5th SACCO LEADERS FORUM REPORT

“Supporting Financial Inclusion Using the Co-operative Model of Financial Access”

Organized by African Confederation of Co-operative Savings and Credit Association (ACCOSCA) from 12th – 14th March 2014

Attended by representatives from different countries: Botswana, Burundi, Gambia, Ghana, Kenya, Malawi, Namibia, Nigeria, Seychelles, South Africa, Swaziland, Uganda, Tanzania and Zambia

MARCH 2014

Lusaka, Zambia
# TABLE OF CONTENTS

1. Introduction .......................................................................................................................... 1

2. Global Successful Strategies for empowering the SACCOs through Advocacy Education by Amb Elkanah Odembo, Vice President World Council of Credit Union (WOCCU) .............................................................. 1

3. Practical ways of promoting entrepreneurship and innovativeness of co-operatives-Kenyan Case by Peter Owira- Manager Sacco Supervision SASRA ........................................................................................................ 4

4. Financial Inclusion the Zambian perspective by Michael Chanda, CEO the Coop Group and the vice chairman for Lusaka City Savings and Credit Union ........................................................................................................... 5

5. Can Financial co-operative promote financial inclusion in the Rural Communities? By Teresa Maru-Munlo, Development Consultant ......................................................................................................................... 5

6. How SACCOs can be involved in Agribusiness to enhance financial inclusion and facilitate poverty eradication by Jacob Nyirongo, Director of Advocacy and Policy Development- Farmers Union Malawi (FUM) ......................................................................................................................... 7

7. Financial Inclusion: incorporating cooperative ideal into management practices by Caiaphas Mwanakwale Habasonda, Former Director Strategy and Research Development Bank of Zambia Authority ......................................................................................................................... 10

8. Eradicating gender bias in credit accessibility by Jennifer Sakala, Regional Programme Coordinator-Gender, Housing and Habitat WE EFFECT ZAMBIA ................................................................................................................................. 13

9. Current and Future efforts to reach out to the unbanked: Global lessons by Solomon Mwongyere, Africa Region Field Officer Canadian Co-operative Association ................................................................................................................ 16

10. Effective Co-operative Management: Planning makes all the difference by Solomon Atsiaya, CEO Kenya Police SACCO .................................................................................................................................................. 18

11. Rebranding Cooperatives through members engagement: Practical aspect in Canada by Tanya Gracie, Manager Member Engagement Canadian Co-operative Associations .............................................................................................. 20

12. Youth Inclusion: Engaging the co-operative sector to enhance financial access by Joyce Wafula, Chief of Party- National Co-operative Business Association CLUSA .......................................................................................... 20

13. Understanding Risk Management from Members perspective by Paul Wambua CEO Stima SACCO ........................................................................................................................................................................ 24

14. Why promote financial regulatory reforms in SACCOs and Microfinance: .................................................. 27
   A case of Zambia by Sylvester Kabwe, Senior Inspector- Regulatory Policy Bank of Zambia .................... 27
   A case of Kenya by Peter Owira, Sacco Societies Regulatory Authority (SASRA) ...................................... 28
   A case of Malawi by Mtchaisi Chintengo, Chief Examiner-Microfinance Reserve Bank of Malawi .......... 29

15. Group Discussions .................................................................................................................. 31
   Group 1 ........................................................................................................................................ 31
**LIST OF ABBREVIATION**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCOSCA</td>
<td>African Confederation of Cooperative Savings and Credit Associations</td>
</tr>
<tr>
<td>CBA</td>
<td>Commercial Bank of Africa</td>
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<td>CISANET</td>
<td>Civil Society Agriculture Network</td>
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<td>COMSIP</td>
<td>Community Savings and Investment Promotion</td>
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<td>CUSO</td>
<td>Credit Union Service Organizations</td>
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<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<td>FUM</td>
<td>Farmers Union of Malawi</td>
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<td>ICT</td>
<td>Information Communications Technology</td>
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<td>MFIs</td>
<td>Microfinance Institutions</td>
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<td>MoAFS</td>
<td>Ministry of Agriculture and Food Security</td>
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<td>MUSCCO</td>
<td>Malawi Union of Savings and Credit Cooperatives Limited</td>
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<td>NGOs</td>
<td>Non Governmental Organization</td>
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<td>ROSCAs</td>
<td>Rotating Savings and Credit Association</td>
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<td>SACCOs</td>
<td>Saving and Credit Unions</td>
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<td>SASRA</td>
<td>Sacco Societies Regulatory Authority</td>
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<td>VSLAs</td>
<td>Village Savings and Lending Association</td>
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<tr>
<td>WOCCU</td>
<td>World Council of Credit Union</td>
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1. Introduction

The delegates were primarily researchers and academia, committee members, Government officials, CEO and managers of Co-operatives and Credit Unions in Africa. This was to ensure that main objectives and agenda of members of cooperative movement were met; develop a common vision for greater financial inclusion in SACCOS, gather stakeholders’ views and identity key challenges faced in proving or receiving appropriate financial services, contribute towards a coordinated and collaborative approach in development, promote entrepreneurial and innovativeness of co-operatives and form institutional partnerships for development on the basis of the forum discussions. The 5th SACCO Leaders Forum was held in support of ‘Financial Inclusion using the Co-operative Model of Financial Access’.

In order to achieve these objectives, the 5th SACCO leaders Forum was held for SACCO leaders to impart understanding and implementing strategies that would practically empower their members economically, thereby remaining relevant in the competitive market. The content of the forum also challenged the SACCO managers to be pro-active in ensuring that appropriate decisions actions taken are timely to fit any case-specific opportunity or threat; therefore maintaining vibrant and stable SACCOS that enhance economic sustainability in this competitive environment.

In addition, it is important to note two key issues focused on “liberation struggle and supporting National Associations” by Minister of Agriculture and Livestock in Zambia, Honorable Robert Sichinga. Also, as a reminder, the Executive Director ACCOSCA emphasized the importance of partnership as poverty can only be fought in unity, where there is structured movement. The report is structured in three sessions as follows.

SESSION I

2. Global Successful Strategies for empowering the SACCOS through Advocacy Education by Amb Elkanah Odembo, Vice President World Council of Credit Union (WOCCU)

His key address states the good things happening globally; there are increasing social and economic opportunities for growth in Africa. Africa is on the rise as 6 out of 10 leading countries in the world come from the African content. Yet, 50% (1 out of every 2 African) live below poverty line. The question is; how can SACCOS support their economic development? He challenges cooperatives to lead a “poverty liberation struggle” and to financially include these 500million into the cooperative model. Currently, the African continent only has 20 million members in SACCOS; no doubt it is still on the rise. He accents the need to step up to ensure that credit movement brings in the 500million into cooperatives; within the competitive environment to approach the ‘unbanked’. This can be through advocacy.

1. Advocating for Africa to choose cooperatives as their best financial partners and by knowing what we are up against.

Provide affordable financial services to members and non-members everyday as Sacco's are for services and not profit. The Sacco's business model is different from banks, MFIs and Other
financial Institutions. For these reasons Saccos remain extremely important to Africa’s Efforts to promote growth and reduce poverty.

2. Advocating for an enabling environment for Saccos Sector/Movement by occupying spaces at different levels nationally, regionally and globally.

Key trends being observed are; expanded supervision, financial consolidation, Formation of business collaboration, member growth and use of multiple channels. However, the global challenges for cooperatives are on issues to deal with regulatory burden, payments, small CU sustainability, young member growth, market disrupters i.e. nontraditional entrants such as M-pesa, paypal etc. The big question here is as cooperatives, how to we identify opportunities for growth in challenges/ issues that arise?

Key drivers of Credit Union success

1. Profitability, Efficiency of capital
2. Convenience in price, products and service is made possible through Information Communication Technology i.e. employing Back Office, Payments, and Mobile services.
3. Competitive Differentiation, innovating a brand that stands out
4. Asset Growth
5. Membership Growth, Young Member Growth i.e. inclusion of youth and women in the leadership of Sacco.

Key Drivers of Credit Union Association Success

• **National Advocacy** to contra restrictive legislation, burdensome regulation and taxation.
• **Promotion** to create competitive differentiation and consumer awareness
• **Business collaboration** enhances collective vendor negotiation, back office processing, platform for payments and mobile, and compliance.

It is of value to note that these drivers enable the creation of a balance between small, medium and large Credit Unions; and produces a shift in training and promotion to advocacy and business CUSO and liquidity management to payments. He stressed the import of supporting National Association and states “we are as strong as our National Association”.

Key Issues Affecting African Saccos and Sacco Systems

• Lack of Legislation to guide the development, growth, and sustainability of Credit Unions.
• Inadequate awareness about the power of savings mobilization and financial inclusion- and its role in growth and development.
• Excessive government involvement in some countries.
• Stuck in the old model of cooperatives with little appreciation of the very competitive financial sector environment in which SACCOS now exist.
• Poor governance environment (national) impacting/influencing SACCOs’ governance and leadership.
• Poor marketing, outreach, and awareness creation outside of SACCO’s membership. Inability to tell SACCOS story.
• National Associations/federations that lack the capacity to mobilize/organize and provide national leadership for SACCOS- democracy, services, social good.
• SACCOS that are too small, with poor management, poor governance, and ineffective structures.
• No continental or national strategy to mobilize/recruit youth into SACCOS movement.
• National Associations with questionable loyalty.
• ICT Phobia among SACCOS leadership

ICT in Africa
ICT sector in Africa is flourishing. Internet and mobile penetrating is growing rapidly. South Africa has the biggest ICT industry in Africa, 46% of total market in 2012. In Nigeria and Kenya the ICT sectors are worth $4.0Billion.
Mobile ownership in Africa is close the global rate of 86% in many key countries such as Ghana, South Africa, Nigeria, and Kenya. In addition, mobile subscription in Africa is third in the world-with Asia Pacific and China leading. A sizable number of Africans now own a smartphone.
Mobile money innovations
Mobile Banking is on the rise in Africa. Kenya remains the leader- close to 25% of the population are using mobile banking, AND HALF THE POPULATION IS INTERESTED IN DOING SO (TNS data a leading global market research information company). Example;
- Mobile money innovation is best represented by M - Shwari, an interest-bearing savings product of Safaricom/CBA. In its first six months, M- Shwari pulled in 3.5 million customers generating $11.7million in savings.
- M- Kopa offers M-Pesa use to pay for electricity on a pay-as-you-go basis
- Bima offers low-priced mobile insurance.

