Challenges Facing Saccos: Survival and Growth Strategies

By

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1.0 Introduction

The savings and credit co-operative movement is the second critical co-operative organization in Africa after agricultural marketing. Although there is a history of other types of co-operatives in East Africa countries such as industrial, consumer and others, the savings and credit co-operative organization has both the push and pull characteristics of the rest of the cooperative movement in Africa, because, they facilitate both the inputs and outputs of all other cooperatives.

Kenya has the largest financial co-operative movement in Africa by all standards: It has the largest membership of close to 2.5milIion, it has the biggest number of affiliates and has the highest value of deposits. Similarly, Kenya has the best institutional demonstration of co-operative banking and co-operative insurance unparalleled in Africa.

The financial co-operative movement in Kenya has created the conditions for Kenya's leading position in comparative financial penetration rates: According to a recent study by the World Bank, Kenya is graded at 7%, Uganda is 6% and Tanzania is 5% irrespective of its higher population figure. Uganda.

The success stories for the SACCOs notwithstanding, there are important challenges faced by the SACCOs movement in Kenya. In this presentation we are going to discuss the challenges facing SACCOs by looking at the conceptual framework, the East African context, survival and growth challenges, summary of strategies to address the challenges. and conclusion.

The main proposition I am making in this paper is that time is running out in competitive globalisation and the SACCOs movement in Kenya and any other developing country, has no time for short-term strategies. The remaining time should be used for designing long range growth strategies for long term development existence and impact of the financial co-operative movement in Kenya and Africa in general.

2.0 Conceptual Framework

There is no doubt that savings and credit co-operatives are the only type of co-operative organization, where people save in order to create the conditions for borrowing. When people borrow, some use the credit for consumption, but some use it to invest in different kinds of production and service enterprises. This generates more employment and more output in the economy.

But over the recent years, experience has noticed two types of competitive interventions in the savings and credit financial markets: The first is the credit only organizations, defined as part of the microfinance family of institutions. A distinction must be drawn between microfinance as a broader concept of making credit available to the poor (Gaboury:2004), and the development of savings and credit co-operatives. SACCOs are a co-operative type of microfinance institutions. They start from savings before they start giving credit. Credit only microfinance institutions, are interested in selling and distributing credit irrespective of who created the savings. Savings and credit co-operatives start with members who own the organization and end with members and member's economic empowerment. Credit only microfinance institutions, start with clients for credit, ending with clients and profits.

The second intervention, is the emergence of microfinance programmes of larger commercial banks making concessions and inroads into the savings and credit financial markets (Chambo:2006). This development has introduced stiff competition against products of savings and credit co-operatives. The larger commercial banks have always taken the poor as risky borrowers. Savings and credit co-operatives have proved that the poor can save, borrow, invest and repay loans. This demonstration has attracted larger commercial banks to hook in into the savings and credit co-operatives to offer wholesale credit as SACCOs take a subordinate position in offering retail credit to members. Irrespective of the minimum members deposit regulation, we have seen commercial banks almost forcing SACCO's to borrow larger sums of many than they need. If this is allowed to continue, it will end up in transforming SACCOs from what they are the Credit and Repayment Co-operative Societies (CRCS).

On the other hand, there are two arguments levelled against the savings and credit approach (Gaboury:2000), that the poor cannot sustain a high volume of savings to sustain a higher volume of credit. Secondly, it takes too long to consolidate the institution for it to start functioning as a robust microfinance institution because the owners are poor. But such arguments have been found to be weak because experience in developing countries has shown how they save and how they borrow. When communities start savings, however small they are, it means they have started the long march address their own poverty. Savings become a starting point of the creation of future financial services in the respective community. It is the starting point of self-reliance because future credit will be designed from local savings. As opposed to micro-lending programmes, the savings processes, create a new culture of building individual savers in the community. Just like commercial bank, the power of savings and credit co-operatives is the volume of deposits from its member-clients.

3.0 The Context

The conditions of poverty obtaining in Africa are providing the necessary push factors for the acceptability of the savings and credit co-operative as an important requirement in the fight against poverty.

But there are three major scenarios calling for strengthening of SACCOs in the continent:
The first is the failure of agricultural marketing cooperatives. Agricultural marketing co-operatives, emerged with a false start of exporting raw material which had no local demand. As raw material exports, cooperatives did not only face declining international prices, but also value was exported to foreign countries. In recent years however, agro-processing value addition, has come into the agricultural marketing debate albeit with minimal results. The declining trend of international assistance on the other end of international relations, has made politicians and policy makers turn their eyes to the savings and credit cooperative organization, as an agent of local resource mobilization and development. When agricultural marketing co-operatives are linked with value adding agro-processing

and savings and credit financial services, the cooperative development debate start to take new direction of an inward- looking developing economy.

