



**THE SACCO SOCIETIES REGULATORY
AUTHORITY
(SASRA)**

**The Effects of Governance on Sacco Business
Conduct**

South Africa

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Session Objective

**To share thoughts on the Effects of
Governance on Business Conduct in
SACCOs**



Session structure

1. Governance and Regulation of Saccos
2. ICURN Guiding Principles on Governance of CFIs
3. Reflections based on Kenya's Prudential Regulatory Framework for Sacco industry
4. Professionalizing Governance in CFIs



1. Governance and Regulation of Saccos



Some Useful clarifications

- **Governance** –A coop centric definition by Central Bank of Brazil states that governance is *“A set of internal and external mechanisms enabling the members to define and ensure attainment of the objectives and prosperity of their cooperative society”*.
 - a) **Internal mechanisms** – Bylaws, members, AGM, Board, Management and employees.
 - b) **External mechanisms-** Legislations/Regulations, Regulatory Agency/Department, Ministry, Industry rules



Governance and Regulation

- Ultimate goal of regulation of a Coop or a Sacco is to ensure that rights and interests of the different stakeholders are respected and protected in pursuit of the entity's objectives
- In many jurisdictions, the policy objectives of developing legislation are to:
 - **Enhance Governance through improved transparency and accountability in the business conduct (or management) of the CFIs.**
 - **Deepen access to financial services and thus contribution to the social-economic empowerment of the citizens**



Government and Regulation

From a public policy interest perspective, Saccos are

- a) Cooperatives, member owned organizations, and hence are public organizations in the broad sense making accountability to the members and stakeholders very central for their success.

- b) Financial institutions, whose business is financial intermediation. This business thrives on trust and confidence of the public and hence members.



2. ICURN Guiding Principle on Governance in CFIs



.....Challenge in Governance of Coops

In a Discussion paper on Overview of Corporate Governance Issues for Co-operatives, Linda Shaw of The Co-operative College, Manchester, UK in 2006 notes that

“The co-operative sector as a whole remains poorly understood and its specific governance challenges remain as yet largely unexplored.”



..... ICA Development Strategy for Coops

- ICA Blueprint for Coop Development intends to take the co-operative way of doing business to a new level. Core to this blueprint is the “2020 challenge” which is that by 2020, co-operative enterprises will become:
 1. *“The acknowledged leader in economic, social and environmental sustainability.*
 2. *The business model preferred by people.*
 3. *The fastest growing form of enterprise.*



..... ICA Development Strategy for Coops

- The Blueprint further identifies five interlinked and overlapping of the development strategy as:
 - a) Identity
 - b) Participation
 - c) Sustainability
 - d) Legal framework
 - e) Capital



ICURN walking the talk.....

- International Credit Union Regulators Network (ICURN) developed and published guiding principles (GPs) to enhance good governance in CFIs
- The guidelines were modeled along the Basel Committee on Bank Supervision's principles for enhancing Corporate Governance in deposit taking financial institutions but adopted to circumstances of the CFIs.



Guiding Principles on Governance of CFIs

- The GPs are grouped in to seven thematic areas of greatest interest in a CFI or a Sacco and hence its business conduct:
 1. Cooperative principles
 2. Board practices
 3. Senior management
 4. Risk management and internal controls
 5. Compensation
 6. Disclosure and Transparency
 7. Role of Supervisors

Guiding Principles on Governance of CFIs

Group	Guiding Principle	Description	Rating
1.0 Cooperative Principle	GP1: Membership rights and obligations (or Representativeness and participations)	That the values of a CFI should be based on the seven Coop principles of a) Voluntary and open membership b) Democratic member control; c) Member economic participation d) Autonomy and independence, education e) Training and information; f) Cooperation among cooperatives; g) Concern for community	???

Guiding Principles on Governance of CFIs

Group	Guiding Principle	Description	Rating
2.0 Board Practices	GP2: Oversight role of the Board and Senior Management	Requires clarity on responsibilities of the BoD, values, code of conduct and the oversight of senior management	??
	GP3: Board qualifications	CFI should set out appropriate qualifications, both individually and collectively for the BoD including desired composition and training.	??
	GP4: Board's own practices and structure	Organisation and functioning of the BoD, Role of the chair, Role of directors, Board committees, Audit committee, Risk committee, conflict of interest policy	??



