ASSESSMENT OF IMPORTANCE OF ACCOUNTING INFORMATION IN THE MANAGEMENT OF MICROFINANCE INSTITUTIONS: A CASE OF SACCOS IN KINONDONI DISTRICT

Assessment Of Importance Of Accounting Information In The Management Of Microfinance Institutions: A Case Of Saccos In Kinondoni District

By

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CERTIFICATION

We, the undersigned, certifies that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled; ***Assessment of Importance of Accounting Information in the Management of Microfinance Institutions: The Case of SACCOs in Kinondoni District,*** in partial fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance (MSc. A&F) of Mzumbe University

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I, **Lwitiko Lufingo,** declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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Date ________________________________

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On my own this task could not be accomplished successfully; several people dedicated their time and effort to support me in one way or another.

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ABBREVIATIONS AND ACRONYMS

ASSIP	-	Agricultural Services Investment Project
BOT	-	Bank of Tanzania
CBRDP	-	Community Based Rural Development Programme
CSP	-	Cooperative Societies Policy
IFAD	-	International Fund for Agricultural Development
MDGs	-	Millennium Development Goals
MFI	-	Microfinance Institutions
MOF	-	Ministry of Finance
NGO	-	Nongovernmental organizations
NSGRP	-	Nation Strategy for Growth and Reduction of Poverty
NTP	-	Nation Trade Policy
PRIDE	-	Promotion of Rural Initiative & Development Enterprises Ltd
SACCOS	-	Savings and Credit Cooperative Societies
SCULT	-	Savings and Credit union League of Tanzania Ltd
SEDA	-	Small Enterprise Development Agency
SPSS	-	Statistical Package for Social Sciences
TAS	-	Tanzania Assistance Strategy

ABSTRACT

The general objective of the study was to assess the Importance of accounting information practices at SACCOS in Kinondoni District, where the specific objectives of the study were to find out how SACCO's funds are managed, determining problems faced in managing funds at SACCOS, and finding out ways of ensuring effective management of funds at SACCOS.

Data was collected through questionnaires, interviews, observation and documentary review. The research used a case study because it facilitates intensive study of the social units, enable constructions of the appropriate questionnaires, enables researcher to understand full behavior pattern of the concerned units.

The study findings showed that funds are managed through proper keeping of records, usage of computers, periodical auditing, and production of financial reports and involvement of SACCO's members in budgeting. However, the study results showed that not all the surveyed SACCOS manage funds properly, including the following; accounting procedures not properly followed, default in loan repayment, delays in disbursement of loans, inefficient auditing, inadequately trained accounting staff, poor keeping of accounting records, and non-use of computers in accounting.

The respondents also gave their views on ways of ensuring effective management of funds at SACCOS, including employing qualified accountants, training for accountants, proper keeping of accounting records, usage of Information Technology in accounting, upgrading SACCOS staff skills, proper control of non-default in loan repayment, and improving communication. The study results showed that funds are managed in a number of ways at SACCOS, including proper keeping of records, usage of computers, periodical auditing, production of financial reports and involvement of SACCO's members in budgeting. This study recommends employment of qualified staff as accountants, provision of training to accountants, use of appropriate accounting hardware and software, Conduct periodical Auditing, as well as controlling default in loan repayment.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND INFORMATION

1.0 Introduction

The chapter covers background of the problem, statement of the problem, research objectives, research questions, significance of the study, limitations of the study as well as delimitations of the study

1.1 Background of the Problem

Poverty has increasingly become a problem in many developing countries in the world. Tanzania being one of these countries has been facing poverty problem for many years. The governments of Tanzania, donors, non-governmental organizations, social groups and researchers have been taking various measures to address the poverty problem in the country.

In addressing the poverty reduction problem the government of Tanzania has been conducting various Social-Economic Reforms. These reforms include Financial Institutions reforms, which allowed the re-introduction of Private Commercial Banks and SACCOS.

The financial institutions reforms were made for the purpose of improving financial system in Tanzania. Despite its intention of improving standard of living of poor Tanzanian through the reform of financial Institutions, the reform left low-income earners both in rural and urban areas without easy access to financial services. The possibility of access to financial services was becoming narrow especially in rural areas as banks through the restructuring closed some of the branches, MOF, 2008

To facilitate access of financial services the government of Tanzania encouraged Tanzanian to establish SACCOS that will enable them to access the service and hence improving their standard of living. Tanzanians responded to the government advice and have been establishing SACCOS. These SACCOS are mostly found in urban areas and most of them are employees based SACCOS and therefore in the rural areas, Tanzanian still has the problem of access to financial services (BOT, 2004)

To effectively run their business, and ensure that members benefit through their savings, the SACCOs, as it is for other financial institutions, have to effectively manage their accounting systems and practices. As SACCOS can be formed by any group of people, whether at workplace, market places etc. then effective accounting systems become a prerequisite to minimize ineffective management of the funds.

1.2 Statement of the Problem

One of the reasons for income poverty is existence of obstacle to access credit by the low-income earners to the commercial bank (National Micro – Finance Policy (2000), BOT (1997). Access to credit from formal Financial Institutions has been difficult, making efforts at poverty alleviation be less effective. To increase access to credit and speed up efforts to alleviate poverty specifically in urban areas, SACCOS were formed in several parts of the country.

These associations were formed to serve members, and these were formed at workplaces such as offices, as well as residential areas with the purpose of serving its members. For SACCOS to effectively serve the purpose for which it was formed, that is, provision of credit facilities to its members, funds have to be managed effectively. Ineffectiveness in the management of accounting systems can cause poor functioning of the SACCOS, manifested through frauds, misuse of funds, and failure to timely provide adequate funds to the members, and sometimes resulting into closure of the loan scheme.

As management of the SACCOS accounting systems is so crucial, there is a need, therefore, due to the facts that no any other study conducted on assessment of importance of accounting practices at SACCOS, so as to determine whether the funds are effectively managed to contribute towards reduction of poverty that exists among its members., hence necessitated to undertake the study.

1.3 Research Objective

This study was guided by the following general and specific objectives:

1.3.1 General Research Objective

(i) To examine the effectiveness of accounting practice in the management of microfinance institutions particularly Savings and Credit Cooperative Societies (SACCOS)

1.3.2 Specific Research Objectives

The study was set to achieve the following specific objectives:-

(i) To assess how SACCO's funds are managed

(ii) To determine problems faced in managing funds at SACCOS

(iii) To asses ways of ensuring effective management of funds at SACCOS.

1.4 Research Questions

1.4.1 General Research Question

(i) To what extent is accounting practice effective in the management of microfinance institutions?

1.4.2 Specific Research Questions

The study was guided by the following research questions

(i) How is SACCOS funds managed?

(ii) What problems are faced by SACCOS in managing funds?

(iii) How can SACCO'S funds be effectively managed?

1.5 Significance of the Study

The findings of the study have assisted policy makers to know whether accounting practices in microfinance institutions are effective. They also helped policymakers in finding ways of improving microfinance programs so that they may benefits the micro enterprises in terms of increasing effectiveness in the management of their funds. It was thus valuable in the whole issue of the war against poverty. A finding of the study has contributed to existing literature on the field of the micro finances, micro enterprises and financial management in general.

1.6 Scope and Limitations of the Study

This study was conducted in Kinondoni District, and covered only a limited geographical area. The researcher faced financial constraint and time, as covering a greater geographical area or more SACCOS would have require more time and resources.

1.7 Delimitation of the Study

In order to overcome the limitations of this study, The following SACCOs were involved, Mabibo Sokoni SACCOS, Urafiki SACCOS, Wanama SACCOS, and Mabibo Moravian church SACCOS, because they are among the leading SACCOS that is operating in Kinondoni, they have a reasonable number of respondents.

Also the researcher took annual leave which was effectively used to collect, analyze and discuss data, and the problem of funds was solved by borrowing some from financial institutions.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter covers the literature review or what others have written on the topic under investigation. Specifically, it will focuses on conceptual definitions, theoretical and empirical analysis, variables and the relationship between the variables, as well as the research gap. Theory and empirical analysis will be detailed to give a reader on the Assessment of the importance of accounting and management of microfinance institutions with practical experience in SACCOSS at Kinondoni District Dar es Salaam.

2.1 Definition of Key Terms

2.1.1 Financial Institutions

An institution providing services as intermediaries of capital and debts markets. They are responsible for transfer of funds from investors to companies, in need of those funds. The presence of financial institutions facilitates the flow of monies throughout the economy (BOT,2008)

2.1.2 SACCOS(S)

Saving and credit cooperative societies, under cooperative societies Act, 2003.
SACCOS stands for Savings and Credit Co-operative Society which is a form of co-operative organization that provides financial services to its members. A Savings and Credit Co-operative (SACCO) is a democratic, member driven, self-help cooperative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same labor union, social fraternity or living/working in the same community.

Decisions are made in a structured democratic way. Members elect a board that in turn employs staff to carry out the day-to-day activities of the SACCOS. The number of board members is between nine and fifteen. Members also elect a supervisory committee to perform the function of an internal audit (Blyh, 2005).

A Savings and Credit Cooperative's membership is open to all who belong to the group. These members agree to save their money together in the SACCO 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. The members are the owners and they decide how their money was used for the benefit of each other.

2.1.3 SCULT

Saving and credit union league of Tanzania Ltd, registered institution to unite SACCOS where they can apply for membership. It provides education and training, planning research and consultancy, Business Development, Save collectively through its central Finance programme and marketing as well as accounting services.

2.1.4 Accounting

Is defined as the reporting, analysis and interpretation of recorded information on business transactions. Accounting also involves using analyzed reports to forecast future income and wealth trends of a business. Accountant prepares from book-keepers records, analyses them and interprets them for interested parties (Kimuda 2004).

Accounting is the backbone of business. Ethical and professional accounting forms a clear financial image of a business, and allows managers to make informed decisions, keeps investors abreast of developments in the business, and keeps the business profitable. It is also one of the oldest professions; businesses have been practicing accounting for thousands of years. Cuneiform tablets from the Fertile Crescent, for example, show clear evidence of accounting practices.

A number of disciplines are involved in accounting. At the root of all accounting is book keeping. A book keeper keeps tracks of all of the funds that a business handles, including money paid to the business, money paid out, and assets that the business holds. The book keeper's goal is to keep the ledgers of the company balanced so that anyone can assess, at a glance, the financial state of the company. Records handled by a book keeper include payroll, company ledgers, bank statements, and paperwork pertaining to real estate and investments (Hudgin2005).

