



## SUCCESS OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN TANZANIA: THE CASE OF DODOMA CITY

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### Abstract

*SACCOS have proved to be important institutions throughout the world because they have managed to enable the poorest people in the society to access financial services. Despite of the good role played by these institutions, they also have several drawbacks which affect their levels of success. The aim of this study therefore was to analyse factors which influenced success of the SACCOS in Dodoma city, Tanzania. The study adopted a case study design. A sample size of 363 respondents was selected from the 20 SACCOS using simple random sampling technique. Data for the study were collected by using observation, interviews and documentary review. Analysis of data was done by the use of perception of members; profitability ratios and descriptive statistics. Six factors which were considered to influence success of the SACCOS were chosen and analysed. Following factors were found to influence success of the SACCOS in the study area: loan delinquency; savings thrift; granting loans to members; and reserve funds maintained by the members in the SACCOS. On the other hand, experience of members and size of capital had no significant influence on success of the SACCOS.*

*Keywords: SACCOS; Success; Dodoma City; Financial services; Tanzania*

### INTRODUCTION

Savings and Credit Co-operative Societies (SACCOS) are autonomous associations of persons united together voluntary for the purpose of meeting their social and economic needs through jointly owned and democratically controlled enterprises (Mikwamba, 2004). They are among the Microfinance Institutions (MFIs) which provide social intermediation like group formations,

development of self-confidence, training in financial literacy and management capabilities for members of groups (Ledgerwood, 1999). According to Cheruiyot et al. (2012), the major objective of SACCOS is to promote economic interests and general welfare of their members. They provide members with avenues for borrowing for the purpose of enhancing production and welfare. This in turn, reflect various loan products that SACCOS issue which include provident loans for smoothening incomes, loans for productive purposes such as sickness, death and any other mishap. Importance of SACCOS emanate from the fact that they: maximise profits, enhance financial accessibility, harness skills of their members, boost social capital, enhance advocacy and bargaining power, promote investment, provide educational opportunities and contribute to poverty reduction among their members.

SACCOS have proved to be important institutions in the global banking sector by enabling the poorest people to access financial services and consequently enable them to have a considerable economic influence (Boateng et al., 2016; Alemayehu and Lemma, 2014; Kyara, 2013; UN, 2013). Up to the year 2013, there were 51,000 SACCOS worldwide which were operating in 100 countries with 196 million members and assets worth \$1.56 billion (UN, 2013). They were serving about 857 million people including 78 million who were living on less than \$ 2 per day (UN, 2013). They were also providing livelihood to 3 billion people and contribute significantly to national economies (UN, 2013). SACCOS have demonstrated strength and resilience in benefiting their members, employees and customers and particularly during hard times (UN, 2013; Birchall, 2011). They have maintained good credit ratings, increased assets and turnover, and have experienced a growth in clientele (UN, 2013). In Malaysia for example, SACCOS are community-based, have democratic roots, flexible and participatory which make them well suited for economic development. SACCOS promote community spirit; create jobs, identity and social organisation as well as reduction of poverty among their members (Tehrani et al., 2014). In the case of India, SACCOS are unique as they were initiated and supported by common business needs and aspirations. They are basically welfare driven rather than profit-oriented and are legal institutions supported by the government (Siddaraju, 2012). In Kenya, SACCOS were contributing about 45% of the country's Gross Domestic Product (GDP) by the year 2015 and they had mobilised over Kshs 200 billion deposits and assets amounting to Kshs 210 billion (Hezron and Muturi, 2015). SACCOS in the country account for about 20% of the country's savings (Makori et al., 2013).

