For their mutual benefit

Kenya's SACCOs: history and prospects

A report from a pilot research project

For their mutual benefit

Kenya’s SACCOs: history and prospects

A report from a pilot research project

August 2024

Authors: Justin Willis (Durham University), Radha Upadhyaya (IDS, University of Nairobi) and Eric Njuguna (BIEA).

Table of Contents

Acknowledgements

We would like to thank the British Academy, who made the research for this report possible through a small grant (SRG2223\231509). The British Institute in Eastern Africa hosted the project and provided practical support. Throughout the research, FSD-Kenya have been helpful and supportive partners – particular thanks to Amrik Heyer and Wanza Mbole. The research drew extensively from material housed at the Kenya National Archives. Our thanks to the staff of the Kenya National Archives for their support.

June Etyang, Peter Gathoni and Oliver Bourton all joined in the data-gathering and in the discussion of the research as it progressed; we are grateful for their enthusiasm and energy.

A draft version of this report was discussed at a workshop co-organized with The Co-operative University of Kenya and led by Professor Isaac Nyamongo. We would like to thank the participants from SASRA, KUSCCO, the State Department of Co-operatives and the Co-operative Alliance of Kenya who took part in the discussion.

Finally, we would also like to thank all of those who generously gave their time to talk with us and share their knowledge, and experience, of SACCOs. We hope that they will find this report both interesting and useful.

Abbreviations

FSD Kenya	Financial Sector Deepening - Kenya
KUSCCO	Kenya Union of Savings and Credit Co-operatives
SACCO	Savings and Credit Co-operative (an acronym popularised by Maina Wanjigi, as Minister for Co-operatives, in the 1980s; previously the abbreviation 'CS and CS' was often used)
SASRA	SACCO Societies Regulatory Authority

Summary

What can we learn from studying the history of Kenya's Savings and Credit Co-operatives – SACCOs, as they are popularly known? This pilot project has combined archival and library research with interviews to look at how SACCOs have worked – and what they have done, for Kenyans and for Kenya's economy.

Stories of problems at SACCOs are very familiar and regularly reported in the Kenyan press. Supporting and regulating SACCOs remains a real challenge for policymakers. Yet the headlines and problems may distract from what is in fact a remarkable story of enduring relevance. Since the 1960s, SACCOs have helped generations of Kenyans as they reach for a better future. SACCOs have enabled people to buy land, to build, to invest in farming, to pay for school fees – and to ride out the crises that often threaten to derail people's plans.

Looking back over sixty years of saving and lending through SACCOs helps us to understand both the problems and strengths of SACCOs. This report draws out some key lessons:

1. **The growth of Kenya's SACCOs has been driven by popular demand**

   There was a government push to create SACCOs in workplaces in the 1960s and 1970s. But popular demand was an even stronger force: people rushed to form SACCOs because they offered a way to borrow for household investments.

2. **SACCOs have been central to the way that that many Kenyans plan for the future**

   For decades, SACCOs provided the only way for many Kenyans to save and borrow – they were the 'anti-bank': accessible and friendly in a way that commercial banks were not . Even now, with a much more diverse financial sector, many people continue to choose SACCOs, often as part of a portfolio of financial instruments.

3. **SACCOS continue to provide a distinct offer to savers and borrowers**

   While SACCOs have changed, they have retained key features which give them a significant comparative advantage. The system of shares has allowed them to provide credit more easily, and generally more cheaply, than other lenders. The basic assumption that members have a right to borrow encourages members to save.

4. **Mutuality has been both a strength and a weakness for SACCOs**

   The SACCO model rests on the principle that a sense of shared responsibility will ensure that people borrow wisely and repay their debts. However, a sense of moral community can also encourage over-lending, or lead to tolerance of loan default.

5. **SACCOs require both support and regulation to limit risks**

   Until 2008, policy towards SACCOs emphasised the provision of training and support; current policy provides more robust regulation. This has strengthened large SACCOs but may be challenging for smaller SACCOs which lack the resources and experience to meet regulatory targets.

Most of all, this report emphases that SACCOs will remain part of Kenya's financial landscape in the future – even as the sector becomes more diverse. Policy around SACCOs should assume both that these institutions have a future, and that they will continue to need both regulation and support to realise their potential for improving everyday lives.

Preamble: About the study

This research was conducted as a pilot project with a view to expanding the research into a longer term study of SACCOs[1]. The starting point for the project was the sense that the recent work on digital technologies in finance, and on the wider challenge of financial inclusion, has largely ignored a phenomenon that is hiding in plain sight. SACCOs are ubiquitous in contemporary Kenya and have long been part of everyday life for millions of people. Yet they have attracted almost no scholarly research. The immediate aim of this project was to gather material that demonstrates the importance of SACCOs. The project also aimed to lay the groundwork for future research by exploring the extent of documentary evidence and trialling interviews with individuals as a technique for developing financial biographies that help to explain how and why SACCOs have been important.

The project is timely in the sense that it was conducted at a critical juncture in the history of SACCOs. SACCOs are changing very rapidly. As will be explained below, a new system of regulation is being developed for SACCOs; at the same time, SACCOs are innovating and offering new services. Particularly at this juncture, there is an urgent need to address the relative dearth of information and analysis of SACCOs, to inform the development of the sector. This report begins to address the information deficit by documenting the history of SACCOs and perceptions of their development role. It is intended to pave the way for more substantial and systematic research on the role of mutuality in finance in Kenya.

The report draws on published and unpublished data gathered from archives and libraries and through semi-structured interviews with finance experts, SACCO officials and SACCO members in and around Nairobi and in Mombasa, conducted between July-September 2023. In all, eighteen individuals were interviewed, including members and/or officials from a range of SACCOs, including two very large SACCOs ('Tier One', as they are currently called); a transport SACCO; a farmers' SACCO; two SACCOs associated with churches and one small SACCO for employees of a private company.

The archive and library research was undertaken between 2022 and 2024. The Kenya National Archives holds a rich collection of documents from the Ministry/Department of Co-operatives (this has sometimes been a ministry in its own right, sometimes part of a larger ministry); we drew on a sample of this material, chosen to cover questions of policy, administrative practice and the experience of particular SACCOs. The documents are mostly held in the TR series in the archive; some are also filed in district collections.

We also made extensive use of the Daily Nation archive, which can be accessed at Nation House in Nairobi; the record of debates in the National Assembly (which is available online through Google); and the published reports of SASRA, which are rich in data and can be accessed through the SASRA website.

This pilot study is a start in developing a broader research agenda to strengthen the information base on SACCOs with a view to informing policy and the development of the sector. In cooperation with colleagues from The Co-operative University of Kenya and FSD Kenya, and in dialogue with SASRA and the State Department for Co-operatives, we are actively seeking funding for this next stage of research.

1 The study was led by Justin Willis (University of Durham) with funding from the British Academy. The research was supported by Radha Upadhyaya (Institute of Development Studies, University of Nairobi) and Eric Njuguna (British Institute in Eastern Africa).

A short history of Kenya's SACCOs: From common bond to DT-SACCO

The history of SACCOs in Kenya stretches back sixty years. Exactly which was the first to register is uncertain from the available records: Mariira Parish, Mwea Tabere and VYA have all been identified as the 'first' SACCO by different accounts.[2] What is clear is that 1964 was the key date. Similar bodies had existed previously – there were 'thrift' societies in Kenya from the 1940s, and in the 1950s some of these also began lending money to members. However, the distinctive model that became the SACCO – with members saving through buying shares which they could not easily withdraw, but against which they could borrow – began with these pioneers in 1964. The term SACCO only came into use in Kenya the 1980s, but for convenience it is used here for the whole period since 1964.

