

AKF SAVINGS GROUPS LEARNING INITIATIVE



Combining Savings Groups with Agricultural Marketing in Tanzania

Preliminary findings of the Catholic Relief Services (CRS) programme in Tanzania suggest that by federating Savings Groups into collective marketing structures, the capacity of their members to engage in joint marketing is enhanced. The federated market structure leverages the trust and confidence, created amongst group members through regular financial transactions, to build a more solid platform to joint marketing structures.

Savings Groups

Savings Groups (SGs) refer to self-managed community-based groups that provide their members access to basic financial services. SGs are composed of 15 to 25 self-selected individuals who meet regularly (usually weekly or fortnightly) to save and, if desired, borrow for short periods, paying monthly interest at a rate set by the group. After approximately 12 months, all savings and earnings are distributed back to group members (often referred to as a share-

out). The earnings usually are distributed in proportion to their savings. SGs respond directly to the unmet financial services needs of the remote and rural poor by providing: i) a secure place to save; ii) the opportunity to borrow in small amounts and on flexible terms; and iii) affordable basic insurance services. SGs aim to increase household financial assets and to decrease household vulnerability to financial and other shocks.

SGs are a simple, transparent, cost-effective and sustainable means of providing entry-level financial services to people who are too poor or isolated to be served by other financial service providers. For this reason, they are being actively promoted by leading international development agencies including CARE, Catholic Relief Services, Oxfam America, the Aga Khan Foundation (AKF), PLAN International and others including national and local partners. The number of SG members has grown rapidly to about three million people at the end of 2009, mostly in Africa, but with increasing

numbers in Asia, including Central Asia, and a few in Latin America. SGs are complementary to other financial services; some SG members also use financial services from other providers.

Learning Initiative Objectives

This research study is one of a series of studies sponsored by AKF's Savings Groups Learning Initiative funded by AKFC and The MasterCard Foundation. The Initiative examines how SGs are used as a *platform* for development activities and how *linkages* to other services take place and with what benefits to group members. It considers how financial services combined with other development activities add value for individual members of the groups, for the groups as entities in themselves, for the agencies facilitating SG development and offering the linked activities, and for the wider community. The Initiative also explores the sustainability and replicability of SGs, thus examining long-term access to financial services for the poor.

Because the SIGA functions as a federation, its members are the SILC groups rather than individual SILC members. Each SILC is free to decide whether it will join a SIGA or not and may leave if not satisfied with the services offered.



Collective marketing and sale of agricultural commodities is the primary service offered by the SIGA. Upon joining, SILC members are expected to sell their crops through the SIGA. The one permitted exception is for entrepreneurs adding value to the crops, such as small-scale chickpea de-hulling aimed at the local market.

Context

Between 2000 and 2008, Catholic Relief Services (CRS) partnered with local organizations in the Mwanza region of Tanzania to improve production of crops, including chickpeas, pigeon peas, groundnuts and sweet potato. To upgrade these food crops to cash crop status, it used a suite of complementary interventions, including new seed varieties, seed multiplication, integrated pest management and improved marketing.

From the outset, CRS anticipated the formation of farmer organizations to manage both input supply and crop marketing on a commercial basis. Although not part of the original project design, to strengthen these farmer organizations in 2006 CRS introduced SGs (known in CRS terminology as “Saving and Internal Lending Communities”, or SILCs). SILCs spread quickly in Tanzania; not only within the chickpea project where they were initially introduced, but to other CRS projects in health, home-based care and AIDS relief. Against the backdrop of this positive response to SGs, CRS and a local partner, the Mwanza Rural Housing Programme, experimented with using the SILC as a platform for joint crop marketing.

SILC as a Platform for Agricultural Marketing

A SILC Group Association, known as SIGA, is a federation of at least four SILCs based within a single community. The SIGA functions primarily as a marketing cooperative that negotiates with buyers to purchase the crops produced by SILC members. In

addition to collective marketing, these federations offer seed multiplication, input loans, and insurance for their member SILCs. The SIGA model is a pilot programme, thus learning and development are ongoing for CRS and other stakeholders.

Collective marketing is the most important service that the SIGAs offer; they purchase crops from both SILC members and non-members, and use these high volumes to negotiate favourable contracts with buyers. To prepare for contract negotiations and subsequent sales, SIGAs estimate production levels, calculate the year’s average cost of production (to inform price negotiations), and clean, pack and store the crop. In turn, buyers agree to provide cash advances that SIGAs use to purchase crops from farmers, collect the crop at SIGA storage sites and pay commissions to the SIGA based on the volumes sold.

