidies, 10% maximum from external debts and the rest must be internally mobilized. The main source of funds of the MC2s should be from savings/deposit collection (savings and deposits represent 54.1% of the funds of MC2 Bambalang and 45.3% in MC2 Njinikom). Member paid-in shares are the second sources of funds mobilization as they represent about 29.24% of available funds in Bambalang and 24.92% in Njinikom MC2. Other sources of funds are open to the institutions however, these sources have to respect some internal norm of the network and have to receive the approval of the Federation or Apex. Negotiations for external funds are done in collaboration with AMC2/ADAF to avoid practices which can make institutions dependant on donations, the general policy in the network been that institutions have to generate enough funds from their activities. External funds consist of:

- Subsidies from AMC2/ADAF (these are generally operating subsidies)
- Operating subsidies from Afriland First Bank;
- Donations from international organizations or government via AMC2/ADAF;
- Credits contracted in commercial bank (exclusively in Afriland at concessional interest rate).

These funds are used by MC2s to cover field activity costs (office activities, training and follow up of members, transport and personnel) and to make loans to members. External credits to non-members and to other institutions are prohibited. Funds mobilized in a community have to be used in the same community for loan purposes and community activities.

But with the establishment of a central liquidity office AMC2, exchange of funds among institutions within the network will be possible, as about 45% of the MC2s, especially urban (MUFFA) and peri-urban ones have excess liquidity while others (mostly newly created rural ones) are in need of funds to improve their levels of activities. Before that, MC2s used to save their excess liquidity at Afriland at concessional rate to gain some interests (they pay 3.5% per year on member's savings and receive 4.5% from Afriland on the funds saved) as there was no control mechanism for those operations at network level.

Cost of Outreach

Organizing the delivery of financial services through voluntary groups helps MFIs to reduce their operating cost. 70% of the MC2s membership is in groups. This has permitted them to extend their outreach in terms of number of people touched while minimizing associated costs. MC2 staff noted it is more costly with individual members than with groups, as individual loans are always of small amounts and go through the same process as group loans.

Also, both MC2s have succeeded in reducing their cost of operations. From last year, the cost per operation (operation here is a single service provided to a member and is equal to the operating expenses divided by the number of operations) has decreased by 12% for loan products and by 18% for savings products. This is the result of the improvement in the capacities of the staff.
Members value the low transaction costs of MC2 products.

Figure 8: Effective Rate of Borrowing from MC2s

Minimum loan Amount (US$)	Interest rate per year (Nominal)	Nature of interest rate	Term	Effective cost of borrowing*
100	12.5%	Flat interest rate	6 months	25.3%
1,000	13%	Declining balance	18 Months	13%
1,000	13%	Declining balance	24 months	13%
200	12.5%	Flat	18 months	27.1%

* higher due to compulsory savings used as a loan guarantee

What Has Enabled This Member-Owned Institution to Achieve Remote Outreach?

Linkages and Networking

The MC2 network of rural banks is linked together under AMC2. The decentralized nature of the network allows innovation and adaptation at the individual MC2 level that is important for remote outreach. MC2s have benefited from their technical and financial linkages to ADAF and Afriland First Bank, although there is a certain amount of dependence on their subsidy. ADAF has played a significant oversight and direction setting role for the network.

The immediate effect of being in a network for an MC2 can be expressed in terms of economies of scale and oversight. The increasing number of MC2s has reduced the cost of support to each MC2 for the training, monitoring and control activities conducted by ADAF. Training and technical assistance are provided at lower than market rates. Another advantage in linking with Afriland is access to private financial enterprises of risk capital like MITFUND which have been used by MC2s to meet the additional loan needs of members.

Subsidies from ADAF, Afriland and government programs have enabled the coverage of poor and very poor people that may not have been possible without them. They were used for member training, information and awareness campaigns, to finance transport for daily savings collectors and meet their loan loss provision requirements. Nevertheless, if there is not graduation from subsidy, long-term sustainability is a threat.

