

# Fostering the culture of Innovation and Entrepreneurial Development



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# 'The savings culture in Africa' as an ingredient towards Economic development

By George Ombado, ACCOSCA

Availability of income is the most critical factor needed for households to meet their basic needs. This implies that household savings is negated as a result of high unemployment levels being experienced across Africa. These households are often disadvantaged to save; however their willingness to save often discounts their ability to save even in very difficult circumstance.

Ironically, the 'haves' tend to focus more on consuming than saving which is not necessarily negative given what they contribute to economies. However, harmful consequences of consumerism can emerge from this trend; new income earners living beyond their means in an effort to meet their short term wants.

At the macro level, can a country develop faster as a result of high savings? Theoretically relying on savings alone makes this achievement daunting; however the economic heterogenous nature of inhabitants in Africa creates some possibility by taking advantage of the co-operative model (Member owned organisations).

These member based organisations potential have the ability to mobilise resources where other institutions have not done so well. Countries such as Kenya and Ghana have seen an increasing number of people saving through the SACCOs for future or in meeting unforeseen needs. Notably, the available capital has contributed to increased participation of members in wealth creation activities and this level of economic development.

Although, SACCOs introduces promising prospects for members, their efficacy depends on whether they are managed professionally with innovativeness. Guided by the macro- principle that Capital reinvestment

will lead to economic growth, while at the micro-level; in order to invest one must first have to save. SACCOs therefore is one of the economic social device needed to increase members' financial viability by securing their future through by foregoing current expenditures.

Encouraging the society to save the little that they have for future consumption by defaults is attractive since the level of uncertainty for the future in Africa can be arguably high. This gives them an opportunity to borrow from their savings. Until recently banks in most sub-Saharan Africa avoided engaging with the informal sector perceived as high risk clients; yet these economies are mainly driven by the Informal Sector. The recent product innovation by commercial banks to attract the informal sector highlight the importance attached to this sector and SACCOs role in sustaining the sectors needs. Countries such as Nigeria, Kenya, Uganda, Ghana, Botswana and Namibia among others have seen financial institutions upscale introduction of product perceived to be highly favourable to informal sector

The argument to support savings culture, without necessarily affecting economic activities of a country will benefit the SACCOs on two folds: one, it will increase members base and subsequently economic influence by providing the members with incentives that the conventional financial institutions would find difficult to meet since they are purely profit making institutions. Secondly, SACCOs main stakeholders have multifaceted themselves either as members, borrowers or co-owners. Apparently this has given them an opportunity to set up high governance standards to protect their interest.

The Capital Base for SACCOs is likely to improve if concerted efforts are made to increase Co-operative -sector outreach or



with adoption of a Robust legislative framework. Even with Money Laundering Legislations across the continent, SACCOs have made it relatively easier for one to become a member unlike banks whose requirement are not often friendly to low income earners. The ability to borrow three times ones savings makes SACCOs more attractive than the commercial banks

A Successful member's recruitment drive should bear in mind the importance attached to retention. It is probably on this background that we have seen SACCOs in the continent organising events that seek to address ways of mobilising domestic savings and rewards those institutions that effectively utilise the mobilise resources. As a result SACCOs are increasingly turning their attention to innovative ways of managing their members' resources.

Last year during SACCO leaders' forum (SLF) in Johannesburg South Africa, which was attended by fourteen countries across Africa, it was agreed on principle that good governance should be the pillar for successful development and growth of SACCOs. The 2011 SLF schedule for March in Kigali, Rwanda provides an opportunity to share management experiences that would stimulate sustainable growth for SACCOs

It is with recognition that Soundness of co-operative sector is important for the economic development of a country, given that SACCOs are increasingly becoming acceptable as an instrument to gain economic empowerment. The countries whose saving

pool from co-operatives as a ratio in total savings percentage in GDP is relatively higher than other savings, risk jeopardising the sustainability of the economy if not checked. Even as we drum up support for adoption savings culture, this needs to be simultaneously initiated with regulatory systems.

As a supporter of savings culture adoption through SACCOs, I believe this economic behavioural change will significantly improve financial access of the poor population and lowly paid workers, thus contributing towards building their assets base and subsequently move them a step away from poverty. The assumption is that such impact would also increase the relevance of the SACCOs vs. Financial institutions.

To build a strong foundation for economic development, co-operatives must contribute in tackling challenges facing Africa by spearheading the campaign to encourage savings culture; which go hand in hand with good governance.

In View of these arguments, the SACCOs leadership need to address high consumerism trend, particularly with the youth demographic structure. At the macro-level, this will translate into the bigger picture of stimulating economic development of countries; at micro level, it creates financial security for the members.



## Managing Credit Risk in SACCO`s

By Joan Atuhura

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Many SACCOs are faced with a challenge of bringing delinquent loans under control. SACCOs are unique in that members are the owners of the institution, they collect savings, and deposits to on-lend to their members, and they put members' savings at risk. SACCOs should not ignore risk, it must be managed to protect member savings. The loans should be priced appropriately according to the risk they represent to the institution. When SACCOs issue loans, there is always inherent risk that the borrower may default, the organizations are exposed and must manage the operation efficiently and effectively. SACCOs should know that a lot needs to be done before a loan is issued rather than simply basing on the amount deposited by a member.

