# Community-Based Microfinance Models in East Africa

**November 2004**

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## Preface

This publication has its roots in SNV-Tanzania's Financial Services Advice Project (FISAP). FISAP was created in 1999 with the aim to increase access to financial services for the rural poor. Its efforts centred on the development of two community-based microfinance models: the Rural Finance Scheme (RFS) and the Community Bank model. FISAP was jointly funded by Hivos and SNV, and formally came to an end in 2004.

As a follow-up to the external evaluation conducted in November 2003, FACET documented the lessons learned by FISAP-staff, partners and clients in Tanzania over the past five years. This publication contains a summary of the lessons learned and 'pre-conditions for success' that have been generated from experience gained. The experience from Tanzania is supplemented by a brief description of a selected number of other community-based microfinance models currently in use in East-Africa, which are also supported by Hivos.

I want to thank all those involved for taking the time and effort to reflect on experience gained, and sharing both successes and failures in such an open and inspiring manner. Without their contributions this document would not exist. Special thanks go to Annette Altvater, the former FISAP-manager of SNV-Tanzania, and Carolijn Gommans of Hivos, for their ideas, comments and support in making this happen. I hope this publication will achieve what it was set out to do: to share these models and lessons learned with a wider audience, and for the 'do's and don'ts' to find their way into the daily practice of those involved in rural microfinance, both at the implementing and supporting level, in East Africa and beyond.

Marjan Duursma
FACET BV

## Abbreviations

| | |
|---|---|
| AMCO | Agricultural Marketing Cooperative Society |
| BOD | Board of Directors |
| BOT | Bank of Tanzania |
| CBO | Community Based Organisation |
| CIDA | Canadian International Development Agency |
| DCO | District Co-operative Office(r) |
| DFE | Directorate of Field Education of the Co-operative College Moshi |
| DFID | Directorate for International Development |
| DID | Desjardins International Development |
| FISAP | Financial Services Advice Project |
| FISEDA | Financial Services and Enterprise Development Association Ltd. |
| FSA | Financial Service Association |
| FSD-T | Financial Sector Deepening Trust |
| FSS | Financial Self-Sufficiency |
| HIVOS | Humanist Institute for Cooperation with Developing Countries |
| HTF | Hivos-Triodos Fund |
| IFAD | International Fund for Agricultural Development |
| KADERES | Karagwe Development and Relief Services |
| KRC | Kabarole Research and Resource Centre |
| MFA | Microfinance Association |
| MFI | Microfinance Institution |
| MIS | Management Information System |
| MOU | Memorandum of Understanding |
| NGO | Non-Governmental Organisation |
| OSS | Operational Self-Sufficiency |
| PAR | Portfolio at Risk |
| RFI | Rural Financial Institution |
| RFS | Rural Finance Scheme |
| RNE | Royal Netherlands Embassy |
| SACCO | Savings and Credit Cooperative Society |
| SIDA | Swedish International Development Agency |
| SNV | Netherlands Development Organisation |

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# Introduction

Poverty in East Africa – as in most other parts of the developing world – is mainly a rural phenomenon. With rural households comprising 80-90% of the poor, the importance of extending the frontier of sustainable microfinance beyond the urban areas is clear. The rural poor constitute both the greatest unmet need and the largest unserved market for financial services. However, to serve this market in a sustainable manner, barriers of costs and risks have to be overcome. This requires technological and methodological innovations.

Facing increasing competition and market saturation in some urban markets, urban based microfinance institutions (MFIs) slowly start to discover that rural areas offer significant business opportunities. However, the challenges of costs, risks and adaptation of products and methodologies, have so far confined the operations of both commercial banks and NGO-type MFIs to the more 'urban' segment of rural areas (e.g. market towns, business people).

Beyond the dominant paradigms of microfinance, concepts and methodologies are being developed that aim to reach the rural poor (especially farmers) in rural villages. These concepts centre on building community-based microfinance institutions. They come in many forms and shapes. Some of them as old as history, in their informal forms: the rotating savings and credit associations, and the accumulating savings and credit associations. And in a legally registered form: the Savings and Credit Cooperative Societies (SACCOs). In addition, new concepts are being developed, based on methodological innovations of 'old' concepts and experiences in West-Africa and other parts of the world.

In East Africa, over the past five to ten years this has resulted in several new or improved 'models' for rural, community-based microfinance institutions. In this publication, we are using the term Rural Financial Institutions (RFIs), to cover a variety of organisational and legal forms: SACCO, Microfinance Association, Financial Service Association etc. In part one, a brief overview is presented of four selected models from Tanzania, Uganda and Kenya. In part two, the focus is on sharing lessons learned (mainly from Tanzania) in the implementation and promotion of community based microfinance.

# 1. Overview of Community-Based Microfinance Models

## 1.1 Rural Finance Scheme, Tanzania

**1. Region(s) of Operation:**
Dodoma (Central Tanzania) and Kagera Region (North-West Tanzania).

**2. Legal Form:**
The implementing organisations are the Directorate of Field Education-Dodoma Wing (DFE-Dodoma) and the Karagwe Development Relief Services (KADERES).

DFE-Dodoma is a regional wing of the Co-operative College based in Moshi, Tanzania. DFE-Dodoma provides training and advisory services related to the promotion, formation and strengthening of savings and credit co-operatives and other self-help organisations in Dodoma Region.

KADERES is an NGO registered in 1998 under the Ministry of Home Affairs' Societies Ordinance Act. KADERES focuses on the promotion, formation and strengthening of community-based initiatives in two divisions of Karagwe District, Kagera Region.

**3. Background:**
The Rural Finance Scheme (RFS) model was developed in 1999/2000, through a joint effort of DFE-Dodoma, FISEDA, the Co-operative College in Moshi and CRDB Bank, with technical assistance and facilitation from SNV's Financial Services Advisory Project, FISAP. The RFS centres on organising farmers in two separate community-based organisations: Savings and Credit Cooperative Societies (SACCOs, for financial services) and Agricultural Marketing Cooperative Societies (AMCOs, for input supply and crop marketing), and linking the SACCOs to a formal financial institution for bridge-funding. Step one in this model is the promotion, formation and institutional strengthening of SACCOs. Once minimum targets in SACCO-membership and shareholding have been achieved, the community is considered to be ready for the formation (or reviving) of the AMCO.

Between 2001 and 2004, DFE-Dodoma facilitated the mobilisation, formation and strengthening of 14 SACCOs. In Karagwe, KADERES has been working with 6 SACCOs since 2001. Both support organisations are currently in the process of reviewing the concept for promotion of AMCOs.

**4. Ownership, Management & Governance of the RFIs:**
The SACCOs are registered under the Cooperative Act 1991. The Annual General Meeting of members is the supreme body. The AGM elects a Board, consisting of a Management Committee, Credit Committee and a Supervisory Committee. Some SACCOs have a (paid) clerk. Supervision and regulation of SACCOs is the responsibility of the Registrar for Cooperatives, who operates through the Regional and District Cooperative Departments.