Steps in developing a strategic Advocacy Agenda
1. Establish a process for understanding the challenges and needs of the Sacco movement
2. Identify policy changes that would address the need of Sacco movement. What do we want?
3. Identify decision makers who have the power and influence to change policy to address Sacco's needs. Who can give it to you?
4. Determine why decision makers have not implemented the desired change and what do they need to hear
5. Identify opposition the policy change and the reasons for their opposition.
6. Assess the Sacco movement strengths and weakness in advocating for policy change.
7. Identify others who may have similar interest in addressing the problem.
8. Identify advocacy activities and messages that could influence those in power.
9. Access current and facilitate resources that could be accessed to pursue change. What have we got?
10. Determine how to evaluate progress and success.

In summary, there is potential in Africa. How do we use it? What can we do? How can we include the youth and women in the movement? It is significant to note hear that youth involvement is not about generation change but associations. What innovative ways can attract the 'unbanked' into accessing and utilizing our services and products?
SESSION IIA Building Inclusive Financial Systems
It aimed to enable SACCO managers understand/strategize/appreciate opportunities and implement, and practical ways to empower members economically back in their SACCOs. The question is “what strategies or practical ways can we take to meet or create market demand for our products and services? “

3. Practical ways of promoting entrepreneurship and innovativeness of co-operatives-Kenyan Case by Peter Owira- Manager Sacco Supervision SASRA
He emphasizes the uniqueness of Sacco’s financial model compared to other formal sector players; which has significantly impacted on financial inclusion/accessibility in a number of ways including:

- Membership-extending the common bond
- Guarantor ship-
- Credit/Deposit Model and its flexibility (restructuring)
- ICT Platforms-Branchless Banking
- Branch networks
- Rebranding-National outlook
- Group based lending models

However, there are challenges faced by Saccos
- **Competition**- the Sacco has continued to face stiff competition from banks to a point whereby employers have prioritized bank loan deductions to Sacco deductions.
- **Untapped Markets**- Sacco have not attracted youths.
- **Governance**- the level of professionalism in running the Sacco affairs acts as a deterrent to gaining new members.
- **Resistance to change** and non adaption of technology thus limiting introduction of appealing products

These challenges can be overcome through being entrepreneurs and constant innovations of products and services. This can be attractive products with the key concern on:
- Courtesy
- Affordability of the price of loan and saving products
- Convenience – Product purchased by members frequently with minimum effort and thought i.e.
  - Use of technology-E Channels through collaboration with established institutions. Moving from branchless banking to Alternative channels to E-Channels. Channels available include:
    - Mobile Financial Services –MPESA/MSACCO
    - Internet Banking
    - Agency Banking e.g. Coop Kwa Jirani, KCB Mtaani
    - ATM Channels –Sacco link
Lessons to learn

- **Reliability** – members should have confidence that the Sacco shall provide them with loans, safeguard their deposits and continue as a going concern in the foreseeable future.
- **Diversity** – implement approaches that promote competition and uptake of a broad range of Sacco products and services.
- **Innovation** – promote technological and institutional innovation in order to expand financial system access and usage, including addressing sector’s infrastructural weaknesses.
- **Marketing** – In addition to this, member education days should attempt to reach out to non-members enlightening them of the various products and services offered.
- **Entrepreneurship** – Cultivation of entrepreneurial skills in both (non) members in order to prompt uptake of various financial services.

Remember: To realize Innovation you need: capable infrastructure, Marketing Strategy, Regular customer satisfaction survey and fully dedicated customer service centre. Also listen to employees’ feedback. Key questions to always think over.

1. What makes your Sacco unique?
2. How many of your competitors provide similar products and services?
3. How do we differentiate ourselves from the crowd?

4. **Financial Inclusion the Zambian perspective** by Michael Chanda, CEO the Coop Group and the vice chairman for Lusaka City Savings and Credit Union

The emphasis here is the successful formation of ‘collaborative partnership’ with other cooperators in order to provide different services to different categories of people down to community level. This is done through:

- Forming cooperatives, who become shareholders in the investments made,
- Making use of secure electronic technology to make and receive payments.
- Investing in existing income generating activities within communities in the most rural parts of Zambia

5. **Can Financial co-operative promote financial inclusion in the Rural Communities?** By Teresa Maru-Munlo, Development Consultant

Access to financial services is a critical factor to inclusive growth and sustainable economic development. Emphasis is on the importance of more and appropriate financial services that include credit, savings, insurance, money transfer. In this way, it is not only about access but also the utilization of services.

Almost 80% of Africa’s population lives in rural areas. Agriculture is major contributor of GDP in many of these countries yet financial services to this sector remains less than 20% of loan portfolios. Financial inclusion will be increased by addressing rural outreach for both farm and off farm enterprises.
Some of the reasons advanced for the limitation include but not limited to: poor infrastructure, inappropriate products and services, lack of awareness, high costs, inadequate capacity of providers.

How do we find effective ways to penetrate rural areas and increase agriculture portfolio? This can be through Non Traditional Providers i.e. MFIs, NGOs and cooperatives as they are more in tune with the rural communities; mobilization, group management etc. Cooperatives especially have an advantage because of their owner-user structure. Evidence of success of this owner-user model is abounding in East and parts of Southern Africa in the mushrooming of VSLAs.

Cooperatives like VSLAs offer simple products and services in simple ways that do not alienate or intimidate members. While VSLAs can play a very good foundation in developing community banking practices, this model has limitations especially with vertical growth. And this is where financial cooperatives can step in.

What limits the financial cooperatives?
- Visionary leadership,
- Poor strategic planning and corporate culture,
- Poorly developed systems,
- Lack of professionalism,
- Fraud,
- ‘Common bond’ definition.

What should financial cooperatives do to play a greater role?
- Cooperate
- Strengthen competitive advantages (know the rural client and their needs, produce simple products, innovate, have great customer service);
- Improve corporate culture,
- Brand and position the brand within the communities.
- Strengthen management and staff professionalism, and improve relations between management and board
- Continuous exposure and training.

Where are the opportunities?
- Opportunities are in agriculture inputs; agro-processing, value chain membership, warehousing; trading and services, event based savings, normal savings
- Cooperation, linkages and partnerships for greater outreach (Farmer organizations, VSLAs, ROSCAs, NGOs); clarify motivation of linkages, compatibility of partner missions and contracting obligations for each partner e.g. (fees, commissions, sharing of profits, risk sharing etc).
• Need for capacity building of informal partners to transfer skills and sustain productive partnerships. The objective is to develop and sustain win-win partnerships.

Example;
A study on linkages done in 2006 coordinated by FAO and funded by Ford foundation indicated that linkages increased access in rural areas. CRDB Bank in Tanzania reached 80,000 new rural clients by partnering with 157 SACCOs, while 20,000 rural clients were reached in Rwanda through partnership between formal FSPs and Peoples Banks.

She concludes; even with these positive experiences, the scaling up is still limited from country to country or even within the same country probably because these may be context sensitive. There is need to focus on risk management especially in increasing rural and agriculture portfolio. It is important to be aware of the target market, the balance between economic and social objectives. In addition, commit to good corporate governance, transparency and accountability.

6. How SACCOs can be involved in Agribusiness to enhance financial inclusion and facilitate poverty eradication by Jacob Nyirongo, Director of Advocacy and Policy Development- Farmers Union Malawi (FUM)

“Agricultural cooperation” makes up the largest cooperative movement in the world in terms of the number of members. At present agricultural cooperators total more than 410 million in 540,000 cooperatives. In Malawi, 85% of the population is actively engaged in the agriculture sector; whereas 93% are in the rural areas, 38% are in the urban area. Hence, the sector significantly influences the country’ GDP.

Role of FUM in Agricultural Cooperatives Development in Malawi
1. Facilitating formation of agricultural Cooperatives,
2. Embark on the process of leading the Cooperatives development agenda in Malawi
3. Consult with key stakeholders such as NGOs, Government and Farmers Organisations.
   The outcome of the Consultations is as follows:
4. Developed four Pillars in Agricultural cooperatives development as
   a. **Marketing** to increase farmer income from high value markets.
      - To facilitate agricultural cooperatives’ access to structured markets.
      - To improve competitiveness of agricultural products on local and international market.
   b. **Stakeholders’ Coordination** for strengthened coordination among relevant stakeholders.
      - To formalize inter-ministerial linkage on cooperative development.
      - To establish coordination mechanisms on cooperatives development between government and other service providers.
      - To facilitate formation of secondary and tertiary cooperative federation.
   c. **Institution Development and Capacity building** for strengthen capacity of service providers and farmers in development and management of agricultural cooperatives.
To build capacity of service providers for appropriate design and support to cooperatives.
To build capacity of farmers in managerial and governance for cooperatives.

