Sacco Regulation in Kenya

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National Treasurer
Presentation Outline

• Regulators in the financial sector in Kenya
• Africa Sacco Statistics
• Kenyan Sacco Statistics
• Sacco Regulations in Africa
• Challenges facing Regulators
• Kenyan Regulatory Case
• Way forward
Regulators in the financial sector in Kenya

• Central bank of Kenya
• Capital Market Authority
• Insurance Regulatory Authority
• Retirement Benefits Authority
• Sacco Society’s Regulatory Authority
• CCK – Mobile banking
• According to WOCCU statistical report 2009, Africa has a cooperative membership of 16 million 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 912 billion.
## Global Statistics

<table>
<thead>
<tr>
<th>Continents</th>
<th>No of Saccos</th>
<th>Membership (million)</th>
<th>Savings (USD million)</th>
<th>Loans (USD Million)</th>
<th>Assets (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>14,404</td>
<td>16</td>
<td>4,437</td>
<td>3,877</td>
<td>4,944</td>
</tr>
<tr>
<td>Asia</td>
<td>21,233</td>
<td>36</td>
<td>91,481</td>
<td>64,354</td>
<td>110,327</td>
</tr>
<tr>
<td>Caribbean</td>
<td>556</td>
<td>3</td>
<td>3,553</td>
<td>3,189</td>
<td>4,466</td>
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<tr>
<td>Europe</td>
<td>2,418</td>
<td>9</td>
<td>22,925</td>
<td>13,864</td>
<td>26,349</td>
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<tr>
<td>Latin Am.</td>
<td>1,784</td>
<td>15</td>
<td>25,117</td>
<td>22,277</td>
<td>38,102</td>
</tr>
<tr>
<td>N. America</td>
<td>8,653</td>
<td>102</td>
<td>961,168</td>
<td>769,507</td>
<td>1,126,518</td>
</tr>
<tr>
<td>Oceania</td>
<td>282</td>
<td>5</td>
<td>37,171</td>
<td>34,686</td>
<td>42,897</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>49,330</strong></td>
<td><strong>186</strong></td>
<td><strong>1,145,851</strong></td>
<td><strong>911,753</strong></td>
<td><strong>1,353,603</strong></td>
</tr>
</tbody>
</table>
Africa 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
## Global Statistics

Sample result of the 2009 survey conducted by WOCCU

<table>
<thead>
<tr>
<th>Countries</th>
<th>No of Saccos</th>
<th>Membership</th>
<th>Savings (USD M)</th>
<th>Loans (USD M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>3,996</td>
<td>3,835,250</td>
<td>2,751</td>
<td>2,517</td>
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<tr>
<td>Senegal</td>
<td>681</td>
<td>1,900,212</td>
<td>296</td>
<td>345</td>
</tr>
<tr>
<td>Uganda</td>
<td>2,021</td>
<td>878,912</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>5,975</td>
<td>477,817</td>
<td>88</td>
<td>13</td>
</tr>
<tr>
<td>Ghana</td>
<td>409</td>
<td>281,447</td>
<td>94</td>
<td>76</td>
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<tr>
<td>South Africa</td>
<td>31</td>
<td>20,012</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>97</td>
<td>2,288,643</td>
<td>218</td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>53</td>
<td>65,000</td>
<td>0.5</td>
<td></td>
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</table>
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 12,000 registered co-operative societies with a membership of over 7 million out of which 5,000 are Saccos and 230 have Front Office Service Activities (FOSAs)
Kenyan Statistics

• 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 USD 2.4 billion in savings which is about 31% of the national savings.

• Of the 5000 Saccos 230 have FOSAs (deposit taking) while the rest offer only credit facilities.

• 70% of total Africa continental portfolio is Kenyan and is 7th worldwide

• Kenya sits in the group 10 largest co-operative movement (G10) member countries
Key Success Factors

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 cooperatives thriving in the recent past

• The application of best practices and prudential standards,

• Modern management and good corporate governance.

• Kenya sits in the group 10 largest co-operative movement (G10) members countries.
Many countries in Africa have focused attention on the legislation of microfinance and non-banking financial institutions.

Some have adopted prudential standards specific to Saccos while others use the 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).

Others such as Kenya and South Africa have independent regulators with specific regulations—Sacco Societies Act and Co-operative Banking Act respectively.
Why Regulate Saccos

- 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, they serve large number of members and depositors

- Of the 19 million Kenyan adult population 22.5% are served by commercial banks and MFIs while 17.6% are served by Saccos.

- Due to this large coverage, regulation is inevitable.
Benefits of Regulation to Saccos

• Integrates Saccos into the formal financial sector

• Enhances confidence - leadership and Management of Saccos, members and the sector

• Encourages fair competition by eliminating unethical business practices

• Creates new business opportunities for Saccos-Agency business, GoK development funds

• Shifts focus to institutional development rather than individual leaders & managers.
Major Challenges facing regulators

- Political expediencies

- Meeting higher members’ expectation. The regulator is seen as “the saviour” by the members.

