



Madizini Emerging Centre

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RURAL-URBAN
COMPLEMENTARITIES FOR THE
REDUCTION OF POVERTY
(RUCROP)

Identifying the Contribution of Savings
and Credit Facilities

Proceedings of the RUCROP Stakeholders' Workshop
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resource that contributes to rural urban linkages that have poverty reducing effects. Value chain analysis of maize in Kibagwa provides evidence for the importance of agricultural land.

Rural-Urban linkages occur among other things in the form of access to natural resources (land, water, firewood etc), social services (schools and hospital), and economic opportunities. These linkages have potential urban and rural poverty reducing effects. Evidences from this study show that rural households that have economic activities in EUC are relatively better off economically than those without. While in EUC households that own farms in rural areas are also relatively better off than those without.

The extent to which rural households access savings and credit services is very limited. To facilitate further growth of rural urban linkages among other things, interventions for improving provision of savings and credit services in both rural and EUC is important. Key and most important is for development practitioners, researchers, and savings and credit service providers to come with innovative ways that will facilitate such linkages.

Madizini Emerging Urban Centre

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Characterization of Madizini as EUC and sugarcane value chain

Administratively, Madizini is in Mthbwa Ward located in the Division of Turtiani, District of Mvomero, in Morogoro Region. The area is notable for the presence of Mthbwa Sugar Estates (MSE), which is among the biggest sugar companies in Tanzania together with others in Moshi, Kagera and Kilombero. The MSE, like the rest of the sugar industries in the country, has been subjected to several forms of ownership and regulations as a consequence of the country's political development. Sugarcane for the sugar factory comes from 5,200 hectares of the MSE, but in addition, more than 6,000 organized out-growers cultivating a total of 9,000 hectares, also supply the factory with sugarcanes.

Madizini village started to grow (in terms of population, businesses and services) faster than the surrounding villages in Turtiani area during the last 2 decades. Some of the reasons for the growth include the presence of Mthbwa Sugar Estates, bus terminal for all buses coming to Turtiani from Morogoro and other places, and advent of electricity power supply. Madizini now stands as the centre for economic and social services, which include health, education, transportation, businesses, trade and employment. Financial services are also provided in Madizini such as banking and savings and credit services.

Rural-urban migration, urban livelihoods and rural linkages in relation to Madizini EUC

The development of Madizini as an emerging urban centre (EUC) is closely related to the developments of the Mlibwa Sugar Estate and continuous changes in the organization of sugar production. The estate was established in 1963 and its first factory was located close to what today makes up the oldest sub-village of Madizini, Mpingoni. In 1973, the factory was moved from this location and a new factory was established to the east in the midst of the current estate land. From Mpingoni, Madizini has grown towards the west and north-west, where it is now bordered by the new main road (B 127) connecting the Morogoro-Dodoma road and the Tanga-Arusha road. Towards the south, Madizini is reaching Turiani, a now stagnating urban centre that has evolved around the Turiani hospital. Catholic missionaries founded the hospital in 1961 and local administrative offices were established around Turiani during the 1970s and 80s. The shift of local commercial and service centre from Turiani to Madizini was a gradual process from 1990s onwards and was further reinforced by the 2002 decision to give Madizini a township-status⁴.

Since, the establishment of the Mlibwa Sugar Estate, sugarcane cultivation and production has attracted migrant workers from various regions of Tanzania, not least from the Iringa, Mbeya and Kilimanjaro regions. Many migrants have entered Madizini as seasonal workers who after some years have managed to stay on beyond the harvest season (from August to January). The first settlers settled either on the estate or in some of the villages that now constitute the rural hinterland of Madizini, and many have bought/rented land to become involved in sugar production as out-growers.

⁴The Turiani hospital, located in the borderland between the central spots of Madizini and Turiani, is today an important asset for the Madizini Township

During the 1990s, in relation to the privatization of the estate, the out-grower scheme has grown significantly. Out-growers were allowed to organize, and provision of credit facilities were developed which all stimulated the economic outcomes for the out-growers. During this period, farmers were starting to move closer to the commercial centre, and the otherwise sugarcane farm land was bought up for residence.