The model was initially slow to spread in Kenya and for a time Tanzania led the region in the establishment of savings and lending co-operatives – credit unions, as they were called there (that name dates back to the origins of this model, in nineteenth-century Germany). But this changed in the later 1960s. That was partly due to the determined efforts of some external agencies: the Catholic church; the Konrad Adenauer Foundation, the Credit Unions of North America and the United Nations Development Programme all provided support in the form of personnel, equipment and finance.[3] Co-operative savings were initially a minor element in the Government of Kenya's development policies, but that changed from 1969, with a formal decision to encourage the creation of SACCOs in all ministries and departments of government. By 1975, that policy was extended: all parastatals and local government bodies were expected to enable the creation of SACCOs, and private employers were also encouraged to do so. From the late 1960s, a clear distinction was built into government development policy: farm credit was to be provided through producer co-operatives – in a scheme supported by development assistance from the Nordic countries - but urban waged workers would access credit through SACCOs.[4]

2 *Department of Co-operative Development Consolidated Annual Reports, 1963-67* (Nairobi: Ministry of Co-operatives and Social Services, 1969), p. 8; 'Catholic bishops name new official', *Daily Nation*, 19 November 1970, p. 21

3 *Department of Co-operative Development Consolidated Annual Reports, 1963-67* (Nairobi: Ministry of Co-operatives and Social Services, 1969), p. 9

4 *Department of Co-operative Development Consolidated Annual Reports, 1963-67* (Nairobi: Ministry of Co-operatives and Social Services, 1969), pp. 1-11; *Department of Co-operative Development. Report for Years 1971-72* (Nairobi: Commissioner for Co-operative Development, 1973), p. 9

'The current countrywide programme for the promotion of savings and credit societies is aimed to cover all salaried workers in both the public and private sectors, and since Government Ministries and Departments have more or less been covered, more effort will now be directed to public and private companies and local authorities'

Co-operative Development Policy for Kenya Sessional Paper No. 14 of 1975, p. 16

The initial aim of this policy was expressed partly in terms of providing capital for national development. Development planning was the accepted economic paradigm; ambitious targets were set for investment. The 'mobilisation of local savings', as it was called – that is encouraging ordinary people to make their wealth available for national investment by government – was seen as a way of meeting this need. For a number of years there were regular pan-African conferences on this theme.[5] In this context, SACCOs were seen as a way to instil the 'habit of saving', which was needed for national development.[6] When the first SACCOs were created, a deliberate decision was taken not to call them 'credit unions', because that would foreground borrowing: 'savings' must come before credit.[7]

However, a second aim came to dominate – rather than collecting savings which would be invested in major projects, SACCOs came to be seen as the way to enable people to access the credit needed to pursue their own, small-scale, projects: buying a plot of land, building a house, fencing a plot, paying school fees. The language of the standard by-laws issued by the government emphasised this: 'loans shall be made for provident or productive purposes only', read the version in use at the beginning of the 1970s. 'Loans shall be given only for worthy purposes that will benefit the borrower', was a later version.[8] The process of loan application emphasised this: members were required to explain and justify their borrowing.

The task of encouraging the creation of SACCOs fell to the staff in the Ministry of Co-operatives. Their role was to visit workplaces to explain how SACCOs worked, and to help with the paperwork that was necessary. The Ministry created forms for those wishing to register a SACCO, and issued model by-laws which could be adopted. Those set out a standard structure – with an elected management board with specified roles; a separate elected credit committee that would scrutinise loan applications; and a requirement for an annual general meeting and presentation of accounts.

'If any society is to develop it must have capital for investments and this cannot come from without entirely but must also come from within . . . those who conceived this idea of forming a Co-operative Savings and Credit Society were not only trying to take care of financial problems but also trying to help in the Nation building.

'Salary and wage earners in the urban areas who have so many demands on their earnings are faced with very many acute money problems and many find it extremely difficult if not impossible to make both ends meet in providing for their own needs and that one of their families. It is this connection therefore that this type of Co-operative Society may be of the greatest help.'

Speech by Masinde Muliro, Minister for Co-operatives and Social Development, presenting certificate of registration to the Coffee Workers Co-operative Saving and Credit Society, November 1971 [text at f. 28 in TR/1/53]

The number of SACCOs in Kenya grew rapidly – as did the number of individual members and the level of savings and loans. Official policy encouraged this, to the point where government employment and SACCO membership became almost synonymous – for a time, district treasuries even cashed cheques issued by SACCOs.[9] But mostly, SACCO membership was not forced on people - there was a very substantial demand. People wanted to join SACCOs. There was a simple reason for this: the formal finance sector made no attempt to meet the needs of many ordinary wage-earners. Banks charged fees to those who wished to

5 There is a short film of the 1971 conference at https://www.britishpathe.com/asset/216251/

6 Ayugi, Deputy Commissioner for Co-operative Development, quoted in 'Saving habit has not stuck', *Daily Nation*, 4 April 1968.

7 *Department of Co-operative Development Consolidated Annual Reports, 1963-67* (Nairobi: Ministry of Co-operatives and Social Services, 1969), p. 9

8 By-laws for proposed Anam Women's Co-operative Savings and Credit Society, 1969, in TR/8/1736; By-laws for Towelin Co-operative Saving and Credit Society, 1983, in MR/2/150

9 Chief accountant, Office of the President to all provincial accountants, 23 October 1974, KNA TR 8/1411.

save with them and offered low interest rates – and they almost never lent money to smaller bank depositors. For Kenyans who wanted to save regularly with a view to borrowing, SACCOs were the only option.

> *'The society will give loans for such worthy purposes as for paying school fees, funeral expenses, buying land, houses, medical expenses and home improvements. The members should therefore take loans and invest it where it will yield the largest increase in net output. Don't indulge in conspicuous consumptions and extravagance'*
>
> Text of speech by the Permanent Secretary, Ministry of Co-operative development, to Magadi Soda Co-operative Saving and Credit Society, 6 May 1978 TR/1/83

Co-operative officers received letters from groups of employees, asking for advice on creating SACCOs. They were also contacted by employers who wanted to help their staff create SACCOs.[10] SACCOs were a popular movement – not just an official policy. In fact, officials in the Ministry of Co-operatives refused to register some of the suggested SACCOs, on the grounds that they thought they might not be stable. In particular, it became the policy that what was called the 'common bond' – the sense of community which all the members of the SACCO must share – should always take the form of working for a single employer. This policy was not rigidly enforced, but some groups who sought to create SACCOs were refused registration because officials decided that the common bond was simply not strong enough.[11]

> *'most of these co-operative societies have sprung up because of the difficulties or problems that wananchi face when they want to borrow money from the commercial banks'*
>
> Tuva, Kenya National Assembly Debates, 26 June 1984, col 2467-68

The 'common bond' mattered because this was seen as the key to financial stability. Mostly, members of SACCOs saved because they wanted to borrow. Banks – even when they did loan – would only do against collateral. The SACCO model allowed members to borrow more than they had saved – they could take loans to the value of twice, or even three times their 'shares'. No collateral was generally required because members mostly could not offer this. The key element was mutuality: 'members of the group . . . have confidence and trust of each other', as the permanent secretary in the Ministry of Co-operatives put it.[12] The standard by-laws made explicit the idea of a shared enterprise: SACCOS would give people 'the opportunity to use and control their money for their mutual benefit'.[13] Borrowers would feel morally obliged to pay off loans because they felt a commitment to the SACCO as a community and feared the disapproval of their fellow members. There was a practical, as well as a moral, aspect to the requirement for a common bond of employment – if employers agreed to operate a 'check-off' system, through which contributions and loan repayments were deducted from salary and passed straight to the SACCO, then default was much less likely. Writing in 1979, one observer opined that SACCOs had a significant advantage over the producer co-operatives that policy prescribed for rural areas:

> *'A group of twenty-five people from Nakuru Industries have reported to my office asking for registration of a Co-operative Society. After discussing with them we agreed that the only Society fit to their need is a Savings and Credit Society.*
>
> *'These twenty-five people are part of 460 factory workers employed by Nakuru Industries which manufactures blankets and I was informed that more of them are willing to join the organization as soon as it is registered.'*
>
> E K arap Sige, District Co-operative Officer, Nakuru to Commisisoner for Co-operative Development, attn Mr D'Souza, 10 July 1968 TR/8/1559

. . . these societies are composed of a few enlightened individuals in employment of one firm, unlike the marketing societies which [are] composed of old wazees and mums who don't understand their own rights and privileges.[14]

