

CENTRAL BANK OF THE GAMBIA

MICROFINANCE OPERATIONS

Rules and Guidelines on Policies and Procedures

VOLUME TWO: Savings and Credit Associations.

PART A: PRELIMINARIES

01 SCOPE

These rules and guidelines cover the operations of Savings and Credit Associations herein referred to as SACAs in matters of policies, organization, management and administration during a start-up period in rural financial operations. They are pursuant to Volume one of rules and guidelines on macro-policies on rural finance issued by the Bank. In the event of a conflict of any provision herein with that of the macro-policies, the latter shall prevail.

02 INTERPRETATION

- 1 Unless otherwise specified or the context require, the terms used in these rules and guidelines:
 - (a) **“Micro-financial institution”** means the definition for “credit institution” or “financial institution” stated in the Financial Institutions Act (FIA) 1992 and which is owned and self-managed by a rural or grassroots community or a cooperative or a person under a registration or a licence issued by the Bank.
 - (b) **“Savings and Credit association” (SACA)** means a thrift or a savings and credit organization which is promoted, owned, managed and controlled by a rural or grassroots community, or a cooperative or rural person under provisional registration by the Bank.
 - (c) **“Micro-Savings and Credit Institution” (MISACI)** means an upgraded SACA registered by the Bank.

- (d) **“Start-up period”** means the developmental stage prescribed by the Bank during which a SACA grows and up-grades to MISACI.
- (e) **“Cooperative”** means an organization composed of small producers, operators and/or consumers who voluntarily join together to form a business enterprise which is registered by the Registrar of Cooperatives and which they themselves own, control and patronize.
- (f) **“Small Producer”** means self-employed individual or person who operates micro-enterprises including agriculture or who by himself or herself or family provides labour or provides labour requirements of his or her farming activity or vocation or who earns, at least fifty per cent (50%) of his or her gross income from the payment from proceeds or income of the labour he or she provides.
- (g) **“Prescribe”** means the definition for the same stated in subsection 2 (1) of FIA (1992).
- (h) **“Director”** means the definition constituted under the Companies Act. Under these rules and guidelines, this definition also applies to a member of the controlling committee or body of a SACA.
- (i) **“Person”** means the definition for the same under subsection 2 (1) of FIA (1992).
- (j) **“Borrower”** or beneficiary” means individual or formal or informal group or person eligible for a loan from a SACA.
- (k) **“Financial activity”** means saving and credit business or “banking business” as provided in subsection 2 (1) of FIA 1992 authorized by the Bank to be undertaken by SACAs.
- (l) **“Lender”** means a bank, a non-bank financial institution, a donor, a non-governmental or voluntary organization that provides a loan on a wholesale basis to a SACA for on-lending on retail basis to borrowers.
- (m) **“Unsecured credit”** means credit facilities granted without security by a SACA.

- (n) **“Agriculture”** means any activity related to any of the following subsector: food crops, cash crops, tree crops, horticulture, silviculture, beekeeping, poultry, cattle, sheep, goats, pigs, donkeys, inputs and outputs marketing.
- (o) **“Bad debt”** means any loan granted by a SACA or part thereof with or without interest thereon that is past due for six months after all efforts to recover have failed.
- (p) **“Collection process”** means a loan due to a SACA is in the process of judicial proceedings aimed at full settlement of the loan and all interest accrued thereon.
- (q) **“Place of business”** means the place where the office of the SACA is located and the authorized area or village or towns covered by the banking business of the SACA and which shall be contiguous as much as possible or within a radius not exceeding twenty-five kilometres.
- (r) **“Capital”** means money contribution made by the promoters or members of the SACA together with any reserve permitted under these rules and guidelines.
- (s) **“Member”** means an individual joining a formal or informal group or organization that constitute the owners of a SACA.
- (t) **“Minister”** means the Minister responsible for the administration of the FIA (1992).
- (u) **“Officer”** means the chief executive, a manager or a supervisor or other person empowered by the board to give direction in regard to the management and administration of the SACA engaging him or her.
- (v) **“Bank”** means the Central Bank of the Gambia.
- (w) **“Trainer”** means a person or an organisation or institution that has specialised in providing training in microfinance operations with specific emphasis on Savings and Credit Associations, Microfinance Institutions and Rural Finance Bureaus and recognised by the Bank.

PART B: POLICY

03 PRUDENTIAL RULES

(1) Authorized “banking business”

The banking business of SACAs shall be:

- (a) mobilisation of savings and/or time deposits and the repayment of such deposits on demand by the respective depositors;
- (b) provision of retail credit on short-term basis using part of internally generated funds or borrowed funds; or medium-term basis using borrowed funds and/or grants.

(2) Registration, Name and Confederation.

(a) Provisional Registration Certificate.

- (i) No person shall operate as a SACA or undertake any banking business prescribed by the Bank for SACAs without a Provisional Registration issued by the Bank authorizing it to do so. The certificate shall indicate the type of banking business and the place of business of the SACA.
- (ii) As a unit institution, a SACA shall open one office within its place of business and such office shall be properly secured for safekeeping of all liquid assets or cash held by it in accordance with safety standards prescribed by the Bank.
- (iii) As proof of availability of technical assistance from a proven facilitator for institutional development of the SACA shall constitute an indispensable requirement for registration by the Bank.
- (iv) The person shall provide evidence of adequate training received by intended staff and provided by a proven trainer recognised by the Bank.

(b) NAME.

- (i) A SACA shall be known and referred to by its registered name only. A SACA shall choose its own name.

- (ii) No SACA shall use the name “bank” in referring to itself or cause other person to use the same in referring to it.

(c) Confederation.

Two or more SACAs shall have the right to confederate at the district or divisional level aimed at achieving effective co-ordination of their operations and the sharing of common financial services between them. Such confederation shall not lead to the loss of the legal entity or the ownership of any of the confederating SACAs.

(3) Ownership

A SACA shall be owned and controlled by its promoters and members. All members irrespective of the type such as founding or non-founding or associate shall have equal rights in conducting the affairs of the SACA. Women, the poor and other vulnerable groups shall have the same right to become members.

(4) Capital

- (a) A SACA shall have a minimum paid-up capital amounting to D3,000 (Three thousand Dalasis) or as may be determined by the Bank, contributed by its members before it is issued with a Provisional Registration Certificate under subsection (2) (a) of these rules and guidelines.
- (b) A SACA shall build-up an increasing capital during the “start-up period” and such capital shall not be less than D10,000 (Ten thousand Dalasis) or in an amount prescribed by the Bank at the termination of the “start-up period”.
- (c) Net profits earned by a SACA shall be capitalized in accordance with the “capital build-up” requirement.
- (d) Membership fees, dues and all other cash contributions made by the promoters and members or any other person towards the formation and the organization of the SACA shall be capitalized in favour of the contributors and subsequently held as shares by them.
- (e) Until otherwise prescribed, a SACA shall be granted a maximum of three (3) years as a “start-up period” in building the required capital under 4 (b) above and

institutional capacity commensurate with the standards prescribed by the Bank for SACAs.

(5) Liquid Asset

- (a) A SACA shall maintain at all times cash-on-hand and/or with banks or other financial institutions in amounts not exceeding forty per cent (40%) or below fifteen per cent (15%) of its total deposit amount or as may be prescribed for any of both levels.
- (b) A SACA shall not grant any loan when its liquid asset falls below fifteen (15%) of its deposit liabilities or the minimum reserve ratio that may be prescribed by the Bank.

(6) Net Profits

- (a) The Net Profit of a SACA shall be determined after making provision for :
 - (i) bad and doubtful debt;
 - (ii) accrued interest on loans or other incomes not yet received but recorded.

(7) Savings and Time Deposit.

- (a) A SACA shall receive savings and/or time deposits from the general public under subsection (1) and accordingly shall be under obligation to:
 - (i) pay such deposits on demand;
 - (ii) pay competitive and market interest;
 - (iii) provide the depositor the option to refuse interest on religious or other cultural or personal grounds;
 - (iv) determine its terms and conditions for receiving deposits and make such conditionalities known to its depositors and the community at large;
 - (v) establish effective measures for identifying its depositors by the issuance of savings passbooks to savings depositors and time deposit certificates or cards or receipts to time depositors.

- (vi) Determine the size of the minimum savings deposits acceptable, and equally, the size and maturity periods of time deposits;
- (vii) Observe strictly liquidity ratio prescribed by the Bank for SACAs.

