

## CRITERIA FOR LENDING TO SACCOS

### Step One: Qualifiers

For the purpose of this tool, the qualifiers are the minimum or basic conditions that have to be met for a SACCO to be considered eligible to be assessed. If the answer to any of these questions is "No", the SACCO should be immediately dropped and no further assessment of it should be carried out. The only possible answers to each of the questions in this Qualifier section of the tool are "Yes" or "No".

Does the SACCO have (please tick Yes or No):

	Yes	No
1. A Valid registration certificate from the Department for Cooperatives?		
2. A license issued by the Ministry of Finance, Plan and Economic Development		
3. Identifiable place of business where they carry out their activities?		
4. At least one full time staff?		
5. Financial services as its core business?		
6. Active savings and loans operations?		
7. An active Board and Committee Directors?		
8. Management staff with suitable qualifications and experience to manage the SACCO?		
9. Observable business growth?		
10. Measures of sustainability consistently monitored?		
11. Good levels of operational and financial sustainability?		
12. Profitability and sustainability		

### **Assessment Guidelines**

6.	Check that at least one half of members save on at least a monthly basis and that at least one-third borrow on at least a monthly basis.
7.	Check - via the meeting minutes - that the Board and Committees are meeting at least once per quarter.
8.	Check that the manager has at least a diploma in business or cooperatives plus 5 years experience. The accountant must have a diploma in accounting or business plus 2 years experience
9.	i) Percentage and absolute growth in the number of members in a year. 10% or more is good, 5% to 10% average, lower than 5% marginal ii) Percentage and absolute growth in the loan portfolio in a year - % guidelines as above iii) Percentage and absolute growth in the volume of savings in a year -% guidelines as above.
10.	i) Operational sustainability tracked and documented regularly ii) Financial sustainability tracked and documented regularly iii) A loan loss reserve at least equivalent to the PAR (30 days and over) is taken into account in calculating both OS and FS.
11.	i) OS at least 100%= fair 120%-150% good, over 150%= excellent ii) FS at least 90%=fair, 100%,- 130% good, over 130 excellent iii) A loan loss reserve at least equivalent to the PAR (30 days and over) is taken into account in calculating both OS and FS.
12.	OS, FS or net operating profits clearly targeted in the business plan, and the levels monitored consistently by management.

## **Step Two: Assessment**

### **The documents to be examined for each potentially qualifying SACCO are:**

- Balance Sheet
- Income and Expense Statement
- Operating Ratios
- Breakdown of loans as per delinquency, rescheduling, and type

#### 1. Borrowing Capacity

Shares and savings (S+S) are added and constitute the base.

Any outstanding loans to a commercial or non-commercial lender are subtracted from the S+S total.

The value of any delinquent loans (from members to the SACCO) are then subtracted from the sub-total in (1.b).

The value of any rescheduled loans are subtracted from the sub-total in (1.c).

If the resultant balance (from 1.d) is a positive number, this is rounded down to the next 1000 shillings and this is the amount of the maximum loan for which the SACCO may qualify.

#### 2. Management

- a. *Accounts* balanced and current (10 days after the close of the month).
- b. *Loan delinquency reports* complete and current (10 days after the close of the month).
- c. *Supervisory examination* completed and recommendations implemented.
- d. *Annual budget* prepared and performance evaluated monthly.
- e. *Key ratios* calculated and evaluated monthly.
- f. *Written policies* approved and implemented.
- g. *Written internal control guidelines* approved and implemented.

#### 3. Operating Ratios

Each of the operating ratios are examined. Particular notice is given to Capital, Delinquency, Solvency, and Operating Cost. If any of these are outside of the acceptable range, the SACCO will likely be disqualified. *Standards are set for a 1<sup>st</sup> loan.* They will vary for follow-on loans.

##### a. Capital<sup>1</sup>

Equity/Assets

Equity being Reserves (including loan loss allowances) + deposit insurance fund reserves + retained earnings + donated capital)

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<sup>1</sup> This refers to Institutional Capital, which does not include member shares.

**1st loan eligibility > or = 7%**

**b. Reserves to Loans**

**Reserves/Loans Outstanding**

Reserves being Capital reserves + bad debt allowances.

1<sup>st</sup> loan eligibility > or = 8%

**c. Delinquency to Reserves**

Delinquency/Reserves

Delinquency being loans overdue by 1 month

1<sup>st</sup> loan eligibility < or = 80%

**d. Solvency**

Share savings + Capital - Delinquent Loans/Total Shares

1<sup>st</sup> loan eligibility > or = 100%

**e. Delinquency**

Delinquent Loans/Loans Outstanding

1<sup>st</sup> loan eligibility < or = 5%

**Fixed Assets**

Fixed Assets/Total Assets

1<sup>st</sup> loan eligibility < or = 6%

**Investment**

Earnings Assets/Funds Bearing Cost<sup>2</sup>

1<sup>st</sup> loan eligibility > or = 100%

**Net Loans Written Off**

Loans written off – Recoveries/Previous year's total loans

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<sup>2</sup> These are any funds on which either interest or dividends must be paid.

1<sup>st</sup> loan eligibility < or = 5%

i. Operating Cost

Operating Income/Total Expenses

1<sup>st</sup> loan eligibility > or = 100%

Return on Assets

Total Operating Income/Total Gross Assets

1<sup>st</sup> loan eligibility > or = 30%

Net Spread

Net Operating Surplus/Average Total Assets

1<sup>st</sup> loan eligibility > or = ???%

Loans to Savings

Loans Outstanding/Savings + Borrowings

1<sup>st</sup> loan eligibility > or = 80%

m. Liquid Reserves

Cash + Investments/Total Shares + Borrowings

1<sup>st</sup> loan eligibility < or = 10%

Leverage

Member Shares/Share Savings + Borrowings

1<sup>st</sup> loan eligibility < or = 25%

4. Financial Obligations

Financial obligations by SACCOs include any:

- service fees
- loan principal
- loan interest
- loan penalties

If any recent financial obligations (for the past 2 quarters) have not been met, then – even if a SACCO otherwise qualifies for a loan – such a SACCO will have to wait until 30 days after their obligations are completely met before they may receive a new loan. As regards any other SACCOs, they will still have to pay any such outstanding debts to external lenders before receiving a new loan.