- High innovations from Saccos that attracts constant review.

- Laws to keep up with the pace of innovations

- Lack of responsible governance by the players and leaders especially Sacco board of directors
Challenges faced

Kenyan Case
Licensing Process

• Kenya put in place SASRA and they have adopted a tiered approach involving application, inspection, provision of letter of intent and final license after fulfilling the minimum requirements

• Saccos are required to fulfill prescribed parameters and submit various documents and must be inspected to qualify for licensing:

• Upon licensing the Authority regularly supervises the operations of the Sacco to ensure they operate under the terms of license hence technical expertise required.
Capital Adequacy

Saccos are required to meet the following minimum ratios:

- Core capital of not less than Kshs 10mill - Usd 118,000
- Core capital of not less than 10% of total assets
- Institutional capital of not less than 8% of total capital
- Core capital of not less than 8% of total deposits
Challenges

- A number of Saccos cannot meet the minimum capital requirements and ratios

- Some Saccos have not separated Capital from members deposits

- Difficulties in comprehending constitution of the core capital and subsequent calculation of the capital ratios
Liquidity

− 15% of the savings deposits and short term liabilities shall be maintained in liquid assets.

− Sacco Societies required to put in place contingency plan to handle liquidity that includes procedures for making up liquidity shortfalls in emergency situations

− There is weekly monitoring of liquidity which requires submission of a monthly statement of liquidity return to the Authority.
Liquidity

- Sacco Societies not to engage in prohibited businesses

- Sacco Societies to establish savings policy prescribing terms and conditions of opening, operating and closing accounts, interest rate calculations and payments, penalties.

- Saccos to encourage mobilization of resources through savings to address liquidity needs
Liquidity Challenges

- Huge demand for credit leading to external borrowing that is more expensive than loans provided.

- In ability to submit regular liquidity return due to lack of compliant IT systems

- Disengaging from the prohibited business that Saccos are currently engage in
Credit Management

- It is mandatory to have a loaning policy specifically detailing loan concentration limit, terms and condition of insider lending.

- The borrower to be provided with quarterly statement of each outstanding credit facility

- The Saccos shall seek prior approval to introduce any new loan products.

- External borrowing: the Sacco shall not borrow more than 25% of its total capital and shall charge interest at least 2% higher than the borrowing rate.

- The classification of loan shall be in five categories; performing, watch, substandard, Doubtful
Challenges in Credit Management

• Lack of comprehensive loaning policy that conforms with the regulatory requirement
• Inability of Saccos to generate members statement within specified frequencies
• Some Saccos have surpassed the minimum external borrowing requirement of 25% of the total assets.
• High level of non performing loans (delinquencies) which they are required to write off
Investments

• Investment in non earning asset

• These should not exceed 10% of the total assets in which land and buildings should not exceed 5% of the total assets.

• The board of directors is responsible for the formulation of the investment policy which shall be frequently updated.

• Financial investment should not exceed 40% of core capital or 5% of total deposits
Challenges in Investments

• Saccos have focused on investing in the properties and buildings

• The investments have surpassed the minimum regulatory requirements

• The regulation requires Saccos to divest from investment in buildings and

• focus on the core business of serving the members
Areas of Approvals

Saccos shall seek approval on the following:

– To accept deposits

– Opening of a new branch

– Operating an agency business

– Relocating business

– Closure of Business

– Introduction of new products
The following written policies are prescribed:

- Credit policy
- Savings Policy
- Business Plan
- Investment policy
- Members register
- Disaster Preparedness Plan
- Information Preservation policy
- Record for dormant accounts
Prohibited Trade

- Foreign trade
- Trust operations
- Investing in enterprise capital beyond prescribed limit
- Underwriting or placement of securities
- Land acquisition other than purposes of expanding business

Challenges

- Some Saccos have acquired large parcels of land which they are not utilizing
- Others have been engaged in foreign trade
Way Forward

- The need for uniform Sacco supervision in a country regulation should not be selective

- Robust technology

- Well trained personnel in supervisory duties and knowledgeable on methodologies of Saccos-comprehend uniqueness of Saccos

- Good reporting and offsite monitoring system that promptly identifies problems to warrant onsite inspection
Way Forward

- Clear regulations spelling actions to resolve weak Saccos.

- These can be administrative, sanctions, de-licensing, removal of management and liquidation.

- Adoption of a Risk Based supervision for a resource constrained regulator.
Way Forward

- From the above presentation, it is very clear that there is opportunity for the Saccos to work with the Microfinance Institutions in offering their services to their members and clients.

- Need to identify these opportunities and explore areas of partnerships.
THE END

Q & A