SACCO financial services to SME Customers amid COVID-19 Pandemic

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Savings and Credit Cooperatives (SACCOs) in Kenya are developing business intelligence (BI) to help them serve their members and customers. When it comes to loan provisioning to Small and Medium Enterprises (SMEs), SACCOs are becoming very cautious amid COVID-19 pandemic. The CEO for Fortune SACCO, Mr. Amos Kimotho states, 'the pandemic has really affected majority of SME environment, and so we are serving this category of membership on case by case basis'. His sentiments points to the fact that COVID-19 pandemic has proved to be a disruptor affecting how businesses has been conducted. SMEs have not been an exception and various sectors have been adversely affected; and this also transcends to their financing.

In a recent WOCCU rapid survey on the financial services industry players in Kenya between April and May 2020 on nine financial institutions including Banks, SACCOs and Credit-only institutions; it is now obvious that the pandemic is adversely affecting SACCOs SME financing strategies.

Economic Impact of COVID- 19 Pandemic on SMEs in Kenya

SACCOs have weighed in on the Economic Impact of COVID- 19 Pandemic on SMEs in Kenya. Interestingly, the SACCOs perceive that SMEs in Tourism, Restaurant, Hotels, Transport, and Trade sectors are and will be the worst hit sector by the pandemic, in both the short and long term.

SMEs in Tourism, Restaurant, Hotels, Transport and Trade sectors are highly affected due to lockdowns and restricted movement within Kenya and across her borders. This is also being aggravated by Government directive on maintaining social distance and closure of public markets, county borders, and limiting market hours, and disrupted supply chains locally and internationally. SMEs in Trade sector specifically are affected due to the constrained purchase power as most people will focus their resources on health care and food.

In this regard, the SMEs in these sectors will take more time to recover; hence the need for long term financial products, loan rescheduling and payment holidays. Conversely, SACCOs are skeptical to lend to SMEs the afore mentioned sectors, terming them risky at the moment; since they are likely to tie the resources or even result in losses.

Mr. Muchoki one of the Restaurant Owner-manager in Embu town and member of Fortune SACCO says, ‘My SME expansion loan application was suspended immediately the pandemic hit the country. It has been difficult for me to convince the SACCO that I need this loan now during this period.’

On the other hand, SACCOs perceive that SMEs in agriculture/farming, and manufacturing sectors will experience least losses in the short and long- term period to warrant for long term financial products. This is because, these industries are run on small scale and quick business turnaround is eminent once the situation normalizes. SMEs in manufacturing especially the textile and artisan activities (commonly known as *Jua kali*) are likely to be expanded, benefit and grow as a result of COVID-19 pandemic. This can be attributed to the need to have personal protective equipment (PPEs) such as gloves, masks, hand washing stations and cleaning products (sanitizers, soap, water tanks), and respiratory equipment etc. *Jua kali* industry operations is also perceived to be unlimited by the pandemic. Agriculture and agribusiness sector is also likely to grow and benefit from the pandemic given the continuous need for households’ food supply; SME in financial services sector especially digital financial services have potential to grow as more people embrace mobile wallet and cashless transactions platforms like online banking and plastic cards. Professional/Personal/Household sector are considered as low risk and that it has potential to grow given population is mostly restricted into their homes and need personal services

In this light, SACCO agree that it is important to develop short-term credit facilities and financing for farmers and food systems, as well as manufacturers of essential commodities indicated as critical support, to strengthen supply chains. Moreover, most SACCOs agree that it is vital to offer credit facilities to SMEs that need to invest in safety equipment such as hand washing stations, respiratory equipment and cleaning products

Ways of SACCOs Managing Financial Risk with SME customers during the Pandemic

SACCOs are therefore looking into ways of managing loss of business and potential financial risks from SME and other customers during the pandemic period. SACCOs are keen on promotion of the use of existing mobile and online financial services or seeking support to equip them to accelerate those services. The Fortune SACCO CEO states, ‘Umbrella bodies such as the World Council of Credit Unions (WOCCU), should aid SACCOs to acquire strong Management Information Systems. Most of these systems are capital intensive and a challenge to many SACCOs; KUSCCO should admonish all SACCOs to adopt mobile and online financial services; SACCOs should vigorously sensitize and train their members on cashless transactions; and mobile network operators should charge reduced fees to SACCOs and its members’.

SMEs being a great economic player, continue to look for bailouts and cushion from both government and private financial institutions. SACCOs cannot be left out in this course. Equipping SACCOs to provide leniency to small and medium-sized businesses (MSMEs) facing short-term challenges, such as offering extended grace periods and short-term loans, is very important. The Cooperative Alliance of Kenya (CAK) Executive Director, Mr. Daniel Marube weighed on the issue. He says, “CAK on behalf of the SACCO fraternity is seeking for introduction of guarantee lines through development partners, offering of moratorium for member loans for the period affected". "We have lobbied for the Government to introduce the KES 10 billion SME Credit Guarantee Scheme to cushion SME, and we are now waiting to see how the fund will be implemented even through the SACCOs," he added.

Moreover, KUSCCO is intensifying weekly online trainings for SACCOs staff to ensure SACCOs are putting in relevant measures in place to safeguard the liquidity management - ranging from guarantees, special funds and insurance cover to indemnify them. KUSCCO is also strengthening her Central Finance Facility (CFF) as a fund pool where SACCOs' with excess liquidity can deposit their funds and the same funds used to lend to those with liquidity challenges.

The KUSCCO Group Managing Director, Mr. George Ototo, has further weighed in to ask SACCOs to utilize and adopt measures to assist in liquidity management. These include: cost cutting measures on CAPEX and OPEX; sector-based lending to active trade sectors with low risk where repayments are more guaranteed - encompassing slow disbursements on sectors that are affected by the pandemic; and use of liquidity management guidelines as provided by the SACCO Societies Regulatory Authority (SASRA) .

In conclusion, as the survey indicates, it is imperative for SACCOs to segment the SME sectors they lend to, based on the impact of the pandemic, for risk mitigation. The supply side needs to be responsive to the demand side by developing innovative products that are delivered in the most efficient and low-cost manner. Consequently, the most hit sectors by the pandemic on the demand side will lag for some time due to lack of access of credit based on their risk profile.

The writers are currently the WOCCU Kenya team, implementing the USAID Cooperative Development Program (CDP) dubbed Technology and Innovation for Financial Inclusion (TIFI).