THE CHALLENGES FACING SAVING AND CREDIT COOPERATIVE SOCIETIES IN SUPPORTING SMALL ENTERPRISES IN TANZANIA: A CASE OF TEMEKE MUNICIPALITY.
THE CHALLENGES FACING SAVING AND CREDIT COOPERATIVE SOCIETIES IN SUPPORTING SMALL ENTERPRISES IN TANZANIA: A CASE OF TEMEKE MUNICIPALITY

By
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A Dissertation Submitted to Mzumbe University, in Partial Fulfilment of the Requirements for an Award of the Degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe university

2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled Challenges facing saving and Credit cooperative societies in supporting Small and Medium Sized Enterprises in Tanzania: A case of Temeke Municipality, in partial fulfillment of the requirements for the degree of Master of Business Administration of Mzumbe University.

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Major Supervisor

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Internal Examiner

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External Examiner

Accepted for the Board of Dar-es-Salaam Business School

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DEAN DIRECTOR /FACULTY/DOCTORATE/SCHOOL/BOARD
DECLARATION

I, Felister Maliaki Kipuyo, declare that this dissertation is my own original work except where stated and that it has not been presented and will not be presented to any other university for a similar or any other degree or academic award.

Signature  _______________________

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I also thanks and appreciate the support from Cooperatives officers of Temeke Municipality, SACCOS staffs and SMEs owners who shared with me their experiences concerning the challenges which facing them towards their economic development.

Lastly I also thanks every person who is not mention here for positive response and contribution in numerous ways in the accomplishment of this work. May God bless you all.
DEDICATION

I dedicate this work to the living God who helped and enable me to accomplish it. I honor and glorify his Holy name. I also dedicate it to my beloved parents for their love, care, courage and support to attain my goals. May God bless you now and forever
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CBOs</td>
<td>Community Based Organizations</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poorest</td>
</tr>
<tr>
<td>CRDB</td>
<td>Cooperative and Rural Development Bank</td>
</tr>
<tr>
<td>FINCA</td>
<td>Foundation for International Community Assistance</td>
</tr>
<tr>
<td>FGD</td>
<td>Focus Group Discussion</td>
</tr>
<tr>
<td>GOT</td>
<td>Government of Tanzania</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>KFWT</td>
<td>Kenya Finance Women Trust</td>
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<td>MFIIs</td>
<td>Microfinance Institutions</td>
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<td>MSEs</td>
<td>Micro and Small Medium Enterprises</td>
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<tr>
<td>NBC</td>
<td>National Bank of Commerce</td>
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<td>NGOs</td>
<td>Non Government Organizations</td>
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<td>PRIDE</td>
<td>Promotion of Rural Initiatives Development Ent</td>
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<tr>
<td>ROSCAs</td>
<td>Rotating Saving and Credit Associations</td>
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<td>SACAS</td>
<td>Savings and Credit Associations</td>
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<tr>
<td>SACCOS</td>
<td>Savings and Credit Co-operative Societies</td>
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<td>SCCULT</td>
<td>Savings and Credit Cooperatives Union League</td>
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<tr>
<td>SMEs</td>
<td>Small and Medium sized Enterprises</td>
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<td>URT</td>
<td>United Republic of Tanzania</td>
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ABSTRACT

The Tanzania cooperative sector plays a significant role in the Tanzania financial sector. SACCOs is a now predominant form of external financing for small and micro enterprises in most of the developing counties. Despite of the role played by SACCOs in supporting SMEs SACCOs is still facing with a lot of challenges which hindering them to meet the demand of their clients. Considering their support, this paper aims to unveil the constraints which hinder SACCOs development in supporting SMEs in Tanzania. The study was carried in Temele municipality whereby three SACCOs were involved. The sample size of this study was 40 respondents. The questionnaires were administered and distributed to respective respondents which include line managers of SACCOs and the entire members of the SACCOs.

The study objectives were to examine the operation capital of SACCOs in supporting the Small Enterprises, determine the extent in which the management of SACCOs is supporting SMEs, and assess the extent in which SACCOs have contributed to the development and growth of SMEs in Tanzania.

The findings of this study revealed that SACCOs has been contributed to the economy of individual and national level. Despite of some challenges facing SACCOs such as delay in payment of the loan; poor management of database system; lack of enough capital, insufficient debt and equity funds to pass to the poor, poor computerized system; and delaying of presentation of financial reports to clients/ members, still yet SMEs operate their business but with small initiatives from the government.
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CHAPTER ONE
INTRODUCTION AND BACKGROUND

1.1 Introduction
Tanzania’s networks of Savings and Credit Cooperative Societies (SACCOs) are grass-roots financial institutions which have stood the test of time as effective micro financial institutions, offering members a convenient home for their savings and an access point for loans. For many people, membership of their SACCOs is an invaluable safeguard against unexpected illness, accident or family death. Workers in the informal economy have increasingly looked to SACCOs in recent years to meet their needs. Savings and Credit Cooperative Societies (SACCOs) are said to be the alternative sources of finance for entrepreneurs and the provision of financial and banking services to Small and Medium Enterprises (SMEs) who for economic reasons cannot be covered by the activities of formal banks and financial institutions.

SACCOs are established under the cooperative societies Act and are important form of financial intermediary, which over the years played vital role in the provision of financial services to their members. The societies accept monthly payment for shares from which members may borrow any amount equivalent to two or three times their own savings if they can get other members to guarantee them. SACCOs societies have developed to meet the fundamental human need to find a way of saving and borrowing methods without taking risks and without handling over too much power to money lender. SACCOs are established in Tanzania with the aim of supporting people with low income earners such as SMEs and other groups by create a source of capital to its members. Therefore this study aims at assessing challenges facing Saving and Credit Cooperative Society in supporting SMEs in Tanzania.

1.2 Background Information
In the early 1950s there was the emergence of financial co-operatives (SACCOs) promoted mainly by Roman Catholic Missionaries who had studied in United States. In Tanzania SACCOs spread quickly to Bukoba, Kilimanjaro and Dar-es-salaam in
In 1963 the SACCOS movement established the Savings and Credit Cooperative Union League of Tanzania (SCCULT) as their apex (Mlowe and Kalesh, 2006).

SACCOS performs major functions in relations to its members and general economic development of the country. In particular, these functions are collecting savings from members, giving loans to the members, education, training, and giving financial and non-financial advice to the members. In some cases, some government and private institutions may also give financial assistance to SACCOS in order to enable them (SACCOS) give loans to more SACCOS members. In turn members of SACCOS are expected to use the borrowed funds for the intended projects.

Members of SACCOS used loans for different activities such as trade, agriculture, small scale manufacturing industries, service sectors such as saloon etc and in few cases; some SACCOS members borrow SACCOS loans to finance their non-economic activities. Since members borrow SACCOS funds to finance their respective micro investments, it is important that there should be a close cooperation between SACCOS borrowers and professional experts in various fields such as banking, marketing, commerce, economics, finance, agriculture, trade, engineering etc. These professionals will provide valuable advice to SACCOS members on how to run their micro projects financed by micro loans borrowed by members. At the same time, the government is also expected to establish a conducive monetary policy, fiscal policy, trade investment policy, wage-income redistribution policy, etc which will in general facilitate better performance of SACCOS member’s and micro projects financed by SACCOS loans.

Specifically, SACCOS institution provide a broad range of services which include deposits, loans, payment services, money transfer and insurance to the poor/low-income households, SMEs and their enterprises. SACCOS is supporting SMEs in urban and rural areas in Tanzania. SACCOS as a Micro finance Institution (MFIs) is facing with a lot of challenge in supporting SMEs in Tanzania. Due to these
challenges many SACCOs have been formed and collapsed so they failed to meet their objectives of saving the poor.

To meet unsatisfied demand for financial services, a variety of MFIs has emerged over time in Africa. Some of these institutions concentrate only on providing credit, others are engaged in providing both deposit and credit facilities, and some are involved only in deposit collection.

The concept of SMEs has no any universal accepted definition. Thus, there is no clear definition of SMEs. People in different countries defined SMEs in different ways. For example, Frank (1999) defines SMEs on the basis of number of employees, turnover and other essential characteristics of the small firms. Different countries use different measurement techniques to determine SMEs and it depend on their purposes (Kirby, 2003; Ngasongwa, 2002).

SMEs are used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs).

SMEs are estimated to contribute 30-35% of the gross domestic product. The sector consists of more than 1 million business activities engaging 3-4 million persons, that is, about 20 -30% of the labor force. There has been an expansion of SMEs for income and employment generation between 1990 to 1996 following the adoption of economic reforms creating some space for the self-employment and private sector activities. This growth would have been higher if the business environment and Government policies had provided deliberate incentives to the development of this sector.

Also, URT (2002) has reported that the SMEs mostly cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SMEs. Different countries use various measures of
size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover.

SMEs play a fundamental role in utilizing and adding value to local resources. In addition, development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire, transfer and adopt. Also, SMEs are better positioned to satisfy limited demands brought about by small and localized markets due to their lower overheads and fixed costs. Moreover, SMEs owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only coexist but also function in a symbiotic relationship. In addition, SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations (Olomi, 2006).

In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million. This is illustrated in the table below:
Table 1.1: Categories of SMEs in Tanzania

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Capital Investment in Machinery (Tshs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprise</td>
<td>1 – 4</td>
<td>Up to 5 mil.</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>5 – 49</td>
<td>Above 5 mil. to 200 mil.</td>
</tr>
<tr>
<td>Medium enterprise</td>
<td>50 – 99</td>
<td>Above 200 mil. to 800 mil.</td>
</tr>
<tr>
<td>Large enterprise</td>
<td>100 +</td>
<td>Above 800 mil.</td>
</tr>
</tbody>
</table>


SMEs sector plays an important role in economies of most of the developing countries. Over half of Tanzania’s national output comes from small business sector and a third of urban labour force is employed in this sector (Planning Commission, 1999). There are various researchers advocating the importance of small business on the economy and people all together. Yunus (1984) for example, argues that people who live in developing countries could improve their living standards by becoming micro-entrepreneurs if financial institutions could support their initiatives with small loans.

1.3 Statement of the research problem.

In Tanzania, there are a number of MFIs such as SACCOs, NGOs which are there purposefully for reducing the income gap between the low and high income earners as well as sustaining and developing SMEs in Tanzania. The aim of forming this group, is to develop and support SMEs. In Tanzania among the major MFIs which are known by the SMEs in order to give them support are SACCOs units.

According to (URT,2002), Tanzania has considerable number of formal, semi-formal and informal Microfinance Institutions which are there purposefully for reducing the income gap between the low and high income earners as well as sustaining SMEs development. But the contribution of these MFIs in general has not been evident in supporting those SMEs apart from the good intention shown by the Government of putting in place the SMEs policy in order to; promote the Small and medium sized
Enterprises, improving the performance and competitiveness of the existing ones, still the sector is operating under low level.

