



Savings Mobilization and Broadening the Capital Base in SACCOs and Co-operative Societies

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CAPITAL RATIO TEST



FINANCIAL RATING MODEL

- Capital Adequacy
- Asset Quality
- Earnings & Liquidity

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THE BIG QUESTION?

Why is **CAPITAL**
a big problem in
SACCOs. What is
not being done
right?

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- Democratic Structure
 - Open and Voluntary Membership
 - Democratic Control
 - Non-discrimination
- Service to Members
 - Service to Members
 - Distribution to Members
 - **Financial Stability**
- Social Goals
 - On-going education
 - Cooperation among Coops
 - Social Responsibility

Operating Principles of Credit Unions

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WHAT IS CAPITAL

1. Core Capital = Fully paid up members' share capital + Statutory reserves + Retained earnings + disclosed reserves + grants/donations;

2. Institutional Capital = Core Capital less the members' share capital.

i.e. Institutional capital refers to the portion of the core capital that belongs to the Sacco society as an institution such that no one member can individually lay claim on it.

ACCOUNTING EQUATION

Assets = liabilities + Capital (owners' equity). It expresses the relationship between what is owned and what is owed by an entity.

- ✓ Capital is **IRREDEEMABLE**
- ✓ Liabilities are **REDEEMABLE**

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LEGALITY

- Rule 52(3b) of Cooperative Society Rules, 2004 required Sacco societies operating FOSAs to maintain a capital adequacy of 10% of total liabilities.
- Sacco Societies Act, 2008 defines Core Capital as fully paid up members' shares, retained earnings, disclosed reserves, grants and donations all of which are NOT meant to be expended unless on liquidation of the Sacco society.

