

**THE ROLE OF SACCOS IN RURAL TANZANIA**

**By**  
**SULEMAN A. CHAMBO**

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**Principal, Co-operative College Moshi, Tanzania**

## ABSTRACT

Tanzania is a microfinance country. Out of total population of 34 million people, there are almost 16 million poor people mostly depending on smallholder agriculture. As such they need financial services to sustain their small and micro-enterprises. Rural Savings and Credit co-operatives offer one of the best options for organizing self-help financial services. Although the history of SACCOS dates back to 1938, enhanced promotion came after independence. But in 1976, the co-operative movement was disbanded dissolving 150 rural SACCOS, the National Co-operative Bank, the Savings and Credit Co-operative Union league of Tanganyika and the Co-operative Union of Tanganyika.

Pressure caused by the absence of co-operative marketing infrastructure after the dissolution of co-operatives, forced the government to re-establish the marketing cooperative movement in 1982 but without a sound development of rural SACCOS. Marketing co-operatives were allowed to run a financial structure known as the Rural Savings and Credit Schemes. The two however could not co-exist due to lack of management capacity and demotivation resulting from the past history of government control and interference into the affairs of co-operatives

The later years of financial services liberalization, saw the emergence of rural Savings and Credit Associations (SACAs). SACCOS and SACAs are different and similar in many ways., but they have one common denominator -they are both people -owned financial institutions organised and ran on co-operative principles. Because of other long history and a long-standing coherent management and governance systems, SACCOS stand out to people a more stable status than SACAs. Invariably, SACAs are viewed as experimental and transitional institutions for small farmers to practice the best ways to become members of co-operative SACCOS.

Although SACCOS and SACAs operate under difficult technical, professional and poor commodity production condition, they are still economically and socially viable institutions in rural Tanzania. SACCOS and SACAs have carried out a number of innovations and gained some operational successes. They also face the challenges of professional management, product development and outreach.

On the other hand, there are a number of openings that give SACCOS and SACAs a high degree of future success. These include a positive policy and legal framework, educational, audit and a commercial banking infrastructure that can sustain a viable rural financial services development which can grow from the village to the national and East African financial co-operative systems.

## 1.0 INTRODUCTION

According to the population census of 2002, 74% of the Tanzanian population is rural and dependent on subsistence farming and livestock. Only six per cent of the 44 million ha of arable land, is under cultivation (TAS: 2001). The population of cows is recorded at 16 million, but for quality reasons, cannot be exported. On the export sector, Tanzania continues to depend on the four major traditional crops coffee, cotton, tobacco and cashewnuts. Except for tobacco, the other cash crops have recently been shaken by declining prices. This economic picture demonstrates four sceneries for the Tanzanian economy: First, Tanzania is financially a micro-project, micro-enterprise and microfinance country. Studies on financial services development, have demonstrated the increasing demand on loans but shortage of savings (Co-operative College: 2003). On the other hand, poverty studies have located that 50% of the Tanzanian population is poor. At the sometime, the incidence of poverty in the rural areas has been explained to be more severe than the urban areas.

Second, despite a high incidence of poverty in the rural areas, there is still high potential for the development of agriculture, industry, commerce and services. But some of the limitations to the exploitation of natural resources, result from severe deficiencies in technology, skills and finance capital to expand output and improve the economic utilization of natural resources.

The third scenario, is the gap between real subsistence production and the potential surplus output for the market. Under peasant production systems, any marginal surplus output, is a burden to small farmers because the marketing activity is not part and parcel of agricultural production. In a recent visit to Magu district in Mwanza region, we were informed by a group of farmers that last year, they got into problems when they produced surplus maize for lack of marketing skills. The marketing concept and general business development therefore, is an important component in the development of sustainable financial intermediaries in rural Tanzania.

The fourth scenario, is the absence of strong rural institutions to mobilise financial resources to support small farms and livestock enterprises, organized by 16 million small farmers. The role of SACCOS in Rural Tanzania, therefore, has to be discussed in the context of the development of sustainable financial services for 16 million poor people mostly found in the rural areas.

This presentation intends to pursue the fourth scenario on the development of rural Co-operative Savings and Credit Societies and will address the following aspects: The historical development of SACCOs, current status and operations of rural SACCOS, the performance and evolution of SACAs, the operational environment of both SACCOs and SACAs, Innovations, achievement, challenges and Future Prospects.

