

## Evaluation of the Performance and Constraints of Savings and Credit Cooperative Societies (SACCOs) in Tanzania

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### ABSTRACT

Despite economic and financial reform, Tanzania's economy has remained unsustainable, and various financial institutions, including Savings and Credit Cooperative Societies (SACCOs), have faced constraints in their operations. This study investigated the types of loans, constraints, and level of performance of two Savings and Credit Cooperative Societies in Mbeya. The study employed qualitative and quantitative methods that included a structured documentary review, questionnaires, and interviews to collect data where 50 respondents were involved. The findings revealed that the two Savings and Credit Cooperative Societies focused on granting loans to their members. The study also found that the number of members in Tanzania Zambia Railway Authority Savings and Credit Cooperative Societies (TAZARA SACCOs) went up from 2007/08 to 2011/2012. However, the number of members in Mbeya Technical College Savings and Credit Cooperative Societies (MTC SACCOs) changed over time, likely because of the layoffs that happened after Mbeya Technical College (MTC) became Mbeya Institute of Science and Technology (MIST). It was further revealed that the two Savings and Credit Cooperative Societies faced a major constraint in their limited financial ability. The study recommends that the two Savings and Credit Cooperative Societies should develop a variety of loan products suitable for the majority of their members. On the other hand, these Savings and Credit Cooperative Societies should invest in people by increasing attractive services and products so as to attract more members. To overcome financial constraints, the Savings and Credit Cooperative Societies need to expand their sources of financing to include non-traditional and non-governmental partners. In this aspect, the Savings and Credit Cooperative Societies need to seek new forms of external capital and diversify their sources of funds without jeopardising existing resources.

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## 1.0 Introduction

A Savings and Credit Cooperative Society (SACCOs) is a small, local cooperative society that accepts savings and offers loans to members (Nuwagaba, 2012). SACCOs perform three major functions for their members, which impact the general economic development of their communities (Nuwagaba, 2012). These functions, in particular, include collecting savings from its members, offering loans, and providing financial and non-financial advice to them. In some cases, some government and private institutions may also give financial assistance to SACCOs to enable them to give microloans to more SACCO members (Mbagga, 2013). SACCOs play an important role in providing financial and banking services to low-income households that, for economic reasons, cannot access the services of formal banks and financial institutions.

The earliest SACCOs appeared in Europe in the late 18th and 19th centuries, during the industrial revolution (Shilimi, 2021). Stores fed families as people moved from farms to cities because they couldn't grow their own food. Working people had very little control over the quality of their food or living conditions. Those with money gained more and more power over those without. Early cooperatives were set up as a way to protect the interests of the less powerful members of society—workers, consumers, farmers, and producers (Mckillop & Wilson, 2011). In England, consumers were frustrated by the abuses of storeowners, many of whom adulterated products to increase their profits. In many cases, workers' wages were paid in company "chits"—credit that could only be used at the company's stores. The average consumer had very few choices and little control. These individuals started experimenting with different ways to meet their own needs. They decided to pool their money and purchase groceries together. When they purchased goods from a wholesale dealer and divided them equally among themselves, they were surprised at the savings and higher quality of products they were able to obtain (Nuwagaba, 2012).

The Savings and Credit Cooperative movement in Tanzania started in 1961, when the government draughted a money by law to enable any group with a common bond of occupation, association, and residence to adopt the by-law and register. The aim of the government policy was to make the cooperative movement an engine for economic development. It was a protective move against the shameful activities of pawn brokers and money lenders, who were charging exorbitant and illegal interest rates in urban areas. Further, it aimed at instituting a change of attitude among rural peasants to mitigate unwise spending. Rural peasants were earning sizeable sums of money during harvest time, but unwise spending perpetuated poverty (Kimario, 2013). The main functions of SACCOs were to promote savings and credit opportunities to members, promote financial stability among members, and enhance the habit of saving regularly, borrowing wisely, and paying promptly (Anania & Gikuri, 2015).

The existence of SACCOs in Tanzania began after the market economy's adoption in 1985. The government and donor partners realized that there was a need to form informal financial groups in the country as a measure of reducing poverty among households. Further, these groups would be a gateway for the government and donors to channel their respective poverty reduction funds. This led to the formation of many SACCOs in Tanzania, with the southern highlands zone of Tanzania (Rukwa, Iringa, Mbeya, and Ruvuma Regions) having a larger number of these informal financial institutions than other regions (Maghimbi, 2010).