**5. Target Group:**
Rural men, women and existing self-help groups.

## 6. Services Rendered to/Relationship with RFIs:

- ✍ Facilitation of the mobilisation, formation and registration process;
- ✍ Training to SACCO-Committee, staff (clerks) and members, and Training of Trainers;
- ✍ Financial support towards construction of own building, safe, basic stationary and furniture (approximately USD 1,500 per SACCO);
- ✍ Monitoring of progress through monthly reporting by SACCOs and regular (monthly) visits;
- ✍ Networking and facilitating linkages between SACCOs and external finance (access to loans).

## 7. Products and Services at RFI-level:

- ✍ Flexible savings accounts
- ✍ Fixed deposits (as source for loans)
- ✍ Loans

## 8. Status Report:

| Number of Members | Female | Male | Groups | Total |
|---|---|---|---|---|
| **Dodoma / DFE-Dodoma** | | | | |
| 14 SACCOs | 811 | 1,633 | 100 | 2,544 |
| Average per SACCO | 58 | 117 | 7 | 182 |
| **Karagwe / KADERES** | | | | |
| 6 SACCOs | 933 | 2,051 | 207 | 3,191 |
| Average per SACCO | 155 | 342 | 35 | 532 |

| Financial Data (in US$) | Shares | Deposits | Loan Portfolio |
|---|---|---|---|
| **Dodoma / DFE-Dodoma** | | | |
| 14 SACCOs | 37,500 | 16,500 | 55,000 |
| Average per SACCO | 2,680 | 1,180 | 5,000 |
| **Karagwe / KADERES** | | | |
| 6 SACCOs | 4,800 | 54,500 | 22,900 |
| Average per SACCO | 800 | 9,000 | 3,800 |

Notes:

- ✍ All figures per 31st August 2004. Exchange rate used is USD 1 = Tanzanian Shilling 1,050 (October 2004);
- ✍ Deposits include both 'savings' and 'deposits'. The distinction is a result of the recently amended Cooperative Act. Savings ('akiba') are in fact fixed deposits, which are used as a basis for accessing loans. The deposits ('amana') are flexible savings accounts, easily accessible by the client and generally not earning interest. Deposits cannot be used for the SACCO's loan portfolio.
- ✍ The loan portfolio figures for DFE-Dodoma refer to amounts disbursed since the lending operations began, for 11 SACCOs (2003/2004). Figures for outstanding portfolio amounts were not available. So far, 4 SACCOs have secured external loans to top up their loan portfolio. In Karagwe, 5 out of 6 SACCOs have started lending (per March 2004), figures refer to outstanding portfolios.
- ✍ The difference in (average) results between Dodoma and Karagwe has two main reasons. Firstly, Karagwe and Dodoma have a very different environment: Dodoma has a harsh economic climate with very little cash surplus and only one harvest season, while in Karagwe there are several cash crops during the year, including coffee. In addition, there are socio-cultural differences between the two regions: ethnic groups in Kagera are known for their strong common bonds, while the (mainly) pastoralist ethnic groups in Dodoma are less inclined towards collective efforts. In

addition, in the case of KADERES, part of the mobilisation effort had already been undertaken prior to the contract with Hivos in 2002.

### 9. Partnerships:

Hivos supports the implementation of the RFS in Dodoma for the period 2001 – 2005 with an amount of € 305,000. Initially, the RFS was jointly designed and implemented between DFE-Dodoma and FISEDA. However, in the course of 2003 FISEDA adopted the DID-approach in SACCO-promotion (see also 1.2) and collaboration with DFE-Dodoma ended.

KADERES is also supported by Hivos to promote and strengthen SACCOs. The contract covers the period 2002 – 2005, to the tune of € 83,000. For a short time, KADERES' received technical support from FISEDA. Currently, KADERES has joined hands with DFE-Shinyanga Wing (Kizumbi) for technical input and training of the SACCOs.

### 10. Strengths & Weaknesses:

| Strengths | Weaknesses |
|---|---|
| Approach to mobilisation of the community, formation and establishment of SACCOs results in strong sense of ownership at the community level. This component is well-developed and has been tested under difficult circumstances. The SACCO's identity, visibility and security is further enhanced through a partial grant towards construction of own building (plus safe, basic stationary and furniture). | Strengthening of the SACCOs in front-office operations is yet to be (further) developed, tested and improved. |
| A formal legal status for the SACCOs potentially allows for growth, sustainability and independence. | Avoiding the pitfalls of the past (in terms of the bad history of cooperatives in Tanzania) is a challenge and a long-term process. |
| Successfully facilitating linkages with potential providers of loans to SACCOs. | No formal agreement/contract between the promoting agency and the SACCOs. In addition, in Dodoma there are no linkages between the SACCOs (umbrella or network). In Karagwe, KADERES is initiating linkages between the SACCOs through creation of a network for common services. |
| Potential linkages with AMCOs, with the aim to provide access to financial services for small-holder farmers, as well as improved access to markets for their agricultural produce. Concepts and programmes under development. Potential complication of using the same promotion agent for SACCOs and AMCOs. | Both DFE-Dodoma and KADERES have few staff (3), and rely on an informal network of external collaborators (DCOs, ward animators, community trainers) to implement field activities. |

***AN EXAMPLE FROM THE FIELD: CHAMBASHO***

*Chambasho, in Hogoro Ward, Kongwa District (Dodoma Region, Tanzania) was formed in 2001 and legally registered as a SACCO in 2003. Within the Rural Finance Scheme, it is one of the more successful SACCOs. It is located in the 'maize belt' of Dodoma Region, and only 40 km. from the regional maize market. By August 2004, Chambasho had 312 members (33% women) and a mobilised capital of Tsh.12 Million (90% in shares – they only just started to accept deposits). Chambasho received a first loan from CRDB of Ths. 10 million (for 10 months, 1% per month). In February 2004, Chambasho's outstanding loan portfolio was Ths. 20 Million to 266 members (62% women), the majority for agricultural investment (8-months bullet loan, interest 2.5% p/month), a small percentage to 3-months business loans (2.5% p/month) and 30-day social/emergency loans (5% interest). Members can lend up to three times their shares plus deposits-value. So far repayment has been 100%. Deposits earn 4% per year. In 2004 Chambasho constructed its own building, and the bank is open five days a week. The SACCO is located 130 km from Dodoma, where it banks with CRDB. With twice-daily buses, however, this is not seen as a serious constraint.*

*Assistance from DFE-Dodoma included facilitation of the formation process (regular visits, printing of leaflets, and provision of basic stationary) member education and leadership education, support in development of by-laws, savings & credit policies and facilitation of the legal registration process. In addition, DFE facilitated the linkage between Chambasho and CRDB, and, with Hivos-funding, provided Ths. 1.5 Million top-up funding for the construction of the building and a safe. CRDB provided the furniture and technical assistance in establishing front-office services. DFE will continue with monitoring support, based on monthly reports from Chambasho.*

