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A Legal Analysis of Liquidity Risk in Credit Unions in Cameroon

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ABSTRACT

Managing liquidity risk is vital for credit unions because they are vulnerable to unexpected and immediate payment demands and operate on a cooperative model, where members are both owners and customers. Even though the CEMAC legislator has taken steps to minimise and eventually manage risks in credit unions, these measures are ineffective. Credit unions in Cameroon today continue to suffer from liquidity risk and are unable to satisfy members' demands for loans, withdrawal of savings and payment of operational expenses. Through the doctrinal and non-doctrinal research methods, the paper demonstrates that loan delinquency, non-respect for prudential norms and the socio-political crisis in Cameroon, continue to compound liquidity risk in credit unions. The paper recommends that, credit unions should engage in recapitalisation, reorganisation and intensify loan recovery in a bid to effectively manage liquidity risk.

I. INTRODUCTION

India's Credit unions are category one Microfinance Institutions (MFIs) legally empowered to collect savings from members and use in credit operations exclusively for the benefit of their members[3]. Like other category one MFIs, credit unions are governed by Regulation N° 01/17/CEMAC/UMAC/COBAC of 27 September 2017[4] on conditions for the conduct and control of microfinance activities in CEMAC[5]. This regulation is applicable alongside with the OHADA Uniform Act on Cooperatives 2010[6], and Law N° 92/006 of 14th August 1992 relating to cooperative societies and common initiative groups in Cameroon.

Today in Cameroon, there are over 380 credit unions with the three largest credit unions[7] located in Bamenda[8]. In the CEMAC zone, credit unions operate exclusively within a network. This

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[3] Article 30 of the 2017 Regulation.
[4] Règlement N° 01/17/CEMAC/UMAC/COBAC relative aux conditions d'exercice et de contrôle de l'activité de microfinance dans la CEMAC, article 3.
[5] Herein after referred to as the 2017 regulation.
[6] L'Acte Uniforme portant Droit des Sociétés Coopératives 2010.
[7] CAMCCUL, RECCUCAM and RAINBOW.
[8] National Economic and Financial Committee (NEFC), Report on Currency, Credit and the Functioning of the Financial System, 2021, P. 53.

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has led to the growth of apex organisations, the largest being the Cameroon Credit Union League (CAMCCUL). This is closely followed by Renaissance Cooperative Credit Union (RECCU-CAM), and Rainbow Cooperative Credit Union Coop BOD (RAINBOW CAM). As at 2023, the total balance sheet of MFIs in the country increased from CFA 658.2 billion to CFA 783.2. This increase is due to effective mobilisation of the activities of credit unions, and an increase in the total balance sheet of CAMCCUL, RECCUCAM and RAINBOW[9].

Despite this increase, the financial crisis witnessed in credit unions in recent years reveals problems associated with their liquidity. Since majority of transactions are funded by deposits, most of which are short-term in nature with a possibility to be called at any time, imbalance between short-term assets and short-term liabilities create liquidity problems and render it difficult for credit unions to satisfy members' demand for urgent cash. Moreover, credit unions have shifted from their core ethos which is to secure members savings and facilitate their access to credit[10]. The substantial evolution in the sector has equally enabled credit unions to adopt some commercial bank policies which allow them to spread the risk of their financial portfolios, sometimes resulting to unaffordability and inaccessibility by poor members[11].

Since credit unions essentially accept funds from depositors and in turn use them to grant loans, the practice exposes them to liquidity risk, insolvency, and eventual bankruptcy[12]. A vivid example in point is the case of Awing Central Cooperative Credit Union[13] whose total balance sheet of the credit union stands at 2 245 566 040 FCFA. This constitutes the assets and liabilities of the credit union. The fixed assets stand at 905 420 992 FCFA while equity stands at 105 007 156 FCFA. Normally, the fixed assets should be less or equal to equity (equity on the negative which implies shares and reserves are eroded). The former Board members of AWICCUL disrespected the recommendations of members in a General Assembly meeting and CAMCCUL, which is the supervisory authority and purportedly spent the sum of more than 850,000,000 FCFA on the AWICCUL office building instead of the approved sum of 200,000,000 FCFA. The purported exaggerated expenditure which was meant to embezzle funds raised the fixed assets to 1,021,015,793 FCFA. The effect is that there is no enough

[9] *Ibid*.

[10] Mbouombouo N.J., *Banque Contre Microfinance : Les enjeux de L'intermédiation Financier dans la Zone CEMAC*, Yaoundé, Editions CLE, 2007, P. 13.

[11] Robinson M.S., *The Microfinance Revolution: Sustainable Finance for the Poor*, Washington D.C., World Bank Publications, 2001, P. 18.

[12] Medamkam T.S., « La Sécurité du Déposant dans le Système Bancaire de le CEMAC », Mémoire de DEA, FSJP, Université de Dschang, 2005-2006, P. 18.

[13] Report on the financial and economic situation of Awing Central Cooperative Credit Union limited and prospects for recovery pursuant to ruling N° 023/COM BP/2021 of 17/11/2021023 in Suit N° HCMB/002 BP/2020 delivered on the 09/11/2021.

liquidity. As stated above, the total balance sheet stands at 2 245 566 040 FCFA while cash-in-hand/bank or liquidity stands at 191 789 839 FCFA. Normally liquidity should be 20% of total balance sheet. 20% of 2 245 566 040 FCFA stands at 449 113 208 FCFA which is supposed to be cash in hand. Presently, the cash-in-hand stands at 20 639 161 FCFA. The consequence is that members who come for their money cannot be paid because the credit union is suffering from liquidity crisis.

In fact, BEAC reports[14] that as of 2023, more than 12% of microfinance institutions do not respect the liquidity ratio set by COBAC Regulation 2002/14 on liquidity in MFIs[15], and operate below the regulatory minimum of 100%. In terms of portfolio quality, the volume of delinquent loans in MFIs in Cameroon increased from 73.2 to 104.9 billion (+31.7) by 2022[16]. With specific reference to the situation of CAMCCUL, outstanding loan balance in 2023 alone amounted to 11.9 billion FCFA[17]. In the same year, the league generated a total income of 1.7 billion as against 1.9 billion FCFA in 2022, while total expenses incurred amounted to 2.2 billion FCFA including interest on credit unions' deposits. Likewise, the league in 2022 generated 1.9 billion FCFA while expenses incurred amounted to 2.2 billion FCFA[18]. It could be observed that the league's expenditures outweigh its income. This has led to continuous balance sheet deficits which have greatly affected the liquidity colon of this umbrella organ and other credit unions in the league[19].

