

**SOUTHERN NEW HAMPSHIRE UNIVERSITY  
AND  
OPEN UNIVERSITY OF TANZANIA**

**MASTER OF SCIENCE IN  
COMMUNITY ECONOMIC DEVELOPMENT  
(2005)**

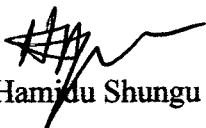
**FINANCIAL AND INSTITUTIONAL ASSESSMENT OF POSTA NA  
SIMU SAVINGS AND CREDIT COOPERATIVE SOCIETY  
LIMITED (“KK”)  
DAR-ES-SALAAM, TANZANIA**

**A PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF  
SCIENCE IN COMMUNITY ECONOMIC DEVELOPMENT (MSC –  
CED) IN THE SOUTHERN NEW HAMPSHIRE UNIVERSITY AND  
THE OPEN UNIVERSITY OF TANZANIA**

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**SUPERVISOR CERTIFICATION**

This is to certify that I have gone through the assessment report titled, "Financial and institutional assessment of Posta na Simu Savings and Credit Cooperative Society Limited (SACCOS) located in Dar-es-salaam, Tanzania and found it complete and acceptable for partial fulfillment of the requirement for the Master of Science – Community Economic Development of Southern New Hampshire University (USA) and The Open University of Tanzania of Dar-es-salaam.



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**January 2005**

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**DECLARATION:**

I, Kassian A. Mtey, declare that this report for partial fulfillment of the requirement for Master of Science – Community Economic Development is based on my own efforts and solely done by myself unless quoted for learning purposes as it has been stated. I also declare that this work has not been presented and shall not be presented at any university or Institution for similar purposes.

Kassian A. Mtey

January 2005

**DEDICATION**

This work is dedicated my beloved family who gave me unlimited support and encouragement while pursuing the Master of Science in Community Economic Development (Msc - CED) course. Special thanks are extended to my two wonderful children, Kennedy and Jennifer, who were very understanding and tolerant to frequent uncomfortable situations resulting from missing their parent's ultimate affection when undertaking such an involving course.

Lastly, I extend my sincere gratitude to my lovely wife Jane, who apart from being a student of the Msc – CED of the same intake, could not abandon her motherly responsibilities to the family. She worked hard to put things right and in balance all the way.

May GOD bless them all.

## **ABSTRACT**

Cooperative systems were developed into structures of government intervention, where the political structures did not conform to the fundamental cooperatives stance and ideals. Recently, the government of Tanzania has undertaken various initiatives towards poverty reduction and attainment of social and economic development. One of the steps was encouraging formation and to continue providing technical assistance to strengthen and develop SACCOS in urban and rural areas.

The purpose of this study is to assess a workers' community established as a Savings and Credit Cooperative Society, namely, Wafanyakazi wa Posta na Simu Savings and Credit Cooperative Society Limited (KK) located in Dar-es-salaam. The intention of the assessment is not to audit the institution but to study performance of activities to give a clear picture of society financial and institutional situation, while observing the extent to which it has successfully fulfilled its avowed role in the past. The study results from KK assessment reveals that with proper organization and control, savings and credit cooperative societies can truly alleviate poverty to its members. SACCOs are expected to improve, continue and expand their role in rural financial services. They also need to be supported through the provision of appropriate capacity building assistance, including training and members' education on savings and credit. This would enable them to upgrade their current level of management, resources, skills, accounting/financial knowledge, assets and overall operating procedures, which would in turn contribute to their sustainability, and make them more effective and efficient.

## **ACKNOWLEDGEMENT**

I extend my sincere gratitude to all parties who in one way or another were involved in the production of this final assessment report.

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**ABBREVIATION**

ACCOSCA	African Confederation of Cooperative Savings and Credit Associations
AGM	Annual General Meeting
BOT	Bank of Tanzania
CIDA	Canadian International Development Agency
COASCO	Cooperative Audit and Supervision Corporation
DANIDA	Danish International Assistance
DFID	Department for International Development (United Kingdom)
DID	Desjardins International Development
FISEDA	Financial Services and Development Association
ICA	International Cooperative Alliance
ICA-ROECSA	International Co-operative Alliance – Regional Office for East, Central and Southern Africa
IFAD	International Fund for Agriculture Development
KK	A Kiswahili word ( <i>“Kuweka na Kukopa”</i> ) used by members meaning, <i>“Wafanyakazi wa Posta na Simu Savings and Credit Cooperative Society Limited”</i> .
MCM	Ministry of Cooperatives and Marketing, United Republic of Tz.
MFI	Micro Finance Institutions
PRS	Poverty Reduction Strategy
SACCOS	Savings and Credit Cooperative Society
SCCULT	Savings and Credit Cooperative union League of Tanzania
SME	Small and medium enterprises
TFC	Tanzania Federation of Cooperatives
TTCL	Tanzania Telecommunication Company Limited
TPB	Tanzania Postal Bank
TPC	Tanzania Posts Corporation
WOCCU	World council of credit unions

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## **CHAPTER I**

### **1.0 INTRODUCTION**

#### **1.1 CBO background**

Wafanyakazi wa Posta na Simu Saving and Credit Cooperative Society (KK) of P.O Box 3948, Dar-es-salaam was formed on 26<sup>th</sup> October 1976 with a registration no. DSR 118) The society started with 10 members of the former East African Posts and Telecommunication Corporation.

In 1978 sometimes after the break of East African Community, members in each country had to change their by-laws where operations were limited only to respective member countries. In Tanzania members automatically fell under Tanzania Posts and Telecommunications Corporation (TP&TC), which was formed after the collapse of the community. TP&TC was then joined by other two related public corporations, such as, Tanzania Postal Bank and Tanzania Telecommunication Commission (TTC) now Tanzania Communication Regulatory Authority (TCRA). Later on TP&TC broke into Tanzania Telecommunication Company Limited (TTCL) and Tanzania Postal Corporation (TPC).

##### **1.1.1 Mission, Objectives and Activities/programs**

###### **(a) Mission/ Objectives/activities**

KK SACCOS does not have clear mission statement because their by-laws indicate only the objectives/activities.

Objectives/activities of Wafanyakazi wa Posta na Simu Savings and Credit Cooperative Society limited (KK) are:

- (i) Receive shares, deposits and contributions from members;
- (ii) Issue soft loans to members;
- (iv) To promote other people who are not members to join the society;
- (v) To increase members' savings by; First, encouraging them to increase their shares, savings and deposits from time to time, improve member's activities as agreed by the Annual General Meeting. Second; To keep reserves at other financial institutions by acquiring government bonds after offering savings and credit services to members; Third, To establish and develop any development activities for members' benefits as it may be approved by members AGM and permit from the Registrar.

## **1.2 Problem Statement**

Despite the fact that cooperative societies are formed by members themselves, managements of many societies in Tanzania have failed to put their organizations in a position where members could play a major role in decision making. Also lack of training have caused knowledge gap between leaders and members, which led to mistrust and complains.

## **1.3 Research objectives**

The objective of the research is to assess performance of KK SACCOs by:

- (a) Identifying shortcomings, which affect execution of the desired savings and credit cooperative society goals;
- (b) Establishing whether KK SACCOs is improving the local community where it operates and is increasing the economic welfare of its individual members;

#### **1.4 Research Questions/hypothesis**

- Are there operational problems or legal and regulatory barriers to the functioning of SACCOs, which cause them to have a hard time being successful?

##### ***Indicators:***

- a. Level of democratic leadership
- b. Importance of leadership performance.
- Does savings and credit represent interests of cooperatives to members, authorities and the general public?

##### ***Indicators:***

- c. Degree of satisfaction from credit service
- d. Scope of benefits received in joining SACCOs
- e. Percentage of membership duration in the society

#### **1.5 Rationale and significance of the study**

Savings and credit cooperative societies in Tanzania are believed to be the oldest in Africa. Despite the fact that they have existed for more than 70 years now, problems in

cooperative societies have been persistent. This indicates that the major reason(s) for the shortcomings have not been addressed clearly, and permanent solutions found.

Development of cooperative movement in Tanzania went through different policy transformations that frustrated the delivery of the desired development service to beneficiaries. Some of the reasons were; Political and governmental intervention; Absence of autonomy; Absence of democratic management; Contravention of cooperative principles and absence of practical organizational structure. Government efforts to revamp cooperatives in recent years have encouraged people who lost hope in the past, to join and run their societies with an intention of improving their economic strength. The study expects to assess the extent to which these societies have survived the external shock and shaped the current social and economic landscape.

#### **1.6 Research scope and limitation of the study**

Presently, it is not easy to evaluate complete achievements of any individual SACCOs, and this task is further complicated by the fact that services offered by each SACCOs in the country, vary from one to another. Frequent policy and SACCOs constitutional changes have made it difficult to conclude with foolproof data, the success of these societies. By conducting the assessment it will help to highlight some shortcomings and successes of KK, the results may be the basis for other studies.

The society has never undertaken any institutional assessment/evaluation since its formation 30 years ago. Given the vastness of the organization and time and resources constraint, only a macro study shall be undertaken where general approach will be pursued. Every possible department shall be touched diagnosing some specific items where necessary. To be in a position to assess the performance of SACCOs, a set of indicators need to be established which would facilitate such a task. Based on the aforementioned, it is recommended that broad areas be identified that may form the basis for assessing the performance of SACCOs.

The following are a range of performance indicators that may be considered: *outreach; quality of services; operational efficiency and portfolio quality; growth rate; profitable interest rates; Management Information Systems' quality; good practice and governance; and transparent financial reporting.*

KK members are spread to all 26 regions in Tanzania, taking into account time constraint as mentioned above and limited financial resources to the researcher's part, the study was conducted in Dar es salaam only, with members between 1,000 and 1,200. Therefore, 122 participants were picked at random, representing about 10% of the estimated number of the focus group.

## **1.7 The assignment**

Assigned duty by the community was to carry out KK institutional and financial assessment exercise that was never done before. Since KK's formation almost 30 years ago (1976), it has gone through three different transformations but no single assessment/diagnosis have ever been done so leaders and some society members indicated the need to carry out an assessment. Assigned duty that required urgent execution was to undertake the financial and institutional assessment to examine the current society situation and recommend what should be done to reverse the threats and weaknesses observed.

### **(i) Needs Assessment and Initial information collection**

Before joining the Society, the consultant had to apply (Appendix 1) to offer a free service in the community, which could take him a period of eighteen months. After being accepted (Appendix 2) and formal orientation done, a meeting was held with the society committee leaders and informal discussions with some members were held with the aim of identifying their needs. The following needs were highlighted;

- Determining the current society performance status;
- Management ability to run the society;

Collection of initial information was done from two different focus groups, i.e. leaders and ordinary members. The survey was specifically conducted to get an overview of pressing needs and more familiarization about the society.

**(ii) Members participation**

Member's participation is encouraged and each member at his /her own initiative is ready to cooperate with their leaders to ensure the society succeeds in meeting its goals.

**(iii) Work plan**

During the whole process of involvement in the society, a summarized work plan (Appendix 3) indicating activities from December 2003 to December 2004.

## CHAPTER II

### 2.0 LITERATURE REVIEW

#### 2.1 Theoretical review

Co-operative society is defined as, *“an association of persons who have voluntarily joined together for the purpose of achieving a common need through the formation of democratically controlled organization and who make equitable contributions to capital required for the formation of such an organization, and who accept the risks and the benefits of the undertaking in which they actively participate”* (Cooperative development policy 2002).

Munkner, H.H (1984) defines a cooperative as, “the pure organizational model - which is any kind of group of persons linked together by economic interest who undertake planned economic activity by using their own resources of solving their own problems”.

The Cooperative development policy 2002, after revising the previous policy of 1997, set the cooperative vision and mission giving a general direction of cooperative development in the foreseeable future. The general direction/vision of the future Tanzanian cooperative system is geared towards ‘improved and sustainable cooperatives that are capable of fulfilling members’ economic and social needs’. The Government (as per article 1.4.2 of cooperative development policy 2002) states that; *‘Under the liberalized economic environment cooperatives are among many business players in the market. Cooperators need economically strong organizations at the grassroots that are*

*created through unity of different groups of small producers... Cooperatives in this respect become an economic empowerment tool of the society such as small producers/farmers, women and youths, who otherwise could not compete as individual players in the market. Thus, the government believes that under this environment, cooperative mission is to, 'develop cooperatives that:-*

- Are member based i.e. owned and controlled by members;*
- Work for the betterment of members' own economic and social development and that of the community in which they live;*
- Operate competitively as independent economic entities; and*
- Care for present and future members*

A savings and credit cooperative society (SACCOS) is an association of people who join together to save money and make loans to one another at reasonable interest rates without exploiting or being exploited. The members provide capital by way of shares and deposits, which are rotated in loans to members. IFAD defines SACCOS as; “a very simple form of financial institution, which fit well with the socio-economic milieu of the rural poor and the poor community as a whole. Hence, they are better placed to innovate and develop indigenous financial products relevant to the communities they serve. Also, SACCOs are democratic institutions where members have a voice in the policies of the SACCO, particularly regarding the setting of interest rates on savings/loans”.

Compared to other financial institutions, a savings and credit cooperative is unique because it follows a philosophy of self-help, member control and economic democracy. The Cooperative works for the social and economic betterment of the members. Members of the cooperative own and control the organization. In a competitive business environment savings and credit cooperatives must follow sound business practices to survive and progress while following the cooperative principles.

Savings and Credit Cooperative societies are established basing on values of, self-help, social responsibility, openness, democracy, equality, solidarity, care and honesty of members through participation. With their emphasis on lending, mobilizing savings and management at local level, SACCOs appear to be a very promising mechanism for delivery of financial services to the rural poor throughout the country. In view of their proximity to their clients, the operating and transaction costs of SACCOs are relatively low. Further, being organizations formed by beneficiaries themselves, the latter feel a sense of ownership in their respective SACCOs and, hence, ensure that operations are conducted according to established criteria and procedures. This has resulted in more effective operations mirrored also in reduced risks in lending and repayments.

The National Micro finance Policy recognizes the institutions providing micro finance services as the real driving force behind the achievement of the ultimate goal of development of sustainable micro finance.

In Tanzania SACCOs are divided into rural and urban, but all of them are subject to the same legal and institutional framework. Rural SACCOs are those who serve members whose livelihood depend on residence in, or interaction with, the countryside beyond district towns. Almost all rural people are involved in one way or another in farming, but they may be many other things besides – traders, processors, artisans, and providers of services. Urban SACCOs are mostly wage-based SACCOs, where regular contributions and deductions are made by agreement with employers. What conventionally distinguishes rural SACCOs is the common bond of farming (often a particular export crop) as the major member's source of income.

Currently the government of Tanzania is undertaking various initiatives towards poverty reduction and attainment of social and economic development. In the process the government founded within its broad policy framework the 'vision 2025' that stipulates the vision, mission, goals and targets to be achieved with respect to economic growth and poverty eradication by the year 2025.

To operationalise vision 2025, the government formulated, 'National Poverty Eradication Strategy' (NPES), which provides overall guidance and framework for coordination and supervision of the implementation of policies and strategies of poverty eradication. The guidance required an instrument for channeling the national efforts towards the broadly agreed objectives so a medium term strategy of poverty reduction; 'Poverty Reduction Strategy' (PRS) was formulated in year 2000. Among many set

targets for the PRS, 'reduction of the proportion of the population below basic needs poverty line by half by year 2010', require an extra effort to ensure that the strategies move with the Millennium Development Goals.

In order to implement effectively the development vision 2025, there are two key prerequisites and these are, good governance and competitiveness of the economy. It is obvious that these forces cannot happen by themselves but have to be deliberately grown and nurtured. In this regard, if for instance it so happens, none of these prerequisites are created. Obviously, there is a possibility that by the year 2025 there would be no positive impact on the quality of life of the people and instead it would increasingly worsen year after year.

One of the key solutions is to develop Microfinance Institutions (MFIs) that play an important role in fighting against many aspects of poverty. The emergence of Microfinance Institutions (MFIs) in Tanzania came after the development of the micro enterprises. Before the 1980s there was only one public corporation, namely, Small Industrial Development Corporation (SIDO) that had the role of providing small loans to small-scale business undertakings. Workers Saving and Credit Cooperative Societies (SACCOs) that were established at work places were also extending small loans to their individual members. The Cooperative Societies Act of 1991 provided the basis for the development of SACCOs as privately owned and –organized equity-based institutions.

Microfinance is the provision of financial service, primarily savings and credit to poor households and microenterprises that do not have access to formal financial institutions. Experience shows that microfinance can help the poor to increase income, build viable business and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor to become economic agents of change. Borrowers must have debt capacity, ( i.e capacity to repay) not just need for credit, otherwise, credit simply makes the client's situation worse, slipping further into poverty with added burden of debt.

Banks and non-bank financial institutions, SACCOs and NGOs are free to develop micro finance services on the basis of their own internal objectives – whether profit, poverty alleviation, self-help or other motivations. The Government expects the institutions that decide to become micro finance service providers to fulfill their responsibility to learn best practices and to apply sound financial principles in the delivery of their services, particularly with respect to pricing, loan delinquency control, financial reporting and information management, appropriate techniques and products, gender equity and governance.

Tanzania is a member of the International Cooperative Alliance (ICA), which is an independent, non-governmental association that unites, represents and serves cooperatives worldwide. Its' members are national and international cooperative organisations in all sectors of activity including agriculture, banking, energy, industry,

insurance, fisheries, housing, tourism and consumer cooperatives. As a member of the ICA, the Tanzania cooperatives are required to operate according to its guiding principles. These cooperative principles are guidelines by which cooperatives put their values into practice. First established in Rochdale, England in the 1840's, these cooperative principles are periodically reviewed and updated by the International Cooperative Alliance.

### **2.1.1 Emergence of Cooperative Societies in Tanzania**

Savings and credit Co-operatives in Tanzania are the oldest in Africa; they have existed in Tanzania since 1925 and started to expand in the 1930s. They were found both in urban (employees cooperatives at work places) and in rural areas where they were closely linked with primary cooperative crop marketing societies (PCSs). The first Cooperative Act was enacted in year 1932 and they officially started in the year 1938. After independence the government policy was to make coops an economic development foundation.

They have, nevertheless, suffered the legacy of Cooperatives in Tanzania: policy and political disruptions, dissolution and reformation, top-down initiatives in their formation and management appointments particularly during the socialist and strongly centralised Tanzania. For the political economy and transformations of cooperatives see for example Mporogomy, 1988, Schyberger 1988, Mushininga 1991, Mwangamila 1992 and Scwettman 1993. An interesting observation here should be that despite the

interruptions, cooperatives have overtime gained strength. This is particularly so where SACCOs that are linked with high value crops marketing societies, as is the case in Kilimanjaro where they are closely interwoven and linked to the coffee economy.