The second scenario is about the efforts by national governments to institutionalize self-reliance. There is currently, greater realization that step by step, Africa will have to depend on its locally generated financial resources. The institution that has the capacity and history for local resource mobilization, is the savings and credit co-operative organization. This means that the savings and credit leaders of the movement, are carrying a higher development responsibility than it used to be. The implications of this scenario are many, but three are critical: First, the savings and credit movement will have to shift its frontier from microfinance to micro- macro finance linkages at national and international levels. Secondly, the savings and credit cooperative movement has to expand horizontally and vertically to take its space in the financial system of the country

Thirdly, the savings and credit organization will obviously be seen more and more as an organizational strategy for enterprise development, job creation and poverty alleviation.

The third scenario is the dynamic support of the African micro and medium scale enterprise system. The reasons for this scenario are three: First, historically, major banks have always competed for corporate borrowers. They are not able to take risks of small-scale enterprises. This argument seems to be weak today, because there are very few corporate borrowers in our countries and large commercial banks are designing microfinance products to dig into the saving and credit financial markets and thereby competing with savings and credit co-operatives. Such programmes include credit cards, consumer loans and group loans. Their strategies are directed to hit at the members and potential members of employee-based SACCOs. The future of this intervention is not yet known, but what is clear is the fact that they have already disturbed a growing membership and the challenge here is how the SACCOs can continue to keep their employee members and even enhance their numbers.

The second reason is the learning factor that the African communities have come to realize that sustainable financing of local development efforts, must begin from locally generated sustainable savings: African governments are even more inclined to investments supported by locally owned financial institutions.

Such scenarios support the survival and future growth strategies of the savings and credit co-operative movement. Currently in Tanzania, every member of parliament is promoting savings and credit co-operatives, sometimes without the realization of their technical, economic and organizational complexity. But such scenarios, have created real demand for the development of savings and credit in our region.

This positive external environment however, is not without challenges. Below, we discuss the challenges of survival and those of growth by existing SACCOs.

4.0 Survival Challenges (Micro-economic Challenges)

Although the external environment seems very positive, it has its own threats which push the SACCOs to design short-term survival strategies.

Survival strategies are those designed by the SACCOs movement or by the external support system, to make them survive in the short-term period. There are many shott-term challenges and more confined to current parameters, but in this discussion, we take four main areas:

The challenge of keeping the identify of co-operative organizations, doing business to earn money outside core functions, Information and telecommunications technology, product development and human resource capacity.

4.1 The Identity of Co-operative Organizations

The competition in the microfinance and savings and credit financial markets is very stiff and all around. As noted earlier, it comes from credit only microfinance institutions, financial NGOs and from larger commercial banks. The underlying interpretation of the high drive of credit distribution sometimes at cheap rates of interest, is undermining the logic of existence of the co-operative enterprise. People are continuously being sensitized that there are better options in the financial markets than savings and credit co-operatives. As a result of this, SACCOs are losing members and potential clients because in a competitive environment, all people want to access cheaper financial services. SACCOs should realize that as competition ushers, members will not continue their loyalty if they meet high costs of transaction when compared to market driven options which appear to be cheaper. The issues of identity and ownership are therefore at stake, when SACCOs, are not operating cost effectively.

4.2 Income Generation Outside Core Functions

In areas where SACCOs have created sufficient confidence of membership or are facing high costs of operation, the tendency has been to making decision of investing members deposits into long term income earning businesses such as building hotels and restaurants, selling stationery, going into real Estate business, selling mobile phones and other quick income generating projects. Although SACCOs have been making money out of such projects and have survived, one question which comes in is whether the funds invested have helped the SACCOS to maintain sufficient cash flow to meet immediate credit needs and money at call all the time for their members.

But as a matter of principle and ethics, savings and credit co-operatives are created to perform the financial business for their members. It is the members who should be availed the funds to invest in cell phone distribution and restaurant businesses than the SACCO.

The challenge for leadership is how to keep the necessary balance between money demanded at short notice and investing the rest of the deposits into credit and other forms of rewarding financial business.

4.3 Information and Communications Technology

Going into ICT has become fashionable and a necessary investment for microfinance institutions. But ICT in itself though necessary, is expensive for smaller savings and credit cooperatives. On the other hand, avoiding ICT will create more costly operations in future. The challenge is how to acquire ICT while remaining small size SACCOs. The co-operative enterprise system offers two models where smaller organizations lower costs of ICT. The first model is the centralized intervention where the national organization dispenses mobile IT services to those member SACCO's who do not have the technology. This makes them pay for shared ICT costs supplied by the national organization. The other model is the decentralized federated networks (Gaboury;2004) where 15-20 closely located SACCOs, form a more localised joint venture where they will share common facilities including ICT. The challenge here is making the right assessment of the optimal model for disposition of effective ICT to the member SACCOs.