It is worth noting that managing liquidity risk is vital for any credit union. Failure to meet payment obligations on time can trigger bankruptcy and give creditors the right to take possession of the institution's assets[20]. Management of liquidity risk in credit unions is even more crucial for them because they are particularly vulnerable to unexpected and immediate payment demands. A mismatch in the assets and liabilities of a credit union may affect its liquidity position[21]. In fact, a credit union cannot afford to send away a member who wants to withdraw cash from his account with a "maybe tomorrow". This is why the management of credit unions must be sensitive to identify, measure and control liquidity risk scenarios. This is

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[14] BEAC, Rapport Annuel, 2023, P. 68.
[15] Règlement COBAC EMF 2002/14 relatif à la Liquidité des EMF.
[16], *Ibid*, P. 53.
[17] CAMCCUL, Annual Report, 2023, P. 18.
[18] CAMCCUL, Annual Report, 2022, P. 15.
[19] More than 30 credit unions in the CAMCCUL network are suffering from liquidity crisis as a result of the socio-political unrest in the North West and South Regions of Cameroon, Cameroon Cooperative Credit Union Limited Network, Credit Unions in Liquidity Crisis and Measures to Circumvent, 2023, PP. 2-3.
[20] Bankakademie, *Liquidity Management: A Toolkit for Microfinance Institutions*, Eschborn-Germany, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 2000, P. 4.
[21] Lheriau L., *Le Droit des Système Financiers Décentralisés dans l'Union Economique et Monétaire Ouest-Africaine*, Thèse de Doctorat en Droit Prive, Université de Picardie, Jules Verne, Amiens, 2003, P. 234.

done in line with Regulation Nº 02/14/CEMAC/UMAC/COBAC/CM of 25 April 2014 on the management of credit institutions in difficulty within CEMAC[22]. The foremost approach in any risk management strategy is to analyse the situation in a bid to understand the origin of the liquidity risk. It is against this backdrop that the paper examines the causes of liquidity risk in credit unions and the steps that have been taken to circumvent same in Cameroon.

II. Causes of liquidity risk in credit unions in Cameroon

Liquidity risk in credit unions can be triggered by various factors. Whatever their strength, the latter does not necessarily imply insolvency. The causes of liquidity risk in credit unions are internal as well as external.

A. Internal causes of liquidity risk

Internal causes of liquidity risk are those that emanate from the activities of the credit union. These include loan delinquency, mismanagement, and non-respect for prudential norms, amongst others.

1. Loan delinquency

Credit unions in Cameroon continue to suffer from the problem of loan delinquency due to business failures and bad faith exhibited by members. The latter apply for loans and when same is granted, repayment becomes problematic. In its 2023 annual report, the Mitanyen Cooperative Credit Union (MITACCUL) indicated that men continue to resist calls for loan repayment as compared to women who exhibit more prudence in loan management[23]. In the same year, its loan portfolio stood at 8.4 billion FCFA. CAMCCUL as an umbrella organ equally suffers from the problem of loan delinquency with a portfolio amounting to 11.9 billion FCFA in 2023 alone as compared to 13.6 billion FCFA in 2022[24]. Likewise, the financial crisis currently rocking the Awing Credit union reveals that 80% of its loans are delinquent and potentially irrecoverable. Some of the securities have been depleted by fire due to the crisis and death of some members with no insurance policy. Others are fictitious loans granted by management whose members cannot be traced[25].

On an overall basis, loan performance has greatly deteriorated following the rise in insecurity and high prices of basic commodities. The continuous perturbations of activities, road blocks

[22] Règlement Nº 02/14/CEMAC/UMAC/COBAC/C relatif au traitement des établissements de crédit en difficulté dans la Communauté Economique et Monétaire de l'Afrique Centrale.
[23] MITACCUL, Annual Report, 2023, P. 22.
[24] CAMCCUL, Annual Report, 2021-2022, P. 17.
[25] Report on the financial and economic situation of Awing Central Cooperative Credit Union limited and prospects for recovery, *op. cit.* at P. 6.

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and delays in payment of executed contracts have aggravated loan default in many cases. Business shutdown, destruction of business sites, looting, kidnapping for ransom and killing have been exacerbated bad faith exhibited by members hiding behind the crisis. Various recovery strategies have been deployed but the adverse effects of the crisis greatly hamper these efforts. For example, the distortion in normal courts functioning in the North West and South West regions continues to affect legal recoveries. Most of such loans usually end up being bad loans, and even when some of such loans become bad, recovery is usually a problem because the appropriate procedure for loan granting was not respected.

2. Fraud, theft and mismanagement of members' savings

Liquidity risk faced by most credit unions in Cameroon today equally emanates from human created problems which have a tremendous negative effect on them. Mismanagement and fraud, poor appraisal of loan applications, influence peddling, interest rate fluctuation and the non-objective practice of rewarding loan officers for the volume of loans made, go to compound the problem. This can be vividly exemplified in the crisis that continues to rock AWICCUL. Between 2015 and 2018, the then Board chairman and manager of AWICCUL initiated and executed a term deposit product in AWICCUL without the approval of its members in a General Assembly meeting, raised the sum of 683 000 000 FCFA and the money was misappropriated[26].

More so, the loan granting process in credit unions is managed by the credit committee and the Board of Directors depending on the amount in question. Unfortunately, some credit union staff involved in this process is either under educated, lack proper mastery of the lending procedure or is corrupt. Some of the problems witnessed during the lending process are in part caused by the quality and mentality of workers recruited by the credit union. This is because the staff is not knowledgeable enough to properly appreciate loan applications, while others do not even have a mastery of their job description or what is required when examining a loan application[27]. Consequently, assessment of loan application files is not objective. Malicious acts such as bribery and corruption, motivation and others are guiding routes to speedily approve a loan application. If the activity of lending fails to be guided by objectivity and rather on personal gains, then there is a high tendency that loans granted may not easily be recovered. This practice plunges credit unions into liquidity risk.

[26] Report on the financial and economic situation of Awing Central Cooperative Credit Union limited and prospects for recovery, *op. cit.* at P. 4.

[27] Hobbs B, Credit unions need to be saved from themselves, available at https://billhobbsie.blogspot.com/2010/06/credit- union-need-to-be-saved-from. html, accessed on 30/11/2024.

3. Non-respect of prudential norms on liquidity

CEMAC regulations require MFIs to comply with certain ratios to ensure liquidity once authorisation to function has been granted. These ratios represent the relationship between available assets and payable debts[28]. They do not only help to minimise liquidity risk, but also protect depositors against abusive practices in lending and loan recovery operations[29]. These norms have been consecrated by COBAC regulations. Regulation 2002/16 on accessory transactions[30], Regulation 2002/09 on the ratio of real estate coverage[31], Regulation 2002/03 on equity funds, Regulation 2002/05 on solidarity funds[32], Regulation 2002/06 on compulsory reserve[33], and Regulation 2002/13 on external funding[34] are all aimed at guaranteeing the solvency of MFIs. The liquidity of MFIs on the other hand is guaranteed by Regulation 2002/14 on liquidity[35].

