

8TH SACCO LEADERS FORUM

**THEME: EXPLORING STRATEGIES FOR
ENHANCING SACCO COMPETIVENESS**

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**REGULATORS ROLE IN IMPROVING STABILITY AND INTERNAL
GOVERNANCE OF SACCOs**

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INTRODUCTION

- Cooperatives are a major part of development strategies aimed at poverty alleviation
- Cooperatives have played a significant role towards achieving the growth and poverty reduction strategy
- Savings and Credit Cooperatives are said to be user-owned financial intermediaries
- They have many names, including Credit Unions as they are referred to in Ghana, and Savings and Cooperative Credit Organisations (SACCOs) in most African countries

INTRODUCTION CON'T

- The International Cooperatives Alliance (ICA) defines Cooperatives,
 - as autonomous associations of persons coming together as jointly owned enterprise for economic, social and cultural purposes. That is, Cooperatives are organized groups of people that are democratically controlled to serve their members and produce benefits for them.
- They are also,
 - Community-based and are formed and owned by their members in promotion of their economic interests. They usually contribute favourably to wellbeing (Syed, 1991).

INTRODUCTION CON'T

- SACCOs promote economic interest of their members and in particular promote thrift among its members
- In most cases, SACCOs are formed for two main reasons:
 - to encourage savings among members, and
 - to make available to members low interest loans.

Contributions of SACCOs

- Savings and Credit Cooperatives reach clients and areas (e.g. rural) that are unattractive to banks.
- Savings and Credit Cooperatives are often started locally, without major external support.
- Their solid base of small savings accounts constitutes a stable, relatively low-cost funding source.
- Well-run Savings and Credit Cooperatives have low administrative costs and may be able to make loans at interest rates that are lower than those charged by other micro-credit providers.

Challenges of SACCOs

- Lack of awareness of the basic cooperative principles and values
- Weak governance structures Vrs formal financial institutions
- Weak financial management system structures Vrs formal financial institutions
- Inadequate regulation and supervision due to misunderstanding of the unique risk profile of SACCOs and adapting supervision accordingly

Regulating SACCOs

- Lack of appropriate supervisory and regulatory environment for SACCOs could hamper the development of sustainable and financially prudent institutions.
- There is therefore a need for specific financial cooperative law due to the unique feature of financial cooperatives (Credit Unions Act).
- A specific legal framework governing financial cooperatives should empower them, enabling their development and encouraging outreach towards their target population.
- It should ensure that financial sector rules are appropriately applied to protect members against poor financial management and hence a loss of their savings.

Role of the Regulator

- The Basel Committee on Banking Supervision (2010) released a set of 25 core principles applicable to other deposit taking institutions engaged in microfinance.
- The report notes that non-banks that mobilize deposits from the public should be subject to regulation and supervision commensurate to the type and size of their transactions.
- This implies that effective external regulation and supervision can identify, avoid, and resolve many common problems with SACCOs

