

ACCOSCA REGULATORY FRAMEWORK WORKSHOP

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Nairobi, Kenya

Theme: “Attaining Sustainable SACCO Growth using Regulation Framework”

AFRICA SACCO REGULATORY FRAMEWORK WORKSHOP



Representatives from Twelve Countries: *South Africa, Swaziland, Malawi, Zambia, Botswana, Ghana, Nigeria, Cameroon, Kenya, Uganda, Tanzania, Rwanda*

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List of Abbreviations

BNR	National Bank of Rwanda
CBDA	Co-operative Banks for Development Agency South Africa
CAMCCUL	Cameroon Co-operative Credit League Limited
CRMP	Cooperative Reform and Modernization program
GoK	Government of Kenya
KUSCCO	Kenya Union for Savings and Credit Cooperatives
FSC	Financial Service Co-operatives
RCA	Rwanda Cooperative Alliance
SACCA	Saving and Credit Co-operative Association Africa
SACCOs	Savings and Credit Cooperative Societies
SASRA	SACCO Savings Regulatory Authority
SARB	South Africa Reserve Bank
SAP	Structural Adjustment Programmes
SCCULT	Savings and Credit Cooperatives Union League of Tanzania
MFI	Micro Finance Institutions
MUSCCO	Malawi Union of Savings and Credit Cooperatives
WOCCU	World Council of Credit Unions

Opening

Welcome Remarks by George Ombado, Executive Director ACCOSCA

Mr. Ombado welcomed participants to the workshop noting that there is high demand for thematic discussion on Sacco Regulatory issues as was demonstrated in the last Leaders Forums in Johannesburg and in 2010.

He further remarked that three countries namely Kenya, South Africa and Malawi have independent SACCO Regulatory Framework in place. He urged participants to engage intensively and borrow best practices from models that suit their specific needs. He noted that the workshop will provide a platform for cooperators to share experiences, build alliances and strengthen collaboration at national and international level. Participants were requested to introduce themselves and state their expectations out of this workshop.

These were some of the expectations:

1. Learn how sacco regulations are carried out in other countries
2. How best to strengthen regulatory framework
3. How to improve approach in sacco regulations
4. Exchange views on regulatory framework
5. To be sensitized on the new legal framework
6. Improve capacity and operations for regulatory framework at country levels
7. Lobby through ACCOSCA for governments to adopt an effective sacco regulation
8. Map out the role of ACCOSCA in the implementation of the new law on SACCOs
9. Replicate best practices from other SACCOs
10. The Kenyan position of Regulatory Framework – Why must SACCOs be regulated?

He closed by saying that he hopes the workshop will meet most of these expectations.

Speech by Carilus Ademba, SASRA Regulator

Mr. Ademba opened by welcoming the participants to the workshop. He said the the whole financial sector is going through reforms worldwide, and the way financial institutions are governed should be the same, he further remarked that SACCOs have grown all over the world except in Africa and the main challenge in Africa is the lack of confidence in the sector as key savers trust the banks more.

He said the forum should address the issues of transforming SACCOs into key financial institutions and that they should be prudentially regulated. In Kenya the regulation framework is fully operational and currently out of the 5000 registered cooperatives, 230 are regulated, of the 230 only 25 have not applied for licences but he believes they are in the process of applying.

On issues of governance to curb mismanagement and corruption the regulated SACCOs will be expected to submit monthly financial reports to the regulator. Besides this, the SACCOs will be expected to seek approval from the regulatory body before electing new board members. These SACCOs are also encouraged to adopt minimal Information Technology requirements to improve management. It is expected that such changes will lead to benefits that trickle down to the members, as such membership will grow which will lead to more savings and better

investments. With improved IT will also able the SACCOs to generate timely regulatory reports, improve management and build confidence on members.

He said the small SACCOs may not be able to afford IT and are therefore urged to merge, as mergers build strong alliances, there is need for strong associations to pass responsibilities for strong leagues and financial stability. It is important for SACCOs to keep proper data to know the impact they are having on the livelihoods of people. This could be used as a premise to lobby, the policy makers, the governments on policy issues affecting SACCO operations and tax exemption.

Speech by, Mr. Seno Nyakenyanya PS Ministry of Cooperative Development and Marketing, Kenya

The Chief Guest welcomed the participants and started off on a light note saying that he is here to open the deliberations on the regulatory framework in Africa. He then conveyed greetings and apologies from the Minister of Cooperative Development and Marketing Hon. Jeremiah Nyaga. He thanked ACCOSCA for organising such an event that is geared at promoting SACCO growth by observing prudential standards. He applauded ACCOSCA for providing technical support for SACCOs to improve on their services. He observed that there is need to bring on board the Northern Block as it is conspicuously absent yet they too are affected by issues of cooperative development.

Participants were encouraged to sensitized their governments on the importance of cooperative activities to eradicate poverty and for purposes of development. He noted that Africa was doing well in terms of cooperative development and growth until the World Bank introduced the Structural Adjustment Programmes (SAP) which stagnated and distabilised the growth of cooperatives in Africa. He urged cooperatives to draft polcies that have good will for implementation by all stakeholders . He informed the participants that the UN General Assembly has recognised the use of Regulatory Frameworks in cooperatives and most African countries are eager to use the new model as a means of promoting good governance practises.

In the Kenyan scenario the journey of developing laws that govern cooperatives started in the year 2003 and it finally came to pass in the year 2008. Currently Kenya has a highly successful model. The youth aspect in cooperative development is important, they need to get involved for sustainability and growth of the cooperative sector. And as such this year's international day for cooperatives will focus on the youth and the theme is "Youth the future of Cooperative Development".

He closed by saying that cooperatives are serious private entities hence the need to regulate them, he encouraged the participants to use the cooperative approach in solving challenges faced in the continent.

Workshop Objectives

1. Improve policy, regulatory and supervisory framework
2. Strengthen governance of SACCOs in Africa
3. Encourage formation of SACCO regulation for improve safety and soundnes of the financial institution.

Summary of Workshop Presentations

This section presents a summary of the workshop presentations and discussions.

Country Representatives on brief status of SACCO's Development

The Status of SACCOs Development and Regulation in Tanzania – Veneranda Mgoba

Ms Veneranda Mgoba represented the Registrar of Co-operative office in Tanzania. She began by highlighting that the development of Microfinance in Tanzania emanates from Government's financial sector reforms in order to create an effective and efficient financial System. These reforms portray Government Commitment to permit

banking institutions to operate on commercial basis, making their business and management decision free from outside intervention within the norms of prudential supervision.

The financial reforms were incorporated in Banking and financial Act of 1991 and Cooperative Societies Act of 1991 leading to basis for development of savings and Credit Cooperative Societies (SACCOS) as privately owned and organized equity-based institutions. Over the decades, there has been insufficient financial service delivery to majority of Tanzanians who are low-income people resulting to an additional focus on expansion of financial services to Micro-level clients. However, in the 2000s the Government approved the National Microfinance Policy that governs the Micro financial system. In Tanzania, Microfinance addresses the financial needs of Majority of Tanzania's population including Savings & Credit delivery Services.

The Government will continue to encourage establishment of cooperatives in various sectors and ensure that development policies in other sectors recognized cooperatives as an important tool for achieving their development goals. This will be done through the implementation of Tanzania Cooperative Development Policy (2002) emphasizes on cooperatives operating as independent business entities, thus the general vision of future Tanzanian Cooperative System is geared towards improved and sustainable cooperatives that are capable of fulfilling member economic and social needs.

Savings and Credit Cooperatives Union League of Tanzania (SCCULT) is the recognized 2nd tier organization for SACCOS. Members of SCCULT are about a fifth of the total registered SACCOS in the country which is approximately 1,200 SACCOS. Currently, SCCULT is facing challenges that are managerial, operational and financial which limits their ability to effectively perform the role required of a Union. However, organizational restructuring being spearheaded today is expected to put in place a good and focused management that will turn around the organization, since it can assist in promoting market discipline and a common approach to operational issues on SACCOS.