Today, the Madizini Township is made up by six sub-villages, which reflects the population growth in relation to immigration flows from the hinterland, the natural population growth and the dramatic increase in new households moving to the area, and spatial extension. Thus, various types of immigrants/settlers can be identified:

- Early migrants from the hinterland; early migrants to the area that were first establishing themselves in the hinterland villages and subsequently they have moved to Madizini;
- Migrants from the estate; migrants to the area who after some time living at the estate become renters in or have bought land for a house (or both) in Madizini;
- Service sector migrants; these include professionals, migrant-traders or businessmen and service providers who have moved directly to Madizini;
- 'Retirement migrants'; migrants who after their retirement from government positions in one of the bigger cities have come to settle in Madizini;
- Sugarcane workers; semi-permanent sugarcane workers (caretakers, cutters, transporters) that have stayed for several seasons and now have brought their families and settled as households.

- Family network migrants; spouses and young family members (e.g. nephews/nieces) and others who settled with their relatives to benefit from the opportunities at Madizini.

Thus, Madizini is a migrant hub with a population of around 13,370 (as estimated in 2010)⁵ and another 2000 to 4000 temporary migrants, depending on the season, add to these figures (Interview, March 2011). Most temporary migrants live in single person households either in designated camps or as renters. Hence, Madizini is a very dynamic and vibrant centre with increasing variation in income sources, related to the sugar cane business but also due to Madizini's increasing importance as commercial and service centre for the hinterland. Additionally, new sources of employment have arrived during the 2000s e.g. commercial services, marketing of food crops such as rice and maize, and since 2008, the cutting and processing of teak logs.

For the households (HHS) of Madizini, sugar-cane-related livelihood activities play a central but also a diverse and changing role. To illustrate some of the diversity in livelihoods, the following types can be identified: 1) HHS highly dependent on commercial agriculture – sugar cane and paddy; 2) HHS highly dependent on subsistence farming; 3) HHS highly dependent on trade and services; 4) HHS highly dependent on rent and petty trade; 5) HHS highly dependent on wage labour; and 6) HHS with none or

⁵Before the establishment of the Mthwa Sugar Estate, the area that now constitutes Madizini was very sparsely populated by the *Wazigua* tribe. Today, we still find a few of the *Wazigua* households living in and around Mpingoni sub-village area of Madizini.

few income opportunities. This last group is not dominating, but female-headed households (widows and divorced) are at high risk of living precarious livelihoods. Although many (most) households can identify a dominant source of income, they almost unanimously diversify their income generating activities. Since the late 1990s many of the categories 2-5 households have been engaged in the out-grower scheme either on rented land or on small plots they have bought or inherited. However, particularly these types of households, are moving out of sugar cane and tend to engage more in rice (and sometimes maize) production. This trend is closely related to the dramatic changes in the trading, processing and manufacturing system of sugar, that have put more pressures on the out growers investment and credit systems (see below) and made it difficult and very risky for small out-growers to stay in the sugar cane production. Thus, the number of households who engage in sugar cane production is decreasing.

Rural livelihoods and their economic status

About 67% of respondents in the rural villages neighbouring Madizini EUC were classified as migrants implying that they identified places other than the resident village as their original home place. Just like other rural area in Tanzania, the livelihoods of both migrants and non migrants largely depend on agriculture. Rice farming was identified by 45% of respondents as the main livelihood activity and 26% identified other crops farming (including maize, cassava and leguminous crops) as important. Sugarcane farming although at one time was an important economic activity, was identified by only 15% of respondents. This shows that sugarcane is becoming relatively less important compared to rice and other crops farming. Other economic activities include casual labour in private farms, and employment in

government institutions. Besides agriculture, about 3% of respondents are involved in what could be termed as petty business or trade, including shop keepers, selling of cooked food (food vending), transportation using motorbikes, selling local beers, and selling of fruits, vegetables or food crops (mostly maize and rice).

Rural residents' sources of livelihoods are not totally rural based; there are indications of linkages with the EUC. In this case about 17% (42 out of 254) of rural residents indicated having economic activities in Madizini. More than 80% of those who had economic activities in Madizini were migrants in the rural villages. Such economic activities undertaken by rural residents in Madizini Township were mainly petty businesses (e.g. shops) and selling of livestock and livestock products (including chicken).

An attempt was made to assess poverty status of respondents whereby the type of house that a respondent owned and lived in was used as a proxy indicator. The results showed that 8% of respondents did not own the houses they were living in. Only 28% were categorized as being relatively better off, and therefore the remaining were relatively poor. The houses of those categorized as better off were made up of cement blocks or burned brick walls, corrugated iron roof and had cement floor. The relatively poor houses were of mud walls, grass thatched roof and mud floor. The in-between combinations of walls, roof and floor types were categorized as moderately poor.