Operations with the poor and especially the very poor are costly and institutions dealing with them always have problems recovering their operating costs. Most MFIs therefore prefer to limit their target groups to the less-poor and relative wealthy people which can at least pay a minimum cost for services received. MFIs linked in networks have the possibility to reach the most vulnerable people. Services and inputs they receive at low cost or free from their Apex or federation constitute subsidies to operating cost and enable them to extend their outreach to all the segments of the population.

Oversight is another important contribution of the network. Regular control and monitoring from the Federations or Apex is helpful in detecting mismanagement from leaders and staff on time and apply corrective measures. MC2s are extending their outreach into very remote areas while staffing levels of the regional offices of the AMC2/ADAF don't allow for regular and effective control. The new role assigned to AMC2 (central liquidity of MC2s) by regulators oblige it to contract some of its activities out of the network (auditing task for example). ADAF will continue to carry out training and monitoring activities, but the costs will be entirely supported by the institutions that have graduated from subsidies and at an increasing cost from year to year by the others.

The next phase of the AMC2 network will be to work toward its own self-sufficiency. The possibility of exchanging funds in the network will reduce external debts and subsidy dependence as MC2s in financial need will have the possibility of accessing funds from over-liquid MC2s at interest rates less than those at Afriland. The levels of the interest rate will be negotiated with individual MC2s directly. However, Afriland will maintain its linkage to the network as AMC2 will be using its accounts to save the network excess of funds at concessional interest rates, but AMC2 will also look for other investment opportunities for investment. The shift in funds to AMC2 is expected to boost lending levels in the network. MC2s receive a rate of return on their Afriland deposits greater than the rate MC2s pay on member deposits, and it is thought that this has acted as a disincentive to lend. AMC2 will pay a rate on par with member deposit rates.

Governance: Member Ownership & Participation

Village and urban elites play a significant role in the MC2, from initial mobilization and capitalization through to everyday governance, management and control. The start up equity provided by urban elites and the involvement of traditional leaders in loan recovery have been essential, but incidences of elite dominance and mismanagement combined with insufficient internal control mechanisms have weakened the financial position and community standing of Bambalang MC2. While traditional village councils play an oversight role, ultimately it was the members themselves who resolved the issues at Bambalang. Default members are repaying their loans and all board members recognized to have derogated from institution norms were banned from participating in elections for the new ruling board.

In general, governance is the process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects the institution's assets over time. As stated by Mr. Njoya, the board director of MC2 Bambalang, governance links the shareholders to the board, to the management, to the staff and to the entire community. MC2 boards are established to provide oversight and give direction to their respective institutions. They carry out these functions on the behalf of members and are empowered to perform the following functions:

- Develop strategic directions, monitor achievement of strategic goals
- Oversee management performance
- Support and evaluation of staff, maintaining a healthy balance between staff and the board
- Represent the MC2s to the communities
- Maintain transparency and avoid conflicts of interest
- Ensure that MC2s manage risk effectively
- Assume fiduciary responsibility: Staff is treated as fiduciaries; therefore, a mechanism to impose sanctions exists in cases where they fail to exercise their responsibilities to members.

The main governance concerns of MC2s are internal control and monitoring to avoid corruption and mismanagement, and to determine how members' problems are resolved. Domination by some members has contributed to the limitation of the breadth of MC2 Bambalang. Some groups and members have suspended their participation from institution activities due to fund mismanagement and corruption. Non-members, aware of the situation, have presented points that the institutions have to look at prior to their possible joining. The points focus on the limitation of fund mismanagement, and accountability of the board and staff to all members irrespective of their social status.

MC2s are very much a part of the local landscape. They are locally staffed and invest profits in local projects. This has two reasons as stated by Dr. Fokam, the promoter of the system. For him, the classical financial structures meant to instigate development have proved to be inappropriate for reason of costs and culture. Culture is the root of every community; consequently, any undertakings made within the community without taking the aspect of culture into consideration are bound to be short-lived. Also, the management costs of the classical financial structures are incompatible with the capacities of the rural populations to cover such costs.

