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Corporate Governance Problems of Savings, Credit and Cooperative Societies

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Abstract

The study discusses the corporate governance problems of Savings, Credit and Cooperative Societies (SACCOs). It examines both the corporate governance theories and conflicts of governance associated with SACCOs. Problems frequently occur in SACCOs due to one or more of the following reasons; lack of clear and proper rules separating management from decision making, unqualified personnel in management, inadequate managerial competitiveness, failure of membership and boards to exercise fiduciary responsibility and the one member one vote (OMOV) system. Several measures against the SACCO governance problems such as having clear rules in the SACCO bylaws and identifying who are the stakeholders dominating the SACCO should help to ensure good governance.

Keywords: Corporate governance, theory, savings, credit and cooperatives societies

Introduction

One of the principal challenges which SACCOs face is that of establishing proper governance systems (Branch & Baker, 1998). Good governance can improve the performance of a SACCO and help assure its long term survival (Thomsen, 2008). The issue of corporate governance has become of increasing interest to SACCOs as it is considered to be one of the weakest areas in the industry (CSFI, 2008). According to Labie & Mersland (2011), there are several reasons for governance to be at the forefront of SACCO debate of which among the major ones are firstly, the tremendous growth in service providers of various types translates to a greater number of clients and assets, as well as more elaborate structure to manage. Secondly, there have been numerous institutional and legal changes with SACCOs building more and more elaborate networks and turning into shareholder-owned regulated financial institutions. Thirdly, institutions are evolving, from focusing mostly on a single product (usually credit) to becoming more complete banking institutions that provide not only credit, but also savings and sometimes other types of financial services such as money transfers, remittances, payment systems and insurance, therefore reinforcing the risks assumed by the SACCOs. Fourthly, the behaviour of public authorities towards SACCOs is also changing since their original neglect is being replaced by more proactive policies that create regulatory and supervisory frameworks supposed to favour sound development of the industry (such as the recent introduction of SACCO Societies Regulatory Authority- SASRA in Kenya).

Some SACCOs have experienced major crises, such as the more recent crises happening in countries like Benin, Morocco and Kenya; which clearly suggests the importance of controlling institutional development. Labie & Mersland (2011) define corporate governance as a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives. SACCOs are usually characterized by multiple objectives and are therefore different not only in their organizational forms but also in terms of products, methodologies, social priorities and profit seeking behaviour (Mersland & Storm, 2009).

SACCOs represent one of the most important sources of financing in developing countries and over the last few years, SACCOs have experienced tremendous growth all over the world with their importance increasingly being recognized by academics since they are also increasingly contributing an active role in the microfinance market today (Labie & Périlleux, 2008; Armendariz & Morduch, 2005; Magill, 1994). Today, there are more than 46,000 SACCOs, servicing about 172 million people in 92 countries. In 1996 in Africa, Asia and Latin America, a total of 20,512 SACCOs were servicing 16 million members; by 2006 the numbers had increased to 31,725 SACCOs, servicing more than 59 million members (WOCCU, 2006). Therefore, within 10 years, those regions have seen a growth rate of more than 54% in the number of SACCOs, and more than 268% growth in the number of members (WOCCU, 2006).

Corporate Governance Theories

Agency Theory

According to Abdullah & Valentine (2009), agency theory explains the relationship between the principals, such as members and agents. In this theory, members who are the owners or principals of the SACCO, hires by electing the management board as their agent (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Mitnick, 2006; Bruton et al., 2000).

Principals (members) delegate the running of business to the management board which in turn hire and delegate authority to the managers (Clarke, 2004). Indeed, Daily et al. (2003) note that two factors can influence the prominence of agency theory. First, the theory conceptually reduces the corporation to two participants of managers and the owners. Second, agency theory suggests that employees or managers in SACCOs can be self-interested. Shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2002). In agency theory, the agent may succumb to self-interest, opportunistic behavior and falling short of the agreement between the interest of the principal and the agent's pursuits. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008).

Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976). This theory prescribes that employees must constitute a good governance structure since they are held accountable in their tasks and responsibilities. An explanatory power of agency theory is reduced if and when the principal decides to divest to a new business. An agent must be motivated and monitored to create wealth, portraying the agent as potentially fraudulent (Arthur & Busenitz, 2003).

