



ICA GENERAL ASSEMBLY

"Co-operation and Peace in the Era of Globalisation"

15 - 17 October, Seoul - Korea

African financial co-ops in crisis – could IT be a saviour ? Gideon Muriuki, The Co-operative Bank of Kenya Ltd.

Co-operative Financial Services

SACCO is an abbreviation of Savings and Credit Co-operative. The abbreviation was introduced in the middle of the 1980s (Kenya), but the development of both urban and rural SACCOS started around 1970. The actual banking operations, that is, the acceptance of savings deposits and disbursement of loans, in almost all cases, were carried out by the District Cooperative Union to which the primary societies were affiliated.

There has been a significant growth in the cooperative finance sector, that is, cooperative banking, savings and credit, and insurance services. However, liberalisation and strict statutory regulations have been a set-back to the financial growth. Methods and ideas should be developed to increase financial participation of the members in their organisations. This can be improved by linking grassroots level financial institutions and production in order to mobilize local savings.

A common observation on the new world of microfinance is its failure to engage with rural people as farmers, rather than as traders, artisans, crafts-people and as consumers. Indeed, many recent interventions in Kenya and elsewhere, have specifically excluded farming from their definition of 'enterprise'. As a result, their impact outside Nairobi and a few provincial and district towns has been minimal, in spite of the inclusion of 'rural' in some of their names. In a society where most families still depend on farming, the microfinance revolution is evidently partial in its impact. A number of programmes in East Africa are currently exploring new models of the 'village bank' type.

Poor competition from commercial banks:

Commercial banks lack the motivation, attitudes and techniques to provide for the type of services small holder families need most. Their rules on minimum savings balances have simply made it very difficult for a common small holder farmer to become a customer with a commercial bank. SACCOS are people's banks whereas commercial banks are not.

Relations with The Formal Banking Sector

The Co-operative Bank of Kenya (Co-op Bank) is in active competition with other banks with a presence in district and other rural centres, and so, has similar costs in terms of modern banking halls, back office systems and so on. As a result it has little competitive edge over the other banks.

The Co-op Bank is launching a microfinance service of its own, with technical assistance from Department For International Development (DFID).

Relations with the Informal Sector

Most members have significant dealings with individual moneylenders

Family informal credit

Informal Women's groups ('merry-go-rounds') also known as ROSCAs i.e. Rotating Savings and Credit Associations.

Financial services and products offered by saccos

- Savings Accounts:

SACCOs have two classes of client: members and customers.

Customers have access to only one financial product – savings account.

Members on the other hand can save, borrow and make decisions in the SACCO.

Hence the major service offered by SACCOs is the Savings Account. Evidence shows that SACCOs have a high liquidity because of high savings as opposed to credit. This is congruent with international experience – that poor people value savings facilities highly. The demand for savings accounts drives one of the most significant developments among the SACCOs – investment in ‘front offices’ and mobile services.

- Credit:

In all cases loans are only available to members (shareholders) in good standing. In urban SACCOs a requirement for guarantors as security for the loan is common but in most rural SACCOs the main security is the crop which gives the institution its common bond. Loans are granted under three main categories: development, emergency and school fees.

- Members’ dividends and other services:

Dividends are paid out to members at the end of the year according to their crop yield / share contribution for the year. It should be noted that members are the only ones who can benefit from this product and not ‘customers’.

- Safe deposit of documents e.g. land title deeds.
- Members’ education and training
- Insurance of loans to members

Challenges Facing SACCOS

- Non remittance from members – harvested crop, farm produce, share deductions. This can be mainly attributed to liberalisation where members sell their produce to other buyers instead of their society. This portrays a lack of commitment on the part of the members.
- Loan default – failure to recover defaulted loans due to failure to secure such loans or also poor securities.
- Lack of diversity in services and products offered i.e. no variety. This implies a fear by the management to invest or try new things.
- Human resource development – SACCOs need to recruit qualified staff with a higher formal education. Qualified staff also means higher remuneration.
- Computerisation – the manual systems operated by rural SACCOs are slow and cause a number of problems because of human errors. Consideration of cost-effectiveness and improvement of quality of service would justify computerisation of operations in many SACCOs. There are great gains to be made in terms of systems development and implementation costs, inspections, audit, staff training etc. A well developed computer system, like Microbanker can be organised to provide regularly updated information on the SACCO’s financial situation and performance.

Ways of Meeting these Challenges

- Saccos should employ qualified staff who have the required experience to run the office successfully. This also means that the Management should be willing to pay high salaries to such staff.

- Credit committees should make proper appraisal of members who apply for loans and ensure their eligibility to avoid cases of default. There should be a follow-up of the loans granted to ascertain whether the purpose for the loan has indeed been implemented.
- Securities for loans should be flexible and adequate to cover the loan
- In order not to be left behind in this liberalised economy, SACCOs need to update themselves with the ever-changing Information Technology so as to compete effectively in the market with other financial institutions.
- Young members should be elected to the Management Committee so that they can introduce new ideas, products and services to 'spice up' the SACCO's activities. This will be a new way forward for the SACCO as well as strengthening leadership skills among the youth. The cultural attitude by the old that young people cannot handle such a responsibility should be done away with.

How can cooperatives gain/benefit from being on-line?

As we have seen above, co-operatives need intensive advertising and marketing to keep up with today's technology and to reach a wider market. This will attract the youth to join cooperatives and participate in their community development, once they are educated on the advantages of joining.

Cooperatives can use the internet as their advertising campaign to show the community what kind of services and products they offer. There could be many people out there who do not know of its existence or exactly what kind of activities they deal in. The internet will therefore serve as an educator and source of information.

By visiting other web sites, cooperatives can learn more about other successful cooperatives and adopt ideas from them after seeing what it is that makes them so successful. Similarly, cooperatives can exchange ideas through the internet – 'cooperation among cooperatives'.

It will not be necessary for extension officers to visit farmers on their farms to demonstrate how to use particular tools/machinery if such information can be illustrated on the internet. This will save time and money.

Donors will be able to gather information on how certain cooperatives are operating and which ones require donor funds most. This will assist them to select and short-list those that are deserving of the aid.

The internet can be a good source of information about legal matters affecting cooperatives e.g. revision of by-laws, how to settle disputes, legislation on cooperatives etc.

They can also know about Apex bodies and how to get affiliated to them in order to benefit from them intellectually, technically and financially.

CONCLUSION

Unfortunately, the capital required to stay on-line is more than most cooperatives can afford or are willing to afford. Apex bodies are mainly the ones who can afford this service. Most of the Management committees which are headed by the older generation are not willing to allow such changes to take place. That is why we need young people within the committees to bring such positive changes. Donor assistance will definitely be required to make this a reality within the 21st century.