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## **Outreach and performance analysis of microfinance institutions in Cameroon**

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Since people with low incomes do not have access to financial institutions, and in most developing countries only public workers benefit from the services of public banks, the poor and private workers with low incomes cannot borrow from these public banks. Hence, microfinancial institutions (MFIs) have become the answer to those who cannot benefit from the financial services of the public banks. This study compares the performance and outreach aspect of the MFIs in Cameroon against the African benchmark. Furthermore, it investigates if there is a trade-off between performance and outreach. A total of six selected MFIs with branches all over Cameroon were chosen for this study. Using the difference of mean test, the findings of the study revealed that generally, the MFIs in Cameroon implemented a low cost strategy and are heavily exposed to default risk. We also concluded a trade-off between the performance and outreach factors. MFIs in Cameroon are more focused on making profits, instead of reaching out to the poorest of the poor in the communities.

**Keywords:** microfinance; Cameroon; outreach; performance analysis; poor; financial institutions

**JEL classification:** G00, G10, G20, G30, H30

### **1. Introduction**

Poverty and lack of financial resources in most developing countries especially in West and Central Africa is a major problem. The existence of poverty in a majority of the population in Cameroon has limited the establishment of individual-, family- and community-owned businesses both on a small and medium size scale. With corruption and embezzlement resulting in unequal distribution of foreign aid and other financial support made by the government to encourage the establishment of small and medium size enterprises (SMEs), most people have to now turn to banks for financial aid and loans.

Denying people the access to financial markets is the main generator and reason for poverty with many consequences such as lack of good healthcare facilities, education, nutrition and others. The population living below the poverty line and those with low incomes do not have access to the services of the public and commercial banks in developing countries. These people cannot be served from the public banks because they do not work with the governments and do not have the capital to create accounts with the commercial banks. In addition, most poor people have few or no assets that

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can be secured by a bank as collateral (Mokoro Nyaoga, Magutu, Khoya, & Onsongo 2010). A new alternative way of providing credit to people living in poverty and vulnerable economic situations is microfinance.

Research has shown that the depth of outreach of microfinancial services increases more rapidly than public commercial banking services (Martzys, 2006). In Cameroon, no ideal working model has been put in place to evaluate the outreach and performance of these MFIs. The COBAC3 regulation on microfinance institutions (MFIs) set on April 2002 and implemented from 2007 restructured the sector of microfinance in Cameroon and henceforth forced out illegal, unqualified and unprofessional MFIs (Ruffing, 2009).

Several MFIs have been established and have been working towards resolving the credit access problem of the poor. In light of this, this article looks at the performance of MFIs in Cameroon from outreach and financial sustainability angles using data obtained from secondary sources. The roots of microfinance lie in a social mission of enhancing outreach to alleviate poverty. More recently there is a major shift in emphasis from the social objective of poverty alleviation towards the economic objective of sustainable and market-based financial services (Rauf & Mahmood, 2009).

## **2. Microfinance in Cameroon**

The introduction of microfinance in Cameroon started in 1963 by a Dutch Roman Catholic priest Father Alfred Jansen, in Njinikom the north-west region of Cameroon. This idea of Credit Unionism spread all over the north-west and south-west regions of Cameroon and by 1968, 34 credit unions that were already in existence joined together to form the Cameroon Cooperative Credit Union League (CamCCUL) Limited. CamCCUL is therefore the umbrella organisation of cooperative credit unions and the largest MFI in Cameroon and the Communauté Économique des États de l'Afrique Centrale (CEMAC) sub-region ([www.camccul.org](http://www.camccul.org)). Robinson (2001) defines microfinance as small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro-enterprises where goods are produced, recycled, repaired or traded, provide services, work for wages or commissions, gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools, and to other individuals and local groups in developing countries, in both rural and urban areas. Microfinance can also be defined as any activity that includes the provision of financial services such as credit, savings, and insurance to low income individuals who fall just above the nationally-defined poverty line, and poor individuals who fall below that poverty line, with the goal of creating social value (Smith, 2006).