SACCOS face a number of challenges that need to be addressed to enable them improve on governance, outreach, product diversity and portfolio management, some of the challenges are:

- Low capital base leading to limited development of SACCOS due to increasing Capital inadequacy.
- Inadequate knowledge of banking Services and investment opportunities resulting to inappropriate investment of financial resources.
- Limited range and variety of financial products and services.
- Political interference and uninformed members and Leaders
- Weak and inadequate internal controls and financial systems which has led to mismanagement of resources.
- Inability to maintain adequate liquidity to meet savings withdrawals

The way forward to improve SACCOS is to evolve, strengthen and sustain sound SACCOS has been laid down to be implemented by Cooperative Reform and Modernization program (CRMP) as follows:

- Electing responsible leaders with integrity
- Members education and promote innovation and supply of products/services as demanded by members
- SACCOS are argued to employ qualified staff with Micro-finance best practice knowledge
- To provide knowledge and skills to leaders and staff empowerment to modernize their activities
- Introduce use of corporate and other planning tools
- To amalgamate SACCOS in order to strengthen them, hence have a wider outreach in terms of loans portfolio, membership and Capitalization
- Implementation of supervisory and regulatory framework.
- To have uniform Accounting system for easy supervision,
- Initiate establishment of viable SACCOS in both urban and rural areas.
- Encourage management to use better loan appraisal and follow-up methods.

The SACCOS Sector has a chance of becoming the most vibrant of all Cooperative Movements in the Country. At the moment it's attracting attention and support from commercial banks, donors and Government leading to focal point of poverty alleviation. The Cooperative Development Department (CDD) is a government department within the Ministry of Agriculture, Food Security and Co-operatives (MAFC). It is headed by the Registrar of Co-operative Societies whose functions include registering, promoting, inspecting and advising co-operative societies in accordance with the Act. Its role is to:

- Promotion of establishment of viable SACCOS and other types of Cooperatives
- Provision of education to SACCOS leaders and members
- Sensitization of the SACCOS on savings mobilization and products/services development
- Promoting SACCOS to employ qualified personnel
- Establishment of relevant policies, guidelines and circulars for promoting and regulating SACCOS.
- Inspection and supervision of SACCOS operations

The way forward for SAACOs in Tanzania is to:

- Establish a results oriented off and on-site supervision program that identifies emerging problems and SACCOS with operational and financial problems,
- Implement the strengthening of SACCOS Supervisory function at the MAFSC,
- Provide guidance in helping SACCOS improve their financial structure and operations
- Training of key staff in risk-based supervision to build capacity of the inspectors to accurately analyze, diagnose and resolve any problems that might drive SACCOS into financial difficulties,
- Full mandate of running Tanzania Cooperative Development Commission. (TCDC)
- To roll out over the country on the implementation of Data Analysis System (CODAS) in order to have uniformity and detailed analyzed data.

Discussions

Caution should be taken while implementing recommendations from consultants, it is important for the government or implementing institutions to align them as per their economic development needs.

SACCO's Development & Regulation in Rwanda, – Abby Mugabo, RCA Rwanda

The presenter is a Director of SACCO Supervision Unit in RCA, he gave detailed overview of SACCO Development in Rwanda as follows :

Cooperatives in Rwanda were established in 1949, the year 1962 when Rwanda gained independence Cooperatives became strong with overall objective of fighting poverty. The 1975 saw the starting of SACCOS in majorly under Banque Populaire, there was a lull during the Rwanda genocide. Establishment of Micro Finance Institutions (MFIs) SACCOS included intensified between 2003 and 2005 when majority of people joined and membership grew. The same year 2005 awareness of cooperatives increased as a tool for poverty alleviation, and drafting of the Cooperative policy document started. Mismanagement was identified in some SACCOS people started losing confidence & interest in them this led to the central closing down 9 mismanaged SACCOS in 2006.

The year 2007 saw the establishment for the law providing organization and functioning of Cooperatives in Rwanda replacing the old one of 1988, the following year Rwanda Cooperative Agency (RCA) was established with overall mission of Registration, Promotion and Regulation of Cooperative the same year RCA was given a Deputy Director General with a special mission of promoting and regulating SACCOS, the Central Bank of Rwanda drafted a law establishing microfinance activities and by December the idea of Umurenge SACCOS developed; March of the

following year (2009) the cabinet passed the idea, by June the idea was sold in all districts and in August Umurenge SACCOs structure was established in all districts at sector level, in October Umurenge SACCOs fully registered by RCA to operate as SACCOs. The same year the Central Bank of Rwanda (BNR) established regulation on the organization of microfinance activity & created MFIs Supervisory Department in June 2010 Umurenge SACCOs were issued a temporary license for operation as MFIs by BNR.

Before Umurenge SACCOs Program, only 84 SACCOs existed, with introduction of 416 SACCOs in this program the number inflated to 502 SACCOs, membership grew to 1,579,145 million members with Share Capital of 6,154,589,922 B (US\$ 10.2 M), Saving deposits of 67,493,248,080 B (US\$ 112.1 M) and Loan Portfolio of 58,544,994,375 B (US\$ 97.3 M). Each district signs performance contract for each year with the President where SACCOs performance and regulation is included among the tasks, inspection and supervision is carried out by RCA & BNR and if a problem is identified, immediate audit is carried out and in case of embezzlement the police are immediately alerted and the suspect arrested and handed over to the prosecutor for prosecution once found guilty is sentenced for some months in jail and to pay back the embezzled funds.

One of the conditions in order to be recruited as SACCO employee is to give a guarantee in form of property which can be confiscated in case of any malpractice. If an employee cannot afford he may be guaranteed by a relative's property before a contract is given to him. In case of embezzlement after paying the dues an employee is fired and blacklisted by BNR so that he/she becomes unemployable in any financial institution in Rwanda.

To curb the challenges faced by SACCOs in Rwanda there is need for:

- Continuous training of SACCOs Committees and staff
- Mobilization of SACCOs to build their own & strong offices;
- Assistance is given to SACCOs that want to merge by helping them to introducing special windows specific groups
- Continuous follow up and strict supervision of SACCOs
- Sensitizing SACCOs Unions to fulfill the requirements in order to be registered and help in SACCOs regulation
- Continuous mobilization of Rwandese for saving, loan acquisition and timely repayment.

In conclusion SACCOs in Rwanda have seen:

- Increase in membership proportional to increment in saving deposits
- Increased collaboration between BNR & RCA supervisors and SACCOs Committees to reduce embezzlement issues
- Good supervision of SACCOs as a means to their development
- Improved judicial and legal framework in order to accelerate the development and regulation of SACCOs
- Continuous capacity building of SACCOs committees and staff as a catalyst of achieving their objective and mission of poverty alleviation.

Discussions

In Rwanda, political will has helped put structures in place resulting into positive impact. The ambitious programme by the government is aimed at developing every part of the country, hence the government has put in place performance based contract to be signed by leaders for accountability in case they fail to perform. In case of weak structures security personnel are in place for safety and security of members contribution, and any amounts above the allowable minimum are to be banked and not kept in the SACCO.

The RCA in Rwanda is a regulatory body and not an apex and works hand in hand with the central bank BNR in matters of governance, some of the criteria used for carrying out visibility study of the SACCOs are the Micro finance paper and the Umerenge Strategy paper.

SACCOs' Growth and Regulation Malawi, Innocent Hauya – Malawi Union of Savings and Credit Cooperatives (MUSCCO)

The representative from MUSCCO Mr. Innocent Hauya started by noting that in Malawi, Agriculture contributes 35% of the country's GDP and brings in 90% of foreign earnings and 65% of raw materials for the manufacturing industry, hence agriculture is the backbone of the country's economy.

