NATIONAL TREASURY

SUPPORTING ACCESS TO FINANCE AND ENTERPRISE RECOVERY (SAFER) PROJECT

COMPONENT 3: TECHNICAL ASSISTANCE AND PROJECT MANAGEMENT

BENEFICIARY – SACCO SOCIETIES REGULATORY AUTHORITY

TERMS OF REFERENCE

CONSULTANCY TO REVIEW RISK BASED SUPERVISION MANUAL AND PROVIDE TECHNICAL STAFF TRAINING

July 2026

1.0 INTRODUCTION

1.1 Project

The Supporting Access to Finance and Enterprise Recovery (SAFER) project aims to increase access to financial services, enhance the capabilities, and support the post Covid-19 recovery of Micro, Small and Medium, Enterprises (MSMEs) in Kenya. The project seeks to address market failures in providing finance to MSMEs, which were exacerbated by the negative impact of COVID-19.

SAFER comprises the following components:

a) **Innovation and Liquidity Support to MSMEs**
   (i) Sub-Component 1(a): Liquidity support to microenterprises through digital channels
   (ii) Sub-Component 1(b): Liquidity support to MSMEs through SACCOs and Micro Finance Banks (MFBs)

b) De-risking Lending to MSMEs
   (i) Support the setup of a partial Credit Guarantee Company:
      - KCG Company incorporated.
      - Improved access to finance for formal sector MSMEs by using the CGS and other new and improved financial instruments.

c) Technical Assistance to build resilience.
   (i) TA assistance to set up KCG company and receivable financing platform.
   (ii) TA to Participating Financial Institutions (PFIs).
   (iii) TA to Financial Sector Regulators.
   (iv) TA to MSMEs

Sub-Component (iii) of the SAFER Component 3 focuses on providing technical assistance to build the resilient capacity of the MSME finance ecosystem beyond the project lifecycle.

1.2 Background Information

The non-bank financial institutions (NBFIs) ecosystem in Kenya is characterized by the presence of both regulated institutions, such as Savings and Credit Cooperatives Societies (SACCOs), microfinance banks (MFBs) and digital lenders (DCPs); and unregulated credit-only microfinance institutions (MFIs), who primarily lend to underserved market segments including the MSMEs. While commercial banks have a significant share, the loans and deposits held by the SACCOs are from the household and MSEs segment as they do not serve government and corporate firm(s).

The Sacco Societies Regulatory Authority (SASRA) is a State Corporation under the Ministry of Co-operatives and Micro, Small and Medium Enterprise (MSME) Development. It is charged with the responsibility of overseeing the implementation of the provisions of the *Sacco Societies Act, 2008* and the Regulations made thereunder, with the main functions being the licensing of SACCO Societies to undertake deposit taking SACCO business, and the regulation and supervision of specified SACCO Societies in Kenya.

The two main regulations which have been made pursuant to the Act and which the Authority implements are the *Sacco Societies (Deposit-Taking Sacco Business) Regulations, 2010 and Sacco Societies (Non-*

Deposit Taking Business) Regulations 2020. The two Regulations apply to the licensing, regulation and supervision of SACCOs undertaking deposit taking business and specified Non-Deposit Taking business respectively.

In addition, the Authority is responsible for overseeing the compliance of regulated SACCO Societies with the provisions of the *Proceeds of Crimes and Anti-Money Laundering Act, 2009 (POCAMLA)* pursuant to *Section 36A* thereof as read with the *First Schedule* thereto which lists the Authority as one of the supervisory bodies for purposes of the POCAM LA.

The legal mandate of the Authority as stipulated in the Sacco Societies Act is to:

a) License SACCO Societies to carry out deposit taking business in accordance with the Act;

b) Regulate and supervise SACCO Societies.

c) Hold, manage and apply the General Fund of the Authority in accordance with the Act;

d) Do all such other things as may be lawfully directed by the Cabinet Secretary; and,

e) Perform such other functions as are conferred on it by the Act or by any other written law.

The Sacco industry plays an important role in the Kenya financial sector by providing a wide range of financial services primarily to the low- and middle-income households and their enterprises. In particular, the deposit taking Sacco societies provide quasi banking services to members and small businesses including demand savings accounts, salary accounts, loans and advances, debit cards, Automated Teller Machine (ATM) and Cell phone enabled services, while the Specified Non - Withdrawable Deposit Taking Saccos provide affordable credit facilities based on the mobilized savings thereby contributing a great deal in spurring the country's economic development agenda.