(8) Loans and Advances

- (a) A SACA shall grant loans and advances under subsection (1) of these rules and guidelines provided that:
 - (i) interest rates shall be market determined and competitive;
 - (ii) it shall determine and be guided by eligibility criteria for its loans as a policy which shall be revised from time to time in accordance with prevailing economic and social situations;
 - (iii) the maximum loan period shall not exceed twelve (12) months for short-term loans or thirty (30) months for medium term loans or as may be prescribed by the Bank in either case. Eligibility to external funding and also to medium-term loans depend on satisfactory performance standards laid down by the Bank or as may be determined by it;
 - (iv) No person shall be granted a loan or a cumulative loan extended from deposits, whose total sum shall exceed **TWICE** the total deposit of a first borrower or **THREE** times that of a second borrower with good repayment record or **FOUR** times of an active borrower with good repayment record. No person shall be granted a loan, extended from external funding whose total sum shall exceed **THREE** times the deposit of a first borrower or **FOUR** times of a second borrower who has paid all previous loans on time or **SIX** times that of an active borrower with good repayment record;
 - (v) There shall be fungible uses of its loan funds with viability and profitability as the primary objective and as such the loan shall cover agriculture and other off-farm income generating activities or personal purposes;
 - (vi) The main loan beneficiaries shall comprise small producers and micro-entrepreneurs. Women and

other vulnerable groups shall have equal opportunities or access to the loan facilities;

- (vii) The loan administration policies shall be mostly guided by or based on “group concept” determined by the SACA in accordance with its by-laws and local experience;
- (viii) Loan procedure with regard to application, approval, disbursements, monitoring, supervision and recoveries shall be simple, flexible and pragmatic;
- (ix) A borrower shall be given the use of his or her discretion in need assessment;
- (x) A borrower shall possess a reasonable degree of experience in the loan activity and shall have a minimum equity in kind or cash as shall be determined by the SACA;
- (xi) Substitutes for tangible securities or collateral shall be sought and as such security shall be character-based or depend on peer pressure and individual indemnities or guarantees. In every case, a lien over the deposit shall be taken; and
- (xii) A non-depositor shall not be granted any loans from deposits.

(9) Record Keeping and Accounting System.

- (a) A SACA shall establish a simple but efficient accounting system at all times that will maintain reliable and up-to-date records on:
 - (i) all deposits, withdrawals and balances;
 - (ii) all interest dues and payments on deposits;
 - (iii) all loans approved and disbursed;
 - (iv) all loans outstanding, dues, recoveries and arrears;
 - (v) all interest charges, dues, recoveries and arrears;
 - (vi) all expenditure; and
 - (vii) all assets and their respective values.

(10) Monitoring

- (a) In order to enforce the required minimum operational standards and promote the efficiency and institutional development, the Bank shall monitor the operations of all SACAs. In doing so, the Bank or its appointee shall:
 - (i) request for financial statements and technical information whenever it deems it necessary on the activities of all SACAs or any SACA;
 - (ii) periodically visit a SACA's office and examine its operations or records or request for any other information;
 - (iii) cause special examination of a SACA affairs whenever, in the sole judgement of the Bank, such an examination is required to determine the soundness of the affairs.
- (b) In the event, when as a result of off-site or on-site checks, the affairs of a SACA is found to be either unsound or unlawful the SACA shall take such measures as may be deemed necessary by the Bank to rectify the unsound or unlawful affair. The SACA shall have its Provisional Registration Certificate revoked and accordingly closed down by the Bank if it fails to rectify the unsound or the unlawful situation within a specified period allowed by the Bank to do so.
- (c) All members of the SACA and the Management Committee (MC) shall be jointly and severally held liable for any loss arising as a result of its closure or winding-up.

(11) Financial information.

- (a) In line with subsection (10) of these rules and guidelines, all SACAs shall send to the Bank financial statements that it may request about their operations. The information shall be in such forms and at such intervals that may be determined by the Bank. Until otherwise directed, each SACA shall submit to the Bank or its appointee the under-listed information:
 - (i) quarterly statement of Reserve Assets/Deposit liabilities prescribed in **CBRF 001 A** for quarters ending 31st March, 30th June, 30th September and 31st December;

- (ii) half yearly Profit and Loss Statement prescribed in form **CBRF 003** for half year ending 30th June and 31st December;
- (iii) half yearly Loans Accounts Statement prescribed in **CBRF 004** for half year ending 30th June and 31st December;
- (iv) A Balance Sheet and Profit and Loss Account prepared by a qualified Accountant or Auditor as at the last day of each financial year in respect of all business transacted by the SACA.

(12) Revocation of Provisional Registration Certificate or Registration Certificate.

The Bank shall revoke the Provisional Registration Certificate if the SACA:

- (i) In the case of a provisionally registered one, it fails to contribute the required minimum build-up capital;
- (ii) closes or winds-up its business;
- (iii) becomes bankrupt;
- (iv) fails to rectify any unsound or unlawful affair under subsection (10) (b) of these rules and guidelines;
- (v) fails to submit to the Bank information under subsection (11) of these rules and guidelines or any other information within a specified period determined by the Bank;
- (vi) fails to allow the Bank or its appointee to examine the records and books of the SACA.

(13) Notification for Revocation of Provisional Registration Certificate and Registration Certificate.

- (a) The Bank shall serve a SACA defaulting under subsection (12) of these rules and guidelines a four (4) weeks notice commencing from the date of the receipt of the notice by the SACA about the Bank's intention to revoke the Provisional Registration Certificate or Registration Certificate of the SACA.

- (b) A SACA shall not grant any loan nor receive any deposit during the notification period and when winding-up.
- (c) A SACA shall pay all its depositors and creditors all deposits and debts respectively due to them during the notification period.
- (d) Without prejudice, the members and the Management Committee shall be responsible for all liabilities that may arise as a result of the revocation of the Provisional Registration Certificate or Registration Certificate.

(14) Right of Appeal against Revocation of Provisional Registration Certificate and Registration Certificate.

- (a) A SACA shall have fifteen (15) days during which it may appeal against the decision for the revocation of its Provisional Registration Certificate or Registration Certificate.
- (b) The appeal shall be addressed in writing to the Bank stating the reasons for stay of the execution of the Bank's decision. On receipt of the appeal, the bank shall fix a day before the end of the notification period for hearing to be presented by the SACA.
- (c) Judged by the merits and the demerits of the appeal petition, the Bank may decide to uphold, or amend or rescind the decision after hearing and such decision shall be final. This shall be communicated to the SACA within seven (7) days after the hearing.

(15) Ownership and Controlling Body.

- (a) As a rule, a SACA shall be owned, controlled and managed by grassroots communities in the rural, peri-urban and urban areas that promoted and established it.
- (b) In this regard, any member or group of persons within a community may promote and form a SACA provided they can meet the minimum registration requirements laid down by the Bank. Production or thrift organizations or associations such as Kafos, Osusus, Tesito Cooperatives, Credit Unions, market women, youth groups fall within the classification.
- (c) For the purpose of registration, a minimum of **TEN (10)** individuals is required as promoters. They may belong to the same or different groups of interest. However, they

shall come from the prospective business area and be fair representation of the organizations or the community or villages embracing the SACA.

- (d) In addition to promoters, a minimum of **FIFTY (50)** founding members from the area of business will be required registration.
- (e) Membership to be extended to any grassroots person who meets the requirements of the organization during and after for registration.
- (f) Members shall determine the cash contribution to qualify one to be a member as one of the key conditions in addition to common interest and aspiration(s).
- (g) All members, namely promoters, office bearers, founding and non-founding or associate ones shall have the same rights.
- (h) The members shall determine all the by-laws and regulations of the SACA, which will be required for registration. They shall also appoint the Board or the Management Committee and vest it with the responsibility of management and administration of the SACA.

PART C

GUIDELINES

04: Authorized banking business, savings deposits, time deposits, sundry deposits.

(1) Authorized banking business.

(a) Scope

A SACA is authorized to provide a limited financial service to a rural community or peri-urban community or to urban micro-entrepreneurs in a defined locality. In doing so, it may:

- (i) mobilize savings and/or time deposits from its members, the community it serves and the general public on commercial basis and accordingly pay market and competitive interests on such deposits except in cases where depositors refuse to accept interests on religious grounds. As a thrift organization, deposit mobilization must be its primary objective;
- (ii) repay deposits immediately on demand guided by its terms and conditions for deposit repayments;
- (iii) provide retail credit on short-term basis primarily from its deposits;
- (iv) provide retail credit on short or medium-term basis from borrowed funds transacted from a lender on proviso that the SACA satisfies the lender's

eligibility criteria and those stipulated under “wholesale lending” by the Bank.

- (b) Within the first one year of its operations a SACA must operate from its internally generated funds with the view to inculcating enhanced borrower repayment performance while at the same time it acquires the experience and the required capacity in managing expanding business.
- (c) A gender owned SACA needs not restrict its deposit mobilization business to its gender alone but may mobilize from the other gender as well.

2. Savings and Time Deposit Mobilization.

(a) Authority to mobilize Savings

Any SACA issued with a Provisional Registration Certificate by the Bank is authorized to mobilize savings and time deposits from its members or community or general public. Such deposits should be paid on demand to the respective depositors in accordance with the terms and conditions set-forth for deposit payments and withdrawals.

(b) Terms and conditions for receiving and paying deposits.

It is the duty of a SACA to determine its terms and conditions for accepting and paying deposits. Such conditionalities should be made known to all prospective and current depositors. As much as possible, these may reflect on minimum amounts acceptable, interest rates, withdrawal notices, closure and accounts.

(c) Identification of depositors.

It is a duty of a SACA to take appropriate measures for proper identification of its depositors. For this purpose, it may consider the following steps:

- (i) use a standard signature or thumb-print card or slip which will bear some particulars of the depositor such as the name, location, sex, a referee and the first deposit amount and date;
- (ii) each new depositor must complete the card and sign or thumb-print it. The card may bear passport size photograph of the depositor in either colour or black and white.

(c) Savings passbook.

A SACA must issue a form of a recorded or written evidence to a depositor on all the latter's deposit and withdrawal transactions.

