

ST. JOHN UNIVERSITY OF TANZANIA



MASTER OF SCIENCE IN FINANCE

FACULTY OF COMMERCE AND BUSINESS STUDIES

**AN ASSESSMENT OF THE CONTRIBUTION OF MICRO FINANCING
INSTITUTIONS TOWARDS POVERTY REDUCTION OF THE
HOUSEHOLDS: A CASE OF KKKT ARUSHA ROAD SACCOS**

ISMAIL MSHARE

**A DISSETATION SUBMITTED IN PARTIAL FULFILLMENT FOR THE
REQUIREMENTS OF THE AWARD OF MASTER OF SCIENCE IN
ACCOUNTING OF ST. JOHN'S UNIVERSITY OF TANZANIA**

MAY 2015

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CERTIFICATION

I, certify that I have read and hereby recommended for acceptance by the institute of rural development planning the dissertation entitled “**An Assessment of the Contribution of Micro financing Institutions Towards Poverty Reduction of the Households: A Case of KKKT Arusha Road SACCOs**” in requirements for the degree in Master of Science in Accounting of St. John’s University of Tanzania.

Dr. David Mwendamaka

Signature.....

MAY, 2015

DECLARATION

I, Ismail Mshare declare that this dissertation entitled **“An Assessment of the Contribution of Micro financing Institutions Towards Poverty Reduction of the Households: A Case of KKKT Arusha Road SACCOs** is my own original work and that it has not been presented to any other institute for similar or any other degree award.

.....

MAY, 2015.

DEDICATION

I dedicate this work to the honour of the memory of my father the late Iddy Yahaya Mshare and in celebration of our mother Mrs. Luiza Karata, my daughter and son Elma I. Mshare and Harith I. Mshare.

ACKNOWLEDGEMENT

This work has been made possible due to contribution and support from many people. I am particularly grateful to my supervisor Dr. David Mwendamaka for tireless support he gave me during the whole period of my research, from the process of conception of the research idea to the last point of submitting my final draft. Thanks for being there for me.

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God bless them all.

ABSTRACT

This study was undertaken to measure the contribution of micro financing in provision of credits on poverty reduction at household level. The study was conducted in Dodoma Municipality a case of KKKT Arusha Road SACCOS. The specific objective was to identify the income generating activities in the household level, to determine the achievement attained by SACCOS members and lastly to identify the challenges facing SACCOS members during and after acquiring a loan.

Total number of respondents was 65 members and 5 co-operative leaders. Respondents were obtained through purposive sampling technique. Analysis of poverty reduction in household level was done by SPSS using multiple response statistics and descriptive statistics. Quantitative and qualitative data were collected through questionnaires and interviews consequently to enrich the viability of the study.

Findings indicated that participation of members in SACCO's programs has been the best. KKKT ARUSHA ROAD SACCOS helped its members in poverty reduction because it increased sources of income, like asset owning, monthly income, having food surplus, skills training, and related factors.

I recommend that co-operative department should increase more training to members, improve loaning, insist members not to depend much on salary, leaders should co-operate with other co-operative societies, improve loan processing and allow members to take loan three times of their shares instead of two times.

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LIST OF ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
COASCO	Cooperative Audit and Supervision Corporation
CRDB	Cooperative and Rural Development Bank
FINCA	Foundation for International Community Assistance
FinScope	Financial Scope
JK Billion	Jakaya Kikwete Billion
KCU	Kagera Cooperative Union
K K K T	Kanisa la Kiinjili la Kilutheri Tanzania
KNCU	Kilimanjaro Native Cooperative Union
LGA	Local Government Authority
MCPs	Micro-Credit Programs
MFIs	Micro-Finance Institutions
MUCCOBS	Moshi University College of Cooperative Studies
NBC	National Microfinance Bank
NGOs	Non- Government Organizations
NMB	National Microfinance Bank
NSGRP	National Strategy of Growth and Reduction of Poverty
PHDR	Poverty and Human Development Report

PRIDE Enterprise	Promotion of Rural Initiative and Development
PRSP	Poverty Reduction Strategies Program
SACCOS	Saving and Credit Co-operative Societies
SCULT	Savings and Credit Union League of Tanganyika
SEDA	Small Enterprises Development Agency
SELF	Small Entrepreneurs Loan Facility
SIDA	Swedish International Development Agency
SIDO	Small Industries Development Organization
SJUT	St. Johns University of Tanzania
SPSS	Statistical Product Social Solution
SUA	Sokoine University Agriculture
TAZARA	Tanzania Zambia Railway Authority
TCCD	Tanzania Commission for Cooperative Development
TIB	Tanzania Investment Bank
TZS	Tanzania Shillings
US\$	United States Dollar
WB	World Bank
WOCC	World Council of Credit Cooperatives Unions

CHAPTER ONE

INTRODUCTION

1.1 Chapter over views

Tanzania is a developing country with population of over 44.9 million as per census 2012. The Government of the United Republic of Tanzania has made prominent expansion in the last two decades to tackle development challenges by improving the management and performance of the economy of which its Gross Domestic Product growth rate was average 7.1% per annum up to 2012/2013 fiscal year. This expansion, however, has not been fairly mutual. The economy is mostly agricultural, with agriculture contributing about 75% of GDP (African Development Report, 2012).