1.3 Statistics

The Authority currently has 357 Saccos under its regulatory framework out of which 177 are Deposit Taking Sacco Societies while 180 are Specified Non -Withdrawable Deposit Taking Saccos. The key performance statistics of these Saccos are as per table 1 below:

Table 1: Performance Trend regulated Sacco Societies

				Audited Accounts-Kshs Billions			
FINANCIALS	*SEG fENT*	*2020*	*2021*	**2022**	**2023**	**2024**	**Av. Growth** *Growth*
TOTALASSETS	DTS	627.68	691.09	763.5	832.89	944.86	10.10%
	NWDTS	106.54	116.02	126.8	139.06	131.29	8.90%
	Totals	**734.22**	**807.11**	**890.3**	**971.96**	**1076.15**	**9.93%**
GROSS LOANS	DTS	474.77	522.25	586.16	652.27	744.36	10.00%
	NWDTS	80.28	86.5	94.19	106.3	100.75	7.75%
	Totals	**555.05**	**608.75**	**680.35**	**758.57**	**845.11**	**9.67%**
TOTAL DEPOSITS	DTS	431.46	474.25	522.59	575.19	649.32	9.92%
	NWDTS	83	90.64	97.86	107	100.11	9.20%
	Totals	**514.46**	**564.89**	**620.45**	**682.19**	**749.43**	9.80%
CORECAPITAL	DTS	97.74	109.29	124.89	133.81	181.01	11.82%
	NWDTS	7.16	8.69	10.65	14.46	16.76	21.37%
	Totals	**104.9**	**117.98**	**135.54**	**148.26**	**197.77**	12.47%
TOTAL **INCOME**	DTS	85.99	86.04	105.53	120.3	137.39	0.06%
	NWDTS	11.29	12.69	14.18	16	15.66	7.48%
	TotalS	**97.28**	**98.73**	**119.71**	**136.3**	**153.05**	**14.82%**

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The regulated Saccos have exhibited impressive growth rate on key financial parameters. For instance, in the last five years the deposit taking Saccos have recorded an average growth rate of 10.10% in total assets mainly driven by loans to members which have grown at an average rate of 10.00%, 9.92% in deposits mobilised from members while at the same time realised capital growth of 11.8% due to retention from surplus made.

On the other hand, the Non-Withdrawable Deposit Taking Saccos have also recorded positive growth which averaged at 8.90%, 7.75%, 9.20% in total assets, gross loans and total deposits respectively. Capital too has been growing significantly at an average rate of 21.37% as a result of retained earnings.

These positive trends which have been realized overtime as a result of prudential regulations for Saccos demonstrate the contribution of Saccos in the financial inclusion of the Kenyan population. However, the growth and development of these SACCOs has come with challenges and risks that require improvement on the supervisory tools and practices to effectively and efficiently guarantee on the safety and soundness of the SACCO industry.

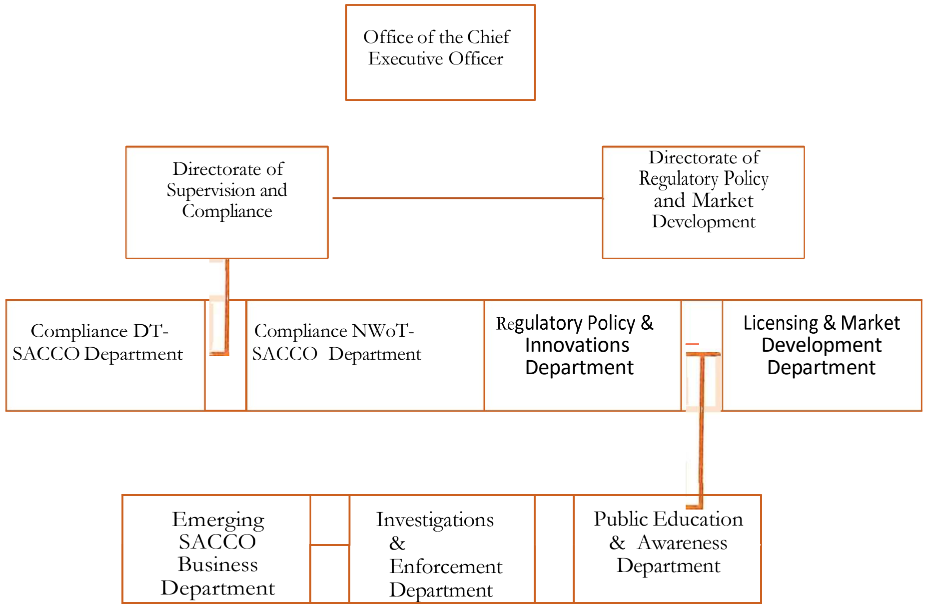
1.4 SASRA Strategic Objectives & Regulatory Approach

Since its establishment fifteen (15) years ago, the Authority's operations have been guided by Strategic Plan documents which clearly define its vision, mission and sets out directions aimed at meeting the set strategic goals to ensure efficient delivery of its mandate. So far, the Authority has had four Strategic Plan documents. The current Strategic plan 2023-2027 is focused on three (3) key result areas namely, financial stability, inclusion, and member protection; promotion and development of the SACCO industry; and organizational capability to be achieved. The technical department mandated with the implementation of the Authority's core mandate must not only be well resourced but must also portend adequate skills to ensure timely and full delivery of activities under the key result areas.