4.4 Product Development and Human Resource Capacity

The fast changes in financial markets, demand new products on the savings as well as the credit sides of SACCOs. But the members and clients want new products which are reasonably priced, hence the need to be competitive. The design and development of competitive products also need the availability of appropriate human resource capacity in SACCOs. The challenge is using the co-operative models of shared services and resources to meet this challenge of competition. Large commercial banks use a lot of money in advertising new products. SACCOs cannot be different in the promotion drive and yet they cannot do it alone. Different models of co-operation among co-operatives need to be tested to arrive at the best combinations at different stages of competition without losing the co-operative identity.

5.0 Growth Challenges

The challenges of growth for SACCOs are more complex and more macroeconomic in nature. These are challenges which also must go together with more long- term strategies of the development of SACCOs in Kenya.

The challenges are structural, outreach, competition in the financial markets, policy and legislation, leadership and Management capacity. The framework of current competition and liberalization in financial markets, demands the expansion of the savings and credit co-operative movement from the current frame to a national framework. If the population of members, outreach and total deposits can be used as basic parameters of growth, the growth for the savings and credit cooperative movement in Kenya means rising membership from the current 2.5million to over 20million. It means moving the spread from the current urbancentric geography to cover the rural areas and automatically moving current level of deposits, to a maximum which is nationally possible. That is the new picture of KUSCO that I want to discuss today. But reaching new national parameters, is not automatic, it needs completely a new strategy and a new approach to planning.

At the bottom line, reaching new parameters for KUSCO, calls for a major transformation strategy of the SACCO'S movement, taking it from the current framework of operations to a real national configuration. What does this mean in terms of challenges?

5.1 The structure of the SACCOs Movement in Kenya

Like many other SACCOs movements in Anglophone Africa, the structure of the Kenyan savings and credit co-operative movement is atomized. It is built on stand-alone SACCOs which have very very weak organizational relationships with any of the neighbouring SACCOs. Each of the SACCOs is affiliated to KUSCO at the national level. From the national level, KUSCO is serving the members one by one or even as groups. "**Each SACCO for itself, but KUSCO is for all of us."**

If a single SACCO gets into business or organizational constraints, it will have to go to KUSCO headquarters. KUSCO also assumes the extra capacity to solve all major problems of the SACCOs. But this is possible with the current number of membership and SACCOs. When KUSCO moves out to include 20 million extra members, it many have to consider redesigning a new structure where the system is decentralised into lower level federations or networks. The re-designing of KUSCO into decentralised shared facilities at district or provisional levels, has to be done on the basis of economic principles, the law and on the wishes of the members. Certainly, the lower level federations, will be the future institutional members of KUSCO. The local federations, will be the decentralised hubs of the money business, shared services, professional management, information technology and professional internal audit services.

During the decentralization, KUSCO headquarters need Ovo types of transformations: -Consolidate the central professional house to protect the SACCOs networks technically and professional by offering critically needed professional organizational development services. Secondly there will be need to integrate the cooperative bank and co-operative insurance, as part and parcel of the SACCOs movement in Kenya.

5.2 Outreach

The Kenya Union of Savings and Credit Co-operatives faces the challenge of outreach. The current membership is principally urban-centric and employee-based. KUSCO needs a new strategy of spreading out into the Kenyan rural sector. In the spread-out strategy, KUSCO faces the challenge of how to build a common outreach strategy with KERUSU so that the savings and credit cooperative organization penetrates into the rural areas cost effectively. The spread out strategy will call for new methods of promotion in collaboration with the Ministry of Cooperative Development and Marketing and will also need new tools of product development in the context small holders' agriculture and agro-markets away from the traditionally known employee-based savings and credit products.

5.3 Competition in the Financial Markets

The Savings and Credit Co-operative system in Kenya, has created a very clear and structured financial market which is attractive to large commercial banks. The Savings and Credit financial market has traditionally been considered informal and exclusive to the member owners. But with new regulations, legislation, co-operative policy and liberalisation, more players are entering this market. Financial NGO's and credit only microfinance institutions, are also entering the same market. As pointed out earlier, the larger commercial banks would like to tap into the rural areas using the conduits of organized SACCOs.

