

7. COOPERATIVE SOCIETIES AND SELF-FINANCING MECHANISMS

7.1 Introduction

In June of 2012, Management Sciences for Health (MSH), in collaboration with the Pharmacy Council of Tanzania (PC), assessed the ADDO provider associations in Tanzania. The study revealed that most ADDO providers and some council officials (pharmacists, cooperative officers, trade officers, and legal officers) were not well versed with different types of cooperatives, self-financing mechanisms, and voluntary associations. This may be why association formation is a slow process, as many get stuck at the stage of constitution making.

This tool describes the broad concept of cooperatives. It discusses the different types of cooperatives and self-financing mechanisms, such as savings and credit cooperative societies (SACCOS) and village community banks (VICOBA). It also details voluntary associations, such as ADDO provider associations. The objective of this tool is to educate ADDO providers about these organisations and enable them to make informed choices about what organization best suits their needs.

7.2 Cooperative Societies

7.2.1 What is a Cooperative Society?

A cooperative society is a group of people who work together voluntarily to meet their common economic, social, and cultural needs, through a jointly owned and democratically controlled enterprise. Cooperatives are driven by the principles of self-help, responsibility, equity, democracy, and solidarity. The Cooperative Societies Act No.20 of 2003 regulates activities of cooperative societies in Tanzania. Individual cooperative and pre-cooperative societies are governed by rules (by-laws) that guarantee their management in a way that benefits all members fairly. Different types of societies have different sets of by-laws to govern their operations. For instance, savings and credit cooperative societies have different by-laws from agricultural cooperative societies.

7.2.2 What are the Different Types of Cooperative Societies?

Different types of cooperatives can be registered to serve different purposes. For example:

- Agriculture, livestock, fishing, or bee-keeping cooperatives are established to deal with production, purchasing, processing, marketing, distribution, and any such activity provided for in the rules and by-laws.
- Savings and credit cooperative societies, financial cooperatives, microfinance institutions, and cooperative banks mainly focus on mobilizing savings and providing credit services to households, smallholder producers, and micro-enterprises in both rural and urban areas.
- Consumer cooperatives mainly deal with wholesale and retail business amongst members.
- Industrial cooperatives focus on production, manufacturing, and sale of goods.
- Housing cooperatives mainly deal with building, construction, and housing programmes for their members.
- Mining cooperatives primarily deal with mining operations and mineral marketing.
- Specialised skills cooperatives mainly focus on promoting specialised interests of the members.

7.2.3 How are Cooperatives Organised?

Cooperatives can be organised in hierarchical structures consisting of primary societies, secondary societies, apexes, and federation. Subject to the wishes of members, primary societies can join and form secondary societies. Secondary societies can also join and form apex societies. At the top level, a federation can be formed by apex societies. In case primary societies are unable to join into a secondary society, or secondary societies are unable to join into an apex society due to the nature of their membership, they can be allowed to become members of a federation.

A primary society refers to a registered society whose members are individual persons, or an association of such individual persons, and any cooperative body other than a body registered under the Companies Act, and includes a joint enterprise where all its members are primary societies. A secondary society refers to a registered society whose membership is to open primary societies of a similar nature. Primary societies mainly focus on raising living standards of its members by facilitating their operations. Secondary societies are responsible for providing services to primary societies according to the established by-laws of the secondary society. The same applies to apex societies and federation.

However, the current policy of the government through the cooperatives department is to make primary societies the main cooperative level and ensure that they are strong, independent, and viable. Higher level cooperatives are encouraged to facilitate networking for member societies, provide market information, conduct lobbying and advocacy, and act as the main link of co-operators to partner organisations in the cooperative sector.

7.2.4 What are the Requirements for Cooperative Society Formation?

Primary societies may be formed by 50 people or more if it is an agricultural society, 20 people or more if it is a savings and credit cooperative society, and ten people or more if it is a specialised skills society or other type of cooperative society. In case the number of members is not enough to form a cooperative, the government allows pre-cooperative societies to be formed. These may later become full cooperatives when they have enough members and have fulfilled all requirements. In order to form a pre-cooperative, there must be at least five people that can also form a Society Board in a full cooperative. When members want to form a pre-cooperative society they can write a letter of intent to the District Cooperative Officer (DCO), arrange a meeting, and proceed with instructions from the DCO's office.

