

Formalizing Through Finance: A Case Study with UNICS

Leah Kellenberger

Research Questions

1. Do microfinance institutions like UNICS cause a shift towards a larger formal sector?
2. Does a successful loan repayment predict a successful business venture, leading to an increase in generating income?
3. How would a shift towards the formal sector affect development in Cameroon?

Methodology

- Internship with Unity Cooperative Society (UNICS) opened possibilities for fieldwork
- Interviews with UNICS customers/business owner, coworkers, and microfinance experts within the community
- Participatory observation within the UNICS workplace

Key Findings

Microfinance

- Realities of microfinance: not always poverty oriented, problem of sustainability, seen as a panacea of poverty
- Small financial services sector in Cameroon. Only about 7% of people have commercial bank accounts, 1% of that being women
- High interest rates on microloans represent risk but make it hard for businesspeople to retain a profit

UNICS

- Strict loan conditions often require certain amounts of collateral, a co-signer, and exhaustive documentation
- Repayment rates for different kinds of loans. Business loans have the lowest repayment rate
- Modern microfinance sector in Cameroon grew from the collapse of financial sector in 1980's
- Credit is 80% of their business
- In order for informal businesspeople to take a loan, they must have a percentage of collateral frozen in their account and have a UNICS account for at least 3 months

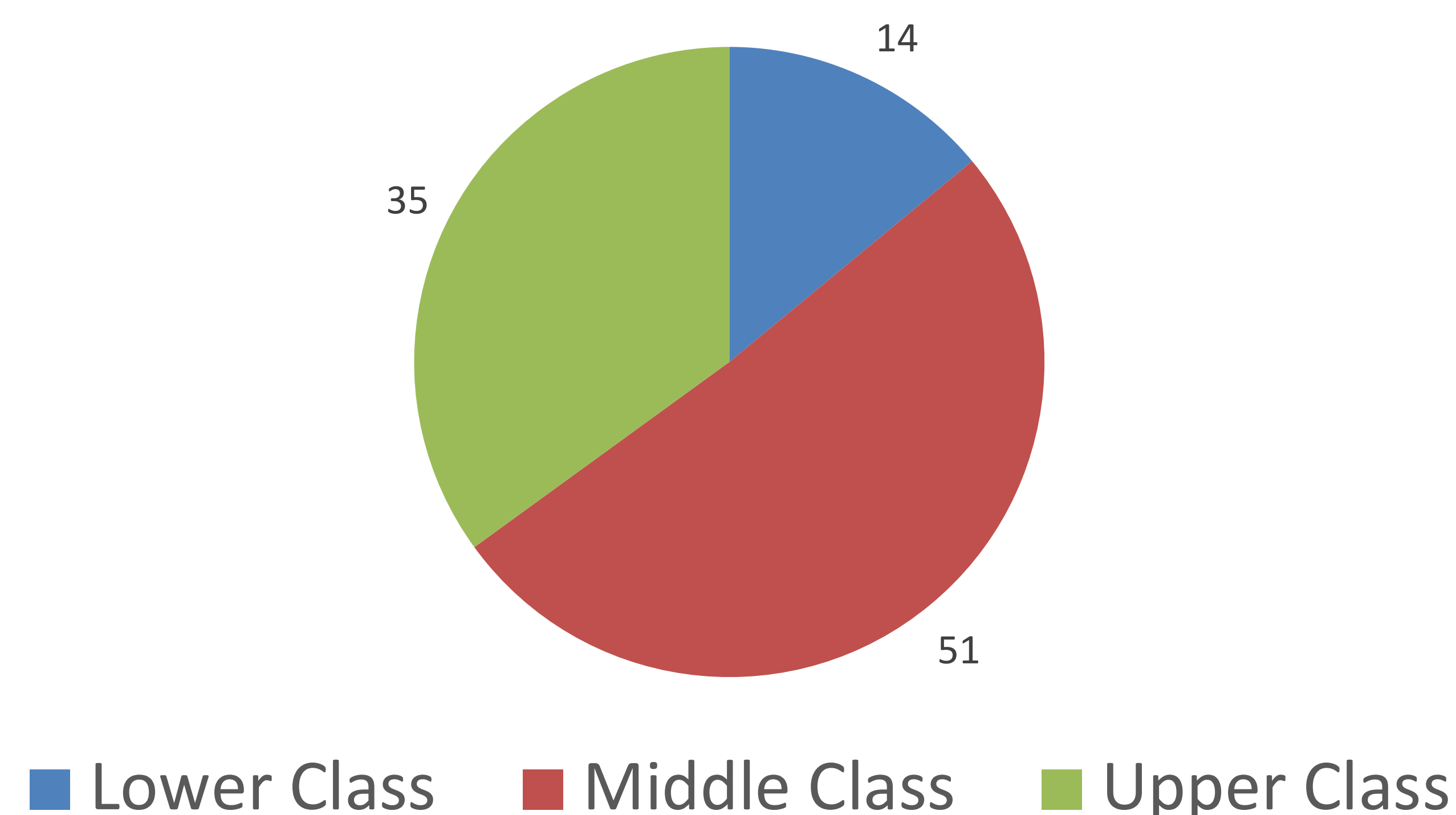
“Credit is a human right that should be treated as a human right. If credits can be accepted as a human right, then all other human rights will be easier to establish.” -*Muhammad Yunus*