Malawi Union of Savings and Credit Cooperative Union (MUSCCO) is a national democratically controlled apex body for Savings and Credit Cooperatives (SACCOs) in Malawi. It was established on 15th September 1980 to promote service and support the development of SACCOs in Malawi. In line with its vision statement MUSCCO supports the ability of SACCOs to develop and introduce products and services that correspond to the needs of their members, it also provides access to technical assistance and financial resources needed to support growth and expansion throughout the system and sets standards for practice among various types of SACCOs. MUSCCO's mandate is to represent the interests of members with the government and with other relevant organizations within and outside in Malawi. It operates as a strong, vocal advocate of cooperative approaches to the management and delivery of financial services and products.

The SACCO philosophy was introduced in Malawi by Catholic Fathers in 1962, in 1973 first SACCO was registered in Malawi as Munjili in Mzimba. From 1979 to 1980 a SACCO feasibility study was done and MUSCCO was registered as a National Association in 1980. Currently Malawi has a total 54 affiliated SACCOs with membership totalling 119,219 and total assets at MK. 363,183,035.

With increased competition in the financial services market some of the challenges faced by SACCOs in Malawi are lack of:

- Technologically driven services
- Financial viability
- Good governance
- Products diversification

All SACCOs in Malawi are registered under Ministry of Industry, Trade and Private Sector Development and operating under Cooperatives Societies Act of 1998. The act empowers the Registrar of cooperatives with a judicial duty of registering, regulating and supervising all SACCOs in Malawi. At the beginning of 1998, MUSCCO started lobbying on behalf of SACCOs for a SACCO Specific Law that led to the drafting of a Financial Cooperatives Bill aimed at regulating and supervising SACCO operations and in February 2011, the bill was passed into Law empowering the Central Bank to regulate and supervise SACCOs just like any other financial institution in Malawi, with this development, Registrar of Cooperatives is only responsible for SACCO registration while the Central Bank is specifically responsible for SACCO licensing, regulation, monitoring and supervision in line with this act.

In conclusion the Financial Cooperative act will promote safety, soundness and prudent management of funds of SACCO members hence MUSCCO envisions unprecedented growth of the SACCO movement in Malawi.

Discussions

In Malawi MUSCCO and the Central Bank work hand in hand to bring structures in place to prevent embezzlement of funds, registration is done by the registrar of cooperatives once membership grows to 300 the central bank issues licence for SACCOs.

Developing Regulation Framework – Rwanda Experience: Gilbert Habyarimana, Rwanda Cooperative Agency

The presenter is a Deputy Director General at RCA in Rwanda; he started off by mentioning that microfinance activities are generally regulated by the Central Bank (BNR). SACCOs are considered microfinance thus regulated by BNR and as cooperative organizations, their way of working is regulated by RCA, both RCA and BNR are responsible for the regulatory framework of the SACCOs.

Milestones of microfinance history in Rwanda

- 1965: Probable date of appearance of the first “tontines” or IBIMINA in Rwanda ((J.B. NGARAMBE) ;
- 1975: Creation of the first SACCO “Banque Populaire”;
- 1986: Banque Populaire established its Union
- 1994: The bank closed its’ doors due to the 1994 Tutsi Genocide;
- 1996: Banque Populaire opened and resumed its normal activities;
- 1999: National Bank of Rwanda was assigned the responsibility to regulate and supervise MFIs (SACCOs inclusive);
- 2001: Recapitalization of the people's banks by a subsidy of US\$ 5 million from the Rwandan Government;
- 2002: The Fund for Refinancing and Development of Microfinance(FOREDEM) was established in Rwandan Development Bank (BRD);
- 2002/2003: Introduction of two regulations one for microfinance activities in general (Regulation no 06/2002) and another specific to SACCOs(Regulation no 05/2003);
- June 2006: Closure of 9 mismanaged MFIs and their liquidation is in process.
- September 2006: The National Microfinance Policy was adopted;
- 2007: Adoption of National Microfinance Implementation Strategy;
- 2007: Creation of Association of Microfinance Institutions of Rwanda (AMIR);
- 2009: The Law n° 40/2008 of August 26th, 2008, establishing the organization of microfinance activities was published.
- 2009: The regulation no 02/2009 on the implementation of law on the organisation of microfinance activity was also published;
- 2009: Creation of Microfinance Supervision Department in BNR;
- 2009: Adoption of UMURENGE SACCO Program by the Government;
- 2009: Registration of Umurenge SACCOs by RCA;
- 2010: Provisional licensing of 416 Umurenge SACCOs by BNR;

Categorization of MFIs in Rwanda:

The National Microfinance Policy/Microfinance law categorizes the MFIs in Rwanda as follows:

Category I:

- Informal financial organizations, such as tontines(IBIMINA)/ROSCAs (not regulated /supervised)

Category II:

- SACCOs with max. deposits less than Rwf 20 million, a threshold set by the Central Bank, no minimum capital required.

Category III:

- SACCOs with min.deposits equal or more than Rwf 20 million, the threshold set by the central bank MUST have a min. capital: Rwf 5million;
- MFIs Public Liability Companies (PLCs) = SA in french: Min. capital:Rwf 300 million;

Category IV:

- MFIs Limited Liability Companies (LLCs)= SARL in French: microcredit - only
- institutions/ Non-deposits taking microfinance institutions.
- Min.capital:Rwf 300 million.

Regulatory framework: Carried out by 2 institutions namely the Central Bank of Rwanda and the RCA

- RCA has a Deputy Director General (DDG) who is entrusted with SACCOs promotion & supervision.
- The major activities are:
 1. SACCOs Registration
 2. SACCOs Promotion &
 3. SACCOs Regulation

Under DDG, there are two units: SACCOs Development Unit (SDU) & SACCOs Supervision Unit (SSU).

BNR established a dedicated Department to supervise MFIs with 3 main activities:

1. Licensing process;
2. Off-site examination;
3. On-site examination.

BNR regulates prudential norms regarding financial activities and RCA regulates cooperative aspects regarding governance & management and capacity building of SACCOs.

Though the above seems to be parallel, the 2 institutions work hand in hand.

Achievements

The government of Rwanda's willingness to support SACCOs Sector leading to financial inclusion

- The national microfinance policy and national microfinance implementation strategy;
- Cooperative law and regulation
- Microfinance law and regulation;
- UMURENGE SACCO Program

Challenges

- Lack of managerial capacity in SACCOs committees and staff;
- Inadequate Management Information systems (MIS);
- Low capacity of maintaining enough liquidity in some SACCOs(shortage of liquidity and mismatch between long term loans and existing short term resources)

Recommendations

Capacity building of SACCOs in governance MIS, accounting, management of credit,

- Merging of small SACCOs with big ones where necessary;
- Building SACCOs structure by establishing Unions which will help in the management and regulation of primary SACCOs;
- Involvement of local administration by establishing a forum with a clear TOR (Access to finance Forum) at the district level with a role of discussing on the barriers of financial inclusion;
- The Government and other stakeholders to continue debating on the NPL issue and to take appropriate measures by developing a financial education strategy with a clear communication plan on the role of savings and loan repayment.

Discussions

The two regulatory institutions prevalent in Rwanda seem to hinder or slow down growth of SACCOs due to the bureaucratic licensing requirements.

The SACCOs are encouraged to borrow from the bank for working capital requirements. SACCOs negotiate for lower rates from the Commercial banks and the central bank plays a key role in regulating the interest rates to ensure financial inclusion of the farming market. Merging of SACCOs in Rwanda is important because it enables the small SACCOs develop and access financial services from the banks.

Regulatory Framework for Botswana SACCOs: Botho Gabanamotse, Head of Banking and Research division

Mr. Gabanamotse gave a brief on Botswana SACCO regulatory framework saying that, in Botswana SACCOs are regulated by the Co-operative Societies Act Cap 42:04. The Act is currently under review. A Draft Co-operative Bill has already been forwarded to the Cabinet for approval with a view to table it before parliament sometime during this calendar year. The current Act provides for the appointment of a Commissioner for Co-operative Development to supervise the formation, registration and management of Co-operatives and encourage Co-operative development.

