

FORMATION AND INSTITUTIONAL DEVELOPMENT OF SACCOS: EXPERIENCES FROM MoCU-ICCE DODOMA REGIONAL OFFICE

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Abstract

There is a widely held consensus among many actors, including the UN (1996), the ILO (1995, 2000, and 2014) and the ICA (1995, 2013), that the co-operative is the type of enterprise that is most suited to addressing all dimensions of reducing poverty and exclusion. Co-operatives provide institutional framework to facilitate their members' access to financial capital, enabling smallholder farmers to access the inputs required to grow crops and keep livestock, provide processing, transport, marketing information and market their produce. Co-operatives are mainly the institutions which are always deep rooted in the community – examples are the agricultural marketing, production and marketing pre-cooperatives, SACCOS (savings and credit co-operative society), VSLGs, livestock marketing and commercial family farmer's organizations (CFFO).

The Co-operative organization is formed of a structure which responds to the needs of members and thus its formation follows a process of institutional development linking three key prisms – people, purpose, structure and systems. Through this paper, the MoCU-ICCE Dodoma is interested to share its experiences in facilitating communities to form membership-based organizations with specific emphasis on SACCOS. This paper is organized by starting with discussing background and contents, with brief notes on the ICCE-Dodoma. Subsequently, it is followed with a short discussion on concept of the organized actions and lastly the sharing of the processes in the formation of the SACCOS and the concluding remarks

Key words: SACCOS, livelihood, institutional development processes, value chain development