What UNICS Customers Had to Say

The following quotes were gathered from UNICS customers who work both in the formal and informal sector about their experience with a microfinance:

- “The loan project manager, she told me that it is better for me to put all the money in the business and then the request that I made permits that I will be serious in it.”
- “I was thinking that if I could have a better capital I could do like a service... for like reception, public reception like marriages like when people have occasions.”
- “So that’s my goal in future. Have a bigger shop and I will not even regret because all this while I have barely have, the achievement I have had for this past ten years that I’ve been doing business is enormous.”
- “You know it’s a microfinance. It is there to help the businesspeople down there because I think those up there are dealing with the international banks and all the like. But microfinance is for the masses. So, what I will tell you is that they should try and relax the conditions of their loan.”

Income Levels Served by Microfinance Institutions in Cameroon in 2006



LOAN APPLICATION CHECK LIST
BUSINESS FILE
CREDIT DEPARTMENT

Name of applicant _____ Branch _____
Name and Signature of ARO _____ Date _____

S/N	Documents Required	Provided Documents ?		Observations
		Yes	No	
1	A handwritten application			
2	Duly filled and signed loan application form			
3	Visible Signed copy of the National Identity Card of applicant/ promoter			
4	Photocopy of the business license (patente)			
5	Photocopy of the taxpayer's card			
6	Business registration (Registre de commerce)			
7	Customers account printouts (Current, loan and other accounts)			
8	Localization plan for business premises /Residence of promoter			
9	Attestation of localisation			
10	Business plan and financial statements			
11	UNICS loan application checklist			
12	Attestation of Irrevocable Transfer of Funds			
13	Copy of contract/Bon de commande (if applicable)			
14	Write up by ARO			
15	Proof of use of funds (Justification)			
16	Client met 90 Days rule?			
17	Signature verified stamp on all signatures?			
18	Proof of payment of loan processing fee and disclaimer			
19	Full picture of the promoter			
20	Memorandum /Articles of association giving rights to promoter or manager to engage the institution			
21	Account history of other banks in case the customer owns an account in another bank			
22	Real estate/ other asset evaluation by UNICS architect			
23	Specify other guarantees			
24	Cartons, Bon de command, listings, others)			
25	Please precise comaker's collaterals if any			
26	Non Redevance from taxation			
27	Proof of experience in a related contract/market			
28	Billet à Ordre / Promissory Note			
29	Convention de prêt à court term			
30	Declaration of assets			
31	Cautionnement solidaire			
32	Client's Bank Checking			
33	Basic Information Report (BIR)			
34	Other pp documents deemed relevant			

NB: Account Relationship Officers must fill this form without leaving any blank space and to indicate NA if the requirement is not applicable.

Name and Signature of Head of Credit Service..... Date.....

Conclusions

1. MFIs do encourage a shift towards a larger formal sector. Simply working with a financial institution initiates formalization.
2. Repayment rates determine nothing about success of the business activity because of the many variables in business tied with the threat of collateral. Repayment rates vary between different loans.
3. Growing the formal sector contributes to the growth of the financial sector, which directly relates to economic growth. It allows money to circulate and creates social growth. However, no real economic growth can occur when women and the poor are left behind.