



SACCOs CONFERENCE

CPA Dr. Charity Njoka

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Upholding Public Interest

Financial Inclusion Role of SACCOs in Kenya: *Governance & Sustainability Perspective*



OUTLINE OF PRESENTATION

- SACCOs Governance Structure
- SACCOs Sustainability
- Financial Inclusion
- Irony of SACCOs Vs Others
- Way Forward for SACCOs

Brief of SACCOs in Kenya



- Largest in Africa, Accounting for 62, 65 and 63% of the continent's savings, loan and assets respectively
- Over 19,600 co-operative societies and over 14 million members (33%)
- Approx 10, 000 are DT-SACCOs
- Nearly 70% of Kenyans depend directly & indirectly on SACCOs activities
- 175 DT- SACCOS registered wit SASRA as at 2021
- Demographics-Approx 4.97 million members :4.78 M; Natural (individuals), the rest being legal persons
- Gender composition –Approx 61% being male, 34 % Female
- Members age-18-35 years, Youth, Approx proportion of 31%

SACCOs Governance Structure



- **COOPERATIVE PRINCIPLES AND SOUND CORPORATE GOVERNANCE – ICA (1995)**
 - i. Voluntary and open membership –Common bond of Association
 - ii. Democratic member control- one member one vote
 - iii. Members economic participation
 - iv. Autonomy and independence
 - v. Education, Training and information
 - vi. Cooperation among cooperatives
 - vii. Concern for community

GUIDING PRINCIPLES (GP) OF GOOD CORPORATE GOVERNANCE



- **Principle No. 1: Member Representation and Participation**
- **Minimal conditions for candidacy as a SACCO director**
- Leadership and integrity
- Adequate technical ability
- Knowledge of the Sacco financial system and associated risks,
- Knowledge of cooperative matters
- Experience in the business of banking and investment
- Skills in general management
- g) A good reputation in the cooperative industry, and
- h) Political neutrality

GP OF GOOD GOVERNANCE CONTD



• Principle No. 2: Directors –Ensure Board is properly Structured

➤ 5 and 9 directors depending on size of the Sacco

Attributes & Characteristics

- Innovativeness and entrepreneurial skills
- Willingness to learn
- High ethical standards, both in business and socially
- Commitment and devotion to duty
- Wide perspective of the Sacco business
- Knowledge of the principles of the co-operative movement
- Common sense
- Business acumen

GP OF GOOD GOVERNANCE CONTD



- **Principle No 3: Powers and Functions of the Board**
- To exercise leadership, enterprise, integrity and sound judgment in directing the Sacco.
- Promotes good corporate governance in the Sacco
- Determine the purpose of the Sacco, its values and the strategy to achieve its purpose and to implement its values, including the review of appropriate technologies and skills.
- Approve and review overall business strategies, significant policies and the structure of the Sacco.
- Take full responsibility for the performance of the Sacco in meeting its stated etc

Principle No 4: Separation of Powers in the Sacco Society

Chairman is responsible for running the board of the Sacco while the Chief Executive officer is responsible for running the day-to-day business of the Sacco.

• Principle No 5: Directors Terms of Appointment

- 3 years Renewable- no limit

GP OF GOOD GOVERNANCE CONTD



- **Principle No.6: Board Induction and Continuous Skills Development**
- **Principle No. 7: Directors Compensation –approved allowances**
- **Principle No. 8: Committees of the Board**

Not more than 4 committees

- Audit (Risk oversight) Committee- Recommended for DT-Saccos
- *Education and Governance;*
- *Finance and Human Resources*
- *Business Development and Technology.*

FINANCIAL SUSTAINABILITY



➤ Loosely equated to Going Concern

➤ Key elements – Adapted for IFAC

- Debt

- Revenue

- Services

- ***WHERE ARE WE ? SACCOs IN KENYA***

SACCO Asset to GDP Ratio of Selected African Countries



Country	Assets in 2019 (USD)	Nominal GDP (USD), 000s	Total Assets/GDP Ratio
Kenya	5,567,147,218	97,403,600	5.72%
Rwanda	308,481,890	10,209,000	3.02%
Ethiopia	635,000,000	91,166,000	0.70%
Ghana	297,683,637	67,077,000	0.44%
South Africa	22,039,604	358,839,000	0.01%

