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The effect of capital adequacy on the financial performance of micro finance institutions in Bamenda, Cameroon

¹Nsoh Conrad Nsoh, ^{2*}Njimanted Godfrey Forgha, ³Njekang Dieudonne Nkwati ⁴Guy Roland Kenmegni

¹Department of Accounting and Finance, Higher Institute of Commerce and Management-University of Bamenda, NTACCUL-Bamenda, Cameroon. nconrado4@yahoo.co.uk

²Professor of Economics and Director of the Higher Institute of Commerce and Management (HICM), University of Bamenda, Cameroon. uniclub@yahoo.com

³PhD Researcher and Graduate Teaching Assistant, Department of Banking and Finance, Faculty of Economics and Management Sciences, University of Bamenda, Cameroon. dnjekang@gmail.com

⁴Lectuer of Finance, Higher Institute of Commerce and Management, University of Bamenda, Cameroon.

Abstract

The concept of investment performance is gaining momentum globally, particularly in view of the present-day financial climate and the status of the world economy. The sustainability issues related to Micro Finance institutions' operations are of concern to business owners and managers worldwide, as it helps them fulfil their obligations on time and enhances economic viability and shareholder value. For this reason, the purpose of this research is to determine how capital adequacy affects the financial performance of micro finance institutions in Bamenda, Cameroon. For the study, secondary panel data was gathered from 8-Category 1 MFIs in total between 2018 and 2022. This research focused on Cameroonian category One Micro Finance Institutions, with a focus on Bamenda, the birthplace of the country's credit union movement. As a result of some OLS assumptions being broken, the data was analyzed using the panel corrected standard errors according to Beck and Katz. The findings show that capital adequacy is a positive and statistically significant predictor of the financial performance of MFIs in Bamenda, Cameroon. Thus, it was suggested that Micro Finance Institutions should tackle new funding sources in their strategic plans, as well as mainstream credit unions' non-profit-making aspect into their daily business activities. Since the socio-political crisis in the North West and South West Regions has impacted these regions' businesses negatively there is a decreased ability and desire to save, which means that these institutions' activities should be more focused on crisis-related funding sources such as donations and sponsors for crisis related projects such as humanitarian and crisis recovery project.

Keywords: Capital adequacy, Financial performance, Microfinance institutions

1. Introduction

The idea of liquidity is becoming more and more popular globally, especially in the light of the current state of the world economy and financial conditions. Globally, business managers and owners are worried about coming up with a plan for handling their daily operations so that they can maximize shareholder value and profitability while also meeting their obligations on time (Don, 2020). Furthermore, since declining capital is the most common reason for subpar financial performance, strong capital is essential to the stability and profitability of any financial institution. The largest risk in the microfinance industry, as with any financial institution, is lending money and not receiving it back, which can cause liquidity issues because the majority of them lack access to the Central Bank, which is the lender of last resort (Das et al., 2022).

2. Back of the study

Conventional banks and other financial institutions are participants in a macro and microenvironment that is intricate and competitive for microfinance institutions. In order for MFIs to thrive in the market, their ability to draw in shareholders; the primary financiers is crucial. As a result of effective liquidity management with regard to specific financial institutions, MFIs can meet their operational obligations with efficient capital, which will satisfy stakeholders and lead to good financial performance as one of the primary goals (Adebayo et al., 2021). Capital is therefore essential to the survival of

a successful microfinancial institution because it allows it to cover its daily operating expenses and generate a surplus that is distributed to its shareholders as a part of their profit (Adebayo et al., 2021). In fact, failures of microfinancial institutions have been attributed to a lack of capital (Jain & Singh, 2020). In order to maintain capital adequacy, liquidity must be strategically supplied, withheld from the market, or circulated in a manner that aligns with the targeted level of short-term reserve money while maintaining the microfinance institutions' operational and profit-making flexibility. To ascertain its liquidity requirements and, consequently, the amount of liquidity to allocate or remove from the market, it is dependent on the daily evaluation of the capital conditions in the microfinancial system (Njimanted et al., 2017).

