

THE IMPACT OF E-SALARY SYSTEM IN THE OPERATIONS OF SACCOS: A CASE OF WAZALENDO SACCOS

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Abstract

This paper examined the impacts of E-Salary system on the growth of SACCOS ,in this study it was found that the SACCOS (WAZALENDO, Tanzania) has lost 68% of collections from members in terms of shares, savings and deposits. The study also found out that members are not willing to contribute to the SACCOS voluntarily as compared to when deductions were done direct from their salaries most of them being male members. The study concludes that Sustainability of any cooperative society is found on the common bond that must be abided by each member for them to be active members. Among other things participation in various activities including contributions, buying shares, making deposits, and other things as agreed by members, are determinants for sustainable development and growth of cooperative society. Failure to these leads to poor performance and hence failure to reach to its social and business mission of a society.

Keywords: E-Salary payroll system, SACCOS, Loan portfolio, shares, savings and deposits

INTRODUCTION

For the past years until recent, the Government of Tanzania was paying public servants salaries in its institutions through the host employers who acted as linkage between the treasury and public employees. Starting July 2014, the Government changed the methodology of payment and introduced e-salary payroll system where the treasury started paying direct to employees' private bank accounts. This has been contributed by different factors in public service such as Public expenditure framework expanded far beyond what GOT could afford, Public administration overstaffed/underfunded, Establishment/payroll control fell into disuse, Wage bill was out of control, Civil servants demotivated (downward trends in real incomes, political

interference in appointments and pay decisions) and the rising problem of ghost employees in different sectors. For six months only (July-Dec 2014) the Government has claimed to discover fake employments exceeding 14,000 which were fitted in the service portfolio and paid salary monthly leading to a loss of more than Ten billion Tanzanian shillings, (URT, 2014). To end the ghost worker syndrome, salaries are now channelled directly to public servants' accounts from the Treasury instead of disbursing cheques to the relevant government ministries responsible for paying their employees.

Despite the good intentions of the Government, this affected the ability of host institutions to collect internal revenue which comes from direct deductions from employees' salaries including loans and other contributions; it also affected organizations that depended on employers to deduct for them various dues from employees such as workers organizations, welfare associations and financial institutions.

With the new changes banks and SACCOS can no longer collect loan repayments on loans which had employers guarantee as the employees receive their salary direct and the employer has less control over the willingness of the employees to take responsibility to refund back money once they receive their salaries. This has led to loss of revenue in terms of interest earned on loans and other member contributions such as member shares, savings and deposits which are used to run the day to day activities of the SACCOS. This new arrangement has mostly affected saving and credit cooperative societies which are found in work places (employee based SACCOS), therefore this study analyzed the negative impacts of the E-Salary system on the SACCOS revenue collection and how this has contributed to high levels of delinquency and threaten survival of the SACCOS as a financial institution.

For a number of years, savings and credit cooperative societies have been at the heart of the development of communities by striving to make available financial resources based on the community's own resources, i.e., member savings. The safe recycling of this money (member loans) into the community's activities makes a significant contribution to the development of the environment and the well-being of the population in general. The establishment of the SACCOS is therefore not only an alternative, but also a new possibility to have access to quality and control of financial services.

LITERATURE REVIEW

Challenges in collection of loans and raising fund for employee based SACCOS

The savings and credit cooperative is a private and cooperative financial intermediary. Membership is open and voluntary. It belongs to its members, who manage it democratically. It is thus the crucible of the members' economic and cooperative education. It aims to meet the

financial needs of all its members—men/women, old/young, rich/poor—in particular, by encouraging savings and granting loans to the members. In order to provide the best and most durable satisfaction to its members, the cooperative is concerned about its own financial stability and to do so it must achieve profitable management on an ongoing basis. Its mission is “to make available on site, to anyone wishing to join it, financial services under the best conditions, while enabling the cooperative to cover its operating expenses and providing for the economic education of its members.”(MUCCOBS, 2005).

A number of SACCOs are faced with many challenges which are threatening their existence. Most of these challenges come from outside the SACCO movement which makes them very difficult to overcome.

