

1 UNLOCKING FUNDING OPPORTUNITIES FOR FARMERS THROUGH GRASSROOTS SAVINGS AND CREDIT COOPERATIVES (SACCOS)

Author: Roberto Chipembere
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CHALLENGE

In the macro-economic context, the Mozambican economy grew satisfactorily in 2008, in spite of the unfavourable external environment of the global financial crisis. Growth of GDP was 6.8%. However, the Mozambican economy is still vulnerable to the global financial crisis affecting employment, income generation and access to food, education, water and sanitation and health care. Within this context SNV Mozambique identified improving product offers, market access and enabling environment (improving access to finance) as key issues that respond to challenges related (i) weak development of financial products for agriculture, (ii) high cost of finance, (iii) remote access to finance, (iv) increasing costs and, (v) lack of collateral.

Improving Access to Finance

The financial sector in Mozambique is very underdeveloped especially with regards to its outreach in rural areas, mainly because of the conservative nature of banks and the expensive financial products that are inaccessible for small farmers. Through improved engagement with the banks and the development support of SACCOs (Saving and Credit Cooperatives), SNV aims to improve outreach and availability of suitable rural financial products to the sector. This will result in increased investment from producers. SNV believes access to finance and support to value chain financing is a key to poverty reduction through sustainable economic growth in production, income and employment.

Governance issues and objectives

For sustainable value chain development each of the above constraints needs attention and improvement. Production will become more efficient, enabling the production of better quality crops. This entails improving business and management skills, input supplies and access to markets. This can only be achieved if farmers are organised in associations and cooperatives and practice good governance. Land legalisation is problematic to many farmers, hindering them from using it as collateral for loans. In Mozambique land is national property, cannot be privately owned and banks do not accept right of land use as collateral. Since 2008 the Mozambican government tries to incentivise banks to open business in rural and remote areas, thereby promoting new dynamics in savings and loan operations.

Producers' cooperatives can benefit immensely from the first 5 years tax exemptions and incentives in the new/modern law on cooperatives. Most of these producers are members of ASCAs who benefit from informal savings and credit services from ASCAs. The new producers' cooperatives model will help in upgrading ASCAs to ¹SACCOs that can effectively invest funds saved in ASCAs and promote effective participation, transparency and check-and-balances. A final governance issue relates to the national decentralization policy, in which District Development Funds are made available for productive investments.

CLIENTS

¹Registered semi-formal institutions regulated under microfinance law. They invest and manage business to boost earnings and its membership is between 300 and 500. They are savings driven and not credit driven.

PARTNERS:

"If you want to go fast, go alone. If you want to go far, go together with others". SNV Mozambique 2010-2012 Strategy Paper.

(i) OPHAVELA (in local Macua dialect meaning "to search" or "to intend") is a local association for Socio-Economic Development, financed by Oxfam NOVIB and HIVOS, promoting Accumulating Savings and Credit Associations ²(ASCAs) in Nampula. It is supported by IFAD (International Fund for Agriculture Development) through IDDPE (a Mozambican Government Institution for the Development of Small Scale Fishermen), Netherlands HIVOS, by OXFAM/NOVIB and the Mozambican Development Association of Kenmare company (a Titanium Mineral Sands Project) for finance and by CARE International and SNV for capacity strengthening services. OPHAVELA provides technical assistance to the ASCAs through rural community trainers and the Savings and Credit Cooperatives (SACCOS) starting with three SACCOS in 2008 in Monapo, Murrupula and Ribaué. The organization has an exit strategy from the 12 districts it has worked over 5 years to be substituted by the SACCOS.

(ii) FDSC – Facility for Civil Society Development, financed by Oxfam NOVIB and Netherlands HIVOS, based in Nampula. FDSC helps SACCOS with initial capital and expenses incurred from exchange visits³. They also donate funds to ASCAs for economic activities, including poultry, small irrigation, warehousing and cattle projects.

(iii) SNV (Netherlands Development Organisation) provides advisory services to Ophavela and FDSCs in capacity building of SACCOS, including organization and management structure, Mozambican microfinance and cooperatives legislation, legalization (registering), planning, monitoring/evaluation, good practice, management information systems, policies/procedures, good governance, credit/risk management and managing results.

METHOD / SNV INTERVENTION

"Finance is a basic input to any economic activity and is required in any of the interventions that seek to improve economic development. Access to finance and the financial products on offer can make or break an enterprise" says José João, the Chairman of SACCO, in Murrupula district.