Therefore this study focuses on the analysis of challenges facing SACCOs in supporting SMEs in Tanzania. The study explains how and why SACCOs are not succeeding to support SMEs as intended by the government. A key stand point of this study is that in reality SACCOs were seen as vehicles for reaching the SMEs and therefore being unique from other microfinance institutions. The government approach of channeling micro credit funds for the SMEs through SACCOs was viewed as a viable approach undermining the complexity surrounding the SMEs and their willingness to join SACCOs, access and use of credit. Micro credit through SACCOs would be effective in benefiting SMEs in supporting them financially.

It is true that despite of the efforts made by SACCOs to make conducive environment and access of funds to SMEs, there is lower development in the sector than what is expected, and this is due to various challenges facing many SACCOs in supporting SMEs in Tanzania.

1.4 Research objectives
1.4.1 General objective
The general Objective of the study is to investigate on the challenges facing SACCOs in supporting Small and Medium sized Enterprises in Tanzania.

1.4.2 Specific objective
Specifically the study intended to:
   i. To identify the operation capital of SACCOs in supporting Small and Medium sized enterprises in Tanzania
   ii. Examine the extent in which the management of SACCOs is supporting Small and Medium sized Enterprises
   iii. Assess the extent to which SACCOs have contributed to the development and growth of SMEs in Tanzania.
1.5  Research Questions
The study used the following specific research questions;

(i) What are the type of capital do the SACCOs provide in supporting SMEs?
(ii) How does the management of SACCOs help to overcome challenges associated with supporting SMEs?
(iii) What are the contribution of SACCOs to the development and growth of SMEs?

1.6  Significance of the study
The study will be significant to different people at different levels:

- At the level of the researcher, it will help them to advance knowledge and gaining skills by thinking logically and organizing the idea in a proper manner. The study will help other researchers to identify viable areas for further researches. This study also will help different people such as SMEs and members of SACCOs in order to solve challenges which are facing them in their activities.
- The study will identify the major challenges facing SACCOs in supporting SMEs and how to overcome those challenges.
- At the level of the institute, it will have data and information, which will add into an institute data bank.
- At the level of policy makers within the Organization, the study findings may help to improve the organization’s employee’s motivation and designing intervention strategies.
- At the level of SMEs owners, of SMEs will benefit from outcome through assessing suitable information and gaining knowledge for the good business performance.
At the level of other researchers, they will utilize the gathered information as baseline data for those who want to venture into the similar field.

1.7  Scope of the Study
This study was conducted in Temeke district in Dar es Salaam region at selected SACCOs. Temeke district, with latitude of 39. 42 (39° 25' 0 E), is an administrative region (second-order administrative division) located in Tanzania that is a part of
Africa. The location is situated 498 kilometres east (102°) of the approximate centre of Tanzania and 20 kilometres south east (131°) of Dar es Salaam.

A 100 square kilometres area around Temeke District has an approximate population of 5,760,080 (0.057601 persons per square meter) and an average elevation of 36 meters above the sea (http://www.traveljournals.net/explore/tanzania/map/m3542334/temeke_district.html ret. The selection of study area considered the following fact; it is because the researcher is living in Dar es Salaam and is a bit familiar with the mentioned District (Temeke).

1.8 Limitation of the Study
The study was focused on assessing the challenges facing SACCOs in supporting Small and medium sized Enterprises (SMEs) in Tanzania. In every kind of study, limits are inescapable. Being aware of limitations helps the researcher to avoid or to minimize the pitfalls, over expectation, and frustrations in the course of study (Keya et al., 1989).

In conducting this study the researcher had been limited in terms of language, budget constraints and the time available for conducting the research, as the researcher at the same time she was working in her officer, so only few SACCOs and SMEs were visited during the time of which the collection of data was done. Also there were challenges on data inaccessibility as some respondents were refusing to give the researcher correct information.

1.9 Definition of Key Terms
SACCO:
SACCO is the acronym for Savings And Credit Co-operative. There is no difference between a credit union and a SACCO. The term “credit union” is generally not used in Africa
(www.saccol.org.za). And the acronym SACCOs stands for Savings and Credit Cooperative Societies.

A SACCOs is a democratic, unique member driven, self co-operative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living/ working in the same community. A SACCOs membership is open to all who belong to the group, regardless of race, religion, colour, creed and gender or job status.

These members agree to save their money together in the SACCOs and to make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and they the members decide how their money will be used for the benefits of each other (http://www.saccol.org.za/what_is_sacco.).

**Savings**

Savings mobilization in microfinance is a very controversial issue. They have been increase awareness among policy makers and practitioners on the vast number of informal savings schemes. MFIs such as credit union organizations around the world have been very successful in rallying clients to save (Paxton, 1996a, p.8).

**Credit/ Loan**

These are borrowed funds with specified terms for repayment. People borrow when there are insufficient accumulated savings to finance a business. They also take into consideration if the return on borrowed funds exceeds the interest rate charged on the loan and if it is advantageous to borrow rather than to postpone the business operations until when it is possible to accumulate sufficient savings, assuming the capacity to service the debt is certain (Waterfield & Duval, 1996). Loans are usually acquired for productivity reasons; that is to generate revenue within a business.
SMEs:
SME is the acronym of Small and medium sized Enterprises and we term these as small businesses. The term SME covers a wide range of definitions and measures, varying from country to country and between the sources reporting SMEs statistics.

Among them the most common definitional basis used is employees because of the comparatively ease of collecting information and here again there is variation in defining the upper and lower size limit of an SME. In developing countries the number of employees and size of asses or turnover for SMEs tend to be much smaller compared to their counterparts in developed countries due to their relative size of business entities and economies. At current there is no universal acceptable definition of small- scale business (ibid).

URT (2006) defines Micro, Small and Medium Enterprises as; Micro enterprises are those undertakings engaging up to 4 employees, Small enterprises are those undertakings between 5 and 49 employees, and Medium enterprise employ between 50 and 99 people. It should be noted that even when the number of employees is used as a measure of size, the upper limit of a small is not universal across time and space. In Tanzania, micro-enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs. 5.0 million.

The majority of micro-enterprises fall under the informal sector. Small enterprises (small businesses) are mostly formalized and engaging between 5 to 49 employees or with capital investment from above Tshs.5 millions. Medium enterprises employ between 50 and 99 people or use capital investments above Tshs. 200 millions to 800 million (URT, 2003,
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter focuses on some of the concepts of Saving and Credit Cooperative society and the role they play in the development of SMEs. The concepts chosen are those that are in relation with the area of this thesis.

This chapter opens with an overview of Saving and Credit cooperative Society available in Tanzania and the services they provide to SMEs. This shows various policies available in Tanzania and the effects of these policies to the development of SMEs in Tanzania. It is the part of the research which provides the information or the explanation of other researchers, writers, authors and authorities relating to the topic or research problem at hand.

This chapter tells what others have said or written concerning the similar topic which a researcher is dealing with. The objective here is to enhance our understanding of the theory of SACCOs and their modes of operation, discussing the empirical literature etc.

Literature review enables the researcher to study different theories related to the identified topic, in order to incorporate other people’s idea in the study.

2.2 Theoretical Literature
2.2.1 Theory for Group Formation
Komives (1998) and Tuckman (1977) identified 6 stages in group formation that are relevant to process through which SACCOs are operating at community level. SACCOs are examples of groups at community level and the processes they go through are assessed using the group formation theory. Tuckman and Jensen draw on the movement known as group dynamics, which is concerned with why groups behave in particular ways. This offers various suggestions for how groups are formed and how they develop over time. The formation of some groups can be represented
as a spiral; other groups form with sudden movements forward and then have periods with no change. Whatever variant of formation each group exhibits, they suggest that all groups pass through six sequential stages of development. These stages may be longer or shorter for each group, or for individual members of the group, but all groups will need to experience them. They are forming, storming, norming, and performing.

a. Forming
This is the initial stage when the group comes together and members begin to develop their relationship with one another and learn what is expected of them. This is the stage when the team building begins and trust starts to develop. Group members will start establishing limits on acceptable behavior through experimentation. Other member’s reactions will determine if a behaviour will be repeated. This is also the time when tasks of the group and the members will be decided. When a group is forming, participants can feel anxious not knowing how the group will work or what exactly will be required of them.

b. Storming
During this stage of group development, interpersonal conflicts arise and differences in opinions about the group and its goals will surface. If the group is unable to clearly state its purposes and goals or if it cannot agree on shared goals, the group may collapse at this point. It is important to work through the conflict and establish clear goals. It is necessary for there to be discussion so everyone feels heard and can come to an agreement on the direction the group is to move in. Storming, as the word suggests, is when things may get stormy.Conflict can emerge, individual differences are expressed and the leader's role may be challenged. The value and the feasibility of the task may also be challenged.

c. Norming
Once the group resolves its conflicts, it can now establish patterns of how to get its work done. Expectations of another are clearly articulated and accepted by members.
of the group. Formal and informal procedures are established in delegating tasks, responding to questions and in the process by which the group functions. Members of the group come to understand how the group as a whole operates.

d. Performing
Under this stage, issues related to roles, expectations and norms are no longer of major importance. The group is more focused on its task, working intentionally and effectively to accomplish its goals. The group will find that it can celebrate its accomplishments and members will be learning new skills and sharing roles. He again argues that after the group enters the performing stage, it is unrealistic to expect it to remain there permanently. When new members join or some people leave, there will be a new process of forming, storming and norming engaged as everyone learns about one another. External events may lead to conflicts within the group, to remain health; the groups will go through all of these processes in a continuous loop.

When conflict arises in the group, do not try to silence the conflict or to run from it. Let the conflict come out into the open so people can discuss it. If the conflict is kept under the surface, members will not be able to build trusting relationships and this could harm the group’s effectiveness. If handled properly, the group will come out of the conflict with a stronger sense of cohesiveness than before. When the group retires or adjourns, much learning happens through informal chat and feedback about the group performance. Tuckman and Jenson recognise that when groups dismantle themselves and the loose ends are all tied up, participants often go through a stage of mourning or grieving.

2.2.2 Challenge on Operation capital of SACCOs in supporting SMEs
SACCOs have the greatest potential to reach out to rural areas, but they have weak institutional and financial bases and their inability to operate strictly on commercial principles further minimized their chances of becoming sustainable.
There are many SACCOs which did not access credit because they were weak and could not fulfill the requirement. At the same time, within a SACCOs itself there were many individual who did not access credit/loan. Adequate capital for cooperative societies and cooperators can be obtained through modernization of SACCOs procedures and guidelines, as well as strengthening the capital base of Cooperative banks. Part of the modernization process of SACCOs procedures entails having new rules and regulations, having in place responsible leadership, employing competent personnel, and adopting “Best Practices” in the provision of financial services to members. In strengthening the SACCOs capital base, members will be sensitized to fully pay for their shares and to invest the generated capital rationally. Through a SACCOs network mechanism, a system of interlending between SACCOs will be developed i.e. to link SACCOs which have surplus funds with those with a deficit. Measures will be instituted to strengthen the capital base of Cooperative Banks already in place and those which may be established.