Low efficiency ratios, diminishing net operating margins, and declining portfolios are other indicators of MFIs' subpar financial performance in Asia. MFIs' ability to withstand negative shocks is weakened by poor financial performance, which has an impact on their solvency (Yenesew, 2014). An institution that can sustain itself for a long time without constant reliance on government subsidies or donor funds is built through better financial performance, which enables lenders to recoup their entire investment or turn a profit. The degree to which service users bear the entire cost of service provision directly determines the financial performance of MFIs (Adhikary et al., 2014). Thus, the profitability of microfinance banks is impacted by financial risks.

Furthermore, the "liquidation and distress" era of the 1980s and 1990s in Nigeria exposed the problems associated with inefficient capital approaches in banks. This is due to the fact that the detrimental effects of the capital crisis persisted until the 2005 re-capitalization period, during which banks had to increase their capital base from N2 billion to N25 billion (Agbada & Osuji, 2013). For this reason, the Basel Committee consistently promotes prudent and sound capital management practices in all banks worldwide, as it is crucial. The reason for this is that the Basel Committee on Banking Supervision (2008: 1) holds the belief that "almost all financial commitments or transactions have an impact on a bank's liquidity." Good management of capital and associated liquidity risks contributes to a bank's ability to fulfill its cash flow obligations, which are unpredictable due to outside events and the actions of other agents. Because a capital shortage at one institution can have an impact on the entire system, liquidity risk management is crucial.

Locally, the growth of foreign banks dominates Cameroon's financial institution industry, which is still in its infancy. Twelve financial institutions were in operation in Cameroon as of December 2009; the only indigenous banks were National Financial Credit, Afriland First Bank, Union Bank, and Financial Institution of Cameroon. Approximately 75% of foreign dominance comes from this. Nonetheless, over the past few decades, Cameroon's financial landscape has changed somewhat, especially in the area of microfinance institutions, where a large number of them have emerged. By the end of 2008, the number of MFIs in the nation had increased from 400 to roughly 652, representing a 10% increase from 2007. With 177 credit unions, the Cameroon Cooperative Credit Union League (CamCCUL) holds a sizable share of this total. But according to the Ministry of Finance-MINFI (2015), there were 418 authorized microfinance institutions in the nation by 2015. With the number of banks rising from 9 in 1999 to 12 by January 2010 and to 14 in 2016, with branches spread throughout the nation's urban and rural centers, financial institutions' operations have likewise expanded in breadth and depth (Ebhodagbe, 2018).

Over the past few years, meeting the required financial performance of MFIs has generally become more difficult in Cameroon. Due to this, MFIs are experiencing an increase in performance-related issues, which has a detrimental effect on their investment decisions and exacerbates the problem of MFI sustainability (COBAC, 2021). In the late 1980s, the government completely reorganized all financial institutions, which led to the closure of multiple banks even though they were still in debt. Thus, despite obstacles, this law explains how microfinance has expanded and become more intense in Cameroon over time, as evidenced by increases in financial performance.

Even after all the work to raise MFIs' financial performance in Cameroon to the anticipated level, these institutions continue to face challenges. The proliferation of unlicensed MFIs in Cameroon and their failure to adhere to standards and regulations necessary to ensure sustainability through financial performance are examples of this today. The establishment of multiple institutions to regulate MFIs has resulted in the weakening of established umbrella institutions, suggesting that there is still a considerable amount of work to be done to guarantee that expected financial performance is achieved. To provide more conclusive results on which determinants of financial performance attention should be paid on, a more specialized study using more recent data is therefore necessary. Different scholars have varied opinions on whether capital adequacy can sufficiently handle the situation of financial performance in Cameroon. It is on the basis of these diverging opinions that these researchers see the need for a fresh study to be conducted on this topic.

