

CHALLENGES FACING SACCOS IN THE EAST AFRICAN REGION

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1.0 INTRODUCTION

According to the C GAP microfinance gateway SACCOS stand on a vantage situation over other microfinance institutions because they have identified and registered owners as shareholders, they belong to the culture and history of the communities where members come from, they are autonomous and rely on the local economy for their continuity and sustainability. They demonstrate low administrative because they offer loans at lower interest rates than those charged by other microfinance institutions.

This description, is a reflection of the analysis of what developing countries like those in the those in the East African region need. The savings and credit co-operatives have three technically important features which distinguish them from other microfinance institutions and they include the components of savings. Savings are the starting point of the institution. One cannot offer credit, without savings resources. Second, the savings resources are mobilized from the local economy of the members and thirdly, they are managed on principles of equality, equity and mutuality of self – help. These features do not occur in any debate about microfinance. The general microfinance debate, is about the business of microfinance and principally on micro lending and does not deeply discuss the human character and the system of ownership. In the general microfinance debate, savings is not an issue because it is driven by external sources of funds.

The potential advantage however, has never been achieved without major challenges, in this presentation, the first outline the East African concept of SACCOS, the problems of the model, the achievements and finally the challenges.

In the presentation we make a general reference to the old East African Regional Countries Kenya, Uganda and Tanzania. We however recognize the new member countries of Burundi and Rwanda.

2.0 The East African Concept of Savings and Credit

In the year 2004, the total turnover of the SACCOS movement in Kenya was 120 million USD and constituted 62% of the total turnover of all co-operatives in the country.

But the establishment of the SACCOS movement in East Africa, has been based on the stand alone mode of co-operative organization rather than a horizontal structure that builds on vertical structures up to the national levels. The strength of the SACCOS movement in East Africa, is vertical integration at the expense of horizontal co-operative collaboration.

Given the vertical structures of association, has necessitated cooperative legislation to legitimize the structure. In this structure, a weak co-operative may remain as such for a long time because it works on its own until it meets the others at the national level.

This structure has been slow to accept a network approach to co-operative development.

Finally, the vertical integration with its power of influencing policy, it attracts constraints on growth and member empowerment: First, the distance between the primary SACCOS with the national union is wide. Second this distance assumes that the financial business is complete at the local level and if there is any need for higher level business, it will have to wait until everything is reported to the national level. In Tanzania for example these in a regional or zonal SACCOS / SCCOULT structure. But this structure is mainly for administrative purposes and not for financial business of the members.

Third, concentrating the SACCOS business at the national level, mixes up three important areas of financial business which cannot easily be achieved at a satisfactory level. It mixes up professionalism and governance, advocacy and lobbying, quasi-banking and risk management, education and training disposition.

All these critical functions cannot be easily be achieved by a national structure very far away from primary society members. The end results of this mixture, is carrying out half – done work on all those aspects at the expense of professional business development of critical savings and credit products, advocacy and lobbying and supporting good governance.

The banking and insurance functions should be made go migrate to professional cooperative banking structure and cooperative insurance.

Fourth, this structure is imported from the British tradition of unionization – attempt by the British to create a single unified Achievements model (wanyama et al 2008) – Legal form Despite the structural constraints of the concept of SACCOS in East Africa, the SACCOS movement has had great achievement in the grassroots economy: the traditions are those based on the British tradition the francophone social economy model and the Belgium systems model based on a define social movement.

This history of the co-operative enterprise was defensive against exploitation

The SACCOS history was different – it was manly access to credit based

According to Wanyama et al(2008), the received colonial traditional models have been reinforced than transformed by the post colonial gouts.

Liberalization has questioned the member client – cooperative model to members becoming real owners and using the cooperative as a tool for economic empowerment.

This however, does not mean they have thrum away the militaling structure impediments of the colonial model. They survive in cooperative policing during the convent are, the cooperative model is learning from other experience and the traditional from the social economy model of networks, of SACCOS which are horizontally unified such Dunduliza where sevices are offerred by a central hub and there is an immediate establishment of a specialized bank. This discussion, needs to be analyzed with open minds rather than protective and defensive

because in our opinion, a realistic African SACCOS model that responds to members' economic and social needs is still being re-discovered through experimentation of the unified, network and producer organization model. The example of branch network as demonstrated by Bushenyi SACCOS opening branches at country level also offers a variant of learning from such an experience. The co-operative structure in Uganda with major links offered by the Area marketing enterprise and Mzuzu coffee union, promoting the formation of primary societies and other unions for coffee in Malawi, are all offering experience where the African model is unfolding. These experiences need documentation and a flexible approach towards change and restructuring. Hierarchical structure – opportunistic in implementing a supportive horizontal structure (Chambo 2009) where the local community of primary societies agree to form a local hub where a few technical issues will be technically addressed for the benefit of members and financial business. It implements principle no. six of cooperation among co-operatives and building a collective co-operative movement. It has an opportunity for cost reduction, professionalism and innovation. Easy-going complementary structures of good governance and easy to trace.