Currently in Cameroon, urban dwellers and migrants from the rural areas make a living from activities such as shopkeeping, street vending, farming, construction, etc. Growth in household incomes appears more likely to be essential for long-term poverty reduction and will be more effective if poverty alleviation programmes are targeted disproportionately in favour of rural and semi-urban areas (Menjo, 2006).

In a country where 70% of the population depends on agriculture at a subsistence level for their livelihood, it is clear they are in poverty. Since independence, the government of Cameroon has embarked on several attempts aimed at promoting agricultural development. Since 1990, the Cameroon government has embarked on various International Monetary Fund (IMF) and World Bank programmes designed to spur business investment,

increase agriculture, improve trade and recapitalize the nation banks (CIA.GOV, 2011). Despite these reforms, the unemployment rate in the country stands at 34% and just about 9000 Cameroonians of the twenty million work in the public sector (cia.gov, 2011)

The concept of microcredit and microfinance has turned the world around as many look at it as the main instrument for providing financial support to the poor with the aim of alleviating poverty and encouraging development within the poor communities. It also aimed to reach the poorest of the poor in the fight to alleviate poverty. Before the evolution of microfinance, many developing countries and nations tried to eradicate poverty by providing subsidies to small organisations and business groups, providing free public utilities through the governments, supported by multilateral and bilateral aid agencies (Hoff & Stiglitz, 1990). In 2009 the IMF stated that in 2006 less than 5% of Cameroonians had bank accounts or used credit services, a lower ratio than in countries with similar growth rates. Hence, indicating these banks served just those working in the public sector or the very rich people within the communities.

MFIs are known worldwide to provide financial services to the poor aimed at alleviating poverty in these communities and improving the standards of living for people who benefit from these services, thereby encouraging the development of SMEs which are of great importance towards economic growth. Ledgerwood (1999) stated the target market for MFIs are the low income, self-employed entrepreneurs composed of small scale traders, seamstresses, street vendors, small farmers, hairdressers, drivers, artists and others, but as the poor are being considered as a single unit worldwide, this does not imply that every poor community has identical financial needs. Presently, the number of registered MFIs in Cameroon is approximately 460 with a sum amounting to over FCFA 258 billion which has been accumulated by way of deposits from close to one million customers (News.cameroontoday.com).

The roots of microfinance lie in a social mission of enhancing outreach to alleviate poverty. More recently there has been a major shift in emphasis from the social objective of poverty alleviation towards the economic objective of sustainable and market based financial services (Rauf & Mahmood, 2009).

### 3. The concept of microfinance

The concept of microcredit and microfinance has turned the world around as many look at it as the main instrument in providing financial support to the poor with the aim of alleviating poverty and encouraging development within the poor communities. Muhammad Yunus formally introduced microfinance in Bangladesh in the 1970s as a private initiative aimed to alleviate poverty in the country. The aim was issuing small loans (\$5–\$100) and the target populations were the impoverished Bangladesh citizens living in outlying rural villages (Robert, 2006). Many studies have been done to assess the impact of microfinance. These studies mainly concentrate in three main areas.

The first looks at the impact assessment of microfinance on the lives of the poor and those in need of financial services, and the socio-economic impact of microfinance and microcredit programmes. Do microfinancial services actually reduce poverty and support the poor? Various studies have shown mixed and contradictory results. Koenraad (2002) in his note on a microfinance support organisation, based in Europe, summarised key results of some of the major findings of positive impacts as increasing the household economy and increased economic opportunities. Major studies by Sabstad and Chen (1996) from 32 research findings on microenterprise services and primarily credit (some used a

quasi-experimental research design), on 41 programmes from 24 countries in Asia, Africa and Latin America with attention given to household economic security, enterprise stability and growth, and individual control over resources found positive impacts.