In the case of Tanzania, MFIs including SACCOS have been playing a leading role in providing financial services to the poor people who account for 28.2% of the country population (URT, 2017). Distribution of SACCOS in the country increased significantly in the recent years. For example, by the end of March 2013, there were 5,559 the SACCOS in country, whereby

3,043 out of them were operating in the rural areas. They had about 1.15 million members whereby 1.13 million were individual members while 24,631 were community based organisations (URT, 2013). They were handling savings amounting to TZS 356.0 billion up from TZS 311.0 billion which was recorded in June 2012. According to Sharma et al. (2005) members of SACCOS had registered high increase in incomes, assets, food consumption and expenditures in education. They had improved housing and declined in health expenditures compared to non-members.

Despite the importance and contribution of SACCOS to individual members and different economies, they also have several drawbacks that are likely to reduce their success in making poor people access financial services. According to Nayak (2012), there is evidence that SACCOS are plagued by scandals and corruption which has rendered them unorganised. Some managers of the SACCOS have been criticised for permitting inadequacies to persist in their organisations (Bunger, 2009). Poor management in some of these institutions has exposed them to embezzlement (Fonteyne, 2007).

Despite a large volume of literature in the area of SACCOS, few if any have addressed the issue of their success. None of the reviewed studies has assessed success of SACCOS in the case of Tanzania comprehensively. The aim of this study therefore was to fill this knowledge gap by assessing success of SACCOS in Tanzania with special emphasis to Dodoma city.

## **THEORETICAL FRAMEWORK: STEWARDSHIP THEORY**

Theoretical framework of any study introduces and describes the theory which explains why the research problem under the study does exist. It connects the study being conducted with the existing knowledge. In view of the above, this study was hinged on the Stewardship Theory as propounded by Davidson et al. (1997). According to the theory, the steward maximises shareholders' wealth through firm performance (Tosi et al., 2003; Davis et al., 1997), because by doing so, the steward's utility functions are maximised. In this particular study, stewards were the managers and other executives who work with SACCOS on behalf of the owners who are members. These executives work on the interests of the shareholders or members and they protect and make profits for them.

Unlike the Agency Theory, Stewardship Theory stresses not on the perspective of individualism but rather on the role of top management being as stewards, collective and co-operative, integrating their goals as part of the organisation (Donaldson and Davis, 1991). According to Davis et al. (2011), a steward protects and maximises shareholders' wealth through firm performance, because by doing so the steward's utility functions are maximised. Therefore Stewardship Theory emphasises on the role of management being as stewards,

integrating their goals as part of the organisation (Davis et al., 2011; Lee and O'Need, 2003). The theory therefore supports the decision-making role of the top management of the SACCOS for the purpose of ensuring that they adopt the best financing strategies and utilises available resources optimally in order to enhance success of the SACCOS.

## METHODOLOGY

The study was conducted in Dodoma city whereby cross sectional research design was applied. The study area was selected purposely because of its position as capital city of the country where residents are not involved much in intensive agriculture. Most of the residents of the city were either business people or employees working in different organisations. Hence, the study wanted to test establish whether members of the SACCOS in the study area were accessing financial services for their own development. Data for the study were collected once due to the fact that factors which influenced success of the SACCOS in the area were not expected to change within a short period of time. Furthermore, the design had the following advantages compared to other designs: using data from a large number of subjects; including data on attitudes and behaviours of the respondents; generating hypotheses for future researches, reducing costs and saving time (Saunders et al., 2000).

Sampling procedures for the study involved multi-stage sampling technique with three stages. The first stage involved selection of the geographical location which was done purposively, the second stage involved selection of the 20 SACCOS which had been in existence for at least 10 years at the time of collecting data for the study. The third stage involved selection of 363 respondents from the sampled SACCOS. The number of sample size was computed by the use of simplified formula by Yamane (1967) which says that

$$n = N / \{1 + N (e)^2\}.$$

Where n = Sample size

N = Population

e = Precision of the sample

Respondents from these SACCOS were selected by using simple random sampling technique and their numbers were proportional to the total number of members in individual SACCOS. In addition to the main respondents, the study also selected 10 key informants by the use of snow ball technique. Data for the study were collected through observation, documentary review and interviews. Analysis of data were done by using perception of members on their SACCOS and also by the use of six profitability indicators which are: incomes; net surplus; return on investment; costs on investment; loan portfolio; and amount of savings. Furthermore, other

methods such as tables, graphs, charts and percentages were also applied in analysing success of the SACCOS in the study area. While perception of members was measured by the extent to which members ranked their SACCOS in terms of success, on the other hand success in terms of profitability indicators were judged according to the outcome of the ratios and the level recommended by the WOCCU.

