

IDENTIFYING AND MAXIMISING SACCO'S POTENTIAL



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‘An Effective Capital Utilization with-in SACCOs enterprises’

By George Ombado

In most Africa countries, the co-operatives in the 50s and 60s were supported mainly by the government under a control economy. In effect, they heavily relied on the government to boost their operation often in return to political support thereby adversely affecting their performance. This scenario changed significantly with market liberalization in the 90s and subsequently saw the withdrawal of government support.

Although Stakeholders with-in SACCOs’ are increasing seeking to understand the relationship between SACCOs’ operational policies and their performance, various hurdles are standing in the way to capital utilization. SACCOs by default are guided by the seven principles of co-operative, an indication that the executive are answerable to the members. This justifies why SACCO’s overall performance should be linked with innovativeness of those charged with the responsibility of managing the organization. Bearing in mind that, one of the most important reasons for formation of SACCO’s is to redistribute mobilized resources in a way that meets members’ social and economic needs.

This raises questions regarding who is better placed to make capital decisions. Is it the board members or executive management? An examination of optimality of a SACCO’s capital budgeting decisions, in this context, will show that budgeting decisions are most effective when Board members and executive work closely to overcome informational asymmetry and agency problems that may exist in the financial market. Optimality in this case implies the ability of the SACCO to make capital decisions that maximize shareholders value

SACCOs by their design mobilizes capital primarily through retained earnings and members contribution in form of shares. The countries without co-operative legislation or which are faced by policy constraints therefore will need to be extra-vigilant when making capital budget decisions. These organizations need to be commercially viable enterprises and able to survive the ever changing co-operative environment. It is important to note that the vibrant SACCOs’ in Africa are neither heavily leveraged nor ‘overexposed’ to external financing

The SACCOs in South Africa and Kenya are formally guided by co-operative legislation. It is perceived that regulatory bodies in this countries makes them better off in ‘providing direction on capital expenditure’ as compared to countries without legislation. In Kenya for instance, all SACCOs are required in a period of four years to attain institutional capital above eight per cent of their total assets and a minimum core capital of not less than 10 per cent of the total assets. Among other reasons such legislation are aimed at mitigating risk associated with capital expenditures decisions. This implies that the capital decisions are likely to be managed well since this law tackles liquidity constraints problems that might ensue.

In addition to external policies that seek to regulate SACCOs activities that affect their capital base, these enterprises need to develop internal policies that would control SACCOs that unwittingly hire inept decision makers who are incapable identifying optimal capital budgeting decisions. This will eliminate the risk of employing managers who place their personal interests and those of the board members ahead of enterprise. It can also



be used in monitoring and evaluation purpose; where managers who have good intentions but simply lack inadequate skills needed to make the best possible investment decisions on behalf of the members are properly trained

In retrospect, the capital challenges for SACCOs are building sustainable loan portfolios and improving earning capacity. This arguable makes effective capital utilization one of the most critical factors in sustaining growth and development of SACCOs. This calls for integrity of managers' making capital decision to be above board.

One of the advantages of effective capital management; even when the rate of earning may reduce like in the case of recent global economic crisis, large scale losses is controlled. This will also improve the confidence level of potential members in buying shares from a particular SACCO hence improve resource mobilization.

It is in this respect that the board and management role in capital decision should be harmonize to mitigate conflicting interest. This intervention is effective through development of adequate systems with the SACCO and development of co-operative legislation with-in a country.

This enables the board to tackle risk management issues in a more confident manner providing an opportunity to

develop practical framework for managing risk associated with capital decisions.

When the risk management structure is optimized, the system change has the potential of improving SACCO overall performance. It takes into account that capital decision risk in SACCOs' falls with-in the scope of credit or audit committees.

Stakeholders' perception about capital usage with-in SACCOs therefore would entail would change with the following

- Establishment of performance score card for board members
- Develop monitoring and evaluation framework for managers
- Supporting continuous personal development programs and broadening their views on risk matters
- Deliberate supervision of SACCOs activities both on internal and external front

These are prudent ways to follow since it contributes to development of stronger SACCOs and subsequently improve domestic saving mobilization. The framework in pace will allow the board members and management to take independent and objective views that are to the interest of the members

Value Addition, a Way for SACCOs to Survive Competitive Business Environment

By Joan Atuhura

In today's life, we are often caught up in the storm of daily events that we have trouble seeing how the changes around us affect our lives, relationships and businesses.

The business environment is dynamic thus the need to monitor change in order to adapt and create additional value in the

products and services. Change should be examined from time to time to ensure that suitable strategies are set up to curb its effects. More importantly the business design should be monitored to avoid getting obsolete. SACCOs should capture value growth and leave obsolete business designs and pursue new ones which are more effective and efficient.



Understanding the concept of value addition is critical for decision makers with-in SACCOs. By definition, Value migration is an ongoing process of trying to stay ahead of competition using the best business design or adopting the best practices which stand the test of time. In other words it is the shifting of value creating forces. In the current times, it takes focus, knowledge, flexibility and courage to survive in such a growing dynamic financial business environment. SACCOs are operating in a challenging environment coupled with stiff competition from other players in the financial arena. This calls for a joint effort among SACCOs to streamline their operations to ensure they survive cost effectively. All parts of the organisation (internal and external) should be well coordinated in order to optimize value.