Source: World Council of Credit Unions

KENYA SACCOs Key Performance Indicators (Ksh Mns)



INDICATOR	2017	2018	2019	2020(June)	%age change
Assets	442,277	497,278	555,917	577,110	11.79
Loans	331,212	373,195	420,549	426,435	12.69
Deposits	305,305	342,296	381,081	406,123	11.33
Core Capital	64,254	78,267	95,128	93,036	21.54
Total	63,045	69,305	80,154	39,824	15.65

Source: SASRA

Financial Soundness Indicators- Kenya Saccos



Stability Indicator	Prescribed Minimum	2016	2017	2018	2019	2020 (June)
Capital Adequacy						
Core Capital	KSh 10 Millions	54,943.00	64,254.00	74,375.00	79,204.00	93,036.00
Core Capital/Total Assets Ratio	10%	13.96	14.53	15.02	14.23	16.12
Core Capital/Total Deposits Ratio	8%	20.16	21.05	21.75	20.82	22.91
Institutional Capital/Total Assets Ratio	8%	7.71	8.18	8.50	10.63	9.43
Asset Quality						
Non-Performing Loans/Gross Loans (%)	< 5 %	5.23	6.14	6.30	6.15	9.12
NPLs (Net of provisions)/ Core capital (%)		7.63	9.90	9.27	8.50	18.24
Earning Assets/Total Assets (%)		80.71	78.50	77.68	76.90	80.71
Earning Rating						
Return on Assets (ROA) in (%age)		2.45	2.69	2.40	2.60	1.86
Non-Interest Expenses/Gross Income (%)		41.35	43.99	62.10	57.67	49.41
Operating Expenses/Total Assets (%)		5.44	5.29	4.62	4.75	2.45
Liquidity Ratio						
Liquidity Ratio (%)	≥ 15 %	49.95	54.10	52.68	50.92	81.11
Liquid Assets/Total Deposits (%)		18.05	17.17	17.05	17.00	20.59
External Borrowings/Total Assets (%)	≤ 25 %	5.04	4.83	4.11	3.88	3.85
Liquid Assets/ Total Assets (%)		12.49	11.85	11.77	11.60	14.49
Total Loans / Total Deposits (%)		100.00	100.00	100.00	100.00	105.00

Source: SASRA



Comparison With Banks



MEASURE	Dec. 2017	Dec. 2018	Dec.2019	Jun-20	Change (%) (2019-2018)
Net Assets	4,002,741	4,408,593	4,832,348	5,207,815	9.61
Gross Loans	2,413,851	2,488,117	2,774,649	2,908,702	11.51
Net Loans	2,013,610	2,318,071	2,556.80	2,837,834	10.3
Gross NPLs	264,617	316,712	333,393	381,981	5.24
Interest in Suspense	43,726	54,447	62,839	70,869	15.34
Total NPLs	220,891	262,265	256,219	311,112	3.14
Total Provisions	101,193	115,599	154,966	186,331	34.08
Net NPLs to Gross Loans (%)	5.5	5.9	4.2	5.9	-1.7
Gross Loans /Net Assets (%)	53.9	56.4	57.4	55.9	1.02
Gross NPLs to Gross Loans (%)	12.3	12.7	12	13.1	-0.69

Source: CBK

Irony of SACCOs Vs Banking System



- Kenya “banking crisis”- Banks Placed under Receivership: Dubai Bank in 2015, Imperial Bank of Kenya in 2015 and Chase Bank in 2016 – Presented an opportunity for SACCOs
- Prior to Interest Rate Capping , Banks Charged Interest Rates ranging between 25 to 35% on loans while SACCOS charged/Charge a quarter of that interest yet there was no significant interbank-sacco shift.
- Banks still leading in Mobilisation of Loan Uptake and Mobilization of Savings

THREATS/ OPPORTUNITIES FOR SACCOs



- Usually started locally with very little to no significant external support both financially and in terms of organizational support
- Competition from Banks and Mobile App digital Credit providers
- Limited/ Inadequate financial products and Services eg Mortgage
- Demographic Characteristics of the populace- Education, cultural practices etc
- **Opportunities**
- Have lower fixed and administrative costs
- Minimal requirements for members / potential and existing to access products and services
- Majority of population-Low income earners not financially included by Banks

Monitoring and Supervision of SACCOs required. WHY?