## ANALYSIS AND FINDINGS

### Factors that Influence Financial Success of the SACCOS

This section sought to establish factors which influenced success of SACCOS in the study area. In assessing success of the SACCOS, following factors were carefully selected and analysed: loan delinquency, management, years of participating in SACCOS, Savings thrift, loan possession, size of capital owned by the SACCOS and reserve funds maintained by the SACCOS in the study area. Each of these factors is briefly discussed and assessed in the following section.

#### *Loan delinquency management*

This section sought to establish the influence of loan delinquency on ROA of the SACCOS in the study area. In testing whether loan delinquency had influence on success of the SACCOS, six factors of success were identified and entered into regression analysis whereby one of them was loan delinquency. Results of the study revealed that loan delinquency had significant negative influence on ROA for the SACCOS with the probability ( $p = 0.013$ ) and ( $\beta = -1.497$ ) which was significant (Table 1).

Table 1: Influence of different indicators on financial success of the SACCOS

Indicators of success	B	S.E.	Wald	Df	Sig.	Exp (B)
Delinquency management	-1.497	0.603	6.158	1	0.013	0.224
Years in SACCOS	0.142	0.095	2.242	1	0.134	1.153
Savings thrift	1.671	0.578	8.350	1	0.004	5.317
Loa possession	1.728	0.600	8.300	1	0.004	5.629
Size of capital	0.436	0.536	0.662	1	0.416	1.546
Reserve funds	0.219	0.563	0.151	1	0.697	1.245
Constant	-4.975	1.748	8.103	1	0.004	0.007

Result of loan delinquency from Table 1 indicates that loan delinquency is inversely proportional to ROA which means that when loan delinquency increases, ROA for the SACCOS decreases

1.497 times. That is, if for example a certain SACCOS lend almost all its funds and fail to collect repayments on time, it will not have enough money to meet operating expenses and hence meet members' withdrawal needs, give loans to other members and make other investments such as buying government bonds and so on. However, in the study area this was not a major concern as most members of the SACCOS were formally employed and therefore they managed to repay their debts promptly. This situation enabled the SACCOS to have few cases of delinquency which in most cases took place in SACCOS where majority of their members were not formally employed. Result of this study is consistent with other similar studies (Munyiri and Wekesa, 2017; Kaloi, 2004) which had found that loan defaulters or delinquency had negative influence on success of SACCOS. The section has therefore established that loan delinquency in SACCOS in the study area had a negative influence on their success in terms of ROA.

### ***Years of participating in the SACCOS***

Another factor which was assessed for success is years of participating in the SACCOS. Result for this assessment show that duration for which a member participated in the SACCOS had an association with success in terms of ROA. However, this association was not significant due to the fact that  $\beta = 0.142$  and a probability ( $p = 0.131$ ) which was more than 0.05 which is a cut off point for significance. Further investigation from the key informants revealed that the longer the period for which a member had participated in the SACCOS, the lower the rate of delinquency.

Result of this section contradict findings of other similar study by Teece (2010) who had established that entrepreneurs' experience gained over period of time in businesses had a positive influence on financial success of the businesses. According to this study, experience was essential for the formation, survival and growth of their business which is likely to be the case with the SACCOS. In another similar previous study, Peete (2009) found that experience of more than 10 years had positive influence on financial success of the SACCOS. He further noted that high-performing SACCOS differed significantly from low-performing SACCOS in terms of the time for which members had been participating in their SACCOS. However, in this particular study years of participating in the SACCOS had no significant influence on their success in terms of ROA. This finding is contrary to the findings of other previous studies which had established that, years of participating in the business influenced success of SACCOS positively.

