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

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 bigger 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 hard for businesspeople to retain a profit. Any loan, quick and to relax the conditions of their loan.”

"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

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 very 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.

Income Levels Served by Microfinance Institutions in Cameroon in 2006

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Class</td>
<td>35</td>
</tr>
<tr>
<td>Middle Class</td>
<td>14</td>
</tr>
<tr>
<td>Upper Class</td>
<td>51</td>
</tr>
</tbody>
</table>

LOAN APPLICATION CHECK LIST

Documentation Required
- Duly filled and signed loan application form
- Copy of contract
- Memo /Articles of association giving rights to promoter or manager
- Duly filled and signed loan application form
- Visible Signed copy of the National Identity Card
- Photocopy of the taxpayer’s card
- Photocopy of the business license (patente)
- Localization plan for business premises
- Customers account printouts (Current, loan and others)
- Business registration (Registre de commerce)
- Full picture of the promoter
- Memorandum of Articles of association giving rights to promoter or manager
- Declaration of asset
- Proof of payment of loan processing fee and/or signature verified stamp on all signatures?
- Proof of experience
- Account history of other banks in case the institution
- Cartons, Bon de commande, listings, release/delivery of goods, guarantees
- Certificate /Residence of promoter
- ARO
- ARO

Credit Department

Name and Signature of Head of Credit Service

Name of applicant

Name and Signature of ARO

Branch

Date

UNICS loan application checklist

- Business plan and financial statements of applicant/promoter
- Copy of contract
- ARO
- ARO

Conclusion