Regulation 2002/14 on the liquidity of MFIs mandates credit unions to ensure that they do not transform the totality of their resources into loans. They must retain cash and assets that can be speedily realised to cover their liabilities within a period of three months[36]. Nevertheless, some credit unions in Cameroon today continue to disregard this regulatory disposition. For example, CAMCCUL's annual statement of liabilities and capital for 2023 indicated that the league suffered losses of more than 300 million FCFA[37]. Likewise, the liabilities of the Awing Central Cooperative Credit Union for the 2022 financial year alone stood at 2 497 285 595 FCFA[38]. When a credit union is functioning on such colossal losses, it is impracticable to possibly cover all its liabilities even in the next five years. BEAC has equally noted non-compliance with this regulatory threshold of 100% set by COBAC Regulation 2002/14. This is why in a bid to cope with liquidity crisis witnessed in CEMAC in 2020, it adjusted upwards the amount of liquidity injections in the money market from 240 to 500 billion FCFA and committed itself to adjusting that amount upward if necessary[39].

Regulation 2002/09 on the ratio of real estate coverage prevents MFIs from using resources

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[28] Guillien R. V. et Montagnier G., *Lexique des Termes Juridiques*, Dalloz, 13e édition, 2001, P. 459.
[29] Tchomgui K.G., « Le Traitement des Défaillances Bancaires des Etablissements de Microfinance », Thèse de Master, Faculté des Sciences Juridiques et Politiques, Université de Dschang, 2010, PP. 19-20.
[30] Règlement COBAC EMF 2002/16 relatif à la prise de participation des EMF.
[31] Règlement COBAC EMF 2002/09 relatif à la couverture des immobilisations par les EMF.
[32] Règlement COBAC EMF 2002/05 relatif aux conditions de constitution du fonds de solidarité.
[33] Règlement COBAC EMF 2002/06 relatif à la constitution des réserves.
[34] Règlement COBAC EMF 2002/13 relatif aux Conditions de Recours aux Lignes de Financement.
[35] Règlement COBAC EMF 2002/14 relatif à la liquidité des EMF.
[36] Article 53 of COBAC Regulation MFI R-2017/06 on internal control in MFIs.
[37] CAMCCUL, Annual Report, 2023, P. 16.
[38] Report on the financial and economic situation of Awing Central Cooperative Credit Union limited and prospects for recovery, *op. cit.* at P. 7.
[39] NEFC, Report on Currency, credit and the Functioning of the Financial System, 2020, P. 21.

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from customer deposits in financing the construction of their head quarter buildings or branches, buying material or houses in general. These investments have to be financed by at least 100% of their own resources. However, instead of ploughing back the profits generated into short term investments, most credit unions invest these resources in the construction of their head quarter buildings or branches and acquiring office stationeries. For example, the external auditors' report for the year 2023 of the Ntarikon Cooperative Credit Union revealed more than 4 billion FCFA from its equity had been invested in fixed assets rendering the COBAC norm 2002/09 on fixed assets ratio bad. Moreover, CAMCCUL's investment in the construction of its headquarter building estimated at the cost of 1 billion FCFA in commercial avenue Bamenda at a critical time that the institution had 1.2 billion FCFA of network money held up in the defunct Credit Agricole and Meridien BIOA Banks have affected the leagues income from 2012 until date[40]. This investment was done in contravention of COBAC recommendations to stop investing money that could normally be distributed to members as dividends on savings, on fixed assets that are reputed to be benefiting only credit union executives.

COBAC Regulation 2002/16 on shares taken by MFI[41] places a cap on the amount of capital a credit union can use to acquire shares in other institutions. Regrettably, the management of most credit unions does not respect this Regulation. They would rather get involved in taking up of shares in other institutions which do not yield any dividend. CAMCCUL's 2023 annual report reveals that the institution together with its affiliates had invested more than 2 billion FCFA in the acquisition of shares in Union Bank of Cameroon without a corresponding earning from dividends[42]. Funds tied up in shares in other institutions which do not yield any dividend deplete the liquidity of the credit union and limit its ability to meet up with its financial obligations and members' withdrawals. Moreover, maintaining and operating fixed assets often involves significant costs such as utilities and insurance, further straining the credit union's liquidity.

Regulation MFI R-2017/08 setting the cap on loan granting by microfinance institutions[43] limits the maximum amount of loan a credit union can grant, irrespective of its category, to one of its shareholders or cooperative members, board members, the executive or staff at 10% of its paid-up capital. However, some managers and even board members in credit unions abuse power, and engage in huge loans for their personal benefits in flagrant violation of regulations. CAMCCUL as an apex organisation, for example, is not supposed to grant loans to individuals.

[40] CAMCCUL, Annual Report, 2013, P. 8.
[41] Règlement COBAC EMF 2002/16 relatif à la Prise de Participation des EMF.
[42] CAMCCUL, Annual Report, 2023, P. 18.
[43] Règlement COBAC EMF R-2017/08 portant Plafonnement du Montant de Crédit Accordé par les Etablissements de Microfinance.

It does not deal directly with natural persons but with moral persons which are made up of credit unions affiliated to it. Board members undertake to grant loans to individuals in violation of the statute and by-laws of CAMCULL. The management and board of CAMCCUL have made and adopted two loan policies to give loans to committee and board members at the rate of 5.5%. This loan policy permits it to give board members loans of up to 50 million FCFA. This practice is a very disturbing development in the credit union network given that loans are usually given for a period not exceeding five years and the risk management policy of the league does not insure loans above 2.5 million FCFA. This arrangement which violates regulations, risk management policies, and best practices in credit union management spells trouble for the umbrella organ and its affiliates. Although COBAC monitors and ensures compliance with these liquidity ratios and in case of irregularities sanctions credit unions in default, these sanctions are rare and even non-existent in practice. The internal causes of liquidity crisis have been compounded by external causes.

B. External causes of liquidity risk in credit unions

External causes are those that are independent of the activities of members and management but pose enormous risks to the effective functioning of the credit union. The socio-political environment and accidental factors have exacerbated liquidity risk in credit unions in Cameroon in recent years.

1. Socio-political unrest

This has had a negative impact on credit unions through high loan delinquency, low income, high operational cost and in some cases, severe liquidity risk thus affecting compliance with regulatory exigencies and some performance indicators. The crisis in the North West and South West Regions has caused enormous economic sabotage and social upheavals in these two regions which are the fief of credit unions thus, affecting their liquidity because the following reasons:

- The non-channeling of salary deductions of the Cameroon Development Corporation (CDC) and PAMOL workers who are members of the credit union to service their loans and do savings;
- Skyrocketed delinquency due to business failure caused by the crisis. Business shutdown, destruction of business sites, looting, kidnapping for ransom and killing;
- Bad faith by members hiding behind the crisis.

