AFRICA SACCO REGULATORY FRAMEWORK WORKSHOP

ORGANISED BY AFRICAN CONFEDERATION OF CO-OPERATIVE SAVINGS AND CREDIT ASSOCIATIONS (ACCOSCA)

WORKSHOP REPORT JUNE 2012

Theme: "Working together towards an effective regulatory policy for Co-operative Financial Institutions"

Representatives from Fourteen: Botswana, Canada, Ghana, Malawi, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Uganda, USA, Zambia, Zimbabwe, and Kenya.

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Acknowledgements

The 2nd Africa SACCO Regulatory Workshop was attended by delegates from 12 countries in the Cooperative financial institution sector from Africa together with 2 delegates from Canada and the USA.

The workshop which was organized by ACCOSCA was held in Nairobi and special thanks go to the key stakeholders World Credit union (WOCCU) and Canadian Cooperative Association (CCA) your support and presentation were enriching.

Additionally Special thanks go to the Government of Kenya

- Hon. Dr. Linah Jebii Kilimo, Assistant Ministry of Co-operative Development and Marketing for officiating the workshop
- Hon. Joseph Nyagah Ministry of Co-operative Development and Marketing (Kenya) for gracing the workshop

To the commissioners, registrar and government representatives, your presence and participation enriched the program. To the presenters, the workshop gained such recognition from your contribution, thanks for spending time to share your knowledge and experience. Special thanks go to the Liverpool VCT team that carried out the HIV testing and counseling in support of the Know Your Status campaign advocated for by ACCOSCA.

G-Ombado
Executive Director

List of Abbreviations

BOSCA	Botswana Savings and Credit Union
CCA	Canadian Co-operative Association
CFI(s)	Co-operative Financial Institution(s)
CRC	Conduct Review Committee
CUA	Ghana Cooperative Credit Union Association
CU	Credit Union
CUSA	Credit Union and Savings Associations of Zambia
FSD	Financial Sector Deeping- Kenya
GoK	Government of Kenya
IRC	Investment Lending Committee
KUSCCO	Kenya Union for Savings and Credit Cooperatives
FIA	Financial Investment Act
SACCOs	Savings and Credit Cooperative Societies
SASCCO	Swaziland Association of Savings and & Credit Co-operative
SASRA	SACCO Society Regulation Authority- Kenya
MUSCCO	Malawi Union of Savings and Credit Cooperatives
WOCCU	World Council of Credit Unions

1 Opening

1.1 Welcome Remarks by George Ombado, Executive Director ACCOSCA

Mr. Ombado welcomed participants to the workshop and to Kenya. He noted that there is need to engage extensively throughout the workshop and at the sites that were to be visited during the field visits. He urged the participants to take full advantage of the varied country experiences with regard to regulation as would be presented during the workshop through discussions, networking, and alliance building at national, regional and even international levels.

Mr. Ombado informed the participants of the day's programme which was to start with brief country reports, followed by field visits to: The Bankers' Union Sacco, The Kenya Police SACCO, and SASRA. He informed the participants that a debriefing for the field visits would be conducted in the afternoon session and thereafter a café session to end the day's proceedings.

He informed the participants that In the interest of time, only the countries whose presentations were ready would be presented in the morning session but that all available country status reports would be circulated to members once received.

2 Workshop Objectives

It was expected that at the end of the conference, at least four key objectives would have been met by the participants. These objectives were to:

1. Identify solutions to common challenges affecting implementation of co-operative legislations
2. Review and understand different dynamics that Cooperative Financial Institutions face across the continent.
3. Promote conducive working environment between the regulators and implementers during supervision
4. Comprehend the level of cooperative governance structure in African Countries.

3 Summary of Workshop Presentations

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

3.1 Brief Country Status Reports

3.1.1 BOTSWANA

The current situation of cooperatives in Botswana was presented by the Commissioner for Cooperatives in Botswana, Botshabelo Mafatlane. From the presentation, the current state of cooperatives in Botswana revealed a steady rise in membership enrollment of 2.3% in 2010 and

2.5% in 2011. Savings dropped by 5.6% in 2011. This was attributed to the recession and possible withdrawing of savings by members to meet their financial needs. On the other hand, there was an observed increase of 4.5% in 2010 and 15% in 2011 in employment in the SACCOs. Mr. Mafatlane indicated that CFI's in Botswana do not have specific regulation but their operations are guided by the general Cooperative Societies Act.

3.1.2 SOUTH AFRICA

The situation of cooperatives in South Africa was presented by Mr. David De Jong, a supervisor with The Cooperative Banks for Development Agency of South Africa. The country has many banks but almost 40% the banked are under served. Out of the entire population, approximately 30% have no bank accounts. An observed drop in Credit Financial Institutions and also in Membership in the CFIs in the period between 2010-2011 and 2011-2012 was experienced. The Number of CFI's dropped by 12.5% while that of membership also dropped by 10.4% in the period under review. Despite the drop in membership and in CFI's, savings increased by 12% in the same period. The Banks' Act of 1981, The Cooperatives' Act of 2005, and The Cooperatives Bank Act of 2007 are the main legislations within which Credit Financial Institutions work.

