

# The SACCO Movement in Kenya up to 2017

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## Introduction: The co-operative movement in Africa

During the 1950s and 1960s, about 100 years since Rochdale, co-operatives were introduced in Africa as State projects. The governments viewed co-operatives as mass organizations and instruments for economic emancipation of the rural population. However, the market liberation of the 1990s saw the collapse of the State sponsored co-operatives in many developing countries because they could not compete with the private sector.

Recent studies show that co-operatives in many developing countries are experiencing a renaissance. For example, there were only 554 registered co-operative societies in Uganda in 1995, but recent estimates indicate more than 7,500. In many developing countries, savings and credit co-operatives (SACCOs), housing, consumer co-operatives and cottage industries are growing. There is a great potential for farmers' producer co-operatives to meet growing demand for supermarkets for fresh fruits, vegetables, and dairy products. Electricity in rural areas, water and sanitation for growing urban populations, and healthcare are all opportunity sectors for co-operative development.

## The co-operative movement in Kenya

The co-operative movement has been an effective engine for development in Kenya. It cuts across almost all sectors of the Kenyan economy both formal and informal. It is estimated that 63 percent of Kenya's population participate directly or indirectly in co-operative based enterprises. It is also estimated that co-operatives contribute 46 percent of the total Gross Domestic Product (GDP), 35% of Gross National Savings and employs directly about 500,000 people.

According to the Economic Survey 2017, as at the end of 2016, there were 18,573 registered co-operatives, spread across all the sectors in Kenya.

The financial co-operatives (SACCOs) under SASRA regulations (177 deposit taking co-opera-

tives) had approximately 3.1 million active members, who had mobilized over Ksh.272 billion (\$ 2.6 billion) in savings and carried loans of Ksh.288 billion (\$ 2.79 billion)

| PARAMETER           | 2016      | 2015      |
|---------------------|-----------|-----------|
| Number of DT-SACCOs | 176       | 177       |
| Active membership   | 3,143,485 | 2,675,050 |
| Dormant membership  | 489,112   | 466,911   |
| Total Membership    | 3,632,597 | 3,145,565 |

Table 1: Membership (Deposit Taking SACCO's) as at June 2017

## The role of early co-operatives in Kenya

The Kenya Farmers Association (KFA) was formed informally in 1923 as a successor to the Lumbwa Co-operative society which had been recognized in 1908 under no law. Its objectives were to supply agricultural inputs such as fertilizers, chemicals and seeds to European settler farmers and to arrange for sale of their produce, taking advantage of economies of scale.

The KFA was followed by the Kenya Co-operative Creameries (KCC) which was incorporated in 1931 under the co-operative Societies Ordinance to deal with the production and sale of dairy products. KCC, like KFA, was founded informally in 1925 by the settler farmers. KCC was later registered under the Companies Act and retained this dual registration even after Kenya's independence.

The third farmers' co-operative was the Kenya Planters Co-operative Union (KPCU), registered in 1932, initially as the Thika Planters' Co-operative Union. In 1933, it merged with Ruiru Co-operative Union and changed its name to Kenya Planters' Co-operative Union (KPCU). Several small coffee mills had operated in Nairobi, but amalgamated in 1938 into East Africa Coffee Curing Company Limited.

The last main pre-independence co-operative was the Horticulture Co-operative Union Limited (HCU), which was registered in the 1950s as a private company, but was later registered as a Co-operative by the European large scale fruits and vegetable farmers. In 1957, it started exporting fresh

fruits and vegetables to England, and for a number of years, HCU was the largest exporter of horticultural products. Large scale African farmers and co-operative societies started becoming members of the union in the 1960's.

### **Formation of national co-operative institutions**

In 1964, Kenya National Federation of Co-operatives (KNFC) was formed as the apex co-operative organization with responsibility to coordinate the development of co-operative societies. It was envisaged that KNFC would draw its membership from primary, secondary and countrywide co-operatives. Its sources of income would be affiliation fees, Government grants, donor support and technical assistance from stronger co-operative movements from especially Nordic countries and the United States of America (USA). It was expected that KNFC would become the principal promoter and protector of co-operative interests and also assume the position of advisor to Government on co-operative development issues, effectively taking over the role that the state was playing.

