

MEMBERSHIP INFORMATION

CRITERIA FOR SELECTING SACCOs TO PARTICIPATE IN RFS

SACCOs shall be selected to participate in either of the following RFS components:

- 1. *Assisting sub-counties without SACCOs to set them up (Start up SACCOs).***
- 2. *Assisting existing weak SACCOs to build capacity and become safe, sound and sustainable institutions (Strengthening).***
- 3. *Assisting existing strong SACCOs to increase their outreach and serve many more members.***

1. Start-Up SACCOs

A: *These shall be assisted with a Basic Start up Support Kit. The SACCOs to qualify shall:*

- i) Be located in a sub-county without an existing SACCO
- ii) Have been duly selected by the sub-county council as a RFS for the sub-county, consistent with this selection criteria
- iii) Registered with Dept. of Cooperatives
- iv) Be a genuinely member-based cooperative with broad sub-county community support
- v) Have identified suitable premises that can be rented (and refurbished as necessary to be suitable for SACCO operations)
- vi) Have identified at least one qualified candidate for manager
- vii) Be able to mobilize at least 350 paid-up members within the first 9 months of formation (as a basis for being able to achieve a size sufficient to generate adequate business volumes and income to cover its costs within two years)

B: *Operational Support*

The selected SACCO should sign collaboration MOU with either of the RFS implementing institutions (UCA & UCSCU) responsible for its area under which arrangements and terms and conditions for accessing operating support shall be spelt out. Such conditions include the following:

- i) To adopt and apply the operating and accounting systems, guidelines and policies, and performance standards recommended by the RFS implementing institution.
- ii) To allow the RFS implementing institution un-limited and full access to all of its transactions, records, operating reports and activities for internal audit and supervision.
- iii) To invite and allow the RFS implementing institution un-limited access to all of its meetings where it should participate as a Technical Advisor.

- iv) To consult the RFS implementing institution for technical advice and guidance on all of its initiatives to secure external support
- v) To consider, adapt and apply the technical advice given by the RFS implementing institution in all aspects of the SACCO's operations and relationships.
- vi) To safeguard and properly use the logistical and technical support provided by the RFS implementing institution
- vii) To participate in relevant SACCO development programmes beneficial to SACCOs.
- viii) To participate in co-operative promotional activities propagated by the RFS implementing institution for the benefit of the co-operative movement.
- ix) To provide the RFS implementing institution with timely periodical operating and financial reports prepared according to the agreed reporting format for analysis, interpretation and corrective actions wherever necessary.
- x) Hold an annual general meeting at the end of the first year;
- xi) Prepare periodical financial statements and other operating reports and have them
- xii) In case of being dropped from RFS, the SACCO shall return all the RFS assets and non-consumable items to the RFS implementing Institution.

C: **All RFS SACCO** support services shall be provided on a performance related basis as will have been agreed upon by the SACCO leaders and management, and the RFS implementing institution

D: **SACCOs that persistently fail to achieve the agreed set performance targets** and do not show signs of willingness to address their weaknesses shall be dropped from RFS. In such cases, the RFS implementing institution shall through the relevant authorities inform and advise the Sub-county Council to select a replacement SACCO.

2. Strengthening Existing SACCOs

Table 1 shows the criteria for selecting SACCOs to be assisted under the RFS' strengthening existing SACCOs Component:

Table A-I: Criteria for Selecting SACCOs for Strengthening

	Criteria	Requirement
1	Age and Location of SACCO	At least one year operating from a rented or free-of charge premises (building)
2	SACCO Managers Qualification	Certificate or Diploma in Cooperatives, Business Management, Accounting or Microfinance
3	Experience	At least 2 years experience in microfinance operations
4	SACCO Records	Key operating records kept on the members savings, share capital, loans, SACCO's expenses, income statement and balance sheet for at least one year
5	Size of SACCO	At least 300 members At least 30% of members being women Members drawn from all parishes of the sub-county
6	Share capital mobilized	At least Shs. 3 million

	Criteria	Requirement
7	Saving Deposits	At least Shs. 3 million
8	SACCO Loan portfolio	At least Shs. 3.5 million
9	Portfolio at Risk	Less than 10%
10	Have been duly selected by the sub-county council as a RFS SACCO for the sub-county, consistent with this selection criteria	
11	Must show signs of growth and viability in its operations	
12	Must have already been assessed and selected under MCAP	

The SACCO must also be willing to sign an MOU spelling out its collaboration arrangements with the RFS implementing institution (as seen in Section 1 B above)

3. Assisting existing strong SACCOs to increase their outreach and serve many more members (Increased Outreach)

Under this component of RFS, SACCOs will be considered for support to enable them expand into new communities to mobilize more members, develop new products and generally improve their services to their members. To access this component of RFS support, SACCO must meet the following criteria:

- i) Have a PAR better than 10%
- ii) Are operationally self-sufficient (OSS > 100%);
- iii) Have filled and submitted the PMT for its previous year operations to either of the RFS implementing institutions or AMFIU
- iv) Have a business plan that sets forth credible plans for mobilizing new members, resources (through saving deposits and share capital), improving the efficiency and effectiveness of its operations, and profitability.

