

THE REGULATORY LANDSCAPE OF MICROFINANCE IN THE CEMAC REGION.

Mamouda Mbemap¹
Specialist in Banking and Finance
University of Buea, Cameroon

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ABSTRACT

Abstract

This paper examines the link between microfinance policy and microfinance regulation with special reference to the CEMAC zone; an economic and monetary union between Cameroon, Gabon, Equatorial Guinea, Congo, Chad and the Central African Republic. Microfinance regulations have developed rapidly but in a policy vacuum which is exacerbating institutional dysfunctions at the macro, meso and MFIs levels. The paper identifies a number of idiosyncratic features in microfinance regulation in the CEMAC region which in the long run, could distort the market and competition between microfinance participants. To address these issues, the paper develops and presents a model policy making framework that can serve as a tool for an integrated microfinance policy for the CEMAC. The model is underpinned by practical and operational principles to ease implementation at the country, regional level and sector levels. An integrated microfinance policy with poverty alleviation as its corner stone can iron out such distortions and the associated mission drift by incorporating legacy issues and accommodating other on-going changes in the financial industry and still sustain a healthy growth in the sector.

Key Words: Microfinance, regulation, policy making, policy model, poverty alleviation, arbitrage.

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Introduction

Over the last two decades, the growth of the finance sector in the CEMAC region has been marred the collapse of many operators. In the 1990s, as the region went through a turbulent economic turmoil, the banking sector was shaken to the roots. Of the 40 banks operating in the region, 9 simply closed down, 16 were declared insolvent and because of their vulnerability while 14 others were placed under constant supervisory observation by the region's central bank. Of the fourteen banks, it was found that only one met the Central bank and other international regulatory standards². After five years of extensive restructuring by the Central Bank, BEAC, 35 banks are currently operating in a region deemed under-served when it comes to conventional financial services.

Microfinance is not a foreign import in most CEMAC countries. Indeed, it is culturally rooted and can be traced back several centuries. Traditional microfinance institutions continue to provide access to credit and to some basic micro-insurance for the rural and urban communities. They are mainly informal Self-Help Groups (SHGs) or

Rotating Savings and Credit Associations (ROSCAs) commonly known as *susus* in Ghana, *tontines* or *Njangui* in Cameroon. Other providers of microfinance services include market roving savings collectors for small traders and co-operatives. These traditional and informal financial institutions have tended to be constrained by geographical and societal boundaries with no aspiration to expand. In the early 1960s, a new generation of microfinance institutions, widely seen as a more modern emerged and was able to pull together and sometimes connect existing traditional forms of microfinance organizations. In 1970, they expanded very quickly in numbers and in volume of business. In the 1990s after a decade of economic recession, other problems largely attributed to the regulatory vacuum emerged in the sector. Poor management, lack of skilled personnel, fuzzy business strategies and weak legal systems ground most institutions to a halt. Perhaps more serious, the non-alignment of policies with market realities, poor internal control and the violation of basic principles of financial risk management or simply poor knowledge of the mechanics of modern finance have been cited as some of the causes of financial sector crisis in the CEMAC.

Madji M. Adam (2002): "Stabilité Financière et Contrôle Prudentiel", présentation on the 30th anniversary of the Banque des Etats de l'Afrique Centrale – BEAC (CEMAC central Bank). Sources : http://www.beac.int/cobac/Publications/Rapports/2002/stabilitefin_et_controleprudentiel.pdf.

In response and to restore health in the sector, the COBAC launched a vigorous reform program. Central to this reform was the development and enforcement of an adequate regulatory framework. By 2006, the number of microfinance institutions had halved. In January 2002, the Ministry of Finance of Cameroon banned 400 hundred companies from providing any form of financial services. Since then, the number of MFIs has been on the increase. The number of clients has increased from 443,000 individuals (at the end of 2000) to more than 1,211,000 at the end of 2006. Geographically, the number of branches has also increased to 1,450 at the end of 2006 from 1074 in 2000. However, access to financial services in the region is deemed to be very low compared to other parts of Africa and even lower when compared to the rest of the developing world. According the regional Central Bank (BEAC), formal banking services are accessible by only 3.7 % of the population with 1.5 million people having a bank account. At the end of 2006, about 545,000 had access to some form of microfinance services taking the total access to financial services including banking for the CEMAC region³ to only 8,3% of the total population.

³ CEMAC countries have one currency, one central bank and one the standard which is legally ranked as treaty is an attempt to harmonize microfinance activities within the context of the economic union.

This low accessibility⁴ is often ascribed to the large size of the so-called informal economy which continues to mobilize substantial part of savings outside of the mainstream economy⁵.

It is recognized that microfinance is playing an important role in poverty alleviation in developing nations. In Africa, microfinance institutions (MFIs) are serving a clientele sidelined by formal banking institutions and often not reached by government bodies and donors. According to Microfinance Information eXchange (MIX)⁶, African MFIs are among the most productive globally, as measured by the number of borrowers and savers per staff member. Other benchmarks used by MIX and African MFI-PEF⁷ such as portfolio quality, all

⁴ BEAC (CEMAC Central Bank) Annual Report 2006, pages 167-168.

⁵ For other estimates see also Andres D. Jaime (2007): *CEMAC Financial Institutions Support Project*, A World Bank project (Project ID P099833) destined to strengthen the institutional capacity of the BEAC and boost economic integration in the CEMAC region.

⁶ Anne-Lucie Lafourcade, Jennifer Isern, Patricia Mwangi, and Matthew Brown (2005): *Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa*, http://www.mixmarket.org/medialibrary/mixmarket/Africa_Data_Study.pdf.

⁷ MIX (2006): *Benchmarking African Microfinance 2005: A report by the A report from the Microfinance Information eXchange, Inc.* published online on November 2006, see <http://www.themix.org>

See also African MFI Performance Evaluation Forum (2006): *Transversal Analysis of MFO Performance in Africa*, July 2006 Published by: <http://www.microfinancegateway.org/content/article/detail/35865>

aggregate to produce a positive performance when compared to global peers. Overall the sector has performed well within a very short period of time. Yet according to the Banque de France⁸ microfinance in the CEMAC region only took off in the 1990s even though the first network known as Cameroon Cooperative Credit Union League or CAMCCUL emerged in Cameroon in 1963, followed in 1984 by ONG VITA in Chad and then COOPEC (Coopérative d'Épargne et de Crédit) in Congo-Brazzaville. The Central African Republic only saw her first microfinance Structure in 1992 with the creation of Crédit Mutuel de Centrafrique (CMCA) while Gabon with FODEX and Equatorial Guinea recorded their first two microfinance institutions in 1994.

Approaches to financial regulation

Financial services occupy a central place in modern economies. Economic actors such as households, government and business depend on it for payments, safe keep of financial assets (deposits and savings) and for the intermediation between depositors of

surplus funds and would-be borrowers. Supervision is a two-step process where supervisors focus on the individual bank while at the same time monitoring potential sources of contagious crisis when problems in one institution spread and cause systemic repercussions on the economy (Ware, 1996)⁹. Even within an economic region, supervisory regimes can vary and the CEMAC is no exception. At a global level, a number of institutions and especially the Bank of International Settlement-BIS have attempted to iron out such regulatory variations. The BIS's Basle Core Principles comprise twenty-five basic principles that must be in place for a supervisory system to be effective (Basle, 1997)¹⁰. Supervisory guidelines and standards also rely on other supporting factors to be effective such as harmonized accounting standards, sound disclosure and adequate legal framework for enforcement of contracts.

⁸ Banque de France (2003) : Rapport Zone Franc : La Microfinance dans la Zone CEMAC,. According to the Banque de France, microfinance activities in the CEMAC really started in the 1990s even though the first modern MFIs were created in the 1960s with the creation of the first microfinance network Cameroon Cooperative Credit Union League (CAMCCUL) in Cameroon in 1963. www.banque-de-france.fr/fr/eurosys/telechar/zonefr/2003/fin_cemac.pdf

⁹ Derrick Ware (1996): Basic Principles of Banking Supervision, in Handbooks in Central Banking No 7, Issued by the Centre for Central Banking Studies, Bank of England, London, <http://www.bankofengland.co.uk/education/ccbs/handbooks/ccbshb07.htm>

¹⁰ Basle Committee on Banking Supervision (1997): Core Principles for Effective Banking Supervision, Bank for International Settlement (BIS), Basle, www.bis.org/publ/bcbssc102.pdf

Table 1-a: Number Microfinance Institutions before and after COBAC restructuring of the sector			
Country	2000	2006	Regulated MFIs
Cameroon	656	439	314
Congo	70	74	41
Gabon	13	4	3
Equatorial Guinea	2	0	0
Central Africa Rep	161	29	14
Chad	133	187	97
Total CEMAC	1035	733	469

Sources: Mustapha, M. Mahamat (2006)¹¹

Table 1-b: Selected data for the Microfinance Sector in the CEMAC Region, December 2004

	CAMEROON	GABON ¹	CHAD	CONGO	CAR ¹	Eq. Guinea
Number of MFIs ²	714	4	214	86	22	NA
Total Members/Clients	475,644	4,739	98,378	155,835	45,000	NA
Total Population of Country ³	16,380,000	1,389,000	9,826,000	3,039,000	3,800,000	536,000
Total Clients as Percentage of Total Population	2.9%	0.3%	1.0%	5.1%	1.2%	NA
Total Loans Outstanding (XAF million)	61,021	1,228	3,669	6,618	993	NA
Total Loans Outstanding (US\$ million)	111	2.2	6	12.0	1.8	NA
Average Loan Size (XAF)	128,291	259,126	37,295	357,212	29,206	NA
Average Loan Size (US\$)	233	471	68	649	34	NA
GNI per capita ⁴	800	3,940	260	770	310	NA
Average Loan Size as % of GNI per capita	29.1%	11.9%	24.3%	84.3%	11.0%	NA
Total Deposits (XAF million)	95,022	17	4,419	31,417	2,666	NA
Total Deposits (US\$ million)	173	0.3	8	57.1	4.8	NA
Average Deposit (XAF)	199,775	3,587	44,919	431,820	78,412	NA
Average Deposit (US\$)	363	7	82	785	143	NA

Sources: Ann Rennie and Bernard Laurens (2008): CEMAC Regional Financial Sector Assessment Program: Technical Note Access to Finance, World Bank and IMF

COBAC and Data collected during the FSAP Mission;

¹ Data for Gabon and CAR is as of 2005.