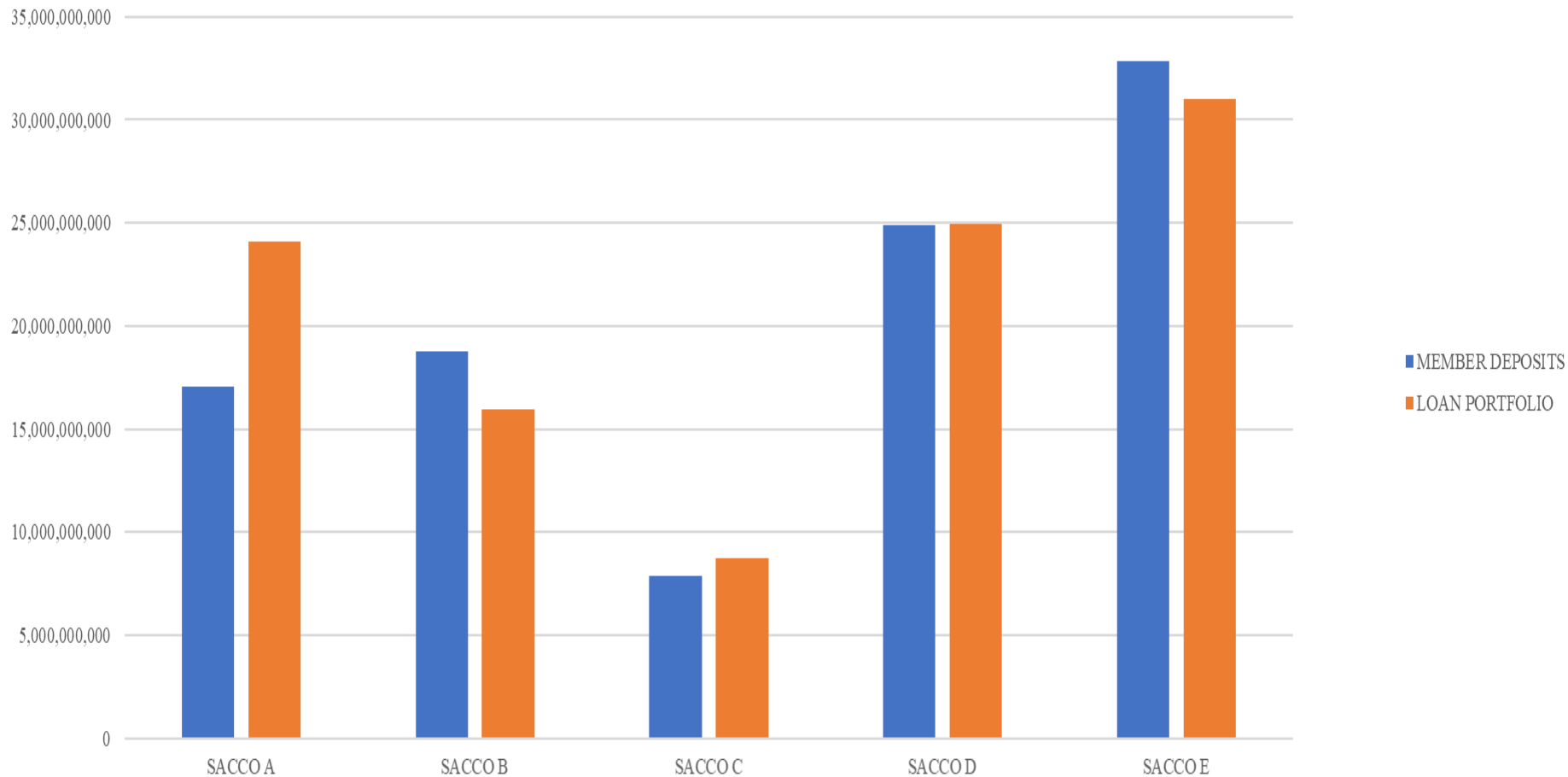
RESPONSIBILITY

- ✓ Board of directors
- ✓ Responsible for establishing and maintaining, at all times, an adequate level of capital.

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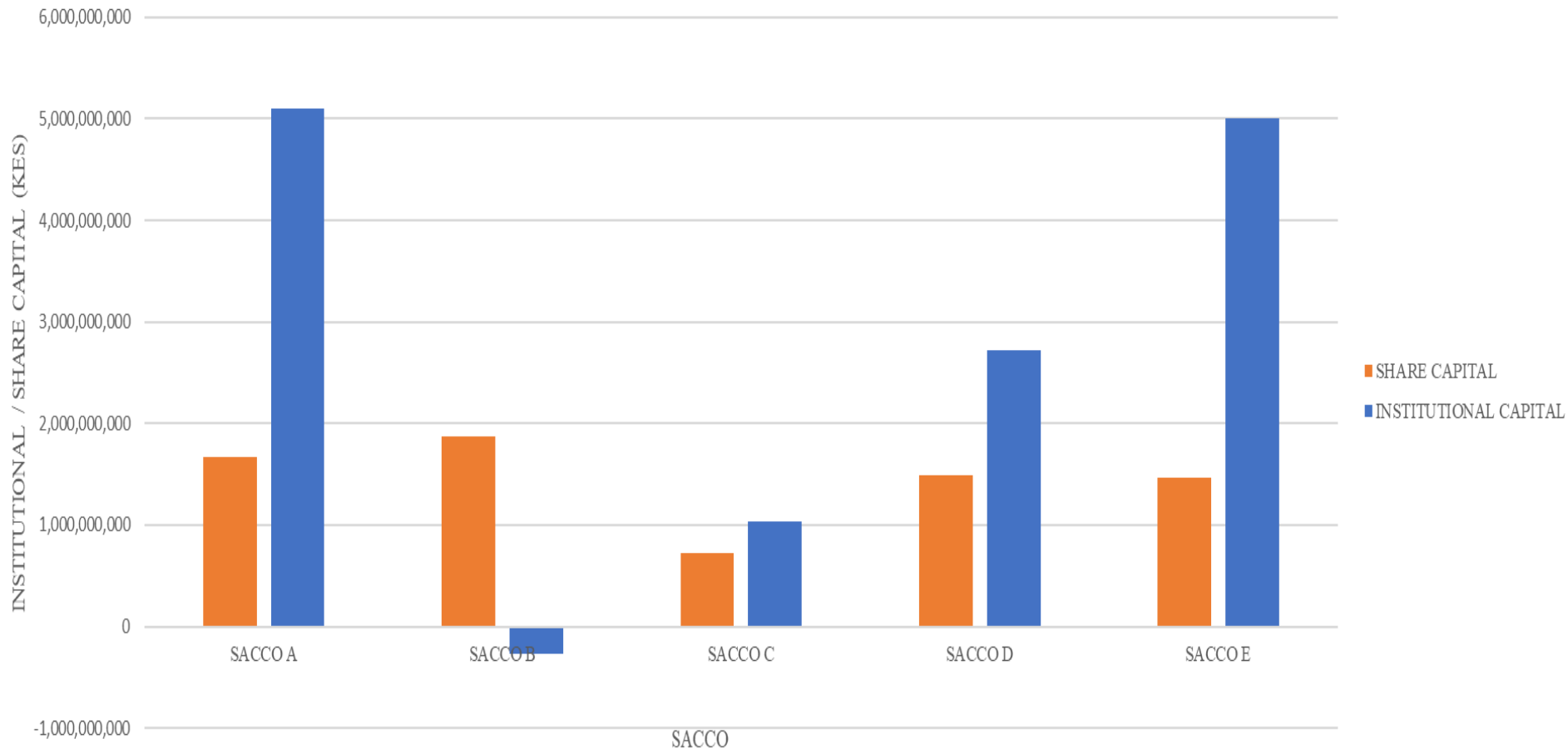
MEMBER DEPOSITS VS LOAN PORTFOLIO



