

Financial Performances of Microfinance Institutions in Cameroon: Case of CamCCUL Ltd.

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Abstract

Microfinance institutions (MFI) aim at reducing poverty. To achieve such an amazing objective, microfinance institutions in Cameroon have to perform financially well as financial supports from donors are dwelling and irregular. Therefore, to what extent do MFI and industry specific factors determine CamCCUL's financial performance? By using OLS estimation method to measure the effect of internal and external determinants of CamCCUL's financial performance in terms of its return on assets, the study exploited a thirty two years secondary data obtained from mix market, CamCCUL's annual balance sheets and reports to run the regression. The results on the one hand, showed that portfolio at risk, size and operational expenses significantly affect the financial performance of CamCCUL. On the other hand, market concentration had a negative but statistically insignificant effect on CamCCUL's financial performance. The study therefore recommends that since inefficiency is the bottleneck of CamCCUL, the management should pay great attention to a good expense of management policies or reduce operating costs and credit risk management by employing different technologies to minimize cost. Also, CamCCUL managers should promote training in financial operations, portfolio management, risk assessment and management, management of loan arrears, and strategies, among others.

Keywords: CamCCUL Ltd, Cameroon, financial performance, Micro finance institutions

1. Introduction

1.1 Background of Study

The unaccepted consequences of productivity and income levels of most developing countries remain issues of great concern. From 1950 to 1970, a number of developing countries and their donor partners implemented the policy of subsidization of agricultural activities for small and low-income farmers as a means to boost productivity and income levels. Since the mid-1980s, such subsidization polices have been criticized for diverting the centre of attention to focus exclusively on social needs, thus, proving financially unviable and unsustainable. As the need for an approach that would take both the market and the social contexts into consideration became fashionable and rewarding, new organizations, known as micro-finance institutions (MFIs), began focusing on the activities of low-income farmers. Micro-finance institutions switched focus from agricultural subsidies to target aid to the poor and help establish local institutions which became financially and operationally stable for such objectives.

Microfinance institutions essentially operate on a combination of financial products (micro-credit, micro-leasing, micro-insurance, micro-savings, and money transfers) targeting specific groups of customers. Recipients of the services generally are micro-businesses and economically active citizens who at the same time are poor, with incomes below the poverty line of \$1.25 per day. Such poor persons normally have limited access to standard financial credits and services provided by classical financial institutions and banks.

Microcredit, started in Europe at the end of the nineteenth century with the creation of the Raiffaisen example in Germany or the local case of mutual agricultural credit in France, and in Africa with the protective sackings, took truly its rise in the 1980s. From the evolution, the first experiments were by Mohammed Yunus in Bangladesh and the Grameen Bank in 1983. The Grameen Bank, launched in 1976 by Mohammed Yunus in Bangladesh, remained the first to have shifted focus from individual to group loans. Today, the Grameen Bank

consists of more than 2.4 million clients. The scheme has contributed significantly to the Bangladesh economy as 48% of poor farmers have benefited from such agricultural credits.

The concept of microfinance development in Cameroon can be traced back to the 19th Century when moneylenders were informally performing the role of new formal institutions. These informal lenders were mostly ‘‘Njangi’’ groups and Cooperative Credit Unions. The first micro-finance institution in Cameroon was created in 1963 by Janson, a Dutch Catholic Father in Njinikom, Bamenda of the North West Region of Cameroon. The law of 1990 which allowed for freedom of association and creation of Common Initiative Groups (CIG) came to foster the powerful existence and manifestation of micro-finance institutions in Cameroon.

For many years in Cameroon, the micro-finance sector has evolved and has been transformed into a system of provision of short term loans, savings, credits, money transfers, etc thanks to various financial sector policies and programs undertaken by the government since independence. MFIs now are the primary sources of funds to small and medium size enterprises in Cameroon and other countries in the process of economic growth.

Although finance literature explains the emergence of the micro-finance industry as an answer to an unfulfilled demand (Littlefield & Rosenberg, 2004), MFIs are not evenly spread around the globe and Cameroon in particular. Hardy et al. (2002), by comparing Cameroon and Gabon concludes that even though the countries have similarities (common currency, comparable per capita income, etc.), the microfinance industry is more expanded in Cameroon than in Gabon. The environment in which MFIs operate plays a vital role in the cross-country differences. While a lot has been written on factors influencing the development of the financial sector as a whole, almost nothing has been written on the factors determining microfinance performance and its macro environment. Most works on the microfinance industry focus on the institutional side of the organizations (Hudon, 2006). The impact of MFIs on poverty reduction, economic growth and women empowerment has increasingly received greater attention in many developing countries like Cameroon. Conversely, much has not been done linking the development of the microfinance industry with macro-economic activities.

Considering Cameroon, it is not very clear as to which macro-environments are more conducive for developing successful MFIs. In the current stage of development, where expanding access to financial services in rural areas is becoming increasingly important, the question is how are these institutions performing financially? Vanroose (2007) has identified possible factors that play a role in the uneven development of MFIs in Latin America. What similarly are the factors influencing micro-finance performance in Cameroon? The study therefore examines the factors that determine the performance of micro-finance institutions in Cameroon using the case of CamCCUL. The Cameroon microfinance sector has made remarkable progress during the last ten years, due to the dynamism of the main actors who are the State, the MFI and development partners (Fotabong, 2008). The above progress is evident by the volume of microfinance activities, proximity of the targeted vulnerable customers and the flexibility of the access conditions to the services which help to fight against poverty. But currently, the sector faces serious problems since 1990 because of the economic crisis that made Cameroon to devalue its currency in 1994. Also regarding specific prudential standards, many microfinance establishments failed to comply with the required standard for the solidarity fund. The difficulties can be outlined as problems involved in the control and supervision of the sector, in the regulation framework, and in the establishment of microfinance enterprises. The micro-finance sector in Cameroon remains exposed to illegal practices. All the establishments approved for the first category equally carry out unapproved operations patterning to the second category. The insufficiency in the control of the microfinance sector due primarily to the insufficiency of financial, human and material means at the disposal of the regulatory and control agencies remain a big problem.

The legislative framework and law enforcement of the MFE are characterized by insufficiencies such as (1) the monitoring is not exhaustive. The organization of the COBAC stipulates that monitoring should be permanent and should be done using functioning computer tools in an identical way as those of banks to guarantee transparency and accountability. However the accounting chart of MFE was adopted in 2009 and became applicable only from January 2010. (2) MFIs have difficulties in mobilizing long term resources and to sign contracts of long term with their personnel to guarantee stability. It is because some personnel do not hesitate to quit once they have better opportunities, (3) the prudential ratios are always standardized for the mutuality institutions of saving and credit co-operatives, which do not allow a good evaluation and comparison of the institutions at the national as well as at the sub-regional levels. Such a situation creates a lot of functioning weaknesses including inadequate human and financial resources, a strong volatility of the financial resources which is expressed by the fact that a large majority of financial resources are consisted of savings and deposits at short notices, absence of average techniques and logistics permitting a regular, effective, and constant follow-up of activities at the time of the receptions of credits in general and products do not correspond to the needs of

clients.