² COBAC and the Ministry of Finance recently announced the closure of 205 MFIs in Cameroon (December 2005) and other MFIs in Congo and Chad are under review. The figures in this table do not reflect these recent announcements as some MFIs have not yet taken action on the Ministry decision.

³ Population figures from the CIA World Factbook, 2005.

⁴ GNI per capita using Atlas method, World Bank, 2004.

Notes: - NA= Not Available

¹¹ M. Mahmat Mustapha (2006): La Supervision de l'activité de microfinance dans la CEMAC, L'Expérience de la Commission Bancaire de l'Afrique Centrale (COBAC), Presentation given at the Francophone Group of Banking Supervisors in Merida on October 02 octobre 2006. M. Mahmat Mustapha is currently Secrétaire Général of the COBAC

Regulators in the CEMAC attempt to reflect these elements in designing their regulatory framework (COBAC, 2001)¹². However, they operate in a context where poverty alleviation imposes other constraints on the regulation of financial services. When regulators impose strict condition for business, banks become extremely risk averse and generally curtail services, limit their outreach and inadvertently increase the stranglehold of the informal sector on the economy. Conversely, should regulations be too lenient then, financial institutions may relax their approach to prudent risk management and end up with excessive risky assets or portfolios (Microcapital, 2005)¹³. Regulation is therefore a careful balancing act (Druschel, 2005)¹⁴ which is influencing the development, the form and the scope of microfinance in the CEMAC region (COBAC, 2002¹⁵; Banque de France 2003, Roesch, 2003¹⁶).

¹² COBAC (2001) : Etude : Le Dispositif de Supervision Bancaire de la CEMAC et Les 25 Principes du Comité de Basle, Yaounde, Cameroon. http://www.beac.int/cobac/Publications/Rapports/2001/Etude_dispositifsupervisionbancaireCEMAC.pdf

¹³ Microcapital (2005): Microfinance 101: Regulation and Supervision What Works?, MicroCapital, Boston, MA 02118 www.microcapital.org/downloads/whitepapers/Regulation.pdf

¹⁴ Druschel, K. (2005): "The Ultimate Balancing Act: Investor Confidence and Regulatory Considerations for Microfinance", Publisher: The IRIS Center, University of Maryland, Baltimore, USA. July 2005. (p. 6)

¹⁵ COBAC (2002): La Réglementation de la Microfinance, Rapport d'activités, 2002, <http://www.beac.int>

¹⁶ Marc Roesch (2003): La réglementation BEAC en matière de Microfinance, CIRAD, France.

The literature distinguishes three broad approaches to financial services regulations. The first is prudential regulation which seeks to ensure the soundness of deposit institutions. In this framework, an independent regulatory authority is mandated by law makers with the task of developing, updating and implementing compliance rules. Prudential regulation requires large financial, human, technological and legal resources. This approach is used by regulators in developed financial markets such as the Financial Services Authorities (FSA) in England or the Securities and Exchange Commission (SEC) in the United States. In many African countries independent regulatory authorities are a relatively new phenomenon. In fact the , la Commission Bancaire de l'Afrique Centrale (COBAC) which is the regulatory arm of the CEMAC central Bank system (BEAC) was founded in 1990 and became operational in 1993. Before this date, each CEMAC member country had a national regulator, which was decreed by government and filled with ill-trained civil servants. These domestic structures were poorly equipped in terms of enforcement resources generally unable to carry out control on the operations of financial institutions. The second approach to financial services regulations is the so-called self-regulation¹⁷ in which professional

¹⁷ DeMarzo, P. M., M. Fishman, and K. Hagerty. (2005): Selfregulation and government oversight. *Review of Economic Studies* 72:687–706

organisations or associations develop their own rules to monitor their members. Some authors do not hide their scepticism about self-regulation. One author noted that “self-regulation of financial intermediaries in developing countries has been tried many times, and has virtually never been effective in protecting the soundness of the regulated organizations” (Christen, Lyman and Rosenberg, 2002)¹⁸.

A number of countries try to juggle the two approaches prudential and self-regulation in a third form of regulation which could be described as hybrid. In the end, there is no “one-size-fits-all” solution (Hennie van Greuning et al. 1998)¹⁹. In other words, regulating microfinance tend to be country-specific, and, while frameworks such as those of the BIS and the experience of developed regulators such as the FSA and the SEC can inspire others, financial services regulations and microfinance in particular depend on two factors: on the one hand the environmental realities and development stages of individual

domestic economies, and on other, the frequent change brought by globalization.

The COBAC regulations for microfinance activities

The current COBAC microfinance regulatory framework fills a legal vacuum. Member countries such as Cameroon had some embryos of legislation aimed at microfinance. Their activities were placed under the tutorship of the Ministries of Agriculture and The Ministries of Finance because microfinance was initially seen as essentially suited for the promotion of rural and agricultural activities (Creusot, 2006)²⁰. Quite at the other extreme is Gabon whose first attempt to regulate microfinance was initiated in 2003 with the creation of a Unit within the Ministry of Finance to develop the first ever draft national strategic plan for the development of microfinance. In the Congo-Brazzaville, the first microfinance network was actually created by the government. It wrote its own rules²¹ which were subsequently imposed upon other emerging microfinance institutions. If microfinance institutions did not like the rules, the only

¹⁸ Christen, R. P., Lyman, T. R. & Rosenberg, R. (2003): Microfinance Consensus Guidelines: Guiding Principles on Regulation and Supervision of Microfinance Institutions, July 2003, Published by: Consultative Group to Assist the Poor (CGAP) <http://www.microfinancegateway.org/content/article/detail/13473>

¹⁹ Hennie van Greuning, Joselito Gallardo, Bikki Randhawa (1998): A Framework for Regulating Microfinance Institutions, Financial Sector Development Department, The World Bank. http://www.mfc.org.pl/doc/backgroundmaterials/A_Framework_for_Regulating.pdf.

²⁰ Anne Claude Creusot (2006): L'état des lieux de la microfinance au Cameroun, BIM n° - 09 mai 2006, http://www.lamicrofinance.org/resource_centers/profilcameroun/

²¹ Ministère of Finance and Budget (2006): Importance et couverture de la microfinance: Cadre légal, réglementaire et institutionnel, published on the Web Site of the ministry as of 08/2008 see http://www.mefb-cg.org/institutions_financieres/appercu.htm

other two options left to them were either to register as a pure profit making Congolese commercial company or to register themselves under a 1901 French colonial law governing civil society associations. Chad, the Central African Republic and Equatorial Guinea had no or very inadequate rules when it came to microfinance.

Today, the master framework that regulates microfinance activities in the CEMAC region came into force in 2002 and is known as “Standard n° 01/02/CEMAC/IMAC/COBAC Organization and supervision of microfinance activities in the CEMAC”. The COBAC does not prescribe any legal form for MFIs. It focuses on the nature of the activities. It defines microfinance as “activities undertaken by authorized entities that are neither banks nor financial institutions but take savings or deposits, give out credits or loans and offer specific financial products to those generally excluded from banking networks”. There are specific administrative procedures that organizations have to follow to receive a formal authorization or accreditation from the COBAC. The text distinguishes three categories of microfinance institutions.

- *Category one* are institutions that collect savings and deposits and lend them on exclusively to their members. This category includes associations, cooperatives and credit unions.
- *Category two* are institutions that collect savings and deposits and lend

them on to third parties. This category groups limited liability companies that function more like mini banks.

- *The third category* is made of lending institutions that do not collect savings and deposits. They include micro credit and project finance institutions.