3.1.3 MALAWI

Mr. Dickson Chidumu of the Reserve Bank of Malawi presented the situation of cooperatives in country. In the period under review, 2009-2011, Malawi observed an increase in GDP growth by 6.4%. However, the total number of CFI's reduced as the smaller SACCOs were consolidated for stability. The merging of CFI's faced resistance and the best lessons learnt from this experience is that intensive lobbying is required to make such mergers feasible, acceptable, and productive. There was an observed increase in savings of almost 50% experienced over the same period with increased savings mobilization in the country. Malawi's SACCO movement is regulated by The Reserve Bank of Malawi. However due to challenges in capacity, the regulator delegated the supervisory role of some smaller SACCOs to the apex body, MUSCO. This arrangement is currently in the initial stages of implementation and so far no conflict of interest has been experienced by MUSCO on its mandate to lobby for and advocate for CFI's, and its newly acquired role of supervision that has been delegated to it by the reserve bank. The Reserve bank supervises CFI's that reach a higher threshold with MUSCO supervising the rest. The regulation law was passed in February 2011 with an effective date of October 2011. Frameworks for implementation of the law are still not in place and a draft of directives indicating the minimum operational requirements for CFI's has been prepared in consultation with stakeholders. Within the law, the CFI's need to provide financial returns on a quarterly basis.

3.1.4 SWAZILAND

The situation of cooperatives in Swaziland was presented by Swaziland's Government Commissioner, Nonhlanhla Kunene. There was an observed increase in the Number of CFI's and the number of people employed in them. A significant increase in savings was also observed. This was attributed to operational policies that do not favor withdrawing of funds. Though savings are non withdrawable, members benefit through loans that they can access. The more the savings of a member, the higher the amount of loan one can qualify for. As at December 2011, total membership in the CFI's was 34, 000 with a total of USD 79.6 million. Non financial cooperatives account for 3,000 of the total registered SACCOs.

3.1.5 TANZANIA

The situation of cooperatives in Tanzania was presented by The Principal Cooperative Officer Registrar of Cooperatives'; Veneranda Mgoba. The total number of CFI's has reduced over the period under review 2009-2010. This was attributed to political reasons. Participants were informed of how politicians prop up and support the formation of CFI's during the electioneering period. These CFIs however 'die a natural death' after the elections because they do not have structures and resources with which to support themselves. An observed increase in savings was experienced during the period under review. It was also noted that there was external borrowing by CFI's from other financial institutions. Statistics were not available on the actual number of employees within the registered CFIs.

3.1.6 KENYA

The CFI model in Kenya is unique in that it addresses both economic and social development. A total of 230 CFIs in the country offer Front Office Savings Activities (FOSA) and are bigger than some commercial banks in the country. Proprietors in the public transport sector in the country were compelled to join CFIs as a requirement to getting licenses for operations. This may have contributed to the observed increase in total savings. The total membership in CFIs currently stands at 3.2 million. CFIs are not regulated by The Central Bank but by the SACCO Societies Regulatory Authority (SASRA).

It was presented that there seems to be a conflict between the traditional SACCO model and the high regulation threshold. It was explained that this was in the sense that SACCO's are not companies, they acquire and build their capital as they expand; however, regulation requires a high amount of capital before any CFI can be registered. As a challenge, it was noted that some laws and how they are crafted inhibit the growth of CFIs. For example, any CFI must inform SASRA of any new product they want to launch into the market before launching it.

As a result of regulation, some CFIs are rebranding and creating an open bond. This is however creating a challenge with loan defaulters and poaching of members.

Generally, the sector has observed increased private placements and mobilizations.

3.2 De-Briefing of Site Visits

Members were divided into three groups to facilitate field trips to different sites as a knowledge exchange activity. The sites to be visited were The Kenya Bankers' Sacco, The Kenya Police SACCO, and SASRA. This section presents the reports given for the debriefing session.

3.2.1 THE KENYA POLICE SACCO

At the SACCO, the participants were given a tour of the facility after which a discussion session was held. This section highlights the key points and observation of this site visit.

The vision of the SACCO is *To be a leading sacco in financial services regionally*. With the mission being *To mobilize savings provide diversified financial product and services through prudent management in order to maximize returns to members and stakeholders*. The SACCO's motto is: *United for prosperity*.

The SACCO has been in existence for 40 years. It started up with a membership of 690 but the membership currently stands at 34, 330. The society aims to provide an investment opportunity for members. The SACCO has a Board of Directors (BOD) and holds an annual AGM for members. The board has nine members including the CEO. The CEO is the head of finance and banking. The SACCO has several subcommittees which are: Executive, Technical, Finance and Administration, Education and Marketing, Credit, Procurement, and Audit section which conducts checks and balances within the BOD and staff. There is a superintendent whose key roles include: Oversight, acting as a watchdog for the members' money, safeguarding the society's assets and also safeguarding members' interests

The products in the SACCO are aligned to members needs. There are two main categories of products; the Back Office Service Activities (BOSA) and the Front Office Service Activities (FOSA). The BOSA products include: Super Loan repayable for 60 months at 1.25% interest per month, Normal loan, Refinancing of loans, Emergency/School fees loans, and Special Loans which are Sharia Complaint meaning that they do not charge any interest on the loaned amount.