SACCOS ACHIEVEMENTS

Despite the fact that the SACCOS model is still under transformation, it has registered quite remarkable success on how it has operated over the years. They have made it possible for the poor to make savings and **acumen** credit at a reasonable price at items useful and acceptable to them (Chambo et al 2007) and most of the time without collateral security. They have allowed the creation of financial self-reliance where they would have remained in perpetual poverty and this has implications on the large economy that the more the SACCOS movement the country builds a stronger savings fund for self-reliance,

The relationship built between the members and their SACCOS is much deeper than between a customer and a commercial bank. The relationship between member and their SACCOS or cooperative banks are more for the long-term development of their own countries. The availability of localized financial sources has enabled some **usual** farmers' cooperatives like in Hai district or Bushenji in

Uganda, ac..... Profitable distant markets because the credit allows waiting time for accessing or negotiating for better prices such make a cushion against exploitation of farm – gate prices.

Some rural SACCOS in Tanzania have made positive intervention in the warehouse receipt system and protect farmers against private buyers c..... suppressing agricultural commodity prices.

THE SACCOS PROBLEM

We define the SACCOS problem as a gap that is difficult to deal with but there is existing capacity to resolve it. Usually, it may remain unresolved because of different perceptions held by the members or their leaders.

Some of such problems exist just because of negligence that these is nobody prepared to address them at any given moment such problems for the SACCOS movement include:-

Lack of Member Education and Development

When a SACCOS is formed, it starts with member education. It must continue with member education all the time. Members need total education about the organization including the practices of savings the attitude of thrift, borrowing, project selection, how and where to invest. They need to be well informed about expenditures, how to enhance their savings and how to timely pay their loans. They also need go get a clear message that when they invest into income generating projects, when the get returns on their projects they should deposit those funds in their SACCO.

According go Okoye (2008), workplace members especially in South Africa, there in more spending on conspicuous consumption them sev..... colle

It is however common practice that very seldom members are exposed to this comprehensive type of education. They are confined loans only. The repayment of the loans are not through revenues earned from projects, but if they are member employees, they pay their loans through salary deductions. The revenue earned from projects, are deposited in a commercial bank. This can be explained as half –

herted confidence in their SACCO because they receive loans and they are not inlling to deposit the returns in the SACCOS.

But on the other hand, the SACCOS may not have opened the widow for making easy deposit. This is happening in the employee-based SACCOS movement and these in very little effort invested to reverse the situation. These is apparently, no strategy to promote savings.

Lack of Integration / collaboration with other SACCOS Networks

In the three East African countries, there exists the unified structure of the SACCOS national Union. At the same time, these have emerged other SACCOS networks in our countries. In Tanzania for example, SACCOS networks have come to the fore such as DUNDULIZA, USAWA, RUFIP and KADERES just to mention a few. The attitude demonstrated by the mainstream SACCOS movement is complete negation and recognitions. This could be caused by the emphasis and protection of the unified co-operative model where they think it in the only recognized model through the co-operative Act. The same may be happening in Kenya with KUSCO and in Uganda. This lack of comprehensive integration limits the advantage of large numbers and diversity. It also puts a limitation on learning from each other for the sake of growth. It also allows competitions to take advantages of balkanization of SACCOS.

Lack of Comprehensive Integration with Agriculture

The East Africa region is agricultural where between 70 - 80% of_ population is rural and agricultural. According to Africa report, (2005) sub Saharan population was 751 million in 2004. Chambo, (2011) points out that the SACCOS movement in Tanzania, is growing at a fast rate constituting 55.3% of all co-operative establishment while agricultural marketing co-operatives have taken a back seat constituting 29.6% of all cooperative establishments. There is a clear indication that the two are growing independently.

These are however isolated cases such as in the RUFIP program (Chambo 2011) where rural agricultural marketing co-operatives have taken a deliberate initiative to promote localized SACCOS supporting the crop marketing activity. But our main point here in that there is very little discussion at SCCULT level, of an

initiative to map out a strategy for agricultural integration with the SACCOS movement.

Weak Advocacy and Lobbying

The main indicator of existence of a co-operative movement is the voice it expresses to policy makers and in national debates on development.