A Savings passbook effectively serves this purpose. All deposits, withdrawals, interests and balances are to be entered in the book, signed and dated by the official receiving or paying the deposit. The book must in the minimum bear:

- (i) the name and the locational address of the depositor;
- (ii) passport size photograph of the depositor in colour or black and white;
- (iii) serial number of the book, ledger/folio number for reference;

- (iv) deposit account narration indicating columns for date, deposit, withdrawal, balance and signature;
- (v) instructions regarding the terms of receiving and paying deposits, the ownership and the loss of the passbook.

(d) Certificate or Receipt for Time deposit.

A certificate or a standard receipt must be issued to a depositor for any time deposit made. In order to simplify the procedure, a standard certificate may take the form of a folded card with the following minimum features:

- (i) the left inside page bears the particulars of the depositor including the name, locational address, serial number, a passport-size photograph and a statement prohibiting transfer or renegotiation elsewhere, ownership and loss;
- (iii) the right inside page bears columns for date, deposit amount, renewed amount, maturity date, interest rate and amount, withdrawal and signature.

(f) Prohibition on demand deposit transferable by cheque.

- (i) As a rule, a SACA is not allowed under any circumstance to indulge in any operations that will involve the acceptance of demand deposits transferable by cheque or any other means of third party transfer under FIA (1992) subsection 2 (1).

(g) Deposit Currencies and Receiving place.

- (i) All deposits received or withdrawals paid must be in dalasis currency either in notes or coins.

- (ii) A SACA must not receive or repay deposits in any place other than its registered office.

Notwithstanding, a SACA may receive and repay deposits outside its registered office and within its place of business provided such deposits are mobilized under a reliable arrangement with a bank.

(h) Interest on deposits.

- (i) All deposits attract interest, which are market determined. The interest rates must be determined by the Management Committee and reviewed periodically so as to be competitive and above all affordable to the institution. Prevailing interest rates of banks may serve as useful guide.
- (ii) At the time of opening a deposit account, a SACA should give the depositor the option as to whether or not he or she desires interest payment.
- (iii) A depositor has the right to refuse interest payment on religious or any other grounds. Under such a situation, he or she must sign or thumbprints in duplicate an attestation to this choice. The original copy is issued to the depositor while the SACA keeps the duplicate.
- (iv) Interests on savings are to be computed on, at least, quarterly intervals based on aggregate monthly deposit balances or the minimum monthly balances within the preceding quarter. The interest amount computed and payable must be credited to the accounts of the depositor in the books or records of

the SACA and entered in his or her passbook at the next occasion it is presented to the SACA.

- (v) Interest on time deposit is determined at the end of the maturity date and credited to the depositor in the books of the SACA. Such interest must not be automatically converted into a time deposit except when the depositor issues an explicit instruction to the SACA to do so.

(i) Minimum size of deposit

It is the duty of a SACA to determine the minimum amount it may accept in opening either a savings or a time deposit account.

(i) Minimum amount of savings.

It may be advisable for a depositor, considering the financial constraints that a SACA may face, to pay for the cost of his or her passbook. But where this may be issued free of charge, the SACA may consider taking into account the cost of the book in determining the minimum deposit amount so that at least, such cost will be adequately covered. In any event, the minimum amount may be fixed between ten Dalasis (D10.00) and fifteen Dalasis (D15.00) on the rationale that a modest level is likely to accommodate a larger segment of the community or offer a more affordable opportunity for the poor to save.

(ii) Minimum amount and period for time deposit.

No time deposit may be accepted for a period less than three (3) months or more than twelve (12) months. The minimum amount may be fixed

between twenty Dalasis (D20.00) and thirty Dalasis (D30.00).

(j) Recording deposits and withdrawals.

Considering the modest level of its management expertise, a SACA must endeavour to establish a simple but accurate office procedure and records for receiving, repaying and keeping deposits. The following steps may be considered.

(i) Deposit Journal

A SACA needs not institute a savings account ledger card, neither does it have to operate deposit and withdrawal slips or vouchers. All these can be embodied in one book namely Deposit Journal. This is a diary which records all daily transactions. For the purpose of a SACA, the journal should record the basic transactions on:

- (1.1) savings deposits as “credit”
- (1.2) time and sundry deposits as “credit”
- (1.3) savings withdrawal as “debit”
- (1.4) time and sundry deposit withdrawal as “debit”

It may accordingly comprise five (5) main recording columns headed as following:

- (1.5) name, account number
- (1.6) ledger or folio number
- (1.7) type of deposit (entered as savings or time or sundry)
- (1.8) credit amount (for all deposits)
- (1.9) debit amount (for all deposits)

(ii) Deposit Ledger

In addition to the deposit journal, a SACA may also keep a deposit ledger in which will be recorded or posted the summaries or the totals of the journal entries before the close of the day's business. Four entry columns may be adopted and headed as following;

(1.1) date

(1.2) credit (total of the credits in the deposit journal),

(1.3) debit (total of the debits in the deposit journal),

(1.4) balance.

The balances in the deposit ledger should provide the records and information for preparing periodic statements required under subsection 03 (11) of these rules ad guidelines.

(iii) Deposit account journal and ledger.

A SACA may keep one book to serve both as Deposit Journal and Deposit Ledger. In such case the first seventy-five per cent (75%) of the book may be allotted to the journal and the rest to the ledger.

(iv) Customer Accounts Ledger.

A SACA may keep a second ledger in which will be recorded its customers' deposit and loan accounts. Before the close of the day, the cashier should post the deposit journal and the loans journal entries into this book against the respective accounts of the customers. Two adjacent pages or folios may be

allotted to each customer. The left hand folio records all the transactions on deposits which may be entered as following:

- (1.1) Heading: name, address, folio/ledger number, account number.
- (1.2) Record columns
 - date
 - deposit
 - withdrawal
 - interest payment
 - balance
 - signature

The right hand folio provides records on the loan accounts of the same customer entered as following:

- (1.3) Heading: Loan amounts, repayment periods, interest rates.
- (1.4) Columns may be headed as following:
 - date
 - disbursements
 - cumulative disbursement
 - repayment
 - cumulative repayment
 - outstanding balance
 - arrears
 - signature

(v) Time Deposit Ledger.

About thirty per cent (30%) of the Customer Accounts Ledger may be allotted to recording time deposit accounts. The left folio will contain the records on the deposits while the right deals with

the loans in the same way under 04 (2) (j) (iv) (1.4).
Entries for the time deposits differ from the savings.
Therefore the following may be considered:

(1.1) Heading: name, address, folio/ledger number

(1.2) Columns

-date deposited or renewed

-amount

-certificate or card or receipt number

-interest rate

-due date

-withdrawal

-signature

(k) Service of a trained Cashier.

A SACA must appoint and train a cashier who will be charged with the responsibility for receiving and paying deposits and handling all records on them as well as other transactions. As much as possible, the person should be at least, a primary or first cycle school leaver and should hail from the community within which the SACA operates.

(i) At the beginning of the day's transactions, the cashier should be issued with operational cash from the SACA's safe as "cash out" under subsection 04 (2) (L) of these rules and guidelines.

(ii) The cashier should keep a Deposit Journal under subsection 04 (2) (i) as cashier's daily book or cashier's counter book in which he/she records all deposit receipts and payments of the day.

(L) Treasury

A SACA's liquid assets or cash-on-hand must be kept at all times in a well secured place, preferably, in a safe and the movements into and out of it recorded as "cash in" or "cash out" in a Treasury book.

The following steps may be considered in establishing a process for operating a Treasury. It is by no means exhaustive:

- (i) As advised under subsection 04 (2) (k), at the beginning of each transaction day, the cashier is given some cash out of this amount to begin the day's operations.
- (ii) The amount received by the cashier will be recorded as "cash out", dated and signed by the cashier and the manager or the treasurer. This amount should bear a relation to the amount previously notified by customers to the SACA for withdrawal on this day in accordance with subsection 04 (2) (o) (i) as well as the amount planned to be disbursed on the same day. The balance is recorded as opening balance, which represents the amount, held in the safe when the SACA opened to the general public.
- (iii) At the close of the day the cashier must hand back the balance of any cash in his or her custody received from the day's transactions and the safe. This cash is accurately checked by the manager and the cashier to ensure that it balances with the day's records. The amount must be placed in the safe and recorded in the Treasury book as "cash in", in the same way as "cash out" was made.

- (iv) The total of the opening balance (the cash in the safe) and the “cash in” must be recorded and entered as “closing balance” in the Treasury book in the same way as “cash out” was recorded.

(m) Treasury Book

All movements of cash in and out of the safe should be recorded in a treasury book for each transaction day. The records may indicate:

- (i) opening balance
- (ii) cash out
- (iii) cash in
- (iv) closing balance

At any given moment, the cash left in the safe at the close of the day should be the same as the closing balance.

(n) Security for cash and other valuable assets.

- (i) It is desirable that a SACA installs a modest size safe in its office for safe custody of its cash holdings and other valuable securities it may receive. The safe may be installed in concrete walls.
- (ii) The safe should have a minimum of two (2) keys. For the purpose of control, the management committee should institute a dual or multiple key holding arrangements into the safe as well as the office or the room where the safe is installed.
- (iii) Safekeeping in a SACA’s safe must be restricted to the following items:
 - (1.1) cash-on-hand;
 - (1.2) bond certificates, treasury bills, cheques, savings passbooks;

(1.3) important documents such as by-laws, minute books;

(1.4) valuables such as gold jewels.