In CAMCCUL, RAINBOW, and RECCUCAM leagues, credit unions continue to suffer from the adverse effects of the crisis. The Tiko Progressive Cooperative Credit Union, Ekona Town Cooperative Credit Union, Kumba Town Cooperative Credit Union, CDC Head Office Bota Credit Union, etc. are some examples of credit unions under the CAMCCUL league, which continue to suffer from the adverse effects of the crisis[44]. Likewise, more than 30 credit unions under the CAMCCUL network have been directly affected by the crisis[45]. Uncertainty and fear of the unknown as a result of the crisis has led to cash strap. Members rush for withdrawal of their savings and since some of the savings are in the hands of members as loans, it causes liquidity crisis. This has been exacerbated by poor economic variables such as inflation and high taxes leading to poor results in business. As such, members are unable to meet their loan repayment obligations thus affecting cash flow.

In as much as a procedure for lending has been put in place to act as a check list, it will be erroneous to assume that the procedure is strictly respected. Socio-political concerns continue to mar the procedure for lending and loan recovery operations as the poor state of roads and insecurity prevent either the loan officer or the credit committee from visiting the site of an intended security to properly examine same. In some circumstances, when the loan applicant has fulfilled other conditions, the loan is usually granted waiving the very important activity of visiting the locus. The current socio-political situation has even prompted non-respect for all the detailed steps of examining loan application files. This is evident by the fact that some credit unions in the North West region are still internally displaced with CAMCCUL providing shelter to them[46]. Moreover, loan recovery in the crisis affected regions is very difficult given that loan recovery officers may not use drastic measures for recovery for fear of the unknown[47]. The socio-political unrest has been exacerbated by armed robbery attacks.

2. Incessant armed robbery attacks

Most credit unions in crisis affected regions continue to suffer from security challenges through armed robbery, vandalisation of management and elected officials, kidnapping, assault and in some cases, complete shutdown of some of offices. Their temporal displacement to the headquarters of CAMCCUL does not only entail extra expenditure on the apex body but also congestion and inefficient service delivery[48]. Moreover, the rate of banditry has greatly

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[44] *Ibid*.
[45] Cameroon Cooperative Credit Union Limited Network, Credit Unions in Liquidity Crisis and Measures to Circumvent, 2023, PP. 2-3.
[46] CAMCCUL, Annual Report, 2023, P. 22.
[47] Some unscrupulous debtors use fighters in the crisis zones, especially in the interior to scare away loan recovery officers when they attempt to adopt drastic measures, or to inspect any security that was given to secure the loan.
[48] The Fundong, Ashing, Mbessa, Nsannimunwi, Njinikom, Boyo Women, and Kitiwum Credit Unions are currently operating from the CAMCCUL building due to the prevailing crisis.

increased in crisis affected regions as credit unions continue to suffer from incessant attacks by armed robbers. This is the case with the MINTAYEN Cooperative Credit Union[49] that suffered an armed robbery attack on Friday August 21, 2020, in the heat of the ongoing socio-political unrest in the North West Region of Cameroon. In the same vein, the head office of CAMCCUL was attacked on Wednesday October 11, 2022, and two members of staff abducted. The negative impacts of the prolonged socio-political and economic upheavals equally constitute a major setback to loan recoveries thereby increasing loan delinquency[50]. Even though management of some of the affected institutions debunked public opinion that their finances were affected, successive reports published since the advent of the crises have shown a declining balance sheet in most cases. In 2019, total deposits by credit unions in the apex organ dropped from 22.6 billion FCFA in 2018 to 19.5 billion, giving an absolute decrease of 3.1 billion FCFA or 13.7% in relative terms while in 2020, the total deposits dropped from 19.5 billion FCFA in 2019 to 18.7 billion FCFA, giving an absolute decrease of .08 billion FCFA or 4.1% relatively[51]. The negative impact of the prolonged socio-political crisis in the North West and South West Regions, adjustments from the league fixed deposits to the league share capital in line with COBAC regulation, as well as the COVID-19 pandemic highly contributed to this decline.

Likewise, traumas from armed attacks and abductions have a multiplier effect on staff performance which could result in mistakes in payment and diversion of funds. Although mistakes in payment may arise from a momentary lapse in attention on the part of the cashier or inadequate mastery of computer software used for this purpose, trauma from kidnappings could further aggravate same. Such repeated mistakes involving lump sum payments may have disastrous consequences on the credit union if they become untraceable[52]. No wonder bad debts recorded by MFIs in CEMAC increased from 146.2 billion FCFA in 2022[53] to 163.3 billion CFA in 2023[54], with Cameroon recording the highest percentage of this problem (86%), while Gabon and Chad recorded 7% and 5% respectively[55]. All these events adversely affect the liquidity column of credit unions and plunge the latter into crises.

3. Government policies and taxation

Government policies and the heavy tax burden on members has been a serious cause of liquidity

[49] See Press Release Nº Mit. -195-20 of 22nd August, 2020.
[50] CAMCCUL, Annual Reports, 2023, P. 18; 2021/2022, P. 37; 2019/2020, P. 17.
[51] CAMCCUL, Annual Reports for the 2019 & 2020 Financial Years, P. 17.
[52] Kelese Nshom G., *Regional Integration Laws and Banking Security in Cameroon*, PhD Thesis, University of Dschang, 2014, P. 219.
[53] BEAC, Rapport Annuel, 2022, P. XVI.
[54] BEAC, Rapport Annuel, 2023, P. 67.
[55] *Ibid*.

risk in credit unions in Cameroon. The recent prime ministerial Decree Nº 2023/08500/PM of 01/12/2023 outlining the procedure for transferring funds and assets to the deposit consignment fund (CDEC)[56] as read with law Nº 2008/003 of 14/4/2008 governing deposits and consignments[57], and its implementation by credit unions has discouraged members and customers from saving in credit unions. Although COBAC suspended this measure[58], the national monetary authority (MINFI)[59] and the Deposit Consignment Fund via Circular Letter Nº 000719/CDEC/DG of 13 November 2024, relating to the transfer of funds and securities vested in the Deposits and Consignments Fund[60] debunked same. It argued that deposits and consignments is a national sovereign activity that does not fall within the competence of the community regulator. It urged banks and MFIs to transfer these funds latest 8 days upon notification of this circular letter with an updated excel file of the declarations relating thereto, failure of which they will be exposed to financial sanctions provided in article 7 (4) of Prime Ministerial Decree Nº 2023/08500/PM of 01/12/2023[61]. The community legislator is currently working on a regulation relating to the management of inactive accounts and unclaimed assets in the records of credit institutions in CEMAC[62]. While waiting for the promulgation and enforcement of this regulation, credit unions in Cameroon continue to transfer funds to the CDEC. This has caused serious liquidity crisis in some credit unions since these funds were previously used in the calculation of financial ratios before decision making such as loan granting.

On the other hand, corporate taxes imposed by the finance law since 10 years ago have equally affected the liquidity situation of most credit unions[63]. Credit unions are expected to pay advance income tax and Value Added Tax (VAT) of 19.25% on interest received from loans, thereby increasing operational cost and directly affecting liquidity. The situation is further compounded by the payment of taxes on interest received by members in their savings account.

