Promoting Savings and Credit Co-operatives as Sources of Microfinance in Lesotho

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1.0 Introduction

The first phase of cooperative development in many African countries was generally on agricultural marketing, industrial production and handcraft cooperatives. The financial cooperative is considered as a logical consequence of a complementary response to the growing need for financial to sustain internal fundings needs, through the cooperative system.

The recent African Cooperative Ministerial conference held in Maseru Lesotho, underscored the critical need to promote savings and credit cooperatives in member countries. The recognition of the savings and credit cooperatives, has been coupled with the need to expand the sector so that the savings and credit cooperative movement, became part of the larger financial system of African countries.

In this presentation, we are looking at the promotion of savings and credit cooperatives as sources of microfinance in Lesotho. We discuss the issue in four areas of analysis. First, we look at the concepts of promotion savings and credit cooperative and microfinance. Second, we discuss some African experiences in the promotion of savings and credit cooperatives and thirdly, we are going to make an argument as to why savings and credit cooperatives are needed in Lesotho.

Finally, we are going to make recommendations on strategic promotion of savings and credit in Lesotho.

2.0 Promotion, Savinqs and Credit Cooperatives and Microfinance

Promotion has always been defined as a process of education for action. Co-operatives in general and savings and credit cooperatives in particular, came into Africa, after being tested by the British government in India. Their introduction into the African economy and culture, meant the establishment of a new organizational set up which called for education and sensitization so that there was general acceptance by the community for practical implementation. Since the introduction of modern cooperative enterprise in Africa, promotion has been part and parcel of cooperative development pushed by the government. The promotion of cooperatives in Africa has faced three major problems: - First, cooperative promotion has always been linked with the enactment of cooperative law. And because promotion is proclaimed in the cooperative societies Act, it has been interpreted as government legal function, which cannot be done by any other organ outside the government. Secondly, the promotion of cooperatives by the government has been followed by registration, inspection, supervision and audit, all done by government. This has made cooperatives seen to belong to the government. By doing this, the government has always accepted higher risks. When the cooperative enterprise faced failure due to mismanagement or embezzlement, it has been the government that has taken the blames. The question here is whether promotion and supervision of cooperatives can be performed by other players too. Experience elsewhere has seen governments handing over promotion to NGOs and semi autonomy agents. The third challenge of promotion is whether due to the sensitivity of savings and credit activities, they need a different framework of promotion, supervision and external audit as opposed to the generality of cooperative development.

The debate about savings and credit cooperatives, has historically taken place outside ordinary commercial banking practice. This has been so because they are designed to meet credit needs of clients who do not have standards collateral requirements. While savings and credit cooperatives are member owned organizations for the mobilization of financial resources in terms of savings and credit, microfinance is a much brooder concept, covering different forms of financial services for the poor. There is a lot of similarities between savings and credit cooperatives and ordinary Microfinance Institutions (MFIs). But part of the discussion on microfinance, covers the concept of microcredit (Gaboury 2005), where the funds to be made for loans, are not mobilized from within the community of members. Microfinance loans are usually obtained from the government or the donor community. That is why savings and credit cooperatives are a special brand of microfinance institutions. Ordinary micro credit MFP s, just need clients who access the loans and they are in business. Savings and credit cooperatives may have members as well as and clients. As we shall see later, the link between savings and credit cooperatives and microfinance concepts is very critical in the sense that the mother of all sustainable credit is savings, a concept very central to financial cooperatives.

3.0 Some African Country Experiences

The experiences we discuss here are from Kenya and Tanzania because like Lesotho, they are former British colonies and all received the concept of modern cooperation and especially cooperative law from India.

3.1 Kenya

Kenya has the largest savings and credit cooperative movement in Sub-Saharan Africa. It is also a very wide financial services movement because it also covers cooperative banking and cooperative insurance. The savings and credit cooperative movement however, is more developed at the workplace than in the open community in the rural areas. A new organization for the promotion of rural savings and credit cooperatives, called KERUSU (Kenya Rural Savings and Credit Cooperative Union) has been formed to meet those rural needs. The more traditional savings and credit cooperative movement is unionized at the national level, forming the Kenya Union of Savings and Credit Cooperatives (KUSCO)- KUSCO is in the forefront of developing new products and managing the introduction of automated technology.