(iv) It is advisable that cash items are kept separate from non-cash ones. Items belonging to the SACA are to be kept separate from those belonging to third parties.

(o) Savings deposit withdrawal.

A depositor has the right to withdraw the whole or part of his or her deposit provided the terms and conditions of the SACA governing savings withdrawals and previously brought to the knowledge of the depositor are strictly adhered to. The following basic guidelines may be observed in this transaction:

- (i) The customer or the depositor will serve the SACA a minimum period of withdrawal notice either in writing or verbally. Such notice must indicate the date and the amount and it should be served during transaction time in the SACA's office. The SACA in turn will plan towards it and make provision for payment on the scheduled date.
- (ii) The customer should present the passbook to the SACA at the time he or she wants to receive the payment and this should indicate up-to-date balance.
- (iii) The passbook balance must be verified against what obtains in the Customer Accounts Ledger or the books or records of the SACA.
- (iv) The payee must be identified as the depositor or a person properly authorized in writing or in person by the depositor to receive payment.

- (v) The amount to be withdrawn should not exceed the balance in the passbook or the SACA's records.
- (vi) In a case where a deposit has been pledged as a security for a loan, the amount to be withdrawn should not reduce the resultant balance below the deposit sum set aside as security.
- (vii) Where a SACA can afford, the payee may complete a deposit withdrawal slip or form indicating the amount, the payee and the date.
- (viii) All withdrawals may be recorded in the same way and manner as proposed under 04 (2) (j) of these rules and guidelines.

(p) Time deposit withdrawal

- (i) A depositor has the right to withdraw his or her time deposit at the end of the maturity date or any date thereafter. Notwithstanding, he or she can withdraw the deposit before the maturity date. A SACA must accordingly determine the terms and conditions for withdrawing time deposit before the maturity date.
- (ii) A depositor may forfeit all interest due or part thereof as may be determined by the SACA if the time deposit is withdrawn before the maturity date.
- (iii) Any time deposit not renewed or withdrawn at the maturity date should be treated as a savings deposit and will accordingly earn the prevailing interest on the renewal or withdrawal date.

- (iv) A customer or depositor must give a SACA a notice or authority, preferably in writing, for the renewal of his or her time deposit. In a close community in which a SACA operates, it may not be necessary to insist on a written notice.

(q) Reserve against deposits

- (i) A SACA must maintain a proportion of its total deposits in unimpaired liquid assets required under subsection 03 (5) of these rules and guidelines. It is desirable as a prudent precaution to determine the reserve amount on, at least, monthly basis using the reserve ratio prescribed by the Bank.
- (ii) The quantum of the loan amount a SACA may extend within the ensuing period should be guided by the available liquid assets over the mandatory reserve.
- (iii) Unless otherwise prescribed by the Bank, the limits of deposits held in liquid assets must not exceed **forty per cent (40%)** or fall below **fifteen per cent (15%)** of the total deposit liabilities. These ratios are equally applicable to all SACAs and the Bank shall immediately communicate any change in either or both of them to all SACAs.
- (iv) It is required that a SACA submits to the Bank on quarterly basis a statement of Reserve Liquid Assets/Total Deposits using a standard format, **CBRF 001 A** as prescribed under subsection 03 (11).

- (v) No SACA must grant a loan or any form of advance from its deposits when its total liquid reserve falls below the prescribed minimum limit.
 - (vi) The Bank may institute a remedial action or a sanction it may deem appropriate against any SACA, which fails to observe these requirements, and as provided under subsection 03 (5) of these rules and guidelines.
- (r) Prohibition on acceptance of deposits by insolvent SACA.**
- (i) A SACA that becomes insolvent or is in the process of winding-up its banking business must not accept or mobilize any deposit.
 - (ii) Any committee member or an official of a SACA, who in the full knowledge of a SACA's insolvency or winding-up process, accepts or causes deposits to be accepted in contravention of subsection 04 (2) (r) (i) above commits an offence and will be personally or jointly and severally liable for any loss suffered by any depositor concerned.
- (s) Office hours and Transaction time.**
- (i) It is required of a SACA to determine and make known to the general public the days and hours it opens its office to the general public for business. In rural community, the day(s) may coincide with one(s) set aside generally as rest day(s) and the community refrain from farming activities.
 - (ii) For the purpose of these rules and guidelines, a "transaction time" means the SACA's opening and closing time for acceptance and payment of deposits; and conducting all other loan transactions such as receiving applications, executing loan documents, making

disbursements, receiving repayments and granting interviews to customers, applicants and the general public.

- (iii) A SACA may post a notice in front of its office indicating its transaction time or take other steps that will make the community aware of it.
- (iv) No business must be conducted outside the transaction time. However, in a case where a person entered the office before the end of the transaction time, his or her business must be attended to if this was not done or completed before the transaction time ended.

(3) Sundry Deposits.

- (a) For the purpose of these rules and guidelines “sundry deposit” means a deposit other than savings and time deposit paid to a SACA and which is repayable instantly on demand but not transferable by cheque. Under a deprived rural economy, a good number of the community may not be in the position to save, as usually, they do not hold surplus incomes. However, they may desire an access to a convenient market facility where their monies or seasonal incomes can be safely kept while at the same time the monies can be demanded and received instantly in a like manner if they had been under their respective custody. A provision to cater for such need is therefore considered imperative.
- (c) A SACA may accordingly receive sundry deposits provided it determines its terms and conditions for receiving and repaying with regard to interest and service charges.

- (c) The terms and the conditions may be guided as following:
- (i) A service charge may be levied by the SACA for its services or for keeping the money;
 - (ii) An incentive reward may be instituted to encourage depositors to keep their deposits longer with the SACA than anticipated;
 - (iii) In line with (c) (ii) above, payment of a nominal interest on balances graduated on a time scale may be considered; for example:
 - 0-2 months, No Interest;
 - 0-3 months, 30% of time deposit rate for 3 months
 - 0-6 months, 50% of time deposit rate for 6 months
 - 0-9 months, 75% of time deposit rate for 9 months
 - 0-12 months, 90% of time deposit rate for 12 months

PART C

GUIDELINES

05: LOANS, ADVANCES AND INVESTMENTS

(1) Authority

- (a) A SACA may grant loans and advances on retail basis or invest in guarantee securities such as bonds and treasury bills issued by the Government or the Bank.

(2) Sources of loanable funds

- (c) Basically, all loans, advances or investments in securities made by a SACA are to be covered with funds it holds in deposits. In doing so, it must comply with the reserve ratio requirements under subsection 03(5) of these rules and guidelines.
- (d) A SACA is authorized to borrow funds from a lender on wholesale basis and retail to borrowers provided:-
 - (i) in the opinion of the Bank, it has conducted its banking business for not less than one year in a prudent and sound manner as any other SACA will perform in a similar situation;
 - (ii) the loan is acquired and extended under the rules and guidelines governing wholesale lending prescribed by the Bank.

(3) Loan policies

- (a) It is a duty of a SACA to establish clear policies that will govern its loan business. The policies may address in the minimum:
 - (i) all matter under subsection 05 (4) to (17) of these rules and guidelines.
- (b) The authority for determining and implementing loan policies may be vested in the management committee provided under subsection 03 (15) and 06 (3). Part of this authority may be delegated by the committee.
- (c) A SACA must ensure that its loan policies are well documented, pragmatic and reviewed periodically.
- (d) All policy makers and implementers must be fully knowledgeable of the policies. The members as well as the community must also be fully aware of all key policy issues that directly affect them. In this regard, facilitators must ensure that training is available at all levels, namely to the management committee, the management and staff, group leaders and members.

(4) Interest charges

- (a) There must be an interest charge on any loan granted by a SACA. The interest is to be market-determined, competitive as well as affordable to both the SACA and the borrower. At least, it should cover the transaction cost of the loan. As a guide:-
 - (i) the interest rates should be reviewed at periodic intervals and re-aligned in conformity with the prevailing economic and demand situations;

- (ii) a spread of eight (8) to twelve (12) percentage points between the interests charged on loans and those paid on deposits would constitute a reasonable margin;
- (iii) interest rates of banks may serve as useful guide;
- (iv) interest repayment must always be in cash;
- (v) all interest due on a loan must be repaid fully before the principal due;
 - (1.1) a loan repaid in time or ahead of schedule may attract incentive rebate on interest under subsection 05 (5);
 - (1.2) any case of wilful default may attract a penalty by the way of additional interest levy. This, as a policy, must be uniform.

(5) Incentive interest rate (interest rebate).

- (a) A SACA may introduce innovative incentives so as to reduce risks of loan defaults or enhance better repayment performance. It may accordingly consider, as one of such innovations, applying “premium interest rate” which, for the purpose of these rules and guidelines, means the sum of the actual or real interest rate and incentive interest rate. For example, if the real interest rate is twenty per cent (20%) it may be increased or up-fronted to twenty-five per cent (25%). The difference of five per cent (5%) constitutes the incentive rate.
- (c) A SACA may refund the entire or part of the amount representing the incentive interest charge to the borrower when his or her loan is retired on schedule or within a specified period soon after the expiry date.

(d) The borrower may forfeit such privilege if the loan is not repaid within schedule or re-scheduled period determined by the SACA.

(d) In order to encourage the management personnel to perform much better, part of this incentive interest earning may be set aside as incentive bonus or commission to them and only paid when the loan is fully retired on time.