Rights and Duties of Societies

- Issue certificates
- A body corporate
- A perpetual succession
- Limited liability on part of its members to the assets of the society in the event of its being wound up.

This gives identity of who is running the business and who should take responsibility in the event of misunderstanding.

Rights and Liabilities of Members

- The first members of the society shall be those persons who sign the application for registration and have agreed to become and become members of on the registration of the society.
- No member of the society shall exercise the right of a member unless he has paid such membership fee and acquired such share in the capital of the society as may be set out in its bye laws.
- Every person whose application for membership has been accepted by the committee and who has signed the register of members shall be a member of the society.
- No member of a primary society shall hold more than one-fifth (1/5) of the share capital of the society.

This clause shows commitment on the member to avoid setting up a project which is not viable and allows fair distribution of shares to avoid financially able members to dominate thus limiting the principle of democracy.

Management and Administration

The authority of the members is vested in the general meeting of members.

- Every member shall have the right to attend, speak and vote at every general meeting.
- The first general meeting shall be held within two months of the society's certificate of registration.
- Elect a committee of management and such other officers as the Act or bye laws may require to serve until the first Annual General Meeting.
- Receive and consider any reports and decide any matters as may be necessary for the conduct of the society in the ensuing financial year.

Co-operative Central Fund

There shall be co-operative fund referred to as "the fund"

- The fund shall be used for co-operative movement in Botswana, to develop and maintain co-operative education, training, audit in any other way that the Commissioner considers will benefit the movement as a whole.
- Every society may be required by the Commissioner to make an annual contribution to the fund.
- The Commissioner shall administer the fund and shall report annually to the minister on the total amount in the fund, the annual income received in contributions and the purpose for which the fund has been utilized during the year.

Amalgamation of societies

- Two or more societies may with the approval of the Commissioner, by special resolution, resolve to amalgamate as a single society.

Division of a society

- A society may, with the consent of the Commissioner, by a special resolution, resolve to divide itself into two or more societies.

Power of the Commissioner include among other things;

- Commissioner may convene meetings.
- Commissioner may attend meetings
- Carryout inspections
- Discussion of inspection report.
- Carry out an investigation of society.

Challenges

The Current Co-operative Societies Act does not address the operations of a SACCOS

- Corporate governance is very weak
- Mismanagement and Fraud
- Attraction and Retention of skilled employees
- Inadequate Member Commitment
- Retrenchment
- Non Computerized Accounts

Interventions

- To make regulatory frame work specifically for SACCOS.
- Regulatory framework for SACCOS should be in agreement to the Financial Institution Act/Banking Act.
- Provide intensified education and training to equip mother body/umbrella Co-operative society the importance of its existence in so far as the development of SACCOS are concerned.
- To intensify education and training to equip Co-operative Board of Directors, Co-operative managers, with skills and competencies they require to deal with complexities of business management more effectively, especially internal controls and strict adherence to sound management practice- change mind set.

Regulatory Framework & SACCO Development – Cameroon Fombon Raphael – Cameroon

The presenter started by giving a brief history of formation of SACCOs in Cameroon as follows:

Law No. 13 of 1955 known as "Southern Cameroons Co-operative Societies Law" Assented to in Her Majesty's name on the 7 day of March,1955 and signed by J.W.Robertson, the law was enforced as a regulation as stipulated under Section 54 of the Southern Cameroons Co-operative Societies Law, 1955 by the Commissioner of the Cameroon on 1st October, 1957.

- Law No. 73/15 of 7 December 1973 Relating to Rules and Regulations Governing Co-operative Societies in the United Republic of Cameroon
- The Law was enforced as a REGULATION through Decree No 74/ 874 of 29 October 1974 to establish the Conditions of application of the above cited Law.
- Law No. 92/006 of 14/08/92 Relating to Cooperative Societies and Common Initiative Groups in the Republic of Cameroon.
- The Law was enforced as a REGULATION through Decree No 92/455/PM of 23/11/92 to lay down the procedure for implementing Law No. 92/006 of 14/08/92 relating to Cooperative Societies and common Initiative Groups.
- CEMAC Regulation Relating to the conditions governing the exercise and control of Microfinance activities. This was drawn through the following:

- Treaty of 16 March 1994 to institute the Economic and Monetary Community for Central Africa (CEMAC) and its additional documents dated 5 July 1996, notably in its Article 12;
- Convention governing the Monetary Union of Central Africa (UMAC) to define the duties of the Ministerial Committee with regards to banking and finance;
- Convention of 17 January 1992 harmonizing and regulating banking activities in Central African States;

Regulations on exercising microfinance activities

1. Established 3 categories of Micro Finance Institutions
 - Category 1: SACCO structure
 - Category 2: Limited Liability Company
 - Category 3: NGO structure
2. Authorized transactions and services.
3. Organization
4. Registration, prior Authorization, Declaration and Prohibitions
5. Sanctions
6. Prudential Norms.

Development of SACCOs in Cameroon

- SACCOs started in Cameroon as local 'njangi groups' organized around family and cultural ties.
- In 1963 a Roman Catholic Father by name Anthony Jason started the first Co-operative Credit Union in Njinikom in the English speaking North West Region of Cameroon with 16 members and savings of 2,100Fca.
- The Credit unions spread within the English speaking region and in 1968 about 34 of these Credit Unions were already in existence and joined to form the Cameroon Co-operative Credit League Limited (CamCCUL Ltd).
- The CamCCUL Network maintained autonomy until 1992 with the liberalization of the banking sector and the introduction of Law No.92/006 of 14/08/92 Relating to cooperative societies and Common initiative groups and Decree No 92/455/PM of 23/11/92 to lay down the procedure for implementing law No. 92/006 of 14/08/92 relating to cooperative societies and common initiative groups.
- As at present we have about 500 MFI with over 350 SACCO and above 200 under the CamCCUL Network.

He closed by asking ACCOSCA to come with programmes that can propel sustainability of SACCOs.

Cooperative movement in Nigeria; Dr. Joseph Itauma, President, AKISALCA, Nigeria

Dr. Itauma started by informing participants that Nigerian cooperatives will only be successful with informed and responsible leadership, as in other parts of the world. Nigeria has vast potential to improve its food production and distribution systems, and the cooperative form of business provides a strong self-help vehicle to enable producers to continue to strive toward a better future.

Cooperative movement in Nigeria started with the colonial masters, with the formulation and enactment of cooperative legislation in 1935, during this period, the cocoa farmers in Western Region formed marketing societies with the sole aim of checking the excesses of middlemen and ensuring the marketing of pure and unadulterated cocoa. The initiative was taken after submission of Mr. F.F. Strickland's report, his positive report, which stated that cooperative will thrive in Nigeria, brought about the enactment of the cooperative law in 1935. The Nigerian cooperative development policy was developed by the federal ministry of Agriculture and rural development in August 2002, which state clearly the role of cooperative sector in National Development.

In the pursuance of the above policy objectives, the Government shall:

- Recognize and respect the autonomy and operational independence of the cooperative sector.
- Ensure more effective cooperative education and regulation of cooperative affairs in the country by providing financial and material support to the Federal Department of Cooperatives, and encouraging all States and Local Government to do the same to similar units under their jurisdictions.
- Ensure the establishment of the state equivalent of the National Council on Cooperative Affairs which shall facilitate bottom-up communication in the administration and management of cooperative matters.
- Promote the creation of National Cooperative Development Fund and a National Cooperative Financing Agency to provide financial backing for the development of Cooperatives in the country. The Fund shall provide guarantee for on-lending to cooperatives in the country.
- Direct the National Planning Commission and the office of the National Economic Adviser to ensure that the cooperative sector and its legitimate interests are well reflected in the determination of national economic development policies, plans and priorities.
- Set up Cooperatives Investment Advisory Committee to guide societies, unions and apexes in making prudent and profitable investment decisions.
- Ensure that all National Apexes are fully operational and are managed properly in accordance with Cooperative tenets and principles, and
- Ensure that regular auditing of all Cooperatives is carried out and the results presented for the information and consumption of all Cooperators and the general public.