*Factors that contributed to its success, as mentioned by the members:*

- *Identification of the problem is the start. The bank is not a goal in itself, but it is a means to solve problems in the community. This brought people together.*
- *The self-help concept and aspect of voluntarism are well-understood in the community, which is also involved in other self-help projects. One needs a development spirit and long-term vision, without expecting short-term (personal) gains. The elected leaders are committed to this principle.*
- *Involvement of different groups: farmers, business people and livestock keepers.*
- *Transparency from the beginning: about meetings, progress, performance.*
- *A successful SACCO had been operating for some time in a nearby ward - this provided an inspiring and practical example.*

*Ways in which Chambasho assisted them, according to members:*

- *2003 was a poor season due to drought. But the small contribution members had made to the SACCO helped them to invest again (through borrowing) at reasonable rates. Before, they had to resort to the moneylender, where one bag of maize borrowed had to be repaid with two bags.*
- *Emergency loans have assisted in cases of health problems and burials.*
- *The training has helped them, not only in running the operations of the SACCO, but also as individuals and at the household level (e.g. planning of income and expenditure);*
- *Last but not least it has contributed to self-confidence and development, both at the individual and community level. As one woman put it: "Our world has become bigger". Not only through access to financial services and its benefits, but also through related aspects such as more contact with visitors, new ideas and experiences.*

## 1.2 DUNDULIZA / DID Model, Tanzania

**1. Region(s) of Operation:**
Songea (Ruvuma Region, Southern Tanzania), Bunda (Mwanza, Lake Zone Region, North-West Tanzania) and Dar es Salaam Region.

**2. Legal Form:**
Dunduliza Ltd. is an off-spring from the Financial Services and Development Association (FISEDA), an NGO that was registered in 1999 under the Societies Ordinance Act of 1954. Dunduliza is a company limited by shares registered in 2004. Currently, 60% of the shares are owned by FISEDA, and the remaining 40% is owned by Desjardins International Development (DID).
Dunduliza is based in Dar es Salaam, with zonal offices in Songea and Bunda. Its objective is to facilitate the formation and capacity building of SACCOs, as well as provision of monitoring services and the promotion of regional networks. FISEDA NGO will continue to focus on small enterprise development.

**3. Background:**
From 1999, FISEDA was one of the partners in the Rural Finance Scheme (see also 1.1). In 2004, FISEDA/Dunduliza embarked on an ambitious 5-year expansion plan with technical partner DID and funding from the multi-donor Financial Sector Deepening Trust.

Currently, Dunduliza works with 28 SACCOs in Songea, Mwanza and Dar es Salaam, most of which were established in 2001 and 2002. In Songea, a regional network of SACCOs has been created and is operational. Similar regional networks will be initiated in Mwanza and Dar es Salaam in the course of 2005. By 2008, Dunduliza expects to work with 35 SACCOs, and the three regional networks will together form a national network, probably in the form of a (commercial) bank.

**4. Ownership, Management & Governance of the RFIs:**
The SACCOs are registered under the Cooperative Act 1991. The Annual General Meeting of members is the supreme body. The AGM elects a Board, consisting of a Management Committee, Credit Committee and a Supervisory Committee. All SACCOs have a paid manager (recruited from the community, but employed by Dunduliza).

**5. Target Group:**
Rural men, women and existing self-help groups.

**6. Services Rendered to/Relationship with RFIs:**
- Facilitation of the mobilisation, formation and registration process;
- Recruitment of a manager for the SACCO;
- Training to the SACCO-Committees, managers and members;
- Financial support to cover the construction of a building, safe, stationary, furniture and MIS, in the range of USD 3,000 – 4,500 per SACCO, depending on its location. In addition, the salary for the SACCO-manager is covered for a number of years (building up from USD 100 to USD 380 per month);
- Facilitating the establishment of regional networks of SACCOs;
- Monitoring the performance through monthly reporting by SACCOs on OSS and FSS levels (through financial statements), and surprise visits to the SACCO by Dunduliza field staff (at least 3 times per month) to verify data.

## 7. Products and Services at RFI-level:

- Flexible savings accounts
- Fixed deposits (as source for loans)
- Loans

## 8. Status Report

| Number of Members | Female | Male | Groups | Total |
|---|---|---|---|---|
| 7 SACCOs in Songea | 1,843 | 5,497 | 545 | 7,885 |
| 4 SACCOs in Dar es Salaam | 2,088 | 2,319 | 223 | 4,630 |
| 5 SACCOs in Bunda, Mwanza | 745 | 1,546 | 102 | 2,393 |
| **Total for 16 SACCOs** | **4,676** | **9,362** | **670** | **14,908** |
| Average per SACCO | 292 | 585 | 42 | 932 |

| Financial Data (in US$) | Shares | Savings & Deposits | Loan Portfolio |
|---|---|---|---|
| 7 SACCOs in Songea | 33,500 | 320,000 | 169,000 |
| 4 SACCOs in Dar es Salaam | 25,800 | 322,000 | 191,000 |
| 5 SACCOs in Bunda, Mwanza | 12,500 | 64,500 | - |
| **Total for 16 SACCOs** | **71,800** | **706,500** | **360,000** |
| Average per SACCO | 4,489 | 44,156 | 32,727 |

Notes:

- Figures per 30th September 2004.
- Figures include only the 16 SACCOs whose data had been 'certified' by Dunduliza (all 7 SACCOs in Songea, 4 out of 6 SACCOs in Dar es Salaam, and 5 out of 10 SACCOs in Bunda, Mwanza). Certified data of the remaining 12 SACCOs will be available by early 2005. Approximate figures for the 28 SACCOs: total 20,281 members, total savings of USD 820,000 and total assets of USD 1 Million.
- Exchange rate used is USD 1 = Tanzanian Shilling 1,050 (October 2004);
- The distinction between 'savings' and 'deposits' is a result of the recently amended Cooperative Act. Savings ('akiba') are in fact fixed deposits, which are used as a basis for accessing loans. The deposits ('amana') are flexible savings accounts, easily accessible by the client and generally not earning interest. Deposits cannot be used for the SACCO's loan portfolio.

## 9. Partnerships:

In 2004, FISEDA entered into a technical partnership with DID. Funding for the implementation of the 2004-2008 business plan, amounting to USD 6 Million, has been committed by the Financial Sector Deepening Trust, a multi-donor initiative (with contributions from DFID, SIDA, RNE and CIDA).