(6) Loan limits

(a) Loans and advances granted to any person must be subject to prescribed maximum ceilings laid down as a policy by a SACA. Such ceilings need not be confused with “loan rationing” sometimes irrationally resorted to by some intermediaries as a result of liquidity constraints.

(b) In line with subsection 05 (6) (a) a loan granted to any person from deposit may not exceed a certain ratio in relation to the person’s deposit held by the SACA. The maximum loan amount in such case may not exceed **twice** the deposit sum of the borrower. Notwithstanding, the limit may be prudently exceeded in the case of a customer with outstanding repayment records or a borrower who can offer a security in excess of the required amount in addition to the deposit mandatorily required.

(c) The limits of loans granted from funds borrowed on wholesale for retailing may be governed by the conditions of the lender and also guided by the rules and guidelines on the subject with regard to “wholesale lending” prescribed by the Bank.

(7) Loan periods

- (a) The maximum period of any loan granted from deposits should not exceed six (6) months while the minimum must not be less than one (1) month in order to reduce administrative burden and costs.
- (b) Notwithstanding subsection (7) (a) above, loans granted from funds procured from lenders for retailing may be governed by the terms of the lender and the rules and guidelines on the subject with regard to “wholesale lending” prescribed by the Bank.

(8) Loan purposes

- (a) The purpose of SACA loans are primarily:
 - (i) agriculture as defined under subsection 02 (n);
 - (ii) off-farm income generating enterprises such as handicrafts, tie and dye making, dressmaking, soap making, blacksmithing, catering, carpentry, retail trade and any income generating activities prevalent in the business area.
- (b) Loan targeting or specialization should be avoided. Instead, a SACA must adopt a fungible approach to the use of its funds guided by demand opportunities. Accordingly, a borrower must be allowed the use of his or her discretion in the identification and selection of the loan purpose.
 - (iii) Loan purposes may be:
 - need based (who need loans most),
 - use based (who can use loans best),

-risk based (who can pay back best or what is most profitable).

(1.0) Since a SACA should be ultimately self-sustained; it must essentially target sustainable businesses that are risk based or more profitable. It does not follow that because a person belongs to the poorest group in the community, his or her business is not profitable. The decision should not therefore be determined by class or based on social personalities but the type of business, its level of demand and its economic viability or degree of profitability.

(2.0) Bearing in mind the three factors in (1.0) above, a SACA needs to exercise a good degree of discretion coupled with caution in purpose targeting which may blend the three bases namely need, use and risk.

(iv) A lender may have the affinity for determining a loan purpose or insist on specific targets. Such conditionalities are not encouraged under rules and guidelines on wholesale lending prescribed by the Bank. However, some loans or grants provided by lenders especially donors may be intended to address specific economic constraints of a national interest. Under such circumstances, wholesale loans reaching SACAs may be targeted in accordance with the lender's requirements.

(9) Beneficiaries of loans and advances

- (a) The beneficiaries of SACA loans and advances should solely comprise “small producers” as defined under subsection 02 (g) made up of individuals, formal and informal groups within its place of business or any other community that may affiliate with the SACA.
- (b) Women, youth and other vulnerable groups must have equal access to and opportunities of SACA loan facilities.
- (c) Gender SACAs may endeavour to accommodate the members of the opposite sex, proven to be good deposit account holders, in their loan schemes.

(10) Eligibility criteria for loans and advances.

- (a) It is a duty of the SACA to establish eligibility criteria for its loans and advances. Community and public awareness of the criteria must be created by the SACA. It is also incumbent on a SACA to review its eligibility criteria periodically in response to prevailing or changing circumstances.
- (b) The criteria must be consistent and equally applicable to all applicants. The loans committee may be granted a limited power to exercise its discretion for an occasional waiver or relaxation of a condition to an applicant. But any such concession granted should be exceptional and must not jeopardise in any way the safety of the loan or increase its risk.

(11) Loan procedures

- (a) It is a duty of a SACA to establish sound procedures for its loans. As much as possible, “the group lending

concept” that depends on participatory approach in decision-making or collective leadership, character, trust and confidence may be adopted.

- (b) The procedures must be simple, flexible or pragmatic. They should render easy accessibility to the SACA’s service; allow the transaction processes to be conducted within the minimum possible time and at low costs.

- (c) In all cases, clear procedures must be established in addressing:
 - (i) application forms and requirements;
 - (ii) application processing;
 - (iii) loans and advances approval and advice;
 - (iv) pre-disbursement actions relating to agreements, guarantees, indemnities, and other securities;
 - (v) disbursements;
 - (vi) post-disbursement activities including monitoring or supervision, and recoveries;
 - (vii) loan recoveries and default sanctions;
 - (viii) loan foreclosure;
 - (ix) loan records.

(d) Factors for loan procedures.

The following factors may serve as guide in establishing loan procedures.

(i) Loan application and processing.

(1.0) A SACA should prepare a simple application form to be completed by every applicant seeking a loan or an advance.

(1.1) Separate form may be used for individual borrowers and group (formal and informal) borrowers.

- (1.2) The form should contain a reasonable information about the: applicant, purpose, past experience and performance, repayment capacity, and security.
- (1.3) The manager or his appointee must register the application on its receipt in the records of the SACA.
- (1.4) The management committee, headed by the manager are to be charged with the processing of the application for consideration by a loans and advances committee. In doing so, they will assemble all relevant information on the applicant's deposit(s) and previous loan account(s) for the attention of the committee.

(ii) Loans and Advances Committee.

- (1.1) As a rule, all loans and advance approvals must be sanctioned through a committee system. It is highly risky to place such authority in the hands of any one individual. The committee system has the unique advantage of providing collective and a more reliable decision, which is vital in financial matters at the level of a SACA.
- (1.2) The committee may be composed of the entire members of the management committee or a subcommittee of it. In the case of the latter, the management committee must ensure that the subcommittee, in exercising its authority, complies with the policies, rules and all regulations established by the management

committee on loan and advance approvals. In all cases, the management committee should determine the composition of the subcommittee, its powers, functions and limits.

- (1.3) A management committee may set approval limits for a subcommittee beyond which the application must be referred to the former.
- (1.4) There must be a chairperson for the loans and advances committee who may be either appointed by the management committee or by the members of the former under the delegated authority of the latter.
- (1.5) The chairperson must be vested with the authority to convene and preside over all loans and advances committee meetings.
- (1.6) A proper arrangement must be in place for someone to act as a chairperson in the absence of the substantive one.
- (1.7) Generally the chairperson must ensure that the decision of the committee is by consensus or majority through the show of hands. Where there is a split decision, the chairman may have a casting vote.
- (1.8) Each loans and advances committee meeting must have a quorum as determined by the management committee before it commences.

(1.9) A secretary to the loans and advances committee may be appointed by the management committee or the former and charged with the responsibility among others for:

- serving notices for meetings,
- taking minutes and recording all the decisions of the committee in a minutes book.

(1.10) The manager or the cashier or any other person may be appointed the secretary. However, in order to maintain checks and balances and provided a SACA can afford, a different person other than those mentioned herein may be appointed.

(iii) Loans approval authority.

The management committee may vest the loans and advances committee with the following responsibilities:

(1.1) schedule dates and times for the committee meetings;

(1.2) deliberate and take decisions on processed applications presented by the manager. In doing so, the committee would observe the policies, eligibility criteria, rules and regulations of the SACA governing loans which may include:

- the presence of a chairperson'
- availability of a quorum,
- confirmation of previous minutes;

- the soundness and viability of the loan purpose,
- experience and competence of the applicant,
- character or reliability and credit worthiness of applicant,
- contribution (if required) by applicant, and
- suitability and acceptability of deposits and other securities being provided.

(iv) Loan decision.

(1.1) The loans and advances committee may decide to approve or decline a loan application depending on whether the requirements in subsection 05 (11)(d)(iii) have been satisfactorily met.

(1.2) The decision of the committee must be recorded by consensus or majority under subsection 05 (11)(d)(ii)(1.7).

(1.3) All decisions of the committee must be recorded by the secretary under subsection 05(11)(d)(ii)(1.9).

(1.4) The manger may be authorized to convey the decision of the committee to the applicant. This may be in the form of a written advice or it may be conveyed verbally.

(1.5) The loan approval advice should indicate the approved amount and all the terms and conditions. Where the applicant is informed verbally, the manager shall clearly explain or

cause to be explained such advice to the full acknowledgement of the applicant in a language the latter understands.

(v) Decision of applicant on loan offer.

It is a duty of a SACA to demand from an applicant within a specified period his or her acceptance or rejection of a loan offer. The applicant's decision may be conveyed verbally to the manager. The loan offer may be withdrawn if the applicant fails to respond within a specified period.

(vi) Execution of loan conditions and disbursement.

(1.1) The applicant must satisfy all the loan terms and conditions before disbursement is made. The management committee must establish, as a policy, a process for verification or attestation to the fulfilment of the requirements.

(1.2) The manager may be empowered to instruct the cashier to make disbursement subject to (vi)(1.1) above and in accordance with a disbursement schedule or instruction if any, stated by the loans and advances committee.

(1.3) Generally, disbursement must be in cash and effected without the slightest delay. Except there is a real need for disbursement by instalments, it should be made in one lump sum considering the profile of SACA loans.

(1.4) Under no circumstance shall the amount disbursed exceed the amount approved.

