The link between a micro finance institution and the modern banking sector: the cases of MC2\(^{(1)}\), the NGO ADAF\(^{(2)}\) and Afriland First Bank in Cameroon.

In developing countries, and particularly in Subsaharian Africa, most of the population still lives below the poverty threshold, leaving it outside of the scope of the development process. Mainly rural areas are affected by this situation.

Integrating these populations in strategies adapted to fight poverty is one of the conditions of a harmonious and sustainable development.

Creating infrastructures as well as promoting education, training and health are crucial elements of integration strategies for the poorest. To a growing extent, the development of financial services is also becoming a key element to this end.

Financial services are usually offered by informal (tontines, usurers, family and friends networks...) or semi-formal entities (cooperatives or savings and credit mutual organisations, NGOs...). At the same time, formal financial institutions are trying to develop products specifically adapted to the needs of marginalised populations. This issue of Zoom Microfinance tries to answer the question as to whether it is possible to envisage converging strategies between the formal and the informal financial sectors that would meet the needs of these populations, using as a reference the experiences of the Community Growth Mutual Funds MC2 in Cameroon.

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1) Community Growth Mutual Funds
2) Appropriate Development for Africa Foundation
Advantages and disadvantages of the different financial actors

This type of informal and semi formal structures clearly presents certain advantages: flexibility, simple procedures, good knowledge of the area, proximity to clients, innovation capacity, high collection rates,... but they also show certain aspects that do not favour sustainable development in the rural areas: short term credits, limited credit amounts, limited range of financial services offered, insufficient funds, little information about the market, insufficient training level of human resources, rudimentary safety standards, high interest rates,...

Commercial banks, while they could play a dynamic role assigning rural financial resources, they are faced to a series of limitations:

- high transaction costs and high procedural burden;
- insufficient knowledge of the market, the needs, the economic, social and cultural elements and the behaviour of rural customers;
- insufficient knowledge of the functioning of semi formal financial institutions;
- lack of conventional guarantees in rural areas.

Accordingly, there is a geographical (lack of decentralised network), cultural, organisational and economic gap between these entities and the rural reality. However, although banks do not generally include development in their strategy, they do show a series of assets:

- a broader range of financial services;
- well established infrastructure and systems;
- better possibilities to access financing;
- staff that is better qualified and specialised in banking techniques
- better elaborated safety standards

Strategies to increase the scope of financial services

Developing a financial system that serves the majority of the population requires taking recourse to several possible strategies:

- a formal financial institution adapts its structure, services and products to the new environment (downgrading);
- an informal financial institution improves its structure, organisation, quality and quantity of services in order to answer to increasing needs (upgrading);
- The link between these two institutions allows to capitalise the comparative and potential advantages and thus to offer more efficient financial services.

Therefore, a well managed strategy interlinking both institutions allows to combine downgrading and upgrading.

The case of Cameroon with Afriland First Bank, ADAF and MC2 is outlined in the following example.
Microfinance in Cameroon

Microfinance in Cameroon is largely managed by associations or savings and credit cooperatives (80%). They have to ask for an agreement in order to carry out their activities. The conditions to carry out microfinance activities are defined at the sub-regional level by the Economic and Monetary Community of Central Africa. There are three categories of MFIs: those that only deal with their members (associations, cooperatives); those that offer financial services to third parties (they must be a public limited company); and those that only offer credits.

There are few recent statistics available. According to estimates, 558 MFIs were active in the country in 2005. Among them, 379 (68%) represented the three most important networks of the country, holding more than 60% of savings and serving more than 80% of clients.

The importance of this sector is still relatively modest. In 2000, the level of market penetration was 7%, the savings volume represented 6% of the national total and credits 4.3% of the national figures. It is fair to assume that these levels have risen in recent years, yet accurate statistics are lacking.

MFIs are not evenly spread: only 48% of them were active in rural areas. The sector also shows another remarkable characteristic: the progression of captured savings is followed by a weak increase in the volume of credits.

Presentation of MC2

First of all, what does the acronym MC2 stand for? We could imagine it is a way to multiply the means (M) and the competence (C) of the community (C).

The Community Growth Mutual Funds were created to integrate rural areas into the development process. They are micro-banks created and managed by the members of a community with respect to their socio-cultural values and with the technical assistance of the ADAF NGO and the sponsorship of Afriland First Bank.