Stewardship Theory

According to Davis et al. (1997), a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are managers working to protect and make profits for the shareholders. Therefore, stewardship theory emphasizes on the role of management being as stewards, integrating their goals as part of the organization (Davis et al., 1997). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employee to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behaviour (Davis et al., 1997). Daily et al. (2003) assert that in order to protect their reputations as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance.

Stakeholder Theory

Abdullah & Valentine (2009) indicate that a stakeholder can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theorists suggest that managers have a network of relationships to serve, which include the suppliers, employees and business partners. Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Donaldson & Preston (1995) suggest that all groups participate in a business to obtain benefits. Nevertheless, Clarkson (1995) concludes that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders.

Freeman (1984) reveals that the network of relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Donaldson & Preston (1995) argue that this theory focuses on managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others.

Political Theory

Abdullah & Valentine (2009) propose that political theory brings the approach of developing voting support from the members. Hence having a political influence in corporate governance may direct corporate governance within the SACCO. Loss of capable African cooperative leaders and managers to the political arena worsens the situation. Kabuga (2005) points that every person of questionable motives, integrity and competencies who vie for SACCO leadership can invade the sector. In that way, floodgates for nepotism, corruption, mismanagement and financial indiscipline are opened. Enete (2008) observes that in Nigeria, many SACCOs have been formed through government directives to certain categories of government officials to form a given number of SACCOs in their villages of origin. In some other cases, SACCOs spring up in response to government promises of providing subsidized services to members. These two categories could be referred to as "political SACCOs" which usually do not stand the test of time.

Degeneration Thesis

According to Cornforth et al. (1988), market pressures tend, over the course of time, to lead to SACCOs becoming similar to other kinds of enterprise, particularly capitalist enterprise. Market pressures make themselves felt in a number of ways, e.g. price competition and liquidity of investment. Within a SACCO, these pressures are experienced as tensions of different kinds, e.g. over the extent to which surpluses should be retained or distributed to members, over whether OMOV should be upheld but with a restricted membership or modified but with an expanded membership i.e. to open the common bond, or over whether strict equality of members should be maintained or an element of hierarchy allowed. Attempts to resolve such tensions can lead to 'degeneration' hence the "degeneration thesis". Degeneration springs from two main sources: weak internal democracy, where the members are unable to hold the leadership/management to account or have too little stake in the SACCO to influence decision-making processes; and abandoning the principle of member ownership and control (e.g. by allowing external investors to gain a foothold in the SACCO) (Cornforth et al., 1988).

Meister (1974, 1984), contends that the process of degeneration has a life-cycle of four distinct phases. The first phase is characterised by high idealism and commitment which enables the SACCO to get off the ground. However, over time there are clashes "between a direct democracy jealous of its prerogatives and an economic activity still badly established". The need for greater efficiency leads to the establishment of full-time management. The second phase is a period of transition in which, if the SACCO survives, further economic consolidation takes places and conventional principles of organisation are increasingly adopted. These changes are not always accepted peacefully, and conflicts continue between idealists and managers. In the third phase, SACCOs lose their radical ideals and market values are accepted. As the SACCO develops, democracy becomes restricted to the management board and the gap between managers and members increases. During the fourth phase members and the management board lose all effective power as control is assumed by managers because of their superior expertise and ability to control information.

Sacco Governance Problems

Branch & Baker (1998) comprehensively investigate governance problems in SACCOs and found that as SACCOs become larger and more complex, they require specific knowledge and skills to make a range of specialized decisions. Individual owners are not likely to possess the required managerial skills and technical knowledge. This may require that managers be hired to make the critical management decisions (Fama & Jensen, 1983). The specialization of decision management increases the organization's ability to operate in an entrepreneurial manner by hiring professional expertise. Yet this separation of ownership and decision making leads to principal-agent problems.