(1.5) It should be the duty of a manager to ensure that all disbursements are properly entered in the passbook of the borrower and in the records of the SACA.

(vii) Post-disbursement activities.

(1.1) It is a duty of a SACA to ensure that proper measures are established for monitoring or supervising the loans of borrowers. Methodologies to achieve this may include:

- application of group leadership and collective responsibility factors,
- maintenance of constant rapport between borrowers and the SACA and loans committee. This may be by way of regular visits by members of the committees to borrowers,
- linking the loan projects to the support and extension services in the area, and
- establishing simple and accurate records on loan activities.

(vii) Recoveries

(1.1) The loans and advances committee determines the repayment periods of loans including any moratorium it may grant on principal and/or interest.

(1.2) Considering the levels and short durations of SACA loans, principal and interest repayments may be

bulked together and scheduled as one lump-sum repayment or by instalment.

(1.3) All recoveries must be entered in Customers Loan Ledger or the records of the SACA as provided under subsection 05 (15-16) of these rules and guidelines and also entered in the passbook of the borrower.

(1.4) The achievement of high level of recovery performance is usually enhanced by the following factors:

- sound loan policies and procedures,
- efficient management,
- healthy SACA – borrower relationship, and
- the dedication and loyalty of the management in performing its tasks.

In order to stimulate and sustain the last factor above namely dedication and loyalty of the management personnel, the SACA may provide some remuneration for their services. They must not be expected to serve on gratis or charitable basis which in itself, may constitute a pre-disposing factor for financial impropriety on their part. The remuneration may take the form of:

- regular or periodic allowances or salaries paid out of interest earnings, and
- additional incentive bonus or commission paid from earnings from the incentive interest charges under subsection 05 (5) of these rules and guideline.

(1.5) A SACA must also organize regular solidarity meetings between the members and borrowers or customers alike to discuss the progress and related matters of interest. Such regular interaction may enhance solidarity or loyalty, and build on the confidence or integrity of those concerned which in turn would improve recovery performance.

(viii) Defaults

(1.1) Appropriate measures must be instituted by a SACA to reduce the incidence or rate of loan defaults. A default rate of forty per cent (40%) and over is considered bad and unacceptable. The measures may include the following:

- operation of incentive interest scheme under subsection 05 (5),
- fixing a recovery level below which a borrower is not eligible for a new loan. (A level between 85% and 90% may be appropriate),
- exercising effective post-disbursement precautions under subsection 05 (11)(d)(vii),
- charging additional interest (example between 2% and 5%) as a penalty against recalcitrant defaulters,
- provision of rewards or incentives by way of prompt loan renewals and increased amounts for repayments on schedule,
- where all efforts and persuasions by a SACA to recover a loan have failed, it must take the necessary steps to redeem or attach the securities held in respect of the loan, and
- any wilful defaulter must be black-listed and denied a future loan.

(12) Advances

- (a) A SACA may grant advances to its customers for personal and consumption purposes.
- (b) The same rules and guidelines on policies and procedures bearing on loans equally apply to advances.
- (c) Advances may be of very short-term durations. A minimum period of two (2) weeks may be allowed by a SACA. However, the maximum period may not exceed three (3) months.
- (d) Advances must be recorded and entered in the records of the SACA and the passbook of the borrower in the same way as loans are treated.

(13) Investments

- (a) A SACA may invest a portion of its deposit in securities issued or guaranteed by the Government or the Bank provided that such investment is made under subsection 03 (5) of these rules and guidelines and does not result in the denial of loans and advances to eligible applicants.
- (b) It may invest part of borrowed fund from a lender recovered and held as a revolving fund in the same manner and under the same conditions as prescribed under subsection (13)(a) above.
- (c) A SACA must not acquire ownership interest in any commercial, agricultural, industrial and other business undertakings except:
 - (i) such interest is for the purpose of recovering debts owed to it and that the interest will be disposed of immediately the debt is recovered.

(14) Securities

- (a) Substitutes to traditional or collateral securities must be used generally for loans and advances granted by SACAs.
- (b) In small operator credit for short term purpose (particularly the type based on group lending concept) the security for a loan should generally be measured in terms of the efficiency of the SACAs credit system; the soundness of borrower sensitisation and the awareness created by the SACA about the objectives, procedures and the benefits of the loan and an acceptable degree of borrower understanding of his or her obligation under the loan as well as his or her undertaking to act with the integrity and honour the obligations under the loan. Tangible or collateral securities must not necessarily be mandatory in such cases.
- (c) Unsecured loans must be limited to informal grassroots persons or small scale borrowers only. In any such case the loan may be guaranteed by the group leaders or one to two persons of reputable social standing in the case of individual small scale borrower. In group loans, additional security may be obtained by way of indemnity by the individual members. A lien over deposits belonging to groups or members or individual borrowers may serve as security. Peer pressure is a reliable weapon to rely on to improve recoveries.
- (d) A guarantor is not entitled to a fee or a commission from the lender or the borrower.

- (e) A loan to any individual borrower should be secured by lien over the borrower's savings or time deposit. The loan value may not exceed twice the deposit amount. Additional guarantee by people of good social standing or with good deposit accounts may be necessary.
- (f) The SACA may enter into simple loan agreement with the borrower, which will specify the loan amount, the interest thereon, the period and all other conditions of the loan.

(15) Loans journal

- (a) In the same manner provided under subsection 04 (2)(j)(i) for Deposit journal, the cashier must keep a Loans journal for recording all daily transactions on loans and advances.
 - (i) All recoveries must be recorded as credit.
 - (ii) All other charges must be recorded as credit.
 - (iii) All disbursement must be recorded as debit.
- (b) The columns in the journal may be headed as follows:
 - (i) date;
 - (ii) name and passbook or ledger number;
 - (iii) type of recovery or charge (principal, interest, fees);
 - (iv) amount recovered or charge received;
 - (v) amount disbursed (debt);
 - (vi) signature of officer receiving or paying.

(16) Loans ledger

- (a) Likewise as provided under 04(2)(j)(ii), a SACA may operate a Loans ledger into which will be recorded the summaries of all the loan transactions for the day.

- (b) The columns in the ledger may be headed as follows:
 - (i) date;
 - (ii) total interest repayment;
 - (iii) total principal repayment;
 - (iv) total disbursement;
 - (v) signature.

(17) Customer Accounts ledger

- (a) Any loan repayment made by or disbursed to a borrower must be recorded in his or her folio in the Customer Accounts ledger under subsection 04(2)(j)(iv).
- (b) The same records must be entered in the borrower's passbook.

Guidelines

06 Registration, Name, Ownership, and Controlling body Confederation, Revocation of Provisional Registration Certificate.

(1) Registration

- (a) No person is authorized to engage in any business prescribed by the Bank for SACAs without a Provisional Registration Certificate issued by the Bank permitting it to do so.

- (b) An application form prescribed by the Bank for the purpose of registration of SACAs must be completed and submitted to it by any person intending to operate as a SACA.

- (c) The Bank may demand attachments or extra information to the application. In all cases, the by-laws or articles of association or regulations of the applicant is to be attached.

- (d) Until otherwise prescribed, the use of the registration form prescribed under section 08 shall be in force.

- (e) In considering the application, the Bank may conduct such an investigation it may deem necessary to satisfy its self about the validity of the information contained in an application form.

- (f) In evaluating the application, the Bank will pay attention to the:
 - (i) history and status of the applicant;

- (ii) fulfilment of minimum capital requirement prescribed for SACAS;
 - (iii) arrangements for business premise and liquid assets to be held;
 - (iv) arrangement with regard to technical assistance from a facilitator for institutional development of the SACA;
 - (vi) convenience and the needs of the community to be served and the economic and social progress likely to be achieved.
- (g) Within sixty (60) days from the receipt of the application or where further information, the Bank may grant the approval for a provisional registration or decline the application and duly communicate its decision to the applicant in writing without assigning its reason in the case of a refusal.
- (h) On approval of the application, the Bank may issue a Provisional Registration Certificate to the applicant within thirty (30) days from the date of the approval letter.
- (i) The certificate will bear the name, the place and type of business of the SACA, the date and seal of the Bank.
- (j) A SACA must commence business within six (6) months from the date of its certificate. The failure to do so will result in revocation of the certificate by the Bank.
- (k) A SACA must notify the Bank of any amendments in its by-laws or regulations or articles of associations.

- (l) Other causes for revocation of a Provisional Registration Certificate of a SACA are prescribed under subsection 03 (12) of these rules and guidelines. A SACA must be guided by all the provisions therein. In addition, a certificate will be revoked if any information contained in its registration application is subsequently proved to be false.
- (m) Likewise, SACAs are to be guided by the provisions of subsection 03 (13) and (14) with regard to other aspects of revocation of a certificate dealing with notification and appeal respectively.

(2) Name

- (a) A SACA is authorized to determine its name which must not be changed or altered after its registration by the Bank without the latter's prior approval.
- (b) For uniformity and ease of identification SACAs may affix the acronym "SACA" or "SAC" or their words to their respective names. The place or area of business must appear as the last affix of the name. Example, a cooperative credit union at Sapo may be named "Cooperative SAC Union Sapo" or "Cooperative Savings and Credit Union Sapo".
- (c) A SACA is not authorized to refer to itself or to be referred to by others by any other name apart from its registered one.
- (d) No SACA shall use the name "bank" in referring to itself or cause other person to use the same in referring to it.

