

Sustainability of an Employee Based Savings and Credit Co-Operative Society: A Case of Dar Es Salaam City Council Saccos Tanzania.

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Abstract: *This study presents an analysis on the sustainability and the ability of an employee-based Savings and Credit Cooperative Society (SACCOS) to meet its members' needs. The main concern of the study was to understand whether SACCOS are able to respond to members' needs and to examine sustainability of SACCOS. The research design used in the study was a case study. The population consisted of 45 Dar Es Salaam City Council SACCOS members and the sample size was 15 which is 33% of the population. Data was analysed using descriptive and inferential statistics.*

The findings indicate that employee-based SACCOS have insufficient funds to meet members' requirements. The credit needs are left unmet and thus to a large extent discourage members. The researcher concludes that employee-based SACCOS are essential for economic development of its members; and recommends increasing the contribution from members and employers to assist in raising the funds.

1.0: Introduction

Savings and Credit Cooperative Society (SACCOS) is one type of cooperative societies with the principal objective of accumulating savings and create a source of credit to its members at a fair and reasonable rate of interest (URT, 2004). The primary activities of SACCOS are to mobilize savings and furnish secured and unsecured loans or credits. SACCOS are recognized as an important means achievement of individual members' development goals. Randhawa and Gallond (2003) observed that in a very real sense cooperatives were contributing substantially to economic development in most developing countries. However, following the introduction of free market, the SACCOS have struggled to compete with private sector and many have not been able to provide their members with services they needed (Abeid, 2001). The government has responded to this problem by introducing a new Cooperative Development Policy (2002), Cooperative Societies Act No.20 of 2003 and its regulations (2004) to help cooperative societies regain their importance in the economic living of the people. The policy provided the basis for the development of cooperative societies as members owned and organized institutions. The Act provided that the objective of cooperative societies was the promotion of economic and social interests of its members by means of common undertaking.

In recognizing the different needs, capacities and constraints faced by the low income earners, the

government of Tanzania developed and adopted a comprehensive micro finance policy that articulates the roles of various institutions and key players in micro finance industry in Tanzania. The Savings and Credit Cooperative Societies (SACCOS) are important providers of credit to low income earners, they are pooling together resource of people of limited means and create source of credit to them and reduce the gap of credit need for low income earners. There is a mounting competition not only in the mainstream microfinance industry but even more specifically for SACCOS. This has been the case as more commercial banks are targeting on SACCOS as their appropriate middle level partner for retailing microfinance services to a big number of micro clients which the bank could not readily reach them directly without first linking up with SACCOS.

SACCOS' operations are based on solidarity group leading with emphasis on collective responsibility of members. Low income earners are lacking assets which may be pledged or taken as a security for credit in various banks. Employees need credit which they can afford to access depending on their capacities and abilities. Although it is possible and easy for low income employees to access credit through SACCOS, there are problems which limit fully access of these services. SACCOS' members need various credit products at low rate, convenient time and right amount. They also expect growth and sustainability of SACCOS operated under best acceptable practices.

1.1: Statement of the problem

In Tanzania, various studies on credit to low income employees has mainly focused on examining the contribution of micro credit (Kessy and Temu, 2010); evaluation of micro finance operations (Rweyemamu et al, 2003) and values of savings in occupational SACCOS (Kerstin and Wiberg 2003). Kessy and Urio (2007) pointed out those operations of credit services in Tanzania have brought about positive changes in the standard of living of people who access credit services. They also proved that low income earners as well as micro business owners in the informal sector can borrow money and sustain an organized system of financial management. Rweyemamu et.al (2003) revealed that the length of credit, procurement procedures and the amount disbursed being inadequate. The study focused mainly on agricultural micro credit in rural areas.

Other study by Kerstin and Wiberg (2003) noted that financial development is playing an important role in Tanzania's economic progress. It revealed that financial failures, particularly high transaction costs limit poor people's access to formal finance and prevent low income people from borrowing and saving. Kerstin and Wiberg (ibid) asserted that employees based SACCOS have great possibility of serving its members, since they are situated at working places and that occupational SACCOS are more successful than rural SACCOS. This study takes Kerstin and Wiberg (2003) as its point of departure which noted the significance of occupation based SACCOS in savings mobilization and wealth accumulation but less focus on the sustainability as a source of credit to low income earners. It is against this background that the study wants to analyse the sustainability of employees based SACCOS.