A major achievement by KNFC in early days was the role it played in facilitating the establishment of the key national co-operative organizations. These included the Kenya Union of Savings and Credit Co-operative Organization (KUSCCO), the Co-operative Bank of Kenya, the Co-operative Insurance Company of Kenya (CIC), the National Co-operative Housing Union (NACHU) and the Co-operative College of Kenya, now the Co-operative University of Kenya (CUK).

### **Formation of Savings and Credit Co-operative Societies (SACCOs)**

The first SACCO in Kenya was formed in 1964 in Mariira, Murang'a County by the Catholic church through Fr. Joachim Getonga. In 1967, a committee was formed to promote the development of Savings and Credit Co-operatives in the country, leading to the formation of two chapters: one in

Nairobi, the other in Mombasa. During this period, liquidity for newly formed SACCOs was prevalent challenge because of the unwillingness of members to regularly contribute shares or to repay loans advanced to them. In 1969 the Government directed that Savings and Credit Societies should only be formed by employees whose employers accepted to provide payroll deduction facilitation. This meant that members would have their monthly share contributions and loan repayments deducted from their salaries and paid directly to their SACCOs. It was this "check-off system" that became a critical spring board for the rapid development of Savings and Credit Co-operatives in the country. In 1972 a national forum of SACCOs was held in Nairobi to discuss and consider the formation of a National Apex organization to serve the needs of these societies. This led to the formation of the Kenya Union of Savings and Credit Co-operatives (KUSCCO) Ltd.

In 2010 the Ministry of Co-operative Development and Marketing indicated that out of the country's 12,000 co-operatives 6,200 were SACCOs. The co-operative register however has hundreds of dormant societies from all sectors, including SACCOs. The SACCOs are the fastest growing sub sector of the co-operative movement. They provide members with favorable savings and credit facilities and have succeeded in integrating them into the mainstream financial market. Currently, SACCOs are increasingly relied upon by millions of poor Kenyans seeking business financing and short term loans. Further, Kenyans desiring to buy assets like land and modern houses have found it easier to raise the requisite funds from their SACCOs.

### **The Role of KUSCCO in Kenya**

As intimated above, the Kenya Union of Savings and Credit Co-operatives (KUSCCO) Ltd. was registered in 1973 following the recommendation of the national forum of SACCOs that was held in Nairobi in 1972. At inception, KUSCCO was mandated to 'promote the growth and development of SACCOs'. To implement this onerous mandate, the founders in their foresight envisaged

that pursuit of the following objectives, which have stood to date, would be key in achieving this mandate:

- *to provide advocacy, lobby and advisory services that protect members' interests,*
- *to act as the principal local and international representative and mouth-piece of all SACCOs,*
- *to promote the organization and development of viable SACCOs,*
- *to disseminate information concerning SACCOs and co-ordinate their operating methods and practices and foster education and training of members, officials and employees, and*
- *to promote among SACCOs and their officials, employees and members a common code of ethics based on the Co-operative principles.*

At inception and during the formative stages, the Union was faced with tremendous challenges, especially lack of operational funds and understaffing which severely limited operational capacity to execute the mandate.

However, the Union was able to surmount these challenges and in the process set up an elaborate system with country-wide outreach, serving over 3500 affiliate SACCOs and built a Ksh. 10 billion (\$ 96.9 million) plus asset base backed by a 300 plus workforce.

These achievements can be attributed to a number of factors. Unique ability in articulating issues at the core of cooperatives, combined with practical solutions in areas where the SACCOs face daily struggles – liquidity, risk management, education and training including consultancy on technical operational issues as well as information management systems. The Union also has a fully owned subsidiary Insurance company, the KUSCCO Mutual Assurance.