FOSA products on the other hand include; Savings Account, Fixed Deposit, Holiday Account, Children's Account, Share Boosting, Loan Clearing, Mpesa Service, Cheque Clearing, Salary Processing and Salary advances.

Members of the SACCO have access to ATM services through the SACCO link card with cooperative bank. Members can also use any VISA branded ATM countrywide. The society also provides ***M-SACCO*** which provides mobile banking solutions. Members benefit from the benevolent fund. By contributing 300 shillings per month, on the unfortunate demise of a principal member the benefits payable are 50,000 Kenya shillings and 40, 000 Kenya shillings if it is the spouse or child of the member who is deceased. The society is currently working on a five year policy and strategy.

The Strategic pillars of operations for the society include: Financial Performance, Products and Service development, Human Resources Development, Operations, systems, Membership growth and retention, and Governance.
The SACCO emphasizes on retention of profits to build up a strong institutional capital base and increased share capital levels. The marketing and customer care department therefore focuses on: Improved office ambience and layout, Training on customer Care, Improved turn around on products and services, Flexibility in process and products, Embraced service level agreement.

The Society is aiming to be ISO Certified by 2013.

Some key challenges the society is facing are; Competition from other financial players, Loan defaulting, a poor saving culture by members combined with poor utilization of loans by loanees.

The Kenya Police SACCO was excellent case study of a success story of working in a regulated environment. The remarkable improvement was reflected I the organisations financials.

3.2.2 SACCO SOCIETY REGULATORY AUTHORITY- SASRA

The SACCO Society Regulatory Authority operates on the Camel model/ PEARUS; examiners use camel model to assess viability of SACCOs. The authority has a section for Research Policy and development. It regulates deposit taking credit unions which are currently 215. These institutions must remit their returns monthly by the 15th of every month. The authority emphasizes the fit and proper tests for the leadership of CFIs. CFI's have access to SASRA through a web based log- in to the system to upload their returns. SASRA validates the authenticity of data offsite. Of the 215 CFIs, 110 are fully registered with registration for the remaining 105 ongoing. The board of SASRA is constituted by; the Commissioner of cooperatives, the Central Bank Governor who represents treasury and the Ministry of finance, and four members of the public.

SASRA is funded by the exchequer (treasury). It also generates some income through the fees that it levies. Fees charged for registration of CFI are; License fee per branch USD 250, License/Registration fee USD 700 and Renewal fee of USD 250.

SASRA observes that amongst all CFIs, FOSA controls 70% of deposits.

Some of the challenges faced are by CFIs include; Credit Risks, Lenders of last resort, Central bank liquidity risk, Regulators not providing solutions to problems within CFIs because of conflict of interest, and finally, systemic risk.

3.2.3 KENYA BANKERS SACCO

The SACCO is housed in a big structure that it owns. The building also houses the World Council of Credit Unions. The society has six departments: Finance, Customer care, Credit, HR and administration, ICT, and marketing. The SACCO is working on establishing an investment department and has a library. It has seven branches and two sub branches. Total membership is 17, 400 with the total number of employees being 15 and an annual Loan portfolio of 1.2 billion. The yearly profit for 2011 was 360 million. Current dividends are pegged at 6.75%. One success story is a member based housing project of 300 units with 146 housing units in Phase I and the rest in Phase II. Members had to give a down payment of 10% deposit. The main challenges that the SACCO faces are: working with the government regulators and getting approval and the fact that some of the members who are also workers in their own bank have a limiting effect on their membership.

Overally the SACCO was hailed by the participants who visited it as a big example to learn from.

3.3 Reactions towards Regulation

"Understanding the reaction of Credit Unions towards Regulations Framework" Consensus building an experience with Canada Banking Supervision Accord
By Esmail Karim, Financial Institutions Commission, BC-Canada

Mr. Esmail Karim has extensive experience in Credit Union Regulation drawn from his position as superintendent of financial institutions and has over three years experience as the Chief Financial Officer at Pioneer Credit Union in British Columbia, Canada.

Mr. Karim's presentation focused on how credit Unions in British Columbia, Canada responded to regulation and how this response influenced their current positions as providers of financial services. The presentation highlighted the regulatory framework in British Columbia.

3.3.1 How does the regulatory environment work in BC?

Credit unions are regulated separately in different provinces. The Federal government, provincial government and municipal government do the regulation within their respective jurisdictions. In September 1989 there was a merger of three acts and one regulation to create the Financial Institution Act (FIA). This Act guides the operations of all Credit unions, trust companies and insurance companies

3.3.2 Leadership

According to Mr. Karim, leadership of a CFI determines to a large extent, how the CFI responds to regulation and how it will then operate within the regulatory framework. In British Columbia, The leadership of a credit union (CU) is composed of five members. Each member must file a personal information return with the regulator and must declare on a standard form all issues like conflict of interest. A standard form is completed by all persons in leadership and it is then used to check for his/her criminal record after which approval to be a director is given. This was introduced in 1989 because of fiduciary responsibility that a director bears. Before being elected, a committee reviews all interested candidates to become a director. The director is responsible for providing Strategic direction to the organization. Directors have personal responsibility for collapse of a credit union and may be fined up to 200,000 dollars or two years in jail for the same. Anyone who becomes a director must take a course within one year or automatically be removed.

