

# MAISHA BORA SACCO SOCIETY LIMITED



## MEMBERS EDUCATION DAY PRESENTATIONS

BY

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**JANUARY, 2012**

## **MAISHA BORA SACCO**

### **MEMBER EDUCATION DAY PROGRAMME**

#### **Broad Objective**

To enable the members understand their rights and obligations to the Society under the changing socio economic environment.

**Target Group** – Members

#### **Contents**

- SACCO Society Regulatory Requirements: The Impact of Regulations on the SACCO Business Environment
- Members rights and obligations
- Credit Administration and Loan Guarantee
- Investments and Savings for SACCO Financial Prosperity (New Products and services)
- Taking charge of your success

#### **Methodology**

A variety of methods will be used to administer seminar and workshop inputs. This shall include but not limited to:

- Lectures and discussions
- Audio visual aids
- Presentations

**MAISHA BORA SACCO MEMBERS EDUCATION DAY CONDUCTED AT  
THE SACCO GROUNDS, NAIROBI ON SUNDAY, 22<sup>ND</sup> JANUARY, 2012**

**PROGRAMME**

**SUNDAY, 22<sup>ND</sup> January**

<b>1.00 – 2.00 pm</b>	<b><i>Arrival of Members</i></b>
2.00 – 2.15 pm	Prayers Climate Setting Opening Remarks - Chairman, Education Committee
2.15 – 2.45 pm	Credit Administration and Loan Guarantee Mr. Edward K.Mudibo-Principal Consultant, Enterprise Skills Development Consultants (ESDA) Limited
2.45 pm – 3.30 pm	SACCO Society Regulatory Requirements: The Impact of Regulations on the SACCO Business Environment
3.30 – 4.00 pm	Investments and Savings for SACCO Financial Prosperity (New Products and services)
4.00 – 4.30 pm	Members rights and obligations
4.30 – 5.30 pm	Taking charge of your success Mr Mbugua Mumbi - Success Signature
5.30pm	Closing Remarks, Secretary-Education Committee Prayers Departure at own Pleasure

## 1.0 MEMBERSHIP RIGHTS AND OBLIGATIONS

### Objects of the SACCO Society

The objects for which the Society is established are to: -

- a) **Promote thrift** among its members by affording them an opportunity for accumulating their Savings.
- b) Create a source of funds at a fair and **reasonable rate of interest**.
- c) Provide an opportunity for each of its members to improve the members' respective **economic and social conditions**.
- d) Provide members with credit for purposes of **providence or production** or both.
- e) Offer to the members **complementary Savings and Credit services** and other financial products and services as may be required by the members
- f) Ensure safety and soundness of the members' funds through a **Risk Management** Programme or appropriate insurance coverage.
- g) Ensure the **progress of its members by educating** them continuously on the proper use of financial services.
- h) Perform the function and exercise the **power designated for Savings and Credit Co-operative Societies** under the applicable law for the benefit of the members.

For the attainment of the above objects, the Society may do all acts and things that are permissible under the Co-operative Societies Act, the Rules, the SACCO Act and Regulations and these By-laws provided that members at General Meetings approve such act or things either specifically or generally.

The objects of the Society shall generally be in accordance with the Co-operative values and principles.

### Co-operative Principles

In order to achieve the objects for which it is established, the society shall practice the following Co-operative Principles:

- i) Voluntary and open membership

- ii) Democratic member control
- iii) Economic participation by members
- iv) Autonomy and independence
- v) Education, training and information
- vi) Co-operation among co-operatives and
- vii) Concern for community in general

The Board of Directors and Management shall endeavour to provide timely information, promote cooperation and understanding amongst members and with other co-operative institutions locally, nationally and internationally.

### **Membership Qualifications**

A person of either sex shall be eligible for membership if he/she possesses either or **all** of the following qualifications: -

- a) Is within the **field of membership**,
- b) Is not less than eighteen years of age, **if a natural person**,
- c) Is not a member of another **salary based SACCO** in the country
- d) Is not directly, a **money lender** or carrying out such activities detrimental to the objectives of the Society
- e) Is of **good character**
- f) Has **regular income** from employment, business or trade
- g) Is an **employee** of the society or a subsidiary of the society
- h) Is **resident within or occupies land** within the society area of operation
- i) Is in **employment, occupation or profession** which falls within the category or description of those in the banking and allied sectors,
- j) Is a member of the **immediate family** of a member admitted into membership subject to the terms and conditions set by the Board of Directors and approved by the Members Meeting;
- k) Is a **nominee** and approved into membership by the Board
- l) Pays the prescribed **entrance fee, shares and monthly savings**.
- m) Accepts the **objectives of the society**, the obligations of members and other conditions as stated in these By-laws.