2.0: Literature Review

Savings and Credit Co-operatives Societies (SACCOS) in Tanzania are the oldest in Africa; they have existed in Tanzania since 1930s. They are found both in urban (employees -based) and in rural areas where they are closely linked with Agricultural Marketing Cooperative Societies (Mushininga, 1991).

Currently operating SACCOS in Tanzania are structured based on the Co-operative Act Number 20 of 2004. They are voluntary associations to which members contribute their savings and from which they may obtain loans. SACCOS are urban or rural based. In general SACCOS have simple one room office, basic facilities such as a safe, a members' register, a ledger book and a correspondence file. With very minor variations- a Manager, Treasurer and a Secretary. Operations are very simplified; deposits and loans both require minimal paper work. SACCOS' offices in the villages are found at convenient places; close to bus stands, shopping centres and also within a close reach to the Crop Marketing Co-operative office. Mainly retired civil servants, former primary school and secondary school teachers, or former commercial bank workers, who come with varied administrative experience, manage SACCOS.

It is well understood that a savings-based co-operative approach to micro-finance has not been given a fair chance in Tanzania. The application of this basic concept has been frustrated over the past decades by a combination of external and internal factors. Political interference, an abundance of cheap external sources of funding from donor agencies looking for 'appropriate channels' for production loans, mismanagement of funds and fraud; all have resulted in weakening the co-operative system (Mayenga, 2005). However, as Bagachwa (1994) asserted, the borrowing constraints are more stringent for low-income people; a clear way to relax them is by mobilizing their savings into the formal financial sector. The savings that are mobilized are being used to finance education of children, to meet such irregular needs such as funerals and weddings; and to invest or expand investments (for example buy or build a home, purchase inputs or equipment and improve or enlarge farms).

Accessibility of credit services to employees is very limited. Without permanent access to institutional micro finance, most employees continued to rely on meager wages and salaries, this limits their ability to be active participants and benefit from development opportunities (Kessy et al, 2006). Establishment of SACCOS at working place is an

initiative to have access to credit for employees at work places. However, operation of most employees- based SACCOS and their products do not fulfill members' needs.

2.1: The Concept of SACCOS Sustainability

The word sustainability is derived from the Latin *sustainer* (*tenere*, to hold; *sus*, up).

The word *sustain*, means to "maintain", "support", or "endure" (USAID, 2006). SACCOS

potentiality as financial intermediaries has not been optimized in Tanzania due to lack of innovation of products, law capital formation (depending much on members' financing

which is not a permanent capital) and inadequate number of human resources. This has

been among the factors that contribute to hinder members' needs and expectations as a

result of unsustainable SACCOS. Other factors that contribute to poor sustainability of

SACCOS include weak internal control systems and unsustainable interest rates (Mushininga, 1991).

For the SACCOS to be sustainable, members and elected committee of the SACCOS should work to build reserves from yearly financial margin and preserve them every year to protect from possible future unexpected risk. As well as; the elected committee should build transparent methods; encourage members' participation and members' sense of ownership.

2.2: High and sustainable profitability for SACCOS

Research by SACCOS organizations suggests that the average SACCOS stands to lose

millions of shillings in loans over the next decade if it does not increase penetration among young adult consumers. Attracting and serving the needs of this largest-ever generation of future borrowers is critical to the long term success of the enterprise.

Inclusion of youth in membership, management and leadership cannot be over emphasized. Inefficiency due to inadequate computerization in SACCOS and lack of product innovation are the ailing SACCOS in Tanzania and have kept the youth who are attracted to more efficient systems out of the SACCOS (Mayenga, 2005). Injection of youth who are equipped with modern skills, are less averse to change, and therefore strategically placed to provide

new ideas will better enable the SACCOS movement further reach out to the youth sector for growth and sustainability of the Movement.