7.2.4 What are the Conditions for Membership?

Membership in a cooperative society is voluntary. In order to become a member of a primary society a person must be in an occupation relevant to the primary society, have a common need with other members of the society, be capable of paying fees and buying shares, and be at least 15 years of age, or 18 for board members.

However, membership in a cooperative society is not indefinite. A person can stop being a member of a society if they stop holding shares or making contributions provided for in the by-laws, move away from the area of the society, are expelled from the society for gross misconduct or persistent failure to participate in the activities of the society.

Members are also liable for the debts of the society in one of two ways: liability through shares, whereby a member is liable in proportion to his or her shares in the society, and liability by guarantee, whereby a member can agree to be liable for an amount greater than his or her shares, provided by-laws of the society allow that.

7.3 Savings and Credit Cooperative Societies (SACCOS)

7.3.1 What is a SACCO?

A savings and credit cooperative society (SACCO) is a financial institution that is owned and controlled by members according to democratic principles for the purpose of encouraging savings, using pooled funds to give loans to members at reasonable interest rates, and providing related financial services to enable the members to improve their economic and social conditions.

There are three broad categories of SACCOS:

- **Community-based SACCOS** in which members are drawn from a particular area. Under this type of SACCOS members can access a variety of group and individual loans, including business loans for individual members, loans for small and micro enterprises, women solidarity loans, etc.
- **Employee-based SACCOS** in which members are drawn from one employer. Under such SACCOS, specific salary-based loans are extended to members, which are often guaranteed by the employer.
- **Agricultural-based SACCOS** in which members are small-scale growers and suppliers. Members can be both individual farmers and farmer associations.

7.3.2 How are SACCOS Formed?

The following are basic steps in the formation of SACCOS:

- **Step 1.** Community members with a common interest (bond) meet to discuss the need of forming SACCOS.
- **Step 2.** Members form a task force committee to steer, propagate, and sell the idea to other potential members of the community.
- **Step 3.** Task force mobilizes other potential members and enlists their support to participate in the formation process.
- **Step 4.** A general meeting is organized to discuss the idea. The enlisted potential members and other interested stakeholders attend the meeting and are educated on the purpose of the initiative.
- **Step 5.** An interim committee is elected to steer the process of establishing the SACCOS. The meeting also identifies a name for the SACCOS, defines its geographic area of operation, agrees on membership conditions, and decides on share capital, membership fees, and location of official premises. The interim committee holds office until the first annual general meeting is held and the leadership is selected.
- **Step 6.** The interim committee obtains the required stationery and start collecting money from people interested in becoming members of the SACCOS.
- **Step 7.** The interim committee mobilises and recruits potential members to meet the requisite number of at least 20 registered members for registration of the SACCOS.

- **Step 8.** The interim committee, with assistance from the Council Cooperative Officer and Council Legal Officer, drafts a constitution (by-laws) for the SACCOS to be reviewed and ratified by members.
- **Step 9.** The interim committee processes registration of the SACCOS with the Registrar of Societies at the regional level.
- **Step 10.** When registration is done, the first general meeting is held to elect new leaders. Members elect, amongst themselves, the Board of Directors. The elected board members elect, amongst themselves, the Chairperson, Vice Chairperson, Secretary, Vice Secretary, Treasurer, and Vice Treasurer. The Board also hires a manager and support staff to run the day-to-day operations of the SACCOS.

7.3.3 How Can One Join a SACCO?

Membership in SACCOS is voluntary. Individuals who want to join an already established SACCOS are required to fill out an application form and submit it to the SACCOS leadership. When the application is approved by the SACCOS, the applicant pays an entrance fee and buys shares according to by-laws of the SACCOS. The new member is then given detailed information about the SACCOS and how to participate in its activities.

7.3.4 What are the Benefits to Members?

SACCOS are primarily established to meet the needs of the members. The services provided by SACCOS include:

- **Member shares.** This service enables members to accumulate their savings over a period of time. The savings through shares can only be withdrawn upon cessation of membership.
- **Member deposits.** This service allows members to save money with the intention of making withdraws when needed or upon expiry of an agreed period. The member deposits are classified into demand and fixed deposits.
- **Loans.** Loans are granted to members for provident and productive purposes.
- **Membership education.** Members are provided with continuous training on how to improve their economic and social conditions through the SACCOS.
- **Financial counselling.** This is provided by some SACCOS as a complimentary service to members to enable them to better manage their personal finances and make productive use of credit facilities.