Rural urban linkages were expected to have influence on poverty status of rural households. Ownership of economic activities in Madizini was used as an indicator for a household with linkages with EUC. The results showed that only 15% of the households that were categorized as being relatively poor (in terms of housing quality mentioned

above) had economic activities in Madizini compared to 19% of the relatively better-off households.

Investments and savings practices in Madizini and the rural hinterland

The organisation of the out-grower scheme has been substantially changed during the years following privatization of the Mibwa Sugar Estates (MSE). The plantation and the factory are now independent corporate units and the company has gradually withdrawn its involvement in the scheme while the two farmers' organisations (FOs) have taken over the responsibility for extension services and supply of inputs. In addition, the FOs takes care of harvesting and transportation of sugar cane to the factory, but these activities are outsourced to contractor firms. In principle, the new organisational form results in new opportunities for private investments in Madizini in activities directly related to the sugar value chain. But also in other activities that initially were derived from the economic dynamics in the sugar value chain and gradually took on their own virtuous circle logics as the urban economy increased in scope and diversity. Concerning the first category, some of the out-growers have invested - either as individuals or as cooperatives - in trucks or tractors which are used for transportation in the harvest season. A few contractors hire out labour services in the harvest season, including one owned by a handful of resource strong out-growers and local businessmen; the others are based outside Madizini but have experience in providing the same kind of labour service to another sugar company in the region (namely Kilombero). Also, the building of dormitories and hiring out of accommodation (shared rooms) for the seasonal migrant workers is an important source of income. Only a couple of local shops sell agricultural inputs like

fertilizer, pesticides, etc., and most of the economic activities in Madizini are actually of the second category i.e. established because of consumer demand in turn stemming from wages (rural workers) and income (out-growers) from sugar cultivation.

The following description goes into more detail with this second category of activities by reporting on some of the results from a survey of 30 business operations in Madizini. The description focuses on: 1) the types of businesses and development trajectories, 2) the sources of investment capital and working capital, and 3) the re-investment practices. The number of businesses has increased significantly during the last decades and most are owned by migrants (80%). Most of the businesses are primarily operated by the owner or family (self-employment) and the typical owner is a male (about 75%) with an average age in the early forties. A third of the business owners have experience from running a previous business and the employment generating effects are quite substantial as 40% of the shops have employees. Notably, most of the owners (more than 75%) are also engaged in sugarcane cultivation or other activities related to sugarcane farming. The shops are dominated by traditional general stores (selling basic consumer goods like rice, sugar, salt, cooking oil, vegetables, etc.) although more specialized shops (clothing and footwear, furniture, electrical and electronic items, motorbikes, etc.) and other businesses (spare parts, hardware, pharmacy, etc.) are increasingly being established.

As for the initial investment capital, it is usually (for about 75% of respondents) based on the owner's own resources/savings from the involvement in sugar-related activities or savings from wage labour in the MSE, either through employment at the factory or in the sugar fields

(plantation work). In contrast, formal loans constitute slightly more than half (53%) of the working capital while only less than 25% of the investment capital. Notably, none of the business owners reported use of informal loans for either.

The business owners reported that the lion's share of the surplus was devoted to the reproduction of the household (e.g. consumption of clothing, shoes, food, various and durable goods). However, most of them (80%) indicated that some of the surplus was re-invested. Concerning re-investment practices, the most important area (for nearly 60% of the respondents) is in property either by building new houses or improving/enlarging the old facilities. Other important areas for re-investment are land and means of transportation into which 25% of the respondents have allocated resources. In contrast, relatively few (8%) have re-invested directly in the shop or in other businesses.

Comparison of residents in Madizini Township and one hinterland area (Kunke village) revealed that 83% of the Madizini respondents had access to a form of credit services compared to only 61% of the residents in Kunke village. Similarly, the mean amount of credit received by Madizini residents was higher than in Kunke village (Tshs 798,111 compared to 363,267). The savings and credit services can be categorized as being formal or informal. The formal services include Commercial Banks and Savings and Credit Cooperative Societies (known in short as SACCOS) while informal services are those offered by individual lenders and Rotating Savings and Credit Associations (ROSCAs). There is one Commercial Bank in Madizini Township (the NMB Bank) and two main SACCOS (the Turiani SACCOS and Mthwa SACCOS). Reasons reported for not taking credit,

even where the services were available, included high risks of being indebted and lack of collateral.

