



## THE SACCO SOCIETIES REGULATORY AUTHORITY (SASRA)

Our Ref: Guidance Note No. SASRA/GG/02/2021

29<sup>th</sup> January, 2021

To,  
Chairpersons, Board of Directors,  
**All Non-Deposit Taking SACCO Societies**

Dear Sirs/Madam,

**RE: GUIDANCE NOTE ON THE OPERATIONALIZATION OF THE SACCO SOCIETIES (NON-DEPOSIT-TAKING BUSINESS) REGULATIONS, 2020, AND APPLICATION FOR AUTHORIZATION OF SPECIFIED NON-DEPOSIT TAKING SACCO BUSINESS.**

### **1.0. THE OPERATIONALIZATION OF THE SACCO SOCIETIES (NON-DEPOSIT-TAKING BUSINESS) REGULATIONS, 2020**

On 5<sup>th</sup> May 2020, the Cabinet Secretary for Agriculture, Livestock, Fisheries and Co-operatives published the *Sacco Societies (Non-Deposit Taking Business) Regulations, 2020* vide the Legal Notice No. 82 of 2020 (*herein after referred to as the Regulations 2020*), which prescribes the prudential and market conduct measures to be complied with by all SACCO Societies undertaking the *specified non-deposit taking business* (popularly known as Back Office Service Activity (BOSA)).

The Regulations, 2020 took effect on **1<sup>st</sup> January 2021**, and specifies the following BOSA businesses, as the *specified non-deposit taking business* for purposes of *Section 3(2) of the Sacco Societies Act*, in respect of which the measures prescribed in Regulations 2020 apply -

- a) non-deposit taking business (BOSA) in which the total non-withdrawable deposits from members is equal to or exceeds the sum of one hundred million Kenya shillings (Kshs 100 Million);
- b) non-deposit taking business (BOSA) in which the SACCO Society mobilises membership and subscription to its share capital through digital or other electronic payment platforms (*popularly referred to as virtual or digital SACCOs*); or
- c) non-deposit taking business (BOSA) in which the SACCO Society mobilises membership and subscription to its share capital from persons who are ordinarily resident outside Kenya (*popularly referred to as Diaspora SACCOs*).

**CONSEQUENTLY**, all SACCO Societies which were undertaking the prescribed *specified non-deposit-taking Sacco (BOSA) business* as at **1<sup>st</sup> January, 2021** are hereby required to secure compliance with the Act and the Regulations, 2020 by –

- a) Making appropriate application to the Authority for authorization of their respective businesses as provided under the Regulations, 2020 **within six (6) months of the commencement of the Regulations 2020, i.e. on or before 30<sup>th</sup> June 2021**; or
- b) The cessation of the existing *specified non-deposit-taking business* within six (6) months of the commencement of the Regulations, 2020 i.e **on or before 30<sup>th</sup> June 2021**.

**NOTICE** is further given that upon the expiry of the transition period on **30<sup>th</sup> June 2021**, no SACCO Society shall be allowed to undertake or to continue undertaking a specified non-deposit taking business, **UNLESS** the SACCO Society will have fully complied with the Act and the Regulations 2020. In this regard, SACCOs should take note of the penal and supervisory sanctions for non-compliance as prescribed in *Regulation 8* as read with *Regulation 96(6)* of the Regulations, 2020.

## **2.0. PROCEDURES FOR APPLICATION FOR AUTHORIZATION OF SPECIFIED NON-DEPOSIT TAKING SACCO BUSINESS**

The provisions of *Reg. 5(2) of the Regulations, 2020* requires SACCOs seeking to undertake the specified non-deposit-taking business to apply to the Authority for authorization in the form set out in **Form 1A in the First Schedule**, including the attachments prescribed in *Reg. 5(3)* of the Regulations 2020.

Upon receipt of the application for authorization, and satisfying itself that the SACCO has met the conditions contained in *Reg. 5(3)* of the Regulations, 2020, the Authority shall visit the SACCO's premises for an onsite inspection with a view to establishing if the SACCO has put in place –

- a) appropriate institutional infrastructure, including adequate working space;
- b) a Management Information System for the purpose of performing and accounting for all transactions and providing the minimum reports required by the Authority;
- c) appropriate risk management policies and internal control systems; and
- d) suitable organisational, governance and management structures.