To strengthen the overall availability of capital to cooperatives (for production, processing, marketing), a nationwide Cooperative bank will be established whose base capital will originate from the cooperative movement itself and relevant stakeholders (within and outside the country).

Nevertheless sustainable financing of Cooperative Societies can be attained by reducing the burden of indebtedness on the cooperatives due to past loans (mostly channeled to agriculture). To this end the Government will be requested to consider the indebtedness situation of cooperatives and come up with a solution which will facilitate the transformation process envisaged.

2.2.3 Financial Challenges Facing SACCOs in supporting SMEs

Low-income men and women have a serious hindrance in gaining access to finance from formal financial institutions. Ordinary financial intermediation is not more often than not enough to help them participate, and therefore SACCOs have to adopt tools to bridge the gaps created by poverty, gender, illiteracy and remoteness. The
clients also need to be trained so as to have the skills for specific production and business management as well as better access to markets so as to make profitable use of the financial resource they receive (Bennett, 1994).

In providing effective financial services to the poor requires social intermediation. This is “the process of creating social capital as a support to sustainable financial intermediation with poor and disadvantaged groups or individuals” (Bennett, 1997).

SACCOs Institution comprise of financial sustainability, outreach to the poor, and institutional impact. There are costs to be incurred when reaching out to the poor and most especially with small loans (Christabell, 2009). The financial institutions always try to keep this cost as minimum as possible and when the poor are in a dispersed and vast geographical area, the cost of outreach increases. The provision of financial services to the poor is expensive and to make the financial institutions sustainable requires patience and attention to avoid excessive cost and risks (Adam & Piscke, 1992).

The deliveries of micro-finance products and services have transaction cost consequences in order to have greater outreach. Some microfinance institutions visit their clients instead of them to come to the institution thereby reducing the cost that clients may suffer from (FAO, 2005). For MFIIs to be sustainable, it is important for them to have break-even interest rates. This interest rates need to be much higher so that the financial institution’s revenue can cover the total expenditure (Hulme & Mosley, 1996a). The break-even rate which is higher than the market rate is defined as the difference between the cost of supply and the cost of demand of the products and services. The loan interest rates are often subsidised (Robinson, 2003).

The loans demanded by smaller enterprises are smaller than those requested by larger ones but the interest rates remain the same. This indicates that, per unit cost is high for MFIIs targeting customers with very small loans and possessing small savings accounts (Robinson, 2003). Even though the interest rate is high for applicants
requesting very small loans, they are able to repay and even seek repeatedly for new loans.

The social benefits that are gained by clients of MFIs supersede the high interest charged (Rosenberg, 1996). The high interest rate is also as a means to tackle the problem of adverse selection where a choice is made between risky and non risky projects. The good clients suffer at the expense of the bad ones (Graham et al., 1997).

2.2.4 Challenges on the Management of SACCOS in supporting SMEs
SACCOS do not differ much from other MFIs in terms of credit management. They charge interest to member’s equivalent to 2% per month, give a repayment period of 6 months and in some cases require collaterals securities. The difference emerges on the management where the board and management comes from members and set their own decision as a group. Some Cooperatives scholars are of the view that although the SACCOs movement is growing very fast.

Although the importance of SACCOs in the process of poverty eradication is realized, it faces multiple challenges. This is because offering credit to the disadvantaged group is a complicated process and the sector is still in its experimental stage. The following are the major challenges facing the management of SACCOs and other MFIs.

a. Perceived High Risk of Micro Entrepreneurship and Small Businesses
Micro entrepreneurs usually have no collateral to offer to micro-finance providers against loans, they usually lack an alternate source of income, and have little, if any, formal education or training in the area of their business. Msemwa (2007) has concluded that, as a result, commercial banks attribute a high credit risk to micro entrepreneurs and steer clear of this sector. SACCOs are compelled to compensate for this risk by charging interest rates on loans so as to cover; cost of funds, operating expense, tax expenses, credit rating of client, inflation levels, higher competition, other factors impacting the interest rate. Fortunately, the challenge can be resolved
through the idea of group lending (social collateral against loans) which ensures good repayment rates.

b. High Costs Involved in Small Transactions/Micro-Lending
The small size of micro enterprises increases the transaction cost for MFIs because they cannot process loans in bulk. This denies MFIs the benefit of economies of scale; hence, they are forced to cover their costs through high interest rates on loans.

According to a study conducted by Asian Development Bank, microfinance providers in the Asia-Pacific region charge interest rates on micro-sized loans ranging from 30 to 70% a year, which is much higher than rates offered by commercial banks (Fernando, 2006). However, there are instances where the interest rates charged were too low for the MFIs’ sustainability. There is, however, a way to overcome this; their operational costs can be significantly lowered and efficiencies may be gained during automated loan processing.

c. Lack of Debt and Equity Funds for MFIs to Pass on to the Poor
Capital availability for SACCOs is hardly a problem owing to the rapid growth in the micro-finance sector, which has been fuelled by attention from the media and development agencies. Likewise, Descrochers and Lamberte (2002) have added that even though there are plenty of financing options available for MFIs, there is an emerging shortage of money because of the current financial crisis across the globe. Another reason for this shortfall is the lack of awareness of funding sources by SACCOs managers.

d. Difficulty in Measuring the Social Performance of MFIs
Microfinance is delivering the economic returns its proponents promised, but there are only a handful of tools available that measure the social return of loan programs for the poor. To add to the problem, the tools use proxies to estimate the amount of poverty and social change surrounding micro entrepreneurs. This makes the
gathering of funds a challenge because donors may question the actual impact made my microfinance (Cassimon, 1997).

e. Lack of Customized Solutions for the Poor
Inappropriate targeting of poor households by micro-finance programs is a common problem because MFIs in particular SACCOSs fail to understand the varied needs of micro entrepreneurs. MFIs must spend time in the field with their clients and his/her business, and then use this research to develop customized microfinance tools for each micro entrepreneur. Generalized solutions may work for large companies dealing with large homogeneous customer groups, but micro-finance providers need to serve the varied needs of individuals in each micro market segments (Fernando, ibid).

f. Lack of Micro-Finance Training For Human Resource in MFIs
Working in the microfinance sector is a different ball game compared to the traditional financial sector. For instance, micro-finance officers and volunteers need to talk a different language, build lasting relationships with individual micro entrepreneurs, understand the unique needs of the poor, evaluate the borrower’s sustainability, and grasp the cultural nuances of the borrower’s communities. Of course, all this needs to be done by large financial firms as well, but the needs and characteristics of the two markets are very different. It’s no surprise microfinance providers need special training to ensure they avoid problems such as intimidating or under-serving clients.

g. Poor Distribution system of SACCOSs and lack of Information about Microfinance Investment Opportunities
There are over 10,000 MFIs across the world, but their reach is only 4% of the potential market (World Bank, 2001). Firstly, micro-finance providers may be complacent with their client base in certain cities and feel no economic need (ignoring the social need to eradicate poverty) to spread out their distribution system to cater to the poorest of households. Secondly, micro entrepreneurs are sprawled
over large geographical areas, often in remote places, which often make them inaccessible to MFIs. This is a slight problem because even though there are over 10,000 MFIs around the world, they may not know about the existence and All these challenges can broadly fall into both financial and operational in nature; and we can therefore see that they should not be impossible to solve as the micro-finance sector moves towards its optimal performance level in the next several years. In other words, despite these challenges, the prospects of micro-finance are quite bright.

2.2.5 The Extent in which SACCOs have contributed in supporting SMEs

Several MFIs such as SACCOs have shown that they can profitably serve large numbers of relatively poor households, micro-enterprises, and small businesses. Although the client base is typically in peri-urban markets or in off-farm business activities in rural markets, those experiences have renewed interest in the feasibility of reorienting rural finance and MFIs.

There is a growing list of MFIs that have moved beyond their initial urban client base to tailor their products to rural clients, including the Equity Building Society in Kenya, CrediAmigo, a bank-affiliated MFIs in Brazil and the Development Bank of Brazil (BNDES), MiBanco in Peru, Financiera Calpia in El Salvador, and Basix India Ltd, a micro-credit institution serving the rural poor in India. The experiences of these MFIs point toward the possibilities of adaptation and replication by other MFIs operating in predominantly rural markets (http://www.imf.org/external/pubs/ft/fsa/eng/pdf/ch07)

In a few countries, agricultural development banks have succeeded in transforming themselves into more-sustainable institutions by offering demand-driven financial services, building credible lending contracts, and using full-cost recovery interest rates. The experiences of Thailand’s Bank for Agriculture and Agricultural Cooperatives (BAAC), Bank Rakyat Indonesia’s (BRI) village units in its micro-banking system (Yaron &Charitonenko, 1999; Zeller, 2003).
The revival and restructuring for privatization of Mongolia’s Agricultural Bank (Boomgar et al., 2003) and of Tanzania’s National Microfinance Bank have demonstrated that state-owned banks can be transformed into dynamic, profitable, and successful rural-oriented financial intermediaries with business-oriented management reforms. As supported by Zeller (2003) that such transformation of state owned banks can be achieved only with firm political commitment, ownership of reforms, management autonomy, and incentives.

Micro-finance operators in Tanzania function within the framework of the Government’s National Micro Finance Policy of 2000. The objectives of this policy are to provide the basis for the evolution of an efficient and effective micro-finance system to serve the low segment of society and contribute to economic growth and poverty reduction.

The policy establishes a framework within which micro-finance operators will develop, lays out the principles to guide operations of the system, defines roles and responsibilities of actors, and provides guidelines for coordinating mechanisms (URT, 2000, p. 5). The Central Bank was given the mandate to coordinate implementation of the policy. It is interesting to note that the Micro Finance Policy includes “saving the poor” as a best practice in developing the SMEs.

2.2.6 SMEs Growth and Development

The purpose or goal of any business or firm is to make profit and growth. A firm is defined as an administrative organisation whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995). The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements.

The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (ibid). The growth of a firm
can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. The determining factor for a firm’s growth is the availability of resources to the firm (Ghoshal, Halm & Moran, 2002).

According to Ledgerwood (1999) enterprise development services or business development services or nonfinancial services are provided by some MFIs adopting the integrated approach. The services provided by nonfinancial MFIs services are; marketing and technology services, business training, production training and sub sector analysis and interventions. Enterprise development services can be sorted out into two categories.

The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business. The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing. Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge (ibid).

These charges are subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFIs. The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, ibid).

Although the importance of SACCOs in the process of poverty eradication is realized, it faces multiple challenges. This is because offering credit to the
disadvantaged group is a complicated process and the sector is still in its experimental stage.