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[56] Décret Nº 2023/08500/PM du 01 Décembre 2023 Fixant les Modalités de Transfert des Fonds et Valeurs Dévolus à la Caisse des Dépôts et Consignations.

[57] Loi Nº 2008/003 du 14 Avril 2008 Régissant les Dépôts et Consignations.

[58] Via Décision LC-COB/21/DREGRI/DRNM/TPO pourtant objet : Transfert des avoirs en déshérence a la Caisse des Dépôts et Consignations (CDEC) du Cameroun, du 11 juillet, 2024.

[59] L'arrête Nº 000000023/MINFI du 1er Décembre 2023 fixant les règles relatives a l'organisation financière et comptable, les modalités de dépôt et de retrait, de consignation et de déconsignation des fonds et/ou valeurs détenus par la Caisse des Dépôts et consignations.

[60] Lettre Circulaire Nº 000719/CDEC/DG du 13 Nov. 2024, relatif aux transferts des fonds et valeurs dévolues à la Caisse des Dépôts et Consignations (CDED).

[61] It stipulates that any transfer of funds and/securities vested in CDEC occurring after the deadline stipulated in article 2 will entitle CDEC to the payment of interest on arrears calculated at the Marginal Lending Facility Rate (MLFR) of the Bank of Central African States plus three points.

[62] Règlement Nº XX/24/CEMAC/UMAC/COBAC relatif au traitement des comptes inactifs et des avoirs en déshérence dans les livres des établissements assujettis a la Commission Bancaire de l'Afrique Centrale.

[63] See section 128 of the General Tax Code.

This tax of 05% accrues where the interest exceeds 10 million FCFA. This practice discourages savings and as a result plunges most credit unions into liquidity risk. All these problems have been exacerbated by judicial delays which render loan recovery operations very difficult.

Local contractors and politicians have significantly contributed to liquidity crisis in credit unions. Delayed payment of government contracts funded by credit unions has pushed many into liquidity crisis and this affects their cash flow situation. In most of the local credit unions a majority of loans become delinquent with difficulty of recovery because of the category of debtors. Local politicians who feel they are untouchable are some of those who have crumbled credit unions by not paying their loans. An informal source disclosed that in Manchock Credit Union in Oku, the highest loans are owed by local politicians and other local heroes who appear to be untouchable. It is against this backdrop that liquidity risk management strategies have been instituted to circumvent this canker affecting credit unions in Cameroon.

III. Measures put in place to manage liquidity risk in credit unions in Cameroon

Once liquidity risk erupts, management must take appropriate steps to minimise its exposure, and limit the adverse consequences on the credit union. The success of a crisis management strategy varies depending on its adverse consequences on the credit union. Be that as it may, Regulation Nº 02/14/CEMAC/UMAC/COBAC/CM of 25 April 2014 on the management of credit institutions in difficulties within CEMAC[64] has proposed a series of measures that management can adopt, in order to avert liquidity risk in credit unions. By article 7 of the 2014 Regulation, the Secretary General or Deputy Secretary General of COBAC may address a recommendation to a credit institution in difficulty to restore or strengthen its financial situation (A), and improve its methods of management (B).

A. Strengthening the financial situation of the credit union

By article 10 of the 2014 Regulation, when the situation of a credit institution warrants, COBAC may issue an injunction to it, to take all measures necessary to restore or strengthen its financial situation. This implies that, in a bid to strengthen its financial situation, a credit union in liquidity risk can resort to recapitalisation, and limit granting of heavy loans.

1. Measures to increase funds in the credit union with liquidity crisis

A credit union may resort to funding from its network organ as well as other financial

[64] Règlement Nº 02/14/CEMAC/UMAC/C013AC/CM relatif au Traitement des Établissements de Crédit en Difficulté en Zone CEMAC

institutions to improve its liquidity situation. This is, however, subject to the existence of a prior cordial relationship between the credit union and the financial institution which could enable it obtain a short-term loan that can help to adequately finance its activities. COBAC Regulation MFI 2002/13 on conditions for recourse to external funding regulates this activity[65]. Article 1 of this regulation stipulates that external funding corresponds to resources other than deposits collected, based on an explicit repayment agreement between the lender and the MFI prior to the approval of the Board of Directors or any organ to be considered as such. This implies that any external funding which bears a repayment clause must be declared to COBAC[66].

Borrowing may be a welcome solution as it will increase funds. However, since the credit union will be required to pay interest on the money borrowed and also provide security, this solution may pose problems for a credit union which is already in financial distress. This is because banks grant loans at high interest rates and a credit union in crisis may find it difficult to eventually repay same in the short run. Be that as it may, COBAC should ensure that the measures taken will be able to guarantee sustainable redress of the credit union[67]. The latter, on their part, must fully understand the risks involved before considering raising funds via this medium.

As far as funding from the umbrella organ is concerned, it is worth noting that article 4 of COBAC Regulation MFI R-2017 /02 on the minimum number of members, the maximum of shares held by a member and the minimum of institutions for the establishment of a network of microfinance institutions[68], obligates all category one MFIs to be affiliated to an umbrella organ after creation. Therefore, a credit union like any other category one MFI which is affiliated to a network can resort to borrowing from the umbrella organ. In this connection, the CAMCCUL Ltd network, for example, plays the role of a lender of last resort that is played by the central bank to commercial banks in Cameroon. These credit unions can borrow money from CAMCCUL Ltd at a low interest rate to satisfy the demands of their members in times of huge demand for money.

Recourse to funding from an umbrella organ is subject to certain conditions. With specific reference to funding by credit unions affiliated to the CAMCCUL network, certain stringent eligibility criteria must be fulfilled. Apart from being registered and affiliated to the league[69],

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[65] Règlement COBAC EMF 2002/13 relatif aux Conditions de Recours aux Lignes de Financement.
[66] *Ibid*.
[67] Article 7 of the 2014 regulation.
[68] Règlement COBAC EMF R-2017/02 fixant le nombre minimum de sociétaires, le maximum de parts détenues par un membre et le minimum d'établissements affilies pour la création d'un réseau d'Etablissements de Microfinance.
[69] Article 1 of CAMCCUL lending policy, 2018, P. 4.

the credit union must comply with the league's Articles of Association and be up to date with all its commitments vis-a-vis the league[70]. The credit union must equally have sound financial ratios operating standards in compliance with COBAC prudential norms and demonstrate its capacity to repay by having a maximum of 10% loan delinquency at PAR 60[71] and above as well as a good loan delinquency history and present a plan to reduce loan delinquency below 5%[72]. In addition to this, the credit union must have a competent, responsible and active Board of Directors and staff. An active and responsible Board of Directors shall be competent, hold monthly meetings, respect the loan policy for CAMCCUL affiliates and not be delinquent. Its staff should be duty conscious and place the credit union's interest before their own interest.