**d. Policy and Regulatory framework:** comprehensive policy and legislative framework on agricultural cooperatives in place.
- To review and harmonize cooperatives policy and regulatory instruments.

5. **Overall Goal of the Agricultural Cooperatives Development Program** is to promote vibrant and competitive agricultural cooperatives in Malawi.

Timeframe for the implementation of the Cooperatives Development Program
These activities have been categorised as;

a. **Short-term**
   - Define and clarify roles of relevant Ministries on agricultural cooperatives development.
   - Standardize the formation processes on formation of cooperatives.
   - Lobby government and engage NGOs for long term, viable and sustainable cooperatives development.

b. **Medium term**
   - Facilitate formation and strengthening of vibrant primary agriculture cooperatives.
   - Advocate for establishment of cooperatives bank.

c. **Short-term – medium term**
   - Align cooperatives policy international instruments (e.g. ILO 193).
   - Advocate for review, harmonization and implementation of cooperatives policy.
   - Advocate for strong linkages between Min of industry and Trade and MoAFS on policy and regulations.

d. **Continuous**
   - Promote collaboration among relevant units within Ministries.
   - Raise awareness and access to guidelines on cooperatives by NGOs and stakeholders.
   - Provide technical and advisory support on agricultural cooperatives development (to service providers).
   - Advocate for increased allocation of resources (fund and human resources).
   - Facilitate demand driven and participatory approaches in cooperatives development.
   - Implement initiatives that increase knowledge in cooperatives development and management.
   - Advocate for increased capacity of the cooperative development division and agribusiness section both at national and district level.
Role of stakeholders in implementing the Agricultural Cooperatives Development Program

- Farmers Union of Malawi will lead the implementation of the Cooperatives Development Program in Malawi
- FUM will work with all relevant stakeholders in order to achieve the objectives
- Key implementing stakeholders include: CISANET, COMSIP, MUSCO, Government Ministries (Min. Agric and Food Security, Ministry of Industry and Trade, Ministry of Gender) and relevant NGOs.

Barriers include; Poor marketing infrastructure, poor credit worthiness, lack of credit reference bureau and registration of farmers, weak affordable weather index insurance, poor infrastructure for post-harvest handling, Side marketing / Poor contract adherence culture, Low entrepreneurial skills, Lack of strong contractual off taker agreements, Low financial literacy levels amongst most local farmers.

How can SACCOs integrate in Agribusiness?
This can be through Value Chain Finance for agricultural production, processing, value addition and marketing. Producer, marketing and financial cooperatives can collaborate in provision of different and appropriate products and services. Some key value chains: tobacco, coffee, tea, fruits and vegetables, sugar etc. Farmers are already organized into various producer cooperatives and associations

Example of Cotton value chain;
- Cotton a growing sector in Malawi, Zambia, and Mozambique
- Low static yields – 500 -600 kg per hectare
- Farmers lack liquidity and rely on ginners for input supply, market, extension

In Malawi, Zambia, Mozambique cotton farmers are organized into associations with membership of at least 300,000 smallholder farmers in each country.

Benefits of integrating agriculture cooperatives with financial cooperatives
- Allow farmers who typically use informal sources of finance for agriculture investment into safer and more reliable and affordable formal institutions such as SACCOs.
- Sharing of risks and responsibilities pertaining to access to finance and agriculture investments.
- Support producer Cooperatives to access finance for production and marketing.
- Facilitate buying and selling of commodities by establishing and managing marketing fund for producer cooperatives.
- Provide capacity building in financial literacy for farmers and provide basic bookkeeping, business planning and budgeting to farmers, clubs, associations and producer cooperatives.

What agriculture cooperatives will achieve through SACCOs engagement in agribusiness?
- Inclusive Growth.
- Avoid Agricultural Growth without Poverty Reduction: and growth without jobs.
• Intensification that will increase land productivity, increases employment
• Strengthened collective action along value chains (cooperatives and commodity associations).
• Developing rural markets for local circulation of goods and services.
• Better flow of information: IT, Internet, mobile telephone;
• Better access to inputs.

In conclusion, there are great opportunities in collaborative partnership and forming associations to enhance financial inclusion that facilitate poverty eradication. What will financial cooperatives achieve ……………? Find Out!

7. **Financial Inclusion: incorporating cooperative ideal into management practices** by Caiaphas Mwanakwale Habasonda, Former Director Strategy and Research Development Bank of Zambia Authority

*Financial inclusion* is defined as; “Access and usage of a broad range of affordable, financial services and products, in a matter convenient to the financially excluded, unbanked and under-banked; in an appropriate but simple and dignified manner with requisite consideration to client protection. Accessibility should be usage which should be supported through financial education of clients” (South African Banking Association).

Challenges of expanded financial inclusion
1. Reducing Information Asymmetry.
2. Ensuring Safe and Sound inclusive financial institutions.
3. Minimizing the lending risk associated with hitherto unbanked/under-banked market segments.
4. Demolishing the perception that the aforesaid market segments are high risk.
5. Finding alternative collateral methodologies.
6. Extending the Frontiers of Inclusion.
7. Exploiting enabling technologies for cost reduction and diversified product offerings.

New Risk Management Paradigms
• Financial co-operatives to redefine themselves as financial businesses rather than co-operatives.
• Reinterpret their value systems and ensure continued relevance to and consistency with, strategy.
• Adopt new risk governance frameworks.
• Embrace best practice in managing emerging threats.
• Embracing emerging opportunities to diversify income streams and product risk.
• Attract dynamic financial talent (not depend on the family pool alone) to effective required attitudinal change.

Two important key principles:
a) Operating principles
- Democratic structure
  - Open and democratic membership
  - Democratic control
- Service to members
  - Distributing to members,
  - Building financial stability
- Social goals
  - Ongoing education
  - Co-operation with co-operatives

b) Governance principles
- External Governance
  - Transparency-regular, honest communication with members
  - Accountability-auditing and financial reporting
  - Compliance
    - Legal & regulatory
    - Safety and Soundness
    - External audits within 90 days
    - Change auditors every 3-5 years
    - Public Accountability
- Internal Governance
  - Board-odd number >5<9, Rotation of Directors, GA member participation
  - Validation of Strategy, Succession Planning, Set Risk Appetite/tolerance and Business Continuity
  - Balance
    - Reflect membership demographic/Financial service demands
    - Diversity and experience
- Individual Governance
  - Integrity
    - Ethical Conduct
    - Conflict of interest policy
    - Insider borrowing approved by full board, reported regularly to board
  - Professionalism
    - Relevant skills
    - Diversity of skills
  - Commitment
  - Collective responsibility
    - Adherence to policies and procedures
    - Dissenting opinion must be recorded

How to achieve strategic and financial objectives
1. Setting Objectives that are clear and measurable, focusing on improving financial performance thus creating competitiveness that is sustainable.
2. Define target markets by designing, prioritizing, determining appropriate service options; product development and pricing that meets the needs of profile customers and segment market.

3. Identify Constraints and Opportunities that is, existing gaps in market products and services and their delivery systems.

4. Develop Products and Services that are demand driven to maintain a competitive edge in the market.

5. Map the Process by monitoring and evaluation while incorporating all aspects of risk assessment.

Strategic Management Tasks in Managing growth

- Separate Marketing from Credit Operations.
- Segregate functions for effective control.
- Focus on Portfolio risk rather than Borrower Risk.
- Focus on Cost effectiveness-different service levels to different price points.
- Focus on essential data to make decisions-don’t analyze to paralysis-keep it simple.
- Employ team approach –client deals with many people-more loyalty.
- Tap into the customers’ value chain to increase your share of his/her “wallet”.
- Focus on mobilizing Liabilities first.
- Commit Resources-skills, assets, finance, technical competencies, facilities.
- Proactive Sales Approach.

For example, Entrepreneurial Managers

- Boldly pursue new strategic Opportunities
- Focus on out-innovating competition
- Lead the way in improving performance
- Willing to be first mover and take risks
- Respond quickly and opportunistically to new developments
- Devise new trail blazing Strategies

Strategic role of the Board

- Critically appraise and approval Strategic Action Plans.
- Continuously audit validity of a company’s long term direction and strategy.
- Evaluate strategic leadership skills of the CEO and Candidates to succeed the CEO.
- Set the tone and risk appetite/tolerance levels by approving policies, processes and procedures consistent with the strategic objectives.
- Duty to refrain from meddling in operations.

Conclusion

Financial inclusion is not only of the unbanked but also the under-banked and financially excluded. Key emphasis is on; access, affordability, appropriateness, usage, quality, consumer financial education, innovation and diversification, and simplicity. The vision and mission of an
organization is important in giving a strategic direction and position for a clear and workable game plan for its growth and to remain competitive.

Strategic areas of performance are markets and products, sales delivery channels, credit risk management, and information technology/Management Information Systems (MIS). These strategic areas are improved by focusing on staff needs and qualifications levels, creating incentive schemes, and identifying and delivering appropriate training.

The presenter emphasizes the importance of financial co-operatives to redefine themselves as financial businesses to forestall mission drift and maintain strategic focus. Also, risk paradigms must be redesigned to enhance governance, and guarantee safety and sustainability.

8. Eradicating gender bias in credit accessibility by Jennifer Sakala, Regional Programme Coordinator - Gender, Housing and Habitat WE EFFECT ZAMBIA

Although accessing credit is a major constraint on women’s ability to earn income and their development; women have often taken measures to help themselves in gaining access to credit, either through traditional group savings schemes or associations and cooperatives.