Following the financial sector's liberalization in 1990, microfinance has gained more recognition as an effective means to alleviate poverty and promote microenterprises development. In recognition of the crucial role played by SACCOs with respect to economic growth and development, Tanzania formulated various initiatives aimed at promoting the SACCOs. As a result, by December 2006, there were over 3,500 SACCOS registered with the Ministry of Cooperatives and Marketing, with approximately 420,000 members. About 60% can be classified as rural and 40% as urban (Zakaria, 2019). In an effort

to support the development of SACCOs in Tanzania, the President of the United Republic of Tanzania, Honourable Jakaya Mrisho Kikwete, offered Tshs 21 billion to banks, which were disbursed to SACCOs in each region of the country (Dugange, 2015; Mwakajumilo, 2011).

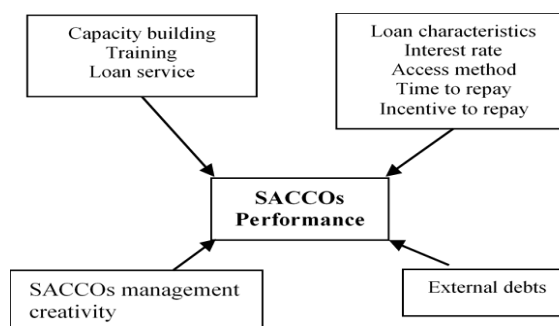
Despite economic and financial reforms, Tanzania's economy still remains unsustainable, poverty is extensive, and growth has been constrained by structural obstacles, governance-related problems, rigidities in the financial sector, and serious capacity constraints (World Bank, 2023; Mwakajumilo, 2011). This study aims to evaluate the performance and constraints of SACCOs in Tanzania. This study covered two SACCOs, namely Mbeya Technical College (MTC) and TAZARA SACCOs, which both operate within Mbeya City. We collected information about the performance factors of these two SACCOs. The study also examined the level of capacity building offered to staff and members, loan characteristics, and external debt status.

In recognition of the crucial role played by SACCOs, the government, through its national economic empowerment and job creation program 2006, has been at the forefront in supporting the development of SACCOs countrywide. The program encouraged the establishment of SACCOs at ward level, particularly with the offer to lend them the Tshs. 21 billion (Tsh. 1 billion per region, popularly known as the 'JK Billions') earmarked by the government for their development.

Despite the very important role played by the SACCOs in promoting economic development among low-income earners in Tanzania, they still face a number of significant constraints and impediments. Various studies have attempted to bring to light the challenges faced by SACCOs in Tanzania. For example, a study by Mwakajumilo (2011) revealed that savings and credit cooperative societies (SACCOs) in Tanzania have not performed creditably well and hence have not played the expected vital and vibrant role in the country's economic growth and development. This situation has been of great concern to the government, citizens, operators, and organised private sector groups.

Furthermore, a study by Danga *et al.* (2018) revealed that the capacity of SACCOs in Tanzania is weak. The current trends in microfinance thinking, based on worldwide experience, increasingly agree that stand-alone SACCOs are not likely to survive in the long run. Experience also shows that members have moved between SACCOs, as in the SACCOs studied. The reason for this movement is still unknown. It is therefore imperative to study whether the constraints are influenced by factors that need an empirical investigation so that the findings can be used by SACCOs in Tanzania to enhance their credit programs. This study, therefore, attempts to assess the performance of the SACCOs by identifying types of loan products, membership trends, and the major constraints faced by MTC and TAZARA SACCOs.

This study is based on a conceptual framework derived from the study's objectives. It is assumed that there is a correlation between capacity building provided to SACCOs staff and the performance of the SACCOs. The study also assumes that loan characteristics such as the interest rate charged, access method, repayment time, and incentives to repay can determine SACCOs' performance. The study furthermore presumes that creativity within the management of the SACCOs in terms of finding ways to increase customers' base, investment, and increased loan services could have an impact on the performance of SACCOs. On the other hand, it is hypothesised that the loan debt itself can also determine the performance of SACCOs. This can be summarised in the following figure:



Source: Research (2023)

## 2.0 Materials and Methods

### 2.1 Study area Description

This study was conducted in Mbeya City at two (2) microfinance institutions, namely Mbeya Technical College (MTC SACCOs) and Tazara SACCOs. Since it was not possible to cover all SACCOs in Tanzania, the selection was necessary. The study area was chosen based on the existence of the MTC and TAZARA SACCOs in Mbeya City, which enabled researchers to easily collect data.

### 2.2 Research Design and Sample Size

The study applied the cross-sectional research design, where data were collected once at a specific point in time. The study employed the purposive sampling technique for some predetermined criteria, where a sample of 50 respondents was systematically selected to represent members of the two SACCOs. The selection of the respondents was guided by the following attributes: age, education level, and forms of employment.

### 2.3 Data Collection Instruments

The study utilised structured documentary reviews, questionnaires, and interview schedules to collect

information from primary and secondary data sources. Interviews and questionnaires were used to collect primary data based on the study objectives. Secondary data were obtained from articles by experts in the area, books, and other digitally available, reliable information on the subject matter.