He concluded by saying that all of the above beautiful and attractive policies on the role of government and that of the cooperative movement in Nigeria only exist on paper, and none is implemented, apart from registration of cooperative, and thereafter the societies have little or nothing to do with government, this is because the Nigerian government is over dependent on crude oil, which brings in enough money to be embezzled hence the lack of interest develop cooperatives. The cooperatives that exist in Nigeria are not properly regulated.

The Role of the National Apex Bodies in Regulation Framework Implementation. George Ototo, M.D.KUSSCO, Kenya

Mr. Ototo started by requesting the participants to take this as an interactive session. He observed that we are cooperatives because we rely on cooperation and the African socialism was made up of cooperation, there is need for the African continent to emancipate itself from a state of mental slavery brought about by the colonialists.

In Kenya the SACCO Societies Act 2008 is premised on the Co-operative Societies Act Cap 490 Laws of Kenya, this law is meant to specifically regulate deposit taking SACCOs. It is basically divided into three parts namely:

1. Establishment of an Authority
2. Regulation of deposit taking SACCOs
3. Establishment of the Deposit Guarantee Fund (DGF).

The role of an apex institution in Kenya (KUSSCO) is therefore defined under section **91 (1)** *“The Minister may in consultation with the apex society make rules for the better carrying out of the provisions and purposes of this Act”*. The overall task of the Union in a regulated environment is to support and promote the regulated SACCOs to meet the compliance requirements, given that heavy handed regulation with little or no accountability is counter-productive, the Union must strongly engage the regulator.

On regulatory and accountability issues it is prudent to note that SACCOs will be the key financiers of the regulator, so the Union has to focus strongly on:

1. Playing a strong Advocacy role; there will be need to push for some amendments to the Act and Regulations.
2. Development and provision of necessary technical and financial assistance to SACCOs. In this regard, the Union has to specifically:
 - Provide education and training services. This is to promote good governance and improve on management practices in SACCOs.
 - Operate a strong SACCO members’ loan protection scheme for stability of SACCOs in the event of death and permanent disability.
 - Offer consultancy services on compliance. This will greatly assist in checking the incidences of non compliance, thus reducing conflict between the regulator and SACCOs. (In addition to what the department is doing, there is need to explore provision of technical management services to SACCOs that are experiencing management problems)
 - Monitor the implementation of the regulations and intervene on behalf of SACCOs on punitive or retrogressive aspects through development of a feedback mechanism. (There will be need to push for some amendments to the Act and Regulations).

He mentioned that the Central Finance Fund acts as a lender of last resort through provision of an inter-lending facility. The compliance products in place have tried to address this.

The government has allocated the Youth Development Fund to be channeled through SACCOs and this is a good marketing mechanism.

Discussion

For an organization to become a member of Kenya Union of Savings and Credit Cooperation (KUSCCO), it needs to have an asset base of Ksh. 10m and as per the 2007 statics 76% of the SACCOs in the country had met this requirement. KUSCCO products are organized under departments and this helps in meeting the liquidity process.

The training department sensitizes members before enactment of a bill, seminars and workshops are held countrywide on practical issues that take part in a business environment.

The Risk management department's duty is to protect the SACCO funds, the compliance department is charged with developing business plans and recruitment of quality staff. KUSCCO provides technical support to SACCOs in case they run into problems e.g mismanagement, there is also a feedback mechanism in place and members can write their complaints which are promptly addressed.

SACCOs need to address issues of ICT as this is a big challenge, there is also need for sensitization on how to diagnose minimum requirement on transactions, In Kenya SACCOs have partnered with mobile service providers to carry out daily cash transactions.

It is important for SACCO to be regulated as this will bring about good governance, build public confidence, growth in membership, reduce problems in cash flow, which will lead to members being able to access large amounts of credit to make large investments and improve their economic status.

The difference between FOSAs and other SACCOs is that FOSAs are deposit taking, members can carry out daily transactions of cash deposits and withdrawal over the counter or by using ATMs as opposed to monthly savings like other SACCOs, some FOSAs also have back office operations.

For success to be realised we need an evolution kind of process.

Interactive Panel Discussion: Identifying Legislative Challenges facing SACCOs in Africa and ACCOSCA's Possible Roles. Moderator: Hon. Louis Opongo – Uganda

Panelists:

Mike Gama, Deputy Commissioner Ministry of Commerce and Trade – Swaziland

Botshabelo Mafarlane, Deputy Commissioner Minister of Trade and Industry – Botswana

Fredrick Odhiambo, Commissioner Ministry of Cooperative Development and Marketing Kenya

Topics

In Africa SACCOs have been classified as vehicles for economic growth due to the role they have played in financial inclusion as such the increasing need for prudential insights. The regulation is meant to safeguard member's interest as well as creating trust in the subsector for the members/potential members. Unfortunately the implementation of such legislations is faced with a series of challenges.

Question 1. Some countries had adopted the existing regulation framework for the banks and MFIs, or have used the regulations in place (banks) as a premise to build the SACCO regulation. What is the impact of this on SACCO operations?

Response from the Panelists:

- Banks in the past did not accommodate the masses hence the formation of cooperatives, therefore using the bank laws will alienate some members

- Banks and MFI's main objective is profit making, while SACCOs are there to help members meet the economic and social needs, therefore there is need for specific laws for SACCOs not to rely on banks and MFI regulations.
- Some SACCOs in Kenya are as big as banks and there was need for them to be regulated hence consultative meetings were held with the stakeholders i.e. the Ministry of Cooperative Development and Marketing, Ministry of Finance and Central Bank and it was agreed that SACCOs were unique and could not be regulated under Central Bank, hence the formulation of Cooperative Society's Act and the SACCO Society's Act. During this process the stakeholders borrowed what applied to SACCOs from the Banks and MFIs Act. This has impacted positively as it brought more confidence in the SACCOs, attracted more funding from the government and enhanced savings.

Comments from Participants:

- SACCOs are quite different from other financial institutions, therefore it will be unfair to regulate them under Banking and Financial Services Act.
- The fact that SACCOs are financial institutions just like banks, there are many factors that make them different from banks e.g. SACCOs are mainly patronised by the poor rural folks who cannot access other financial services.
- There is need for assurance that the regulatory body will not be a parasite to the rural folks, members contribution should not be interfered with.
- The regulatory framework will differ from country to country depending on the size and maturity of the SACCO.
- Good Specific laws can promote SACCOs.

Question 2: Governance and transparency, which one do you consider to be more important and why?

Response from the Panelists:

- Governance is good relationship between management and shareholders, mutual respect and understanding, while Transparency is readily available information to members and the general public for disclosure. They are both important in that transparency leads to good governance, you cannot have good governance without transparency.
- Governance is the biggest challenge across the board and it leads to proper structures and controls, both are equally important but governance is key.

Issues raised:

- The two (governance and transparency) are synonymous but cannot do without accountability.
- Without governance and transparency the management board tend to be selfish and borrow more than what is stipulated in the policy.
- Governance and transparency cannot be complete without integrity.
- To whom should one be transparent to? The terms and conditions of service, the law of the commissioner of cooperatives, since the law stipulates that no information should be available to outsiders without the consent of the board, confidentiality also forms part of the transparency.
- Governance is more fundamental as it easily covers up the issue of transparency, it is more important than transparency, the Act supersedes all the other statutes, statute authenticates the Act further.

Question 3: Regulatory framework limits SACCO's product line or stifles innovation through the prudential standards required to be met in regard to capital requirement, loan classification, liquidity, product etc. What is your opinion on this?

Response:

- Regulatory framework does not in any way stifle creativity, it only acts as a guide on the investments that SACCOs may engage in. Some SACCOs have moved their core activity and are investing in assets that are not liquid thus hampering the working capital requirements of the SACCOs.