Constraints that limit women’s access to credit
a) Legal constraints
   - **Legal capacity** - Several legal systems envisage limits on the capacity of married women to perform acts with legal effect, including signing contracts and filing legal cases.
   - **Inheritance rights** - Succession law affects women’s access to land rights.
   - **Rights in family property** - may affect the ability of women to acquire and control property, including land.
   - **Cooperative by-laws** may contain direct or indirect discriminatory provisions such as requiring land ownership as a condition for membership.

b) Socio-cultural constraints
   - **Limited women’s economic independence** - limited access to formal employment
   - **Fear of indebtedness** given many rural women's position on the margins of survival;
   - **Lack of decision making power**/ low self esteem
   - **High rates of female illiteracy** especially in rural areas

c) Institutional constraints
   - **Complex procedures** for securing credit; and,
   - **A low population density area** where the number of women to form a viable group is inadequate also poses as challenge
   - **Limited land rights**, preventing them from offering land as collateral to secure a loan.
Lack of knowledge and information regarding credit programmes and opportunities;
Lack of transportation to credit institutions which are often located in urban areas
Some financial institutions may in practice require the husband's authorization on women's applications for credit.
Where credit is obtained informally through “interlinked contracts”, therefore, women's access to credit may be affected by the fact that tenancy or employment contracts are mainly held by men.

Challenges facing microfinance industry
- High cost of service delivery with poor infrastructure, regulatory policy issues
- Limited institutional leadership.
- Underdeveloped infrastructure and communication technology remain thus expensive for MFIs in Africa to operate.
- Policy making and government regulations, which vary by country.
- While microcredit programmes have been recognized as a potential powerful tool for poverty reduction, and have had good results and high payback rates, especially among the programmes targeted to women, they are still in the hands of donor and have received relatively little focus at the government level.

Measures to eliminate gender biases
- Promote financial literacy
- Gender sensitive information campaigns
- Special programmes and funds targeted at women in order to address these constraints.
- Women-targeted credit programmes are also carried out by governments.
- Subsidized credit.
- Expansion of women-targeted micro-credit programmes to include innovative institutional arrangements over-coming women's problems in accessing credit

Examples;
- Strict prohibition of gender discrimination in access to credit e.g. South Africa, the Promotion of Equality and Prevention of Unfair Discrimination Act of 2000 prohibits unfair discrimination against women by the state and by all persons, including in access to credit.
- In the Philippines, the Women in Development Act of 1992 grants women equal access to government and private sector programmes granting agricultural credit, and the Social Reform and Poverty Alleviation Act of 1997 provides inter alia for a gender-responsive approach to poverty alleviation and for credit programmes benefiting rural women.
- Affirmative action grants priority for women e.g. in Brazil. (Galán, 1998) Brazil, Ordinance 121 (2001) preferentially” to women 30 percent of credit granted
- Under the 1997 Agriculture and Fisheries Modernization Act of the Philippines, the state must promote access to credit for farmers and fishers, “particularly the women involved in the production, processing and trading of agriculture and fisheries products".
Expansion of women-targeted microcredit programmes

- **Group responsibility** where borrowers organized in groups and responsible for loans contracted by other group members;
- **Self-selection**, with borrowers themselves choosing the members of their group;
- **Sequential lending**, with loans granted in turn to group members;
- **Accessibility**, with bank branches and officers assigned to rural areas.

Measures to eliminate gender biases

- Encourage women in larger-scale economic activities and investments by enabling them have a sense of ownership of their activities.
- Women must be able to decide on their own expenditure.
- Address cultural, traditional challenges and customary laws
- Lobby for policy change

Recommendations

- **Increasing women representation in microfinance** and helping women develop the leadership skills to become innovators in their sector
- Strategies should be put in place targeting women flexible microfinance delivery;
- Put in place services that complement gender; structures for participation; mechanisms for representation; inter-organisational links and institutionalised gender guidelines gendering all policy; gender equality within institutions; incentives for equity.
- Governments and microfinance institutions to be proactive in organizing forums for educating women about their rights.
- **Women need to do more than just access finance.** They need gender parity, insurance, education, healthcare and housing to help them spiral upwards.
- Governments must develop innovative strategies to address women’s equal access to land and credit directly and firmly in the economic policies.
- In the case of land rights, despite the fact that much has been done already, women’s access to and control over land remains extremely low.
- There is a clear need to define the roles of customary and statutory laws to enable women have independent economic security.

On socio-cultural constraints

- Adequate training in business management and private financial management, and on basic citizen’s rights and legal systems.
- Information dissemination
- Governments to develop advocacy plans to ensure that women are aware of their rights.
- Institutional mechanisms to support government as well as the rest of the society in ensuring women’s access to resources
- Governments strongly urged to make an effort in reducing administrative load of registering properties or of claiming individual rights.
- Tighter cooperation between governments and NGOs to further strengthen women’s economic security.
In conclusion, she stressed gender inequality and disregard for human rights as a serious constraint for economic as well as social development; and that women's access to resources must given attention and be protected by an effective legal system.

SESSION IIB: Best Cooperatives' Management Practice
Accentuated the importance for SACCO Managers to be pro-active and ensure appropriate decisions are made and actions are taken as quickly as possible. This provides you with an overview of planning and a practical approach to developing strategies to help your SACCO deal with the competitive environment.

9. Current and Future efforts to reach out to the unbanked: Global lessons by Solomon Mwongyere, Africa Region Field Officer Canadian Cooperative Association

Hindrance to the unbanked
- Weak laws by government to protect members.
- Inadequate financial education.
- Low levels of production and low incomes.
- Inadequate infrastructure to reach out to the rural areas.
- Poorly managed financial institutions.
- Socio-economic factors that hinders women in Africa and Asia to do business.

Current efforts to reach the unbanked
**Developing products** which are tailored to the needs of customers, this has been done through conducting research and survey to the members and the general community to ensure that product developed suits their needs i.e. different savings and loan products. Members want to know if the Credit Union is focusing on their needs. CUs have developed products for consumers that are low cost, have low balance requirements, and have convenient terms.

- **Mobile money**
  Africa is currently leading the trend of mobile financial services with over 56 deployments in place. East Africa has become the most active mobile money market in the World with 46% of mobile money transactions processed in June 2011. The growth of mobile financial services in Africa has allowed millions of people who otherwise would have been excluded from the formal financial system to perform financial transactions relatively cheaply, securely, and reliably. For instance, in Kenya, where the M-Pesa service was commercially launched in 2007, 68% of adults report using mobile financial services by end 2011, out of which 43% do not have a formal account.

- **Mobile banking**
  Credit unions and SACCOs have embraced mobile banking where a member is able to check balance, transfer funds, make payments and many more, this has attracted mainly the youth in Credit union in Canada and other developed world.
Women access to finance
In order to improve financial inclusion for women, microfinance institutions have lifted some of the constraints to formal credit notably on the type of collateral: for instance, by fostering joint liability or group loans instead of collateral, microfinance has reached many women who were excluded from formal financing.

- **Value chain Finance**
Credit union and SACCOs have come in handy to finance agriculture through value chain financing by providing short-term trade financing for producer organizations, processor and marketing cooperatives. Kilimanjaro Cooperative bank in Tanzania and other SACCOs in Africa are reaching out to small scale farmers who would otherwise be excluded from formal banking.

- **Warehouse receipt systems**
Farmers or farmer organizations deposit their produce and warehouse operator issues the receipt indicating the quantity, quality, and type of produce deposited. These receipts are later used by financial institutions as collateral. In Tanzania, such scheme was successfully used by farmers’ associations who deposit parchment coffee produce in the Common Fund for Commodities. The bank provided credit corresponding to 60% of the value of the deposited parchment coffee while using the warehouse receipt as collateral. This has helped farmers with immediate financial needs after harvesting to access short term financing as they wait for prices to go up.

- **Marketing and financial education**
Some members of community were excluded from financial services because of lack of knowledge about different services offered by the Credit Unions. In Canada, the CUs are offering joint marketing of the services. This has been conducted using print advertising, radio advertisement, TV programs, social media like Twitter and Facebook, neighborhood billboards, fliers, newsletters, websites.

- **Corporate social responsibility**
Giving back to the community has attracted the general community to identify themselves with the credit unions that is part of them. This has been done in form of giving to the needy, doing voluntary work, participating in sports and games. The CEO of Leading Edge CU mentioned that social responsibility has attracted 10% of the membership of their Credit Union.

- **Youth saving clubs**
The youths have been encouraged to join saving clubs in the school and link them to Credit Unions. This has helped in inculcating the saving culture among the youth especially in Canada, Ghana and Uganda.
Other efforts taken in reaching the university students is by encouraging them to open up a bank account and extend them with university education loan where their parents are their
guarantors. This loan is repaid after they have finished the university. This is common in America and Canada.

Other areas that need to be looked at in order to reach out to the unbanked

- Reform regulatory frameworks and change unfavorable cultural norms: Governments need to grant women equal rights to property in order to expand their economic opportunities. Where non-discriminatory law provisions are missing, they must be enacted. Similarly, where statutory measures are already in place but overruled by customary law, action must be taken to enforce the existing regulations and close the gap between law and practice.
- Study women-specific needs and create adapted financial products and services: The availability of information describing the specific needs of women is indispensable for policy decision making. In order to understand the specific needs of female workers and entrepreneurs as well as the barriers they face in accessing financial services.
- Financial institutions need to improve their transparency and fairness in dealing with customers’ complaints—especially by using a language that is conducive to genuine understanding and communication between the client and the service provider. The lack of information is more pronounced for insurance as well as credit and borrowing.
- Deposit guarantee, more countries need to come up with ways of insuring members’ savings.