After independence in 1961 the government recognised the importance of cooperatives as a central policy instrument and at first it used a commonwealth model by expanding cooperatives even to areas, which had no cash crops. The government regarded cooperatives as the basic future of rural development, or the basis of the future cooperative economy in which the society could get rid of the vagaries of competition. In 1967, Tanzania adopted the socialist model of development, which as time went by saw different levels of contradictions between market oriented cooperative economy and the state.

Eventually these contradictions ended in 1976 when the government disbanded the marketing cooperatives in favour of a village based socialist model of cooperative development. As per 1975 village and villagisation Act, the villages were deemed multipurpose cooperative societies, which facilitated crop collection and handed over the crops to state owned authorities. The cooperative movement between 1976 and 1984 was not genuine because it failed the test of the international accepted principles based on equity, equality and mutual self –help. In order to reverse this trend the government restructured the cooperative movement through the 1982 cooperative Act, which repealed that of 1975.

However, the implementation of the 1982 Act was still political, static and did not free the cooperative movement from government interference as it continued to impose its demand and control over the internal management and business affairs. By 1988-89 there was general awareness in the government that though cooperatives were important institutions for poverty alleviation, they could not at the same time become efficient instruments of government policy.

A study carried out by Moshi Cooperative College in 1989/90 concluded that failure of the cooperatives in Tanzania mainland was due to excessive government involvement into affairs of the cooperatives Movement. This realization together with other studies resulted in repealing the 1982 act and enacted the Cooperative Act No. 15 of 1991. This Act was followed by the Cooperative development policy of 1997 following economic reforms and economic change due to trade liberalization. The enactment of the Cooperative Act in 1991 and the cooperative policy of 1997 did not help much either because there were some shortcomings observed.

After more than 70 years of cooperative movement in Tanzania, the first cooperative development policy was prepared in 1997 in order to safeguard laws under the 1991 Act so in all cases it was not comprehensive enough to be complete. The policy emphasized government stand on the cooperative development in relation to the principal foundation of the International Cooperative Alliance (ICA) policy. The 1997 policy revealed some weaknesses, especially on issues regarding economy, free market, environment, gender

and responsibilities of other stake holders so these issues together with others made it necessary to review the policy.

On 2000 a presidential committee was formed under the Hon. Ambassador C.G. Kahama (currently the Minister for cooperatives and marketing), identified areas that needed attention and recommended what was to be done to make the policy that will enable cooperatives to be more member oriented i.e. free and independent business bodies. In the year 2000 the government formed a separate Ministry of Cooperatives and Marketing with an intention of performing activities as mentioned in the Presidential Advisory committee.

The government prepared another Cooperative Bill that resulted in the Cooperative Act No. 20 of 2003. The new Cooperative Development policy was also prepared in 2002 and it is now in use. Cooperative Societies Rules were prepared under sponsorship of the World Bank and it became in use soon after the cooperative Act no. 20 of 2003, which became operational on 1<sup>st</sup> August 2004. Section 16(1) of the Cooperative Act states;

*'Primary societies may form Secondary societies and Secondary societies may form Apex societies. A Federation may be formed by Apex societies. Where a Primary or Secondary cooperative society is unable to join into a Secondary or Apex society, due to its nature and/or desire of its members, it may be allowed to become a member of the Federation'.*

Members of cooperative society formed shall choose the type of set up they want themselves rather than the mandatory structures imposed to them by the previous law. In The Act no.15 of 1991, cooperatives societies were starting from primary, then secondary, Apex and end up with the federation, but in Act no 20 of 2003 individual primary society can request and be a member of the Tanzania Federation of Cooperatives without getting permission of any body in-between.

All cooperative societies are members of the Tanzania Federation of Cooperatives (TFC), the governing body of all cooperatives in Tanzania. On the other hand TFC is a member of the International Federation of Cooperatives (ICA). The major objective of the ICA is to promote and strengthen autonomous co-operatives throughout the world.

In order to achieve its aims, the ICA organises international, regional and sectoral meetings, thus serving as a forum for the exchange of experience and information among its vast membership. Through its headquarters in Geneva and regional offices for Europe, the Americas, Africa and Asia and the Pacific and project offices in Africa and the Americas, the ICA provides technical assistance for co-operative development in Africa, Asia, Latin America, and Eastern and Central Europe.

Every member cooperative federation is obliged to adopt the ICA principles so that there is a consistency in cooperatives activities in all member countries.

### **2.1.2 Development of SACCOs in Tanzania**

Excessive government protection and uncontrolled borrowing resulted in collapse of state owned financial institutions in the later part of 1980s after the unions accumulated insurmountable debts. This led to a general awareness in the government that though cooperatives were important institutions for poverty alleviation, they could not at the same time become efficient instruments of government policy. The new Act laid foundation for establishing self-managed cooperatives because those cooperatives, which were formed without genuine member support were later collapsed, as they were plagued with mismanagement, irresponsibility and insolvency. It is believed that introduction of trade liberalization came at an acceptable time when some cooperatives were collapsing and others already dead.

Multipartism, Economic and financial sector reforms in Tanzania in early 1990s was the reason why cooperative Act no. 15 of 1991 was amended in 1997 and a cooperative development policy released. More improvement on cooperative movement came in year 2000 when another cooperative policy was issued followed by cooperative societies Rule in 2003 and Act no. 20 of 2003.

Apart from all changes and reforms, one important fact remained that; the basic responsibility of a cooperatives enterprise is the mobilization of resources from the weak members of the community so that through their cooperative business they can change their conditions of life.

In 1964 the first Savings and Credit cooperative union League of Tanganyika (SCCULT), which was the national association of savings and credit societies (SACCOs) was formed. Formation of SCCULT was to assist savings and credit Co-operatives to organize, expand, improve their economic performance and integrate their economical performance role within the social economic and monetary development in Tanzania. By that time there were only 42 affiliated SACCOs. After experiencing lots of changes, SCCULT (1992) LTD was formed with 10 founder members, including the Wafanyakazi wa Posta na Simu Savings and Credit Society Limited (KK). By the end of year 1992 there were 201 SACCOs members and as time went by more members joined reaching 678 members by October 2004.

SCCULT is a national association and it is a member of, Tanzania Federation of Cooperatives (TFC), ACCOSCA (African confederation of cooperative savings and credit associations) and WOCCU (World council of credit unions). At the moment Wafanyakazi wa Posta na Simu SACCOs is not a members of SCULT following administrative disagreement between KK and SCCULT regarding to annual contributions.

### **2.1.3 SACCOS as an appropriate microfinance tool for poverty eradication.**

Poverty in Tanzania is mainly a rural phenomenon because rural households comprise some 92% of the poor, and rural villages generally lack financial services. As reported in the 1997 World Bank Participatory Poverty Assessment in Tanzania's rural villages,

savings meant putting aside something for emergencies, or for major or special expenses. The survey found that the idea of savings seemed to be widespread and well understood to "help overcome the bad times in a difficult life." If microfinance is to perform its function as one (but not the only) tool in a poverty reduction program, the role of savings and credit in rural village communities as well as village households' perception of the financial services need to be clearly understood by providers of microfinance services.

Statistics indicate that out of Tanzania's approximately 15 million working age population, approximately 3 million are employed in 1.8 million enterprises, the majority of which are in rural areas. Only 0.4% of these enterprises obtain their credit needs from formal sources and less than 0.3% from the savings and credit associations (SACCOs). These facts make the informal sector a very significant player in the national financial landscape and demand careful attention if mutually beneficial financial services are to be extended by the formal financial sector to the majority of people (PRIDE Tanzania, 1997).

Saving and credit co-operative societies (SACCOs) are dynamic people owned financial institutions, operated on sound co-operative and business principles. Their primary purpose are to provide high quality, reasonably priced financial products and services that not only meet, but exceed members expectations. SACCOs are a very simple form

of Micro Financing Institution (MFIs), which fit well with the socio-economic milieu of the rural poor and the poor community as a whole.

Hence, they are better placed to innovate and develop indigenous financial products relevant to the communities they serve. Currently operating SACCOs are structured based on the 1991 Co-operative Act of Tanzania. They are voluntary associations to which members contribute their savings and from which they may obtain loans. They raise money from the savings, deposits, shares and contributions (including statutory reserves), so as to enable them to increase lending capacity to their members.

In Tanzania, SACCOs have registered different degrees of success. SACCOs whose common bond is the work place and composed of educated people, have endured the test of time and have recorded some degree of success. Well functioning SACCOs are popular because of their ability to provide low-cost emergency or consumption loans without the burdensome bureaucratic procedures associated with formal banks. They do not require long complicated application procedures. They provide safe and convenient deposit facilities, which are normally easily accessible and located near members' workplaces or homes. In addition, the hours of operation tend to be sensitive to the members' hours of business operation. Perhaps one variable that distinguishes well functioning SACCOs from others is that savings and loan repayments are often directly deducted from the payroll. This significantly diminishes the possibility of default and ensures the discipline for regular deposits.

In some rural areas especially among less educated groups, running SACCOs has been more challenging. SACCOs requires good bookkeeping skills, which are often conspicuously absent in rural areas. This makes the device less user-friendly to the poor who are often illiterate. In view of their proximity to their clients, the operating and transaction costs of SACCOs are relatively low. This has resulted in more effective operations mirrored also in reduced risks in lending and repayments. Though most of the urban SACCOs are union of formal sector workers, there is a potential for the development of SACCOs of informal sector workers, as is indicated by the experiences of SIDO – GTZ Project in the promotion of savings and credit associations within primary cooperative societies in Dar-es-salaam, (Bastiaenen, 1995).

Available data up to May 2003 shows that total registered SACCOs in Tanzania were 1,236 with a total amount of 157,774 members. By that time, there were 778 urban societies and 458 rural SACCOs. Total share value was Tshs. 8,785,507,545/= and deposits were Tshs.12,176,772,804/= (*Ministry of Cooperatives and Marketing - Appendix 4*)

SACCOs are in the category of the microfinance institutions (MFIs) that work towards institutional financial self-sufficiency while maintaining a commitment to serving the poorest families with financial service for poverty reduction. Microfinance means providing very poor families with very small loans (microcredit) to help them engage in productive activities or grow their tiny businesses. Over time microfinance has come to

include a broader range of services to the very poor that lack access to traditional formal financial institutions that require a variety of financial products.

The financial services needed in poor households vary, according to a family's level of poverty, its skills, life cycle needs, and local market opportunities. Savings are needed by poor families to prepare for major events such as marriage, to finance basic health care, housing, children's education, or to set aside emergency funds. Millions of poor families in the developing world use small loans to make their living from a huge variety of microenterprises or to help them cope with an emergency or short-term economic downturn. Many poor families also greatly benefit from money transfers from migrant relatives. Overall, these services can help poor families benefit from economic opportunities to build up incomes and assets to lift them out of poverty. In other circumstances, financial services provide protection from sliding further into poverty. All over the world, microfinance institutions not only provide key services, but also play an important role in building up community-based groups, local networks, and leadership skills, especially for poor women.

Many poor households would prefer wage employment in a formal business to self-employment in informal enterprise. Small and medium enterprises (SMEs) have the potential to create many new jobs, but SMEs are often severely constrained by lack of access to capital. They are excluded by both the formal and informal financial sector – the former deeming them too risky and the latter lacking the resources and systems to extend services to the sector.

According to Kironde, J.M.L (1992), realization of the importance of micro-finance lending increased due the following reasons;

- The need to tackle poverty which is prevalent and in some cases increasing in both the rural and urban areas.
- The declining role of the public sector, and the increasing role of micro and small enterprises (MSE) in promoting growth and development, offering employment and reducing income disparities;
- The realization that increased participation and contribution of MSEs lead to an increased need for financial services, particularly credit, to support their initiatives;
- The unwillingness of the formal financial institutions (FFIs) to offer credit to the poor or small business undertakers. In any case, the latter would find it difficult to meet the conditions set by the FFIs to extend credit to their operations;
- Economic liberalization that has seen many FFIs streamlining their operations and concentrating on profitable ventures, thus leaving out rural areas and the poor in general.

Microcredit came to prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and few other countries. Although in the past other people considered microfinance to be the same as microcredit, they differed as time went by. Microcredit refers to provision of credit only, while microfinance covers a broader range of financial services, encompassing credit, savings, insurance, leasing, housing, payment transfers and remittance services.

In the 1980s the emphasis in poverty alleviation campaigns was for providing loans or credit (micro credit) for income generating activities but in the 1990s when financiers became more knowledgeable on microcredit to the poor and their needs, broader range of financial services (microfinance) has become better understood (FAQ in Microfinance 04-2001).

SACCOs are the only institutional providers of microfinance services whose activities and operations are not subject to monitoring by government agencies other than the BOT, and/or by private sector organizations. The activities and operations of SACCOs are subject to mandatory monitoring by and submission of reports to the Registrar in the Ministry of Cooperatives and marketing, as well as by the SACCOs' apex organization, SCCULT, for those who are members. The Cooperatives Audit and Supervision Corporation (COASCO) is also involved in monitoring and examination because of their mandate to conduct the external audit for cooperatives. There are no clear indications of the benefits received by SACCOs in general relative to the additional administrative burdens and expenses that are borne by the cooperative financial institutions, in terms of the enhanced development of capacity and sustainability of SACCOs as a class of microfinance institutions.

Tanzania has two categories of institutional providers of microfinance, which are not subject to prudential regulation, the Savings and Credit Cooperative Societies

(SACCOS) and the financial Non-Governmental Organizations (NGOs). These two categories of institutional providers of microfinance services pre-date the entry of commercial banks into microfinance. The number of SACCOS, their outreach to members and clients, resources generated from members in terms of share capital and savings, and the volume of loans outstanding to member-borrowers far exceed those for the financial NGOs.

In 2005, Department for International Development (DFID) – UK published a report '*the microfinance as a business opportunity for the private sector*', aimed at recognizing the importance of a fully functional financial sector and its central place in the promotion of economic growth, private sector development and poverty reduction. The Lessons drawn from the study are mainly based on experiences in Tanzania (by the various implementing partners of SNV-Tanzania's Financial Services Advisory Project including, Directorate of Field Education-Dodoma Wing (DFE-Dodoma), Karagwe Development Relief Services - KADERES and Financial Services and Development Association - FISEDA). Although they are not necessarily applicable to other countries or circumstance, it is felt that many of the issues, lessons and 'preconditions for success' generated go beyond the specific situation of Tanzania. As such, they will be useful to those involved in the promotion of community-based microfinance initiatives elsewhere.

In Tanzania and East Africa in general, there are different schools of thought with regards to the feasibility and sustainability of the cooperative concept. Should community-based rural microfinance become legally registered SACCOS or should this be avoided at all cost? Both options can produce sustainable results; it all depends on how you design and implement the promotion programme.

The first school of thought argues that, there are a number of reasons why some promoters choose not to apply the cooperative concept, including: The cooperative history is a tainted one because in the past the system was highly politicised, resulting in mismanagement, poor governance and in many cases, collapse; all at the expense of the poor rural farmer. Evidence shows that it is a long-term (and thus expensive) process to rebuild the confidence of the rural people with regard to the SACCOs-concept.

The Tanzanian legal system for formal financial institutions does not specifically cater for cooperatives or cooperative banks, i.e. they are not integrated in the Bank of Tanzania (BOT). Cooperatives of all kind are registered under the Cooperative Act, and supervised by the Cooperative Department through the District Commissioners offices (DCOs). Promoting agencies have to be creative and innovative to avoid the potential problems associated with a dual supervision system when creating cooperative banking networks.

Having a legal entity is an advantage in theory, but in practice, the legal system is still under-developed, and commercial courts of law are in a pilot phase only. Furthermore, inventive ways have been found to take informal groups to court.

The other school of thought, however, argues that in principle, the cooperative system is still an effective way to community ownership and community development. One only needs to address the weaknesses in the system. As one promoter put it: "If your child

died of malaria, would that stop you from having another child? If these days there are mosquito-nets and insect-repellent that can protect you from the disease?” Membership education on rights and responsibilities, democratic decision-making, clear reporting and accountability systems are some of the things that can prevent the ‘disease’ that killed SACCOs in the past. The major advantage of being a legal entity is that it allows for growth, almost indefinitely.

In the cooperative philosophy the aspect of creating independence is key, a SACCOs is an independent financial institution that can grow to any size. In this respect, once the initial investment in promotion and confidence building has been done, being a SACCOs allows for more economies of scale as the entity grows to larger numbers, or even into a cooperative banking network.

What is required is to reorganise and strengthen the existing Regional and District Departments of the Cooperatives to enable them to conduct services appropriately. This necessitates additional training and funds to cooperative officers, including the provision of transport and computer equipment to improve supervision and auditing. Furthermore, there is need for the Cooperatives Department to liaise more actively with the BOT with regard to supervisory aspects. The more successful SACCOs should be allowed to transform into Community/Village Banks in order to make them more effective institutions. However, the graduation of selected SACCOs to Village Banks should be a

stepwise process. More specifically, Village Banks are considered as those institutions able to make loans and receive deposits from non-members.

However, it is too much to expect from even the best-positioned SACCOs to take on all such responsibility at once. A first stage should be the acceptance of non-member deposits while restricting lending exclusively to SACCOs members. The restriction of lending to members is to enable the mechanisms of peer pressure to continue to apply, particularly to ensure loan repayment. Thus, all borrowers of the Village Banks should continue to be members until a certain threshold is reached where restriction on lending only to members acts as a constraint on the growth of the Village Banks. At that point, the restriction should be lifted, and they should then be allowed to lend also to non-members, which is the second stage.

## **2.2 Empirical review:**

Structural transformation in Tanzania has been notably limited, and achievements relative to expectations have been marginal. Agriculture still dominates the economy: accounting for 45% where it reaches 75% of all exports. Current employment level is 80% lower than levels at independence but it is higher than in most developing countries (*USAID Region Working Paper Series No. 51 June 2003*). The main factors behind the slow progress in Tanzania's development are primarily inadequate capital accumulation and productivity growth, poor support for the transformation of agriculture, disrupted progress in building human capital, and delayed demographic transition.

A lot have been written regarding successes and failures of cooperatives in Tanzania, but not many researchers have thoroughly assessed SACCOS to evaluate their specific performances. In our report we studied the assessed reports of various SACCOs done by two organizations; i.e the '*DUNDULIZA/Développement International Desjardins (DID) Tanzania*' who prepared, "*the diagnosis report of External Savings And Credit Cooperative Society*" and the '*International Cooperative Alliance (ICA) – Regional Office for Eastern, Central and Southern Africa ICA – ROESCA (in collaboration with other institutions)*', who prepared a "*Survey report on Rural Savings and Credit Cooperative Societies in Tanzania*".