The realization of community projects and the integration of cultural values in the financial activity differentiate MC2s from other MFIs in Bambalang and Njinikom. In confirming this position of MC2s, Dr. Fokam notes, "The classical economic theory which holds that the poor are unable to save and thus cannot carry out any investments does not seem to be just. First, this theory limits the notion of savings to monetary savings. Meanwhile, in the African context there are many forms of savings which are mainly habitual. Secondly, statistical analysis in the developed countries as well as the developing countries clearly show that the low revenue population practices a higher rate of savings than the high revenue population group."

The newly elected board president of MC2 Bambalang Mr. Njoya said, "Good governance requires empowered boards, which understand their duties and responsibilities and have the authority to take corrective actions."

In Bambalang and Njinikom board presidents have a lot of power over the board and the staff. Most of the staff and some board members interviewed indicated that they have been invited to the board, but could not question actions taken as they were intimidated (especially in the case of Bambalang with the former board). Decisions taken by the former Board President in Bambalang were adopted especially when it concerned financial matters and have resulted in distributions of loans to his relatives even when trespassing the norms.

> We had lot domination of elites in our MC2 at the beginning phase… some funds' mismanagement was recorded… The case was after all attempts for negotiation was brought to the police… corruption and all other administrative power was used against us as some elite are civil servants with higher positions in the administration… but when the case was brought to the king, solutions were found in the next months. The king is after all our protector.
>
> *- Eric, staff member of MC2 Bambalang*

In spite of these risks, elites are the main initiators of MC2 projects in their respective communities and due to their status tend to occupy most of the governance and management positions. They are essential to the formation of new MC2s, working with ADAF and Afriland on feasibility studies, staff recruitment, initial equity investments, mobilization of members and organizing the first AGM. The board of elders (comprised of influential people chosen by the AGM within the community like the king) plays an important role in the internal control of the MC2s Njinikom and Bambalang. They are involved in ensuring member repayment, employing social sanctions such as withdrawing land rights and banishment for defaulters. They also act as a counterbalance to elite mismanagement and have the right to remove a board member if necessary as they did in Bambalang when they decided to suspend the former board President. The power of the king in a village is more respected by local populations than administrative ones. They are the supreme judges and work in partnership with the administration. They have succeeded in many cases in avoiding the domination of elites.

Participation of members and their power in decision making is very important for the governance of their institutions. However, as stated by members of institutions visited, they trust their elected boards and have transferred some power to them due to the complex nature of some governance aspects. Members also point out the fact that they don't have enough time to participate actively in the daily activities of their institutions and that they have elected people to do the work according to their capacities. The board therefore has the right to decide on their behalf in certain circumstances especially when it concerns strategic matters that can help in increasing the quality of the services. However, as written in the internal bylaw of the MC2s, for decisions concerning management and regulation issues, the board has to present the measures to be taken to the members in AGM for further discussions when necessary before adoption. This would avoid a situation where the board uses the transfer of power given to them by members to negotiate or implement services which do not fit with members' needs.

Member participation in all aspects of the institutions has proven to be an incentive for greater outreach. The leader of the Njinikom young self-help group claimed that their group was a member of another MFI in the locality. They had problems with that institution due to the dictatorial decisions and mismanagements of the board and they ended up losing their savings. After two years of hesitation, they decided to join the MC2 because they were convinced by another prosperous young group strongly involved in MC2 Njinikom activities (the leader of the group was member of the board) and have received three loans so far. Since then two or three other young groups in the quarter have been established and have joined the MC2.