Auditing is also included in accounting. Auditing protects employees, investors, and owners of a company from accounting fraud, and is usually performed by an outside agency. During an audit, an accountant will examine the ledgers of a company along with numerous other records to see if the ledgers provide an accurate picture of the financial doings of the business. If other financial records such as bank statements do not support the picture presented by the ledgers, the auditor must find out why. Part of accounting is establishing internal controls to keep a company's business clean, so that a company can fearlessly face an audit.

The financial records of a company are used to make important decisions, such as whether or not to make a major investment. Proper accounting supports company officials while they make these decisions, showing them whether or not an investment will be practical, and if the company can afford it. Accountants prepare regular statements which are distributed to company officials so that they can follow the health of the business, and they also handle tax rolls and reports to government agencies.

2.1.5 Microfinance

Microfinance is the provision of financial services to those who are excluded from conventional commercial financial services since most are too poor to offer much - or anything - in the way of collateral. It presents a series of exciting possibilities for extending markets, reducing poverty and fostering social change. The concept of microfinance originated in the mid-1970s in Bangladesh through a pioneering experiment by Dr Muhammad Yunus, then a Professor of Economics. His aim was to offer poor people with financial services, entrepreneurship opportunities, and an end to mistreatment by money lenders as well as a system where they could produce, manage and maintain their own finances.

2.2 Theoretical Literature Review

2.2.1 Accounting Reconciliation Review

In accounting, reconciliation refers to a process that compares two sets of records (usually the balance of two accounts); to make sure they are in agreement. Reconciliation is used to ensure that the money leaving an account matches the actual money spent; this is done by making sure the balances match at the end of the accounting period (Ross et al, 1993).

Account reconciliation is a banking term referring to the process of confirming that the balance in one's checkbook matches the balance on the bank statement itself.

Account reconciliation may reveal that the amounts don't correspond, which will require the account holder to perform subsequent adjustments. The importance of account reconciliation is that it helps the account holder keep track of the money, which could prevent expensive inefficient funds fees. There are several steps and precautions one can take when engaging in account reconciliation. Account reconciliation might entail keeping good records and carefully inspecting the bank statement itself. Account reconciliation can be used by both individuals and companies. In the business sense, account reconciliation is a method that can be used to help with cash management and help protect the business against fraudulent activities (such as the posting of unauthorized checks).

2.2.2 Internal Control

Weak or ineffective internal controls, such as inadequate record keeping, external audit, or loan review, has caused operational losses in many banks and has contributed to the failure of others. Some of these cases involved insider fraud that could have been prevented or discovered through effective control mechanisms before the fraud resulted in loss to the bank.

Despite rapid changes in technology, the fundamental concepts behind effective internal controls remain the same. Effective internal controls form the foundation for a bank’s system of risk management. They also safeguard bank assets; help the board and management guard against fraud and financial mismanagement; and ensure compliance with laws, regulations, and the institution's own policies (Beim, 2001).

To help the board and management meet their responsibilities, banks should emphasize the importance of establishing and maintaining effective internal controls. It also provides a description of basic control components and includes a series of questions that can assist directors and management in evaluation and improving their banks internal control systems (Kudinska, 2003)

The formality of any control system will depend largely on a bank's size and the complexity of its operations. According to Ross et al (2003), even though a community bank's operations are likely to be less formal and less structured, a bank's internal control system should be as effective as those at more complex and larger banks. The essential components of any internal control system are as follows:

(i) Control environment
(ii) Control activities
(iii) Accounting, Information, and communication systems, and
(iv) Risk Recognition and assessment
(v) Self-assessment or monitoring

Each the component of internal control listed above is discussed below in more detail in a way that addresses the fundamental control activities in a particular financial institution. While this list of the components is not all-inclusive, it may help to identify the fundamental strengths and weaknesses of the internal control systems of financial institutions especially commercial banks like Standard Chartered Bank.

2.2.3 Bookkeeping

According to Fields (2010), the primary bookkeeping record in single-entry bookkeeping is the Revenue and Expense Journals, which is similar to a checking account, register but allocates the income and expenses to various income and expense accounts. Separate account records are maintained for petty cash, accounts payable and receivable, and other relevant transactions such as inventory and travel expenses.

Pinson (1993) describes the term “computerized bookkeeping” as the use of computer programs (software) to record transactions. The use of computerized bookkeeping removes many of the paper “books” that are used to record transactions and usually enforces double entry bookkeeping. The use of computer software in recording accounting transactions increases the speed at which bookkeeping can be performed.

2.2.4 Importance of Accounting Information in Management of Microfinance Institutions

Role of Accounting Information is to enable managers to make sound decisions in the areas of planning, organizing of resources, implementing of strategies and making evaluation and control. Most of managerial decisions or all-managerial decisions are based on acquirement or the quality of available information either obtained from internal or external environment. Information from external environment is obtained from field surveys, marketing intelligence, marketing research system and environmental scanning.

Information from internal environment comes from the data bank system and internal accounting system. Accounting information is that information from internal accounting system aiming at enabling managers to make sound decision. After attempting to provide the various types of information useful for enabling managers to make sound decisions,some few empirical evidences are available on the relationship between Accounting Information and decision making.

Glautier et al (1976, 1982) attempts to link functions of management and accounting information to enable management to make efficient decisions as regards the use and allocation of the firm’s resources. Accounting Information system act as a provider of useful data for various decisions in aiding Management execute their function. One of the objectives is quality service.

Many factors contribute to why many firms prefer non-financial performance measures. In view of this, some researchers suggest that the preference for these measures on a large scale is related to the enterprises operational and competitive structure (Said, et. al., 2003), others suggest that this preference can be related to the JIT, TQM and CAM structure (Hoque, et.al 2001) Similarly, while many reported that the use of multiple performance measures is relevant only to the strategic preference of managers (Malina and Selto, 2001); Govindarajan and Gupta, 1985), some reports demonstrate that an enterprise's environmental conditions affect this preference. On this subject, for example, Hoque (2004) found that there was a meaningful relationship between environmental uncertainties and the preference for these measures. Chenhall and Morris (1986) found that organizations prefer accounting Information systems to cope with high environmental uncertainties effectively.

2.2.5 SACCOS as an Alternative to Formal Banking for Developing Countries

Tanzania has a poorly developed financial sector and its financial structure can be described as dualistic, with a formal and an informal sector. Very few people in Tanzania have access to the financial services offered by the formal financial sector. An interesting alternative to formal banking that has emerged within a semiformal sector is saving- and Credit Cooperatives (SACCOS). SACCOS has a wide outreach in Tanzania. They are member driven and democratically organized. Another important factor is that SACCOS is an alternative that encourages savings, in difference from many micro finance institutions that primarily encourages credits and investments (International Cooperative Alliance, 2001).

2.2.6 The Nature of SACCOS

SACCOS are prevalent saving device in Tanzania. A SACCOS is a member driven, self-help, and non-profit driven cooperation. The idea is a democratic cooperation where the members have influence. Members are supposed to be both the owners and the users of the services available. Members agree to save money together and to make loans to each other at "agreeable" rates of interest. Most SACCOS are capitalized by illiquid shares. The shares' Savings function as an instrument of ownership, and a basic feature is that the SACCOS should be capable of running on the financial resources of the membership alone. In Tanzania the average membership in a SACCOS is 209 persons. The general structure of a SACCOS is a board of directors and a small number of committees; usually that is a loan and credit committee, an executive committee and a supervisor committee. These members work voluntarily and usually never get paid for their responsibility. Most SACCOS cannot afford hiring staff. A prevalent problem though is that the members responsible seldom have any education, which easily makes financial and general management weak (International Co-operative Alliance, 2001).

The SACCOS are to some extent regulated by law, which makes SACCOS more of a semi-formal institution. All SACCOS are subject to the same legal and institutional framework (International Co-operative Alliance, 2001; International Co-operative Alliance Regional office for East and Southern Africa, 2001). The Bank of Tanzania (BoT) is to field a task force to examine the legal environment. The instruments involved are: inspection of individual SACCOS by district co-operative officers and inspection of final audited accounts by regional co-operative officers. But it is clear that this does not happen in any systematic way, because of insufficient resources. A SACCOS has one shared account in a bank. The account represents a connection between SACCOS and the formal sector. The bank account is primarily needed for security (ibid.).

Well-functioning SACCOS are popular because of their ability to provide low cost emergency or consumption loans without the burdensome bureaucratic procedures associated with formal banks. SACCOS are also often located near member's workplace or home, which reduces transaction costs (Mutesasira, 1999, MicroSave-Africa, 1999).

2.2.7 History of Micro Finance in Tanzania

According to Microfinance Gateway, "Microfinance" is often defined as financial services for poor and low-income clients. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs). These institutions commonly tend to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes, and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

More broadly, microfinance refers to a movement that envisions a world in which low-income households have permanent access to a range of high quality financial services to finance their income-producing activities, build assets, stabilize consumption, and protect against risks. These services are not limited to credit, but include savings, insurance, and money transfers.

Microfinance institutions, such as financial cooperatives, financial non-governmental organizations and rural banks among others, can provide poor people with small amounts of credit at reasonable interest rates. A loan as little as US$ 50 can give poor people a chance to set up their own small business, and possibly create more jobs. It can also help secure a family's food supply, buy medicine and pay for children's education.

2.2.8 Historical Background of Microfinance Operations

The beginnings of the microfinance movement are most closely associated with the economist MuhammedYunus, who in the early 1970's was a professor in Bangladesh. In the midst of a country-wide famine, he began making small loans to poor families in neighbouring villages in an effort to break their cycle of poverty. The experiment was a surprising success, with Yunus receiving timely repayment and observing significant changes in the quality of life for his loan recipients. Unable to self-finance an expansion of his project, he sought governmental assistance, and the Grameen Bank was born. In order to focus on the very poor, the Bank only lent to households owning less than a half-acre of land. Repayment rates remained high, and the Bank began to spread its operations to other regions of the country. In less than a decade, the Bank was operating independently from its governmental founders and was advertising consistent repayment rates of about 98%.

The United Nations General Assembly selected 2005 as the International Year of Microcredit in 1998, stating that the Year would serve as an opportunity to highlight and support microfinance programmes throughout the world. In 2002, the Secretary General requested that member governments contribute suggestions and views on the Year's goals and activities that could be taken at the regional, national and local levels. Based on this input, a programme of action for the Year was adopted by the General Assembly in December 2003. The Year was officially launched at UN headquarters in New York on 18 November 2004.

2.2.9 Microfinance and the Millennium Development Goals

Today, the Millennium Development Goals (MDGs) are the agreed framework for international development cooperation. Achieving these goals, and meeting their targets and timetables, has now become a central thrust for many governments, donors and development organizations worldwide. Although not the panacea for poverty reduction, providing financial services to poor people is clearly an important means to help reach the MDGs. Studies have shown that people with access to financial services are able to improve their standard of living and are more likely to send their children to school and keep them there longer. In addition to financial services, some microfinance institutions provide other useful services to their clients, such as offering health insurance, and promoting health insurance. According to IFAD, more than 75 per cent of the world’s poorest people live in remote, rural areas. Ensuring that rural poor people have access to the tools they need to build better lives for they and their children is a crucial first step towards the target of halving the proportion of people living in extreme poverty by 2015.