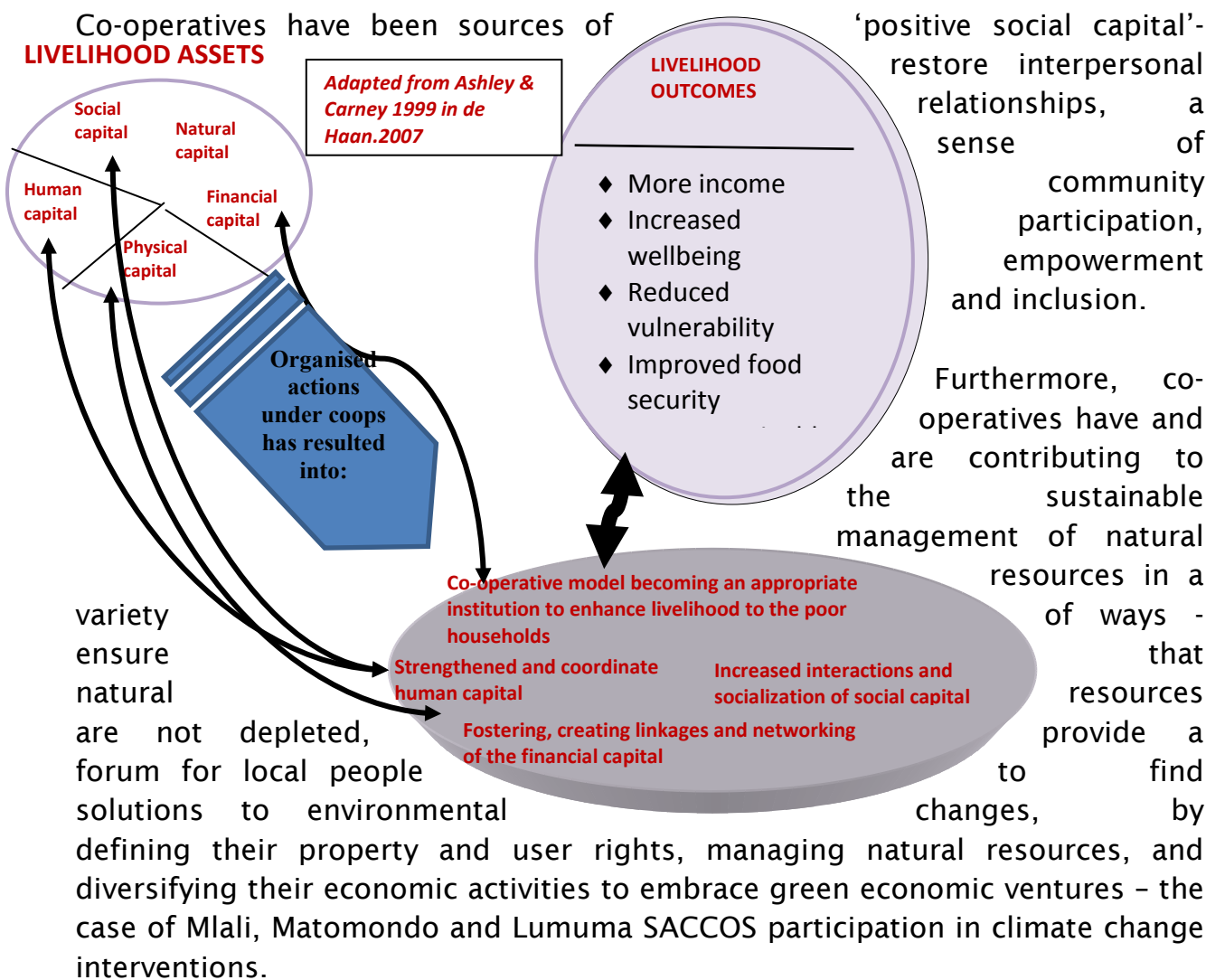
1. Background and Context

There is a widely held consensus among many actors, including the UN (1996), the ILO (1995, 2000, and 2014) and the ICA (1995, 2013), that the co-operative is the type of enterprise that is most suited to addressing all dimensions of reducing poverty and exclusion. Various examples have been made like – SACCOS providing institutional framework to facilitate their members’ access to financial capital; and agricultural co-operatives enabling smallholder farmers access the inputs required to grow crops and keep livestock, provide processing, transport and market their produce.

Such services have enabled the individuals who are working through co-operative to improve their wellbeing. There are confirmed cases that improved co-operative marketing of agricultural products has meant that co-operative members can afford fees for education of their children; SACCOS’ various types of financial products have been used to buy land, build houses, invest in businesses and farming, and buy household furniture.

In general terms, co-operatives have contributed to poverty reduction by providing employment, livelihoods and a wide variety of services. Co-operatives are contributing towards gender equality by expanding women’s opportunities to participate in local economies and societies in many parts of the localities. For example, women’s presence in financial co-operatives in East Africa ranges from 24% (Kenya) to 65% (Tanzania) (ILO, 2014)

Co-operatives contribute to food security by producing and marketing food: They increase producers’ access to productive assets, while reducing transaction costs, building small producers’ skills, providing appropriate information and knowledge, helping them to innovate and adapt to changing technologies, helping farmers get access to markets with better prices and helping producers voice their concerns and interests, improving their negotiating power and influence. Furthermore, cooperatives have facilitated diversification of household food supply, e.g. dairy cooperatives; have improved both nutrition and incomes (ILO, 2014).



Finally, co-operatives are mainly the institutions which are always deep rooted in the community - examples are the agricultural marketing, production and marketing pre-cooperatives, SACCOS, VSLGs, livestock marketing and commercial family farmers organisations (CFFO) which can be traced from Gelai Lumbwa, Orkejoolungishu, Loibosiret, Loibosoit, Matufa, Meirugoi, Mawemairo, Orkejuloongishi, Hombolo, Matomondo, Hogoro, Lumuma, Chamkoroma, Mrijo and Kibakwe, Kizapala, Mwanadilatu, Ibwera, Kigemu, Nkwenda, Nanyindwa, Nangano, Nanjilinji and Mumbaka. You name it and they are there empowering people by enabling even the poor segments of the population to participate in the economic processes and progress.