- Most SACCOs are employer based i.e. the common bond is determined by the industry they are in, If a certain company decides to down size, SACCOs are greatly affected as members would now be unable to save due to loss of regular income.
- SACCOs still lack in the area of technology in rendering effective services to their members whereas the banks and other micro lenders are ahead in the latest technologies such as: ATMs, Cell phone banking and Effective tailor made accounting soft ware packages.
- SACCOs rely on funds accumulated through members’ deposits for their operations, in most cases; these are not enough, leading to limited products. Cooperatives as much as they are self financed they need some injection of funds so that the SACCO can be able to offer all short term, midterm and long term loans.
- According to the legislation governing the operation of SACCOs an employer is prohibited from deducting more (2/3) two thirds of an employee’s salary, a member who qualifies for a loan because of the amount of savings he/she has with SACCO is unable to get help because of this legislation even if he/she has the capacity to repay the loan from other sources. This then prompts them to resign so that they can access their savings.

Public service policies in Tanzania

As Tanzania embarked on serious reforms of the public service in the early 1990s which was vital to realizing improvements in capacity and improvements in service delivery it quickly realized that those efforts could not succeed because public service pay levels were too low and uncompetitive in comparison to pay by other employers. Information on real pay trends in Tanzania public services for various categories of personnel for the period 1975 to 2000 paint a

plain picture. The period 1975-1985 was a period of uninterrupted real wage decline (Mwaikusa, 1998).

Although the situation was not very different in most of Sub-Saharan Africa, with most countries experiencing double-digit real wage declines on an annual basis, Tanzania's decline was more drastic than most other countries apart from those experiencing political instability. Average basic salaries in the public service provided only one fifth of the purchasing power of equivalent salaries in the 1970s. In addition, there were gross distortions and inequities in the compensation structure of public service pay (Mwaikusa, 1998).

The second period covers the years 1985 to 1994, when the real pay of most civil servants fluctuated, though showing an increasing tendency. During this period the GOT embarked on successive Structural Adjustment Programmes which, in the absence of a comprehensive reform programme, met with limited success. Still by 1994, at the onset of the comprehensive civil service reform programme, the real average pay in the civil service was only slightly more than half its 1969 level (Mwaikusa, 1998).

The third period covers the years from 1994 to 2000. This period saw substantial improvements on the real average pay in the civil service. Nonetheless the trend is misleading because part of the rise in pay is accounted for by the consolidation of allowances into the salary structure, and in spite of that, the resultant salary levels left the government at a competitive disadvantage in its efforts to attract, retain and adequately motivate qualified professional and technical personnel.

To address the foregoing crisis, Tanzania adopted in 1999, as a part of the Civil Service Reform Programme (CSRP), later to become the Public Service Reform Programme (PSRP), a pay reform policy and strategy. Until then, the drivers for addressing pay issues consisted of pressures to consolidate allowances with salaries, to achieve some salary decompression and to increase minimum wage. The rationale for developing an explicit pay policy was to enable government to make choices in a more rational way, basing them upon a clear long-term agenda rather than short-term pressures.

RESEARCH METHODOLOGY

The study used case study research where by WAZALENDO SACCOS was selected as the case study area. This is because the institution is employee based and it has been affected by the new system. WAZALENDO Saving and Credit Cooperative Society (SACCOS) was formed on 22nd September 1971, under Cooperative Act of the United Republic of Tanzania. Its registration No. KLR 2065. WAZALENDO SACCOS is located in Moshi Municipal in Kilimanjaro Region, Tanzania. The society was formed by 100 founder members. The WAZALENDO

SACCOS operate within the main campus of Moshi Co-operative University (the then Moshi University College of Cooperative and Business Studies MUCCoBS) and it is now operating to the area nearby the MoCU. Currently the WAZALENDO SACCOS has 623 members.

The background information for this study came from primary and secondary sources. The primary data were collected through personal communication (consultation, interviews) and questionnaires were also developed and distributed to members of the SACCOS. Secondary data were obtained by reviewing the documentary evidence such as loan reports and other reports. The researcher went through different reports for the period starting from January to December 2014. The study employed a sample of 100 respondents which is 16% of the total study population comprising of members of the SACCOS.