2.2.7 Empirical Literature Review

Similar studies related to the study at hand have been done in Cameroon, Sierra-Leone, Ghana, Zambia, Malawi, Rwanda, Kenya, Uganda and Tanzania. In Ghana Oti-Boateng and Dawoe (2005) carried out the study that revealed that, good practices that could lead to the technological growth of SMEs. They identified good practices as homogeneous group formation, capacity building, timely disbursement of credit, development of collaboration, linkages and Networks among technology developers, Government and NGOs; advocacy at all levels and creation of enabling environment, and monitoring and evaluation of loans.

According to Dowson (1997) and ILO (1999), small scale entrepreneurs often have difficulty gaining access to credit. In some cases this is due to the small loans requested by the entrepreneurs which are not profitable for financial institutions. Kitine (1980) has noted that 60% of small industries had difficulties in obtaining loans from the commercial banks, and this has caused difficulties for sector to install modern technology machines and purchase of raw material.

A 2002 study by the Bank of Tanzania (BOT) established that 82% of households were saving in their homes. Almost all of these (79%) were ready to save in financial institutions if these were there. The study also showed that 94% were willing to borrow more if resources and appropriate methodologies were available. Access to finance remains a serious problem in rural areas.

In Kenya (Kabecha, 2005) carried a study which found to encourage the technological growth of SMEs. The study discovered that MFI loan products were broadly classified into four categories: group-based minimalist credit, individual credit with collateral, individual credit with training, and asset financing and the provision of working sheds. Similar findings and practices were identified in the
other countries (Aikins, 2005; Asman & Diyamett, 2005; Jalloh et al., 2005; and Ruzibuka, 2005).

Byaruhanga (2005) conducted a study on policy impact on small scale enterprises in Uganda. In his study he found that MFI interest rates ranged from 28%-48%. Most of MFIs sourced capital for on-lending from Commercial Banks at rates ranging 18%-22% and had to double the interest rates to SMEs borrowers in order to break even and make same profit. The purpose of the loans was mainly for working capital. The amounts were small and the payback period was not more than six months with repayment being made weekly. Although the loans were fairly easy to access there were no grace periods.

There were individual loans in some MFIs although most practiced the group landing system. Some MFIs have plans for technology funding to SMEs but were restricted by the Micro Deposit Taking Act of 2003 the Ugandan MDI policy, which restricts loans to 24 months and defines MFI as one giving loans that are not more than 24 months duration. According to Byaruhanga (ibid) MFIs could cut the interest rates if they had alternative sources of cheaper capital.

However, SACCOs had large contribution to SMEs growth and development due to the fact that most of SMEs cannot access credit from formal banks. The good practices identified were that some SACCOs were funding technology driven SMEs, reduction interest rates, giving longer loan repayment and grace periods to clients. Others include the use of special schemes such as asset leasing, making information about their product and services available to clients, and the use of Information Communication Technology (ICT) by MFIs to reduce costs (ibid).

Furthermore, Byaruhanga has added that it is limited by the long distances to financial institutions, delivery models which are unsuitable to rural sparsely populated and seasonal income earners and small loans sizes. Banks are now entering the micro-finance industry and some of them have started micro finance
windows. However, except for wholesale lending to rural Savings and Credit Co-operative Societies (SACCOs), the outreach of the banks remains urban areas.

SACCOs have the greatest potential to reach out to rural areas, but they have weak institutional and financial bases and their inability to operate strictly on commercial principles further minimized their chances of becoming sustainable. They have to charge very high interest rates to sustain their operations. In 2004, one of the relatively well established SACCOs in Tukuyu was charging an interest rate of 5% per month, which translated to 60% per annum. Management was considering proposing a revision to 3% per month.

In Moshi Rural, an IFAD supported project for building capacity of SACCOs realized that members were not borrowing because they did not see viable investment opportunities in the villages. As a result, the project started supporting economic projects, including mushroom farming. NGOs - MFIs offer credit ranging from Tshs. 50,000 (US $50) to Tshs. 2,000,000 (US $2,000), but the terms and conditions make them inaccessible to rural sparsely populated areas with few economically active populations. A study by Sathyamoorth and Mburu, (2002) indicated that 78% of SMEs surveyed were the opinion that it was not at all easy to obtain financial assistance from financial institution and Government. Only 25% felt that it was easy to get the kind of financial help they need.

Despite the finance sector in Tanzania going a number of development phases growing small business appear to be still constrained in terms of credit accessibility. After independence, Tanzania implemented pro-state financing of targeted sectors including small business and farmers. Likewise, Schaedler (1968, 1976) has noted that during this period about 95% of all small businesses in Tanzania sourced their capital from personal savings. As 2002 report of (BOT) shows that 94% were willing to borrow more if resources and appropriate methodologies were available but access to finance were still a serious problem in rural areas.
The study conducted by Rutasitara on three Regions of Ruvuma, Mwanza and Dodoma in 1989 also revealed that, despite of different policies on poverty alleviation in Tanzania, there are extreme poverty in rural area.

Diagne and Zeller (2001) in their study in Malawi suggest that micro-finance do not have any significant effect in household income meaning no effect on SMEs development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed. A study of thirteen MFIs in seven countries carried out by Mosley and Hulme (1998) has concluded that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improve.

2.2.8 Research Gap

Based on the empirical literature (above) it is evident that extensive study similar to this study has been done. Furthermore, researcher’s experience on this study supports this. However, there is no documented or published evidence which indicates that the same study has been done or was done at Temeke municipality which this study tries to explore. After looking at the framework, the next chapter presents on the methodology that is applied in conducting the research. Therefore findings from this study, conclusion and recommendations will cover the gap.

2.2.9 Conceptual Framework

A framework is asset principles or ideas used as a basis for one’s judgment, decisions and so on (Oxford Advanced Learners’ [OAL], 1996). Commencing the study from theoretical perspective may have certain advantages, for it will link the study into the existing body of knowledge in the subject area and help get started and provide an initial analytical framework. In order to devise a theoretical framework, one has to identify main variables, components, themes and issues in the research project and predict or presume relationship between them.
The conceptual framework is developed after extensively reviewing literature about SACCOs and be able to narrow the relationship between SACCOs and SMEs growth and development. Hence, the challenges on SMEs development can objectively be analyzed. The study on hand, which includes an assessment of the challenges facing SACCOs to development of small enterprises, needs a conceptual framework which investigates the objectives and the methodology of the study to get quality data. In this case a model

**Figure 2.1 Challenges facing SACCOs in supporting SMEs**

According to the above diagram, SACCOs have been faced with a lot of challenges which hindering their support to SMEs in Tanzania. SACCOs have the greatest potential to reach out SMEs and rural areas but they have been facing with the problems of lack of capital, poor management, employees, defaulters and weak institutional and financial bases.
SACCOs are organizations with a goal to serve the needs of un-served or underserved markets as a means of meeting development objectives. Some SACCOs provide services such as skills training, marketing, bookkeeping, and production to develop small enterprises. The problem of capital has been hindering many SACCOs in Tanzania. Large numbers of SMEs are depending on SACCOs as it is important to note that, small enterprises are hardly facing with the problem of accessing loan from formal financial institutions like banks because of terms and conditions which are employed.

Poor governance and weak institutional base is among the problem which hindering SACCOs toward support to SMEs.

The SACCOs movement in Tanzania has faced a number of challenges that need to be addressed inorder to improve their support to SMEs in Tanzania. The major challenges inherent in the cooperative movement in Tanzania include; poor governance, lack of capacity in management, and weak capital base and infrastructure.

For successful implementation on different policies which have been set by cooperative societies in Tanzania, SACCOs need to improve on soundness, stability, efficiency, corporate governance as well as integration to the formal system inorder to support SMEs in Tanzania.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This is the part which describes procedures which were used in conducting the study. By “methodology” we mean the philosophy of the research process (Bailey, 1994). This includes the assumptions and values that serve as a rationale for research and standards or criteria the researcher use for interpreting data and researching conclusions (ibid). This chapter is organized under the following sub- sections; study area, research design, population, sample and sampling procedures/techniques, data collection techniques, data collection instruments and data analysis plan.

3.1.1 Study Area
This study was conducted in Temeke district in Dar es Salaam region where researcher selected a few SACCOs as units of analysis.

3.1.2 Research Design
A research design is an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). The research design is well devised and acts as a general guideline or blue print for the investigation. This guides the investigator to see his/her way more clear (Frankfort – Nachmias, 1996). It is a plan outlined how information is to be gathered. There are three research designs of interests, which are the case study, survey and experimental design. However, this study was conducted under the case study design.

The case study design is the research design which usually involves the in depth study of a particular milieu (village, association, organization, institution) rather than of individuals drawn more widely (Bulmer & Warwick, 1983).
The study adopt the case study research design because of its flexibility in data collection and analysis as it is less expensive than other research designs like survey design.

Therefore, this study was conducted at a selected SACCOs in Dar es Salaam region specifically in Temeke District as the researchers’ case study, for the purpose of undertaking the in-depth study on the assessment of the challenges facing SACCOs in supporting SMEs in Tanzania.

3.1.4 Population
Population may be defined as the target group which the researcher wants to know about by studying one or more of its samples (Tripathi, 1991). In sampling, the population may refer to the units, from which the sample is drawn. The term “unit” is used, as in a business research process; samples are not necessarily people all the time. A population of interest may be the universe of nations or cities.

Therefore, population, contrary to its general notion as a nation’s entire population has a much broader meaning in sampling. “N” represents the size of the population. The population of this study comprised of the Municipal Cooperatives Officers dealing with semi-formal business sector, heads of SACCOs/ loan or credit officers and SMEs owners who were chosen as samples were traced so as to be interviewed.

3.1.5 Sample and Sampling Procedures
A sample, as the name implies, is a smaller representation of a larger whole (Population). (Goode & Hatt, 1981). In statistics, a sample is a subset of a population that is used to represent the entire group as a whole. When doing research, it is often impractical to survey every member of a particular population because the sheer number of people is simply too large. Moore (2004, pg, 178) defines sample as a part that we actually examine in order to gather information. Also Ennon (1995, p.13) defines sampling techniques as the process of drawing a sample from a larger population.
In this study the researcher used a probability sampling. Probability is that each sampling unit of the population, you can specify that unit will be included in the sample (Nachimias & Nachimias, 1996, p.86). In probability sampling the researcher use simple random sampling technique, each member will be chosen by chance. The selected SACCOs and SMEs owners will be chosen by simple random sampling technique by throwing pieces of papers with the names of each (active) SMEs in the municipality.

The SACCOs staffs and municipal cooperative officers was selected by using purposive sampling technique. As claimed by Rwegoshora (2005: 120) that in this sampling, also known as judgmental sampling, the researcher choose a person who, in his judgment about some appropriate characteristics required of the sample members, is relevant to the research topic and easily available to him/ her. Additionally, SACCOs staffs who have an experience ranging from 2 to 10 working years of SACCOs was interviewed. The goal is to obtain a sample that is representative of the larger population.