That is why it was no surprise the UN Secretary-General appointed the High-Level Panel of Eminent Persons (HLP) to propose post-2015 Development Agenda. These HLP have recommended five transformative shifts to guide the post-2015 Development Agenda:

- ✓ End Poverty
- ✓ Empower girls and women and achieve gender equality
- ✓ Provide quality education and live long learning
- ✓ Ensure health lives
- ✓ Ensure food security and good nutrition
- ✓ Achieve universal access to water and sanitation
- ✓ Secure sustainable energy

Co-operatives are being considered as the most active potential actor in fostering these post-2015 Development Agenda. For example, ILO believes that through co-operatives enterprises, important policy goals can be better achieved such as creating jobs, generating income, preventing and reducing poverty, providing social protection and giving people a voice in society through social dialogue. The ILO's beliefs are strengthened by their assessment on the actors involved in the implementation of the MDG. They argue that "it is found that though co-operatives were not actively involved in design and implementation of the MDGs, they made significant contribution to the achievement of the MDG objectives. The contribution of co-operatives to such gains reaffirms their relevance on the ongoing debate on the post-2015 development agenda:

- i. About 1 billion people are involved in co-operatives in some way; either as members, customers, employees, participants, etc.
- ii. Co-operatives employ at least 100 million people worldwide,
- iii. The livelihood of nearly half the world's population is made secure by co-operative enterprises.
- iv. Co-operative enterprises are by nature a sustainable and participatory form of business
- v. They are value-based and principle driven organizations.
- vi. Apart from creating jobs they promote additional income through profit-sharing and distribution of dividends,
- vii. Support community facilities and services e.g. health clinics and schools.
- viii. Co-operatives foster democracy and social inclusion, making them well-placed to support the achievement of sustainable development.
- ix. Co-operatives have also shown resilience in the face of the economic crises. (ILO,2014)

The main objective of this paper is to discuss the approach used by the MoCU-ICCE Dodoma in facilitating communities to form membership-based organizations with specific emphasis on SACCOS.

1.1. MoCU-ICCE Dodoma Centre

The MoCU-ICCE Dodoma Regional Office is the regional office of the Institute of Continuing Co-operative Education of Moshi Co-operative University. It provides co-operative education and training, research, consultancy and advisory

services to member-based organizations and other organizations. ICCE-Dodoma is an active contributor to the MDG and specifically **primary active in MDG – 1** - eradicate extreme poverty and hunger and **secondary active role in MDG – 3 & 6** which states that to promote gender equality and empower women and ensure environmental sustainability respectively.

For more than 20 years, the Centre has been active implementing community-based interventions which are either jointly developed with the communities and or supported by development organizations - intermediary interventions, through collaborative initiatives and or through counselling and consultancies. This includes: Promotion of Rural-based Member-based Microfinance Institute (MbMFI) in 15 wards in Dodoma region - (with technical and financial support of Human Institute for Cooperation with Developing Countries (HIVOS, 1991 - 2006); Strengthening Women Economic Groups (WEGs), Water Users Groups and Rural Micro-Enterprises -(with SNV support 1987-1996 & 2004-2006); Entrepreneurship and economic empowerment to the People with Disabilities - (with technical and financial support from LCI, ILO and TCF 2003 - 2013); Entrepreneurship and cooperative skills to vocational centre - VETA central zone 2006 - 2007; Value chain development to cassava smallholder farmers - VECO Project in Mkuranga District 2010 - 2013 and capacity building to COWSO - Community Owned Water System Organization in Kongwa in collaboration with LVIA.

These interventions have enabled different communities to form and strengthen the governance, managerial and operational systems of the self-help organizations they are managing.

ICCE-Dodoma Centre has developed its capability to provide the following products and services:

- i. Developing processes, contents and facilitating programmes aimed at grassroots based self-help organizations (SHO) institutional creation and strengthening their capacities to improve their managerial and operational systems. The SHOs include:- women economic groups (WEGs), youth economic groups (YEGs), irrigation groups, water users associations (WUA), and various types of co-operative organizations;
- ii. Designing, facilitating and implementing training of trainers (ToT), and planning and implementing tailor-made-training programs;
- iii. Developing back-up materials in various areas including business and group management;
- iv. To assess and meet the capacity building and training needs (formative, strengthening and consolidation) of co-operatives and other self-help organization's (SHOs) to be able to deliver in entrepreneurial manner;
- v. To provide the target groups with information, advice and facilitation on formation and management of informal and formal member-based financial services organizations; and

- vi. To support and influence networking & linkages among and between different institutions dealing with grass-root initiatives.