## 10. Strengths & Weaknesses:

| Strengths | Weaknesses |
|---|---|
| A professional banking approach, with strong focus on front-office operations. Training manuals and operational systems are well developed and tested internationally (through DID), and a strong monitoring and control function for Dunduliza. | High capital investment costs and a lot of outside support (building, manager, monitoring etc.). For new SACCOs, Dunduliza has changed its policy: the initial investment costs will be treated as a (long-term) loan, to be repaid after FSS has been reached. |
| Rapid results due to professional image and management of the SACCO. A SACCO is registered with a minimum number of members (20 by law), a manager is recruited, a bank building, MIS and other basics | Less community ownership. People become members in order to access the services, but are in fact more like clients. It is not clear what the impact of this will be on the sustainability of the SACCO in the longer term. |

| | |
|---|---|
| provided. After that marketing starts. | |
| Building regional - and ultimately a national - network of SACCOs to meet common needs (incl. training, auditing, liquidity management, insurance, MIS, inter-lending) provides significant growth potential. | The capacity and salary level of the manager and the technical level of operations (e.g. MIS) are likely to be beyond the capacity of the local Board of Directors, resulting in less ownership and reducing effective governance. Extensive training of the BOD is not likely to bridge this gap completely. |
| A large variety of savings and loans products begin developed, tailored to local needs, including loans to AMCOs. | Some of the initial SACCOs established in Songea and Bunda are located far into the rural areas, increasing the operational costs of Dunduliza in terms of monitoring and support. |

## 1.3 K-REP/FSA Model, Kenya

**1. Region(s) of Operation:**
Remote rural regions of Kenya, including pastoralist communities in the North, coastal fishing communities in the South-East and farming communities in the West. So far, FSAs have been established in 18 districts.

**2. Legal Form:**
K-REP Development Agency (KDA) is an NGO registered under the NGO Coordination Act of 1990. KDA is one of the K-REP 'wings' under the K-REP Holding Company, the other ones being the K-REP Bank (since 1999) and K-REP Advisory Services (Africa) Ltd. (KAS). KDA's primary objective is to identify and test new systems, products, mechanisms and instruments, with the aim to expand the outreach of financial services to those who have no access.

**3. Background:**
In 1997, K-REP piloted the Financial Services Associations (FSA) model, based on previous experience by IFAD in Benin, Guinea and South Africa. The FSA model is targeted towards remote rural areas, and aims to create locally owned, governed and managed financial institutions.

Similar to SACCOs, members buy shares in the FSA. However, where SACCOs function under the 'one (wo)man, one vote' system, in FSAs, voting rights are proportional to the number of shares owned (with a maximum of 10 votes). In addition, in FSAs the price of shares fluctuates with the financial performance of the FSA, while in SACCOs it is fixed. The share capital mobilized is the basis for the loan portfolio. Some FSAs have secured external funding to top up their loan portfolio.

The FSA-model is also being implemented in Uganda (by FSA-International), South Africa, Congo, Guinea, Gabon, Benin and Mauritania. Methodology, programme approach and performance vary in the different countries. In Kenya, KDA so far works with 67 FSAs in 18 districts. In addition, other organisations promoted the establishment of 7 FSAs with technical support from KDA.

**4. Ownership, Management & Governance of the RFIs:**
FSAs are launched after registering 300 shareholders, and are registered as a Social Welfare CBO with the Ministry in charge of Social Services. The shareholders' AGM is the highest level of authority. The AGM elects the Board of Directors and an Audit Committee. The BOD appoints a Credit Committee from amongst its members, and also hires a minimum of two staff (for reasons of internal controls): a Manager and a Cashier.

**5. Target Group:**
Rural low-income people.

**6. Services Rendered to/relationship with RFIs:**
- Promotion of the FSA-concept in selected areas and facilitation of the mobilisation and establishment process (including by-laws, policies and procedures etc.);
- Training of elected board members and appointed managers and cashiers;
- Organising for the FSAs annual external audits and participation in the AGM;
- Seed funding to cover the costs of a safe, basic furniture and stationary for one year;
- Monitoring the performance of the FSAs is done through monthly reporting by the FSAs and regular field visits by KDA's Field Coordinators. KDA is experimenting with management contracts and setting up an apex-body for the FSAs.

## 7. Products and Services at RFI-level:

- Savings: Biashara Current Account (non-interest earning with flexible access), Call & Term Deposits (interest-yielding); Masomo Savings Account (school fees loan facility tied to savings) and Associate Membership Account (savings facility for rural institutions, like schools and churches)
- Loans: for working capital (3-9 months, 3-10% per month on reducing balance), emergency loans (max. 3 months, 8-15% per month reducing balance), school fees loans (tied to savings account) and dairy loans (up to 18 months)
- Money transfer services: in areas where commercial banks are not too distant from the FSA, this bank becomes the FSA link-bank, for depositing share capital, but also members can access the Telegraphic Transfer system, use the FSA-account and banking system for cheque clearing or payment of salaries or school fees.

## 8. Status Report

| Number of Members | Female | Male | Groups | Total |
|---|---|---|---|---|
| All 67 FSAs | 19,479 | 24,290 | 2943 | 46,712 |
| Average per FSA | 291 | 362 | 44 | 697 |

| Financial Data (in US$) | Shares | Deposits | Loan Portfolio |
|---|---|---|---|
| All 67 FSAs | 704,954 | 2,633,866 | 1,026,024 |
| Average per FSA | 10,522 | 39,311 | 15,314 |

Notes:

- All figures per 30th June 2004.

## 9. Partnerships:

The FSA-programme of KDA is supported by Hivos, Ford Foundation and DFID.

## 10. Strengths & Weaknesses:

| Strengths | Weaknesses |
|---|---|
| Equity has a central role in the FSA-model. Shareholding capital can be used for the loan portfolio as soon as it is mobilized, and lending from risk capital is not subject to the same regulatory and prudential rules as lending from deposits. This is a strength compared to SACCOs. | There is lack of capacity within communities to effectively manage and govern their FSA. High default rates (average PAR of 25%), operating expenditures and internal fraud remains a challenge in the majority of FSAs (resulting in losses and lack of dividends). KDA is experimenting with external participation of local NGOs in the governance of FSAs. |
| Has proven that it can operate successfully in areas with low population density (5-100 people per km²) and arid areas (less than 200mm per year). | The role of the promotion agency exceeds what was envisaged: FSAs require considerable amounts of training and continuous supervisory services. KDA aims to establish an independent apex organisation for supporting, supervising and regulating the FSAs. It has been experimenting with management contracts between the FSA and external agencies, with good results. |
| Over the past six years, the number and value of shares in all FSAs increased steadily, as have savings and loan portfolios. A number of FSAs have become profitable, self-financing entities. So far, about 50% of the FSAs have paid out dividends to their shareholders. | Low remuneration for Board and staff (volunteers, at least until allowances and salaries can be covered from income) results in low morality, fraud and high staff-turnover. |
| | Relatively limited lending for agriculture. Recently 4 FSAs have started providing loans for irrigated agriculture and dairy. |

## 1.4 KRC/MFA Model, Uganda

**1. Region(s) of Operation:**
Rwenzori Region, Western Uganda

**2. Legal Form:**
Kabarole Research and Resource Centre (KRC) is an NGO founded in 1996. KRC has a holistic approach to community development. It implements various programmes, which focus on research and information, civil peace building, micro-projects, human rights and microfinance.

**3. Background:**
KRC started its Micro Finance Associations (MFA) programme in 2002. An MFA is an association made up of 10-25 groups, which are involved in their own savings and credit activities. After the initial sensitization of communities, the emerging MFAs are assessed by KRC against a set of minimum criteria (number of groups, minimum number of shares bought, amount of savings mobilized, gender composition of leadership etc.). Once the MFAs have been registered as secondary cooperatives, they enter into a signed MOU with KRC, which specifies the obligations of both parties.