In addition, there are networks which are not a special category *per se* but which may be required to comply with an additional layer of requirements pertaining to their legal status. Overall, COBAC’s key instrument and control mechanism at the inception of MFIs seems to be “Accreditation” or licensing. However, the prudential advantages of early licensing system as a control tool are not clear. In the CEMAC region, it is still possible to start microfinance activities without any prior authorization from anybody. This is typically the case for churches, a large number of domestic non-governmental organizations some of which have been known to manage portfolio of financial assets that are large enough to contain potential systemic risks.

Microfinance regulations in the CEMAC region contain a number of unique features. Firstly, the COBAC text recommends the creation of a single professional association in each member country for all microfinance operators. These professional associations are expected to serve as linchpin between policy makers, donors and MFIs and also provide input into the development of microfinance

strategic plans. They are also expected to facilitate the prudential role of regulators by fostering transparency and sustainability in the sector through improved professionalism and innovation.

Secondly, regulators in the CEMAC have thought to favor the grouping of microfinance institutions into networks even though the COBAC does not deliberately discourage independent microfinance institutions. The regulators have laid down the rules for representation within these networks as well as control and management procedures. Networks apply for accreditation on behalf of their members, vet the management team and develop internal control and reporting mechanisms. In exchange, softer requirements will apply to the ‘mini microfinance institutions’ that are

members of a network especially when it comes to the selection of their management, control, reporting and other compliance requirements. The COBAC does not provide any elaborate justification for this choice. The 2002 annual activities report indicates that “*Organizational structures determine certain aspects of microfinance regulations. The will to favor the development of networks is taken in to account*”. It is possible that the shortage of resources and manpower might have motivated this choice. Networks vet organizations and check all authorization requirements and by so doing reduce strain on resources and simplify the work of the COBAC. Small cooperatives seeking official authorization but whose membership base is small and not likely to grow may opt for a network which then provides regulatory and other services against a commission.

Table 2: Microfinance Networks vs. Independent MFIs in CEMAC 1999/2000

Country	Networks	Affiliated MFIs	Independent MFIs	Total	Networks in %
Cameroon	4	461	191	656	70.27
CAR	3	144	14	161	89.44
Congo	1	44	25	70	62.86
Chad	5	111	17	133	83.46
Equat Guinea			2	2	0.00
Gab			13	13	0.00
Total CEMAC	13	760	262	1035	73.43

Sources: Mustapha, M. Mahamat (2006) *ibid*, and also Banque de France, News Papers in Cameroon Le Messenger, Mutations.

Networks have obvious advantages; one of which is the economy of scale as they can reach more people than small individual institutions. They can also reduce operational risk as registration and other compliance issues are outsourced by MFIs to them.

However, if they become too large, they may harbor a potential systemic risk. As a hint that networks are not immune to financial crisis, the COBAC 2005 annual report indicates that it had asked the managers of a microfinance network to produce a

restructuring plan for its affiliate member organizations which were deemed to be in a vulnerable financial situation²². In the CEMAC, networks dominate the microfinance sector although it is not clear if this domination is the result of the deliberate regulator's choice to favor them. The main concern in the long term is whether this dominance could distort the competitive landscape. The Swedish International Development Agency (SIDA) has identified the potential risks that regulators face in this area and their inevitable consequences. It has noted that: "Public regulation is also concerned with the functioning of financial markets. Markets characterized by sound competition, rather than predominance by one or a few service providers, tend to offer clients a better choice, based on correct and comparable information. This is expected to lead to innovation and efficiency which will eventually benefit clients through reduced interest rates and a diverse range of products."²³

The third special feature of microfinance regulations in the CEMAC requires microfinance operators in member countries to form professional associations generically called the association of microfinance

operators. There can only be one association for each member state.

In Cameroon, the *raison d'être* ANEM-CAM is to defend the interests of its members. It represents its members at forums organized by the State, monetary and banking authorities and serves as a source of information for its members. In Congo, the APEMF-Congo also wants to serve as the link between members and the State and donors and partake in the development of national microfinance policies. It wants to promote transparency and sustainability in the sector and foster professionalism and innovation. The APEMF-Congo plans to set up a reserve funds to protect the savings of customers or members. In other future plans, the APEMF-Congo wants to encourage members to publish the list of "bad clients" and develop collective regulation for microfinance in the country²⁴.

²² COBAC Annual Report 2005, www.beac.int/

²³ Swedish International Development Agency (2004): Making Financial Markets: Work for the Poor Guidelines on Microfinance, Published by, The Department for Infrastructure and Economic Cooperation, ISBN 91-586-8428-X, see www.sida.se/publications

²⁴

http://www.lamicrofinance.org/resource_centers/profilcongo/profilpays55#Q1

Country	Name of the Association	Date of Creation	Membership
Cameroon	Association Nationale des Etablissements de Microfinance du Cameroun. (ANEM-CAM)	2003	250
CAR	Association des Professionnels des Etablissements de Microfinance (APEMF-CA)	2006	-
Chad	-	-	-
Equato. Guinea	-	-	-
Congo	Association Professionnelle des Etablissements de Microfinance du Congo APEMF-Congo	2002	-
Gabon	Association Professionnelle des Etablissements de Microfinance du Gabon, APEMFG	2003	3

In the Central African Republic, two networks have set up the *Association des Professionnels des Etablissements de Microfinance en RCA* (APEMF-CA). The mission of this association is to defend the interests of its members and represent them at national and international events and at regulatory bodies. In Gabon, the *Association Professionnelle des Etablissements de Microfinance* (APEMFG) wants to assist the state and microfinance institutions in the development of this sector²⁵.

In most economic sectors, professional associations are initiated by the players and from within the industry. It is not abnormal to see regulators encourage the development of professional associations in the industry they regulate. In fact, in a perfect competitive

environment, regulators and economic actors can work together to advance the cause of the industry (Schmidt, 2008)²⁶. However, if the competitive landscape is imperfect, entrenched corporatist interests can distort the competitive landscape. Regulators are expected to defend the public interest (for authorized and non-authorized microfinance institutions) while professional associations (which in the CEMAC are understood to solely represent authorized microfinance institutions) defend the interests of their members.

²⁵

http://www.lamicrofinance.org/resource_centers/profilgabon#Q1

²⁶ Schmidt, Oliver (2008): How Microfinance Associations add value - Observations with references from the Association of MFIs of Uganda (AMFIU), MPRA Paper No. 6800, Online at <http://mpa.ub.uni-muenchen.de/6800/>

According to COBAC estimates, the current microfinance market only represents only around 6% of its true market potential with the rest 94% still in the informal sector²⁷. Assuming that regulatory authorities want to cover all microfinance participants and not just institutions that are authorized, a more balanced regulatory framework including a much more inclusive approach is required.

Finally, another unique feature of microfinance regulation in the CEMAC region is that there are no specific references to poverty reduction. In other words, authorized institutions are not required to sign up to any commitment to poverty reduction. In this context, it is difficult to see how they fare using performance criteria such as out reach, health and education or standard of living.

Microfinance Regulation and Stakeholders

The definition of stakeholders in the microfinance literature is very narrow and quite often vague. The Nigerian Central Bank identifies five categories of stakeholders

²⁷ Conceptually, the informal economy stands in opposition to the 'formal' economy, i.e. that part of the economy whose activities are recorded in national accounts and operate under rules and regulations imposed by the government. By contrast, economic activities in the informal sector are not recorded in national accounts (hence often called 'invisible') and are not subject to formal rules of contract, licensing, labour laws, reporting and taxation. The quality of information about the size, magnitude and composition of the informal economy in Africa is generally very poor.

which include government, MFIs, public institutions, donors and the Central Bank herself²⁸. According the Zambian Reserve Bank, stakeholders include the government, the Reserve Bank²⁹, practitioners and donors. The Africa Micro finance Network lists seven *key microfinance stakeholders* or *key actors* (Emphasis added) including clients, regulators, microfinance practitioners, technical service providers, donors, investors and policymakers. The concept of stakeholder is more often used in modern corporate finance to describe the contractual relationship within a firm, between the managers and the shareholders who commonly have a stake in the business of the firm (Bradford and Shapiro, 1987)³⁰. This stake gives them contractual rights and obligations including an incentive to create and not destroy value. But since it is impossible to devise rules to govern the behavior of individual stakeholders, written contracts are supplemented by

²⁸ Nigerian Central Bank (2005): Microfinance policy, regulatory and supervisory framework for Nigeria, Abuja December, 2005
www.cenbank.org/out/Publications/guidelines/dfd/2006/microfinance%20policy.pdf

²⁹ Chiara Chiumya (2004): Banking Sector Reform and Financial Regulation: Its effects on access to financial services by low income households in Zambia, Development Economics and Public Policy, working paper series, Paper No. 13, Institute for Development Policy and Management, University of Manchester, ISBN: 1 904143 70 9, November (2004)
<http://ageconsearch.umn.edu/bitstream/30552/1/de050013.pdf>

³⁰ Cornell, Bradford, and Alan C. Shapiro (1987): Corporate Stakeholders and Corporate Finance, in Financial Management, Spring 1987, 5–14.

understandings that no one should behave in a way that is detrimental to the goal of wealth maximization (Brealey et al, 2001)³¹. The use of the concept of stakeholder however, has often been stretched beyond the realm of corporate finance to also include intermediaries such as regulators, the courts who have a stake in terms of protecting the public interest and the State which collect tax from these firms.