The second looks at who is being served by this MFI and who are the benefactors of these services. Is MFI serving the non-poor, the quite poor, the poor, the poorest, etc.? With the national defined poverty lines used as a benchmark to estimate the level of poverty – the use of indicators and ratios (depth of outreach) – there is no clear target population for the MFI. Studies have indicated that majority of microfinance clients are from the moderately poor household, followed by the vulnerable non-poor households and then by the extreme poor households (Sabstad & Chen, 1996). The benchmarking index from the *Micro Banking Bulletin* indicates that MFIs are serving the low end of the market is just 20% and any level below this indicates that MFIs are serving the poorest segments (*Micro Banking Bulletin*). Does this mean MFIs are not serving their rightful target markets? What are the consequences of this to both the institutions and the population?

Lastly, there is the sustainability and client satisfaction approach. Before, MFIs were being sponsored by donors. Presently, there are reduced donors and lack of financing to these MFIs. Hence, they now have to undertake the mission of poverty eradication and economic growth on their own basis. Some people believe these MFIs can survive without donors while others feel these MFIs depend solely on these donors to successfully complete their goals. Hence, the question is, can these MFIs operate independently without the support of donors while also satisfying their clients' financial needs? (Basu & Woller, 2004).

#### 4. Conceptual framework

Various rating institutions and performance rating methods have been used to analyse the MFIs since no clear existing requirements exist for these institutions. Most of the rating systems used try to provide a complete picture of the financial aspects of these institutions as they strive for transparency and as it is difficult to evaluate the social performance of the MFIs. In addition to these financial performance indicators drawn from these rating systems, this study also tries to look at the social indicators from the outreach perspective. Those MFIs with little or no donors rely on the financial sustainability of the organisation hence are more focused on the financial performance of the MFI with little effort given to finding out if they are serving the right target group or effectively upholding the main mission. On the other hand, MFIs with donors are more concerned with the social indicators and achievements of these organisations. This has led to aggressive competition and lending policies of MFIs create a debt burden resulting in tensions, conflicts, violence and even suicide within households and communities (Rahman, 1999). McIntosh, de Janvry, and Sadoulet (2005), showed that wealthier borrowers are likely to benefit from increasing competition among MFIs, but that it leads to lower levels of welfare for the poorer borrowers. Therefore, the recent shift of MFIs to progress from small, money-losing operations to large providers of banking services on a more sustainable and commercial basis may go against the traditional aim of MFIs, which is to provide credit to the poor.

Olivares-Polanco (2005) investigates the determinants of outreach in terms of the loan size of MFIs, using data from 28 MFIs in Latin America for the years 1999–2001. The analysis includes only one observation for each MFI in the data-set. Using simple ordinary least squares (OLS), Olivares-Polanco's study confirms the existence of a trade-off between sustainability and outreach.

In Africa, many studies on outreach and performance had been done in some countries. Kereta (2007), looked at MFIs performance in Ethiopia from outreach and financial sustainability angles using data from primary and secondary sources. The results indicated that outreach rose from 2003 to 2007 by an average of 22.9% and the reach to women is limited to just 38.4% and also indicated that MFIs in the country are financially sustainable. He concluded that there was no trade-off between financial sustainability and outreach within the country.

Recent years have seen the need for a precise rating system for evaluating and comparing MFIs. Some of these metrics focus mostly on the performance aspect of the MFIs with very little information on the social and management standards. Most of these rating methods help donors and investors in these microfinancial markets to evaluate these firms. Leaving out the social and outreach aspects does not give a complete picture of this sector.

## 5. Data and methodology

Various institutions and performance rating methods have been used to analyse the MFIs since no clear existing requirements exist for these institutions. Most of the rating systems used try to provide a complete picture of the financial aspects of these institutions as they strive for transparency and it is difficult to evaluate the social performance of the MFIs.

This study used an extension from the Pankaj and Sinha model where they analysed companies on six categories of financial performance (Financial Structure, Revenue, Expenses, Efficiency, Productivity and Risk). We have decided to include the seventh parameter (Outreach) which measures the outreach of these MFIs in Cameroon. Agarwal and Sinha (2010) evaluated the financial performance of MFIs in India. In this approach, they used the difference of means test to compare the performances of these MFIs. They considered  $\alpha=0.5$ .

