

Issues in SACCOS Development in Kenya and Tanzania: The Historical and Development Perspectives

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Abstract

SACCOS (Savings and Credit Co-operative Societies) as of now are predominant form of external financing for small and micro enterprises in most of the developing counties (Kenya and Tanzania inclusive). Contemporary studies show that SACCOS' role towards developing these small enterprises is increasing rapidly. From this insight, this paper discusses the origin, characteristics and contribution of SACCOS to the economic development. Considering their contributions; this paper also unveils the constraints to SACCOS' development in these countries. In Kenya, SACCOS have been noted to contribute over 45% GDP, and it is estimated that at least one out of every two Kenyans directly or indirectly derives his /her livelihood from these kinds of cooperative movements. On the other hand, in Tanzania cooperatives (including SACCOS) through financing of SMEs contributes about 40% to the country's GDP and employs 94.7% of school leavers every year, majority of these SMEs in rural areas depends on co-operative movements for external financing. The rapid development of SACCOS in both countries has been caused by growth of the private sector; which hugely demands external financial resources. SACCOS in the two countries have more or less similar constraints including: lack of well-trained officials and proper administrative framework, bureaucracy, inability to raise vast financial resources and many others. This paper recommends policy makers and governments to come-up with policies and strategies that will support the growth of SACCOS which looks to be a pertinent alternative solution for financing micro and small businesses.

Key words: SACCOS' development, Kenya, Tanzania

1. Introduction

SACCOS are voluntary associations where by members regularly pool their savings, and subsequently members may obtain loans which they may use for different purposes. Generally, the idea behind establishment of SACCOS is to promote savings and make credits available to the members. SACCOS are the important micro-financing institutions for mobilization of financial resources for various development activities, particularly in rural areas; where majority of both Kenya and Tanzania reside and earn their livelihood from agriculture.

Co-operatives are autonomous association of persons united voluntarily to meet their common economic, social, cultural needs and aspiration through a jointly owned, democratically controlled enterprise. As mentioned above, the sole objective of these societies involves mobilization of resources from which individual cooperators may benefit. Generally, co-operatives are organized into service and producer co-operatives. The producer co-operatives objectives are to promote the use of modern technology and contribute to national development through production. The service co-operatives are responsible for procurement, marketing and extension services, loan disbursement, sale of consumer goods and member's education. The co-operatives have made remarkable progress in agriculture, banking, credit, agro processing, storage, marketing, dairy, fishing and housing. Service co-operatives are the closest to communities and are organized on a shareholder basis, formed by individual members of organizations voluntarily working in a specific geographic area.

In Tanzania SACCOS operate under Co-operative societies Act of 1991, their savings and credit services to members are also stipulated in the Banking and Financial institutions Act of 1991 as the financial intermediaries but they are not regulated by the central bank. However, under the new regulation, Financial co-operative societies regulation which was established in 2005, that any SACCOS that accept a total savings and deposits above 800 Million Tanzanian Shillings (TZS) from its members in will be supervised by the Central Bank of Tanzania (BOT) and licensed as a financial cooperative (Triodos, 2007). The nature of the SACCOS in Kenya and Tanzania is that, most SACCOS in urban areas are formed by salary and wage earners who have common bond, and whose employers are ready to effect check-off system from members' monthly contributions and loan repayments. On the other hand, most of SACCOS found in rural areas are community-based, and their main activities is agriculture.

In Africa, the idea of saving and credit societies was first described and discussed in 1955 in Jipara, a small town the upper west town of Ghana, the idea was brought by the Roman Catholic priest, Father John McNulty from Ireland. He decided to assist this village to form a saving and co-operative, he then trained 60 people mainly teachers. The success Jipara story has been widely replicated throughout the African continent (Alila & Obado 1990). Co-operative societies are characterized by the intrinsic values and principles on which they are founded. They are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. The end product of these co-operatives is to attain the high living standards of its members. This paper uses secondary data to study the historical development, contribution of SACCOS and constraints that they encounter through-out their journey in both Kenya and Tanzania.