It should be noted that umbrella organs like CAMCCUL operate a Central Liquidity Fund, which is compulsory contribution of 20% of the savings of credit unions kept at the League called League Fixed deposits. This is in consonance with COBAC Regulation MFI-2002/06 relating to the constitution of reserves[73]. It acts as a liquidity bridge for credit unions with liquidity risk. The latter is given back to credit unions in need in the form of a soft loan, and is well analysed to ensure that it is a bail out from liquidity crisis. An example in point is the case of the Lobe Cooperative Credit Union. Due to the fact that its activities were pecked to PAMOL PLC, the credit union suffered serious liquidity crisis as a result of a slowdown in PAMOL's activities. Thus, CAMCCUL together with the credit union developed a reorganisation plan to salvage the crisis, with major elements being, increase in income and reduction of expenses. The reorganisation plan identified a liquidity need of 300 million FCFA for which the league has granted the first phase of 150 million FCFA. The second phase will depend on a successful implementation of the conditions stipulated in the first phase, as monitoring is ongoing[74].

Apart from borrowing from the umbrella organ, article 13 of the 2014 Regulation equally obligates members to present to COBAC appropriate solutions such as the financial support necessary for recovery. This means that members of a credit union in liquidity risk may be required to contribute in a bid to increase the share capital or offer any other assistance that may

[70] It must have been paying its dues, paying its shares and keeping its fixed deposit at the required percentage as per the byelaws, paying its insurance premiums, using prescribed league stationeries and accounting system, and complying with all league obligations and policies.
[71] Delinquent loans above 60 days.
[72] It must equally have a ratio of Net Equity over loan portfolio equal to at least 15%, a ratio of net equity/loan portfolio showing an increase of at least 1% per year, have a yearly net surplus equal to at least 3% of gross income (net surplus = gross income – operating cost -interest on capital (savings, loans) – reserve for losses), have at least 33% of active members, make annual provisions for bad loans according to the network's provisioning table, have a yearly bad loan write off of provisioned loans for the overall recorded amount, and Increase equity (extraordinary reserve) with all recoveries from written off loans. Article 1 (c) of CAMCCUL lending policy.
[73] Règlement COBAC EMF 2002/06 relatif à la Constitution des Réserves.
[74] Interview conducted with Dr FOMBON Raphael, CAMCCUL network Operations Manager on 10/02/2025.

be necessary to save same. This solution is difficult to come by, especially when the credit union is already in difficulties. The reason is that members will not want to continue investing in the credit union if they are not sure that the situation will be re-established[75]. Education and sensitisation of members could help to convince the members on the need to contribute in a bid to revive the ailing institution. If members finally arrive at a consensus to increase the capital, they may make additional contributions or incorporate reserves. This capital, once increased, any profits made could be ploughed back in the credit union. This offers the latter advantages of not paying interest on borrowed funds and relieves it from the burden to provide guarantees for money borrowed from banks[76].

A credit union in liquidity distress may equally consider selling off fixed assets. By doing so, assets that are illiquid are then converted into liquid assets and could be used to cater for members' withdrawal demand. Furthermore, when fixed assets are sold off, costs such as maintenance, utilities and insurance are immediately reduced, improving the liquidity of the credit union. The sale of fixed assets also permits the credit union to focus on core activities such as lending and deposit taking, which are more profitable and directly improve on liquidity. In the case of *Awing Central Cooperative Credit Union v. John Best*[77], the High court of Mezam ordered that the building of Awing Central Cooperative Credit Union be sold to pay off the deposits of its member, John Best, whose deposits were used by the credit union to put up the building. Although the judgment is on appeal, the credit union has still not been able to pay off this deposit.

Article 14 of the 2014 Regulation is to the effect that the president of COBAC may equally ask the Professional Association of Microfinance Institutions (ANENCAM) of the credit union concerned to examine and submit to him the conditions in which other adherents may be able to contribute in the redress of the credit union in liquidity risk. This procedure is described as local solidarity. It results from the above that credit unions must adhere to their professional associations in order to be able to benefit from the advantages offered by the latter. Adherence is not optional but an obligation[78]. The purpose of this association is to defend the collective interests of credit unions and liaise between COBAC and its members. This simply implies that credit unions which are not members or deliberately refuse to adhere may not benefit from the

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[75] Kelese Nshom G., *Regional Integration Laws and Banking Security in Cameroon*, *op. cit*. at P. 361, Nguihe K.P., "Réflexions sur la notion d'entreprise en difficulté dans l'Acte Uniforme portant Organisation des Procédures Collectives d'Apurement du Passif", *Annales de la Faculté des Sciences Juridiques et Politiques*, Université de Dschang, 2001, PP. 87-103, P. 90.
[76] *Ibid.*
[77] HCMB/06 AE/2020.
[78] Article 95 of the 2017 CEMAC Regulation.

services offered by the association. Likewise, in Cameroon, ANEMCAM does not effectively play this role. This association is rather marred by leadership squabbles and conflict of interests[79]. In the meantime, the latter has not succeeded to convince credit unions on the need to associate. It is still divided into rival factions despite incessant calls from regulatory authorities for an immediate solution to be sought to these internal squabbles[80]. This irregular practice poses problems on credit unions in liquidity risk which may require the intervention of ANEMCAM. Although sanctions have been instituted by regulation on credit unions which deliberately refuse to adhere to their professional associations[81], these sanctions are not effective.

2. Limiting the granting of heavy loans and strategic loan amortisation

A credit union in liquidity risk can equally limit loans granted to shareholders, administrators, managers and personnel as well as other stakeholders. This limitation is in consonance with article 2(1) of Regulation MFI R-2017/08 setting the cap on loan granting by microfinance institutions[82]. The justification for limiting the commitments of MFIs in favour of shareholders, managers, administrators or staff is obvious. It is dangerous practice and besides anomalous for a credit union to grant too large a share of its loans to people who can individually exert direct influence on its management. Moreover, limiting granting of heavy loans reduces risk exposure, encourages prudent lending and maintains the financial stability of credit unions. By limiting granting of heavy loans, credit unions reduce their risk of exposure to borrowers who may struggle to repay. Likewise, fewer defaults mean less strain on the financial resources of the credit union, thereby reducing the likelihood of liquidity risk.