Guiding Principles on Governance of CFIs

Group	Guiding Principle	Description	Rating
3.0 Senior Management	GP5: Activities aligned with Business Strategy	Senior management is responsible for implementing strategies approved by the BoD, frequently report to the BoD within the approved framework of risk management and internal controls.	??
4.0 Risk Management and Internal Controls	GP6: Effective Internal controls and risk management function	That this function is established with appropriate expertise, authority, resources and access to the Board.	??



Guiding Principles on Governance of CFIs

Group	Guiding Principle	Description	Rating
4.0 Risk Management and Internal Controls	GP7: Identification and monitoring of risks on an ongoing basis	Risks should be identified and monitored on an ongoing basis, an appropriately adjustments made. A CFI should have an approval process for new products that include an assessment of risk.	??
	GP8: Robust internal communication	Effective risk management requires robust internal communication about risk across the CFI and through reporting to the Board and senior management.	??
	GP9: Effective use of audit and internal control functions	BoD should recognise that independent, competent and qualified internal & external auditors plus other internal control functions are vital to the corporate governance process.	



Guiding Principles on Governance of CFIs

Group	Guiding Principle	Description	Rating
5.0 Compensation	GP10: Active oversight	BoD should actively oversee the design and operation of a compensation system, and should monitor and review it to ensure it operates as intended. Compensation should be a key component of a CFI's governance and risk management .	??
	GP11: Aligned with prudent risk taking	An appropriate compensation program includes both quantitative risk measures and human judgment and be symmetric with risk outcomes.	??
6.0 Disclosures and Transparency	GP12: Adequate transparency	A CFI should disclose relevant and useful information that supports the key objectives of governance to members, depositors, borrowers, employees and other stakeholders	??

Guiding Principles on Governance of CFIs

Group	Guiding Principle	Description	Rating
7.0 Role of Supervisors	GP13: Guidance on expectations		??
	GP14: Regular evaluations		??
	GP15: Monitoring		??
	GP16: Effective and timely remedial actions		
	GP17: Cooperation with other jurisdictions		



Guiding Principles on Governance of CFIs

- ICURN guiding principles on governance align well with the policy objectives of regulating CFIs as well as aspirations of its members, and consequently CFI's **business objectives**.
- Good governance is a mandatory ingredient for the competitiveness and sustainability of Sacco business
- CFI or Sacco members deserve financial services that transform their lives



3. Effects of Governance on Sacco Business – Reflections on Kenya



Kenya's experience

- Kenya's prudential regulatory framework compares well with the ICURN guiding principles on good governance
- In the 4th year of implementation the new regulatory regime and other complementing initiatives, mixed observations can be made on its effects to governance and conduct of business in Saccos



Kenya's experience mixed observations

- On one hand, there are significant proportion of the Sacco industry where the new regulatory regime provided a big push to enhance governance and results are easy to note:
 - a) Effectively functioning Board and management
 - b) Increasing professionalism at BoD and management level
 - c) Growth in membership due marketing and promotional activities, to new branches and products (identity)
 - d) Exponential growth in assets, loans and deposits
 - e) Increased disclosures in financial statements (more informative)



Kenya's experience mixed observations

- On the other hand, there is a small section of the industry that is slow to change in the governance practices and hence conduct of business:
 - Board remains an operations board and not a strategic and oversight board
 - Sacco is seen as a social or welfare vehicle to meet members needs regardless of Sacco or members condition
 - Distribution of surplus is more of a political decision rather than a considered business decision
 - Stagnant or declining membership – dissatisfied members
 - Difficulties in satisfying prudential standards



Kenya's experienceIncreased interest...

- But Notable Developments in Kenya Sacco Industry is the participation of Saccos in competitive awards by professional bodies namely:
 - a) **Champions of Governance (CoG) Award** by Institute of Certified Public Secretaries Of Kenya where in -
 - 2013 14 Saccos out of 32 entrants;
 - 2012 8 Saccos out 45 entrants;
 - 2011: 5 Saccos out of 38 entrants
 - b) **Financial Reporting (FiRe) Award** where in-
 - 2013 – 25 Saccos out of 153 entrants
 - 2012– 17 Saccos out of 97 entrants
 - 2011 – 10 Saccos out of 91 entrants
 - 2010 – 9 Saccos out of 70 entrants



Kenya's experience Increased interest...