According to the stakeholder argument, each entity has a stake and goals and is using microfinance to achieve these goals. Private investors tend to seek return on their investment in contrast to donors and NGOs that tend to pursue goals that are consistent with the mission set by their sponsors. Regulators especially in the CEMAC region under the purview of their governments want to maintain the stability of the region's financial system essentially by reducing the size of the informal financial sector and its stranglehold on the economy (OECD, 2003)³². MFIs are on the demand side (as recipients of funds) and also on the supply side (on-lending to the poor). They must meet the expectations of all parties or run out

³¹ Richard A. Brealey, Stewart C. Myers, Alan J. Marcus (2001): *Fundamentals of Corporate Finance*, 3rd ed. The McGraw-Hill Companies, Inc. page 22.

³² According to a joint report by the African Development Bank and OECD, published in the *African Economic Outlook*, the informal economy has expanded to about 51 per cent of GDP since 2003. www.oecd.org/dataoecd/12/59/2498098.pdf

of funds. Government agencies especially in Africa supply funds (subsidies from donors for program aimed at the poor) and at the same time are the source of laws, policies, regulations and also tax rules that can enable or disable the development of microfinance. The poor who make the bulk of the clients of microfinance are also stakeholders. They are tax-payers and in addition, they share financial risks with MFIs as depositors of funds, which imply that they are exposed to mismanagement and in the worse case pure embezzlement (SIDA.2004)³³. They also need MFIs to access financial services which otherwise would not be available to them.

The concept of stakeholder therefore, has wider ramifications and fields of application in microfinance. It includes all those in the microfinance supply chain who agree that the primary goal of microfinance is to alleviate poverty. These include new and established economic actors from the supply side as well as from the demand side and also entities that intermediate in the microfinance supply chain. When they act together, they can maximize the wealth for shareholders and stakeholders at the same time. They may even reinforce the ability of MFIs to attract new stakeholder groups (Fabozzi and Peterson (2003)³⁴. By pursuing poverty

³³ Swedish International Development Agency SIDA (2004), *ibid*

³⁴ Frank J. Fabozzi and Pamela P. Peterson (2003): *Financial Management and Analysis*, 2nd Edition,

alleviation goals, stakeholders can minimize “externalities” or the risks faced by firms that focus exclusively on narrow goals. Opponents to the stakeholder argument generally argue that there are costs associated with poverty alleviation, which they say reduces MFI owners’ wealth. However, there are other players or the so-called socially-responsible shareholders who believe that reducing poverty increases the customer base of MFIs; in other words, the interests of owners and society can be aligned because poor savers are willing to accept higher costs in order to maximize consumption utility³⁵.

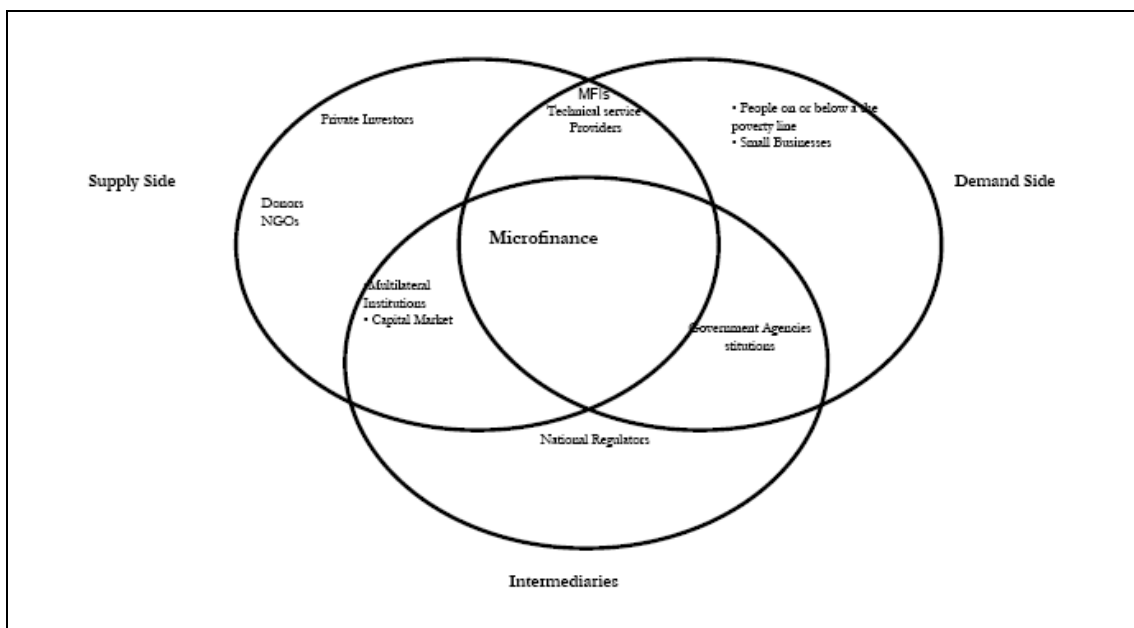
Regulations must therefore be analyzed from the perspectives of all these players taking into account their respective interest and stakes. The USAID argues that the regulatory spectrum is characterized by numerous components and that some components directly affect microfinance institutions while others affect investors (Druschel, 2005)³⁶. In fact, each actor is differently affected by all the components of microfinance regulations creating potential collisions at the intersection in the complex matrix of interests. Some observers are more

apprehensive about the role of financial regulation. Some have argued that regulation is influenced by private groups with political power who use the coercive power of the state to extract rents at the expense of other groups and of public interests. Benmelech and Moskowitz (2006)³⁷ used U.S. state usury laws during the 18th and 19th centuries to study the political economy of financial regulation. They found that financial regulation policies designed to protect one group’s interests and exclude others are also correlated with other economic and political policies designed to do the same. In other words, by distinguishing between policies (the framework for action plan) and regulations (the tools that are used to achieve the action plan) these authors were actually arguing that policies and regulations can have mutually reinforcing (desired and undesired) effects.

³⁵ Bachrach, P., Baratz, M., (1970) *Power and Poverty*. Oxford University Press: Oxford.

³⁶ Druschel, K. (2005): *The Ultimate Balancing Act: Investor Confidence and Regulatory Considerations for Microfinance* (microREPORT #28), Published by: USAID - U.S. Agency for International Development. <http://www.microfinancegateway.org/content/article/detail/30579>

³⁷ Efraim Benmelech and Tobias J. Moskowitz (2006); *The Political Economy of Financial Regulation: Evidence from U.S. State Usury Laws in the 18th and 19th Century*, AFA 2007 Chicago Meetings Paper. http://papers.ssm.com/sol3/papers.cfm?abstract_id=891663,



Graph 1: Microfinance stakeholders

One regulation, many policies

In mature economies the development of financial regulations has not been a linear process rather it has been gradual through periods of crisis and consolidation. It is also a product of cultural practices. Even there, regulation and financial services are two different worlds. The later tends to move faster than the former. In recent years, regulators have struggled to keep up with the rapid development of new financial instruments such as financial derivatives. Their indiscriminate use in complex financial engineering and the subsequent collapse of large institutions such as Enron in the United States or Barings Bank in Singapore

(Carrington, 1996, Labaton, 2002)³⁸ shook the confidence of investors and other market participants. These developments have transformed the approach to financial regulations which have had to evolve from purely prescriptive and normative rules to more dynamic processes that operate within a wider policy framework defined by law makers but involving all stakeholders.

³⁸ Matthew Carrington (1996): Barings Bank and International Regulation, Great Britain., Published in December 31, 1996, Stationery Office Books.

For more background information on the Enron case see <http://energycommerce.house.gov/reparchives/107/hearings/02072002Hearing485/hearing.htm>

See also Stephen Labaton (2002): Enron's Collapse, Regulation: Audit Changes Are Facing Major Hurdles, New York Times, Published online January 24, 2002 <http://query.nytimes.com/gst/fullpage.html?res=9901E1DB1E3BF937A15752C0A9649C8B63>,

Microfinance policies must therefore be distinguished from microfinance regulations. The development of microfinance policies in the CEMAC region remains the prerogative of individual member states. Of all the CEMAC member countries, only Cameroon has developed a strategic plan for poverty reduction with microfinance as a core instrument. The aim of the Cameroon's *Microfinance National Policy (April 2004)* is to facilitate access to adequate financial services for the poor and very-poor below the poverty line especially in rural areas. The government has set strategic goals, one of which is to align microfinance activities with the needs of the environment and also to create or improve the legal environment so that it is conducive to the development of microfinance institutions. When the other CEMAC member States eventually formulate their national microfinance policies, the CEMAC could end up with one microfinance regulation and many policies creating an ideal situation for regulatory arbitrage³⁹.

³⁹ In modern finance arbitrage consists of taking positions in two or more markets so that a riskless profit is made (i.e. providing an infinite rate of return since money can be made without committing any investment). It occurs when there is information asymmetry. In the area of regulation arbitrage-based strategies could to profit from discrepancies in two microfinance policies in two countries (or portfolios) that will, in the end, produce the same opportunities for profit. Arbitrage always involves two transactions: the purchase of an undervalued asset (lax or flexible no microfinance policies) and the sale of an overvalued asset (strict microfinance policies).