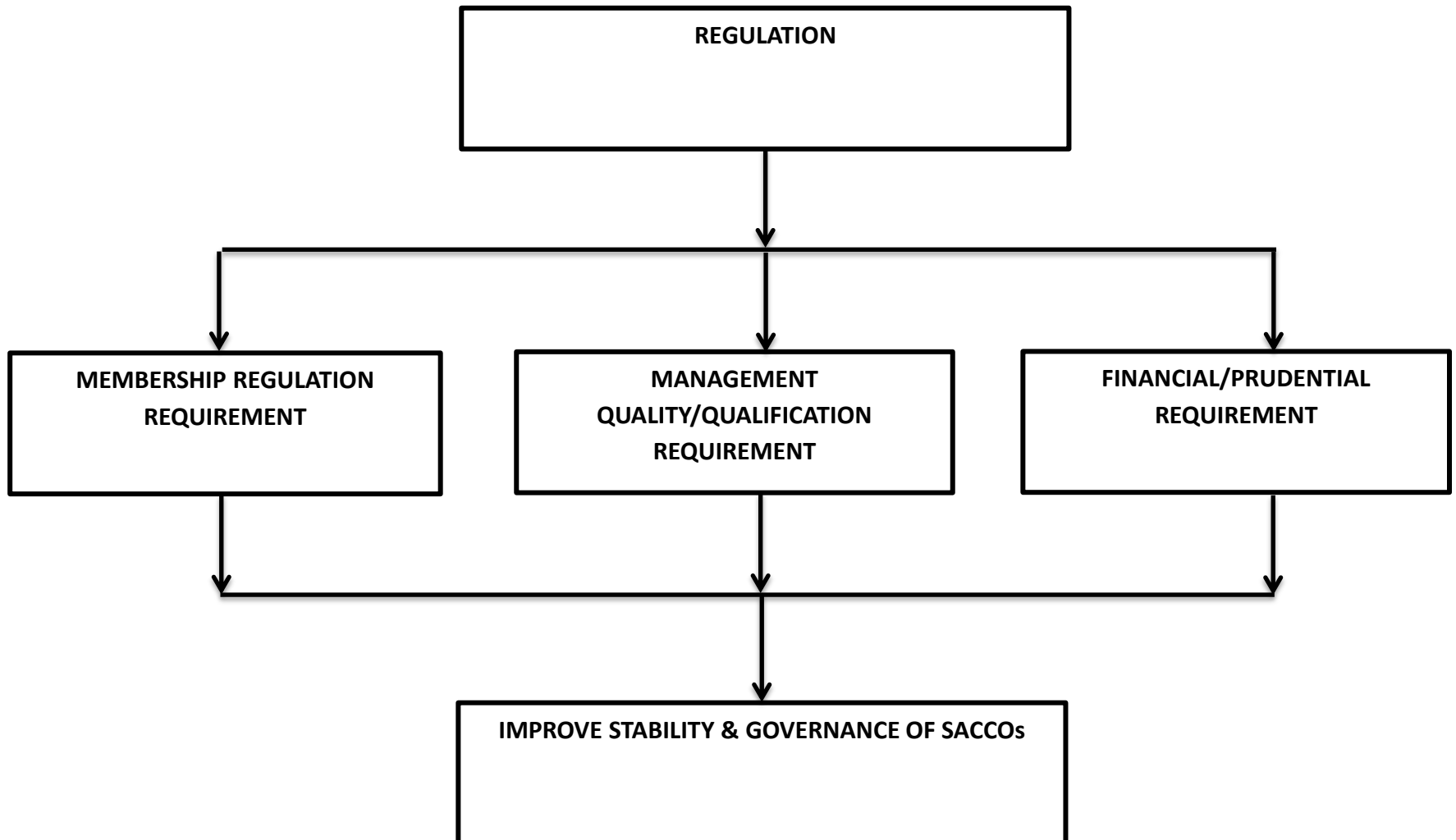
Role of the Regulator

- Compelling reasons for the regulation and supervision of SACCOs include:
 - Preserving Financial Sector Soundness
 - Ensuring Institutional Soundness
 - Information Sharing and Best Practice
 - Responsible Lending and Service Provision
 - Consumer Protection
 - Interest Rate Controls

Role of the Regulator

- Regulations are meant to improve the competitiveness of SACCOs by setting financial and operating standards
- SACCOs regulations are performance related and are meant to set specific requirements on the tools used to measure performance.
- The operational regulations and performance standards are specific and prescriptive; not to make SACCOs non-competitive and stifle their growth

Regulation - Improving Stability and Internal Governance



Regulation - Improving Stability and Internal Governance

- Regulation help establish prudent standards that govern the SACCO
- Regulations establish benchmarks and also enforce safety and sound principle to safeguard SACCOs from losses
- Regulations ensure SACCOs are accountable to their members and to the public by enhancing excellence through professionalism
- Regulations promote strong, secure and professionally run credit union sector, capable of meeting the credit needs of their members and a wide range of persons.

The Co-operative Credit Union Regulations (LI 2225)

- The Co-operative Credit Union Regulations, 2015 (L.I. 2225) came into force in December 2015. The purpose of these regulations is to:
 - (a) Establish the Co-operative Credit Unions **Supervisory Agency** and provide for the functions of that Agency; and
 - (b) Provide for rules to govern the **licensing, operation and supervision** of Co-operative Credit unions.

Supervisory Agency

- The Co-operative Credit Unions Supervisory Agency is therefore responsible for the inspection and supervision of Co-operative Credit Unions.
- The functions of the Supervisory Agency includes:
 - **Appointing the Co-operative Credit Unions Association to carry out routine supervision of Co-operative Credit Unions; and**
 - Formulating rules and guidelines for the guidance of the Co-operative Credit Union Association or any other body authorized by the agency to undertake the supervision of Co-operative Credit Unions.

The Role of BOG and CUA in Supervision

- In accordance with LI 2225:
 - BOG is mandated to license Credit Unions/Co-operative Financial Institutions(CFI)
 - CUA will undertake initial screening of applications and package same for the attention of BOG
 - CUA will continue to carry out routine supervision of Co-operative Credit Unions/CFI under the direction of the Supervisory Agency.

Conclusion

- The Sacco sector is a very important part of developing economies and very stable as many of them have remained in operation for a long period. However, it faces challenges just like any other sector. Legal and regulatory factors have had a major impact on the performance of the SACCOs. SACCOs should adopt strategies to respond to the laws and regulations to ensure they take full advantage of the opportunities regulations present to SACCOs. Conformity with the laws and regulations governing the sector will enable the organizations to avoid negative effects of regulations.

THANK YOU