- With or without regulations we are somehow regulated, there is regulation across the board, the question is therefore, what kind of regulations have we introduced that are challenging?
- Development of regulations should be done in an inclusive manner and all the stakeholders have to be involved for a sense of ownership.
- We need to come up with regulations that guide and enhance innovation and should not contravene the law.
- Regulate but do not lose sight of the fact that SACCOs serve a different population.
- Regulations instill public confidence and improve competitiveness.
- Regulations are there, they may be the SACCO's laws, by-laws or loan policy.
- When innovation goes against the law, regulations will stifle innovation, innovation should be done within the confines of regulations.

Comments from Participants:

- Regulations bring about certain standards which are to be fulfilled, societies should stick to their core business.
- Regulations bring good governance leading to members leaving up to certain prudential guidelines to become more innovative.
- Regulations and cooperations are core partners in business, as it improves risk management.
- If regulators and supervisors partner in business there is no way that regulation will stifle innovation.

Question 4: Apex National Organizations or Government; who to champion the regulation framework?

Response from the Panelists:

- Both the government and apex body should champion the regulation framework.
- The government is the regulator and all stakeholders must be involved.
- The government should champion the regulatory framework since it is the umbrella body and knows where she wants to take the nation.
- The government has the vision of a country it is therefore well placed in coming up with regulations and take control
- The government should guide the development of SACCOs.
- Both the government the apex body should partner in championing for regulation framework, though the government should enforce it through an agency e.g. SASRA in Kenya.
- The apex body should play a key role in raising red flags to the government.
- Counter productive laws should be reviewed e.g. small SACCOs should not be forced to merge but rather let do it voluntarily.

Question 5: What role should ACCOSCA as a continental body play in this discourse?

Response from the Panelists:

- ACCOSCA should assist her members acquire better ICT for apex bodies and SACCOs
- ACCOSCA should provide general support for apex bodies in terms of carrying out programs in different countries to develop SACCOs.
- Sensitize leaders and law makers on issues of SACCOs.
- Help in guiding the formulation of legislative framework in different countries that lack the same.
- ACCOSCA is better placed to advise on a middle path and train on finance and good governance.
- ACCOSCA on a continental level should steer the adaptation of best practices from different countries.
- Organise education and training where participants can exchange experience and learn from others.

- To lobby for policies to be put in place at continental level, at country level it maybe abit hard to justify.

Meeting supervisory and Licensing requirements for SACCOs in Africa; Dr. Tshegofatso Gape, Supervisor South Africa Reserve Bank

Growth and financial reforms prompted inclusion of SACCOs/FSCs in general banking environment

SA Government responded by the Co-operative Banks Act

- Promotes development and regulation of FSCs and SACCOs
- Co-operative Banks Development Agency was established to assist with development of FSC
- Supervisors appointed to supervise and regulate co-op banks
- Promotes co-operation and co-ordination – SARB and CBDA
- Encourages the establishment of a deposit insurance
- Encourages the establishment of an appeals board

Co-operative bank means a co-operative registered as a co-operative bank whose members

- Are of similar occupation or profession or who are employed by a common employer or who are employed within the same business district
- Have common membership in an association or organisation, including religious, social, co-operative, labour or educational groups
- Resides within the same defined community or geographical area

The following are types of Cooperative Banks in South Africa:

- A primary savings co-operative bank
- A primary savings and loans co-operative bank
- A secondary co-operative bank; and
- A tertiary co-operative bank

To be registered as a cooperative you have to fulfill the following requirements:

- Completion of the application form (CBF1)
- Specify the type of co-operative bank
- The registration certificate as a co-operative under the Co-operatives Act
- Constitution
- Business plan
- Savings and loan policies
- Sufficient human, financial and operational capacity
- The necessary experience, knowledge and qualifications
- Fit and proper person

Capacity Building by CBDA

During the Strategic planning session with the board and management the CFI reviews its previous plan to determine successes or failures, review vision and mission statements, supervisor's findings including the risk factors are discussed, key strategic issues are developed for the planning period.

The CBDA assists in developing and or reviewing policies (loan, liquidity and investment policies) and marketing plan, monitor financial performance and advice accordingly, follow up on the implementation of the strategic plan, train board members, management and staff on governance, credit management, setting of interest rates and other programmes.

Prudential requirements on loan

- Loans not to exceed 80% of total assets
- Require 2% provision on ALL loans, additionally
- 1-6 months 35%
- 6-12 months 50%
- > 12 months 100%

Prudential requirements on liquidity

- Max 5 percent of total assets may be held in fixed and non-earning assets
- Minimum 10 percent of total deposits must be held in “prescribed investments” with a tenure not exceeding 32 days and convertible into cash at any time
- Minimum of 25 % of total deposits must be deposited with either the Agency or a higher tier co-operative bank
- Balance of deposits must be held in prescribed investments
- Balance granted as loans up to a maximum of 80 percent of total assets
- Loans cash donations may not exceed 15% of total deposits

Prudential requirements on large exposures

- Hold no deposit from any one member or related person, exceeding the lesser of 10 percent of the total assets held by or 25 percent of the capital of the co-operative bank
- A co-operative bank may not make an investment with any one person or related person or grant a loan to any one member or related person, which exceeds the lesser of 10 percent of the total assets held by or 25 percent of the capital of the co-operative bank

Discussion:

Loan interest rates are set by board and cooperative banks do not charge interest on average daily balances like commercial banks.

Strategies to develop Effective Legislative Framework – Kenya Experience; Peter Njuguna, Chief Manager SASRA, Kenya

The presenter started by posing this questions to participants:

Why are we regulating SACCOs and what next after they have been regulated?

Below are some of the points that came out during the presentation:

Effective regulation and supervision of all financial institutions safeguards the stability of a country’s financial system and protects the saving deposits of its people “*Technical Guide, Credit Union Regulation and Supervision, World Council of Credit Unions*”

SACCOs in many countries represent only a small portion of the financial sector’s assets and deposits. This is because SACCOs:

- Focus on providing financial services to the poor, low and middle income individuals;
- Are established at local level;

Thus; so should they be regulated?

Although SACCO assets/deposits may be low in comparison, they serve large numbers of small depositors, and as such should be regulated and supervised

Guiding principles for SACCO law

A strong supervisory framework for financial institutions is built upon legislation that is:

- Predictable
- Proportional
- Prudential

Difference from Banks legislation

SACCOs are often formed:

- a. By individuals who are the depositors, borrowers & owners;
- b. To provide financial services hitherto inaccessible to those individuals
- c. As not-for-profit institutions, and hence no external shareholders;

SACCOs have:

- d. Limited ability to raise capital, no access to capital markets
- e. Board of directors is democratically elected from amongst the members

Difference from MFI legislation

SACCOs:

- a. Intermediate a broad array of financial services beyond credit.
- b. Mobilize voluntary public deposits from their members on a much greater scale.
- c. Are community-owned by individuals with equal ownership.

SACCOs differences from other Cooperatives

- a. specialize in financial intermediation, which necessitates adherence to prudential financial standards and supervisory oversight
- b. require access to liquidity mechanisms (Central bank or legal mechanisms as well as to payment, settlement and clearing networks)
- c. Require to maintain capital base from retained earnings from operations.

Journey towards SACCO Regulations

Laying the foundation

- 2004: A Task Force comprising Ministry of Cooperatives, Sacco subsector representatives and other stakeholders is appointed
- Views are collected culminating in a Stakeholders workshop in 2005

First Sacco Societies Bill is drafted in 2006 but does not get to National Assembly

Developing the Sacco Societies Bill

2007, 2nd and more inclusive task force appointed comprising of:

- Commissioner for Cooperative Development (CCD)
- Central Bank of Kenya (CBK)
- State Law Office (Attorney General Office)
- Kenya Union of Savings and Credit Cooperatives (KUSCCO)
- Kenya Rural Sacco Societies Union (KERUSSU)

Enactment of the Bill into Law

- Bill introduced to the National Assembly in August 2008
- Debated and enacted in October 2008
- Huge support in National assembly because Sacco societies are well known in Kenya
- Became law in Dec 2008, - Sacco Societies Act, 2008

Challenges in developing the Sacco law

- Resistance to change - Consensus building
- Initial focus was on Front Office Service Activity (FOSAs)
- Some provisions removed/amended

He concluded by saying that consensus building is key in developing regulations. Regulation has a positive effect in that it leads to standardized reporting, encourages disclosure and accountability and raises confidence in the sector.