The Mix Market is the most reliable international database available for MFIs. They classify MFIs into star categories based on their performance, sustainability and social indicators. We have chosen ratios for this analysis from the Mix Market database from six major MFIs in Cameroon. The six MFIs used in this study namely Cameroon Co-operative Credit Union League, Ltd (CamCUL), Crédit Communautaire d'Afrique (CCA), Crédit du Sahel (CDS), Coopérative d'Épargne et de Crédit des Artisans du Wouri (CECAW), Réseau MC<sup>2</sup> (MC<sup>2</sup>) and Societe Financiere Africaine (SOFINA). The data was analysed using EXCEL 2010. This was panel data for the six major MFIs in Cameroon from 2007 to 2009.

## 6. Data analysis

The main focus will be analysing the means of each ratio based on the selected core indicators for each of the seven categories of finance performance and outreach for these institutions against the benchmarks indicators for Africa MFIs in 2009. For various categories, the analysis is as follows:

## 7. Financial structure

Table 1 presents the financial structure statistics. Capital to Asset ratio: The p value ( $\alpha=0.000008$ ) is significant and can be concluded that the MFIs in Cameroon operate with some risky management policies.

Table 1. Financial structure mean analysis for Cameroon MFIs.

	Capital/ asset	Debt/ equity	Deposits to loans	Deposits to total asset	Gross loan portfolio/total Asset
Mean	10.43375	5.58375	190.815	81.89875	46.145
Standard error	1.937874238	4.161164688	13.44541849	2.011250622	3.337637263
Median	11.39	6.86	191.315	79.46	46.875
Standard deviation	7.751496952	16.64465875	53.78167395	8.045002486	13.35054905
Sample variance	60.085705	277.044665	2892.468453	64.722065	178.23716
Kurtosis	-0.554880038	2.55366025	-1.036636183	-1.191433574	-0.939232567
Skewness	-0.486830173	-0.882369731	0.307266187	0.368775983	0.031074296
Range	24.4	71.56	174.9	25.1	46.58
Minimum	-4.04	-34.33	120.76	69.23	23.41
Maximum	20.36	37.23	295.66	94.33	69.99
Sum	166.94	89.34	3053.04	1310.38	738.32
Count	16	16	16	16	16
Africa benchmark	25.1	0.6	82.2	44.1	62.8
P value	0.000008	0.1248	0.000038	0.00037	0.0000807

Source: Authors calculation.

Debt/Equity Ratio: There is no significant difference between the MFIs in Cameroon and Africa ( $\alpha = 0.12 > 0.05$ ). They all depend on commercial funds for their activities.

Deposits to Loans: The p value is significant here again, indicating the MFIs in Cameroon depend heavily on deposits as the source of funds. There are little or no donors in Cameroon to finance these MFIs.

Deposits to Total Assets: There is a significant difference between the ratio for Cameroon and the African benchmark. This is in line with the previous analysis.

## 8. Overall performance

Return on Assets: we may observe that the MFIs in Cameroon generate a lesser return on their assets as compared to the African benchmark as they put in desperate measures to generate returns from capital (Table 2).

Return on Equity: the return on equity for these firms all over Africa including Cameroon is identical. This is also reflected in operational self sufficiency where p value is not significant. The identical Debt to Equity ratio supports this fact as these firms in Cameroon, though being more risky, are able to sustain themselves on their operations.

## 9. Revenue

There is a significant difference for both the financial revenue and profit margin for the Cameroon MFIs and the African benchmark (Table 3). The Cameroon MFIs have far more less financial revenue and profit. The MFIs in Cameroon are following unique business models for survival.

## 10. Expenses

In the case of expenses, the MFIs in Cameroon seem to be incurring fewer expenses compared to the benchmark. The total expense to asset ratio is significantly different as the mean is higher for the benchmark compared with the Cameroon MFIs. The financial

Table 2. Overall performance mean analysis.