So far, KRC works with 12 contracted MFAs. In addition, 14 are operating but have not yet met the conditions, and a further five are in the formative stage.

**4. Ownership, Management & Governance of the RFIs:**
MFAs are registered at the national level under the Ministry of Trade and Industry, as Microfinance Cooperative Society (a secondary cooperative, consisting of groups). Before an MFA can be registered, at least two of its groups must have registered as primary Savings & Credit Cooperative Societies, with a minimum of 30 members each. The General Assembly is the supreme body of the MFA, made up from representatives of each group. The General Assembly elects its Board of Directors, as well as the Audit/Supervisory Committee. The MFAs also have a Credit Committee and employed Microfinance Officer(s). The majority of the Board must be women.

**5. Target Group:**
Self-help groups of poor rural farmers, especially women (minimum 70%). An MFA is expected to serve a sub-county made up of around 20,000 people.

**6. Services Rendered to/relationship with RFIs:**
- Sensitisation of communities, facilitation of the formation and establishment process;
- Financial contribution to the salary of the worker of the society (for maximum 2 years), provision of initial stationary (for one year), bicycle and contribution towards construction of own building, purchase of safe and furniture. Total maximum approx. USD 4,000 per MFA; however strict conditions apply, which most MFAs have not yet fully met;
- In addition, MFAs can access a 'top-up fund' (a grant to top up their loan portfolio) if they fulfil certain conditions (related to increase in shares and savings, average loan repayment rate of >95% for period of 6 months and average reinvestment rate of >65% of their income within the same period );
- Training and Training of Trainers to the leadership, workers and member groups of MFAs (in business management, organisational management, loan portfolio management, internal fraud & control, record keeping, conflict resolution, leadership and governance and Participatory Action Learning Systems);
- Assistance in the preparation of the annual accounts for auditing;
- Monitoring of the MFAs activities through monthly financial reports submitted by the MFAs and facilitation of bi-monthly forum meetings involving all MFAs;

- Facilitation of the establishment of a MFA-Supervisory Body to monitor and supervise the (contracted) MFAs and provide common services and share experiences and challenges. Once the Supervisory body is fully functional, it will be expected to work as a 'central bank' for the MFAs, including services like liquidity management and loans for on-lending;
- KRC has developed linkages with other organisations for the MFA group members to improve their agricultural, business and marketing skills.

### 7. Products and Services at RFI-level:

- Savings
- Loans (loan period up to 6 months with 2-4 month grace period)

### 8. Status Report

| Number of Members | Female | Male | Groups | Total |
|---|---|---|---|---|
| All 12 MFAs (contracted) | 3,041 | 1,352 | 168 | 4,393 |
| Average per MFA | 253 | 112 | 14 | 366 |

| Financial Data (in US$) | Shares | Deposits | Loan Portfolio |
|---|---|---|---|
| All 12 MFAs | 14,634 | 25,167 | 18,750 |
| Average per MFA | 1,507 | 1,958 | 3,125 |

Notes:

- Figures per October 2004. Exchange rate used is 1 USD = 1,725 Uganda Shillings (October 2004).

### 9. Partnerships:

Hivos, McKnight Foundation, Rabobank Foundation and German Development Service support KRC's MFA programme. The current contract period with Hivos covers the period 2002-2005, for an amount of € 75,000. From McKnight Foundation KRC received a USD 140,000 grant for the microfinance activities for the period 2002 – 2005.

### 10. Strengths & Weaknesses:

| Strengths | Weaknesses |
|---|---|
| The approach used creates a strong sense of community ownership and control (e.g. through regular field visits, participatory processes, solidarity system for self-assessment and self-monitoring) | As processes go with the pace of the community, and capacity within the communities is limited, the mobilisation, formation and effective self-management of MFAs is a long-term process. It takes the MFAs longer than anticipated before conditions for the formal agreement with KRC are met. |
| High level of women participation | (Over-) emphasis on women participation may end up leaving the 'poor men' groups at bay. |
| Formal role for KRC through signed MOU with formally registered MFAs | Lack of linkages with the formal financial sector to access loans for on-lending and limited incentives to (continue to) invest in shares/fixed deposits results in limited loan funds for the MFAs. In many cases members' credit needs cannot be fully met. |
| Creation of an MFA-supervisory body to provide common services, monitoring and supervision | Formation rate of the network body is slow. It takes time for communities to understand and appreciate the concept, as they are used to KRC undertaking this role. |

## 1.5 Summary Overview

| | Start | Nr. | Members | Average Size | % Women | Shares & Deposits, US$ | Loan Portfolio, US$ |
|---|---|---|---|---|---|---|---|
| RFS Dodoma | 2001 | 14 | 2,544 | 182 | 33% | 54,000 | 55,000 |
| RFS Kagera | 2001 | 6 | 3,191 | 532 | 31% | 57,200 | 22,900 |
| Dunduliza/DID | 2001 | 16 | 14,908 | 932 | 33% | 778,300 | 360,000 |
| K-REP – FSAs | 1997 | 67 | 46,712 | 697 | 44% | 3,338,820 | 1,026,024 |
| KRC – MFAs | 2002 | 12 | 4,393 | 366 | 74% | 39,801 | 18,750 |

The average total amount the various RFIs have attracted in shares and deposits, since their inception, is US$ 5,560 for the RFS SACCOs, US$ 48,643 for the Dunduliza SACCOs, US$ 49,833 for the K-REP FSAs and US$ 3,316 for the KRC MFAs.

When looking at the average contribution (in shares and deposits) per member of the RFI, this amounts to US$ 19 for the RFS SACCOs, US$ 52 for the Dunduliza SACCOs, US$ 71 for the K-REP FSAs and US$ 9 for the KRC MFAs.

# 2. Lessons Learned

The lessons drawn up below are mainly based on experiences in Tanzania, by the various implementing partners of SNV-Tanzania's Financial Services Advisory Project (including DFE-Dodoma, KADERES and FISEDA). Although they are not necessarily applicable to other countries or circumstance, it is felt that many of the issues, lessons and 'preconditions for success' generated go beyond the specific situation of Tanzania. As such, they will be useful to those involved in the promotion of community-based microfinance initiatives elsewhere.

### 1. To Be – Or Not to Be – a Cooperative?

There are different schools of thought in Tanzania, and East Africa in general, with regard to the feasibility and sustainability of the cooperative concept. Should community-based rural microfinance become legally registered Savings and Credit Cooperative Societies – or should this be avoided at all cost? Both options can produce sustainable results – it all depends on how you design and implement the promotion programme.

