THE SACCO SOCIETIES REGULATORY AUTHORITY (SASRA)

Challenges facing Sacco Regulations in Africa

11TH SACCA CONGRESS , Swaziland

By Carilus Ademba- CEO SASRA

Presentation Outline

- Africa Sacco Statistics
- Kenyan Sacco Statistics
- Sacco Regulations in Africa
- Regulation Models
- Challenges facing Regulators
- Kenyan Regulatory Case
- Way forward

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.

Global Statistics

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

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

Africa Statistics

Sample result of the 2009 survey conducted by WOCCU

Countries	No of Saccos	Membership	Savings (USD M)	Loans (USD M)
Kenya	3,996	3,835,250	2,751	2,517
Senegal	681	1,900,212	296	345
Mali	132	1,356,882	120	150
Uganda	2,021	878,912	64	64
Togo	73	873,615	150	125
Ethiopia	5,975	477,817	88	13
Cameroon	203	302,068	193	123
Ghana	409	281,447	94	76
Mauritius	108	92,000	6	58
South Africa	31	20,012	15	11
Ivory Coast	97	2,288,643	218	
Zimbabwe	53	65,000	0.5	
Burkina Faso	70	1441952	163	

Key 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 12,000 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)

- 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

Key Kenyan Statistics

- Of the 5000 Saccos 230 have FOSAs (deposit taking) while the rest offer only credit facilities.
- 70% of total Africa continental portfolio is Kenyan which 7th worldwide
- Kenya sits in the group 10 largest co-operative movement (G10) members 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 co-operatives thriving in the recent past
- The application of best practices and prudential standards,
- Modern management and good corporate governance

Sacco Regulations in Africa

- 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 others uses 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 in Africa

- 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/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 and focus on small income class they should be regulated.

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

The Sacco Regulation Models

- Different countries have adopted different models in regulating Saccos
- The mode of regulation applied depends on the development phase of the Saccos in a particular country
- At the **Initial Stages** of development, regulation simply entails registration of Saccos to conduct business.
- As Saccos **approach maturity stage** regulations focuses on prudential standards which establishes a risk assessment process focusing on liquidity, capital, governance etc

The Sacco Regulation Models

- At the **maturity stage**, regulation establishes Deposit guarantee system for explicit comfort to members that their funds are safe.

- Most of the Africa countries are in the initial stages or approaching maturity

- Thus applies a combination of simple registration of Saccos and enforcement of prudential standards models

Direct Supervision

- This entails direct supervision of all Saccos by a prudential government backed regulator with statutory responsibility
- The responsibility of the regulator is to design and implement prudential standards
- **Advantages**
  - Ensure uniform competition among Saccos as regulation focus on all Saccos
  - Eliminates regulatory arbitrage
  - Promotes members confidence
- Dis**advantage:** High cost of Supervision with limited resources

Selective Supervision

- The regulator, mostly Central Bank, focus only on the country's largest Saccos based on asset size or deposit base
- Smaller Saccos not supervised by regulator is overseen by government agency such as a ministry's department
- **Advantages**
  - Expertise from central bank is passed to the large Saccos
  - Requires fewer resources to implement
- **Disadvantage**
  - Can create regulatory arbitrage
  - It is divisionary as it discriminates Saccos with different compliance levels
  - Creates confusion among members on the best Saccos to join-thus lack of confidence

Delegated Supervision

- Supervisory powers are formally assigned to a third party through regulations

- Usually, the third party can be a Sacco umbrella body or its arm
- **Advantages:**
  - Encourages closer feedback between the Sacco and a regulator
  - Limited cost of supervision
  - Income stream for the umbrella body
- **Disadvantage:**
  - Needs strong management of conflict of interest since supervisor is the advocate
  - Strong technical capacity required

The Major 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 where others struggle
- Legal tussle between regulators and Saccos
- Change resistance
- Complex multifunctional institutions which border between a Sacco, MFI and a bank

The Major Challenges facing Regulators

- 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)