In conclusion, banking the unbanked is when you find people where they are and help them to get over their internal hurdles. Not dragging them to financial services, but bringing financial services to where they are, in their language and their neighborhood. Another thing that seems to come out is making it concrete for people. I'm not just saving for saving's sake. I'm saving for a reason, for a house, education or business.

10. **Effective Co-operative Management: Planning makes all the difference** by Solomon Atsiaya, CEO Kenya Police SACCO

This is a management process of getting activities completed efficiently and effectively with and through other people. It entails;

- Planning helps evaluate where the society is currently, and where it would like to be in the future.
- Organizing all resources in order to implement the courses of action determined through the planning process.
- Directing influence and oversee the behavior to achieve society’s goal i.e. motivation, communication.

Why effective management? Rationale

- Agency Theory-Trustee syndrome
- Creation of value-Value addition
- Results- Performance
- Growth & Expansion
- Delivery- Timely & Fast
- Flexibility-Convenience
- Cost reduction-saving on wastages
- Environment Matters
- Legal framework-Legal risks
- Responsiveness to customers needs

How?
1. Policy and Strategy
Strategic pillars may include;
- Membership-Growth & Retention
- Governance-Structures/policy direction
- Financial Performance/Capabilities
- Products and Services
- Operations- Systems
- Human Resources
2. Best Practice- diverse and appropriate team, strategic thinking etc
3. Strategy execution

The case for Kenya police SACCO limited
Has met all legal requirements for licensing as a deposit taking Sacco for the year 2014
1. Strengthened Governance structure
2. Financial capability strategic direction to build on strong institutional capital base
   Why financial capability;
   • Its achieved the legal requirement for core capital
   • Enhance liquidity position of the society
   • Finance the society’s major projects i.e. Ngara project
   • Members will earn more dividends
   • Long-term loans i.e. mortgages
   • Society can consider reviewing the multiplier effect
3. Products and services
   Future products
   • Micro-Credit services with the communities
   • Investment model i.e. A subsidiary investment arm for the society to bridge the gap for financing solutions “People are looking for solutions n not money”
   • Banking lending model-Secured loans i.e. collateral required Title deeds, log books etc.
   • Asset financing
Risk Management by Benevolent Fund (UBF) redefined
4. Operations-systems
   Technology Improves operational efficiency;
   • Society processes i.e. Loan, FOSA’
   • Platform for IT based products i.e. mobile solutions, -deposits, withdrawals, balance enquiries etc.
11. **Rebranding Cooperatives through members engagement:**

**Practical aspect in Canada** by Tanya Gracie, Manager Member Engagement
Canadian Co-operative Associations

This emphasizes the process of rebranding and open common bond that meets community member needs and engaging with the youth and women in areas of leadership and governance.

**Case:**
From 1950 to present day as six distinct groups moved from close to open bond.

- **1961** - Collegiate Institute Board of Ottawa Teachers’ Credit Union is formed
- **1969** - Collegiate Institute Board of Ottawa Teachers’ Credit Union becomes the Ottawa Education Credit Union
- **1971** - Credit Union amalgamates and becomes the Ottawa Carleton Education Credit Union
- **1998** - Your Municipal Credit Union joins forces with the Ottawa Carleton Education Credit Union
- **1999** - Ottawa Citizen Employee’s Credit Union, United Counties Educational Credit Union, Howard Smith Credit Union join forces with the Ottawa Carleton Education Credit Union
- **2004** - Ottawa Carleton Education Credit Union becomes Your Credit Union
- **2009** - Your Credit Union becomes an open bond financial institution allowing it to open its doors to the communities it serves and invite anyone to become a member

12. **Youth Inclusion: Engaging the co-operative sector to enhance financial access** by Joyce Wafula, Chief of Party- National Co-operative Business Association CLUSA

The general perception is that youths are unreliable, have neither skills nor interest in saving hence must be excluded. Yet, from the presenters’ experience engaging with the youth under the umbrella of National Co-operative Business Association CLUSA international focusing areas on Co-operative development, Agriculture and Agribusiness; natural resource management, they are increasingly keen on value chain elements that produce faster returns.

She underscores the importance of their project goal and objectives in enhancing financial access to the youth in building their entrepreneurial skills through engaging in livelihood activities that will enhance their socio economic status. She cites *Youth SACCOs in Kenya and the Yes youth can initiative* as follows:

Kenya’s population of about 38 million, according to the 2009 census is predominantly youthful, with 73 per cent being under 30 years and 43 per cent under 15 years, making the youth factor
an important social, political and economic factor. In light of this, the cooperative movement has tried to ensure the youth are absorbed into meaningful economic activities. For example:

1. The Cooperative Insurance Company (CIC) is partnering with the Government to promote the cooperative model of enterprise among the youth, with university students being a key target group.
2. A campaign dubbed ‘I am a Co-operative’ seeks to impress upon young people the importance of cooperatives as a development vehicle that can positively transform their lives economically and socially within a short period.
3. Other ventures include encouraging young people to form groups to engage in the boda-boda (bicycle and motor cycle taxis) businesses.
4. A special unit has been formed by the Co-operative Bank, offering special packages to the youth groups to enable them to get loans to buy motorbikes, vehicles and laptop computers and to start or enhance their businesses.
5. ICT is another area of exponential growth for the youth. Cooperative schemes for student groups are being funded to come up with ICT solutions for the country.
6. The one-youth-one-cow project targeting youths in the village is another initiative being funded by the Co-operative Bank.

The Ministry considers youth Sacco's as one of the fastest growth areas for the movement and youth officers at the Ministry are working on legislation to encourage and support their growth.

Example of foundation of the work and process

<table>
<thead>
<tr>
<th>Youth</th>
<th>NCBA</th>
<th>Then what?</th>
<th>Skills developed</th>
</tr>
</thead>
</table>
| • Village-level mobilization and community buy-in  
  • Democratic structures called ‘bunges’  
  • Participation of the youth in defining and managing their own process of growth  
  • Forging bonds with local public and private actors  
  • Staff serving the process as resource persons | • Asset mapping and action planning  
  • Mapping  
  • Reach out to leaders  
  • With them, reach out to youth  
  • Ask youth to designate their own representatives  
  • Form groups on the basis of these chosen representatives using the cooperative model | • Support the groups as they begin to function  
  • Identify in consultation with the bunges the IGAs they see as feasible and desirable  
  • Mobilize savings and save in the Sacco  
  • Introduce them to other actors who can assist in meeting their goals | • Mapping and action planning - prioritization of activities  
  • Community mobilization and organization  
  • Planning and budgeting  
  • Business plan development  
  • Leadership and life skills  
  • Linkages and resource mobilization  
  • Financial literacy |

A Brief process of the Youth SACCO model
• Formation, Registration of Six Youth SACCOs in Coast and Nairobi Counties
• Launching of the Youth SACCOs by the former Cabinet Minister for Cooperative Development and Marketing.
• Enhance relationship between the program and the Government through the Ministry of Cooperatives and now the County cooperative Ministries.
• Mobilization of 4,060 youths into the Cooperative Movement.
• Youths have mobilized a total of $40,081 (Kshs 3, 406,865) as monthly savings and a further $8,660 (Kshs 736, 140) as share capital into the SACCOs.

Achievements to date
• SACCOs have obtained offices from Government and well equipped by the program.
• SACCOs have formulated relevant policies and guidelines, hired bookkeepers and are now fully operational.
• All SACCOs have introduced Quick Books last January as their official Accounting system.
• A total of 186 youths have accessed loans from the SACCOs amounting to over Kshs 3.4 million to support their livelihood activities.

Challenges
• Legal and institutional barriers- Youth have to be over 18 in Kenya and also in most countries to access loans. Lack of collateral and poor credit rating and stereotypes about youth.
• Some SACCO leaders were condescending in their appraisal of youth.
• While others thought it was lack of mentors and products not tailored to the needs of youth.
• Limited skills-(youths have inadequate skills set to run SACCOs as other businesses);
• Lack of Early training in financial and entrepreneurship skills; theoretical nature of most education curricula; hinder access and development of business and entrepreneurial skills among youth,).
• Limited adaptation of products for youth and inappropriate technology.
• Services like use of mobile telephony in youth transfers, internet banking, educational loans, use of ATMS to transfer savings etc. is still a big challenges.
• Limited information on SACCOs – lack of sensitization/information of youth about cooperatives hence stereotypes about cooperatives as spaces for adult males and avenues for corruption to persist.
• All SACCOs have installed Quick Books Software, to record their transactions. Quick Books is an Accounting System and CANNOT handle effectively Savings and Loans Processes. It has limited capability to handle multiple savings products or post interest on shares or dividends. Similarly, it cannot maintain multiple loan products or perform credit management, billing interest on loans or charging transaction fees and penalties.
• SACCOs are struggling in applying effective interest rate to loans; applying fees and penalties to savings and loans products. This challenge makes the SACCOs lose revenue. There is need to get the SACCO the right SACCO Software to process loan and savings products.

Lessons learnt and recommendations
She articulates the keys areas learnt as:
1. Continuous reminders, follow ups, support motivates the youths and enable them to continue saving and recruiting more fellow youths into the SACCOs.

2. **Effective partnerships leverage Resources** - The investment on the youth SACCOs has been huge in Kenya. However, through partnerships the program has invested few resources with a substantial amount (both financial and in kind) coming from partners including Government(s).

3. Build strong foundations: cooperative and entrepreneurial for young people - do not start at the top (cooperative colleges), start from below!

4. **Invest in Staffing:** Each SACCO has one fulltime staffs, the Accountant, the Sacco’s need an extra staff to attend to member recruitment and savings mobilisation. This staff should support delegates and the Board and Motivators. When a strategy and business plan for each SACCO is developed, there will arise a need to hire a manager for each SACCO with a substantial capacity to deliver the business plan.