## **2.0 SAVINGS AND CREDIT CO-OPERATIVES: HISTORICAL EVOLUTION**

Savings and Credit Co-operatives are organisations formed by individuals who freely pool their financial resources together and make them available for the provision of a range of financial services to the members. They are user owned financial institutions where the members mobilise savings and later, place them at the disposal of members to finance their economic needs. The members accessing credits from their own organisation, are expected to use them wisely, productively and prudently (Krohanen and Schmidt: 1998). In the savings and credit process, the members implement self-help promotion through owned resources. They also implement sustainable development because there is simultaneous savings and credit for productive investments. Different from other credit only microfinance institutions, SACCOS are superior organisations as they demonstrate the twin processes of development of self reliance and autonomy.

The history of Savings and Credit (SACCOS), goes back to 1938, when a group of Ismailia Asians, formed the first registered SACCOS in Moshi town. By 1947 there were a total of 5 Ismailia registered SACCOS in Moshi, Iringa and Dar es Salaam (Bee, Chambo and Mtenga: 2003). Later on, the Catholic Church picked the idea and established the first two indigenous SACCOS in two parishes in Moshi, in 1961.

After Independence, the promotion of co-operatives, became more political than economic. Support for the promotion of SACCOS came from the government, the Nordic countries and the World Council of Credit Unions of the USA (ICA: 2001). A national organisation to co-ordinate and represent SACCOs nationally and internationally, the Savings and Credit Union League of Tanganyika, (SCULT), was formed in 1964. Apart from co-ordination and representation, SCULT distributed tailor-made stationery and carried training for the member societies.

From 1964 to 2004, we have had three phases of the development of rural SACCOs. Between 1964 and 1976, SCULT operated more autonomously and working with the government, some 150 rural SACCOS were promoted. They were however, established in areas where the crop marketing co-operative movement was popular. The areas

included, Kilimanjaro the Southern Highlands regions and Ruvuma. In the other parts of the country, more informal rotating savings and credit groupings, were operating.

The 1976-1982, was the period when the market-driven co-operative movement was dissolved. The dissolution of the agricultural marketing cooperatives was not affected though government action and included the National Cooperative Bank and 150 SACCOS, SCULT and the Co-operative Union of Tanganyika. The urban -wage- based SACCOS in urban areas, were not affected by the dissolution. The government replaced the movement with a government - driven marketing system of village- based producer organisations connected with marketing boards at the national level. The Co-operative Union of Tanganyika was replaced by WASHIRIKA. During the dissolution, a national structure of co-operative based financial services had begun to take shape. There were the urban SACCOS, rural SACCOS and the National Co-operative Bank. Co-operative Insurance services had started taking shape at the CUT.

The dissolution therefore, removed four important growth areas for co-operative -based financial services: the rural SACCOS, the CUT, SCULT and the Cooperative Bank. This kind of a co-operative financial infrastructure, has not been attained to day.

The 1982 Co-operative Act, allowed more government-controlled marketing cooperatives, without independent rural SACCOS. Instead, the law allowed the formation of Rural Savings and Credit Schemes (RSCS), as appendages of the rural primary marketing co-operative societies. The combination of agricultural marketing and savings and credit activities, never took off the ground due to absence of professional management and good governance in general.

From 1991, Tanzania started the third phase of the development of SACCOS in the post independence era. The 1991 Co-operative Societies Act, promised voluntarism, autonomy, democracy, independence and member participation in the formation and running of co-operatives. The urban SACCOS continued to - grow but not very strong at the macro-level financial systems. At a policy level, the Tanzanian government-initiated liberalisation policies, removing government participation in economic activities. Since then, we have experienced three features of the development of the SACCOS movement: First, in 1992, the national Savings and Credit Co-operative League of Tanzania (SCCULT) was registered. The fast registration of SCCULT raised doubts as to whether it had time to be designed and formed by member societies. By that time were basically the urban -wage -

based SACCOs. Second, the government gradually started folding back resorting to registration, supervision and regulation. Third, actual promotional work is carried out by donor-funded programmes (RFSP, PIDP and AMSDP) all funded by (FAD and a few financial services NGO's such as DID Tanzania and Financial Services Development Association (FISEDA).

