

**ASSESSMENT OF THE CONTRIBUTION OF SACCO'S ON POVERTY  
REDUCTION IN TANZANIA:  
THE CASE OF DAR ES SALAAM REGION**

**BY  
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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award  
of the Degree of Master of Science in Accounting and Finance of Mzumbe  
University**

**2019**

## **CERTIFICATION**

We the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled *Assessment of the Contribution of SACCO'S on Poverty Reduction In Tanzania: The Case of Dar Es Salaam Region*, in partial fulfillment of the requirements for the award of Master of Science in Accounting and Finance of the Mzumbe University.

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## **DEDICATION**

The dissertation is dedicated to my parents Vicky and Seif, My Wife Anthonia and our lovely daughter Nylah for their love, support, prayers and encouragement to pressure further studies.

## **LIST OF ABBREVIATIONS**

CGAP	Consultative Group to Assist the Poor
FAO	Food and Agriculture Organisation
GDP	Gross Domestic Product
ICA	International Cooperative Alliance
MFIs	Micro-finance Institutions
NGO's	Non Government Organisations
OECD	Organisation for Economic Cooperation and Development
SACCO'S	Savings and Credit Cooperatives
SME	Small and Medium Enterprises
TRA	Tanzania Revenue Authority
UN	United Nations
UNDP	United Nations Development Programme
URT	United Republic of Tanzania
WANAMA	Wanawake na Maendeleo
WATS	Women Advancement Trust

## **ABSTRACT**

This study assessed the contribution of SACCO'S on poverty reduction in Tanzania, where the case of Dar es Salaam region was used. The study used both primary and secondary data. The study used a survey study design to collect primary data by taking a sample of 24 respondents from four SACCOS which are; CRDB SACCO's, WANAMA SACCO's, TRA SACCO's, and WATTS SACCO's. Secondary data was obtained in the Ministry of Finance and Planning; Bank of Tanzania; and international institutions such as World Bank, UNDP and OECD.

The findings from both the secondary and primary sources revealed that, SACCOs operations have a significant contribution to economic development and thus help in poverty reduction strategies. The study revealed SACCOs to be a reliable source of financing to members, making it a place of refuge to majority in accessing loans at affordable terms. The study noted several benefits that members enjoy upon joining the SACCOs. Majority of SACCOs members have been able to raise their incomes by obtaining loans from their SACCOs at low interest rates and investing the borrowed money into economic generating activities which have been useful in improving the livelihood of those who access to SACCOs service. Despite its contribution to poverty reduction, SACCOs face a number of challenges notably; inadequate fund to advance to members; institutional governance challenges; lack of common interests among members; and inadequate education and training programmes.

The study recommends for the need to improve provision of training and education to SACCOS members in order to enhance their skills; government support on the sector and joint effort from all stakeholders including the government, media, academia, NGOS and the SACCOS themselves to raise public awareness and create an environment for smooth operations of SACCOS.

## TABLE OF CONTENTS

<b>CERTIFICATION</b> .....	<b>i</b>
<b>DECLARATION</b> .....	<b>ii</b>
<b>COPYRIGHT</b> .....	<b>ii</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>iii</b>
<b>DEDICATION</b> .....	<b>iv</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>v</b>
<b>ABSTRACT</b> .....	<b>vi</b>
<b>LIST OF TABLES</b> .....	<b>x</b>
<b>LIST OF FIGURES</b> .....	<b>xi</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>BACKGROUND OF THE STUDY, OBJECTIVES AND PROBLEM</b>	
<b>DEFINITION</b> .....	<b>1</b>
1.1. Introduction.....	1
1.2. Background of the Study.....	1
1.3. Statement of the Problem.....	5
1.4. Objectives of the Study.....	7
1.5. Research Questions .....	7
1.6. Scope of the Study .....	8
1.7. Rationale for the study .....	8
1.8. Limitation of the study .....	8
1.9. Organisation of the dissertation .....	8
<b>CHAPTER TWO</b> .....	<b>9</b>
<b>LITERATURE REVIEW</b> .....	<b>9</b>
2.1. Introduction .....	9
2.2 Definition of Key Concepts .....	9
2.2.1 Meaning of SACCO's.....	9
2.2.2 Definition of Poverty .....	9
2.3 Theoretical Literature Review .....	10

2.3.1 Financial Development and Economic Growth .....	11
2.4 Prevalence of Poverty in Tanzania.....	12
2.4.1 Poverty Eradication in Tanzania .....	12
2.5 Microfinance Policy .....	13
2.6 The Link between Micro Finance Institutions and Poverty Alleviation .....	14
2.7 Empirical Literature Review .....	15
2.7.1 Review iof Studies Done Outside of Tanzania .....	15
2.7.2 Review of Studies Done in Tanzania .....	19
2.8 Knowledge Gap .....	21
2.9 Analytical Framework.....	21
<b>CHAPTER THREE .....</b>	<b>26</b>
<b>THE RESEARCH DESIGN.....</b>	<b>26</b>
3.1 Introduction.....	26
3.2 Research Design.....	26
3.3 Area of the Study .....	26
3.4 Data Collection Strategy .....	27
3.4.1 Interview .....	27
3.5 Sampling Procedure and Sample Size.....	27
3.6 Data Analysis Strategy.....	28
3.7 Reliability and Validity .....	28
<b>CHAPTER FOUR.....</b>	<b>29</b>
<b>DATA PRESENTATION AND ANALYSIS .....</b>	<b>29</b>
4.1 Introduction.....	29
4.2 Characteristics of Respondents .....	29
4.2.1 Response rate .....	29
4.2.2 Age Profile of Respondents .....	29
4.2.3 Gender of Respondents .....	30
4.2.4 Education Level of Respondents.....	31
4.2.5 Years of Respondents in the SACCOS .....	32
4.3 Interpretation of Findings.....	33
4.3.1 Strategies used by SACCO's in Mobilization of Savings among Poor Population ...	33

4.4 Conditions and Procedures set by SACCO's.....	36
4.4.1 Benefits obtained by Members from their SACCOS .....	38
4.4.2 Economic activities conducted by Members as a result of credit from their SACCO's .....	40
4.5 Main challenges SACCO's face in Provision of Credit to Members.....	45
<b>CHAPTER FIVE.....</b>	<b>47</b>
<b>DISCUSSION OF THE FINDINGS.....</b>	<b>47</b>
5.1 Introduction.....	47
5.2 Strategies used by SACCO's in Mobilization of Savings among Poor Population .....	47
5.3 Conditions and Procedures set by SACCO's.....	52
5.4: Challenges SACCO's face in Provision of Credit to Members .....	54
<b>CHAPTER SIX .....</b>	<b>57</b>
<b>SUMMARY,CONCLUSION AND RECOMMENDATIONS.....</b>	<b>57</b>
6.1 Introduction.....	57
6.2 Summary .....	57
6.3 Conclusion .....	59
6.4 Recommendations.....	59
6.5 Suggestions for future works .....	60
<b>REFERENCES.....</b>	<b>61</b>
<b>APPENDICES .....</b>	<b>65</b>
Appendix I: Interview Guide .....	65
Appendix II: Research Activity Plan (Gant Chart).....	67

## **LIST OF TABLES**

Table 1. 1: GNI Per Capita in US\$ .....	2
Table 4. 1: Age Profile of Respondents .....	30
Table 4. 2: Benefits obtained by engaging in SACCOS .....	38
Table 4. 3 Economic Activities of SACCOS Members .....	41

## LIST OF FIGURES

Figure1. 1: Global Poverty Levels .....	4
Figure 2. 1 Analytical Framework .....	22
Figure 4. 1 Gender of Respondents.....	31
Figure 4. 2: Education Level of Respondents .....	32
Figure 4. 3: Number of Years of Respondents in the SACCOS .....	33
Figure 4. 4: Strategies used to Mobilise Funds in SACCOS .....	34
Figure 4. 5 Response on Conditions and Procedures set by SACCOS.....	37
Figure 4. 6: Challenges faced by SACCOS in delivering services to its Members ....	45

## **CHAPTER ONE**

### **BACKGROUND OF THE STUDY, OBJECTIVES AND PROBLEM DEFINITION**

#### **1.1. Introduction**

This study assessed the contribution of Savings and Credit Co-operatives (SACCO's) on poverty reduction in Tanzania. The study used Dar es Salaam region as a case where four SACCO's were selected to participate in the study. In this first chapter, the background to the problem is presented with its problem statement. Then the main objective and specific objectives has been presented. The key research questions, rationale of the study and how the study shall be organized are presented in this chapter as well.

#### **1.2. Background of the Study**

Poverty has been explained in different terms and concepts. However, historically poverty is related to income, a concept that still prevails today (Ludi and Bird, 2007). The concept has also been associated with the state of deprivation or inability to meet basic needs. Otero (1992) argues that poverty is a matter of deprivation. It is therefore a lack of resources to satisfy basic needs. The ability of the person to own assets and exchange rights is the determining factor of a person's ability to increase income and, therefore, reduce poverty (OECD, 2009). The concept of reducing or alleviating poverty was conceived for the first time as a process or procedure to transform the poor from one level to another at a certain income or consumption threshold (Birdcall, 2004). . The reduction of poverty was one of the means used in the new paradigms to achieve the Sustainable Development Goals (UNDP, 2005).

To distinguish between a poor and a non-poor, a clear method is needed to do so. The level of poverty depends on the circumstances and the mode of production used by each of the companies. The mode of production used allows to classify individuals according to their economy from which they come out. In developed economies, the level of poverty differs from that of developing economies.

The World Bank Income classification (2013) conducted a comparison between the incomes levels by developed and developing economies. The following graph illustrates these comparisons.

**Table 1. 1: GNI Per Capita in US\$**

Low income	1,025 or less
Lower middle income	1,026 to 4,045
Upper middle income	4,036 to 12,475
High income	12,476 or more

**Source: World Bank Report on Income Classification, 2013**

The table shows that the high-income economies are those with a GNI per capita of US \$ 12,476 or more. Low- and middle-income economies are sometimes referred to as developing economies. The World Bank report (2015) reveals that even among developing economies, there are differences. Developing economies have common characteristics that differentiate them from developed economies.

According to the World Bank (2015) developing economies are characterized with the following features; Have relatively low incomes per capita and a low level of absolute savings, lower absolute levels of productivity (labour and capital), often endowed with rich natural resources, high dependency on export incomes from primary commodities / low export diversification. They have a large share of the population living in rural areas and employed in agriculture, limited scope and support provided by a welfare system, A higher informal sector for example in partial subsistence farming, many industries in low- income countries tend to be some distant from technological frontiers. Relatively fast growth of population and a younger average age, Rapid urbanisation and large-scale rural-urban migration, Weaknesses in infrastructure such as telecommunications, transport, ports, water and sanitation, weaknesses in institutions such as stable government, civil service money and capital markets, relatively higher tariffs and other import controls, tendency to

have capital controls / relatively closed capital markets and lower access to advanced country markets.

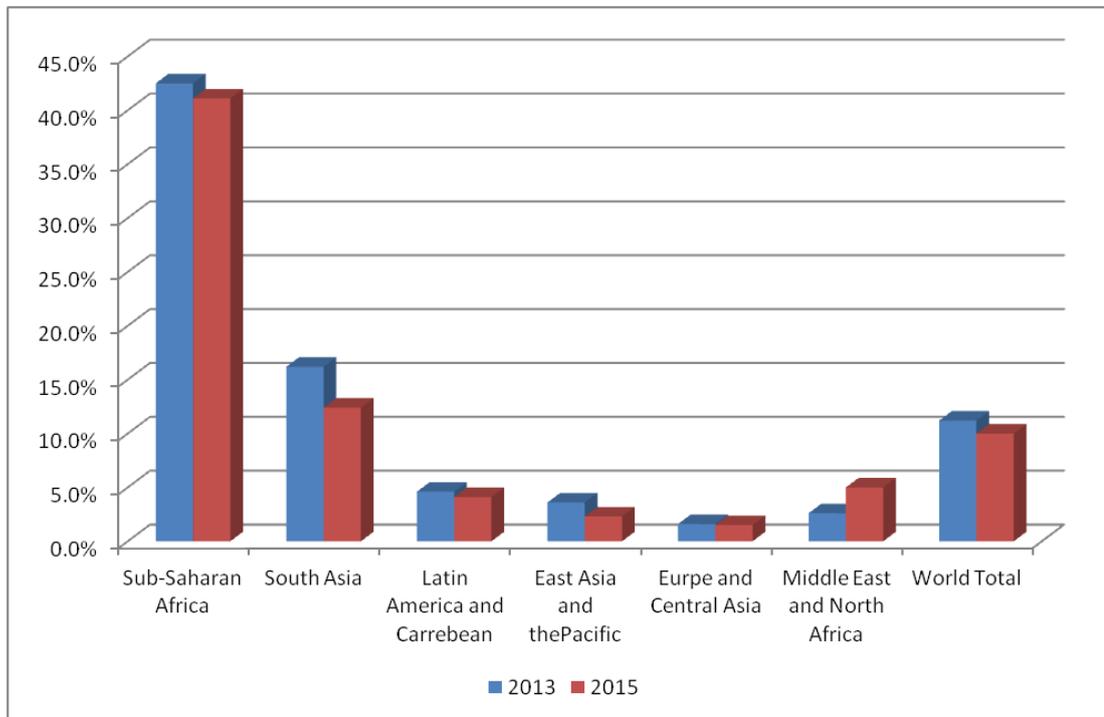
All these combined characteristics are very suitable for developing economies and Africa in particular. The level of poverty in Africa is high despite several efforts to reduce it. African countries are generally at the bottom of the list of small measures of economic activity, such as per capita income or GDP per capita, despite the wealth of natural resources in these countries. In 2009, of the 24 countries surveyed, sub-Saharan Africa (UNDP, 2017) had "low human development" in the United Nations Human Development Index (UN).