### ***Savings thrift***

Savings thrift is another factor which was assessed for success of the SACCOS. The section sought to establish whether savings thrift had an influence on ROA of the SACCOS. The result (Table 1) shows that savings thrift had a positive influence on ROA for the SACCOS which was highly significant ( $p = 0.004$ ) and  $\beta = 1.671$ ). That is, when members increase their savings in the SACCOS, ROA will also be improved 1.671 times. This is true because savings is the easiest source of adequate funds for issuing loans to members and consequently get better returns from interest charged on the loans. This on the other hand, enables the SACCOS to rely on their own savings in order to grant loans and consequently improve their liquidity status. However, if SACCOS manage to generate a lot of savings and at the same time no loans were being issued to members, funds would be lying idle and in turn affect their cash flows.

Result of this section is in line with findings of other previous study by Kiiru (2008) who found that savings thrift had a strong and significant ( $p = 0.002$ ) and  $\beta = 0.771$ ) positive association with financial success of the SACCOS. Result of this section therefore has established that savings thrift in SACCOS had significant positive influence on ROA. However, it was not very easy to conclude whether members had savings culture or not because they were not saving voluntarily. This is because only compulsory savings existed where members had to save in order to fulfil the regulatory requirements. Voluntary savings would enable one to judge whether they had savings culture or not.

### ***Granting loans to members of the SACCOS***

The section sought to establish whether there was any relationship between the process of granting loans to members and financial success of the SACCOS in terms of ROA. Result from the study (Table 1) shows that possession of loans from the SACCOS among members had positive influence on ROA with probability ( $p = 0.004$ ) and ( $\beta = 1.728$ ) which was highly significant. In other words, it implies that if SACCOS grant loans to its members, their financial position increases 1.728 times. In addition, if members of the SACCOS take more loans, it means success in terms of ROA will also improve because loan portfolio is the major asset in SACCOS, hence more loans means higher revenue to the institutions. Consequently, when loans increase, assets of the SACCOS increase as well.

However, if it happens that there is need for increase in loans without corresponding increase on members' savings, the SACCOS will struggle to get money from outside sources such as banks and other financial institutions which are more expensive and in turn affect profitability of the SACCOS. Result of this section has established that granting loans to members had a significant success on the SACCOS in the study area.

### ***Size of capital owned by the SACCOS***

This section sought to establish whether there was any relationship between size of capital owned by the SACCOS and performance in terms of ROA. Result of the analysis (Table 1) shows that size of capital owned by the SACCOS had no significant influence on ROA because  $\beta = 0.436$  and  $p = 0.416$  (which was not statistically significant). This result contradict other similar study by Stephen (2012) who found that there was positive correlation between members' share capital and financial success for the SACCOS with probability ( $p = 0.008$ ) and  $r = 0.162$  which was highly significant. According to his study, as share capital increases, financial success of the SACCOS was likely to increase also. This is from the fact that the cost associated with equity is low and therefore it has a positive effect on financial success for the SACCOS. Finding of this study is also contrary to other previous study by Stephen (2012) which had established positive and significant correlation between size of capital owned by the SACCOS and their success. In view of the above observation, size of capital owned by the SACCOS in the study area had no significant influence on success.

### ***Reserve funds***

This section sought to establish whether there was relationship between reserve funds kept by the SACCOS and financial success. Result of the study (Table 1) shows that reserve funds had positive and significant association ( $\beta = 0.219$ ;  $p = 0.004$ ) with ROA. This implies that if reserve funds of the SACCOS are improved, then ROA for the same will also be improved. In a similar study, Jeremiah and Okibo (2014) found that there was a strong relationship between reserve funds and net asset value performance. This implies that there was a highly significant relationship between reserve funds and financial success of the SACCOS. If reserve funds in the SACCOS are properly invested, then return is likely to catalyse their growth, development and expansion. In a similar previous study, Joseph (2014) reported that for a bank or any financial institution, a capital reserve is set up to meet regulatory requirements and acts as a buffer during adverse economic times or financial hardship. Result in this section has established that reserve funds in the SACCOS had positive influence on their success in terms of ROA.