The national organisations such as SCCULT and the Tanzania Federation of Cooperatives (TFC), are marginally involved in promotional work. As a result, the development of the rural SACCOs movement, cannot avoid patronage characteristics of belonging to any of the promoting agencies. Given that our vision is financial penetration to 16 million poor people in Tanzania; it is a healthy situation to have as many promoting agencies as possible. What we should be concerned with, is whether the methodologies and processes of promotion, will produce sustainable and professionally managed SACCOs in the rural areas.

### 3.0 CURRENT STATUS AND OPERATIONS

According to the ICA: 2001 survey, there were close to 650 SACCOs in Tanzania. The breakdown was 400 rural and 250 urban SACCOS. The rural SACCOs were mainly found in the regions with the strongest cash crop economy but also where there was strong donor promotional intervention. Another study done by the Co-operative College in 2003, found similar features of rural SACCOs with narrow market penetration, small size units and rudimentary management systems. The geographical distribution of rural SACCOs and SACAs like organisations is summarized as follows: .

Regional	%Percentage
Mbeya	50
Iringa	20
Kilimanjaro	16
Others	14

**Source:** ICA Survey Report, 2001 and Co-operative College Report 2003

According to the 2003 SACCOs status report of the Ministry of Co-operatives and Marketing, the statistical features of the national SACCOs movement is as follows:

Number of SACCOS	1,264
Membership	163,732
Shares	11,709,363,510
Savings/ Deposits	10,839,776,722
Loans	28,563,805,037
Total outstanding loans	17,831,481,027

**Source:** Ministry of Co-operatives and Marketing Annual Report: December, 2003

Although the data is nationally aggregated, it shows that the SACCOs movement is a fast growing sub-sector. The sub-sector almost grew by 100% over the last three years. It also shows the effect of different promotional players mainly with donor organisations and different NGO's and CBO's. Total outstanding loans are 60.7% of total loans and 80.9% of total capital. Hopefully these loans are not arrears. The overall national picture does not distinguish between short term and long term loans. But rural SACCOs promoted by FISEDA and DID, indicate that all loans are short-term and as at 31st January, 2004 the network supported by the two NGOs had loans standing at 212,608,191 without loans in arrears. The information from different initiatives in promotion is scattered across the country. There are rural SACCOs supported by the Arusha Community Support Trust ACIST, in Arusha and Manyara regions, have managed to extend long term loans for housing and business development for their members. Examples demonstrated by promotional NGOS and CBOS is a clear proof that the SACCOs movement is one of the most reliable forms of financial services mechanisms for rural development and poverty alleviation in Tanzania.

Although Studies carried out recently by the Co-operative College in both the Northern and Southern Highlands rural SACCOs, have indicated problematic areas of operation we would like to argue that, those problems are derivative of the macroeconomic economic distortions of Tanzania whose manifestations at the micro institutional levels, have far-reaching implications. There is underutilisation of land, animal and other resources and the Gross Domestic Product contribution of agriculture, has averaged 44.8% over the last three years. For a predominantly agricultural this contribution is relatively, on the low side (TAS: 2001). But while poverty is about people (EEU:2000) and their institutions, it is therefore, important to note that in any discussion concerning rural SACCOs