Although the bylaw of the MC2s sets out the conditions for an efficient internal control system, indicators for monitoring the performance, and guidelines for reporting, there still exist gaps, with some institutions lacking the implementation capacity. Despite the fact that the bylaw must be applied in all MC2s, in practice this is not the case. Those visited recognized that they have the flexibility according to their level of activities and their capacities to derogate from some of the principles like daily reporting of activities, collateral requirements and application of late penalties as they have to adapt the activities to their local context. For example, it was not possible in the case of MC2s Njinikom and Bambalang to get details of the daily operations. Written procedures on accounting systems and administrative tasks do exist, but follow up is not effective. A well defined and functioning policy on board mandate and personnel policy guides the activities of Njinikom MC2, while in Bambalang, there are still some limits observed in the bylaws application. Compared to Njinikom, Bambalang staff has less training and thus lack capacities to appreciate all aspects of their task.

> I was a very poor farmer five years before… by joining the group Apunkhana, I have succeeded in cultivating two new farms with a credit of US$100 I received two years ago… I have repaid my loan in the group… I can pay the school fees of my two children without much stress.
>
> *- Helene, a group member*

Members feel they have the possibility to influence decisions and governance in their respective institutions; they are the ones who elected the board and the board has to follow their instructions. Mr. Salifou, the President of a mixed group of farmers (Apunkhana) said, "Put their hands together for their community development," is their motto for belonging to a member owned organization. Some of this group's members argued that belonging to a formal financial institution helps them to accomplish things they could not before like the investment in a large scale on their farm or in their business and constructing warehouses for their production.

Using their own terms, they said in general, "We have one eye always open on our institution". This means they have the control of their institutions, they are the managers and will always make sure everything goes well. There are situations when some members, due to their positions in the community can influence the elected board to obtain more credit than others, and the members' role is to make sure nothing is done contrary to regulations to avoid fraud and corruption. Previous mismanagement in Bambalang was a critical situation as the manager of the institution was very close to the Board president. They used their strategic positions to derogate from norms by influencing other board member in decision making. The situation was immediately denounced by members and an extraordinary meeting of the General Assemble of members was called and sanctions were taken. The board President and some of his acolytes were banned and replaced by a new board, with more representative members (group leaders) installed. The decision to have regular board meetings at least twice a month rather than once a month was adopted to control the management team activities. The daily reporting of the activities was initiated however, it is still not yet well functioning due to the low capacities of the staff.

Regulation and Supervision

Government policies in 1990 and 1992 were designed to boost the microfinance sector as a whole and rural microfinance in particular. Newly created organizations, FIMAC and CUROR, helped support the creation of hundreds of new MFIs. However, the system lacked an effective regulatory framework or monitoring and supervision body, and MFIs folded due to poor management (IMF, 2003). Regulatory changes in 1998, the publication of new prudential norms, the transfer of control to the Ministry of Finance and the regional banking commission (COBAC) have brought some stability to the sector. COBAC is the primary supervisory and regulatory body for the banking sector in Cameroon. Failure to comply with prudential norms can result in forced closure—182 MFIs have already been closed for this reason (IMF, 2006).

COBAC proposed an institutional framework to protect savers and allow MFIs to reach their poverty objectives, by supporting the disadvantaged population in their productive initiatives. While the law of 2002 established policies, norms and standards for the daily management of MFIs, some aspects may inhibit the development of small rural entities which cannot afford costs associated with registration, capital adequacy requirements, or retaining qualified staff. However, the creation of a 1st category institution provides some flexibility by lowering the initial capital adequacy requirements for institutions that transact with members only. This allows for smaller, more remote institutions to emerge as the start up costs are significantly lower than 2nd and 3rd category institutions. MC2s have been able to meet staffing requirements by hiring locally with ADAF providing six months of training at start-up.