In spite of recognizing the dynamic role of microfinance to small enterprises, few business owners and the poor in the country have access to, and benefit from, the available financial services. MFIs activities are centred on urban areas whereby operational performance demonstrates low repayment rates of loans and the capital structure reveals a high dependence on other sources of funding.

2.3 Analytical Model

African microfinance is as diverse as the continent itself. An array of approaches have been used, ranging from traditional group-based systems, to specialized lending by banks and funded by international nongovernmental organizations (NGO) financial intermediaries. Consequently, examples of African microfinance offer an array of lessons of what works and doesn't work.

Drawing from these lessons, and those from non-African examples, OSCAL developed a Microfinance model based on four principles:

(i) Pooling together people's resources

(ii) Relying and building upon what people know (tradition)

(iii) Reinforcing microfinance to empower the African private sector

(iv) Striving for efficiency, which include maintenance of tools and better working habits.

The model seeks to identify microfinance

Microfinance Institutions (MFIs)

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer, and insurance to poor and low-income households and their micro enterprises. Microfinance does not only cover financial services but also non-financial assistance such as training and business advice.

For the operationalization of this study, Microfinance is, therefore, defined as the provision of financial services and products to those whose low economic standing excludes them from conventional financial institutions or programs. These can include microcredit, small-scale venture capital, savings, and some forms insurance. Access to each of these services is provided on a micro-scale allowing those with severely limited financial means to participate.

The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks; savings and credit cooperative societies; and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international donors.

According to Obiro(2005), the development of micro- finance in Tanzania can be divided into three distinct phases. The first phase which began from 1980- 1990 was characterized by minimal or no activity at all. This phase was conducted through project based experimental approach. At that time, all projects were couched within internal efforts aimed at alleviating poverty that received specific funding on a limited scale. During the second phase of micro finance development in Tanzania, from 1994-2000, NGOs such as PRIDE Tanzania and SEDA begun to cooperate in an effort to conduct concerted Micro finance experiments. It was from that period onwards that micro finance began to expand, growing beyond the scope of limited projects and programs.

The third phase began in 2001 and continues today, where in many NGOs have been roped in and continue to implement and promote micro- finance on a project! Experimental basis while the Tanzanian government encourages the development of micro-finance as a key strategy to alleviate poverty across the board.

Today, micro-finance in Tanzania has been expanded to the majority of Tanzania’s poverty stricken communities as a key method or strategy of reducing poverty among poor households.

Micro- finance in Tanzania concerns donors, well-wishers, politicians, and a growing number of diplomats. Micro-finance also encompasses a network of people who use a multitude of means to speak and work for poor people in Tanzania especially those living in “wretched poverty” (Rzymond, 2004).

In some regions or areas where micro finance is still relatively new, this network is just beginning to emerge and is still in its nascent stage. After going through years of experimentation, Tanzania's micro finance community has begun the process of standardization and systematization. The most important tasks that face the sector now are, improving the operational techniques, promoting institutional sustainability, and striving to strike a favorable policy environment.

Where Tanzania's past poverty alleviation strategies had not succeeded, micro-finance now offers real possibilities for improved targeting of poor households. Micro- finance also attempts to break away from failed methods of economic development by offering sustainable solutions to poor households in Tanzania. The micro finance community in Tanzania is now searching for a new direction in terms of regulatory policy framework.

There are at least 646 SACCOS registered in Tanzania, of which 61 percent are rural SACCOS and 39 percent urban SACCOS (Mutesasira, 1999). Urban SACCOS are usually occupational SACCOS, which means that they are tied to a working place. In Tanzania, SACCOS have registered different degrees of success. Perhaps one variable that distinguishes well-functioning SACCOS from others is that saving and loan repayments are sometimes deducted from the payroll. This significantly diminishes the possibility of default and ensures the discipline for regular deposits. In occupational SACCOS member's savings and repayment are directly withdrawn from their salaries, which gives this type of SACCOS advantages from a security point of view. Occupational SACCOS have also shown better results. Another reason may be that the education and literacy in urban areas are higher (Mutesasira, 1999).

A majority of the SACCOS are, even if struggling hard, self-reliant. Self-reliance indicates potential for being sustainable. In some places, especially in the rural areas and especially among the less educated groups, running SACCOS has shown to be challenging. In general especially rural SACCOS have shown major weaknesses in financial and general management. Some SACCOS tries to reach new members through offering a more beneficial interest rate, than the market. The purpose of this is to compete with other financial institutions over potential members. This is obviously not sustainable in the long run, for a small institution with minor resources. Further on, running a SACCOS requires good bookkeeping skills, which makes it hard for the poor who often are illiterate.

Therefore, Micro Financial Institutions and SACCOS outreach to people are insufficient, for reasons such as badly designed financial products and required obligatory, weekly meeting, which can lead to high transaction costs. MFIs require entrepreneurship, which leaves out many people. As a result many individuals are unable to obtain these services. What remains for these people are varying informal services, often limited in safety and efficiency?

SACCOS has assisted its members in a number of ways as many were able to invest in primarily education, emergencies and housing, thus mainly local investments. The investments are mainly fairly small, but they are highly important for the individual and in a wider perspective also for the whole country. At present formal banks in Tanzania are facing great obstacles. The transaction costs for the banking sector in Tanzania are great, mainly because of weak institutions, an absent personal identification register and lack of recorded financial performance by individuals. On this basis it will probably take a long time before formal banks will benefit from offering low-income people financial services. Meanwhile existing alternatives to banks needs to be considered.

Few people in Tanzania, especially in the rural areas have access to formal financial services. The formal institutions are located too far from the people and their requirements can be hard for people to fulfill. Saving and credit cooperatives on the opposite are located near the people. The setting of SACCOS imposes low transaction costs, which is of high importance for making the services appealing. Highly available services also ease mobilization of members.

Tanzanian people’s confidence in institutions in general might not be that high, the public sector has been severely reduced and governmental institutions have a history of deeply rooted corruption. Regarding confidence, SACCOS has a comparative advantage since they often are well rooted in the community, which reasonably can strengthen member's confidence in the institution. In this context SACCOS as an institution also have the benefit of being member owned, which enable member participation in the SACCOS activities. Formal financial institutions and Micro Financial Institutions provides financial services but under certain conditions. For example the bank requires fees when opening a bank account, and for obtaining a loan from a Micro Financial Institution a precondition is starting up a business. SACCOS has a higher accessibility, with low entry barriers and fewer requirements. They offer membership without fees and with less harsh conditions.

According to the life cycle theory (Shefrin and Thaler 1988), the working generation is the part of the population who saves the most, when subtracting dissevers from savers in an economy. Both occupational and rural saving co-operative members are from this potential high saving group. Though occupational SACCOS has an advantage towards rural SACCOS, because they consist of only members with employment and thus a regular monthly income. Deposits and repayments are withdrawn directly from members' salaries, which makes occupational SACCOS a more secure institution, compared to rural SACCOS. Rural SACCOS may have clients with an irregular income, which can imply difficulties with repayment. Consequently development of particularly occupational SACCOS, as well as increased savings in occupational SACCOS, might be an effective way to enhance the national income of the next generation in Tanzania.

2.3.1 The Contribution of SACCOS towards Poverty Alleviation in Tanzania

The Government of Tanzania has tried to its level best to find out the way of reducing poverty among its people. In its measure to reduce poverty in the country the government of Tanzania devises various policies, strategies and plans. Some of these instruments are Nation Strategy for Growth and Reduction of Poverty (NSGRP), Tanzania Assistance Strategy (TAS), Cooperative Societies Policy (CSP), Nation Trade Policy (NTP), the Cooperative Society Rules-2004, Nation Micro finance—Policy (NMFP, 2000), Small and Medium Enterprise Development Policy

(SMEDP). Each instrument is designed to guide a specific sector on how to attain the National main Goals including reduction of poverty.

Nation Strategy for Growth and Reduction of Poverty (NSGR - 2005) established some indicators used to guide stakeholders engaged on poverty reduction. One of these indicators is access to education. The NSGRP has also identified financial services access by the low income earners as one of the area which affect most of poor Tanzanian. The document says that most household need to be protected against unforeseeable liquidity risks. These people can reduce cash out risks if they have a place of accumulating their savings for future use. The savings can also be used to give credit for people who need money for investments.

Nearly all households need to save to protect themselves against periods of low income or specific emergences and to cover large anticipate expenses like school fees.

Enterprises also need to store the value they accumulated from their profits until they can invest then to earn a higher return. Moreover savings in financial form provide funds for investment by others.

Credit service can perform some of the same services as savings and can allow enterprises and families to make some important investments sooner. Enterprises use credit as a source of short term working capital and longer term investments capital. Household uses it to meet consumption needs particular during the periods when income flows are low, such as during the off season before crops are harvested and to make investments such as housing improvements".

Tanzania government with other stakeholders has been taking initiatives to enable poor people to access financial services. SACCOS have been established for enabling access to Financial Services by low-income earners. The contribution of these SACCOS towards alleviation of poverty does not show great impact on the area.

It might be true that by encouraging new members to join SACCOS, the action might improve the SACCOS operations as the SACCOS will have great loan able funds. The attraction of more new members depends on the initiative of SACCOS to satisfy their customers’ needs. Currently the SACCOS customers are their members, they can be satisfied if they can receive both sufficient loans for investments and great dividend. Like any other Financial Institutions, management of SACCOS should take various opportunities from an environment to improve its organizations operating efficiency. This could help them to generate sufficient revenue for the return of its members. In addition to improving operations for increasing efficiency, it is important for SACCOS’ management to ensure availability of sufficient cash or cash equivalent for meeting customers’ needs when arise. Moreover the management should balance a ratio of its organizations Assets and liabilities in order to protect their organizations against insolvency risk.

2.4 Empirical Literature Review

2.4.1 Review of Studies Done Outside of Tanzania

Studies on MFIs have been conducted in various countries all over the world. The findings from these studies are useful to new researches on microfinance. Some of the studies, which had a significant contribution, include the study by Mosley (2001). In his study on Microfinance and Poverty in Bolivia, Mosley assessed the impact of microfinance on poverty. The study was conducted through small sample surveys of four microfinance institutions, two urban and two rural, using a range of poverty concepts such as income, asset holdings and diversity, and various measures of vulnerability.

