

The Role of Savings and Credit Co-operatives (SACCOS) in Rural Tanzania

By

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Paper Presented to the 3rd Conference on Microfinance 15 - 17th March, 2004 at the Arusha International Conference Centre — Arusha Tanzania

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1.0 INTRODUCTION

According to the population census of 2002, 74% of the Tanzania 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 scenarios for the Tanzanian economy: First, Tanzania is financially a micro-project, microenterprise micro country. Studies on financial services development, have demonstrated the increasing demand on loans but shortage of savings. On the other hand, poverty studies have located that 50% of the Tanzanian population is poor. At the same time, 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 one of the limitations to development of national resources is severe deficiencies in technology, skills and tools to expand output and the proper management of natural resources.

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

The fourth scenario, is the absence of a strong rural institutions to mobilise small farms and livestock enterprises organized by 16 million small farmers. The role of SACCOS in Rural Tanzania, has to be discussed in the context of the development of sustainable financial services for 16 million 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, their performance, evolution of SACAS, the operational environment of both SACCOS and SACAS, Innovations, achievement and 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 to 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 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 Schruidt: 1998). Through 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 as they demonstrate the twin processes of development-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). The 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 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 informed rotating savings and credit were popular.

From 1976 — 1982 was the period when market-driven co-operative movement was dissolved. Agricultural marketing co-operatives were disbanded by government action including the national Co-operative Bank and the 150 SACCOS were also dissolved alongside the marketing societies. The urban — wage — based SACCOS in urban area were not affected by dissolution. As the government replaced the movement with a government — driven marketing system of village - based producer organisations connected with marketing boards, and at the national level, Co-operative Union of Tanganyika was replaced by WASHIRIKA. By 1976, a national structure of cooperative based financial services had begun to take shape. There were the urban SACCOS, rural SACCOS and the National Cooperative Bank. Co-operative Insurance services had started taking shape at the CUT. The dissolution, removed four important growth areas for co-operative - based financial services: the rural SACCOS, the CUT, SCULT and the Co-operative Bank. This kind of financial infrastructure, has not been attained to day.

The 1982 Co-operative Act, allowed more government controlled marketing co-operatives without independent rural SACCOS. Instead, the law allowed the formation of Rural Savings and Credit Schemes (RSCS) which became appendages of the rural cooperative marketing primary societies. The combination of agricultural marketing and savings and credit activities never took off the ground due to absence of 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, running and decision-making in 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 moved into liberalisation policies removing government participation in economic activities. We are experiencing three features of the development of the SACCOS movement: First, in 1992, a national agricultural 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 designed and formed by member societies, which by then were the urban - wage - based SACCOS. Second, the government in folding back to registration, supervision and regulation. The government is very careful carrying out promotion directly. It is doing promotion through stakeholder networking.

Third, actual promotional work is carried out by donor-funded programmes (RFSP, RIDP and AMSD) all funded by IFAD. Also, promotion is carried out by a few financial services NGO's such as DID Tanzania and Financial Services Enterprise Development Association (FISEDA).

The national organisations such as SCCULT and the Tanzania Federation of Co-operatives are marginally involved in promotional and development work. As a result, the development of the rural SACCOS movement, cannot avoid a partnerlistic 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 is whether the methodologies and processes of promotion produce sustainable SACCOS and management structures in the rural areas.

3.0 CURRENT STATUS AND OPERATIONS

According to the ICS: 2001 study, there were close to 650 SACCOS in Tanzania. The breakdown was 500 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 total SACCOS with narrow

market penetration, small size units and rudimentary management systems. The geographical distribution of rural SACCOS and SACOS - like organisation is summarized as follows:

REGION	PERCENTAGE %
Mbeya	50
Iringa	20
Kilimanjaro	16
Others	14

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

The December 2003 status global report of the Ministry of Cooperatives and Marketing the statistical features of the national SACCOS movement is as follows: -

Number Of SACCOS	1,264
Membership Shares	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 are not arrears. The overall national picture does not distinguish between a short term and long-term loans. But rural SACCOS promoted by FISEDA and DID, indicate that all loans are short-term and as at 31 st January, 2004 the network supported by the two NGOs had loans standing at 212,608,191 without loans in arrears. The information from different efforts in promotion is scattered by rural SACCOS supported by the Arusha Community Support Trust ACISGT, in Arusha and Manyara regions, have managed to extend long-term loans for housing and business development for their members.