The sample of this study consists of 40 respondents with the following distributions: (18) SACCOs officials, (20) SMEs owners and (2) municipality Cooperative officers.

3.1.6 Data Collection Techniques
Data collection refers to the gathering of information to prove some facts. In research the term data collection refers to the gathering of specific information aimed at providing some facts (Kombo& Tromp, 2006, p.99). The researcher used both Primary and Secondary sources of information. The researcher use interviews, Focus Group Discussion (FGD) and documentary sources as methods for data collection.

3.1.7 Primary Source of Information
According to White (2002:31) primary data is information gathered directly from respondents, it involves creating new data. The researcher used questionnaires,
interviews and FGD in collecting data. A primary source is document, speech, or other sort of evidence written, created or otherwise produced during the time under study.

The researcher used questionnaires which were administered to SACCOs staffs and SME’s owners; and FGD to small business owners as well as interview questions which help in obtaining the information.

3.1.8 Interviews
The interview is of course merely one of the many ways in which two people talk to each other (Bulmer, 1977). The unstructured or informal interviews used to get the required information. This is because it might not be easy to get the specific respondents even if the appointment was made as this would lead to the shortage of time and increased the impossibility for arranging the structured interviews with the particular respondents.

The researcher interviewed different respondents such as Municipal Cooperatives Officers, heads of SACCOs and SMEs owners. Face to face, conversation between the researcher and respondents help the researcher to get more detailed information and explanations from the respondents’ views, feelings and perceptions on the study at hand.

3.1.9 Focus Group Discussion (FGD)
Focus group discussion is one of the qualitative methods used in data collection. Its purpose is to obtain in-depth information on concepts, perceptions and ideas of a group. The idea is that, group members discuss the topic among themselves, with guidance from the facilitator (Rwegoshora, 2006).

The researcher used FGD in order to draw upon respondents’ attitudes, feelings, experience, beliefs and reactions in a way that would not be feasible using other methods like questionnaires. Also it is relatively quick to access information and
relatively inexpensive. FGD may discourage some people from trusting others with sensitive or personal information. A group of six small business owners located at Temeke Sokoni were randomly selected to be included in FGD.

3.1.10 Secondary Source of Information
The researcher obtain secondary data from various literatures in books, documentations and journals as it will be shown in the references related and relevant to the study in hand. According to White (2002:31) secondary data is information neither collected directly by the user nor specifically for the user. It involves the collection of data that already has been collected by someone else. This involves the collection and analysis of published material, and information from internal sources.

Secondary sources provide interpretation and analysis of primary sources. Secondary information is obtained by reviewing the related literatures such are the published/unpublished materials like books, journals and articles, internet through searching engines such as Google, Bing and Yahoo; where the researcher sought the information for challenges facing SACCOs in supporting the SMEs.

3.1.11 Documentary Review
Documents play an important part in disseminating knowledge in all disciplines. (Sanga, 1985), Documented information is essential if a researcher is to be formulated and sharpen his/her assumptions in relation the objectives. It is through reading relevant existent literature that a researcher becomes aware of key concepts currently is use in any area of interest. The research method include library search, field search and electronic data based search. The Mzumbe University Library, Internet, Temeke Municipal council and the selected SACCOS will be the main source of information for this study.

3.2 Data Collection Instruments
The interview guides, questionnaires, Focus Group Discussions and the documentary reviews. In this study the researcher use interviews in collecting information, it
involved oral interaction between the researcher and respondents, and unstructured interview questions will be used to collect information from the respondents. Questionnaires will involve open and close ended questions.

3.2.1 Interview Guides
The researcher employed unstructured or informal interview questions. Unstructured interviews are informal (there is no pre-determined questions) and conservational, which get the informants to open up and produce more information on sensitive topic (Kombo & Tromp, 2006). Also it allows the respondent to feel as part of the team since no rigidity is displayed (ibid).

3.2.2 Questionnaires
According to Borgardus (1988) as cited by Rwegoshora (2006: 147) defines questionnaire as a list of questions to a number of persons for them to answer. According to him, a questionnaire secures standardized results that can be tabulated and treated statistically.

This is one of the instruments that be used by a researcher for collecting data. This method does not require an interview because the respondent reads the questions him/herself and fills out his/her own answers (Riley: 1963). Both open ended and closed ended questionnaires used by researcher when collecting relevant data.

3.2.4 Documentary Reviews
This involves the examination of existing records or documents. The researcher reviewed various documents including Cooperatives rules, reports of the number of registered SACCOs in the specific district (Temeke), and records from selected SACCOs.
3.3 Data Analysis Plan

The analysis of data involves computation of indices and measures to determine the validity of data and indicate any conclusion. The term analysis refers to computation of certain measures along with searching for pattern of relationship that exists among data groups (Kothari, 2000, p.151). In this study the researcher will use FGD, interviews and questionnaires to record the information from each respondent and collecting the relating information for the interpretation, by doing so the researcher able to put in summary the key findings and identify information that are relevant to the research questions and objectives of the study at hand.
CHAPTER FOUR
PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction
This study is focused on the assessment of the challenges facing SACCOs in supporting SMEs in Tanzania; and the three selected SACCOs which are Mtoni Lutheran Church, Dovia SACCOs and Bandarini SACCOs in Temeke Municipality used as a case study. This chapter is specifically looking at the presentation of data obtained from the field that is primary and secondary data obtained through documents, journals, books and internet sources, its analysis as well as interpretation of the findings.

The research on SACCOs issues and SMEs is abundant. This area of study has generated enormous/huge amount of studies in an attempt to develop an understanding of the challenges facing SACCOs in supporting SMEs.

The data for this study was gathered, discussed and analyzed from both qualitative and quantitative perspectives but, mainly was the qualitative perspective. Data were gathered through multiple methods to gain insight into challenges facing SACCOs in supporting SMEs. Questionnaires and interview were administered to SACCOs leaders/officials, SMEs owners, and Municipal Cooperatives Officers; and documentary reviews. Prior to beginning the study, the identified respondents met with the researcher. The purpose of the study was explained to them so as to determine initial respondents’ interest in participation.

During the time, the used data gathering methods were explained in order for respondents to be aware of the process involved. The managers of the selected SACCOs responded favourably to other staffs and their clients (SMEs owners) participating in the study. For the researcher to meet the objectives of the study an effort was made to explore the results of investigation together with the research questions in Chapter One.
4.2 Demographic Profile of Respondents

The purpose for this study is to obtain information on the demographic profile of the respondents, that information based on gender, age, level of education qualifications, status, and sources of business capital as well as how long respondents have been beneficiaries of SACCOs services.

4.2.1 Gender of the Respondents

<table>
<thead>
<tr>
<th></th>
<th>Municipal cooperative officers</th>
<th>SACCOs officials</th>
<th>SMEs owners</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>Frequency 1</td>
<td>12</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Percentage(%) 2.0</td>
<td>80</td>
<td>29.4</td>
<td>100</td>
</tr>
<tr>
<td>Female</td>
<td>Frequency 1</td>
<td>3</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Percentage (%) 2.0</td>
<td>20</td>
<td>70.6</td>
<td>72.6</td>
</tr>
</tbody>
</table>

The information on the table 4.1 above showed that the male respondents were 18 of the targeted group who were involved in providing the information with regard of the services received from SACCOs, and female respondents were 16 of the targeted group, it seems that female SMEs owners who were 12 (70.6%) are more involved in SACCOs services and it was very easy to trace them during the time of distributing questionnaires in their respective business environment, and only 5(29.4%) of small business owners were male. Also the findings showed that the number of male SACCOs officials was 12(80%) which is higher compared to 3(20%) of female the findings revealed that most of the SACCOs officials are male, because during the research the researcher found that the large number of SACCOs officials are male compared to female.
4.2.2 Age of the Respondents

Table 4.2 Ages of the Respondents

<table>
<thead>
<tr>
<th>Age group</th>
<th>Municipal cooperative officers</th>
<th>SACCOs officials</th>
<th>SMEs owners</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 to 35</td>
<td>Frequency</td>
<td>10</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Percentage (%)</td>
<td>66.7</td>
<td>88.2</td>
<td>100</td>
</tr>
<tr>
<td>36 to 45</td>
<td>Frequency</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Percentage (%)</td>
<td>2.1</td>
<td>27.7</td>
<td>100</td>
</tr>
<tr>
<td>46 to 60</td>
<td>Frequency</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Percentage (%)</td>
<td>2.1</td>
<td>6.7</td>
<td>88</td>
</tr>
<tr>
<td>Above 61</td>
<td>Frequency</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Percentage (%)</td>
<td>0</td>
<td>6.7</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: The Researcher, 2013

The information from the Table 4.2 above showed that the respondents of age from 18 years to 35 years were 15 of SMEs owners and 10 SACCOs officials. In this age group are normally young in the business and few of them accrued the benefit of SACCOs.

The age group between 36 years to 45 years of SMEs owners stood of 3 and 2 of the SACCOs officials, the investigation from the findings indicate that this age group are normally participate in the business in either seeking loans from SACCOs for establishment and expansion of their business and are also active members of SACCOs.
The SMEs owners respondents of the age between 46 years to 60 years were 1 and that of SACCOs officials found to be 1, the findings revealed that most of this age group they have already established their business they due seek other services apart from loans for the purpose of monitoring and controlling their business. The age above 61 years were 0.0% representing the SMEs owners. The business owners of this age group are not participate in SACCOs services they just provide the financial assistant (voluntarily) for small vendors who are not yet having enough knowledge of the business.

4.2.3 Education Qualifications for the Respondents

Table 4.3 Education Qualifications for the Respondents

<table>
<thead>
<tr>
<th>Education Qualification</th>
<th>Municipal cooperative officers</th>
<th>SACCOs officials</th>
<th>SMEs owners</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Education</td>
<td>Frequency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percent (%)</td>
<td>58.8</td>
<td>58.8</td>
<td></td>
</tr>
<tr>
<td>Secondary Education</td>
<td>Frequency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Percent (%)</td>
<td>23.5</td>
<td>23.5</td>
<td></td>
</tr>
<tr>
<td>Diploma</td>
<td>Frequency</td>
<td>5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Percent (%)</td>
<td>33.3</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Degree</td>
<td>Frequency</td>
<td>1</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Percent (%)</td>
<td>2.1</td>
<td>53.3</td>
<td>0</td>
</tr>
<tr>
<td>Post graduate</td>
<td>Frequency</td>
<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Percent (%)</td>
<td>13.3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>Frequency</td>
<td>1</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Percent (%)</td>
<td>2.1</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: The Researcher, 2013
The information obtained in the above Table 4.3 indicate that 10(58.8%) of the respondents who were dealt with small businesses and has devoted much of their time were those whose completed primary education. The SACCOs has identified them as potential customers since they accrued various services and expand their businesses. The findings also showed that a total of 3(17.6%) of the respondents were the diploma holders and the large number of them were small business owners who are not engaged much into entrepreneurial activities. Eventually they got some assistance from MFIs and they have managed to establish and being a member of SACCOs in Temeke Municipality with regardless of the various challenges encountered.