Management of credit risk is crucial in any financial institution and should be given utmost attention and strategic focus. Inadequate credit risk in SACCOs has been attributed to;

- Poor credit risk management at portfolio level,
- Insufficient attention to circumstances affecting borrowers,
- Changes in economic trend, and
- Weak credit standards for borrowers.

Most governments have realized the need to regulate SACCO operations thus rules for how much capital should be set aside to cover potential losses have been put in place. SACCOs are now more cautious of actual credit exposure.

Consequently for SACCOs to survive, the board of directors must ensure that the sustainability of the SACCO is not compromised, regardless of what happens internally or externally. Otherwise officials shall have failed in meeting their fiduciary responsibilities. In the SACCO operations, risk can't be avoided and when it is poorly managed it results into financial loss, loss of

members and confidence in the organizations. The SACCO is eventually faced with liquidity problems and is unable to meet its day to day financial obligations.

Managing **credit risk** calls for an integrated system where the economic events and the financial system are linked to hedge against exposure of member savings. Integration of the SACCOs operations with a set of systematic processes for identifying, measuring, monitoring with other existing internal control, accounting, finance, and management information and communication system, among other operational systems should be adhered to.

Some SACCOs have operated these systems autonomously thus exposing the entire organization to risk. Financial regulators have emphasized risk management as an essential element of long-term success. SACCOs should focus on an organization's ability to identify and mitigate future risks for long-term rather than on current or historical financial performance.

As SACCO's continue to grow and expand rapidly, serving more members and attracting extra deposits from members, the more the need to strengthen their internal capacity to identify and anticipate potential risks by putting in place the proper systems and controls. The roles and responsibilities of managers and board members in risk management should be clearly defined so as to help in building stronger institutions. It is anticipated that a comprehensive approach to risk management will reduce the risk of loss, build credibility in the SACCO movement and create new opportunities for its growth.

The principal source of risk is in the **loan portfolio** that is by far the core SACCO asset. The quality of loans and the risk it poses for the SACCO can be quite difficult to measure. For SACCOs whose loans are typically not



backed by tangible collateral, the quality of the portfolio is absolutely crucial.

SACCOs should have a Credit Risk Strategy to hedge against risk. The credit risk strategy should take in to account the cyclic aspects of the economy and their anticipated impact on the composition and quality of the loan portfolio. The strategic goals need to be financially realistic in how they are to be achieved. (e.g., a credit strategy would be unrealistic if it called for asset growth of 10%

and has not exceeded 2% over the past 5 years). Sustainable source of funding and equity investment to manage the loan portfolio should be developed to ensure that the operations meet the needs of the clients. Managing credit risk is crucial to growth of SACCOs and this call for the commitment from the whole team (employees) to observe the SACCO Credit Risk Policy guidelines drawn in their day to day operations.

## Events

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### Savings and Credit Cooperatives Africa – SACCA Congress 2010

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Matsapha, Swaziland – The 2010 SACCA Congress held in Swaziland on October 4th to 8<sup>th</sup> highlighted key ways of addressing the challenges facing SACCOs in Africa. The event was organised by The African Confederation of Cooperative Savings and Credit Associations (ACCOSCA) and the Government of Swaziland in partnership with the Canadian Cooperative Association (CCA).

The four day event attracted 17 countries in Africa among which were distinguished government officials along with researchers that met to discuss ways of fostering the culture of entrepreneurship and innovation in SACCOs. Participating countries included Swaziland, Kenya, Uganda, Tanzania, The Gambia, Ghana, Mauritius, Seychelles, South Africa, Malawi, Botswana, Lesotho, Zambia, Zimbabwe, absent with apology Rwanda, and Nigeria.

Cooperatives in Africa are faced with several challenges such as inability to adapt to the rapid change in ICT, governance, standardisation among others. With the theme being *'Fostering the Culture of Entrepreneurship and Innovation in SACCOs,'* the SACCA congress was opened by the Deputy Minister Cooperatives Swaziland followed by an address by the Minister of cooperatives Hon. Nyagah. Thereafter, a

discussion with a panel of government officials in Africa addressed the challenges and measures they have adopted in their respective countries to confront the issues at hand. The need for capacity building was identified as key across the region.

ACCOSCA was called upon to take the principal role of capacity building in cooperatives. Among the topics discussed at the congress by the various keynote speakers were;

The impact of SACCOs and Challenges faced, Challenges facing SACCO regulatory framework in Africa in the context of South Africa and Kenya, Justifying Corporate Governance with-in SACCO's, The Use of ICT for the growth of SACCOs, Transformative Development: Harnessing the co-operative, entrepreneurship advantage for women and youth in Africa among others. The participants picked key interest in the regulatory framework session due to the increasing need for improved prudential supervision among SACCOs.





