

Strengths and Weaknesses of SACCO models used in East Africa



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Background

- Throughout the world different SACCO models can be found.
- Finding a common denominator for evaluation is not simple.
- SACCOs are by their nature cooperatives
- The International Cooperative Alliance has for over 100 year been the theoretical leader in cooperative values.





The International Cooperative Alliance

- ICA represents of 800M cooperative members in 85 countries.
- ICA has set down the Cooperative Identity and Cooperative Values Statements; and the Cooperative Principles.
- These statements and principles should provide a good benchmark to evaluate East African SACCO strengths and weaknesses





ICA Cooperative Statements

Cooperative Identity	A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
Cooperative Values	Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

ICA Principles-Voluntary and Open Membership

- Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- Implications:
 - SACCOs are not, by design, ideal institutions to bank the poorest of the poor.
 - SACCO membership criteria must be chosen by existing SACCO members and therefore SACCO provision of services to a general population may not be advisable and cannot be guaranteed.





ICA Principles-Democratic Member Control

- Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.



IC A Principles-Democratic Member Control-continued

- SACCOs are meant to be self-determined and self monitored. The SACCO's policies must be set by the members in order for the members to feel ownership of and abide by these policies.
- Members are ultimately responsible for monitoring the affairs of the SACCO. This implies that education of the membership regarding their rights and responsibilities is critical.
- SACCOs are purely democratic, unlike corporations. Therefore, owning a greater share of the wealth a SACCO controls does not allow a member to have greater voting rights





ICA Principle-Member Economic Participation

- Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.



ICA Principle-Member Economic Participation-continued

- Key Points:
 - Share ownership in the SACCO should be reserved for those individuals who conduct business with the SACCO.
 - Participation in share ownership should be based on the amount of business a member does with the SACCO making risk proportional with reward and avoiding free riding.
 - Voting rights should be based on membership and not on proportional ownership. Further, to be a voter, one must be a member and to be a member one must be an active client.



ICA Principle-Autonomy and Independence

- Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.



ICA Principle-Autonomy and Independence-continued

- Key Points:
 - SACCOs must set their own policies and should not be externally managed.
 - SACCOs cannot be subsidiaries of other institutions.
 - Lending to, or investment in, SACCOs by external parties does not entitle external parties to a controlling interest in the SACCO. This renders governmental and/or donor policies of establishing SACCOs to deliver targeted credit, worthless.





ICA Principle-Education, Training and Information

- Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.





ICA Principle-Education, Training and Information-continued

- Key Points:
 - Education of SACCO members is an internally driven agenda and an absolute must for maintaining democracy, member control and transparency within the SACCO.
 - Rather than government and donor policies for SACCO promotion and community education, this role is preferably handled by the organizations themselves.





ICA Principle-Cooperation among Cooperatives

- Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.





ICA Principle-Concern for Community

- Cooperatives work for the sustainable development of their communities through policies approved by their members.





ICA Principles and Effective Financial Intermediation

- the ICA principles, if respected, provide a sturdy foundation for any cooperative organization. Compliance should underpin a SACCO which is:
 - ▣ Customized to meet a group of self-selecting, economically active individuals
 - ▣ Democratically governed to ensure equal attention to the objectives of all member-clients and policies which meet the needs of the majority while not disenfranchising the minority (Pareto optimality);





ICA Principles and Effective Financial Intermediation-continued

- ❑ Collectively owned to achieve economies of scale and reduce start up and ongoing costs;
- ❑ Collectively controlled by an informed membership to minimize costs of external audit and supervision;
- ❑ Patronized by its members with both investment, to build local institutional wealth, and ongoing savings and credit business, to increase local business





ICA Principles and Effective Financial Intermediation-continued

- ❑ Autonomous to maintain focus on members' identified goals;
- ❑ Voluntary to ensure responsiveness to the market as members can enter and exit freely;
- ❑ Self promoting to ensure the continued growth of benefits beyond the present day membership; and
- ❑ Concerned with building the quality of life in the community where it is located.





Implications for Financial Sector Development

- If the ICA Statements and Principles are embraced:
 - Supervision is less expensive
 - Customized services address key sectors
 - Cost is low because of self-management
 - Wealth is accumulated at community level
 - Operations are scalable (RaboBank)
 - Local economies are improved





Deviations from ICA Statements and Principles-Kenya example

- Urban SACCOs in Kenya introduced a salary advance (15%/month) to financially weak borrowers.
 - Product designed by a consultant, embraced by the Board
 - 163% interest spread (savings to loans)
 - Wealth transfer between rich and poor through dividends
 - Portfolio Deterioration





Deviations from ICA Statements and Principles-Kenya example continued

- Violated equality, equity and solidarity clause of ICA Values Statement
- Violated Voluntary and Open Membership by servicing members incapable of supporting the loan.
- Violated Democratic Member Control because the Board opted for the product.
- Violated Concern for Community by charging usurious rates.





Deviations from ICA Statements and Principles-Uganda example

- MFIs mobilizing savings were told to desist by BOU.
- Many reregistered as SACCOs
 - Wisely these were placed on probation by the Cooperative Commissioner.
- Several suffered from *Elite Capture* when former owners became Board members and members didn't know they were members.





Deviations from ICA Statements and Principles-Ethiopia example

- USAID and IFAD assisted GOE to roll out a rural SACCO strategy.
- Promoters occupied Board positions.
- GOE selected targeted communities.
- Results were, on average, not bad as many promoters eventually exited from the management and the driving theory behind the SACCOs was the ICA theory.
- Some failed to properly start due to poor targeting.





Deviations from ICA Statements and Principles-Ethiopia-continued

- Violated Voluntary and Open Membership as members were recruited who could not support the institution.
- Violated Autonomy and Independence by including non-shareholders/government promoters on the Board. In most cases this was not troublesome as they eventually exited.





Deviations from ICA Statements and Principles-2nd Uganda example

- It is common practice in Uganda for memberships to elect Boards and Boards to appoint other bodies responsible for checks and balances from among the Board membership.
- This often results in insider lending to Boards and non-compliance with Bylaws (especially the Bylaws governing term limits).
- Such weaknesses have fueled the zeal to regulate/supervise SACCOs in Uganda.





Deviations from ICA Statements and Principles-2nd Uganda-continued

- Violates the Statement of Cooperative Values by not respecting *honesty and openness*.
- Violates Democratic Member Control by instilling all rights and responsibilities for checks and balances within a few members accountable to themselves.
- Violates Education, Training and Information by not informing members of their rights and responsibilities.





Conclusions

- Many East African SACCOs are not really cooperatives in accordance with ICA theory.
- Those who are better at following the theory are better at performing.
- Decisions by development partners to promote, regulate, dissolve, support, ignore SACCOs are often not based on a sound SACCO model.





Conclusions-continued

- The greatest threat to any SACCO is an uninformed membership.
- To capture the benefits of SACCOs for financial deepening, it is best to first to develop a good model and develop simple education and promotion programs based on sound theory.
- Once a SACCO is badly managed to benefit a limited few, it is very difficult to bring the institution back to the fundamentals; here greater regulation has a role.