Therefore, despite the difficulties, the Cameroonian micro-finance institutions occupy currently, an appreciable range in the field of the micro-finance at the international scale. It is therefore interesting to evaluate the determinants of financial performance in CamCCUL, a giant financial structure in the micro finance institutional sector in Cameroon. The study therefore stipulates that the financial performance of CamCCUL is not significantly related to portfolio quality, market concentration, operating expenses, and the size of the organization. From the introductory background, the rest of the paper is treated under literature review, methodology, results and discussion; and conclusion with policy recommendations.

2. Literature Review

2.1 Conceptual Issues

2.1.1 The Concept of Microfinance

Different authors and organizations have considered microfinance institutions in different ways. Whatever the case, the setting of microfinance radiates from financial service provision; primarily savings and credits to the poor and low income households that do not have access to commercial bank services. According to the Consultative Groups to Assist the Poorest (CGAP, 2012), “microfinance” are organs of provision of formal financial services to poor and low-income people, as well as others systematically not benefiting from the financial system. As noted, “Microfinance” does not only provide a range of credit products (for consumption, smoothing for business purposes, to fund social obligations, for emergencies, etc.), but also it provides savings, money transfers, and insurance services. Considered as a financial service provider for poor people, it helps to alleviate risks, build assets, create and improve incomes, and furthermore contribute to the development of the local communities (Cull et al., 2009).

Microfinance Information Exchange (MIX) considers microfinance institutions as a variety of financial services that target low-income clients, particularly women. Since the clients of microfinance institutions have lower incomes (poor) and often have limited access to other financial services, microfinance products tend to be for smaller monetary amounts than traditional financial services. These services not only provide micro credit services for those having lower incomes but also include loans, savings, insurance, and remittances. Micro-loans are given for a variety of purposes, frequently for micro-enterprise development. The diversity of products and services offered shows in reality that the financial needs of individuals, households and enterprises can change significantly over time, especially for those who live in poverty.

Robinson (2001), considers microfinance as small-scale financial services-primarily credits and savings-given to people who are involved in small enterprises or microenterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries.

Ledgerwood (1999) emphasised that the main activity of cooperative financial institutions is savings. Since then the focus has changed and has moved from the predominant welfarist idea, where only the provision of credit was considered to be important, to the need of becoming financially sustainable through the provision of a complete range of financial products and to reach more people.

2.1.2 Overview of Microfinance in Cameroon

Though the growth of microfinance truly began to escalate in the early 1990s, it has existed in Cameroon for almost fifty years. During the early 1980s, banks in Cameroon became increasingly unable to support themselves as it became more difficult to receive international credit and largely unable to get internal resources within the country. In the late 1980s, it resulted in a government action completely restructuring all financial institutions, making many banks to close their doors with unpaid savings. The act articulated the expansion and intensity of micro finance in Cameroon.

2.1.2.1 Legal Framework

It was out of the bank crisis that the new appellation of microfinance was born in Cameroon, as many citizens were still in need of banking services that were no longer readily available. In the interest of more efficient regulation of the financial sector on the part of the Cameroon government, a series of new laws were created. The first was the law n°90/053 of 19 December 1990 granting freedom of association. Two more laws were passed in 1992 and 1993 outlining specific responsibilities and regulations for Common Initiative Groups (CIG) and Economic Initiative Groups (EIG) respectively. In 1998, law n°98/99 was passed and began to recognize

microfinance institutions as unique entities in the financial sector. Under the law, microfinance institutions were placed under the control of the Ministry of Finance rather than the Ministry of Agriculture. Furthermore, the Banking Commission of Central Africa (BCCA) was officially recognized as the authorizing structure of microfinance institutions that was capable of dissolving a micro-finance institution that does not adhere to its regulations. Finally, in 2002, by regulation n° 01/02/CEMAC/UMAC/COBAC, BCCA became the recognized organ that can clearly define and control the activities of microfinance institutions in CEMAC.

2.1.2.2 Structure of Microfinance in Cameroon

Under article 5 of the governing regulations, a microfinance institution may be considered as a category one, two, or three type of institution. Those of category one are cooperative institutions, which provide saving opportunities exclusively to members. The organizations cannot seek profits and therefore exist for the sole purpose of the empowerment of their members. CamCCUL, the case study of this evaluation, is one of the institutions. Category two microfinance institutions are profit-seeking institutions which offer savings and credit services to the public. Finally, category three microfinance institutions are profit-seeking institutions which provide credit services to the public but do not offer any saving services. In order to ensure a good control of the risks and to protect the assets of the savers, lawful devices are more demanding for the first two categories.

At the end of 2010, about twenty MFIs had a volume of deposits above one billion, half of which came from category 2. Regarding the MFI network, CamCCUL collected deposits of more than 85.4 billion. As concern independent MFI, *Cr  lit Communautaire d'Afrique* collected 66.5 billion. Loans were mainly short-term (63%) and medium-term (34%). The bulk of loans were granted for trade (39%) and consumption (27%). In terms of market share, with close to 57.3 billion, CamCCUL accounted for more than one-quarter of loans (Finance Law, 2011). Interest rates remained quite high despite stiff competition in the sector. Debit rates were between 4% and 30% per year for an average intermediation margin of 17%. Interest rates in the microfinance sector ranged from 6% to 33% for interest expenses and from 1% to 10% for interest income. Regarding prudential ratios, out of a sample of 50 MFIs, half of them complied with the liquidity, risk coverage and fixed assets coverage ratios. Only some ten MFIs had sufficient own funds.

In a bit to strengthen financial reporting, COBAC accelerated the implementation of the Microfinance Activity Evaluation and Supervision System (MAESS) whose accounting component started in June 2010. The microfinance sector employs about 6000 workers of which 732 were senior staff in the six principal approved networks namely: CamCCUL (about 177 MFIs), CVECA(41), CMEC(27) and MC². Another network, MUCADEC is being approved. On the 30th of June 2011, out of 480 approved MFIs, close to fifty were under liquidation, suspension of activities, adjustment and/or temporary administration (Finance Law, 2012). Pursuance of corrective measures in the sector resulted in the withdrawal of authorizations from 33 MFEs in July 2013 (Finance Law, 2014). Moreover, with customers' deposits estimated at 454 billions and credits at 239.8 billions at the end of September 2013, the microfinance sector has more than 1000 counters nationwide and contributes 10% to financing the economy (Ibid).

Table 1. Aggregate balance sheet of MFIs on 31 December 2010

LIABILITIES	AMOUNTS (billion fcfa)	ASSETS	AMOUNTS (billion fcfa)
Capital	42283	Fixed assets	44802
Shares	38902	Loans	221378
Fixed deposits	373872	Others	39397
Others	35870	Cash	152786
Cash	6338		
Total	458363	Total	458363

Source: Market insight, market intelligence, trade press, industry survey December 2011.

The total aggregated balance sheet of MFIs in Cameroon at the end of December 2010 stood at FCFA 458,363 billion representing 15.7% of total assets of commercial banks at the same date. 80% of the main activities of microfinance sector were covered by MFIs of first category. The most important structures were CamCCUL and *Cr  lit Communautaire d'Afrique* (CCA) networks with respectively 70,081 and 119,211 billions of total assets at the end of 2010.