2. Formation processes of the SACCOS

2.1 Concept of organised group actions

Organized group actions have immemorial being recognized as a means for political, social and economic actions. Co-operative which is one of the institutions resulting from organized actions and it has widely used to address economic and social needs. In 1995, the UN Secretary General had this to say "Co-operatives are recognized as the enterprises which provide the organizational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty and achieving social integration. They constitute a model for people centred and sustainable form of societal organization based on equity, justice and solidarity" In addition, as organization participating in eradication of poverty it has a central role to play through collaborative actions. "...opportunities for income generation, diversification of activities and increase of productivity in low-income should be enhanced by a number of actions ... strengthening Co-operation among various types of institutions, including Co-operative, with the aim of mobilizing local savings, promotion the creation of local financial networks, and increasing availability of credit, and market information to small entrepreneurs, small farmers and other low-income self-employed workers and with particular efforts to ensure availability of such services to women ..."

The ICCE-Dodoma has borrowed a leaf of belief on that statement and from that it has been advocating organized and collective actions to address various challenges co-operatives are facing at different levels of the value chain development. This is because a co-operative organization is an institution that strives to bring about quantitative and qualitative changes in the community of members. Its existence is guided by values and principles providing for exercising justice, equity, mutual self-help good governance and freedom. The co-operative organization expresses its existence by linking the poor through solidarity. It shows how the poor need each other in order to survive and develop together. The leadership of such an organization will always be self-less, motivated, empathetic and constantly observes achievements in the quality of life of the membership.

2.2 Processes in the formation of SACCOS – the case of ICCE-Dodoma

The formation of co-operatives follows a process of organizational development. A co-operative organization is formed of a structure which responds to the needs of members. Because members would have divergent

needs, the co-operative organization is a perpetual institution in that it is expected to respond to the needs of the members all the time - passed, current and the future (Chambo, 2003).

Institutional development of a membership-based SACCOS is a process oriented and thus to achieve it, there are various gradual steps to engage the potential target group so as to be able to:

- ☞ Internalize the concept and to build ownership
- ☞ Participation in development of workable governance, managerial and operational instruments; and
- ☞ Participation in and provision of leadership and enforcement of policies and procedures.

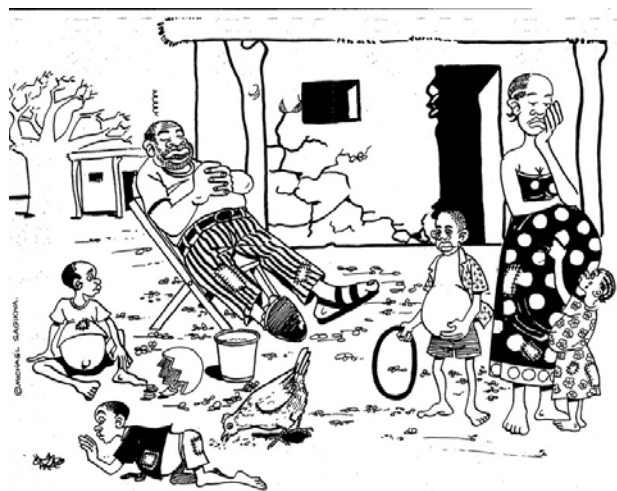
The SACCOS development process envisages enabling the members to put into place an organization that can attain both operational and financial sustainability. Operational and financial sustainability is attained when the organization is able to attract and mobilize capital for on lending and provision of other financial services and out of the income earned can meet its operational costs and make a surplus.