The level of poverty in the world has decreased, indicating that several economies around the world are implementing the necessary measures to reduce the scale of poverty problems. The 2015 World Bank report indicated that the poverty level fell from 11.2 percent in 2013 to 10 percent, or 10 percent of the world's population. In 2015, only 10% of the world's population lived on less than \$ 1.90 per day. This means that 735.9 million people lived below the poverty line in 2015, compared to 804.2 million in 2013. The report also revealed that, despite the fact that poverty levels have declined in most parts In the world, they remained high in the Middle East and North Africa due to the conflicts in Syria and Yemen that caused the level of poverty to increase by 5% in 2015 compared to 2.6% in 2013.

Figure 1.1 helps to illustrate how poverty levels around the global for 2013 and 2015. The global poverty level is valued at \$1.90 a day in terms of 2011 purchasing power parity which equalizes purchasing power across all countries and currencies.

The figure indicates that the Sub-Saharan Africa region has been registering a high level of poverty that is above 40%, the highest compared to other regions. It is also by far above the global average which was 10% in 2015.

**Figure1. 1: Global Poverty Levels**



Source: World Bank, 2018

From figure 1.1 it is obvious that Sub-Saharan Africa need rigorous efforts to reduce the poverty level that is striking the region. The World Bank report reveals that individuals living under poverty that is \$1.90 a day cannot afford food of sufficient quality or to live a health life. Reports suggest that the best means to cub the situation is to enable a wider population to participate into economic generating activities. Individuals could be able to engage in economic activities if they have capital to do that. The proliferation of savings and credit unions in the region are among the initiatives to enable majority of the populations to find means of obtaining capital though creating the habit of own savings.

Neoclassical growth theories of Harrod-Dommar and Robert Solow (1956) suggest that saving is not an end in itself. However, these theories indicate an important role played by economies in maintaining economic growth and development. The savings lead to an accumulation of capital that leads to investments. It is likely that these

investments stimulate economic activities and, therefore, economic growth and, ultimately, development. For example, a low-saving economy tends to have low capital accumulation and, therefore, little investment.

These arguments support the views of Lipsey and Chrystal (1995), who found that a high-saving economy accumulates assets faster than low-saving ones. However, in developing countries such as Tanzania, the economies of their members are weak due to the weakness of underdeveloped securities markets, the predominance of urban commercial banks, microcredit institutions and microfinance institutions. Unregulated financing in financial markets for saving. This is the reason why the SACCO must offer an alternative to improve the undesirable situation mentioned above in low income countries. SACCOs are financial institutions composed of members of the community that are incorporated and belong to its members to promote their economic interests. These institutions mobilize and intermediate savings exclusively in their members. As a result, SACCO, one of the many types of cooperatives, is a unique and legal microfinance institution (MFI) composed of members. Unlike many other microfinance institutions, the owners of SACCO are also users of the service offered by SACCO.

According to Syed (1991), the SACCOs have gained popularity as accelerators of economic growth and development in rural areas. As socioeconomic institutions, if they are well managed and organized, the SACCO can contribute positively to the Integrated Human Development (DHI). He added that the SACCO is a proven instrument to promote integrated development through a self-help system that turns man into a total human being (Syed, 1991).

### **1.3. Statement of the Problem**

Savings are an important part of any development business, since it is considered the best way to secure financially and accumulate capital (Cheruiyot et al., 2012). Savings help increase the level of investment and, therefore, stimulate economic growth. Increased investment helps increase people's incomes and increases

productivity, which eventually breaks the vicious cycle of poverty. Without savings, people can face serious survival problems when they can no longer work (Abdi, 2015). It is also argued that when poor families want to save money, they face limitations due to low incomes and their savings become insignificant to achieve greater change. High incomes lead to a reduction in household poverty, which translates into a better quality of life for people especially in rural communities where the majority lives.

High incomes are achieved through a higher level of investment. The level of investment is determined by the savings rate. However, it becomes even more difficult for people to save what they do not have. Most people in Tanzania have little access to funds from formal financial institutions, mainly banks. The implementation of financial reforms and the subsequent privatization of government-owned financial institutions have worsened the situation of most households and entrepreneurs. Although banking systems are strengthened through better supervision, they have tended to focus on low-risk urban customers so far to improve the performance of their portfolio rather than reaching smaller customers, Located in rural areas.

With limited access to funding for most people in Tanzania, the SACCOs have proven to be a refuge for the majority in both rural and urban areas. SACCOs facilitate access to financial services for the majority of people, encourage savings, create jobs, directly support community development efforts, such as helping communities' access social services, stimulate business growth and improve the income and level of life of the members. Although microfinance institutions (MFIs) are emerging to provide financial services at the local level, their scope is still limited. In general, it is observed that most MFIs are weak because they tend to focus their services on a few people that are considered to have credit value and that have little or no connection with the rest of the commercial sector. The most recent survey indicates that in almost all districts of Tanzania there is at least one SACCO. The proliferation of SACCO in the country could only be a positive sign for development if they make a significant contribution to poverty reduction. It is expected that the

level of savings will lead to capital accumulation and increased investment, which will result in a reduction in employment and poverty. Therefore, this study aims to assess whether SACCO can contribute to poverty reduction strategies in Tanzania.

#### **1.4. Objectives of the Study**

As stated earlier, African countries are still lagging behind in terms of fighting poverty. Some studies have recommended intervention to solve the problem including establishment of saving and credit Cooperatives. The overall objective of the study was to assess the contribution of SACCO's on poverty reduction in order to revise where necessary and to improve overall achievement.

More specifically, the study was centered on the following aspects;

- i. To determine the strategies used by SACCO's in mobilization of savings among poor population.
- ii. To assess whether the conditions and procedures for credit favors poor.
- iii. To identify if the members of these SACCO's improve their general performance in terms of growth, employment creation and income generation.
- iv. To determine difficulties SACCO's face in provision of credit to their members.

#### **1.5. Research Questions**

The research was expected to answer the following questions:

- i. What are the strategies used by SACCO's in mobilization of savings among poor population?
- ii. Do the conditions and procedures for credit favor poor?
- iii. Do members of these SACCO's improve their general performance in terms of growth, employment creation and income generation?
- iv. What are the main challenges facing SACCO's in provision of credit to their members?

### **1.6. Scope of the Study**

The study was conducted in Dar es Salaam region, it assessed the contribution of SACCOS on poverty reduction, and four SACCOS were used to conduct a survey study.

### **1.7. Rationale for the study**

Firstly, the findings of the research will help to add more knowledge and awareness on poverty reduction. Secondly, the findings will help to enhance the promotions of the rural co-operative institutions. The findings will also serve as source of empirical reference for academicians, scholars and future researchers. Lastly, the findings of the research will enable policy makers to make relevant and appropriate policies that will help to improve SACCO's operation in Tanzania.

### **1.8. Limitation of the study**

During the course of the study the researcher faced one main limitation that is the willingness of the respondents especially the SACCOS workers to accept interview session, as they were so afraid to be interviewed thinking that it will impare their employment. This was the main challenge that caused the researcher taking a lot of time than the budgeted time to convince the SACCOS workers to cooperate.

### **1.9. Organisation of the dissertation**

The study is organized into six chapters. Chapter one presents the introduction of the study, Chapter two presents the Literature review. Chapter three presents the methodology of the study. Chapter Four showed data presentation and analysis, Chapter Five presents discussion of the Findings and Chapter Six presents Summary, Conclusions and Recommendations and policy implications.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

This chapter intends to review the relevant literature on SACCO's. It also discusses the definition of key concepts, theoretical framework and empirical studies from other scholars who conducted similar studies both at global and local levels and establish a knowledge gap that would be covered in this study.

#### **2.2 Definition of Key Concepts**

##### **2.2.1 Meaning of SACCO's**

A Cooperative Savings and Credit Corporation (SACCO) is a democratic self-managed financial cooperative, unique and directed by its members. It is owned and governed by members who share the same link (Marcus et al, 1999). Membership in SACCO is open to all members of a group, regardless of race, religion, color, creed, gender or professional status. These members commit to saving together at SACCO and lending to each other at reasonable interest rates. Interest is charged to cover interest and administrative expenses. The members are the owners and the members decide how their money will be used for the benefit of the other (Bailey, 2001). However, it should be borne in mind that in Uganda, unlike in South Africa, where Bailey originated, SACCO companies often pay dividends to members based on the number of shares they own.

##### **2.2.2 Definition of Poverty**

Poverty in the broadest sense can be conceived as a state of deprivation that prohibits a decent human life (URT, 1999). This is due to the lack of resources and capacities to meet basic human needs, as evidenced by many mutually reinforcing parameters, including malnutrition, ignorance, the prevalence of the disease, a sordid environment, infant mortality and juvenile mortality.

and high maternity, low life expectancy, per capita income, housing of poor quality, inadequate clothing, low use of technology, environmental degradation, unemployment, rural / urban migration and poor communication.

Poverty is caused by internal and external factors. Although internal causes can be grouped into economic, environmental and social factors, external causes are related to international trade, the burden of debt and the problem of refugees (Makunyi, 2017).

### **2.3 Theoretical Literature Review**

The notion of the link between poverty reduction and a combination of development strategies stems from the fact that poverty is a multidimensional concept (Ravallion 1996, Bourguignon and Chakravarty 2003). As such, broad-based poverty reduction strategies should explore the complementarities of various mechanisms that can reduce poverty. Four of these mechanisms occupy a prominent place in the economic literature, namely: financial services, economic growth, diversification of households in non-agricultural activities and growth of agricultural productivity.

The neoliberal theory of development postulates that the benefits of economic growth would be transmitted to the poor (Romer, 1990). The poverty reduction strategies adopted by the Tanzanian government are part of this theoretical framework. In the Poverty Reduction Strategy Paper (2000), implicitly assumes that development strategies are applicable to all types of smallholder farmers and that, therefore, approaches to measure. In a country as poor as Tanzania, economic growth has multiple benefits. There are many possible links between economic growth and other sectors of the economy. However, by way of illustration, only a few are provided below, knowing that this list of possible links is not exhaustive.

First, with economic growth, the government could invest in financial institutions and road infrastructure, which would create more employment opportunities and, therefore, reduce poverty. Second, government revenues could also be used to improve the infrastructure that links the surplus of agricultural areas and, therefore, stimulate trade (Ravallion, 1996). These interventions could also promote the growth of agricultural productivity, since improved inputs would be more readily available, while marketing infrastructure would be improved (FAO and OECD, 2014). Third, the government could also create employment opportunities through credit and savings schemes. Fourth, investments in irrigation systems would also lead to higher agricultural productivity, which in turn generates enough cash to allow small farmers to participate in the nonfarm employment sector (FAO and OECD, 2014).

However, the adoption of a neoliberal development policy implied that the government would hardly intervene in the agricultural sector. Therefore, despite the possible complementarities among the many development policies, the government may have lost the opportunity to develop the agricultural sector. If so, the results should be reflected in the well-being of households, given the importance of agriculture. In other words, the benefit of economic growth may have missed the poor in rural areas (UNCTAD, 2014).

### **2.3.1 Financial Development and Economic Growth**

Analysts and development professionals have always been interested in the contribution of finance to the development process. Lewis (1955) is one of the first contributors to this debate. He proposed an idea of the bidirectional relationship between financial development and economic growth. According to Kirkpatrick and Green (2002), this theory postulates that financial markets develop as a result of economic growth, which in turn stimulates the growth of the real economy. This thinking has attracted much research and analysis to (i) empirically test the cause and effect relationship between finance and development, and (ii) understand the functions of the financial system in the

development process (World Bank, 2001). Traditionally, poverty has been perceived as a problem of low-income people, which has led them to consume very little to reach a socially determined level of life, and to have very few assets to protect themselves from future uncertainties. The relationship between poverty and access to financial services is best explained by the sustainable livelihoods framework theory advocated by many authors (Ashley and Carney 1999, Scoones 1998).

#### **2.4 Prevalence of Poverty in Tanzania**

Poverty is not evenly distributed geographically or within the population. Distinctions can be observed between rural and urban poverty, gender and agro-ecological zones. According to the Tanzania Household Budget Survey of 2000/01, the gap between urban and rural populations is greater. At one extreme, Dar es Salaam is much better than the rest of the country; On the other hand, rural households are much poorer than their urban counterparts in almost all aspects (URT, 2002).