2.1. Problem statement

In the banking industry, financial institutions' performance has raised concerns (Mashoko et al., 2020). These institutions take financial surpluses from their clients (depositors) and give them to investors (borrowers), who then use them to fund a variety of investment avenues with the goal of maximizing shareholder wealth. During the past few years, meeting the required financial performance of MFIs is increasingly more difficult in Cameroon. Due to this, MFIs are experiencing an increase in performance-related issues, which has a detrimental effect on their investment decisions and exacerbates the problem of MFI sustainability (COBAC, 2021). How are these institutions doing financially at this point in their development, when increasing access to financial services in rural areas is becoming increasingly important, wonder (Ofeh & Jeanne, 2017). There are a few recognized causes of the unequal growth of MFIs in Latin America that may be important factors.

The concern that then begs for an answer is precisely what determines the effectiveness of microfinance in Cameroon. Although microfinance has been present in Cameroon for as long as fifty years, the early 1990s saw a significant surge in its growth. Early in the 1980s, banks in Cameroon mostly struggled to get resources from within the country and had

more difficulty obtaining loans from outside sources. They were consequently unable to sustain themselves. In the late 1980s, the government completely reorganized all financial institutions, which led to the closure of multiple banks even though they were still in debt. Thus, despite obstacles, this law explains how microfinance has expanded and become more intense in Cameroon over time, as evidenced by increases in financial performance.

According to Finance Law (2012), as of June 30, 2011, out of the 480 MFIs that had been approved, nearly half were either in the process of liquidation, suspension of operations, adjustment, or interim administration. The sector's implementation of corrective actions resulted in the revocation of authorizations for 33 MFIs in July 2013 (Finance Law, 2014). Furthermore, as of the end of September 2013, the microfinance sector employed over 1000 counters throughout the state and made up 10% of the state's total funding sources. Customer deposits were estimated to be valued at 454 billions, while credits were valued at 239.8 billions. In an attempt to enhance their financial performance, COBAC accelerated the implementation of the Microfinance Activity Evaluation and Supervision System (MAESS), whose accounting component started in June 2010. Therefore, financial performance is crucial for financial institutions to develop, endure, flourish, expand, and generate a profit (Finance Law, 2014).

The MFIs in Cameroon still face difficulties despite all the efforts made to bring their financial performance up to the expected level. An example of this is the increasing number of illicit MFIs in Cameroon and their disregard for the rules and guidelines required to guarantee viability through financial performance. The emergence of several regulatory bodies for microfinance institutions (MFIs) has led to the deterioration of long-standing umbrella organizations, indicating that meaningful efforts are still to be made to ensure the attainment of targeted financial performance. Consequently, a more focused study employing more recent data is required to produce more definitive findings regarding the determinants of financial performance that warrant emphasis. This study is justified by the conflicting results of previous research on the financial performance of financial institutions. In order to resolve the enduring issue of MFI long-term viability in Bamenda, Cameroon, this study set out to determine whether efficient liquidity management can ensure the effectiveness of financial performance in MFIs in Cameroon.

2.2. Research objectives

The main objective of this study is to evaluate the effect of capital on the financial performance of micro-financial institutions in Bamenda-Cameroon. Capacity adequacy requirements, like the capital adequacy ratio (CAR), quantify the amount of capital banks have available to develop riskier assets. A robust capital base enables microfinance institutions to withstand potential losses and mitigate the risk of insolvency. While low or excessive capital can lead to high costs and low efficiency, a high capital base is linked to better financial performance in the microfinance sector.

3. Literature review

The two main theories that served as theoretical foundations for this were the public interest theory of regulation and the liability management theory. A bank can maintain reserves by accumulating more debt against itself from various sources. According to Sinha and Grover's theory of liability management (2022), banks issue liabilities to satisfy their liquidity needs. Government regulation, according to the public interest theory of regulation, is a reaction to popular demands for the state to address instances of market failure brought on by imbalances in the market, insufficient competition, a lack of markets, or socially undesirable market outcomes (Campbell et al., 2020).