Although the maximum amount of loan a credit union can grant to one of its cooperative members, board members, the executive or staff is capped at 10% of its paid-up capital, the latter in a bid to avert liquidity risk can vary this amount even below 10%[83]. This is why even MFIs whose paid-up capital exceed the minimum threshold cannot grant loans of more than CFA francs 50 million to any one of its shareholders or cooperative members, board members,

[79] Mbouombouo J.N., *Banque contre Microfinance : Les Enjeux de L'intermédiation Financière dans la Zone CEMAC, op. cit.* at P. 86.
[80] *Ibid.*
[81] Article 105 of the 2017 regulation.
[82] Règlement COBAC EMFR-2017/08 portant Plafonnement du Montant de Crédit Accorde par les Etablissements de Microfinance
[83] It should be noted that this 10% is a reduction of what used to obtain hitherto the 2017 regulatory reforms. Article 2 of regulation 2002/10 on commitments of MFIs in favor of their shareholders, directors, managers and This regulation falls under the ethical provisions and aims to protect depositors stipulated that the overall outstanding number of net commitments made directly or indirectly by an establishment on its shareholders, directors, managers and staff may not exceed 20% of the amount of net equity

the executive or staff[84]. The objective of this measure is to enable the credit union avert crisis and dissuade it from utilising its short-term resources in long-term investments which could further worsen its liquidity situation. By limiting granting of heavy loans, the credit union increases the amount of its own funds to a level in line with the specific nature of its risks and capital requirements[85].

The category of persons covered by this Regulation include all microfinance staff, the President of the Board of Directors, members of the Board of Directors, Directors, Managers, the Provisional Administrator, Auditors and all other persons considered as personnel of the institution[86]. Even where the loans are merited, the mere fact that the credit union is in liquidity risk is enough ground for any stakeholder to understand the decision by management to limit, or set a cap on the maximum amount of loan that can be granted to a particular member. However, any such decision-making power exercised by the management of a credit union cannot be left unchecked given that it can sometimes be abused or used for its advantage.

Member sensitisation and education plays a crucial role in this regard. This encourages prudent financial behaviour, transparency and trust. Educating members about the credit union's financial situation and liquidity management strategies can build confidence in them and mitigate fears that can lead to a run-on deposit. The credit union could hold regular education meetings with its members to help them better understand the credit union's efforts to stabilise its liquidity and this helps them to less likely make unnecessary withdrawals, easing immediate liquidity pressure. By clearly and honestly communicating the financial situation of the credit union to the members, trust is encouraged and members continue to maintain a good relationship with the credit union leading to more savings and even delayed withdrawals. Engaging members directly through education and communication sometimes prompts even voluntary actions from members such as increasing deposits and deferring withdrawals. Education of members does not only resolve liquidity risk but prevents further risks as financially educated members ensure a stable inflow of funds supporting long term liquidity. On the other hand, the credit union can rebrand its deposit products such as rewards on certain amounts of deposits or providing special treatment for members who come for huge deposits. This would entice members to carry out

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[84] Article 2(3) of Regulation MFI R-2017/08 setting the cap on loan granting by microfinance institutions.
[85] Article 10 of the 2014 regulation.
[86] The Uniform Act on Commercial Companies and Economic Interest Groups equally regulates the extent of financial benefits that can be accorded to directors of a commercial company in its article 450(1). Thus, directors, general managers, deputy general managers as well as their spouses, ascendants or descendants and other intermediaries, are prohibited from contracting loans, in any form whatsoever, from the company, except when the company operates banking business and this can only be accepted within the threshold of "current account transactions concluded under normal or usual circumstances'.

more deposits easing the liquidity pressure on the credit union.

Apart from limiting loans granted to shareholders, administrators, managers, and personnel, a credit union can strategically amortise loans granted to ensure that repayments are due before peak withdrawal periods – school resumption and festive periods such as Christmas and end of year celebrations. With this measure, the credit union ensures that loan granting is limited during this period to ensure that members' demand for withdrawal is treated expeditiously. In addition to limiting granting of heavy loans, the credit union may improve its methods of management through reorganisation.

B. Amelioration in management of the credit union

Articles 7(b) and 10 (b) of the 2014 Regulation are to the effect that, COBAC can address a recommendation or injunction to a credit institution to ameliorate its methods of management. These measures are aimed at putting in place internal rules and procedures necessary for the normal functioning of the credit union[87]. By amelioration in management, the community legislator requires management to apply an appropriate treatment or provisioning policy to its assets, in accordance with capital requirements. It may also order it to temporarily restrict or limit its activity. With specific reference to the situation of credit unions, amelioration in management is done under the supervision of their umbrella organs; the latter is in turn required to furnish a report to COBAC. Knowledge of the abnormal functioning of the credit union may be gotten from the information gathered from documents transmitted periodically to the umbrella organ, or major dysfunctions noticed by the umbrella organ itself. Irrespective of the source of information, the management of a credit union in liquidity risk can resort to reducing operational costs, and intensifying loan recovery.

1. Reducing operational costs

Reducing operational costs can indeed be a valuable strategy to avert liquidity risk. This requires a credit union to improve on its operation and organisation, particularly in terms of governance and internal control[88]. It involves balancing key objectives that address the traditional issues of cost, service levels, growth as well as a new focus on sustainability. Reducing operational costs generally helps to increase cash reserves and enhances cash flow management of credit unions. This is so because by reducing operational costs, credit unions can allocate more resources to building cash reserves[89], which can be used to meet unexpected liquidity needs. Reserve ratios

[87] Article 26(c) of the 2014 Regulation.
[88] Article 59 (b) of the 2014 regulation.
[89] These are funds on call or on stand-by representing previous years' profits not distributed to shareholders or windfall profit from the sale of an asset. This reserve must be deposited with the umbrella organ for credit unions.

are the amount of cash that credit unions must have in their vaults or at the closet of umbrella organs[90]. The purpose of reserves is to encourage credit unions increase their capital ratio as well as net resources. These reserves can be hauled out from annual profits made by the institution. Although before a credit union runs into liquidity crisis, it must have exhausted its reserves, the constitution and respect of this ratio will help management to make efficient use of available resources, reduce wasteful spending, save the institution's funds and avert potential financial pitfalls.

Another major solution to liquidity risk would be for credit unions to limit or review spending under certain budget heads to tie with the evolution of the institution. The reduction of the financial burden of the credit union may be direct or indirect. It may be direct when the credit union sets out to diminish general expenditures, for instance, removing or reducing certain advantages given to the managers and other staff as well as wages[91]. The credit union could indirectly reduce its expenditures or financial burden by reviewing its operations[92]. In this light, the credit union may modify or reduce ancillary activities and focus on very profitable services. In fact, ancillary transactions such as leasing, manual foreign exchange, rental of safes, purchase of goods for customers in connection with their activity, and training activities[93] could be curtailed. Even if the credit union continues to perform these functions, it could concentrate on those that are profitable and drop those that are less beneficial until the liquidity risk is averted.

Management could equally review direct expenditures on cars and travel, expenses on legal matters, personnel expenses in head and branch offices as well as other heads that would enable it reduce charges. The recent increase in the price of fuel as well as other goods and services could worsen the situation of credit unions in Cameroon if the latter do not consider cutting down on transport and travel costs. This measure is important because of the operational risk credit unions are often exposed to. In fact, COBAC Regulation MFI 2017/06 on internal control in MFIs obligates the latter to approve and periodically review the operational risk management mechanism which should help identify, assess, monitor, and mitigate this risk. Some credit unions have recently reconsidered expenditure on macro-marketing projects like International Credit Union Day, the silver jubilee and judge their necessity within the operational

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Mishkin, F., *Monnaie, Banque et Marche Financières*, 9[e] édition, Nouveaux Horizons, 2010, P. 590.