URT (2004) indicates that differences in poverty between men and women are less important than geographical differences. Poverty is the result of many mutually reinforcing factors, including the lack of means of production to such as floods, droughts and disasters caused by poverty like wars.

##### **2.4.1 Poverty Eradication in Tanzania**

Tanzania, like other developing countries, is working to reduce poverty. One of the interventions was the introduction and implementation of social and economic policies that address the problem of poverty at the national and individual levels. This implied state intervention in education and other social services and the creation of an environment conducive to investment by the private sector in productive sectors (URT, 2002).

At the World Social Summit held in Copenhagen in 1995, Tanzania joined other nations in its commitment to eradicate poverty. In line with this commitment, Tanzania has developed poverty reduction plans as described in the Tanzania Development Vision of 2025, the National Strategy for the Eradication of Poverty, the National Strategy for Poverty Reduction. Poverty (2000) and the National Strategy for Growth and Poverty Reduction (2005). All this underscores the importance of sustainable and equitable economic growth and the improvement of people's well-being.

The Tanzanian government recognizes the role of the private sector in poverty reduction. The role of the private sector is to create employment opportunities by increasing investment (URT, 2002). In addition, private sector investment in social services will create an effective environment for poverty reduction.

## **2.5 Microfinance Policy**

Rubambey (2001) indicates that microfinance in Tanzania is one of the approaches that the government has focused on in recent years to achieve its long-term vision of providing sustainable financial services to the majority of the Tanzanian population. . Chijoriga (2000) adds that in Tanzania, before the current restructuring of the financial and banking sectors, the majority of financial services for small and medium rural enterprises were provided by the National Bank of Commerce (NBC), the Cooperative and the world rural. . Development Bank (CRBD).

Since 1991, the government has been implementing reforms in the financial sector aimed at building a competitive, efficient and effective financial system. Although the reforms have been reasonably successful in the growth of a competitive and efficient traditional banking sector, they have not allowed greater access to basic financial services for the majority of Tanzanians, especially in rural areas (Rubambey, 2001).

The government has taken the decision to take deliberate measures to facilitate the establishment of diversified financial systems based on various sustainable institutions offering a wide range of financial products (ibid). The government's choice of microfinance has been influenced by the belief that, with sufficient attention, microfinance could make a significant contribution to the country's economic development, since it is better suited to the needs of the low-income population, which it constitutes the majority Tanzanians.

## **2.6 The Link between Micro Finance Institutions and Poverty Alleviation**

According to Harper et al. (1999), MFI systems were launched to achieve different objectives. The most frequently mentioned objectives are: poverty reduction and improvement of living standards, financing of the poor, empowerment of women and development of the commercial sector as a means to achieve high standards and reduce market failures. . Empirical evidence and surveys show mixed results on the performance of MFIs. In some cases, stories of debacle have been reported, but there have been successes. In other cases, the reasons for failures or successes have not been well documented (Rahman, 1999).

Recent studies show that linking MFIs with other interventions, such as poverty reduction, often complicates their operation by pushing them into areas that are not considered sustainable (Chijoriga and Cassimon, 1999). This implies that there is a conflict between measuring financial performance and alleviating poverty. Most sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and subsidy grade). For an MFI to respond to the best practices in microfinance, as provided by CGAP, and financially viable, it must be considered a business. As a result, and especially in rural areas, very few people are eligible for a commercial loan.

## **2.7 Empirical Literature Review**

This section presents the relevant studies from various scholars. The analysis helps to identify any gaps in the literature and come up with a way to fill that gap.

### **2.7.1 Review of Studies Done Outside of Tanzania**

Studies on MFIs have been conducted in several countries around the world. The results of these studies are useful for new research on microfinance. Some of the studies, which made a significant contribution, include Mosley (2001). In his study on microfinance and poverty in Bolivia, Mosley evaluated the impact of microfinance on poverty. The study was conducted through surveys of a sample of four microfinance institutions, two urban and two rural, using a range of concepts of poverty as income, ownership of assets and diversity, as well as various measures of vulnerability. The study also found that, compared to other measures to alleviate poverty, microfinance appears to be effective and relatively cheap in reducing poverty among people close to the poverty line. However, it has also proved ineffective in relation to the labor market and infrastructure measures to reduce extreme poverty. The study also proposes actions that look promising to further reduce poverty in Bolivia and that may also be useful for other developing countries. These actions include greater efforts to mobilize rural savings, the elimination of lower limits on the size of the loan and the establishment of appropriate insurance mechanisms.

A study conducted by the Central Bank of Nigeria (CBN) had already identified 160 MFIs registered in 2001 and in 2008, reaching more than 700 MFIs (Obunya, 2009). The results indicate an increase in the number of MFIs in the country, indicating an exponential growth that shows that "the more MFIs are, the greater the access to credit" for the poor, especially for women who should have more power and isolated against poverty and social exclusion (Halkias et al., 2005).

Hassan and Rentería-Guerrero (1997) have made another empirical contribution in this area. In their work entitled "The Experience of Grameen Bank (GB) in Bangladesh Community Development", they examined GB's experience in understanding the essential elements of its operations and the factors that allowed GB to reach the poor. This study revealed that the Board of Directors has established its competence as an institution to grant credit to the landless and the less poor in rural areas. British credits give beneficiaries the power to enjoy productive goods and services of society with immediate effect, unlike most other programs for the poor, which tend to create the undesirable negative effect of dependence on the providers of social goods and services. However, it has been observed that credit itself is an insufficient factor to improve the conditions of poverty and, therefore, the GB devotes a substantial amount of resources to improving the social welfare of its members.

Great Britain uses an unequivocal eligibility criterion that differentiates the poor from those who are considered to have something. Only the poor, even the poorest, can participate in the program. This motivates their clients to organize themselves into groups of five like-minded members. Each group chooses a group leader from among them. The six groups form a "center" that serves as the basic control unit of GB. The center is where weekly meetings are held to openly discuss loan proposals and to accept weekly payments and mandatory savings deposits. Although loans are granted to individual members, the group as a whole must be responsible for the regular repayment of all members' loans. This form of grassroots organization not only promotes the solidarity and participation of members at the group and center level, but also promotes mutual support and peer pressure so that loans are used appropriately and reimbursements are made quickly. . (Hassan and Guerro, 1997).

identify any gaps in the literature and find a way to fill this gap. Mutua (2017) evaluated the effect of the microfinance institution on poverty reduction in Makuni County. The study found that microfinance services have a significant influence on poverty reduction. It was recommended to strengthen microfinance through financing, training and business skills.

Gomina et al (2015) examined the impact of SACCOS on the state of poverty of farmers in the state of Niger, Nigeria. The study found that different beneficiaries and non-cooperative beneficiaries. The study found that the loans had a positive effect on the beneficiaries' agricultural production.

Anyelwise (2007) evaluated this effect on MFIs on poverty reduction among small farmers. The results of the study revealed that credit facilities have a positive impact on the activities of producer producers. The study also revealed that most farmers face problems such as low incomes and knowledge about microcredit.

Kihwele and Gwahula (2015) examined the impact of SACCOS on poverty reduction in Tanzania. The study found that SACCOS contributes more than 50 percent to the reduction of poverty through increased income, improved social services and self-employment. Churk (2015) analyzed the contribution of SACCOS to improve rural livelihoods in the district of Makungu, Iringa, Tanzania. The study found that the SACCOS played a limited role in rural livelihoods. The study recommended that SACCOS implement more strategies to address rural poverty.

Mwai and Okach (2017) evaluated the impact of SACCOS on the eradication of poverty among farmers in Muranga County, Kenya. The study found that there is a significant relationship between the capital and deposits of members and the eradication of poverty, the provision of loans and the eradication of poverty. In addition, it was found that there is training on negative relationships and poverty reduction.

Kwai and Urassa (2015) on the contribution of SACCOS to the reduction of income poverty in Mbozi, Tanzania. The results show that SACCOS performs different activities in the provision of financial and non-financial services, such as stocks, savings, loans and member training.

Mosley (2001) on microfinance and poverty in Bolivia, Mosley evaluated the impact of microfinance on poverty. The study was conducted through surveys of a sample of four microfinance institutions, two urban and two rural, using a range of concepts of poverty such as income, ownership of assets and diversity, as well as different measures of vulnerability. This study found that, compared to other poverty alleviation measures, microfinance appears to be effective and relatively cheap in reducing poverty among people close to the poverty line. It has proven ineffective in addressing the labor market and infrastructure measures to reduce extreme poverty. This study suggests an action that seems to promise a greater reduction of poverty in the study area, which may be useful in many underdeveloped countries. These measures include more effective methods to mobilize savings, eliminate the lower limits of the size of the loan and initiate an insurance system.

The United Nations Capital Development Fund (UNCDF) 2006 suggested that one of the principles for making a lasting impact of poverty reduction efforts is to develop a financial system that includes microfinance so that the poor and the poor can Low-income people can have access to sustainable financial resources service provision. This means that MFIs must provide credit and savings, as well as other financial services, to low-income people and poor households to create or expand their economic activities to improve their lives.

The study by Weiss et al. (2004) show that microfinance is one of the innovative financial devices designed to attract the poor, especially women, borrowers or savers, to solve the problem of access to capital. In addition, it is argued that MFIs serve as a microcredit window for women

instead of men, since they have traditionally been denied the right to vote for the formal system, largely because of the undue disadvantages they have bring them existing socio-cultural and economic institutions (Oke et al., 2004). MFIs tend to support mainly informal activities that often have low returns and low market demand (Shahidul, 2005).

### **2.7.2 Review of Studies Done in Tanzania**

Tanzanian studies have shown that there are more than 50 MFIs registered in Tanzania, but their overall performance has been poor (Chijoriga, 2000). In its study, Chijoriga assessed the performance and financial viability of MFIs in Tanzania, in terms of overall institutional and organizational strength, client outreach, and operational and financial performance. In the study, 28 MFIs and 194 SMEs were selected and randomly visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar. The findings revealed that the overall performance of MFIs in Tanzania is poor and that few of them have clear objectives or a solid organizational structure. It was also observed that MFIs in Tanzania lacked participatory ownership and many were led by donors. Although the clientele is becoming more active and agencies are opening branches in almost all regions of the Tanzanian continent, MFIs' activities remain in and around urban areas. Their operational performance is indicative of low loan repayment rates and their capital structure is dependent on donor or government funding.

In conclusion, the author pointed out that low population density, poor infrastructure and low levels of household income were due to the performance of MFIs. Many of these MFIs do not have a clear mission or goals. In addition, its employees lack capacity in credit management and business skills. Among the questions that arise from these research results, it is questionable whether these questionable MFIs will have an impact on poverty reduction.

Kuzilwa (2002) and Rweyemamu et al. (2003) conducted other studies of microfinance services in Tanzania. Kuzilwa examines the role of credit in the creation of entrepreneurial activities. He used qualitative case studies as part of a sample survey of companies that had access to businesses and increased access to credit. It was also observed that companies whose owners had received training and business advice had better results than those that had not received training. It recommended the creation of an environment in which micro and small enterprises can continue to have easy access to informal and almost informal financial institutions. The study by Nkya (2007) indicates that Tanzania's main concern is the need to eradicate poverty by training people to develop and the informal sector as an important element of strategies.

Rweyemamu et al. (2003) evaluated the performance and limitations of semiformal microfinance institutions that currently grant loans in the Mbeya and Mwanza regions. The primary data, supplemented with secondary data, was collected as part of a formal survey of 222 farmers participating in the Mbozi Agricultural Development Program and the Mwanza Women's Development Association in Ukerewe. The analysis of this study revealed that interest rates were a significant impediment to loan decisions. Borrowers also mentioned problems with the duration of credit purchase procedures and insufficient cash disbursements. With respect to institutions, the study found that both credit programs had low reimbursement rates, particularly during the first years of operation, and farmers mentioned low crop yields and low producer prices and the acquisition of inappropriate loans as a cause of default. It was also revealed that poor MFI infrastructure resulted in high transport costs, which increased transaction costs related to credit purchases and disbursements, which ultimately hindered the effectiveness of MFI programs credit. This is because most of the borrowers lived in rural areas, far from the credit bureaus. Kuzilwa covered only the National Fund for the Development of Entrepreneurship, while the Rweyemamu Study and others

focused on the evaluation of microfinance services for the agricultural sector only.