- (e) It is desirable that a SACA's name is clearly displayed in front of its office so as to provide easy identification. Its logo may also be displayed with the name for the same purpose.

(3) Ownership and controlling body.

(a) Management Committee

The owners or members of a SACA provided under subsections 03 (3) and 03 (15) in accordance with their by-laws, shall appoint a controlling body herein referred to as the Management Committee (MC) which will be vested with the authority for the management and the administration of the affairs of the SACA. The MC may be selected from the members of the SACA at its annual or special general meeting. The owners at this meeting will also determine:

- (i) the qualifications and disqualifications for MC membership;
- (ii) term of office of the MC;
- (iii) powers, duties, functions, limits and liabilities of the MC, its chairman and secretary;
- (iv) quorum for MC meeting;
- (v) voting rights of members at MC meetings;
- (vi) appointment of Mc chairperson;
- (vii) appoint a SACA manager or delegate the Mc to do so.

(b) The MC will be vested with the power of administration and management of the affairs of the SACA. In exercising such power, it may delegate part of its responsibilities and authority to its appointees. The MC must:

- (i) determine the operational policies and procedures for banking business and other affairs of the SACA;

- (ii) appoint SACA manager who will be the chief executive of the SACA management;
- (iii) appoint SACA management committee which will be responsible for the daily administration of the SACA;
- (iv) function as or appoint a loans and advances committee;
- (v) determine the powers, duties, functions and limits of the management committee and the loans and advances committee and other appointees;
- (vi) where applicable, fix the remuneration of appointees.

(4) Disqualification from MC Membership.

- (a) No person should be appointed or continue to hold office as a member of MC if he or she is:
 - (i) a wilful debtor to the SACA or any other creditor;
 - (ii) declared bankrupt;
 - (iii) convicted against any unlawful act without being pardoned for the offence;
 - (iv) an undischarged mental patient.

- (b) The MC shall be automatically disqualified when the Provisional Registration Certificate of the SACA he or she serves is revoked by the Bank. Under such circumstances, they will be jointly and severally held liable for all losses arising out of the revocation of the certificate.

(5) Annual General meeting.

- (a) The authority of a SACA is vested in the annual general meeting (AGM) of its members. Accordingly members shall hold a general meeting, at least once a year and:

- (i) determine the bye-laws, rules and regulations, general policies and make relevant appointments such as SC members;
- (ii) have the right to vote on all matters and each member shall have one vote;
- (iii) elect among themselves a chairperson and a secretary for general meeting;
- (iv) appoint and fix remuneration of an auditor for the ensuing year; and
- (v) obtain quorum before the meeting is commenced;
- (vi) discuss any other matters that are in the supreme interest and progress of the SACA.

(6) Confederation

- (a) Two or more SACAs may, with the approval of the Bank, enter into confederation at district or divisional level in order to share experiences or coordinate their activities or share common financial services between.
- (b) The decision to confederate is vested in the owners and must be taken at a general meeting.
- (c) The confederation must not lead to the loss of the legal status of any of the confederating SACAs.
- (d) The SACAs intending to confederate will inform the Bank of such intention. The information provided should include:
 - (i) name of confederated body;
 - (ii) names and locations of the confederating SACAs;
 - (iii) the balance sheet of each of them for the last financial year;
 - (iv) the organization powers, functions and limits of the apex body.
- (e) the Bank may grant the approval for permission if it is satisfied with the information provided. Such approval

will be given in writing within sixty (60) days from the receipt of the request.

- (f) The Bank may request for information at periodic intervals or at any occasion it considers necessary from the apex body about the affairs of the confederation.
- (g) The confederation may be dissolved by the Bank where, in its opinion, the apex body is found to be unsound or acts unlawfully or persistently act against the interest of the member SACAs. The Bank's decision will be final under any of these circumstances.

(7) Revocation of Provisional Registration Certificate and Registration Certificate.

- (i) During the "start-up period" a SACA is under duty to establish sound and efficient administrative and management frameworks for its operations. It is also required to build-up its capital to a required minimum limit prescribed under subsection 07 (2) and (3). Furthermore, it is under obligation to comply with financial provisions under subsection 03 (11). In addition, the Bank has prescribed policies and guidelines in these "rules and guidelines" that are to be observed by every SACA. Under subsection 03 (10), the Bank is to enforce the compliance with all such requirements.
- (ii) The Bank reserves the right to prescribe remedial and penal measures against non-compliance with any of these requirements indicated in 06 (7) (i) above generally and as specifically provided under subsection 03 (12).
- (iii) Where the affairs of a SACA, in the sole judgement of the Bank, is considered unsound or unlawful at any time during the course of the "start-up period", or thereafter in

the case of a fully registered, the SACA will take the appropriate measures deemed fit by the Bank or its appointee to rectify the unsound or unlawful affair within a specified period allowed it by the Bank. The failure to do so by the SACA may result in a terminal action on the part of the Bank against it depending on the severity of the case decided on the sole judgement of the Bank.

- (iv) The terminal action in this respect comprises the revocation of the Provisional Registration Certificate under subsection 03 (12) and (13).
- (v) A SACA has the right to appeal against a revocation decision. The steps for the appeal are as prescribed under 03 (14). In all cases, the decision of the Bank on the appeal will be final.

07 Capitalization, Start-up period, Capital build-up programme, Status review, Financial Information.

(1) Capitalization

(a) Authorized capital.

(i) The authorized capital of a SACA must be determined by its members. Though this may be important, it does not constitute a mandatory requirement in the case of a SACA. Attention should be focused rather on how to achieve the contribution of the minimum capital requirements for registration and at the end of the “start-up period”.

(ii) Members of a SACA must determine the rules and conditions that will govern its capital subscription or contribution. Such rules and conditions are to be embodied in its by-laws or regulations or articles of association required for registration by the Bank.

(b) Minimum paid-up capital

(i) The minimum paid-up capital of all SACAs will be determined by the Bank.

(ii) No organization or person will be permitted to operate as a SACA by the Bank without it satisfying the minimum paid-up capital requirement.

(iii) Until otherwise prescribed, a SACA must have an unimpaired minimum paid-up capital of three thousand (D3000) before it will be registered by the Bank.

(iv) The minimum paid-up capital may be computed in such a manner as may be determined by the Bank.

Until otherwise prescribed this may comprise any or combinations of the following:

- (1.0) membership fees,
- (2.0) special cash contributions by members,
- (3.0) paid-up shares,
- (4.0) reserves authorized by the Bank,
- (5.0) undivided profits and other incomes
- (6.0) endowments.

(2) Start-up period

(a) Duration.

Until otherwise prescribed by the Bank, a SACA is granted a maximum of three (3) years as a “start-up period” during which it will develop, grow and attain sustainability. During this period it must:

- (1.0) acquire the skills and the expertise needed for efficient management of its business. A technical assistance may be sought from a donor or a non-governmental organization (NGO) or any other facilitator for the achievement of this objective;
- (2.0) establish the policies as well as efficient modus operandi for its business;
- (3.0) establish an appropriate premise for its type of business. It must have a safe for keeping all liquid assets it may hold;
- (4.0) build-up its capital to the extent that it will not be less than the minimum prescribed for SACAs at the termination of the “start-up period”.

(b) Minimum Paid-up capital at end of “start-up period”

The minimum paid-up capital of a SACA at the end of the start-up period must not be less than ten thousand dalasis (D10,000) or an amount that may be prescribed by the Bank.

(3) Capital build-up programme

- (a) Until otherwise directed by the Bank, a SACA is granted a maximum of three (3) years from the date of its registration to build-up the minimum capital requirement of ten thousand dalasis (D10, 000) or as may be prescribed by the Bank at the termination of the “start-up period”.
- (b) The balance sheet, and profit and loss account submitted to the Bank by a SACA at the end of each of the three years and as required under subsection 03 (11) should indicate the state of affairs with regard to the capital build-up programme. The statement will indicate, among others, the amount and ratio of the “capital gap” contributed as at the end of each year. For the purpose of these rules and guidelines, “capital gap” means the difference between the required minimum paid-up capital at the end of the start-up period and the initial minimum requirement for registration. In this case, until otherwise amended by the Bank, the capital gap is seven thousand dalasis (D7,000). The expected minimum contributions for the respective years should in principle:
- (i) not be less than fifteen per cent (15%) of the capital gap by the end of the first year;
 - (ii) not be less than fifty per cent (50%) of the capital gap by the end of the second year;

(iii) reach the full capital gap by the end of the third year.

(c) The capital under the programme may be computed as prescribed under subsection 07 (1)(iv) of these rules and guidelines.

(4) Status review

(a) The affairs of a SACA will be evaluated at the end of the “start-up period” and its status reviewed in accordance with its performance assessment as determined by the Bank. The evaluation will be undertaken by the Bank or its appointee within one month prior to the expiry date of the SACA’s Provisional Registration Certificate.

(b) The factors to be taken into consideration in performance assessment will include the soundness of policies and procedures, the efficiency of management, the liquidity of the SACA including levels of deposits and capital as well as the suitability of its premise and the economic activities generated by the SACA.

(c) In every case, emphasis will be placed on the level of the minimum paid-up capital as at the end of the “start-up period”. The Bank may accordingly enforce the following measures:

(i) the status of any SACA that achieves one hundred per cent (100%) payment of the required minimum capital will be upgraded to a MISACI and accordingly registered by the Bank in line with its guidelines prescribed for registering MISACIs on proviso that its general performance is rated satisfactory.