7.4 Village Community Bank (VICOBA)

7.4.1 What is a VICOBA?

A village community bank (VICOBA) is a voluntary savings and credit group formed by a small group of members. VICOBA groups have 20-30 members formed of five-people collateral groups. VICOBA group members mobilise and collect savings from members, which they then take as rotational loans (similar to the merry go round system) to finance their socio-economic activities.

7.4.2 How Are VICOBA Formed and Operated?

Like SACCOS, VICOBA groups are formed out of the interest of potential members. Below is a brief description of how VICOBA groups are formed and operated.

- **Step 1:** A concept for the formation of a VICOBA group is introduced through a village meeting.
- **Step 2:** Interested members register in groups of fives to form collateral groups. The collateral groups join to form a VICOBA group of 30 members. Members decide, on their own, who is to join the collateral groups and which collateral groups should join each other to make a VICOBA group of 30 members. Members in the group are required to be 18 years of age and above, attend regular meetings, and purchase shares. Members register their group and determine share values, interest rates, contribution values, and the rules and regulations that will guide them.
- **Step 3:** The VICOBA group meets every week and receives training for the first three months. Members are trained on group dynamics, after which they form a group constitution. Training on savings and credit is also provided, after which members start group savings. Other trainings provided to members include leadership, conflict management, and designing of a business project where members create individual business projects as an outcome.
- **Step 4:** During the training period, each member contributes one to three shares at each weekly session. All savings are kept in a metal box with three different locks and keys that are kept by three different group members. The box is safely guarded by different members. The group also purchases pass books, group stamps, ledgers, and other items that are used for record keeping.
- **Step 5:** After 14 to 16 weeks of training, members set an agreed interest rate and are allowed to borrow up to three times the amount they saved based on their business plan and a guarantee by other members of the group. For the first few months they take short term loans of three months. Later, when they have gained competency in entrepreneurial skills, they take long term loans of six months. Each loan is returned to the group basket with added value. This, together with gifts, increases their capital basket. In VICOBA groups, members command bank-like operations on their own.
- At the end of each year, members meet to evaluate their performance and receive a financial report. They can decide whether to continue or share the dividends and breakup.

7.4.3 How Can One Join a VICOBA?

When a new member wants to join a VICOBA group, they can fill vacancies created by groups that have broken up, or they can start new collateral groups and join to form a VICOBA group.

7.4.4 What are the Benefits to Members?

VICOBA groups provide savings and credit services. Members also benefit from training on savings and credit, management group formation, leadership, conflict management, and guidance on development of business plans. Loans are provided to group members only. Members can borrow up to three times the amount they have saved. Loans are provided based on their business plans and a guarantee by collateral and other group members. Members are allowed to take short term loans for the first few months. Once they gain competency in entrepreneurial skills, they are allowed to take long term loans of six months. Each loan is returned to the group basket with added value.

7.5 Voluntary Associations

7.5.1 What is a Voluntary Association?

A voluntary association refers to a group of people who have joined together as volunteers to form an organisation for a particular purpose, either social or business, and usually meant to be a continuing organization. This is the most basic type of non-profit group that can develop into a well-established organization. It can be formal, with rules and/or by-laws and membership requirements. A good example of a voluntary association is ADDO Provider Association (APA). Lessons 1 to 6 in the APA Toolkit provide detailed information on the roles, benefits, and responsibilities of APA, and explain how to effectively establish and manage the associations.

7.5.2 How are Voluntary Associations Maintained?

The most important task in maintaining a voluntary association is to keep members well informed and actively involved in programs and activities. The group can revisit its constitution occasionally in response to changing needs.