In order to protect owners from the opportunistic actions of decision makers, a mechanism for management or supervision is needed. Where ownership is dispersed among many, such as in a SACCO, it is costly for all members to frequently monitor the decision makers. Most of the individual owners lack the skills and information required to oversee managerial actions, and find it more efficient to delegate management to protect their interests. Accordingly, owners vote for representatives to serve on the management board (Branch & Baker, 1998).

The board delegates decision making functions to internal management. The board retains ultimate control to approve and monitor major policy initiatives and the general direction of the institution. The board also has the power to hire and fire and set the compensation of the manager. Board members are liable for penal sanctions if they fail to uphold their fiduciary responsibility in decision control. Decision rules are defined by the SACCO bylaws, cooperative and banking laws, commercial contract code, accounting norms, prudential regulations, and organizational budgeting systems. All these factors constrain the decision behavior of agents, help shape the monitoring functions, and specify the performance criteria that determine rewards (Branch & Baker, 1998).

SACCOs add the supervisory committee as a further element of decision monitoring and member control. In theory, the principal-agent problem is controlled by checks and balances within the process of decision making and decision monitoring. However, in practice, governance problems often occur when the rules of decision making and decision control are not clearly or properly specified or are not adequately enforced. Branch & Baker (1998) suggest that problems frequently occur in SACCOs due to one or more of the following causes:

Inadequate Managerial Competitiveness

Managerial competence requires that management be competitively remunerated. Many SACCO members tend to have lower to moderate levels of income. Salaries that are competitive with those paid by other financial institutions are often criticized by members who compare SACCO salaries to their own. The board may find that managerial salaries are in excess of their own earnings, particularly when the directors are dominated by lower salary level professionals (teachers, etc). In these cases, the elected board members may interfere with professional management of the SACCO, constraining management salaries and competitiveness. This results in weak administration of the institution, morale problems, and the inability of the SACCO to attract the quality of management that can produce strong results or resist the excessive interference of directors in operational decisions (Branch & Baker, 1998).

Failure Of Membership And Boards To Exercise Fiduciary Responsibility

According to Branch & Baker (1998), where SACCO ownership is diffused among a large number of members, governance problems may take a form opposite to that of excessive operational interference by the management board. For example, driven by the need for economies of scale, some SACCOs operate with more than 50,000 or 100,000 members. With such ownership spread over a large group, only a few members may actually carry out the responsibilities of monitoring the performance of the SACCO by attending the annual general meeting or by monitoring their elected representatives to the management board. Members may fail to closely examine the prudential actions of the board because the influence of any one member on the operations of a SACCO that serves so many may be very limited. At the same time, the monitoring cost to one member of analyzing the operations and financial condition of a large SACCO is likely to be high. Members may be tempted to free-ride, that is let someone else monitor or influence the SACCO. With limited overview or attention from the membership, the board, manager, and supervisory committee may collude to protect one another's interests at the expense of the institution. Managers may arrange for high salaries for themselves, while the board and supervisory committee members may obtain insider loans for themselves and their friends. This problem occurs particularly where internal as well as external (supervisory) controls are weak.

The Borrower Domination Problem

One factor that distinguishes a SACCO from other financial institutions is that SACCO owners are also its customers, the savers and borrowers. Thus, the corporate governance system of SACCOs must respond to two sets of owner-clients. SACCOs face the contradictions in the interests or objectives of the savers versus borrowers especially in SACCOs dominated by net borrowers, most of the owners and board members may be primarily interested in cheap and easy loans, rather than the financial viability or profitability of the SACCO. The combination of borrower-dominated SACCOs operating in an environment that lacks clear governance rules provides a temptation for improper manipulation of the credit approval and granting process by directors (Branch & Baker, 1998).

Lack of Clear Rules, Combined with Credit Rationing

Governance problems can become crucial when there is excessive and improper manipulation of the credit granting procedures by the board. SACCO members may actively seek election to the management board or credit committee by promising loans to friends and supporters after the election. Once elected the new board act to fulfill these promises and may provide supporters with preferential loan treatment by sidestepping the credit committee process or they may see to it that the SACCO is lenient with supporters in loan approval or collection. These governance problems occur because of the combination of the traditional borrower-dominated service structure (with its low interest rates, lax screening and collection standards, and consequent loan rationing) together with circumstances in which rules for decision making and control are not well defined and enforced. Where the rules allow volunteers substantial involvement in operational decisions and the internal controls on insider dealing are weak, the board members are able to dish out loans for their own gain and as political favour (Branch & Baker, 1998).