Financial intermediation operations remained important in the balance sheet structure and reinforcing the activities of the sector. Deposits collected stood at FCFA 373,872 billions and represented 81.5% of the total aggregated

balance sheet representing 15.5% of total deposits collected by commercial banks in Cameroon. A greater share came from the CamCCUL network (95.85 billions), CCA (65,656 billions) and COMECI (17,575 billions). However, cash outstanding loans were estimated at FCFA 223,563 billions, or 49% of consolidated total assets.

Net cash microfinance lending stood at FCFA 146,448 billions as at 31st December 2010, which was usually held in the form of cash in hand, deposits held at call with local correspondents and, accessorially, in the form of investments in certificates of deposits or government bonds. Thus, this situation highlights the problem of surplus cash management among MFIs in Cameroon.

2.2 Theoretical Review

The welfarist and institutionalist approaches are of current thoughts in the field of microfinance and are of capital interest for discussion in the theoretical review related to MFI performance. In the literature of microfinance, measurements of performance of the MFI show that the two approaches are opposing. The debate animating the two currents of thought originated from the different visions on what should be the roles and the priorities of MFIs to allow the populations with low-incomes have access to the finance departments under the best conditions. Despite the agreement on the required final objective of microfinance, the two camps are opposed in the manner of reaching the targets.

2.2.1 The Welfarist Approach

The Welfarist social well-being approach focuses on the reduction of poverty through the supply of financial services to the poor, especially the very poor ones who fall below the poverty line of \$1.25 a day. The approach is out to help the poor to overcome poverty, gain financial autonomy and thus improve their well-being. The appropriations are often accompanied by other non-financial services like professional training and teaching, family planning, nutrition, health, etc. Woller et al. (1999) underlined that the welfarists lay emphasis on the range of the activities of MFIs. The objective of the welfarists is to foster the self-employment of the poorest among the poor who are economically active. Emphasis is laid particularly on women to allow them increase, even modestly, their incomes and savings as means of improving their living conditions. Therefore, the center of attention is on the family. The authors stress that, like the institutionalists, they intend to ensure a greater impact on poverty reduction, even if they are not really able to document it. The most eminent example of the welfarists' institutions is the Grameen Bank in Bangladesh and its counterparts in other parts of the world. In addition, Adair and Berguiga (2010) emphasized that the welfarist school evaluates the performance of microfinance institutions by the criteria based on the range of activities and their impact on the living conditions of the participants. The weakness of the welfarists approach is that it faces the problem of viability and sustainability induced by subsidies, low reimbursement rates and rising operating costs.

2.2.2 The Institutional Approach

The institutionalist approach (Morduch, 2000; Brau & Woller, 2004; Ejigu, 2009; Gutiérrez-Nieto et al., 2009) focuses primarily on the creation of viable financial institutions which can allow the customers who are not served or who are badly served by the formal financial system to have access to a whole range of adapted finance departments to gain financial self-sufficiency for a larger outreach of activities. The degree of outreach is not the required objective. Otherwise, MFIs must seek to reach the greatest number of the poor and not targeting the poorest populations. It is the extent of operations which will make it possible for MFIs to carry out certain economies of scale and aspiring to reach financial viability. The central point of the approach is the institution, and institutional success is generally measured by the progress made by the institution towards confronting financial self-sufficiency (Woller et al., 1999; Adair & Berguiga, 2010). The institutionalists affirm that the main aim of microfinance is to set up a system of financial intermediation durably and especially dedicated to the poor. In such an approach, the future of the microfinance will be dominated by many great institutions with lucrative goals which provide finance departments with high-quality services to a great number of poor customers. While insisting on financial self-sufficiency, the institutionalists dissuade to recourse to any form of subsidies (Woller et al., 1999). To achieve their goals, MFIs need many financial resources. If these resources depend on the donors, then MFIs are likely to jeopardize their objectives. Indeed, the necessary capital largely exceeds what the international donors can offer. Moreover, such donors are of unforeseeable nature, making their contributions unstable (Gonzalez-Vega, 1993). The loophole of the institutionalist approach is that it considers customers or micro entrepreneurs very close to the poverty line (\$ 2 per day) whose interest rates are high enough to ensure the financial autonomy of MFIs. Such a behavior termed "microfinance schism" is referred to as a tradeoff between targeting the poor and profitability at the same time by MFIs (Morduch, 1998).

2.2.3 Sustainability of Microfinance

Apart of the above approaches of evaluating performance, the sustainability of microfinance is another yardstick of concern. Letenah (2009), looks at sustainability as the ability of an MFI to cover its operating and other costs from generated revenue that can provide some profits. It is an indicator which shows how MFIs can function independent of subsidies. This notion has created a different perspective on the analysis of performance of MFIs. Guntz (2010) pointed that sustainability in simple terms refers to the long-run continuation of the microfinance program after the project activities have been terminated. It entails that appropriate systems and processes have been put in place that will enable the microfinance services to be available on a continuous basis and that the clients continue to benefit from the services in a routine manner. This also would mean that the program would meet the needs of the members through resources raised on their own strength, either from among themselves or from external sources. As the concept of microfinance came into focus, the question of whether supports from donors are necessary in the long term existence and the issue of sustainability of such institutions as well is raised. It could be argued that the long term sustainability of MFIs is not important as long as money is given to micro entrepreneurs and a startup help is accorded. This would imply that sustainability of micro enterprises is more important than the long term existence of financial institutions that supported the start up.

As MFIs seek to reach as many poor people as possible in the long run to fight against worldwide poverty, it is clear that the outreach is only possible on a sustainable and efficient basis. Some antagonists of this argument state that sustainability is not possible by reaching the poorest people on the planet (Guntz, 2010).

2.2.4 Financial Sustainability

Financial sustainability indicates the ability of an MFI to survive in the long-run by means of its own income generating activities without any contributions from donors (AEMFI, 2013). As per the MIX Market definition, the term financial sustainability is considered to have an operational sustainability level of 110% or more, while operational sustainability is viewed to have an operational self-sufficiency level of 100% or more. Financial sustainability therefore refers to the ability of microfinance to cover all of its costs on an unsubsidized basis or without accepting donations. United Nations, consider sustainability a necessity to reach a larger number of people on an ongoing basis (Elia, 2006). If MFIs remain dependent on limited donor funds, they can reach only a limited number of people. Financial sustainability is not an end in itself but is the only way to reach significant scale. To analyze the sustainability of an MFI, two known set of ratios have been developed. These are widely accepted and they enable a comparison among MFIs all over the world. The ratios are Operational Self Sufficiency (OSS) and Financial Self-Sufficiency (FSS).

Operational Self-Sufficiency (OSS) (%) = $\frac{\text{Operating income}}{\text{Operating expenses}}$, measures the degree to which operating income

covers operating expenses. If the calculated value is greater than 100%, the evaluated organization is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover their costs through operating revenues.