Different microfinance strategies and policies in the region will complicate the enforcement of regulations. For, there are discrepancies between and even within the economies of the region. For example, in terms of size, Cameroon is the dominant country on which Chad and the Central African Republic depend for access to sea port import-export activities. There are also differences in terms of endowment in natural resources. Five countries (Cameroon, Gabon, Congo, Chad and Equatorial Guinea) generate much of their revenues from oil. And when it comes to microfinance, Cameroon again emerges as a dominant player both in terms of the size of this industry and in terms of growth potential. There also strong similarities. CEMAC countries are largely dependent on agriculture with Gabon, Equatorial Guinea, Chad and Central Africa Republic depending on Cameroon for food. CEMAC countries have poor economic infrastructure especially transport network, weak legal system and very low financial literacy. These are the factors that can affect even the best microfinance regulation. Some of these issues are beyond the competence and the resources of COBAC. They can only be addressed in a harmonized policy framework.

For extensive discussions arbitrage strategies in modern finance see Charles Tapiero (2004): *Risk and Financial Management*, John Wiley and Sons Ltd, Chichester, West Essex United Kingdom.

Most national microfinance strategic plans are based on the recognition that microfinance as a poverty alleviation tool has a wider social function. This distinguishes it from main stream financial services which are largely but not exclusively driven by shareholder wealth maximization. This recognition also helps to distinguish microfinance operators from other financial services providers. Most governments use poverty alleviation to justify special tax

exemption and lenient compliance framework for MFIs in their early stages of development. In exchange, MFIs are expected to declare and adhere to a social mission for example ‘*empower poor and vulnerable households economically and socially*’ and then demonstrate their outreach to disadvantaged groups. For these reasons, their performance criteria are often tied to the improvement of the quality of life of individuals and households.

Table 4: Adapted from Joanna Ledgerwood, World Bank, December 1998

The three levels of performance assessment of microfinance institutions		
ENTERPRISE LEVEL	HOUSEHOLD LEVEL	INDIVIDUAL LEVEL
Output	Income	Women’s empowerment
Asset Accumulation	* Specialization	* Control over finances/other resources
Risk Management	* Diversification	* Contraceptive use
Technology	Asset Accumulation	Children
Employment	Savings	* Survival Rates
Management	Consumption	* Health and nutrition
Market	* Food	* Education (Schooling for children)
Income/Sustainability	* Non Food	* Exploitation

The link between microfinance policy and microfinance regulation is critical as Joanna Ledgerwood (1998)⁴⁰ observed when she argued that, “economic and social policies influence both the ability of an MFI to effectively provide financial services and the types of activities micro-enterprises

undertake”. Microfinance without a poverty alleviation framework can make things worse for poor people just as performance criteria that are not supported by regulation can lead to what is commonly described as “mission drift”⁴¹. Perhaps mindful of this risk, a number of countries in Sub Saharan Africa

⁴⁰ Joanna Ledgerwood (1998): Sustainable banking with the poor, World Bank, Washington, DC, December 1998.

⁴¹ CGAP (2001): Commercialization and Mission Drift: The Transformation of Microfinance in Latin America, Occasional Paper No. 5, January.

are putting in place microfinance policies tied to poverty alleviation. With varying levels of details, this is the approach used in Madagascar, Nigeria and Malawi.

Madagascar

In Madagascar, the mission of microfinance is the provision of financial services to underprivileged population groups. The National Microfinance Strategy (SNMF) was defined in 2004, with the specific aim of "*engaging stakeholders around actions to strengthen and develop the sector. Its objective is to form a viable and permanent professional microfinance sector, which is diversified and innovative, ensuring satisfactory coverage of demand throughout the country and operating within an adapted and favourable legal, regulatory, fiscal, and institutional framework.*" The strategy also specifies the role of the various participants, the activities to be undertaken, and the corresponding budget. To achieve that objective, the National Microfinance Coordination Unit (CNMF) was created in the Ministry of Finance. This unit was given the mission to coordinate general government policy on microfinance, promote the sector and monitor the activities of its participants. A steering committee was set up within the CNMF, to serve as a platform for observations and discussions to enhance conditions for microfinance development. The membership of the steering committee consists of MFI representatives, acting through their professional associations, the Minister for Agriculture and Livestock, the

Minister for Finance, financial backers, and the CSBF.

Nigeria

The Nigerian Microfinance Policy Framework (NMPF) purports to enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups. The policy wants to create a platform for the establishment of microfinance banks; improve the Central Bank's regulatory and supervisory performance in ensuring monetary stability and liquidity management; and also provide appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in Nigeria. The policy document was based on a baseline survey on the activities of microfinance institutions (MFIs) in Nigeria and also on extensive consultations with national and international consultative stakeholders. Study visits to India, Pakistan, Indonesia, Philippines and Uganda. Nigeria helped to refine clear policy objectives one of which is to "*contribute to rural transformation*" by making financial services accessible to a large segment of the potentially productive Nigerian population. The national microfinance policy has specific targets one of which is to eliminate gender disparity by improving women's access to financial services by 5% annually. It has also specified delivery mechanisms or policy strategies one

which is the strengthening of the regulatory and supervisory framework for MFIs.

Malawi

In Malawi, the government began with an analysis of the situation of poverty in 1993 which revealed that over 60% of Malawi's population in urban and rural areas, respectively, lives below the poverty line. The study concluded that there is great need, therefore, to put into place action that can reduce or even eradicate poverty in the country. The chief purpose of the Policy is to promote the development of a sustainable microfinance industry which provides credit, savings opportunities and other financial services to low-income people, which will create wealth and employment in Malawi. One of the main strategies to reach this goal is the creation of an enabling legal and regulatory environment as well as overall economic policies conducive to the development of microfinance.

These three examples show that microfinance regulations are actually policy tools. In some cases, policies are laid down first then regulations follow. In others where microfinance regulations exist they are expected to be realigned with policy goals as they developed. Of course one may argue that it is perhaps much easier to develop policies for one nation than for a regional organization such as the CEMAC. The counter argument is, Nigeria is more than

four times the population of CEMAC and is as geographically and sociologically heterogeneous as the CEMAC. Malawi on the other hand and despite being a land-locked country with very poor natural resources has been able to develop a policy framework for microfinance that has led to a very relatively more effective regulatory framework. Madagascar is also poorly endowed in terms of natural resources but with very poor economic infrastructures. Nonetheless, the Malagasy government has a very dynamic policy and regulatory frameworks. The point here is not whether population, social diversity or economic infrastructure and resources facilitate microfinance policy making but whether a country or an entire region can overcome their *inter* and *intra* diversities in order to come up with harmonized working frameworks.

Model microfinance policy framework for CEMAC

Poverty alleviation and the nexus of a microfinance policy model

The thrust of the argument in this paper is that poverty alleviation can provide the basis for the articulation of a sustainable microfinance policy and effective microfinance regulation in the CEMAC. This is because as poverty recedes, wealth increases therefore creating better conditions for the horizontal expansion of microfinance.

In this sense, commitment to poverty alleviation does not undermine, but instead, can actually sustain the development of the global financial sector by opening new opportunities from which formal banks have historically shied away. A poverty alleviation orientation can instill an impulse to the sector in the CEMAC region. Some analysts have expressed reservation about ascribing a poverty-alleviation function to microfinance, arguing that it is not a panacea. Morduch (1999)⁴² led the charge a decade ago when he wrote that there are “good reasons for caution” because for him, previous solutions to poverty in the early 1950s through the 1980s which used microfinance as the main instrument “were nearly all disasters”. Along the same lines, there are those who are arguing for a change in the perception of microfinance from a poverty or development tool to a mere component of the financial sector (AFMIN, 2005)⁴³.

Overall and over the past two decades, this position has been defeated by data and research which support the view that poverty itself is not a static state and that the means used to reduce it have to “changed and

refined constantly to keep up with changes in poverty dynamic”⁴⁴. Poverty is multidimensional and microfinance can effectively address some of its most important root causes. Studies and evaluations by CGAP (2002a, 2003a)⁴⁵ looked at the poverty alleviation issue from a range of perspectives. Overall, access to financial services generates broader improvements in living conditions, especially in the areas of health (lower child mortality, increased comfort in living environment); education (increasing literacy rate for children of microfinance clients), greater gender empowerment (birth control, women entrepreneurship) and higher probability of business recovery via micro insurance (especially after natural disasters).

For decision makers in many developing countries, placing poverty alleviation at the centre of their microfinance policies is a delicate balancing act in a context where a number of donor agencies tend to distinguish between “market-friendly” and “market non-friendly” policies. Market-friendly policies are those that provide an attractive environment to commercial private microfinance

⁴² Jonathan Morduch (1999): *The Microfinance Promise*, in the Journal of Economic Literature Vol. XXXVII (December 1999)

⁴³ 4th Annual Conference of the Africa Micro finance Network, Declaration and conclusion of Conference participants, “Increasing Micro finance Outreach and Effectiveness in Africa” December 6 to 10, 2005, Bamako, Mali.