In general, greater proportion of the rural residents (58%) who sought credit services obtained it from the informal sources (25% from ROSCAs and 33% from individual lenders). The situation in Madizini Township was different whereby only 41% relied on the informal credits (25% from ROSCAs and only 16% from individual lenders). On the other hand, the Turiani SACCOS was used by highest proportion of respondents (20%) seeking formal services followed by the NMB Bank (13%), among the three formal saving and credit facilities available in the area. The analysis indicated that only 20% of rural households sought credits from Turiani SACCOS compared to 33% of the urban households. This pattern appears to be the same for the NMB Bank whereby only 13% of the rural residents obtained credits from this bank as compared to 22% of the urban respondents.

Activities financed through credits can be divided into two groups, which include economic and social activities. The economic activities financed through the credits include farming (mostly commercial crops such as sugar cane and rice), livestock keeping, and establishing or expanding trade businesses. The social activities financed through credits included building of residential houses, purchasing of household assets such as furniture, paying for education, coping with natural calamities such as fire and floods, and emergencies.

As mentioned above, informal sources of credit (i.e. individual lenders and rotating savings and credit associations or ROSCAs) were also important for the residents in Madizini Township and in the hinterland

villages. The informal lending involved an agreement between the money owner and the borrower. This type of credit services was reported to be easy and quick, but the interest rates were extremely high, sometimes up to 50%. This source of credit was found to be the most important one among the credit seekers in the rural area. The other informal source of credit was the ROSCAs. These are based on associations formed by individuals who agree to make regular contributions to a fund which is given in whole or in part to each contributor in rotation. This type of association was common among groups of women, men or both, as well as tribal groups. The group sizes ranged from 5 to 25 members per group, and collections were on daily, weekly or monthly basis. ROSCAs were found to be the second most important credit provider to the rural (Kunke village) residents after the individual lenders.

Summary

Madizini is clearly experiencing rapid development as regards population growth, spatial expansion, the housing situation, and commercial activities. However, urban planning and governance do not match this transition from rural to urban activities and ways of living. Urban infrastructures, such as sewage, garbage collection, etc., are not developed, and the township area though demarcated has not been surveyed. The negative environmental and life quality implications for the more densely populated parts of the township close to business centre are obvious. But, the lack of surveying and spatial lay out of the area also has negative implications for Madizini livelihoods, e.g. the lack of collective and household investments. This situation is clearly experienced by the local administration that is not adequately equipped, neither politically or administratively, to meet the needs of the growing urban population.

It is clear that the rural-urban linkage is important for alleviating poverty in rural areas. Households in the rural areas that have economic linkages with the urban (EUC) were relatively less poor compared with those having no linkages. The number of households who engage in sugar cane production as out-growers is decreasing because of changes in the trading, processing and manufacturing system of sugar. The changes have made it difficult and very risky for small out-growers to stay in the sugar cane production. Most of them are turning to rice production. Rural residents have difficulties in accessing the formal credit services, and therefore they tend to rely more on the informal systems.

Most private business operators are not diversifying or increasing their own non-agricultural asset portfolio but rather increasing the standard of living of the household (better house, means of transportation) or venturing into landlord activities (renting out accommodation) - if not transferring new wealth back into increased ownership of land.

Synthesis Summary of Findings

Lazaro, E. A. and T. Birch-Thomson

The four emerging urban centres (EUC) Madizini, Kibaigwa, Ilula and Igowole centres are evidence of transformation of rural villages to emerging urban centres. The transformation and subsequent growth of these centres to a large extent stem around a value chain of a dominant crop (Sugarcane for Madizini, Maize for Kibaigwa, Tomato for Ilula and Tea for Igowole). The centres are characterized by above average population growth, number and diversity of economic activities. Establishment of important infrastructure including construction of highway road, electricity, market and agriculture processing facilities influenced rural-urban migration leading to rapid population growth in EUC. The increase in number and diversity of economic activities result from investments by both migrants and non-migrants in EUC. Notable common investments/businesses include general merchandise shops, guest houses, restaurants as well as agricultural value addition businesses (sunflower oil processing and cereal milling). The role of financial services in the establishment and further development of investment/businesses is very limited. SACCOs, community bank (MuCoBa), commercial banks and informal financial services are important sources of financial services. Incomes generated from agriculture, mainly from the dominant crops (different activities through the value chain) are the most important source of capital for establishment of economic activities/businesses. The growth of business further attracted people (migrants) for livelihood improvements. Evidence from this research shows clear linkages between the growing EUC and immediate as well as distant rural hinterlands. The linkages are in the form of mobility of people, remittances and investments and show poverty