At the inception of SACCO Supervision, the Authority relied on the traditional/compliance-based approach which focused on a common supervisory approach to all regulated SACCOs irrespective of the differences in Size, Level of business activities and the Risk profiles. This traditional/compliance-based approach largely focused on the accuracy of figures, resulting to point in time assessments as opposed to forward looking assessments thus a challenge of inefficiency in allocation of resources where high-risk SACCOs were allocated similar resources with low-risk SACCOs.

To address the above shortcomings, the Authority adopted a risk-based supervision approach which is a supervisory approach that was designed to identify activities and practices in the regulated Saccos that portends a greater risk to their stability and soundness thereby enabling the Authority to efficiently deploy supervisory resources towards the assessment of how those risks are being managed.

To achieve this, the Authority in the current strategic plan has reviewed the organization structure as represented in the chart below:



The Sacco Societies Regulatory Authority (SASRA) risk-based approach has incorporated the principles set by the international standard setting bodies such as Basel Committee on Banking Supervision and International Credit Regulators Network (ICURN) with the CAMEL rating framework being the model applied by the Authority.

1.5 Regulatory Challenges /Gaps

Despite adopting the Risk Based Supervision approach, the Authority has faced several challenges that hinder the effective implementation of the approach. These range from the regulated institutions, the operating environment and from the Authority as an institution. Some of these challenges are summarized as below:

a) High Staff turnover leading to capacity and knowledge gap

b) Emerging risks such as AML/CFT and Cybersecurity

c) Lack of adequate infrastructure to assure a complete market stability.

   i. Lack of resolution framework – DGF (Deposit Guarantee Fund)

   ii. Central Liquidity Facility

   iii. Asset Recovery framework

   iv. National Payment System

d) Small Saccos that are struggling to comply with the prudential framework.

e) Growing concentration of industry, where large SACCOs account on average for two thirds of the assets, deposits, etc.

f) Lack of adequate Risk Based Supervision System to automate the supervision process.

Staff capacity remains a key pillar in the success of implementation of the Risk Based Supervision Framework. It is not only the required optimum but also the qualifications and capacity to be able to deliver the mandate as required. SASRA has a diverse caliber of staff including those who are relatively experienced having been recruited at the establishment of the Authority, some during the midstream of the implementation of supervisory program while others have just been onboarded and are still undertaking induction programs.

It is also imperative to note that the ever-changing financial operating environment brings emerging issues such as governance risks, consumer protection, AML/CFT, ESG risks, the Cybersecurity among others which were not anticipated. While the Authority may be having a Risk Based Supervision Manual, it is important that the supervisory tools and practices are subjected to review for effectiveness and efficiency and to consider the emerging issues in the SACCO industry and broader financial regulatory landscape. This is more so considering the revision of the ICURN guiding principles, following the issuance of 2024 BASEL Core principles. Domestically, there is ongoing legal review of the highly anticipated Co-operative Societies Act that should be ready for implementation soon.

Therefore, the emerging issues warrant the need to identify supervisory gaps, review and fully implement Risk Based Supervision approach, train the staff on the RBS approach and arrange for an opportunity for the technical staff to benchmark with comparable jurisdictions on best practices in effective supervision of microfinance and SACC0s.

2.0 SERVICES TO BE RENDERED

2.1 General Tasks

The assignment shall require an individual consultant(s) to deliver the following tasks:

a) Assess the existing supervisory practices against the current Risk Based Supervision Manual, best practices and identify gaps.

b) Review the Supervisory policy framework and current Risk Based Supervision Manual.

c) Train technical staff on revised Risk Based Supervisory Approach to equip them with the knowledge and skills required to enhance the existing capacity for effective supervision of the regulated Sacco societies.

d) Arrange for Benchmarking studies and knowledge sharing visits for selected staff to countries that have best practices in supervision of MFIs and SACCOs.

e) Support in the offsite analysis and onsite inspections to give supervision staff practical experience in use of the revised supervisory framework.

2.2 Specific Tasks

The specific tasks for the consultancy will be to:

2.2.1 Review of the Supervisory Framework and RBS Manual

Provide comprehensive consultancy services in reviewing and improving the Authority's supervisory framework and:

a) Assess the adequacy and effectiveness of the current RBSS manual.

b) Identify gaps and areas for improvement in the manual.

c) Ensure the manual aligns with the best practices, relevant legal and regulatory frameworks.

d) Enhance the clarity, user-friendliness, and practical application of the revised manual.

e) Incorporate the emerging risks in the supervisory practices including AML/CFT, Cyber Security, consumer protection among others

f) Guide the Authority in the revision of its tools and practices for effective implementation of RBS approach for SACCOs.