Provided an employee of the Society may become a member of the Society but shall not be a delegate or member of the Board except as specifically provided in these by-laws.

### **Membership Rights**

Subject to these By-laws, policies, standards, values and procedures, all members shall have the right to use the Society's Services and exercise the rights established by the Act, the Rules and By-laws, the members are entitled but not limited to: -

- a) Receive, periodically and regularly, or upon request, and at least once a Year, a **Statement of Accounts** containing the individualized record of his/her credit and debit transactions.
- b) Attend and participate in **elections** within the electoral zone. Each member shall have one vote irrespective of the member's total share holding.
- c) Elect **representatives** to attend and participate at a General Meeting.
- d) Elect or be **elected as a Board member** of the SACCO Society unless otherwise prohibited by any other Law or these By-laws.
- e) Use the SACCO **Society Services** according to the Policies and Procedures approved by the Board of Directors.
- f) **Submit projects or initiative** to the Board of Directors, for the improvement of the Society Services.
- g) Appoint a **nominee**
- h) Share in **surpluses** (Dividends and interest on deposits)
- i) **Access all legitimate information** relating to the society, including Internal Regulations, registers, minutes of the General Meetings, Supervisory Committee, Reports, Annual Accounts and Inventories, Investigation Reports, at the registered office of the society subject to the SACCO policy and regulations for the time being in force
- j) **Vote on all matters** put before the electoral zone.
- k) All **other rights** as prescribed by the Act and Rules

### **Members Obligations**

In accordance with the Act, members of the Society are obliged to: -

- a) Be **faithful and honest** in all their dealings with the society.

- b) Observe the **law, the rules and these by-laws** whenever transacting any business with the society.
- c) Observe the **code of conduct and ethics** for cooperative societies and in particular desist from any corrupt practices in all dealings with the society.
- d) Refrain from engaging in the business of **money lending** in competition with the society.
- e) Protect the **image of the society** and avoid unnecessary publicity, incitement or careless talk that can injure the reputation of the society.
- f) Pay their **debt obligations** to the society without fail and save regularly with the society to mobilize funds for lending to the members.
- g) Seek **cooperative education** to improve membership awareness and enlightenment.
- h) **Attend meetings** and education forum and take part in decision-making.
- i) Inform non-members and **encourage them to join** the Society,
- j) Bring out **problems** affecting the Society and look for solutions,
- k) Participate in the Society **projects** both physically and financially
- l) Make use of the **services of the Society** as stated in the objects of the society,
- m) **Comply with these By-laws**, the Co-operative Societies Act, SACCO Act, Rules and Regulations and General Meeting Resolutions

## **2.0 CREDIT ADMINISTRATION AND LOAN GUARANTEE**

### **INTRODUCTION**

Savings and Credit societies meet a need not presently met by other financial institutions by allowing members to obtain loans based on: Security of their savings, their incomes, character and guarantee by fellow members

To fulfil the above objectives, policies are formulated to guide Savings and Credit Co-operative (SACCO) Societies in the country. Credit Policies help members and officials of SACCO societies avoid credit administration problems.

### **Objectives of the Policy**

- To ensure that societies do not get into difficulties through approving loans in *excess of funds available*
- To ensure fairness in *loan granting*
- To facilitate *loan recoveries*
- To minimize *loan defaulting*

### **Salient Characteristics of the Policy**

#### **The Credit Policy:**

- Provides that a member may be considered for a loan up to a *maximum of three times* his/her share/deposits holding. Note that it does not state a member must be considered. The multiples of shares/deposits will differ from society to society depending on the financial strength of a particular society.
- States that the *interest chargeable* shall be determined by the SACCO society. It could be 1% or more per month but on a reducing balance.
- Specifies that all *loan applications* shall:
  - Be made on prescribed forms
  - State purpose for the loan
  - Terms of repayment
  - Type of security provided
- Other relevant *supporting documents* e.g. in land purchase, a land board consent or an affidavit witnessed and signed by an advocate of the high court

- Specifies that loan application shall be:
  - Processed in the order in which they were received provided that whenever there are more applications than funds available, preference will be given in all cases to smaller loans.
  - Where amounts of loans applied for by more than one member are approximately the same, preference will be given to loans payable within a relatively shorter period and to:
    - ✓ Members who have never had loans before
    - ✓ New members who have qualified
    - ✓ Members who have cleared their first loans and applied for fresh loans

## **TYPES OF LOANS**

- **Agricultural loans** for animal husbandry, crop production, harvesting and other activities
- **Business loans** for micro and small business activities
- **Development loans** for purchase of land, houses, vehicles, other household items
- **Educational loans** for meeting school, college, University and other higher training requirements
- **Emergency loans** to meet health or funeral expenses, court fines and other urgent needs
- **Re-finance loans** to complete an on-going project.