5. **SACCO Capitalisation:** The program is capitalizing SACCOs on a one to one match for SACCO Members Savings Mobilized. For the SACCO to effectively absorb the set aside funds, the SACCOs need to develop and sustain member recruitment and savings mobilisation strategies and activities.

6. **Linkages:** On-going Cooperation and support with County Cooperative Officers - SACCOs need nature and sustain this support. At this phase of their growth, it is important for the potential and current members to gain trust that their investment(s) are safe and sound in the SACCO. The representatives of County Government can help the SACCO affirm this trust.

7. **Member economic empowerment activities:** cluster Youth Entrepreneurial Activities and further training in entrepreneurial competencies and technical advice in the specific economic activities identified by successful SACCO loan applicants to mobilize more savings and grow capital for loaning.

8. **Cooperation between County Boards and SACCOs:** Cooperation between the County and SACCO Board in member recruitment and education is great opportunity for the SACCO to exploit. In most cases, the SACCOs had less than 10% member penetration comparing with Youth Network membership. Since both the County and SACCO Board target the Youth, cohesive collaboration in marketing could result in economies of scale.

9. Education on cooperatives not only to be mainstreamed in business related courses in universities and colleges and also cooperatives colleges but also rolled down to communities.

10. Networking with other stakeholders to enhance youth participation - donors, state supported programs for youth to increase membership.

She concludes with an emphasis on the following quotes:

“*It is the young trees that strengthen the forest*”

(Luganda Proverb)

“If you start something and you do not involve children [youth], it will surely die”

(Yoruba Proverb)

“We have studied change makers and learned from social entrepreneurs. We found that they start early. Changes they brought about as young people inspired lifelong mission. An adult mentor encouraged them to pursue ideas”

(Saskia Sassen)

“No one is born a good citizen: no nation is born a democracy. Rather both are processes that continue to evolve over a life time. Young people must be...
13. Understanding Risk Management from Members perspective
by Paul Wambua CEO Stima SACCO

Successful risk management ensures attainment of profit and growth; and enables an organization to strike a balance between enterprise and risk exposure hence improved performance of a business and members’ savings are safeguarded.

Overview of Stima Sacco’s Risk Management Policy Framework

Essence of Good Risk Management at Stima

Good risk management ensures that:

• **Members’ savings are effectively safeguarded** while at the same time allowing for business growth;
• Risks are properly identified, assessed, managed and reported; **ensuring no surprises in the running of the Sacco**
• Risk ownership is communicated, taken and maintained; **clear ownership and accountability for risks amongst staff**
• Resources are effectively and efficiently allocated to manage risks; **resources are allocated on a risk prioritized basis**
• The Sacco is compliant with legal and regulatory requirements as well as best practice; **meaning that regulatory sanctions are avoided**
• Risk considerations are ingrained in business decision-making; **resulting in better decisions and hence improved business performance**

Classification of Risks at Stima

• **Strategic Risks** – the risk that the Society may fail to attain its strategic objectives and/or take a strategic direction that ends up being detrimental.
• **Reputational Risk** – the risk that the Society’s reputation could be negatively impacted by the actions of its Officers and/or other agents.
• **Credit Risks** – refers to risk exposures arising from lending operations mainly in the form of loan delinquencies.
• **Liquidity Risk** – refers to the risk that the Society will not, at any one time, have sufficient liquid funds to meet its business requirements.
• **Market Risks** – refers to risk exposures arising from fluctuations in market rates of various parameters such as interest rates and tariffs of various market products relative to Sacco products.

• **Operational Risks** – refers to risk exposures to the Society that could arise as a result of failures or deficiencies related to (or occasioned by) systems, processes, people or external events.

• **Fraud risk** – the risk that the Society could lose its financial resources as a result of fraudulent activities of its management, employees or third parties.

• **Technology Risks** – refers to risk exposures to the Society occasioned by reliance on technology for the purpose of carrying out business transactions.

• **Capital Risk** – is the risk that the Society either will not have sufficient equity capital to be able to take advantage of favorable market situations or will be exposed to asset losses during declining economical conditions.

• **Compliance Risk** – the risk that the Society will fail to comply with legal or regulatory requirements thereby leading to regulatory sanctions.

**Risk Governance and Management Structure**

The governance structure is a three tier system whereby the AGM has overall responsibility for governance of risks at the Sacco. This responsibility is delegated to the Board of Directors of the Sacco. The Board in turn is responsible for the effective management of risks at the Sacco. This responsibility may however be assigned to the constituent Committees of the Board and the Management team. The Supervisory Committee provides oversight over the activities of Board and Management in general and as relates to risk.

The management structure operates as a four-tier system. At management level, responsibility for Risk Management rests with the Chief Executive Officer, who in turn is supported by the Management Team. The Management Team in turn has delegated certain risks to relevant sub-committees e.g. Risk Management Committee, Credit Committee, Tender Committee, Debt Collection Committee, Cash flow Committee, Procurement Committee. The Risk Management Committee is supported by the Risk Champions Network made up of departmental and branch risk champions.

**Risk Monitoring and Reporting**

The following organs of the Society are responsible for risk monitoring and reporting: Risk Management Committee, Chief Executive Officer, Heads of Department, Departmental Risk Champions, The Risk Champions Network (RCN), Internal Audit and Audit Committee.

**Stima Corporate Risk Profile as at December 2013**

The following have been identified as some of the areas that could pose the highest risk to the Society: Culture, technology, people, financial/liquidity management, structure, reputation, governance, membership, strategic focus, internal control and communication.

**Membership as a Source of Risk**

**Points of Exposure**

1. **Entry** – how do you ensure that the Sacco only admits quality members and keeps out misfits?
2. **Lending** – how do you ensure that the Sacco’s lending (credit management) policies, processes and practice are adequate in managing credit risk?

3. **Financing** – how does the Sacco manage its liquidity to ensure it has adequate funds to respond to members’ need for loans?

4. **Governance** – how do you ensure that the Sacco’s governance organs are representative of the different membership groups while at the same time ensuring adequacy and effectiveness of the skills mix?

**Mitigating Measures**

1. **Entry**
   - Formulation and implementation of a Know Your Customer (KYC) and Anti-Money Laundering (AML) policy
   - Benchmarking Sacco membership admission policy and procedures with the law and best practice such as the Central Bank of Kenya (CBK) prudential requirements
   - Training of operational and marketing staff on Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements
   - Conduct of regular Internal Audit reviews of membership admission activities across the business
   - Conduct of a comprehensive KYC/AML Institutional Due Diligence and Gap Analysis Review to confirm the Sacco’s compliance with legal, regulatory and industry best practices
   - Development of stringent new membership vetting criteria – for both individuals and corporates

2. **Lending**
   - Establishment of Credit and Debt Collections Committee’s at management level
   - Formulation of a comprehensive Credit Management Policy Manual - encompassing both traditional and business loans
   - Comprehensive Induction of new staff and training of current staff on the Credit Management Policy Manual
   - Establishment of a dedicated Collections Unit within the Credit Department
   - Establishment of System-based alerts in the lending process to flag off possible risks
   - Regular training of staff on Credit risk management for both traditional and emerging business lines
   - Establishment of Credit Information sharing initiative (ongoing)

3. **Financing**
   - Establishment and operationalization of an Asset Liability Committee (ALCO) to provide guidance on overall management of Society assets and liabilities, liquidity and interest rate risk management
   - Establishment of a Treasury Management Section within Finance Dept to manage Society treasury, investments and debt on a day-to-day basis
   - Continuous monitoring of Society finances vis-à-vis regulatory capital and liquidity rations
   - Benchmarking Sacco financial and liquidity risk management policies with financial service industry best practices
• Engagement of financial arrangers to assist the Sacco in exploring opportunities to access affordable financing locally and internationally
• Establishment of a dividend stabilization fund to mitigate effect of fluctuation in earnings

4. Governance
• Development of a membership representation policy to ensure equity in access to leadership positions
• Establishment of a Nominations criteria (and process) and application of the defined ‘fit and proper’ rules in electing board members
• Designation of a Committee of the Board with Credit oversight responsibilities
• Development and implementation of a comprehensive Board Charter in line with financial service industry best practices
• Undertake comprehensive training on Corporate Governance for Board and management
• Development and implementation of a Board Induction and Training toolkit
• Conduct of Annual Board Evaluations to assess the performance of the Board

SESSION III
This aimed at participants actively engaging in group discussions and brainstorming; sharing their strategic activities while addressing the key topical issues.

14. Why promote financial regulatory reforms in SACCOs and Microfinance:

A case of Zambia by Sylvester Kabwe, Senior Inspector- Regulatory Policy Bank of Zambia
There are currently over 500 active SACCOs registered in Zambia. The regulatory framework governing the operation of co-operatives is the Cooperative Societies Act No. 20 of 1998 (CSA). The CSA is administered by the Department of Cooperatives in the Ministry of Agriculture and Livestock; and defines a “Credit Union” as a co-operative society which is registered as a savings and credit co-operative union registered under the Act.

Benefits of Microfinance Regulations
- It promotion competition
- Governance structures i.e. strengthened Board of Directors with clearly defined functions.
- Improved and increased delivery channels
- Increased access to credit
- Created market discipline

Challenges faced by SACCOs
- Inadequacy of existing legislation to accommodate diversified products e.g. savings mobilization beyond membership contributions;
Inadequate governance structures with no clear distinction between executive functions and non-executive, weak internal control systems;
- Inadequate performance standards;
- Lack of disclosure requirement standards;
- Low adoption of information and computer technologies; and
- Competition from other financial service providers.