**The Cooperative Legacy – Different Schools of Thought**

There are a number of reasons why some promoters choose not to apply the cooperative concept, including:

- ✍ The cooperative history in Tanzania (and East Africa in general) is a tainted one: in the past, the system was highly politicised, resulting in mismanagement, poor governance and in many cases collapse, all at the expense of the poor rural farmer. Evidence shows that it is a long-term (and thus expensive) process to rebuild the confidence of the rural people with regard to the SACCO-concept. As someone put it: "If a certain brand of liquor has made people blind, would you go and sell it to them again, under exactly the same name?" This is the problem that SACCO-promoters are facing. They claim the brand has been improved (new systems, more monitoring, improved legal system), but the name is still the same.
- ✍ The Tanzanian legal system for formal financial institutions does not specifically cater for cooperatives or cooperative banks, i.e. they are not integrated in the Bank of Tanzania (BOT). Cooperatives of all kind are registered under the Cooperative Act, and supervised by the Cooperative Department through the DCOs. Promoting agencies have to be creative and innovative to avoid the potential problems associated with a dual supervision system when creating cooperative banking networks.
- ✍ Having a legal entity is an advantage in theory, but in practice, the legal system is still under-developed, and commercial courts of law are in a pilot-phase only. Furthermore, inventive ways have been found to take informal groups to court. For example, a loan agreement signed by all the Board Members of the Association under supervision of the district's Magistrate, who also authorizes the contract, allows for taking all individual Board Members to court in case of default.
- ✍ Some promoters have made certain modifications to the (cooperative) savings and credit concept, which cannot be covered under the Cooperative Law (e.g. FSAs).

The other school, however, argues that in principle, the cooperative system is still an effective way to community ownership and community development. One only needs to address the weaknesses in the system. As one promoter put it: "If your child died of malaria, would that stop you from having another child? If these days there are mosquito-nets and insect-repellent that can protect you from the disease?" Membership education on rights and responsibilities, democratic decision-making, clear reporting and accountability systems are some of the things that can prevent the 'disease' that killed SACCOs in the past.

The major advantage of being a legal entity is that it allows for growth – almost indefinitely. An informal group can only grow up to a certain size, until governance, operations, systems, assets etc. become more difficult to manage and conflicts may arise. Promoters working through groups admit this, but most do not see it as a disadvantage as they don't expect the groups to grow to huge numbers. The groups are associated with the promoting organisation, and somehow recognised under their wings.

In addition, in the cooperative philosophy the aspect of creating independence is key: a SACCO is an independent financial institution that can grow to any size. In this respect, once the initial investment in promotion and confidence building has been done, being a SACCO allows for more economies of scale as the entity grows to larger numbers, or even into a cooperative banking network. The promotion programme, however, needs to be technically sound, in line with international best practices, in order to avoid some of the pitfalls of the past. In many cases technical input and guidance from an experienced (international) agent will be necessary to achieve this.

## 2. Selection of Communities

The selection of communities to work in is a crucial aspect of any promotion concept. It is worthwhile to invest sufficient time, effort and money in the selection process. Experience shows that it becomes very difficult to abandon a community if the mobilisation targets are not achieved. From the community's perspective, even if mobilisation has been far less than anticipated by the promoters, the effort cannot be considered a 'failure'. Something has been created that was not there before, they own it and have committed their time, effort and funds to it – however small. To abandon the community in the middle of their effort results in loss of trust, affecting any future interventions.

Proper and careful selection through a baseline survey (in combination with realistic planning) avoids disappointments. An objective baseline survey should at least look at twice the number of wards that are to be selected, and criteria for selection should include:

- economic potential of the area
- population density;
- current access to financial services;
- willingness of potential stakeholders to establish an RFI;
- accessibility of intermediary banking services;
- accessibility for the promoting agency.

## 3. Economic Potential

A monetarised and diversified economic base is one of the most important contextual preconditions for success, as it determines the prospect for growth - and thus sustainability – of the RFI. The assessment of the economic potential should be based on the level, seasonality and use of cash surplus. Areas with (only) subsistence farming, or barter trade, should not be considered. There should be sufficient economic activity in an area to allow for cash contributions in the range of USD 2,000 – 3,000 minimum.

Some 'cash' indicators from Tanzania include the presence of shops, a clinic, a cattle dip and/or a school in the village, iron gated roofs, brick buildings, the average acreage per household (>3 cultivated acres will always generate a surplus, <1 acre is mostly subsistence farming) and use of ox ploughs and tractors.

In many rural settings, cash surplus is seasonal, making the timing of promotional efforts an important success factor. Promotional efforts should take place before the harvest season, so that members can pay-up share capital right after the harvest. This is the time that people are willing *and able* to contribute money to an RFI.

## 4. Radius of Operation

The RFI should cover a geographical area not bigger than what can easily be travelled by mobilisers and members. Local animators need to be able to get around to all parts of the area regularly (by foot or by bicycle). Members should live not further than 5-8 km from the meeting place, as most will have to get there by foot. However, in sparsely populated areas where the RFI has to cover a wider radius, using 'branches' or 'outreach centres' can be an alternative. In Karagwe district, for example, in the bigger wards the manager of the SACCO visits further away villages for a morning, to collect contributions and disburse commitments. In Dodoma region, in some wards 'sub-meetings' are held in the different villages, to allow people to participate.

## 5. Accessibility

Accessibility (of banking services, markets, and for promoters) is not only determined by distance, but also by quality of the road and cost and availability of public transport. A distance of 130 km to the nearest bank, for example, was not seen as a major constraint by one of the SACCOs due to trice-daily buses. In another case, 50 km with irregular, limited and thus expensive transport turned out to be a major bottleneck. Promoting agents will need a long-term vision and pragmatism in selection of communities. It is definitely more cost-effective to pilot and start-up in nearby communities (given weekly or bi-weekly visits), with subsequent expansion to more remote rural settings, than the other way around. Accessibility should therefore be an important indicator in the baseline survey.

## 6. A Spirit of Voluntarism & Development Vision

There needs to be willingness and commitment in the community to start an RFI. Local mobilisers and (interim) committee members as well as ordinary members should understand, accept and believe in the self-help concept of community-based development. There are no free hand-outs, allowances or salaries for those involved in the promotion and mobilisation, nor are there are short-term gains for those contributing in the form of shares or deposits - as not everyone can borrow on a 2-1 basis at the same time. A number of steps precede the commencement of lending operations: the formation of committees, by-laws, legal registration, election and training of permanent committees and development of lending policies and procedures. Therefore transparency, active participation and patience are a must for the RFI to grow and prosper.

## 7. Role of Local Leaders

Positive and active participation of formal and informal leadership at the level of villages and wards right from the start is one of the pre-requisites for the successful formation of an RFI. Government officials, religious leaders and influential business people play a crucial role in mobilising the community and in supporting the formation. However, it should be very clear from the beginning to *all* stakeholders that local leaders have no role in the operations of the RFI, to avoid politicisation. In the RFS experience, in some cases where local leaders felt left out, this resulted in the complete frustration of all promotion and mobilisation efforts. In other cases, active promotion by local leaders had a very positive impact on the formation process.
Where local leaders do not (yet) see cooperatives as private entities but regard them as political instruments, this has devastating effects on the success of promotion. Time and effort is therefore required to educate local leaders on the concept.