## **LOAN APPROVAL**

All loans shall be approved by the Credit Committee or the Board of Directors of a SACCO Society.

The repayment period shall be *determined by the Board of Directors* but may not exceed 72 months, unless approved by the Board of Directors. Loans will be repaid from a recognized income and no member should be allowed to suffer total deductions (including savings, loan repayment and interest) in excess of  $\frac{2}{3}$  of his or her anticipated income.

- When the credit committee rejects or approves the loan application the appropriate persons must sign it.
- The rejected loan applications are sent back to members by the CEO showing the following possible reasons:

- Inability to repay or poor repayment history
- Loan not in proportion to shares
- Lack of proper guarantee or security
- Inadequate membership period
- Outstanding loan
- Ineligible purpose

At times, the credit committee may defer a loan application due to any of the following reasons: -

- Incomplete information or lack of supporting documents
- Time limit can occur when an applicant applies for a loan more than one month in advance of the date needed, e.g. school fees
- To negotiate loan terms or purposes
- The loan purposes may not conform to the loan policy
- In these cases, the credit committee may wish to defer the loan application, pending further negotiating instead of outright rejection.
- A loan may also be deferred due to inadequate loaning funds. Action will be taken regarding approval when funds become available.

## **GUARANTEE**

A guarantee, otherwise referred to as surety ship is an agreement whereby one person is to be answerable for the debts, default or miscarriage of another.

- Unless the loan applied for is equal to or less than a member's shares, it must be *secured by guarantors*. The total shares of the borrower and those of the guarantor must be equal to or more than the loan applied for.
- All guarantors must be members of the society
- Other *security*: Mortgage in real estate can be taken as security for a loan not exceeding two thirds of the mortgage value.

### **Essential Features of Contract of Guarantee**

- i) There must be **three** parties: The guarantor is surety by whom the guarantee is given; and the principal debtor in respect of whom it is given.
- ii) The guarantor is only secondarily liable, e.g. if the principal debtor does not pay.
- iii) The guarantor is totally unconnected with the contract except by means of his promise to pay the loss.

### **Liability of the Guarantor:**

*Since the guarantor was only secondarily involved in the contract, he can only suffer “loss, damage” only as a result of another party’s default or right. This is because he is not privy to the contract or the principal debtor and creditor. But usually guarantees will be applied strictly against the guarantor and in favour of the one for whom it is made.*

*When the principal debtor defaults; a right of action at once arises against the guarantor. When this occurs, the creditor need not first request him before proceeding against the surety.*

However, the guarantor is only bound if:

1. The transaction between the principal debtor and the creditor is not void.
2. The principal debtor is not discharged
3. Conditions before the guarantor’s liability must be met before he can be sued. If the surety agrees to be one of several co-sureties he will not be under any liability unless the others execute the guarantee.

Where several co-guarantors have agreed to become co-sureties for definite amounts and the creditor allows the amounts to be altered by one guarantor without the consent of other guarantors, the guarantee will not be binding.

## **Right of the Guarantor**

### **a) Against the principal debtor**

1. Before payment has been made, he can compel the debtor to relieve him from liability by paying off the debt. This right can be exercised by one of several of sureties without consultations.

This is perhaps the guarantor’s most important right and it seems possible that a surety can make an application to court for an order to compel the debtor to [pay at any time after his liability has arisen and even before being called upon to pay.

2. When sued by the principal creditor and guarantor can issue a third party notice against the principal debtor and also claim an indemnity

*After payment has been made, the surety is entitled to rank as a creditor against the estate of the principal debtor, that is entitled to indemnity against loss sustained through the principal’s failure to pay and he can, not only recover interest he paid on the principal debt but also any further damage thereby caused.*

### **b) Against the Creditor**

The guarantor’s right against the creditor exists from the time he becomes guarantor and not merely when the debtor’s obligations are discharged by the guarantor:

- a) After the guaranteed debt has become due, and *before being asked to pay it, the guarantor may at any time require the creditor to call upon the debtor to pay, and upon giving and undertaking to the creditor to indemnify him (the creditor) against costs and*

risks of loss or delay, request him to proceed against the principal debtor, but not as precondition for he himself being sued.