The need for regulatory Reform
- To enhance transparency and accountability in the Sacco subsector
- Expand financial access through the provision of a wider range of services;
- Enhance sound business practices and thereby protecting the members’ funds/ savings;
- Enhancement of savings mobilization beyond members’ contributions;
- Enhancement of corporate governance- fit and proper test, clear definition of roles of board and management;
- Instilling public confidence, trust and right image of the Sacco subsector to be able to attract new members and investors
- Enhancement of prudential standards: need to have clear standards regarding among others: Capital adequacy, Liquidity policy, the extent of external borrowing; asset categorization and provisioning, maximum loan size and insider lending, performance standards etc.

Way Forward
The Cooperative Societies Act (CSA) is currently under review and the Ministry is considering developing specific regulations for financial cooperatives. The current Act is general and does not have provisions relating to prudential oversight. Therefore, the Ministry is considering including provisions relating to prudential regulations for financial cooperatives. However, there is a need to develop capacity in the Ministry to engage in prudential regulation.

A case of Kenya by Peter Owira, Sacco Societies Regulatory Authority (SASRA)
It is often thought that SACCOs lack incentives to protect members’ funds. The regulation of business or industry by government is for the purposes of consumer protection. For a long time SACCOs have been innovative and have expanded their product portfolio to cater for wider membership; however, a number of them have misappropriated members funds due to poor governance. Therefore, the government opted to regulate SACCOs to bring sanity and encourage healthy competition.

Benefits of regulations
- Integrates SACCOs to the formal financial systems; SACCO will no longer be treated as informal financial institutions;
- Regulation improves public confidence in SACCOs and hence improvement in savings mobilization;
- Member deposits protection;
- Regulations shifts focus to institutional development
- Discipline in the operations thus growth of a Sacco
• Devolved governance has opened opportunities for local financial institutions like SACCOs as County government rely on them to:
  • Create employment;
  • Provide financial services to the community where you operate;
  • Channel development funds to the communities
• But only licensed, well managed, financially sound SACCOs is relied upon by the county Government
• Benefits from devolved funds: Currently Banks and Microfinance have been the largest beneficiaries of Government of Kenya (GoK) funds.

Significance of new law to your SACCO

Disadvantages
• Increased cost of doing of business – compliance costs
• Training cost e.g. for compliance officers
• Deposit Levy
• Compliance risks - fines and penalties, lock out business

To be regulated means
• Conducting business in a prescribed format
• Submitting returns regularly
• Surveillance-being watched all the times
• Improved level of customer confidence

A case of Malawi by Mtchaisi Chintengo, Chief Examiner-Microfinance Reserve Bank of Malawi

The following factors contributed to the need to regulate microfinance:
• Increased attention to financial services beyond microcredit.
• Proliferation of new providers and financial service delivery mechanisms.
• Rapid evolution of regulatory frontiers, such as the regulation of bank and nonbank agents and e-money issuers.
• More countries that have extended experience with microfinance and microfinance regulation and supervision.
• In some countries, increased transformation of microfinance institutions from nonprofit to for-profit.
• Competitive saturation of microcredit markets in a growing number of countries, which can increase portfolio risk and heighten consumer protection issue.
• Integration of microfinance into mainstream finance institutions and markets.
• Emerging consensus about creating a level playing field, and the role of regulating “by activity” to achieve that goal.
• Focus of international financial standard-setting bodies on the need for proportionate regulation and supervision that does not result in the exclusion of low-income customers.

Regulation of Microfinance
- The microfinance regulator’s challenge is how to balance financial access, financial stability, financial integrity, and consumer protection.
- Regulation now being enacted for microfinance seeks not only to protect the financial system and depositors, but also to promote poor people’s access to formal finance.
- Regulation should aim to be institution-neutral, both to create a level playing field that fosters competition and to reduce risk of regulatory arbitrage.

Non-prudential regulations of Microfinance Institutions
- Non-prudential regulation refers to issues of consumer protection and prevention of financial crimes, including in particular money laundering and terrorist financing (ML/TF).
- Most non-prudential standards applicable to microfinance services would generally be appropriate regardless of institutional type providing them.
- Non-prudential issues tend to be less complex and less costly to monitor than prudential issues, both for regulators and providers.

Prudential regulations of Microfinance Institutions
The primary reasons for prudential regulation of depository institutions are:
- To protect the country’s financial system by preventing the failure of one institution from leading to the failure of others, and
- To protect small depositors who are not well-positioned to monitor the institution’s financial soundness themselves.

Regulation of Microfinance-history
Prior to 2010, there was no regulatory framework for Microfinance. Microfinance Institutions (MFIs) were registered by various government ministries. In 2010, the Microfinance Act was enacted and it gave the Registrar of Financial Institutions (the Registrar) who is the Governor of the Reserve Bank of Malawi (RBM) authority to register, license and supervise microfinance institutions.

The Financial Cooperatives Act was enacted in 2011 giving the Reserve Bank of Malawi authority to regulate SACCOs. RBM has been regulating commercial banks in Malawi; as such it was felt that the bank has expertise and experience to undertake the supervision of SACCOs.

Before Financial cooperatives Act came into being in 2011, SACCOs were regulated under Cooperative Societies Act. Under that Act, SACCOs were regulated like any other cooperative society.

Thus SACCOs in Malawi are subject to prudential regulations which include the following requirements:
- All non-prudential regulations
- Maintenance of minimum capital ratios.
- Monthly and quarterly reports to the Registrar.
- Maintenance of minimum liquidity ratios
- Asset classification.
- Corporate governance.
- Minimum premises standards.

Conclusion and way-forward
In Malawi, non-prudential supervision focusing on consumer protection is applied to all microfinance institutions. Prudential supervision is applied on all deposit taking institutions including SACCOs. It is therefore expected that SACCOs will benefit from being regulated by attracting more members and participating in the national payment system. Plans are under way to set up a deposit guarantee scheme for SACCOs in Malawi.

15. **Group Discussions**
The following are key topical issues that led to exchange and sharing of ideas among participants/delegates. These are per group discussions which were very engaging and productive.

**Group 1**

**Question:** Commercial banks are eating into our market. What must we do to make SACCOs attractive? What must we stop doing so we attract and retain members?

**Answer:** This has been split into two parts as per the question.

**Part 1:** SACCOs can be made attractive by focusing issues on: Capital Adequacy, Liquidity, Innovations and Capacity building.

a) **Capital Adequacy**
   
   - There is need to increase our deposits from other sources e.g. fixed deposit accounts with MFIs, bonds on the stock exchange subject to regulations.
   - SACCOs need to venture into profitable investments.
   - Open up common bond to increase membership numbers
   - SACCOs need to expand their existing product portfolio in regards to savings products.
   - Introduce longer loan tenure, increase the multiplier.

b) **Liquidity**
   - Increase savings in relation to income.
   - Raising share capital that is separate from deposits through bonds and share rights issues subject to regulatory conditions.
   - Providing incentives to existing and potential members encouraging them to save more.
   - Putting measures in place to guard against fraud and embezzlement.
   - Put in place proper audit systems and follow up procedures.
   - Putting in place and adhering to a Liquidity Policy.

c) **Innovation**
   
   - Market research to identify opportunities for new products and services. Also regular customer satisfaction surveys to ensure that there is continuous improvement in customer service.
   - Investment in ICT technology infrastructure that will support Internet Banking, Mobile phone banking, branchless banking; and enhance the SACCOs administration and record keeping in order to reduce turnaround time.
   - Increase advertising in both print and electronic media.
• Linking strategic partnerships and alliances that will enable the SACCOs to offer more products and services i.e. land development, housing, asset financing, mortgages, trade financing, forex trading e. t. c.
• Relationship marketing by offering personalized service to members
d) Capacity Building through;
• Development of strategic plans to guide the SACCOs.
• Development of policies and procedures to guide credit, Human Resource, Marketing, Finance, Internal Audit, Administration, and Procurement.
• Development of partnership with various stakeholders e.g. accounting bodies, national associations, legal bodies, Microfinance Institutions e. t. c.
• Building human capital through recruitment of competent staff at strategic management and operational levels.
• Continuous training of staff, board of governance on corporate governance issues.
• Increased funding for buildings, in office fixtures and fittings and furniture in order to give a conducive and attractive environment for members.

Part 2: To attract and retain members, we must;
• Stop recruitment of staff on tribalism, nepotism, favoritism, at the expense of professionalism.
• Stop mismanagement of funds through uncontrolled allowances, salaries, dubious procurement processes, unsound accounting and credit practices.
• Stop the infighting amongst staff, board members, fellow Coops, etc!
• Stop ad-hoc board decisions regarding matters of the SACCO!
• Stop being risk averse and be proactive
• Apex bodies need to stop infighting and being unsupportive of SACCOs in terms of investments, and decisions.

Question: Regulation of financial systems is expanding to SACCOs. How can we realize opportunities in the regulatory regimes that at times appear burdensome?

Answer: Advantages of regulatory regimes.
a) Compliance
• Bold decision by the board as some decisions taken by the board may not be their likings but regulatory requirements.
• Regulations help SACCOs put in place vibrant governance structures.
• Capital adequacy.
• Sanity in the system.
b) Members/stakeholders confidence
• Security of deposits.
• Protection through guarantee schemes.
c) Transparency
• Information disclosure.
d) Business opportunities created
   - Training
   - Mergers to enjoy economy of scales (growth in market share)

e) Recognition
   - Main player in financial sector

f) Effective government Policy
   - Required statistics
   - Members focused – targeted policy

g) Changes perceptions

h) Creates a competitive edge

i) Internal controls
   - ICT
   - Internal auditors
   - Competent manager

j) Creates opportunities for capacity building

How can we seize the opportunities?
1. Putting up the structures and complying.
2. Engaging and dialogue with the regulators on issues that affect the SACCOs.
3. Embracing the market dynamics (not business as usual).
4. Create synergy on advocacy to strengthen apex bodies.
5. Members’ education to embrace regulations.

