



# PROGRAM BRIEF KENYA

Complying with New Credit Union (SACCO) Regulations



## PROGRAM OBJECTIVES

With funding from the Financial Sector Deepening Trust (Kenya), known as FSD Trust, World Council of Credit Unions (WOCCU) is strengthening Kenya's savings and credit cooperatives (SACCOs), or credit unions, so they can meet new regulatory standards.

World Council's consultancy is focused on the following objectives:

- Develop a methodology and toolkit to evaluate the capacity of the deposit-taking SACCOs to comply with new regulations
- Train local audit firms in using the tools to evaluate SACCOs
- Perform due diligence examinations of SACCOs that have used the tool to apply for licensing

## BACKGROUND

SACCOs play an increasingly important role in Kenya's financial services sector, serving a growing number of rural and poor households. An estimated 1.7 million Kenyans, or 9% of the country's adult population, rely on SACCOs for financial services.

In 2008, Kenya and South Africa became the first African nations to enact SACCO-specific regulation designed to strengthen the safety and improve the performance of the country's deposit-taking financial cooperatives. Of Kenya's more than 4,000 SACCOs, about 220 take withdrawable deposits in addition to share-based savings. SACCOs have 12 months from the time of their application to the regulatory authority, the SACCO Society Regulatory Authority (SASRA), to gain licensure. At the law's passage, authorities expected only 25% of those institutions to be able to comply with licensing standards. World Council's consultancy is aimed at increasing the number of SACCOs that qualify, with special attention on those not currently meeting capital adequacy requirements, but which show potential to do so.

## KEY METHODOLOGIES

World Council is employing and adapting a number of its widely used financial tools to assess the financial state of Kenya's deposit-taking SACCOs and their ability to comply with the new regulations.

**Financial monitoring.** World Council's PEARLS monitoring system is a set of financial ratios or indicators that

guides operational decisions and acts as a supervisory tool. The indicators benchmark an institution's protection of member savings, financial structure, asset quality, rates of return and costs, liquidity and growth against internationally accepted standards. World Council adapted PEARLS to help measure SACCO performance and compliance against key regulatory ratios in Kenya and provide SASRA a database of SACCO financial and statistical information.

**Risk management & due diligence.** World Council developed a due diligence tool to correlate a SACCO's financial information in PEARLS with quantitative governance indicators. The tool measures the compliance gap between each SACCO's current financial condition and the standards outlined in the new law. World Council is integrating its business planning methodology into the tool so that each SACCO can estimate its time-to-compliance based on financial projections.

**Training.** World Council trained a total of 25 professional auditors, hired by FSD Trust and SASRA, to use the diagnostic tools. Once the tools were field-tested and approved by SASRA, individual SACCOs seeking licensure received a checklist of financial and statistical information required for compliance.

Upon completion of the diagnostics phase, World Council will make a final analysis and write a report synthesizing the project's findings and evaluating the readiness of SACCOs to comply with the new law and regulations.

**WORLD COUNCIL OF CREDIT UNIONS** is the global trade association and development agency for credit unions. It has implemented more than 275 technical assistance programs in 71 countries.

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