The post graduate holders were 2(13.3%) of SACCOs officials and the municipal cooperative officers respondents most of them are in the position of the management of SACCOs and has mobilized others and establish their own SACCOs due to some fund facilities received from Banks or MFIs. They are not even own their own business but rather been a members of SACCOs. The observation done came to realize that most of the post graduate holders they are holding senior position in SACCOs and Microfinance Institutions

### 4.2.4 The Status of the Studied Businesses

**Table 4.4 The Status of the Studied Businesses**

<table>
<thead>
<tr>
<th></th>
<th>Newly started</th>
<th>Young but established production</th>
<th>On growing</th>
<th>Well established but in need of improvement</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>13</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>17</td>
</tr>
<tr>
<td>Percentage(%)</td>
<td>76.5</td>
<td>17.6</td>
<td>5.9</td>
<td>0.0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: The Researcher, 2013

Table 4.4 illustrates that only 13 small businesses which is 76.6% were just started; a total of 3 small businesses with the total of 17.6% were still young, but with
established production and customers; 1 businesses which is 5.9% were in their growing stage. Small businesses which were well established, with steady production and customers were 0 which is 0.0% . The researcher also found that the large number of small businesses were in the growing maturity stage, but in need of improvement. The researcher went far to find out the duration of being in business to business owners and the results shown in 4.3 below.

Table 4.5  Duration of Business for Respondents

<table>
<thead>
<tr>
<th>Number of years</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 up to 2</td>
<td>14</td>
<td>82.4</td>
</tr>
<tr>
<td>3 up to 5</td>
<td>3</td>
<td>17.6</td>
</tr>
<tr>
<td>6 up to 7</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: The researcher, 2013

The table 4.5 above depicts that 14 of members said their businesses are between 0-2 years old. Those who say their business are between 3-5 years old occupy 3 only. A total of small businesses with a total percentage of said they are between 6 and 7 years old. Small businesses of above years are 0% which falls under and only 0% member who occupies can’t remember the duration of being in the business. These percentages represent total percentages of the whole sample represented SMEs owners.

4.2.5  Sources of Business Capital

Table 4.6  Sources of Business Capital for the Respondents

<table>
<thead>
<tr>
<th>Source</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parents</td>
<td>14</td>
<td>82.4</td>
</tr>
<tr>
<td>Relatives</td>
<td>3</td>
<td>17.6</td>
</tr>
<tr>
<td>Own saving</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The researcher 2013
From table 4.6 above when the respondents were asked the source of their business capital; 3(17.6%) said were given by their parents 0 made it through relatives, 14(82.4%) get from own savings. The researcher also found that the large number of SMEs is depending from their own savings which they save in SACCOs and banks.

4.2.6 Contribution of SACCOs in the Development of SMEs

Table 4.7 Awareness of the Contribution of SACCOs in meeting Business Needs

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aware</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>Not aware</td>
<td>15</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: The Researcher, 2013

This was the third objective of the study, the research aimed at examine the extent to which SACCOs contributed for the growth of the individual and national economy. Table 4.7 summarizes the level of awareness of the contribution made by the SACCOs to the development of the small enterprises. A total of the 10 respondents representing 40 percent stated they are aware of the SACCOs contribution by referring the various services/products offered. Also the findings showed that 15 (60%) of a selected sample were not aware.

Through interviews, the study found that half of the responding SACCOs line managers supervisors in Temeke Municipality SACCOs said that the economic status of the bonafide members have been improved due to the fact that they can cover the daily expenditures. The observation shows that the economic status of the country has been improved because the government collected taxes through these SACCOs; therefore, they contribute much to the national and small enterprises in other way around.

This was supported by one of the interviewed board member respondents when asked “how are you sure that SMEs are aware of your presence and services you
offer to them?” she replied, “…by looking at the number of SMEs who are taking loan and the size of loan taken by them…”

4.2.7 Operation capital of SACCOs in supporting SMEs.

Table 4.8 Borrowed Capital

<table>
<thead>
<tr>
<th></th>
<th>Working capital</th>
<th>Household expenses</th>
<th>Other productive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>13</td>
<td>2</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>86.7</td>
<td>13.3</td>
<td>0.0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher, 2013

Table 4.8 above illustrates that 13(86.7%) of the respondents had the intention to use it as a working capital having the intentions to maintain, expand, or diversify their businesses respectively. In addition 2(13.3%) of the clients have used loan for other non-productive purposes this may have been caused by the inability of the SACCOs to meet the demand of its clients because it is often supply driven. These clients had either terminated the business or do not know about the future of their businesses.
4.2.8 Challenges Facing SACCOs in Supporting the SMEs

Table 4.9 Summary of challenges facing SACCOs.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital adequacy</td>
<td>8</td>
<td>53.3</td>
</tr>
<tr>
<td>Liquidity management</td>
<td>4</td>
<td>26.7</td>
</tr>
<tr>
<td>Follow up cost supervision and defaulters</td>
<td>1</td>
<td>2.1</td>
</tr>
<tr>
<td>Poor distribution system of SACCOs and lack of information about investment opportunities</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Lack of knowledge and ignorance</td>
<td>1</td>
<td>6.7</td>
</tr>
</tbody>
</table>

|       |       | 15    | 100   |

Source: The Researcher, 2013

From the table 4.9 above, the researcher found that a total of 8 which is (53.3%) of SACCOs officials' respondents complained of having had delay in payment of the loans. However, a greater majority of sample 1 representing 6.7% had a challenge of poor management of database and computerized system. In observing the situation, the researcher found that 1 respondents which stood 2.1% said they face a problem of lacking of enough capital and customized solutions for the poor.

A total of 2 respondents representing 13.3% claimed to have a challenge of poor distribution system of SACCOs and lack of information about investment opportunities. As it was found from the interview conducted, most of SMEs owners stated that SACCOs had facing challenges of not having enough finance to run their institutions as one of the interviewee said, “SACCOs depend much on funds from membership contribution and interest rate from loan”...
4.2.9 Operation capital of SACCOs in supporting SMEs

The findings shows that SACCOs try very hard to assist the SMEs through providing various services to them which including savings, loans/credits and technical advices as many SACCOs are opened all over the country. SACCOs in Tanzania are committed to sustain and enhance their services provision habits to disadvantaged group of clients who left by the formal banks. As one of the respondents during interview session said that “SACCOs are purposively there for the people like us who earn low and banks for the richer”...

Apart from the support SACCOs offer to SMEs, it’s still faced with the problem of Capital in running their daily activities as the financial Institution.

To solve that problem, the SACCOs have done a lot to improve the lives of small business owners from the financial services/products they offer. As it has been found during the interview “... The loans (micro loans) provided have a relative low interest rate and repayments start on the second month, the deposits are safe and members can have access to loans whenever they want as long as they meet the stipulated criteria”... said one of the respondents.

4.2.10 Capital in saving products

To determine the new products/services one must know precisely what type of savings, credit and other microfinance products and delivery mechanisms will be convenient for the clients. As far as the findings showed, it seemed that savings products offered by SACCOs were personal savings, daily savings as well as educational savings.

This and other reasons explain why SACCOs deem it necessary for borrowers to have minimal equity contribution (savings) before applying for a loan. The source of the minimal equity capital is known by the SACCOs because the client may be at high risk of non-respecting the terms of repayment had it been the funds were borrowed from somewhere. The study concurs to the position of several other studies including Ledgerwood (1999) who has claimed that, this means that a business with
little borrowed capital with good market standing will have an upper hand in getting financial assistance from the MFIs.

Therefore, the study suggested that the poor have the capacity to raise SACCOs capital, save and repay loan if an appropriate support mechanism is devised. The poor save if financial institutions take a good care of visiting their business and offering good personalized services.

4.3 Capital in Loan Products/ services
Concerning the loan products/ services offered by SACCOs were mainly divided into three categories, for example short term (3-6 months), medium term (up to 18 months), and more than 18 months. During an interview, one credit officer said, “...The maximum category of giving out loan to our clients is twenty four months”...

In MFIs, most of SACCOs were found to offer the following loan products; social loan, emergence loan, small enterprise loan, agricultural loan and educational loan. Through access to financial services low income entrepreneurs can easily cope with the everyday calamity they face. Loans for capital provide a fundamental basis for planning expansion and expanding business activities to small business owners. Likewise, CGAP (2004) has found that loan helps to empower low entrepreneurs to make their own option, choices and build their own way out of poverty.

Thus, helps to protect low entrepreneurs to increase their sources of income, protect, and diversify business activities. It helps to protect them against extreme vulnerability that is a feature of their everyday existence and that pushes families into poverty. Loan, savings, transfers and insurance help smooth out income fluctuations and maintain consumption even during emergencies.

The researcher viewed that, designing and offering a variety of loan products to the members helps to ensure a high repayment rate and proper utilization of loans.
4.3.1 Diversification of Technical Advices Services

From the findings, the provision of technical advices (financial training) is relatively low compared to the provision of loans as illustrated in the table 4.8 above. This has led to most of small business owners to mis-use their loans since they had not acquired enough financial advices. They have acquired loans but they had not acquired enough financial education on how to start and run their existing business, loan/fund management, business counseling and sometimes they are supposed to pay that service, obviously they diverge their loan to other businesses and they fail to utilize loans effectively.

This goes contrary with Ledgerwood (1999) who has suggested the categories of enterprise development service rendered as, First; the enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business. The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing. Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge.

It showed that, the services/products offered by SACCOs will be meaningful if will also involve more in the provision of technical advices to borrowers, since 11 (45%) of 20 respondents, borrowed capital was their source of business capital and most of them were still young (36 to 45 years old) and having primary education in their mature, but in need of renewal business. Therefore, offering loans with inadequate technical advices to clients may compel them either to lie or look to other sources of loans for emergency and social purposes.

Likewise, Sengo (2004) has pointed out the similar idea that, lack of guidance and counseling on the effective utilization of the loans to borrowers causes some of them to divert the loan to other unplanned activities which lead them into losses. Goodale
(1995) has supported that business training brings direct and non direct economic benefits to individual and societies by increasing productivity, incomes and occupational mobility.

The researcher found that, when assessing the challenges facing SACCOs in supporting SMEs, the issue is complex. All SACCOs members must save their money in their respective cooperative societies, but are all “successful?” By the way, what is successful? If success is acquiring large amount of loans, then yes, the members are somehow successful. If success is advancement to the next business level with others, then the small business owners in this study are successful. But, if successful is all of the above plus the technical advises; then more than a half of the participants/ selected sample will be successful. These guided questions are the measuring tools for small entrepreneurs’ economic development/ success in the world of business.