Improving SACCO performance through Capitalization and Mergers, the implication on the Regulatory Framework: Peter Njuguna, Chief Manager SASRA, Kenya

Mr. Njuguna started by giving a break down on the country's SACCO sub-sector statistics as follows:

He started by highlighting the statistical picture of the sector. Currently there are 5544 registered cooperatives out of which only 3983 are active, the cooperative sector has an asset base totaling USD 2.7 Bn, with deposits at USD 1.8 Bn and loans given out at USD 1.8 bn. There are 230 registered FOSAs and 1983 non-FOSA SACCOS. A comparison between FOSA and non-FOSA shows that FOSAs have larger membership at 1.5m with annual turnover of 81%; non-FOSAs have membership at slightly over 0.3m with annual turnover at 19%.

SACCO Regulation in Kenya

Prudential regulation applicable to FOSA SACCOS Reason: Systemic risk concentrated in FOSA SACCOS which besides non-withdrawable deposits provide:

- Demand deposits;
- ATM services;
- Money transfer;
- Other financial services

Non-FOSA SACCOS supervised under the Cooperative Societies Act

The 230 FOSA SACCOS have up 17th June 2011 to submit license application, 195 have already applied, 10 have decided not continue with FOSA, and 15 are yet to apply.

Improving SACCO Performance, Key considerations:

1. Why improve Sacco performance?
2. What is the measure of a well performing Sacco?
3. What are the indicators of a financially sound SACCO Subsector?
4. Is capital necessary in improving Sacco performance? What should come first?

What is the policy objective?

Informed by the national economic goals and context

- Financial Access as a poverty reduction strategy by the Government
- Financial stability;
- Enhance competitiveness in provision of financial services
- Shared objective – by all stakeholders

- Felt need to avoid resistance

What are the measures of good performance?

Depends with the stakeholder

- Members – Borrowers or savers;
- Employees;
- Board of directors and management (SACCO itself);
- Regulator/Government;

A good performing Sacco balances the demands of all the stakeholders to ensure that member's needs are served and met within a business framework or model that:

- Satisfies legal and regulatory requirements;
- Promotes national development goals;
- Long term sustainability of the institution/Sacco society.

Prudential regulation endeavors to promote this kind of a Sacco subsector in an economy

Study tours to SACCO's in Kenya

Participants had an opportunity to visit 2 SACCOs around Nairobi and the SACCO Regulator SASRA, to learn more and share experiences, the SACCOs visited were; Kenya Bankers' Association and the Kenya Police SACCO.

Developing Supervisory Tools for SACCO Growth: Dr Tshegofatso Gape, Co-operative Banks Supervision Unit, South African Reserve Bank

Two broad functions for a supervisory tool in cooperative development is to regulate and supervise the sector Under Regulation there is provision of input into developing and interpreting legislation, rules and regulations and issuing guidelines or guidance notes. Under Supervision there is assessing the safety and soundness, providing feedback to institutions and using supervisory powers to intervene.

The responsibilities in terms of the Co-operative Banks Act

- To register co-operative banks
- To safeguard depositors' interest
- To uphold the public confidence in the co-operative banking system
- To set supervisory guidelines for analyzing risk
- To assess and highlight the risks co-operative banks are exposed to
- To ensure that co-operative banks are well managed
- To provide guidance to ensure that corrective actions are taken
- To enforce compliance by co-operative banks through the legislation
- To draft rules and regulations of co-operative banks

The objective of the supervisory framework is to provide an effective process to assess the safety and soundness of co-operative banks by evaluating Risk profile, Financial condition, Risk management processes and comply with the act, rules and regulations.

The Key principles of the Regulatory Framework are:

- Conducting supervision on a branch basis
- Exercising sound judgment in identifying and evaluating risks
- Focused on clearly identified risks or areas of concern

- Frequency of supervisory scrutiny depend on the level of the risk
- Financial analysis, compliance, internal control and risk management
- Communication of findings and recommendations
- Degree of intervention will be commensurate with the risk profile
- Ratings are provided after each on-site review
- Reliance on external auditors for the fairness of the financial statements
- Benchmarking studies to improve supervision

The main steps of the supervisory process are:

- Overall analysis and developing institutional profile
- Planning, cycle, programme and scope
- Periodical review taking place
- Documentation of the findings
- Reporting findings
- Recommendations
- Follow-up on corrective action

The risk profile is measured by identifying the strengths and vulnerabilities e.g. significant activities (organizational chart, finance, business and strategic plans, inherent risk, quality of management

Developing risk profile

- Focus on risks threatening safety and soundness of a co-operative bank
- Identify the type, level, management, and direction of the risk
- Development of risk matrix with risk assessment narrative

Discussion

All financial service cooperations have to provide long term loans because the small SACCOs do not give loans they only receive deposits until they stabilize. Currently reporting and supervision is carried out quarterly but after it was reviewed it has been decided it will be done after every 4 months.

After supervision SACCO feedback is given to the manager to compile then forwarded to the board of management. As per the five CAMEL components namely Capital, Asset quality, Management, Earnings and Liquidity, which are quantitative to measure the qualitative the board is interviewed guided by the number of responses from the board and there is a tool in place to do the measurement.

Regulations and Policy Formulations, the Implementation Challenges ahead of us: Peter Owira-SASRA – Kenya

Mr. Owira started by informing the participants that in Kenya there are 5 regulators namely; the Central Bank, the Capital market Authority, the Retirement Benefit Authority, the Insurance Regulations and Authority and the most recent is the SACCO Society Regulation Authority.

Global Statistics

- According to WOCCU statistical report 2009, Africa has a membership of 16million making it third in membership size after North America and Asia which have 102 million and 36 million respectively
- The continent's Sacco membership of 16 million constitutes 8% of the entire world membership of 183 million
- Compared to other continents Africa mobilizes only 0.4% of the global savings which is USD 1.1 trillion and 0.4% of global loans provided to the membership standing at USD 912billion.

- North America, generally consisting of Canada and United States are the major players with savings and loans up to 83% and 84% of the statistics.

African Statistics

- According to WOCCU statistical report on 97 countries surveyed in 2009, Africa had a total Sacco membership of 16 million, with savings worth USD 4.4b and loans of USD 3.9b
- Of the total savings mobilised by SACCOs in Africa and loans advanced, Kenya contributes up to 62% of the savings and 65% of the Sacco loans

Kenyan Statistics

- In Kenya, the Sacco movement has evolved in the past 40 years into a formidable force for the social and economic transformation of Kenyan people.
- There are over 12,666 registered co-operative societies with a membership of over 7 million out of which 5,956 are SACCOs and 230 have Front Office Service Activities (FOSAs)
- About 63% of the Kenya population directly and indirectly depends on the co-operative related activities for their livelihood.
- The Sacco sector has mobilized over Kshs 200 billion in savings which is about 31% of the national savings
- 70% of total Africa continental portfolio is Kenyan which is 7th worldwide
- Kenya sits in the group 10 largest co-operative movement (G10) members countries

Reasons for the achievement of the above statistics:

- Support from the government through the Ministry in charge of co-operatives
- Positive savings culture of the movement members
- Improvement in the agricultural sector has seen the farmers co-operatives thriving in the recent past
- The application of best practices and prudential standards,
- Modern management and good corporate governance

Many countries in Africa have focussed attention on the legislation of microfinance and non banking financial institutions, some have adopted prudential standards specific to SACCOs while other use existing banking laws to regulate SACCOs, thus, in most of the African countries, regulation and supervision of SACCOs are under the Banking supervisory Authority (central banks), while others such as Kenya and South Africa have independent regulators with specific regulations- Sacco Societies Act and Co-operative Banking Act respectively.