Studies carried out recently by the Co-operative College in both the Northern and Southern Highlands rural SACCOS, have indicated problematic areas of operation. But those problems are derivative of the status of the Tanzanian rural economy: -There is underutilisation of land, animal and other

resources. Gross Domestic Product has been 44.8%. For a country which is predominantly agricultural, this is on the low side (TAS: 2001). But while poverty is about people and their institutions. Therefore, the capacity of the rural people to manage their institutions is an important input to the development of rural SACCOS in Tanzania. Looked from the capacity attainment of Tanzanians, it is observed that in terms of educational attainment, 58% of adult population, have primary education. 28% of adult in the rural areas have no formal education. This distorted scenario of basic educational attainment has far-reaching implications from the management of rural SACCOS. Like all other types of co-operatives, rural SACCOS are community-based and member-driven organisations. As such, they depend on the stock of skills required to manage them from the immediate communities. Studies have shown that there are a number of problems of running rural SACCOS which though may be seen as SACCOS problems, they have a larger bearing of the total framework of the rural economy. Some of the critical operational problems include lack of competent and skilled staff. Most employed staff work on voluntary basis, class seven leavers and have no time to learn new skills. Record keeping is poor hence members cannot give fair discussion and judgment on the 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, there are no product design and development processes. There is lack of management capacity for managing market-driven SACCOS. It is not that technologically productivity is low, but financially money earning activities may not be economically viable and nobody keeps record to see to what extent such loss — making activities contribute to poverty at the household level. Due to low capacity of the leadership, membership to 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% (Cooperative College: 2003). On the overall, membership of rural SACCOs does not show signs of growth. In all areas where rural SACCOs have been promoted, the number of members has stagnated. There are two 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, 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 the general membership.

4.0 EVOLUTION OF SACAS (EVOLUTION, SIMILARITIES AND DIFFERENCES)

According to the ICA:2001 survey, the Savings and Credit Associations are a new innovation in people-owned financial institutions. There have been two forces which promoted the institutions. First, IFAD Southern Highlands programme wanted organized 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 was used to promote groups and associations which formed the institutional channels for both IFAD supported rural credit programme and the women and youth supported credit programme of the Ministry of Community Development. 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 cooperative enterprise system. That is why most SACAS are located in the Southern highlands regions, their establishment dates are 1998 2002 and concentrated in Mbeya Rural, Rungwe, Mbarali and Iringa districts.

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 but they are a marginal proportion. 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. Formation history of SACCOS is based-on the search for self-help promotion but SACAS have a history of externally credit catchment. The entry point for 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 not voluntary while in SACCOS entry and exit of membership are free and voluntary. SACAS have attracted more youth and women due to their 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 credit, though this kind of attraction is a threat to sustainability.

SACCO'S have more structured regulation supervision and external audit as well as comprehensive education and skills provision. SACAS do not have a comprehensive support systems structure. However, behind these differences, the Ministry of Co-operatives and Marketing, has through the New Co-operative Development Policy recognised the existence of SACAS as pre-co-operative

groups. This recognition should create the necessary bridges 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 Cooperative Development Policy, the Microfinance policy offer wider operational environment for SACCOS. The legal framework for NGOs should 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 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.

Institutionally, 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 Co-operative College Moshi and its wings can offer the required educational programmes as well as the skill they require. 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 supply from COASCO and supervision interaction from the Ministry of Co-operatives and Marketing. SACAS on the other hand do not have such kind of support infrastructure. They are isolated single-handed institutions but competing in financial markets.