Corporate Governance Issues For Saccos

According to Labie & Périlleux (2008), corporate governance tend to be more complex in management structures of SACCOs due to their democratic principle for decision-making but also because their ownership. Firstly, there is the conflict between owners and managers which are the most important conflict SACCOs face (Fisher & Desrochers, 2002). As with any other type of firm, two related issues are at stake: first the “expense preferences” issue, where the question is to verify that the choices made by the managers match the mission of the SACCO and not their personal interest; and second, the “entrenchment” issue where the managers make their choices based on securing their own permanence in the management structure (entrenchment theory). Fisher & Desrochers (2002) indicate that these two types of behaviours have opposite impacts on their risk of bankruptcy; expense preferences translate into lower efficiency and higher bankruptcy risk, while entrenchment theory generates risk-averse choices and lower bankruptcy risk. Unfortunately “expense preferences” are more prominent in SACCOs due to the following three reasons ; First, the OMOV principle which tends to increase the “free-riding” behaviour of all members (because no one member has enough influence to really care to check the others); Second, the members’ shares are not tradable (and therefore, there is no market mechanism to value the quality of the management and bring pressure for better management) and Third, there is no risk of being bought out (Desrochers et al., 2003; Labie & Armendariz, 2011; Périlleux, 2010).

Second, there is the conflict between SACCO employees and volunteers. When they start, SACCOs often work with volunteers who understand their work as part of a personal commitment in a collective project which makes sense for their community. Later, when the structure becomes bigger, it is often necessary to recruit some employees who often have a higher education (in order to be able to handle the more complex business of the SACCO, but normally with a different type of vision. At that stage, it is essential to have a proper job description for the entire employee’s. Once the SACCO achieves a scale which allows it to hire professional staff, it needs to separate decision-making and decision-control functions. As the SACCO moves into professional operation, problems of governance impair operation if volunteer management board members engage in decision-making rather than in decision-monitoring behaviour (Branch & Evans, 1999).

Third, there is the conflict between the members and their elected management board. Board directors are democratically elected by membership (OMOV) but they may remain indebted to individual members who have mobilized votes on their behalf (Rock et al., 1998). The classic governance problem experienced by mutualist systems occurs at several levels due to the diluted ownership of the SACCO structure which can encourage elected committee members to promote their own interest rather than those of the members (Chao-Béroff et al., 2000). This is even more of an issue when communication becomes a problem. A research conducted in Mali suggests that because information did not flow properly between the members and their elected representatives, power tended to be monopolized by a few individuals (Wampfler & Mercoiret, 2002).

Fourth, there is the "moral hazard" conflict between "net borrowers" and "net savers". In a typical SACCO, some clients have more loans than savings, while others are in the exact opposite situation; this is what makes them "net borrowers" or "net savers". All members of the SACCO have the same right to influence the management through the OMOV system. This can generate two main types of conflicts. Firstly, the net borrowers tend to dominate; in this case, the management board may tend to prefer favourable conditions in the providing of loans, which can affect the viability of the SACCO. Secondly, the net savers may also dominate; in which case, the board may create restrictive conditions for allowing loans (in order to protect their savings). Of course, both cases are sub-optimal as experience has shown that better governance is achieved in SACCOs that have a balance between net savers and net borrowers (Branch & Baker in 1998).