- b) *The guarantor himself may pay the debt and thereafter sue the debtor in the creditors name, or seemingly, in his own name, if he obtains an assignment of the debt to himself.*
- c) *On being sued by the creditor, to rely on any set-off or counter claim which the debtor posses against the creditor.*
- d) *On payment of what is due under the guarantee, to have assigned to him every judgement, speciality or other security held by the creditor in respect of the debtor, whether known to the guarantor or not and created before or after the guarantee.*

**c) Against Co-sureties:**

A guarantor, who has been compelled to pay under a contract of guarantee, is entitled to contribution from his co-guarantors as follows. Where one and the said debt has been guaranteed by two or more sureties, all the sureties in this situation are required to contribute equally if the principal debtor defaults. In case one surety has paid more than his share under the guarantee, he has a right of contribution from his co-guarantors who are equally bound to pay him.

If one of the sureties is unable to pay (insolvent) the co-sureties shall have to contribute the whole amount equally.

**Discharge of a Guarantor**

1. **Variation of terms** – where any material facts of the guarantee are altered without the knowledge of the guarantor, then the guarantor is discharged.
2. **Extension of time** – if without the consent of the surety the creditor makes a binding contract to extend the agreed time of repayment =, of the loan.
3. **Concealment:** Any guarantee which the creditor has obtained by means of keeping silence as to the material circumstances is invalid.
4. **Fraud:** A guarantee which has been obtained by means of misrepresentation made by the creditor or with knowledge and assessment concerning the material part of the transaction is invalid.
5. **Revocation** - A contract of guarantee may be either specific or continuing.
  - (i) A specific guarantee relates to one transaction and cannot be revoked e.g. where the debtor has already obtained the loan.
  - (ii) A continuing guarantee is one extends to a series of transactions and be revoked by giving notice to the creditor for future transactions. The notice of the surety's death to the creditor also revokes the guarantee with respects to future transactions.
6. **Discharge** of the principal debtor discharges the guarantor.
7. **Payment:** If the principal debtor pays on the due date, the surety is discharged.
8. **Illegality:** a contract of guarantee like any other contract may be avoided if the debt itself is void for illegality, e.g. a loan given to the infant guaranteed by an adult cannot be enforced as the original contract between the creditor and the infant is void .

The major tasks facing a SACCO society is to determine first, whether the problem at hand is a dispute under the Proclamation. If they decide it is then it can only be referred to the commissioner for arbitration and nowhere else.

### **3.0 INVESTMENTS AND SAVINGS FOR SACCO FINANCIAL PROSPERITY (NEW PRODUCTS AND SERVICES)**

#### **Definition**

Investment is defined as the “foregoing of money now and receiving money back over a period of time in the future.”

The sacrifice takes place first, and is unavoidable, and the returns come later, if at all, their magnitude is uncertain. This brings us to the two types of investments, namely Financial and Real Investments

#### **Need for Investment**

- Generate more income
- Refuge for idle funds
- Increase the value of the assets
- Wealth maximization
- Meet extra members’ demands
- Diversification
- Control the sources of raw materials
- Stimulate economic development (the multiplier effect)

#### **Importance of Investments**

- They determine future productivity
- Volume of output
- Financial liquidity
- Level of surplus
- Dividends accrued

In SACCOs the objectives should be to promote financial needs by providing savings and loans at the most favourable conditions.

#### **Types of Investments**

##### **Financial Investments**

These include: -

- 1) Government bonds
- 2) Treasury Bills
- 3) Shares in Companies
- 4) Shares in other Co-operatives
  - Interests
  - Dividends
  - Access to services
  - Special representation
  - Influence
  - Access to markets
- 5) Fixed deposit accounts

**a) Real Investment - Investment in Property**

**Advantages**

- Property values keep up with inflation
- Rent increase in line with market conditions
- Very secure investment

**Disadvantages**

- *Not liquid* – changing into cash may be difficult
- *Valuation* is very subjective
- *Repairs and maintenance* costs keep on climbing higher
- Rent may be costly through *insolvency of tenants*
- The *law is complicated* and the services of lawyers frequently required
- There is *risk in changes* in the supply and demand of particular properties e.g. Hotels. One may find no alternative use for the utility.