The SACCO must also be willing to sign an MOU spelling out its collaboration arrangements with the RFS implementing institution (as seen in Section 1 B above)

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 1st loan.* They will vary for follow-on loans.

a. Capital¹

Equity/Assets

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

1st loan eligibility > or = 7%

b. Reserves to Loans

Reserves/Loans Outstanding

¹ This refers to Institutional Capital, which does not include member shares.

Reserves being Capital reserves + bad debt allowances.

1st loan eligibility > or = 8%

c. Delinquency to Reserves

Delinquency/Reserves

Delinquency being loans overdue by 1 month

1st loan eligibility < or = 80%

d. Solvency

Share savings + Capital - Delinquent Loans/Total Shares

1st loan eligibility > or = 100%

e. Delinquency

Delinquent Loans/Loans Outstanding

1st loan eligibility < or = 5%

Fixed Assets

Fixed Assets/Total Assets

1st loan eligibility < or = 6%

Investment

Earnings Assets/Funds Bearing Cost²

1st loan eligibility > or = 100%

Net Loans Written Off

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

1st loan eligibility < or = 5%

i. Operating Cost

Operating Income/Total Expenses

1st loan eligibility > or = 100%

Return on Assets

² These are any funds on which either interest or dividends must be paid.

Total Operating Income/Total Gross Assets

1st loan eligibility > or = 30%

Net Spread

Net Operating Surplus/Average Total Assets

1st loan eligibility > or = ???%

Loans to Savings

Loans Outstanding/Savings + Borrowings

1st loan eligibility > or = 80%

m. Liquid Reserves

Cash + Investments/Total Shares + Borrowings

1st loan eligibility < or = 10%

Leverage

Member Shares/Share Savings + Borrowings

1st 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.

ELIGIBILITY CRITERIA FOR SACCOS TO ACCESS FUNDS FROM UCSCU'S INTERNAL LOAN FUND (ILF)

The benefiting SACCO should fulfill all the following conditions:

Internal Conditions:

1. Active and has three (3) audited financial reports namely for 2005, 2006 and 2007 financial years copies submitted to UCSCU.
2. Has a loan policy dully approved by the Board.
3. Accounting maintained up to date and monthly financial reports prepared and presented to the board.
4. Generates or will generate monthly Loan Portfolio Quality Reports during the loan period.

Network Conditions:

5. Affiliated to UCSCU with atleast three (3) shares of Shs 300,000/= (Three Hundred Thousand Only).
6. Paid in full Annual Contribution to UCSCU for 2007.
7. Quarterly financial reports and statistical reports (as at March, June, September and December each year) are prepared and submitted to UCSCU for inclusion into national databank for SACCOs.
8. No Outstanding overdue liability with UCSCU e.g National Education Fund.
9. Has signed both Technical Support Memorandum of Understanding (TSS MOU) and the Loan Protection Fund Contract.
10. Will pay to UCSCU LPF for all the loans that will be grated from the ILF.
11. Will reactivate its savings account with UCSCU and save on it 20% of the loan. Such savings will attract interest and may be withdrawn after repayment of the loan.
12. Will generate and submit to UCSCU monthly portfolio reports for those loans granted using the ILF.
13. Has a fulltime Manager and is participating into the Manager's Forum.

Loan Terms:

14. Interest rate is 14% per annum on reducing balance and penalty fee of 2% per month on past due installments, if any.
15. Loan is payable initially within a period of 6 months.
16. Timely repayments and regular savings will qualify the SACCO for a fresh and bigger loan.
17. Loans from the ILF are to be applied only in re-lending SACCO members.
18. Forward to UCSCU a Board Resolution approved maximum liability form.
19. Forward copy of SACCO's Bank Statement for the last 6(six) months.

CRITERIA FOR ACCESSING CREDIT FUNDS FROM MSC

1. The institution should be registered as a body corporate with a legal personality. Institutions with probationary registration is not legible.
2. Have a certified copy of the constitution e.g, Memorandum and Articles of Association, bye-laws or Trust Deed etc.
3. Have clear ownership and governance structure depending on the legal entity or nature of the institution e.g SACCOs should have the following:
 - (i) At least 30 members
 - (ii) Executive Committee and Management.
4. Have clearly accessible physical office (s) within the area of operation

5. Should have at least 2 staff with knowledge and skills in either microfinance and or basic accounting
6. Should have an experience of at least one year in running credit or microfinance programmes.
7. Have a strategic business plan or annual estimates.
8. Have audited accounts for at least one year by a certified Auditing Firm for companies or by the Department of Cooperatives for SACCOs and evidenced of good performance i.e. financial, operational, governance and management.
9. Have a certified copy of a valid resolution authorizing the institution to borrow from MSC or a copy of the approved maximum liability which ever is applicable.
10. Have a copy of a valid operating license i.e money lenders license/banking/MDI license whichever is applicable.