	ROA	ROE	OSS
Mean	-0.4675	-17.59	96.8475
Standard error	1.107715178	22.71482961	8.259986204
Median	0.555	5.135	104.345
Standard deviation	4.430860714	90.85931844	33.03994481
Sample variance	19.63252667	8255.415747	1091.637953
Kurtosis	14.15860635	15.54084277	4.680623207
Skewness	-3.660250047	-3.919096103	-2.188436645
Range	19.65	382.53	128.22
Minimum	-16.67	-356.28	1.88
Maximum	2.98	26.25	130.1
Sum	-7.48	-281.44	1549.56
Count	16	16	16
African benchmark	3.2	18.5	97.1
P value	0.002375906	0.066475086	0.488008125

Source: Authors calculation.



Table 3. Revenue means analysis.

	FR	PM
Mean	15.759375	-2.49875
Standard error	2.207433175	9.659794075
Median	12.285	4.18
Standard deviation	8.829732702	38.6391763
Sample variance	77.96417958	1492.985945
Kurtosis	0.010047579	13.97017425
Skewness	1.232338778	-3.620780479
Range	24.98	169.55
Minimum	7.97	-143.4
Maximum	32.95	26.15
Sum	252.15	-39.98
Count	16	16
African benchmark	26.7	36.2
P value	0.000086	0.000572433

Source: Authors calculation.

Table 4. Expenses mean analysis.

	TE/A	FE/A	PLL/A
Mean	16.6325	3.55875	1.754
Standard error	2.618733552	0.597383793	0.824903342
Median	12.49	2.865	0.61
Standard deviation	10.47493421	2.389535171	3.194836906
Sample variance	109.7242467	5.709878333	10.20698286
Kurtosis	-0.848264493	2.320313058	7.53002511
Skewness	0.907922278	1.580215772	2.766356985
Range	29.22	8.74	11.79
Minimum	6.12	1.13	0
Maximum	35.34	9.87	11.79
Sum	266.12	56.94	26.31
Count	16	16	15
African benchmark	29.6	3.3	2.6
P value	0.000086	0.335538902	0.14182972

Source: Authors calculation.

expenses and loan loss provision expense are not significant as they all seem to be incurring the same cost on debt (Table 4).

## 11. Efficiency

We can see that the p value is not significant for the operating expense as a percentage of loan portfolios (Table 5). This may be due to the fact that the MFIs all over Africa follow the same or similar business and operation models. There is a significant difference between the mean for the cost per borrower. This may be due to the fact that the loan sizes differ from country to country within Africa.

## 12. Productivity

As expected, the p value is insignificant for borrowers per staff. As they have similar managerial systems. While for the depositors per staff, it is highly significant. There are

Table 5. Efficiency mean analysis.

	OE/LP	C/B
Mean	24.19	145.1428571
Standard error	4.986370925	28.6208364
Median	16.235	103
Standard deviation	19.9454837	107.0893639
Sample variance	397.82232	11468.13187
Kurtosis	-0.004566853	0.967045709
Skewness	1.246823734	1.106158825
Range	55.47	397
Minimum	6.1	0
Maximum	61.57	397
Sum	387.04	2032
Count	16	14
African benchmark	23.8	202
P value	0.469346142	0.034233165

Source: Authors calculation.

Table 6. Productivity means analysis.

	B/S	D/S
Mean	105.0666667	202.9333333
Standard error	20.45633367	32.45956703
Median	81	185
Standard deviation	79.22703964	125.7153625
Sample variance	6276.92381	15804.35238
Kurtosis	-1.562327392	-1.009009914
Skewness	0.427160198	0.413359725
Range	213	388
Minimum	9	52
Maximum	222	440
Sum	1,576	3,044
Count	15	15
African benchmark	123	328
P value	0.197731601	0.000878564

Source: Authors calculation.

fewer depositors per staff in Cameroon MFIs (Table 6). This may be due to the fact that the Cameroon MFIs are not fully utilising the available manpower as the population is still scared of the weak financial sector in the country

### 13. Risk management

There is a significant difference in the case of future bad debts and risk coverage (Table 7). This shows that the Cameroon MFIs operate under very risky conditions compared to the benchmark. There was no significant difference for loan loss reserve and write off ratio. Risk avoidance measures are taken but this does not guarantees loss prevention.

Table 7. Risk management mean analysis.