SACCOS are an old and proven methodology. SACCOS offer, or have the potential to offer, a range of products that are suitable in rural and remote areas, including basic financial services and Business Development Services. **Business model**
The Nampula SACCOS business model adopted the profit vs welfare approach and encourages them to meet profit levels in order to sustain business. The model which provides technical support, skills and instils the spirit of self-help was designed using easily understood methodology by members and clients and to empower the poor, based on a two-fold socio-economic philosophy namely "participation and empowerment for poverty alleviation and socio-economic development". Apart from alleviating poverty through a bottom-up approach, it is enabling and practical for those situated at the grassroots level, particularly smallholder producers and Small and Medium Enterprises (SMEs), both for women and men. The general dual vision model is based on supporting members' economic activities and thus contributing to an increase in economic production activities effectiveness, economies of scale and increase in employment.

Basic principles

The creation of SACCOS in Nampula was mainly motivated by the realization that there is strength in numbers and with the common vision of providing a platform

² These are savings and loans groups extensively promoted by CARE Int. OPHAVELA is implementing this methodology in Nampula. Basically members put their money together at a regular basis with simple internal control systems and no transaction costs. The accumulated savings, interest earning and fines are distributed to the members once a year.

within which villagers or community based members could save for unforeseen, grow the value of their savings as well as engage in community socio-economic projects for the benefit of less privileged members of the society. It is a model particularly designed for poverty alleviation, addressing the poorest and targeting micro projects. Because the business model focuses on the poor, it has special loan conditions, such as exemption of collateral. The model is based on decentralised management – delegated decision making throughout the system and emphasises on responsibility, accountability and transparency from members. There is also strong centralised control of the organisation's vision and values, to ensure that all key actors remain committed to the organisation's goals, values and vision. The vision, goals and values of the SACCOs are clearly defined and shared through the system.

The SACCOs are savings driven and not credit driven. Savings are compulsory and are split into two, namely easily accessible access and fixed term. Only members with savings of at least 20% of the loan amounts are allowed to borrow from the SACCOs. Lending is only transacted after about six months in order to allow the SACCOs to build up its financial base. All this is to minimise risks in case a borrower fails to repay his loan.

Income is raised through interest on loans, registration and subscriptions fees, training fees from external beneficiaries, hire of training hall, members' fines, profits from sale of inputs, profits from agriculture products commercialization activities

Conditions

In the first phase, borrowers are registered individual or group ASCA members and as said before, they are expected to contribute at least 20% of the loan amount before obtaining the loan. Before disbursement borrowers should follow a training capacity building program related to basic bookkeeping/financial records, credit management, feasibility studies and simple business plans, etc to improve their bancability. **Loan ceiling** is set at a maximum of US\$500 for individuals and US\$ 3 000 for groups and loan interest is at 10% straight line per month with a repayment period of one year. Loans are offered to individuals (unconventional collateral/character based lending with 2 witnesses with reasonable property) and groups (credibility/solidarity based/social/institutional pressure to repay) on their economic potential capacity, size of loan demanded and ability of borrower to repay. The borrower repays on a monthly basis at the SACCOs offices. Regularity and satisfactory repayment allow the borrower to apply for additional loans if required. Borrowers who regularly fail to repay their loans lose the opportunity to secure additional credit. Any problems related to payment of loans are reported to the credit commission. The SACCOs follow up monitoring and evaluation of project after disbursement.

Criteria

Eligibility criteria for individual loans include:

- Credible women and men members in income-generating activities and have over 2 years experience in the activity, and;
- Exceptional consideration to genuine hardship cases if socio-economic background of borrower indicate that he/she needs special financial support.

The eligibility criteria for groups include:

- Loans are made only to three years old ASCA groups with good governance, best practices, written clear policies and procedures and good management information systems, and;
- General as well as practical aptitudes related to profit for which the loan is sought.

The credit portfolio includes mostly cash crops/agricultural production (34%) and commercialization (51%), and the rest non-agricultural production (emergency, bridging finance and limited working capital):

Oilseeds value chain financing in the form of purchase of inputs, hire of equipment and labour;
Purchase and creation of livestock including cattle, goats and chickens;
Other clients apply the non-business purposes loans for unpredictable expenses, arising from crisis such as school fees, sickness, funeral, household asset acquisition, house construction and rehabilitation.

So far 57 pilot loans, 42 to groups (of which 9 were women groups), and 15 to individuals (of which 4 for were for women) totalling about US\$ 126 208 have been disbursed to the members during 2008/9 benefiting over 3 000 people. Almost all clients felt that their loans were important for increasing their production, income and employment. Most of the agricultural production clients said they registered substantial growth and were able to increase area of cultivation, quality as well as quantity of their products. A few who did not increase their sales, said their businesses would have been worse if they had not borrowed money from SACCOS. The added income enhanced women's gender position at the household level and independence at the family and community level. The available loan products are good at stimulating growth from community based small to medium/larger micro-enterprises.