3.3.3 Structure

Every credit union must have three statutory committees; the Audit /supervisory Committee, The Investment Lending Committee (ILC), and the Conduct Review Committee (CRC). In the first two committees, members are all board members and are appointed by the board of directors. The CRC members are elected from within the board.

3.3.3.1 THE AUDIT COMMITTEE

The key mandate of audit committee drawn from the FIA Act is to:

- To engage either a national or international firm to conduct audits. The superintendent must give approval of this local firm.
- Review capital adequacy and liquidity filings. These are mandatory and must be filed with the regulator. The onus is on the audit committee to make sure that the reporting is accurate and valid.
- Make sure that the auditor gets instructions from the audit committee and not the management.
- Ensure all internal controls are in place.

All directors and the five highest paid directors' loans must be reviewed by the audit committee

3.3.3.2 INVESTMENT LENDING COMMITTEE

This is the biggest committee as it looks after over 95 percent of the assets of the credit financial institution. All Credit Unions must have an Internal Lending Policy (ILP) which must be filed with the regulator because the FIA says the policy must be prudent and this can only be ascertained by filing the same with the regulator. Any and all amendments to the ILP must also be filed with the regulator. The key area for the ILP is consumer lending. Mr. Karim explained how just like a bank the credit union can't go beyond the province. CUs however offer mortgages, secured and unsecured loans, and all kinds of lending that could be given by the bank. The success story is that CUs seemed to be doing better business in the residential mortgages than the banks.

Commercial lending was limited to banks until 1989 but after regulation, the doors were opened. The ILC review qualifications and expertise of the commercial lenders and this is done at the board level. According to the FIA, the onus is on committee to make sure they have the right people doing the ILC reviews on an annual basis and that they have actual capital to carry on the business.

A capital requirement of 8% is expected of the CU. The committee looks at the concentration of risk in the lending, for example how is this divided? CUs have also gone into wealth management, mutual funds and stocks. There are currently more products at the credit union than when you go into the bank.

3.3.3.3 CONDUCT REVIEW COMMITTEE

The conduct review committee deals with all conflict of interest issues. It operates on a Code of ethics and confidentiality. The FIA allows the superintendent to remove a director for reasons that could cause a reputational risk. If a director resigns for a business reason or major disagreement, the issue must go to the superintendent to decide if that will be circulated to all the members or not. The FIA gives power to the superintendent to place the institution under supervision because of reasons like; poor financial position, or poor board governance, poor investment lending policy. If the capital falls to 8% the CU is put under supervision, if it falls to 6% it is put under administration and it is dissolved if it falls to 4%. The FIA also gives the superintendent freedom to delegate this authority either internally or externally. The duration of supervision is not specified in the FIA. There is currently a plea to parliament /Victoria to put a ceiling on the duration of supervision. In Alberta after eight years it can be merged or dissolved.
While under supervision, the CEO of a CU isn't under control of the situation and the board cannot make large dollar amount changes and decisions. Whereas while under administration, the entire board is no longer in control of the credit union. All decisions are made by the supervisors who then report to the CEO who in turn reports to the superintendent.

3.3.4 STABILIZATION CENTRAL

Stabilization central has provision in the FIA and is owned by member credit unions. It expects certain qualifications of a director of a CU. A poor liquidity of ten percent is closely monitored by the regulator. Stabilization central advocates for a system of full disclosure of board and senior management where a full disclosure of the severance package given to leaders in case of merger of a CU.

British Columbia currently has 43 unions with savings of 55 billion dollars

3.3.5 Issues Addressed

The presenter responded to key concerns raised by some delegates as follows;

Internally, the track record as a member should ideally determine the credit worthiness before lending. All the five Cs in lending should be factored in during the lending process.

In regard to the succession strategy and term limits, succession is done at board level and within the management by looking around the board table and deciding what expertise are available. Stabilization central also has a manual that produces best practices of businesses.

In response to whether the law is intrusive and how the regulator directs on what investments to undertake, the presenter highlighted the use of the Investment policy as a key guide. The investment policy should have and support your business case. Superintendent can only advise strongly against certain investments. The FIA says the policy has to be prudent so the onus is on the union to show the superintendent how prudent CUs' investment plan is in view of the capital it has.

The concern for having qualified directors is quite eminent across the CU. Resistance from many different movements that members can elect whoever they want to be on the board is like circumventing democracy. The onus is on the aspiring candidate to submit their qualifications. However, the environment is changing now especially because of the huge monies involved and shareholders are starting to expect some serious qualifications from their directors.

3.4 Café Session

The participants were grouped into four to further discuss in-depth the issues surrounding regulation for CFIs. The discussion was guided by four key questions. The questions and the discussions around them are presented in this section.

3.4.1 Protection of SACCOs in Absence of Regulation

The session sought to understand how a SACCO can protect itself in absence of regulation. The participants agreed on the following:

Leadership

SACCOS ought to elect competent directors in the various operational aspects of the SACCOs and should adhere to their roles and responsibilities.