SACCOs generally serve small percentage of a country's financial sector's total assets, they focus on providing retail services to the low income population, despite low assets of SACCOs compared to commercial banks, and they serve large number of members/depositors. Of the 19 million Kenyan adult population 22.5% are served by commercial banks and MFIs while 17.6% are served by SACCOs.

Benefits of Regulations:

- Integrates SACCOs into the formal financial sector
- Enhances confidence - leadership and Management of SACCOs, members & sector
- Encourages fair competition by demolishing unethical business practices
- Creates new business opportunities for SACCOs-Agency business, GoK development funds
- Shifts focus to institutional development rather than individual leaders & managers

Challenges facing Regulators

Low capacity of regulators

- ✓ Limited financial resources
- ✓ Limited skilled and competent manpower who fully understand Sacco operations
- Low adoption of technology- from SACCOs and regulators

- Different growth phases of SACCOs-some easily meet the prudential standards whereas others struggle
- Legal tussle between regulators and SACCOs
- Change resistance
- Complex multifunctional institutions which border between a Sacco, MFI and a bank
- Political expediencies
- Meeting higher members' expectation (regulator is seen as "the saviour")
- High innovations from SACCOs that attracts constant review of laws to keep up with the pace of innovation
- Lack of responsible governance players (Sacco board of directors)

Steps in Policy Formulation

- Needs assessment: decide whether a new policy is required
- Promote new policy: to discuss the pros and cons
- Make the process more participatory by engaging stakeholders
- Adopt the policy- (with challenges)
- Monitor and evaluate the progress after implementation
- Review to conform to the operating environment

Discussion

There is no mechanism of transforming SACCOs to a bank in Kenya, the structure of SACCOs in Kenya is member based with a common bond, the SACCOs must do business for its members only.

For one to come up with a law there has to be a need, the law has to have benchmarks and those who are locked out are encouraged to merge to meet the statutory requirement.

Currently SASRA is financed by the ex-checker until it breaks even, that is when it will stand on its own.

We appreciate the uniqueness of the fact that SACCOs want to diversify but they still have to be regulated.

Adaptation to the new Sacco Legislative policy: The case of change management: G.A.Dulo, Adapt Management Consultants

Mr. Dulo started his interactive session by asking the seven million dollar questions below

1. Why do the mighty fall?
2. Why did the Dinosaurs become extinct?
3. Why are some winning organizations losing out to new rivals
4. How did the Japanese overtake the Swiss in watch making?
5. Can you teach old dogs new tricks?
6. Where are the Jaguars?
7. What must you do to survive and thrive in today's volatile and chaotic times?

The answer to all the above questions was Adaptation.

He went on to say that adapting to change is very crucial as survival and success in today's world depends on our capacity to adapt. Organizations cannot thrive today without learning to adapt to changing business landscape. The premature extinction of the Dinosaurs was purely due to their failure to adapt to the changing world. Adapt or perish is the new slogan in the 21st century. Change and turbulence is increasingly becoming the new order of the day. Virtually everything else except change is changing at lightning speed to survive and thrive, individuals and Organizations have to constantly adapt fast adaptation can take many forms

People and institutions need to adapt to a changing world. A company that evolves fast can be profitable, companies that evolve fast and constantly adapt will triumph, virtually everyone or institutions have the capacity to adapt to any changing situation but survival is not enough, one has got to zoom.

Paradigm shift in Sacco sector

- The hitherto relatively stable Sacco sector is undergoing unprecedented Change
- The sector is changing in very fundamental ways
- Changes occurring in the sector range from introduction of new regulatory frameworks to new governance systems
- The sector is now in the radar screen of a new Regulatory Authority
- Change in the Sacco sector is driven by a multifaceted forces-new technology, new regulations and the desire by members to safeguard their savings and need to regain winning public confidence
- All deposit taking SACCOs have to conform to new regulatory requirements or bite the dust
- The honey moon is over for Inefficient and poorly managed Sacco's
- Sacco's are no longer going to be cash cow for greedy officials

Major causes of paradigm shift

- New laws and Regulations
- The need to regain public confidence
- Increased cases of corruption and other malpractices
- Questionable investment of members funds
- New technological advances
- Shifting customers tastes and preferences
- Quality and caliber of directors
- Changing demographic profiles of the workforce
- Increased competition from all corners of the globe
- The need to create a more stable and thriving sector with the capacity to contribute to the social and economic growth of countries
- The need to attain parity in the financial sector

Adapting to SACCO's new changes means

- Repositioning SACCOs to meet new regulatory requirements
- Aligning SACCOs to new ways of thinking and working
- Alignment entail restructuring, mergers and acquisitions
- Review SACCO business models, strategies ,processes, people, structure ,by-laws and policies

What it takes to succeed in the new era of constant change and turbulence

- Embracing speed-speed is now everything
- Flexibility and adaptability
- Creativity and innovation
- Better governance system
- New business models
- Developing and nurturing a winning Team
- Conformance to new regulatory requirements
- Reinventing the self and organization
-

He closed by saying, the time to start the walk is now and today is the day for the start of the new journey to a new world of extraordinary performance, you were put on this planet Earth for a purpose, a purpose that gives meaning to your life and to the lives of those you touch, becoming a change champion and a leader is a matter of choice.

Discussions

- Relating changing slowly with transition, some changes must be fast but other slowly especially when dealing with complex issues. Transition is moving from one state to another

- The fear of failure makes people avoid trying out new things, there is need to have heroes (change agents) who are ready and willing to try out new things and change the mind set of others, especially those who resist change
- The development of Africa remains in the hands of Africans, we know our problems and therefore we know the solutions.
- Gradual change is good and lead to normal philosophy.

Recommendations and Resolutions

- ACCOSCA should take a leading role in identification of problems faced by SACCOs in Africa and come with ways to mitigating them
- ACCOSCA should take a leading role in developing SACCOs in Africa.
- ACCOSCA to gather best practices from different countries and come up with a documentation to disseminate to other countries in need.
- During such workshop ACCOSCA should be cognizant of the different languages presented in the African continent and avail translation services
- ACCOSCA should create an awareness campaign among the African states
- ACCOSCA should organize a meeting for Ministers of Cooperatives in Africa to learn and exchange ideas with each other
- ACCOSCA should be represented during the African Union meetings at least as observers
- ACCOSCA to negotiate for grants to assist on SACCOs to computerize the operations and define Suitable software program.
- ACCOSCA to assist with capacity building specifically for political leadership.

Closing Remarks: Mr. Bothshabelo Mafatlane, Deputy Commissioner, Ministry of Trade and Industry Botswana

Mr. Mafatlane started by saying he is very humbled to close the workshop and thanked ACCOSCA for organizing it, he said it was worthwhile as participants will take back new ideas from the exchange they have had and the comprehensive presentations, he added that the stakeholder within the SACCOs sub-sector meet as often as possible with view of knowledge sharing. This Regulatory Thematic workshop, he noted that Kenya was the appropriate country to hold such trainings because it is excelling in cooperative development in Africa.

He further thanked the presenters for the good work and well informative papers that were relevant and educative. He congratulated Kenya, Malawi and South Africa who have regulation frameworks aimed at meeting the needs of the sector. He noted that SACCOs are unique and need to have unique regulations and thus policy maker should support the revolution of cooperatives in Africa through contextualized regulations. He quoted a saying by former President of South Africa "The greatest tragedy on earth is not death but life without a purpose", let us have purpose in taking cooperatives in Africa to greater heights, let us have a vision and know where we want to go. People who succeed in life are positive about life.

Regulations are not stumbling blocks but stepping stones to SACCO development and success. As cooperators we can make it, let us see the glass has full and not half empty. The current governance wave across Africa should be a change that unite the sector and not destroy.

Lastly he thanked everybody for their patience and full participation and declared the African SACCO Regulatory Framework Workshop officially closed.

The workshop ended on 17th June 2011 at 15:30 GMT