Amazing discoveries were made by Ngumo et al. (2017) from their investigation into how capital adequacy affects MFI's financial performance. This study set out to find out what influences the financial performance of Kenyan microfinance institutions. Using a descriptive research methodology, the study examined secondary data from seven microfinance institutions over a five-year period, from 2011 to 2015. On the collected data, correlation and regression analyses were carried out. The study found a statistically significant and direct relationship between operational effectiveness, capital sufficiency, and business size and the financial performance of Kenyan microfinance banks. Nonetheless, the study found a weak negative correlation between credit risk and liquidity risk and the financial performance of Kenyan microfinance banks.

Ndegwa (2018) used a descriptive research design and a target population of 13 MFIs over a 5-year period to investigate the impact of capital adequacy on the financial performance of MFIs in Kenya. After gathering secondary data from reports and applying a regression of fixed effect models, the findings showed that capital adequacy significantly impacted the financial performance of Kenyan microfinance institutions. Additionally, it was found that the financial performance of MFIs in Kenya was significantly impacted by liquidity management. This suggests that MFIs in Kenya perform better financially the more capital they have. The study suggested that MFI regulators make sure MFIs have enough capital.

Nicodème (2022) expressed concerns regarding the funding sources used by MFIs and how that might impact the organizations' overall performance. Using the hierarchical funding theory, the analysis set out to determine the sources of funding and then look at how those sources might impact the sustainability of MFIs in Cameroon. He accomplished this by utilizing panel data on 62 MFIs, the average age of which was nine years between 2009 and 2015. According to the results, grants, debt, client deposits (members' money), and equity rank as MFIs' top four funding sources. MFIs in Anglophone areas mainly rely on grants and equity, whereas those in Francophone regions primarily rely on equity. Additionally, our research shows that, in Cameroon, shareholding has an important beneficial effect on MFI sustainability while grants have a negative impact.

According to the examined literature, there are still obstacles standing in the way of achieving sound financial performance. These include irrecoverable loans, insufficient capital, and an imbalance between assets and liabilities.

However, the review of the literature shows that the majority of studies on capital adequacy management and financial performance have been carried out primarily for the banking industry. Only a small number of studies have focused in particular on the microfinance industry, which is equally important for economic growth and poverty alleviation, particularly for those who cannot afford traditional banking services. Furthermore, according to the reviewed works, there have been few studies on the impact of capital adequacy measured using the COBAC prudential norms and few studies on the effect of capital adequacy management on financial performance. This study was justified by the discrepancy between the results of the different studies and the absence of attention to all deposit taking financial institutions. Therefore, by determining the impact of capital adequacy on the financial performance of MFIs in Bamenda, Cameroon, this study aimed to close this research gap.

4. Research method

4.1. Scope/population and sample

The financial performance of microfinance institutions in Bamenda, Cameroon, was studied in relation to capital adequacy. While capital adequacy and liquidity were measured using a variety of ratios, the focus of this study was on the relationship between capital adequacy and financial performance. Deposit-taking financial institutions, or MFIs in category one, were the main subject of the study. Data from the five years (2018–2022) that the study was conducted on were used. To help comprehend the impact of capital adequacy on the financial performance of MFIs in Bamenda, Cameroon, the study used a longitudinal research design. To address the research questions, we consulted secondary data from the financial reports of MFIs in Bamenda-Cameroon, that were published.