In 2000 (June), the Government of Tanzania (through BOT), The International Cooperative Alliance (ICA) – Regional Office for Eastern, Central and Southern Africa (ICA-ROESCA) and other several bi-lateral agencies prepared a "*survey report on Rural Savings and Credit Cooperative Societies in Tanzania*". The study had the intention of clarifying the situation of rural savings and credit co-operatives in Tanzania. Other agencies involved in the study are, Canadian International Development Agency, Danish International Assistance, Department for International Development (United Kingdom), and then Ministry of Agriculture and Cooperatives (now separated to two different ministries). Others are, Savings and Credit Cooperative Union League of Tanzania, Royal Netherlands' Embassy and Swedish Cooperative Centre. The final report was issued January 2001.

The survey report has the aim of helping readers to understand the context and dynamics of the formation and operations of rural SACCOs in the country, which also entails an analysis and discussion of both the internal and external factors that had the influence in the process. It was noted on the statistical overview that statistics gathered by the Department of Cooperatives in the Ministry of Agriculture and cooperatives were gathered by Regional cooperatives officers who lacked resources to get into the field making the level of confidence in their accuracy to be low. Since they were the more recently and accurate statistics available at that time, the survey was based on the information provided.

The study conducted looked in SACCOs according to type of service offered. The range of services offered is divided into three basic types and three SACCOs (Swaya SACCOs of Mbeya, Wino SACCOs of Ruvuma, Bahi Sokoni SACCOs of Dodoma and several other SACCOs in Kilimanjaro region) were studied.

The services offered are as follows:

**i) Shares, voluntary deposits and loans (production, social or both)**

The mission observed that this is the best way SACCOs are supposed to perform, though probably less than 10% do so. Yet there are a number of them following good (if not best) practices, scattered across the country. A good example of these is the Wino SACCOs of Ruvuma, which has 2000 members and with some assets estimated to reach US \$ 100,000. Wino SACCOs is well established and has up to date accounts.

Another SACCOs visited in this category is Bahi Sokoni in Dodoma region. This is a small SACCOs with 43 members and what is noteworthy here is the practice of taking deposits in kind, in this case rice. The experience with Bahi Sokoni poses a serious question of to what we are to make of a financial institution whose balance sheet is dominated by bags of rice? Presumably these are repayments of production loans, held by the institution until the market conditions are most favourable. What is clear is that the institution is taking its members' marketing risk, which is unacceptable for what should be a purely financial institution.

The survey also found that a number of SACCOs doing non-financial business, in every case were disastrous. A good example of these is the Mweka SACCOs in Kilimanjaro region, which bought a bus, which has neither made money, nor provided in its accounts for depreciation. Its shareholders have lost most of the investment.

**ii) Loans only, based on shares: no savings account;**

This type of service is almost universal among wage-based SACCOs. Many, probably most, small new rural SACCOs also work in this way, where members are motivated by the chance of a loan. One of the SACCOs that offer such service was Swaya SACCOs in Mbeya region, which by then was one year old, founded by 31 members (26 male) in the expectation of International Fund for Agriculture Development (IFAD) credit. With total assets of less than US\$800, Swaya is typical of the class of small SACCOs for which the costs of formal accounting and audit procedures cannot, at such a stage, make sense.

### **iii) Voluntary deposits and withdrawals only;**

The other type of rural SACCOs was ones that offered savings accounts only and these are more mature institutions with roots in earlier models, their reluctance to lend based on the bad past experience. Many SACCOs of this type are found in Kilimanjaro and at one time they were offering a full range of services. Lack of provision against bad loans (or a loan classification/ageing) system is very common, even though the standard Trial Balance (accounting and regulation instrument) provides for this. Operational costs are met from small margin between interest paid to members and that received on SACCOs own bank account.

Looking at sustainability, none of the three above-mentioned categories is making money. The survey found very few really profitable rural SACCOs, though some of the older institutions in Kilimanjaro do manage to run better than break-even. Most SACCOs under-price their loans and this was common theme in cooperative financial services. The demand from members is, above all, for low cost services and most would resist a pricing policy, which enabled the SACCOs to build significant institutional capital (reserves).

The mission established that success and failures of many SACCOs in Tanzania are almost similar as they all operate in the same structural web and operational perception. It is argued that the new knowledge and tools in microfinance are increasingly available at the national level, though mechanisms for transferring this technology to the SACCOs

have yet to be developed. In general, they highlighted the problems that afflicted rural SACCOs in Tanzania as:

- (a) Misappropriation and misapplication of funds;
- (b) Internal policies and controls such as loan policies and credit procedures are ignored leading to misuse and losses;
- (c) Unqualified staff;
- (d) Use of honorary officials to carry out technical and professional functions for which they are not qualified;
- (e) Competition from political or charity programmes that flout best practices in micro-finance; and
- (f) Lack of cooperative education among the potential members, staff and officials.

Also, the mission is of opinion that, though their best estimate of current performance is that few, if any, are doing well in profit and loss terms, there is a resilience about these user-owned organizations, which defies conventional ideas of financial sustainability. Most common coping mechanism for eroding capital base is to call additional share capital from time to time, something like right issue, where shareholders must find additional capital if they are to retain their place in the organization. Wage-based SACCOs do this routinely, with monthly share contributions of Tshs. 5,000/= or more. The important thing to bear in mind is the primary expectation of low-cost services. If this means no dividend, no retained earnings or reserves, and a very limited range of services, while the SACCOs bumps along at around break-even and low volume,

members may be content if only because expectations are so low. Any proposed intervention would aim to raise expectations.

Regarding SACCOs development, the mission found that a fresh approach is needed to give new impetus and include greater dynamism. In this case, other new actors (“operating agents”) are required for promotion of SACCOs in Tanzania. These may include church development agencies, local development associations, banks, consultancy firms, outreach units of training institutions, local and international NGOs. Many of these have capacity needs of their own and will need a mechanism to access new skills.

Ideally, the operating agency for SACCOs promotion would:

- (a) Understand banking and finance and be aware of new ideas in microfinance;
- (b) Have a good understanding of basic principles underlying SACCOs development;
- (c) Be informed of requirements of the Act and have a pragmatic plan for meeting them;
- (d) Be committed to poverty alleviation by working directly with target groups;
- (e) Have a good understanding of rural development and methods of animation, sensitization and awareness building;
- (f) Be gender sensitive and aware that women and men need different services at different points of time;
- (g) Be conversant with the methodology of strategic planning of operations;
- (h) Be able to assist SACCOs in development, management and marketing of appropriate financial products to serve its membership;

- (i) Be able to identify training needs of SACCOs leaders and staff, and facilitate the holding of training workshops and courses – whether in-house or out-sourced;
- (j) Be able to assist SACCOs in maintenance of sound bookkeeping and accounting;
- (k) Be able to assemble and give direction to, and motivate a team of field staff;
- (l) To be able to develop a project management information system to monitor the financial performance of SACCOs;
- (m) Be prepared to denounce and initiate harsh corrective measures in case of detection of fraud within its own organization or cooperative organizations it is promoting;
- (n) Be able to establish positive linkage with non-cooperative, the government (ministry of cooperatives, district councils), and government support organizations for purposes of registration, inspection and auditing;
- (o) Be able to interact positively with possible donor agencies;
- (p) Be politically independent and resistance to political interference;
- (q) Be able to interact positively with other microfinance operating agencies working in other regions, or financial sectors i.e. Financial NGOs (FNGOs);
- (r) Be aware of limitation, and able to assess its own capacities for cooperative promotion and needs for additional training and technical assistance.

Another organization was DID - Tanzania, which in 2001 conducted an institutional diagnosis for the External SACCOs located at Ubungu area in Dar-es-salaam city. Legally, Dunduliza Ltd. is an offspring from the 'Financial Services and Development Association (FISEDA)', an NGO that was registered in 1999 under the Societies Ordinance Act of 1954. Dunduliza is a company limited by shares registered in 2004.

Currently, 60% of the shares are owned by FISEDA, and the remaining 40% is owned by Desjardins International Development (DID). Dunduliza is based in Dar es Salaam, with zonal offices in Songea and Bunda. Its objective is to facilitate the formation and capacity building of SACCOs, as well as provision of monitoring services and the promotion of regional networks.

In the study findings of External SACCOs, DID - Tanzania recorded some success and failures on their operations. The following is the summarized findings highlighted; The mood at the External SACCOs is encouraging. Members are satisfied with the services and products delivered in the society due to the following reasons:

- It takes short time for members to receive loans;
- Members are given first priority in delivering loans comparing to the management team.

Efficient provision of services is very reasonable; members can wait loans for not more than two weeks.

Within the market, External SACCOs reputation needs to be reinforced. They observed a slow down in the increasing rate in membership. External SACCOs management needs also to reinforce its institutional position by promoting its services. Many people in Ubungu constituency were not aware of External SACCOs existence. Although there is an opportunity of expanding its market, but due to poor economic situation of the

community in that area, their low incomes cannot meet high amounts of entrance fees, high value of shares and high amounts of deposits.

Other observations were:

- (a) External SACCOs had by-laws but it was not business oriented and roles and responsibilities of members, management committee members, staff and managers were not defined, which needed to be updated;
- (b) There was lack of members and management education/training because they cannot tell what are their rights, obligation, roles and responsibilities;
- (c) They practice efficient monitoring of its operations but they don't have any guiding policies;
- (d) Accounting system is not computerized and staffs are computer illiterate, but they have all necessary accounting tools that facilitate manual accounting procedures;
- (e) Loans reimbursements were not effectively monitored, as borrowers were not repaying full amount of their installments as agreed. There were no list of loans in arrears were produced in regular basis. Portfolio at risk (PAR<sub>90</sub>) for over 90 day that was required to reach a maximum of 5% was as high as 17.4%;
- (f) External SACCOs had no proper safe for keeping money;
- (g) The equity base is moving in the right direction. Shares are refundable according to SACCOs' law and rules. External SACCOs has to be prepared, in any time, to answer positively to members looking for their shares;

- (h) External SACCOs management is well prepared for the challenge of managing a microfinance institution. Management is keen to learn more about management of microfinance financial institution such as knowledge of SACCOs' law, SACCOs' Rules, governance, roles and responsibilities, microfinance best practices, national microfinance policy, etc. Tools, procedures and regulation could be reinforced. Current management is committed;
- (i) External SACCOs liquidity situation is good. Profitability is feeding External liquidity;

DID-Tanzania's opinion is that External SACCOs management is practicing an efficient monitoring of its operation. Training and supervision will help External management to improve further skills and efficiency. Community development is never an easy task and requires times, efforts, patience, self-abnegation (selflessly) and commitments. DID-Tanzania thinks that External SACCOs management understands this reality and is ready to go forward.

Banturaki, J.A, (2000), conducted a research on, "*Cooperatives and Poverty Alleviation*" at several regions in Tanzania (Kagera, Shinyanga, Dodoma and Rukwa), where he focused his attention in cooperative development as a whole (especially rural cooperatives). He observed that the government efforts in present stance towards restructuring of rural cooperatives along its promotional role, have seemed to have had less enthusiasm, less seriousness and less commitment towards the cooperative revival contrary to the aspirations of rural beneficiaries and general rural public.

To his opinion, there has been an outright expression throughout the surveyed study areas that the government has come up in favour of private entrepreneurs rather than the rural cooperatives on the question of the role of rural development. These private entrepreneurs are taking over rural economic scenery from the co-operative hands under the excuse of both the trade liberalization policy and current cooperative weaknesses.

He posed several recommendations focusing on 12 major aspects:

- (a) Promotion of sound cooperative capital structures in rural cooperatives;
- (b) Promotion of cooperative education among cooperative membership, leaders and promoters;
- (c) Introduction of “preferential treatment” in cooperative service delivery to cooperative membership amongst the farmer customers;
- (d) Arousing of cooperative consciousness in economically less developed and food crop production areas;
- (e) Immediate provision of conducive environment for cooperatives to deliver completely the desired services in order to achieve cooperative objectives;
- (f) Reintroduction of essential services to farmer-members: provision of farm inputs and farm credit; and provision of marketing facilities for food crops and non-traditional crops;
- (g) Immediate re-introduction of a two-term of three years each, as a maximum service period of committee members in cooperative leadership;
- (h) Avoidance and discouragement of campaigns in cooperative leadership elections;

- (i) Immediate establishment of collaborative initiative based on cooperative horizontal integration for rural financial intermediation action for rural investiture fully involving peasant farmers;
- (j) Legal provisions requiring rural marketing cooperatives, to be registered and operate within well defined areas of operation;
- (k) Promotion of women membership in agro-marketing cooperatives; and
- (l) Promotion of micro-project group membership under legal identity and coordination of single management of rural cooperative society.

Also, IFAD in their report, *“Interim Evaluation of Rural Financial Services Components: (Smallholder Support Project in Zanzibar - Loan 242-TZ)”* in 2003 generally observed that, the overall performance of the SACCOs in Tanzania has been encouraging despite some of their inherent weaknesses. Nevertheless, in view of the important role of SACCOs in rural financial services in the Tanzanian context, it may be worthwhile for IFAD to consider to replicate the SACCOs’ experiences in the framework of future pipeline activities. To this end, if SACCOs are to improve, continue and expand their role in rural financial services, they need to be supported through the provision of appropriate capacity building assistance, including training and members’ education on savings and credit. This would enable them to upgrade their current level of management, resources, skills, accounting/financial knowledge, assets and overall operating procedures, which would in turn contribute to their sustainability, and make them more effective and efficient.

Many shortcomings reported show that with a wrong society set up, performance in every SACCOS will experience the same problems as far as they come from the same society with same law and same policies. Knowing that cooperatives are democratic member controlled organizations it is only their members who actively participate in setting their policies and making decisions. For this reason, members have the obligation to ensure their institution is efficiently run.

### **2.3 Policy review**

Section 22 of the cooperative Act No. 20 of 2003 lists different types of societies that can be registered in Tanzania and SACCOs are listed under the subsection (b);

*'Savings and credit societies, Financial Cooperatives, Microfinance Institutions, and Cooperative banks whose primary activities are to mobilize savings and furnish secured and unsecured loans or credit to households, smallholder producers and market entrepreneur, micro-enterprises in rural and urban areas'.*

SACCOs became into existence as per S.16 (2) of the Coop. Act no. 20 of 2003, which states that;

*'A Financial cooperative society may be formed by savings and credit societies and other types of cooperative societies'.*

The Government of Tanzania embarked on financial sector reforms in 1991, in order to create an effective and efficient financial system. The expected results of the reforms

consisted in the Government's commitment to permit banking institutions to operate on a commercial basis, making their business and management decisions free from outside intervention within the norms of prudential supervision.

However, supervision and regulation of SACCOs is the responsibility of the Registrar for Cooperatives, who operates through the Regional and District Cooperative Departments. These departments have very low capacity to undertake such tasks, part of the problem being that they are very much under-funded, and lack equipment and transport to implement their functions satisfactorily. This has resulted in poor supervision, including weak accounting and monitoring standards, inadequate budgetary allocation to the Cooperatives Department and the resulting lack of transport and funds for visiting SACCOs for carrying out supervision of their accounts and auditing.

Under section 1.1.3 of the National microfinance policy, the government declared that, despite the progress being achieved in the mainstream banking system, financial services have been slow to develop although MFIs have been in existence even before the reforms. The access of these large segments of the population to financial services has remained stunted. Government realized that in order to have an efficient and effective financial system, additional focus must be placed on the expansion of financial services to the low-income segment of the population, and that the microfinance sector must be an integral part of the country's financial system.

In respect of SACCOs, the microfinance policy observed that there were operational problems as regards to the poor administrative system and weak financial control within the society as well as lack of effective supervision of the SACCOs as financial intermediaries. Also, the policy stated that SACCOs should operate under the Cooperative Act, 1991, which is now replaced by the new Coop. Act 2003 (that came into effect in 1<sup>st</sup> August 2004). SACCOs activities are also covered under the Banking and Financial Institution Act, 1991 as financial Intermediaries, but they are not supervised by the Bank Of Tanzania (BOT). The co-operative society Act no. 20 of 2003 was assented by the parliament on 10<sup>th</sup> November 2003 and signed by the Presidents of the United Republic of Tanzania on 30<sup>th</sup> January 2004.

The National Microfinance Policy articulates a clear vision and strategy for the development of a sustainable microfinance industry, specifying the respective roles of the key stakeholders the Government and its principal agencies in policy formulation and implementation, the different institutional providers of microfinance services, and the donor community. In its statement of the overall microfinance policy, the Government recognizes the microfinance sector as an integral part of the financial sector, which falls within the general framework of its Financial Sector Reform Policy Statement of 1991. A policy statement, under article 7.2 of the Cooperative Development policy (2002), states that, *'To solve the problem of liquidity to members and primary cooperative societies, the government will encourage the formation of SACCOs within the areas of operation of primary societies. The government will also*

*continue to provide technical assistance to strengthen and develop the existing SACCOs in urban and rural areas'.*

The National Microfinance Policy recognizes the institutions providing microfinance services as the real driving force behind the achievement of the ultimate goal of development of sustainable microfinance. Banks and non-bank financial institutions, SACCOS and NGOs are free to develop microfinance services on the basis of their own internal objectives, whether profit, poverty alleviation, self-help or other motivations. The Government expects the institutions that decide to become microfinance service providers to fulfill their responsibility to learn best practices and to apply sound financial principles in the delivery of their services, particularly with respect to pricing, loan delinquency control, financial reporting and information management, appropriate techniques and products, gender equity and governance.