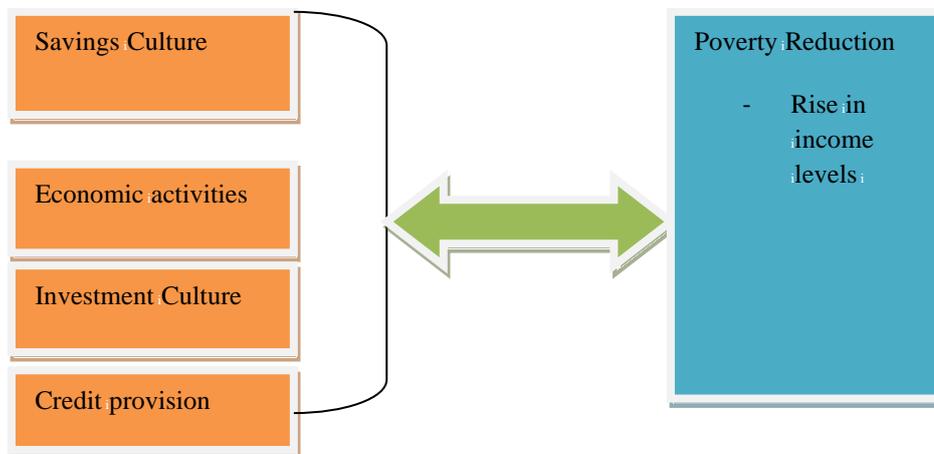
## **2.8 Knowledge Gap**

From the above evidence the researchers found that there was a strong need to study the schemes existing in Tanzania and see to what extent their operations contribute to poverty reduction in the country. From this study, the researcher intended to explore more on these schemes. The study also examines whether the proliferation of SACCO's in the country especially in Dar es Salaam city, has any contribution to poverty reduction among its members and thus contribute to country's overall strategies on economic growth and poverty reduction. The recommendations will be of great relevance to other researchers and policy makers so as to find alternative means through which financial services could be offered to the low income earning population or rather restructure the existing schemes for poverty reduction strategies.

## **2.9 Analytical Framework**

The analytical framework provides a synthesis of the literature in order to explain the study phenomenon. In this study, the determinant factors includes; saving culture, economic activities, investment culture, and credit provision. The intervening factor in this study is considered to be credit policy. This directs the way a credit is issued, follow up and control measures.

**Figure 2. 1 Analytical Framework**



**Source:** Author, 2019

**Saving Culture:** This variable is considered to be a key component in any development endeavor as it is believed to be the best way to increase income and boosting productivity in an attempt to break through the vicious cycle of poverty (Lwoga et al (1999). There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows: Saving up; savings are accumulated in some safe place until they have grown into a usefully large sum. The majority of poor people lack a safe and reliable opportunity to “save up”. Saving down; in “saving down”, the poor have somebody give them an advance against future savings. The savings then take the form of loan repayments. MFIs, relatives/friends, money lenders etc offer this service. For example the methodology employed by microfinance institutions in Tanzania and SACCO’s encourages individual savings. This mode of savings and loan disbursements makes a large number of repayments at short intervals based on their capacity to save.

Saving through; in this third case savings are made on a continuous and regular basis, and a lump sum usually equal to the total periodic contributions is made available to the save along the way. "Saving through" is offered by many forms of savings clubs. This form of “Saving through” constitutes the

most common category. Although rarely used by the poor, it is important to observe that insurance is a “savings through” device because the periodic premiums are a form of savings. SACCO’s are the most prevalent semi-formal savings device. It offers both the “saving up” (savings accounts) and “saving down” (loans) swap types. They are very prevalent in Tanzania although they have suffered setbacks in the recent past (Amin et al., 2003).

The savings are enhanced by the strategies implemented by the SACCO administration to ensure that members develop and maintain their savings habit by establishing a mechanism to ensure that members have something in store before borrowing. Saving is about accumulating money for future use. Since there is no time for an individual to have more money to save, it is very important that society find a way to develop a savings culture (Mpala, 2016). Member savings can reduce the need to borrow or reduce the cost of the loan. Interest rates on loans are lower in secured loans. The savings are liquid, that is, the total value is available almost immediately. This is not usually the case with property or other assets. Savings also generate income as long as these revenues are higher than the inflation rate. The advantages of SACCO since savings are its main means to obtain funds for loans. The savings generated also generate income to cover operating expenses, invest in new services and benefits, and increase capital. Savings are essential for the economic development of a community. The SACCO contribute to economic development by helping people improve their financial situation through savings and loans (Amin et al., 2003).

**Economic activities:** The savings and credit cooperatives (SACCO) are community economic development projects that focus on three areas: participation, empowerment and sustainability of the economic activities of community members (Lupande, 2014). SACCO members should intend to participate in productive economic activities so that their operations are

sustainable. Without these activities, it can be very difficult for SACCO members to repay their loans on time.

**Investment culture:** Investment plays an important role in the sustainable growth and development of all countries. High investment rates depend on high savings rates (Pelrine and Kabatalya, 2005). Many researchers have written on this subject, but little effort has been made to determine the effect of savings on savings and cooperative societies (SACCO) on the investment culture of its members. A high-saving economy accumulates assets faster and therefore grows faster than a weak economy. The investment culture is very low in Tanzania. According to Lipsey and Chrystal (1995), a high-saving economy accumulates assets faster and, therefore, grows faster than a weak economy. Links between borrowers and savers of SACCO (Spot, 2006). Savers pool their money in the form of savings and stocks against which they borrow in the form of loans. SACCO are non-profit organizations because their main purpose is to help members save (Kyendo, 2011). Bailey (2001) defines SACCOs as cooperatives that provide their members with practical and safe ways to save money and obtain credit at affordable interest rates.

The SACCO's members must establish investment cultures that will ensure all borrowed money are channeled to economically productive activities. The investment behavior largely depends on the investors' wealth and economic environment in which the investor lives (Enskong, 2015). In this regards, an individual who has access to financial resources tend to have a high investment culture than those who doesn't. SACCO's set up is expected to improve access to finance among its members so as to build up an investment culture.

**Credit provision:** This refers to loan products delivered to members. A SACCO's is expected to be able to collect savings from its members and provide loan services for an amount that is higher than what the individual

savings. The loaned amount carries interest amount so as to make the SACCO's operations sustainable. When a SACCO's fails to offer credit to its members, it means there is a diversion from the basic objectives of the SACCO's formation and measures need to be taken to address them. SACCO's are member-based institutions, that intermediate savings into loans. SACCO's are usually rather small, independent financial institutions. The business model of most SACCO's is to collect savings from their members and to intermediate them into loans. This enables the rural and poor population to deposit savings as well as to take loans.

Poverty reduction is depending on the change of the other factors. This can be achieved through improvement in members' activities leading to increase in income levels.

## **CHAPTER THREE**

### **THE RESEARCH DESIGN**

#### **3.1 Introduction**

This chapter describes area of study, research design and population of the study, sample and sampling technique. It also provides information about data collection methods as well as data collection instrument, data analysis techniques, and reliability and validity issues.

#### **3.2 Research Design**

A research design is a strategic framework for action with the objective to be a link between the research questions and the execution or implementation of the research, in such a way that the internal and external reliability of the research results can be improved (Terre Blanche & Durrheim, 1999). A survey study design was used in this research. This is due to the fact that, this design is more than just a collection of data; it involves measurement, classification, analysis, comparison and interpretation of data of many cases. Moreover it is useful in this study because information which will be collected is based on people's opinion on the issue of SACCO's and their investments. Also examining and assessing different issues in multiple case studies it provides a best way to test the theory.

#### **3.3 Area of the Study**

The research was conducted in Dar es Salaam Region, the biggest and commercial city in the country. The region has five districts which are Ubungo, Kinondoni, Temeke, Ilala and Kigamboni. It is the most populated city in the country with population estimated to be about 10 million (2012 estimates). The main reason for choosing this area is due to huge number of SACCO's which are available in the region, another factor is due to financial and time constraints that hinder the researcher to select other regions since he is available in the stated region.

### **3.4 Data Collection Strategy**

This is a process whereby the researcher will collect data from various sources according to the prescription of the research plan. The Method which was used in collection of data is interviews; this method was conducted through the use of interview guide.

#### **3.4.1 Interview**

Interview is a method of collecting information through oral or verbal communication between the researcher and the respondents (Kothari, 2004). Interview questions will be used as an instrument during interviews and in this case both structured and unstructured questions were used to collect data from respondents. Furthermore, interviews will be used because they are quite flexible, adaptable and can be applied to many people and information can be obtained in detail. Respondents (24) were contacted to respond to interview questions.

### **3.5 Sampling Procedure and Sample Size**

Sampling is a process of choosing a group that is small enough to be a true representation of the entire population (Sekaran, 2000). This study was administered to four SACCO's namely; CRDB SACCO's, WANAMA SACCO's, TRA SACCO's, and WATTS SACCO's, that were selected using purposeful sampling to represent the SACCO's in Dar es Salaam. The selection is necessary since it is not possible to cover the whole SACCO's in the region but can easily identify and select information which is rich in cases for the effective use of resources which are limited, as one does not necessarily need to eat the whole ox to be able to know that it is tough (Wonnacott quoted in Mashindano, 1996). Therefore, a sample size of 24 SACCO's members from four selected SACCO's in Dar es Salaam region was chosen to participate in this study.

### **3.6 Data Analysis Strategy**

Data analysis is an important step towards finding solution of a problem under study. Guba (1994) describes data analysis as being a systematic process involving working with data, organizing them and dividing them into small manageable parts. Continue to explain that data are further synthesized in order to discover what is important and what has been learned so as to decide what to tell others.

Data analysis begun with individual response and responses from different respondents were purposively sorted and grouped to make the coherent with research objectives and research question. The vast amount of data was analyzed through the help of excel and qualitative analysis was performed to give meaning to the results. The analysis was aided through tables and figures to indicate the results and findings. This activity reduced the data into small manageable and analytical packages which was used for analysis and drawing the conclusions and recommendations.

### **3.7 Reliability and Validity**

Reliability refers to the extent to which the information collection techniques employed by the researcher yield consistent findings, similar observation would be made or conclusion reached by other scholars conducting the same study. The researcher conducted a pilot study of 10 respondents from four SACCOS with the aim of ascertaining whether the interview guide was carefully constructed to capture the true scores. The interview guide was also presented to the people with knowledge and background of the SACCOS operations.

Validity of data refers to the extent to which the data collection methodologies employed by the researcher accurately measure what they were intended to measure (Mugenda, 1990). For the aim of ensuring validity of data, the researcher used a survey study design as well as the purposive sampling technique to select the sample. Thus, the research interview guide was constructed basing on the body of knowledge on variant factors of SACCOS in poverty eradication.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

This chapter presents data findings as obtained from the field. The study aimed at assessing the contribution of SACCO's contribution on poverty reduction in Tanzania. The study used a multiple case studies by taking a sample of 24 respondents from four SACCOS which are; CRDB SACCO's, WANAMA SACCO's, TRA SACCO's, and WATTS SACCO's.

The study findings were guided by the following objectives;

- i. To determine the strategies used by SACCO's in mobilization of savings among poor population.
- ii. To assess whether the conditions and procedures for credit favors poor.
- iii. To identify if the members of these SACCO's improve their general performance in terms of growth, employment creation and income generation.
- iv. To determine main challenges facing SACCO's in provision of credit to their members

#### **4.2 Characteristics of Respondents**

##### **4.2.1 Response rate**

A total of 24 interviews were successfully completed from the four selected SACCOS in Dar es Salaam. 12 respondents were staff and management of the respective SACCOS and 12 were members.

##### **4.2.2 Age Profile of Respondents**

Age is an important demographic variable in this study because it enables the researcher to find out whether the perception of respondents towards the study findings is influenced by their age. The researcher analysed the age profile of

respondents and the feedback was documented as shown in the table and figure 4.1 below;

**Table 4. 1: Age Profile of Respondents**

Age in years	Distribution of Respondents	
	Frequency	Percentage
18-25	5	20.83%
26-35	5	20.83%
36-45	12	50.00%
Above 45	2	8.33%
<b>Total</b>	<b>24</b>	<b>100.00%</b>

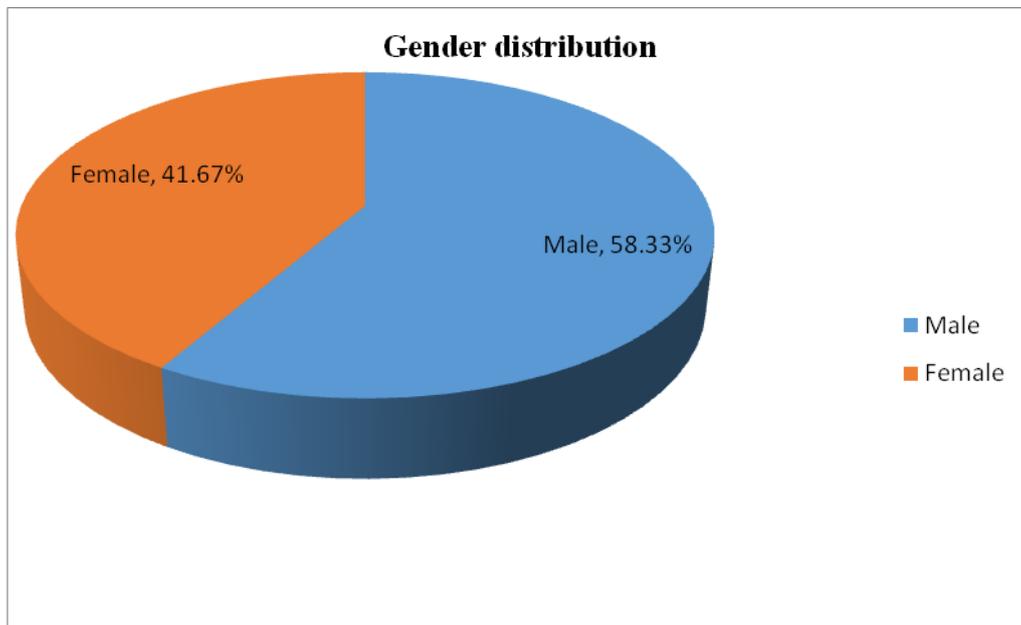
**Source: Research Findings, 2019**

From Table 4.1 the findings of the study show that majority of respondents that is 50% of respondents are aged at 36-45 years; followed by 20.83% for respondents aged at 18-25 years and 26 -35 years. Lastly, 8.33% of respondents are aged above 45 years.

