

# IFAD RURAL FINANCE THEMATIC WORKSHOP 29<sup>TH</sup> JULY 2005 - NAIROBI SERENA HOTEL

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## Institutional Development and the provision of Rural Finance - experiences and challenges of rural out-reach

### *A case for Savings and Credit Co-operatives (SACCOs).*

Savings and Credit Co-operative Societies, which are known by their acronym "SACCOs", were first introduced in Kenya in 1964. However, due to operational problems, high loan delinquencies, and lack of workable systems, the precursors of the present day SACCOs were not economically tenable. In 1969, the government made a radical policy departure to register SACCOs strictly based on a secure crop or employment relationship which has seen the rapid growth of SACCOs in Kenya.

Today, there are an estimated 2600 active SACCO Societies in Kenya, which together have been able to mobilize Kshs. 110 billion (US \$1.5 b) in savings or 35% of the National Savings. There are 2.2 million Kenyans who are members of one SACCO Society or another. The SACCO members support 9 million people directly through credit facilities offered by the SACCO Movement.

SACCOs in Kenya provide opportunities to more and more people to access savings, cheap affordable credit, and a chance for a secure tomorrow. The impact of these SACCO Societies on the poor rural and urban populations, particularly the un-banked segment, has been felt and is evident.

Opportunities for accessing credit through mainstream financial institutions is out of reach for most people. This has posed a great challenge to the SACCO Movement to provide high quality and diversified financial services, which members can easily access. The introduction of Front Office Savings Accounts (FOSA's) and other SACCO products have gone a long way in meeting this challenge. Currently, there are 122 SACCOs offering these quasi-banking services. These FOSA have filled the void left by banks during the restructuring process.

FOSA sections in our SACCOs therefore provide a majority of the rural and urban poor access to financial and quasi-banking services usually obtained only in formal financial institutions.

KUSCCO as the umbrella organization for SACCOs in Kenya, has been mandated by its own constitution to provide specialized services to SACCOs in Kenya. As a member-owned and member-managed financial institution, KUSCCO plays the

role of a mouth-piece, advocate, spokesman and representative of all SACCOs in Kenya as explained hereunder:

### 1. Spokesmanship

In line with its objectives, the Union continues to be the mouth-piece of SACCO Societies in Kenya. In the recent past, KUSCCO has continued to play its advocacy role in all matters that affect the development and growth of the SACCOs.

KUSCCO has also been in the forefront in fighting to be involved in *poverty reduction* and *AIDS* awareness programmes. In the Government and Parliamentarian initiated *task force*, KUSCCO was also appointed in the review of the Co-operative Societies Act No. 12 of 1997 and recently in the formulation of the SACCO Act.

### 2. Representation

KUSCCO is the *local and international* representative of SACCO Societies in Kenya. It Union is affiliated to the Kenya National Federation of Co-operatives (KNFC), the African Confederation of Savings and Credit Co-operatives (ACCOSCA), World Council of Credit Unions (WOCCU) and the International Raiffesen Union (IRU). KUSCCO is also a member of the East African Regional Associations of SACCOs comprising of Kenya, Uganda, Tanzania, Rwanda, Burundi, Ethiopia, Eritrea, DRC Congo, Seychelles and the African Rural and Agricultural Credit Association (AFRACA), Association of Micro-Finance Institutions (AMFI), Centre for Corporate Governance (CCG).

Besides this mandate, KUSCCO also provides the following services:

### 3. Risk Management Programme

The Risk Management was started in January 1993 to cater for the needs of the Union Members namely managing risks that face members of SACCO Societies. To date, the programme has attracted 620 SACCO Societies.

### 4. Central Finance Programme

KUSCCO started an *inter-lending programme* for SACCO Societies called the Central Finance Programme (CFP), in 1989. By 31<sup>st</sup> December 2004, there were 700 SACCO Societies as members with a total savings of over Kshs. 1.3 billion. The amount loaned to societies since the commencement of the programme stands at more than Kshs. 9.2 billion.

This programme has benefited SACCO Societies as the fund lends the members savings at only 11% on monthly declining balance and yet the SACCO grants loans to members at 12% or more. This is so far one of the cheapest form of credit in the country. Other products introduced by the department to meet members' requirements are the Education Scheme, Special Deposit Account, the Jua Kali Booster Loan, the Rural SACCOs Mavuno Loan and Express Loan Scheme.