In February 2003 the government of Tanzania, through the ministry of Cooperatives and marketing issued a new cooperative development policy to replace that of year 1997. In article 7.2 of the cooperative development policy 2002, it was stated that; *'The establishment and development of SACCOs in the rural areas has been slow. Most SACCOS has been established in the urban areas and at workplaces. As a result members of agricultural marketing primary cooperative societies have found it impossible to save money that could have enabled them to buy shares and thereby increase the capital of their cooperative'.*

## **CHAPTER III**

### **3.0 RESEARCH METHODOLOGY**

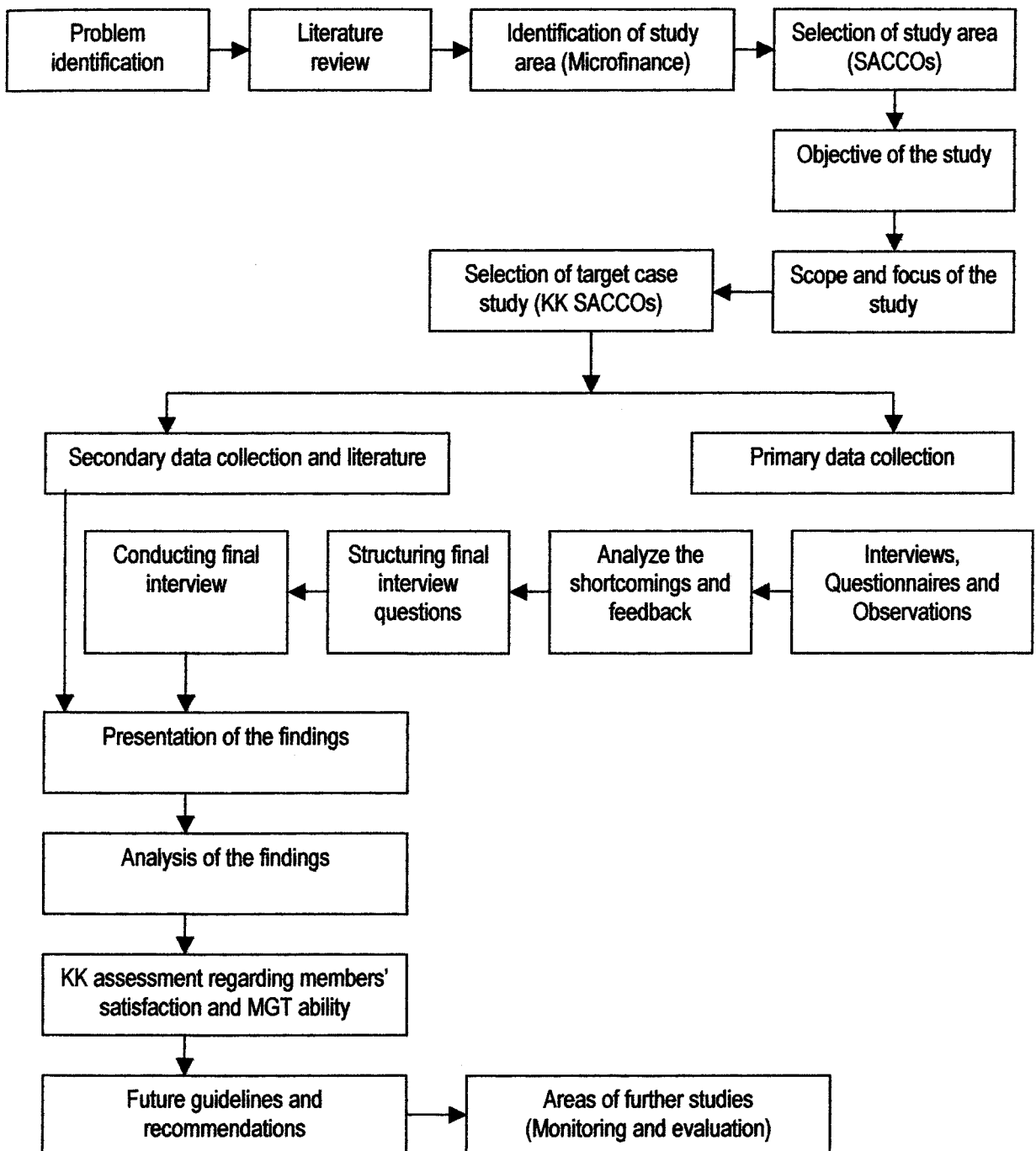
In collecting information, self-administered questionnaires were used where each was designed to provide necessary data towards answering our research question. There were varied approaches towards data collection, where some are geared towards collecting quantitative (numeric) data and others towards qualitative (narrative) data. To collect other information, survey, interviews, observation, documentary review and past experience was used as part of methodology in this study.

#### **3.1 Research design**

In order to answer the research questions, the study was conducted at KK with an aim of implementing community requirements assigned during the needs assessment survey. By assessing the institution, members will understand the extent to which their society has successfully fulfilled its past avowed roles. Claire Selltitz and others (1962) defined research design as an arrangement of conditions for collection and analysis of data in the manner that aims to combine relevance to the research to the purpose with economy in procedure.

## RESEARCH DESIGN SUMMARY

From Claire's definition the following illustration extracted gives the summary of the research design at all levels; this research methodology covers the whole process from problem identification, research, analysis of findings and recommendations.



### **3.2 Research approach and strategy**

While gathering information, different sources were used e.g. leaders, members, statutory documents, governmental organisations, audit reports, financial statements, internal publications, by-laws, etc. Some of important areas covered in the study includes, general SACCOs administration, credit management and financial management. After compiling all data, including analysis from the administered questionnaires, the assessment exercise was done.

The assessment focused on presentation of financial and institutional portrait of 'KK', so that after the exercise, the society is in a better position to execute its savings and credit schemes more efficiently and effectively than when the study was conducted.

### **3.3 Sampling Techniques**

KK members are spread to all 26 regions in Tanzania. Due to time constraint and limited financial resources, respondents were picked and study conducted in Dar es salaam region where access to members was convenient. Selection was made at random from member organizations (i.e. TTCL, TPB, and TPC) and some few staff, where 122 samples of society members were chosen. More questionnaires (75) were distributed at TTCL, 25 at TPC, 10 from TPB and the remaining 12 were distributed to other members from other categories.

### **3.4 Data collection**

Simple survey was done for collecting standardized information through structured questionnaires to generate quantitative data. In order to avoid development of the evaluation from initiator's point of view, a pilot test was carried out at varied times so that the subject and its results are sought through the eyes of the respondents. The results from the pilot tests simplified the adoption of the final version questionnaires (Appendix 5) with both open ended and closed ended questions. The study was designed to give members an opportunity to give free opinion of the activities conducted in their SACCOs, each mentioning how he/she benefits from his membership, their feeling towards leadership, etc. Some data used for the study was collected from other external sources such as:

#### **(a) Interviews;**

Structured and unstructured interviews were the main sources of primary data collected. By listening to various KK members and leaders, some important information was obtained giving a broader understanding of the society and a main ingredient in the development of the questionnaires and analysis.

#### **(b) Questionnaires**

Self-administered questionnaires were distributed to members and filled.

#### **(c) Observation;**

It is believed that, through people's feelings and other sources we have and still are in the process of observing some things that could not be obtained in written form.

### **(c) Past experience**

Having worked for more than 20 years in accounting, the researcher was also an important source of information.

### **(d) Other methods;**

To have meaningful results, one has to go through existing organization documents where most of the information is stored e.g. By-laws, minutes of different meetings (monthly, quarterly and annually), financial statements, etc. The exercise was thoroughly done. Another method used was obtaining secondary data and information, where literature review was undertaken to get clear background information of SACCOS subject through books, electronic means and articles. Other documents containing the guiding policies and cooperative Act, helped in the assessment exercise. As mentioned earlier, there were no other assessments done since KK was established, so no review of past studies was done.

## **3.5 Data analysis**

After collecting all data following administering of the questionnaires the mass data were recorded and systematically organized in a manner that could facilitate good analysis. Data entry was then made and statistically processed using MS Excel. After processing data a SWOT analysis was done but it includes both the primary and secondary data collected. SWOT analysis was the basis for recommendations after the assessment was completed.

## CHAPTER IV

### 4.0 FINDINGS AND RECOMMENDATIONS

Savings and Credit Co-Operative Societies (SACCOS) as one of the means where people join forces to establish credit societies are established, both in urban and rural areas. It is stated in National Micro- finance Policy (2000), article 1.2.3 that, *'Credit services can perform some of the same services as savings and can allow enterprises and families to make some investments sooner....'*

SACCOs development like any other institution is subjected to some problems that needs to be addressed. Assessment is done despite the fact that it was already stated clearly in article 1.1.3 of the Microfinance policy that, *'Operational problems with respect to SACCOs include poor administrative systems and weak financial control within the societies as well as lack of effective supervision of the SACCOS as financial intermediaries'*.

The intention of conducting an assessment of 'KK' activities intended to provide internal information so that after completing the exercise, findings shall lead to better understanding of the actual financial and institutional problems. First step of the study was to assess the needs of members and thereafter getting their opinions through questionnaires. Questionnaires were personally administered, and all 122 respondents who were approached agreed to participate in the study.

The recommendations will be shared between the two parties aiming at improving the current situation of the society according to co-operative principles stated by the International Cooperative Alliance (ICA), Cooperative societies Act no.20 of 2003, Cooperative society rules and their own by-laws.

#### **4.1 ASSESSMENT FINDINGS**

The assessment conducted tries to highlight the best possible qualities for a good and efficient operated SACCOs and in the process it will point out what needs to be done to make sure 'KK' improves from the current situation. After the exercise, some recommendations will enable KK management to better understand and manage their institution according to microfinance generally accepted best practices (see *Microfinance policy, 2000 – article 3.2*) and according to cooperative principles as stated in the International cooperative alliance (ICA).

To assess the performance of SACCOs, a set of indicators need to be established for facilitating such task. Presently, it is not easy to evaluate the achievements of SACCOs because the task is further complicated by the fact that there are different types of SACCOs and services offered by each SACCOs vary from one to another. Based on the aforementioned, it is recommended that broad areas be identified that may form the basis for assessing the performance of SACCOs. The following are a range of performance indicators that may be considered: outreach, quality of services, operational efficiency

and portfolio quality, growth rate, profitable interest rates, Management Information Systems' quality, good practice and governance, and transparent financial reporting.

As a savings and credit society, loan servicing is a major component so our major focus was to check if the society is growing, its management is improved and loan portfolio at risk (PAR) is carefully monitored. Money business needs timely and proper recording of transactions, which necessitates a closer study of society's accounting records to establish if they really comply with the statutory requirements and guiding cooperative societies rules. According to article. 3.2.3 of the National Microfinance policy ('Financial reporting and information management') it is stated that; *'As financial sector operations, microfinance programs applying best practices needs to produce relevant financial and operational information that give a clear picture of the status of the organization, including outreach, profitability (or loss) and portfolio quality....'*

During the study of KK, a considerable amount of informative data was collected and reviewed and particular attention given to the following areas, which were used as indicators on assessing the organization of this nature;

- (i) Institutional assessment
- (ii) Credit management assessment
- (iii) Financial assessment

#### **4.1.1 INSTITUTIONAL ASSESSMENT**

The institution assessment tries to observe the society in general. In this case, the following areas were considered for review;

- (a) Location, membership and potential
- (b) Material and human resources
- (c) Governance, Management, responsibility and power sharing
- (d) Control and members satisfaction

##### **4.1.1.1 Location, membership and potential**

The society's head office is accommodated in their new Investment house located at Lindi Street in Kariakoo area (behind the Cooperative building), Dar-es-salaam. "KK" has branches in 26 regions of Tanzania, including the Isles, where member's organizations have their offices. Up to December 2003, 'KK' had 4443 active members, of which 2826 are men and 1617 are women (see table 1 below). Membership is divided into six (6) different types, namely;

- (i) Employees of Tanzania Postal Corporation (TPC)
- (ii) Employees of Tanzania Telecommunication Company Limited (TTCL)
- (iii) Employees of Tanzania Postal Bank (TPB)
- (iv) Employees of employed by the society (KK)
- (v) Employees of Tanzania Regulatory Authority (formerly Tanzania Telecommunication Commission (TTC))
- (vi) Retired staff of above organizations

There are other two members categories, which are not yet incorporated in the loan scheme but they are mentioned in the KK by-laws. The first category is (a) family members of those members in categories (i) - (vi) above and (b) other are members economic groups.

Any person wishing to be a member is required to fill in a membership application form (Appendix 6) and send it to the Central committee [see article 5(i) – (v) of KK by-laws], who will process it and give formal reply within a period of 90 days. Approval is granted by the AGM. At the moment each new member should pay a sum of Tshs. 3,000/= as entrance fee and buy 5 shares worth Tshs. 5,000/= each, out of 20 shares with a value of Tshs. 100,000/=.

**Table 1: KK Members under different categories (gender perspective)**

S/NO	INSTITUTION/GROUP	MEN	WOMEN	TOTAL	Rate %
1	Employees of KK SACCO	9	8	17	0.38%
2	Retired staff	3	0	3	0.07%
3	Employees of Tanzania Postal Corporation (TPC)	607	592	1199	26.98%
4	Employees of Tanzania Telecommunication Co. Limited (TTCL)	2056	920	2976	66.98%
5	Employees of Tanzania Postal Bank (TPB)	147	97	244	5.50%
6	Employees of Tanzania Communication Regulatory Authority (formerly Tanzania Telecommunication Commission)	4	0	4	0.09%
<b>TOTAL</b>		<b>2826</b>	<b>1617</b>	<b>4443</b>	<b>100%</b>

*Adopted from compiled notes – members as at 31<sup>st</sup> December 2003*

While conducting the study for getting opinions, samples were collected from different organizations taking into consideration membership gender ratio. Although ratio of males to female membership is 63.6% to 36.4%, during the questionnaires administration women were more responsive than men, so samples ratio taken were 59%

to 41%. These parameters were used to check if there was any gender biasness on membership registration and loan payments.

**Table 2: Sex**

Parameter	Frequency	Percentage	Cumulative %
Male	72	59.02	59.02
Female	50	40.98	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

In recent years, following restructuring and divestures of public corporations, the rate of registering new members has decreased. The ongoing organization restructuring following technological advancement (e.g. introduction of prepaid phone card at TTCL) is affecting membership, as more members will be out of employment, This will result in new arrangements for repayments of outstanding loans and new borrowing if they decide to retain membership. A mass retrenchment in progress of around 1,600 TTCL staff, which is expected to grow to 2,400 (about 80% assumed to be active members), shall cause a serious drop in membership financial base.

Experience shows that majority of people working in every region are from other regions in Tanzania, so the possibility of retrenched staff to return to their places of origin is looming. This causes KK members to withdraw their shares and deposits, for a fresh start somewhere else, resulting in a drop in society's equity. Also, many members who have worked with member organizations for a long time are now expected to retire. It is obvious that there will be very little new recruitment as technology is taking over human resources.

The mission for KK is to enhance, improve, develop and sustain economic development of members democratically in accordance with cooperative principles and the law governing it. KK has a clearly articulated mission, as indicated in their by-laws as it reflects member's interests and needs as agreed and prescribed in their By-laws. The Kiswahili version by-laws articulate the procedure and responsibilities of general meetings and requirements for eligibility for members and clearly define the duties of society members, the Board and its committees. The by-laws does not indicate the duties of the General manager because members themselves, through the executive committee perform all duties in all responsible positions.

The extent of growth and expansion was not looked into at that time but realizing the need to reinforce human resources to cater for the huge number of members, 17 people were employed. Although the current management team is aware for a need to train members, they have not started members training regarding to microfinance best practices, control, supervision and management of microfinance institution in general.

KK is properly registered according to the law governing cooperative societies. Until now KK by-laws is still operating under the Cooperative Societies Act no. 15 of 1991 as amended by Act supplement no 5 of 1997 and the cooperative societies guiding rules. During the assessment, it was established that there is only a society by-laws but no other approved policies by members. No reason was given regarding unavailability of some of the necessary policy documents/manuals, for example;

- a) Administrative policies and procedures;
- b) Financial policies and procedures;
- c) Internal control policies and procedures;
- d) Credit policies and procedures.

Following the recent national financial reforms, there are no legal and regulatory barriers for the establishment and functioning of cooperatives. There is more autonomy on SACCOs formation and operating without government or public institutions interference, allowing them to grow and expand at their own pace. Although current 'KK' by-laws operates according to the Coop. Societies Act no. 15 of 1991, the new Act (No.20, 2003), which started to operate in 1<sup>st</sup> august 2004 shall require the society to adjust themselves and adopt to the new changes.

The new Act, under section 45(3) give more room to SACCOs' operations by stating that;

*'Where the objects of the registered society include the creation of funds to be lent to the members, additional by-laws shall be made in respect of:*

*(a) Conditions on which loans may be made to members, which shall include-*

*(i) The rate of interest; (ii) the maximum period, which can be granted for the repayment of a loan; (iii) the maximum amount of money, which may be lent to a member; (iv) the purpose of loans; (v) Security for payment; (vi) the consequences of default in payment*

*of any sum due on account of shares or deposits or loans and the consequences of failure to use a loan for the purpose for which it was granted.*

*(b) The disposal of the annual net surplus;*

*(c) Other matters consonant with regulations pertaining to Microfinance Companies and Financial Cooperatives’.*

The study conducted at KK indicated a need for revision of their by-laws in order to cater for current business environment, policy, rules and Act changes. It will take sometime for the cooperative societies in Tanzania to settle after being affected by frequent changes of Acts and policies. After the ‘*Act no 15 of 1991*’, seven years later there was a major amendment by the ‘*Act supplement no.5*’ of 1997. All societies amended their by-laws only to find that seven years later (2004) another new *Act (no.20 of 2003)* has been enacted.

The important thing to note is that the statutory regulations are only providing guidelines but good governance and performance are the duty of individual societies. Members themselves own these societies so they have all the reasons to ensure that they are run with an intention of improving their economic situation according to their specific needs.

#### **4.1.1.2 Material and human resources**

##### **Buildings**

KK has recently decided to invest in landed property by using members' own sources with an intention of boosting member's revenue and building a sense of ownership. The society acquired two plots at a prime location in Kariakoo area and constructed two investment buildings (Appendix 7). On one plot a construction of one 8-storey office building and a basement (worth Tshs. 1,984,226,902/=) is completed. To complete the building on time, KK management borrowed a total of Tshs. 500.0 Million from CRDB bank and at the moment the loan had already been paid for. Some of the areas are accommodating their offices and others are rented.

On the second plot members decided to build a six storey building with a basement, which is estimated to cost about Tshs. 1,400,000,000/= when completed. It will accommodate a large conference hall, a restaurant and large car park covering 4 floors. Construction of this building started in September 2004 and by mid-December, around Tshs.600,000,000/= had already been spent.

The investment buildings are at a prime location in town such that KK management is not worried about how to make them economically useful. The properties are behind the tall and famous Cooperative building along Lumumba Street, which is overlooking Mnazi Mmoja garden.

The approval for the construction of the first building was reached on an AGM held on 25<sup>th</sup> August 2001 where it was decided that sources of funds should strictly come from the retained surplus, which was declared for dividends payment to members and not from members savings reserved for loan servicing. Construction of the first building was contributed only by active members who qualified for dividends. Allotment of the completed property to member's shares is in progress.

Apart from allotments to members, so far there is no decision reached regarding to what will happen to a member who, voluntarily, decide to quit the society. With current position it is obvious that subsequent members will, without sacrificing anything, enjoy the return on investment of the said building when rented. The new Cooperative society Act and rules are silent on investments of this nature, because the decisions are made voluntarily and there are no complains from members.

The SACCOs also had acquired a plot at Malibu area where Tshs.68,715,442/= were used for purchasing and fencing the property. Presently the plot is in litigation so there is no improvement in progress. Other KK fixed assets are Office machines, safe, refrigerator, Televisions and recorders and furniture & equipment.