2. SACCOS in Kenya and Tanzania

The nature, origin, characteristics and operation of SACCOS in both countries are almost similar. This is due to the fact that these countries are still in the developing stage i.e. from planned to market driven economy. Majority in these countries are still struggling to pull themselves out of the severe poverty by investing in micro and small enterprises which require SACCOS as the main source of financing given that bank's loans have tight conditions for these business enterprises to afford.

In general, SACCOS in these countries take as a good as 30 to 50 percent of all co-operatives (Table: 1), this category is the second after the agricultural cooperative. Other types of cooperatives include housing, consumer and, handicraft cooperatives. In most cases SACCOS serve more diverse general public, so they have more stable representative bodies than other sectors of the economy where cooperatives are found (Ignas, 2009).

Table1: Number of SACCOS and population under SACCOS in 2008

Country	Number of SACCOS 2008	Percentage of Co-operatives which are SACCOS	Population under SACCOS
Kenya	5122	44.0	6,286,894
Tanzania	4780	55.6	764,602

Source: Ignas, P (2009)

SACCOS in Kenya and Tanzania are increasing dominance in terms of increasing in number of SACCOS and increase in population under SACCOS. Data in Table2 shows that in 2007 number of SACCOS and population under SACCOS in Kenya and Tanzania were 39,990;3,896 and 4,000,000; 480,000 people respectively. On the other hand, Table2 shows that in 2008 number of SACCOS and population under SACCOS were 5,122; 4,780 and 6,286,894; 764,602 people respectively. The increasing importance of this sector may be associated with the public they are catering for and, also with the increasing popularity of micro-financing activities. This means that there is rapid growth in SACCOS in terms of numbers and population.

2.1. The Kenya's Situation

The phenomenon of fast growth of SACCOS in Kenya in the last two decades is the result of provision of credit for a wide range of purposes and on a relatively affordable terms and conditions. The credit further suited different categories of borrowers include the disadvantaged groups especially women (Alila & Obado, 1990). Today co-operatives particularly SACCOS are integral part of the government economic strategy focusing on creating income generating opportunities especially in rural areas.

Kenya has been a success as far as the Co-operative Movement is concerned. It is estimated that there are currently over 10,800 registered Co-operative Societies in Kenya with a membership of about 6 million. Out of this, 46% are Agricultural, 38% Financial-based that is SACCOS and, 16% are others. 63% of the Kenyan population depends on the Co-operative related activities for their livelihood with over 250,000 benefiting through direct employment (Mudibo, 2005). According to Mudibo, 2005, the challenges encountered by Kenyan SACCOS involves: board of directors is not being trusted by employees. He further sighted that very important decisions on urgent matters such as change in interest rates, introduction of new products and services have to await approval by the Annual General Meeting. According to him, board members in most cases are non-professional volunteers, yet they assume very highly technical issues such as loan analysis and disbursement, budgeting and financial expenditure control. Furthermore, there are no adequate guidelines on various stakeholders in SACCOS. For example, where the authority of Credit Committees should end, where the authority of Executive Committee should begin, and what are other staff members' authorities.

The co-operative movement in Kenya can be traced back to 1908 when the European farmers at Lumbwa near Kericho first established co-operative production and Marketing. Before 1930 cooperative development was very slow due to discouragement by colonial ruler. On the other hand, SACCOS are important form of financial intermediary, which over the years has played a vital role in provision of financial services to their members. The societies accept monthly payment for shares from which members may borrow an amount equivalent to two

or three times their own savings if they can get other members to guarantee them.

It was very difficult to develop SACCOS during that era. The colonial government considered it was very difficult to find smart people in Africa who could command trust of their fellow members and keep accounts and business of SACCOS' movement (Ongore, 2001; Oyoo, 2002). Government involvement in co-operatives started in 1931 when the first co-operative ordinance was enacted in order to regulate the operations of co-operative societies in Kenya. The Government continued to promote the movement after independence in 1963, the Cooperatives and SACCOS' movements were seen as the means to make people get involved in modern economic development within a short period of time particularly in land acquisition, business and engage in agricultural and agro business activities (Mudibo, 2006)