⁴⁴ Asif Dowla and Dipal Barua (2006): *The Poor Always Pay Back, The Grameen II Story*, (Preface, XV), Kumarian Press, Bloomfield, Connecticut USA

⁴⁵ CGAP (2003a): *Microfinance Means Financial Services for the Poor*, Donor Brief No. 11, March, see also CGAP (2002a): *Making Sense of Microcredit Interest Rates*, Donor Brief No. 6, September. <http://www.microfinancegateway.org/content/article/detail/21667>

investors. When microfinance regulations and policies are perceived as non-friendly to the market, then the country gets a bad reputation, lower ratings followed by sanctions in the forms of deprivation of multilateral and bilateral sources funds⁴⁶. Nonetheless, the poverty alleviation approach to microfinance is endorsed by microfinance industry practitioners who are gradually including poverty reduction in their mission and a few donors who are increasingly allocating microfinance on this basis (Simanowitz, 2004)⁴⁷. To sum up as Maria Otero (2005)⁴⁸ from ACCION international said “microfinance at its core combats poverty”. For this reason, poverty alleviation is also the primary conceptual foundation for a microfinance policy model.

Inputs factors in the microfinance policy model

⁴⁶ This may explain why the COBAC has adopted a seemingly neutral position on the question of poverty alleviation. Its annual report 2005 states that its microfinance regulatory framework focuses only on the formalization (“encadrement”) of the activities of microfinance institutions that come under its control and that “it does not intervene in their institutional [MFIs] choices”. However, it is important to recognize that COBAC does not make policies.

⁴⁷ Anton Simanowitz (2004): Issues in designing effective microfinance Impact Assessment systems, Imp-Act Working Paper 8, www.ids.ac.uk/UserFiles/File/poverty_team/social_protection/SimonovitzWP8IASys.pdf

⁴⁸ Maria Otero (2005): Bringing Development Back, into Microfinance, Journal of Microfinance, Volume 1 Number 1, 2005, The Economic Self-Reliance Center at Brigham Young University <http://marriottschool.byu.edu/esrreview/articles/article23.pdf>.

A model is a miniaturized representation of a physical or conceptual reality using a few key inputs at the outset, then adding more parameters in order to reflect various levels of complexity. Policy models deal with content and forms. They can be normative, predictive or explanatory. Models are becoming increasingly indispensable in developing nations where there is a scarcity of financial and human resources and information asymmetries between the parties involved in the financial system (Ham and Hill, 1993; Sriram, 2002)⁴⁹. In this context, models can enable an effective evaluation of possible consequences of all policy options (Kingdon, 1984)⁵⁰ in a small setting before a rollout in the wider society (Howlett and Ramesh 2003, Hogwood and Gunn 1984)⁵¹. There are many approaches to microfinance policy making with their respective merits and limitations. The literature recognizes six

⁴⁹ Sriram, M. S. (2002): *Information asymmetry and trust: A framework for studying microfinance in India* (WP No. 2002-09-02). Ahmedabad: Indian Institute of Management. See also Ham, C., Hill, M., (1993) *The Policy Process in the Modern Capitalist State*. Harvester Wheatsheaf: London.

⁵⁰ John W. Kingdon (1984): *Agendas, Alternatives, and Public Policies*, Boston & Toronto: Little Brown & Company.

⁵¹ Howlett, Michael and Ramesh, M (2003): *Studying Public Policy: Policy Cycles and Policy Subsystems*, Oxford University Press.

See also Brian W. Hogwood and Lewis A. Gunn (1984) *Policy Analysis for the Real World*, London: Oxford University Press.

main models (Sutton, 1999)⁵² that have been applied in many countries with varying degrees of success.

- The *rational/linear model* requires an exhaustive consideration of all possible options in detail. This is the traditional model used by rotating credit associations. Their approach is seen as linear and rational because of their relative simplicity. Admission into the ROCA is straight forward once the candidate meets some basic conditions. Members are treated in the same way and would have access only to the same amount of funds when their turn comes (Grindle and Thomas, 1990, 1991)⁵³. There are no *pre* or *post* conditions apart from the provision of basic social collateral (membership and involvement in community and issues) in order to guarantee repayment and no specific performance evaluation and targets.
- The *interactive model* is the antidote of the ‘top-down’ policy making approach. In this model, stakeholders interact to make microfinance decisions and enter into transactions. The outcome represents a balanced reflection of all interested parties. This model has been applied by the Grameen

Bank in Bangladesh. The interactive model largely explains the success of Grameen bank in terms of outreach, lifting people beyond the poverty line and also the organization expansion’s beyond mainstream microfinance into other services such as funds management and mobile phone.

- The *experimental model* is akin to the experimental approach of the natural sciences which mimics natural evolution through trial and error. This is the model applied by most Non-Governmental Organizations and especially religious groups which typically focus on small experimental groups within their membership.
- The *participatory model* which Sutton (1999) called “policy as arguments”, where policy is developed through debate between the State, power brokers and other civil society groups. Participants present claims and justifications which others review critically. It assumes that all participants have equal bargaining powers which they can use to mold certain political issues into group or collective social agenda. In the CEMAC, microfinance networks (as opposed to independent MFIs) can even be seen as power brokers because they have more bargaining powers due to the preferential treatment given to them by regulators.
- The *incremental approach* involves looking only at options which from previous experience are known to exist. This has been the basis of the so-called “*scaling down*” or “*scaling up*” on the microfinance spectrum by formal banks and MFIs respectively. In the CEMAC it can only work well if chronic legacy issues that afflict the financial

⁵² Rebecca Sutton (1999): The policy process: An overview, Overseas Development Institute, Portland House, Stag Place, London SW1E 5DP, Printed by Chameleon Press Ltd, London SW18 4SG, ISBN 0 85003 417 5

⁵³ Grindle, M. and Thomas, J. (1990): ‘After the Decision: Implementing Policy Reforms in Developing Countries’. World Development. Vol. 18 (8).

Grindle, M. and Thomas, J. (1991) Public Choices and Policy Change: The Political Economy of Reform in Developing Countries. Baltimore: John Hopkins University Press.

system in the region can be addressed.

- o The *comparative model* pitches a limited number of possible options against each other. It takes a broad view of possible policies setting priorities by matching means with needs before narrowing down after a process of elimination.

The evolution of microfinance in the CEMAC in the past decade suggests that a

regulatory framework and by extension, a regional microfinance policy model cannot be entirely driven by one policy making model, rather by a combination of various models as represented in the matrix below. The integrated model in the matrix uses poverty alleviation as a unifying factor in the complex social and economic diversity of the countries that make this economic union.

Table 6: Integrated model framework for Microfinance Policy making for the CEMAC

Tool	Microfinance regulation	
Financial System	Incremental policy model	Comparative policy model
Institutions	Participatory policy model	Experimental policy Model
People	Interactive policy	Linear policy model

This integrated model in the matrix is generic. However, there are a number of idiosyncratic factors that characterize the financial sector in the CEMAC and that have a bearing on the development of microfinance sector as a whole. These factors generally stem from legacy issues and stand as constant parameters that must be included in the matrix to form a more integrated microfinance policy framework in the CEMAC.

a) Legacy parameters

The State presence in the banking sector is a legacy of the past. A large number of banks are former state-owned banks that were privatized in the 1990s in the wake of the

Microfinance in the CEMAC operates in a sector dominated by two types of players: a handful of commercial banks and the States. There are 35 banks deployed in 204 branches serving 1.5 million people out of a bankable population estimated to be 3 million (the population of CEMAC is 40 million). The commercial banking players are characterized by a concentration of ownership and a number of cross-border cross-holdings.

IMF/World Bank led structural reforms. But domestic governments have retained important equity stakes. Using working capital as a base for calculation, CEMAC

States control 18% of banks with Gabon, highest; with respectively 26.30%, 20.30% Congo and Equatorial Guinea controlling the and 18.94%.

Table 8: State Ownership in CEMAC Banks, December 2005⁵⁴

In %	Public			Private			Total
	State	Parastatal	Total Public	Nationals	Foreigners	Total Private	
Cameroon	9.80	0.00	9.80	33.30	56.90	90.20	100
CAR	18.95	0.00	18.95	24.12	56.93	81.05	100
Congo	6.30	14.00	20.30	22.60	57.10	79.70	100
Gabon	21.60	4.70	26.30	24.30	49.40	73.70	100
Eq Gui	18.94	0.00	18.94	20.30	60.74	81.06	100
Chad	12.50	1.07	13.57	5.53	80.90	86.43	100
CEMAC	14.68	3.29	17.97	21.70	60.33	82.03	100

Table 7: Number of Banks

Country	Number of Banks	Number of branches
Cameroon	10	104
Congo	4	33
Gabon	6	35
Equatorial Guinea	3	10
Central Africa Rep	3	6
Chad	7	16
Total CEMAC	33	204

Sources: COBAC Annual Report 2005

⁵⁴ COBAC Annual Report, December 2005. page 20

For some specific institutions State ownership is higher with for example 72.83% (Cofipa Investment Bank Congo), 69.01% (Banque Gabonaise de Développement) and 37.50% (Banque Populaire Maroco-

Centrafricaine in the Central African Republic). This represents a significant reduction of state presence as compared to the past but still guarantees the States a major role especially in the regulatory field.