The principal mission of an MC2 is to provide rural populations with a tool that favours the development of the individual and the entire rural community. Their set up can be divided in different phases:

- raising awareness among the people and local ‘elites’; feasibility study;
- establishing a social fund (social capital, on average 15 million FCFA per mutual fund);
- setting up a general assembly, election of bodies and recruitment of staff (3); the executive board plays the role of the credit committee: it is supervised and supported in this function by an ADAF or AFRILAND representative of who gives the necessary advice and ensures that prudential ratios are respected.
- the 3 employees (treasurer, accountant, cashier) receive a six-month training from ADAF and AFRILAND;
- opening of the rural branch;
- mobilising savings and deposits: in order to have access to them, one must pay an average of 2,500 FCFA, purchase 10 social parts (10,000 FCFA) and commit oneself to save at

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3) Village Savings and self-managed credit Bank (CVECA), Cameroon Cooperative Credit Union League (CAMCCUL) and MC2 (Community Growth Mutual Funds).
least 1,000 FCFA per month.
- allocation of these savings to the financing of individual economic activities that generate wealth;
- realisation of economic community projects by extracting the added value necessary to finance development;
- realisation of social community projects using the resources generated in the previous phase (schools, road maintenance, drinking water,...)

In that way, MC2s are the property of the members who control it. Every MC2 sets the interest rates that it operates with. The remuneration of savings varies between 2.5 and 4% per year. Credits are usually lent at an annual cost range between 10 and 15% (lower than “the market”). In fact, MC2s consider that it is not normal to impose high rates to the poor within a strategy of fight against poverty. In order to control their costs, MC2s put the emphasis in other elements, such as the portfolio quality, the volume of deposits and economies of scale.

A link at different levels

- between AFRILAND, ADAF and MC2s:

In all cases, the local population is the driving force behind the MC2, being both the creator and the manager. The setting up of a social fund (or social parts) goes essentially in this sense. In the most marginalised areas, however, external and reimbursable funds can be granted so as not to impede the realisation of the project. Generally, a MC2 reaches a stable situation in 4 or 5 years.

ADAF is a NGO that provides the MC2 with the ability to develop institutional skills: feasibility studies, awareness raising among the population, financial control and follow-up, training of agents in microfinance and rural development, follow-up and assessment and liaison with national and international partners.

AFRILAND FIRST BANK has several functions: conducting external audits of MC2s, training agents in banking operations, securing MC2 cash, transfer of funds from or to MC2s and refinancing MC2s.

- with the SAAR (African Insurance and Reinsurance Company):

In this respect, MC2 networks insure themselves against theft, robbery, fire and other damages. At the same time, MC2 customers are insured against death and disability.

Having studied the market, ADAF promoted health mutual funds in the MC2s network, in cooperation with them. The first health mutual fund opened its doors on the 18th of January in Doumbouo with the sponsorship of the Doumbouo MC2 and ADAF’s technical assistance. The idea is to reinsure the members of health mutual funds in insurance companies, such as SAAR.

In this way, the MC2 members have the opportunity to access formal insurance services. At the same time, MC2s improve their return while protecting themselves better against non-paid risks.

- With informal institutions:

Informal entities such as tontines and farmers’ and women’s groups have access to MC2s and can secure their financial surpluses and refinance them.
This type of activity is very important since it guarantees that the poorest and most vulnerable groups have access to MC2 services in an efficient way and at a lower cost (leverage effect linked to groups).

International partners (MISEREOR, CORDAID, SOS FAIM, CGF, Afriland First Bank, ...) have financially supported MC2 and ADAF actions in this way and have contributed to implement specific credit lines earmarked to this category of members.

**From the urban to the rural and from tradition to modernity**

Apart from these institutional links, the MC2 model has two important characteristics:

- **It serves as a link between urban and rural populations.**

MC2s gather urban and rural populations from the same community. In this way it serves as a forum where the local people and the elite groups exchange opinions and discuss ideas related to the community development. In Cameroon, the term « elite » mainly designates people from a rural community who have been « successful » in town (businessmen, officials, magistrates, teachers, bankers...). This elite often provides an important share of the necessary resources to launch a local mutual fund.