## Shares

KK also invested in shares at different organizations. By the end of 2003, shares with total value of Tshs. 309,429,342/= were acquired from seven organizations as follows;

**Table 3: KK shares acquisition in different organizations**

S/No.	ORGANIZATION	AMOUNT (Tshs)
1	DARMCU	5,000
2	Tanzania Postal Bank	109,250,000
3	Central Finance Programme	3,000,000
4	Tanzania Oxygen Limited	51,130,012
5	Tanzania Breweries Limited	70,004,000
6	CRDB (1996) Limited	50,000,000
7	Tanzania Cigarette Company	26,040,330
<b>TOTAL</b>		<b>309,429,342</b>

*Source: The survey study 2004*

In year 2002, the society sold by tender its TCC shares and gained Tshs. 150,467,650/= as compared to sale of shares from same company in 2001, which received a gain of Tshs. 1,360,000/= and Tshs.286,096/= received on 2003. Dividends and interest received from bank's savings deposits were Tshs. 81,898,367/= for 2001, Tshs. 52,694,617/= for 2002 and Tshs. 38,158,572/= for 2003.

### **Staff members**

Up to November 2004, KK SACCO has employed 17 people (who are also members of the society) to undertake various office duties but all key positions are still held by the executive committee and other supporting committees. All workers are experienced but have no cooperative skills for performing their duties professionally. Their job description fits the volume of work performed so far and they are always up to date. The only delay in loan payment is at loan authorization for payments, which is done by officers who arrive daily at around 17.30 hours.

Appendix 8 shows a list of all staff employed, indicating their positions and summary of duties performed by each person.

#### **4.1.1.3 Governance, Management, responsibility and power sharing**

KK has a clear organization structure (Appendix 9), which includes a central committee/Board that constitutes three committees as prescribed in Article 25(a) of their by-laws; Executive committee has 5 members, Supervision committee has 5 members (one of them included in the executive committee) and Credit committee 5 members. The Board/central committee meets every three months and other committees meet once every month. In this respect, 14 people compose the KK Board, the situation, which contradicts with the guiding rules (Cooperative Societies Rule article 78(1)), that states; ‘*The general meeting of the savings and credit society shall have the responsibility of electing the Board of 5 to 9 members and a supervisory committee with up to 3 persons*

*who are not members of the Board to oversee the administration of the affairs of the society. The general meeting may also elect members of the credit committee among the Board members or delegate this activity to the Board'. The list of Board members is shown at Appendix 10.*

Article 25(c) of the KK by-laws prescribe that the central committee shall hold office for the period of three years, where one third (1/3) of members shall resign each year to give way for an election of new members on a rotational way. On the other hand, S.63 (2) of the Coop. Society Act no.20 of 2003 was more elaborative by stating that;

*'The members of the Board shall be elected by the general meeting of the society and shall hold office for a period of up to nine years provided that, in the case of those of members of the Board elected at the first general meeting of the society, one third of such members shall be voted out at the general meeting after the expiration of a period of 3 years from the date of their election, and one half of the remaining members shall be voted out after expiration of a period of 6 years from the date of election, and the remaining half shall leave office at the end of a period of nine years'.*

Normally, General meeting holds democratic election of officers to fill in leadership positions.

**Research question 1:** Are there operational problems or legal and regulatory barriers to the functioning of SACCOs, which cause them to have a hard time being successful?

In the research question one, respondents were required to give their opinion whether society shortcomings were caused by interference by the government or by problems within leadership cycle. First, they were asked if SACCOs leadership was democratically elected or it was imposed to them by any organ outside the society. That was a lead question, which will also lead to other resultants that can be used for judgment towards KK successful performance.

Study findings show that 63.93% of respondents agree that leaders are democratically elected, while 36.07% disagree as shown in the following table.

**Table 4: Democratic election**

Parameter	Frequency	Percentage	Cumulative %
Yes	78	63.93	63.93
No	44	36.07	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

As mentioned above, KK was one of the 10 initial founders of the Savings and Credit Cooperative League of Tanzania (SCCULT), but in year 2001 it withdrew from the long time membership, the decision that could never be dreamt of on cooperative setup before. They exercised their autonomy and democratic decision to withdraw following member's decision to do so. 'KK' wanted union members to contribute a constant fixed amount because of single representation but SCCULT insisted each society to contribute according to their number of members. KK was an active member and major contributor of SCCULT, so their withdrawal greatly affected SCCULT's income.

KK has survived many years of political and economic shake-ups and changes and in the process making mistakes. Members themselves had taken initiatives to iron them out and set their own unique ways of administering, which are different from the well-known management and organizational principles. With the same working system in place, members who joined KK remained for as long as they were employed.

If KK had serious problems many members could quit. Looking at the table below, it shows that, many of KK members are those who have stayed in membership for over 11 years. 79.5% respondents are those with more than 11 years i.e. 43.44% between 11 and 20 years, 32.79% between 21- 30 years and 3.28% between 31 and 40 years.

**Table 5; Membership period in the SACCOS**

Parameter	Frequency	Percentage (%)	Cumulative %
Between 1 and 10 yrs	25	20.49	20.49
Between 11 and 20 yrs	53	43.44	63.93
Between 21 and 30yrs	40	32.79	96.72
Between 30 and 40 yrs	4	3.28	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

Annual meetings are attended by significant portion of membership (of around 200 delegates), in compliance with the requirement of the KK SACCO by-laws and Cooperative societies Rule, article 38(1), which states; *'The by-laws shall prescribe the quorum at the general meeting of the society: Provided that the number to constitute a quorum shall not be less than one hundred members or fifty per centum of the members, whichever is less'*.

KK have around 4,400 members scattered all over the country, making it almost impossible for all members to attend the annual general meetings effectively. To solve that problem, the SACCO decided to reduce the delegates in the form of members' representation. The decision was legal since it was backed by the cooperative Act section 61(6), which states; *'Notwithstanding the provisions of this Act, a registered society may owing to its size and scope provided in its by-laws for a constitution of a meeting of delegates in place of general meeting through the creation of basic units to attend general meeting of that society for and on behalf of members'*.

To get a reasonable representation members decided that every 25 members should be represented by one person (delegate) and all regions including DSM, should be considered as branches. A region will be qualified to be a branch if it has members exceeding 50. All branches (regions) have the duty of selecting the branch chairman and secretary at the Branch Annual General Meeting. On the same meeting they have to elect representatives to the Annual General Meeting and elected members shall hold office for a period of three years. As reported at the AGM convened on 18<sup>th</sup> December 2004 there were 193 members, including 14 Board members and 179 representatives (Appendix 11).

Resolutions of matters discussed on these Branch General Meetings throughout the country are sent to the main AGM, discussed by members' Representative Council and

KK executive chairman is clearly accountable to the Board/Central committee and the AGM, with respect to organizational policies, planning, etc. According to KK by-laws the same person chairs all above mentioned committee meetings where he present the detailed operational and financial reports. As mentioned earlier, KK management does not formulate both short-term and long-range operational plans in compliance with cooperative goals and objectives as mentioned in Coop. Rule article 50(m), which states; *'Where manager/secretary or General Manager/Executive secretary is appointed he shall be served with powers to perform ....'preparing societies corporate strategic plan, business plan and annual implementation programmes and presenting them to the board for approval'.*

Management of cooperative societies is prescribed in S.61.(1) of the cooperative societies Act,2003, which states; *'The control of the affairs of a registered society shall be vested in the general meeting summoned in accordance with the by-laws of the society and the rules'.*

The Executive committee manages KK, performing all duties with consent of all members and assisted by the supporting staff. All committee members work part time for the society after the closing hours at their respective organizations. They normally work from around 5.30 p.m. to about 8.00 p.m. Because of holding all responsible positions, there is no 'manager' who is clearly accountable to the Board with respect to

organizational policies, planning, etc. and attending Board meetings where he could present detailed operational and financial reports.

Accordingly, the KK current management is not complying to S.64 (2) of the cooperative Act that states; *'The Board may, appoint a suitable person to administer and manage affairs of the society and may employ such number of persons as they may think fit to assist such person in the discharge of his functions'*.

The word 'may' does not show an insistence on the appointment but the cooperative societies rule prescribed clearly the need for recruiting someone who will perform the day-to-day activities and be responsible to the Board. In that article, one of the Board responsibility 44(2)j is: *'To seek and arrange the appointment of the Manager/Secretary or General Manager and other executive staff of the society on renewable fixed contract of two or three year terms'*;

Although it is necessary to employ a chief executive, that is not done and also not possible at the moment, unless KK by-laws is changed to allow the new set up as prescribed in Article 28(b) of the By-laws, which stated; *'The executive committee will have the authority of managing day to day activities of the society and it will have the responsibility of doing .....'*

In our study findings above, it was observed that leaders are elected democratically. However, are they fulfilling their obligation as they could have been expected? When conducting the study many respondents claimed that they were not satisfied with current maintenance of credit facility. 43.44% of respondents claimed that the facility is maintained poorly, while 29.51% claimed that it is well maintained and 27.05 that had no opinion.

**Table 6: Maintaining of Credit facility**

Parameter	Frequency	Percentage	Cumulative %
Well maintained	36	29.51	29.51
Poorly maintained	53	43.44	72.95
No opinion	33	27.05	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

Those who were not satisfied, 60.38% claimed that the situation is mostly caused by bureaucracy, 35.85% claiming long period of waiting for processing and payment of the loans requested, while 3.77% claimed other reasons. The two responses, which have the same effect account for 96% of total responses in that research question.

**Table 7: Reasons for poor maintaining of the credit facility**

Parameter	Frequency	Percentage	Cumulative %
Bureaucracy	32	60.38	60.38
Long period waiting	19	35.85	96.23
Other reasons	2	3.77	100
<b>TOTAL</b>	<b>53</b>	<b>100</b>	

*Source: The survey study 2004*

During the open discussion with some leaders and members as well, it seems there is certain reluctance in employing a new chief executive to manage the affairs of KK in the near future. Still thinking of failures in the past, they are not sure if all matters are handled by an outsider who does not have vested interest in the society, he/she will be obedient and honest to safeguard members' assets and other resources. That may be the reason why management is employing staff with caution while holding the key decision making role to the Executive committee.

The performance of KK leaders is in accordance with agreement of all members, so it is themselves who have the mandate of, either agreeing to employ additional staff/Chief executive to manage affairs of the institution or to leave things as they are and remain with the current setup. Any decision for change requires amendments to be made in their by-laws. During the study, respondents reacted positively on the issue of how they view the policies guiding loan service provided, although they complained on the long period of waiting and bureaucracy. As to whether current loan policies satisfy the needs expected, 74.59% respondents claimed that they are satisfied with KK loan policy and 25.41% respondents were not.

**Table 8 : Loan policy satisfy needs expected?**

Parameter	Frequency	Percentage	Cumulative %
Satisfied	91	74.59	74.59
Unsatisfied	31	25.41	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

For those who were not satisfied, 64.52% claimed that major reason was waiting for a long period from the time the loan is applied for (requested) to the time payment is made. Poor leadership ranked last on the list where only 6.45% of the respondents who were unsatisfied with current loan policy did not favour their leaders performance.

**Table 9: Policies not satisfy needs. How?**

Parameter	Frequency	Percentage	Cumulative %
Poor leadership	2	6.45	6.45
Interest rate high	3	9.68	16.13
No transparency	4	12.90	29.03
New policies not clear	2	6.45	35.48
Wait long to receive loan	20	64.52	100
<b>TOTAL</b>	<b>31</b>	<b>100</b>	

*Source: The survey study 2004*

There are many reasons for being unsatisfied and it was expected that poor leadership could be the reason, but it seems the problem was not leadership but the system itself. When asked whether leaders are able to perform their duties, 68.85% of respondents said they are satisfied with their leaders ability, while 16.39% said they are not satisfied and the remaining 14.75 were not sure.

**Table 10: Leaders ability to perform their duties**

Parameter	Frequency	Percentage	Cumulative %
Yes	84	68.85	68.85
No	20	16.39	85.25
Not sure	18	14.75	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

Inefficient service provided is caused by little time spent by society leaders on large volume of work. All signatories come in the evening so they do not get enough time to finish all loans processed and undertake other administrative duties effectively. The research findings show that 13.11% of the respondents supported the idea of employing permanent staff to perform all society duties (refer Table 12 ).

Duties performed by KK SACCO Board and other committee members are according to their by-laws and they are supposed to comply with the coop Act, rules, ICA principles and the National Microfinance Policy;

#### **Central Committee/Executive committee**

In KK all activities are performed by the executive committee, which has an obligation of seeing that it exercises every power vested in it as member's representatives. This comply with S.64.(1) of the cooperative Act, which states; *'The Board shall exercise all powers necessary to ensure the full and proper administration of the society subject to the by-laws of the society, the rules and any resolutions passed at the general meeting'*.

From research findings, the central committee present analysis and auditors reports to the KK members, authorities and the general public and there is a satisfactory adherence to the cooperative roles and responsibilities. Other stakeholders who are provided with reports are, the CRDB (1996) Bank as business friend and BOT as required by law.

In assessing the cooperative's performance, the study revealed that KK does not carry assessment of its performance using financial analysis methods. Normally periodical

financial reports are prepared and if performance is not as expected, remedial measures are undertaken after analyzing the actual results.

The executive committee ensures the timely publication of agendas, minutes, financial returns, audit reports and any other materials required by coop law and/or by-laws to promote cooperative accountability and transparency.

### **Committee members/ Board Officers**

#### **(i) The Chairman**

After going through minutes of different meetings, it is revealed that the chairman is well organized and ensures that decisions are taken and recorded in meetings conducted, be it in the central committee, executive committee or the AGM. The chairman also ensures that, minutes for any discussion and decisions made in all meetings are duly signed by the chairperson and the secretary of the meeting as prescribed in Coop Rule article 41(1). *'A business discussed or decided at the general meeting shall be recorded in the minute book which shall, on confirmation of the next meeting, be signed by the chairman of the meeting and the secretary'.*

In article 41(2) of the coop. Rules it is required that, certified minutes are then sent to the Registrar; *'Unless the Registrar otherwise directs, societies shall send certified copies of the minutes to the Registrar'.*

Follow up done revealed that the KK is complying with requirement of the guiding rules concerning the report submission. Other chairpersons of the sub-committees have shown seriousness on recording the minutes of all meetings conducted at their areas.

**(ii) The Treasurer**

The treasurer, also a society member, is a fully qualified accountant and he is registered as an Authorized accountant with the National Board of Accountants and Auditors (NBAA). He ensures that he keeps accurate and up-to-date accounting records of all financial activities and provides written financial reports each quarter and send to the Board. The study revealed that the latest quarterly financial report was that of the period ended 30<sup>th</sup> September 2004. A mini-report from January to November 2004 was prepared and discussed in the AGM after reporting activities for 2004.

Before the adaptation of the new cooperatives Rule, a simple form of financial statements was being prepared and sent to the Bank of Tanzania every three months as required for every society, whose assets were worth Tshs.200.0 million and above. For the new rules [101(5)], every society with assets worth more than Tshs. 500.0 million, a complete set of financial statement are prepared every four months and sent to the Directorate of Microfinance of the Bank of Tanzania.

**(iii) Secretary**

Records studied at various minutes on meetings conducted revealed that the secretary is well organized and keeps minutes of all SACCOs meetings (e.g. records of members present, date, place, who presided, conclusions) and reports are prepared in a manner (Kiswahili language) that any member can follow and understand. He ensures that all minutes are duly signed and distributed according to the cooperative Rule 41. Available

minutes of the past annual general meetings show that members participate fully in the decision-making and in setting society policies. The last minutes studied are the AGM proceeding that was held in Dar-es-salaam on 18<sup>th</sup> December 2004.

Although KK does not have a sound feasibility plan for its economic activities, it has a comparative advantage over its competitors for the reason that its' loan portfolio at risk (PAR) is minimal due to the '*check-off*' system of loan repayments where employers, without any exception ensure that they deduct and remit all loan dues of their staff. The study revealed that remittances from member's organizations are done on time as agreed except for Tanzania Postal Corporation (TPC) who deduct their employee's salaries as usual but delay in remitting the same to KK. Up to mid December, remittances from July 2004 amounting to around Tshs.250.0 Million were not done. The default causes KK to have low capacity to issue loans taking into consideration that the reserved fund slated for distribution is used on the development projects. In the long run low borrowing capacity means low interest revenue that cause low surplus resulting in low reserves.

Being in the competitive location at one of the prime area in DSM city, KK has the capacity to attract investments from other organizations if they invite them. Apart from the current organizational restructuring and privatization of members' organizations, KK is increasing the economic welfare of its individual members (e.g. increased surplus based on business volume), which encourage them to decide investing in productive ventures at institutional level.

To ensure that member equity is proportional to patronage, the SACCO has a mechanism in place that encourage members to be more confident in their decisions to invest in KK. Previously, the SACCO was investing in buying shares from different companies but every transaction and profits realized was only passed in the books, making it difficult for members to feel the real ownership of their SACCO. Although they have forgone their dividends for quite a long time, when they see one spacious completed building and another one in construction progress, they feel that it was worth it after all.

#### **4.1.1.4 Control and members satisfaction**

Considering the nature of the society, there was no evidence that members engage themselves in business or activities placing them in direct competition with any business unit or service offered by the cooperative. Also from the study findings it was of our opinion that executive members (management) are not taking the advantage of their positions to obtain favours in their SACCO because there is no need for that. Funds are always available, except on few occasions when a good number of members with large savings process their loan applications at the same time. For example, if ten members with- savings of 10.0 million each need to take planned loans, it means there must have at least 300.0 million in account to be drawn at once. When such situation occurs management have to delay other members so the account remain with enough fund to pay emergency loans to many members.

For proper safe keeping of money, the society has a large safe in the cash office where cheques, cash and other important documents are kept as stated in article 85 (1) (b) of Co-Operative Societies Rules: *'The cash shall be kept in a suitable safe until required and shall be in the safe custody of the treasurer, secretary-treasurer or the manager as the case may be, provided that the Registrar may require such information as he deems necessary regarding the adequacy of safekeeping facilities'*.

As a measure tool for misuse of funds, all payments made and receipt collected are channelled through bank. The cashier is not allowed to keep in the safe any amount exceeding Tshs.100,000/= (As indicated in article 37 (c) of the KK SACCO by-laws), unless the amount is specially drawn to be disbursed on the same day.

Apart from control within the office, almost all people who make possible members loan disbursements are aware of every payment made. Staff processing payment in the bank, including the Chief executive of the Tanzania Postal bank are KK members and, as expected, have to process payment after reading the documents thoroughly. They all know the procedures and limits of loan portfolio and they have strict orders to return any uncompleted or erred document.

Reflecting to the interests and concerns of members in the decision-making process, it was observed that chances are given to members to contribute to the society development but due to lack of sensitization many members do not see the importance of

attending the branch AGMs as far as they are getting their loans as requested. All decisions made are according to the resolutions passed by the AGM member's representative council. The executive committee also oversees that acquisition and preservation of cooperative assets is properly done as accented by the AGM and the custody is vested in the executive committee. The executive committee preserve the cooperative character of the organization by making sure that what members decide is implemented and according to the by-laws.