- All the awards have Sacco category and participation means opening up the Sacco governance, business conduct and financial reporting policies and practices to scrutiny by professional bodies who generally use tools that are internationally benchmarked
- SASRA, the Ministry and KUSCCO have been instrumental in encouraging participation in appreciation of value add from the activities
- FiRe is now an EAC region event and this means that evaluation standards can get only higher and competitive



Kenya's experience Increased interest...

- The experience and recommendations from these competitions are invaluable in many ways:
 - Continuous improvement in Sacco policies and practices
 - Getting the professionals to understand that Saccos industry
 - Promoting professionalism in Sacco business at all levels
 - Promoting transparency and accountability in Sacco industry
 - Promoting self regulation
 - Providing an objective and independent evaluation of a Saccos business policies and practices



Kenya's experience Increased interest

- In 2014, there are clear indications that in addition to Banking, Insurance and Capital Market surveys conducted by Think Business Limited, a private firm, Sacco survey will be included.
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- SASRA is in discussions with the firm as we recognize that this interest by professional bodies and Business Analysts is good in promoting best practices and market discipline in conduct of Sacco business



Kenya's experience Capacity Challenges

- Competition and regulatory demands require continuous improvement of competences in Sacco business
- SASRA with support of development partners conducted a core skills survey early this year which indicated priorities areas are:
 - **Governance**
 - Credit management
 - Risk management
 - Management Information Systems
 - Marketing and product development
 - Human resources management