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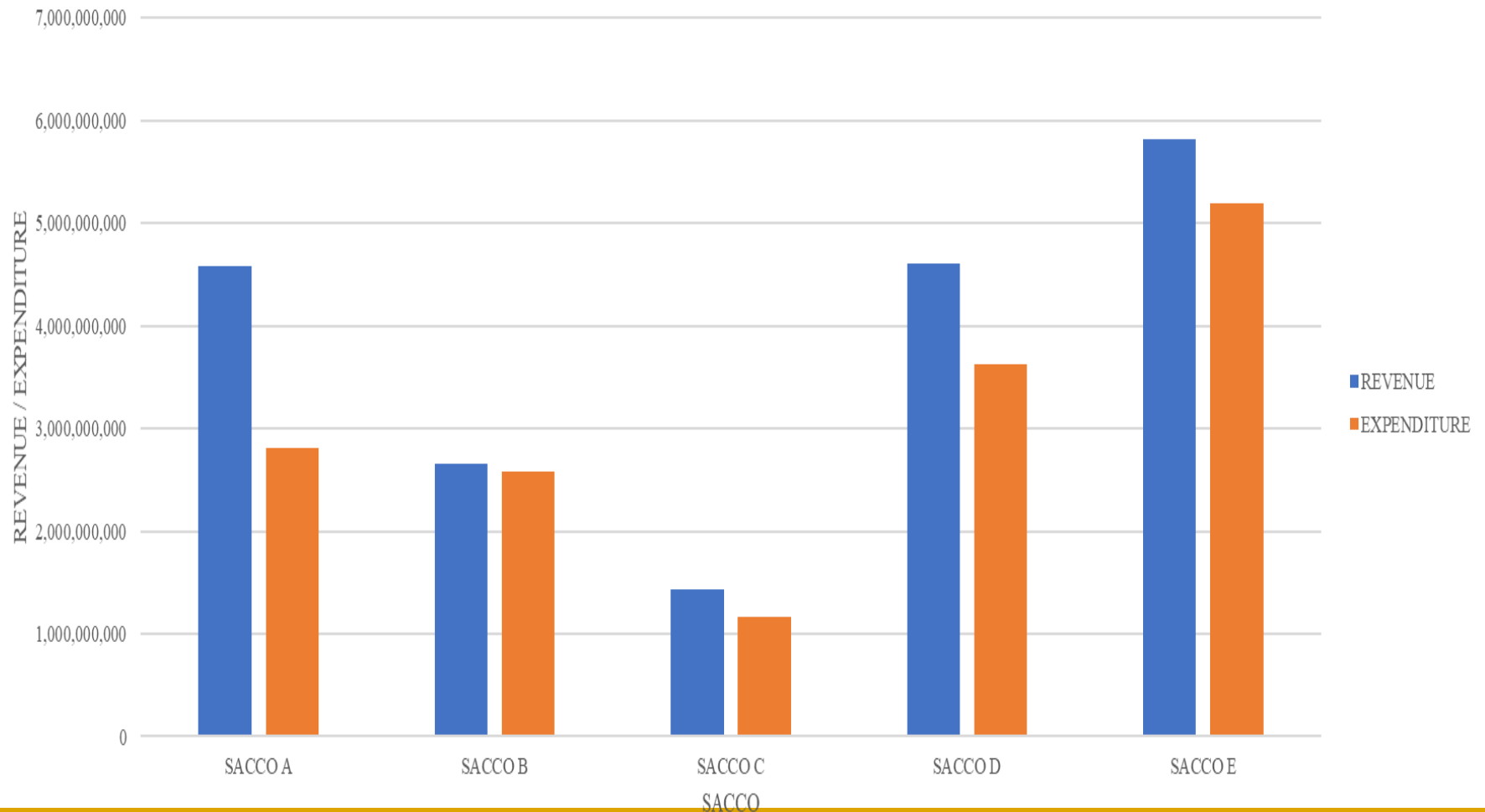
INSTITUTIONAL & SHARE CAPITAL / SACCO