In Tanzania for example, the contribution of the SACCOS movement is less recognized by the state and less visible too. Unlike their counterpart KUSCO in Kenya where the SACCOS concept is a household name, in Tanzania, there is even a misconception in the local language saying "societies for savings and borrowing" (vyama vya kuweka na kukopa) the word co-operative is not there and the process is very mechanical "put and borrow it is not about human capacity development in addressing livelihood problems.

Lobbying and advocacy are concepts easily spoken about but tricky at implementation. They constitute a planned process of influencing government policy through dialogue, reasoning and action but also institution of member empowerment at the local cooperative society level. While this may happen in Kenya, it is less visible in Tanzania.

Less Orientation to Information Technology

Information technology is changing very fast and influencing the pace of change institutions such as the SACCOS. But according to Ademba (2010) one of the curtailed problems of the SACCOS movement is inadequate resources to meet the demands of technological and contemporary skills development in the leadership and management alike. A decision has to be taken to address this problem by mapping out a medium term technological transformation plan.

Proliferation of Non-performing projects.

Over time, national SACCOS or even primary SACCOS have taken investment decision to diversify their income the intention was completing and with good intentions of expanding the revenue earning capacity of the SACCOS. But as Ademba (2010) points out, the assets most of them in real estate economy, are currently non-performing. Likewise, the Saarland savings and credit cooperative union, had in the late 1990's invested in the construction of a multipurpose office

block to attract extra revenue from rentals. This did not work out well and by 2008, the building was not yet complete. The emphasis we want to make here is that, the business of SACCOS is about money and dealing with money only. It extends credit to members so that they can invest in income-generating projects and pay back the credit. Financial institutions like commercial banks, do not invest customers money on income generating projects outside the business of money.

CHALLENGES

In organization development a challenge is a complex issue that may contain a number of connected problem and which can be resolved with the involvement of other stakeholders inside and outside the industry the following are some of the challenges of the SACCOS movement in the East African Region:-

Mitigation of Globalization and its Effects

As a global system of capitalist development, the drivers of globalization are trade in goods and services, technology and investment (Wangwe and Musonda: 2000). There are three major effects of globalization with respect to cooperatives in general and SACCOS in particular; First , developing countries have underdeveloped financial markets and instruments which limit developing countries becoming globally competitive.. Second, is the technological underdevelopment , leading to inflexibility in adaptation to changing markets and low levels of export diversification. Due to those conditions , developing countries are unable to meet the standards of globalization and both domestic and regional markets

While it is clear that globalization is a condition that countries are automatically drawn in, economists have suggested a number of interventions that would bail out developing countries including those from the East African Region , from the ills of globalization. The strategies include; enhancing their negotiation capacity and including other stakeholders outside government such as the civil society , co-operatives and trade unions in international negotiations. It has been seldom that such stakeholders such as SACCOS have been prepared in skills development for negotiation. On the other hand, the policy literature is confident that co-

operatives by their very nature, are one of the forms of such organizations with the capacity to mitigate the negative effects of globalization such as exclusion of social groups and their principle of continuous education and training, offers opportunities for closing up the knowledge gap always enhanced by globalization. The SACCOs movement provide opportunities for small scale entrepreneurs to access loans and become productive as a mitigation factor against globalization. The challenge here is how to make governments appreciate and support the SACCOs movement in a national strategy for the mitigation of the negative effects of globalization.

Supporting and Building the East African Co-operative Bank

The discussion about SACCOs , has always escaped an open debate on the consolidation of the East African Co-operative Bank as the second organizational level for the SACCOs. It is quite apparent that SACCOs in any country setting, need co-operative banking and co-operative insurance for the reason that these institutions complete the co-operative cycle of logical organizational ecology.

While Kenya has done very well in establishing the co-operative bank and the Co-operative Insurance Company of Kenya, those institutions need some space at the district and provincial levels in all countries and also at the regional East African level.

The partnership of co-operative SACCOs, co-operative banking and insurance, is needed for the domestication of all critical financial services within one co-operative movement. This reasoning can be seen if we look at the following four hypotheses;-

HYPOTHESIS NO 01

Economic liberalization has made commercial banks go to the rural areas where they recruit creditworthy clients while the remaining poor, continue to be members of the SACCOS. That is one of the reasons for rural SACCOs remain small size , vulnerable and do not grow.

HYPOTHESIS NO 02

SACCOs in rural and urban areas will continue to remain institutions for poverty sharing because any moment some of the members alleviate their poverty, they graduate into becoming clients of commercial banks. Those who cannot graduate, continue to be members of SACCOs.