All the institutions studied had on balance, positive impacts on income and asset levels, with income impacts correlating negatively with income on account of poor households choosing to invest in low-risk and low-return assets. This study revealed also that in comparison with other anti-poverty measures, microfinance appears to be successful and relatively cheap at reducing the poverty of those close to the poverty line. However this was also revealed to be ineffective, by comparison with labour-market and infrastructural measures, in reducing extreme poverty. The study further proposed actions that appear to be promising for the further reduction of poverty in Bolivia which can also be useful for other developing countries. These actions include stronger efforts to mobilize rural savings, removal of lower limits on loan size, and the introduction of appropriate insurance mechanisms.

Despite this contribution, the study by Mosley (2001) has some weaknesses. The first problem is on the sample size which was only four microfinance institutions, this sample size might not be adequate for the generalizations made above. Also the poverty concepts considered excluded the number of employees, this is very important to measure, as it indicates whether the microfinance institution has created capacity to employ more people or not.

Hassan and Renteria-Guerrero (1997) made another empirical contribution in this area. In their work "The experience of the Grameen Bank (GB) of Bangladesh in community development", they examined the GB experience with a purpose of understanding the essential elements of its operations and the factors that enabled GB to reach the poor. This study revealed that the GB has established its credentials as an institution that aims at providing credit to the landless and asset less poor in rural areas. GB credit gives the recipients the power of entitlement to society's productive goods and services with immediate effect, unlike most of the other programmes for the poor that tend to create the unintended negative effect of dependency on the service providers. However, it was observed the credit by itself is an insufficient factor to improve poverty conditions, and thus the GB devotes a substantial amount of resources to the improvement of the social wellbeing of its members.

The GB uses an unambiguous eligibility criterion which ensures that only the poor or very poor can participate. It motivates their clients to organize themselves into groups of five like-minded members. Each group elects one group leader among themselves. Every six groups form a "centre" which serves as the basic operating unit of the GB. It is at the centre that weekly meetings are conducted to openly discuss loan applications proposals and to accept weekly repayments and compulsory savings deposits. While the loans are made to individual members, the group as a whole is expected to be responsible for the regular repayments of the loans of all their members. This form of grassroots organization not only promotes solidarity and participation among the members, at the group and centre levels, but also promotes mutual support and peer pressure to ensure that the loans are properly utilized and repayments made promptly.

In concluding their work, Hassan and Renteria-Guerrero aver that the GB's approach seems to be an effective tool for rural poverty reduction despite minor criticism that has never given alternative solution for poverty alleviation. The programme supplies credit to improve the physical productive capacities of the poor and in addition, it provides the disadvantaged with human development inputs to improve their overall productive and living standards. The success of the GB is not free from the influence of external factors. To be effective and sustainable, a credit delivery system also needs a supportive national policy framework for it to remain autonomous and free from political influence. Despite the fact that this work was just an experience and not a research work, we acclaim its contribution in the area of microfinance practices.

2.4.2 Evolution of the Microfinance Sub-Sector in Ghana

Indeed, the concept of microfinance is not new in Ghana. There has always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses or farming ventures.

For example, available evidence suggests that the first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries. However, Susu, which is one of the microfinance schemes in Ghana, is thought to have originated from Nigeria and spread to Ghana in the early twentieth century.

Over the years, the microfinance sector has thrived and evolved into its current state thanks to various financial sector policies and programmes undertaken by different governments since independence.

Among these are:

(i) Provision of subsidized credits in the 1950s;

(ii) Establishment of the Agricultural Development Bank in 1965 specifically to address the financial needs of the fisheries and agricultural sector;

(iii) Establishment of Rural and Community Banks (RCBs), and the introduction of regulations such as commercial banks being required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s;

(iv) Shifting from a restrictive financial sector regime to a liberalized regime in 1986;

(v) Promulgation done in 1991 to allow the establishment of different categories of non-bank financial institutions, including savings and loans companies, and credit unions.

The policies have led to the emergence of three broad categories of microfinance institutions. These are:

(i) Formal suppliers such as savings and loans companies, rural and community banks, as well as some development and commercial banks;

(ii) Semi-formal suppliers such as credit unions, financial non-governmental organizations (FNGOs), and cooperatives;

(iii) Informal suppliers such as susu collectors and clubs, rotating and accumulating savings and credit associations (ROSCAs and ASCAs), traders, moneylenders and other individuals.

In terms of the regulatory framework, rural and community banks are regulated under the Banking Act 2004 (Act 673), while the Savings and Loans Companies are currently regulated under the Non-Bank Financial Institutions (NBFI) Law 1993 (PNDCL, 2008).

On the other hand, the regulatory framework for credit unions is now being prepared, and this would recognize their dual nature as cooperatives and financial institutions. The rest of the players such as FNGOs, ROSCAS, and ASCAs do not have legal and regulatory frameworks.

Programmes currently addressing the sub-sector in Ghana include the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP).

2.4.3 Microfinance Institutions (MFIs) in Ethiopia

Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a company is directed, administered or controlled and defines the relationships among the various stakeholders. In the real world, all enterprises, irrespective of size and ownership structure, need some principles and guide to conduct a business. However, firms of different size and ownership structures (small size firms, share companies, government owned companies, commercial banks and microfinance institutions) may require different sets of complexities of governance (Tilahun and Kibre 2007). In small firms, there is no need of separation of ownership and management (owners monitor the managers) and legal institution would not be serious concern. However, as the size of a company increases, there is a need to separate the owners form the management, which takes the responsibility of running the day-to-day activities of a firm. The board of directors is created to systematically link the owners and the managers (non-owners).

According to Tilahun and Kibre (2007) the term corporate governance has come to mean a process by which companies (where separation of ownership and control prevail) are directed and controlled. This separation of ownership from control (management) implies a loss of effective control by shareholder over managerial decisions. As a result of this separation between the two parties, a system of corporate governance controls is implemented to assist in aligning the incentives of the managers with those of the shareholders. Under this circumstance, the role of the state is very crucial. To this end, Ethiopia has put up basic governance institutions for firms as early as in 1960 (Commercial Code, 1960). It includes corporate law, disclosure law, auditing, and basic structure, duties and responsibilities of shareholders, board of directors, and managers.

The experience of corporate governance for deposit taking MFIs is drawn from best practices of any organization or share company, particularly commercial banks, which should be customized to features and environment and address the specific problems of these institutions. Corporate governance is the process by which a board of directors, through management, guides an MFI in fulfilling its corporate mission and protects the institution's assets over time (Rock M, et al 1998). Effective governance occurs when a board provides proper guidance to management regarding the strategic direction for the institution, and oversees management's effort to move in the direction of the approved strategy. The board carries out this function on behalf of a third party, referred to as shareholders in the case of for-profit corporations. Because of there are no owners in non-profit corporations, that third party in not as easily identified to include the corporation's clients, staff board, and donors? The fundamental to good governance is the ability of individual board of directors to work with each other to accomplish an effective balance between strategic and operational responsibilities (Otero M 2001). The interplay between board and management centers on this relationship between strategy and operation, and assumes that both of these components are essential for the successful evolution of the institution.

Good governance in the Ethiopian deposit taking MFIs plays an important role in increasing outreach, improving transparency, accountability, sustainability, profitability, efficiency, effectiveness, responsibility and responsiveness to the changing environments. Effective governance depends on both forms- the structures and processes of control, and content-and the specific individuals involved, particularly in the leadership.

The board, which plays a critical role in ensuring good governance of MFIs, has five major responsibilities, namely:-

(i) Legal obligations: this includes understanding the regulatory framework of MFIs and compliance with bylaws, procedures, legal requirements which are clearly stated in the microfinance law (Proclamation 40/96) and the 19 directives of the National Bank of Ethiopia (NBE). On the other hand, the board of directors should have personal responsibility as the directors for the activities of MFIs which is implicitly stated in the directives of NBE;

(ii) Relationship between board and executives which mainly includes operational distance of the board from day to day operations, drawing on the institutional memory of the directors and making binding decisions as a board (Otero M, 2001). Apart from this role, the board must ensure management accountability by bringing competent professionals as executives, establishing clear goals for their performance, monitoring performance closely, and confronting weaknesses when these surface (Otero M, 2001). In the Ethiopian context, although the formal institutional (legal) context determines the broad framework for the governance structure, the roles and responsibilities of directors of MFIs and management is not clearly defined and varies from one MFI to another MFI;

(iii) Setting policy and providing strategic direction consistent with the MFI, mission, vision and objectives;

(iv) Fiduciary obligation to ensure that the financial solvency of MFIs is maintained. This is a very serious responsibility of board of Ethiopian MFI, as the all MFIs take deposits from the public, as of day one of their registration under NBE. The board must be able to assess the risks associated with the provision of financial services. As per our communication with board members, this responsibility has been overlooked in many of the boards of MFIs;

(v) Board assessment of its own performance is a major responsibility which should be exercised on regular basis. Very few boards of MFIs in Ethiopia evaluate their own performance, even once a year. Some boards did not conduct regular meeting (Itana, et al 2003).

On top of the above responsibilities, factors such as the competence and skill of the board members and the quality of the board chairperson are very critical for effective governance. For example, board members are expected to have skills as leaders, visionary thinkers, and managers. They should have independent mind, genuine commitment, technical expertise and experience relevant to manage MFIs (financial, legal, marketing, etc), and willingness to set time to participate in the activities of an MFI. The lack of commitment of board members to the mission of the MFI and lack of clearly defined board policies and procedures affected the implementation of effective governance.

In the last ten years, MFIs in Ethiopia have been preoccupied with developing systems and procedures; developing financial products; building the capacity of their staff, mobilizing resources; developing their strategic and operational plans; and balancing the growth of outreach and sustainability. As a result, by the end of 2007, the 29 MFIs licensed and supervised by NBE mobilized about 1.2 billion Birr (128,479,657 USD) in the form of voluntary and compulsory savings and disbursed about 3.2 billion Birr (342,612,419 USD) to 1.8 million active clients. Moreover, the MFIs had total capital, asset and liability of 1.2 billion Birr (128,479,657 USD), 4.2 billion Birr (449,678,800 USD) and 3.1 billion Birr (331,905,781 USD) respectively (annex 1). The financial and operational sustainability have improved significantly in the last five years (Wolday 2008). As per the reports of MFIs to NBE (October-December 31, 2007), 63% of the MFIs were profitable, which stood at 73.6 million Birr (7,880,086 USD) (Muluneh 2008).