#### **4.2.3 Gender of Respondents**

Gender is an important demographic variable in this study because it enables the researcher to find out whether the perception of respondents towards the study is influenced by their gender. The researcher analysed the gender of respondents and the feedback was documented as shown in the Figure 4.1 below;

**Figure 4. 1 Gender of Respondents**



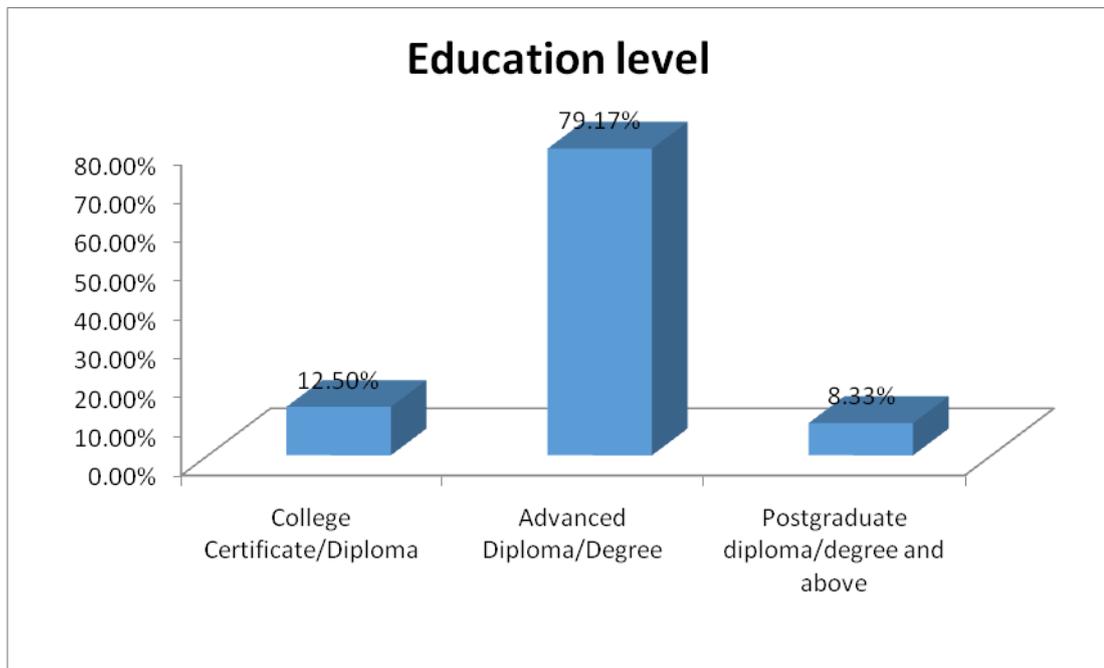
**Source: Research Findings, 2019**

The findings from Figure 4.1 show that 58.33% of respondents are males and 41.67% of respondents are females. These findings show that there are more male respondents than females. However, the study suggests that there was gender inclusive as we see participation of both males and females.

#### **4.2.4 Education Level of Respondents**

Education level is an important demographic variable in this study as it enables the researcher to find out whether the study findings were influenced by the level of education of respondents. The researcher analysed the level of education of respondents and the feedback was documented as shown in the figure 4.2.

**Figure 4. 2: Education Level of Respondents**



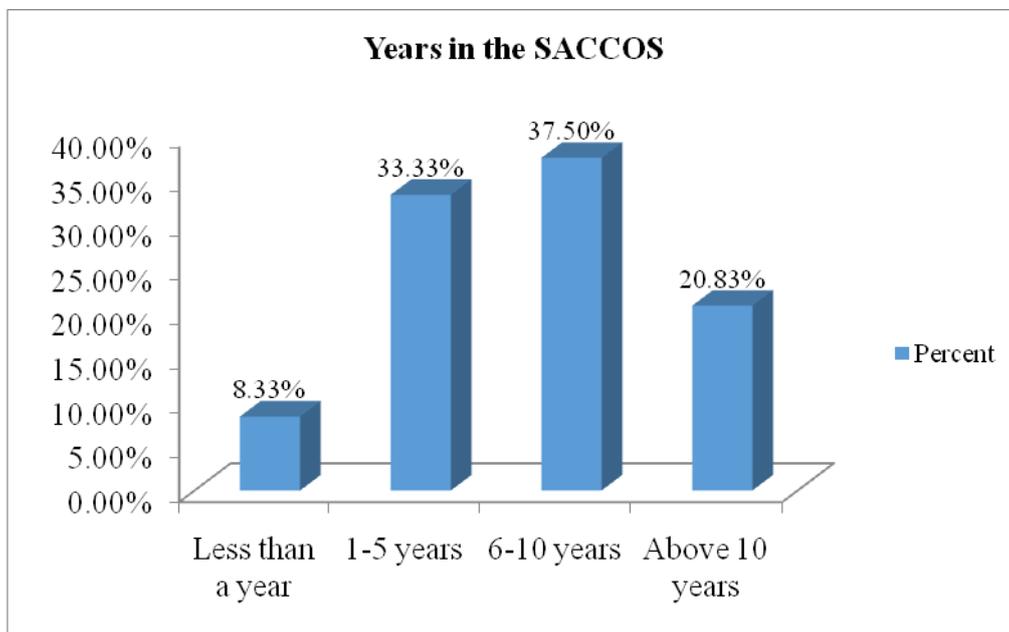
**Source: Research Findings, 2019**

The findings from Figure 4.2 show that majority of respondents that is 79.17% of respondents had advanced diploma/degree; 12.5% had postgraduate diplomas and above; while 8.33% had college certificates/diplomas. This suggests that the respondents had relevant level of education and thus their response might reflect the actual picture as they knew the subject matter.

#### **4.2.5 Years of Respondents in the SACCOS**

The number of years of respondents in their respective SACCOS was an important factor to be considered in this study because it enables the researcher to find out whether the findings are influenced by the level of experience. The researcher analysed the number of years of respondents and the feedback was documented as shown in the figure 4.3.

**Figure 4. 3: Number of Years of Respondents in the SACCOS**



**Source: Research Findings, 2019**

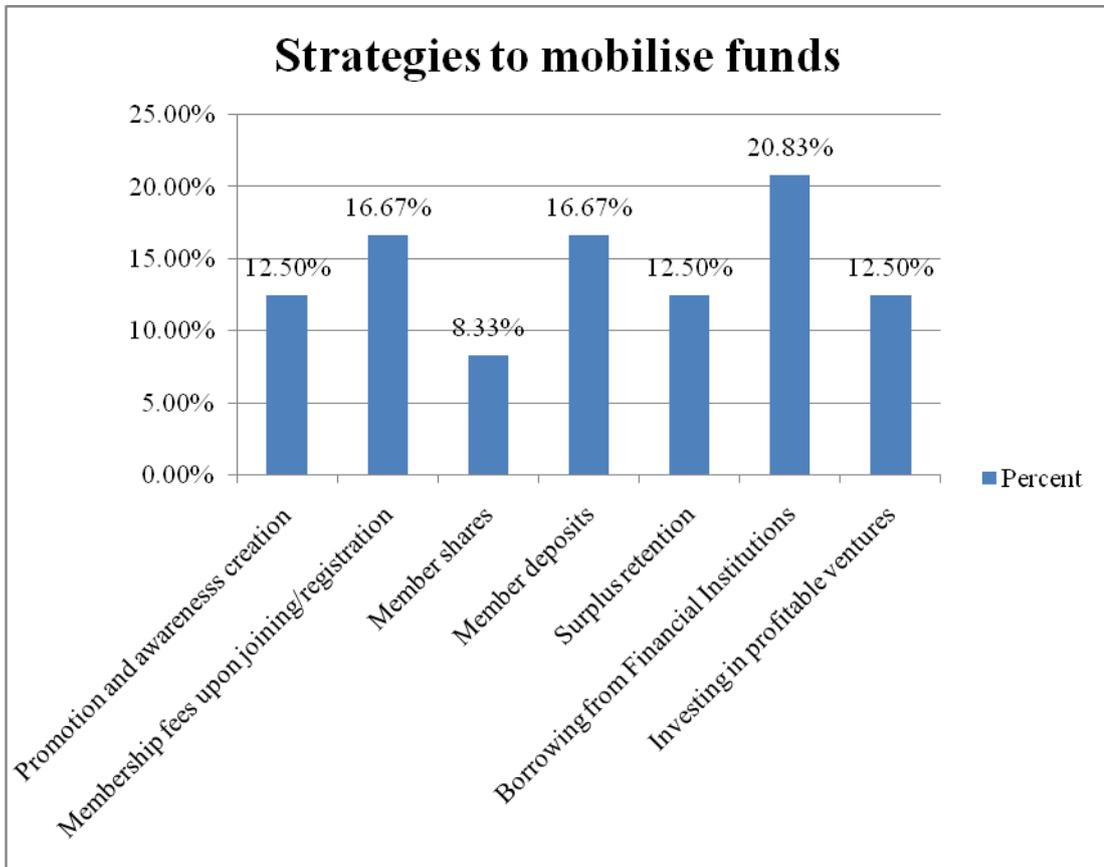
The findings in Figure 4.3 show majority of respondents that is 37.50% of respondents have work experience of 6-10 years, 20.83% of respondents have work experience of 1-5 years; 33.33% of respondents have work experience of above 10 years while none of respondents had a working experience of less than a year.

### **4.3 Interpretation of Findings**

#### **4.3.1 Strategies used by SACCO's in Mobilization of Savings among Poor Population**

SACCOs need to find ways to mobilize and increase member funding for continuity of services. The management must ensure that this is achieved through the lowest cost, lowest risk from capital for operations and investment. The strategy to increase member funding depends on the particular circumstances of the SACCOs, the type of activity engaged in and the scale of operation as summarized in the Figure 4.4

**Figure 4. 4: Strategies used to Mobilise Funds in SACCOS**



Source: Research Findings, 2019

From Figure 4.4 we find out that, majority of funds to support SACCO's operations from the selected SACCOS comes from borrowings from other financial institutions. The response indicates that 20.83% of the funds come from borrowings. Other strategies used to raise and mobilise funds is through membership fees upon registration/joining the SACCOS and members deposits which accounts for 16.67% each. Other means used to mobilise funds are through promotion and awareness creation among members to utilise funds from the SACCOS; retention of surplus obtained from SACCOS operations; and investing in profitable ventures. All these strategies account for 12.50% each. Another strategy used was through members' shares where each member of the SACCOS is compelled to buy a certain amount of share. This accounted for 8.33%.

**Borrowings from other financial institutions:** This is commonly used by most SACCOS. In simple terms, the higher the institutional capital and member deposits, the more outside lenders such as banks and suppliers will be willing to loan funds to the cooperative. Care should be taken in borrowing, however since the higher the outside funding as a proportion of funds used, the higher the risk if something goes wrong. Cooperatives have always been referred to as “member-owned” organizations, in a situation where cooperatives have depended too heavily on outsiders for financial support, that sense of ownership and personal financial stake has been lost.

**Promotion and awareness creation:** Promotion and creating awareness to members helps to improve efficiency of members and can be important for the mobilization of funds. The more members use the cooperative’s services - that is by taking loans and saving with the cooperative - the more funds the cooperative will receive. It is therefore important for the cooperative to promote this and raise the members’ awareness in getting loan from the SACCOS and investing in viable economic activities. This is most easily achieved when cooperatives provide services valued by members, offer competitive interest rates and prompt payments.

**Membership fees upon registration/joining the SACCOS:** The SACCOS normally charges a certain amount of fee and non-refundable entrance fees. These fees are often small, but they need not necessarily be so if new members are buying into a successful business that provides valuable services.

**Retention of surplus obtained from SACCOS operations:** The results revealed that, surplus can either be retained by the cooperative as institutional capital, or paid out in patronage refunds to members following the close of each year. In practice, cooperatives often offer interest rates more favourable than those prevailing in the market, creating little surplus and making it impossible to offer patronage refunds. Whenever possible, these practices should be altered either to build up surpluses or increase patronage refunds and attract new members. A surplus creates two opportunities for increasing capital available to a cooperative. One is the

surplus retained, and the other is the patronage refund that is allocated but not immediately paid out in cash. During the period between the realization of the surplus and the cash pay-out of patronage refunds, the cooperative has the use of the cash. Pay-out may take the form of a share or of an obligation to pay the member in the future.