There are two important emerging scenarios:

First, all SACCOs competitors, will try to offer competitive financial products to SACCOs members both in the rural and urban areas. Some of the financial NGO's will try to offer even interest-free loans and SACCO's members will be overwhelmed to join.

Secondly, the effect of this competition, is to lower transaction costs in the financial market. This means all players including SACCOs, will have to rationalise their operational costs. What other competitors cannot offer is the ownership of such institutions to the co-operators. They will remain clients and depositors but not owners. The challenge for the SACCOs movement is planning to review the costs of operations so that SACCOs can remain in business at the lowest level of transaction costs. In the final analysis however, the transformation of KUSCO, will have to assume a growth strategy that protects the individual members as well as institutional members as a national system. This goes with my earlier suggestion of consolidating the KUSCO house at the national level.

5.4 Policy and Legislation

Kenya is one of the countries in the process of enacting a co-operative a specific law for SACCOs. This is a commendable departure because the traditions of using one act for all types of co-operatives are becoming outdated and constraining. The legislation however, is expected to cover the following areas:

That the SACCOs movement is the cornerstone of nationally generated resources for the autonomous development of Kenya. Secondly, it will have to demonstrate strict external supervision and regulation to ensure the security of client's funds. Third, recognise the pre-co-operative savings and credit groups and allow for the design of ways of promoting them into the formal financial system of the country.

Definitely, with SACCOs regulation in place, the Savings and Credit Cooperative system in Kenya, will officially enter into the national financial system. This kind of up-grading of the SACCOs movement into the formal financial system, has however, a number of implications including keeping up to the requirements of financial reporting standards, transparency, liquidity level standards and modern systems of cooperative governance. The challenge for the Savings and Credit Cooperative movement in Kenya, is to what extent are the individual SACCOs prepared to enter into a new system of national and international financial standards and compliance.

5.5 Leadership and Management Capacity

In the traditional stand-alone system of the Kenyan SACCOs movement, leadership and management were more localised and confined to the operational culture and environment of the area of operation. While there was express need for qualified managers and staff, the demands on board member qualification were not paramount.

The future is different. If the SACCOs movement is going to remain competitive and protect its identity and membership, board members need basic qualifications and basic training. It has been common now that board members must be composed of people with background training or knowledge in finance, accounting, economics, law and gender.

When boards have been formed, they need to undergo a form of graduated training structured in a framework of foundation, intermediate and advanced training. Currently, the Moshi University College of Cooperative and Business Studies, is running a 39 week Professional Financial Co-operative Management for Tanzanian Managers but also fit for Board members. In the final analysis, the SACCOs movement need highly trained managers and board members.

6.0 Summary of Survival and Growth Strategies

I have outlined the strategies while highlighting the survival and growth challenges. Survival strategies are short-term in nature but aimed at maintaining the status quo of the current SACCOs financial business in Kenya.

The short-term survival strategies include:

- Keeping transaction costs lowest
- Run away from non-core non-financial business investments
- Innovate new savings and credit products
- Popularize ICT-based operations and Management
- Introduce the shared services model to lower operational costs

Strategies to meet the larger macro-economic challenges are long-term and strategic in outlook. They are taking the Savings and credit Co-operative movement out of its current boarders and assume a comprehensive national outlook. The strategies are outlined as follows: -

- Initiate strategic transformation of KUSCO into a comprehensive national financial co-operative system covering the largest part of the Kenyan population as members of SACCOs. "Take SACCOs out of town".
- Introduce a phased out rolling Strategic Plan for KUSCO and its membership
- Test out the decentralised federative networks at provisional or district levels with decentralised service centres.
- Consolidate KUSCO headquarters into two professional houses
    - i) Professional human resource development centre to protect member SACCOs and networks.
    - ii) Integrate the Co-operative Bank of Kenya and Co-operative Insurance as part and parcel of the SACCOs movement or the financial Co-operative system of Kenya.
- Strategic spread out into the rural areas with new products and new promotional strategy into agriculture and agro-business
- Consolidate ownership factors for members
- Produce new products at minimum transaction costs
- Build an integrated national financial co-operative system
- New financial Co-operative Act should recognise pre-co-operative Savings and Credit groups
- Strict external and internal supervision

- Prepare for national and international standards of financial management
- The need for special qualifications and training for Board members, Management and Staff.

7.0 **CONCLUSION**

The Kenya Union of Savings and Credit Cooperative movement is the largest financial co-operative movement and the best in Africa. We want it to be the best in the world. The way to make it the best in the world is to recreate it to include all Kenyans as members of SACCOs, consolidate the technical and the financial powerhouses in Nairobi and sustain high level of leadership and management. This is possible in Kenya. It is possible in Africa.

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