- Control over Sh 500 billion in form of assets and savings in the economy
- Kenyan economy contributes up to 62% of the savings and 65% of the total Sacco loans making it the most influential Sacco movement in Africa
- 63% of the Kenyan population depends on the co-operative related activities, directly and/or indirectly, for their livelihoods
- Sacco sub-sector has mobilized over Sh200 billion in savings, which is over 30% of our national savings(Sacco s controls 30% of Kenya's GDP)
- Kenya's Saccos account for 70% of Africa's Saccos pie leaving only 30% in the hands of the remaining 53 countries
- Kenya sits in the group of 10 (G10) largest co-operative movements member countries in the world, a prestigious fete to our nation

FINANCIAL INCLUSION (FI)



- According to International Cooperative Alliance (ICA), UN, & ILO, cooperatives are effective tools to identify opportunities for the poor and empower the historically disadvantaged by transforming individual into collective risk- increasingly becoming a necessary prelude for poverty eradication and financial inclusion
- SACCOs are anchored on two fundamental functions namely financial intermediation and investment
- SACCOs – Accessible to underprivileged and those who do not qualify through the normal banking channels (limit the incidence of financial exclusion in developing economies)

BASIC MANDATE OF SACCOS



- Mobilize savings/deposits,
- Provide diversified financial products & services
- Maximize returns savings to stakeholders
- Vehicle for Investments
- Partner for Wealth Creation

RATIONALE FOR FINANCIAL INCLUSION



- Existence of a vibrant efficient and globally competitive financial system to drive savings and investments.
- Need to increase access to affordable financial services and products for a wider populations especially the poor, low-income households and (MSMEs Sector
- Financially excluded majority- Women – key drivers in economic growth

WHY/HOW?



➤ DIVERSE SACCOs

- Institutional based Sacco's
 - Community based Sacco's
 - Religious Based Sacco's
 - Agricultural Based Sacco's
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- Mature SACCOs have a wider Branch Network
 - Most SACCOs have embraced Technology/Fintechs such as
 - mobile technology that wider accessibility to financial services

DEPOSIT/ SAVINGS PRODUCTS



- Non-withdrawable savings
- Withdrawable Savings
- Investments savings- Term savings/Fixed deposits
- Funeral savings-Benevolent savings

CREDIT/LOAN PRODUCTS



- Development/ordinary loans
- School fees loans
- Emergency loans (includes Health loans)
- Salary Advance
- Instant loans
- Top Up loans
- Loan clearance/consolidation
- Deposit boosting etc.
- Mobile loans

OTHER SERVICES



- Processing Salary through the SACCO
- Processing Pension through the SACCO
- Processing Dividends through the SACCO
- Processing Women funds through the SACCO
- Processing Youth Funds through the SACCO

MISSING PRODUCTS/ SERVICES



- Long-term loans
- Housing/Home Loans (Think of affordable Housing)
- Commercial/Business loans
- Agricultural/Farming loans
- Car loans
- Specific loans for health services

TO ENHANCE FINANCIAL INCLUSION



- Competitive strategies -Cost leadership and differentiation -tailor products in accordance with the target market - low income earners vs higher income categories and adopt differing terms for each category.
- Diversify into un-tapped markets such as the diaspora market
- 100% Participation by members in fair and free elections of board members – IS ONLINE VOTING APPROPRIATE??
- Processes, decisions and relevant information should be conducted in a transparent manner and should be accessible to all concerned. .

- To enhance sustainability (due to low capital base) SACCOS should advocate for a trading platform where members can freely buy shares in their preferred Saccos
- Explore possibility of special Funds – Venture Capital Funds for Lending to middle/ High Income market
- Ensuring Managerial Competences – Both at Election & During service

QUESTIONS FOR THOUGHT



- Should SACCOs be disentangled from government control?(Be allowed to adopt business model like Banks?- For financial viability?
- Should Private Funds(Venture Capitalists) be accomodated in Saccos?
- Should SACCO management be vetted by External Parties?
- Should the SACCOS and Banks have a Single Regulator?
- Should all SACCOS be under one regulator? No separate SASRA and Ministry of Industrialisation for Non –Deposit Taking Saccos

THANK YOU FOR PARTICIPATION



Interactive Session