Involving and inviting local authorities can also lead to wider impact, for example where local authorities include the promotion of RFIs in their own development programmes, or where it creates room to lobbying and advocacy to influence policy changes in favour of RFIs and members' interests.

## 8. Role of Local Promoters

In cases where local animators are used, their capacity, attitude and creativity has often turned out to be a critical success factor:

- ✍ They should be elected by the community based on their capacity (criteria: leadership/mobilisation skills, literate, willingness to serve the target group, trusted by community).
- ✍ The animator needs to be facilitated to go around and visit villages, e.g. by providing a bicycle, some basic stationary, a meal or a small daily allowance. This allowance can be made dependent on the number of new members mobilised in a certain period (to be

interviewed by committee to cross-check reasons for joining and expectations). Experience shows that incentives can motivate the good animators, but often do not improve the performance of the weaker ones.
- Back-up support should be provided to the animators by trainers/field staff from the promoting agency.

### 9. Governance

Governance is the single most important internal success factor for any RFI. There are a number of key elements of good and effective governance of RFIs:
- Participation: all shareholders have a voice in decision making;
- Transparency: regular meetings, transparent processes and decision making, information should be accessible, Board meeting at least once a month;
- Accountability – to supervisors and members;
- Consensus-orientation;
- Respect for Rules, Policies and Regulations;
- Equity: all shareholders have equal opportunities (e.g. access to loans);
- Strategic & Visionary Leadership;
- Separation of Duties & Responsibilities;
- Knowledge & Trainability.

### 10. Election and Capacity of Leaders

RFI committee members should be elected on the basis of objective criteria and minimum qualifications, ensuring the election of capable individuals and avoiding political interference. Criteria for election should include: locally resident, trusted by community, non-government employee, democratically elected. Their principle should be to 'Lead by Example' - this includes buying shares, placing deposits and attending all relevant meetings.

In most cases, elaborate training is required on the supervisory role and responsibilities of the Board Members, as well as on their specific role in delinquency management. The capacity of board members and staff of the RFI to effectively govern and manage the institution is often limited. Building this capacity in a cost-effective and yet sustainable manner remains a major challenge in most of the models described (see also section one). This is also the reason why in most cases there is a continuous, long term need for an external body to provide regular monitoring and other support services –whether in the form of a promoting agency, a regional network or other apex-body.

### 11. Transparency, Accountability & Active Participation of Members

The level of involvement of the members indicates the extent to which the institution is owned by the community – which in turn is an indicator for long-term sustainability and success. Active participation of members should be reflected in the development of the by-laws, savings and credit policies, in election of officials, basically in all (policy) issues of the RFI. Active participation and good attendance levels at meetings can be encouraged by:
- Making regular progress reports available to all members (i.e. monthly or quarterly), by use of bill-boards, leaflets, news letters etc.
- Holding regular meetings, e.g. on a fixed day every month. In one SACCO, 300 members are invited each month through a letter copied from the blackboard by school children. Creative approaches can be used to reduce costs.

## 12. Image

Creating a professional image for the RFI from the word go is essential. Especially in the case of SACCOs, people need to re-gain trust in the cooperative concept. As one old man put it: "It's like having been bitten by a snake". A building (rented, newly built or renovated) is one of the most important kick-starters for trust and a tangible image. The same goes for transparency: regular information to members about meetings, progress and results.

Thorough and repetitive explanation of the (co-operative) concept involving all stakeholders is a necessity. Apart from the general tainted history of cooperatives in Tanzania, there are technical differences with the past. For example in the past, cooperatives were only allowed to accept shares and use them for on-lending ('back office' only). These days, SACCOs are also able to accept savings, and can thus widen their financial base.

## 13. Entry Fees, Share Capital, Savings and Lending

- Ideally the entry fees should be affordable, yet allow the RFI to cover its operational costs for the start-up period, until income can be generated from interest on loans. In the Tanzanian experience, this turned out to be in the range of minimum Tsh. 2,000 – 5,000 (USD 2-5), although many RFIs charge less. Paying in instalments should be considered.
- The same is true for shares, as they form the capital base of the institution. Here the range is between Tsh. 1,000 – 3,000 (USD 1-3) with variations in the number of shares one should buy (over time), ranging from one to ten. Although under the revised Cooperative Act, both share capital and (fixed) deposits can be used for the loan portfolio, incentives should be put in place for members to buy shares, as this capital is long-term and therefore carries less risk.
- To build up a sustainable RFI, there should be a strong emphasis on 'savings first' and a continuous drive to recruit more members (also because entry fees are used for operational expenses). Interventions by MFIs using a credit-first approach can have a negative influence on the success of the savings-first approach of the RFI. Building linkages and dialogue with microfinance providers in the region can assist in co-ordinating and supporting each others efforts.
- RFIs should always start lending with their own capital first (and generate high repayment rates) before access to outside capital should be considered.

## 14. Portfolio at Risk

Maintaining a low portfolio at risk is crucial for a good performance of RFIs. Only in this way can they generate income, maintain and build on the confidence of members and continue to grow and prosper. However, maintaining high repayment rates requires adequate management capacity at the RFI to manage the loan portfolio, including:

- Proper record keeping;
- Being able to compute and interpret relevant performance ratio's (such as Portfolio at Risk).
- Clear policies and procedures for delinquency management (who, what, when), which should also be clearly understood by the members.

The Board, management and membership need to be well aware of the crucial role of maintaining a low portfolio at risk. Often, this takes considerable effort in terms of sensitization, training and follow-up. In addition, it requires sufficient technical capacity at the level of the promoting agency to facilitate the development of appropriate (front office) systems and related training and monitoring.

## 15. Role of a Formal Financial Institution

It is important to involve one or more formal financial institutions operating in the area from the beginning. Once people are forming an RFI, it helps if there is clarity on how and where they can open a bank account. In addition, the promotion agent might be able to influence the conditions of the bank for opening accounts to some extent.

The Tanzanian experience shows that communities are very well able to form an RFI and mobilise shares and deposits. However, in many cases (especially in a very poor region like Dodoma), the amount of funds that they manage to mobilize is limited. At the same time, many members want access to loans. The RFI at one point therefore needs to be able to access loan funds from outside. The involvement of a commercial bank or other formal financial institution is therefore very relevant. It helps if communities are aware from the beginning when and how they might be able to access such loan funds, because it sets clear targets for them to achieve. At the same time, it can assist in explaining to impatient members. From Tanzanian practice, it takes 2-4 years to build up the RFI to such a level that a formal financial institution gains sufficient confidence to provide a loan. Dunduliza and DID are introducing an alternative option: SACCOs form a regional network, and open a bank account with the network. This network takes over the function of a bank – but with more focus on savings (liquidity management) than accessing credit, in line with the cooperative philosophy.