As the size of the outreach and saving mobilization from the public increases, there is a dire need to ensure transparency, accountability and good governance in the microfinance industry. However, governance issues have not been given due attention by owners or shareholders, regulators, and board members. It has been documented that weak governance, poor risk management practices, weak internal control system and weak regulatory and supervisory systems contributed to the collapse of many of MFIs (Mekonen 2007, Sabana 2006). Muluneh (2008) identified , irregular meeting of the general assembly and the board, lack of commitment and technical knowledge on microfinance of the board, weak follow-up and supervision of the management team to ensure the implementation of policies and procedures, and poor internal control system as key governance problems of MFIs in Ethiopia. The one liquidated in Ethiopia, Asser MFI, had similar weaknesses. There is virtually no research on the impact of governance on microfinance institutions.

Addressing governance issues of Ethiopian MFIs should be given due importance for the following reasons. Firstly, Ethiopian MFIs take deposits from the public and any mismanagement of assets and resources will result in eating the savings of the poor people. Secondly, the outreach of MFIs in Ethiopia has significantly increased in the last four years which forced them to take loans from commercial sources such as local commercial banks and Rural Financial Intermediation Program (RUFIP). Managing the significant growth of MFIs in Ethiopia will require effective governance, involving both the board and management. Moreover, any financial insolvency in one MFI will have a negative repercussion on the entire microfinance industry. Thirdly, the MFIs in Ethiopia operate in a difficult and risky environment which requires their boards to regularly assess the risks and provide proper oversight to manage them.

The key elements of sound corporate governance in an MFI include:

(i) A well-articulated corporate strategy against which the overall success and the contribution of individuals can be measured.

(ii) Setting and enforcing clear assignment of responsibilities, decision making authority and accountabilities that is appropriate for the risk profile.

(iii) A strong financial risk management function (independent of business lines), adequate internal control system (including internal and external audit function), and functional process design with the necessary checks and balances.

(iv) Corporate values, codes of conduct and other standards of appropriate behavior and effective system used to insure compliance. This includes special monitoring of the risk exposures of MFIs where conflicts of interest are expected to appear (e.g. relationships with affiliated parties).

(v) Financial and managerial incentives to act in an appropriate manner offered to the board of management and employees including compensation, promotion and penalties (I,e. compensation should be consistent with the MFIs objective performance and ethical values).

(vi) Transparency and appropriate information flows internally and to the public (adopted from Van Greuning et al 2003).

Corporate governance of MFIs in Ethiopia involves three major elements, namely (a) prudential regulation; (b) shareholders, board and management; and (c) policies, systems and procedures. The three key dimensions of governance indicated above are used as the conceptual framework of this study. The key stakeholders in corporate governance include the regulators, shareholders, board of directors, executive management, audit committee members, internal auditors, external auditors and the public. The National Bank of Ethiopia (NBE) has set a clear regulatory framework including the duties and responsibilities of board members. The task of the supervisors of NBE is to monitor the financial viability and effectiveness of MFIs. As per the regulation, the shareholders appoint "fit and proper" boards, management and auditors. The board and the executive management develop the strategies, set performance indicators and take the responsibility for the performance of the MFI. The management creates systems, policies and procedures to implement the decisions of the board. The board of directors of MFIs approves the policies and procedures and monitors their implementation.

2.4.4 Microfinance Institutions (MFIs) in Uganda

Microfinance business has gained worldwide attention in most emerging/developing economies and there is wide recognition of its potential contribution to poverty alleviation. In Uganda, Microfinance is a growth area and is an important element in the development strategy. Bank of Uganda formulated a regulatory framework way back in July 1999. A number of workshops and conferences have been held locally and internationally in which the central bank has actively participated. The third African Microfinance conference was held in Kampala in August 2007.

2.4.4.1 The Structure of Financial sector in Uganda

Currently, the formal financial sector includes the Central Bank i.e. Bank of Uganda; 19 commercial banks, 4 credit institutions, 4 micro finance deposit taking institutions, two development banks, a savings and credit union, money lenders, a National Social Security Fund (NSSF) Cooperative Societies, Savings and Credit Cooperative Societies (SACCOs), Credit Only institutions, NGO's and many unregistered micro finance institutions. One Commercial Bank, Centenary Bank Limited operates in the micro finance sector. It offers individual savings and loans for small clients.

2.4.4.2 Bank of Uganda Policy Statement on Microfinance

In July 1999, Bank of Uganda issued a policy statement on Micro Finance Regulation. The policy statement set the parameters within which micro finance business is conducted in Uganda. The policy statement approved four categories of institutions that may engage in micro finance business in Uganda as follows: - The first category of institutions is banks, The second category of institutions are credit institutions, The third category includes all institutions referred to as micro finance deposit taking institutions (MDIs). This category takes deposits from the public and other institutions. The minimum capital requirement is Shs.500 million (approximately USD 294,000=). An MDI is required to maintain its ongoing capital base in relation to the risk-weighted assets at 15% and 20% for core and total capital respectively. Minimum liquidity requirement is at 15%.

The fourth category comprise of two types of institutions. Firstly, all those that are non-deposit taking such as credit only institutions, NGO's or other non-deposit taking initiatives. Secondly, there are many very small member based organizations mobilizing savings from their members. These institutions are neither regulated under the provisions of the Micro Finance Deposit Taking Act nor supervised by Bank of Uganda.

Below is a summary of the tiered framework.

Table 2.1: Summary of the Tiered Framework

LEVEL/CRITERIA	DEPOSIT TAKING
TIER 1 : Commercial Banks	Yes
TIER 2: Credit Institutions	Yes
TIER 3: Micro Finance Deposit Taking Institutions (MDIs)	Yes
TIER 4: Non-Bank of Uganda Regulated Institutions	No

Source: Field Survey, 2014

The regulation of Micro Finance Deposit Taking Institutions is governed by the Microfinance Deposit Taking Institutions Act 2003. There are five implementing regulations, on Licensing, Capital Adequacy, Asset Quality, Liquidity and Reporting Requirements.

Bank of Uganda supervises the MDIs through Onsite Examination (Risk based) and Offsite surveillance. The annual supervision report on MDIs is available on the Bank of Uganda website www.bou.or.ug.

2.4.4.3 The Performance of Micro Finance Deposit taking Institutions

(i) Balance Sheet Structure

Total assets of MDIs grew by Shs33.8bn (or 26.3%) from Shs128.6bn as at end of December 2006 to Shs162.4bn as at end of December 2007. Similarly, deposits increased by Shs15.8bn (or 67.8%) from Shs23.3bn as at December 2006 to Shs39.1bn as at December 2007 while total loans increased by Shs28.3bn (or35.6%) from Shs79.4bn as at December 2006 to Shs107.7bn as at December 2007. The growth is mainly attributed to aggressive marketing strategies and is indicative of increased confidence in the sub-sector.

(ii) Capital Adequacy

Total core capital stood at Shs27.3bn as at end December 2007 up from Shs21.1bn as at 31st December 2006 resulting in an increase of Shs6.2bn (or 29.4%). Core Capital to Risk Weighted assets ratio stood at 21.1%, which is above the required minimum of 15%. Total capital to risk weighted assets ratio stood at 31.2%, which is also well above the required 20%. The growth in core capital was mainly due to increase in retained earnings in all MDIs.

(iii) Asset Quality

Loans are funded from deposits and borrowing locally or externally. The non-performing loans in MDI stood at Shs3.1bn as at December 2007 compared to Shs2.4bn as at end of December 2006, an increase of Shs0.7bn. However, the Portfolio at risk ratio (PAR) improved from 3% to 2.8% in the period under review. This is mainly attributed to improved risk management systems and compliance with onsite examination recommendations.

(iv) Profitability

Year to Date (YTD) net profit after tax stood at Shs8.2bn as at end of December 2007 up from Shs3.2bn at the end of December 2006. Return on Assets (RoA) rose from 1.44% to 5.0% as at end of December 2006 and December 2007 respectively. Similarly, Return on Equity (RoE) rose from to 8.16% to 15.7% over the same period. This was attributed to increased volume of business coupled with expenditure control during the period under review.

(v) Liquidity

Liquidity in the MDI sub sector remained satisfactory with surplus liquid assets amounting to Shs28.2bn as at end of December 2007 compared to Shs21bn as at end December 2006. Total Liquid assets increased by Shs9.6bn (or 39.2%) from Shs24.5bn to Shs34.1bn as at end of December 2006 and December 2007 respectively. Although the ratio of liquid assets to total deposits modestly declined from 105.5% to 87.1%, the lending ratio increased from 60.4% to as at end of December 2006 to 65.8% from 60.4% at the end of the period under review. All MDIs were in compliance with Section 19 (h) of the MDI Act, 2003, which prohibits intermediation of Loan Insurance Funds without approval from Bank of Uganda.

(vi) Off-Site Surveillance

Statutory returns are reviewed on weekly, monthly and quarterly basis. The successful implementation of electronic submission of returns was accomplished by MDIs in February 2007. Additionally, the MDI offsite analysis manual has been drafted with the assistance from the external consultants.

(vii) Benefits of Regulation

a) MDIs now have better risk management systems in place because of the Bank of Uganda requirement for strong governance structures.

b) Improved professionalism in the way business is conducted. More skilled staff has been employed and Management Information Systems have been upgraded to meet reporting requirements.

c) Improved corporate image especially to potential shareholders, financiers and the general public.

d) Enhanced innovation that has led to the development of new products being offered by MDIs to the clients.

2.4.4.4 Challenges

(i) Level of Capitalization

One crucial challenge is ability to raise additional capital and getting shareholders or Investors with deep pockets. It is generally accepted that even with the high credit and operational risks of MFIs, paid up capital and reserves should be over and above the minimum required to support the growth of the Microfinance Deposit Taking Institutions.

The shareholders should also be able to inject more capital if required.

(ii) Management Information System

Management Information System is a key issue given the numerous transactions in the MDI's. The administrative, operational processes, including internal control system must be regularly reviewed.

(iii) Danger of Politicization

Through the intense political debate on the MDI by legislators, Microfinance gained much public and political attention. However, some politicians seem to see Microfinance as a panacea for poverty alleviation and insist that interest rates should be brought down. Stakeholders, therefore have to take a proactive approach.

(iv) Deposit Mobilization

Licensing of MDIs opened the gate for cheaper funding. However, deposit mobilization has proved to be a challenge and the projected level of deposit mobilization is yet to be achieved. In the meantime, the MDIs have to fill the gap with local and external loans from investors or shareholders. Some of the facilities have been expensive and impact on the income statement in view of the increased borrowing at market rates and interest expenses.

2.4.4.5 The Major Success Factors in Regulations and Supervision of MDIs in Uganda

The major success factors for regulating and supervision MDIs have been the following:-

(i) Enabling Policy Framework.

Uganda has a consistent and enabling policy framework for the financial sector development. Government is committed to creating and maintaining an environment that is conducive to the sustainable growth of the Microfinance industry.