SACCOs must embrace change in their operations and create value to their products if they are to remain relevant. The customer needs should be central focus of any business design right from identifying customers to service delivery. The products offered should match the customer needs notwithstanding most customers are not technical experts but their satisfaction lies in their expectations. Consequently customer care should be exhibited at all points of contact with the customer. SACCOs must understand member's priorities and meet them, in order to have loyal customer base.

Which members do I want to serve, what products do I want to sell, how different are they from others and why should the organisation attract more members, who are my competitors, these questions among others should be answered during

business design. Management/board should identify the niche market that they intend to serve, the products on the market and ensure that they differentiate their product as much as possible so as to attract more members. A questionnaire should be used continuously to capture information about the products you are offering, trends, and needs of the members. Subsequently, this will ensure extensive retention of your clientele as well as assuring growth of the membership base. Whilst fulfilling the customer needs is of supreme importance, care should be taken to ensure that the organizational objectives are not compromised.

The business design cycles that include value, growth, stability and obsolescence should be managed according to their strategic, tactical and organizational requirement and should not compromise quality. Appropriate measures should be taken at every cycle in order to retain existing customers and to attract new ones. From inception organizations need to capture value from the entire industry so as to prioritise customer needs. The whole organisation should be committed to satisfying the customer and all staff should buy in the new vision.

SACCOs should recognize that as they adopt the best practices in a bid to stay ahead of competition, technology alone is no longer a fundamental engine of value growth since innovation is gradually slowing down with imitations taking the centre stage yet they add limited value. To survive SACCOs should scan the environment for opportunities that create room for new business designs in order to emerge as beneficiaries and not victims of the next cycle of value migration.



Linking SACCOs with Millennium Development Goals, can they do the magic?

By Sharon Akinyi

The past few years have shown that it is possible to mitigate poverty in Africa; a number of countries though facing daunting challenges have taken concrete steps towards achieving Millennium Development Goals set by UN. SACCOs in Africa arguably provides one of the best avenues in tackling poverty levels. The latest statistics from Oversea Development Institute (ODI) show that over 50% of the top 20 absolute progress achievers are from Africa while less than 10% of top 20 progress achievers relative to MDGs are from the continent.

This shows the need for Africa countries to develop strategies that are effective in meeting MDGs. One of the plausible strategies would be the use of SACCOs knowing that they empower community members. In Kenya for instance, approximately 5 million are members of co-operative against total population of 39 million. This translates to more than half of the Kenyan population directly or indirectly deriving their live hoods from the co-operative sector.

Their role in providing financial resources to members has contributed immensely towards combating extreme poverty and hunger, improving primary school enrolment and child health, expanding access to clean water and providing increased access to HIV treatment. Despite the fact that we hardly have quantitative measures on this progress linked to SACCO development, accessibility of this resource to members in the rural community paint an encouraging picture.

This illustrates that well targeted policies that encourage development of SACCOs

at community level have the potential of increasing the much needed financial empowerment. SACCOs offer an economic lifeline to low income earners who form a majority of the population of sub-Saharan countries. That their potential has been proven as vehicles of community revitalization is no doubt. The developed countries such as US and Canada are a living proof of how SACCOs commonly known as credit unions can positively impact the lives of their members.

It's now a race against time with only five years to go towards implementing the 2000 millennium declaration. It becomes paramount that African countries re-align themselves around supporting development and promoting sustainability with-in the SACCOs. With most inhabitants considered un-bankable by the larger financial players due to their low and seasonal cash flows, SACCOs provide an avenue for resource mobilization. Pioneers of regulatory bodies in Africa (Kenya and South Africa) need to play a critical role sharing their experience with other countries in the continent. They can also learn from developed countries such as Germany and France that boost of over one third of their economically active population as members of credit unions or 'caisse populaire' as case may be. It follows then that an accountability framework must exist that links results with timelines and establishes monitoring and enforcement mechanisms, a performance based approach so to speak.

Imminently a revolution of credit unions would be attained sooner than imagined and their contribution towards development will be appreciated.



Special Events

Study Tour

A delegation from The Gambia, National Association of Co-operative Credit Unions (NACCUG) visited Kenya to learn more about development of sustainable SACCOs. The Finance Manager, Patrick Mendy said 'Kenya experience is quite remarkable; we will attempt to contextualize some aspects of Kenya Union of Saving Credit Co-operative business model that is self sufficient when we get back to The Gambia' on his part the Chairman of NACCUG acknowledge the huge challenge ACCOSCA has on promoting development and growth of SACCOs and retaliated that National Association where behind ACCOSCA in totality.



NACCUG Board Chair Babbouarr Fatty, and Board Members Omar Jallow, Edward Demba and Patrick Mendy have a light moment when they visited ACCOSCA office

Announcement

ACCOSCA, the Government of Swaziland, Swaziland Association of Savings and Credit Cooperatives (SASCO), are glad to invite you to the 11th Africa Savings and Credit Cooperatives Association (SACCA) congress scheduled to take place on 4th -8th October 2010 at Esibayeni Lodge and Conference centre in Swaziland.

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