Whereas Financial Self-Sufficiency (FSS) (%) = $\frac{\text{Adjusted operating income}}{\text{Adjusted operating expenses}}$, indicates the degree to which operating

income covers adjusted operating expenses. The adjustments try to show how the financial picture of the MFI would look like on an unsubsidized basis or free from donations. Financial self-sufficiency requires adjustments for different reasons. Financial statements must be adjusted to conform to standard accounting practices, to take into account inflation and to delete the effects of subsidies and in-kind donations. FSS shows how an MFI would look like if funds had been raised on a commercial basis and if services or equipment had been purchased at a market rate and were not received as a donation (Elia, 2006). Operational self-sustainability is when the operating income is sufficient enough to cover operational costs like salaries, supplies, loan losses, and other administrative costs. Meanwhile financial self-sustainability is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market prices (Meyer, 2002). Other theories include:

i) Profitability Theory

Not all MFIs become sustainable, and are able to retain profits, or even to break-even and therefore still depend on support from donors and those subsidizing. The rapid growth in the industry is not due to a golden

“one-way-road” to profitability since there are still big diversities among MFIs and their operations (Joergeson, 2011). This idea hugs in the explanation of the theory of banking practices that may lead to the profitability of MFIs.

- Profitability of Retail Banking

There are large differences among banks, financial institutions or intermediaries especially considering the customers they serve. Retail banking is, however, the banking practice closest to microfinance institutions and is therefore interesting to look into its profitability. Conventional retail banks borrow from people who have surplus of money and lend to those in deficit. The bank thereby makes money on the interest spread between the two, called the net interest income. In the retail bank about half to three-quarters of the income generated come from the intermediation role. The rest of the revenue comes from a number of other services such as insurance, money transmission, advisory services, investment and taxation, card and factoring services etc. All the services put together represent the non-interest income for the retail banks. A key and great factor of success for conventional retail banks is getting enough customers. This is equally considered as a key factor for MFI's, but for different reasons, which depend on the purpose of the MFI, whether it is socially or economically inclined (Joergensen, 2011). It is obvious that the objective of conventional retail banks is profit making. Profits are therefore in proportion to their sizes (total assets), though with some advantages of economies of scale. Since the microfinance industry is not as developed as the conventional banking industry, it is not expected that profit is in proportion to size (total assets), and also because the institutional motives and their products vary differently than those of retail banks.

Retail banking sector use investors to provide start-off and running capital but in return the investors receive equity in the business, thus owning part of the company. The company's profit and the investors' return on equity (ROE) are closely correlated. Retail bank shareholders would like the highest possible ROE, considering ten percent as below average, fifteen percent as the standard, and 20 percent as excellent. Looking at MFIs only some have investors, yet the issue of investors is an interesting benchmark as much as ROE of MFIs is concern (ibid). Retail banks do however have to take on some risk, with the result of losing some money. If they lose too little they will have no customers because they will be excluding a major part of the population which they could lend to, but loose too much, and the bank can face bankruptcy under this condition. MFIs operate or perform under a very different approach, where they take bigger risks; however, they find ways to compensate for the risk. MFIs charge higher interest rates to the borrower through innovative methods such as joint liability. This new approach opens up a much larger market segment than was before in banking (ibid).

- Profitability

Profitability means the ability to make profit from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. According to Harward and Upton (1961), they define profitability as the ability of a given investment to earn a return from its use. The term Profitability however is not synonymous to the term “Efficiency”. Profitability is a measure of efficiency; and is regarded as a measure of efficiency and management guide to greater efficiency. Though, profitability is an important yardstick for measuring the efficiency, the degree of profitability cannot be taken as a final proof or indicator of efficiency. Sometimes satisfactory profits can mark inefficiency and conversely, a proper degree of efficiency can be accompanied by an absence of profit. The net profit figure simply indicates a satisfactory balance between the values received and given. The change in operational efficiency is merely one of the factors on which profitability of an enterprise largely depends. Moreover, there are many other factors besides efficiency, which affect profitability (Harward & Upton, 1961).

- Profit and Profitability

Sometimes, people used the term “Profit” and “Profitability” interchangeably. But in real sense, there is a difference between the two. Profit is an absolute term, whereas, profitability is a relative concept. However, they are closely related and mutually interdependent, having distinct roles in business. Profit refers to the total income earned by the firm during the specified period of time, while profitability refers to the operating efficiency of the firm. It is the ability of the firm to make profit on sales and get sufficient return on the capital.

Weston and Brigham (1972), noted rightly that for financial management, profit is the test of efficiency and a measure of control, to the owners, it is a measure of the worth of their investment, to the creditors is the margin of safety, to the government it is a measure of taxable capacity and a basis of legislative action and to the country, profit is an index of economic progress, national income generated and the rise in the standard of living, whereas profitability is an outcome of profit”. In other words, no profit drives towards profitability (Ibid). According to Al-Shami (2008), there are different ways to measure profitability such as: return on asset (ROA), and return on

equity (ROE). Return on Asset indicates how profitable a company is relative to its total assets. It gives an idea as to how efficient management is in using its assets to generate earnings. While, return on equity measures a company's profitability which shows how much profit accompanies generate with the money shareholders have invested. This measure gives a sense of how well a company is in using its money to generate returns.

ii) Market Power Theory

Applied in banking, the Market Power hypothesis posits that the performance of bank is influenced by the market structure of the industry. There are two distinct approaches within the Market power theory; the Structure-Conduct-Performance (SCP) and the Relative Market Power hypothesis (RMP). According to the Structure-conduct-power approach, the level of concentration in the banking market gives rise to potential market power by banks, which may raise their profitability (Njerl, 2012). Banks in more concentrated markets are most likely to make abnormal profits by their ability to lower deposits rates and to charge higher loan rates as a results of collusive (explicit or tacit) or monopolistic reasons, than firms operating in less concentrated markets, irrespective of their efficiency.

Unlike the Structure-conduct-power, the Relative market power hypothesis states that bank profitability is influenced by market share. It supposes that only large banks with differentiated products can influence prices and increase profits. They are able to exercise market power and earn non-competitive profits. The above theoretical analysis shows that Market power theory supposes bank profitability is a function of external market factors.

iii) Efficient Structure Theory

The efficient structure hypothesis, on the one hand states that banks earn high profits because they are more efficient than others. There are also two distinct approaches within the Efficient Structure (ES): the X-efficiency and Scale-efficiency hypothesis. According to the X-efficiency approach, more efficient firms are more profitable because of their lower costs. Such firms inclined to gain larger market shares, which may manifest in higher levels on market concentration, but without any causal relationship from concentration to profitability (Athanasoglou et al., 2006). The scale approach emphasizes economies of scale rather than differences in management or production technology. Larger firms can gain lower unit cost and higher profits through economies of scale. This makes it possible for large firms to acquire market shares, which may manifest in higher concentration and then profitability. The efficiency structure on the other hand like the Portfolio theory largely assumes that bank performance is influenced by internal efficiencies and managerial decisions (Njerl, 2012).

iv) Portfolio Theory

The portfolio theory approach is the most important and plays a great role in bank performance studies. As per the Portfolio balance model of asset diversification, the best possible holding of each asset in a wealth holder's portfolio which is a function of policy decisions determined by a number of factors such as the vector of rates of return on all assets held in the portfolio, a vector of risks associated with the ownership of each financial assets and the size of the portfolio (Ibid). The portfolio theory further explained as portfolio diversification and the desired portfolio composition of commercial banks results are of decisions taken by the bank management. Further, the ability to obtain maximum profits depends on the feasible set of assets and liabilities determined by the management and the unit costs incurred by the bank for producing each component of assets. Portfolio theory largely supposes that bank performance is influenced by internal efficiencies and managerial decisions (Ibid).