4.2. Model specification or inclusion of variables

This study set out to investigate the connection between the financial performance of microfinance institutions in Bamenda and capital adequacy. Consequently, by analyzing the impact of capital adequacy on the financial performance of microfinance institutions in Bamenda, the following equation was determined.

$$FP = \alpha + \beta_1 \ln Capital_{it} + \beta_2 \ln Staff_{it} + \beta_3 \ln Branches_{it} + \varepsilon_{it} \dots\dots\dots(1)$$

FP stands for financial performance, as determined by the liquidity ratio of MFIs in Bamenda. Our control variables are staff and branches, which represent the number of employees employed by each credit union and the number of branches a credit union has, respectively. Our independent variable is capital adequacy. The parameters to be estimated are denoted by β . ε stands for the idiosyncratic error term. Secondary data for the five (5) years between 2018 and 2022 was gathered from the Annual Supervision reports and annual reports of each MFI. The 8 MFIs chosen for the study were AZICCUL, BAFCCUL, BAPCCUL, BAYCCUL, MITACCUL, NTACCUL, NTAMCCUL, and TADCCUL.

Table 1: Operationalization of variables and justification of inclusion in the model

Variable	Indicators	Operational definitions	Adopted from other Studies
Financial performance (Dependent)	liquidity Ratios (COBAC Norms)	FP relates to MFIs sustainability which indicates the ability to be self-sufficient	Amin <i>et al.</i> (2018), Edem (2017) Marryanne <i>et al.</i> (2015)
Capital Adequacy (Independent)	Capital Adequacy (Varied Capital Sources)	MFI’s ability to absorb losses and still meet its financial obligations	Chortareas <i>et al.</i> (2012), Bouheni <i>et al.</i> (2014), Ngumo <i>et al.</i> , (2017), Nicodème, (2022). Liquidity preference theory

Source: Researcher from Existing Literature (2023)

The model specified above and the variables included there in are justified in table 1. Liquidity ratios defined in the COBAC prudential norms were used as a measure of financial performance in financial institutions. By financial performance, we are referring to the sustainability of micro finance institutions or their ability to be self sufficient in both the short and long term. Capital adequacy was the independent variable adopted for the study. It measures the ability of micro finance institutions to absorb losses and still meet its financial obligations.

4.3. Technique of estimation

The study employed the method of panel corrected standard errors along the lines of Beck and Katz (1995) which allows for contemporaneously correlated errors across countries. Previous studies such as Asongu *et al* (2022), Bergh and Nilson (2010), and Feng and Yuan (2016) have previously used the panel-corrected standard errors to circumvent the impending challenges with the OLS. When using this method, a unit-specific first-order autocorrelation (AR1) that is specific to every MFI can be included. We maintained unbiased OLS coefficients by correcting for autocorrelation through this procedure. Theoretically, when the number of study time periods (T) is relatively close to the number of groups being observed (for example, T is close to N), the procedure works better. In order to test for robustness, this study also estimated a pooled OLS regression and adjusts for clustering of credit unions. The generalized least squares as a complementary estimation technique was used because it is able to yield results that are consistent under the conditions of heteroscedasticity and autocorrelation. Multicollinearity was also tested using VIF to validate the results.