Nearly all SIGAs manage four funds which are built up through contributions by SIGA members, marketing commissions they are paid by crop buyers, interest from lending and fines and fees levied on individual members. The four funds include: operational, input, education and insurance funds. The *operational fund* covers the costs of collective marketing, for example, storage space, security and equipment rental costs. The *input fund* facilitates the joint purchase of inputs by SILC members during the planting season when access to finance is relatively difficult. The *education fund* is typically used to pay school fees. The *insurance fund* reimburses SILC groups if a member passes away without enough savings to repay his or her outstanding

Cover Photo: At the end of a cycle (ranging between six to twelve months as determined by the members) SILC members divide their funds, with the amount each member receives proportionate to the amount saved. Groups celebrate their first official share-out, at which point CRS officially considers them autonomous.

loan balance. When they are not being used, these funds are generally lent by the SIGAs to SILC members, with the SILC and SIGA splitting the monthly interest fee.

Value Added by the SIGA

Experience to date highlights a symbiotic relationship between the SILCs and SIGAs. The addition of the SIGA system has offered new incentives for farmers to join SILCs, including better access to inputs, crop cleaning services, higher prices for crops, and commission income. SIGAs also introduced a weight-based measure that replaced the traditional volume-based system, contributing to higher prices paid to farmers. This was an important improvement in the value chain given its effects on transparency and market information. In a region where the vast majority of SILC members are farmers, these are significant benefits.

In addition, SIGAs provide members access to improved seed varieties and inputs. SIGAs loan seed to their member SILCs and after the harvest are repaid two to three times the quantity of seed lent. Farmers reported widespread use of this “seed bank system”.

At the same time, the importance of the SILC for the operational capacity of SIGAs cannot be understated. The SILCs are the foundation and the building blocks for the SIGA. By offering access to financial services, they easily attract participation. Through their engagement in ongoing financial transactions, most SILCs develop strong trust and confidence between members. This social capital provides a very effective base for establishing a collective

marketing structure by strengthening the group formation process and increasing the willingness of members to work together. In addition, the SILCs:

- guarantee the crop volumes needed to negotiate with purchasers;
- lower the transaction costs of purchasing from dozens of small-scale farmers;
- facilitate the participation of women and very poor farmers, who frequently lack the financial or social capital to engage in agricultural marketing initiatives; and
- provide access to loans that enable members to avoid pre-selling their harvests to local agents at low prices.

Sustainability

The SILC-SIGA initiative is still nascent; there is not enough experience or hard evidence to definitively answer tough questions about their future. Preliminary evidence indicates both incentives for the continued operation of the model as well as areas of concern. SIGAs have succeeded where previous efforts to organize collective marketing in the area largely failed. SIGAs have addressed the diverse challenges of access to finance, poor quality seeds and a fragmented crop marketing chain that has traditionally been characterized by mistrust and, at times, exploitation. By reducing transaction costs and increasing efficiency, the new model has created a ‘win-win’ for producers and purchasers. Farmers are ‘voting’ for this system with their pocketbooks; increasingly, they are paying fees to the field agents who have supported SILCs and SIGAs, in recognition of the fact that the system needs to stand on its own once donor funding ends.

To improve confidence and farmer returns, crops are weighed at the time of purchase in front of farmers. Farmers strongly appreciate the measurement of crops by weight instead of volume as it is more transparent, precise and profitable for them (traditional volume measures are typically an inaccurate and inconsistent proxy for weight).



SIGAs provide seed to SILC members as in-kind loans. SILCs are required to pay back two to three times the quantity of seed they borrow by the end of the harvest season. Seeds offered are primarily those which the SIGA plans to collectively market, for example, chickpeas.

SIGAs offer a source of additional loan capital, for items such as tractors and other farming equipment, when the SILC internal funds cannot meet demand for loans.



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Yet, SIGAs face significant challenges that may threaten their sustainability. These are rooted in interrelated factors of transparency, capacity and size. SIGAs have a less robust financial management and oversight system than required for the amount and volume of transactions they conduct, including managing the four distinct funds. As a result, capital invested by SILC members is at increased risk, which may compromise the transparency and accountability that are the keys to SILC success.

Weak capacity increases these risks. The field research raised questions about SIGA leaders' ability to maintain accurate records, to negotiate with buyers without external support and to respond effectively to widespread volatility of agricultural prices.

While SIGA volunteer leaders may be able to develop the necessary skills over time, the lack of leadership turnover exacerbates the risk of elite capture and mismanagement of resources. In short, SIGAs may be too large to be run by volunteer cooperative management overseen by all the members (as exists in the SILC), and too small to afford modern management systems that include staff development, adequate accounting and appropriate controls.

Lessons Learnt

Several contextual features facilitated the implementation of the SILC-SIGA model including:

- Homogeneity in membership. While SILCs can function well with heterogeneity, those with a large number of non-farmers usually choose not to join a SIGA;
- Additional activities should be based on a widely shared need that is limited in scope; and
- The existence of a market structure and purchasers willing to buy through cooperatives.

Despite its brief history, the case offers important insights about how to use SGs as a platform for other services. First and foremost, SGs need to be operating robustly before other activities are added. Ultimately, if the individual SGs fail so do the federations of SGs.

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