### KUSCCO Housing Fund

Shelter is a fundamental human need and that is why KUSCCO came up with the idea of mobilizing savings for housing projects. The KUSCCO Housing Fund is proving very popular with members, as the terms are affordable. To qualify for a KUSCCO Housing Fund loan, one must be a member of a SACCO.

## 5. Education and Training

Education and Training forms an integral part in the promotion of the Union services and relevant issues in the management of SACCO Societies. The Union renders various services such as the promotion of SACCO Societies, members education and conduct of National and Regional seminars for the delegates, committee members, and all cadres of staff.

## 6. Business Development, Research and Consultancy Services

Some of the consultancy services provided include feasibility studies, training needs analysis, curriculum development, salary and benefits survey, strategic planning, job description and job evaluation and organizational strategy and restructuring, Monitoring and Evaluation of SACCOs with the Front Office Service Activity and application of sound Corporate Governance and best practices issues. Currently, the department has been contracted by the Tanzania Government to re-structure the Savings and Credit Union League (SCCULT) of Tanzania.

## 7. Corporate Affairs and Marketing Department

This is a Service department in the Union. The key functions of this department are:

- (i) Corporate Affairs
- (ii) Corporate Social Responsibility
- (iii) Media Watch
- (iv) Corporate Image
- (v) Guest Relations
- (vi) Brand Management
- (vii) Marketing
- (viii) Recruitment of New SACCOs and Affiliates
- (ix) Sourcing for New Business Ventures
- (x) Sale and Marketing of Merchandise
- (xi) Publication of The SACCO Star Magazine
- (xii) Common Shared Services

## LEGAL FRAMEWORK

KUSCCO and its affiliate SACCOs are registered and governed by the provision of the Co-operative Societies Act of 1997.

As unique financial institutions, SACCOs have found the need to advocate for the enactment of the SACCO Societies Regulatory Act. The importance of the proposed Act is to provide for an independent Regulatory Mechanism for the SACCO Movement.

The rapid growth and the importance of SACCOs in the national economy calls for an independent Regulatory Authority. A large sum of public money is handled by these institutions. Prudence would therefore dictate that they be regulated. The proposed SACCO Bill is currently under discussion. The proposed SACCO Bill provides for:

- ❖ Registration and licensing of SACCOs,
- ❖ Prudential Requirements,
- ❖ Standard Forms of Accounts,
- ❖ Co-operative Governance

- ❖ Amalgamations, divisions and liquidations
- ❖ SACCO Regulatory Authority
- ❖ Savings Protection Insurance
- ❖ Central Liquidity Fund
- ❖ Sharing of Information
- ❖ Transitional Provisions

## **CHALLENGES**

### **(i) CAPACITY / HUMAN RESOURCE**

Through the Education and Training Department programmes and the Research & Consultancy services, KUSCCO offers quality and specialized training to staff and Directors of SACCO Societies. However, most SACCOs lack sufficient budgetary allocation for staff training.

### **(ii) GOVERNANCE**

Instilling sound corporate principles and values in the management of SACCOs has been rather slow. Directors and their Managers are gradually being made to embrace this.

The current legal provision on term-limits and eligibility criteria for Board Members will assist in this regard.

### **(iii) NON-REMITTANCE / DELAYED REMITTANCE**

Employers withhold large sums of members contributions (including loan repayments) from reaching the SACCOs. As at 31<sup>st</sup> December 2004, in excess of Kshs. 4.6 billion was being withheld. This has stifled growth in the sector.

### **(iv) HIV / AIDS**

Membership of SACCO Societies is between the ages of 18 - 55, economically active age-brackets. The vagaries of HIV /AIDS has afflicted this segment as well. Large sums in terms of Loans for Medical Expenses, and loss of savings have been recorded.

Through KUSCCO's elaborate national network, the Government through the National Aids Control Council (NACC) has been able to educate SACCO members and leaders on the effects of HIV and AIDS including its prevention.

# KUSCCO: STRUCTURE AND ORGANIZATION