### 2.4 Quantitative Analysis

Descriptive statistics was used to analyse quantitative data using the Statistical Packages for Social Sciences (SPSS) and presented in the form of frequencies and percentages using tables.

## 3.0 Results

### 3.1 Demographic Characteristics of the Respondents

The characteristics of respondents based on age group, gender, education level, and employment status are presented in Table 1. Of the earmarked 75 respondents, responses were obtained from 50 respondents. Table 3 shows the major constraints identified by MTC and TAZARA, while Table 1 shows the respondents' ages and the loans used by members in the cross-tabulation. Table 2 displays the performance of the membership increment.

Table 1  
*Results Based on Age Group, Gender, Education Level and Employment Status*

Category		Frequency (f)	Percent (%)	Valid Percent	Cumulative Percent
Age group	Between 19 to 29	6	12.0	12.2	12.2
	Between 30 to 39	27	54.0	55.1	67.3
	Between 40 and above	16	32.0	32.7	100.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>	<b>100.0</b>	
Gender	Female	7	14.0	14.3	14.3
	Male	42	84.0	85.7	100.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>	<b>100.0</b>	
Education level	Primary education	2	4.0	4.1	4.1
	Secondary Education	22	44.0	44.9	49.0
	Certificate	6	12.0	12.2	61.2
	Diploma	10	20.0	20.4	81.6
	Bachelor	6	12.0	12.2	93.9
	<b>Total</b>	<b>50</b>	<b>100.0</b>	<b>100.0</b>	
Employment status	Self employed	19	38.0	38.8	38.8
	Government employed	27	54.0	55.1	93.9
	Private employed	3	6.0	6.1	
	<b>Total</b>	<b>50</b>	<b>100.0</b>	<b>100.0</b>	

The target was not achieved because some respondents were absent on agreed-upon interview dates. The list of successfully interviewed respondents included two cooperative officers from each of the two SACCOs, while the remaining 48 respondents were members of the SACCOs. The results in Table 1 above indicate that 54% of the respondents were aged between 30 and 39 years, while those 40 years and older were 32.5% of the total respondents. Respondents aged between 19 and 29 years old made up 12% of the total respondents.

Likewise, the findings indicate that 42 (84%) were male while 7 (14%) of the respondents were female. Of the 50 respondents interviewed, 22 (44%) had attended secondary school, 10 (20%) were diploma holders, 6 (12%) had bachelor's degrees, and 6 (12%) were certificate holders, while two (4%) had primary education.

The majority of the respondents had secondary education. The employment status of respondents indicated that 27 (54% were government

employees), 19 (38%) were self-employed, and 3 (6%) were private sector employees. According to these results, the majority of the respondents from TAZARA and MTC SACCOs were government employees.

### *3.2 Membership*

An examination of the membership trends of the two SACCOs revealed that TAZARA SACCO experienced an increase in members from 578 to 1,358 members between the years 2007/2008 to 2011/2012, while the number of members decreased from 101 to 74 members at the MTC SACCO between the years 2008/2009 to 2010/2011. The implication of this trend was that the MTC SACCO was almost dying in this phase. In the 2011/2012 financial year, the number of members at the MTC SACCOs began to increase. The increase in membership was attributed to newly recruited staff who joined the SACCO. Table 2 shows the membership trends in the years mentioned above.

Table 2  
*Membership Increment Performance*

SACCOs	Financial Year				
	2007/08	2008/09	2009/10	2010/11	2011/12
TAZARA	578	679	891	1242	1358
MTC	68	101	76	74	125

### *3.3 Major Constraints Faced by the SACCOs*

The respondents were requested to identify the challenges faced by SACCO staff in the two SACCOs under study.

Among the 50 respondents interviewed, 31 (62%) identified limited financial capacity to meet growing demands from their members as the primary challenge. Additionally, 14 (28%) pointed out poor communication among staff, committees, and members as a contributing factor. Furthermore, 5 (10%) highlighted the absence of

diverse loan products for specific groups like retirees and farmers as one of the challenges faced by the two SACCOs. The data provided by the participants is displayed in Table 3.

### *3.4 The Level of Loan Utilization by Members*

The types of loan products that were utilised by the members were examined to determine whether they contributed to the exodus of members from one SACCO to another. The findings are shown in Table 4.