The SACCOS business model has clearly delivered impressive outreach and growth. The model has demonstrated some level of sustainability. It mobilises local savings and puts them into circulation within the local economy. It offers a set of flexible products to a range of socio-economic individuals and groups and finally it has a low cost structure providing prospects for sustainability.

The SACCOS are presently lending money to borrowing members from savings/deposit mobilized internally. Demand for the loans is growing rapidly due to the SACCOS low costs for opening accounts, collateral provided by groups, rapidity of loan processing, competitive interest rate levels. Due to the growing demand trend for loans, in future, SACCOS will borrow money from external sources if necessary. Linkages and negotiations led by SNV with commercial banks are in process.

SNV's role

SNV engaged the SACCOS' process in January 2008 and was instrumental in organising a meeting where among others issues, goals and motivations of partners and SACCOS were outlined. A tripartite agreement between SNV, Ophavela and FDSC was signed on 1st February 2008. The primary objective of our assignment was to support the development of viable and sustainable district SACCOS in the Nampula Province to provide an appropriate and full range of sustainable rural financial services to the economically active population. It was agreed that the overall goal is to economically transform the rural population, in order to improve their standards of living. SNV assisted in formulating SACCOS' values which included (i) poverty reduction through enhancing rural access to savings and finance (development value); (ii) profit generation to become financially sustainable (financial value); (iii) recognition as leading rural-agro savings/credit community banks in Nampula Province (customer value).

After a thorough study of the SACCOS climate, a comprehensive technical assistance programme was developed through the deployment of economic development advisors within SNV to contribute to agro-finance. Basic SACCOS' principles were designed which include:

- Passionately believing that the private sector should be leading;
- SACCOS should be prepared to mobilize and coordinate local resources;
- SACCOS will be much stronger if they align efforts and work together;
- Subsidized lending invariably leads to unsustainable development;
- There is a need for agro credit lines and clients/members should pay market rates for them;
- Profit optimisation, and not profit maximisation. This involves creating solid, favourable and sustainable conditions and controls e.g. cost reduction measures, resulting in long term profits.

OUTCOME

The primary activities SNV as introduced include:

- Training Ophavela's trainers in cooperative/team work development including; feasibility studies, business plans, legalisation, market linkage, governance issues;
- Training the trainers in running ASCAs and SACCOs including good business practices, policies/procedures and management information systems;
- Business Development Services (Business plans and cash flows) to make the SACCOs creditworthy;
- Training SACCO members in organisational strengthening and basic administration.
- Training SACCOs trainers team in basic planning, business management and financial services.

The main outcomes include:

- 3 SACCOs – each with over 350 members have been capacitated in the daily running of SACCOs and linkage to financial institutions, resulting in over 3'000 beneficiaries ;
- ⁴Women occupy 45% in the SACCOs membership and 28% in leadership;
- Link SACCOs to donors to provide capital to build the SACCOs own offices;
- SACCOs have constructed basic value chain development centres which are also used for promoting rural financial services and BDS;
- 3 SACCOs in Murrupula, Monapo and Ribaue districts had their General Assemblies where they invited the other two SACCOs, government representatives, partners, other NGOs, Associations and potential SACCOs from other districts (Mogovolas, Moma, Malema, Meconta) for exchange visits and good practices. The representatives of the invited organisations commended SACCOs for the visible best practices and good governance during the General Assemblies;
- 2 SACCOs (Monapo and Murrupula) purchased shares in IKURU (Producers Marketing Board) based in Nampula. This will enable them access inputs for reselling to member producers, pre-finance for fair trade and benefit from premiums, better margins and receive dividends from IKURU's results;
- The above 2 SACCOs have signed separate local capacity builders' agreements with each organisation namely, Ophavela, SNV and FDSC to capacitate their clients/partners;
- The same 2 SACCOs have also signed local capacity builders' contract with SNV to build the capacity of the beneficiaries of the district Local Investment and Initiatives Fund;
- Increased awareness of diverse products to be developed for each segment of the value chain;
- Improved awareness for microfinance and cooperative legislation in Mozambique and lobbying for local and national effective policies for financing. To be effective they have joined the Nampula financial services platform;
- institutional linkages with financial services providers (Banco Terra, Banco Oportunidade) which are willing to work with SACCOs, develop together pro poor rural financing products, and provide appropriate commercial credit lines to the SACCOs and monitor the effective use of the loans;
- SACCOs are influencing financial institutions to provide better products to producers to this effect different financial model were developed.