**The Successful Investor**

- Every investment policy must take into account suitability of the investment
- Every investment must be free from the effects of personal crisis. No investment should be sold at a loss. There should be a thorough analysis of unforeseen circumstances likely to influence security
- Investments must be flexible and readily realizable
- Investments need to be diversified in types and across the industry

- There should be correct timing of the investment. That is, when to buy and when to sell
- The investor must have a balanced view of things. If things show a trend of change, he should be willing to adopt a different view even though it runs against his norms.

## **Savings and Credit Products**

### **Credit Products**

#### **1. Dividend Advance**

- Recovery at time of dividend payment
- Maximum is 60% of expected dividends
- Interest rate is 10% of advance

#### **2. Karibu Loan**

The product is meant for newly employed who transfer from other society and decide to join Maisha Bora SACCO as members. The loan is purposed to encourage new members to invest through deposits and other developments.

- Deposits to have been effected at least once
- Maximum amount Kshs 180,000=
- Interest is charged at 1% per month
- 1/3 of the loan qualification to be paid as deposits
- Repayable within 36 months

#### **3. Cheque Deposit Advance**

- Granted instantly on depositing cheques from reputable Organizations
- Recoverable on maturity of the cheque
- Maximum limit –full amount of the cheques
- Interest -5% upfront on the amount advanced
- Instant advance pending clearance of the cheque deposited

#### **4. Salary Advance**

To assist members with unforeseen emergencies such as medical bills, funeral expenses and famine. Repayment is made from salary of account holder remitted through FOSA at the end of every month

- Minimum repayment period 2 months and maximum period will be 6 months
- Interest will be at 5% per month flat rate.
- A penalty of 10% will be levied on any amount defaulted on the 10th day of the subsequent month

#### **5. Salary in Advance**

To facilitate members who remit their salaries through FOSA to draw their salaries in advance .repayment is made from salary of account holder remitted at the end of the month. The features are:

- Member will be advanced a maximum of 80% of that month's net salary.
- Is payable at the end of the month including commission chargeable
- Commission charged will be at 10% on amount advanced
- Repayment period is 4months.

#### **6. Maisha Credit**

- Granted instantly to members who wish to overdraw their debit card limits
- Recoverable within 1 month
- Maximum limit –Kshs.5,000
- Interest -10% per month upfront
- Exclusively for members who channel their salaries through FOSA

#### **7. Cash Cover Advance**

- Granted instantly against fixed deposits
- Recoverable on maturity of fixed deposits
- Interest -2.5% per month upfront
- A maximum of 90% of the amount held in fixed deposit

## **8. Top Up**

To economically empower members meet social and economic needs. The outstanding loans are cleared for the member and a new loan disbursed at a fee of 10% charged upfront.

- Top ups will only be allowed for normal loans outstanding of Kshs. 300,000/- and above.
- The interest rate shall be 14% for normal loans.

## **9. Maisha Advance**

This helps members meet short term cash demand.

- Processed on the spot and paid instantly.
- Advance facility is available up to Kshs. 100,000/-
- 10% interest charged upfront on amount applied.
- Repayable within 3 months.

## **10. FOSA Normal Loan**

- Application shall be accompanied by two latest original pay-slips
- Repayment period shall be up to 24 months
- Interest rate on loan is 1.25% per month on reducing balance
- Maximum loan amount will be Ksh.500, 000 or as will be determined by the Board from time to time.

## **11. Mortgage Loan**

- Aimed at encouraging members to own plots, residential and rental houses
- Maximum-Kshs 10 million
- Loan Multiplier x 5 the deposits held.
- Repayable within 5 to 20 years
- Interest loan at 13% per annum on reducing balance

## **12. Maisha Superior Loan**

- Aimed at encouraging members to save

- SACCO retains dividends and interest on deposits during life time of the loan(deposited to the members deposits)
- Must have saved a minimum of Kshs. 1,000,000=.
- Maximum-Kshs 3 million
- Members with existing loans (SACCO and other financial institutions) may apply
- Repayable within 72 months

### **13. Loan cash clearing**

Loan cash clearing – FOSA clears for members with BOSA loans at a commission of 10% .This enables them to apply for other loans.

### **14. Business Loan / Biashara Loan**

- Aimed at assisting business entrepreneurs
- Maximum repayment period 48 months.
- Interest at 1.25% p.m. flat rate
- Loan processing fee of 1% and Insurance premium at 1% of the loan approved.
- Guarantor savings, salary and deposit at the back office to guarantee the loan
- FOSA statement indicating steady cash in and outflow for six months.