To enable the attainment of the operational and financial sustainability, a series of processes needs to be undertaken jointly by the community and the facilitators. The processes being advocated by ICCDE- Dodoma has been categorized into four main stages:

- Commitment seeking
- Organizational formation
- Institutional Development (governance, managerial and operational systems)
- Consolidation of operations

2.2.1 Stage One: Commitment seeking

- discussing the concept of self-financing organization with the targeted community;
- getting the commitment of the targeted community;
- conduction of the self-reflection exercise with the respective community to determine the existing situation and the potentiality of the proposed financial service organization; an institutional framework could



Visual resources are widely used to stimulate discussions

be to support informal saving and lending services or a formal savings and credit organization to address the challenges identified

- The respective targeted community select Local Animator (the criteria for basic qualities are jointly developed) who is trained for awareness creation and mobilization of membership;
- preparation and agreement on the formation action plan and responsibility sharing

2.2.2 Stage Two: Formative stage - Organizational Formation

- community meetings for concept sensitizations, registration of potential members and election of the care taker leadership;
- Training of the care taker leadership on sensitization, promotion, membership and shares and savings acquisition and mobilization, facilitation of preparation of governance instruments (by law) and processing acquisition of legal status;
- Facilitation of preparation of action plan for implementing the activities earmarked by the care taker leadership;
- Backstopping the formation process.

Greater emphasis at Formative stage is quiet important

Member owned and managed MFIs have pre-requisite conditions, which should be considered from the initial stage for the sustainability purposes. This includes:

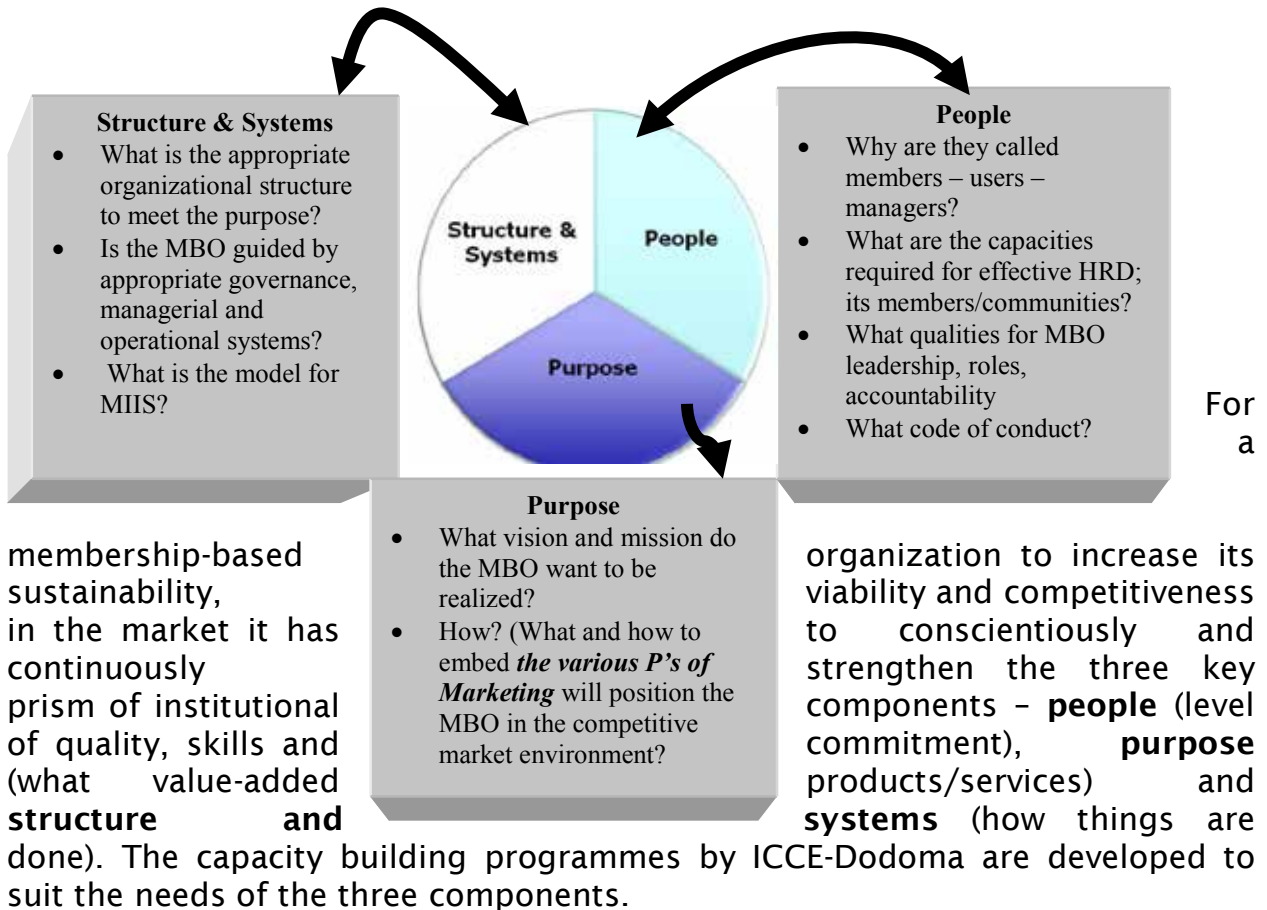
- *Potential owners facilitated to analyze own situations – they must be able to answer among several questions 'What are our strengths to support the MFI?; Why organized action is important in poverty reduction?*
- *Have decided the institutional framework to suit their situation and understand the requirements in institutional development;*
- *Share group behaviors and dynamics in building self-help organizations;*
- *Internalization of the co-operation as concept as opposed to the co-operative as institution. This is important especially in the areas where there were bad history related to peoples institutions;*
- *Intensive sensitization and awareness creation on the savings and credit concept*