5. Data analysis

5.1. Trend analysis

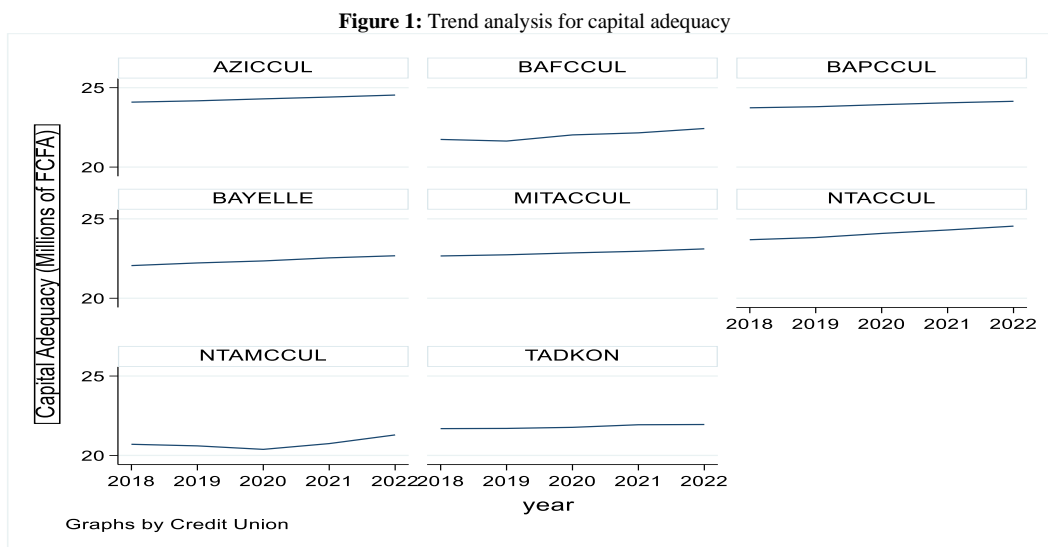


Figure 1 gives insights on the level of heterogeneity between selected credit unions in Bamenda. The figure shows on average that AZICULL had a higher liquidity ratio over the given period than every other credit union despite a wide variation in the ratios within the given period. The figure also shows evidence of significant variations in liquidity ratios between credit unions sampled in this study. Therefore, it is important to account for these differences between credit unions in our estimations.

5.2. Descriptive statistics results

Table 2: Descriptive statistics

	Mean	Sd	Min	Max
Capital Adequacy	22.76	1.22	20.38	24.54
Branches	2.27	0.47	1.61	3.26
Staff	4.02	0.77	2.94	5.19
N	40			

Source: Researcher (2023)

Table 2 presents summary statistics of variables included in the study. It can be observed that the total number of observations were 40 (8*5) and all variables are in log form. The average capital adequacy ratio in logs was 22.26 and the standard deviation was 1.22. Over the period considered in this study, the minimum value of capital adequacy was 20.38 while the maximum was 24.54.

5.3. Correlation results

Table 3: Pairwise correlation matrix

	Capital	Branches	Staff
Capital	1.000		
Branches	0.7666	1.000	
Staff	0.9569	0.8799	1.000

Source: Researcher (2023)

Table 3 presents the correlation matrix between included variables in our models. On average, the table also reveals potential multicollinearity between capital adequacy/staff and staff/branches. However, further scrutiny using the variance inflation factor test revealed that there was evidence of multicollinearity in our model in the multiple regression model (VIF=30.90). Using the threshold value for VIF of 10, we concluded that there was evidence of multicollinearity since 30.9>10. However, splitting the model and separating estimates of capital adequacy staff and branches resolved the problem of multicollinearity.

5.4. Preliminary test results

Table 4: Preliminary tests

Test for Time Fixed Effects	
F(4, 25) = 5.97***	Prob > F = 0.0034
Test for Random Effects	
chibar2(01) = 0.00	Prob > chibar2 = 1.0000
Cross Sectional Dependence	
chi2(28) = 39.547*	Pr = 0.0725
Test For Heteroskedasticity	
chi2 (8) = 968.92***	Prob>chi2 = 0.0000
Test For Serial/Autocorrelation	
F(1, 7) = 3.095**	Prob > F = 0.0302
Hausmans Test	
chi2(3)	Prob>chi2
3.55	0.3149

* p<0.10, ** p<0.05, *** p<0.01

Source: Researcher (2023)

Table 4 above presents preliminary test results. The objective of the test is to determine whether we should account for fixed effects in our models as its exclusion can sometimes cause the results to be biased. According to the results, The Prob>F is less than 0.05, so we fail to reject the null that the coefficients for all years are jointly equal to zero. Therefore, time fixed effects are needed in our model.

The second test is to test for random effects. The LM test helps us to decide between a random effects regression and a simple OLS regression. The null hypothesis in the LM test is that variances across entities are zero. That is, there is no significant difference across credit unions. Here, we failed to reject the null and conclude that random effects are not appropriate. That is, there no evidence of significant differences across credit unions. In addition, we also test for cross-sectional dependence; that is, whether time series for different credit unions are correlated. According to Baltagi, cross-sectional dependence is not much of a problem in short panels. Our test statistic had a probability value of Pr = 0.0725, which is less than the critical value of 10%. This implies that errors across credit unions are correlated. Therefore, there is some evidence of cross-section dependence among our credit unions. In this regard, a simple OLS will no longer be tenable for the estimation.