### **Research question 2**

In the research question two, there was a need to check if savings and credit represent the interests of cooperatives to members, authorities and the general public;

The fact that many respondents indicated their satisfaction on the credit services offered (see table7) means that they are willing to stay in the society as long as it exists. The period members were employed and period they had been in the society seem to merge, so if the SACCOs were not performing to their expectations, there could be more dropouts. Many respondents (80.33%), are encouraging others to join KK, as compared to marginal number of them (4.1%) who discourage new members and other who don't have any comment (15.57%). There is no doubt that, despite of any shortcoming, they feel that there is more to gain by staying in the society.

**Table 11: Opinion for non-members to join SACCOs**

Parameter	Frequency	Percentage	Cumulative %
Encourage to join	98	80.33	80.33
Discourage to join	5	4.10	84.43
No comment	19	15.57	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

Every respondent questioned had benefited from loans received from KK and some of them have taken loans from more than one product either at different times or at the same time.

**Table 12: Benefits obtained by joining SACCOS**

Parameter	Frequency	Percentage	Cumulative %
Invested in business	12	8.70	8.70
Paid children school fees	29	21.01	29.71
Built a house	90	65.22	94.93
Other various uses	7	5.07	100.00
<b>TOTAL</b>	<b>138</b>	<b>100</b>	

*Source: The survey study 2004*

As mentioned earlier the reason why over 80% of employees from member organizations are KK members is that, benefits received surpass shortcomings. Despite all comments made in general performance, respondents were asked to give their general remarks on the whole savings and credit issue. Lack of training, which resulted in less productive use of the credit facility, was brought forward as an important shortcoming in KK (Table 12). Bureaucracy, which was a major complaint to many ( see table 5 and 6) also ranked last on respondents priorities on the specific remarks.

**Table 13: Specific remark**

Parameter	Frequency	Percentage	Cumulative %
Remove bureaucracy	8	6.56	6.56
Lower interest rate	10	8.20	14.75
Distribute shares on building	17	13.93	28.69
Employ extra staff	16	13.11	41.80
Pay dividends	12	9.84	51.64
Train members	40	32.79	84.43
Other general comments	19	15.57	100.00
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

There is a lot to be done by current leadership to ensure members are knowledgeable on cooperative issues so that they use their facility effectively. Doing that will make those who happen to loose their jobs to still remain in the society as they will be self-sustaining and able to take care of themselves without assistance from anyone.

#### **4.1.2 CREDIT MANAGEMENT**

The management KK is vested to the Central committee, while the executive committee undertakes all the day-to-day running of business. Loan committee performs all loan-servicing duties, while supervisory committee safeguards all society assets and members' funds.

##### **4.1.2.1 Sources of funds**

According to KK by-laws sources of funds are from member's shares, new members entrance fees, reserves and compulsory savings and loans from different financial institutions. Members' shares acquisition is clearly prescribed in Article 80(2) of the

cooperative rules, which states; *'Share values for any society shall be specified in the By-laws of the society and shall be fully paid by members'*.

Article 80(3) states that, *'a member may require additional shares, provided his total holdings do not exceed one fifth or 20% of the shares of the credit society or such lesser amount as the By-laws may specify'*.

Value per share is Tshs.5,000/=. Up to 31<sup>st</sup> December 2003, total members' shares were worth Tshs.537,493,588/=. Regarding members deposits, the article 81(1) states;

*'A member may deposit moneys in this part referred to as savings or sight deposit account in the savings and credit cooperative society in such minimum amount as may be prescribed in the By-laws'*.

KK has no limit of members savings/deposits so each one is allowed to deposit any amount because dividends are paid in both contributions and shares alike. Another advantage is that the more deposit in ones' account, the more loan potential they have because they can borrow three times the amount of their savings.

Records show that some members have deposits reaching as high as Tshs.11.0 Million, giving them a chance to borrow about Tshs. 33.0 Million at once. At this moment, contributions (savings) are the major source of funds. Up to 31<sup>st</sup> December 2003, members savings were Tshs.4,194,747,929/=.

#### 4.1.2.2 Products

KK SACCO had been issuing two types of loans to its members (article 34(l) of KK by-laws), the emergence loan with a maximum of Tshs.300,000/= payable in 6 months and planned (long term) loan reaching as high as three times of member's savings, payable within 48 months. On the AGM held on 20<sup>th</sup> and 21<sup>st</sup> December 2002 members agreed to introduce a new product, “ *education loan*” that started with effect from January 2004. Before 2004, some of the loans issued for other uses were also used to pay school fees until members decided to officiate it as one of its main products.

The maximum payment of this loan is Tshs.1, 000,000/= payable directly to the respective school or college with repayment period of 12 months. For members who wants loans for school fees exceeding Tshs. 1.0 million they have to fill planned loan forms instead of education fees forms and the loan is paid directly to them. Members are allowed to have all types of loans, provided the total amount should not exceed three times of their savings.

For the past 12 years, including 11 months of year 2004, KK SACCO have granted a total sum of Tshs.38.039 Billion as shown on the table below;

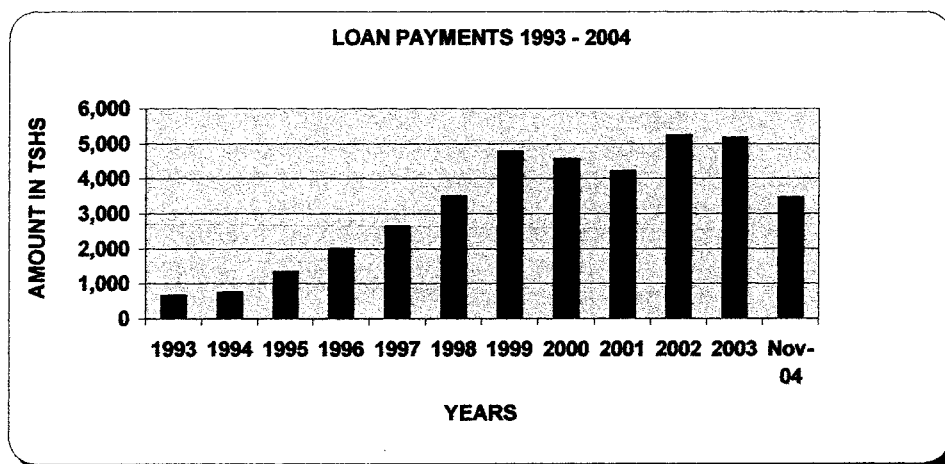
**Table 14: Loans paid from 1993 to November 2004**

YEAR	LOAN GRANTED (Tshs)	GROWTH RATE
1993	639,225,818	-
1994	734,647,200	15%
1995	1,307,945,650	78%
1996	1,980,283,159	51%
1997	2,621,864,650	32%
1998	3,482,545,575	33%
1999	4,756,916,732	37%
2000	4,542,725,673	(5)%
2001	4,183,311,999	(8)%
2002	5,217,419,666	25%
2003	5,140,104,000	(1)%
NOV-2004	3,432,162,903	(33)%
<b>TOTAL</b>	<b>38,039,153,025</b>	

**Source: KK SACCO AGM report – 18<sup>th</sup> December 2004**

The following is the chart giving a clear picture of the above data;

**Graph 1: Loans payment from 1993 to November 2004**



***Source: KK SACCO AGM report data – 18<sup>th</sup> December 2004***

Growth on loan servicing was depending on increase of new members following recruitments in their organization and increase in member's savings on their deposits accounts.

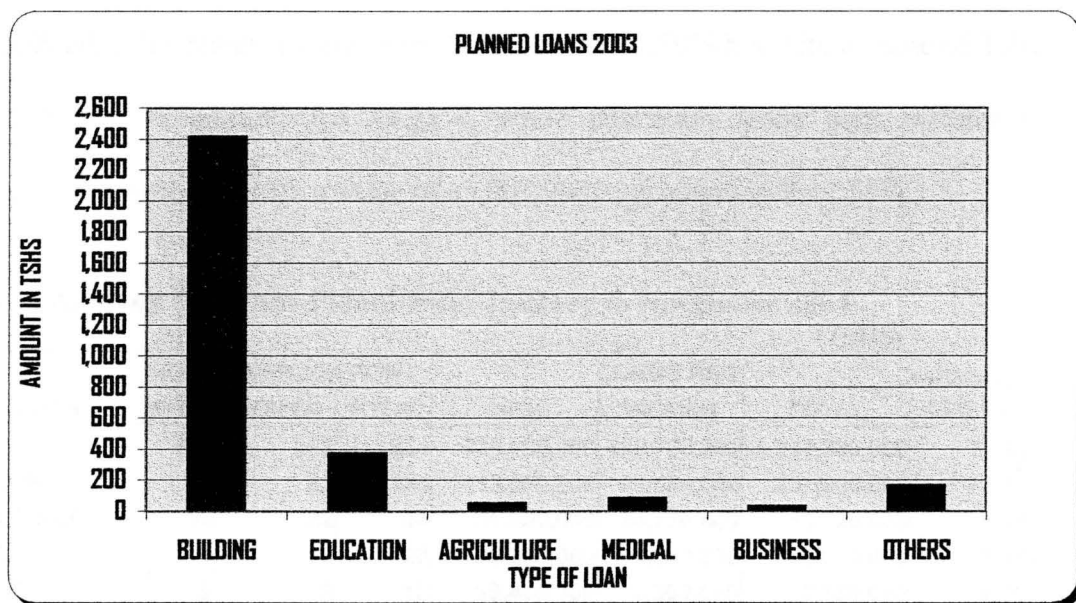
In 2003, there were 8,831 total applied for and paid loans, which amounted to Tshs. 5,140,104,000/= where emergence loan applications for DSM were 4,554 valuing Tshs. 1,268,707,000/=. and all other regions were 2,684 valuing Tshs. 768,394,000/=. Planned loans (countrywide) alone were 1,593 valuing Tshs. 3,103,003,000/=. Members of KK SACCOs are around 4,400, having a total of 8831 applied and paid loans means that same people were applying for more than one loan within one year.

**Table 15: Analysis of Planned loans for the year 2003**

TYPE OF LOAN	NO. OF APPLICATION			LOANS PAID			(TSHS) PERCENT AGE (%)
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	
BUILDING	751	424	1,175	1,622,582,000	789,720,000	2,412,302,000	77.74
EDUCATION	119	120	239	191,565,000	177,721,000	369,286,000	11.90
AGRICULTURE	16	15	31	25,900,000	22,310,000	48,210,000	1.55
MEDICAL	30	11	41	59,820,000	22,120,000	81,940,000	2.65
BUSINESS	9	5	14	20,320,000	8,050,000	28,370,000	.90
OTHERS	53	39	92	105,105,000	57,790,000	162,895,000	5.25
<b>TOTAL</b>	<b>978</b>	<b>614</b>	<b>1,592</b>	<b>2,025,292,000</b>	<b>1,077,711,000</b>	<b>3,103,003,000</b>	<b>100</b>

*Source: KK SACCOS AGM held on 18<sup>th</sup> December 2004*

The following graph gives a true picture of the situation;

**Graph 2: Planned loans for 2003**

*Adopted from compiled notes*

Diversity of issued loans is very high, building consuming more than three quarters (77.74%) of KK total loan portfolio. Management has never taken any initiative to reduce the disparity of such gap. Business and agriculture, which were expected to lead other components, together accounted for 2.45%.

For year 2004, data available (up to 30<sup>th</sup> November 2004) shows that 7,421 loans amounting to Tshs. 3,432,162,903/= have been issued to members. Out of 7,421 loans applied for, emergence loans were 6,270 (DSM 3347 and Branches 2939) accounting for 84.49% of all loans applications. Value of the same loans was Tshs. 1,683,150,194/= (DSM Tshs.906,570,194/= and branches Tshs.776,580,000/=) or 49.04% of Total loans paid. Application for planned loans were 1151 only or 15.59% but with a value of Tshs. 1,685,110,809/=, accounting for 49.25%, while education loans paid directly to schools/colleges were 147 with a value of 63,901,900/=, accounting for 1.86%.

**Table 16 : Analysis of Planned loans from January to November 2004**  
(TSHS)

TYPE OF LOAN	NO. OF APPLICATION			LOANS PAID			PERCENT AGE (%)
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	
BUILDING	421	263	684	726,650,000	490,730,000	1,217,380,000	72.24
EDUCATION	73	62	135	113,550,000	93,530,000	207,080,000	12.29
AGRICULTURE	32	22	54	31,000,000	24,720,000	55,720,000	3.31
MEDICAL	19	9	28	33,230,000	16,800,000	50,030,000	2.97
BUSINESS	9	3	12	19,430,000	3,300,000	22,730,000	1.35
OTHERS	54	21	75	95,170,809	37,000,000	132,170,809	7.84
<b>TOTAL</b>	<b>608</b>	<b>380</b>	<b>988</b>	<b>1,019,030,809</b>	<b>666,080,000</b>	<b>1,685,110,809</b>	<b>100</b>

*Source: KK AGM held on 18<sup>th</sup> December 2004*

Referring to above table, planned loans were 988 valuing Tshs. 1,685,110,809/= where men accounted for 61.5% of all planned loans in that category and women were 38.5%.

Men applied for and received 608 loans worth Tshs.1,019,030,809/= and women applied for 380 loans worth Tshs. 666,080,000/=. Out of the planned loans amounting to Tshs. 207,080,000/=: 135 loans paid to cover education costs were paid directly to parents.

Some branches, whose regions have TPB branches have accounts and are allowed to pay emergence loans to members after getting approval from head office and planned loans (paid only once in the month) and education loans are only provided at the head office.

Looking at above the tables and graphs, one can observe that, the real meaning of establishing and using cooperatives (SACCOs) as means for poverty alleviation is not well recognized by KK members. Major reason for this weakness is lack of cooperative education to members to ensure they make use of their society for more beneficial activities than building houses. To build a house is usually a '*sunk cost*', unless they are constructed for rental business.

Comparing the loan service for 2003 and 2004 indicates that, members are still taking building loans than any other product. One thing, which is not clear is why building loans are still the dominant category of all loans paid ever since the society was formed 3 decades ago. For eleven months of 2004, for building loans accounted for 72.24% of planned loans and the remaining 27.76% were for all other loans categories issued. Considering that majority of members are those who joined the SACCO over ten years ago, we could expect that almost all of them are having their own houses and now

thinking of other economic development activities. So far there is no one who have taken trouble to analyze why this habit is still going on unchecked. What leaders care most is if the person taking a loan is able to repay in a prescribed period and comply with agreed rules.

Whether building a house is a tradition or prestige is yet to be studied because experience shows that many Tanzanians feels that to build a house is a necessity in life more anything. Once a person completes his/her education, what follows is seek for a job, marry and then to build a house and settle with a family. In a Tanzanian society one is respected if he is living at his own house. The lack of business education may be the reason why some members tend to build houses for renting believing that it is an investment that do not need much follow ups, promotion and risk.

If entrepreneurship skills could have been imparted to members, business could rank first rather than last as it appears. By doing business, one can use profits realized to build houses still continue having one's businesses in place.

KK has no specific (approved) credit policy other than depend only on their by-laws and resolutions of the AGM. Nevertheless, KK uses a loan application forms *No. KK/2* for the emergence and planned loans and pass through different stages. Even if loan request form is completed, a loan repayment guarantee form *No. KK3* should be completed and verified before any loan is approved. The only criteria to get any loan is that you must be

KK member for not less than 6 months and have acquired shares not less than 20 and, therefore, eligible for a loan not exceeding three times of your contributions. According to KK management, the followings criterias and conditions are used for assessing and distributing credit:

- 1) Member should contribute at least Tshs 10,000/= or more as savings every month.
- 2) Three guarantors should have one third (shares plus deposits) of loan amount applied by a borrower to be guaranteed;
- 3) Borrower should state the purpose of loans;
- 4) Borrower should not have any debts;
- 5) Borrower should accept to pay the loan in stipulated time with interest rates.

Officers responsible i.e. Chairman, vice chairman, Secretary, Treasurer and chairman of the supervisory committee, do the authorizations of payments and they are also signatories. There is an accounts clerk who keeps records of all cash /bank transactions. Budgetary system is short term (one year) and it is usually a cash budget, which depends mostly on collections from members.

#### **4.1.2.3 Loan Servicing**

The society recovers loans through a checking system where respective employers deduct agreed sums direct from employee's (members) salaries every month and remit the same to the SACCOs. As seen on the loan application forms No.KK/2 (Appendix 12) the employer is participating fully in giving members' personal income details, showing

that from the salary received, he/she is able to repay the loan so requested. Apart from the employer, there are two guarantors (used as collateral) who declare to be liable in case the borrower defaults to pay the required instalments for the emergence loan and three guarantors for planned loan. The guarantors' fill form No. KK/3, (Appendix 13) as per article 34.0 of KK by-laws.

Loan reimbursement at KK is effectively monitored because most of the borrowers are reimbursing the full amount of their installments as per agreement. There is no need of an excessive effort for follow-ups on repayment of installments. A list of all loans in arrears is produced every quarter and summed up when preparing the year-end financial statements as stated in the article 102(1) of the coop society Rule; *'At the end of every three month, a list of outstanding loans shall be made available for review by any member, showing with respect of every loan:-*

- (a) Name of member;*
- (b) Date of extension;*
- (c) Initial amount and the outstanding balance;*
- (d) Terms of payment and interest rates*
- (e) Amount of unpaid instalments, if any;*
- (f) Names of guarantors and security pledged'*

Using cheking system in loan repayment was expected to be the best method to control defaulters, but, in our study it was discovered that KK needs more effort to make it work

as expected. There is careful control of borrowers from when a members applies for loan to the time of repayment but still over years there were a good number of defaulters who for one reason or another, could not service their loans properly. This makes the list of members to be high while no transactions are recorded in their ledgers. This was partially caused by lack of age analysis of loan debtor's schedule. Insistence on preparation of a list of outstanding loan is stated in the sub-rule (2) of rule 102 that,

*'The list referred to under sub-rule (1) shall be prepared within thirty days after the end of the period specified under sub-rule (1) to which the list relates and shall be signed as correct by either the Treasurer, the secretary or the manager, as the case may be, and shall be approved by the chairman and a copy sent to the registrar immediately'.*

In the 2003 AGM, convened on 27<sup>th</sup> December 2003 it was reported that, there were 363 dormant members who had already withdrawn their shares but had credit from allocated dividends of Tshs. 6,717,958.75. There were 409 dormant members who do not have any loan but left their shares in the society amounting to Tshs. 65,564,958.65. Also there were 282 dormant members who defaulted to pay their loans worth Tshs. 102,097,207/85. While the first category the Board requested the AGM to approve termination of such members from membership list, the second category requested for a suspension of members. The last one was the unpaid loans, which they requested to be written off. Total number of dormant members in all categories is 1051.

The money requested to be written off, Tshs. 102,097,207/85 was supposed to be recovered from guarantors as per Rule 66(2) stating; *'A guarantor shall be liable for repayment of the loan for which he is a guarantor to the extent as guaranteed in the case of repayment of such loan by the guarantee'*.