4.3.2 The extent in which the management of SACCOs is supporting SMEs
Through this study, basing on the responses from the respondents (table 4.6 above) it also became clear that the management of SACCOs is supporting SMEs by educating them on criteria for taking loan which were collateral security, already established/ existing business which enable them to establish a base for the loan, repayment ability, being active members of SACCOs, initial and sufficient balances for that particular SACCOs, the one who was need of fund they should have free guarantors for whom would undertaken the liability if the loans were not returned in dully time stipulated in the contract. This criterion seemed to be a bit tough to most of small business owners as supported by Olomi (2003) that, the procedures to get credit are complicated. Likewise, Laura (2009) who noted that, the entire loan process can take from a few weeks to several months depending on the size of the loan and complexity of the lenders investigative efforts.

The loans demanded by smaller enterprises are smaller than those requested by larger ones but the interest rates remain the same. This indicates that, per unit cost is high
for MFIs targeting customers with very small loans and possessing small savings accounts. The findings concur to the study of Rosenberg (1996) that, even though the interest rate is high for applicants requesting very small loans, they are able to repay and even seek repeatedly for new loans. The social benefits that are gained by clients of MFIs supersede the high interest charged.

During the FGD one respondent narrated that “...There are plenty of difficulties in running a business, the interest rate is relatively low, but the repayment time is not as much as I expected. Those with big capital are able to do more than one business”... He added that “…Some borrowers fail to continue with business and this put them in one step forward and two steps backward movement in the business”... The interviewed SACCOs credit officers confirmed that they give small business owners short and long terms loan depending up on their satisfactions but others fail because of having no collaterals.

This implies that, most of SMEs acquired small amount of loan compared to their requirements and mostly when given it could take several months to repay (irregular repayment), because they had insufficient initial balance as a results they fail to run their business effectively. Even though there are others who have sufficient initial balance and enjoy the fruits of their savings.

Nevertheless, it was emphasized that all beneficiaries were required to begin repaying the loan secured after one or two month regardless of the directive which was provided to support farmers, animal keepers and others who their business takes long time to payback.

Small entrepreneurs usually have no collateral to offer to SACCOs providers against loans, they usually lack an alternate source of income, and have little, if any, formal education or training in the area of their business. Through this study it is also become clear that most of small business owners are still young and have low level
of education particularly business education. Most of them are just starting to build the sense of property ownership like land, car, buildings and the alike.

The researcher suggests that, present membership criteria are not favourable to the poor. Services/products should be tailored as per need and capacity of the poor.

4.3.3 Challenges and Contribution of SACCOs to the economic development of SMEs

SACCOs had large contribution to SMEs’ growth and economic development due to the fact that most of SMEs cannot access credit from formal banks. The good practices identified were that some MFIs were funding technology driven SMEs, reduction interest rates, giving longer loan repayment and grace periods to clients. Others include the use of special schemes such as asset leasing, making information about their product and services available to clients, and the use of Information Communication Technology (ICT) by MFIs to reduce costs (Byaruhanga, 2005).

A conducted investigation among the SACCOs members was carried out to gain insight into the municipals’ functioning. A sample of twenty respondents provided a realistic and representative picture of the SACCOs performance and their contribution in general. 55% of the respondents were aware of all products/services offered by the SACCOs in their respective areas while 45% out of the sample size of twenty were not aware. We can agree with the researcher that we thought it could be more than a three quarter level of awareness.

In the course of interview most of respondents interviewed said that SACCOs tried not much in meeting their business needs.

As supported by one of the respondents male aged 34 years who was just new in business (0 – 2 years old in business) “… A friend of mine discouraged me to join in a SACCOs believing that they are just there to harvest clients’ money for their own interests”… Contrary to the findings that, ignorance on the available products or
services offered by SACCOs may affect some individuals to join in SACCOs and people's choice for more sustainable alternatives, for example some members involved in “agricultural” farming were not aware of the availability of loans for agricultural equipments.

The contribution of SACCOs to SMEs growth and development lies in it assisting to overcome their capital problems. Due to low assets base, bank demand for collateral denies most SMEs access to subsistence level hence difficulty to accumulate savings or assets that could guarantee access to loan from formal financial institutions. Most small business operators are illiterate thus lack the knowledge and skills in certain acts of business such as effective utilization of loans and record keeping. Likewise, Ormin (2008) has noted as a very important for business success.

The absence of record keeping with poor managerial skills results to poor decision making which impacts on the performance, growth and development of the small enterprises. As observed by the researcher and found that the majority of small business owners do not have even the record keeping books they just sell their commodities and use whatever earned in that day for their family consumptions. Likewise, Kessy and Temu (2010) studies found that firms that are recipient of business training record higher levels of performance than enterprises without this training.

By providing these non financial services to SMEs, therefore, the performance of SMEs are bound to improve hence they grow and develop economically as well as socially.

The researcher found that most of small business owners use their profits for the benefits of kinship networks; consequently, they end up in business renewal and; failed to grow and hence develop slowly. The findings as presented in table 4.7 above show that, some of small business owners spend the enterprise funds for private affairs and not for development of enterprises. This has contributed to poor
performance of their enterprise. As supported by the responses from the focus group discussions some clients have reported that they had borrowed the loan in difficult or slack seasons, for repair or smoothing their consumptions.

During the FGD session the researcher found that half of the respondents have been much benefited through SACCOs in their living conditions rather business expansion, this is because they use the landed money in household stuffs and forget about business expansion. As one said, “…We did not have any means of tackling emergency needs prior to joining SACCOs. Additionally, when our families faced food shortage, we had used different mechanism such as reducing number of meals per day, selling high value crops and buying the cheaper ones and … eating inferior good”...

Another group member added, “…Nevertheless, since our loan membership, we can find hundred of shillings within a week at the time of emergency from various sources such as sale of charcoal, or eggs or our deposits with DAL SACCOs”...

Furthermore, a young man aged 32 years said, “…We can also use better strategies depending on their positive and negative sides in accordance with advice of SACCOs officers”... (FGD).

In the course of interview, most of the respondents interviewed buttress that, “…Before I secured loan from SACCOs, my housing condition was poor. It was unpainted and roofed by old rested corrugated iron sheet. I had no electricity, telephone and tap water. She added, “...Now I have telephone, tap water and electricity. Beside to this I have a nicely painted and renovated house”...

When responding to the question asked during FGD that to conclude whether SACCOs helped SMEs in developing their business, other respondents concluded by stating their situations as below “... We have some consumer assets like tables, chairs and shelves. We bought all of them for our offices after we joined SACCOs. We hope we will have additional modern consumer assets like TVs and generators in
the near future if we work hard”. Others added that, “We were very much needy. We didn’t have enough income that meets school expenses (textbooks and uniforms) of our children. For this reason we couldn’t send any of our children. But now we are able to send them to school without many difficulties”...

Therefore, the researcher suggested that, SACCOs can work in hand with the government so as to intervene in SMEs’ social and economic development by providing the funds required for the acquisition of generators as a source of electricity at least to those SMEs that cannot afford cash payment to do so and then repay by installments. This will help in part resolve the problem of power supply confronting small business owners in the country.

Small business economic development environment requires, among other things, well functioning financial supporting services. The four selected SACCOs among the 100 active SACCOs were established to support the community of Temeke municipality in Tanzania (Temeke Municipality, 2011).

Apart from giving out loan, they also provide material and technical support. It was further pointed that, SACCOs are working hard to support the small entrepreneurs by giving them opportunities for searching markets and advertisement through sponsoring them during different business festivals conducted inside the country, for instance the “Sabasaba Festival” and International Year of Cooperatives which are conducted yearly.

There are a lot of challenges facing SACCOs when it comes to the provision of financial services to the economic development of the small business. The case of Temeke municipality shows that it takes more than the presence of formal financial institutions (banks) to improve small business owners’ livelihood. SACCOs do face challenges. The senior officer in charge of loans in one of the studied SACCOs said the challenge include the lack of enough capital to run the day to day operations
including the transport fair for making follow up and witness the established business and to check their (SMEs) securities properties for acquiring loans.

As it was presented in the table 4.8 that 23.08% of SACCOs officials claimed to face this problem. There was also a challenge of poor distribution system of MFIs and lack of information about investment opportunities; this can be due to the absence of Research and development (R&D) programs to most of SACCOs, this provides suggestions and supports to conduct more research with the help of SWOT Analysis so as to be aware of the investment opportunities. There is a need of collaborative efforts of all stakeholders of SACCOs to make better their existing weaknesses and help them to provide the microfinance services to the disadvantaged group.

The small size of small enterprises increases the transaction cost for MFIs because they cannot process loans in bulk. This denies MFIs the benefit of economies of scale; hence, they are forced to cover their costs through high interest rates on loans. It is further concluded that there are some challenges face SMEs when securing loans from financial institutions. These challenges are interest rate, accessibility of loan, time to get loan and procedure, and informal sector.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents summary of the key findings, conclusions and recommendations which was the outcome of the research objectives. This also shows the implications for further studies to be undertaken.

5.2 Summary of the Key Findings
The study was based on assessing the challenges facing SACCOs in supporting small business in Tanzania particularly, a case study of three selected Savings and Credit Cooperative Societies in the Temeke Municipality. SACCOs was selected for the study because it is an effective model in providing financial services in most wards found in the municipal and regions as a whole. The study involved 40 respondents and data collection process involved personal interviews, FDG and questionnaires.

Findings revealed 58% of respondents were male and 72.6% females. Findings revealed that more than 58.8% of 20 SMEs owners’ respondents with primary education level of education which stood of 22.9% of the total respondents (40). However, findings showed that 76.5% of respondents were mature, but in need of renewal of their business; and 86.7% of SMEs owners borrowed capital from SACCOs as their source of capital.

Findings revealed that challenges facing SACCOs in supporting SMEs are capital which represents 86.7% compared to other services provided by SACCOs like savings which stood of 38.5%. Due to this fact, the clientele had either terminated the business or do not know about the future of their business. Also the findings revealed the relative evenly distribution of criteria used for loan provision. Furthermore, the findings revealed that 40% of SMEs owners had an awareness of the challenges facing SACCOs by referring the various services offered.
In addition, the findings revealed that capital adequacy, poor governance and customized solutions for the poor are the leading challenges facing SACCOs in supporting SMEs.

5.3 Conclusions
SACCOs are said to be a very simple form of financial institution, which fit well with the socio-economic surroundings of the disadvantaged group and the poor community as a whole. Hence, they are better placed to innovate and develop indigenous financial products/services relevant to the communities they serve. With their emphasis on lending, mobilizing savings and management at local level, SACCOs appear to be a very promising mechanism for delivery of financial services to the poor throughout the country.