(ii) Clear Policy

The 1999 policy statement clearly defined the goals of the law. The Clear Policy focuses on Safety and Soundness of sub sector and it was widely adopted and based on agreed principles. All the stakeholders participated in drafting the MDI Bill.

(iii) Clear Mandate for Bank of Uganda

A task force within Bank of Uganda developed major principles on how to regulate the industry. Bank of Uganda followed the prudential view driven by the understanding that the best way to promote Microfinance business would be to provide a conducive regulatory framework for the industry. The Bank of Uganda with support from the members of parliament and other stakeholders pushed forward a set of principles in line with international best practice.

(iv) Donor Stakeholder Consultation and Collaboration

Consultative and collaboration among the relevant stakeholders contributed significantly to the success of the legislature process in Uganda. Donor funding, policy advice and technical input played a substantial role in development of the regulation.

The issue of regulating tier 4 institutions lies with the Ministry of Finance, Planning and Economic Development .Draft bill and regulation has been prepared and circulated for comments from stakeholders including donors, experts etc.

Bank of Uganda is mindful that the extension of financial services to the economically active poor can play a key role in economic development. Therefore, the sustainability of MDIs is of essence in order to be able to play at their role into the future.

Therefore the Bank of Uganda policy on Microfinance is fully committed to ensuring increased outreach and sustainability. The bank believes that adequate regulation and supervision of these institutions can play a key role in economic development. The role of Bank of Uganda is to create an enabling environment for the sustainable growth of Microfinance in a safe and sound financial sector.

Because of the overall positive experience, Microfinance in Uganda has increasingly drawn attention of donor agencies, experts, central banks and practitioners from other countries e.g. Angola, Namibia, South Africa, Kenya, Tanzania, Ethiopia and Nigeria but to mention a few.

2.5 Research Gap

From the literature reviews that were examined, it was noted that most of the studies tended to focus on microfinance institutions with regards to poverty alleviation. There is a gap with regards to the importance of accounting information practices in those institutions as the way funds are managed in those institutions greatly affects effectiveness of the microfinance schemes. This study had focused on SACCOS operating in Kinondoni district.

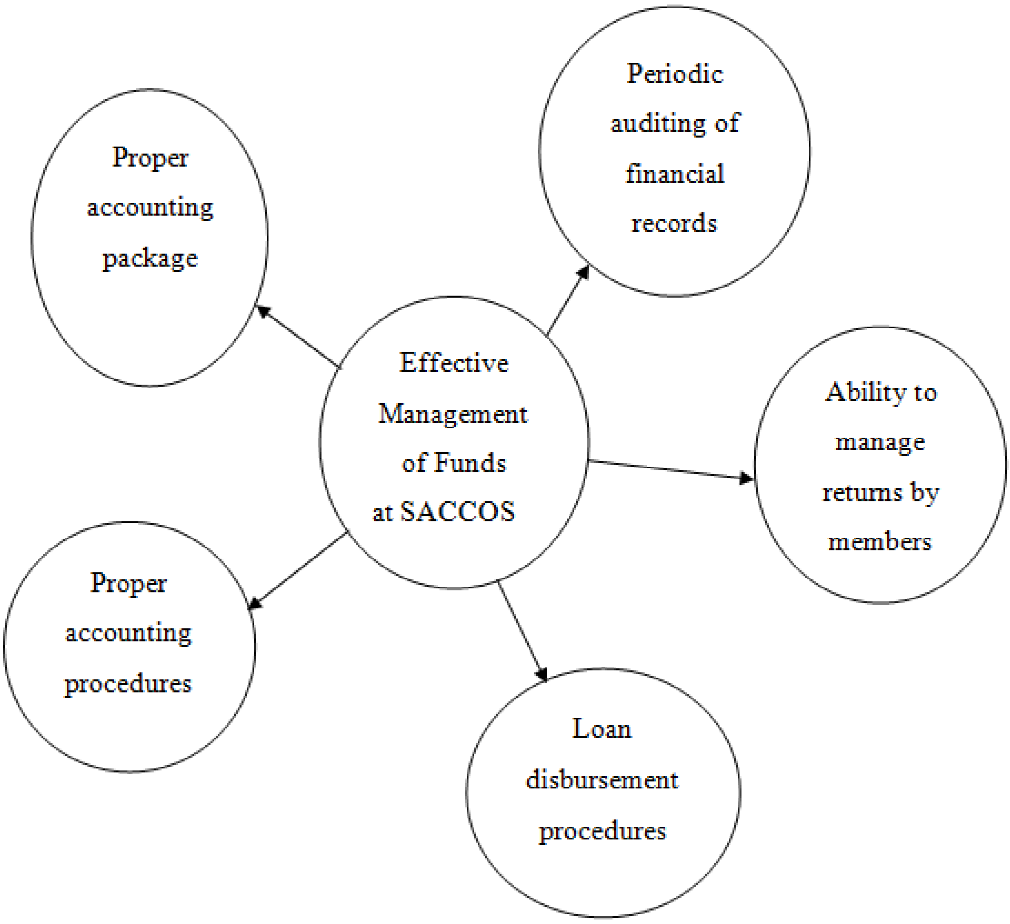
2.6 Conceptual Framework

2.6.1 Definition of Conceptual Framework

This is the conceptual mode of how one theory makes logical sense of the relationship among several factors that has been identified as important to the problem (Sekaran, 2003).It is a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical/ synthetically aspects of a process or system being conceived. The interconnection of these blocks completes the framework for certain expected outcomes (Green, 2001).

For the SACCOS funds to be effectively managed there must be a proper accounting package, Periodic auditing of financial records, Proper accounting procedures, Sound loan disbursement procedures, and Ability to manage returns by members. After effective management of fund, the SACCOS will be able to provide better services through: timely provision of funds to members, ability to provide adequate loans to the members, SACCOS charging the members lower interest rates, ability of the SACCOS to get loans from commercial banks, ability to add more members. The relationship is shown diagrammatically below.

Figure 2.1: Conceptual Framework



Source: Researcher Own Constructs 2014

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology employed in this study. It covers collection, measurement and analysis of data. It is about determining where the study tool were carried out, type of data required, where can be found, sample design, techniques of data collection used, as well as how data were analyzed.

3.1 Research Design

This is a detailed plan of the work to be done to achieve the research objectives. It is the conceptual structure within which research is conducted; it constitutes a blue print for collections, measurement and analysis of data (Kothari, 2004). The strategy comprise case study, descriptive, exploratory and casual design.

For the purpose of this research, case study design was used because it facilitated intensive study of the social units, enabled constructions of the appropriate questionnaires, allowed the researcher to understand fully behavior pattern of the concerned units, and generalization made from a limited sample size in limited geographical area, ultimately the study results became representative of the rest.

3.2 Area of Study

The study was conducted in Dar es Salaam at Kinondoni District South of the City of Dar es Salaam, due to the following reasons;

(i.) The area is near by the researcher's working place; hence it is cost effective to conduct the research in that area.

(ii.) The district has many SACCOS; hence more information was available for this study.

(iii.) Some financial institutions are also located there.

The SACCOS operating in Ubungo and Magomeni were selected. These were MabiboSokoni SACCOS, Urafiki SACCOS, Wanama SACCOS, and Mabibo

Moravian church SACCOS. These are among the leading SACCOS to that area though there are mushrooming SACCOS at Kinondoni Districts.

3.3 Population of the Study

Leady (1998) defines population as the aggregate of all the cases that confirm to designated set of specifications. The population consisted of members of SACCOS (loan beneficiaries) as well as SACCOS officials (including Accountants and Auditors). It was expected that these was in a good position to provide information for this study.

3.4 Sampling Size and Sampling Techniques

3.4.1 Sample Size

This is the exact number of items selected from a population to constitute a sample. For the purpose of this study sixty four (60) respondents were selected to participate in it. The sample distribution consisted of 56 members of SACCOS and 4 Micro finance officers from SACCOS (Including 2 accountants/auditors). The inclusion of Microfinance officers will be for the purpose of getting supplementary information, that is, the information they give would supplement information obtained from the beneficiaries of microfinance loans.

3.4.2 Sampling Techniques

The methods used in picking the sample were convenience and purposive sampling technique. Purposive sampling technique has enabled a researcher to select a sample on the basis of his or her knowledge of the population, its elements and research purposes. It is based on the researcher’s judgment and purpose of the study (Babbie, 1992). The researcher has applied this sampling technique to select individuals who are information reach, convenience sampling technique has enabled researcher to select respondents who are available and willingness to respond. These methods were used to select SACCO’s loan beneficiaries (members) due to the fact that of ease access and save time and money.

3.5 Sources of Data Collected

During the study, both secondary and primary data was collected.

3.5.1 Secondary Data

These are sources containing data that have been collected and compiled by other people for some other purposes. The secondary data for this study was collected through review of documentary sources in which books, journal articles and reports, both published and unpublished, were reviewed. The online sources were also being consulted.

The benefit of using this includes few resources particularly time and money required, broadens the data base from which specific generalization can be made, permanence of the data and longitudinal studies may be feasible.

3.5.2 Primary Data

These are data which are collected by researcher himself from the field for the purpose of answering research questions. Primary data were collected through questionnaire and interview.

3.5.2.1 Questionnaire

These are series of questions each one providing a number of alternative answers from which the respondent can choose (White, 2002). Questionnaires were administered to respondents and were completed by the respondent themselves. Questionnaires were distributed to 60 members of SACCOS. Questionnaires are advantageous in terms of economy, lack of interviewer bias, respondent has adequate time to give well thought answers, respondent who are not easily approachable can also be researched conveniently and the possibility of anonymity (kidder, 1981). The questions were both close-ended and open-ended in order to increase the validity of responses.

3.5.2.2 Personal Interview

This is the face to face contact between interviewer and interviewee. The researcher has interviewed the respondents himself in an organized environment.

Interviews were conducted with four (4) Microfinance officers from SACCOS. An interview was advantageous because it has high return rate (Kidder, 1981), flexibility, wide coverage, completeness, control of interview situation and it helps to clarify ambiguous responses and fill in missing gaps. An interview guide was used in which the researcher read the questions to the respondents and records the answers.

3.6 Pre-testing of Research Instruments

Prior to the main survey, instruments were pre-tested in order to ensure the validity and reliability of the findings. The questionnaires were pre-tested at Moravian SACCOS in Kinondoni District.

3.7 Data Analysis and Presentation

The data collected were processed and analyzed in accordance with the purpose of use. The process had includes editing, coding, data capture, data validation and data analysis of the collected data.

The data collected were analyzed both quantitatively and qualitatively. Tables and figures were used to present the findings. Statistical Package for Social Sciences (SPSS) was used to analyze quantitative data. Content analysis was used to analyze open-ended questions. The data were presented by using figures and tables.