2.2.3 Stage Three: SACCOS Institutional Development

This involves facilitation of appropriate skills and capacities necessary to enable the SACCOS to develop simple yet effective governance, management and operational guidelines and systems that can be easily implemented by the local managers, board members and members. This includes:

- Members training on the management and operations of the organization with emphasis on leadership roles.
- Leadership training on governance, savings and credit policies and procedures, financial products development, reporting procedures, performance monitoring, gender aspects in self-financing organizations and business planning.
- Manager/Treasurer/clerk training on Basic accounting and internal control systems management of the organization, Savings and Loans tracking systems and loan portfolios management, savings and credit

- policies and products development, performance monitoring and appraisals, preparation and presentation of and business planning.
- Facilitation of action plan for developing and installation of the management and operational systems.
- Backstopping the work plan implementation.



2.2.4 Stage Four: Consolidation of Operations

This stage is meant to support the SACCOS to streamline the institutional documents – business plan, internal control policy, portfolios quality and new product development and participatory monitoring and evaluation. Furthermore, facilitation on developing financial and non-financial linkages and networking are provided during this stage

- **SACCOS Institutional strengthening - People**

The educational, training and advisory services developed and provided are aimed at enabling SACCOS to:

- ◆ Understand that financial services is business and thus should be developed into sustainability;
- ◆ Develop comprehensive savings and credit policies and procedures; business plans to direct operations, and good accounting, loan tracking and management information systems which forms the input to the sustainability;
- ◆ Strive to have board, staff and members/clients that are well trained in the SACCOS policies and procedures;
- ◆ Gradually charge a full cost covering interest rate, to be able to attain operational financial sustainability;
- ◆ Adopt a policy and culture that does not tolerate late loan repayment conditions;
- ◆ Strive to ensure the repayment rate does not be below 95%, as higher delinquency (late or no repayment) rapidly reduces the value of the loan portfolio;

There are many advantages in having an informed membership – enhancement of identity and ownership, direction, purpose and organizational culture, commitment and loyalty to the services provided by the SACCOS, provision of leadership, and monitoring of the organizational development. For co-operatives, the primary leadership functions will normally be provided from members who belong to the cardinal stakeholder group. These being member-user-managed organizations, member participation and, more importantly, member education is needed to provide quality leadership to their organizations.

People (human capital) are an organization most precious resource and this is what gives the co-operative organizations advantage over the private entity in the market environment.

- **SACCOS Institutional strengthening - Purpose**

Davis (1997) correctly argued that when the Co-operative Management defines the quality standards of its products and services in terms of values and aspirations of the community it serves, it positions itself in an optimum relationship to its chosen market. This is because co-operatives exist to give their members market leverage that without the co-operative they could never hope to achieve alone. SACCOS leverage comes from providing savings opportunities, finance for loans and building of both collective and individual ownership of capital by the membership.