According to Labie & Périlleux (2008), these conflicts sum up reasonably well the most frequently found when studying the relationship between all the stakeholders linked to SACCO development. Moreover, SACCOs face the following constraints as they grow; they lose their information advantages, they are forced to rely on salaried rather than voluntary managers and they must increasingly count on formal sanctions to enforce contracts. Growth compels SACCOs to act increasingly like formal financial intermediaries. With growth, the altruistic motives that may have led to the formation of the SACCO are replaced by hard-headed business decisions. Principal-agent problems, transaction-costs, and prudential regulation also become increasingly important as the SACCO grows (Adams, 1999). Fundamentally, the issue is to make sure that the SACCO does not give up the original principles and specificities that make it special for its members (Magill, 1994; Fournier & Ouedraogo, 1996). Three risks are identified by Labie & Périlleux (2008) which may influence the development and governance of SACCO in times of growth. The first risk is linked to a change in the nature of the membership, which can lead to a change in mission, and a higher risk of free-riding among the members. When a SACCO grows, it can do so in a number of ways. It can focus on the same type of members but try to cover a wider geographical area, or it can stay in the same area but open the common bond to members working in different activities than the original founders of the SACCO (Labie & Périlleux, 2008). Both scenarios offer pros and cons for the SACCO. On the "plus" side, by opening themselves, SACCO attract new customers with different financial profiles (in terms of cash flow cycles, credit and savings needs), allowing the SACCO to have a better mix of financial profiles in its portfolios. On the "minus" side, the more diverse and diffuse the members base is, the more risk there is that members stop identifying themselves with the SACCO, thereby more easily adopting a free-riding attitude, which would ultimately result in lower scrutiny and weaker corporate governance (CGAP, 2005). Of course, some compromise can be found. For instance, a SACCO could open to other members for daily operations such as in the front office service activities (FOSA), while structuring the decision-making process in such a way that the original founders maintain control of the SACCOs structures in practice. CERISE has documented the case of CECAM (Savings and Agricultural Credit Cooperative Societies) in Madagascar, which is an example of this type of compromise (CERISE, IRAM, 2005).

The second risk is linked with the recruiting of (significant numbers of) new staff in times of growth. In any firm, when facing extensive growth, recruitment will tend to be an issue. Not only there is a need (which is not always easy to fulfill) to find enough of the right people at the right time, but there is the huge challenge to integrate the new people properly into the structure. When a structure is hiring progressively, newcomers tend to be influenced by former workers and managers and therefore they adapt to the structure by incorporating progressively the procedures and culture of the SACCO (Labie & Périlleux, 2008). When growth is happening fast (especially in decentralized network structures), the number of newcomers will be such that often there won't be enough "old" employees to format the newcomers. In such a situation, the result may be that growth by itself generates a loss in procedures and culture, resulting in management problems. In the typical SACCO context, all this may happen and be worsened by the conflict mentioned above between "old volunteers" and the "professional salaried" newcomers. Not only will there be many new people to accommodate, but they will be of a different profile, resulting in even more complex problems to deal with (Labie & Périlleux, 2008).

The third risk results from the increasing complexity of the products, the organization and the structure of the SACCO network (with an increasingly longer distance from the local units). First, the increasing complexity of products and organization can lead to inadequate members' knowledge and thus reduce member's control. Branch & Baker (1998) observe that as SACCOs become larger and more complex, they require specific knowledge and skills to make a range of specialized decisions. Individual owners are not likely to possess the required managerial skills and technical knowledge. Second, growth in SACCOs often happens through networks based on different layers (local, regional and national). When this happens, the chances to see a certain distance established between the local SACCO and their "roof" structure is quite high. The national level of the mutualist networks is the most susceptible to risk. Because of the existence of multiple layers of delegated power, elected members at this level are almost completely immune to the social control of grass-roots members (Chao-Béroff et al., 2000). This sometimes translates into a divergence in strategies, with managers sometimes being more inclined toward growth than local members (Fournier & Ouedraogo, 1996).

Discussion

To obtain an analysis framework of the mechanisms that have potential to provide good governance to SACCOs, Mintzberg et al. (1995) suggest that the key to analyzing an organization is identifying where the true power for decision making lies. Mintzberg et al. (1995) propose considering the organization as a balance between an internal and external coalition of interests and identified categories of stakeholders that may be susceptible to assuming power in the SACCO. For the internal coalition, five types of stakeholders are identified; the strategic apex (top management team), the middle line (the intermediary staff), the operating core (the people in charge of operations), the techno-structure (the specialists in charge of planning and organization) and the support staff. Mintzberg et al. (1995) illustrate that the stakeholder who is dominating the SACCO performs a major role in imposing the type of supervision mechanisms and the level of centralization or decentralization that will maintain their control of the SACCO. For the external coalition, Mintzberg et al. (1995) list a whole series of potential stakeholders, the main ones being the different types and levels of public authority addressed by the SACCO and the direct "partners" of the SACCO (clients, suppliers, associates etc). Mintzberg et al. (1995) suggest that the external coalition may either be passive (leaving the power to the internal coalition), dominated (by one of the actors of external coalition) or divided (when various actors of external coalition tries to dominate the SACCO).