The capacity of the rural people to manage modern institutions, must be put into context. Looking at the Tanzanian human capacity situation, it is observed that 58% of adult population, have primary education. 28% of adults and 68% of women in the rural areas, have no formal education. This distorted scenario of basic educational attainment, has far — reaching implications for the management of rural SACCOs today. Like all other types of co-operatives, rural SACCOs are community—based and member—driven organisations. As such, they depend on the stock of available management skills in the immediate communities. Studies have shown that there is a direct relationship between SACCOs' managerial problems and the rural human resource situation as outlined above. Some of the critical operational problems include: lack of competent and skilled staff. Most employed staff work on voluntary basis and with very low level of educational attainment. They also have no time to learn new skills. Record keeping is poor, hence members cannot fairly contribute to discussions and give informed judgment on the business development of their SACCOs. The products on offer are very narrow; they consist of savings, short term loans and deposits. Due to low skills development, rural SACCOs cannot design and develop new products. There is lack of management capacity for managing market-driven SACCOs. As pointed out earlier is rural productivity is low, and also, money, earning activities may not be economically because records for measuring performance, may not be available in a systematic manner. Due to low capacity of the leadership, membership of rural SACCOs, is marginal. For example, the population of the rural areas in four districts of Mbeya Rural, Rungwe, Mufindi and Mbarali is 255,975 but the membership is restricted to 13,246 or 5.2% (Co-operative College: 2003) and does not grow. There are three main reasons for narrow outreach: First, the feeling of risk to manage large organisations with residual management capacity. Second, there are worker - based rural SACCOs such as Teachers' SACCOs who are not prepared to open up for members with erratic income profiles and third is the incidence of degenerative leadership who feel the risk of being voted out when they face the challenge of increased membership. Finally, the gender dimension of outreach shows that women have not yet taken their rightful place in the SACCOs movement. In the Southern Highlands rural SACCOs, male members are 67% while women composed 30.4% of total membership.



#### **4.0 EVOLUTION OF SACAS (EVOLUTION, SIMILARITIES AND DIFFERENCES)**

According to the ICA:2001 survey, the Savings and Credit Associations (SACAs), are a new innovation in the family of people-owned financial institutions. There have been two forces, which promoted the institutions. First, the IFAD Southern Highlands Financial Services Programme, wanted organised channels for rural agricultural credit. At the same time, the District Councils had funds for providing loans to different community groups through the Ministry of Community Development, Gender and Children Affairs. The Community Development staff therefore, was used to promote groups and associations which formed the institutional channels to meet conditions put by IFAD and District Council programmes. Apart from this congruence between the Ministry and IFAD, historically and conceptually the SACAs were filling an organisational vacuum of the past failures of the co-operative enterprise system. Most SACAs are in the Southern highland's regions, and their establishment goes back to 1998. The other parts of the country know very little about SACAs.

##### **4.1 Similarities with SACCOS**

SACCOS and SACAs are all based on group action to development. They are both registered people - owned institutions, governed by principles of democracy, equality and equity. Both of them are voluntary organisations. The way they raise resources is through forced savings which are more contractual and all are based on the agricultural production common bond. As such their cash base is built on existing small holder agricultural production enterprises in coffee, potatoes, maize, bananas and vegetables. Their members also may carry out some trading and small businesses, as parallel activities. Both have equal gender attraction as members because the qualification is liquidity.

##### **4.2 Differences**

SACCOS are promoted and registered under the Co-operative Societies Act. SACAs are registered under the Ministry of Home Affairs. The formation history of SACCOS is based on the individual's search for self-help promotion but SACAs have a history of

externally driven credit catchment motive. The entry point in SACCO's membership is the individual person, but the qualification to join a SACA is through solidarity groups of 2 - 5 people. Hence, membership in SACAs is partially imposed while in SACCOs, entry and exit of membership are voluntary and free. SACAs have attracted more youth and women due to their credit targeting arrangements. SACCOs have attracted regular income farmers and more male dominated. Membership in SACCOs is more stagnant than in SACAs. This is so because in SACAs, there is motivation to access external credit, though it may threaten future sustainability. SACCO's have more structured regulation, supervision and external audit as well as comprehensive education and skills support systems. SACAs do not have any reliable support system.

However, behind these differences, the Ministry of Co-operatives and Marketing, has through the New Co-operative Development Policy and Co-operative Society Act 2003, recognised the existence of SACAs as pre-co-operative groups. This recognition should create the necessary bridge for Ministerial services delivery to rural SACAs.

## **5.0 OPERATING ENVIRONMENT FOR SACCOs AND SACAS**

The operating environment for both SACCOs and SACAs is determined by the policy environment, legal framework, Institutional support infrastructure and the production conditions of the rural economy. In terms of the policy and legal framework, there is more structured flexible and clear policy and legal framework for SACCOs. The Co-operative Development Policy and the Microfinance policy offer wider operational environment for

SACCOs. The legal framework for NGOs is expected to guide the operation of SACAs. They are also governed by the National Microfinance Policy. As far as the legal framework is concerned, SACCOs have the advantage of getting special treatment, because there is a co-operative law. Legally SACAs will tend to get generalised treatment because of lack of piece of legislation specific to SACAs. For example, the current Co-operative Act, shows the possibility of district, regional and national association of SACCOs. SACAs do not have the legal possibility for building a national system.