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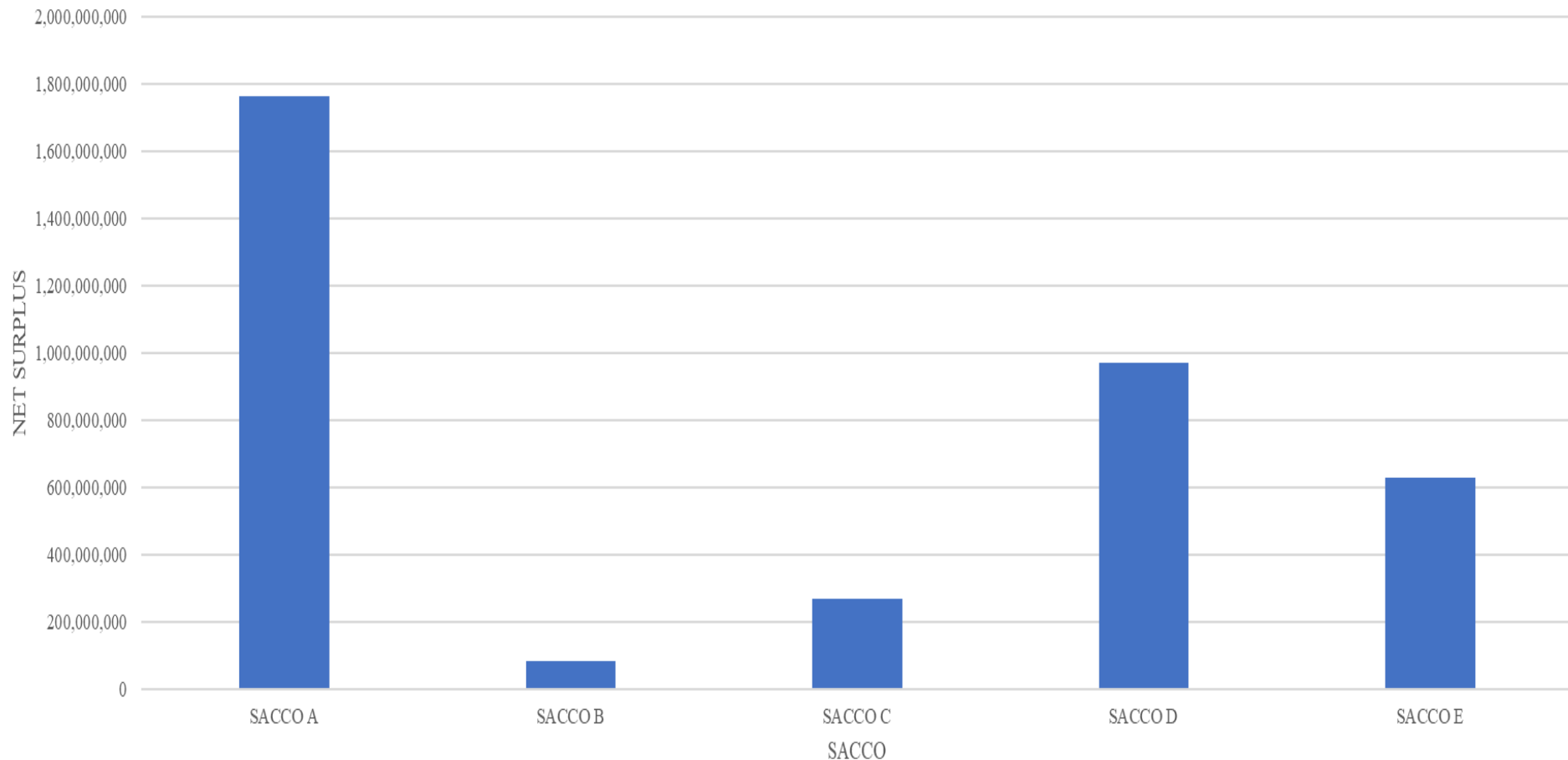
REVENUE AGAINST EXPENDITURE