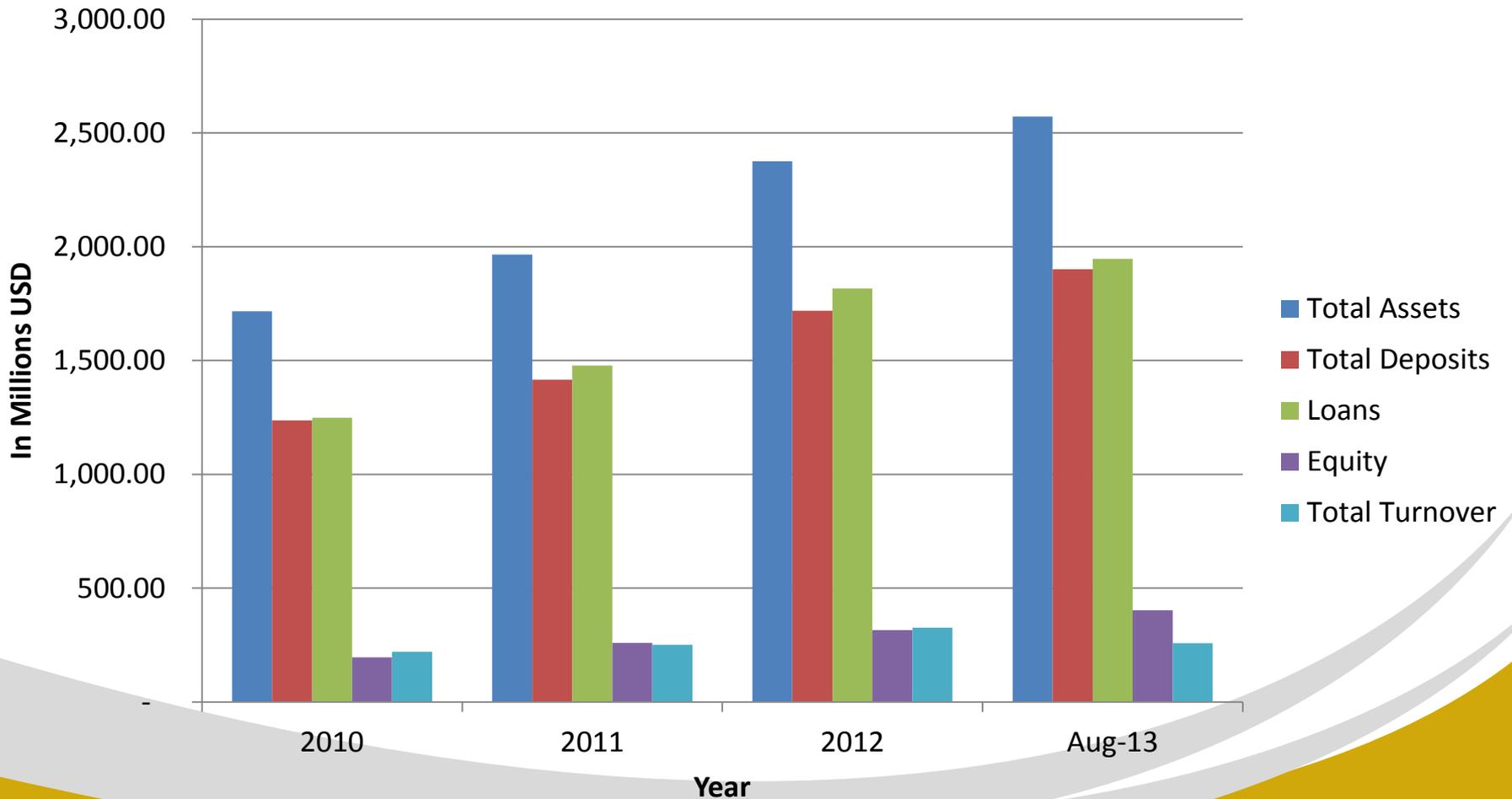
Kenya's experience Capacity Challenges

- In response, SASRA is collaborating with the Cooperative University College of Kenya to develop technical capacity in a sustainable manner.
- By June 2014, the 1st three training programmes should be running:
 - a) Sacco Directors Training Programme
 - b) Credit Risk Management
 - c) Risk Management



Performance Statistics for Kenya Saccos

Growth in Licensed Saccos





4. Professionalizing Governance in CFIs



Africa is Rising

- But are Africa Saccos and other CFIs rising?
- Are they rising within the framework of Cooperative Enterprise Philosophy?
- Are we in charge of our destiny as CFIs?
- Or are we doing catch up?
- What will we bequeath the next generation of Cooperators?



Africa is Rising

- *ACCOSCA You have your work cut out but you are equal to the task*
- *Translating the Congress discussions and thoughts into some key actionable points and leading Africa CFIs to new height in line with ICA 2020 Challenge!*



..... Professionalizing Governance in CFIs

- SASRA's desire is to professionalize Governance of Saccos
- Webster's Dictionary defines Professionalism as, "the conduct, aims, or qualities that characterize or mark a profession or a professional person."
- *Investor-owned companies are increasingly appointing professional directors into their boards to ensure effective strategy and oversight at BoD level*
- But uniqueness of CFIs presents unique challenges in enhancing professionalism in the Board room
- But we don't want to leave our CFIs to fate



..... Professionalizing Governance in CFIs

- There is an opportunity to develop our members and delegates to professional cooperators and directors
- Goal Institute identifies five important keys to being a true professional:
 - a) Character
 - b) Attitude
 - c) Excellence
 - d) Competency
 - e) Conduct
- Institute further asserts that the five keys cover 30 important concepts necessary to develop that true professional cooperator.



..... Professionalizing Governance in CFIs

- ICURN has developed functional Guiding Principles for Enhancing Governance of CFIs
 - 1) We recommend these GPs to ACCOSCA to promote them through the national associations and regulators in defining Governance charter and policies
 - 2) ACCOSCA through members leagues/unions and the regulators to develop Director Training Programmes to fully internalize and operationalize these GPs



..... Professionalizing Governance in CFIs

- 3) ACCOSCA to facilitate a national Governance survey on extent of compliance with the Guiding Principles by the national associations and the individual CFIs

- 4) An Governance Award to be part of the SACCO congress to recognise and honor countries, CFIs and individuals that have transformed their CFIs and hence lives of their members through good governance



..... Professionalizing Governance in CFIs

- 5) Seek partnership with Universities in Africa and beyond to document impact of CFIs on member lives and position Cooperative way as the third economic model
- 6) Replicate as much as possible the success stories of one country, CFI, National association across Africa
- 7) Cooperative model is a bottom up approach, participatory and inclusive ... but absolute democracy can be dangerous.....we need to guide the development of our CFIs to develop a **Coop Financial System that is competitive and sustainable**



..... Professionalizing Governance in CFIs

✓ To be continued.....