10 General Manager, Kisumu Cotton Mills to PS, Ministry of Labour, 3 February 1969, TR/8/1559

11 Nordic Field Adviser, Western and Nyanza province to Commissioner for Co-operative Development, 6 December 1968, TR/8/1559

12 Permanent Secretary, Ministry of Co-operatives to Commissioner of Police, 6 September 1971, TR/1/53

13 By-laws for proposed Anam Women's Co-operative Savings and Credit Society, 1969, in TR/8/1736

14 Letter from Kamwana Rigu, *Daily Nation*, 31 July 1979.

SACCOs did prove significantly more successful than the rural producer co-operatives. But still, as the number of SACCOs grew, so too did the number of problems. SACCOs were not subject to 'runs', in the way that banks were – because members could not easily take their money out of SACCOs, panicky withdrawals could not cause a sudden failure. Instead, SACCOs that ran into trouble simply became dormant. There was a fairly consistent pattern: a SACCO would be created in a rush of enthusiasm, and members would contribute funds. Once funds had built up, members started to borrow. If new members kept joining, and contributing, this was sustainable – because a member had to wait six months before taking a loan, there would be steady inflow of new funds. But if few new members joined and all existing members tried to borrow two or three times their savings, the SACCO would simply not have the money to lend – even if borrowers were paying off their loans, this would not be enough to allow everyone to borrow. Members whose loan applications were turned down would probably then stop contributing, worsening the problem. Many SACCOs thus quite quickly found themselves with substantial assets – in the form of loans – but no money to lend.

Defaults and lending outside the stated policy – allowing people to borrow more than they could repay – could exacerbate that. In practice, the common bond was not always effective, and could even be counterproductive as it encouraged forbearance. Borrowers did not always repay. If they were fired or left their employer, it was hard for the SACCO to chase them (though local co-operatives officers did sometimes help with this). Borrowers who struggled to pay, perhaps because of illness or accident, might ask for more time to pay; their work colleagues often treated these requests with sympathy because the common bond meant that they felt they should support their fellow members. Arrears and defaults ate away the liquidity of SACCOs.

And, of course, there was simple abuse of office. Some members of SACCO management boards or credit committees awarded themselves loans well above their entitlement and did not repay them; or they gave extra loans to family or friends; or they demanded bribes from ordinary members to approve their loan applications. To give just one example from many recorded in the archives: in 1974, an inspection of the SACCO at Thika Clothing Mills revealed that

> *In this society loans have been given that were never recovered since 1971/72. The former chairman . . . gave himself a loan in the tune of Shs 19,790/- which he stopped payment on 1st August 1973. From that date he has made no loan repayment or any share contribution at all. His share contribution stands at 3,100/-. Due to his bad management, so many members have inevitably resigned from the society.*[15]

All that meant that dormancy was a common problem. Once a SACCO became dormant, it was usually impossible to revive: in the early 1970s, more than one-third of Kenya's registered SACCOs were already dormant.[16]

From the outset, efforts were made to avert such problems. The system of registration was part of that, as noted above. Once registered, SACCOs were required to submit reports regularly, including annual audited accounts. The intention was that careful record-keeping would prevent people from borrowing beyond their entitlement and allow members themselves to hold their societies to account. In practice, it was hard for local co-operative officers to enforce the requirements for reports and audits; there were simply too many SACCOs and not enough co-operative officers. Many SACCOs struggled to keep proper records – in the early years, most had no paid or professional staff, and relied solely on the voluntary labour of members. If financial records were not kept properly, audit became very difficult, or even impossible; and the whole process of auditing was also unfamiliar to SACCO members and their boards. Many SACCOs – probably a majority – fell behind with audit and reporting almost immediately. A few – such as Harambee, which grew at a runaway pace in the early 1970s before running into severe problems – were saved by the appointment of external managers, who established effective book-keeping and management processes.[17]

These problems – many of which were seen fundamentally as a consequence of lack of training and inexperience - led to the founding of the

15 K J L Murage-Kaugi, Field Officer, 'General observations on savings and credit co-operatives in Thika', 23 September 1974, KNA TR 8/1411

16 *Department of Co-operative Development. Report for Years 1971-72* (Nairobi: Commissioner for Co-operative Development, 1973), p. 11.

17 'In the money. Now co-op gives SOS loans in three hours', Daily Nation, 3 February 1979, p. 5.

Kenya Union and Savings and Credit Co-operatives (KUSCCO) in 1973. KUSCCO was itself a co-operative. It was supposed to bring together all SACCOs, and to provide them with training and education for their members, and to offer a book-keeping service.[18] SACCOs that could not keep their own accounts would pay KUSCCO a small fee in order to have their books maintained centrally. By 1978, KUSCCO had established eleven regional centres for book-keeping; its staff organized conferences, seminars and workshops around the country.[19] Most ambitiously, it contracted with an international co-operative organization to provide insurance – which paid off the loans of SACCO members who died or became too ill to work.

By the late 1970s, there was significant concern over SACCOs. Joseph A. Gethenji, one of Kenya's most senior civil servants, circulated a memorandum arguing that 'the management of these Societies has been left to unbridled democratic institutions which are not necessarily very scrupulous'; he proposed the creation of a 'central governing body' and a substantial expansion of technical assistance and supervision through government and KUSCCO.[20]

Yet the resource needed for this plan – basically, a doubling of the supervisory staff - was not forthcoming. KUSCCO faced resource constraints. It received some donor funding, but in the long term it had to rely on fees paid by the SACCOs who joined it. Not all SACCOs joined; some of those that did join were slow to pay their fees, or entirely failed to do so.[21] The book-keeping services could not keep up with demand – partly because they were under-resourced, partly because the information provided by SACCOs was not always complete. Soon, SACCOs were complaining that KUSCCO was not providing the support they needed.[22] The insurance scheme ran successfully for a little while, but then KUSCCO fell behind on premium payments and the international partner withdrew amid a very acrimonious dispute.[23] In 1982, KUSCCO itself was taken over by a government appointed commission, which continued to run it until 1988. An ambitious plan for a new co-operative centre in Eastlands was abandoned.[24] By the 1990s, KUSCCO had largely dropped its bookkeeping role to focus its activities on training and advocacy. KUSCCO did establish a central finance programme to provide liquidity to SACCOs – a valued service for many.[25] Yet it never had the resources, or the authority, to ensure stability and good practice across all SACCOs.

The 1980s brought new opportunities and challenges for SACCOs – which were becoming a regular subject for comment in Kenya's National Assembly. Members of parliament repeatedly praised SACCOs: 'They have done a fantastic job for this country', said one.[26] The idea that SACCOs were really only for urban areas was abandoned, since it had become clear that – whatever their failings – SACCOs were more successful than the rural producer co-operatives.[27] A new sessional paper on co-operatives set out a new policy: SACCOs should be extended to rural areas. The replace the 'union banking sections' which some producer co-operatives had established to provide financial services were struggling – partly because of wider problems with producer co-operatives. Now – in a reversal of the policy established in the 1960s – these union banking sections were encouraged to become SACCOs, bringing the SACCO model into rural areas.[28] As SACCOs expanded, the chronic problem of loan default persisted though it was somewhat mitigated by the widespread adoption of a requirement for guarantors which was a way to underpin the common bond, which government encouraged.[29] Borrowers had to find other members who were willing to guarantee their loans, turning the generalized 'common bond' into a much more direct personal relationship.

18 'Savings societies to crack down on arrears backlog', *Daily Nation*, 17 March 1976; KUSCCO 5 Year Development Plan, 1978-82, KNA TR 8/1416.

19 J Otide, General manager KUSCCO to Chair, KUSCCO, 14 March 1978, KNA TR 8/1416

20 J A Gethenji, Directorate of Personnel Management to Hannington Mutula, Permanent Secretary Ministry of Co-operative Development, 12 June 1978 TR/1/83.