Strong apex

The Apex organizations should advocate and lobby for the societies interests. Furthermore the apex bodies should ensure compliance of the SACCOs and coordination of their activities through an MOU.

Project Monitoring of SACCOs

The SACCOS should have an effective tool for Credit administration and be able to share information among their Network. (Double membership versus loan repayment)

Policy

SACCOS should establish policies that addresses risk to ensure Credit management

Networking

SACCOS could share the following information; Sacco profile, Member profile and Sacco standards

Information Communication Technology

Saccos ought to share information and this will be enhanced by adoption/use of ICT

These should be bolstered by the availability of rules and by laws/regulation. Leaders of CFIs need to adopt best practices in SACCO credit management. This they agreed could be achieved through; forums for sharing experience and training, education of members on emerging issues, and even establishing a system of sanctions that act as checks and balances whenever necessary. For CFIs to be protected, participants were in agreement that there is need to share credit information to reduce on incidences of multiple borrowing.

Proper supervision of SACCOs through bylaws and standard policies across the board was also discussed by participants as an important contributing factor to success within a regulated environment.

3.4.2 ADVOCATING FOR REGULATION: WHO NEEDS TO BE ON BOARD? HOW DO WE GET THEM THERE?

Participants discussed the important aspects of who should be brought on board in advocating for regulation, why they should be brought on board, and how this can be done. It was agreed that MPs and elected politicians were a key element in getting the buy-in of the policy maker. Government representatives were also identified as key stakeholders in bringing up the issue of regulation at policy level. National associations, and professional bodies and civil society members were all seen as key lobby team members in any policy making process and should therefore be brought on board. The consumer as a key stakeholder needs to be brought on board. Participants agreed that all these people can be brought on board through: funding and resource/budgetary allocation by treasury, lobbying, use of the media, hosting of talk shows, road shows, parties, meetings, conferences and workshops, policy formulation, and experience sharing.

3.4.3 TOOLS AND STANDARDS TO PROMOTE EFFECTIVE REGULATION

After discussions, participants agreed that effective regulation can only be achieved through well defined tools and standards. The participants went further to identify some of these key tools. Operating standards start up rules, guidance and notes, Deposit, loans and share Insurance were all identified as core instruments for effective legislation. Operational manuals and checklists for supervision are also required. Structurally, committees to oversee the implementation of and adherence to such standards need to be in place. As such, risk assessment and risk management committees were identified as a key instrument of regulation. PEARLS or CAMEL or a hybrid of the two identified as necessary assessment tools in regulation. Support supervision both off and on site identified as important elements of regulation. In the event that disputes arise between parties, cooperative courts need to be in place to help resolve such conflicts. An up to date IT system is required for proper record keeping and accountability.

In conclusion, participants noted that Cooperatives use mostly PEARLS whereas Central Banks use CAMEL and that Risk based supervision is the way to go since it is a proactive rather than reactive system that considers future plans for management. Though offsite supervision is also helpful for keeping a track record, they are 'retrogressive' in the sense that the process is only about analyzing reports where you are looking at history whereas with risk based analysis you are looking at the direction; if the situation is getting/will get better or not. Participants were in agreement that Deposit Insurance/Protection Fund is a good idea as it guarantees that members (depositors) are not subjected to loss. However it eliminates the need for members to supervise the union's risk-taking levels especially when the Deposit insurance Fund has a 100% guaranteed as observed in a few countries

3.4.4 OBSTACLES AND SOLUTIONS TO LEGISLATION AND REGULATION

3.4.4.1 Why are there obstacles to legislation and regulation?

From the various presentation, discussion, and participants' own experiences from their respective countries, the following were identified as obstacles to legislation and regulation:

- Ignorance
- Fear of unknown
- Personal Interests
- Costs
- Lack of Interest in the welfare of the CFIs
- Policy Makers/ government attitudes/ political issues
- Lack of involvement, being left out
- Language barriers
- Leadership of CFIs

3.4.4.2 Solutions

However, in order to address these challenges being faced by CFIs, there is a need to be:

- Education of board, politicians, technocrats.
- Inclusive policy formulation processes that involve all stakeholders
- Penalties to mismanagement and misappropriation of funds.
- Education of stakeholders on the cost of ignorance and to weigh the opportunity cost.
- Lobbying for appropriate policy amendment and implementation.
- Publication of materials in local language to overcome ignorance and fear
- Encourage leadership to disclose any conflict of interest
- Organizing of road shows and similar fora and use of eloquent speakers
- Elected leaders of CFIs who also have a monetary stake in the CFI.

3.5 Supervision Checklist

"Identifying and Developing Co-operative Financial Institutions (CFIs) Supervision Checklist for Regulatory Reforms" How to assess capacities for high quality regulatory policy

By Dave Richardson, World Council of Credit Unions (WOCCU)-USA

Mr. Richardson began by thanking ACCOSCA for organizing the forum and for inviting him. He reminded participants of the importance of providing feedback on issues that arise from such fora and he also encouraged them to engage in discussion to exchange ideas on best practices and other issues arising.