- **It serves as a link between tradition and modernity:**

Modernity is represented by the usage of banking technology in local mutual funds. However, they do not neglect a certain social capital present in the villages, and give a specific role to the Council of Experts (composed of traditional authorities, religious dignitaries and people known by their moral values). This allows the integration of local habits in the management of microbanking, better management of potential conflicts due to social pressure and the use of guarantee mechanisms well adapted to the reality of the specific area: solidarity deposit, family deposit, placing traditional objects in pawn...

**Main financial services offered by MC2s**

- **Financial services: savings, transfer of national and international funds, credits.** The credits’ interest rates are more favourable for rural members.

- **Venture capital:** apart from the « classical » financial services, a venture capital fund (Micro Trust Fund –MIT FUND–) has been established to meet the needs in financing micro companies. Since it was launched in 2000 this fund has supported more than 250 initiatives with 840,000 € in contributions.
Some statistics

The first mutual fund opened in 1992.

In 2005, the 10 provinces of Cameroon were covered by the network, which had 61 mutual funds.

MC2s had 54,570 members and 6,200 groups composed of 310,000 people (a total of 364,570 people)

Mobilised Capital:  2,671,510 €
Mobilised savings:  12,900,750 €
Credits portfolio:  5,038,702 €

The network can interest everybody

- The local population
  The system offers them the following advantages: its secures their savings; it gives them access to adequate credit products; it redistributes their income thanks to a good remuneration of savings and a credit offer with moderate rates; it creates jobs in the rural areas; it facilitates financial transactions with towns, it contributes to organise production; to process and trade agricultural products and to transfer technology.
The elite can contribute in this way to the development of their communities and can make transfers more easily to the village. Furthermore, in the long term, the financial results of MC2s allow to reduce individual expenses for social works in the community.

The authorities
The opening of a MC2 is considered as a means to fight poverty. It also plays a role of driving force in the gathering of local population and promotes values such as mutual aid, solidarity, work... Furthermore, local resources are also valued.

Conclusion
This model has many advantages as long as there is a win-win relationship between the different structures.

It is important to point out, however, that this type of construction is still very rare in the landscape of decentralised financial services. There must be a clear vision from decision-makers at commercial banks that must be translated into the will to work for the development of marginalised sectors of their region or country.

In this particular case, the strategic alliance of the MC2s network with AFRILAND First Bank provides security, professionalism, supply diversification and access to refinancing. An interesting element is that it offers credits at a reasonable cost, largely below the interest rates operating in Subsaharian Africa. However, the MC2 network presents the same characteristic as the micro financial sector in Cameroon: it cannot recycle an important amount of deposits with its members (currently less than 50%).

We also must mention the essential role played by the ADAF NGO. In the framework of the promotion and supervision of microbanks, it offers institutional support in raising awareness of the population, carrying out feasibility studies, training the staff in microfinance and management, conducting accountable controls and follow-ups of MC2 /MUFFA, follow-up and assessment of MC2 /MUFFA, selecting and preparing development projects and liaising with the different partners.
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SOS Faim and microfinance
SOS Microfinance has been working for several years in the microfinance field and supports different partners involved in this sector in Africa and Latin America. As with all development tools, we have to analyse the aims, models and implementation conditions of microfinance. With this frame of mind, SOS Faim edits “Zoom Microfinance”. You can find publication and download it in French, English and Spanish on the website of SOS Faim Belgium: www.sosfaim.be.

The last issues of Zoom Microfinance have dealt with the following topics:
- Impact studies – Zoom microfinance n°8 and n°11
- The interest rates policies – Zoom microfinance n°9
- Investment credits – Zoom microfinance n°10
- Microfinance experiences in conflict zones – Zoom microfinance n°12
- Microfinance and extreme poverty – Zoom microfinance n°13
- The regulation of microfinance institutions: the Ethiopian experience – Zoom microfinance n°14
- Venture capital in Bolivia – Zoom microfinance n°15
- The commercial model for microfinance and its effects on social inclusion – Zoom microfinance n°16
- The savings-credit cooperatives in Peru and Ecuador – Zoom microfinance n°17
- Microfinance and rural financing – Zoom microfinance n°18

Apart from Zoom microfinance, SOS Faim publishes another newsletter, “Farming Dynamics”, which deals with the challenges faced by agricultural producers’ organisations and farmers’ organisations in their development. You can also find this publication and download it in French, English and Spanish on the website of SOS Faim Belgium: www.sosfaim.be