21 J W Njoroge, Chairman, KUSCCO to Commissioner for Co-operative development, 30 Jan 1975, KNA RR 8/1411

22 'Union men hit at "failure" of co-op body', *Daily Nation*, 16 Feb. 1977; J N Ng'ethe, Branch Manager KUSCCO to General manager, KUSCCO, 2 February 1978, KNA TR 8/1416

23 See the contents of TR/8/1418.

24 'Govt acts to solve KUSCCO's problems', *Daily Nation*, 6 December 1986; 'KUSCCO gets revitalised', *Daily Nation*, 1 July 1989

25 'Kuscco launches savings society', *Daily Nation*, 4 May 1989, p. 11.

26 Angatia, Kenya National Assembly Debates, 26 November 1985, col. 1512.

27 'Now farmers can join savings coops', *Daily Nation*, 29 August 1988

28 'Co-op union banls to be reorganised', *Daily Nation*, 30 April 1988; *Renewed Growth Through the Co-operative Movement*, Sessional paper No. 4 of 1987, p. 19.

29 Circular from Ilako, Commissioner for Co-operatives, 1984, TR/8/1418.

'...members of Savings and Credit Co-operative Societies do not need to go bothering bank managers for small loans ... When they have some personal need, they go to the committee and are given money... they are united and they have no troubles with tribalism, or religious differences or anything else that would stop them uniting'

Shikuku, Kenya National Assembly Debates, 29 July 1981, cols 1568-69

Yet even as some SACCOs were thriving, members of parliament also channelled popular concerns around SACCOs - about failure to pay members their dues, about abuse of office within SACCOs and about an emerging tendency for government departments and parastatals facing budget constraints to withhold the money they had deducted from SACCO members through check-offs – adding to the liquidity problems that plagued SACCOs.[30] What some called 'plaza mania' also created challenges: some SACCOs invested in major property acquisitions, to the anger of ordinary members who wanted funds to be used for making loans to them, rather than building office blocks.[31]

From the 1990s, as government and parastatal workers were retrenched, more SACCOs were thrown into crisis. Some members who had lost their jobs did not repay their loans, and others were seeking to cash in their shares.[32] Again, the National Assembly provided a sounding board for popular frustrations.[33] At the same time, the government announced that with SACCOs – as with other co-operatives – it would begin a new, more hands-off policy. A new sessional paper decried the 'dependency' that had been created by close government support of co-operatives: the new policy was that SACCOs, like other co-operatives, would manage themselves with minimal government involvement.[34]

'Whereas the Government will be interested in a healthy growth and development of co-operatives, it will no longer be involved in their day to day management as has hitherto been the case'

Co-operatives in a Liberalized Economic Environment, Sessional Paper No 6 of 1997

At the same time, the 1990s also saw new opportunities. Bank failures, and the decision by some commercial banks to reduce their already limited branch networks and to raise requirements for minimum deposits, created even more demand for SACCO services across Kenya. Liberalization also meant new structural possibilities – SACCOs were now encouraged to allow members to save money as deposits, not simply as shares.[35] Shares in SACCOs were to become tradable – like shares in public companies.

Already established SACCOs continued – and new ones continued to be created. Members became more familiar with the system, elected SACCO officials gained more experience, and there was a slow but steady process of professionalisation with an increasing use of paid staff. Most of all, SACCOs had become the norm in workplaces. There had been just 21,268 members in Kenya's SACCOs in 1968. By 1977 there were 156,443 – and more than 600,000 by 1984. Through the 1980s and 1990s – and past the millennium – commercial banks continued to provide extremely poor service for most Kenyans. For waged and salaried workers, SACCOs offered the only formal route to credit. New staff in almost any workplace – whether government, parastatal or private – would be encouraged by their colleagues to join the workplace SACCO. The co-operative sector in Kenya suffered in the 1980s and 1990s – weighed down by a combination of mismanagement and retrenchment. Yet SACCOs proved to be more resilient than many other co-operatives.

30 Mwachofi, Kenya National Assembly Debates, 2 July 1986, cols 571-72; Mak'Anyango, Kenya National Assembly Debates, 14 October 1984, p. 380; Omido, Kenya National Assembly Debates, 20 November 1985, col. 1333-34.

31 'Invest wisely, PS tells co-ops', Daily Nation, 26 June 1989, p4; 'Sh148m bank loan hobbles Posta co-op', Daily Nation, 18 October 1994, p. 13.

32 'Saccos may lose Sh3 bn in job cuts', *Daily Nation*, 5 October 2000.

33 Question by Sifuna, and answer by Anangwe, in Kenya National Assembly Debates, 8 December 1998, p. 2711

34 Co-operatives in a Liberalized Economic Environment, Sessional Paper No. 6 of 1997, pp. 16-17; Fredrick Wanyama, Surviving Liberalization: the Cooperative Movement in Kenya (Dar es Salaam: CoopAfrica, 2009)

35 'Saccos told to diversify', Daily Nation, 22 March 1999, p. 13

Encouraged by the policy changes that had begun in the 1980s, there was a key change to the way that SACCOs operated. More and more SACCOs began to provide what are called 'front-office services' (FOSA) – allowing members to deposit money in savings accounts, from which it could be withdrawn. That met the demand of some members for a more flexible service compared to saving only in hard-to-liquidate shares. It also created possible new risks, since savings deposits were much easier to withdraw than shares: members might demand them at any time. The shift by SACCOs into providing what were in effect banking services created space for some opportunistic use of the SACCO label by entrepreneurs to create new SACCOs that were really undercapitalized – and very unstable - small banks, posing a risk to savers.

That raised new questions about regulation. Legally, SACCOs were simply co-operatives – they were registered and regulated like any other co-operative. Unlike banks they were not controlled or scrutinised by the financial authorities. SACCOs were now in competition with commercial banks in a new way, but they were not regulated in the way that banks were; there were increasing calls for regulation that would provide some 'protection of members funds', as one SACCO official put it.[36]

> *'. . . the formal banking institutions have been a deterrent to economic growth and development in this country because they are motivated by profits alone'*
>
> Munya, Kenya National Assembly Debates, 16 July 2003, pp. 2120-21

In the changed political and economic environment after the 2002 elections, the NaRC government promised new legislation aimed specifically at SACCOs.[37] That legislation was delayed, partly by the dispute over the constitution that dominated Kenyan politics and partly by opposition from some commercial banks; but in 2008 a new law was passed. National Assembly debates in these years showed consistent support for the SACCO model – while by contrast, members of parliament were hostile to commercial banks as 'shylocks'.[38] As one minister put it 'the entire history of the banking sector in this country is a history of collecting all our earnings and putting them at the disposal of the rich.'[39] Members of parliament – and others – looked to SACCOs to fill needs that had become even more pressing as some commercial banks reduced their physical networks:

> . .we need other lenders to fill the gap because commercial banks have withdrawn from the rural areas. Who can fill that gap? The SACCOs can fill that gap. The SACCOs can fill the gap. . . . In Sigor constituency, which I represent, there is no commercial bank . . . the SACCOs, like the Teachers Savings and Credit Co-operative Society in West Pokot District, should be allowed to operate that we call "front desks" or small banks, so that they can help the rural folk.[40]

The debates nonetheless also made clear the persistent problems of mismanagement – in the face of which the Ministry of Co-operatives had, in spite of the policy decision of 1997, intervened significantly in some SACCOs.[41]

The legislation they eventually passed looked to the future – and to the remaking of SACCOs. Since the 1960s, the emphasis in policy had been principally on support for a sector that was expected to regulate itself through the principle of mutuality. The new legislation introduced a system of prudential regulation that drew many of its principles from banking regulation, though it sought to retain the model of co-operative ownership and mutuality. The legislation also aimed to clarify the distinction between shares and deposits, which had become blurred in some cases.[42] At the heart of the legislation was the creation of a new body, the SACCOs Societies Regulatory Authority (SASRA).