First category MFIs like MC2s have to mobilize the essential part of their funds from savings collection. They can also receive government assistance as subvention, donations from international organizations and credits. This obliges these MFIs to operate on a sustainable basis, generating funds from their activities and avoiding dependency on subsidies and donations. Institutions are also required to constitute enough provisions to cover their portfolio at risk. This is a good factor that helps to avoid bankruptcy. In the case of MC2s, even when they were not making profit in the first years of operations, they have always constituted provisions to cover their risks and protect members from losses of their savings. Subsidies received from the AMC2/ADAF and Afriland have enabled them to constitute these provisions without having to restrict the depth of their coverage. Subsidies and donations received by the two MC2s Bambalang and Njinikom are in cash and have always been limited at a maximum of 10% of their total assets.

Staffing limitations at COBAC restrict its potential scope in the supervision and control of MFIs. The geographic dispersion of MFIs all over the national territory makes the number of visits per institution very low (almost once a year). Internal controls within institutions must exist and function effectively to protect from mismanagement. COBAC has integrated in the law the obligation of having an external auditor to compensate for its reduced visits to MFIs. As of June

2007, MFIs are required to hire an external auditor even when affiliated to a network. This is expected to reduce the gaps in record keeping and administrative control. At the MC2s level, this will reduce problems like those seen in Bambalang when an irregular control system led to a late discovery of mismanagement, impacting the institution's reputation. According to the low level of activities and income, financing an external auditor will still be a problem especially for rural MC2s like Bambalang and Njinikom. The AMC2 will contract with external auditors for MC2s regionally and will support institutions financially to cover their cost.

In general, regulation and supervision has helped in the harmonious development of rural MFIs. The law, even if restrictive in some aspects, has made possible the elimination of volatile institutions which contributed to damaging the situation of rural populations and the loss of confidence following the bankruptcies of 1990-1997. Negative effects of the bankruptcy of a credit union in Bambalang is still affecting local populations, but as the MC2 is showing signs of sustainability, people are now more convinced. The creation of a 1st category MFI supports the development of more remote institutions by lowering the financial barriers to entry.

Conclusion

MC2s Njinikom and Bambalang play an important role of financial intermediation within their respective populations. Efforts have been made to reach the poor rural populations through adapted products, low interest lending, mobile collectors and extension offices, and allowances for group membership. This task has been difficult as working in rural areas is very risky. Part of this risk has been absorbed by ADAF, Afriland First Bank and others who provide cash and in-kind subsidies to MC2s during their first 5 years of operations to meet liquidity and reserve needs and finance operations. Long-term sustainability of the model depends on MC2 graduation from their supports.

To be successful, MFIs must adapt to the environment (livelihood activities), culture and religions of the people of the community, within the regulatory framework and human resources limitations. Those aspects have always affected positively or negatively the performance of the institution and limited its outreach.

Linkages and networks are important to MFIs, especially for those operating in rural areas. Support from a federation or apex through the provision of operational inputs, increases the potential for broad and deep outreach. The inputs received from a federation or apex are generally at the lowest cost and additive services are provided to ensure a better effective use of the inputs. In the case of MC2, inputs are received from AMC2/ADAF at a lower cost including supervision and monitoring services. Those inputs can be obtained from other sources, but the advantages gained from the linkage in MC2 networks are substantial.

Products designed and provided to members are highly adapted to their needs. Members mostly prefer MC2 products because they are available at a low cost and some additional free services (training, selling of agriculture inputs) are associated to credits. However, members do not feel that MC2s are effective in meeting emergency needs and other alternative credit sources (tontines, relatives and friends) are drawn upon in these cases.

Internal control has been effective in the MC2 Njinikom, but less so in Bambalang, were some funds were misappropriated, and involvement of local elite (former board president, former manager and their relatives) and the low capacity of staffs prevented its timely detection. Gaps in staff capacities, effective internal control system and governance were mostly observed in Bambalang and can explain the differences in performance, but can also be attributed to insufficient external control and supervision on the part of AMC2/ADAF who are understaffed and under funded regionally for this role, and the limited participation of members (this is not the fact of the institution but this of members who don't voluntary attend meetings). External audit requirements should reduce some of this risk but it remains to be seen if MC2s will be able to finance this through their own operations.