- (ii) A SACA obtaining sixty per cent (60%) and over but less than one hundred per cent (100%) achievement rate may be granted, at the sole discretion of the Bank, a further period of not more than one year to reach the required level.
- (iii) Any SACA that achieves between forty per cent (40%) to sixty per cent (60%) may have its Provisional Registration Certificate revoked with the right of appeal as provided under subsection 03 (12) of these rules and guidelines or may be granted a further period of not more than twelve (12) months to achieve the required level depending on the merits of the other factors under 4 (b) above.
- (iv) The Provisional Registration Certificate of any SACA that achieves less than forty per cent (40%) shall be revoked as provided under subsection 03 (12) of these rules and guidelines without the right of appeal.

(5) Net Profit

A SACA is required to prepare a profit loss (PL) statement for its own guidance and submission to the Bank at periodic intervals prescribed under subsection 03 (11). The PL statement forms part of the balance sheet for any transaction year. This should be certified or prepared and certified by a qualified accountant or auditor. It is a statement of the SACA's income vis-à-vis its total operating expenditure (direct and indirect) and, thus, reveals the viability of the institution. For this reason, every SACA should endeavour to prepare this statement, at least, on half yearly basis and be guided by it. In preparing its PL statement, a SACA is required to exclude all interest on loans and other incomes recorded in its books but not yet received.

Such unrecovered incomes are not expendable. Likewise, in order to partly sustain the level of loanable funds, part of the profit must be set aside to cover wilful loans which usually end up as doubtful or bad debts. In the case of a SACA, the net profit is arrived at after making provision for doubtful and bad debts as well as accrued interest on loans and other incomes not yet received but recorded.

(6) Financial information

- (i) It is a duty of a SACA to maintain a basic performance standard at all times. As an essential part of this requirement, a SACA is expected to establish an efficient management information system or, simply, keep accurate and up to date records on all its operations. In addition, it is its duty to observe some prescribed financial requirements such as liquid asset levels in relation to reserve ratios, deposit and loan transactions, and other financial statements prescribed under subsection 03 (11). These measures on the other hand serve as internal controls in preventing, detecting and for punishing against any financial impropriety or fraudulent practices on the part of the staff of a SACA with or without a third party.

- (ii) A SACA must ensure that, at least, its manager and cashier or bookkeeper receive adequate training in these skills to be able to enter all the relevant records in its books or ledgers or journals and prepare simple statements such as liquid assets/deposit liability ratio, or reserve ratio, profit and loss, deposit and loan accounts; compute and credit or debit interest charges on deposit and loans etc. It requires both time and persistent effort

on the part of a SACA to train its staff to the extent where they can manage these records independently.

This is a critical area which calls for the assistance of a facilitator. A SACA is accordingly required during its “start-up period” to seek such assistance and as prescribed under subsection 03 (2) (iii) unless it can prove beyond reasonable doubt to the Bank that it possesses the requisite management capacity for this requirement.

- (iii) It is advisable that where a facilitator is in any difficulty it seeks the service of a fellow knowledgeable facilitator or a qualified accountant to assist it in setting up the books or records. Similarly, advisory service may be sought from the Bank or its appointee or any commercial bank. In all cases, it is expected that a qualified accountant or auditor assist with the preparation of the annual account required under subsection 03 (ii)(iv).

- (iv) The Bank is charged with the responsibility for ensuring that basic standards are maintained by all SACAs and that all prudential policies and regulations are duly complied with by them. It does so by monitoring the activities of SACAs through both “off site” and “on site” examination of their affairs as prescribed under subsections 03 (10) and (11). SACAs are hereby advised to strictly comply with the provisions of these two subsections so as to avoid disciplinary measures that may be taken against deficient ones by the Bank.

08 REGISTRATION OF SACAs

An application in writing for registration as a SACA shall be submitted to the Bank in accordance with section 03 (2) of these rules and guidelines and based on the guidelines provided in the Bank's form CBRF-RG/08. The provisions of "rules and guidelines on policies and procedures, volume two, SACAs" must be closely studied by any person before applying to the Bank for registration as a SACA.

INSTRUCTIONS ON APPLICATION FOR REGISTRATION OF SACA (CBRF.RG/08**(1) Organization (To be completed by all)****(a) Parent organization****State:**

- (i) Name of organization intending to form SACA.
- (ii) Present status of organization (e.g. Kafo, Tesito, Osusus, NGO, Informal group, Cooperative etc.) and whether or not incorporated and if so the type.
- (iii) Location and date of formation of organization.
- (iv) Original gender numbers of members.
- (v) Present gender numbers of members.
- (vi) Main economic activities undertaken by organization and by members.
- (vii) Present composition of the governing committee (board) of organization.

(b) Proposed new organization - SACA

State:

- (i) Name of SACA;
- (ii) Organizations forming SACA;
- (iii) Location and address of SACA;
- (iv) Number, names, locations, age, gender of promoters;
- (v) Number, names, gender and locations of founding members.

(2) Management of SACA (To be completed by all)

- (i) Attach a certified copy of by-laws or rules or regulations or memorandum or articles of association of SACA;
- (ii) State name, gender, age and location of each member of the Management committee and state whether or not the member resides in the business area;
- (iii) State composition of management committee,
- (iv) State qualification and experience (formal or informal) required for each management position;
- (v) Briefly outline the powers, functions, duties and limits of the SACA committee;
- (vi) Briefly outline the powers, functions, duties and limits of the management committee;
- (vii) Give brief description of business premise and equipment;
- (viii) Give brief description of security arrangement for deposits and other cash holdings;
- (ix) State rules regarding meeting of members and Management committee, in respect of quorum, voting rights and procedure. (Not applicable if this is provided in the by-laws or regulations).

(3) Financial information (To be completed by all)

State:

- (i) Total amount of membership fees and other contributions made by members from inception of parent organization to date.
- (ii) Brief account of the uses and benefits of the contributed amounts.
- (iii) Proposed cash contributions by members.
- (iv) Proposed share capital and share value of SACA (complete if applicable)
- (v) Number and gender and paid-up shares of shareholders (complete if applicable).
- (vi) Paid-up capital of SACA.
- (vii) Name and address of auditor of SACA (Complete if applicable).
- (viii) Name and address of Bank of the parent organization (Complete if applicable).
- (ix) Name and address of Bank of SACA (Provide one set of data if “viii” and “ix” are the same).
- (x) Liquid assets (cash, bank account balances) of the parent organization.
- (xi) Liquid assets (cash, bank account balances and other assets) of SACA (Provide one set of data if “x” and “xi” above are the same).
- (xii) Liabilities of parent organization-types and values (Complete where applicable).
- (xiii) Rules relating to distribution of assets when winding-up.
- (xiv) List of financial records to be kept by SACA.

(4) Lending activities

(To be completed by organizations that have engaged or engage in credit activities).

Sate:

- (i) Period (date of inception of credit activities to date).
- (ii) Source(s) of loan funds.
- (iii) Total amount of loans made for the period.
- (iv) Number of beneficiaries of total amount of loans.
- (v) Total amount of loans due to date.
- (vi) Total recoveries to date.
- (vii) Outstanding balance classified into short, medium and long term.
- (viii) Total amount in arrears.
- (ix) Amount in arrears up to six months and over six months.
- (x) Interest rate regime over the period. Give dates.
- (xi) Type of securities generally accepted against loans.
- (xii) Outline of loan policies.
- (xiii) Cost of lending activities per year for the last two financial years.
- (xiv) Interest amounts charged and recovered respectively for the last two financial years.

(5) Savings and Time deposits.

(To be completed by organizations that have engaged or engage in savings and time deposit mobilization).

- (i) State period (inception of activity to date).
- (ii) State types of deposits mobilized.
- (iii) State number of deposit accounts (savings and time) and the total deposit amounts as at the end of last day of each year for the past two financial years.

- (iv) State aggregate amounts of deposit held in cash, with banks, and given out as loans for each of the past two financial years.
- (v) Briefly outline security arrangements for cash holding.
- (vi) Briefly outline types of records maintained on deposit accounts and to be maintained by the SACA.
- (vii) Briefly outline terms and conditions of deposits (receiving and paying).

(6) Technical assistance. (To be completed by all)

- (i) State the name and business address of donor facilitator(s) namely NGO, United Nations Agency, Private Voluntary Organization, and Cooperative etc.
- (ii) State how long the organization has associated with donor and for what purpose(s).
- (iii) State type(s) and value(s) of previous technical assistance obtained from this donor and others (complete if applicable.)
- (iv) Briefly state the economic and social benefits derived from previous technical assistance (complete if applicable).
- (v) State the type and values of proposed technical assistance to be provided by donor to facilitate SACA.
- (vi) Attach action plan and budget for technical assistance to be provided by donor. (This must be prepared and certified by the donor).

(7) Social and Economic benefits.

- (i) Briefly outline the main economic activities in the place of business.
- (ii) Outline skill development programmes/projects or activities in the place of business.

- (iii) Describe very briefly your reasons for establishing the SACA.

(8) Balance sheet and accounts.

(Applicable to audited accounts of former or ongoing savings and/or credit organizations).

- (i) Attach a copy of the last balance sheet and profit and loss account audited and certified by a qualified auditor. (This should be in respect of the last financial year or the one before it).