The production conditions of the rural economy where both SACCOS and SACAS operate poses more challenges than straight forward opportunities. The members of both SACCOS and SACAS are in the small-holder economy. Each locality has a different cash flow pattern (Co-operative College: 2003), but it has been found that generally the credit needs during land preparation, and saving and weeding.

For perennial crops such as coffee, before harvest input requirements are higher than the volume of credit required during harvest time. A high level management capacity is needed that is able to make a correct assessment of credit required during harvest time. A high level management capacity is needed that is able to make a correct assessment of credit needs along the patterns of smallholder agricultural production cycle. Skilled management is also needed to facilitate knowledge development on farm and other activity budgets and budgeting.

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 is generally low. The technological environment is not supportive to allow positive change in production technology. There is no structured mechanism of tracking down technological discovery in communities although there is a host of agricultural innovators at the village level. Apart from the fact that the Ministry of Agriculture does not have a strategic initiative for changing the hand hoe, the members of the SACCOS and SACAS run the risk of running less making agricultural production enterprises. Finally, the human resource capacity to manage competitive rural organisations is not available. Such capacity is needed for the coordination of production, production technology, organisational development, logistical management and marketing. The production system at the village levels needs technical capacity for 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 and 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 achievements

Despite the fact that rural SACCOS and SACAS are operating in a complex environment, they have registered a number of innovations and achievements. Innovations include the on-going modernisation programme initiated by ACIS -assisted SACCOS in Arush 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 Mkobwa in Kongwa district operating viable front office activities where quasi -banking transactions are carried out daily and therefore credits and repayments are transacted daily.

Other important innovations have been demonstrated by the DID/FISEDA supported by SACCOS where the establishment of rural SACCOS goes with a modern management system, product

development and promotion by practice. Mlimani Ngarash in Mbulu has developed a model that cultivates membership from people of all walks of economic activities. SCCULT has been able to implement a guide book accounting programme for advanced SACCOS but also running a central finance programme which through centralised is a platform for design work.

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 the schooling of 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) Uncoordinated 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.

b) Promotional Approach

Currently there are many players who promote rural SACCOS. Some of them are CBOs, NGOs, and government institutions and donor-funded programmes. The challenge is harmonisation of methodologies and process of promoting rural SACCOS. There is need to develop a coordination mechanism where different methods and processes of promotion can be shared for sustainable promotional practices.

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 SCCULT 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, SCCULT will need to enhance its promotional capacity and working tools in the Zonal Offices.

d) Product Design and Development

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

e) The Money Business

For the member societies who have affiliation to SCCULT, the Central Finance Programme has started a number of years ago. It is u to SCCULT to assess whether this programme is a real money business for the member primary SACCOS. We have not critically made any external evaluation of the programme, but we are not sure whether it accommodates the wishes of member societies. Different range of products could be made available at the national level including running an ordinary savings and credit operations and developing the national savings and credit Bank. The Federation of Savings and Credit Co-operatives of Thailand runs a strong money business at centre where the federation borrows from surplus member societies and pays back with remunerative interest to the members.

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:

a) Best practices

Rural SACCOS and SACAS 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.

b) Lack of Professional Management

Professional Management and installation of Management Information Systems and instruments is 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 a new product for the area-based SACCOS and SACAS.

c) The Art of Strategic Planning

All studies carried out in rural SACCOS and SACAS; point out the lack of strategic planning and business panning. The rural SACCOS served by DID and FISEDA have been trained in the art of business planning. The others are not doing it. The intervention could be carried out through joint efforts between the training providers, the support NGOs and the national networks.

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 put an upper limit to capitalization. A special group of rural SACCOS needs a special mention here and there 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 liquidity stability on a monthly basis. Secondly, they can interact with rural people and discuss on how they can open up by inviting rural business people to petty traders and later on integrate small farmers.

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