2.3 Determinants of Financial performance of MFIs: Empirical Review

MFIs financial performance could be affected by a number of determining factors. In most literatures MFIs profitability is usually expressed as a function of internal and external determinants. Muriu (2011) pointed out that the determinants of MFIs profitability could be divided into internal determinants which are management controllable and the external determinants, beyond the control of management. Empirical literatures in relations to determinants of MFIs financial performance are very limited. Previous studies carried out in the area highly depended upon theory of retail banking financial performance by assuming that MFIs also provide banking services to the poor. Following are elaborations of empirical studies in connection with determinants of MFIs financial performance.

2.3.1 Portfolio Quality

Portfolio indicates the total funds available for the MFI as loans to its clients. Portfolio quality is a measure of how well or how best the institution is able to protect such portfolio against all forms of risks. The loan portfolio is by far an MFI's largest asset (Nelson, 2011) and, in addition, the quality of that asset and therefore, the risk it

poses the institution to can be quite difficult to measure. Portfolio quality is a critical area of performance analysis, since the largest source of risk for any financial institution resides in its loan portfolio. For microfinance institutions whose loans are typically not backed by bankable collateral, the quality of the portfolio is absolutely crucial (American Development Bank, 2003 cited in AEMFI, 2013). Portfolio quality is a vital area of analysis, since it is the largest source of risk for any financial institution. Therefore, as much as possible, MFI's must try to maintain the quality of their portfolios. For this study, portfolio quality is measured as portfolio at risk over 30 days (PAR >30 days).

According to Muriu (2011), in "what explains the low profitability of MFIs in Africa" he tried to find out the factors contributing to profitability of MFIs. Using the Generalized Method of Moments (GMM) system and an unbalanced panel dataset comprising of 210 MFIs across 32 countries operating from 1997 to 2008, he carried out the study. The proxies for profitability were both ROA and ROE. He found out that Credit risk measured by the sum of the level of past loans due 30 days or more (PAR>30) and still accruing interest was negatively and significantly related to MFI profitability. The study therefore found evidence to support the conjecture that increased exposure to credit risk was normally associated with lower MFI profitability.

Lafourcade et al. (2006) on the "Overview of the Outreach and Financial Performance of Microfinance Institutions in Africa" considering 163 MFIs from 25 countries showed that MFIs around the world continue to demonstrate low PAR > 30 days, with a global average of 5.2 percent. However, African MFIs maintain relatively high portfolio quality, with an average PAR > 30 days of 4.0 percent, performing better than their counterparts in South Asia (5.1 percent), Latin American Countries (5.6 percent), and East Asia (5.9 percent). When MFIs are faced with poor portfolio quality, they may write off the loans from their books or refinance the loans by extending the terms, changing payment schedules, or both. The result showed that a loan at risk was negatively correlated with MFIs financial performance.

Bartual et al. (2011) measured the performance of MFIs that have a banking side and a social side, using a goal programming based multi criterion methodology. The authors found that the two categories representative of the general performance tendency are: Overall financial performance, risk and liquidity followed by institutional characteristics which represent the size of the company, then by expenses. By carrying out a spearman correlation analysis in order to analyze the correlation between each of the single-criterion measurements and the final performance, they found that only two variables have highly significant correlations with multi criterion performance: ROE and Portfolio quality were the two key factors for improving MFIs' performance.

In determining the factors which have relationships with financial performances of the MFIs, Ayayi and Sene (2010) analyzed a sample of 217 MFI of various legal forms and originating in 101 countries of the various parts of the sphere. The authors used financial self-sufficiency as independent variable and results showed that the quality of loans portfolio, interest rate, and productivity have positive impacts on the financial viability of MFIs.

2.3.2 Capital Asset Ratio

The capital assets ratio is a simple measure of solvency of MFIs. The ratio helps an MFI to assess its ability to meet its obligations and absorb unexpected losses. The determination of an acceptable capital to asset ratio level is generally based on an MFI assessment of its expected losses as well as its financial strength and ability to absorb such losses. Expected losses should generally be covered through the provision of MFI's accounting policies, which remove expected losses from both assets and equities. Thus, the ratio measures the amount of capital required to cover additional unexpected losses to ensure that the MFI is well capitalized against potential shocks. Equally MFIs with low capital ratios are riskier in comparison with better capitalized financial institutions.

According to Dietrich and Wanzried (2009) on what determines the profitability of commercial banks? New evidence from Switzerland, they tried to explain the determinants of bank profitability by classifying them into bank specific, macroeconomic and institutionalized factors. They used unbalanced panel data from 1999 to 2006 from 453 banks in a linear regression method to conclude that capital ratio has a positive and significant effect on bank profitability in Switzerland as measured by the return on average assets (ROAA). A similar study by Vong and Chan (2010), on the determinants of bank profitability in Macacao, covering a data set 15-years period from 1993 to 2007 was carried out. By Panel regression and generalized least squares (GLS) estimation techniques they analyzed the internal as well as the external determinants of bank profitability. The results showed that Capital asset ratio had significant impact on bank profitability meaning that the positive coefficient estimate for the ratio of equity to total assets (EQTA) indicated an efficient management of banks' capital structure.

To Muriu (2011), using a panel data set of 210 microfinance institutions; he revealed that capital adequacy had

robust and significant positive association with MFI profitability. This was depicted by the relatively high coefficient of the equity to assets ratio across the specifications. The effect remains the same even after the inclusion of the external factors. Intuitively, it was an indication that well capitalized MFIs are more flexible in dealing with problems arising from unexpected losses and witnessed a reduced cost of funding or lower external funding.

Hartarska and Nadolnyak (2007) found a positive impact of capital ratio on the financial performance of MFI measured by the ratio of operational self-sufficiency.

2.3.3 Gearing Ratio/Debt to Equity Ratio

The debt to equity ratio is calculated by dividing total liability by total equity. Total debt includes everything the MFI owes to others, including deposits, borrowings, account payable and other liability accounts. The debt/equity ratio is the simplest and best-known measure of capital adequacy because it measures the overall leverage of the MFIs (AEMFI, 2012). The debt to equity ratio is a common measure used to assess a firm's leverage, or in other words the extent to which it relies on debt as a source of financing (Lislev et al., 2012).

Microfinance institutions that employ higher debt in their capital structure are more profitable, and highly leveraged microfinance institutions are more profitable (Muriu, 2011). Besides, a higher debt ratio can enhance the rate of return on equity capital during good economic times (ibid). Moreover, it also appears that NGO type of microfinance institutions rely more on debt financing relative to other types of microfinance institutions, perhaps because many are not regulated to mobilize deposits. The significant correlation between performance and gearing ratio is an indication that perhaps more debt relative to equity are used to finance microfinance activities and that long term borrowings impact positively on profitability by accelerating MFIs growth than it would have been without debt financing (Ibid).