Members are aware that they are the owners of the MC2s and that they have the right to question any staff or board member on different aspects of management. However, they don't always think their presence in all meeting and discussions are necessary as they have an elected board to which they regularly transfer their rights. They also recognize that even while they have confidence in their board members who represent the socio-cultural and economic structure of their communities, board members have sometimes abused their position by trespassing agreed norms.

Nevertheless, elites play a key role in initiating and governing MC2s. Urban migrants in particular provide much needed start-up capital and support while traditional village councils respond to at-risk loans and mismanagement with arbitration and traditional sanctions where necessary. Regulatory and policy changes over the past 10 years have attempted create a sound, wide reaching sector but resource constraints have limited the ability of financial authorities to ensure universal compliance with prudential norms at the individual MFI level. Effective internal control depends on an attentive membership, an engaged and qualified board, well trained and diligent management and staff, and comprehensive systems and procedures. Bylaws are in place but their implementation is dependent upon internal capacity. Currently ADAF lacks the staff and resources to meet the ongoing training and supervision needs of the growing network. The regulatory requirement that each MC2 have an external audit is a strong first step but more regulatory innovations are needed to support the MC2s.

Individual MC2s must be able to contract alternate providers to meet their capacity needs, similar to the way they are now required to hire external auditors. This ultimately depends on the ability of the institution and network as a whole to improve its financial management skills and reduce dependency on external subsidies.

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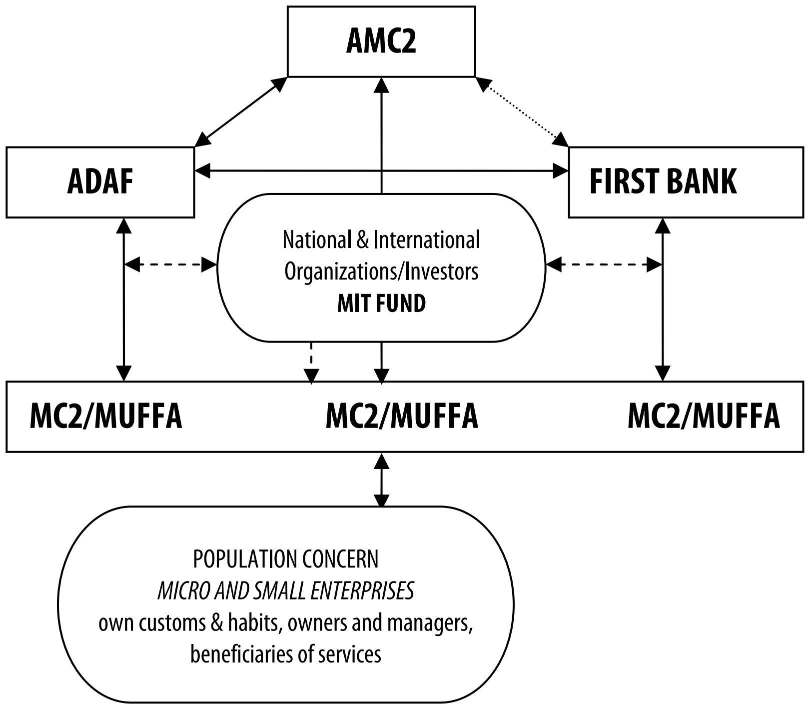
Appendix A: Organization of the MC2 network: MC2 and MUFFA MODEL



(ADAF, 2006)

Appendix B: Products of MC2s and their Characteristics (US$)

Loans products	**Use of loan**	**Amount**		**Terms in months**	**Interest rate (%) per annum**	**Guarantee**
		Min.	Max.			
Social	Wedding	100	1,000	4	12.5	- Land - salaries - traditional assets
	Meeting clothes for groups uniform		8,000	12	12.5-13	
Income generating activities	Agriculture	200	10,000	18	12.5-13	
	Trade	120	6,000	18	12.5-13	
Services	Construction	300	16,000	24	12.5-13	
	Education	200	3,800	18	12.5-13	
	Health	100	900	18	12.5-13	
Savings products	**Characteristics**	**Minimum Amount**		**Terms in months**	**Interest rate paid on deposits (%)**	**Minimum saving balance**
Savings account	Free with passbook	2			3.5	10
Current account	Free with printed monthly account statement	2			Member pays US$2 per year management cost	10

Note: loans less than US$1,000 are at 12.5% interest rate.