Organizationally, the Co-operative SACCOs have a more comprehensive institutional support infrastructure than the SACAs. Nationally, the SACCOs have the structural possibility for joining the national system under SCCULT. They also have the possibility of joining other forms of co-operative networks. SACCOs have an educational and skills development infrastructure. The Cooperative College Moshi and its wings can offer the required education and training. The national organisation, SCCULT can offer the required tailor-made courses as well as getting stationery that help the SACCOs to implement best practices into action (ICA: 2000). The SACCOs have an external audit service from COASCO and supervision interaction from the Ministry of Co-operatives and Marketing. SACAs on the other hand do not have such kind of external support. They are isolated single-handed institutions, but competing in financial markets.

The production conditions of the rural economy where both SACCOs and SACAs operate pose more challenges than straight forward opportunities. The members of both SACCOs and SACAs are in the small-holder economy. Although each locality has a different cash flow pattern, (Co-operative College: 2003), it has been found that generally the credit needs during land preparation, sowing and weeding are higher than during harvest time. A high-level management capacity is needed to make correct assessment of credit needs along the patterns of smallholder agricultural production cycle, make farm plans and budgets.

The technological problem is critical to the sustainability of cash flows into the SACCOs and SACAs movement in the rural areas. Farm production and productivity are generally low. The technological environment therefore, is not supportive to allow increased output. There is no structured mechanism of communities, although there is a host of agricultural innovators at the village level. Apart from the fact that the Ministry of have a strategic programme for changing the hand hoe, the members of the SACCOs and SACAs run the risk of maintaining loss - making agricultural enterprises.

Finally, the human resource capacity to manage competitive rural organizations is not available. Such capacity is needed for the co-ordination of production, production technology, organisational development, logistical management, marketing and enterprise development. The training delivery infrastructure, may be available but there is need to build a mechanism for connecting villages. SACCOs, SACAs and skills development centres targeting technology development, agro-processing post-harvest management and business development. These issues are beyond the confines of SACCOs and SACAs, but provide basic parameters for enhancement of the rural production and enterprise development system as a backward link to a strong rural financial services system.

## **6.0 INNOVATIONS, ACHIEVEMENTS AND CHALLENGES**

### **6.1 Innovations and Achievement**

Despite the fact that rural SACCOs and SACAs are operating in a complex environment, they have registered a number of innovations and achievement. Innovations include the on-going modernisation programme initiated by ACIS – assisted SACCOs in Arusha and Manyara regions, efforts to build SACCOs district committee and networks in Arusha and Manyara and the design of inter-SACCOs lending programme in Babati. Some of the promising rural SACCOs are Wino Ward SACCOs in Songea rural district and Mkoka in Kongwa district, operating viable front office activities where quasi-banking transactions are carried out daily.

Other important innovations have been demonstrated by the DID / FISEDA supported SACCOs where the establishment of rural SACCOs, goes with modern management systems, product development and aggressive promotion drive. Mlimani Ngarash in Monduli, have developed a model that cultivates membership from people of all walks of economic life. SCCULT has been able to implement a quick book accounting programme for advanced SACCOs but also running a Central Finance programme which though centralized, provides a good platform for design work.

The achievements of rural SACCOs are also important. In Monduli, SACCOs' members report of their successes in house construction, investments in retail trade and dairy cows (Bee, et al: 2003). They also recorded successes in financing crop purchases and supporting education for their children. Wino Ward SACCOS in Songea, has sufficient financial resources to modernize its agriculture and move into the new phase of active enterprise development. The rural SACCOs are currently developing a visible network of their own. They have an identity and differ in operations from the urban- wage-based SACCOs.

## **6.2 Challenges**

Both SACCOS and SACAS face a number of both external and internal challenges to make them compete in financial markets.