### **15. Bridging Loan**

To assist members clear back office loans

- Commission charged will be at 4% of amount granted and processing commission will be 1% of the amount granted subject to a minimum of Kshs 500/=
- The loan cheque will be paid directly to the back office by FOSA
- Recovery of commission and loan advanced will be done at once by the FOSA on receipt of cheque from back office

### **16. Quick Disbursement Loan**

The purpose of the Quick Disbursement loan is available to those servicing Emergency loans, and has the ability to service both loans concurrently. The loan is paid directly to members FOSA Account.

- Maximum amount granted Kshs. 500,000/=
- The new members who have not finished the six months are also allowed to access this loan facility.

- The repayment period for this loan is 12 months.
- The interest rate on loan is 10% p.a

## **17. Loan Clearance Facility**

Loan Clearance Facility is available to all members and applicable to all loans. It enables members to clear an outstanding loan in order to be granted another loan. It may be utilized by members offsetting their loans from deposit while closing the account or selling the Society's loans to banks.

The Society grants amount applied for and offsets the outstanding balance. A commission of 3% is charged on outstanding loan. This commission applies to the loan applied for and not any other loan being cleared.

## **Savings Products**

### **1. Withdrawable savings**

- Minimum balances to maintain the account is Kshs 1000 and Kshs 2000 to earn interest
- Any amount above 50,000 notice of 7 days is given
- All loans, dividends, refunds, staff salaries are paid through the account
- Interest is competitive
- No withdrawal restrictions like in banks

### **2. SACCO Junior Account**

- Three times withdrawal in a year
- Minimum balance 2,000
- Minimum interest earning balance 2,000

### **3. Save as you earn**

- A minimum balance in the account is Kshs. 3,000
- Withdrawals are restricted to once a month
- Interest is competitive

### **4. Fixed deposit account**

- Minimum period deposited is Kshs 50,000

- Period of deposit is between 3 months and 1 year
- Interest is very attractive and negotiable depending on the amount

## **5. Group Accounts**

- The Group to provide a current certificate of registration
- Account opening fees to be Kshs 1000/=.
- The account to maintain a minimum balance of Kshs 3,000/=.

## **Services**

### **1. Cheque Clearance services**

- Maisha Bora SACCO cheque is issued at Kshs.100
- Standing orders are organized at affordable fees
- SACCO accepts personal cheques at 1.5% of the value of the cheque

### **2. Bankers cheques**

- It is issued at a commission of Kshs 100 subject to the Cooperative Bank of Kenya, Equity Bank or other financial institution review
- The maximum amount of banker's cheque is 100,000 Kshs. But arrangements can be made for any amount above Kshs 100,000

### **3. M-Pesa**

- The Society offers M-pesa at the enquiries counter for quicker and safer services

### **4. Bills payment**

- The FOSA pays bills on behalf of customers at a commission of ksh.100.00 for bills below ksh.1000 bills between Kshs. 1,000 and 5,000 at 3% a commission is charged and above Kshs 5000 at 5% commission is charged
- Amount of bills paid are recoverable in full at end of the month .5% is charged in the value of the bills for customers whose accounts are overdrawn.

## **4.0 SACCO SOCIETY REGULATORY REQUIREMENTS: THE IMPACT OF REGULATIONS ON THE SACCO BUSINESS ENVIRONMENT**

### **Introduction**

- The Co-operative Societies Act 1966 which empowered the state to get involved in the day to day management of co-operatives.
- The Co-operative Societies Act was revised in 1997, with a view to ushering in the new spirit of liberalization which required the withdrawal of government from control of such institutions as co-operatives.
- The 1997 Co-operative Societies Act commenced operation on *1<sup>st</sup> June, 1998* and it was presumed at that time that co-operatives had matured to a level where they would *regulate* themselves. The main object of the Act was to “democratize and professionalize the management of co-operatives by making them autonomous, member controlled, self-reliant and commercially-viable and that the co-operatives operate in accordance with the International Co-operative Principles”.
- The Co-operative Societies (Amendment) Act 2004 was to introduce certain necessary reforms in the Co-operative Sector. This was as a result of various *maladies and malpractices* that prevailed in the Co-operative Movement such as splitting to small and unviable entities, irregular general meetings, frequent committee meetings, corruption, nepotism and embezzlement of funds by some leaders.
- In December 2003, the Minister for Co-operative Development and Marketing appointed a Task Force with instructions of coming up with a Savings and Credit Co-operative (SACCO) Society Regulatory Bill.
- The Draft SACCO Regulatory Bill was presented to the SACCO leaders in April 2004, for additional input. Arising from the forum, it was agreed that the recommendations of the leaders be incorporated prior to further consultations and the draft Bill being presented to Parliament for enactment.
- The SACCO Act was accorded Presidential accent in December, 2008 and was gazetted for operationalization by the Minister for Co-operatives on 18<sup>th</sup> June, 2010. The same applies to the SACCO Societies Regulations, 2010.