[90] COBAC Regulation MFI-2002/06 relating to the constitution of reserves (Règlement COBAC EMF 2002/06 relatif à la Constitution des Réserves) requires category one MFIs to constitute a compulsory reserve representing 20% of profits gotten from the exercise of their activities.

[91] Nshom K.G., *Regional Integration Laws and Banking Security in Cameroon*, *op. cit.* at P. 396.

[92] Rabemananjaro F.V., « Analyse du Cadre Juridique et Règlementaire pour la Microfinance » Democracy and Economic Growth Office, USAID/Madagascar, Chemonic International, 2003, P. 43 *et seq.* ; Nyama J.M., OHADA, Droit des Entreprises en Difficultés, CERFORD, 2004, P. 368.

[93] Article 30 of the 2017 regulation.

performance of the credit union[94].

In the same vein, credit unions could review personnel expenses via an audit of the human resource situation where necessary to come out with a base for collective agreement that could enable them manage evolution in wage bill within the evolution of the institution. Since mismanagement is always the cause of liquidity risk in credit unions, circumstances may be such that, maintaining management organs will compromise a solution to the crisis. This is glaring in relational conflict between the management organ and the personnel. The best option at this instance will be to replace former directors and managers. Unlike former directors who are replaced or dismissed for management deficiencies, workers are dismissed as a means of reducing the liabilities of the credit union in crisis[95].

This measure is important because advancement of staff in some credit unions is arbitrary and out of norms[96] which leads to unjustifiable inflations of the wage bill with unmerited earnings that are not reflected in performance. In this dispensation, it behooves on management of a credit union in liquidity risk to review the allowances and seniority bonuses to staff with a view to reducing some and possibly putting a freeze on employment. This should be done in a bid to improve the worker per credit union ratio which if abnormally low may indicate non-productivity. Such dismissals, if necessary, must be done in consonance with the procedure for dismissal on economic grounds under the 1992 Labour Code of Cameroon[97]. This procedure must be followed in a bid to avoid a flood gate of litigations for wrongful dismissal on an already ailing credit union.

This endeavour requires knowledgeable personnel with average skills in management that meet WOCCU[98] standards. However, some credit unions continue to employ personnel who lack the required educational and professional qualifications. This practice has rather had a negative impact on credit unions sustainability through high loan delinquency, low income, high

[94] CAMCCUL, Annual Report, 2023, P. 26.
[95] Nshom K.G., *Regional Integration Laws and Banking Security in Cameroon*, *op. cit*. at P. 396.
[96] Tifor D.M. & Kahjum N.T., "When the Centre can no Longer Hold: Crisis and Schism in the Cameroon Cooperative Credit Union League (CAMCCUL), 2006-2020", *op. cit* at P. 110. CAMCCUL for example placed staff with Advanced Levels plus five years of further studies on category 12 which is a category normally corresponding to Advanced Levels plus 8 years of further studies and many years of working experience. This error was clear in the Average salary/GNI ratio in CAMCCUL in the MIX (Microfinance Information Exchange) performance report which is 1722.9 as opposed to 447.2 in other credit unions in Africa. Performance report and analysis of CAMCCUL by MIX, available at https://www.findevgateway.org/node/156926, accessed on 09/12/2024.
[97] Section 40 et seq.
[98] Category one MFIs, like credit unions, are equally grouped around an organisation known as the World Council of Credit Unions (WOCCU). It brings together organisations from more than 80 countries around the world, and represents more than 36,000 cooperatives, bringing together more than 108 million members, Nokam G., Initiation aux Techniques de Gestion des Coopératives d'Epargne et de Crédit, Connaissance de l'Environnement des Coopératives d'Epargne et de Crédit, Module 1, 2010, P. 43.

operational cost and in some cases exacerbated liquidity risk thus, affecting compliance with regulatory exigencies and some performance indicators[99]. Apart from reducing operational costs, a credit union in liquidity risk could intensify efforts aimed at loan recovery.

2. Intensifying loan recovery

In a bid to manage liquidity risk, credit unions can reinforce the dedicated team on loan recovery where it exists. Where this team does not exist, one could be designated by management to focus on loan recovery, ensuring timely and effective follow-up with delinquent members. It is worth noting that intensifying loan recovery could further worsen the financial situation of a credit union which is already in liquidity risk if management does not institute measures to curtail extra costs involved in the process. Although in other jurisdictions such as Nigeria[100] and the United States of America, loan recovery is entrusted in the hands of third parties through outsourcing with its related advantages such as reduced costs associated with hiring, training, and retraining of a recovery team by outsourcing collections, including salaries, benefits and office space, this is not the practice in Cameroon. In a bid to minimise the costs involved in outsourcing[101], credit unions in Cameroon often resort to personnel employed by the institution in loan recovery operations. The recovery team, which is mostly made up of credit officers and the loan committee, are often assisted by their legal counsel who go to the extent of initiating legal actions, where need be, aimed at loan recovery.

Credit unions equally offer training and support to staff on loan recovery procedures, ensuring that they are equipped to handle delinquent loans effectively and professionally. Regular portfolio reviews are conducted to identify trends, risks, and opportunities for improvement, enabling proactive management of loan recovery efforts in times of cash shortages. Some credit unions even offer rewards or incentives to members who make timely loan repayments, such as interest rate reductions, rebates, or exclusive services. By implementing all these strategies, credit unions can intensify loan recovery efforts, manage liquidity crises and maintain a healthy and sustainable portfolio.

IV. Conclusion

It has been observed that liquidity risk in credit unions has exacerbated in recent years in

[99] CAMCCUL, Annual Report, 2023, P. 22.
[100] In Nigeria, for example, we have the Mathew Ogagavworia & Company, which is a loan recovery agency, available at https://mocaccountants.com/debt-recovery-services/, accessed on 06/12/2023.
[101] The average annual salary of an in-house recovery agent is roughly $70,000, according to research by the International Association of Commercial Collection Agencies. However, in Africa, it has been observed that the average salary for a recovery staff ranges from $100 to $500 per month, depending on the country, IACCA Report on Outsourcing in Africa, available at https://www.commercialcollector.com, accessed on 06/12/2023.

Cameroon. Although mismanagement, fraud and non-respect for prudential norms partially account for this, exponential increase in delinquent loans, government policy and taxation have equally rendered credit unions unable to satisfy customer demands for loans, withdrawal of savings, and to cover operational expenses. As remarked, this adversely impacts investment decisions which lead to poor financial performance of credit unions as they become unable to honour most of their financial obligations. In a bid to minimise and eventually eliminate the adverse consequences of liquidity risk on credit unions, it is recommended that, credit unions engage in recapitalisation, reorganisation and intensify loan recovery in a bid to effectively manage liquidity risk.

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