### **i) External Challenges**

#### **a) Unco-ordinated support systems**

The Ministry of Co-operatives and Marketing is providing legislative, supervisory and regulatory support to rural SACCOs. The support is limited by the administrative divide between the Co-operative Ministry and the Ministry of Regional Administration and Local Government. The divide constrains the impact of the Ministry of Co-operatives and Marketing on rural SACCOs,

#### **b) Promotional Approach**

Currently there are many players who promote rural SACCOs. Some of them are CBOs, NGOs, government institutions and donor-funded programmes. The challenge is the harmonisation of methodologies and processes of promoting rural SACCOs. There is need to develop a co-ordination mechanism where different methods and processes of promotion can be shared for sustainable organizational development work and quality control.

#### **c) Centralised Professional Management and Business Development**

Currently rural SACCOs and SACAs are at different stages of development. some of them are strong enough to employ professional management. But some of them are financially weak and need initial support to grow. Although SCULT has tried to offer centralised professional support, it has been limited to its more urban members than all other rural SACCOs. But to offer such kind of services, SCULT will need to enhance its

promotional capacity and working tools in the Zonal Offices. At the moment such services are needed but cannot be outsourced.

**d) Product Design and Development**

To attract membership and sustain their economy, rural SACCOs and SACAs need Professional Management Teamwork which can continuously design and develop new products for different member societies. The research department at the SCCULT, could perform this function at the site of the member societies. They cannot do this currently. The Federation of Savings and Credit of Thailand (Report: 2002) for example, uses working groups of experts in assisting it to serve member SACCOs with professional services which cannot be accessed by primary SACCOs and SACAs.

**e) The Money Business**

For the member societies who have affiliation with SCCULT, the Central Finance Programme has been useful as source of wholesale credit. It is however up to SCCULT to assess whether this programme is a real money business for the member primary SACCOs or they need more products. We have not critically made any external evaluation of the programme; therefore, we are not sure whether it accommodates the wishes of member societies or not. Different range of products could be made available at the national level including running an ordinary savings and credit business and developing the National Savings and Credit Bank. The Federation of Savings and Credit Co-operatives of Thailand, runs a strong money business at the centre where the federation borrows from surplus member societies and pays back with remunerative interest rates to the members, under the Promissory Note Program (FSCCT:2003).

**ii) Internal Challenges**

Internal challenges in rural SACCOs and SACAs are based on the implementation of best practices, Management Information Systems, outreach, professional management and enterprise development:

**a) Best practices**

Rural SACCOs and SACAs are far from implementing best practices. They are isolated and geographically not well connected to modern service centres. National networks such as SCCULT should look into formulating a

comprehensive programme for the institutionalization of appropriate best microfinance practices in rural SACCOs.

**b) Lack of Professional Management**

Professional Management and installation of Management Information Systems and instruments constitute a real demand for rural SACCOs and SACAs. Currently, most of them do not have access to this kind of human resource capacity. While this problem was discussed as an external input, locally a number of SACCOs could pool their resources and establish a service unit at district or regional level. Such a service unit could play the role of even designing and developing new products for the area-based SACCOs and SACAs.

**c) The Art of Strategic Planning**

All studies carried out in rural SACCOs and SACAs; point the lack of strategic and annual business planning. The rural SACCOs served by DID and FISEDA have been trained in the art of business planning. The others are not doing it. Joint efforts between the training providers, the support NGOs and the national networks are needed to develop a cost-effective support network so that rural SACCOs and SACAs

**d) Narrow outreach**

Rural SACCOs and SACAs tend to be confined to same group of membership for a long time. The narrow membership as such puts an upper limit to capitalization. A special group of rural SACCOs needs a special mention here and they are the employee-based teacher SACCOs located in the rural areas. These SACCOs have a double advantage in extending outreach. First, they have regular income hence stable in liquidity on a monthly basis. Secondly, their location in the rural areas make accessible for making a careful inclusion of different farmer groups and traders in the rural areas.

**e) Enterprise Development in Agriculture**

Rural SACCOs and SACAs are located in the rural economy. At the moment, agricultural production is confined to subsistent boundaries. There is need to address the question of business education to small farmers. Under a national programme of member empowerment and enterprise development, the Cooperative College will train members of SACCOs and SACAs and rural marketing co-operatives on the art of business planning and marketing so that they become entrepreneurs on their own right. Another programme carried out by the college is deeply

analysing different products offered by SACCOs and how they are related to current peasant agricultural business and practice. The aim is to come out with a training and action research methodologies which try to link financial services and agricultural business that opens the boundaries of subsistence into small but commercially driven agriculture .