Table 9: State Ownership in individual CEMAC banks⁵⁵

Country	Name of Bank	Government Stake
Cameroon	BICEC	23%
	Credit Agricole Cameroon	35%
	Societe Generale	25%
Congo	Crédit Lyonnais Congo	9%
	La Congolaise de Banque	11%
	Cofipa Investment Bank Congo	72.83%
Gabon	Banque Gabonaise de Développement	69.01%
	Banque Internationale pour le Commerce et l'Industrie du Gabon	26.35%
	BGFIBANK	8%
	Financial Bank Gabon (*)	1.58%
	Union Gabonaise de Banque	25%
Equatorial Guinea	Société Générale de Banques en Guinée Equatoriale	31.80
	CCEIBANK Guinée Equatoriale	10%
	BGFIBANK Guinée Equatoriale (**)	15%
Central Africa Rep	Banque Internationale pour le Centrafrique	9.33%
	Banque Populaire Maroco-Centrafricaine	37.50%
	Commercial Bank Centrafrique	10%
Chad	Banque Commerciale du Chari	50%
	Commercial Bank Tchad	17.48%
	Société Générale Tchadienne de Banque	20%

(*) The late wife of the late President of Gabon owned 3.81% of the shares of this bank
(**) The President of Equatorial Guinea himself owns 10% of the bank

⁵⁵ Sources: COBAC Annual Report 2005

Legacy issues have many other ramifications and consequences. For example classic banks are still confined to large cities and continue to neglect rural savers. In fact, in some regions, MFIs function as mini banks by default or are able to offer formal banking by simply ignoring regulations. MFIs can also circumvent regulations as is the case in Cameroon, where the largest network CAMCCUL has teamed up with other MFIs and credit institutions to create their own private bank (Union Bank of Cameroon PLC⁵⁶). Another manifestation of these legacy issues is that formal banks can conduct all microfinance operations without asking the COBAC; either directly through partnership with MFIs, or through networks and other joint ventures. In Cameroon, one of the national commercial banks (Afriland First Bank) has its own microfinance network known as “MC²”. Similarly in Chad, one of the largest private banks (the Financial Bank Chad, part of the French Group Financial) also has its own microfinance network the FINADEV⁵⁷. In fact, according to COBAC

regulations, the only difference between banks and MFIs is that the later are not allowed to undertake operations beyond national borders. So, in theory banks can “*scale down*” (bank offering microfinance services) and MFIs can “*scale up*” (MFIs converting into or partnering with banks). The IMF and the World Bank seem to have turned this into a doctrine. Their researchers agree. “Several banks, especially in Cameroon, have begun deepening their retail services and/or working with MFIs to expand their outreach indirectly. Links between banks and MFIs are emerging, especially in Cameroon, and this is a positive development.” But by so doing, they have ended up offering the same products and services, therefore depriving customers of the advantages of real competition. The mere logic of “vertical integration” (Ingves, 2005)⁵⁸ whereby microfinance institutions exist to help banks reach the “unbankable” has a fundamental bias in favor of formal banks⁵⁹ whose entrenched discrimination against and exclusion of poor savers is abundantly

⁵⁶ The share ownership is broken down as follows: Cameroon Cooperative Credit Union League (Camccul) 39,41%; Azire Credit Union 12,30%; Dutch Development Foundation 7,13%; Bamenda Police Credit Union 5,74%; Victoria Customs Union 4,10%; Beneficial Life Ins. 3,56%; Divers Credit Unions 27,7%. See COBAC 2005 annual report.

⁵⁷ In its 2005 message the Management Bank wrote that “The Group Financial is a leader in microfinance in French speaking Africa. From 2001, microfinance activities (targeting micro, small and very small enterprises) were grouped in a subsidiaries in partnership with donors (SFI, FMO)”

⁵⁸ Stefan Ingves (2005): *Microfinance: A View from the Fund*, paper prepared by the Monetary and Financial Systems Department with contributions from the African, Policy Development and Review, and Research Departments, IMF Washington USA.

⁵⁹ Ann Rennie and Bernard Laurens (2008): CEMAC Regional Financial Sector Assessment Program: Technical Note Access to Finance, World Bank and IMF. The background of this doctrine is the general emphasis at the multilateral level on the prevention of systemic risk and crisis contagion. Problems can emerge when the global approach is used to micro-manage sub-sectors of the financial services especially in poor economies.

documented. In fact, “vertical integration” without a cultural change within formal banking institutions in the CEMAC region could become detrimental if it continues to blur the distinction between MFIs and formal banks. This situation is also potentially conducive to regulatory arbitrage where institutions on both side of the integration simply exploit loopholes to circumvent regulations.

The current stage of development of the financial sector in the CEMAC which is characterized by the prevalence of the informal economy suggests that a “horizontal integration” is more likely to sustain the development of microfinance by enabling MFIs to mutually reinforce each other to “reach out to other stakeholders and not only to shareholders” (Triole, 2006)⁶⁰. If MFIs are simply encouraged to become banks in their current forms, they will inevitably inherit the chronic flaws and cultural biases of CEMAC banks. These legacy issues mean that the question of integration between formal banks and MFIs cannot be left to the simple mechanics of the market (Pagura M. and Kirsten M., 2006)⁶¹. It can be more effectively addressed in a regional

microfinance policy framework which has poverty alleviation as its core driver.

b) Institutional parameters

Microfinance institutions in the CEMAC region cannot be effective without policies that support a continuous adjustment to their changing business environment. They are exposed to dynamic changes at the micro level for example client demographics (income level, population density, socially excluded). Macro economic fundamentals expose them to socio-systemic risks (pandemic diseases, conflict, sectorial underperformance e.g. agriculture). The root cause of these changes is poverty, which in effect represents the main risk that could hamper the development and expansion of microfinance in the CEMAC region. This risk cannot be managed at the MFIs’ level alone, rather in the context of a larger microfinance policy framework.

The Union has been in existence since 1959. It is a colonial legacy built from the former Afrique Equatoriale Francaise (AEF) which was considered a French Overseas Territories. The Central African Republic, Congo-Brazzaville, Gabon, Chad and later Cameroon formed l’*Union Douanière Equatoriale* (UDE) after their independence. The UDE became *Union Douaniere et Economic de l’Afrique Centrale* (UDEAC) in 1964 with five ambitious programmes including 1) the creation of a common economic market, 2)

⁶⁰ Jean Triole (2006): *The Theory of Corporate Finance*, Princeton University Press, Princeton, NJ, USA, page 56.

⁶¹ Pagura M. and Kirsten M. (2006). *Formal-informal financial linkages: lessons from developing countries*. *Small Enterprise Development Journal*, March 2006.

the coordination economic sectors, 3) the harmonization of industrial and economic policies and 4) from 1972, monetary cooperation with creation of a common currency pegged to the late French Franc which Equatorial Guinea adopted as a new member in 1984. The mutation to CEMAC (*Communauté économique et monétaire d'Afrique centrale*) which took place in June 1999, instilled a new momentum with the delegation of some national prerogatives to CEMAC especially in the financial arena. The Central Bank and COBAC completely took over monetary matters and financial regulations. In this drive towards regional integration, national institutions have had to interact with regional ones. These interactions add an additional layer of complexity in terms of the definition of the issue and the creation of shared need for policies (Bursens and Deforche, 2007)⁶². Equally complex is the specification of objectives and scope, especially when ideas have to move from the more general consensus to the specifics applicable to member countries. According to a performance report commissioned by the CEMAC herself, there is a lack of coherence amongst the institutions of the CEMAC in a general context where member States

⁶² Peter Bursens and Jana Deforche (2007): Europeanization of sub national polities: the impact of domestic factors on regional adaptation., paper to be presented at the European Union Studies Association Tenth Biennial International Conference May 17-19, 2007, Montreal, Canada (unfinished draft)

continue to show a very poor assimilation of the virtues of economic and financial integration⁶³. There are no measures to prevent the difficulties of the monetary union from trickling down to sectors such as microfinance.

c) Operational Parameters

The States, supra national bodies, government institutions are omnipresent in microfinance. They intervene, compete and clash at every level of policy making (Moran, 1981; Dror, Y., 1986)⁶⁴. In all CEMAC countries for example, at the inception or directional policies where major priorities are set, MFIs are regulated by three different laws: (1) the national law, (2) the Economic and Monetary Community of Central Africa (CEMAC) law via the COBAC, (3) the Pan African Organization for Harmonization of Business Law in Africa (OHADA). MFIs are expected to comply with these broad frameworks as well as strategic policy issues. At this level of policy making, several ministries focus on different results using different performance benchmarks, some of which such as taxation and regulatory status

⁶³ ECDPM and PMC (2006): Diagnostic institutionnel, fonctionnel et organisationnel de la CEMAC, [http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/CD5F1EFE24278383C125718F003D0280/\\$FILE/cemac_report.pdf](http://www.ecdpm.org/Web_ECDPM/Web/Content/Download.nsf/0/CD5F1EFE24278383C125718F003D0280/$FILE/cemac_report.pdf)

⁶⁴ Dror, Y., (1986): Policy Making Under Adversity. Transaction Publications: New York. See also Moran, M. (1981) The Unmaking of policy: implementing 'competition and control'. Public Administration Bulletin, 35, 39-57.

are not aligned. Finally, at the operational level there are other administrative bottlenecks which tend to be symptoms of a poor policy design⁶⁵ or simply a lack of implementation structures⁶⁶.