According to Nelson (2011) the Rural Bank in Ashaiman municipality recorded a debt/equity ratio of 50.89 in 2007 but increased to 54.05 in 2008. It increased further to 61.65 in 2009 and to 77.35 in 2010 showing an average of 60.99%, depicting that most of its operations were financed by debt instruments and, should probably be regulated. The savings and loans recorded a rapid increase from 0.30 in 2007 to 0.8 in 2008. This again increased sharply to 2.97 in 2009 and to 4.89 in 2010 with an average of 2.24, signifying that savings and loans were approaching the borrowing limits leading to the curtailment of growth. The Credit Union's debt/equity decreased throughout the study period from 0.89 to 0.61 to 0.45 to 0.77 respectively, implying that more equity is used to finance business than debt. This is very much connected to where the MFI is located in its life cycle. Traditionally, the funding structure follows a certain pattern over the life cycle of an MFI. Startups are characterized by a larger dependency on donations, usually in the form of equity grants, whereas the more mature MFIs tend to display higher debt leverage through borrowing and even evolve into a formal institution or a regulated niche bank. Some MFIs even access capital markets by issuing bonds or by going public IPO (Joergensen, 2011). Dissanayake (2012) points out that debt/equity is a statistically an insignificant predictor variable for the model at 5% level of significance.

2.3.4 Size of Microfinance (Total Asset)

Another factor that can affect the financial performance of an MFI is its size. The size of an MFI is measured by the value of its assets (Hermes et al., 2008). According to Cull et al. (2007), the size of an MFI is significantly positively linked to its financial performance. This variable is included to capture the economies or diseconomies of scale. There is consensus in academic literature that economies of scale and synergies arise up to a certain level of size. Beyond that level, financial organizations become too complex to manage and diseconomies of scale arise. Total asset of MFIs is used as a proxy of size.

It is argued that failure to become profitable in microfinance is partly due to lack of economies of scale Muriu (2011). This implies that profitable MFIs in Cameroon have a greater control of the domestic market, and therefore lending rates may remain high while deposit rates remain lower since larger MFIs may be perceived to be safer, therefore this high interest rate spread translates to and sustains higher profits margins. Cull et al. (2007) point out that the size of MFIs and financial performance are significantly related but loan size is negatively related to financial performance. This means that controlling for other relevant factors; institutions that make smaller loans are not necessarily less profitable. But the result showed that larger loan sizes are associated with lower average costs for both individual-based lenders and solidarity group lenders. Since larger loan size is often taken to imply less outreach to the poor, the result could have negative implications.

2.3.5 Operational Efficiency

Operational efficiency is a performance measure that shows how well MFIs is streamlining its operations and

taking into account the cost of the input and/or the price of output. Efficiency in expense management should ensure a more effective use of MFIs loanable resources, which may enhance MFIs profitability. Higher ratios of operating expenses to gross loan portfolio show a less efficient management. Operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff, and others (Ongore & Gemechu, 2013).

According to Nimal Sanderatne (2003) cited by Dissanayake (2012), in the study of the determinants of financial viability showed that operational efficiency and low administration costs have an important bearing on the Financial performance of MFIs.

Dissanayake (2012), operating efficiency is proxy by operating expense ratio which is adjusted operating expense divided by adjusted average gross loan portfolio and he concludes that operating expense ratio is statistically a significant predictor variable in determining return on assets ratio. In line with this idea Muriu (2011) concluded that inefficiency in the management of operating expenses significantly decrease MFI profitability.

2.3.6 Market Concentration

Birhanu (2012), defines market concentration as the number, size and distribution of banks in a particular market or country. As indicated in other empirical studies, market concentration is captured by the Herfindahl-Hirschman (H-H) index which is the sum of the square of marketshare of the sample banks included in a particular study. The market share of each bank is measured by the ratio of the bank's total asset to total assets of all banks (Gajure & Pradhan, 2012).

Since highly concentrated market lacks proper competition as to setting the price of banking services, it makes the existing banks more profitable. However, when the concentration of the market is reduced and the size and distribution of banks become more dispersed, the banking sector profitability is expected to reduce. Flamini (2009) studying the determinants of profitability of commercial bank in Sub-Saharan Africa, concluded that market concentration has no direct effect on bank profitability.

Athanasoglou et al. (2005) also examined and concluded that market concentration affects bank profitability negatively, in an insignificant manner. Similarly, Molyneux and Thornton (1992) in their study carried out on the determinants of European bank profitability, showed that market concentration has a positive, statistically significant correlation with pre-tax return on assets which are consistent with the traditional structure -conduct-performance paradigm.

3. Methodology

3.1 Area of the Study

The scope of this study is limited to the financial industry in Cameroon, more specifically to the first category of MFIs. The focal point of concern is not just to examine the determinants of the performance of microfinance institutions in their entirety, but also to find out how these factors can enhance the performance of microfinance institutions. Due to the scarcity of data observed in the sector, we shall capitalize on CamCCUL Ltd that to an extent is having reasonable data. By 1968, it had about 34 credit unions and presently it has 208 affiliates in all the ten regions of the country with close to 1.6 million persons benefiting from its services. The CamCCUL mission is to continuously develop and sustain a secure and law abiding network of cooperative credit unions that offer efficient microfinance services for the financial and social development of their members. CAMCCUL is ranked first in total number of outlets, deposits, profitability and outstanding credits in the microfinance sector of Cameroon, controlling out rightly more than 55% in all categories (Fotabong, 2012). It shares of the microfinance market continue to grow as opportunities remain abound and lack of resources by major competitors to challenge the position of CAMCCUL.

3.2 Research Design and Method of Data Collection

The study used the correlation research design exploiting secondary data (Mix market reports) covering the period from 1982 to 2013, for times series. Since the data collected from this source was not sufficient to make a trend analysis, it was supplemented with CamCUL's annual balance sheets and annual reports to increase the sample size and the reliability of data collected.

3.3 Model Specification and Definition of Variables

3.3.1 Model Specification

The general model used in the study is adopted from that of Bourbonnais (2009) and different studies conducted

in the same areas as in equation 1.

$$ROA_t = \beta_0 + \beta_1 PAR30days_t + \beta_2 \ln TA_t + \beta_3 OE_t + \beta_4 MC_t + \varepsilon_t \quad (1)$$

Where a priori expectations of $\beta_1, \beta_2, \beta_3,$ and $\beta_4 > 0$; and the coefficients of the variables are different from zero, ROA_t : is return on assets at period t ; $PAR 30 days_t$: the portfolio at risk at 30 days of MFI at time t ; OE_t stands for operational efficiency of MFI at time t ; $\ln TA_t$: natural logarithm of total assets of MFI at time t ; MC_t : market concentration of MFI at time t ; β_0 represents the intercept which is constant over time and ε_t is the random error term.

Table 2. Variables and expected signs of the model

Variables	Description	Notations	Expected Signs
Portfolio quality	Outstanding balance, loan overdue > 30 days / Adjusted gross loan portfolio	PAR30days	+
Operating efficiency	Operating expense / Loan portfolio	OE	+
Size	Natural logarithm of the total asset	LOGTA	+
Market Concentration	HH Index	MC	+

Source: authors, from an exhaustive review of empirical literature.

3.4 Estimation Technique and Econometrics Tests

3.4.1 Estimation Technique

Since the ordinary least squares (OLS) technique provides the best linear unbiased estimates, it was used to analyze the quantitative data collected on financial performance, with the intention to quantify the relationship between internal as well as external factors on CamCCUL performance. The data was analyzed at a 5% level of significance.