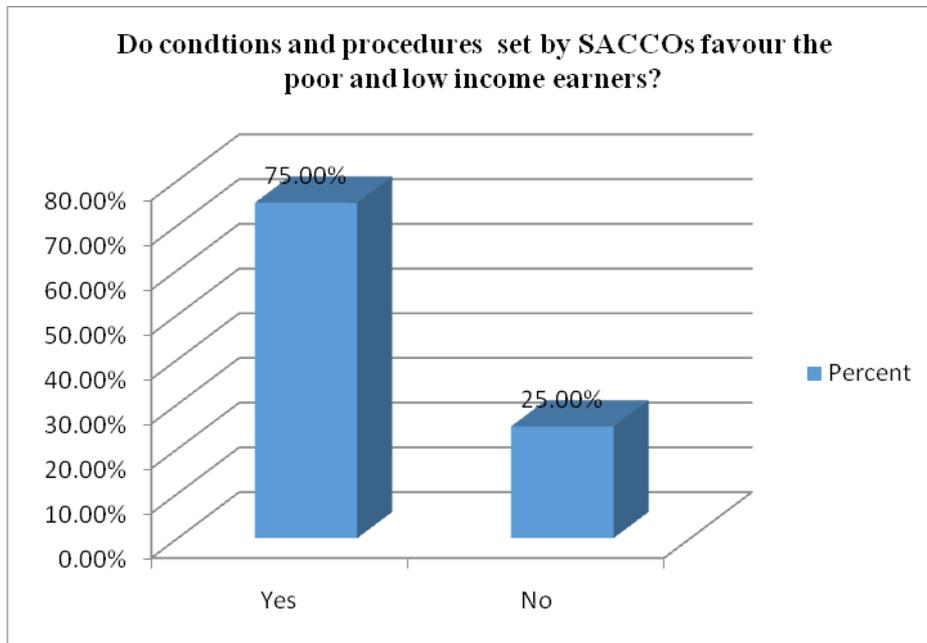
**Investing in profitable ventures:** The findings revealed that, SACCOS have been investing members' funds into profitable ventures in order to raise their funds. These initiatives have improved to raise the revenues and mobilize more funds for the SACCOS. However, care must be taken as it was said that some ventures are riskier so it is the duty of the management that they look into more prudent investments.

**Members' shares:** The findings revealed that, all members are required to purchase shares, which are usually the primary source of member capital. Shares purchased earns dividends and are transferable to other members upon withdrawal from membership or given to his/her heirs in the event of the member's death.

#### **4.4 Conditions and Procedures set by SACCO's**

Respondents were requested to indicate whether the conditions and procedures set by SACCO's favour the poor and low income earners. In response to this question, the results are summarised in the figure 4.5 below.

**Figure 4. 5 Response on Conditions and Procedures set by SACCOS**



Source: Research Findings, 2019

Majority of respondents' equivalent to 75% admit that the conditions and procedures set by SACCOS favour the poor and low income earners. Those who did not agree to the statement were 25%. Most of them commended that the procedures and conditions set by their SACCOS turn to be obstacles when providing services to their members. Most of respondents who agree to the statements indicated that the conditions and procedures laid down by their respective SACCOS were friendly to the members and made their members improve their living standards.

One of the respondents commented this statement;

“SACCOS are promoted not only for money; they contribute to the promotion of total human development. SACCOS have helped to improve self-reliance of members by encouraging them to save and apply their own funds through loans at affordable rates. In turn the incomes generated are distributed to members in form of dividends and interests.”

Another respondent who was in favour of SACCOS conditions and procedures commented as follows;

“The conditions and procedures set by SACCOS help to develop material well-being by raising the living standards of members, through encouraging regular savings, wise use of money, and providing loans at low interest rates. All these procedures help to make possible the economic emancipation of members.”

#### 4.4.1 Benefits obtained by Members from their SACCOS

Respondents were requested to indicate whether they have benefited from SACCOS operations and indicate ways through which they benefited. Table 4.2 below indicates the response.

**Table 4. 2: Benefits obtained by engaging in SACCOS**

<b>Benefits of SACCOS</b>	<b>Frequency</b>	<b>Percent</b>
To obtain loan based on member’s contribution	7	29.17%
Members receive dividends based on their shares	3	12.50%
They give interest to their members	4	16.67%
They ensure member’s contributions/members loans are written off on death.	3	12.50%
They give loans on easy terms/conditions	4	16.67%
Encourage members/help to save	3	12.50%
<b>Total</b>	<b>24</b>	<b>100.00%</b>

Source: Research Findings, 2019

From Table 4.2 members were able to indicate their response where 29.17% indicated that they benefit from SACCOS by getting loans based on their contributions. Those who indicated that they enjoy the benefit through receiving interest from their SACCOS were 16.67%; while those who indicated that they get loans on easy terms/conditions as compared to other microfinance institutions were 16.67%. Members who indicated that they benefit from SACCOS operations through

receiving dividends from their shares were 12.50%. Those who said they get encouraged to do savings were 12.50% as well.

**To obtain loan based on member's savings:** Once one is a member of a SACCO, they're allowed to borrow within the limits of their savings. The standard is a member can borrow up to 3 times their savings, provided other members' give him/her guarantees or they give a form of security. SACCOs have various products, such as emergency loans which are processed within a day and school fees loans and development loans. SACCOs have lower interest rates and these rarely change currently capped at 12% per annum.

**Loans on easy conditions:** The study findings indicated that, SACCOs contribute much on improving financial means of its members through provision of different types of loans at low interest. The SACCOs do not have complicated requirements in providing loans to members like no need for detailed business plan or any detailed description of their member activities/business is required in getting loans. SACCO's members can access loans through using collateral substitutes like, individual guarantors, group guarantee, deposited savings and un-surveyed houses enable even the poor people to get loans.

**Interest distributed to their members:** SACCO's operations generate some amount of funds through interest on loans. Part of the income is in turn distributed to members based on their shares. The study noted that members of the SACCO, earn interest on their savings which are part of what they have borrowed lowering their borrowing costs further.

**Members receive dividends based on their shares:** SACCOs are deposit taking in nature and are an ideal way to channel member savings. The findings revealed that, The SACCO aggregates the savings and lends them out or invests in authorized instruments such as shares, treasury bills and bonds, and in some cases property as authorized by the by laws. Returns from SACCO savings for a member are usually high and sometimes better than what banks offer.

**Encourage members to save:** The study revealed that, SACCOS promote the culture of saving to their members. While repaying a SACCO loan, a member is expected to still maintain the same level of monthly savings as they did before. This builds a saving discipline, and helps one accumulate a substantial savings base. This has helped to raise their incomes for future needs.

**They ensure member's contributions/members loans are written off on death:** The best thing in SACCOS set is that, once a member dies, his/ her loans are written off, thus off-loading loan burden to the family members.

#### **4.4.2 Economic activities conducted by Members as a result of credit from their SACCO's**

The main goal of SACCOS is to empower its members on self-reliance and poverty reduction. It was revealed that members to these SACCOS realize that, it is difficult to cover all one's needs with one's own funds. All undertakings, whether big or small, rural or urban, often require credit in addition to one's own funds. It is increasingly common for economic systems to be based on credit. Majority of the respondents indicated that they had used the loans as capital to start a business as a response to the question on how many had benefited from SACCOS microfinance services by starting any income generating activity. In response to the usefulness of SACCOS operations, members were required to indicate economic activities that are resulted from obtaining the credit facilities from their respective SACCOS. The summary of the response are indicated in the Table 4.3 below.

**Table 4. 3 Economic Activities of SACCOS Members**

<b>Economic Activity</b>	<b>Frequency</b>	<b>Percent</b>
Restaurant services	3	12.50%
Poultry Raising	5	20.83%
Food processing and packaging: Maize flour, fruits and spices	4	16.67%
Retail shops: Selling of basic commodities such as sugar, salt, soap, cooking oil, home utensils, clothes, etc.	6	25.00%
Preparation and marketing of dairy products: Small-scale milk processing enterprises	4	16.67%
Wood and metal workshops	2	8.33%
<b>Total</b>	<b>24</b>	<b>100.00%</b>

**Source: Research Findings, 2019**

From the Table 4.3 various economic generating activities in which members were engaged are summarised. The results show that, most of the SACCOS members are engaged in retail shops for basic commodities which account for 25% of respondents. Another income generating activity was cited to be poultry raising which accounts for 20.83% of the respondents. This was followed by preparation and marketing of dairy products which accounted 16.67% of the respondents. Another economic activity was said to be restaurant services comprising of 12.5% of the respondents. Wood and metal workshop was cited to be another income generating activity practices by SACCO's members representing 8.33%.

**Retail shops:** Respondents who are engaged in retail shops indicated to have benefited from this income generating activity. The main activity in retail shops were cited to include; selling of basic commodities such as sugar, salt, soap, cooking oil, home utensils, clothes, etc. Most respondents indicated to have improved their businesses after obtaining credit from their respective SACCOs.

This form of economic activity was said to have benefited most members as one of the respondents indicated that: “Retail marketing is often more effective than other forms of marketing, because it brings the customer to you. Consumers who shop in a particular store are demonstrating their interest in the products and services that business sells just by their willingness to take the trouble to visit. When you know that the consumers you are dealing with already patronize your store or at least have an interest in the product, the task of marketing further products and services to them is that much easier. Instead of creating an initial interest in your product, retail marketing allows you to expand that initial interest into repeat sales.”

**Poultry raising:** Respondents indicated that various types of domestic birds are raised commercially for the purpose of meat and eggs. The most common birds that are kept by SACCO’s members were cited to be chickens. The study revealed that some respondents raised chickens which are for eggs called layers, and the chickens which are raised for their meat production are called broilers. Poultry keeping was said to have improved the livelihood of most respondents through increasing their incomes and provisional of nutritional food through eggs and meat.

One of the respondents who is a member to TRA SACCOS had this to share;

““I started the poultry keeping project in 2015 after I got a loan from my SACCOS of Tshs 4,000,000. I started raising about 300 chicks and later I retained layers and few broilers. Today I have an incubator that can hatch 550 chicks at a go. I have been able to pay the school fees of my two children without any problem and I see my income increasing as I am able to settle various bills that were not possible previously.”

**Dairy products:** Preparation and marketing of dairy products was said to be among the activities of some farm members. This activity as is for others has been a means to reduce poverty among SACCO’s members. One of the members who had accessed a loan from WATTS SACCOs and started a dairy project had this to say:

“I wanted to improve and start my dairy project from farming to processing and packaging. Before getting a loan from my SACCOS I used to buy fresh milk and

resale condensed milk to vendors who also sold in retails. After getting a loan of Tshs 1,500,000 from my SACCOS in 2017, things started to change. I bought two heifers that have been very productive in milk. I am capable of milking up to 40 Litres a day. I can say my income has doubled since when I got a loan. I have been able to upgrade my house and do a lot of things.”

Another successful dairy producer who is a member of WANAMA SACCOS had this to advice on dairy production business;

“My dairy business is doing well than when I started. I have been a member in my SACCOS for more than ten years now. I have been borrowing money whenever I want to improve my business and I have been able to repay all the loans on time. Dairy production has the potential to be a profitable business opportunity for farmers in Tanzania. There is always room to grow, both for beginners as well as more established players. Dairy farmers can either produce milk and sell to the larger companies or become smaller distributors of their own products. Engaging in these activities helps to improve the income of majority and provisional of nutritional requirements from milk.”

**Restaurant services:** There is a great potential of making profit in the restaurant business evidenced from the study. The respondents indicated interest in this kind of economic activities as one of the most profitable ventures. Restaurant services have improved the lives of most respondents. The study revealed that restaurants have played a great role in raising the incomes of SACCO’s members that are engaged in this kind of business. One lady a member from CRDB SACCOS commented this about restaurant business which she is engaged in after getting a loan from her SACCOS.

“For me, restaurant business has been a bridge to earn more money and get new friends every day. Restaurants lie at the heart of modern life. With increasing population rates every day in urban areas mainly in Dar e salaam, most people are busy, they don’t have enough time to prepare their meals of favorite and thus their first options are to go to a restaurant of their choice”.

Mama Wawili as she is commonly known, the restaurant vendor and a member of WANAMA SACCOS add this:

“The restaurant business is likely to hit the market for the foreseeable future. With increasing populations, millions of people in urban areas will rely on restaurant services for their livelihoods. Apart from its basic purpose to provide foods and drinks, restaurants have historically, fulfilled the human need for connection and shaped social relations. While others use restaurants as a meeting place, we vendors use that to make money and improve our livelihoods. The benefits I have got from this business is incredible, thanks for my initial loan of Tshs 1,200,000 which helped me to be where I am today.”

**Wood and metal workshops:** The study revealed that some SACCO’s members were engaged in woods works such as making furniture for home and office use; while others are engaged in metal fabrication works which help them to earn sufficient amounts of income to sustain them and be able to save for future needs.