The following processes were followed:

(i) Editing

This process involved examining the collected raw data to detect errors and omissions and to correct these classes of final order. It was carried out at the field office.

(ii) Coding

After the data edited, the next step was to assign numerals or other symbols to classes. This was done for the purpose of simplifying the work of capturing the data and at the same time creating some uniformity.

(iii) Capturing to the Software

Once coding was finished, the next step was to capture data in the Statistical Package for Social Sciences (SPSS) ready for processing.

(iv) Data Capture Validation

Someone must be available to ensure that what actually were captured is what actually appearing in the source documents is. This was done by an independent person different from the researcher. Errors were corrected before processing the data.

CHAPTER FOUR

PRESENTATION OF THE FINDINGS

4.0 Introduction

This chapter presents the findings of the study. The overall objective of this study was to assess the accounting practices at SACCOS in Kinondoni District. Specifically, the study aimed at finding out how SACCOS funds are managed, determining problems faced in managing funds and finding out ways of ensuring effective management of funds. Data was collected through questionnaires, interviews and observation.

4.1 Demographic Characteristics of Respondents

It was important for this study to get information on the demographic characteristics of the respondents that is information based on gender, age, marital status, highest educational qualifications as well as how long respondents have been members of SACCOS.

Table 4.1 below indicates the Information on age of respondents

Table 4.1: Age of the Respondents (N=60)

Age group	**Frequency**	**Percentage**
Less than 30 years	4	6.7
30-39 years	16	26.7
40-49 years	26	43.3
50 years and above	14	23.3
Total	**60**	**100**

Source: Field data, 2014

Table 4.1 shows that 93.3 percent of respondents are 30 years and above. This is the age group that most people are engaged in some form of employment and so finding it meaningful to save some money through financial institutions such as SACCOS. Specifically for respondents who are in their 50s have some special needs such as constructing houses or an extended family with various needs that require them to find a way of saving so that they may get some loan that will enable them to attain their desired objectives.

Information about marital status of the respondents presented in Table 4.2

Table 4.2: Marital Status (N=60)

Status	**Frequency**	**Percentage**
Single	20	33.3
Married	40	66.7
Total	**60**	**100**

Source: Field data, 2014

The findings in Table 4.2 show that 66.7 percent of respondents are married. As most of the respondents are 30 years and above, it is more likely that they would have dependents, which signifies that they would be married.

Table 4.3 presents the Gender of Respondents.

Gender of respondents was studied and table 4.3 below indicates findings.

Table 4.3: Gender of the Respondents (N=60)

Gender	**Frequency**	**Percentage**
Male	31.5	52.5
Female	28.5	47.5
Total	**60**	**100**

Source: Field data, 2014

The information in Table 4.3 shows that there are almost an equal number of male and female respondents. This state of affairs can be attributed to reforms that have been going over the decades aimed at bringing about gender equality in all spheres including education, employment and the political arena. The reforms which had been enacted in various laws have been having positive results through the increased enrolment of women in schools, colleges and universities, as well as securing employment opportunities in various sectors. As women get a chance to attain education and also get involved in economic activities, they are able to get some income which can make them be able to save their money at SACCOS and also qualify for loans.

Table 4.4 below indicates the Information about the respondents Education Levels

Table 4.4: Education Qualifications (N=60)

Category	Frequency	Percentage
Primary education	19	31.7
Secondary education	22	36.7
College education	14	23.3
University education	2	3.3
Non- formal education	3	5.0
Total	**60**	**100**

Source: Field data, 2014

The findings in Table 4.4 show that the respondents have differing highest educational qualifications, ranging from primary education, secondary education, college education and university education. However, the findings also show that there are some respondents who have no formal educational qualifications, that is, they have not attended any school. In the modern world, someone without any formal education cannot fully participate and benefit in associations compared to those with formal education. The study findings also show that there are some few respondents who possess university education.

Table 4.5 below indicates the Information about how long the respondents have been members of SACCOS

Table 4.5: Experience as Members of SACCOS (N=60)

Category	Frequency	Percentage
Less than 2 years	9	15.0
2-5 years	26	43.3
6-10 years	16	26.7
More than 10 years	9	15
Total	**60**	**100**

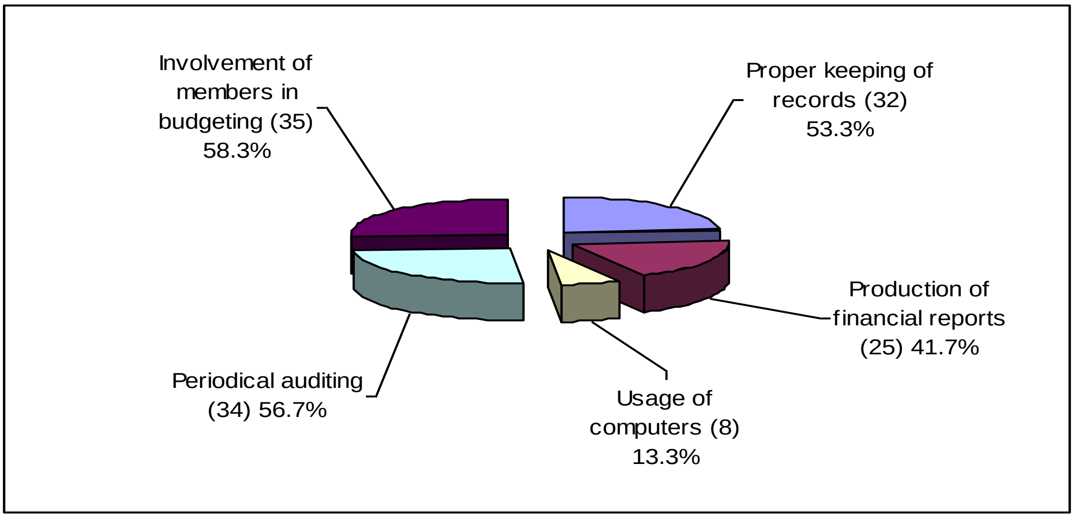
Source: Field data, 2014

The findings in Table 4.5 show that majority of respondents have been members of SACCOS for more than two years. This shows how SACCOS are effective in empowering their members. There are also some respondents who have been members of SACCOS for more than ten years. These people have built their trust in SACCOS and so consider SACCOS to be playing a crucial role in their life.

4.2 The management of SACCOs fund

The first objective of this study was to find out the manner in which SACCOS funds are managed by the respective SACCOS. The responses as obtained from the respondents are presented in Figure 4.1.

Figure 4.1: Manner in which SACCOS Funds are Managed (N=60)



Source: Field data, 2014

The findings in Figure4.1 show that funds are managed in a number of ways at SACCOS, including usage of computers, proper keeping of records, periodical auditing, and production of financial reports and involvement of SACCO's members in budgeting.

4.3 Problems faced in managing funds at SACCOS

Another objective of this study was to find out challenges faced in managing funds at SACCOS. The findings are presented in Table 4. 6.

Table 4.6: Problems faced in managing funds at SACCOS (N=60)

Category	Frequency	Percentage
Accounting procedures not properly followed	16	26.7
Inadequacy of funds	14	23.3
Default in loan repayment	11	18.3
Delays in disbursement of loans	16	26.7
Inefficient auditing	7	11.7
Inadequately trained accounting staff	32	53.3
Poor keeping of accounting records	19	31.7
Non-use of computers in accounting	17	28.3
Poor communication	7	11.7

Source: Field data, 2014

Table 4.6 shows a number of problems faced in managing funds at SACCOS, including accounting procedures not properly followed, inadequacy of funds, default in loan repayment, delays in disbursement of loans, inefficient auditing, inadequately trained accounting staff, poor keeping of accounting records, non-use of computers in accounting, and poor communication. The figure implies that a lot of challenges are facing those SACCOs in management of funds and need to be addressed clearly for them to survive as shown in the recommendations.

4.4 Ways of ensuring effective management of funds at SACCOS

This was the third objective of this study. The findings as obtained from the field are presented in Table4.7

Table4.7: Ways of Ensuring Effective Management of Funds at SACCOS (N=60)

Category	Frequency	Percentage
Employing qualified accountant	37	61.7
Training for accountants	31	51.7
Proper keeping of accounting records	19	31.7
Usage of IT in accounting	17	28.3
Upgrading SACCOS staff skills/staff recruitment	13	21.7
Proper control of non-default in loan repayment	10	16.7
SACCOS to become flexible	7	11.7
Improving communication	11	18.3

Source: Field data, 2014

Table 4.7 shows recommendation by the respondents (managers, board members, clients and other officials) on ways of ensuring effective management of funds at SACCOS, including employing qualified accountants, continuous training for accountants for both short and long term courses, proper keeping of accounting records, usage of Information Technology (IT) in accounting, upgrading SACCOS staff skills/staff recruitment, proper control of default in loan repayment, SACCOS to become flexible, and improving communication. About 28.3% shows that if the usage of IT in accounting was applied, funds will be effectively managed of which is the challenge which surveyed SACCOs are facing, 61.7% of respondents also justifies weaknesses to SACCOs of not having employed qualified accountants to manage those funds and even those with low accounting qualification employed they lack ICT skills in accounting matters.

On the other hand, when SACCOS management (Board Committee) staff were interviewed, they said that there were plans to improve accounting practices through acquisition of computer hardware and software that comply with international accounting standards, as well as upgrading staff skills to increase their competence in accounting and other related skills.

CHAPTER FIVE
DISCUSSION OF THE FINDINGS

5.0 Introduction

This chapter evaluates and discusses the findings of the study by drawing together all the issues of research and link back to the aim and objectives which were outlined in the introduction and methodology. The overall objective of this study was to assess the accounting practices at SACCOS in Kinondoni District. Specifically, the study aimed at finding out how SACCOS funds are managed, determining problems faced in managing funds and finding out ways of ensuring effective management of funds. Data was collected through questionnaires, interviews and observation.

5.1 Demographic Characteristics of Respondents

The study observed the demographic characteristics of the respondents which based on gender, age, marital status and education qualification.

For the case of the age the study found that, those respondents which have the age less than 30 years comprises only 6.75%, and those member of the group which have the age above 30 years comprised of 93.3 %. Hence the study showed that the greater percentage of the respondents are 30 years and above, this is the age group that most are engaged in some form of employment which earn some income and same through the financial institutions such as SACCOS. For the case of marital status, the study found that, the single group represents 33.3 % of the population while the married group represents 66.7 % of the population. Hence the study showed that the majority of the respondents are married. For the issue of gender the study found that, 52.5 % of the respondents are male and 47.5 percent are female

5.2 How SACCOS funds are managed

The study found that, after collecting loans from members or cash from various projects undertaken by the SACCOS, the records in the form of receipts are kept, and the funds are then sent to the commercial banks to be deposited there. If the payments had been made by cheque, SACCOS also deposits the same to banks.