The movement was supposed to play an important role in wealth creation, food security and generation of employment and therefore alleviating poverty. Currently there are over 11,200 registered co-operative societies with a membership of about 6.1 million with mobilized savings of over Ksh.125 Billion. The co-operatives have employed over 300,000 people besides providing opportunities for self-employment. Co-operatives traverse all sectors of the economy with about 63% of Kenyan population deriving their livelihood directly or indirectly through it (International Monetary Fund, 2007)

SACCOS were generally controlled by the government before liberalization in 1997 (Oyoo, 2002). The good example is that in 1985, the Ministry of Cooperative Development and Marketing issued a circular which restrict type of investments by SACCOS to fixed deposits and to some extent, real estate. Financial investments in bonds and private companies were discouraged unless they were guaranteed certain rights or had a high degree of control (Gachara, 1990). These guidelines were aimed to ensure excess liquidity and, will therefore, lead to low returns for the organization. With the current competitive market economy, it may be difficult for such policies to apply. This brought about freedom in SACCOS management approach that involved the partial withdrawal of state involvement in the day-to-day operations of co-operative societies. The liberation that came with government withdrawal resulted in bad governance of the societies and contributed to the decline in the overall performance of co-operatives.

Although there are many formal institutions/organizations providing micro financial services in Kenya, without considering SACCOS; their number is reaching 1 million. When we add SACCOS, who provide mostly consumer loans, and some of the loans are not small to qualify as microfinance, then the number is approximately 4 million if you do not consider the double counting, which is about 12 per cent of the population. Clearly the outreach of these institutions is small, its smallness can be better appreciated when compared to such programs in Asia (the higher populations notwithstanding) and South America (where population densities are comparable). In Kenya growth in SACCOS over the last twenty-five years has been spectacular. The number of these organizations rose from 630 in 1978 to 4,500 by December 31st 2004. Over the same period, savings and share capital rose from KShs: 375 million to KShs: 150 billion by December 2004. SACCOS' membership numbered over 3 million by December, 2004 having risen from 387,500 members in 1978. Their rapid growth indicates that they are filling a need, which has not been met by other financial institutions i.e. banks

SACCOS are currently organized as workplace or cash crop based savings and credit associations whereby people with a common bond, e.g. by working together in the same company or institution, save regularly thus building enough deposits for lending within the group. Some of these savings and credit societies are actually larger (in asset terms) than some of the small commercial banks. These include the Harambee, Posta and Mwalimu SACCOS.

2.2. *The Tanzania's Situation*

History of SACCOS in Tanzania has originated as early 1938 in several areas in the country, but it was in the 1960s that the number of SACCOS started to grow (Bee, 2009). Banks performs a limited role in economic growth in rural areas despite the extensive policy and institutional reforms (Bee 2007). And this has led to the informal arrangement by the household and semi-formal members based financial institutions and Micro financial institutions (MFIs). Current evidence shows that the first SACCOS in Tanzania were established in Moshi Town by the Ismailia Group in 1938. From there, the Catholic Church picked the idea when the Late Cardinal Laurean Rugambwa (then a Bishop) visited Michigan Credit Unions in the late 1950's to learn more about SACCOS (Dublin, J. et al, 1983). There are active rural and urban SACCOS amounting to 650, with active membership between 130,000 and 160,000. The success has been contributed by the Cooperatives Societies Act which was introduced in 1991. The Act created the legal framework for cooperatives to be established as privately-owned equity-based institutions registered under the Ministry of Cooperatives and Marketing. The Act applies to all types of cooperatives, be that an agricultural production or an ordinary SACCOS.