SASRA began operations in 2010, with many of its staff seconded from the Central Bank. The initial focus was on those SACCOs which were taking deposits or had a "front-office" in common parlance: the 'DT-SACCOs', as they are known, which now have to be licensed by SASRA. These DT-SACCOs are large in terms of both assets and membership. Over a period of several years, SASRA gradually enforced a series of requirements for these SACCOs, all of them based on the principles of prudential bank regulation: they

36 'Plea for review of Co-op Act', *Daily Nation*, 13 May 2002; Kibaki, Kenya National Assembly Debates, 18 April 2000, pp. 338-39

37 Ndwiga, Kenya National Assembly Debates, 15 October 2003, pp. 3060-63

38 Anyang' Nyong'o, Kenya National Assembly Debates, 10 June 2003, p. 1196

39 Kituyi, Kenya National Assembly Debates, 10 June 2004, pp. 3065-67

40 Rotino, Kenya National Assembly Debates, 6 May 2004, p. 1011

41 Kenneth, Kenya National Assembly Debates, 14 June 2005, pp. 1642-43

42 Nyagah, Kenya National Assembly Debates, 16 October 2008, p. 2819

had to meet particular capital asset ratios and liquidity levels. A number of SACCOs struggled to meet the requirements; in some cases, SASRA's intervention revealed widespread problems, including SACCOs lending beyond their capacity – and their own rules – as well as other mismanagement.[43] Some SACCOs were delicensed, but SASRA's approach was generally supportive rather than punitive and most were able to meet the requirements.

More recently, SASRA has also begun to regulate some SACCOs which do not take withdrawable deposits but are very large in terms of their asset base – the 'NWDT SACCOs', as they are called. It is clear that some will struggle to meet the prudential requirements, and SASRA has been absolutely explicit in stating that in the long-term aim they expect that there will be 'consolidation', with the sector moving towards a smaller number of larger SACCOs, all of which will be licensed by SASRA.

At present, however, there are still thousands of smaller SACCOs that do not yet require licensing by SASRA and still operate outside the system of prudential regulation. New SACCOs continue to be created; not just in workplaces, but also among groups of self-employed workers and religious associations. The 'SACCO' label has also been claimed for organisations that are not really savings and credit co-operatives in terms of their by-laws – notably in the transport industry.[44] The popularity of the term is striking – it has very positive connotations, though people are well aware that SACCOs can and do fail. In 2011, while SASRA was working to regulate the 215 DT- SACCOs, another 570 new SACCOs were created, bringing the total number of active SACCOs in Kenya to 3,632.[45] As the tables below show, while SASRA has expanded the scope of its regulation, the sub-sector as a whole has been growing just as rapidly – creating a very large number of relatively small SACCOs that would be extremely challenging for a single regulator to scrutinise closely.

SACCOs regulated by SASRA: figures from SASRA annual reports

Year	Number of SACCOs	Membership	Total assets (KShs millions)
2015	176	3,145,565	342,848
2020	175	5,470,192	627,680
2022	359	6,420,491	890,300

SACCOs in Kenya, regulated and unregulated: figures from WOCCU

Year	Number of SACCOs	Membership	Total assets ($ thousands)
2015	5,769	5,432,009	5,355,916
2020	8,966	9,237,484	13,638,154
2022	8,744	10,766,141	21,833,889

Prudential regulation does not always guarantee stability, as is evident from the history of bank failures generally. Even regulated SACCOs still do get into trouble. Yet it is likely that without SASRA's oversight, there would have been more problems, and the continued growth of SACCOs that are registered as co-operatives but not prudentially raises significant questions about their stability.

The expansion of regulation raises a separate question about those SACCOs that are supervised by SASRA: if SACCOs are now regulated more like banks, and if the overall trend is towards consolidation, is there anything distinctive about them? Sixty years on from their beginnings, what do Kenya's big SACCOs do that other financial institutions do not?

43 'SACCO probe on as more rot uncovered' *Daily Nation* 10 December 2012; '106 deposit-taking SACCOs now fail capital ratio test', *Business Daily*, 29 September 2017.

44 *The SACCO Supervision Annual Report, 2018* (Nairobi: The SACCO Societies Regulatory Authority, 2019) , p. 9

45 *SACCO Supervision Report, 2011 Deposit Taking SACCOs* (Nairobi: The SACCO Societies Regulatory Authority, 2012), p. 25.

SACCOS in everyday life

'A SACCO delegates meeting. PHOTO/Ndege Chai SACCO

This has become the way of life of Kenyans'[46]

SASRA's first annual report identified the purpose of its regulatory mission as ' to enhance growth in National savings' – an aim that echoed 1960s policies.[47] Yet SACCOs have never fulfilled the hopes of those who hoped they would mobilise savings for large-scale national projects of development. They have not, for example, generally invested in government bonds – unlike commercial banks, which have generally held a significant portion of their assets as government bonds. What SACCOs have done is both more everyday and in many ways more remarkable. Mr M'Mithiaru (an MP with a long background the SACCO movement), speaking in support of the 2008 legislation in parliament, said

> We know that it is through these SACCOs that the poor people are now able to march from poverty towards the road of growth and development. We know that it is through the SACCOs that people have bought themselves some parcels of land, educated their children, started some businesses and all that.[48]

There is a degree of exaggeration in the first part of that claim: despite the enthusiasm of some advocates, it is doubtful whether SACCOs have helped the 'poorest people in this country'.[49] But the second part of M'Mithiaru's description is surely accurate. As another parliamentarian put it: 'Members [of SACCOs] have been able to purchase land, commercial and private vehicles, houses - some have even started businesses with the loans they get from societies'.[50]

SACCOs impact has mostly been on those with a regular income, helping them to achieve goals that are often modest but of profound personal importance. SACCOs have enabled the emergence of a propertied

46 Kariuki, Kenya National Assembly Debates, 28 April 2004, p. 773

47 *SACCO Supervision Report, 2011 Deposit Taking SACCOs* (Nairobi: The SACCO Societies Regulatory Authority, 2012), p. 2

48 M'Mithiaru, Kenya National Assembly Debates, 9 October 2008, pp. 2649-52

49 Nyagah, Kenya National Assembly Debates, 9 October 2008,p. 2636

50 Cheruiyot, Minister for Co-operative Development, Kenya National Assembly Debates, 22 October 1991, p. 236

middle class who have often combined income from salaries with other ventures

> African entrepreneurship has been helped and supported by the development and savings and credit co-operative societies (SACCOs). Many people who are working, professionals and so on, have found it very useful to belong to SACCOs. It is from these SACCOs that they have received mortgages to buy their houses, some credit to start businesses and so on.'[51]

The emphasis on improvement – on what could be called projects of future-making – has always been a feature of SACCOs. In 1971, the secretary of Harambee SACCO wrote proudly that

> I have to confirm that the most frequent loans demanded and have been granted are for the following purposes.
>
> 1. For buying land
> 2. For building houses in the land
> 3. For school fees and lastly
> 4. For personal use i.e. medical expenses, buying furniture
>
> I should stress that this society has helped its members to purchase land and build houses more than anything else. School fees comes occasionally.[52]

The emphasis on acquiring and improving property is striking. A few years later, the external managers who had been appointed to run Harambee SACCO kept a record of the purpose of members' borrowing, which confirmed this use of loans: 35% of loans were for buying or improving land; another 45% for building, buying or improving houses. Paying school fees came a distant third as a reason for borrowing – at 6% of loans.[53] In the early 1980s, another enthusiastic parliamentarian noted that SACCOs were 'enabling a lot of workers to be able to purchase, at least, a house for themselves'[54]

More than forty years later, land and housing continue to be the main reasons for borrowing from SACCOs. The sectoral lending report produced by SASRA for 2022 showed that a third of money borrowed from SACCOS was intended for the purchase of land and the purchase or construction of residential housing; almost 14% of the remainder was for agriculture. There has been some change – notably, almost 22% of borrowing in 2022 was for education.[55]

These figures – whether from the 1970s or the 2020s, may be less exact than they seem: they are based on the declared use of funds, not on any audit of how many was actually spent. The loan application process has usually demanded that people identify a worthy reason for borrowing. Some of these funds may well have actually been used for other purposes, as is often the case with borrowing. Some people regard SACCO membership as a 'rainy day' fund – a reliable credit line for emergencies.[56] But more generally the emphasis has always been on projects of 'future-making' – SACCOs are integral to millions of Kenyans' plans to improve their lives.