It is only upon being satisfied with the foregoing, that the Authority shall notify the SACCO Society to pay the prescribed fee, to facilitate the issuance of an authorization certificate.

Consequently, and to enable a smooth transition by SACCO Societies applying for authorization pursuant to the Regulations, 2020, the Authority issues this note to guide SACCO Societies in making appropriate documentations, and setting up appropriate infrastructural requirements that conforms to the Act and the Regulations, 2020.

	KEY REQUIREMENT	GUIDANCE NOTES
1	<b>Application for Authorization Form</b>	<p>The Application for Authorization <b>Form 1A in the First Schedule</b>. The Form may also be downloaded from the Authority's website at <a href="http://www.sasra.go.ke">www.sasra.go.ke</a>. Once completed, the declaration in the Form must be executed by SACCO's Chairman and the Chief Executive Officer, in the presence of a Commissioner for Oaths or a Magistrate.</p> <p>The documents prescribed in <i>Reg. 5(3) of the Regulations 2020</i> must be attached to the Application for Authorization Form.</p> <p>The duly completed application for authorization form, together with the attachments should be submitted to the Authority, with a forwarding letter from the SACCO Society in both hard and soft copies. The soft copies (scanned) should be emailed to <a href="mailto:licensing@sasra.go.ke">licensing@sasra.go.ke</a>.</p>
2	<b>Fit and Proper Test Form (F&amp;P)</b>	<p>The F&amp;P Test Form is prescribed as <b>Form 1B of the First Schedule</b> to the Regulations, 2020. A Copy of the Form 1B can be downloaded from the Authority's website at <a href="http://www.sasra.go.ke">www.sasra.go.ke</a>.</p> <p>The F&amp;P Test Form should be completed by the officers provided in <i>Reg. 5(3(a) of the Regulations 2020</i>, namely -</p> <ul style="list-style-type: none"> <li>a) Members of the Board of Directors and Supervisory Committee;</li> <li>b) The Chief Executive Officer; and</li> <li>c) The Senior Management Staff</li> </ul> <p>The declarations in F&amp;P Test Form for each officer must be witnessed by a Commissioner for Oaths or a Magistrate.</p> <p>The F&amp;P Test Form for each member of the Board of Directors and Supervisory Committee shall be accompanied with the officer's two (2) passport size photographs, and copies of the Personal Identification Number (PIN); National Identification Card (ID); and copies of copies of the highest academic or professional qualification attained.</p> <p>The F&amp;P Test Form for the Chief Executive Officer and each of the Senior Management shall be accompanied with the officer's two (2) passport size photographs, and copies of of the Personal Identification Number (PIN); National Identification Card; all academic and professional certificates, a current certificate of good conduct from the National Police Service; and a current Credit Report from a licensed Credit Reference Bureau (CRB).</p> <p>The application by the SACCO for authorization must be accompanied by the F&amp;P Test Form for each of the officers of the SACCO.</p>

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3	<b>Certified copy of the Registration Certificate</b>	<p>The Registration Certificate is issued by the Commissioner for Co-operatives pursuant to the Co-operative Societies Act, upon incorporation of the SACCO Society. Where the SACCO has changed names, a Certificate of Change of Names is issued.</p> <p>The application for authorization, must therefore be accompanied by a duly certified true copy of the SACCO's Registration Certificate.</p>
4	<b>A certified Copy of the registered By-Laws of the SACCOs.</b>	<p>In accordance with Reg. 5(3)(c) of the Regulations 2020, the application for authorization shall be accompanied by a duly certified true copy of the SACCO's registered By-Laws that is aligned to the Act and Regulations, 2020.</p> <p>The By-Laws of every SACCO seeking authorization must therefore conform or be aligned to the Act and the Regulations, 2020. Thus, SACCOs whose existing By-Laws are not aligned to the Act and the Regulations, 2020 must amend the same before submitting application for authorization.</p> <p>The Authority, in consultation with the State Department of Co-operatives has issued a <i>Model By-Laws for Regulated Non-Withdrawable Deposit Taking (Non-WDT) SACCO Societies</i> which SACCOs may customize taking into account their unique operational circumstances. The <i>Model By-Laws for Regulated Non-Withdrawable Deposit Taking (Non-WDT) SACCO Societies</i> may be obtained from the Authority's website <a href="http://www.sasra.go.ke">www.sasra.go.ke</a>.</p> <p>In order to ensure that the By-Laws of the SACCOs conforms to the Act and the Regulations, 2020; SACCOs are advised to submit the draft By-Laws to the Authority, for pre-application no objection; and thereafter subject the By-Laws for members approval, before submission of the same for registration by the Commissioner for Co-operative Development. Such a process will reduce the risk of the By-Laws being rejected by the Authority, after the same have been registered.</p>
5	<b>Minutes of the General Meeting authorising the SACCO to undertake the specified non-deposit taking business</b>	<p>SACCOs are member based institutions. Consequently, <i>Reg. 5(3)(e) of the Regulations 2020</i> requires that an application for authorization to undertake "specified non-deposit taking business" shall be accompanied with <i>certified extract of minutes of the General Meeting resolution authorising the SACCO to carry on specified non-deposit taking business</i>.</p> <p>Consequently, SACCOs intending to apply for authorization under the Regulations 2020, are required to obtain a resolution from the members, authorizing the application. During the meeting, SACCOs are encouraged to inform their members on the legal and financial implications of seeking the authorization as well as failure to seek the authorization. These implications</p>

