



# Leveraging the Cooperative Business Model for MSMEs financing towards formalization

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11<sup>th</sup> March 2021

One Bank One Movement

# What is unique with the Co-operative Model?

- Its an inclusive model
- Addresses the ‘crisis of capitalism’ as an alternative
- With close to 2 million enterprises, 1.5 billion members – Co-ops are at the heart of the world economy
- Uniquely placed to support the sustainable development agenda – SDGs ( **2016 Declaration-Power to Act**)
- It’s a Resilient model in the financial sector – **GFC 2018 and Covid-19 pandemic**
- Spread across all sectors – just like MSMEs
- The Seven Principles

# MSMEs and Financing

MSMEs struggle to get external financing for projects

- Cost of funds
- Guarantees and collateral hard to come by

When government has fiscal deficit, banks find lending to government more profitable than to MSMEs

## Failure to Fund

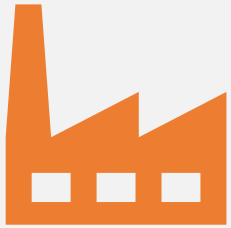
Failure to achieve economies of scale without funding for expansion. Missed opportunities since they are not competitive enough

Small size hinders adoption of R&D and technology hence impeding efficiency and productivity.

Key: Focus on market facilitation and promoting ease of doing business for MSMEs



# MSMEs and Cooperatives: The Similarities



Involved in the primary level of production or at last retail section



Most have no access to formal borrowing avenues owing to stringent lending requirement of lenders



Considered to be high risk



## Role with MSMEs

- ❖ Co-op Bank with 50 years history of supporting MSMEs
- ❖ Bank has 13 million customers, mostly in retail
- ❖ \$75 million long-term funding from IFC for onward lending to MSMEs as part of Covid-19 support



# Co-operatives Model as a solution

Cooperative Bank successfully lent to Cooperatives for past 50 years

Coops rely on guarantor model for lending: a social type of credit rating and guarantee scheme rolled into one

The 7 principles of the Co-operative enterprise



# Financing options at Coop Bank

1. **Guarantee based collateral.**
2. **Working Capital loans** tied to specific aspects of production in a Cooperative/SME that help unlock value for the bigger business
3. **Asset Finance loans** tied to asset owners/dealers with enforceable MOUs and easy credit options e.g. *95% financing for vehicles and Machinery for a maximum period of 60 months.*





## Financing options at Coop Bank

4. **Overdraft facilities** to cater for short term financing gap
5. **Insurance Premium finance** for Saccos to take up insurance covers on behalf of their members
6. **Mortgage Project Finance** facilities to acquire or develop property
7. **Leasing** . Coop Bank does this through Co-op Fleet Africa





# **Lessons learnt from Cooperatives in formalizing financing to MSMEs**

1. Count and accept the risk
2. Formalize and mainstream appraisal process
3. Capacity building for MSMEs
4. Financial Institutions to commit to change
5. Seek beneficial partnerships

## powered growth of my says Embu farmer

loan to apply for and also encouraged me to use it prudently to earn a living and provide for my family," he recalls.

The farmer also sold his first cow and, together with savings and the loan, he had a total of Sh150,000.

He used the money to buy an in-calf heifer at Sh100,000 and used the rest of the money to expand his cowshed.



**Samuel Kariuki a dairy farmer at his farm in Runyenjes area of Embu County.**

From the humble other far...

SACCO REVIEW

### SACCO MEMBER

## Sh120,000 Imarika Sacco loan changes mama mboga's fortune



2013, and she has been an active member through regular saving with the confidence that one day she would be able to secure a loan to expand her projects and transform her life.

"I took my first Sh50,000 loan to boost my business and the second of Sh70,000 to educate my sister's children and my sister who is currently pursuing a certificate course in Early Childhood Development Education," she told Sacco Review at her vegetable shop.

From the loans and her thriving green grocer business, she was able to buy four commercial plots.

Nzingo's secret? Diligent...

Ruto

Kororia is not a passionate teacher, also loves farming. Currently doing well in farming, which he is considering expanding. He attributes his success to the Trans National Times Sacco. It all started with a loan he got from the Sacco to buy a 2-acre piece of land at Cheptais in Bungoma County.



**Martin Kororia, a teacher thriving in farming.**

He immediately started growing maize. After three years, he discovered that growing was being done by almost everyone in the community.

Specifically for the surplus, he says, "I realized that growing much more maize."

After the first year of growing the crop, Kororia realized the profit was good. He again planted the crop in the second year as he

saw the demand was higher. When the harvest was ready, Kororia received ready buyers who came up to his farm. He kept on saving some good amount of money from the sales of onions and improving his farm.

Currently, he receives buyers from Chwele, Kitale, Bungoma, Nandi, Usin Ngishu, Vihiga, Kakamega and Kisumu. The teacher is also proud that his onions find their way to bigger markets like Nakuru, Nairobi and Mombasa.

"I have been able to construct a decent house for my family, educated my three children up to the university, started rearing of dairy cattle and poultry from the profits received from growing of onions," Kororia says.

He thanks the good management of Trans National Times Sacco for processing his loans in time whenever he applies.

He advises any individual who takes a loan to

spend it wisely to promote social and economic development.

"I am a true beneficiary of the three loans I have so far taken from the Trans National Times Sacco," says Kororia.

He urges teachers to be self-reliant and to use loans well. "If you save and spend wisely you will enjoy with your family, your present and future life will be better," he says.

He was born in 1984 at Cheptais in Bungoma County. He started his early education at Kibuk Primary School before proceeding to Kamusinde Secondary School.

In 2006, he joined Nyanchwa Teachers Training College and became a P1 teacher. After fully completing his training, he was posted to Province Primary School.

‘One bank, one movement’

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**THANK YOU**



**CO-OPERATIVE BANK**  
We are you