Notion that, cooperatives could be instrumental in promoting development; it becomes very popular in the years immediately following the Second World War in 1944. In Africa and Asia, the development debate assumed value in political circles. (Conia & Court, 2001). In Africa, Ghana was pioneer of the first credit union in the North West at Jirapa village. The pioneer was Rev. John Macnulty who started by setting up a study group among his parishioners. It took him eight months to study the need for and characteristics of a credit union. Africa is relatively young in the Credit Union movement, but it is catching up very rapidly.

Tanzania was the first country in the continent of Africa to have National Association of Credit Union, the Saving and Credit Union League of Tanganyika Ltd, SCULT, which was registered in June 1964 and the first

cooperative law was enacted in 1932 (Cooperative College Moshi, 2001)

1.2 Background of the study

The Credit Union in Tanzania is relatively old whereby in 1960 there were more than 30 credit unions. This must be immediately qualified by referenced to the fact that the average savings capital per member did not exceed the equivalent of USA \$ 34 by then (ICA-2001). Approximately 60 percent of all credit unions/societies can be classified as community type including parish type. The remainder is made up of work place; credit unions and interregional amalgamations of certain Civil Servant groups as well as some credit unions established with in clubs (ICA, 2001). In short the registration of Kilimanjaro Native Cooperative Union (KNCU) in 1936 marks the formal start of indigenous rural Cooperatives in East Africa (Cooperative College Moshi, 2001).

Savings and Credit Cooperatives Societies (SACCOS) had been operating for so long about 10 years prior to its registration. Tanzania is rightly proud of this origin. The first SACCOS was registered in 1938 as before that most rural primary society were formed to market their members export crops, and the development of specialist cooperatives offering financial services began to take off after independence with the advent of new donor founding the Nordic countries and the US – based world council of credit unions were leading supporters (Cooperative College Moshi, 2001).

The Arusha Declaration clearly stated that, the people are one of the basic resources in bringing about development. The third and fourth phase government has emphasized this by stressing that all those who can work

should work. On the basis of the above, a clear concept emerges that true development is the development of the people and is brought about by the people themselves.

Thus, the community development policy which articulates and develops this concept is a core one because Tanzania is a large country with many variations in the culture, natural resources, wealth and the environment in general; this study has a scope to undertake all these variation in mind of poverty reduction to the poor people in urban and rural areas or villages. The government has created a special sector of microfinance so as to assist the people overcoming with poverty reduction in the poor urban and rural communities. In this sense, microfinance organizational such as PRIDE TANZANIA, FINCA, SACCOS, SEDA and other aim at providing access of financial services to low income household including the poorest people in rural and urban areas. Consequently creation of savings and credit cooperatives societies (SACCOS) in communities has to give its importance and the main component of such services to the people is credit, a service which traditionally is perceived as a high non – repayment risk and significant costs associated with extending tiny loans to borrowers with no collateral. Savings and credit cooperatives societies give access of credits to the poor households who are unable to reach banking institutions and provide with other adapted financial services (Cooperative College Moshi, 2001).

The development objective is for the poor to invest into profit generating activities with the ultimate goal of increasing their standard of living and overall wellbeing. Through their saving component, local SACCOS are

supposed to assist members accumulate and protect their capital and empower communities to create people owned, independent savings and lending funds. Successful schemes thus not only provide funding to, but also build up the capacity of communities to manage their own development process. At the individual level, access to micro-loans can be a powerful tool for the entrepreneurial poor to break away from the vicious circle of poverty as it gives them the means to integrate the economic and social fabric of their communities (Cooperative College Moshi, 2001).

The poverty lending approach focuses on reducing poverty through credit and other services provided by institutions that are funded by government subsidies. A primary goal is to reach the poor, especially the poorest of the poor with credits. Except for mandatory savings required as a condition for receiving a loan, saving is not normally significant part of the poverty lending approach to microfinance. Often the poor cannot save in such an institution like SACCOS unless they also borrow from it. It is very important to see that these institutions have been able to attain wide outreach profitably and they represent a globally affordable model (Cooperative College Moshi, 2001).