EMPIRICAL RESULTS AND DISCUSSION

The SACCOS sources of revenue and collections

The institution depends on monthly collection of revenue from various sources which are member shares, compulsory savings, deposits, retirement savings, and education savings. For the period starting January 2014 to December 2014, the SACCOS collected revenue as shown in the table 1.

Table 1. The SACCOS revenue collection for January to December 2014

Months	Source of revenue					Total
	Shares	Comp savings	Retirement	Deposits	Education	
JAN	7,151,948	3,866,438	1,796,903	3,527,456	10,000	14,555,842
FEB	6,991,948	3,741,438	1,721,903	3,537,456	10,000	14,280,842
MARCH	6,899,948	3,711,438	1,691,903	3,419,156	10,000	14,040,542
APRIL	6,909,948	3,636,438	1,621,903	3,264,156	10,000	13,820,542
MAY	6,875,948	3,692,438	1,606,903	3,120,156	10,000	13,698,542
JUNE	6,875,948	3,958,438	1,539,903	3,119,156	10,000	13,963,542
JULY	3,966,757	2,230,000	735,000	2,590,000	10,000	8,796,757
AUG	6,707,948	4,178,438	1,325,000	3,330,156	10,000	14,226,542
SEPT	6,639,941	4,288,438	1,280,000	3,270,156	10,000	14,208,535
OCT	4,583,948	3,096,188	830,000	2,988,000	10,000	10,678,136
NOV	4,084,948	3,551,500	620,000	2,697,000	10,000	10,343,448
DEC	4,201,948	3,876,500	680,000	2,752,000	0	10,830,448
Total	71,891,178	43,827,692	15,449,418	37,614,848	110,000	153,443,718

Source: WAZALENDO SACCOS, 2014

It was observed that, the percentage contribution of each source of revenue for the SACCOS to its total collection varies depending on its importance. Shares as one of the source took the lead by contributing to the SACCOS about 47%, compulsory saving accounted to 29% of the total collection where 25% of the total collection came from deposits. Retirement benefits and education fund accounted for 10% and 0.1% to the total collection respectively.

Furthermore the SACCOS has not been able to collect a total of Tshs 5,989,847 from the members and an aggregate loss of Tsh 21,152,035 (13.78%) of total collections for four months. For the month of July only the SACCOS has lost revenue amounting to 68.1% on monthly collections as it has been able to collect only 31.9%. The summary of uncollected revenue is as indicated in Table 2.

Table 2. SACCO's uncollected revenue for the month of July, October, November and December

Months	Source of revenue					
	Shares	Comp savings	Deposits	Education	Retirement	Total
JULY	2,731,191	1,905,500	678,156	-	675,000	5,989,847
OCTOBER	2,242,000	1,300,000	607,156	-	435,000	4,584,156
NOVEMBER	2,731,000	1,401,938	863,156	-	565,000	5,561,094
DECEMBER	2,522,000	1,301,938	683,000	10,000	510,000	5,016,938
TOTAL	10,226,191	5,909,376	2,831,468	10,000	2,185,000	21,152,035

Source: WAZALENDO SACCOS, 2014

As indicated in the table above, the trend of uncollected revenue was unfavorable from July to December. This is the period when the new system of payment was effectively initiated. It can be observed that, 48% of uncollected revenue resulted for uncollected shares, where uncollected compulsory savings accounted to 28% of all uncollected revenue. 13% of uncollected revenue comes from deposits, 10% resulted from retirement fund and uncollected revenue from education fund accounted to 0.04%. As noted earlier, uncollected revenue resulted due to the fact that members did not respond positively on voluntarily submitting their dues from shares, deposits and other source of revenue for SACCOS.

Analysis of delinquency and portfolio quality Using PAR ratio

Portfolio at risk refers to those outstanding loans whose instalment repayments has been delayed, thus making or rendering the whole outstanding loan being at risk. This is the proportion of the total portfolio that has outstanding balances with arrears on them. It measures

the percentage of the portfolio that is contaminated with late payments or past due and risk of default.