51 Anyang' Nyong'o, Kenya National Assembly Debates, 28 November 2001, pp. 3356-57

52 F L Machayo, Hon. Secretary, Harambee to Commissioner for Co-operative Development, 16 August 1971, KNA TR 8/1225

53 Daily loans analysis report for year ended 31 Dec 1977, in KNA TR 8/1228.

54 Mwithaga, Kenya National Assembly Debates, 13 October 1982, col. 544

55 *The SACCO Supervision Annual Report, 2022* (Nairobi: The SACCO Societies Regulatory Authority, 2023), pp. 58-59

56 Interview with financial consultant and SACCO member, 25 September 2023.

Twenty-first century mutuality: 'a group works better than an individual'

'SACCOs are part of our DNA. We all belong to one, as our parents did'.[57]

Why have SACCOs remained so central to these projects of improvement? As noted above, SACCOs were successful initially because commercial banks provided such inadequate service. But that is no longer the case. Even as the SACCO Act was being passed, a transformation in financial services provision in Kenya was underway, driven partly by new technologies but also by a much more active approach to retail and "bottom of the pyramid" banking. It is very much easier, and cheaper, to operate a bank account than it used to be – and it is very easy indeed to borrow money online, though these loans are offered on terms that are punishingly expensive and very short term.[58]

The headline increases in 'financial inclusion' seem at first glance to have been linked to a decline in the importance of SACCOs. According to FinAccess, only 26.7% of those surveyed in 2006 used formal financial services, a figure which had risen to 83.7% in 2021. As financial inclusion increased, however, SACCO use declined. In 2006, 11.3% of those surveyed were SACCO members; in 2021 only 9.6% were. The great growth in the use of financial services has been in banks and mobile money.[59]

That headline needs to be nuanced, however. While the proportion of people using SACCOs in the FinAccess survey has declined, the absolute number has increased: extrapolating from the survey, it would seem that 2.3 million Kenyans were using SACCOs in 2006, and 2.6 million in 2022.[60] More importantly, it also possible that the FinAccess survey, robust though

57 Interview with financial consultant and SACCO member, 27 September 2023

58 Radha Upadhyaya, Keren Weitzberg, and L Bonyo, 'Regulatory efforts to reign in digital credit: case study of evolving regulation in Kenya, Inclusive Economies & Anthropology of Economy Seminar Series. London School of Economics & Political Science (2023)

59 *2021 FinAccess Household Survey* (Nairobi: Central Bank of Kenya/ Kenya National Bureau of Statistics/Financial Sector Deepening Kenya, 2021), pp. vii, 25.

60 *2021 FinAccess Household Survey* (Nairobi: Central Bank of Kenya/ Kenya National Bureau of Statistics/Financial Sector Deepening Kenya, 2021),

it is, may somehow undercount SACCO use. SASRA reported that there were actually 3 million SACCO members in 2012, and in 2022 it put the number of members in regulated SACCOs - that is, not including the large number of very small SACCOs that are not yet regulated - as 6.42 million.[61] In the same year, other estimates put the total number of SACCO members in Kenya (that is, including those in SACCOS not regulated by SASRA) as 10.7 million.[62] Even allowing for the fact that some members may be 'dormant' (as much as 19%, according to SASRA), that suggests something like three times as many active members as the FinAccess survey records. There may be some double-counting, as people may belong to more than one SACCO – but overall, these figures show that SACCOs have not been entirely sidelined in the massive growth in formal financial inclusion.

That raises two questions. The first is: who are the SACCO members? Both FinAccess and SASRA offer some demographic detail on SACCO membership. The FinAccess data relate to wealth and education: they suggest that SACCO use is higher amongst wealthier Kenyans and amongst those with tertiary education.[63] The first effect is similar to that seen for all formal financial services – better-off people use them more. The education effect is more pronounced for SACCOs than for other financial services.

SASRA's data categorise members of regulated SACCOs according to the 'common bond' which formerly underpinned them. Two groups predominate in terms of membership: teachers and farmers. In 2022, teachers made up 1.44 million of the total members; while 'crop producers' comprised another 2.46 million: between them, the two groups made up more than half of the total membership.[64] However, in terms of assets – which for SACCOs are predominantly in the form of loans - the picture is a little different. SACCOs that were initially formed on a common bond among teachers dominates. In 2022 they had 268 billion shillings of assets, out of the sector total of 890 billion; other 'government- based' SACCOs had about 315 billion shillings worth of assets, while SACCOs formed by crop-producers had only 89 billion shillings of assets.[65] Farmers form the plurality of SACCO members; but teachers' SACCOs are the most important lenders.

The second question is: why do these Kenyans keep using SACCOs? Some common explanations for this are the low costs involved, the forced saving element and ease of access. While Kenya's finance sector has changed, commercial banking is still expensive by international standards. The spread between the rates offered to savers and borrowers is substantial and banks' return on assets remain high.[66] SACCOs are more affordable when it comes to borrowing. Low costs and forced savings are still very much features of SACCOs: 'as one member put it 'the interest is very low, comparing to the banks offers'.[67] They also pay relatively generous interest on deposits and dividends on the shares held by members.[68] The widespread use of check-off systems has meant that SACCO members could force themselves to save, though check-off arrangements are no longer so routine as they once were. Meanwhile, the distinctive SACCO system has meant that members could borrow while leaving their savings untouched: 'even though I am paying a loan, when I have finished paying the loan, there will be some money.'[69] The financial advice pages of newspapers still routinely encourage SACCO membership – as a way to save, and as a way to manage borrowing.[70]

'...many people do not have self-discipline of saving money to such amounts whereby, if you decide to save on your own, by the time you decide to save for a car, for a plot, for a house, for land if you are not putting money in a SACCO it becomes very difficult because there are so many competing things that want your money'

SACCO member, 18 Oct 2023

61 *SACCO Supervision Annual Report, 2012 Deposit Taking Saccos*), (Nairobi: The SACCO Societies Regulatory Authority, 2013), pp. 6, 10; *The SACCO Supervision Annual Report, 2022* (Nairobi: The SACCO Societies Regulatory Authority, 2023), pp. 15 and 35.

62 World Council of Credit Unions, *Statistical Report, 2022*, at https://www.woccu.org/documents/2022_Statistical_Report_EN

63 *2021 FinAccess Household Survey* (Nairobi: Central Bank of Kenya/ Kenya National Bureau of Statistics/Financial Sector Deepening Kenya, 2021), pp. 27-28.

64 *The SACCO Supervision Annual Report, 2022* (Nairobi: The SACCO Societies Regulatory Authority, 2023), p. 37

65 *The SACCO Supervision Annual Report, 2022* (Nairobi: The SACCO Societies Regulatory Authority, 2023), p. 45.

66 Radha Upadhyaya and Susan Johnson, 'Evolution of Kenya's banking sector 2000 – 2012', in A. Heyer and M. King (eds.), *The Kenyan Financial Transformation* (Nairobi: FSD Kenya, 2015), pp. 15-61

67 Interview with SACCO member, 18 October 2023.

68 *The SACCO Supervision Annual Report, 2022* (Nairobi: The SACCO Societies Regulatory Authority, 2023), p. 31

69 Interview with former SACCO employee, 27 September 2023.

70 'I am in Juakali and earn Sh185,000 monthly..', *Daily Nation*, 5 June 2021; 'I earn 103k net but left with 5k . . ' *Daily Nation*, 1 August 2023.

Ease of access seems a less plausible explanation now. In the past, SACCOs were seen as relatively easy to use: it was assumed that members had an entitlement to borrow, and the process of applying was much simpler than was the case with commercial bank loans. That, however, is no longer true – commercial banks mostly now have significant branch network supported by agency banking, online services, including loans, that are distinctly easier to use than those of SACCOs.