Further, we also estimate for heteroskedasticity in our model. In this pre-test, we try to enquire whether the variance of financial performance is constant between credit unions over time (homoskedasticity) or non-constant (heteroskedasticity). The null is homoskedasticity (or constant variance). Above we reject the null and conclude that there is significant evidence of heteroskedasticity. The presence of heteroskedasticity imply that a more robust model will need to be employed that can correct for the presence of non-constant variance. Our results show that there is evidence of autocorrelation. The presence of autocorrelation and heteroskedasticity implies that a more robust. Model such as the panel corrected standard errors, or the generalized least squares is better for our estimation as it can enable us to address these concerns. Additionally, we also test for the presence of auto correlation in our model. Auto-correlation is a serious problem in panel data analysis and could introduce bias in the results when past errors are correlated with future errors. Finally, the Hausmans test that enables us to choose between fixed effect and random effect model shows that the random effect model is better for the analysis, since is probability value is greater than 0.05. However, we do not proceed with the random effect model because of observed heteroskedasticity, autocorrelation and heterogeneity.

5.5. Test for stationarity

Table 5: Fisher-type unit-root test

Variable	Statistic	Decision	Level
Capital Adequacy	31.7364***	Reject	I(0)
Employment	22.0938 **	Reject	I(0)
Branches	2.9303*	Reject	I(1)

* p<0.10, ** p<0.05, *** p<0.01

Source: Researcher (2023)

In order to proceed with the analysis, one of the most important things to do is to test for stationarity. That is, we need to be sure that the statistical properties of our variables do not change significantly over time. Regressing stationary and non-stationary variables can cause bias in the model. A variable can either be stationary at level [I(0)] or at first difference [I(1)]. The results on table 4.4 above show that all variables are stationary at levels, except for the number of branches. In order to make it stationary, we run the regressions with the first difference of the number of branches credit unions have. Short panels often suffer from the nickel bias and endogeneity. However, estimating the model with either the panel corrected standard errors or the feasible generalised least squares can address this problem. The bias arises because the

transformations entailed in fixed effects estimation (For instance; first difference, within, etc.) result in some of the transformed regressors being correlated with the transformed error term thereby creating endogeneity problems.

5.6. Regression results

Table 6: Regression Results, Dependent Variable: Liquidity Ratio

	(1)	(2)	(3)	(4)
Capital Adequacy	0.2463*** (7.14)			0.246*** (2.82)
Staff	0.9150 (1.06)	0.6442 (0.81)	0.8921 (1.22)	0.9205 (1.26)
D.Branches	-0.2462 (-1.29)	0.0572 (0.27)	-0.0386 (-0.23)	-0.2455 (-1.10)
Constant	-0.8930 (-1.34)	1.1237 (0.79)	0.6329 (0.56)	-0.8928 (-0.54)
N	32	32	32	32
R-Squared	0.428			
Time-effects	Yes	Yes	Yes	Yes
Union-effects	Yes	Yes	Yes	Yes

* p<0.10, ** p<0.05, *** p<0.01
Source: Researcher (2023)

Table 6 presents results from our empirical investigation. As reported in section 4 above, we estimated the model using the panel corrected standard errors in order to control for heteroskedasticity and autocorrelation. In order to ensure that the results are robust, we further reported results based on the generalised least squares and the pooled ordinary least squares. All estimations factored time-fixed effects and credit union-specific effects. The final number of observations was 32. This model presents results on the impact of capital adequacy on the financial performance of MFIs in Bamenda. Theoretically, we expected a positive relationship between the two variables. The results show that the coefficient of capital adequacy is 0.2463. This implies that a 1 percent increase in capital adequacy will increase financial performance or liquidity ratio of MFIs by 24.63 percent. In this light, we reject the null hypothesis and conclude that capital adequacy has a positive and statistically significant relationship with liquidity ratio. Other results indicate the number of staff have a positive but insignificant relationship with the performance of MFIs, while the number of branches have a negative but statistically insignificant impact on the FP of MFIs.