There was no evidence to show that every effort to recover the loans, even from the guarantors was exhausted because write off means loss to all remaining members. As mentioned above, major reason for this weakness was failure to prepare age analysis of all loans unpaid so that it could be easy to trace any serious default before it was too late. The suspension of member's loans is prescribed in article 98(2) Cooperative societies Rule, which states; *'The registrar may also suspend loans and acceptance of savings and deposits, after an examination or investigation under the Act'*.

The decision to write off unpaid loans is in complicity with Rule 99(1), which states that, *'Where a loan or any part of the loan has remained unpaid for more than ninety days in accordance with the agreed repayment schedule, the savings and credit cooperative society shall cancel the loan with the savings and deposits accepted as security for loan and shall proceed to collect on any other property pledged as security'*.

In order to work effectively, and according to best practice principles, KK is required to follow the BOT's *'Key Prudential Standards'* for *'Loan Classification and Provisioning'*. The Bank of Tanzania's mandatory guidelines for aging, classification

and provisioning for loans follow international standards and practice. *The Management of Risk Assets Regulations, 2001* came into effect on May 1, 2001 and repealed "The Guidelines on Management of Risk Assets, Classification of Loans and other Risk Assets, Provisioning for Losses and Accrual of Interest" which were issued on October 18, 1991. The objectives of these Regulations are generally to provide prudential guidance on management of risk assets and bases for providing for losses on loans and other risk assets, (Bikki Randhawa, Joselito Gallardo (2003).

Following international practice, loan accounts are periodically subjected to aging and classified with respect to the number of days that classified loans have been delinquent in payment of principal and/or interest. The typical account classifications according to number of days of delinquency, and the corresponding specific provisions that are required to be made are shown in Table below.

**Table 17: Loan Classification and Provisioning Guidelines for Licensed Banks**

<b>Risk Classification</b>	<b>Days Delinquent / Non-Performing</b>	<b>Performing Rate of Provisioning (% of Loan Amount)</b>
Standard or current	0 to 30 days	-
Loans Especially Mentioned (not fully secured, etc.)	31 to 60 days	5 %
Sub-standard	61 to 90 days	25 %
Doubtful	91 to 180	50 %
Loss	Loss 181 days or more	100 %

***Source: World Bank Financial Sector Report, 2001; and Bank of Tanzania Management of Risk Assets Regulations 2001 from BOT website.***

All loans that are past due and those classified as sub-standard, doubtful or total loss (i.e. that could never be paid), are required to be placed on non-accrual basis. The guidelines

issued by the Bank of Tanzania also require licensed banks and non-bank financial institutions to maintain a general reserve for possible loan losses equivalent to 2% of its total outstanding loan portfolio, and to make the required specific provisions on a quarterly basis. These are included in the periodic reports submitted by licensed banks and non-bank financial institutions to the Bank of Tanzania. Rule 98(1)a prescribe that, *'It is the responsibility of the supervisory committee to instruct the suspension of loans, when:- the past due portfolio /non performing loans exceeds 5% ( five per cent) of the loan portfolio'*.

Article 3.2 of the National microfinance Policy, 2002, discusses the best practice principles where in 3.2.2 (under delinquency control), it is prescribed that among the most basic competencies required of any microfinance provider is that of getting loans repaid. Sub-article (a) of 3.2.2 states; *'Maintenance and active use of accurate, up to date information on portfolio status (at various levels of organization) including aging of arrears'*

Information gathered indicates that there was also a small important detail overlooked before accepting to issue the planned loans. It was necessary to ensure recovery possibility beforehand by knowing how much savings the guarantors have and balances remaining after deducting their own outstanding loans. To avoid portfolio at risk (PAR), the executive committee should ensure that guarantors for the planned loans do not take any loan if their outstanding loans plus the portion of guaranteed sum exceed three times

their savings. If the sum is less than the loan granted should be a top-up in order to reach a ceiling equivalent to 3 times of their savings.

#### **4.1.2.4 Loan Interest**

Every SACCOS have the responsibility of charging interest affordable to its members but at the same time, in order to grow and expand, it have to charge a competitive interest rate that can realise a surplus to be distributed amongst its members through dividends. Cooperative society Rules made it clear in article 75(1) by stating that;

*'A savings and credit cooperative society, in this part referred to as a credit society, is solely dedicated to the promotion of thrift among its members and the creation of a source of credit for them at competitive rates of interest through financial intermediation'.*

This article conforms to Para 3.2.1 of National microfinance policy, 2000 that stated that pricing is one of the most important determinants of the potential of the microfinance services to become sustainable and the prices should be set by the microfinance organizations themselves, not by the government, the Bank of Tanzania or donor.

Article 97(1) of the Coop. society Rules states; *'The interest on loans by savings and credit cooperative society shall be fixed by the general meeting: Provided that the general meeting may delegate its powers to the Board to establish the interest rates for loans depending on the prevailing market conditions'.*

KK charges an interest of 1.5% per month to all loans granted. The rate of interest was lowered from the previous 2% two years ago. Apart from the reduction, some members feel that it is still high, so it requires to be reduced further. These loan interests are charged in the reduced balance method, where the next month's interest is charged from unpaid principal that remained unpaid at that month. As shown in the example on Appendix 14, loans from KK SACCOs attracts very little interests compared to commercial banks where time value of money aspect is considered on current inflation situation.

In the study finding respondents *who were* not satisfied by the SACCO loan policy, 9.68% of them (Table 8 above) argued that the interest was high. Because of little knowledge of the loan servicing, some members (exact number not known) have decided to take loans from other banks, e.g. Stanbic, with a borrowing interest rates to 20% per annum. They are supposed to understand that, cooperatives, like any other business enterprises, need to compete in order to survive in a market economy and as for KK it is members themselves who can make it survive, grow and expand. An example in Appendix 14 also shows how it is cheaper and advantageous to borrow from KK rather than any commercial bank.

Members should realize is that, whatever rate of interest charged to the loan taken it is not a lost to them but for the growth of their own society. It is a clear fact that at the end the interest paid will be an income to the society that ultimately reverts back to them as

surplus (after deducting operating expenditure), which is subjected to reserves and dividends. Comparing to bank borrowing there are many advantages than disadvantages. If you borrow from a bank you must have a landed property as a collateral or, under special arrangements you can borrow through employer's guarantee. If you borrow from bank and a default to pay the interest in time occurs, the whole amount remaining unpaid is compounded so interest is not constant on normal reducing balance method, but on the actual outstanding loan on the date the interest is computed.

#### **4.1. 3 FINANCIAL ASSESSMENT**

A basic requirement for effective financial management of a SACCOs, is a good accounting system which records all transactions accurately and timely and summarizes them under different line items. Such an accounting system will help preparation of accurate and periodical financial reports, which could be used, for analysis and decision-making. In most Savings and credit cooperatives, financial statements are prepared on an annual basis and audited for the purpose of establishing the profit or loss and also to submit them to concerned authorities, as legally required.

The main objective of preparation of the financial statements is to submit them to the external institutions like Government (through BOT), Bank and other cooperative departments. For the purposes of effective financial management, these statements should be prepared on a monthly basic and used by the Board to monitor and control the Savings and credit operations. The analysis of the financial statements will help plan the

activities and set targets. Frequent preparation of accurate financial statements and analysis will improve the performance of the operations and thereby increase the profitability.

For example, if the SACCOs prepare a monthly Loan statement along with age-wise outstanding loans, it will help the management to take necessary steps to follow up loans overdue and increase rate of repayment. A monthly income and expenditure statement will enable the management to control the expenditure and increase income. A monthly cash flow statement will help management identify cash availability and make investment decisions.

The study on financial management for KK was facilitated by the availability of well-prepared accounts according to required standards and principles. Financial statements are prepared as prescribed in the Tanzania Financial Accounting Standards issued by the National Board of Accounting and Auditors (NBAA). Management have to oversee that there is a compliance of financial records to audit procedures and guidelines as per Cooperative societies Act 2003 S.48(2); *'Every registered society shall, keep proper accounts and other records in relation thereto and shall within three months prepare in respect of every year a statement of accounts in a form which conforms to the best accounting standards'*.

Cooperative societies Rule article 44(2)c states that, the duties of the board shall include the following, *'To ensure that the accounts of the society are prepared and audited according to the requirement of Act, rules and By-laws;'*

When accounts are prepared, they are sent to auditors, the Cooperative Audit and Supervision Corporation (COASCO), who audit cooperative societies accounts, and after the exercise is completed the audited income and expenditure account, balance sheet and sources and application of funds are laid before the AGM as per article 44(2)d;

*'To lay before the annual general meeting an audited income and expenditure account, balance sheet and sources and application of funds'.*

KK accounting system is not computerized at the moment but staffs are now undergoing an intensive training of a new computer program. It is expected that on January 2005 a trial run shall start and data will be posted in parts until complete computerised system is used. Operations will be networked all over the country making sure information flow take a very short period and ensuring a prompt action. The current system will go parallel with the new system until every last detail is transferred then it will be shelved. Back-up storage facility shall be maintained to avoid losing recorded data.

#### **4.1.3.1 Finance and planning**

##### **(a) Annual Budgeting**

The study reveals that the KK has no business goals. Normally, when something comes up it is discussed in the executive committee, then sent to the central committee and later tabled to the AGM for getting blessings of all members. It was also observed that regular budget process is developed and integrated into an annual operating plan as required and financial reports are prepared quarterly to evaluate if activities are performed according to plan.

With this system variances are discovered earlier and discussed in the presiding quarterly Board meetings. Before the budget is adopted, it should be approved by members in the AGM, which are normally conducted in December every year.

##### **(b) Long-Term Financial Planning**

The cooperative's long-term financial planning that addresses sources and allocation of capital that is consistent with competitive strategy is not prepared and adopted by the society. KK has some investments that are set to boost members' income in the future but a business plan whose sophistication is correlated with the significance of the investment of individual members has not been prepared. This shortcoming makes the society to operate in a traditional way, that sometimes make things more complicated when members ask for the project proposal/plan and implementation of the respective investments e.g. the construction of the investment building.

#### 4.1.3.2 General Accounting

The society has two bank accounts, one at the CRDB (1996) Limited and another at Tanzania Postal Bank (TPB). They include savings account, current account and fixed deposit account. Money withdrawn and deposited regarding to loan services is passed through TPB, which is the major account and also saves the fixed deposit of one-year period and a special fixed deposit, 'WADU', which is withdrawn upon maturity or when necessary. Those branches whose regions have TPB branches, members are receiving emergence loans from respective branches at respective regions, and as in DSM, bank workers are also members. Up to this moment, there are 9 TPB branches including, Mbeya, Mwanza, Arusha, Mtwara, Zanzibar, Dodoma, Tabora, Ruvuma and Kigoma.

Full accounting records are maintained in accordance with recognized international accounting standards and financial reports are regularly prepared and presented to the Central committee and finally to the annual general meeting (AGM) of all membership.

Cooperative Act No.20 of 2003, sub-section (2) states that,

*“Every registered society shall, keep proper accounts and other records in relation thereto and shall within three months prepare in respect of every year a statement of accounts in a form which conforms to the best accounting standards”.*

The study shows that KK maintains proper books of accounts, which are finally posted in the general ledger. From the general ledger, a trial balance is extracted, which sources

information for financial statements preparation e.g. income and expenditure accounts and Balance sheet statement. When the audited accounts are prepared, they are sent to Cooperative Audit and Supervision Corporation (COASCO) for auditing as required by the law. Unless the financial statements are audited and the statements certified by the auditing company, they are considered as 'draft accounts' and cannot officially be used by stakeholders.

KK is printing all its official documents for loan service, administrative purposes and accounting. The assessment revealed that, utilizations of those tools are proper and are always locked in safer place (cash office).

The following are KK SACCO used accounting tools:

- (i) Individual ledger;
- (ii) Members passbook;
- (iii) Cash payment vouchers;
- (iv) Cash receipts and cheque book;
- (v) Journal of transaction.

Some of the samples of the documents used are cheque payment vouchers (KK/7), prepared in triplicate (Appendix 15) and daily collections sheet (KK/9) recording daily receipts from members (Appendix 16). The reflection of the society activities shows that KK is performing its duties in the right track as could be expected in a financial

organization. Sometimes a member may require clearing his previous loan with an intention of taking a fresh one. If such a situation happens it is allowed, but the concerned person have to pay all loan dues including interest. That person is required to fill in a loan clearance form (Appendix 17) and when it is authorised then the process will continue.

In order to control movement of funds when any payment is made, the payee is paid through cheque and when a member wants to pay money other than checking system (i.e passing through directly from each organization), they must collect a stamped Pay-in-slip and deposit money in the TPB account (Appendix 18).

#### **4.1.3.3 Auditing**

In the study it was established that full financial audit of KK is undertaken annually under the supervision of qualified accountants, Cooperative Audit and Supervision Corporation (COASCO). Three most recent audit reports were reviewed and the latest is the final accounts for 2003 years of income (Appendix 19), and both were awarded a clean report. This is in complicity to article 29(2) of the cooperative societies rules that prescribed that; *'Accounts of every registered society shall be audited at least once in the year by the Cooperative Audit and Supervision Corporation or any other competent registered auditor who may charge a competitive fee. The appointment of the competent and registered auditor shall be decided at the general meeting of members and is subject to the approval of the Registrar'*.

In the study, when reviewing the audited reports done by COASCO, among the findings was that in 2002 and 2003, either KK delayed to submit books of accounts for auditing as required by rule 29(2) or the auditors themselves delayed to complete the audit exercise earlier, according to rule 29(3). Rule 29(3) states;

*'The accounts shall be made up to the last day of the period to which they relate, and the copy thereof shall be sent to the auditor not later than three months after the closing of the financial year and auditors shall complete the auditing work within two months after submission of accounts.'*

Accounts for year 2002 were signed by KK management on 30<sup>th</sup> July 2003, two months late and the certificate was signed sometimes thereafter. Time of issuance of certificate for 2003 accounts was not bad as it was signed on 9<sup>th</sup> June, some few days after required official deadline. Delays observed are not serious but rules need to be adhered to considering that the institution is dealing with money business that requires daily transactions and up to date reports. Normally, there are follow-ups on audit report comments after auditors issue management audit report (MAR) and actions are taken in good time.

#### **4.1.3.4 Reserve fund and Capital investment**

A well-managed society should generate income in excess of their expenses. This produces a surplus, which members may decide to re-invest within the society. This re-

investment can take the form of different reserves, which belongs to the society itself. Part of the surplus may be retained within the society. Building of institutional funds will ensure long-term sustainability and self-reliance of the society over a period of time.

As referred to in the financial statements, actual liquidity situation is good and allows KK management to fulfill the disposition of article 83 (1) of Co-Operative Societies Rules, stating that:

*“Every savings and credit society shall maintain a reserve fund to meet withdrawals of money in share and deposits accounts, consisting of cash on hand or in bank or other organization authorized By-laws to accept moneys on deposit, and such reserve shall not at the end of any calendar month be less than ten percentum of the liabilities of the credit society to its members in respect of shares and deposits at that time”.*

Likewise, in article 35.1 of their by-laws, KK maintains a statutory reserves fund as prescribed in article 68(1) of the Cooperative rules backed by article 105(1) of cooperative Rules, which states;

*‘When determining the net surplus made by the savings anZd credit cooperative society, 20% of the annual net surplus shall be set aside in the Statutory Reserve Fund until the set capital adequacy standard is reached’.*

As indicated in article 35(.1) of the KK by-laws there are Four types of reserves, which members agreed to set aside whenever the society makes a surplus;

- (a) 20% of net surplus each year as '*Statutory reserves*' to be used for unavoidable losses for unpaid loans and refund for withdrawn deposits. Up to 31<sup>st</sup> December 2003, accumulation reached Tshs. 724,893,061/=.
- (b) 10% of net surplus as '*Trustee fund*' for paying for losses incurred from deceased members. With effect from January 2004, following approval of members, the SACCO is paying 2/3 of the deceased outstanding loan and the balance of 1/3 is to be deducted from member's savings. The accumulation up to 31<sup>st</sup> December 2003, reached to a total sum of Tshs. 274,048,598/=
- (c) In this sub-article, the by-laws provide that, '*share transfer fund*' of 10% of net surplus should be set aside every year to cover for bad debts. Practically what is set aside is the share transfer fund established to cover shares withdrawn. Up to 31<sup>st</sup> December 2003 a total sum of 53,749,359/= was set aside, complying to Co-Operative Societies Rules article 83(3) stating that, '*shares may be refunded from the share transfer fund as provided under these Rules, at the written request of a member and shall require advance notice of at least sixty (60) days*'. Article 83(4), add that, '*the Board shall approve a refund of shares to members who have voluntarily withdrawn from the society or members who have been expelled by the society due to certain deeds and such shares shall be refunded from the share transfer fund*'

(d) '*Education fund*' of 10% should be set for members training. The accumulated education reserve fund up to 31<sup>st</sup> December 2003 was Tshs. 239,272,724/=, included in revenue reserve. Apart from accumulating such a big amount, there are no trainings conducted and no education scheme available so far.

Dividends paid to members are obtained as a residue after all reserves have been allocated and they are of two types; The first part is dividends from shares where all members are paid a fixed sum per share owned and on the second part members are paid 1% of their minimum saving deposits balance at each quarter.

Most financial cooperatives societies allocate part of their reserved funds to income generating investments. This is an effort to spread the risk of lending only to members, while generating more income than would be realized by leaving the money in a simple account. Such investments also provide accessible funds if the cash reserves of the society begin to run low. Less often, societies will invest in businesses or income generating projects, which they directly own and manage. Even less frequently, some societies invest in privately owned businesses or other speculative activities.

*Capital investment* up to 31<sup>st</sup> December 2003 was Tshs. 773,608,035/= and it refers to funds set aside from net surplus after every one year declared dividends. Members agreed to set aside their declared dividends after every one year to boost their capacity to invest in their investment buildings. The sum mentioned above represents dividends for

year 1997, 1999 and 2001. The completed building was built from other previous reserves, which had huge accumulations. At the closing stages of our study, the Board was working on allotting shares to members whose reserved dividends were involved in the investment.

#### **4.1.4 SWOT ANALYSIS**

After making the assessment and processing the collected data, SWOT analysis was used in analysing the data. Together with SWOT analysis there were some summarised priorities recommended for management to take into consideration for the future performance efficiency.

##### **Strengths**

- 1) There is a committed management;
- 2) There is a sound liquidity situation;
- 3) Capital base is moving in the right direction;
- 4) Profitability is increasing;
- 5) The SACCOs is situated in a convenient location
- 6) There is a potential for growth and expansion

##### **Weaknesses**

- 1) Assets: Loan portfolio quality is to improve.
- 2) Lack of credit management policy that guides<sup>3</sup> the SACCOs best credit practice;
- 3) High level cooperative illiteracy amongst co-op membership and co-op leadership;
- 4) Poor management structure causing bureaucracy in providing credit service facility;

- 5) Ineffective organization structure;
- 6) Lack of training on entrepreneurship skills to its members.