In order to prepare for regulation and supervision, it is important for CFIs to develop checklists. For instance due to the increasing nature of technology based products, SACCOs may seem to be at war with each other on competition basis. In order to stay relevant and to fully serve the members, CFI's therefore needed to keep abreast with technological changes. He also noted that Non viability is an issue that has continuously affected the image of the CFIs in the financial sector. Regrettably, Africa has a considerable low saving rate which could be attributed to members of CFI's savings in SACCOs mainly for purposes of accessing credit facilities

Leadership of CFI's need to consciously put aside any possible selfish interests in order to make CFIs competitive; as such funds generated by politicians should be channeled to prudential operated CFIs

He noted that in most observed cases, self regulation isn't working well. However, Guatemala has served as a success story in self regulation. Despite no formal regulatory framework for CFIs in Guatemala, the savings base as at 2011 stand at USD 800 million. Managers of CFIs have established their own prudential standards and regulations.

PEARLS as a system works well only if you have a standardized chart of accounts as this creates uniformity for measurement.

Mr. Richardson expressed regret on the fact that in Africa especially, it is hard to get delinquency reports because of no linkages between savings, loans, and accounting packages. He urged the participants to prioritize the building of capacity to be able to link these kinds of reports through IT and to implement them for the success of the CFIs and the cooperative movement.

3.5.1 Internal Controls

These should be characterized by:

- Regular reconciliation,
- Control of sensitive documents with a sign in and sign out requirement; especially loan accounts.
- A clear understanding of the difference between 'shares' and 'savings'.

3.5.2 Non Earning Assets

Mr. Richardson urged the participants to highly reconsider the role of none earning assets in the development and progress of the CFIs. He stated that suspense accounts distort the capacity of

PEARLS to analyze the true situation and they don't add any value to the CFI as well. Doubtful assets

He also explained that there may not necessarily be a specific checklist to use within CFIs but that International Financial Reporting Standards indicate specific accounts that MUST be in a financial report.

In conclusion, Mr. Richardson urged participants to reflect on where the cooperative movement is in the march to progress and success. He closed by saying that the SACCO law in Kenya is a very good law. The law is revolutionizing the way that SACCOs are operating. And that regulation is basically good management practice and not a punitive tool.

3.6 Early Warning Signs

"Identifying Early Warning Signs negating CFIs Performance" Can Credit Unions transform after dismal performance. Case Study
By David De Jong, Cooperative Bank Development Agency-South Africa

Mr. De Jong started by stating that for financial problem resolution to be conducted successful, there is need to develop a framework. CBDA uses CAMEL as a supervisory tool. The law in South Africa gives the regulator lee way to do all that they have to do to protect members' money. The experience of South Africa reveals that regulation builds the confidence of members to save more. This happened too rapidly in one case that a CFI had to be advised on how to return back to the acceptable ratio after a rapid rise in savings.

From this example, he explained to members that rapid growth is not always so good and therefore regulation, supervision and guidance are all important ingredients for the success of CFIs within a regulated environment. This is because regulation in the case of South Africa has been seen to boost member confidence in the CFIs.

He concluded by stating that when a CFI is in trouble, time is not on your side as a regulator. You must therefore act quickly. But even in this acting, to always remember that regulation is not about closing down CFIs but about supporting them to be stronger.

3.7 Linkages

Why is it essential to put into perspective the link between leadership and effective CFIs legislations? ***By Fumbani Nyangulu, Malawi Union of Savings and Credit Cooperative.***

Mr. Nyangulu started by posing the question; *'How can you provide direction when you cannot interpret the books?'* He went further to explain that the leadership of CFIs are the ones expected to provide direction even and especially on legislative matters and for this, they need to have the capacity to do this. The key linkages therefore according to him, are required and expected in the area of capacity building. He echoed sentiments earlier expressed that the law is there not to kill and close SACCOs but to avoid their deaths. For CFIs therefore to be sustainable, their leaders need to pass the fit and proper tests. He went ahead to state that even at the regulatory level; people should know and understand what they are regulating.

Mr. Fumbani explained that Malawi does not currently have a deposit insurance fund but that the central bank will be hiring experts to come up with guidelines on how to develop that. As the regulator, the central bank is the one that also provides resources for supervision to MUSCO. This arrangement is provided for in the legal framework.

He concluded by saying that both the leaders of CFIs and regulators need to work together to craft effective legislation that foster good leadership that will provide required direction to CFIs.

3.8 Reforms

Why is it necessary to review and reform existing regulations? Performing Stakeholder Analysis, Identifying Obstacles to review and Develop a consultative and coordinated approach that adds value to the process.

By Roselyne Ragama, SACCO Society Regulatory Authority (SASRA) Kenya.

The original Act for cooperatives was formed by the need for marketing of agricultural produce. But the sector grew and the question of adequacy of the law came up. Financial cooperatives deal with money and therefore associated risks. Because this nature of business was not catered for closed bond CFIs shifted to open bond and quasi banking increased. This resulted into higher financial risks and therefore a need to address and mitigate this risk. Additionally, banks were closing out small people and CFIs took them up.

The presentation went in depth and explored the situation in Kenya and the evolution of the cooperative movement through the years. The presenter discussed how the cooperative movement, like in many regions in Africa, was initially formed to support agri-business producers. However, as the mainstream commercial banks started closing up branches in the remote areas, the movement saw a gap in service delivery and this led to the birth of the FOSA. The various changes to legislation that have had to be made to keep in time with the changes in the socio-economic development, and to the improvement in technology in order to remain relevant were also discussed for example the provision of mobile banking services for cooperative members.