Table 3  
*Identifying the Major Constraints Faced by MTC and TAZARA*

	Item	Frequency (f)	Percent (%)	Valid Percent (%)	Cumulative Percent
Major constraint	Poor communication	14	28	28	28
	Limited financial ability	31	62	62	90
	Lack of products for members in special groups such as retirees and farmers	5	10	10	100.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>		
Loans utilized by member	Education loans	5	10.0	10.2	10.2
	Development loans	20	40.0	40.8	51.0
	Equipment loans	5	10.0	10.2	61.2
	Agricultural loans	6	12.0	12.2	73.5
	Emergency loans	9	18.0	18.4	91.8
	Salary Advance loans	4	8.0	8.2	100.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>		
The loan issued timely	Yes	25	50.0	51.0	
	No	24	48.0	49.0	
	Neither of the above	1	2.0	<b>100.0</b>	
	<b>Total</b>	<b>50</b>	<b>100.0</b>		

Table 4  
*Age of Respondent - Loans Utilized by Member Cross Tabulation*

Age of respondent	Loans utilized by member						Total
	Education loans	Development loans	Equipment loans	Agricultural loans	Emergency loans	Salary Advance loans	
Between 19 to 29	2	1	0	0	2	1	6
Between 30 to 39	2	12	4	4	4	1	27
Between 40 to 49	1	7	1	2	3	2	16
<b>Total</b>	<b>5</b>	<b>20</b>	<b>5</b>	<b>6</b>	<b>9</b>	<b>4</b>	<b>49</b>

The findings revealed that 20 (40%) of the respondents took loans for development purposes. Nine (18%) respondents obtained emergency loans; five (10%) used their loan for education and equipment purposes; six (11%) for agricultural purposes; and four (8%) said that the loan obtained was a salary advance. These results indicated that the majority utilised their loans for development purposes.

A cross-tabulation was used to determine the relationship between respondents' age and the purpose of the loan. The respondents were aged between 19-29, 30-39, and 40-49 years, as indicated in Table 4. The results show that among the loan beneficiaries, the majority of the borrowers belonged to the 30-39-year-old age group, which constituted 27 respondents, the majority of whom applied for development loans.

### 3.5 Time Frame for Loan Disbursement

The time frame for loan disbursement was also examined, and the research findings indicated that 25 respondents agreed that they had received their loans on time, while 24 indicated that the loan disbursement did not reach them on time, and one (1) did not respond. When asked if this could be the reason for switching SACCOs, members from both agreed. TAZARA SACCO members stated that bureaucracy in the management of the SACCO, particularly in the procedures of timely access to loans, may cause members to shift. They further noted that delays in loan disbursement may also be due to late disbursement of salaries by the TAZARA management, whereby members experience salary delays of up to three months. This has resulted in delayed loan repayments to the SACCO, as well as a delay in the issuance of loans to other members. Some members of the TAZARA SACCO stated that the SACCO does not issue loans for agriculture inputs. The MTC SACCO

members did not mention any experiences with loan disbursement delays. The results are shown in Table 4.

### 3.6 Financial Products

The financial products offered by the SACCOs were identified to determine how diverse they were and whether they were sufficient for the member's needs. Research findings disclosed that the types of financial products offered by MTC and TAZARA SACCOs were mostly common financial products offered by many SACCOs. The loan products are shown in Figure 2. In assessing the financial products and services offered by these two SACCOs, it was revealed that most SACCOs focused on issuing loans to their members, leaving out other forms of financial products such as deposit products, money transfers, and insurance.

## 4.0 Conclusions and Recommendations

Despite the increase in financial institutions, the level of service and financial products offered do not seem to address both enterprise and individual household needs. This is attested to by the findings of this study, whereby assessment of the financial products and services offered revealed that both SACCOs offered three kinds of loans: salary, development, agricultural, and funeral insurance loans. It was observed that these SACCOs focused on granting loans to their members, leaving other forms of financial products, which include deposits, money transfers, and insurance products. The membership trends in the past financial years showed that TAZARA SACCO members increased from 578 members to 1,358 members, while MTC SACCO experienced fluctuation in membership in the same period.

It was noted that there was a need to develop tailor-made products, particularly credit products, that could suit the majority of the SAACOs members. Furthermore, these products should consider the members' needs and provide a variety of financial services and products to ensure institutional sustainability. SACCOs should seek to invest in people by offering more attractive services and products, such as funeral and credit

life insurance, microfinance money transfer, and deposit products. They should also consider including attractive features such as interest payments on deposits to attract more depositors to the SACCOs, which later becomes a source of capital. Implementing this may encourage more people to join SACCOs.

Additional research is advised in various domains, including the assessment of the extent to which loan products contribute to customer satisfaction, the analysis of how the number of SACCO members affects its performance, the evaluation of how funds provided by SACCO loans are utilised in members' projects, the examination of the contribution of SACCOs to women-owned business enterprises, a comparative analysis of the challenges faced by SACCOs in urban and rural areas, and the identification of factors that influence loan repayment rates in SACCOs.

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