Challenges faced – Kenyan Case

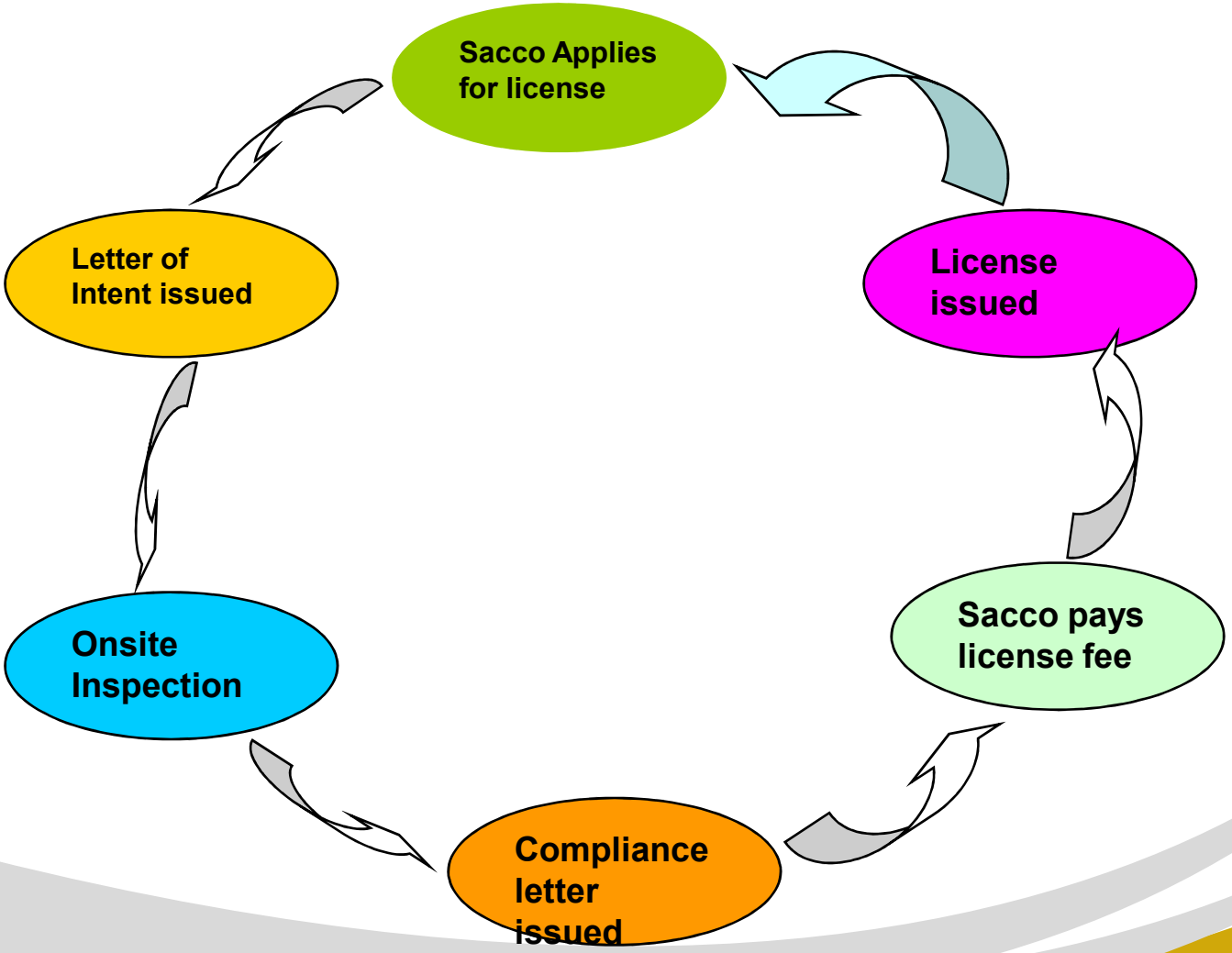
Licensing Process

- The Kenyan licensing process adopts a tiered approach involving application, inspection, provision of letter of intent, and final licence after fulfilling the minimum requirements

- Saccos are required to fulfil 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

Licensing Flow



Capital Adequacy

Saccos are required to meet the following minimum ratios:

- Core capital of not less than Kshs 10million
- Core capital of not less than 10% of total assets
- Institutional capital of not less than 8% of total capital
- Core capital of not les 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 and requires submission of a monthly statement of liquidity return to the Authority.
- 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.

Liquidity Challenges

- Most Saccos depend on the short term external borrowings
- In ability to submit regular liquidity return due to lack of good system
- Disengaging from the prohibited business that Saccos 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
- A Sacco Society shall seek prior approval to introduce any new loan product.
- 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

A Sacco Plaza

- Investment in non earning asset 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 for Approvals

Saccos shall seek approval on the following

- To accept deposit
- Opening of a new branch
- Operating an agency business
- Relocating business
- Closure of Business
- Introduction of new products

Prescribed Policy Documents

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 Business

- 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 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

Questions?