3.4.2 Econometrics Tests

3.4.2.1 Diagnostic Tests Model/ Post Estimation Test

Since the models are specified time series, to avoid spurious regressions, diagnostic tests of the model were carried out including unit root test and skewness-kurtosis test of normality. Some econometric issues may arise in the course of linearly regressing a dependent variable on some independent variables. Therefore, we checked whether our empirical model is free from multicollinearity (correlation coefficient and VIF for each variable), heteroskedasticity (Breusch-Pagan/Cook-Weisberg test) and autocorrelation (Durbin-Watson test).

4. Presentation and Discussion of Results

4.1 Presentation of Results

The study is focused on the analysis of the financial performance of microfinance institutions, with the case of CamCCUL Ltd. Data analysis was done with the use of STATA 12.0 the results are presented in the form of descriptive statistics and quantitative analysis.

4.1.1 Descriptive Statistics

Table 3 provides a summary of the descriptive statistics of the dependent (return on asset (ROA)) and independent variables.

Table 3. Summary statistics

Variables	Obs	Mean	Std. Dev.	Min	Max	SKEWNESS
ROA	32	10.25	10.86	1.88	41.8	1.69
lnTA	32	8.29	.76	6.57	9.43	-.49
PAR30days	32	1.45	1.23	.13	4.01	.94
OE	32	3.88	1.91	1.5	9	1.01
MC	32	.266	.022	.23	.29	-.27

Source: author using Stata 12.0.

Table 3 shows that the financial performance of CAMCCUL measured by Return on Asset for 32 years indicates a positive value of 10.25% averagely during the study period. Also, the Maximum value of ROA is 41.8% and minimum value is 1.88%. This shows that CamCCUL gained on average 10.25 Francs in every one FCFA invested on total assets. The standard deviation of ROA per unit of asset is 10.86 and looking at the skewness, it

is positively skewed. It implies that most of the assets fall to the right of the mean value return on assets.

The variable PAR>30, meaning that 1.45% and the maximum is 4.01% and minimum is 0.13% respectively. According to ANENCAM (2012) any portfolio at risk (par > 30 days) exceeding 10% should be a serious cause for concern; because unlike loans of commercial banks, most loans are not backed by bankable collaterals. Therefore, the result shows that CamCCUL's portion of the portfolio in arrears or unpaid is 1.45% averagely. This is good and the maximum 4.01% implies that the credit portfolio of CamCCUL is fairly risky.

The MFIs size plays an important role to maintain the position of a MFI in the market. The mean of the variable is 8.29 in its natural logarithm value, whereas the maximum and minimum values are 6.57 and 9.43 respectively. On the other hand, the average operating efficiency of CamCCUL was 3.88% indicating that on average it is incurring 0.038 francs in operating expenses for each franc in the gross loan portfolio. In that regard, the descriptive statistics of the Herfindahl – Hirschman index shows that there is high concentration of CamCCUL in the MFI industry in Cameroon with average market concentration of 0.266, between the maximum value of 0.29 and the minimum score of 0.23 According to H-H index, the value between 0.1 and 0.18 indicate a moderate market concentration meanwhile the value above 0.18 shows a high market concentration (Gajure & Pradhan, 2012).

Finally looking at the skewness, we observed that most of the values fall to the left of the distribution indicating a positively skewed pattern. However, total assets and market concentration were found to be negatively skewed.

4.1.2 Estimation of Results

Table 4. Regression results for determinants of financial performance of CamCCUL Ltd.

Variables	Coef	Std.Error	t-stat	P> t
D.PAR30days	1.61	.86	1.88	0.07
D.lnTA	-14.59	1.36	-10.74	0.000
OE	.89	.42	2.07	0.05
MC	-48.30	34.76	-1.39	0.18
CONSTANT	9.75	8.44	1.16	0.26

Model: $ROA_t = \beta_0 + \beta_1 PAR30days_t + \beta_2 lnTA_t + \beta_3 OE_t + \beta_4 MC_t + \varepsilon_t$
 Dependent variable: Return On Assets
 Method: Ordinary Least Squared (OLS)
 Number of observations: 32

R-squared = 0.84
 Adjust R- squared = 0.81
 D-Watson (5, 31) = 1.98
 F (4, 26) = 33.68
 Prob> F = 0.0000

Source: author using Stata 12.0.

Critical values: 1.70 at 10%, 2.05 at 5%, and 2.77 at 1% level of significance.

Based on the regression results, the R^2 value is 0.84 which implies that 83.82% of fitness can be observed in the sample regression line. Otherwise, 83.82% of the total variation in the financial performance of ROA is jointly explained by total assets, portfolio at risk>30 days, operational expenses, and market concentration.

The coefficient of total assets is negative, indicating a negative relationship between CamCCUL's financial performance and its size. By implication an increase by 1% in the size of CamCCUL leads to the decrease of its return on assets by 0.15 units. Also, market concentration has a negative relationship with returns on assets, meaning that any increase in market concentration would lead to a decrease of the financial performance of CamCCUL to the tune of -48.30 units. The t-statistic shows that the effect of these variables is statistically insignificant. Considering the portfolio at risk and operational expenses, they have positive coefficients, which mean that returns on assets of CamCCUL are positively related. In other words, any decrease of the portfolio quality and operational expenses would lead to an increase of the financial performance of CamCCUL by 1.61 and .88 units respectively. Going by the t-statistics, the t-calculated values are greater than the t-critical value at 1 and 5 percent level of significance respectively. The value of operational expenses is negative. The value of the constant term is 9.75 implying that in the absence of the variables specified in the model, there are other

variables which positively affect the financial performance of CamCCUL. The t-statistics shows that the effect of these other variables is statistically insignificant.

4.2 Discussion of the Results

The specific objective of the study was to found out whether there is any relationship between the loan portfolio quality of CamCCUL and its financial performance. The results obtained reveals that the coefficient of the portfolio-at-risk over 30 days is positive as expected and statistically significant at 10%, which rejects the hypothesis that, there is no significant relationship between the loan portfolio quality of CamCCUL and its financial performance. In general, a low portfolio-at-risk would extend the revenue derived from microcredit operations and therefore increase the amount of lendable funds. As a result this would lead to solving the problem of credit outreach and ultimately the ability to sustainably supply quality services to customers, and have a positive impact on CamCCUL's financial performance. The result is in agreement with those of Ayayi and Sene (2010) and Bartual et al. (2011) who found that the quality of loan portfolio has a positive impact on the financial viability of the MFI firms from 101 countries of the various parts of the world. However, the results are in disagreement with those of Lafourcade and Al. (2006) as they found out that a loan at risk was negatively correlated to MFIs financial performance.

In terms of the size of CAMCCUL, the findings reveal a negative coefficient, which is statistically significant at 1% (p-value 0.00). Considering the relative market power and scale efficiency theory, as the size of a firm expands so would be its market power and increase profits. The results contradict the theory as it has a negative sign, contrary to the a priori expectation, which means that the size of CamCCUL does not determine its financial performance. It equally means that CamCCUL with its large size do not significantly enjoyed economies of scale. In fact, the negative coefficient is an indication of the possibility that diseconomies of scale exist, which adversely affect the financial performance of CamCCUL. This might be due to the existence of bureaucratic bottlenecks and managerial inefficiencies in managing its assets. Therefore, the results do not confirm to the study's hypothesis, which may depicts that, managers of CamCCUL are erroneously increasing assets and giving less attention to increasing operating expenses. Such a scenario ends up with no profit to the organization. Nevertheless, the result is consistent with AEMFI (2013) report, in which MFIs economies of scale have much less impact on efficiency than is usually believed due to high variable cost. Equally, the result is not consistent with Cull et al. (2007) and Muriu (2011) but similar to the banking industry result of Dietich and wanzenried (2009), and MFIs result of Sima (2013).