**Group 3**

**Question:** Innovative Payment Systems (IPS) seems to be interrupting our market. What are the key issues we must address as we embrace technology for financial inclusion using the co-operative model?

**Answer:** Examples of IPS include: Automated Teller Machine (ATM), Mobile money, Internet banking, Personal Digital Assistant (PDA), Credit Cards and Point of Sale (POS). What is lost when these are not embraced?
1. Trust and confidence of the members
2. Easy access of financial services
3. Simplified technology / IT
4. Convenience
5. Efficiency for reducing operational losses.
6. Cooperating with others to share data base.

The key issues we must address
1. Advocate for integration of SACCOs
2. Adapt to shared technology
3. Skills to be employed by the SACCOs e.g. IT
4. Education Levels of the SACCOs
5. Re-engineering the apex body from the grass root levels
6. ACCOSCA involvement.

**Group 4**

**Question:** In member mobilization, rural communities, women and youth present a large unbanked market that SACCOs must urgently tap into. How can SACCOs mobilize savings and financial inclusion with these groups?

**Answer:** The 'unbanked' here means the person does not hold a bank account or is financially excluded i.e. rural women and youths who are also potential savers.

What SACCOs can do

1. Use their structures to lobby national and local authorities to invest in infrastructure
2. Establish strategic partnerships with stakeholders such as mobile companies
3. Use opinion leaders to sensitize traditional authorities on gender restrictions.
4. Enforce international protocols women and youths
5. Invest in research to develop inclusive methodologies
6. Diversify products
7. Establish Presence in rural areas and create awareness about services and products
8. Utilize owner/consumer marketing catch phrase
9. Maintain user friendly documents and financial systems
10. Increase Capacity building
11. Maintain lower interest rates
12. Use freelance marketers to recruit members e.g. Mwalimu SACCO in Kenya.

**Group 5**

**Question:** SACCO growth in Africa is on an upward trend. What is the role of national/apex bodies in ensuring lateral learning among SACCOs and enhanced collaborations/partnerships with other players while observing the tier system?

**Answer:** Apex is a national democratically controlled apex organization for Savings and Credit Co-operatives whose objective is:

1. Advocacy
2. To promote, organize and develop the SACCOs
3. To build and maintain a financially sound network for Savings and Credit Co-operatives to mobilize and effectively channel savings to help meet the social and economic development needs of its members and the country in general.
4. To foster the vitality of SACCOs to become effective financial intermediaries by providing programs and services that will enhance the SACCOs’ ability to successfully meet needs and expectations of their members.
5. To work with other stakeholders in national domestic savings mobilization initiatives in order to bring about sustainable economic development in the country.
6. To improve access to financial services to the vast majority who lack access to affordable and readily available financial services.

In addition, lateral learning among SACCOs
• Ensure there is correlation between SACCO leadership that enhances learning/growth.
• Improves skills and knowledge i.e. on changes within the environment, product and service; on service delivery, from exchange visits, marketing, corporate governance (Case examples were given from different countries’ experiences such as Kenya, Malawi, Ghana, etc).

Also, enhance partnership with other players by identifying and working with partners like: government, Continental Bodies, Non Governmental Organizations, Media, Private Sector, Regulators and training institutions. These partners assist with funding, training, regulating, publicity e.g. MUSCCO/Malawi Government Case.

Besides that, tier system recognizes the various lower tiers and respects the independence in decision making process.

Recommendations
1. Big SACCOs should have a sit on the apex body.
2. Must stick to their core business.
3. Apex body should market their services rather than impose them on SACCOs
4. Recruitment of CEOs should be transparent and competitive (through independent organizations – out sourced)
5. ACCOSCA should provide a framework for the recruitment of CEOs in apex body.
6. ACCOSCA should champion the formation of an African Cooperative Bank
7. To ensure buy-in from Government, politicians, ACCOSCA.

Group 6

Question: Small SACCOs want to grow and become more profitable. Bigger SACCOs want to remain sustainable. Both require financial resources and proper governance. How can boards of SACCOs contribute to sustainable growth and profitability of SACCOs?

Answer: Definition of key terms
• Growth refers to increase in size, number, value or strength
• Profitability refers to the capacity to make profit
• Sustainability refer to the ability to maintain or keep something
• Corporate Governance is a set of rules and regulations by which organization are governed and is anchored on four major pillars, which are Transparency, Accountability, Trust and Responsibility

a) Growth
• Board Must have strategic Vision, Mission, intent and direction
• Understand the role of the Board and that of Management – Board leadership training is essential, training in governance, integrity and management techniques
• Resource Mobilization - Membership and Management
• Board should define Management structure, complete with policies and procedures
• Boards to conduct surveys to help identify members’ needs to enable SACCO provide appropriate products and services. This is a route for expansion and diversification
• Board should look at viability of common bond to grow membership e. g the case of Muzimba teachers SACCO

b) Profitability
• Diversification of products and services
• Strengthening internal controls to reduce losses, fraud
• Partner with other service providers to grow the SACCO profit (reduce operating costs and increase efficiency by applying ICT solutions)

c) Sustainability
• Strive to achieve best practices and maintain them e. g Kenya case of Mwalimu Teachers SACCO got an ISO certification
• Educate Board and Management on Organizational renewal, innovation and growth (Understand risk factors that may impact on the SACCO - inflation, delinquency etc)
• Board members should have a minimum education qualification (in order to remain relevant)
• Board of SACCO should have succession plans and should stipulate in their by-laws, to allow for continuity
• Board to have a service charter and Performance Agreements with Management

Recommendations
• Increase saving by way of bringing in more members and by prescribing a quota of how much should be saved
• Encourage common bond system of membership
• Continuous training of Board and Management should be encouraged

Group 7

Question: How can SACCOs work together to brand and promote the SACCO advantage in Africa? What initiatives can SACCOs work on together?

Answer: SACCOs can work together in the areas of:
  a) Legal framework
• Research
• SWOT analysis
• Structures- Credit Union movement
• Steering committee
  b) Strategic planning
• Hindrances
  1. Individuality/competition
  2. Internal processes
  3. Image
  4. Governance
  5. Size of SACCOs
• Overcome hindrances
  1. Cultural differences
  2. ITC/ICT packages can be used for all
3. Identify common grounds
4. Visionary leaders/champions
5. Exchange/ sharing of programs i.e. business exchange programs, linkages
6. Way forward
c) Corporate approaches
   • Common identity (products)
   • Member driven
   • Culture i.e. philosophy, ethics, principles, core values
d) Marketing
   • Exploit competitive advantage
   • Lobbying and advocacy (networking)
   • Corporate social responsibility
   • Television/radio
   • Bulk SMS
   • Social media
   • Bill board
   • Brochures
   • Stationery
   • Show casing/exhibition
e) Technology
   • Shared platform
   • Mobile/Automated Teller Machine (ATM)/Point of Sale (POS)/Core banking

Group 8

Question: Involvement in SACCOs occurs at different levels- with members, with employees, with management and with boards. What strategies can be developed to involve youth at each of these levels?

Answer:
1. MEMBERSHIP
   • Involve the youths to mobilize fellow youths
   • Technology, marking e.g. social media (face book & twitter) should be embraced
   • Developing saving products specifically for youths
   • Create initiatives to attract youths to bring fellow youths
   • Introducing youth saving clubs
   • Embrace public lectures in schools
   • Teaching MUST start with us at home.
2. EMPLOYMENT
   • Hiring fresh graduates
   • Embracing internship programs
   • Lobby to add cooperative programs in the school curriculum
3. MANAGEMENT
   • Remove the barriers on entrants of youths
• Mentoring youths to take up management positions
• Encouraging the board to promote the junior youth staff to management positions

4. BOARD of DIRECTORS
• Reserve the slots for the youth by amending by-laws.

16. Common Agenda for SACCOs Manager
These were achieved on the basis of the 5th SACCO Leaders Forum 13th March 2014 – Lusaka Zambia group discussions in the context of the theme “Supporting Financial Inclusion using the Co-operative Model of Financial Access”

• We are going to make Saccos attractive through enhancing our capital adequacy, liquidity, innovation and capacity building.
• It was agreed that it is important to closely engage regulators in enhancing the performance of Saccos. Apex bodies should play a key role in advocating for appropriate regulatory frameworks.
• Technology in our current world can no longer be ignored. Embracing channels i.e. ATMs, Point of sale & mobile banking through partnerships with other financial institutions will offer our members the convenience they require and guarantee competitive advantage whilst reducing operational costs
• Cooperatives have supporting structures to lobby for government support in their endeavor for financial inclusion. This could be achieved through strategic partnerships by different stakeholders
• SACCOs and apex bodies should have collaborative engagements. All Saccos should be represented on the apex body and on the other hand the bodies’ role should be that of marketing their services rather than imposing them.
• Boards of SACCOs should contribute to sustainable growth and profitability through supporting the common bond system and capacity building while focussing on strategic vision and mission.
• To promote the Sacco brand in Africa, We could strengthen the governing bodies through collective action in initiatives such as CSR activities etc…
• Integration of the youth will be important for sustainability as there exist a gap between the young and the old within our cooperatives. Additionally in line with global changes, it will be important to introduce innovative and attractive products and services that appeal to the youth