3.0: Research Methodology

3.1: Research Design

This study adopted a case study as the main strategy of investigation. In-depth interviewing was particularly considered to be appropriate in this study because, it enabled the researcher to construct a holistic picture of the experience of the subjects being studied and meanings they attach to employee based SACCOS. Both qualitative and quantitative research techniques were employed as both qualitative and quantitative data was collected. This means that, one technique alone was not able to capture all the data required. The study area was SACCOS members at Dar es Salaam City Council.

3.2: Sampling and Sampling procedure

In this study, the researcher used purposive sampling to obtain respondents. In purposive sampling the researcher chooses the sample based on who they think would be appropriate for the study. This is used primarily when there are a limited number of people that have expertise in the area being researched. Purposive sampling starts with a purpose in mind and the sample is thus selected to include people of interest and exclude those who do not suit the purpose (<http://changingminds.org>).

3.3: Sources of data

The study applied observing and interviewing as the principal data collection techniques. This was driven by the need to encourage greater interaction between the researchers and target respondents, eliciting holistic information and attitudes (Walliman, 2005). Four sources of data were identified. They included: documentation, interviews, direct observations and case studies. This study obtained secondary data from documentation. The documentation included: the SACCOS administrative documents- the internal documents.

3.2: Methods of Data Analysis

Coding of the selected questions in the questionnaire is very important as an enabling environment for data processing. Most of the questions were pre-coded. Only qualitative questions and identification parts required coding at the stage of data processing. The answered questionnaires were entered into the computer using an appropriate data capture and a rigorous statistical analysis was done through the use of Statistical Package for Social Scientists (SPSS ver. 12). Using SPSS computation of various descriptive statistics, Pearson correlation coefficient and linear regression were done. The researcher developed a

Likert scale for most of the questionnaire items for easy analysis of the data. In the scale, the points were awarded by the researcher as follows: Very Able = 5; Able = 4; Half-Half = 3; Unable = 2; Totally unable = 1

4.0: Presentation and interpretation of findings

4.1: SACCOS Sustainability

4.1.2: The following section analyzes sustainability in terms of number of members, capital base, loan issued and product range, (Table 1 to 3 below).

Table 1: Factors affecting employees based SACCOS

Item	Mean
Number of Members	2.00
Capital Base	2.27
Amount of loan issued	2.60
Product range	2.00
Sustainability	2.13

Source: Field survey, 2010

As shown in Table 1, the greatest barrier faced by SACCOS members was amount of loan issued with average of 2.60 (Totally Unable) followed by Capital base with average of 2.27 (Unable). This could have explained why SACCOS sustainability is declining. Amount of loan issued and capital base

had greater effect on SACCOS sustainability as shown in Table 2.

The Pearson Correlation Coefficient for amount of loan issued and capital base is (-0.127) and shows that SACCOS which issues less amount of loan to its members and which has little capital base is likely to be unsustainable.

Table 2: Pearson Correlation Coefficient for amount of loan issued, capital base and sustainability

	Amount of loan issued	Capital Base	Sustainability
Amount of Loan Issued	1		
Capital Base	-0.127 0.651	1	
Sustainability	0.431 0.109	0.000 1.000	1

Source: Field survey, 2010

Correlation significant at 0.01 levels in a two-tailed test

Capital base was highly correlated to amount of loan issued, with a coefficient of 0.651, which was significant at 0.01 levels in a two-tailed test. Insufficient fund lead SACCOS members to opt for

banking and NGO's financial institutions which are providing credit facilities. On the other side the growth of SACCOS in such situation is minimal. As old employees are retiring and hence lose their status as SACCOS members, at the same time the rate of young people joining SACCOS decreasing without strategy of boosting it.

Table 3: Regression analysis of Capital base and Amount of loan issued against Sustainability

Model	Unstandardized	Coefficients	Standardized	t	Sig t
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	B	std error	(β) beta		
Constant	0.728	0.501	-	1.454	0.172
Capital Base	0.485	0.290	0.438	1.670	0.121
Amount of Loan issued	0.035	0.163	0.056	0.213	0.835

Source: Field survey, 2010

Dependent variable: Sustainability. From Table 3 the following regression equation can be derived: $Y = 0.728 + aX_1 + bX_2$,

Where $a = 0.438$ and $b = 0.056$;

Therefore

$$Y = 0.728 + 0.438X_1 + 0.056X_2.$$

As can be seen from Table 3, when the capital base is increased by one percent (1%), the sustainability

will increase by 0.438 percent, and One percent (1%) increase in amount of loan issued will increase the sustainability by 0.056 percent.