### **Challenges Facing the SACCO Movement**

The SACCO sector faces a number of challenges that need to be addressed to enable them improve on corporate governance, outreach and product diversity. Some of the challenges include:

- a) The inadequacy of the existing legislation and the lack of a set of rules to accommodate provision of diversified financial products
- b) Complications in accommodating the legislative requirements of SACCO societies' operations in the same legislation that also governs non-financial co-operative societies
- c) Consequently, there is need to create a legal framework, which is more accommodative. Specific problems caused by inadequate legislation, regulation and supervision include:
  - Limited Product Diversity
  - Inadequate Governance and Management
  - Unfavourable Image

- Lack of Performance Standards
  - Weak Official Supervision and Regulation
- d) In order to meet these challenges, there was need for an efficient and professionally managed co-operative banking system, which takes cognizance the co-operative principles, values and ideals.

### **Need For SACCO Regulation**

The need for regulation of SACCOs in Kenya was well known. There was an urgent need, therefore, to draft a Bill to actualize this need.

The Kenyan SACCO movement is currently the largest in Africa having over 4,000 SACCOs, with total assets estimated at Kshs. 240 billion and members' deposits (both share capital and savings) of Kshs. 200 billion. Co-operatives contribute about 40% of the country's national savings.

In relation to the other players in the financial industry, it is worthwhile to note that the:

- ◆ **Micro-finance institution** legislation generally does not recognize the savings orientation of SACCOs.
- ◆ **Commercial Banks** legislation is inappropriate for SACCOs, whose purpose is to provide co-operative financial services to members who are its depositors, borrowers and owners.
- ◆ **The Post Office Savings Bank Act** allows for deposit taking but restricts provision of credit to customers
- ◆ **The SACCO Act** shall meet the specialized needs of the SACCO Movement in Kenya.

### **Key Features of SACCOs**

Key features, which distinguish SACCOs from other Co-operatives, MFI's and Commercial banks are: -

- Democratic control by member-owners
- Member savings mobilization
- Ownership of share contributors
- SACCOs institutional or risk capital is mainly made up of reserves and retained earnings accumulated from operations
- SACCOs pay competitive dividend and interest rates on ownership shares and deposit savings accounts
- Competitive Interest Rates on Loans to Members
- Diversified lending services
- Character and repayment capacity lending
- Need for access to payment, clearing and other services provided to financial institutions by Commercial Banks

Although SACCOs offer financial services, legislation governing commercial banks is inappropriate for SACCOs, given their uniqueness.

## **Salient Features of the SACCO Regulations, 2010**

These regulations are cited as the deposit taking SACCO business Regulations, 2010. The purpose of the Regulations is to provide minimum operational Regulations and prudential Standards required of a deposit-taking SACCO Society.

### **The Regulations provide for:**

#### **Part I: Interpretations**

#### **Part II: Licensing-Licensing requirements, Renewal of license,**

Revocation of a license, Transfer/assignment of license and Publication of licensed SACCO societies

**Part III: Capital Adequacy**-Minimum capital requirements, Criteria for higher Minimum capital ratios, Capital adequacy return and Sanctions for non compliance

**Part IV: Liquidity and Asset Liability Management-Liquidity and** asset liability management, Liquidity statement return,

Prohibited business, Opening of a branch, Operating an agency or outlet, Relocating of a place of business, closing a place of business, and Sanctions

#### **Part V: Shares, Savings and Deposits**

Terms of member shares, Non-withdrawable deposits, Withdraw-able deposits, Deposits return, Record keeping, Savings disclosure requirements and Dormant accounts

**Part VI: Credit Management:** General lending requirements, Lending disclosures requirements, Interest rates, fees and penalties limit on interest recoverable, Security for loans, Inter SACCO borrowings, Loan product approval, External borrowing and limits on loans, Insider lending, Foreclosed assets and Credit collection practices

#### **Part VII: Risk Classification of Assets and Provisioning**

Classification requirements, Computing delinquency, Basis of classification,

Accrued Interest, Treatment of Collateral, Loan loss allowances, Loan write off, Risk classification return

**Part VIII: Investments:** Investment policy, Limits on property, equipment financial assets, Compliance with investment policy, restricted investment transactions and Investments return

