Institutional Credit for Financing Seasonal Agricultural Inputs Through Co-operatives in Tanzania
The Case of Njoluma Co-operative Union (1984) Limited

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Abstract

This study aimed at examining the institutional credit for financing seasonal agricultural inputs through co-operatives. It was a case study. It focused on how imperfections in credit provision could lead to distortions in production and how institutional credit could enhance production and marketing efficiency.

In particular, the objectives of the study were to analyse the problems which the Njombe Ludewa Makete (NJOLUMA) Co-operative Union faced in terms of meeting its obligations with regards to financing of seasonal agricultural inputs for the rural small farmers within the framework of rural development policies and programmes, to study the extent of the problems and how they affected the levels of agricultural production in rural areas, and to suggest alternative strategies for policy makers to rescue co-operatives.

The study was guided by the assumptions that the obtaining credit policies and programmes of financial institutions then were not in favour of co-operatives; that there were no clear national policies on co-operative credit, and that there was no proper coordination of input distribution. It was also assumed that co-operatives were effective in meeting their financial obligations.

This study was conducted in three districts of Njombe, Ludewa and in Iringa region which were served by the NJOLUMA co-operative The area was chosen primarily due to two main reasons. Firstly, these were located in a region (i.e. Iringa) which was one of the four regions which produced a bigger share in that of case, grain co-operatives in Tanzania. These were popularly known as the 'big four'. In that case, co-operatives were chosen because they were organisations mainly of the farmers. The study focused on the rural primary co-operative societies which were considered suitable organisations for agricultural development in rural areas. Secondly, the area

of study had great potentialities in agricultural production but still underdeveloped. During the colonial times, the area served as a labour reservoir.

The potential population of the study was the NJOLUMA Co-operative Union's management personnel, some operational staff, bank officials, employees of selected primary co-operative societies, committee members and co-operative members (farmers) who were the ultimate beneficiaries of credit. From the potential subject, a sample was drawn to solicit data on aspects of credit extension, credit administration and supervision, seasonal inputs distribution, input prices, farmers' accessibility to financial institutions, methods of credit recovery and follow-up.

Since it was not possible to survey all the places under the jurisdiction of NJOLUMÅ, a representative sample was drawn from the entire population. Basing on the assumption that all primary co-operative societies in the area of study operated almost under the same conditions, a systematic sampling approach was used to get the sample. It was presumed that such an approach would offer equal chance to every primary society to be included in the sample. Having listed the number of societies in the area, every tenth society was picked for the purpose of this study. The same approach was used to get the number of respondents to be interviewed.

Results of the study revealed that the institutional setting for financing rural co-operatives, which prevailed then, did not render itself well to small farmers in the rural areas. Credit for financing seasonal inputs was unsatisfactory such that inputs in right quantities and at least cost could not be availed to rural farmers.

Since its commencement of operations in the 1985/86 season, NJOLUMÅ Co-operative Union had been distributing inputs against credit advanced by CRDB Bank. Such inputs included different types of fertilizer, HYVS of different types and PCPC such as pesticides, insecticides, fungicides and herbicides. The experience in the period between 1985/86 and 1992/93 was that the amount of inputs given to farmers decreased drastically as a result of non-availability of credit from CRDB Bank.

In 1989/90, in particular, the union the distribution of inputs was almost at a standstill. Initiatives were made by the union to apply for a trading loan from CRDB of Tshs. 40,900,000. This amount was approved very late such that only a negligible amount of inputs was bought and sold by the union. Even that small amount was of no use to the farmers because of the late availability. this resulted into an accumulation of unsold inputs. For instance, during the 1990/91 season, inputs worth Tshs. 6,411 ,476.30 remained unsold.

All in all, the existing financial institutions then were found to be unsuitable for provision of credit in rural areas. Their objectives, organisation structure, lending procedures and even their branch network restricted their ability to serve the rural sector. The relatively high interest rates, cumbersome lending policies and bureaucratic procedures were not in favour of the rural poor. Above all, their sources of funds available for lending were highly specialized and subject to political decisions.

According to the study, under the prevailing competitive environment in the country, co-operatives needed to be market driven and meet members' needs. In that case, therefore, there was need for the co-operative movement to have its own autonomous financing agency. Co-operative unions could start accumulating funds of their own for financing seasonal agricultural inputs. This could be achieved by setting aside a certain amount of money from the members' proceeds.