HYPOTHESIS 03

SACCOs will remain small size and poor because they have been turned into captive markets for wholesale loans from commercial banks for retail credits to their members. This process makes some of them absorb higher levels of credit than their members' ability to pay and risk becoming bankrupt. Those with the ability to pay, they become transformed into credit and payment co-operatives

HYPOTHESIS 04

The SACCOs provide the first stage of a long term strategy for the development of a bankable population in the country. The promotion of SACCOs therefore should be seen as the localization of co-operative banking. The second level which is either the district or provincial, the SACCOs should consider the formation of co-operative banks such as the Kilimanjaro and Kagera Farmers co-operative banks in Tanzania .Such a structure should give a particular landscape for the development of the national co-operative bank and later the East African Co-operative Bank.

The discussion on hypothesis 04 , is also supported by researchers such as Johnson at al (2002) that ordinary commercial banks , will never go into remoter areas of African countries . Second, as we discussed in an earlier paper, is the financial systems argument as posed by Levin (2000) that in order for the SACCOs to role into the existing and future financial systems , their movement into co-operative banking and insurance is very necessary. This however, does not substitute the need for national and international networks of SACCOs for professionalism ,education and good governance issues.

As pointed out earlier, the co-operative enterprise in Africa , is still unfolding . It is therefore important that such structures as the central Fund and Risk Management Fund are restructured and migrate to co-operative banks and co-operative insurance respectively when such professional institutions are formed. Let the national SACCOs unions do more innovative work on professional cost effective product development for

SACCOs, co-operative member education and training, lobbying and advocacy and governance issues. These specializations for the unions are very critical for the SACCOs and finally the reconstruction of a strong co-operative banking in our region.

CONTEXTUALISATION AND RESTRUCTURING THE UNIFIED CO-OPERATIVE MODEL

East African countries, imported the unified co-operative model from the British colonial administration (Delvetre et al 2008) . The challenge for all co-operatives in Africa including the SACCOs is to revisit the model and review it in respect to its response to members and how it creates the future of an expanded financial co-operative movement for the region. According to recent research (Delvetre et al 2008) the unified co-operative model was adopted wholesale but not transformed. This historical fact is critical to the movement. It needs transformation so that it is contextualized to local conditions. For example, according to common practice, the model does not allow horizontal interaction and collaboration among local level SACCOs. Individual SACCOs stand on their own to face the competition and survive individually.. Experience from other modes such as the network approach , should carefully be studied and inform the restructuring process.

FROM URBAN TO RURAL AREAS

Our discussion earlier, indicated that the SACCOs movement that is popular today is historically urban. But if we compare the needs for savings and credit needs, the rural population and the modernization of agriculture is a priority in development today.

We have strong SACCOs in urban areas and the challenge here is how do the urban SACCOs movement strategically expand to the rural areas without losing membership in urban areas..

National SACCOs unions could commission a study on how the urban movement could expand outreach in the immediate rural areas.

THE WAY FORWARD

After the discussion on achievements, problems and challenges, we can tie them up with some suggestions on the way forward as follows:-

The Unified Co-operative Model

The East African region possibly needs a new and more responsive structure of the SACCOs movement. The new structure will need to integrate with co-operative banking co-operative insurance and be able to respond to financial needs which can be instrumental in modernizing agriculture and other sectors of the economy. The restructuring process will call for leaders who are ready for the restructuring and intersectoral restructuring process with a new vision of contributing to an independent well integrated regional economy.

SACCOs Policy Forum

It is clear that the East African Region will soon have its pieces of legislation for SACCOs starting with Kenya. Tanzania has a draft regulatory framework and a SACCOs bill might be coming up. The same is expected to come in the other countries in the region.

The East African Association of the SACCOs within the framework of the East African Community could start this dialogue on policy so that we have a more harmonized SACCOs development policy in the region setting up basic benchmarks and standards for legislation in the region.

Code of Good Governance

Good governance is a burning issue in the overall co-operative movement in general and in the SACCOs in particular. While there is a need for national codes for good governance at the national levels, we need one for the region which will be useful in assessing the attainment of it in SACCOs. The code for good governance will also be instrumental in making objective comparative analysis on an annual basis and the findings disseminated to all SACCO stakeholders in the region. It will facilitate cross learning and make the right reflections for change.

The SACCOs movement at the East African level, could form a small team of professionals who could be given the task to draft one.

CONCLUSION

The SACCOs movement is an important link between production systems and marketing arrangements of any economy. But we have seen that the largest part of the SACCOs movement is urbancentric. This has been necessitated by the history of the British unified

model of co-operative organization. We have also noted that at independence in East Africa, the traditional unified model was taken on board without transforming it to meet the needs of the local context.

The current SACCOs movement has achievements especially in drawing the population of members into banking practice. But also the movement has a number of problems which can be addressed by existing management capacity. We have finally observed a number of complex challenges such as globalization itself, how to move into the rural areas and the need to restructure the unified model into the African context.

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