7.5.3 How are Voluntary Associations Financed?

Unlike SACCOS and VICOBA, which are mainly financed through members' contributions, financing of voluntary associations is much more flexible, as they can receive donations from well-wishers/donors, contributions from members, and support from volunteers. If an association receives financial support from donors, it must be accountable to its donors. Financial records must be kept and submitted to the donors by the Management Committee. The Committee should also be consulted when collecting and spending the organisation's funds. Members in a voluntary organisation are not paid for their work. However, expenses from project activities can be covered by the association's funds using clear procedures. Nonetheless, members of a voluntary association can still form SACCOS or VICOBA, and engage in income generating activities, such as operating an ADDO-restricted wholesaler, among others. A voluntary association provides a good platform to mobilize and rally members behind shared objectives for both economic and social good.

7.6 Roles and Responsibilities of ADDO Stakeholders

Lesson 5 in the ADDO Provider Associations Toolkit discusses the various roles and responsibilities of different stakeholders in supporting ADDO provider associations. It also underlines the need for institutional networking and collaboration towards realization of the ADDO program goal of equitable access to quality medicines and pharmaceutical services by all Tanzanians, including those in the under-served peri-urban and rural areas. Among the key stakeholders are regulatory authorities (the Pharmacy Council [PC] and Tanzania Food and Drugs Authority [TFDA]), council authorities (health, planning, cooperatives, and trade departments), the National Health Insurance Fund (NHIF), healthcare facilities, vertical programs (e.g., malaria, HIV/AIDS, family planning, etc.), development partners, financial institutions, training institutions, and local government authorities at the ward and villages levels.

Most of the stakeholders have demonstrated tremendous goodwill to the efforts of ADDO providers to form associations as mechanisms for self-empowerment and constructive engagement with other stakeholders for the sustainable delivery of quality medicines and services to the population. The TFDA,

PC, MSH, and council's authorities have been at the forefront of promoting the establishment of ADDO associations.

Following the transfer of some of the TFDA regulatory functions to the Pharmacy Council per the Pharmacy Act of 2011, the council will have an increasingly important role in the implementation of the ADDO program and will working with ADDO associations to address various issues concerning ADDO operations. The act mandates the council to oversee all issues pertaining to training and registration of all pharmaceutical carders in the country, including training and development of a career path for ADDO dispensers, registration of pharmaceutical outlets, including accreditation of ADDOs, and regulation of the pharmaceutical practice through supervision and inspection of all pharmaceutical outlets including ADDOS. On the other hand, TFDA will be responsible for registration, importation, and monitoring of the product quality (food, medicines, and cosmetics). This transition gives PC a major oversight role in the implementation of the ADDO program.

In line with a national policy of decentralization by devolution, most of the above regulatory roles of the PC and TFDA have been decentralized to councils. During the assessment conducted by MSH, in collaboration with PC, in June of 2012, some council authorities expressed a willingness to form a special Task Force consisting of the Council Pharmacist, Cooperative Officer, Trade Officer, and Legal Officer to support ADDO providers to effectively establish and manage associations. This approach is strongly encouraged, as some ADDO associations begin to explore establishing self-financing mechanisms, such as SACCOS, and commercial ventures, such as ADDO-restricted wholesalers. The task force approach will ensure that ADDO providers get the necessary support by addressing all technical, regulatory, legal, commercial, and other economic issues in an integrated manner.

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Highlights

Page 1: Documentation involves information gathering and accumulation of evidence towards development of institutional memory.

Page 2: Monitoring is the regular observation and recording of activities taking place in an organisation, project, or programme.

Page 3 (a): Monitoring is the regular observation and recording of activities taking place in an organisation, project, or programme.

Page 3 (b): Performance monitoring involves collecting and analysing data to measure the performance of an organisation, and its projects and activities, against the expected results.

Page 4: Monitoring can help to analyse the organisation, determine whether the organisation's resources are well utilised, identify problems facing implementation of different activities, ensure that all activities are carried out efficiently by the right people, and use the lessons to improve performance.

Page 5: Monitoring can be done through supportive supervision, spot checks/observations, interviews, discussions, meetings, use of checklists, and review of reports and records.

Page 6: At the project or programme level, evaluation involves a systematic and objective assessment of on-going or completed projects or programmes in terms of their design, implementation, and results.

Page 7: The four key aspects of evaluation are efficiency, impact, sustainability, and relevance.

Page 8: TFDA will be responsible for registration, importation, and monitoring of the product quality (food, medicines, and cosmetics).