2.2.2 Technical Staff Capacity Building

Train the Staff on the key areas of risk-based supervision including but not limited to the following areas:

a) Understanding the basic core principles of effective supervision of SACCOs/MFIs

b) Understanding risk-based supervision (RBS) including its distinctive characteristics and principles

c) Application of RBS processes including the supervisory techniques and tools.

d) Communication and stakeholder engagement

e) Enforcement strategies and mechanisms

f) Techniques of policy gaps identification in the supervision process

2.2.3 Benchmarking studies and knowledge sharing

a) Identify the leading countries in the field of financial regulations with specific focus on Regulation and Supervision of SACCOs and Microfinance institutions.

b) Arrange and plan for the study visit to the identified countries.

c) Communicate the expectations to the identified technical staff and develop a study checklist/reporting templates to inform back to office reports.

d) Conduct a debrief on the outcome of the benchmark and generate a report on the issues leant and make recommendations on the implementation road map.

2.3 Estimation of Effort

The consultant is expected to work as resident advisor(s) to SASRA over a period not exceeding five months. During this period, the successful advisor(s) will be expected to involve on-the-job training, coaching, and mentoring of SASRA's technical staff and management team where applicable, development of implementation/action plans where needed, and participation in high-level meetings as appropriate.

2.4 Expected Deliverables

The key outputs of this consultancy will include:

a) A comprehensive report on the review of the current supervisory framework and practices outlining findings, conclusions, and recommendations.

b) A revised or updated supervisory framework and RBS manual incorporating emerging issues.

c) Presentation to the technical staff

d) Skills gap assessment Report

e) Training of the Technical Staff on key areas for effective implementation of the revised supervisory framework.

f) Coordination of the Benchmark Visit to select country or countries with best practices.

g) Report on the outcome of the Benchmark visit and implementation roadmap.

3.0 QUALIFICATION OF THE CONSULTANT

The consultant / resident advisor shall be an individual consultant who has experience gained from working for:

a) a Sacco (credit union) or Microfinance or commercial banking regulator in a senior technical capacity, with at least ten (10) years of experience in the implementation of Risk Based Supervision Framework; or

b) a multilateral agency in a technical capacity and in which his/her duties have involved advising on Sacco (credit union) Banking or Microfinance sector reforms.

The competencies required of the resident advisor are as indicated in the *Table 2* below:

Table 2: Competences Required

Criterion	Description
General Qualifications of the resident advisor:	
General Education and Training	• Should possess at least an undergraduate qualification in accounting, economics, law, banking and finance, or financial cooperative systems. A postgraduate qualification in a relevant field will be an added advantage.

Criterion	Description
• **Professional education and training**	• Strong familiarity with current developments in regulatory and risk management supervision especially with respect to Saccos or Credit unions, microfinance and commercial banks in Africa. • Strong familiarity with Saccos or Credit unions and microfinance in emerging economies. • Professional qualifications in financial analysis, accounting, forensic accounting or regulation of financial institutions, Experience in implementing risk-based supervision techniques • Exposure to training courses, seminars and conferences on risk-based supervision techniques. • Experience in training in risk assessment in supervisory authorities and financial institutions.
• **Recently completed assignments.**	• Recently completed assignments specifically on risk issues related to Saccos or Credit unions, microfinance institutions will be an added advantage.

Experience in the region: • **Knowledge of local administrative system, government organization etc.** **Experience in emerging economies.**	• Should be fluent in written and spoken English. • Basic awareness of the Kenyan Financial System and other Africa jurisdictions. • Good communication skills • Preference to be given to advisors with experience in emerging market jurisdictions that have implemented RBS in
• **Length of experience** • **Positions held and for how long.**	• At least 10 (ten) years in a financial sector regulator, multilateral agency involved in financial sector reform, financial conglomerate, audit firm or in an academic institution engaged in financial sector research. Experience with credit union prudential regulation will be an added advantage. • At least 10 (ten) years of experience in implementing and/or conducting risk-based supervision in bank or microfinance or Sacco/credit union regulatory agencies.

Professional experience relevant to the assignment

- Saccos or Credit unions or Microfinance institution supervision.
- Knowledge of countries with best practices in the implementation of Risk Based Supervisory Approach and good infrastructure for effective regulation of Sacco Societies.
- Experience in the design of supervisory framework and structures for supervision of non-bank deposit taking financial institutions (SACCOs, MFIs, Rural/community financial institutions, Mutual financial institutions) is an added advantage.