Yet while banks – and online lenders – have become more accessible, they have not necessarily become better liked. Quite apart from numerical calculations of cost and practical questions of access, SACCOs continue to have what we might call an affective, or emotional, advantage: 'people do not like banks', as one commentator told us.[71] By contrast, 'a SACCO is very friendly in the sense that officials, you negotiate with them – you work with them, you eat with them'. [72] SACCOs, as another expert put it, are 'sticky': people are held to them by ties of family or friendship.[73] The system of guarantors, introduced to limit defaults, has itself become a focus of mutuality: even where people may not feel any moral obligation to all of the other members of a large SACCO, they will be in a much smaller network of people who are willing to act as guarantors for one another, in some cases borrowing collectively:

> *'SACCOs are community institutions. They are social institutions'*
>
> Former SACCO employee, 27 September 2023

> the idea is that you educate your friends, when they join the SACCO you form that group. When you are in a group you can borrow a big sum of money – a group works better than an individual.[74]

Mutuality - by which we mean the sense of moral obligation to one another involved in SACCO membership – makes SACCOs appealing to members. Mutuality also helps explain the resilience of Kenya's SACCOs and the comparative advantage that they enjoy in the market. Donal McKillop and John Wilson's survey of credit unions internationally identifies several strengths of the model: there is no external demand for profits; members themselves provide the capital which is loaned out. In identifying the core strength of credit unions they emphasise a classic point of banking theory: credit unions, they argue, have an 'information advantage'.[75] Members know one another, and their knowledge of character informs credit decisions – money is only loaned to those who will repay reducing the classic information asymmetry banks face when lending. That suggests that what Manfred Zeller calls 'lower-cost in-depth information' is the key to a mutual model of risk management.[76]

Yet this may not be the only factor in making Kenya's SACCOs attractive to members, nor the only way that risk is mitigated. Borrowing is routinely viewed as a right by SACCO members, and lending decisions generally reflect this rather than being shaped by specific information about the character of individual borrowers. In fact, members' mutual knowledge may actually encourage risky lending: one man who had served on the credit committee of a SACCO told us that his committee would sometimes refuse loans, only to see their decisions overturned: 'if you deny them a loan they are going to talk to the chair of the SACCO, and he will listen, because we are all human'.[77] Information is not irrelevant in mitigating risk – particularly, guarantors' decisions are shaped by this – but it is not the only factor in play.

The interviews cited above suggest that mutuality also has behavioural effects: what we can call an 'affective advantage'. This has been argued of credit unions elsewhere in the world - people's sense that SACCOs are a collective endeavour shapes their sense of how they should behave, making them more likely to save regularly and less likely to default

71 Interview with financial services specialist, 21 September 2023.

72 Interview with SACCO member, 29 September 2023.

73 Interview with group of financial services experts, 26 September 2023.

74 Interview with SACCO member, 23 September 2023

75 Donal McKillop and John O S Wilson, 'Credit unions: a theoretical and empirical overview' in Financial Markets Institutions and Instruments Nov. 2010, p. 8

76 Manfred Zeller, 'Models of rural financial institutions' (2003), p. 22 available at https://www.findevgateway.org/paper/2003/01/models-rural-financial-institutions

77 Interview with SACCO member, 29 September 2023.

on loans.[78] The popular sense that SACCOs are unlike banks, and are not exploitative, changes how people behave. Of course, this does not always work – people do sometimes default on SACCO loans. Yet since the early days of SACCOs in Kenya, this behavioural aspect of mutuality has always been seen as a strength: the organiser of the VYA society in the 1960s said that '[t]here is a common thing they can unite on because it is for the good of everybody. It creates greater willingness to work together.'[79]

SACCOs today are still seen as more friendly, offering a kind of sociability: they are 'a kind of get together, you feel you belong to a group'.[80] Wanyama et al suggested that SACCOs are formalizing 'traditional mutual support habits'.[81] That sociability can provide a shield when borrowers get into trouble. As one interviewee put it, borrowing elsewhere is risky, because 'banks may come for the little you have.'[82] By contrast, SACCOs are willing to discuss difficulties with payments: '[y]ou just go to the desk and talk to the finance controller, give them your problem, then they can readjust your payment'.[83]

This affective advantage helps explain why default rates are lower for SACCOs than for some other lenders – and it surely helps us to understand why people are often willing to give SACCOs a second, or even a third, chance, continuing to use them even after a bad experience. Yet in offering this explanation, we are aware that our knowledge of SACCO members and their hopes and motivations remains limited. Understanding those members better should be a focus for further research.

78 Andrew McArthur, Alan McGregor and Robert Stewart, 'Credit unions and low-income communities', Urban Studies 30, 2 (1993), pp. 399-416; P A Jones 'The growth of credit unions and credit co-operatives' in Christoph Guene and Ed Mayo (eds), Banking and Social Cohesion. Alternative Responses to a Global Market (Charlbury, 2001).

79 'Credit unions bring unity', *Daily Nation*, 5 June 1967, p. 10

80 Interview with SACCO member 29 September 2023.

81 Fredrick Wanyama, Patrick Develtere and Ignace Pollet, 'Reinventing the wheel? African co-operatives in a liberalized economic environment', Annals of Public and Co-operative Economics, 80, 3 (2009)

82 Interview with financial inclusion specialist, 25 September 2023.

83 Interview with SACCO member, 23 September 2023.

Future SACCO?

Since the 1970s, there has been debate on how SACCOs should be regulated, and/or supported, and policy has swung back and forth. Gethenji's (unsuccessful) proposal in 1978 for a central oversight body might be seen as a prototype of SASRA. Yet at almost exactly the same time that he was making that suggestion, Jack Dublin, who had been instrumental in starting the SACCO movement in Kenya, was arguing that government was already interfering too much and was making SACCOs dependent and preventing them from building their internal capacity.[84] In the 1990s, it was that view that prevailed and the system of regulation and support that had existed was significantly reduced. Some studies hailed the consequent growth of the sub-sector as evidence of the success of that approach.[85] Yet it was the risks associated with that growth that led to the change in policy in the early 2000s and the introduction of prudential regulation.

One SACCO manager, asked about the future of SACCOs, looked back to the 2008 Act as a moment of complete change: it 'revolutionized the SACCO sector' he said; 'right now it is not about loyalty – it is more about what you can offer in the market'.[86] Other interviews lent weight to this – from the former member who said that he had left his SACCO because it did not pay good dividends, to the SACCO official who lamented that his (small, work-place) SACCO was losing members to larger SACCOs which have opened their common bond: 'members are money-oriented and chase high dividends'.[87]

Some SACCOs – particularly the thousands of smaller SACCOs that are not yet regulated by SASRA - continue to face perennial challenges. In 1979, a Ministry of Co-operatives official complained of 'mismanagement, poor loans repayment by members, poor standards of book-keeping and fraud' – a list that might not seem unfamiliar today.[88] Officials may be chosen because they are popular, not for their management skills; there is malpractice by staff who have skills and experience that officials and members lack.[89] SACCOs are, as one finance expert put it, characterised by 'decision-making processes that are populist in nature': there is chronic pressure from members for loans and other benefits – to the point where some SACCOs have reportedly borrowed from commercial banks in order to pay dividends to members.[90] Some employers who operate a check-off system may fail to remit the funds they deduct to the SACCO – a problem which has brought many SACCOs to the brink of failure over the years, from NACICO in the early 2000s to some higher education SACCOs in

84 Jack Dublin to Kinuthia Mungai, Permanent Secretary, Office of the President, 25 Aug 1978, KNA TR/1/83

85 Fredrick Wanyama, Patrick Develtere and Ignace Pollet, 'Reinventing the wheel? African co-operatives in a liberalized economic environment', Annals of Public and Co-operative Economics, 80, 3 (2009).

86 Interview with SACCO manager, 28 September 2023

87 Interview with SACCO official, Mombasa, 23 September 2023.

88 S A Chanzu, Under-secretary in the Ministry of Co-operatives, quoted in 'Official blasts corrupt co-op members', *Daily Nation*, 13 May 1979.