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		<p>are provided in the Act and the Regulations, 2020, and includes the approval of any amendments to the By-Laws to conform to the Act and the Regulations 2020.</p> <p>In the case of SACCOs with existing specified non-deposit-taking business; if the members resolve not to apply for authorization, then the SACCO must automatically resolve to cease undertaking any further specified non-deposit-taking business. In default, the SACCO risks the sanctions and penal consequences prescribed in the Act and the Regulations, 2020.</p> <p>Cognizant of the COVID-19 restrictions, SACCOs intending to apply for authorization, are advised to secure the requisite clearance from the Commissioner for Co-operatives, to hold their respective General Meetings for purposes of obtaining the appropriate members' resolutions in this regard.</p>
6	<b>Certified copies of Audited Financial Statements for the preceding three (3) years</b>	<p>In accordance with <i>Reg. 5(3)(f) of the Regulations 2020</i>, the application for authorization shall be accompanied by audited Financial Statements of the SACCO for three (3) years, preceeding the making of the application. For SACCOs with existing specified non-deposit taking businesses, the audited Financial Statements shall be for the years ended December 2018, December 2019 and December, 2020.</p> <p>Consequently, the SACCOs intending to make the application for authorization must ensure that they cause their Financial Statements for the ended December 2020 to be audited accordingly, before submitting an application for authorization.</p>
7	<b>Proof of adequate capital</b>	<p><i>Reg. 11(1) of the Regulations 2020</i> provides that a SACCO Society shall maintain a core capital which shall comprise of—</p> <ul style="list-style-type: none"> <li>a) not less than five million shillings;</li> <li>b) not less than eight percent of the total assets of the Sacco society: provided that at least fifty per cent of the core capital shall be composed of retained earnings and disclosed reserves; and</li> <li>c) not less than five percent of the total non-withdrawable deposits held by the Sacco society on behalf of its members.</li> </ul> <p>Consequently, before a SACCO can be authorized to undertake specified non-deposit taking business, the SACCO must provide evidence that it has sufficient capital as prescribed above. In this regard, the capital adequacy of the SACCO shall be computed based on its latest audited Financial Statements, to determine the core capital and related minimim capital adequacy ratios.</p>



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		<p>The <i>Capital Adequacy Return</i> prescribed in Form 2A of the Second Schedule to the Regulations, 2020 provides instructions on the calculations and computation of core capital and other capital adequacy requirements as prescribed in the Regulations 2020.</p> <p>In addition, SACCOs must maintain and be ready to submit to the Authority upon request a current members' listing, loans listing, and deposits listing among other listings, which must be in concurrence with the disclosures contained in the Financial Statements.</p>
8	<b>Business Plan and/or Feasibility Study</b>	<p>In accordance with Reg. 5(3)(d) of the Regulations 2020 the application for authorization must be accompanied with a three (3) year Business Plan or Feasibility Study of the specified non-deposit taking business under the Regulations 2020. The Business Plan or Feasibility Study must be and should be informed by the prevailing socio-economic and political environment, the past performances and the future strategic business plans or decisions.</p> <p>The SACCO must be committed to implementing and to be held accountable by the Authority, on any proposals contained in the Business Plan or Feasibility Study. Generic Business Plan or Feasibility Study that fail to address the performance and associated compliance issues may result into the rejection of an application for authorization.</p>
9	<b>Application fee of Kshs 3,000/-</b>	<p>In accordance with Reg. 5(3)(h) of the Regulations 2020, the application for authorization shall be accompanied by an application processing fee of Kshs 3,000/-. Consequently, the Authority shall not consider an application for authorization unless the SACCO has attached evidence of payment of the application fee.</p> <p>The evidence of payment is strictly a bank deposit in slip, showing deposit of the said sum of Kshs 3,000/- into the Authority's Bank Account held at the <b><i>Co-operative Bank of Kenya, Account No. 01120161308700, Upper Hill Branch, Nairobi.</i></b></p> <p>The name of the SACCO making the deposit, together with its registration (CS) number, should be clearly indicated in the deposit slip.</p> <p>SACCOs must note that where an application for authorization is rejected for any reason whatsoever, then the application fee paid shall have been spent; and whereas the SACCO may make another application for authorization, such new application shall be accompanied with evidence of payment of another application fee of Kshs 3,000/-.</p>