The cooperative Bank of Kenya is one of the most successful cooperative financial institutions in Africa. It has a branch network throughout Kenya. Cooperative Insurance services are mainly confined to major urban areas.

3.2 Tanzania

To a certain extent, the Tanzanian Savings and Credit Cooperative movement, is smaller than the one Kenya. But it is growing very fast. It is also unionized at the national level, under the Savings and Credit Union League of Tanzania (SCCULT). It is more urban centred although rural savings and credit cooperatives are being promoted by efforts outside SCCULT, especially NGOs and the donor community. Tanzania has two regional Cooperatives banks- the Kilimanjaro Cooperative Bank and the Kagera Farmers Cooperative Bank. Tanzania is still in the process of forming the national Cooperative Bank but no Cooperative Insurance.

There are four common features of savings and credit cooperative movement from the two African countries settings:

Settings: First, the greatest proportion of the population in Kenya and Tanzania, are not yet covered by the savings and credit cooperative movement. The membership of the Kenyan movement is close to 2.5 million against 15 million rural people. The membership in Tanzania is about 500,000 people against 26 million rural people. Second, both Kenya and Tanzania have not yet developed the best promotional methodology for rural savings and credit cooperatives. The Non-governmental organization actively involved in the promotion, have not harmonized their methods and processes of promoting sustainable rural SACCOs.

The third feature found in the two countries is the lack of comprehensive and clear-cut savings and credit regulation, Kenya is considering developing a separate Cooperative Act for financial cooperatives, while Tanzania wants to use the same general cooperative societies implement a newly designed regulatory framework. At the policy level, Tanzania has already put up a microfinance policy that is harmonized with the existing cooperative societies Act, while Kenya does not have one yet. Fourth, both countries are running a non-integrated automised national structure which may not have the capacity to a wield a national compel framework. Such experiences have important lessons for Lesotho where the government is almost at the drawing board trying to explore possible options for restructuring the Lesotho Cooperative Credit Union League with the intention of resuscitating it, or even form a new viable body. The government of Lesotho is also seeking professional advice to see whether the viable cooperatives could establish working relations with commercial banks to improve microfinance access, and the formulation of microfinance policy.

4.0 Why Promote Savinqs and Credit Cooperatives in Lesotho

As pointed our earlier, Microfinance as a concept, may also mean cooperative savings and credit societies or micro-credit institutions. Microcredit or credit only institutions may not be viable financial mechanisms in the struggle against poverty. Such institutions will always maintain the dependence syndrome because they depend on resources generated elsewhere.

While we agree that microfinance per se is by definition making financial services available to the poor or creating conditions for accessing small loans where the borrowers are small scale enterprise operators (Loyza, N. et al 2000). This definition of microfinance also appreciates the fact that small scale producers do not carry the traditional asset package, usually designated as collateral security by traditional banks. But when microfinance is devoid of savings, microfinance institutions fall short of poverty alleviation strategies for the poor.

To a large extent, Lesotho, like many other African countries, is a micro enterprise microfinance country. Most expected borrowers would be small farmers, small traders and producers. The savings and credit model, is currently the most appropriate form of financial services for Lesotho. Savings and credit cooperatives mobilize savings from the community and allow borrowers from the same community who will in turn invest in business enterprises. Research done in African countries (DID 2005) has found that 77% of savings mobilized in savings and credit cooperatives, are converted into loans. As a result of this mechanism, savers and borrowers who are investors are created in the community, eventually creating the opportunities for enterprise development.