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PROFITABILITY PER SACCO



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SUSTAINABILITY EQUATION *PARAMETER FOR GROWTH*

SUSTAINABILITY =

Coverage of:

ADMINISTRATIVE COSTS

+

LOAN LOSSES

+

COST OF FUNDS INCLUDING INFLATION

+

CAPITALIZATION FOR GROWTH

from Operating Income

RESEARCHED FINDINGS;

Change in growth of
Sacco's wealth is
influenced 77.8% by
capital structure

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WHY CAPITAL ADEQUACY

- ✓ Achieve **PRUDENTIAL** Requirement for core capital of 10% & Institutional Capital 8% of the total assets
- ✓ Enhance liquidity position of the society (15%)
- ✓ Finance the DEV projects i.e. TECHNOLOGY, BRAND CAPITAL, RESEARCH, SECURITY & otherwise.
- ✓ Operational EFFICIENCY-
- ✓ *PRODUCT development* i.e. Long-term & Mortgages
- ✓ **RISK MANAGEMENT**

**so what? Then what?
Now what?**

Therefore its important for a SACCO Society to Build its CAPITAL for Growth and Sustainability

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BUILDING INSTITUTIONAL CAPITAL

- ✓ Share Contribution from the membership
- ✓ Financial policy to support Adequate Annual Reserves from Surplus i.e. Statutory Reserves & General Reserves
- ✓ Dividend policy
- ✓ Donations from Parent Company or well wishers etc

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THEREFORE

CAPITAL is

A measure of a financial
institution's safety and
soundness,

Adequate capital promotes public
confidence in the institution

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Savings

- ✓ Non-Withdrawable savings
- ✓ Withdrawable savings
- ✓ Emergency savings
- ✓ Children Savings
- ✓ Savings Challenge-Lotto
- ✓ Retirement Savings
- ✓ Christmas savings
- ✓ Set aside Savings
- ✓ Etc

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Interactive Session



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THANK YOU
AND
GOD BLESS