Participants were informed that there is a deposit insurance fund which is required before the licensing of the CFI. The CFIs pay premiums and the fund is only accessed when a CFI collapses. In this way it addresses collapse of SACCOs and not individual loan defaulters within a SACCO.

Participants were informed that the difference in the supervision and regulation by what is done by the Kenya reserve bank and SASRA is that Banks talk of independent directors but in

SASSRA, it is members who become directors. Some differences are also tailor made to take interest of SACCOs into account.

The presentation outlines how despite interactive processes SASRA experiences challenges in implementation as regulators meet resistance. To this end, the capacity of leadership especially with regards to prudential regulations is being built by SASRA. SASRA has organized governance training for Sacco leadership and management. The experience has revealed that sensitization and capacity building makes leadership and members understand the importance of regulation.

Some challenges that SASRA is experiencing include: outreach to members in sub urban areas. This has however been managed through risk based supervision. Both offsite and onside supervisions are conducted by SASRA. Challenges in funding have also been experienced. Lack of involvement at policy formulation level and founder member syndrome in some CFIs has made policy amendment and implementation not to work well.

In conclusion, the presentation emphasized that in order to remain relevant and to fight the stiff competition now being experienced by CFIs from both mainstream banking sectors and competitor CFIs; it is prudent for CFI leadership and CFI regulators to conduct ongoing legislative review of the laws that govern CFI operations.

4 Open Panel Discussion: Regulatory Framework is not suitable for All Countries.

Panelists:

1	Fumbani Nyangulu	MUSCCO Ltd	Malawi	Head of Finance and Bussiness Service
2	David De Jong	CBDA	South Africa	Supervisor
3	Dave Richardson	WOCCU	USA	Senior Manager Technical Development
4	Peter Njuguna	SASRA	Kenya	Chief Manager

The open panel discussions were done in the context of Regulatory Impact Analysis and Perception through public consultations. Through a series of questions from Ingrid Fischer, the moderator of the session, and also from participants in the plenary; and with responses from the panelists, the following were the main key issues that were discussed.

- All countries work under some form of regulatory provision.

- There still is need to do more in terms of regulation. How is the legislation impacting on performance of CFIs? Currently legislation is only taking in some CFIs within a certain threshold. What should be done about the rest who are the majority?

- Do we want to have regulation where the CFI movement is still young? In SA where the banking and financial sector is complex, unless the CFIs are regulated then they may not be taken too seriously

- SACCOs are being forced to become banks e.g. through requirements for minimum capital requirements. The traditional model of SACCOs as institutions that build up capital as they expand means that many SACCOs are or may be locked out of the sector.

- At what point should regulation start? Just like a child's training and setting of rules need to happen right at the beginning and throughout out their growth period, so too should regulation of CFIs.

- There should be a regulatory framework at least for the behavior of financial cooperatives to protect members' money. Specific attention should be given to credentials of such financial cooperatives.

In conclusion, participants at the workshop resolved that; **Regulation is good but it shouldn't stifle innovation and growth in the fear of risk.**

5 Closing Ceremony

After an interlude to allow members to access free counseling and testing for HIV at the site, the closing ceremony took off.

Mr. George Ombado, the CEO of ACCOSCA, informed members that the uptake of the HIV counseling and testing stood at 35% of the people present. This was observed as an impressive turnout by both the Voluntary Counseling and Testing (VCT) counselors who have never experienced such a high turnout at workshops. It was also hailed as impressive by Mr. Ombado as compared to the uptake at the previous meeting in Botswana where the uptake had been only 29%.

Mr. Ombado invited the Commissioner for Cooperatives of Botswana, Mr.Botshabelo Mafatlane to give a summary of the two days of the workshop after which he invited the ACCOSCA board Treasurer, Ms. Mary Josephine Nabuyungu to welcome ACCOSCA's goodwill ambassador; Hon. Joe Nyaga, who is also The Minister for Cooperative Development and Marketing in Kenya, to officially close the workshop.

Honorable Nyaga welcomed all participants to Kenya and expressed his hope that the participants had felt welcome and comfortable in Kenya. He also stated that he hoped the participants had taken full advantage of the varied knowledge on cooperative development from the continent that was represented at the workshop. He urged the participants to take advantage of the numbers in the membership to lobby for effective legislations from their governments. The Honorable Minister shared his experiences from his meetings and discussion with Kenyans in the Diaspora and the revelation that through The Kenya Cooperative Bank, the Ministry for Cooperative development will be launching an ***"e-sacco"*** to enable Kenyans in the Diaspora invest back at home without any fear of losing their investments. In closing, he urged all participants to pick all the best practices and implement them in their countries and work together for the growth and prosperity of the cooperative movement.

The workshop ended on 14th June 2012 at 18:30 GMT.