Another specific objective was to examine the effect of market concentration on CamCCUL's financial performance. Even though the descriptive statistics show that there is market concentration in CamCCUL, the regression result indicates a negative and statistically insignificant impact on its financial performance at 10% level of significance. The reason behind that is most likely due to inefficiency and the motive on which CamCCUL was established. The banking theories on market concentration argue that if the size and firm distribution of a specific sector is concentrated, the profitability of firms becomes higher because firms could get monopoly power to set prices for their products/services and determine the desired level of profits. Hence, the study finds no evidence to accept the hypothesis of no significant relationship between market concentration and financial performance of CamCCUL. In that case, the results are in disagreement with those of Flamini (2009), Athanasoglou et al. (2005), and Molyneux and Thornton (1992).

The regression result ratio shows that operational expenses have a positive coefficient and it is statistically a significant variable because the P-value is 0.05. It is contrary to the a priori expectation implying that CamCCUL experienced a significant correlation between CamCUL's financial performance and operational expenses. Moreover, the result shows that holding constant all other variables, decreasing operational expenses by one unit on gross loan portfolio causes ROA to increase nearly by 0.88, which is an indication that CamCCUL should pay great attention to cost minimization techniques. The result confirms to the common rule of thumb that the lower the expenses, the higher the financial performances. Based on the findings, the study fails to accept the null hypothesis of no significant relationship between operational efficiency and CaCmCUL's financial performance. Generally, operating expense is a key determinant of the financial performance of CamCCUL. The result is equally consistent with the findings of Dissanayake (2012), Muriu (2011) and Sima (2013) but inconsistent with that of Jorgensen (2011). Perhaps such contradictions could be attributed to external factors which are responsible for such variations.

5. Conclusion and Recommendations.

5.1 Conclusion

The objective of the paper was designed to examine the determinants of financial performance of microfinance

institutions in Cameroon; more specifically in the case of CAMCCUL Ltd. Return on assets was used as the main proxy to capture financial performance as a measure of viability. The regression results revealed a statistically significant relationship between size and financial performance of CamCCUL. All other variables, equally, show a statistical positive significant effect on CamCCUL's financial performance. Microfinance has been accepted not only as a financial means to target specific people who are excluded from the formal financial system to gain access to sources of financing, but it comprehends also a social aspect of contributing to poverty reduction, women empowerment, economic development and employment creation. In order to survive negative shocks and maintain a good financial stability, the financial managers should identify the key financial determinants of MFIs performance.

Based on the descriptive and empirical evidence obtained from the econometric results, we found the size measured in of total assets (lnTA), operational expenses (OE), and portfolio at risk (PAR 30 days) affecting statistically and significantly the financial performance of CamCCUL. It means that CamCCUL is averagely generating positive ROA, indicating that it is not only focused on poverty reduction, but also on its profit orientation. The mean value of Market concentration (0.26) shows that the microfinance sector in Cameroon is highly controlled by CamCCUL. A low portfolio-at-risk would extend the revenue derived from microcredit operations and therefore increase the amount of lendable funds. As a result this would lead to solving the problem of credit outreach and ultimately the ability to sustainably supply quality services to customers, and have a positive impact on CamCCUL's financial performance. Further; the negative sign contrary to the expectation implies that CamCCUL is exposed to possible diseconomies of scale, which adversely affect its financial performance. With market concentration even though the results show that there is market concentration in CamCCUL, the empirical results show a negative relationship with CamCCUL's financial performance. This can be explained most likely by inefficiency and the motive on which CamCCUL is established. The banking theories on market concentration argue that if the size and firm distribution of a specific sector is concentrated, the profitability of the firm becomes high because it could get monopoly power to set the price of its products/service and determine the desired level of profits.

5.2 Recommendations

Size, market concentration, capital asset ratio, gearing ratio, and portfolio at risk over 30 days are significant determinants of financial performance of CamCCUL. Since inefficiency is a bottleneck of CamCCUL, the manager and managers of affiliates should paid great attention to a good expense management policy or reduces operating costs and credit risk management by employing different technologies which can minimize cost. Also, CamCCUL has to emulate profit-making banking practices by implementing a sound financial management and a good managerial governance to ensure its financial sustainability and performance in the long run. Again, it should promote training in financial operations, resource mobilization, portfolio management, risk assessment and management, management of loan arrears, strategic and business planning, among others. The government of Cameroon should reallocate resources from various livelihood programs for the broadening and deepening of micro financial services; and financial donors and partners should re-allocate resources for the broadening and deepening of micro financial services instead of providing loan-able funds to MFIs.

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Appendix

Appendix A. Prestimation Tests

Unit root PP test for Stationarity using The Phillips-Perron test

Variables	P-Value at level	P-Value after first integration	Critical value 1%	Critical value 5%	Critical value 10%	Degree of integration
ROA	0.2654	0.0001	-3.709	-2.983	-2.623	D(1)
lnTA	0.2367	0.0000	-3.709	-2.983	-2.623	D(1)
PAR30days	0.3648	0.0000	-3.709	-2.983	-2.623	D(1)
OE	0.0019	-	-3.709	-2.983	-2.623	D(0)
MC	0.0199	-	-3.709	-2.983	-2.623	D(0)

Source: Author using Stata 12.0.

Appendix B. Correlation Matrix

	ROA	lnTA	PAR30days	OE	MC
ROA	1.0000				
lnTA	-0.8990*	1.0000			
PAR30days	-0.4450*	0.7031*	1.0000		
GR	0.0035	-0.1463	-0.2562	1.0000	
MC	0.3070	-0.4033*	-0.2035	0.5719*	1.0000

Source: author using Stata 12.

NB: (*) indicated that it is significant at 5% level of significance.

Appendix C. Skewness/Kurtosis Tests for Normality

Ho: Normally distributed errors Ha: Non-Normal Distribution error.

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	chi2(2)	Prob>chi2
Residual		0.2381	0.8217	1.55	0.4861

Source: Author using Stata 12.0.

II-Post Estimation Tests

11-A: Heteroskedasticity test using Breusch-Pagan

Ho: Constant variance

Chi2 (1) = 2.74

Prob>Chi2 = 0.0978.

11-B: Test for Assumption of Autocorrelation

Durbin-Watson d-statistic (5, 31) = 1.98

The relevant critical lower and upper values for the test are $d_L = 1.10$ and $d_U = 1.75$ respectively. The values of $d_U - 4 = 1.10 - 4 = -2.9$; $4 - d_L = 4 - 1.75 = 2.5$. Since our Durbin Watson calculated (1.98) falls between $d_U (1.75)$ and $4 - d_U (2.9)$.

Table 5. Multicollinearity test

Variables	VIF	1/ VIF
OE	1.59	0.627872
MC	1.55	0.643346
lnTA	1.49	0.671855
PAR30days	1.44	0.695580
MEAN VIF	1.52	

Source: Author using Stata 12.

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