In Congo-Brazzaville for example, Mackiza (2006)⁶⁷ observed a lack of harmonization between the Interior Ministry and the Ministry of Finance which both have duplicate competence to regulate MFIs. The Interior Ministry ignores COBAC supranational and regional treaties in favor of the 1901 colonial law which regulates all types of civil society associations. Consequently, situations where MFIs are accredited by COBAC and the Congolese Ministry of Finance, but not by the Interior Ministry are common. On the other hand, tax exemptions that have been granted to MFIs by the Congolese Ministry of Finance are not applied by its very own internal revenue

office, which has the power to shut down any MFIs for non-payment of discretionary taxes. There is no sympathy from Congolese banks either. Congolese MFIs use them to deposit the savings of their members in compliance with national laws. And since there is no domestic or regional framework which determine the terms of cooperation between MFIs and classic banks, the latter charge exorbitant rates for this service and for loans, in a country where there are no alternative refinancing options. Classic banks also repay extremely low rates on the savings account; practices which in the long run have the potential of crippling the sub-sector of microfinance.

In Cameroon, Lori Curtis (2008)⁶⁸ points out that, the regulations of COBAC, are not well disseminated among stakeholders. He explains that it is because regulations are the outcome of a “*top-down*” process which does not incorporate stakeholders. Consequently, corollary issues such as taxation, transfer of funds among microfinance institutions are not clearly interpreted because of the absence of policy guidelines regarding the protection of clients’ savings. In Cameroon, these issues are complicated by the increasing duplication

⁶⁵ Linder, S., Peters, G., (1987): A Design Perspective on Policy Implementation in *Policy Studies Review*, 6, 3, 459-475.

⁶⁶ Hjern, B., Porter, D., (1981): Implementation Structures in *Organization Studies*, 2, 211-227.

⁶⁷ Ghislaine Mackiza (2006): *Microfinance : un secteur qui a besoin d'être soutenu au Congo*, article published in *Dialogue Citoyen* 16, Juin 2006, Page 6. Dialogue Citoyen is a monthly news paper of a Congolese civil society promoting organization called Programme Dialogue Citoyen. Ghislaine MACKIZA is a microfinance practitioner as Director of La Caisse de Participation à la Promotion des Entreprises et à leur Développement (CAPPED) founded in 1991 in Brazzaville the leading Congolese Forum for Youth Entrepreneurship in Congo Brazzaville (FJEC).

⁶⁸ Lori Curtis (2008): Cameroon's Microfinance Industry in Need of Regulation if it is to Meet Poverty Eradication Expectations, <http://www.microcapital.org/microcapital-story-cameroons-microfinance-industry-in-need-of-regulation-if-it-is-to-meet-poverty-eradication-expectations/>, Published on Wednesday, December 10, 2008

of activities. More than eight different government bodies and ministries are involved in the provision of microcredit to young people supposedly as a way of fighting youth unemployment and by so doing; indirectly regulating microcredit activities through various memorandums of understanding that govern individual ministerial microcredit policies⁶⁹. In Cameroon, there are no measures against microcredit policy overlaps.

In the absence of specific forms of *modus operandi* at the institutional, country and regional levels, regional microfinance regulations and policies face coordination and enforcement problems. A case in point is the Central African Republic. In a very exhaustive diagnosis of the problems faced by the microfinance sector in this country, it was found that a number of CEMAC regulations are blocking rather encouraging the expansion of microfinance in this

country. The authors (Malo *et al.*, 2006)⁷⁰ identified three obstacles to the enforcement of regional microfinance regulation in the Central African Republic. The authors say that some of the problems stem from *article 14* of COBAC microfinance regulations which caps refinancing contributions. They also indicate that microfinance in the Central Africa Republic is in such an embryonic developmental state that, COBAC's drive to formalize the sector risks killing the very initiatives from the informal sector, which is the birth place of microfinance. According to the authors, the country's economy continues to rely on informal financial services sector which remains the only vital access to any form of finance for most "unbankables" in rural and urban areas. Finally, the study notes that the majority of microfinance institutions in the Central African Republic are not even aware of the existence of COBAC microfinance regulations.

In a regional setting, most of the issues highlighted above can be addressed with effective harmonization (Puchala, 1975)⁷¹. This can be approached in three ways. First is

⁶⁹ They are 1) The ministry of Youth, 2) The National Employment Funds, 3) The Ministry of Women Affairs, 4) The Ministry of Agriculture and Rural Development, 5) The Ministry of Finance, 6) The Ministry of Small of Medium Size Enterprises and Social Economy, 7) Ministry of Employment and Professionalization, 8) Ministry of Animal Husbandary, Fisheries and Animal Industries (MINEPIA) There are other specialized public services that are active in the field.

⁷⁰ M. Dominique Malo, M. Léon Koyadondri, M. Gilbert Aho, M. Davide Stefanini (2006): *Diagnostic approfondi du secteur de la Microfinance en RCA (Analyse de l'offre et de la demande de produits et services de microfinance et stratégies pour la couverture des zones rurales défavorisées)* This study was funded by the UN Fund for Equipments, and from the United Nations Development Programme (PNUD)

⁷¹ Puchala, D., (1975): Domestic politics and regional harmonization in the European Communities. *World Politics*, 27, 496-520.

the *modular approach* which enables policy makers to add new components to existing policies without the need for a fundamental overhaul⁷². In the CEMAC, modularity can be used to tackle the diverse economic, social and institutional disparities between and within member countries. The second approach to harmonization is *scalability*, which in a regional context can help policy makers to gain control over specific aspects of policies especially at the national and local levels. When policies are not scalable there is a higher risk of “policy breach”, which in turn can lead to the disintegration of the overall rationale of the policy making framework and eventually to “incoherent, ineffective and inefficient policies” (Tsekos, 2003)⁷³. Finally, harmonization also means *interoperability*. This approach can be used to iron out potential frictions especially where policies overlap. Poverty alleviation in rural areas, for example, can only be achieved in conjunction with agricultural, infrastructural, educational, economic and microfinance policies. This means that inevitably, many institutions have to work together. Any inconsistencies and contradictions within and

between them will distort the resulting outputs (Love and Sederberg, 1987)⁷⁴. Interoperability also requires policies to contain sound alternative action plans and more importantly earmarked resources and also evaluation, monitoring and implementation mechanisms (Clay and Schaffer, 1986)⁷⁵. Modularity, scalability and inter-operability are essential parameters of an integrated microfinance policy model.

Conclusion

Most studies of microfinance regulations are descriptive normative and more often prescriptive in that they tend to present what are supposed to be the best framework for regulation. Very little effort has been devoted to examining regulations as they actually function in specific settings. The experience of the CEMAC shows that a sound regional poverty reduction policy is a precondition for the future growth of microfinance. The CEMAC region is one of the very few regions in the world to have developed a microfinance regulation that applies to more than one country which partly explains the impressive growth in the past ten years. However, this same regulation is operating in a policy vacuum which is engendering several

⁷² Hogwood, B., Peters, G., (1982): The Dynamics of Policy Succession. Policy Sciences, 14, 225-245.

⁷³ Theodore Tsekos (2003): Towards integrated policy making: Remedying the public action dichotomy through information and communication technologies and learning. Published in: Rosenbaum, Allan, Gajdosova Ludmila (Editors), State Modernization and Decentralization. Implications for Education and Training in Public Administration: Selected Central European and Global Perspectives, NISPAcee, 2003.

⁷⁴ Love, J., Sederberg, P., (1987): Euphony and Cacophony In Policy Implementation. Policy Studies Review, 7, 1, 155-174.

⁷⁵ Clay, E. J. and Schaffer, B. B (eds.) (1986) Room for Manoeuvre, An Explanation of Public Policy in Agriculture and Rural Development. London: Heinemann.

dysfunctions. There is no regional poverty alleviation policy to support a regional regulatory framework. An integrated microfinance policy can sustain regulation and render it more effective. This study shows that an integrated microfinance model policy framework could be used to address many sources of inefficiencies that instead of alleviating could in fact exacerbate poverty. They include administrative bottlenecks and institutional duplications where many public institutions are doing the same thing and causing immense waste of resources. Secondly, there are potential collisions of

goals between classical banks and MFIs and also between regional institutions, national institutions and MFIs. Finally, the paper did not observe any contradiction between the current goals of microfinance regulations which is to maintain sound financial stability and poverty alleviation. However, it is often assumed that the former will automatically lead to the latter. The point of developing an integrated microfinance model policy framework is to enable effective harmonization conducive to convergence of goals.