Idalena Mussa, Board of Directors' vice-chairwoman presenting the activities report at the Monapo SACCO's

⁴ The Monapo SACCO has achieved its quota for women office bearers.

EXPECTED IMPACT

- SACCOs aim to distinguish themselves as follows:
 - Offering a complete product range, try to be innovative and start at the technical forefront;
 - Focus on their core mission and aim to excel in the field of rural financial services;
 - High value technical assistance and where possible, promote an integrated package;
 - Aim for short decision lines and transparent communication;
 - Offer fair and competitive interest rates which apply to both lending and savings schemes.

Expected impact

SNV aims at an interchange relationship of all value chain players in various segments recognising the existence of multiple supply chains offered by commercial entities, including financing, fair access to better and quality inputs, more appropriate packages and diversified agriculture financial products to over 100'000 actors in the oil seeds (cashew, sesame seed, groundnut, soybean) value chains.

SNV also aims at reducing transaction costs, resulting in an increase of cheaper and competitive financial services and products by oil seeds VC actors to improve their net returns and sustainability.

Increase in outreach and rural coverage resulting in more money circulation to local economies for small and medium business growth and equity.

Increase in small and medium farmers' linkages to financial institutions resulting in more access and utilisation of financial products, thereby improving the prospects of higher production, employment and income.

SACCOs Membership stands at over 1'200 and directly benefits 3'000 people through savings and credits for socio-economic development; this is expected to reach 12'000 beneficiaries by 2010. Previous studies from Uganda and Kenya have suggested that the impact of the introduction of SACCO's into rural areas can result in an income increase of up to 300% over a period of 3 years.

LESSONS LEARNED

- Development of common vision;
- The organisational development approach that motivated, stimulated, created a sense of ownership and trust amongst members and stakeholders, encouraging investment;
- Rural and poor people do have capacity to mobilise savings, if they have access to financial infrastructure and facilities;
- People need attractiveness, security of deposits, easy withdrawals and convenience from a SACCO;
- Assistance packages should not all be given out at once – before giving financial assistance it is recommendable to first provide technical support, development skills and self drive;
- Linkages with financial institutions/commercial banks and producers' cooperatives are key for SACCOs to generate economies (buy wholesale and sell retail) of scale and increase their bargaining power;
- The stakeholders should always be put in the driver's seat in facilitating institutional linkages, and aim at a win-win situation in which mutual benefits are reached by actors involved;
- To be sustainable, the SACCOs initially require over USD 20'000 to build offices, rural training centre and pay operational costs, combined with opportunities especially in the economically active Nacala Corridor;
- SACCOs' sustainability and success will depend mainly on the increase in income and reduction of costs.

The establishment of SACCOS in Nampula is a difficult job depending on the patience and above all the continuation of the methodology and business model used.

REPLICABILITY

The SACCOs have the benefit of being close to their members and clients in comparison to commercial banks, they are easy to manage and have reasonably low costs. They could benefit from linkages with commercial financial institutions (at competitive and reasonable wholesale interest rates) allowing improved flow of money in the districts and greater opportunity for capital accumulation which is fundamental in stimulating economic growth and empowers rural communities.

Idalina Mussa, the vice-president of the SACCO in Monapo district (who also visited some SACCOs in Tanzania) says *"our endeavour is for an empowered community, with access to appropriate rural financial services, business capacity, exercising their rights, with more strength and autonomy served through the base of their interests by a credible civil society organisation with the capacity to use their resources in a sustainable manner, so that the people live with dignity and security"*.

The aim of the partners is to replicate the experience to other districts in Nampula and in other provinces within Mozambique (and even outside Mozambique) taking into account the following:

- maintain an adequate structure, good practices and good governance for all its activities and elaborate various alternatives for sustainability;
- create a technical committee to evaluate and make technical decisions on credit allocation to enable more transparency on the decision making;
- carefully negotiate reasonable interest rates with MFIs/Commercial banks, taking into account those offered by other competitors;
- create a better internal control system for the management of credit based on better spreadsheets which guarantee necessary reports for monitoring;
- better monitor and evaluate credit provided to avoid bad debts and reduce transaction and repayment costs.

SNV, in its 2010-2012 strategy cycle, will continue supporting SACCO development, including linkages with banks of the commercial sector, to promote a sound and sustainable financial infrastructure in rural areas.

Future Critical Success Factors depend on:

- Business – Investment, Entrepreneurship and Expertise;
- Government – Sound legislation, Incentives structures and Infrastructure;
- Donors/NGOs – Technical assistance, Risk sharing and funding lines.