*Handover ceremony outgoing ACCOSCA Chairman from Kenya – Mr. Fidelis Kimutai to incoming Chairman from Swaziland – Doctor Hlongwane.*

*From the right current CEO ACCOSCA George Ombado, followed by Doctor Hlongwane (Swaziland), Vice Chairman ACCOSCA BOD Bless Kwame from Ghana, then George Ototo outgoing ACCOSCA CEO, extreme left outgoing chairman Fidelis Kimutai.*

Participants appreciated the discussion that entailed the entire process required for

SACCO registration and effective monitoring. For presentations and the SACCA Congress report please visit [www.accosca.org](http://www.accosca.org)

Since revival, ACCOSCA held its first Annual General Meeting at the SACCA Congress and new board of directors were elected; Chairman – Doctor Hlongwane (Swaziland), Vice Chairman – Bless Kwame (Ghana), Treasurer- Baboucar Jeng (The Gambia), Secretary – Emile Esparon (Seychelles), Josephine Nabuyungo Board member - Uganda, and Mbongeni Mankivana Board member - South Africa.

The next SACCA congress is to be held in Accra Ghana from the 3<sup>rd</sup> to the 7<sup>th</sup> of October 2011.

## **2010 ICA Regional Assembly Maseru, Lesotho;**

The 2010 ICA regional assembly was held 11<sup>th</sup> to 12<sup>th</sup> October 2010 in Maseru. The event was officially opened by the Minister of Trade and Industry, Co-operatives and Marketing, Honourable Popane Lebesa. In his speech, he drew attention to the importance of properly managing and sustainably financing co-operatives, and further stated that the co-operatives in Africa should not dwell on past mistakes but should focus on successes and reconstruction of the co-operative movement. This was followed by a report from the youth to the government officials and cooperative leaders.

Key areas covered in the thematic areas were;

- Combating climate change through Cooperatives - An in depth discussion of effects of global warming and ways of mitigating and adapting climate change was held. Cooperatives are better placed to combat climatic change as per the seventh principle of cooperatives' concern for community. Most African governments do not have clear strategies on how to tackle climatic change and instead believe it is the contractual obligation for the more developed countries. Proposed interventions that could be adopted by cooperatives include product diversification, micro-insurance services to mitigate against losses from climate change such as drought, use of solar and other renewable energy; that is, Governments and development partners are encouraged to assist co-operatives to invest in technologies for renewable energy; i.e. solar heaters, wind energy. Governments should create conducive environment for co-operatives to play a meaningful role in combating the effects of climate change, inter-country experience exchange on climate change adaptation and mitigation, waste recycling and management practices.
- International Year of Co-operatives (IYC) - The UN declared the 2012 as an International year of Cooperatives and as such cooperatives must take advantage of this unique opportunity to increase their visibility, profile and business opportunities. The International Year of Cooperatives will



formally be launched by the UN in November 2011 while the formal launch by ICA will be at the General Assembly in Mexico.

- Co-operative Enterprise Diversification - Cooperatives should diversify into the following sectors: services including tourism; micro-insurance since there is low coverage and weak delivery infrastructure coupled with poorly developed products; ICT; finance; consultancy; marketing and supply; transport; cleaning and catering; mining; manufacturing including agro-processing; construction and large-scale manufacturing; environmental conservation including renewable energy and waste recycling; food processing and packaging; housing; and sustainable agriculture including horse breeding; and organic farming.

- The next Ministerial Conference will be held in Rwanda in 2012. In 2011, Namibia will host a mid-term meeting of ministers to assess progress.

#### **ACCOSCA Capacity Building Workshop**

Department of Co-operative Development workshop in Swaziland Organized by ACCOSCA on 15<sup>th</sup> -19<sup>th</sup> November 2010; at Co-operative College of Swaziland officiated by Permanent Secretary under the Ministry of Commerce, Industry and Trade Mr. Cyril J.M. Kunene and Commissioner Mrs. Nonhlanhla Mnisi.

The workshop extensively tackled regulation framework development, Monitoring and Evaluation in Co-operative, Stakeholders Analysis and Management Performance.

## **Announcements**

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### **Ditsobolta SACCO**

DITSOBOTLA SACCO becomes the first co-operative bank in South Africa. This comes after approval of their application for a license as a primary Savings and Credit Cooperative bank. When duly registered, the name of the SACCO will become Ditsobolta Primary Savings and Credit Cooperative bank limited.

### **2<sup>nd</sup> SACCO Leaders Forum**

The second SACCO Leaders forum is scheduled for 21-23 March 2011 in Kigali, Rwanda. The forum will create an opportunity for networking, sharing experiences and showcasing best practices. For more information about the event please visit [www.accosca.org](http://www.accosca.org)



## ACCOSCA Pictorial



*ACCOSCA board members visit the minister of Cooperative development and Marketing Hon Joseph Nyagah*



*ACCOSCA board and management team meets Kenya Bankers SACCO board chair Mr. Elly Oyugi*