## **CONCLUSIONS**

Success of SACCOS in the study area was measured in terms of ROA whereby six different factors (predictor variables) were selected and analysed in order to determine their influence on ROA (criterion variable). These factors were: loan delinquency management, years of participating in the SACCOS, savings thrift, granting loans to members, size of capital owned by

the SACCOS and reserve funds maintained by the SACCOS in the study area. Results of the study show that four factors out of six which were tested had significant influence on success of the SACCOS while the remaining two factors had no significant influence on success of the SACCOS. Factors which influenced success of the SACCOS significantly were: loan delinquency, savings thrift, granting loans to members and reserve funds maintained by the SACCOS. It was found that loan delinquency influenced success of the SACCOS negatively. That is, as loan delinquency increases in the SACCOS, levels of success in terms of ROA decrease. This is because working capital in the SACCOS will decrease and consequently reduce profit which is generated out money invested by the SACCOS.

Another factor which influenced success of the SACCOS positively was savings thrift. The study found that when savings thrift increases, level of success for the SACCOS increases as well. This is because savings thrift increases amount of money to be invested by the SACCOS and consequently increase returns from the invested money. In addition, when more loans are granted to members, success in terms of ROA in the SACCOS increases also. Finally, if reserve funds maintained by the SACCOS increases, success in terms of ROA increases also because they will have more funds for investment which in turn will generate more returns. On the other hand, two factors (experience of members in terms of years of participating in the SACCOS and size of capital) had no significant influence on success of the SACCOS.

However, generalisation of these findings should be done with adjustments depending on characteristics of members of the SACCOS and environment for which they operate. This is because the study was confined to Dodoma City which is the capital city of Tanzania. Most members of the SACCOS in the study area were having reliable businesses or employees of government and other organisations operating in the City. Hence they were getting monthly incomes something which reduced the extent of loan default greatly. This situation may not be similar to most areas in the country particularly those in the rural areas where majority of the people are poor.

## **RECOMMENDATIONS**

### **Loan Delinquency**

Loan delinquency was found to influence performance of SACCOS in the study area negatively. This implies that as amount delinquency increases, the rate of performance of the SACCOS in terms of ROA decreases. Management of the SACCOS are therefore advised to establish strict evaluation criteria for loan seekers in order to determine their credit worthiness before approving their loans. Borrowers with bad repayment records and those with multiple loans should not be considered for loans unless otherwise mechanism of collecting the money from them is assured.

### **Savings Thrift in the SACCOS**

Savings was found to have a direct influence on performance of the SACCOS. Therefore, management of the SACCOS are advised to work closely with Co-operative Development Officers (CDOs) of the area in sensitising members on the importance of increasing their savings for better performance of their institutions. Own savings should be encouraged among the members while at the same time discouraging borrowing from other financial institutions which attract interests.

### **Issuing Loans to Members**

It was found that the process of issuing loans to members had a positive influence on performance of the SACCOS. Management of the SACCOS are advised to cooperate with CDOs of the area to design mechanisms which will remunerate members who take loans frequently because it is through issuing loans that SACCOS can generate more interest which can be used for development of their institutions. When distributing dividends among members, those who take more loans should be remunerated. However, the process of issuing loans to members should go hand in hand with the process of savings.

### **Reserve Funds in the SACCOS**

Reserve funds were found to have direct influence on performance of SACCOS in the study area. Management of the SACCOS are advised to educate their members on the importance of increasing amount of money in their reserve funds and invest them prudently for future performance.

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