The main principle established by the Act was volunteerism and self-regulation. However, despite these

reforms, access to finance for poor Tanzanians – particularly in rural areas – remained limited. In 1996, the government, in collaboration with the donor community, initiated a microfinance policy formulation process that started with a national demand-side study. The Financial Sector Assessment Program of the IMF (2003) found that micro credit accounted for less than 5 percent of all bank credit in Tanzania, or less than 0.4 percent of GDP (around US\$35,3 million). The main form of savings and credit for the rural poor are through Rotating Savings and Credit Schemes (ROSCAs or “Upatus” in Swahili language). Other providers of micro savings facilities and microcredit to the poor are savings and credit cooperatives (SACAs), microfinance NGOs, the Post Office Bank and a few commercial banks. By January 2001, there were 646 registered SACCOS, of which 60 percent were rural. The total shares and deposits of the 40 percent urban SACCOS far outstripped that of the rural SACCOS. This demonstrates the extreme level of poverty of the rural poor, which mostly make out their existence through smallholder farming or small/micro enterprises, whereas members of urban SACCOS are often salaried income earners. However, SACCOS are often limited in terms of their capacity, access to capital, and outreach. There have also been weak linkages between the informal financial institutions and formal banking institutions.

However, many SACCOS in Tanzania have benefited from the wholesale lending scheme provided by the commercial banks, particularly CRDB Bank and the selection of existing SACCOS is not based on historical performance, as most them had no records available and international standards could therefore not be used. Therefore, selection was based on the following criteria:

- i. Commitment to learning;
- ii. Commitment to make repayments within the (given) available time;
- iii. Willingness to provide CRDB with required information;
- iv. Experience with/prevalence of fraud;
- v. How the SACCOS were managing themselves and whether they were serious about what they were doing.

The process followed more from building relationships with the SACCOS over time and mutually negotiated agreements, than a quick assessment of SACCOS’ historical performance. The initial assessments were undertaken through multiple field visits by CRDB microfinance staff, but K-Rep was later engaged to further assist in the selection of the SACCOS and to engage with the SACCOS to enable K-Rep to develop a curriculum for future training purposes. In microfinance country scan made by Triodos (2007), it is also argued that mainly SACCOS have an outreach to the rural parts of the country and up to 2006 over 3500 SACCOS with the total number of 420,000 members were registered in the ministry of cooperatives and marketing and, 60% of these classified as the rural. Most SACCOS are very small and they tend to encounter capacity problems such as lack of the staff and appropriate technology (Triodos, 2007)

SACCOS Regulations of 2005 stipulates that SACCOS will continue to be registered by the Registrar of Cooperatives under the Cooperative Act 2003 and will also be subjected to the cooperative rules as issued by the Ministry of Cooperatives and Marketing. However, in accordance with the legal framework, the Registrar of Cooperatives will also apply similar prudential regulations on SACCOS as those applied on MFCs. Although the SACCOS regulations are similar to those applied to MFCs, the former are cooperatives and need to conform to cooperative principles.

3. Profile of SACCOS in Kenya and Tanzania

All SACCOS in both countries offer deposit-taking facilities, loans and certain transactional facilities (payment facilities, debit orders, stop orders, money transfers, etc.). However, the operations of SACCOS and average deposit and loan sizes differ substantially depending on the type of SACCOS and its clients’ base. For example, the average deposit and loan size of the employee-based and urban/regional town SACCOS tend to be larger than those of community-based SACCOS, as the urban members generally have a higher income than on village level. Similarly, the average loan and deposit of SACCOS with the MFC differs tremendously depending on the level of maturity of the SACCOS, number and type of members. Various types of SACCOS exist, depending on the membership profile and the products extended to the SACCOS members differ accordingly. In essence, there are three broad categories of SACCOS:

- i. Community-based - SACCOS. These SACCOS can be found in urban areas or regional towns, but are most frequently encountered on village level. A variety of group and individual loans can be found, including women solidarity loans, business loans for individual members, or loans for small and micro enterprises;
- ii. Employee-based SACCOS- These represent SACCOS where all the members are drawn from one employer and these SACCOS are generally located in urban areas or regional level. Specific salary-

- based loans are extended which are often guaranteed by the employer.
- iii. Agricultural SACCOS - To date these represent primarily small-scale cane growers in areas such as the Morogoro region. Both individual farmers and farmers' associations can be clients of the SACCOS. Loans are extended for various purposes, including agricultural production loans. Many SACCOS may have a combination of different clients, including women Solidarity groups, individual borrowers for small business purposes, individual salaried clients or farmers. The MFC does not encourage members to discriminate based on gender, but rather to welcome all potential clients who have a need for financial services and a good track record. However, the MFC does encourage SACCOS to extend loans to women solidarity groups in an effort to deepen outreach to the very poor. The split among SACCOS' members in terms of gender is almost fifty-fifty, with a slight bias to women though this differs tremendously depending on the target clientele of the SACCOS. The loans, in turn, tend to be biased to men.