### **Concluding remarks: Success factors and challenges of co-operatives**

The success factors and challenges of cooperatives are widely shared across the African continent. The success of co-operatives is believed to be twofold:

1. The simple fact that despite all their shortcomings and weaknesses, co-operatives in Africa do provide essential services to a large portion of the population, primarily the self-employed in rural areas and the urban informal economy. Such services include market access, agricultural supply, marketing and exports, transport, storage, appropriate financial intermediation, joint production, mutual risk coverage, affordable housing, and many others. In addition, co-operatives play, beyond their economic function, a role in extending social protection and in facilitating popular participation. They support social cohesion and strengthen civil society. Genuine co-operatives play a triple, social, economic and societal role and therefore simultaneously create opportunities, enhance protection and provide empowerment – the key elements of any poverty reduction strategy. And finally, real co-operatives achieve all this at no cost to the state.
2. The extraordinary resilience of co-operatives and co-operative movements, despite frequent changes in Government policy and legislation, shifting donor philosophies and preferences, massive external interference and inappropriate interventions, and in spite of severe turmoil created by war, civil strife, natural disasters and dictatorial regimes. There is evidence that co-operatives do exist in all 54 African countries, and that over a considerable period of time, the co-operative density has remained stable in Africa, at about 7% of the population. This would not have happened if co-operatives had not played a positive role in Africa's development.

The challenges contemporary co-operatives and social economy organizations face can be grouped under five headings:

1. **The role of the State:** as a result of structural adjustment, and as a consequence of democratic reforms, the role of the state in relation to co-operative development was reduced to the bare minimum: registration and supervi-

sion of the application of the law. No financial aid, no technical support, no special protection. This has led to a situation where unscrupulous individuals usurped the leadership of co-operatives and misused them for their personal interests. This has motivated some to argue that the liberalization of the 1990s went too far, and that some degree of state control over co-operatives should be reinstated. This debate is far from over.

In this context, cooperation between cooperatives may be mentioned. Co-operatives build strength, influence bargaining power through vertical structures, such as federations, unions and associations, and horizontal networks that facilitate co-operation between co-operatives of different types. On the African continent the shape of those vertical structures was, until the mid-1990s, largely determined by the State, and often prescribed in co-operative laws. Today, every single African country has its own specific vertical co-operative structure composed of a variety of national, sectoral, regional and local organizations.

2. **The optimal size:** co-operatives must be large enough in operation to reach the economic break-even point, and small enough to allow individual members to meaningfully participate. The optimal size of a co-operative is therefore dictated by economic factors (financial cooperatives may reach the break-even point earlier than, for instance, marketing cooperatives) and social and societal factors; the latter also explain why co-operatives are more successful in certain African communities than in others. Appropriate and democratically controlled vertical structures may solve the dilemma of the “optimal size”.
3. **Urbanization and Informality:** Africa has experienced the highest urban growth during the last two decades at 3.5% per year and this rate of growth is expected to hold up to 2050. In 2010 the share of the African urban population was about 36% and is projected to increase to 50% and 60% by 2030 and 2050 respectively. The

majority of those living in urban centers work in the informal economy, and it has become absolutely essential to organize those informal workers. However, Africa’s co-operative movements have remained essentially rural (with the exception of credit unions), and little has been done to develop appropriate models of cooperation in the informal economy. This constitutes the challenge for co-operative promoters in the 21st century.

4. **Fragility and Crisis Response:** Many African countries, or regions within countries, are considered “fragile”. They may recover from conflict, are affected by natural calamities or climate change, or suffer from poor governance, nepotism and corruption. It is in those circumstances, where the administration ceases to function, where public service delivery has come to a standstill, and where the rule of law no longer exists, that citizens must organize themselves to ensure access to a minimum of essential services, as well as voice, representation and self-governance. There are numerous examples of such spontaneous self-organization in, for example, refugee camps or areas devastated by conflict or disaster, but Africa has not systematically harnessed the power of self-organization to overcome fragility and return to the path of development. To do just that could be a worthwhile challenge for Africa’s co-operative movement and its international partners.
5. **New forms and manifestations of cooperation:** Despite the diversification that began in the 1990s the formal co-operative movement in Africa is still largely confined to a few sectors or intervention areas: agricultural marketing and supply, savings and credit, housing, fisheries, handicrafts and consumer. Other types, such as labor contracting co-operatives which are widespread in India, or shared service co-operatives formed by businesses rather than individuals (well known in Europe and the US), are almost unknown on the continent. Public utility co-operatives

that organize the supply of electricity, water, sewage, telephone connections and Internet access at the local level, are popular in many parts of the world but hardly present anywhere in Africa. Microfinance co-operatives are common in Africa, but micro-insurance co-operatives are not – they could be of great benefit to rural producers. Finally, there might be potential for the promotion of health care and social service co-operatives to formalize and institutionalize the continent's age-old tradition of solidarity and mutuality.