89 Current SACCO employee, 26 September 2023; former SACCO employee, 27 September 2023

90 Finance specialist, 27 September 2023.

the last few years.[91] Most of all, many SACCOs still struggle with liquidity, just as they did in the 1970s, or in 2002 when one co-operative official noted that '[t]owards the beginning and end of the year, many SACCOs are always inundated with requests for loans yet the repayment levels are always very low'.[92]

> *'...we have heard of mismanagement, corruption, stealing, employment of friends and relatives in those SACCOs. We have seen members' deposits collapse! We have seen people losing millions and millions of shillings! It is for this reason that it has become necessary, in order to ensure that we have adequate legal and regulatory framework, that this Bill, which will hopefully become an Act, has been brought to this House.'*
>
> Nyagah, Kenya National Assembly Debates, 9 October 2008, pp. 2636-41

The current regulatory system was introduced to mitigate those chronic problems – especially for the larger SACCOs, whose involvement in deposit-taking made them especially vulnerable to liquidity problems. But has it created a new one – by opening up the common bond and insisting on new levels of prudential oversight, does it remove the affective advantage that SACCOs have long enjoyed? In regulating SACCOs more like banks, will it make them behave more like banks, and lose the loyalty of their members? As SACCOs have grown into enormous enterprises, which have to be run by finance professionals because they are so complex, has mutuality – and particularly, the role of members in governing these institutions – become unsustainable?

This pilot project has highlighted those questions, but we do not yet have the data to answer them. Experience elsewhere suggests that mutuality and scale can be compatible. McKillop and Wilson have identified what they see as an evolutionary pattern for credit unions everywhere: they begin as small organizations run by their members, with good governance reliant on mutual oversight and trust. As they grow and their assets and transactions become larger and very much more complex, they necessarily move to a system of prudential regulation established by government – because members do not have the knowledge or skills required for oversight.[93] Yet that 'mature' stage may still be compatible with mutuality. In institutional terms, that means a board of directors elected by members; in affective terms, it may mean a distinctive sense of customer loyalty. In some places, notably the UK, many of these institutions 'demutualized' but there still are very large mutual institutions in Europe and the US. The crucial distinction remains: banks are profit-maximising, while mutuals seek to balance the needs of all their members as both savers and borrowers.

So, there is more than one possible future for SACCOs in Kenya. The largest SACCOs might demutualize – formally becoming banks. In doing so they would run the risk of losing the advantages of mutuality. They might continue as mutuals. If they follow that path, they would have to work to maintain the 'affective advantage' as their membership grows ever further beyond a common bond, the pressure for dividends grows and some substitute collateral for the guarantor system. Even if they are not actually banks, people may increasingly regard them as banks, and behave accordingly. **Large SACCOs face a big question: what might they lose by moving away from mutuality?**

Whatever the large SACCOs do, there will continue to be many smaller SACCOs – some growing, some struggling. Because the SACCO model is so popular, new ones will continue to form: experience suggests that many will become dormant but that that others will survive, and grow. It will likely be difficult for these small SACCOs to meet the requirements of prudential regulation and challenging for regulators to supervise them all; but to leave them without any support or regulation would likely increase the risk of failure. That means that there is likely to be continuing need for a form of oversight that provides advice and guidance as well as setting requirements. **Policy-makers and co-operators in small SACCOs face an equally pressing big question: what form should oversight take – and how should it balance between the need to safeguard the public and the need to build responsibility and capacity within the SACCOs themselves?**

91 Kamanda, Kenya National Assembly Debates, 8 July 2004, p. 2515; The SACCO Supervision Annual Report, 2018 (Nairobi: The SACCO Societies Regulatory Authority, 2019), p. 10

92 Jones Opango, quoted in 'SACCOs work together to meet common needs', *Daily Nation*, 6 July 2002

93 Donal McKillop and John OS Wilson. 'Credit unions: A theoretical and empirical overview.', Financial Markets, Institutions & Instruments 20.3 (2011): 79-123.

Conclusion

Our pilot research project offers a cautiously optimistic assessment of the future of SACCOs. They are a distinctive Kenyan success story and have become part of daily life and to the way that people plan for their futures. Even after opening of the common bond and the introduction of SASRA, there is still demand for them as 'anti-banks'. They are seen as both friendlier and cheaper than the commercial sector, and they mobilise a sense of common purpose.

Yet changing circumstances leave SACCOs walking a narrow pathway. Growth has benefited many SACCOs – more assets mean that they can lend more. But size and complexity have created risks that demand prudential regulation to protect the public. Meeting the demands of prudential regulation might imply being less flexible with members who are struggling to repay debts: too much sympathy may leave a SACCO unable to lend or to maintain its reserves. The expansion of deposit-taking business also creates new tensions within the membership: net savers expect high dividends on their shares and generous interest on their deposits; net borrowers want to keep interest rates at the traditional one per cent per month.

Pressing questions therefore face SACCOs, and policy-makers. Should some SACCOs formally demutualise? If they do not, how do they retain the advantages of mutuality? What kinds of regulation or support will smaller SACCOs need to serve their members? SACCOs may be successful partly because mutuality has a moral effect – encouraging regular saving and discouraging default. If that is the case, then how can regulatory policy and practice maintain that advantage?

Bibliography

FSD Kenya (2021)**.** ***2021 FinAccess Household Survey*** (Nairobi: Central Bank of Kenya/Kenya National Bureau of Statistics/Financial Sector Deepening Kenya)

Jones, P A (2001) 'The growth of credit unions and credit co-operatives' in Christoph Guene and Ed Mayo (eds), ***Banking and Social Cohesion. Alternative Responses to a Global Market*** (Charlbury).

McKillop, Donal and John O S Wilson (2011). 'Credit unions: A theoretical and empirical overview', ***Financial Markets, Institutions & Instruments,*** 20, 3: 79-123

Republic of Kenya (1969). ***Department of Co-operative Development Consolidated Annual Reports, 1963-67*** (Nairobi: Ministry of Co-operatives and Social Services)

Republic of Kenya (1973). ***Department of Co-operative Development. Report for Years 1971-72*** (Nairobi: Commissioner for Co-operative Development)

Republic of Kenya (1987). ***Renewed Growth Through the Co-operative Movement, Sessional Paper No. 4*** (Nairobi: Government Printer)

Republic of Kenya (1997)**.** ***Co-operatives in a Liberalized Economic Environment, Sessional Paper No. 6*** (Nairobi: Government Printer)

SASRA (2012). ***SACCO Supervision Report, 2011 (Deposit Taking SACCOs)*** (Nairobi: The SACCO Societies Regulatory Authority)

SASRA (2013). ***SACCO Supervision Annual Report, 2012 (Deposit Taking Saccos***), (Nairobi: The SACCO Societies Regulatory Authority)

SASRA (2019). ***The SACCO Supervision Annual Report, 2018*** (Nairobi: The SACCO Societies Regulatory Authority)

SASRA (2023). ***The SACCO Supervision Annual Report, 2022*** (Nairobi: The SACCO Societies Regulatory Authority)

Upadhyaya, Radha, and Susan Johnson (2015). 'Evolution of Kenya's banking sector 2000 – 2012', in A. Heyer and M. King (eds.), ***The Kenyan Financial Transformation*** (Nairobi: FSD Kenya, 2015), pp. 15-61

Upadhyaya, Radha, Keren Weitzberg, and L Bonyo (2023). 'Regulatory efforts to reign in digital credit: case study of evolving regulation in Kenya, ***Inclusive Economies -Anthropology of Economy Seminar Series***. London School of Economics & Political Science

Wanyama, Fredrick, Patrick Develtere and Ignace Pollet (2009). 'Reinventing the wheel? African co-operatives in a liberalized economic environment', ***Annals of Public and Co-operative Economics***, 80, 3.

Wanyama, Fredrick (2009). ***Surviving Liberalization: the Cooperative Movement in Kenya*** (Dar es Salaam: CoopAfrica)

Zeller, Manfred (2003). 'Models of rural financial institutions' (2003), available at https://www.findevgateway.org/paper/2003/01/models-rural-financial-institutions

Riverside Green Suites
(Palm Suite), Riverside Drive
Nairobi, Kenya

P.O Box 11353, 00100,
Nairobi, Kenya

+254 20 513 7300
info@fsdkenya.org
@FSDKe
@FSDKe
www.fsdkenya.org