Mr. Juma Mapunda, one of the successful furniture manufacturers having utilised the loan from his SACCOS has managed to establish a very successful wood and metal workshops in Temeke Area. Through his workshop, he makes different kinds of furniture and utensils that has made him financially stable. He has employed about 5 employees and several who work on casual basis, therefore not only be able to meet his financial need but to improve their livelihood of others through employment creation. He shared his success story as follows;

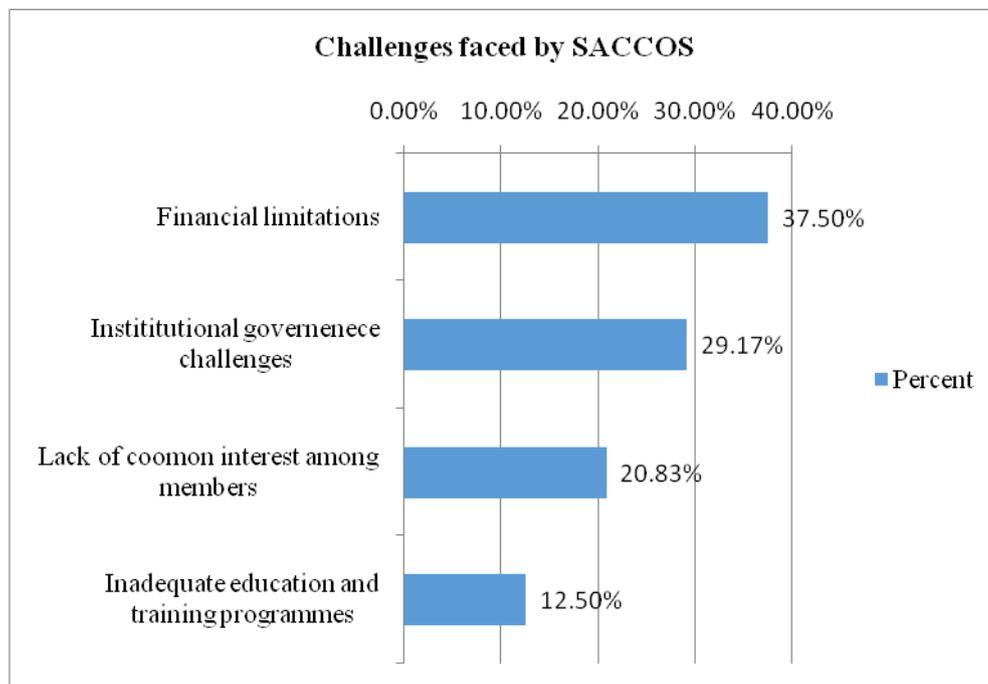
“The furniture business continues to boom as the demand for home and office accommodation grows across Tanzania and mainly in Dar es Salaam, the largest city with biggest population in the country. When people move in a new home they need a bed to sleep on, wardrobes for their clothes, chairs, dining tables, sofas, kitchen cabinets and all kinds of furniture. Like households, offices also buy a lot of furniture too. Since I started this business, about five years from a loan I got from my

SACCOS, my income has been increasing to the extent that, I have managed to build a house and improve my workshop.”

#### 4.5 Main challenges SACCO’s face in Provision of Credit to Members

The section highlights the challenges faced by the SACCOS which were consulted in this study. In most cases, many SACCOS visited, regardless of the good objectives they have, they fail to deliver adequate socio-economic benefits to members as a result what members expected when established the SACCO are not achieved. This study has identified that the total failure or inadequate capacity to the SACCOS to meet members expectation through credit provision is due to different internal and external factors affecting SACCOS performance or operations. The study revealed that, as time goes, these challenges may cause other SACCOS to be dormant or collapse totally and for other may keep with operations but fail to deliver greater achievements to the members and community at large. Figure 4.6 portrays the main challenges faced by SACCOS.

**Figure 4. 6: Challenges faced by SACCOS in delivering services to its Members**



Source: Research Findings, 2019

**Financial limitations:** The study revealed that most SACCOS face the challenge of financial limitation to provide sufficient loans to their members. In most cases, the capital base of grassroots SACCOS is commonly narrow, thereby diminishing their capacity to lend or honor cash withdrawals. Similarly, the lack of capacity and weak capital base often forces most SACCOS to offer very limited product range, thereby leaving them unattractive to a broad segment of the population.

**Institutional governance challenges:** The study revealed that, to attain economies of scale, SACCOS may have a large number of members. With such ownership spread over a large group, only a few members may actually carry out the responsibilities of monitoring the performance of the SACCO by attending the annual general meeting or by monitoring their elected representatives to the management board. Members may fail to closely examine the prudential actions of the board.

**Lack of common interests among member:** The findings show that, SACCOS must be formed by members with common interests. There is a challenge for the SACCOS that have membership with different occupations, especially in urban areas. It happens that members of certain occupation feel to deserve more priority or have more rights to get services than others.

**Inadequate education and training programmes:** The study revealed that, trainings help to improve efficiency of members and can be important for the mobilization of funds. It enables a cooperative to secure and keep member loyalty. Cooperatives are encouraged to allocate funds for members' trainings and technology to reduce costs, and to increase or improve production. Well managed, technologically efficient cooperatives are generally more likely to accumulate capital. From the interview it was noted that, The SACCOs members are not being equipped with various education and training. The rest of the members' lack of information and adequate training make it difficult for members to detect misconduct like misappropriation of funds, or understand the financial position of their SACCOS.

## CHAPTER FIVE

### DISCUSSION OF THE FINDINGS

#### 5.1 Introduction

This part presents the discussion of the main findings from the results obtained from the field and its interpretation. The findings are then compared with other similar literatures consulted in this study to find the conformity of the study with other researchers.

#### 5.2 Strategies used by SACCO's in Mobilization of Savings among Poor

##### Population

The study revealed that, the strategy to increase member funding depends on the particular circumstances of the SACCOs, the type of activity engaged in and the scale of operation. From the findings we noted that SACCOS uses various strategies to mobilise funds among the poor population. These strategies include; borrowings from other financial institutions; membership fees upon registration/joining the SACCOs; members deposits; promotion and awareness creation among members to utilise funds from the SACCOs; retention of surplus obtained from SACCOS operations; investing in profitable ventures; and members' shares.

**Borrowings from other financial institutions:** This is commonly used by most SACCOS. In simple terms, the higher the institutional capital and member deposits, the more outside lenders such as banks and suppliers will be willing to loan funds to the cooperative. Care should be taken in borrowing, however since the higher the outside funding as a proportion of funds used, the higher the risk if something goes wrong. Cooperatives have always been referred to as "member-owned" organizations, in a situation where cooperatives have depended too heavily on outsiders for financial support, that sense of ownership and personal financial stake has been lost.

The findings conform to the study conducted by Distler and Schmidt, (2011) who noted that, there were several issues that put the financial sustainability of most SACCOS at risk in the future. Many SACCOS, especially smaller ones, are over-dependent on borrowings. The quality of the SACCOS' loan portfolio, a main indicator for the capability of lending institutions, seems to be another critical point that threatens the viability of many SACCOS. However, the growth pattern of many smaller SACCOS seems uneven since they have difficulties to attract savings deposits from their members. So, lack of savings is a major blockage to growth for SACCOS leading to over-dependency on borrowed money. They further argued that, inadequate of funds to most SACCOS leads them to look for more financing from other microfinance institutions and banks in search of loans as a way to increase their capital base, which in long run tend to accumulate debt burden to the SACCOS and their members.

**Promotion and awareness creation:** Promotion and creating awareness to members helps to improve efficiency of members and can be important for the mobilization of funds. The more members use the cooperative's services - that is by taking loans and saving with the cooperative - the more funds the cooperative will receive. It is therefore important for the cooperative to promote this and raise the members' awareness in getting loan from the SACCOS and investing in viable economic activities. This is most easily achieved when cooperatives provide services valued by members, offer competitive interest rates and prompt payments. Promotion and awareness creation has to go hand in hand with members trainings on the best ways to utilize their loans.

The importance of promotion and creating awareness was also emphasized by the study by Adekunle and Henson (2007) who argued that, cooperatives should encourage their members to form the habit of saving without being extravagant. They insisted for SACCOS to mobilize savings and pool available resources from the members utilize the same in the best possible manner and share the benefits among

members. Consequently, they can be set up in poor communities, where access to savings and credit at non-exploitative terms is of greatest importance.

Similarly, the United Nations (UN) takes a ‘cooperative’ approach to development. It insists that development must be community-driven, with funds channeled directly to community groups, and with capacity building of self-help groups being the key to success (Birchall, 2003). In a report on the socio-economic impact of cooperatives, UN (2009) posited that “leveraging the contribution of cooperatives to development requires the promotion, formation and growth of cooperatives in a manner that is sustainable and respectful of their autonomy”. This implies that for SACCOS to have a significant impact on economic development, they must be properly organized, coordinated and managed.

**Membership fees upon registration/joining the SACCOS and periodical contributions:** The SACCOS normally charges a certain amount of fee and non-refundable entrance fees. These fees are often small, but they need not necessarily be so if new members are buying into a successful business that provides valuable services. The study revealed that, although members have the choice to determine the size of their monthly contributions, there is a mandatory minimum monthly payment. This varies from one SACCOS to the other. This sum cannot be withdrawn except on termination of membership. The interesting thing about SACCOS is that, unlike banks, they rely on members’ savings and shares as their only source of capital to lend out. But one of their key benefits is the rule that what you qualify for must be within the limit of your savings. The study revealed that, a member has to save over a period not less than six months to be considered for credit. As a universal rule in many local SACCOS, the member is only eligible for up to three times his savings.

The concept of periodical contributions was also emphasized by Opiyo (2013) in his study where he argued that, some members believe they can stop their monthly contributions to concentrate on repayments. This is a misconception; your regular

contribution to the SACCOs must be maintained even when you repay your loan. It is advisable to find an extra income for loan repayment as you continue to save.

**Retention of surplus obtained from SACCOS operations:** The results revealed that, surplus can either be retained by the cooperative as institutional capital, or paid out in patronage refunds to members following the close of each year. In practice, cooperatives often offer interest rates more favourable than those prevailing in the market, creating little surplus and making it impossible to offer patronage refunds. Whenever possible, these practices should be altered either to build up surpluses or increase patronage refunds and attract new members. A surplus creates two opportunities for increasing capital available to a cooperative. One is the surplus retained, and the other is the patronage refund that is allocated but not immediately paid out in cash. During the period between the realisation of the surplus and the cash pay-out of patronage refunds, the cooperative has the use of the cash. Pay-out may take the form of a share or of an obligation to pay the member in the future.

The study findings conform to the FAO (1997) report on cooperatives. The report highlighted that, funds created through the retention of cooperative business surpluses that are not directly allocated to members are another important source of cooperative capital. This is a long term source of funds since most cooperatives' rules allow these funds to be distributed only when a cooperative is liquidated. Unlike loans, or individual member deposits, the cooperative does not have to pay interest to use these funds. Of course, retaining such funds by the cooperative also represents a cost to the individual members who otherwise would have had that portion of the surplus allocated to them. Members willingly accept this cost when the benefits it creates for them are clear and worthwhile.

**Investing in profitable ventures** The findings revealed that, SACCOS have been investing members' funds into profitable ventures in order to raise their revenues. These initiatives have improved to raise the revenues and mobilize more funds for the

SACCOS. However, care must be taken as it was said that some ventures are riskier so it is the duty of the management that they look into more prudent investments.

Investments in more profitable ventures or assets was also emphasized by FAO report (1997) where the report indicated that, most strategies for cooperative development require increased funds. The strategy for developing the cooperative so that it maintains or expands its market position should focus on operational efficiency and on patronage, on how the cooperative can maintain existing business and attract more business and new members. Increased patronage provides an important source of member capital. However, it also usually requires more working capital for the operation of the business of the cooperative and may require more investment in fixed assets such as buildings and equipment.

**Members' shares:** Cooperative businesses require capital, and they generate capital in part through the share investments of member-owners. The findings revealed that, all members are required to purchase shares, which are usually the primary source of member capital. Shares purchased earns dividends and are transferable to other members upon withdrawal from membership or given to his/her heirs in the event of the member's death. From the study findings it shows that, although members share was among the sources of mobilizing revenue for all SACCOs consulted, there are still challenges to obtain sufficient fund through this method.

The study by Scholl (2008) conforms to these findings by insisting on member share program. He argues that, shares have two essential goals: Member shares provide the cooperative with an adequate capital base, and they create a sense of ownership. The cooperative purpose is to meet member needs, and members need to understand that fulfilling that purpose takes capital. Members own and invest in their cooperative because they trust that doing so is in their best interest. Because our culture does not have many examples of democratic ownership, member share programs must include adequate education so that owners understand how cooperative ownership works.

### **5.3 Conditions and Procedures set by SACCO's**

The study sought to identify weather conditions set by SACCOS favour the poor and low income earners. The findings reveal that majority of respondents about 75% admit that the conditions and procedures set by their SACCOS favour the poor. The study noted that most of these conditions are conformity with the principles of cooperatives and other government guidelines on cooperatives. Among the conditions were indicated to be; making regular savings; be able to get loan up to three times of the member savings; every member must have hold a minimum stated amount of shares and so forth. The study noted that these conditions are guided by cooperative principles and guidelines.