Branch & Baker (1998) indicate the following measures against the SACCO governance problems such as having clear rules in the SACCO bylaws which would include:
Clarify rules and have prudential regulations of decision making by defining the management role of the directors and management's responsibility for technical credit decisions. Because many SACCO board members confuse the roles of decision making and decision monitoring, SACCO bylaws need to establish clearly the roles of SACCO members, boards of directors, and managers in order to clearly separate decision making from management. These rules should limit the involvement of the management board in day-to-day operations, focusing it instead on policy and direction. The manager's major responsibilities should include implementing board-sanctioned policies and the budget, administering daily operations, reporting to the board, and hiring and overseeing staff. If these functions are usurped by the board, the agility and efficiency of the SACCO may well suffer (Branch & Baker, 1998).

Establish clearly the fiduciary responsibility of the board and their responsibility for monitoring the decisions of management, as well as penalties for failing to meet these responsibilities. The management board is accountable to the general member assembly and membership for the operating results of the SACCO. Removal of board members should be specified in bylaws for failure to meet their responsibilities, for mismanagement, or for legal improprieties (Branch & Baker, 1998).

Establish ethical codes of behavior and controls on insider loans to avoid conflicts of interest. To hold office on the management board, a member should be free of any relation with any of the SACCOs employees, should not have a contractual working relationship with the SACCO, and must not have committed any illegal acts or be delinquent in the payment of loans or any other obligations to the SACCO (Branch & Baker, 1998).

Provide for staggered rotation of board members. There is always a need for experienced individuals on SACCO boards. However, a limit of two or three terms allows for the circulation of fresh ideas. It also avoids domination of the board by small groups for extensive periods of time. Establish criteria for who is qualified to assume a position as a director. Directors should have adequate preparation and business experience to provide policy direction and guidance to the SACCO (Branch & Baker, 1998).

Without unduly interfering with the management of the SACCO, the supervisory committee must be responsible for the SACCOs compliance with its bylaws, for enforcement of internal controls, and for oversight of the board itself. The supervisory committee should be held responsible for seeing that the board contracts and receives an annual external audit and for ensuring that all internal controls are in place and functioning properly (Branch & Baker, 1998).
Credit decisions need to be made on technical risk analysis criteria by technical staff with appropriate preparation. SACCO bylaws should not provide a detailed treatment of how to do loan analysis; that should appear in the credit policies. However, the bylaws should identify the body responsible for loan analysis. In small SACCOs, the volunteer credit committee reviews and acts on loan applications. This group may have better information about their fellow borrowing member's risk than a formal institution's credit officer ever could. As SACCOs grow larger, however, the credit committee members cannot personally know all of the loan applicants. It becomes impractical for these volunteers to approve all loans given their large number, and, in any case, they do not possess specialized risk analysis skills. Consequently, as SACCOs grow, volunteer credit committees should be disbanded or assume the role of randomly reviewing compliance of loans with policy and procedures. The credit committees in many countries have usefully evolved from an elected volunteer committee to a technical committee made up of SACCO loan officers and employees with specialized skills. The manager approves small loans, and the technical committee approves larger loans that fall within the size parameters and policies approved by the management board. The management board then considers loans to SACCO directors and staff (if allowed) and loans larger than those approved by the technical credit committee (Branch & Baker, 1998).

Governance problems specific to the SACCO pose challenges not faced by many other forms of organization. However, when a number of controls are brought to bear on the problems including; well-defined institutional rules of governance, internal controls, service adequacy, prudential management disciplines and external supervision. These problems can be overcome to produce a stable and balanced financial intermediary.

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