## **7.0 PROSPECTS**

There are areas, which call for national efforts to make rural SACCOs and SACAs promising financial institutions in the rural areas. As a microfinance country, Tanzania needs policies and programmes which can address the environmental and operational constraints outlined above, so that rural SACCOs and SACAs become strong financial institutions in the rural areas. National opportunities which need harnessing include the following:

### **7.1 Law and Policy**

The new Co-operative Policy and Co-operative Societies Act 2003 offer a higher level of flexibility for the formation and restructuring of co-operatives. But the flexibility depends on what kinds of financial institutions would the people want to develop for themselves. It will also depend on our vision for them and the totality of the policy legal and regulatory frameworks concerning the development of viable financial institutions in the rural areas. Common practice informed by different studies show that SACAs are still experimental institutions on how best rural people can financially co-operate in order to form viable cooperative SACCOs. This reality, has been articulated by the new Co-operative Societies Act 2003, by categorizing them as pre-co-operatives. As such the Ministry of Co-operatives and Marketing as regulator of co-operative enterprises including SACC s should define an organizational roadmap on how SACAs will graduate into SACCOs. The roadmap could show criteria for graduation so that when they are attained then the SACAs may be encouraged by the co-operative Act to register into a SACCOs. I f for any reason of history or practicing people's freedom of choice the SACA chooses to continue as an association, it should be given the freedom to do so but let it be regulated by other regulatory bodies other than the Ministry of Co-operatives and Marketing. The other option for the graduation process would be for the Ministry of Co-operatives and Marketing to develop another form of regulation to manage associations on account that the ministry has mandate of dealing with the wider concept of different forms of cooperation or the associative economy. But if they follow the co-operative line, SACAs will graduate into SACCOs



and later on grow to a point where they can be regulated by the Bank of Tanzania itself.

The current co-operative law recognizes the primary and federative structures.

In the formation of a viable and sustainable co-operatives, including SACCOs. But, in the gradual process of creating stable networks, the primary SACCOs could now think of creating District or Regional Savings and Credit Unions or Community Co-operative Banks such as the Kilimanjaro Co-operative Bank in Moshi to consolidate their organizational position.

Such community banks would perform all functions of reputable financial houses in the region. The regional or district co-operative banks, may form the national co-operative Bank. In this way, both the rural SACCOs and SACAs will have strong financial houses at district, regional as well as the national level. The cooperative movement at all levels, will have an affordable banking infrastructure, facilitating the movement of co-operative business nationally. The national cooperative bank could join with the other national co-operative banks to form the East African Co-operative Bank, linking the financial Co-operative systems throughout East Africa. Design work should be encouraged and the Bank of Tanzania should be in the forefront in the process of creating a strong financial network addressing poverty alleviation for close to 50 mill poor people of East Africa.

## **7.2 Education and Training**

Lack of education for members has always been cited as one of the problems of SACCOs and SACAs. Members are mobilised to join SACCOs or SACAs in order to connect themselves with collective savings mobilization and accessing credit only. After the initial mobilization, the members are not prepared to exercise leadership, planning, budgeting and decision-making in the running of the SACCOs and SACAs. The infrastructure for offering co-operative education and training is wide. The Co-operative College maintains a network of wings where training in co-operative management accounting, planning, budgeting and auditing are effectively carried out. At the same time, in order to expose managers, supervisors and auditors to the techniques of formation and management of modern SACCOs, the Co-operative College and DID Tanzania are planning to run a distance learning professional programme for SACCOs Management. The programme will start very soon and will provide comprehensive technology for an in-depth understanding and management of a modern SACCOs which can compete effectively in the Tanzanian financial markets.

The other type of education carried out by the Co-operative College is on governance and enterprise development for members of primary societies. The pillars of good governance have greatly been eroded inside the co-operative movement. Intervention is addressed through membership training and action so that they can develop the instruments of good governance to be able to run the affairs of their societies. Coupled with training in governance, we also offer strategic business education to members and staff of rural SACCOs in order to maintain viable financial services.