	PAR>30	PAR>90	LLR	RC	WOL
Mean	16.94076923	13.22846154	3.534	47.28153846	3.334545455
Standard error	3.27747019	2.759189273	1.809777273	7.269034945	1.65809604
Median	17.1	11	0.825	35.97	0.83
Standard deviation	11.81708682	9.948398402	5.72301824	26.20887822	5.499282433
Sample variance	139.643541	98.97063077	32.75293778	686.9052974	30.24210727
Kurtosis	-1.073282218	-1.063918212	5.498894442	-1.403611862	6.05410372
Skewness	0.375993268	0.517470734	2.313883869	0.217439187	2.408717055
Range	34.61	29.26	18.29	74.35	18.29
Minimum	2.03	2.03	0	11.54	0
Maximum	36.64	31.29	18.29	85.89	18.29
Sum	220.23	171.97	35.34	614.66	36.68
Count	13	13	10	13	11
African benchmark	9.9	5.9	2.7	118.4	3.3
P value	0.026404801	0.010472428	0.327926785	2.2666E-07	0.491893801

Source: Authors calculation.

#### 14. Outreach

Despite having almost the same gross loan portfolio as the mean benchmark for other African MFIs, the MFIs in Cameroon have failed to serve the needy population of Cameroon. With significant differences and lesser means for the number of active borrowers, the percentage of women borrows and number of depositors (Table 8).

#### 15. Conclusion

We may conclude that the MFIs in Cameroon follow a different management model in comparison with most MFIs in Africa. These organisations in Cameroon are not doing well with regards to the return on their assets and it can also be noticed that their financing depends solely on the deposits made by their clients. This is supported by the fact that these MFIs in Cameroon do not depend on external sponsors and international financial support. These institutions in Cameroon, though being more risky, are able to sustain themselves and their operations.

It is clear that MFIs in Cameroon do not manage their risk well. Hence, they operate under very high risk. They are very open to default risk.

A closer look at the outreach aspect can tell us that these institutions are limited in terms of outreach. They have very limited branches in the rural communities and are heavily centralised in the urban centres. They are targeting the SMEs in the urban centres and just 28% of the female population in the country benefit from these services.

#### 16. Recommendation

From the findings, we have to acknowledge the fact that this is still a fresh development within the country with lack of donors and sponsors; these institutions are caught in a trade-off; to reach out to the target population (the poorest of the poor) or they make profits and are sustainable. From a marketing point of view, a greater market share is often

Table 8. Outreach mean analysis.

	#AB	%WB	#DP	GLP
Mean	28,969	28.05	87,456	30749765.88
Standard error	5384.271763	4.923608745	23571.56445	9167602.733
Median	29,638	26.555	69,887	17291429.5
Standard deviation	20853.19487	18.42245703	91292.27654	36670410.93
Sample variance	434855736.3	339.3869231	8,334,279,756	1.34472E+15
Kurtosis	-0.980864432	0.315707503	-0.55504085	1.910452947
Skewness	0.137856933	0.568468849	0.889664939	1.624390482
Range	65,079	62.12	249,161	124,486,075
Minimum	1,074	0.51	3,468	696,117
Maximum	66,153	62.63	252,629	125,182,192
Sum	434,535	392.7	1,311,842	491,996,254
Count	15	14	15	16
African benchmark	42,882	60.1	137,032	29,599,618
P value	0.010820074	9.8713E-06	0.027005859	0.450913556

Source: Authors calculation.

translated into increased profitability (Hasin, Seeluangsawat, & Shareef, 2001; Jacoby & Chesnut, 1978). With well-implemented strategies to minimise operating costs, reaching out for a larger market share should be their main target. The needy population who could be ever loyal to the services of these institutions is in the rural communities. More women should be targeted and served. The government should increase the subsidies and support to these communities they are working towards their objectives.

Lastly, foreign sponsors and donors should come in and help these marginal institutions work towards better services to the Cameroonian population.

## 17. Limitations

This study has selected six MFIs with data in the Mix Market database. Future studies should include more institutions. This should present a better picture if the sample size is larger. Secondly, data for just three years was analysed for each institution. Further studies should include many more years of data for each institution.

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