6 Appendices

6.1 Appendix 1: Participant List

	Name	Organization	Country	Position
1	Botshabelo Mafatlane	Ministry of Trade and Industry Dept.of Coop	Botswana	Commissioner for Cooperatives
2	Tinny Banda	Dept for Co-op Devt	Botswana	Chief Co-op Officer
3	William Gabriel	BOSCCA	Botswana	Chairman
4	Stephen Kwasi Asiamah	CUA	Ghana	Deputy Gen. Manager
5	Dickson Chidumu	Reserve Bank Malawi	Malawi	Principle Examiner Financial Coop
6	Ben Munthali	Comsip	Malawi	CEO
7	Fumbani Nyangulu	MUSCCO Ltd	Malawi	Head of Finance and Bussiness Service
8	Joel Chigoneka	MUSCCO Ltd	Malawi	Internal Auditor Supervisor
9	Vincent Magreta	MUSCCO Ltd	Malawi	Internal Auditor
10	Joseph Alla	Governor's Office	Nigeria	SSA to the Govenor Coop Devel.
11	Emmanuel Ukeredi	Education Multipurpose Coop Society Ltd	Nigeria	President
12	Azakeme Masa	Min of Trade,Investment & Industry	Nigeria	Commissioner
13	Overseer Jimmy Ogbolo	Min of Trade,Investment & Industry	Nigeria	Deputy Director of Cooperatives
14	Lydia Fayanjoula	NACCUN	Nigeria	Member of the steering Committee
15	Adebola Orolugbagbe	COOPXCHANGE Credit Union	Nigeria	Chief Executive Officer
16	David De Jong	CBDA	South Africa	Supervisor
17	Nonhlanhla Kunene	Department of Cooperatives	Swaziland	Government Commisioner
18	Stanely Malindisa Sdumo	Dept. of Cooperatives former SASCCO BOD	Swaziland	Government Official
19	Bogani Nxumalo	Commissionner of Cooperatives	Swaziland	Cooperative Swazilanad
20	Veneranda Mgoba	Registrar of Cooperatives	Tanzania	Min of Agr,Food security & Coops
21	Marwa N. Kesanta	Cooperatives Officer	Tanzania	Min of Agr,Food security & Coops
22	Kaggwa Moses	Min. of Finance, planning & Econ Devt	Uganda	Commissioner for Microfinance
23	Nabuyungo Mary Josephine	UCSCU	Uganda	Board Treasurer
24	Ssempala Geoffrey	UCSCU	Uganda	CEO
25	Kyaka Twaha	UCSCU	Uganda	Field Operations Manager
26	Al-Hajji Nnume Yasin	UCSCU	Uganda	Chairman Board
27	Ingrid Fischer	CCA	Uganda	Africa Region Director
28	Mafo Kaleyi	CUSA	Zambia	Board Treasurer
29	John Kuku	CUSA	Zambia	CEO
30	Namalongo Moono	Zambia Police thrift	Zambia	Deputy Chairman
31	Samuel Hlatywayo	Director of Cooperatives	Zimbabwe	Director of Cooperatives
32	Esmail Karim	Financial Institutions Commission, BC	Canada	Director
33	Dave Richardson	WOCCU	USA	Senior Manager Technical Development
34	Joseph J. Okana	Kenya Bankers	Kenya	Chief Executive Officer
35	George Ombado	ACCOSCA	Kenya	Executive Director
36	Joan Atuhura	ACCOSCA	Kenya	Head of Program
37	Loide Jason	Ministry of Trade and Industry Dept.of Coop	Namibia	Registrar of Cooperative
38	Peter Njuguna	SASRA	Kenya	Chief Manager
39	Moses Ochieng	FSD	Kenya	
40	Roselyne Ragama	SASRA	Kenya	Legal/ CORP Secretary

6.2 Appendix 2: Evaluations

EVALUATION AFRICA SACCO REGULATORY WORKSHOP 2012

Methods of Delivery	Fair	Good	Excellent
Presentation by experts		11	12
Cafe session	1	10	12
Study tour		9	14
Cooperative Governance structure		13	11

Deliverables	Yes	No	
Was the two days adequate	12	11	
Did you have an opportunity to network?	22	1	
Did the workshop help in comprehending cooperative governance structure in Africa	21	2	
Did the workshop meet your expectations?	22	1	

What topical issues would you like to be considered in next Regulatory Workshop

Risk management in SACCOs

Overcoming challenges in networking SACCOs

Governance

Harmonize nomenclature for financial terms for SACCOs

Identify Early warning signs for CFIS

Supervision checklist for regulatory reforms

Guidelines for regulatory framework

Follow up on discussions

Review report by participating countries

Funding for SACCOs

Work with countries to develop regulatory framework

Include Franco phone region

Highlight importance of Regulatory framework

How often should this meeting be held

2yr	6	25.00%
1yr	11	45.83%
Quarterly	3	12.50%
Twice a year	4	16.67%

Any other comments

Workshop was good and should be a continuous event

Reports from other countries should include recommendations

Important and Well organized workshop

Lecture papers to be sent prior to meeting

ACCOSCA to visit member countries for follow up

Very educative workshop and challenging

More countries should be brought on board in future
Commendable Work
ACCOSCA should rejoin WOCCU
More free time to participants program was too packed
Participants to carry specific Country papers
Late communication about workshop
Ensure regulation of all SACCOs