As these are business transactions, records are kept, and are stored in printed formats. Some well-established and developed SACCOS even keep records in electronic format. The researcher was able to note through observation that records were kept by the accountants and cashiers, Mabibo sokoni SACCOS and Moravian SACCOS, did not use computers at all in accounting practices. According to the findings there is a need to improve keeping records and usage of computers.

Another response mentioned is periodical auditing. The research found out that 56.7% was auditing that was conducted at SACCOS, and this was conducted mainly by internal auditors than external auditors. Auditing is the systematic examination of records and documents and the securing of other evidence by confirmation, physical inspection, or otherwise, for one or more of the following purposes: determining the propriety or legality of proposed or consummated transactions, ascertaining whether all transactions have been recorded and are reflected accurately in accounts; determining the existence of recorded assets and inclusiveness of recorded liabilities; determining the accuracy of financial or statistical statements or reports and the fairness of the facts they present; determining the degree of compliance with established policies and procedures relative to financial transactions and business management; and appraising an accounting system and making recommendations concerning it (Mwisho,2002). The researcher was able to note that the periodical auditing most of the SACCOS conduct is internal auditing and not external auditing which is an independent examination. Therefore there is a need to carryout external auditing as well as improving internal auditing

Another response mentioned is involvement of members in budgeting. There is an annual general meeting which involves all the SACCOS members, where various issues are presented and discussed, including the budget. However, there is a need for the meetings to be conducted more frequently so as to ensure that members have more chances to participate in decision making.

5.3 Problems Faced by SACCOS in Managing Funds

The study found that, one of the reasons for inadequacy of funds is failure of some members to submit their monthly installments payments that they are required to pay to SACCOS. Also if accounting is not effectively managed it can result into shortages of funds. For example, if accounting staff do not have the required skills then their performance will not be good, and this poses the SACCOS to operational risks that may lead to loss of funds. Therefore there is a need to acquire more funds and effective measures of enforcing repayments.

Apart from the above mentioned problem, another response is delays in disbursement of funds. This can be attributed to failure of the SACCOS members to return monthly installments as they are required. Since members get loans from collections obtained when other members repay, then if some members fail to repay it means other members were not able to get loans in time. It is important to ensure that all SACCO's members pay loans in time as they are required.

The third response was inefficient auditing. The researcher was informed that auditing was carried out mostly by internal auditors, with little or no involvement of external auditors. Less involvement of external auditors in the auditing process means that financial auditing is not conducted in an objective way, and can imply fraud and the improper use of the organization's funds. Objectivity in the conducting of financial auditing needs to be assured, and the auditing results also need to be communicated to the stakeholders for increased transparency. When management (SACCOS board Committee) fails to be transparent, this is a sign of bad leadership, meaning that the board committee is doing things not for the interest of the stakeholders but for their own interest. There is a need to carryout external auditing and improvement in internal auditing.

Ineffective management of cash can result in shortage of cash to meet various objectives of an organization. At SACCOS this problem seems to appear time to time, leading to occasional delays in payments therefore SACCOS have to borrow from time to time in order to meet their costs

Last response was nonuse of Information Technology in accounting. This has been a problem for some surveyed SACCOS. Information Technology such as computer hardware and software are very important in ensuring effective accounting.

Acquisition of new IT facilities has to go hand in hand with software updating of staff skills, as an upgrade to hardware and software requires a corresponding upgrade in computer skills so that staff may be able to use the new software with confidence and more efficiently. Appropriate software for use in accounting has to adhere to International Financial Reporting Standards (IFRS).

5.4 Ways of Ensuring Effective Management of Funds

In order to have effective management of funds in SACCOS, the found that, SACCOS should employ the qualified accountants, continuous training the accountants for both short and long term courses, proper keeping of accounting records, usage of Information Technology (IT) in accounting, upgrading SACCOS staff skills/staff recruitment, proper control of default in loan repayment, SACCOS to become flexible, and improving communication

On the other hand, when SACCOS management (Board Committee) staff were interviewed, they said that there were plans to improve accounting practices through acquisition of computer hardware and software that comply with international accounting standards, as well as upgrading staff skills to increase their competence in accounting and other related skills.

CHAPTER SIX
SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.0 Introduction

This chapter presents the conclusion and recommendations emanating from the study/research findings.

6.1 Summary

The study found that funds at SACCOs are properly managed through usage of computers, proper keeping of records, periodical auditing, and production of financial reports and involvement of SACCO's members in budgeting.

The challenges of managing funds observed in the study were, inadequacy of funds, default in loan repayment, delays in disbursement of loans, inefficient auditing, inadequately trained accounting staff, poor keeping of accounting records, non-use of computers in accounting, and poor communication.

The study also suggests more better ways for the effective management of funds through employing qualified accountants, continuous training for accountants for both short and long term courses, proper keeping of accounting records, usage of Information Technology (IT) in accounting, upgrading SACCOS staff skills/staff recruitment, proper control of default in loan repayment, SACCOS to become flexible, and improving communication

6.2 Conclusion

The study results showed that funds are managed in a number of ways at SACCOS, including proper keeping of records, usage of computers, periodical auditing, and production of financial reports and involvement of SACCO's members in budgeting. However, the study results showed that not all the surveyed SACCOS managed the financial records properly due to lack of ICT facilities which are crucial for management of funds. Moreover, although members were involved in decision-making through meetings, the meetings were conducted less frequently, so having a negative impact on management of funds. There is a need for adoption of computers and modern software by all SACCOS so as to ensure proper accounting and so increase effectiveness in management of SACCO's funds

The study results also revealed a number of problems faced in managing funds at SACCOS, including the following: accounting procedures not properly followed, inadequacy of funds, default in loan repayment, delays in disbursement of loans, inefficient auditing, inadequately trained accounting staff, poor keeping of accounting records, non-use of computers in accounting, and poor communication. These factors had a negative impact on management of funds at SACCOS and so need to be effectively addressed.

The respondents also gave their views on ways of ensuring effective management of funds at SACCOS, including employing qualified accountant, training for accountants, proper keeping of accounting records, usage of Information Technology (IT) in accounting, upgrading SACCOS staff skills/staff recruitment, proper control of non-default in loan repayment, SACCOS to become flexible, and improving communication. It is expected that if these recommendations are put into practice by the management then there will be increased effectiveness in funds management at SACCOS.

6.3 Recommendations

The researcher recommends the following to SACCOS based on the findings of the study:

6.3.1 Employment of Qualified Staff

Especially Accountants and Loan officers need to be professionals. Accountants may be graduates or CPA holders, and loan officers at least a diploma holder.

6.3.2 Seek Grants/Aids or Long-Term Low Interest Loans to Increase their Loan Able Capital.

Seek grants from non-government organizations or government organizations programmes, as well as getting low interest loans from banks.

6.3.3 Provision of Training to Accountants, As Well As Workshop/Seminars to Sensitize Committee/Board Members.

Accountants should be trained and given workshops/seminars which will help them to face the new challenges and handle accounts records properly. Loan officers should be also trained in order to reduce default rate. Committee members should be trained as well on how to manage funds, their roles in organization and management of SACCOS.

6.3.4 Use of Appropriate Accounting Hardware and Software.

This involves use of computers with appropriate packages. Most of the SACCOS as observed are using manual book–keeping which makes their accounts ineffective, risk of frauds and wastage of time, as well as risk of loss of some information.

6.3.5 Effective Measures of Controlling Default in Loan Repayment

Since most SACCOS are using unqualified loan officers, they have faced a problem of high default rate, so there is a need to employ qualified loan officers, as well as carrying out training to the existing loan officers. Also caution should be taken when giving out large loans to avoid defaults.

6.3.6 External Auditing should be Carried Out to Ensure More Transparency and More Reliable Reports.

Also when acquiring funds from funders an external audit report is required an internal audit reports are unreliable because they might not be so transparent or may contain some covered frauds.

6.3.7 Suggestions for Further Study

This study has assessed accounting practice in microfinance institutions, with a focus on SACCOS. There is a need to conduct further studies on accounting practices, focusing on other types of microfinance institutions, such as commercial banks that provide such services.

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APPENDICES

Appendix 1: Questionnaire for SACCOS Members

I am a student of the Mzumbe University, Carrying out a research titled *"Assessment of Importance of accounting information in management of microfinance institutions: a case study of SACCOs in Kinondoni District"* I request you to fill this questionnaire. The information you provide will be used for academic purposes only and not otherwise.

Please circle the appropriate response(s)

1. Gender
   (i.) Male
   (ii.) Female

2. Age range
   (i.) l=Less than 20 years
   (ii.) 2=20-29 years
   (iii.) 3=30-39 years
   (iv.) 4=More than 39 years

3. Level of Education
   (i.) University education
   (ii.) College Education
   (iii.) Secondary Education
   (iv.) Primary education
   (v.) No Formal education
   (vi.) Other (Please specify)

4. Marital status
   (i.) Married
   (ii.) Single
   (iii.) Widowed

(iv.) Divorced

5. Type of employment or business enterprise

…………………………………………………………………………………

6. For how long have you been a member of SACCO's

(i.) Less than 1 year

(ii.) 1-2 years

(iii.) *3-5* years

(iv.) More than *5* years

7. Purpose of joining SACCOS

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8. Are the accountants and cashiers adequately qualified to perform their daily tasks?

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9. Do the accountants and cashiers keep records of financial transactions?

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10. Have there been any problems in disbursement of loans to members?

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11. Has this SACCOS faced any shortage of funds? If yes, what are the reasons?

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12. Are stakeholders involved in decision-making concerning financial matters ofthis SACCOS?

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13. Is the management of this SACCOS open with regards to financial matters?

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14. How often is auditing conducted?

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15. What problems are experienced by SACCOSS members related to funds?

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16. What should be done to ensure effectiveness in management of funds at this SACCOS?

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17. Any other comments?

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Thank You for Your Input

Appendix 2: Interview Guide for SACCOS Officials

1. Mention your daily activities
2. Are you adequately trained to perform these daily tasks?
3. What are the sources of funds for running this SACCOS?
4. How are funds managed at this SACCOS?
5. Have there been any problems in disbursement of loans?
6. Has this SACCOS faced any shortage of funds? If so, what are the reasons?
7. Is the management of this SACCOS open with regards to financial matters?
8. What steps are taken to ensure effective management of SACCOS funds?
9. How often is auditing conducted?
10. What problems are experienced by SACCOSS members related to funds?
11. What should be done to ensure effectiveness in management of funds at this SACCOS?