4. Characteristics of SACCOS in Developing Countries

Co-operatives in all of developing world have the following characteristics:

- i. Clients tend to come from low income and lower middle – income groups. This means that majority of the clients of SACCOS are lower and middle income earners. They may come from employment (employment based-members) or from community (community-based members).
- ii. Services are almost exclusively financial in nature. – The aimed services are the mobilization of financial resources from members.
- iii. They provide self-generated capital, typically without any dependence on outside funding to cover operating costs which are generally kept low. This is because they are always started on self-help philosophy.
- iv. Members are united through at least one common interest - members normally have common ties which they share. For example, employment based SACCOS are united through their employment contract. Besides employment they are pushed by self-help motive to be members of the SACCOS.
- v. Members pursue the goal of improving their economic and social situation through joint actions. – through mobilization of resources members are able to establish self-generated capital as well as creating the social network that will be beneficial to their economic (income generating) activities.
- vi. Resources mobilization gives members opportunities to use owned and operated unit which provides them with financial services of its physical size and activities, the units purpose is to make the best use joint resources of the members to produce or obtain goods or services for members (Kabuga and Batarinyebwa, 1995)
- vii. Mutual self-help group - where members have joint action toward financial resources which focus on the attainment of the group's objectives or mutual self-help.

5. Significance of SACCOS to Economic Development and Poverty Reduction in Kenya and Tanzania

Within the African cooperative movement, SACCOS are increasing their prominence and could soon be the most common form of cooperative. The growth in importance of the SACCOS sector may be associated with the public they are catering for and also with the increasing popularity of microfinance (Ignace,2009).

Table 2: Membership and financial statistics of credit union (including SACCOS) Selected in 2007

Countries	Credit union	Members	Penetration rate	Savings	loans
Kenya	3990	4,000,000	19.11%	2,109,896,005	2,280,083,977
Tanzania	3896	480,000	2.22%	29,511,252	24,251,349

Source: Statistical Report, World Council of Credit Unions (2007);

Penetration rate is calculated by dividing the total number of reported credit union members by the economically active population

The SACCOS operating in Kenya and Tanzania are facing the typical problems and constraints like any other SACCOS in other developing world. However, some countries and other International financial agencies assist these savings and credit societies because of the crucial inheriting role they play in the economic growth and development. The assistance is usually in the form of facilities and supportive services commercial finance venture capital, information training and retraining. Availability of a broader range of SACCOS also makes availability of financial products (Aeschliman, 2007).

There are several contributions posed by the SACCOS to the economy as follow:

- i. Identifying gaps in the poverty reduction strategic programs. SACCOS in these countries provide means to which communities resorted to in fighting poverty.

- ii. Capacity building among members themselves through advocacy of participation, improving literacy, information sharing etc. This gives new members opportunities learning from their experienced members.
- iii. SACCOS help learning from best practices and up-scaling the members/society are using the success of the fellow member one stage success as the model in running their business.
- iv. They provide experience in critical analysis of problems and identify the stockholders' weakness so that they can be in strengthening policy advocacy role.
- v. Innovations to improve member incomes and benefits - especially agriculture based ones, have attempted to innovate mechanisms for linking coffee producers to the consumers to realize better prices for the producer. These innovations are indicative of the poverty reduction and contribution to the economic development.
- vi. Facilitation of micro-financial services - The role of SACCOS in giving micro-financial services to the rural areas has increased before. Different studies revealed that SACCOS are the most significant forms of participation in financial markets available to the rural Tanzanians. The survey indicates that by December 1999 there were 395 Rural SACCOS with a total of 83,000 members. These members had US\$1.7million in shares; US\$0.118 million in deposits and US\$2.2 million as loans to members. The outreach is obviously still very small and limited in its impact on poverty reduction. The point however is that the service being provided is in great demand among the rural poor (Mwelukilwa, J.S, 2001).

