Kenya:
The Gateway to Credit Union Development in Africa

Rural Kenya

"Banking Sector Experiences Financial Problems"…"Banks Closing Branches in Rural Areas"… "Regions Left Without Financial Services!" For many developing credit union movements, headlines like these mean opportunity. The question is whether the movement can capitalize on that opportunity and ensure long-term sustainability.

Such an opportunity presented itself to the Kenyan credit union (SACCO) movement back in the late 1990s. Savings and Credit Co-operatives (SACCOs) gained importance and increased size when they stepped in during the banking sector crisis to open branches in areas where banks had retreated. Today, SACCOs in Kenya constitute a critical part of the financial system.

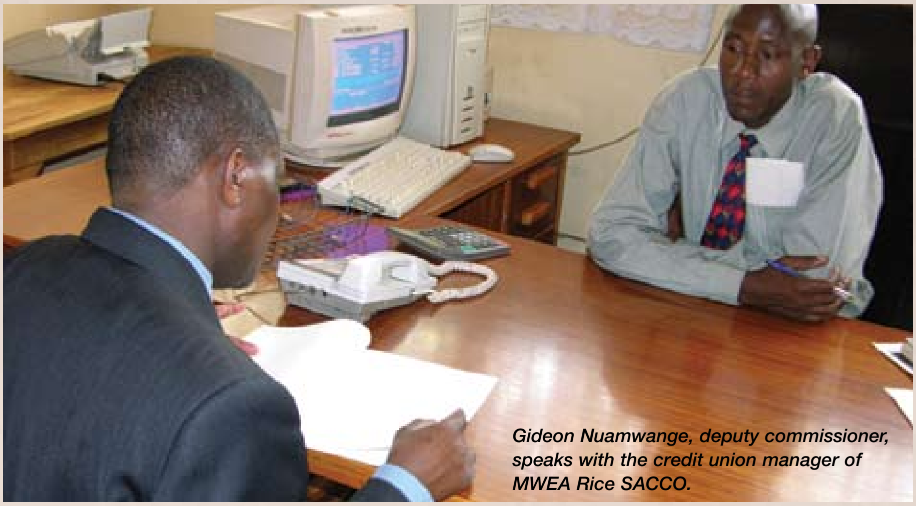
The largest in all of Africa, the Kenyan credit union system comprises 4,200 registered SACCOs throughout the country, according to the Central Bank of Kenya. The Kenyan Ministry of Cooperative Development and Marketing (MoCDM), the government organization representing all cooperatives, estimates that SACCOs provide financial services to approximately 1.6 million members and mobilize approximately US$1.5 billion in savings. However, a World Council of Credit Unions impact assessment shows these numbers appear too low.

"SACCOs are a much bigger contributor to the Kenyan economy than the industry thought. The sector is also a major player in the financial market," indicated Brian Branch, World Council chief operating officer. "The 148 SACCOs in our impact study represent 1.2 million members; so we believe SACCO membership exceeds 2 million."

Given the movement's tremendous outreach and the importance of maintaining SACCO sustainability, the Kenyan government, with World Council's assistance, is trying to strengthen credit unions and make them safer for members by passing a proposed SACCO Act. Because the sector currently stands unregulated, the Act will provide a formal structure for implementing regulation and supervision.

World Council worked with MoCDM to draft a SACCO bill in late 2003. Before drafting the bill, World Council managed and implemented an impact study to determine the benefits, costs and risks of the proposed regulatory framework for the SACCO sector and its various stakeholders. Initial analysis included a stakeholder workshop, an audit of the 20 largest SACCOs and a financial analysis of an additional sample of SACCOs—some of which offer withdrawable savings accounts.

Members of Marafiki SACCO sell their goods at the market.



Gideon Nuamwange, deputy commissioner, speaks with the credit union manager of MWEA Rice SACCO.

Jesús Chavez, World Council technical development and regulatory systems manager explained, "An important part of the SACCO Act is introduction of a regulatory body to supervise operations of the entire SACCO sector. Additionally, the Act proposes establishing a Depositors Protection Fund to safeguard members' savings. Potentially, the regulatory entity, operating under MoCDM, will be autonomous and free from political influence." Chavez continued, "We are strongly recommending that all SACCOs, regardless of size, be supervised and regulated by an independent regulator."

Chavez, a key contributor to the SACCO Act, proceeded to explain, "The Act proposes clear demarcations of the responsibilities of members, elected officials, and SACCO employees to enhance transparency, accountability and adherence to World Council's PEARLS prudential management standards."

Chavez pointed out that much has to be done before regulation begins. He said, "Writing new accounting manuals and implementing reporting standards is key. Currently, SACCOs use financial statements in a format designed for the manufacturing sector. Everyone needs to be on the same sheet of music before beginning to play." He added, "Education is also a key component in regulation, ensuring staff and board directors are trained on asset/liability management, PEARLS and other key operational areas."

Having anticipated the need for formalized training, World Council partnered with Strathmore University in Nairobi to develop an intensive three-tiered accreditation program. Strathmore–WOCCU African Management Institute (SWAMI) focuses on providing SACCO staff and board members the necessary tools and training to safely manage and operate a SACCO. This year the program, which began in 2004, graduated its first class of 28 managers and 20 board members from the third tier.

With growth and addition of services, the importance of legislation and supporting regulations for credit unions has never been more critical than in developing countries, like Kenya. SACCO leaders knew changes had to be made to their lending practices and other services to survive in the marketplace. Today, because of reinventing the way they do business, Kenya SACCOs—especially those offering "front office services" (teller services)—are experiencing large and swift membership growth. Traditionally credit unions in Kenya provided basic services of share savings and share draft accounts, "back office services." With change it brings new challenges: day-to-day liquidity management, accounting and overall financial management.

In order to achieve their regulatory and legislative goals, the government of Kenya will propose funding for the new regulatory project to the Department for International Development (DFID), an agency of the United Kingdom government. Through the proposed project, consultants will work with institutions, individuals and credit unions to build capacity and determine areas of change to help SACCOs comply with the proposed SACCO Act and prepare for regulation. For example, SACCOs will move from making loans based solely on a fixed ratio of three-times a member's share to analyzing a member's capacity to repay the loan.

Another key component to successful development is collaboration. Through World Council's International Partnership Program, the Pennsylvania Credit Union Association (PCUA) partnered with the Kenyan credit union system in 2001. Since that time, both Pennsylvania and Kenya credit union leaders have deepened relationships and supported efforts to strengthen their respective systems. Recently, Rick Myxter from PCUA returned from his third visit to Kenya, where he addressed SWAMI participants and met with the Kenyan Permanent Secretary of MoCDM to encourage passage of the new SACCO Act. Myxter also met with USAID to discuss funding for training and the launch of IR*net*® Kenya.

"In Kenya, we have a movement with incredible potential and a strong will where we can develop methodologies specific to African SACCOs." noted Brian Branch, World Council chief operating officer. "Kenya is the gateway to credit union development in Africa."

–by Kimberly Johnston
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