### **Threats**

Have not given thought of promoting other members other than employees to join

### **Opportunities**

- 1) Adopting a microfinance best practices oriented approach;
- 2) Needs for quality and efficient services;

### **Priorities**

- 1) By-laws to be reviewed, adjusted, amended and adopted;
- 2) Loan portfolio quality and management;
- 3) Implementing financial and administrative norms, policies and procedures;
- 4) Employ qualified permanent staff;
- 5) Training staff, management committees and members;
- 6) Promotion of the society as a simple MFI

## **4.2 RECOMMENDATIONS**

The results drawn from the data pose the validity of the major aim of this study. The study findings have revealed that there are some weakening factors that prevents KK SACCOs from being an efficient tool for change amongst its members as could be expected. 'KK' leadership weaknesses were inherited from their predecessors and

continued with same tradition, but in some way these weaknesses are required to be looked at in a broader perspective for a successful ending results.

According to study findings, major root causes of the said weakening factors, which originate mainly from SACCOs internal forces were brought by; (i) Lack of credit management policy that guides the SACCOs best credit practice; (ii) High level cooperative illiteracy amongst co-op membership and co-op leadership; (iii) Poor management structure causing bureaucracy in providing credit service facility; (iv) Ineffective organization structure; (v) Lack of training on entrepreneurship skills to its members.

**(i) Lack of credit management and other policies that guides the SACCOS to the best credit practice;**

The research findings have observed with concern that KK SACCOs operate without administrative policy and credit Policy manual. Operation towards agreed mission is done with an aim of fulfilling the overall objectives of the society i.e. Loan delivery to members is done but there are no written policies to manage credit activities e.g. incentive mechanisms; progressive lending policy; Microfinance profitable activity, financing provident and productive activities, professional management, etc. The analysis made from the interviews shows that 72.95% does not understand 'KK' SACCOs' policies showing that members are ignorant of something they own. There is no doubt that since there is no guiding policies other than the by-laws, members and

leaders will continue to be ignorant until the leadership takes an extra effort without this important aspect.

It is recommended that the SACCOs should develop credit management policies to be adopted as a working tool by utilizing the basic principles of microfinance and SACCOs' best practices whose guidelines could be applied in accordance with such principles. The more the SACCOs is growing the more complicated the credit management becomes. Also seminars should be conducted to all new leaders. Also other working tools should be available to the SACCOs in order to work efficiently. The following are important tools used by any successful SACCOs at the moment;

- (a) By-laws
- (b) Credit Management policy
- (c) Administrative policy
- (d) Financial policy
- (e) Internal control policy
- (f) Cooperative societies Act no 20. of 2003
- (g) Cooperative societies Rules 2003
- (h) National Micro-finance policy 2000
- (i) Cooperative development policy, 2002
- (j) Banking and Financial Institution Act, 1991

It is understood that policies have changed a lot in the recent years but they are always changing for the better to cope with current world economic changed and globalization.

**(ii) High level cooperative illiteracy amongst co-op membership and co-operative leadership;**

The study revealed that many members of the SACCOs does not know much on the whole aspect of cooperative principles, apart from the knowledge that the credit facility helps in liquidating a certain financial problems that may arise. The fact that about 73.77% of members were introduced to join the SACCOs through friends, means a person only joins by seeing immediate problems of members being solved by taking a loan and repayment done through salary deduction.

**Table 18: Introduction to the SACCOs**

Parameter	Frequency	Percentage	Cumulative %
Seminar	19	15.57	15.57
Friend	90	73.77	89.34
Publication	11	9.02	98.36
Other means	2	1.64	100
<b>TOTAL</b>	<b>122</b>	<b>100</b>	

*Source: The survey study 2004*

The amount repaid through check-off system is deducted from the source (salaries) so it is not directly felt by the payee, hence, making it easier for one to be attracted to join.

What was learnt from the interviews reveals that as far as members request loans and money paid, the objective is fulfilled and no one is interested to know what goes on in their SACCOs. Lack of co-operative education makes it difficult to enlighten members

of their responsibilities and having the sense of ownership. This weakness results in the poor attendance in Branch Annual General meetings (especially in DSM), where only a portion of all members all members attends. Sensitization is required to make members understand that joining the SACCOs is not taking loans and repayments only but they should also feel, as owners and part of the organization.

**(iii) Inadequate management structure**

Current membership of the KK SACCOs is around 4,400 active members with net assets of around Tshs 3.45 Billion, which naturally attract a high activity level in providing better credit management services. These activities require a reasonable human resources establishment to handle such volume. Although leadership have experience in handling the credit management, bureaucracy will still prevail if activities are handled on part time basis.

Research results revealed that only 29.51% of respondents shows that credit facility is well maintained, 43.44% say it is not well maintained while 27.05% say they have no opinion (refer table 5 above). There is no doubt that 60.38% of those who said that the credit facility is not well maintained claimed of bureaucracy and 35.85% saying that the reason for the delay was waiting a long period to receive the loan, which were sometimes required urgently (refer table 6). The two responses (96.23%), which means the same show that there is a need to look into KK operations and set modalities of solving the problems. For example if some of signatories are full time staff, the burden could not be shouldered to executive members who work for some few hours daily.

Management can set some categories of payment, where certain amount can be paid by certain category of staff level and another category to be signed by committee members alone. Apart from delays of payments, 74.59% of respondents show that they are satisfied that the loan policy really satisfy their needs, where 25.41% claiming that they are not.

Follow up done to establish what was the critical point where delays are mostly centred revealed that recently, the burden was heavily shouldered by the chairman following resolutions passed regarding approval of TTCL staff members. Management could not risk society funds after realizing that some of the TTCL staff had also borrowed from other financial institutions e.g. Stanbic and Standard Chartered banks. Concerned members were not transparent enough because they wanted to borrow from the SACCOs without revealing the bank loans taken, knowing that its repayment also focus at the same salaries.

Another problem was the recent experience of mass retrenchment process of TTCL staff, now under dispute. It was decided that, before they are paid, all TTCL loans should be authorized by the chairman himself. Considering supremacy of TTCL staff in KK membership (66.98% of all members, as per table 1) loans granted are supposed to be more than other respective organizations, so any slight change may affect all membership. Those members from TTCL, who do not have loans in other institutions or are not in the redundancy list, had the right to claims on bureaucracy. They had to

complain because there were no circular passed by the executive committee to all members to inform them of the change.

To sum up on this part, the constraint of working after office hours is reducing the performance level of current operatives making it difficult to cope with the volume of work. Also it is high time that all activities are computerized in order to handle large volume of work by few people. This will save time and human resource costs. According to the office operating set up, it is advised that all key persons ( e.g. Chairman, vice chairman and secretary, treasurer), loan processing staff, accounts and committee heads should be networked to the main server in order to reduce time spent in moving at different floors for requesting a simple piece of information only. The credit management should be performed in banking attitude manner so that people take very little time processing their loans. It should be realized that the more they borrow the more interest is paid, hence, a rapid growth.

**(iv) Ineffective organization structure;**

‘KK’ is a big SACCOs with many members who are spread countrywide and each member with his/her own desires and problems that need to be addressed. The current set up makes it difficult for people with better ideas on how to improve credit facility and investments to participate fully in development of the organization. The inability of being heard sometimes make people think that there is lack of transparency or

mismanagement of powers and resources, though it is a problem arising from initial society set up.

Because of the magnitude of the Annual General meeting (AGM), which is normally conducted for one day and once every year, much time is used to go through minutes of previous meeting and implementation of resolutions. The little time remaining is given to answer some few questions that were presented from Branch AGMs, leaving genuine and important questions arising from the report presented by the central committee to remain unanswered. Some of the responses in the third factor above are caused by this weakness. There is also a need to allow members who reside at the region where major AGM is conducted to attend if they need to, instead of always hearing from representatives on all resolutions passed. The decision should not contravene the law of representation.

It is recommended that mini-committees should be formed to receive members concerns and questions arising from papers that were distributed earlier to each member. The result of the mini- committees should be sent (in good time) to the major (regional) committee, which will table them to the AGM, making the meeting more vibrant and members feeling that they are fully represented. Sometimes some very important and constructive questions arise during the meeting process that will need to be discussed in a participatory way but could not surface due to time constraint. The committee should come with a more effective way of increasing members participation for building the solidarity among them.

**(v) Lack of members training on entrepreneurship skills and best use of credit facility;**

Lack of training seems to be the most important weakening factor comparing to others. With training every members will get general knowledge of cooperative movement and benefits associated to them. Members are supposed to join after being informed on the benefits of joining the SACCOs in proper training or seminars rather than hearing from friends or reading brochures that have limited information. As mentioned earlier, only 15.57% of respondents joined after attending few seminars conducted, while 9.02 joined after reading some publications. This shows that there were no efforts done by SACCOs management to train its members, answering the question why most of all negative responses were cantered on lack of proper cooperatives knowledge on how it can be used as a tool for eradicating poverty on members if properly utilized.

Up to December 2003 the society accumulated a sum of Tshs. 239,272,724/= as a reserve fund for members education but still the intended aim is not fulfilled or marginally fulfilled. The most important service for the micro finance institutions are training of borrowers, not for the purpose of repaying their loans, but how they are going to use the money lent more effectively for alleviating poverty.

To eradicate poverty requires one to invest in profitable a venture. 'KK' has no training program where members could get entrepreneurship skills and use the acquired

knowledge to generate more income. This is revealed on the fact that about 65.22% of all respondents received loans for building houses, 21.01% for paying children school fees, while only 8.7% were invested in business, leaving only 5.07% for other uses. With proper knowledge members should know the benefits of utilizing the facility by borrowing more money resulting to a more and rapid growth of their society due to interests paid from loans taken.

Unless building of houses aims at using them for renting purposes, the current idea should be abolished because building houses to live in is only a sunk cost i.e. not able to reproduce other income. In that case members should be trained and encouraged to take loans for conducting businesses, and using the profits realized to build houses while at the end they remain with their businesses running with a sustainable income.

Organized training can be arranged to general membership so each member knows his/her rights and benefits involved in joining the SACCOS. Also trainers should be invited to conduct training so that members use the facility more usefully than it is at the moment. Aimed at poverty reduction scheme, 'KK' could educate members through consultants on entrepreneurship skills, where they should be encouraged to establish family businesses. Family business refers to an entity in which two or more members of the family with financial control/interest in business are engaged.

The important thing is for one to take initiative and having a confidence that like other successful business people he/she also can engage himself/herself in business and maintain it.

### **Other remarks**

From the assessment done to KK, the situation is finally summarized as follows;

- (a) Current institutional and financial situation is under control;
- (b) The society loan portfolio management could be improved by a better follow-up on late submitted loans because at the moment there is no list of delinquent borrowers are produced monthly;
- (c ) Portfolio at risk ratio should be carefully monitored and a maximum ratio of 5% should be reached;
- (d) Management has no information regarding loan portfolio quality, aging and risk, so an effort should be made to remedy the shortcoming
- (e) It is necessary that repayment capacity should be assessed for each loan by ensuring that borrowers does not have any other commitments of similar nature.

Apart from looking for other products, KK is required to look into the possibility of allowing members other than from the current KK specified organizations to join the society in order to boost and sustain credit business. This will fill in the gap, which can be left if large number of members drops in a row, following the continuous retrenchments of staff in some member organizations.

In Tanzania, SACCOs have registered different degrees of success. SACCOs whose common bond is the work place and composed of educated people have endured the test of time and have recorded some degree of success. Perhaps one variable that distinguishes a well functioning SACCOs from others is that savings and loan repayments are often directly deducted from the payroll. This significantly diminishes the possibility of default and ensures the discipline for regular deposits. In some places, especially in rural areas especially among less educated groups, running SACCOs has been more challenging. SACCOs requires good book-keeping skills, which are often conspicuously absent in rural areas. This makes this device less user-friendly to the poor who are often illiterate.

## **5.0 IMPLEMENTATION OF RECOMMENDATIONS**

### **5.1 INTRODUCTION**

After conducting the study, some findings were highlighted and recommendations developed. These recommendations are required to be implemented by the society because it needs to operate efficiently. Other problems revealed in the study started to be implemented immediately after making the discussions with society leaders but others had to take time due to various factors. Implementation of some problems require amendment of the KK' By-laws so changes comply with constitution, while other problems needs to be solved during the operation process.

Before completion of our study, two important issues discussed between the consultant and KK management were at advanced stage of implementation. These were;

#### ***(a) Computerization of data;***

The society started to computerize its records by phases towards the end of year 2004 after some training sessions to people who run the program. The exercise will go on for a while because of large number of members and period the society had been in existence. Manual records will still be in use until full computerization is done to take over.

After completing data entry at the head office, where all records are kept, training will continue to all branches in order to allow a proper network at every centre.

If KK management will immediately decide to set a training program as they claimed, operations will soon be computerized and many problems, including identifying portfolio at risk (to such a large number of members) in good time will be solved.

***(b) Distribution of shares.***

The investment in the first building was done using reserved members' funds aimed for dividends after declaration. After completion of the building, total costs was supposed to be calculated and distribution made to respective members who had forgone their rights to receive return on their investment in KK in order to invest to the long term property. As mentioned in 4.1.1.2, the society borrowed a sum of Tshs. 500.0 million from CRDB (1996) Ltd and on how to incorporate that sum to members' shares/contribution was under way. Up to December 31<sup>st</sup> 2004, the exercise was still in progress.

Although investing in building the two houses were decided upon by all members, there is a need to look in the equitable distribution of value proportionately according to the commitment and member's risk involved. It is necessary to put clearly in the By-laws what will happen to the landed property invested by using members rightful gain as return of their investment in them. If it happens that KK is dissolved what will be the fate of the buildings and other subsequent investments? We recommend that distribution should be done only to members who participated in their existence. Members who will join later and those who revived their membership from the dormant list should not be included. Also if any member who participated wants to quit with good reason or dies,

there must have a certain arrangement of rewarding them since they will not enjoy the future benefits of the investments. A certain fixed amount (e.g. a sum equal to the actual amount invested in the building) can be paid to them.

From the study, there were some problems, should be solved after the change of the society By-laws; these are;

**(a) Inviting non-members to join the SACCOS as members or investors.**

According to current national policy of public sector reforms where there is an ongoing privation and restructuring of public corporations, it is inevitable that very soon membership will automatically fall and affect KK capital base. To solve this problem, KK should operate as a pure commercial intermediary by allowing other investors who are non-members to invest capital in the society for a reasonable interest, while at the same time operate as a normal SACCOS to its members.

It should also allow people from other organizations to join as members after making consideration of the security of the fund disbursed. If barrowers are employees an arrangement can be made with their employers to ensure checking system is used, but if they are self employed group lending can be used, where members of the group can be themselves collateral in case of defaulters amongst them.

**(b) Preparing of operating policy.**

At the moment the organization does not have any approved operational policies, e.g. financial policy, credit management policy, administrative policy and internal control

policy. The organization needs to have these operating policies in order to operate efficiently and they should be supported by the KK constitution (By-laws). Organization's performance is always evaluated by using existing guiding policies and constitution, so KK leaders and other ordinary members should agree on what suits them best to make their SACCOs a successful MFI. Considering that the documents need expertise, KK management should engage capable and experienced person(s) to prepare these policies.

**(c) Clear definition of KK vision, mission, objectives and program activities that will cater for current business environment.**

At the movement KK have few objectives set more than 3 decades ago, which need improvement for setting clear direction for its future. Current National microfinance policy establish a framework within which microfinance operations will develop and also lay out principles that will guide operations of the micro-finance system. KK needs to survive and continue to offer and improve credit services so lending activities must be built based on a profitable basis. Micro financing as a commercial activity requires credit management that is inspired by strict and well-defined criteria that avoids misuse of member funds and deterioration of SACCOs image and reputation.

External working tools were collected from different institutions and provided to KK by the consultant (author) and these are; cooperative society Act no. 20 of 2003, Cooperative society rules-2003, National microfinance policy-2000, cooperative

development policy-2002 and Banking and Financial institution Act-1991. After understanding the external guiding rules and regulations KK will be able to develop their own internal tools (policies), e.g. administrative, financial, credit management and internal control, utilizing the basic principles of microfinance and SACCOs best practices. Current constitution should also be updated. As mentioned in (b) above, the documents needed are technical, so professional expertise is required in developing them depending much on the inputs from KK members.

**(d) Membership monitory and evaluation.**

It should be clearly stated in the By-laws the benefits and limitations of all registered members. After this exercise is done, it will be possible to evaluate all membership to ensure that all of them abide to the requirement of the cooperative Act, rules, and KK By- laws. Time can be set for suspending defaulting member's dividends and give incentive to members who look large loans and returned them within the agreed time.

**(e) Loans guarantors limitations.**

Normally, a member who takes a loan is guaranteed by two or three other members, but the status for these guarantors' loans are not provided in the By-law. It is suggested that there must have a provision in the By-laws limiting those who guarantee barrowers. For example, if a person borrows, each guarantor's portion added with his/her own loans, the balance should not exceed the above limit of 3 times his/her savings and contributions.

In case situation becomes difficult, then the member of guarantors can be raised even to 5 instead of the existing number of three.

There are also problems, which can be solved through normal operations. These are;

**(a) The society should prepare a training scheme for training its member.**

Currently, there is no training scheme that allows members to receive some cooperative training, which is necessary to them as they will invest more if they are more knowledgeable of the operations, benefits and risks involved to their invested money. To get rid of cooperative illiteracy, an arrangement can be made to train all interested members, starting with leaders followed by ordinary members (including staff).

Apart from emphasizing on cooperative education it will also be necessary to train members on entrepreneurship skills so that loans should be directed mostly to income generating activities rather than sunk cost such as building houses and other uses. The society can establish a training department that shall conduct trainings on a continuous basis as it will be more economical than engaging trainers from outside. Since funds are available, what is required is a good training scheme that will be established with consideration that its members are employees working daily from Monday through Friday. Classes can be set on weekends.

**(b) Control on delinquency.**

For any MFI, including SACCOS, delinquency is the most serious set back as it always affects planning leading to collapse of such organizations. KK is one of the societies, which requires to take urgent measures to ensure that all loans are paid within agreed time schedule. Management (Committee) must emphasize on preparation of debtors age

analysis on monthly basis so that it maintains the required provisioning of loan performance rate of 5% (of between 30-60 days).

Success on implementation of all recommended issues will depend on members' understanding of their society's mission, goals, activities and roles they play towards its growth. When members feels as part owners of the society, their participation will increase and those with expertise on above issues can be requested to assist, even at a little fee without consulting any outside sources, which will, otherwise be very expensive. Time frame for implementation will depend on the timing of amendments but it is recommended that it should not to exceed one year. A year is enough time to prepare changes and also allow approval by the annual general meeting (AGM), which is the supreme body of the society.

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