Appendix C: Methodology

Study Objective

To illustrate how varied member-owned models in different contexts have been able to achieve significant outreach in remote, rural areas.

Defining Member-owned

- Clients are both owners and users of the institution
- Member equity is tied to ownership and decision-making (shares; savings; rotating/internal capital)
- Member equity is a key source of funds
- Legal entity is based on member-owned (i.e. association)

In order to cut across models definition needs to account for a variety of forms of equity and decision-making. Even what legal entities are possible will vary from context to context.

Defining Remote

Unserved in its own market. This can be due to several factors:

- Geographical distance from nearest service or input provider
- Population density
- Socio-cultural aspects of access such as gender or ethnic background as in the case of lower castes in Asia or indigenous groups in Latin America

Study Methodology

The intention of the research is to help answer some questions about different types of member-owned institutions to determine what potential they have for depth, breadth, scope, length, worth and cost of remote outreach, using Schreiner's (1998) six aspects. In-depth institutional analysis of each MOI sample examines remote outreach and demand by remote members and member groups. The second level of analysis focuses on how remote outreach is influenced by three key drivers:

- Networking and linkages
- Governance and ownership
- Regulation and supervision

The perspective of analysis is from the lowest tier association, SACCO or set of groups and their members. Selection of case MOI(s) is based on the 20% most remote MOIs within their sample universe. Selection is based on remote members/groups that are representative and mostly strong. The sample universe would be the district, sub-region or cluster of MOIs according to second-tier organizations, political boundaries or regulatory areas. Depending on size of MOI and sample, range could be a number of self-help groups to one SACCO or village association.

Case-Selection Criteria

- Remote in terms of households is proxied by one or more of the following:
    - Location of access points (decentralized and centralized level if receiving different services at each point).
    - Distance of access points to local centre and nearest road (nature of road), availability of transportation.
    - Depth of outreach (varies by context but broadly a factor of population density and infrastructure, poverty level, and other indicators of social exclusion).
- Member-owned (not managed externally; members involved in decision-making)
- Strong breadth of outreach relative to the context
- Informative in terms of one or more of our key research questions (governance and member-participation; external resources; regulation and supervision; type of MOI)
- Not so unique or idiosyncratic that it does not have lessons that can be applied to other contexts
- Relatively financially viable
- MOI is transparent, information is readily available or fairly easily collected and staff is willing to collaborate in collecting information.

Schreiner, M. (1998). Aspects of outreach: A framework for the discussion of the social benefits of microfinance. *Journal of International Development, 14*(5), 591-603.

Appendix D: Key Financial Indicators

Key Indicators (US dollars and %) 2006	
Depth	
Size of average savings balance as % GNI per capita	96%
Size of average loan balance as a % of GNI per capita	163%
Population density	107 persons per sq. km.
Number of formal or semi-formal service providers in service area	1-7
% female clients	28.4%
Length	
Operational self-sufficiency	136%
Financial self-sufficiency	Not available
Portfolio at risk > 30 days	24%
Total Operating Expenses/ Average Total Assets	13.8%
Average staff salary and benefits / GNI per capita	1331%
Breadth	
Number of active borrowers	1726
Number of active savers	3488
Number of base-tier units	2
Cost	
Effective interest rate on average loan size	13-25%
Worth	
Retention rate	99.2%
Other	
Growth in Total Assets	30%
Net Loans/Total Assets (fund utilization)	37%

** Self-reported and audited data