Cooperative principles are guidelines by which cooperatives put their values into practice. According to Baarda (2006), cooperative principles are fundamental and immutable doctrine or tenet that defines and identifies distinctive characteristics of the cooperative organization. They are the settled rules of action and are identified as the coordinates that go to make a cooperative society and as such are indispensable. They were evolved out of experiments and practices, and represent the cooperative's philosophy, evolved by Rocha dale Pioneers, improved and embellished by movement and are recognized by the ICA congress.

According to ICA (1995) the seven internationally recognized cooperative principles are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; provision of education, training and information; cooperation among cooperatives; and concern for the community.

On emphasising more of the conditions and procedures set by their SACCOS on how they favour the poor, some quoted respondents had this to say:

“SACCOs are promoted not only for money; they contribute to the promotion of total human development. SACCOs have helped to improve self-reliance of members by encouraging them to save and apply their own funds through loans at affordable rates.

In turn the incomes generated are distributed to members in form of dividends and interests.”

Another respondent who was in favour of SACCOs conditions and procedures also had this to say: “The conditions and procedures set by SACCOS help to develop material well-being by raising the living standards of members, through encouraging regular savings, wise use of money, and providing loans at low interest rates. All these procedures help to make possible the economic emancipation of members.”

The study findings also reveal several benefits obtained by SACCO’s members from their respective SACCOS operations. These benefits include; accessing loans on easy conditions: The study findings indicated that, SACCOS contributes much on improving financial means of its members through provision of different types of loans at low interest rates. The study noted the following benefits received by members: To obtain loan based on member’s savings; accessing loans on easy conditions; interest distributed to their members; members receive dividends based on their shares; encourage members to save: and they ensure member’s contributions/members loans are written off on death: The best thing in SACCOS set is that, once a member dies, his/ her loans are written off, thus off-loading loan burden to the family members.

It was also revealed that, SACCO’s members which were interviewed participated in various economic activities as a result of loan facilities from their SACCOs. various economic generating activities in which members were engaged are:

**Retail shops:** Respondents who are engaged in retail shops indicated to have benefited from this income generating activity. The main activity in retail shops were cited to include; selling of basic commodities such as sugar, salt, soap, cooking oil, home utensils, clothes, etc. Most respondents indicated to have improved their businesses after obtaining credit from their respective SACCOs.

**Poultry raising:** Respondents indicated that various types of domestic birds are raised commercially for the purpose of meat and eggs. The most common birds that are kept by SACCO's members were cited to be chickens. The study revealed that some respondents raised chickens which are for eggs called layers, and the chickens which are raised for their meat production are called broilers. Poultry keeping was said to have improved the livelihood of most respondents through increasing their incomes and provision of nutritional food through eggs and meat.

**Dairy products:** Preparation and marketing of dairy products was said to be among the activities of some farm members. This activity as is for others has been a means to reduce poverty among SACCO's members.

**Restaurant services:** There is a great potential of making profit in the restaurant business evidenced from the study. The respondents indicated interest in this kind of economic activities as one of the most profitable ventures. Restaurant services have improved the lives of most respondents. The study revealed that restaurants have played a great role in raising the incomes of SACCO's members that are engaged in this kind of business. One lady a member from CRDB SACCOS commented this about restaurant business which she is engaged in after getting a loan from her SACCOS.

**Wood and metal workshops:** The study revealed that some SACCO's members were engaged in wood works such as making furniture for home and office use; while others are engaged in metal fabrication works which help them to earn sufficient amounts of income to sustain them and be able to save for future needs.

#### **5.4: Challenges SACCO's face in Provision of Credit to Members**

This study has identified that the total failure or inadequate capacity to the SACCOS to meet members expectation through credit provision is due to different internal and external factors affecting SACCOS performance or operations. The study revealed that, as time goes, these challenges may cause other SACCOS to

be dormant or collapse totally and for other may keep with operations but fail to deliver greater achievements to the members and community at large. The following challenges were identified in the findings:

**Financial limitations:** The study revealed that most SACCOS face the challenge of financial limitation to provide sufficient loans to their members. In most cases, the capital base of grassroots SACCOS is commonly narrow, thereby diminishing their capacity to lend or honor cash withdrawals. Similarly, the lack of capacity and weak capital base often forces most SACCOS to offer very limited product range, thereby leaving them unattractive to a broad segment of the population. This was insisted in the report by CRDB Microfinance (2015), which revealed that most SACCO as indicated a weak capital base and thus failing to meet members expectations.

**Institutional governance challenges:** The study revealed that, to attain economies of scale, SACCOS may large number of members. With such ownership spread over a large group, only a few members may actually carry out the responsibilities of monitoring the performance of the SACCO by attending the annual general meeting or by monitoring their elected representatives to the management board. Members may fail to closely examine the prudential actions of the board. This was similarly observed by Branch & Baker (1998), where they indicated that, when SACCO ownership is diffused among a large number of members the governance problems may occur.

**Lack of common interests among member:** The findings show that, SACCOS must be formed by members with common interests. There is a challenge for the SACCOS that have membership with different occupations, especially in urban areas. It happens that members of certain occupation feel to deserve more priority or have more rights to get services than others. For people to be able to worker together there must be an agreement or common interests.

According to Kussco (2006), one of the basic principles of Cooperative Savings and Credit Movement is the belief in co-operation and mutual self help for the uplifting the standards of living of members. He further argued that, members with a common bond join hands to form those quasi-banks institutions. With finances mobilized through such joint efforts the savings and credit society members build up the capital which they can use through local arrangements to finance their own social as well as economic development.

**Inadequate education and training programmes:** The study revealed that, trainings helps to improving efficiency of members and can be important for the mobilization of funds. It enables a cooperative to securing and keeping member loyalty. Cooperatives are encouraged to allocate funds for members' trainings and technology to reduce costs, and to increase or improve production. Well managed, technologically efficient cooperatives are generally more likely to accumulate capital. From the interview it was noted that, The SACCOs members are not being equipped with various education and training. The rest of the members' lack of information and adequate training make difficult for members to detect misconduct like misappropriation of funds, or understand the financial position of their SACCOS.

These arguments in favour of training and education among SACCOS members are also supported by Kunhu (2011) who suggested that, co-operative education and training have served as a source of inspiration in SACCOS. Co-operative education and training has been among the main areas of intervention by supporting institutions in countries where the cooperative movements exist. He insisted that, the success of co-operative movement depends on cooperative education and training of members as well as the application of the principles, practice and methods of cooperation as a way of conducting business.

## CHAPTER SIX

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 6.1 Introduction

This chapter presents the summary of the study; it shows the conclusion drawn from the study findings and provides the recommendations. I also show the areas of suggested future researches.

#### 6.2 Summary

This study assessed the contribution of Savings and Credit Co-operatives (SACCO's) on poverty reduction in Tanzania. The study used Dar es Salaam region as a case where four SACCO's were selected to participate in the study. Specifically the study looked at; determining strategies used by SACCO's in mobilization of savings among poor population; to assess whether the conditions and procedures for credit favors poor; to identify if the members of these SACCO's improve their general performance in terms of growth, employment creation and income generation; and to determine main challenges facing SACCO's in provision of credit to their members. The study used interview guide to obtain primary data from four SACCOS operating in Dar es Salaam which include; WANAMA SACCOS; CRDB SACCOS, TRA SACCOS and WATTS SACCOS. A total number of 24 respondents were interviewed that is 12 management and staff and 12 members of the respective SACCOS.

The findings from both the secondary and primary sources revealed all the SACCOS have been mobilising funds from both internal sources and outside sources to raise the fund and advance to members in form of loans at affordable interest rates.

The strategies used by SACCOs to mobilise and raise funds for their members include; borrowings from other financial institutions; membership fees upon registration/joining the SACCOs; members deposits; promotion and awareness creation among members to utilise funds from the SACCOs; retention of surplus obtained from SACCOs operations; investing in profitable ventures; and members' shares.

**On whether the conditions and procedures for credit favors poor;** the findings revealed that, most SACCOs used this strategy to obtain funds so that they can advance to their members. However, it was advised that care should be taken not to rely much on in borrowing, since the higher the outside funding as a proportion of funds used, the higher the risk if something goes wrong. Cooperatives have always been referred to as “member-owned” organizations, in a situation where cooperatives have depended too heavily on outsiders for financial support, that sense of ownership and personal financial stake has been lost. The findings also revealed that, the procedures laid out by SACCOs are in conformity to the principle and guide lines of SACCO's operations.

Majority of respondents indicated to have benefited from the SACCOs operations through obtaining loans at affordable rates and easy terms; receiving interests from their savings; receiving dividends from the investment activities of the SACCOs; and encouraging members to save for future needs. Also the findings indicated that members have been benefiting from loan advanced to them by establishing and improving their economic activities. Majority of SACCOs members engage in retail shop businesses; restaurant services; dairy production and processing; wood works and metal fabrications. These activities have helped to improve the incomes of SACCOs members and be able to meet their daily expenditures and make long-term investments.

**Main challenges SACCO's face in provision of credit to members include;** Financial limitations where most SACCOS face the challenge of financial limitation to provide sufficient loans to their members; Institutional governance challenges where due to large number of members, responsibility becomes a challenge to monitor SACCOS operations; lack of common interests among member; and Inadequate education and training programmes. Where members' lack information and adequate training it make difficult for members to detect misconduct like misappropriation of funds, or understand the financial position of their SACCOS.

### **6.3 Conclusion**

SACCOs operations have emerged to be a reliable source of financing to most groups of poor making it a place of refuge to majority in accessing loans at affordable terms. The study noted several benefits that members enjoy upon joining the SACCOS. They have been able to raise their incomes by obtaining loans from their SACCOS at low interest rates and investing the borrowed money into economic generating activities which have been useful in improving the livelihood of those who access to SACCOS service. For SACCOS to be able to meet member's expectations, the management must ensure that they raise sufficient amounts of funds to advance to their members. Prudent strategies must be considered to avoid risks in future at the same time looking into profitable ventures to invest members' deposits so as to raise their revenues.

### **6.4 Recommendations**

Based on the study findings, the study noted some issues which need to be addressed so as to improve the performance of SACCOS and be able to meet members' expectations. The study recommends the following measures:

- Improve provision of education and trainings to members. Trainings help to improving efficiency of members and can be important for the mobilization of funds. It enables a cooperative to securing and keeping

member loyalty. Cooperatives are encouraged to allocate funds for members' trainings and technology to reduce costs, and to increase or improve production. Well managed, technologically efficient cooperatives are generally more likely to accumulate capital.

- The government should increase supportive interventions to SACCOS. It is evidenced that well supported SACCOS have greater chances of improving the livelihood of members and create income to the government and overall economic growth.
- There should and joint efforts from various stakeholders from the government, NGOs, media, academia and the general public to raise awareness on the importance of SACCOS and encourage majority of people to utilize the services from SACCOS.

### **6.5 Suggestions for future works**

Due to time constraints and budget this study focused only in Dar es Salaam. There is a need for future research works to have a combined approach from other regions as well.

The contributions of SACCOS on poverty reduction are a broad subject that may be difficult to cover all aspects in one study. There is a need to look into other variables such as how the SACCOS have helped to meet members' expectations.

There is also a need to look into interest rate charged by SACCOS whether help is helpful to individual borrowers and whether can be effective in generating sufficient income to the SACCOS and ensure sustainability of services.

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9. Do your SACCO's invest money in prudent investments to boost revenue and returns to its members?
10. What are the main challenges your SACCO's face in provision of credit to your members?

**SECTION C: SACCO's MEMBERS**

11. What are the benefits that you have obtained from your involvement in this SACCO's?
12. What are the economic activities you conduct that resulted from the credit you receive from the SACCO's?
13. What are the main challenges you face in your involvement with SACCO's?

**Appendix II: Research Activity Plan (Gant Chart)**

<b>Details</b>	<b>Wee k 1</b>	<b>Wee k 2</b>	<b>Wee k 3</b>	<b>Wee k 4</b>	<b>Wee k 5</b>	<b>Wee k 6</b>	<b>Wee k 7</b>	<b>Wee k 8</b>	<b>Wee k 9</b>
Research proposal writing									
Proposal approval									
Data collection									
Data Analysis									
Research report writing									
Submission									

### Appendix III: Research Budget

S/N	Item	Quantity	Unit Price (TZS)	Amount(TZS)
	<b>Stationary</b>			
1	Printing	500 pgs	300	150,000
2	Photocopy	500 pg	50	25,000
3	Binding	5 books	1,500	7,500
4	Internet Services	10 times x 4 months	500	20,000
	<b>Sub-Total</b>			<b>202,500</b>
	<b>Field Survey</b>			
5	Transport cost to the field and meals	20 days	30,000	600,000
	<b>Sub-Total</b>			<b>600,000</b>
	<b>Data analysis and reporting costs:</b>			
6	Secretarial services	General	200,000	200,000
7	Report production & editing	General	300,000	300,000
	<b>Sub-Total</b>			<b>500,000</b>
8	Contingency: 10% of total	General		130,250
	<b>GRAND TOTAL</b>			<b>1,432,750</b>