The development of viable savings and credit cooperatives in the rural areas will take time for cultural reasons. But with a step-by-step organizational development approach, rural communities will catch up. Such institutional approach, makes such institutions accepted in the community in the long term than the credit only organization. The promotion of savings and credit cooperatives creates the foundation for poverty alleviation because less expensive sources of funds are made available. Savings and credit cooperative are financial intermediaries because they mobilize deposit and dispense credit. In the framework of market competition, modern savings and credit cooperatives can even accept deposit from non-members and to a certain extent these institutions are an indicator of the economies of self reliance because they depend on locally generated resources.

But for the success of savings and credit societies in a country, the following conditions have to be had been emphasized: there is need to have a stringent external supervision and regulation, there is need to have separate legislation for SACCOs and finally, a strong management capacity is required.

The other conditions include expanding and strengthening horizontal and vertical outreach. Horizontal outreach is the expansion of financial services to reach a wide geographical area. Vertical outreach is how the savings and credit can reach the poorest of the poor, sometimes called financial deepening.

To promote the strength of the savings and credit cooperatives nationally, there is need to facilitate the integration of the SACCOs movement so that savings and credit mechanisms operate through graduated networks. Such network approach creates the possibility for expanded borrowing on a national scale.

5.0 Strategic Promotion of Savinqs Cooperatives as Sources of Microfinance

Savings and credit cooperatives have the potential for growth in Lesotho because with 80% of the population rural, the way financial services institutions are promoted, structured and regulated will have greater impact in poverty alleviation efforts. The following are the suggested strategies areas in the support of savings and credit cooperative development in Lesotho.

5.1 Structural Issues

There is a tendency in the legal framework to prescribe national structures without taking stock of size, magnitude and the real operational structure of cooperatives. For Lesotho, the government has recognized the concern over the inability of the national organization for effective strengthening of grass root savings and credit cooperatives.

There are two strategies which can be undertaken to improve the structure of the savings and credit cooperative movement, first there is need to carry out comprehensive baseline studies which will identify the strength, weakness, threats and opportunities for the development of SACCOs in Lesotho.

From, the status analysis, an assessment of a national structure should be carried out with the view of identifying the vertical and horizontally which should be promoted. Before embarking into any formal structure, the options between an integrated approach against the automised stand alone structures should be discussed by all stakeholders. To build strong community strength of SACCOs, a network of district SACCOs could be tested starting with a concept of localized networks with shared management, bookkeeping, auditing and product development. Then government efforts should be directed to the strengthening of district or interdistrict networks.

5.2 Promotional Efforts

In a number of countries, there are efforts by government to hand over the promotional functions to NGOs and agencies outside government framework. In the UK, the government has formed the Cooperative Development Agency to carry out among other things, promotional work for cooperatives on behalf for the government. In this situation, the government plays two roles, first quality control of promotional methodology used by different agents and funding the promotional process. After the savings and credit cooperatives have been promoted, the government will deal with regulation supervision and inspection. This process avoids two problems- first the government does not assume paternalistic status, but also the government will not be associated with failure of the cooperative movement.

5.3 Legal Framework

It is obviously becoming internationally fashionable that financial cooperative is nationally managed through their own microfinance policy and separate legislation. The reason for this separate form of legislation is to provide a special attention of special cooperatives dealing with money as a community. The efforts already considered by the government of Lesotho to enact a separate Act for savings and credit cooperatives is a step in the right direction for a more scientific method of promotion and management of savings and credit societies.

5.4 The Farm as an Enterprise

Savings and credit cooperatives are derived institutions whose existence, depends on the development of commodity and service markets. The challenge for savings and credit cooperatives is the transformation of smallholder agriculture into a commercially viable activity. This involves introducing modern farm technology as well as the training of small farmers into modern business management techniques. This can be done if the Cooperative College introduces a more structured outreach system of educational delivery at the district level. This means that outreach system would organise farm enterprise programs for the training of trainers to be recruited at the village level.

6.0 Conclusion

The promotion of cooperatives in general and savings and credit cooperatives in particular is becoming dynamic and more scientific. It is important that the government shares its promotional responsibility with other agents. Savings and Credit Cooperatives are the best brand of microfinance institutions which are viable for economic development and poverty alleviation. Studies need to be carried out to analyse the optional structure for microfinance services for small producers.