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		In this regard, it is important that SACCOs put in place all the required documentations and infrastructure before submitting an application for authorization.
10	<b>Appropriate institutional infrastructure, including adequate working space</b>	<p>Taking into account the size of the SACCO, and its business operations, a SACCO intending to apply for authorization to undertake specified non-deposit taking business, must put in place appropriate institutional infrastructure, including offices and other health and safety facilities.</p> <p>It is important to note that specified non-deposit taking business, expressly excludes deposit taking businesses, and consequently such infrastructure as would mislead the public or members that the SACCO takes deposits, <b>MUST BE AVOIDED</b>.</p>
11	<b>Management Information System</b>	<p>SACCOs intending to apply for authorization must put in place an a Management Information System (MIS) for the purpose of performing and accounting for all transactions and providing the minimum reports required by the Authority, as provided in <i>Reg. 5(4)(b) of the Regulations 2020</i>. In addition, the MIS must be capable of performing the functions prescribed in <i>Reg. 88 of the Regulations 2020</i>.</p> <p>SACCOs are advised to test run their MIS to confirm the foregoing capabilities particularly the cability to generate the regulatory reports; prior to making application for authorization. A SACCO whose MIS is non-compliant with the Regulations, 2020 will have their applications rejected at that point.</p>
12	<b>Appropriate risk management policies and internal control systems</b>	<p>The Regulations 2020, and internal By-laws require SACCOs carrying out specified non-deposit taking business to put in place and fully implement several risk management policies and internal control systems. Some of these include Credit Policy, Liquidity Policy, Disaster Preparedness Plan, Human Resources Policy and Procedures Manual, Directors' Compensation Policy among others.</p> <p>In accordance with <i>Reg. 5(4)(c) of the Regulations, 2020</i>, the Authority shall require to be satisfied that such policies and internal control systems are in place, before granting authorization.</p>
13	<b>Suitable organisational, governance and management Structures</b>	In accordance with <i>Reg. 5(4)(d) of the Regulations 2020</i> , SACCOs applying for authorization, must have in place suitable organisational, governance and management structures. Such structure must clearly segregate the functions of the Board which is oversight from the functions of the management, which is operational. The offices of the Chief Executive Officers, and other

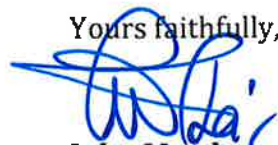
#### SECURING SACCO FUNDS

	KEY REQUIREMENT	GUIDANCE NOTES
		<p>designated functional heads of Finance, ICT, Internal Audit and Credit of the SACCO must clearly defined in the structure.</p> <p>In addition, the SACCO must have incorporated these structures into their internal Human Resource Policies and Procedure Manual.</p>

In conclusion, the Authority urges all SACCO Societies to observe this Guidance Note in order to ensure and facilitate a smooth transitional process. The Authority also commits to providing technical assistance and guidance to any SACCO Society upon request, including the provision of associated training and capacity building to the non deposit taking SACCOs in general.

Any queries relating to this Guidance Note or any other matter concerning application for authorization may be sent to the Authority in writing or vide email to [licensing@sasra.go.ke](mailto:licensing@sasra.go.ke).

Yours faithfully,



**John Mwaka**

**Chief Executive Officer**

**Copy**

**The Commissioner for Co-operative Development**

Social Security Building

P.O Box 49557 - 00100

**Nairobi**