6. Governments' Role towards SACCOS' Development in Kenya and Tanzania

- i. As the government entity vested with oversight of the financial sector, the Bank of Tanzania have overall responsibility to coordinate the implementation of the microfinance policy.
- ii. The Bank of Tanzania will ensure that a regulatory and supervisory framework that is supportive of microfinance operations and consistent with financial prudence is developed.
- iii. The Bank of Tanzania will collect and disseminate relevant information, monitor the progress of the sector, examine key technical issues relevant to service providers, and advise other government organs on the appropriate structures for their efforts in supporting SACCOS.
- iv. To liaise closely with donors and all relevant stakeholders, specifically the Bank of Tanzania will advise the ministry of finance on the technical aspects of such government programs in Microfinance.
- v. To keep the public informed of key developments and pertinent issues in the sector and to provide an important link to what is happening elsewhere in the field at regional international levels.
- vi. Coordinate Government intervention and interface with other stakeholders in the field.
- vii. Guide the development of the sector – the government should put in place both legal and operation frame work that will ensure/guide the establishment, growth and sustainability of SACCOS in both Kenya and Tanzania.

7. General Constraints against the Development of SACCOS in Tanzania and Kenya

Like any others developing countries, these are the constraints that are facing SACCOS in Tanzania and Kenya - Most SACCOS lack appropriate and adequate managerial skills and knowledge with the good strategic, business, succession plans and, adequate organizational set-up and transparent operational system.

- i. Many founders and managers of SACCOS in developing countries use the inefficient equipment as a result of lower level productivity delivery and substandard product quality.
- ii. Lack of initiative and administrative framework or linkage to support and sustainability of SACCOS' development which to a large extent is a reflection of poor technological capacity or intellectual resource. Sometimes there is also wide spread corruption, nepotism and harassment of SACCOS by some officers especially in rural areas.
- iii. SACCOS also lack access to funding/credits, which can be traceable due to the reluctance of banks to extend credit to them owing among others to poor and inadequate documentation of business proposals. Lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates. Commercial banks tend to SACCOS to have high risk of lending to especially start-ups.
- iv. Bureaucratic bottlenecks and inefficiency in the administration of incentives and support facilities provided by the government discourage innovations which may lead to new products or services, as most of these SACCOS cannot afford to establish the research and development.
- v. Due to the nature and environment in which SACCOS operate, there are inefficient and non-functional

- infrastructural facilities tend increase the costs of operation as SACCOS are forced to resort to private.
- vi. Lack of education and skills among staff and clients. Members of SACCOS cannot tell what are their rights, obligation, roles and responsibilities
 - vii. The growth and expansion increase the outreach into rural areas, has significantly increased the volume of transactions and which require appropriate technology to handle an increasingly diversity set of customers as well as managing strategies to achieve and operational and financial sustainability.

8. Conclusion and Recommendations

The driving force behind fast growth in any case is the fact that co-operatives credits offered by SACCOS have proved popular with virtually all clients. The favorable terms and conditions of borrowing have meant much easier access to credit from SACCOS as compared to particularly commercial banks. Therefore, this is an emerging key role of SACCOS in the development specifically in terms of financial intermediation. Generally, this study has revealed that there are rapid growth in SACCOS in Kenya and Tanzania as both countries are moving from state driven to market economies.

However, considering the penetration rate, members, loans and savings (Table 1 and Table 2) the growth of SACCOS in Kenya is relatively higher than that of Tanzania. In terms of their contribution to the economy, cooperatives movements in Kenya (including SACCOS) contributes much to the country's GDP (45%) compared to Tanzania (40%). There is a need for further research to investigate as to why the movements of SACCOS is so vibrant and has the great impact in Kenya than in their counterpart.

Conclusively, to move in the right direction, the Governments in the two countries should continue to prepare transparent policies and strategy for rebuilding the co-operative (including SACCOS) movement involving other interested parties like NGOs and other sympathizers of co-operative enterprises. Specifically the Kenya and Tanzanian governments should focus on: building strong member controlled co-operatives, promoting good leadership, promoting strong and effective co-operative development support and improving co-operative education and training.

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