**CRDB Bank – a Commercial Banking Perspective?**

CRDB used to be part of the 'cooperative family', and retained the interest after becoming a private commercial bank in 1996. After initial experiments with lending to SACCOs in the 1990s, CRDB started a microfinance programme with DANIDA (also 30% shareholder in the bank) and K-REP consultancy in 1998 – 2002 (approx. USD 2 Million), which has been extended up to 2008. By March 2004, partnership & capacity building agreements had been signed with 80 SACCOs (with about 30,000 members, average 375 p/SACCO) in four regions: Dodoma, Mbeya, Iringa and Kilimanjaro, and 30 SACCOs were borrowing Tsh. 5.1 Billion. In addition, CRDB's Tembo Card (for cash withdrawal) had been introduced to members of 12 SACCOs. CRDB selects SACCOs on the basis of economic potential of the area (growth prospect) and commitment of the SACCO to microfinance best practices. There are no formal criteria for size in terms of membership, deposits mobilised or loan portfolio, nor is there a minimum loan size from CRDB. Some of their lessons learned:

- Intensive investment is necessary up-front, in terms of training, monitoring and financial support towards a building, safe, furniture etc.;
- DANIDA's low profile has helped to build confidence and a good repayment culture at the SACCO-level;
- Sustainability of this activity is still a question for CRDB. Decisions are not (yet) taken on a cost-basis, e.g. some SACCOs are very far from the CRDB-branch, some loan sizes might be too small to be cost-efficient.

## 16. Role & Commitment of the Promoting Agency

From the Tanzanian experience, a number of lessons can be generated in relation to the role of the promoting agency:

- Regular visits to the community by the promoters are important, to monitor progress, guide the formation process and deal with issues or questions arising. Ideally, visits should be on a weekly or by-weekly basis, especially in the initial stages.
- There should be clarity on roles and expectations between the promoting agency and the community. Starting and building up a community-based financial institution takes commitment, voluntarism and long-term development spirit. The promoting agent can facilitate, assist, guide and monitor the initiative, but it is a community effort. This should be clear from the on-set. Ideally, there should be formal agreement, contract or MOU between the promoting agent and the RFI, specifying the obligations on both sides.

- The promoting agency should be able and willing to work with the RFIs over a long period of time. It takes time to mobilise, form, establish and strengthen an RFI. But more importantly, in most cases, continuous monitoring and capacity building will be necessary. Building cost-effective, suitable and sustainable mechanisms that can play this role remains a challenge.

## 17. Planning & Timeframe of Promotion Efforts

Promotion of community-based rural financial institutions is indeed a *community effort*. In other words, by definition one has to go with the pace of the community and accommodate the community dynamics. The promoting agent can develop implementation plans and set targets, but ultimately it will depend on the community if and when these will be achieved. Some of the lessons learned in relation to planning and projections include:

- For a pilot project, it will be most cost-effective to start in 3-5 communities. A roll-out plan with different phases can take advantage of lessons learned by the promoters in the early stages. In addition, it allows 'new' communities to learn from others who have already established an RFI (through exchange visits), which can speed up the process in a cost-effective manner.
- In the reality of Dodoma and Karagwe, promoters learnt that it takes about 3-5 years to bring a SACCO to a performance level where it would be able to start financing an AMCO. Therefore implementation of a concept that links SACCOs and AMCOs is a long-term approach that should be split into different projects.
- Due to the bad track-record of cooperatives in Tanzania, experience shows that one visit to a community would not prompt the formation of a SACCO as planned. Instead, many consecutive visits were needed to explain the concept of a savings and credit cooperative, to discuss how it can assist in addressing the problems of the community, and to convince people that in a well-managed SACCO their savings will be safe. Close and regular follow-up proved to be a prerequisite for success.
- Projections should be based on empirical evidence gathered during the base line survey, not (only) on assumptions. In the RFS, for example, it was assumed that at least 20% of the residents in a ward would be able and willing to contribute 10% of their annual earnings to the SACCO. However, this statistical short-cut did not hold true in reality. There turned out to be numerous factors that affect the amount of cash surplus (e.g. weather conditions, storage requirements) and when and how it is used (e.g. consumption patterns, cultural pattern of crop and livestock use/sale). Such socio-cultural dynamics should be taken into account.

## 18. Capacity of the Promoting Agency

The promoting agent should have sufficient capacity and experience, as well as a presence in the field, to train local promoters and RFI-leaders, managers and members.
Characteristics that have a direct influence on success include:

- Strong leadership, vision and focus;
- (Access to) technical know-how and international best practices in community-based microfinance and technical soundness (and cost-effectiveness) of the approach;
- Sufficient human resource capacity (including trainers);
- Development spirit, commitment and inspiration;
- Means of transport (motorbikes, cars);
- Means of communication (computers, email, mobile phones);
- Operational funding that allows for regular (weekly or bi-weekly) field visits;
- Legal and organisational structure.

**Cooperation with District Cooperative Officers**
Traditionally, in Tanzania the District Co-operative Office provides official institutional support to co-operatives in two forms: i) promotion, mobilisation and training; ii) auditing. The combination of these roles carries a potential conflict of interest, which is currently under review at the national level. In addition, DCOs carry the burden of the past and in some cases they fall short of the expected standards to inspire and assist members of SACCOs. The advantages of working with District Cooperative Officers are that they are based in the field, know the ins and outs of the co-operative system, know how to work with communities and their salaries are paid by the government. But, some of these factors can easily turn into disadvantages where DCOs are still associated with the 'old' co-operative system. Therefore, care should be taken in associating with them, based on a case-by-case analysis. Where they are used (e.g. for mobilisation, promotion, monitoring), it is advisable to formalize their input by developing a Memorandum of Understanding with the District Council. In that way, the promotion of savings and credit co-operatives becomes part of the Districts development programme and makes the officers accountable within. Ideally, for training the members and committees, the promoting agent should use its own training staff.

## 19. Material Support by the Promoting Agency

Material support to the RFI is an important success factor, as it motivates the community and enhances the mobilisation, formation and institutionalisation process of the RFI. Material support could include (a contribution to) basic stationary, facilitation of the local promoters (e.g. bicycle), promotional material (leaflets etc.), construction of a building, purchase of a safe and basic furniture and staff salaries. Lessons learned in this area include:

- To increase the sense of ownership at the community level, experience from the RFS shows that it is important to *contribute to* the community effort – but not to cover the full amount up front. For example, a grant is provided to finish the building once the community has managed to build the walls. Also other contributions (stationary, salaries etc.) should decrease over time, to encourage the RFI to cover its own costs from income made. An alternative is being developed by Dunduliza/DID, where the up-front investments provided to the SACCO will be treated as a long-term loan.
- Material contributions to the SACCO should be assigned a financial value, so both the SACCO and the promoting agency are aware of the value of the contribution received.
- When the promoter remains the owner of the items (safe, furniture etc.) until the SACCO has reached a certain agreed level of performance, this allows for some leverage on the side of the promoter. If the agreement is violated by the SACCO, the items can be (temporarily) removed, thereby sending a strong signal to the community.
- Contributions to reinforcement and refurbishment of rented buildings are less cost-effective than contributions to a building that is owned by the SACCO. However, in the latter case, the SACCO needs to be in a position to start building in the early stages (commitment and own contribution). Depending on the location of a SACCO, in Tanzania a small building will cost about USD 2,000 – 3,000.

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