- **SACCOS Institutional strengthening – Structure and Systems**

SACCOS, as an association of persons with external economic components and social features on the one hand and the economic undertaking to be managed like all other private enterprises in the market economy on the other hand, have to develop structures and systems to enable governance, managerial and operations to take place proficiently.

The intensity and complexity of the guidelines and systems will differ depending on the level and maturity of the SACCOS. The Centre has developed processes to assist the SACCOS to develop various instruments which are necessary to run the business

Lucey (1997) is arguing that decision-making is a process which requires input from different sources to generate appropriate output. These inputs include reliable data and information, which has to be pre-planned on how it will be organised. These becomes of necessity in organisation were there are different levels of decisions which are required to be taken yet, have to be inter linked – SACCOS members, board and management have interwoven stake in the decision making processes. Co-operative organizations, notwithstanding at which level and size they are operating, must have information systems which enable them to inform the stakeholders and to facilitate managerial, operational and strategic decision-making. Co-operatives as a community focused service provider based on the principles of democratic ownership and mutuality, the information systems is set to reflect the needs and purpose of the co-operative as co-operative business entity.

2.3 Information in the co-operatives

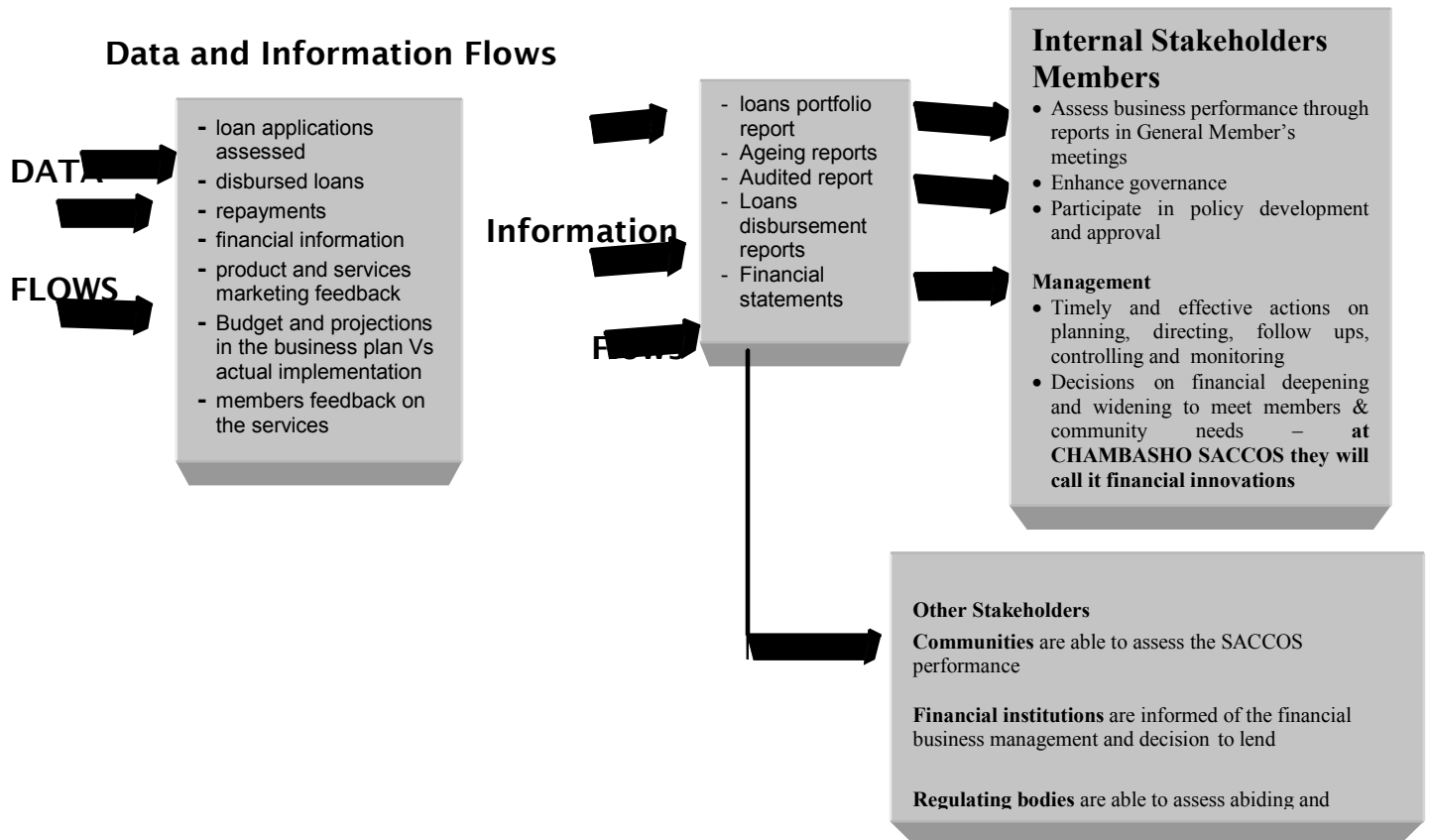
Information in the co-operative organizations like in other businesses is needed for many purposes:

