

## Best Sacco Should Be That Which Gives Loans at Lowest Interest Rate

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*Kenya National Police DT Sacco delegates follow the proceedings during the annual delegates meeting at Serena Hotel, Nairobi, on February 21.*

*File | Nation Media Group*



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Recently, the Cabinet Secretary for Cooperatives and Micro, Small and Medium Enterprises (MSMEs) Development urged saccos to focus on lowering interest rates on loans to members instead of pushing for higher dividends.

This advice gravitates to the core purpose of a sacco. For starters, saccos are more generally financial cooperatives. In the US, they are called federal credit unions. Unlike banks, they are non-profit organisations as they are organised by and for the benefit of members.

The fulcrum of the financial—indeed any—cooperative is its members. They are the centre around which everything else rotates. Without a cooperating member, there is no cooperative. Thus, cooperatives should align their products to members' needs to ensure maximum benefits to them and in line with the core socioeconomic mandate.

The cooperative's cardinal responsibility is to support the growth of members by, in the case of saccos, increasing access to competitive loans. In the case of marketing cooperatives, that would be getting the best possible prices for the member's produce.

Article 38 of the Sacco Societies Act, 2008 stipulates that the funds of a sacco society may be invested in securities, obligations or other debt instruments issued or guaranteed by the government or any government agency; deposits, obligations or other accounts of deposit-taking institutions under the Banking Act; and shares, stocks, deposits in, loans to or other

obligations of any sacco society or cooperative society. The article shields members from losses due to risky investments.

Among the financial cooperatives, there seems to be some competition revolving around dividends to members. We all want a high return on our investment but, strictly, a sacco is not an investment.

In their by-laws, saccos undertake to promote thrift among members by affording them an opportunity for accumulating their savings and deposits and thereby create a source of funds from which loans can be made available to them for provident or productive or both purposes, at a fair and reasonable rate of interest, thereby enabling them to use and control their money for their mutual benefit.

### **Ensure personal growth**

Additionally, they should ensure personal growth through the introduction of products and services that will promote the economic base of members; ensure the progress of members and the society through continuous education programmes on the proper use of credit, reduction of poverty, human dignity and cooperation; and apply the cooperative principle of cooperation among cooperatives to promote their members' interests.

Saccos have, indeed, carried out this mandate superbly by shielding members from exploitative commercial loans. Ask any sacco member: The go-to place for a loan is their sacco. Period. According to the CEO of Sasra, the saccos regulator, saccos disbursed to members Sh253 billion in loans last year.

Saccos offer products to members ranging from normal to development loans, special loans, product loans, emergency loans and school fees loans. The definition and prescribed interest rate vary but, no matter what you call it, a loan is a loan!

### **Provide loans**

There is no gainsaying that a sacco's main product is to lend to members; hence, they should devise ways to reduce the cost of borrowing. The attractiveness of a sacco should lie in its ability to provide loans to members at the lowest possible interest rate. Consequently, the race among saccos should not be on who pays the highest dividend but rather on who lends more affordably.

Saccos' core purpose is to help members to accumulate and create wealth. They must focus on reducing the burden on their members through affordable loans. That will attract more members, enabling surpluses that could be used to further cooperation among cooperatives (Cooperative Principle #6).

Let us put in place structures that guarantee affordable loans to the sacco member. Yes, the best sacco should be one which lends to members at the lowest interest rate.

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