If SACCOs are to improve, continue and expand their contribution in financial and technical services, they need to be supported through the provision of appropriate capacity building assistance, including training and members’ education on savings and credit. This would enable them to upgrade their current level of management, resources, skills, accounting/financial knowledge, assets and overall operating procedures, which would in turn contribute to their sustainability, and make them more effective and efficient in supporting small business owners.

Moreover, the whole issue of financial linkage is an important one if SACCOs are to be effective in handling the demand for credit in the targeted group. For instance, this would enable SACCOs to borrow from formal financial institutions in order to lend to their clients (small entrepreneurs) and would have the effect to reverse flow of funds from the formal sector to disadvantageous people. Plus, obviously financial linkages would improve SACCOs overall fund management.

Thus, the study shows that almost all contributions assessment of mq from weak methodologies of offering services/ products to small business owners and inadequate data/ information of the targeted clientele as argued by (Adams and Von
Pischke, 1992). This can lead to misconceptions about the actual contributions of a microfinance programs, thereby diverting attention from the search for perhaps more pro-poor interventions. Therefore, it is of interest to the development societies to engage contributions techniques and to understand their limitations, so that more reliable evidences of SACCOs contributions can be provided in order to lead to better outcomes for the disadvantaged group and society as a whole.

5.4 Recommendations

SACCOs are said to be the leading solution for the poor. It’s important for people to be aware of the services offered by SACCOs and to understand that SACCOs and other MFIs are there for them. Creating a savings culture, capacity building with regard to financial management, linking up with partners and tailor made provision of loans following the business growth cycle are among the recommendations given. The selected three SACCOs case demonstrates that there is still a world to win to have small entrepreneurs’ economic development supported by well-functioning financial services.

Furthermore, being an institution formed by beneficiaries themselves, the latter feel a sense of ownership in their respective SACCOs and, hence, ensures that operations are conducted according to established criteria and procedures; this has resulted in more effective operations mirrored also in reduced risks in lending and repayments. Finally, SACCOs are democratic institutions where members have a voice in the policies of the SACCOs, particularly regarding the setting of interest rates on savings/loans.

The effectiveness of SACCOs supervision is currently very low due to several reasons, including inadequate budgetary allocation to the Cooperatives Department and the resulting lack of transport and funds for visiting small business premises for supervision of their economic activities. Effects of poor supervision are losses incurred through irregular loan repayment, engagement and investment in risky non-
financial activities. Supervision is of paramount importance and safeguarding of depositors’ funds is crucial.

Since, unemployment is one of the most important challenges facing the poor people in our country. This has been made worse by the fact that over the decades, the formal economy (especially mining) has been shedding jobs and many workers were retrenched. Furthermore, every year hundreds of thousands of new job seekers (the vast majority of them are youths) join the army of unemployed. It is accepted worldwide that the development and growth of small enterprises can play an important role in turning this situation around. Policies and programs to support the development of small business are therefore an important part of the democratic government’s programs to create a better life for the small entrepreneurs.

The challenge of capital and other non-financial measures confronting the growth and development of SMEs in Tanzania has remarkably not only promoted poverty among its people but has affected the pace of economic growth and development of the nation. The establishment of many SACCOs is indeed a step in the right direction to overcoming these challenges hence promoting participation in SMEs and their sustainable growth in the country. To ensure that SACCOs enhance participation in SMEs, sustain the growth and maximal contribution to economic growth and development of the nation, the following recommendations are hereby proffered.

Government and MFIs themselves should enhance the out-reach of SACCOs through creating awareness of the activities and operations to small entrepreneurs especially those in semi-urban areas that are yet to appreciate the benefits of the formal institutions. Regular campaigns at every ward in the municipal will help to achieve this effectively.

More so, the expansion of MFIs through the establishment of branches is an imperative for increase access to MFIs particularly SACCOs services. Also, the Municipal Cooperative Council should undertake periodic review of the activities of
SACCOs in line with the microfinance policy objectives/targets so that modifications and corrective action could be taken where necessary. Such an exercise is important if SACCOs must effectively support the sustainable growth and development of SMEs in the country.

To overcome the problem of inadequate capital identified as challenging facing SACCOs from effective contribution to the growth and development of SMEs, the Ministry of Cooperative Societies should impress on government at all levels to take up substantial equity investment in SACCOs in their domain. Finally, government should more urgently look into the infrastructural decay in our country especially power supply which most small business owners depend on.

5.5 Implications for Further Studies

The researchers may use the same title so as to bridge the gap by employing more tools for data collection and increase the number of sample size, and the entire population involved in the study.

The researcher suggested that, the following titles below may be used which will cater across the demand and needs for the community for the improvement and development of small entrepreneurs in poverty alleviation;

Impact of services provided by SACCOs to the development of small business, assessment of the management factor on performance of the SACCOs in Tanzania, factors affecting SMEs in effective utilization of loans in Tanzania, the role and contribution of SACCOs to the development of SMEs in Tanzania and assessment on the Microfinance Institutions movement in Tanzania
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APPENDICES
Appendix 1: Questionnaires for Small Business Owners
MZUMBE UNIVERSITY
DAR ES SALAAM SCHOOL OF BUSINESS

Introduction
Dear respondent, the researcher is a student of Master Degree in Business Administration at Mzumbe University. She is interested to examine the challenges facing Saving and Credit Cooperative Society [SACCOs] in supporting Small and medium sized Enterprises (SMEs) in Tanzania. The study is carried out as an essential requirement of the mentioned degree above. The results to be obtained will be beneficial to the stake holders of these MFIs, SMEs owners and the community at large.

You are requested to answer the following questions as honestly as possible so that the reliable information is obtained for better findings of the study. The information you will give will be manipulated confidentially and solely for the purpose of the study.

Thanks a lot in advance, for your time to be used and the cooperation you provide.

PART A: PRELIMINARY INFORMATION
1. What is your gender?
   (i) Male
   (ii) Female
2. Your age is between
   (i) 18-35
   (ii) 36-45
   (iii)46-60
   (iv) Above 60
3. Education qualification……..Primary, Secondary, Diploma, degree, Post graduate
   (Circle the correct answer)
PART B: QUESTIONS

1. Which of the following describes status of your business? (Circle the best one)
   (i) Newly started
   (ii) Young, but with established production and customers
   (iii) Growing
   (iv) Well established, with steady production and customers getting
   (v) Mature, but in need of renewal

2. How long have you been in business?
   (i) 0-2 years
   (ii) 3-5 years
   (iii) 6-7 years
   (iv) Above 7
   (v) Can’t remember

3. What are the sources of your business capital? (tick the correct answer)
   (i) Parents
   (ii) Relatives
   (iii) Friends
   (iv) Own savings
   (v) Borrowed Capital
   (vi) Government

4. Have you ever applied for a loan (“Borrowed Capital”) to finance your business?
   (i) Yes
   (ii) No
   (iii) If YES, Where……………………………………………………………………
   (i) If You have applied For a Loan For Your Business, Please Answer The
      Following Questions, (v) – (vi)
   (ii) What challenge did you face in applying the loan? Does the SACCOs offer
      Loans?
   (iii) ...........................................................................................................
(iv) Can you conclude that SACCOs have helped you in developing your business?
(v) Explain Why .......................................................... ..........................................................

5. A part from financial services offered by the SACCOs, do SACCOs provide other services that have helped to develop your business?
   ........................................................................................................................................

6. Provide a brief description on the contribution of your SACCOs in meeting your business needs and hence support in the development of your business ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................

7. How does SACCOs management support you on obtaining loan? Did you face any challenge from the management when you are applying for loan?
   ........................................................................................................................................

8. What are your perceptions on whether SACCOs are really helping SMEs or not (your perception of the help you get from these SACCOs?)
   ........................................................................................................................................

9. Give any challenges/ constraints facing those SACCOs in your area.
   ........................................................................................................................................
   ........................................................................................................................................
   ........................................................................................................................................
Appendix 2: Questionnaires for Saving and Credit Co-Operative Societies
MZUMBE UNIVERSITY
DAR ES SALAAM SCHOOL OF BUSINESS

Introduction
Dear respondent, the researcher is a student of Master Degree in Business Administration at Mzumbe University. She is interested to examine the challenges facing Saving and Credit Cooperatives [SACCOs] in supporting Small and medium sized Enterprises (SMEs) in Tanzania. The study is carried out as an essential requirement of the mentioned degree above. The results to be obtained will be beneficial to the stake holders of these MFIs, SMEs owners and the community at large.

You are requested to answer the following questions as honestly as possible so that the reliable information is obtained for better findings of the study. The information you will give will be manipulated confidentially and solely for the purpose of the study.

Thanks a lot in advance, for your time to be used and the cooperation you provide.

PART A: PRELIMINARY INFORMATION
1. What is your gender?
   (i) Male 
   (ii) Female

2. Your age is between
   (i) 18-35
   (ii) 36-45
   (iii) 46-60
   (iv) Above 60

3. Education qualification………….(Circle the correct answer)
   (i) Primary
   (ii) Secondary
   (iii) Diploma
(iv) Degree
(v) Post graduate

4. How long have you been in SACCOs operation?
(i) 0-5 years
(ii) 10-15 years
(iii) 10-20 years
(iv) Over 20 years

PART B: QUESTIONS (CIRCLE THE CORRECT ANSWER)
1. What type(s) of assistance are you offering to SMEs?
   (i) Loans
   (ii) Savings
   (iii) Deposit
   (iv) Other

2. Did you as SACCOS make a follow up of the different kinds of assistance you offered to SMEs? Tick the appropriate answer.
   (i) Yes  
   (ii) No
   Briefly comment on the procedure followed:-----------------------------

3. How do you rate the quality of your service to SMEs?
   (i) Excellent
   (ii) Very good
   (iii) Average
   (iv) Poor

4. What challenges facing your SACCOs in supporting SMEs
(i) Lack of enough capital
(ii) Defaulters
(iii) Poor management
(iv) Poor computerized system and ignorance.

5. How are you solving financial problem in your SACCOS?
   (i) By encouraging members to save
   (ii) By taking loans from outside such as Bank.
   (iii) By encourage SMEs to take loans from the SACCOS
   Briefly
   explain…………………………………………………………………………………………
   ……………………………………………………………………………………………

6. Apart from loan is there any other service/ products are you offering to SMEs?
   (i) Fixed Deposit
   (ii) Savings
   (iii) Buying shares
   (iv) Education
   (v) All of the above.

7. Please, give the trends of any assistance you offered to your SMEs according to your target in the three consecutive years as good, average, bad or otherwise.
   (i) 2009
   (ii) 2010
   (iii) 2011

8. How does the management of SACCOS is supporting SMEs in improving their businesses?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
9. As the management, did you face any challenge in supporting SMEs?
(i) Yes
(ii) No
If Yes explain how are you overcoming those problems?
.................................................................................................................................

10. In your view what should be done inorder to solve/overcoming those challenges facing your SACCOs in supporting SMEs?..........................................................................................