- ◆ Accounting services such as daily records of transactions and purchase ledgers;
- ◆ Stock control and inventory control;
- ◆ Tracking incoming and outgoing cash;
- ◆ Market trends, prices of competitor;
- ◆ Analysis of complaints by members and customers;
- ◆ Budgeting and Cost control; and
- ◆ Enabling members to track growth of their co-operative.

For a co-operative society, the information systems should enable different stakeholders to be informed of the organization. For example, in the SACCOS, members would like to compare the savings maintained at the SACCOS with the one in their own passbooks. Furthermore, a member can follow up and assess organizational performance from the annual reports provided, decide the

appropriate service to access from the information on types of products and services offered by the society. Secondly, the Community understands the purpose, values and ethics of the organization, services and products offered by the co-operative society and the performance of the society. Thirdly, SACCOS Management makes appropriate decisions on business trends and pricing based on the existing information and reports.

Importance of information flow and systems in the co-operative could be summed up in the figure below.



Source: *Adapted from Lucey. 1997*

3. Lessons and Conclusions

3.1 Lessons

ICCE Dodoma considers the SACCOS as an entrepreneurship entity and based on that philosophy various programmes are developed to enable the SACCOS to embed their services with entrepreneurial thinking and practice.

Moreover, to ensure the sustainability of SACCOS the following has to be taken into consideration:

- A SACCOS must be built on common bond: there must be a reason for its formation which brings people together. SACCOS leverage comes from providing savings opportunities, finance for loans and building of both collective and individual ownership of capital by the membership.
- People (human capital) are an organizational most precious resource and this is what gives the co-operative organizations advantage over the private entity in the market environment.
- For co-operatives, the primary leadership functions will normally be provided from members who belong to the cardinal stakeholder group. These being member-user-managed organizations, member participation such number of active members, the attitude of members towards their SACCOS, entrepreneur characteristics and, more importantly, members education are needed to provide quality leadership to their organizations
- SACCOS have to develop structures and systems to enable governance, managerial and operations to take place proficiently. The intensity and complexity of the guidelines and systems will differ depending on the level and maturity of the SACCOS. Having identified structure and systems will enable achievement of strong asset base and improved management structures with special attention in minimizing risks.
- Outreach: a SACCOS have to conduct outreach activities to broaden its services as a way of creating a safe place for lending and saving as well as expanding coverage to women, youth and the poor. Additionally, outreach will create a room for external support.

3.2 Conclusion

The Dodoma experience has shown that if SACCOS are provided with appropriate training and support can provide financial services that benefit their members. It has also shown that the SACCOS model is effective in targeting the poor and especially the female.

The highly participatory nature of the training programme, the careful targeting of the poor as well as its flexibility to respond to the needs are considered to be the major strengths of the training methodology that contributed to its achievement.

A number of lessons have been drawn from training conducted by the Centre experience. Among these are; the need to conduct continuous training to bring a lasting impact, addressing the particular limitations of members of SACCOS and their members, the need to build the capacity of the SACCOS staff.

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