### **7.3 Regulation (Registration, Inspection, Liquidation) and Promotion**

Under conditions of liberalisation and freedom of association, the government will usually regulate by offering services for registration, inspection and liquidation of co-operative societies. These are statutory functions of the government on people-based organisations. Because co-operatives are voluntary organisations and as a result of coercive promotional methods in the past, the government should hand over promotional work to the national organisations such as the TFC, SCCULT, NGO's and CBOs to do it. What the government should do in this aspect, is first to carry out stocktaking as to who is who in the promotion of co-operatives and associations. Second, the government should develop quality control standard criteria and methodology for promotion. Those standards should be monitored closely so that all those carrying out promotion work are closely regulated. The government should also provide resources to assist those carrying out promotional work. The National Co-operative organisations NGO's and CBOS promoting co-operatives could be licenced by the Ministry of Cooperatives and Marketing so that they are closely followed up. In this way, the government plays the role of facilitation of the promotional process and quality control.

### **7.4 External Audit**

Tanzania has a strong organisational infrastructure for dispensing external audit to co-operatives. The Co-operative Audit and Supervision Corporation (COASCO), is the organisation that carries out external audit for co-operatives including SACCOs. Under a new strategic plan, COASCO is now destined to audit other people owned organisations including SACAs. There are however, four aspects of audit that are currently expected by growing co-operatives. Affordability, timelessness, empowerment and proximity. Most SACCOs and SACAs are growing slowly, hence need affordable audit fees because COASCO is subsidized by the government to make audit happen. They should therefore be able to adjust themselves to provide development audit that allows poor people's organizations to grow.

Second, primary societies need timely audit reports, so that the members can take quick action on the reports. Currently, the turnaround is three months. This is considered too long for decision-making. Thirdly audit and audit process an instrumentality of member empowerment. It is therefore strongly suggested that external audit reports should be made available to all members in a language that makes them understand and take action. Fourthly, COASCO should be located where the audit action is needed and this is at the district level where SACCOs and SACAs are within easy reach.

### **7.5 Linkage with Commercial Banks**

Most large commercial banks in Tanzania are inclined to corporate rather than micro banking. But as pointed out earlier, Tanzania is a microfinance country. It has also been pointed out in this paper that rural SACCOs and SACAs cannot meet the demand for rural credit. As such, the commercial banks should consider linking themselves to rural SACCOs and SACAs. In this way, the rural financial institutions will have business access to wholesale credit by commercial banks to enhance the volume of loan-able funds in the rural SACCOs and SACAs. The CRDB Bank has started an experimental project that links it with rural SACCOs. It is in this way that commercial banks can play a development role in the struggle against poverty.

## **8.0 CONCLUSION**

Tanzania is a microfinance country and therefore needs strong rural SACCOs and SACAs. The promotion of SACCO was impaired during first years of independence but attained a new push after liberalisation of financial and banking services. The background of co-operative distortions of 1960-1970's created the conditions for the emergence of savings and credit associations -SACAs.

Although the two have differences, they have one strong similarity — they are people owned financial institutions. But looking at the experience history of the two, SACAs are transitional and experimental financial institutions for people to get the best practices to create well organized SACCOs in rural Tanzania. We have seen how these rural organizations operate in a complex environment and yet they have registered innovations and achievements in offering affordable financial services to the rural people. They are facing the challenges of modernization, professional management, design work, enterprise development and outreach to include as many as 16 million Tanzanians into the co-operative microfinance industry.

Therefore, we can say, co-operative SACCOs have a strong future in Tanzania because they create opportunities for the majority of the Tanzanian poor to participate effectively in financial services development. SACAs are pre-cooperatives and the regulatory

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Ministry of Co-operatives and Marketing should develop the roadmap and criteria on how they graduate to become rural SACCOs.

SACCOs need a strong national financial structure that responds to member. S needs on a national scale. The current legal and policy framework offers them the opportunity to grow into community banks, regional banks and the national cooperative bank. The need for an East African co-operative bank network is also an important possibility for the co-operative movement.

In order to improve the operational conditions of rural financial institutions, centralized support systems from training institutions, auditing firms, supervisory organs and commercial banks must be decentralized themselves to the doors of rural SACCOs and SACAs and offer appropriate services to facilitate their growth into powerful people owned financial institutions in the country

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