6. Findings and Discussion

This result is supported by the research findings of Ngumo et al. (2017), Ndegwa, (2018) and Nicodème (2022) who believe that the ability of the MFIs to raise sufficient capital to fund the highest income generating assets (loans) will improve on the financial performance of these MFIs and keeps them afloat especially in times of financial crisis and economic melt downs. Theoretically, the liability management theory and the public interest theory of regulation are fundamental in ascertaining the the viability of the MFIs through an improvement of their capital base through the setting up of and implementation of capital adequacy standards through appropriate ratios guided by compliances related to these ratios. The COBAC norms related to these ratios must therefore be attained if these MFIs must meet the challenges of a competitive and sensitive financial system faced with fierced competition.

7. Contribution of the study

To begin with and based on the findings elaborated above, it is therefore highly recommended that MFIs in Bamenda and especially the category one MFIs who work on the basis of a common bond and on the motto “save regularly, borrow wisely and repay promptly” should embark on a proper analysis of the different funding sources available to them so as to categorize them according to availability and costs in order to guarantee frequent and short term cash demands when they fall due. These sources should target both short and long term liquidity needs of the MFIs such that the matching of liabilities to corresponding assets limit the possibility of a liquidity crisis that can result from as mismatch of assets and liabilities.

Worth noting and very crucial is the fact that category one MFIs adopt a common bond strategy having the ability to incorporate their non-profit making component that can make not for profit funders and funding available to them in order to define appropriate projects that satisfy this common bond principle and indirectly providing sufficient project opportunities to their members. With these funds available, the asset base of these MFIs in the form of diverse loan products will improve, thus guaranteeing the sustainability of these MFIs. For instance, with the prevailing sociopolitical crisis in the North West and South West Regions, and its consequences on the traditional products and services of these MFIs, they can get experts to establish a department in charge of crisis related projects and source for funds to grow this department whose funds will eventually boast their liquidity especially given their ability to incorporate the time value of money in the management of such funds to avoid asset-liability mismatches. For this to be appropriately handled, there

is need for a proper understanding of regulations related to the sourcing of funds by category one MFIs and these regulations should be used as a yardstick to put in place appropriate policies to manage capital resources of MFIs.

8. Implications of the study

The implication of this finding is that for an MFI to be financially viable through the meeting up of the withdrawal needs of depositors at short notice, there is need for appropriate fund raising analysis through an examination of the different funding sources and their costs so that at all times, the MFIs are financially viable to comply with these COBAC norms related to the management of liquidity. Given that the MFIs like most financial institutions base their survival on liquidity management, it is therefore incumbent on them to use appropriate skills to manage these scarce resources to meet up with the needs of their creditors. Worth mentioning is the fact that only appropriate structures and properly updated policies relating to the management of capital resources can guarantee this motivation.

9. Conclusion

This study sought to examine the effect of capital adequacy on the financial performance of MFIs in Bamenda. It is evident from the analysis that capital adequacy positively affects the financial performance of the MFIs in Bamenda. This study has thus proven that for MFIs to achieve financial performance, capital adequacy is indispensable. The findings of this objective indicate that capital adequacy has a positive and statistically significant effect on financial performance as shown by the coefficient of 0.2463. This implies that an increase in the MFIs capital by 1% will improve the liquidity ratio and hence the ability of the MFIs to meet depositors' demands by 24.63% while the chances of the MFIs being able to attain to customer demands is dampened by 24.63% if there is a drop in capital resources by 1% assuming all other factors remain constant.

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