After the introduction of the E-Salary, the society portfolio has not been performing well, thus the researcher measured the quality of portfolio using the Portfolio at risk ratio which is the best measure of portfolio performance.

It should be noted that the calculation of this ratio uses the total balance of the loans showing delinquency and not only the overdue part of the loan. This way of doing things is based on the fact that a delinquent loan indicates to us a strong probability that future payments are also going to be past due.

(i) PAR Ratio 1 day and More

$$\text{PAR} > 1 \text{ Day ratio} = \frac{\text{Balance of Loan past due}}{\text{Total Outstanding Loan Portfolio}} \times 100$$

$$\text{PAR} > 1 \text{ Day ratio} = \frac{81,507,253.4}{642,370,000} \times 100$$

PAR > 1 Day Ratio = 12.6885%

Interpretation

The rate of 12.69% is greater than the stated maximum of 10% for PAR > 1 day. Thus the quality of loan portfolio is poor because a considerable proportion of the portfolio faces a potential risk of delinquency. Efforts should be made to ensure the PAR lies within the required rate.

(ii) PAR > 30 days ratio

$$\text{PAR ratio} = \frac{\text{Balance of Loan past due}}{\text{Total Outstanding Loan Portfolio}} \times 100$$

$$\text{PAR ratio} = \frac{69,937,778}{642,370,000} \times 100$$

PAR > 30 Days Ratio = 10.89%

Interpretation

The standard ratio for PAR > 30 days should be less than 5%. The result of approximately 11% for PAR > 30 days indicates that a significant number of loans are delinquent and this is

alarming for the SACCOS portfolio quality. More efforts need to be increased to collect loans from members by the SACCOS.

The impacts of the E-Salary to the SACCOS

The introduction of the E-Salary system for paying staff salary has brought several problems to the SACCOS such problems include as loss of interest income, decline in loanable fund, poor portfolio quality, reduction of equity, cash flow instability and others.

Loss of interest Income

Since the Government introduced the E-Salary system for salary disbursement, the SACCOS has suffered in collection of interest income as their major source of income for carrying out the daily operations of the institution. As it is acknowledged that loans is the major business for SACCOS, failure to collect interest income affects the operations of the institutions in payment of various bills that fall due in a particular year. For the period of three months the SACCOS has failed to collect a total of Tshs 11,569,464.39 as interest from loans because people are not repaying back the loans as per agreement. This may force the institution to raise the interest rate so as to capture the emerging collection gap to be able to continue operations.

Decline in loanable fund

SACCOS issue loans using the internal generated fund which comes from member savings. A person can raise a loans to a limit not exceeding three times of his/her savings, this internally generated fund forms a loanable fund for the institution, If this persist, the SACCOS will be forced to use external financing by borrowing from other financial institutions, this has an effect on the sustainability of the SACCOS as well as the funds are very expensive as the members will have to pay high interest for external generated fund.

Poor loan portfolio quality

The failure to collect loan repayments has a huge impact on the institutions portfolio quality, the increase in delinquency would affect the institution in several ways such as it could result in bankruptcy and/or loss of assets, For the month of July only the society has not been able to collect a total of Tshs 14,592,368.64 as loan repayments from members including interest. The PAR ratio for one and thirty days also shows a huge chance of delinquency with ratios exceeding the industry standards of 10% and 5% respectively. There is also a directly related financial cost which is the loan loss provision, Cooperative Rules no. 99 (4), sets out the

guidelines and requirements for determining and provisioning for loan loss reserve as indicated in table 3.