**Part IX: Financial Performance Reporting:** Financial return, Internal auditor ,Appointment of external auditor, Submission of audited accounts, Responsibilities of external auditor to the Authority, Establishment of the audit committee Responsibilities of the audit committee and Sanctions

**Part X: Governance of SACCO Societies:** Membership responsibility ,Directors' duties and responsibilities, Director not to be remunerated ,Limitations, Appointment of the CEO ,Responsibilities of the chief executive officer and Code of conduct

**Part XI: Regulation and Supervision:** Inspection of SACCO societies, Enforcement actions, Administrative sanctions, Memorandum of understanding and agreement, Letter of understanding and agreement, The cease and desist order, Prohibitions and removal of officers, Statutory management, Appointment of a statutory manager, Powers of a statutory manager and Financial penalties

**Part XII: Information Preservation And Business Continuity:** Information preservation, Vital records and Disaster preparedness and business continuity

**Part XIII: Deposit Guarantee Fund:** Board composition, Scope and coverage, Premium, Depositor compensation,

**Part XIV: Miscellaneous Provisions:** Amalgamations and Transitional provisions

### **Status of Maisha Bora SACCO Financial Statements**

The status of the financial statements in relation to compliance with the SACCO Regulations is as follows:

- (a) The Society has a core capital of **Kshs 30,826,000/-** as at 31st December, 2011.
- (b) The core capital stands at below **1%** to total assets. This is below the required minimum of **10%**. The Society intends to grow this to **12%** by 2016. This shall be achieved through increasing membership, growing reserves and raising shares from the minimum Kshs.5,000/- to Kshs.10,000/- per member from 2012.
- (c) The institutional capital stands at below **1%** of total assets. This is below the required minimum of **8%**. The Society intends to grow this to **10%** by 2016.
- (d) Core capital to total deposit liabilities stands at below **1%**. This is below the required minimum of **8%**. The Society intends to grow this to **10%** by 2016.
- (e) Land and building to total assets stands at **1%** and this is within the required **5%**. The minimum land and building to total assets shall be maintained within **5%** by 2016.
- (f) The financial investments in relation to total deposits stand at **3.53%**. This shall be maintained within the required **5%**.
- (g) The financial investments in relation to core capital stand at **2.92%**. This shall be maintained within the required **40%** over the five year period.
- (h) Non earning assets in relation to total assets stand at **-1%** and this is within the required **10%**. The Society shall ensure continued compliance over the five year period.

## Implications to the Society

- **Licensing:** The Society is expected to seek renewal of the license at a fee on an annual basis. There shall in turn be regular inspections conducted by SASRA.
- **Shares:** Members have to increase their shares from the current Kshs.5,000/- to Kshs. 10,000/-.You may increase your shares above this amount.
- **Deposits:** Members have to increase their deposits in the Society. Savings mobilisation strategies have to be enhanced. The Society has to introduce numerous savings products.
- **Distinction of shares and deposits:** The members' shares cannot be used as a basis of computing loans. Only deposits can be used for securing loans.
- **Dividends:** There shall be an initial reduction in dividends and interest on deposits to members as a result of attaining the core capital and institutional capital requirements. More funds shall be allocated to the reserves. There has to be adequate provision for delinquent loans.
- **Policies:** The Board of Directors are empowered to formulate policies for the day to day management of the Society. Bylaws have to be amended and several Policies formulated. This has a bearing in the overall expenditure in the Society.
- **ICT:** The Society is expected to invest heavily in the appropriate software and this shall have a bearing on the Society's finances.
- **Governance:** The Management Committees have been renamed Board of Directors and the General Manager recognised as the Chief Executive Officer.
- **Fit and Proper test:** All Board and Supervisory Committee members have to submit fit and proper test forms with the SACCO Regulatory Authority.
- **Deposit Protection Fund:** Members deposits are protected in event of the collapse of a Society

## Benefits of Sound SACCO Regulations

The enactment of a separate SACCO Societies Act with appropriate Regulatory mechanism was therefore necessary. The benefits that shall be derived from sound Regulations include:

- a) Need for a **specialized regulatory agency** with appropriate skills and powers of examination, regulation and enforcement
- b) Enhancement of **savings mobilization**
- c) Promoting **transparency and accountability** in the SACCO Movement
- d) Enhancement of **Corporate Governance**
- e) Instilling **public confidence**, trust and the right image of the sector
- f) Incorporation of **prudential standards**
- g) Specialization in **financial intermediation** of first choice for the members
- h) **Global trends** in the development of SACCOs