4.1.3: The following section analyzed the responsiveness of SACCOS to members' needs, members influence on SACCOS decisions and limitations (Table 4 to 6 below).

Table 4: Responsiveness of employees based SACCOS

Item	Mean
Ability to meet members felt needs	1.20
Members influence on matters of SACCOS	3.33
Limitation of Employees based SACCOS	3.27
Sustainability	1.40

Source: Field survey, 2010

From table 4 above, members can influence on some matters (average 3.33). These matters are like the size of loan and members admission. Limitation of employees based SACCOS has an average of 3.27. These limitations are: small size of loans, higher interest and small working capital. Lack of capital is the problem in many SACCOS. Societies are not able to meet member's loan requirements. Currently, members are allowed to borrow twice their savings. As many members joined SACCOS over 20 years they have accumulate a substantial savings which they are allowed to borrow, but they are unable to secure large loans due to lack of funds.

Table 5: Pearson Correlation Coefficient for Members influence, SACCOS limitation and Sustainability

	Members Influence	SACCOS Limitation	Sustainability
Members Influence	1		
SACCOS limitation	-0.111 0.694	1	
Sustainability	-0.750 0.001	0.310 0.913	1

Source: Field survey, 2010

Correlation significant at 0.01 levels in a two-tailed test

Members influence on decision making of SACCOS had a negative influence on sustainability with a correlation coefficient of -0.750 (Table 5 above). This means that members do not contribute fully to the well being of the SACCOS.

However, members influence on decision of SACCOS was highly correlated to SACCOS limitations with a coefficient of 0.694; and SACCOS limitation was highly correlated to sustainability with a coefficient of 0.913 which both were significant at 0.01 levels in a two-tailed test.

Table 6: Regression analysis of SACCOS limitations and Members influence against sustainability

Model	Unstandardized B	Coefficients std error	Standardized (β) beta	t	Sig t
Constant	2.129	0.274	-	7.775	0.000
SACCOS limitations	-0.015	0.53	-0.053	-0.277	0.786
Members Influence	-0.204	0.52	-0.756	-3.951	0.002

Source: Field survey, 2010

Dependent variable: Sustainability. From Table 7 the following regression equation can be derived: $Y = 2.129 + aX_1 + bX_2$,

Where $a = -0.053$ and $b = -0.756$;

Therefore

$$Y = 2.129 - 0.053X_1 - 0.756X_2.$$

As can be seen from Table 6, when the SACCOS constraints are reduced by one percent (1%), the sustainability will decrease by 0.053 percent, and One percent (1%) reduction in member's participation on decision making will decrease the sustainability by 0.756 percent.

5.0: CONCLUSION

SACCOS are important organs for enhancing low income employees welfare. They save as a source of credit at the same time accumulates savings from its members.

The SACCOS operating principles are based on the philosophy of cooperation and mutual self help. The main role of SACCOS is to complement banks by providing loans to its members with moderate conditions.

Developing and improving SACCOS can be one effective alternative to formal banks. They are reaching low income earning people with financial services. Its improvements are made and regulations are recognized. They operate an intermediating institution, allocating resources between low income savers and borrowers. The credit services would be available, widespread formal services; result the large segment having the opportunity for credit services and take part in formal economic activities. For employees, it will improve staff

welfare and reduce employees request for advances/ loans from employers.

In general SACCOS in Tanzania have problems facing their activity. They include lack of funds to meet members' requirements, small size of loan offered and higher interest rate. Most of respondents said that interest rate is not affordable. Most of them are low income employees; they are unable to afford substantial loan recovery on reasonable time. The interest rate which is charged for longer period is very high contrary to goals of enabling the poor at low cost and their financial position will remain bad unless the rate is reduced. Currently there are banks providing credit services with interest rate the same with that charged by SACCOS. Members may opt to withdraw from SACCOS and borrow from banks where their obligation will be limited to loan servicing. This is hampering SACCOS' sustainability unless changes are made.

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