Table 3: Provisioning rules

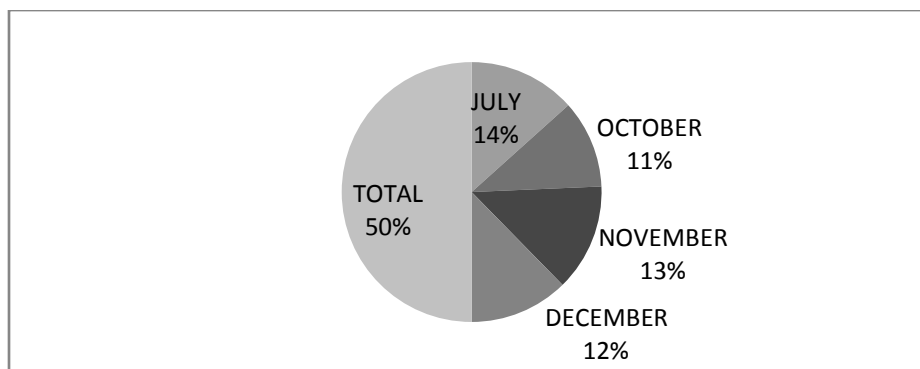
No. of days Delayed	% Provision
1-30 days	1%
31-60 days	30%
61-180 days	30%
181-365 days	50%
>365 days	100%

Source: COOPERATIVE SOCIETIES RULES, 2004

Reduction of equity

Since the introduction of the new payroll system (E-Salary), the SACCOS have experienced the reduction in equity as members no longer purchase the shares from the institution. The SACCOS has not been able to collect 2,731,191 Tshs as shares for the month of July only equivalent to (40.78%) of total shares collected for the month., for four months of October, November and December, 2014 in which the society has lost Tshs 10,226,191 (50%) of share capital collections from members. Figure 1 shows the percentage lost in terms of shares for the month of July, October, November and December 2014.

Figure 1: Percentage lost in terms of shares for the month of July, October, November and December 2014.



Cash flow instability

The SACCOS has been experiencing unstable cash flow since the establishment of E-Salary payroll system, as some people are not paying their contributions, the SACCOS cannot estimate the cash inflows to be able to operate in a month. This also makes it difficult in planning financially under such circumstances.

Effects on the relationship between the SACCO and members

The E-Salary system has affected the relationship the SACCOS had with its members especially the defaulting members who no longer see that the institution is friendly to them because they know that stringent measures will be taken against them by the leadership, this still raises the question as to whether these people are withdrawing their membership unofficially. The image of the SACCOS will be tarnished if this keeps going on.

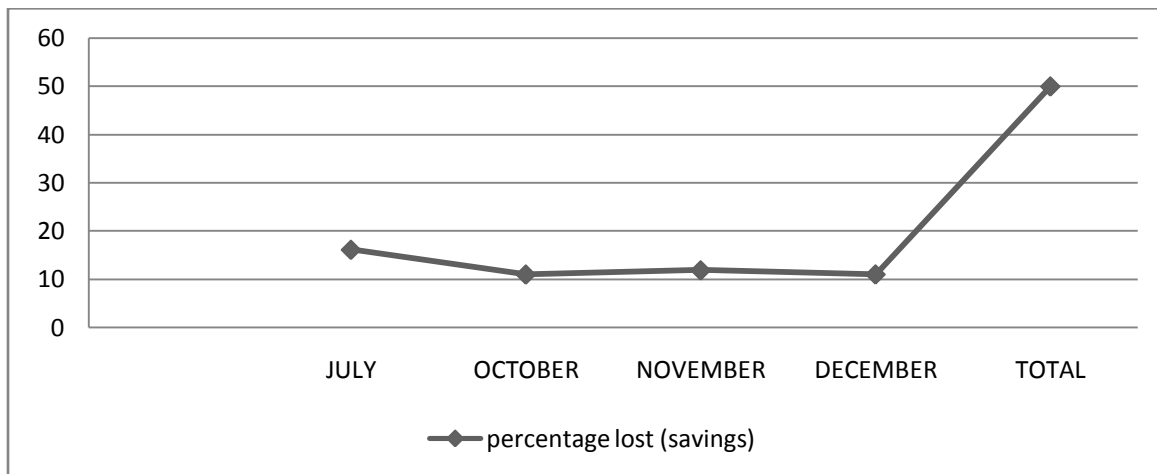
Social and commercial mission risk

SACCOS in general have a dual mission: a social mission and a commercial mission. The social orientation of the SACCOS requires the institution to provide valued financial services to large volumes of low-income persons that will enable them to improve their welfare. The commercial mission of SACCOS is to provide financial services in a way that allows the organization to be an on-going concern; that is, to exist for the long-term as a self-sufficient organization. E-Salary system is threatening the existence of Wazalendo SACCOS to accomplish their social and economic mission.

Decline in savings

The SACCOS collections in form of member savings has declined since the establishment of the E-Salary system, the SACCOS has not been able to collect a total of 1,905,500 Tshs for the month of July 2014 (4.33% of total savings), this has affected the SACCOS liquidity and ability to issue loans and will later force the institution to seek external funds which will be expensive. The losses are shown in Figure 2.

Figure 2: Percentage lost in terms of compulsory savings



Other effects

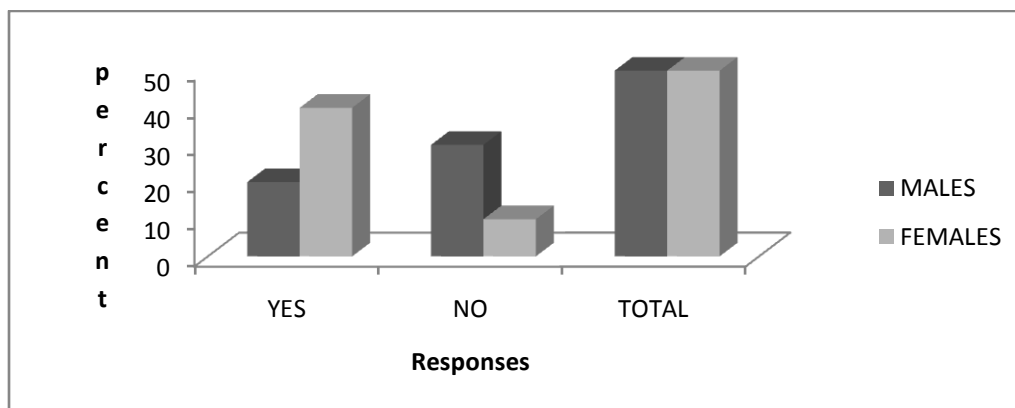
Apart from the above discussed effects, the institution has also been affected in the following ways

- Negatively affected the morale and motivation of the employees (efficacy)
- The employer no longer guarantees the loans taken by employees from the SACCOS.
- Good clients are questioning the professionalism of the institution’s managers and lose confidence in it.

Perception and willingness of members to refund the fund to the SACCOS

The members of the SACCOS were requested to describe their willingness to refund the SACCOS fund and the majority showed the willingness, the few especially people working with centers do not see the importance of repaying back the money they owe to the SACCOS as described in Figure 3.

Figure 3. Willingness to refund



From Figure 1 it is evidenced that 60% of members are willing to pay or refund the money to the SACCOS after receiving their salary whereas 40% did not show the willingness to pay, it is also the open fact that women are more committed to repaying their loans and other contributions compared to men. People from regional centers do not pay and the major reason is that there is no arrangement for these people to pay.

CONCLUSION

It has been witnessed that for only one month which the government Paid salaries direct to employees accounts, the SACCOS has incurred significant loss in revenue and has been affected in operations as people are not willing to contribute to the society and repay their loans,

it is now the high time for the SACCOS to devise its lending methodology and design a new method of loan guarantee to ensure it continues to operate and offer services to members. Sustainability of any cooperative society is found on the common bond that must be abided by each member for them to be active members. Among other things participation in various activities including contributions, buying shares, making deposits, and other things as agreed by members, are determinants for sustainable development and growth of cooperative society. Failure to these leads to poor performance and hence failure to reach to the social and business mission of a society.

RECOMMENDATIONS

From the findings of the study, the researcher recommends the following to be done so as to improve the situation:

- Arrange with the bank to open a temporary desk at the institution to help collecting the funds at the end of each month.
- Arrange for the proper way for the people from regional centers to pay through center accountants and send it to the institution.
- Allow people to pay on cash at the institutions although it is risk
- Allow the use of traditional collateral as a security for loans instead of salaries
- Take strong measures against defaulters and adopt a culture of zero tolerance of default.
- Conduct a mobilization campaign to sensitize people to continue transacting with the institution.

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