During the last few years, Tanzania among many other African countries has experienced economic improvements. Tanzania has made substantial progress in macroeconomic stabilization and structural reform. Real Gross Domestic Product (GDP) growth has been on a rising trend, it has averaged more than 5 percent since early 2000, resulting in a small increase in per capital incomes, while inflation has declined from high two digit numbers during the 1990s, to below 5 percent (Institute of Financial Management, 2003). The improvements accomplished can primarily be explained by the

economic reforms that were initiated in 1986. The reforms involved a transformation from a socialistic economic model towards a market-oriented system (VPO 2005).

Despite of the economic improvements accomplishment, Tanzania still remains one of the poorest countries in the world. Poverty is extensive and growth has been constrained by structural obstacles, governance related problems and rigidities in the financial sector and serious capacity constraints. Lack of growth in low-income countries like Tanzania is frequently attributed partly to insufficient savings. For that reason one additional purpose of the economic reforms performed has been to increase savings and ease the mobilization of savings.

A precondition for achieving sustainable growth is sufficient institutions, hence financial institutions plays an important role when aiming for economic development. Therefore the development of the financial system has shown to be an important factor in determining growth performance. It is important with a well-functioning financial system, where people have access to secure financial services. An adequate financial system facilitates economic transactions, stimulates savings and channel savings to productive investment activities. Consequently it can successful mobilize resources and improve their allocation.

Tanzania has a poorly developed financial sector and its financial structure can be described as dualistic, with a formal and an informal sector. Very few people in Tanzania have access to the financial services offered by the formal financial sector. Formal banking institutions are located primarily in

the urban areas, offering services to a small weather part of the population. Hence the great majority of the population has to run to the informal sector for saving and/or borrowing. The informal sector includes a variety of saving methods, but none of them are particularly safe (Ryne & Otero, 1994). At present though the informal financial sector is a vital part of Tanzania's economy. The potential for financial development as an instrument for economic development is greatly undersized as long as financial services are failing in reaching the majority of the population with a lower income, often resided in the rural areas.

Many growth models assume that savings is an important component for growth and development. The idea is that capital accumulation increases growth and to accumulate capital there is need for increased savings. Thus enabling saving services to the people and further on mobilizing savings is presumably an important element in Tanzania's development. Savings enables investments, which on a macro level can improve people's livelihood and ultimately on a macro level is likely to result in economic growth.

The conventional understanding of savings as income surplus after consumption has led to the view that low income people in general do not save, even if studies have shown that even the poorest individuals have savings that could be mobilized given the right incentives. Consequences from these conventional believe are unsuitable financial products for low-income people and exclusions from primarily formal financial services. This essay relates to this problem and underlines the importance of developing financial institutions appropriate for people with low income.

The modern microfinance movement was born to ease the human suffering caused by poverty and to waken the global economy's sleeping giant (entrepreneurship) which was the almost completely un-capitalized productivity of the world's overwhelming majority of economical active people. Worldwide, approximately three billion people – half the planet – survive on \$ 2 a day. More than one billion of them survive on half that amount or less, the World Bank definition of the severest poverty (Pischke, 1991).

Credit has been observed as an important tool for channeling funds into small business and other development projects. The importance is supported by many efforts that have been made throughout the developing countries to strengthen credit systems. Credit is expected to enable increased productivity through increased use of modern tools and technological packages. Hence credit schemes were developed to redress the problems associated with low level of saving and investments, exploitative nature of informal lenders and provision of credit services with regard to smallholder entrepreneurs demand (Kabeer, 2001), (Khandker, 1998). Therefore, credit was found useful as it plays a passive role in innovation process as advocated by demand-leading finance concept (Pischke, 1991).

Contrary to the credit demand-led concept, small entrepreneurs in urban and rural areas, especially in Africa is faced with problems of having poor access to formal financial services (Khandler, Shahihur, Baqui, Khaliy,& Zahed , 1996). Despite dramatic expansion of the credit programs very few have an access to these programs. Many explanations have been given as

causes for this poor access. The problems mentioned by formal credit institutions include: fluctuations in economy, high administrative and transaction costs, poor infrastructure and liberalization of financial institutions.

In Tanzania, about 20% of population reside in urban areas and depend on formal employment and informal sectors. Accessibility to financial services in urban areas is necessary for them to move out of the poverty trap through investments and access to other economic opportunities. This is only possible if there are proper functioning financial institutions designed to benefit the urban and rural majority.

Currently, most of the developing countries including Tanzania have remained both poor lending approach and financial system approach. This research will base on examining the contribution of SACCOS in improving the welfare of people in urban poor households in terms of investment, growth of their share capital, asset accumulation and loan sizes.

Although some studies have been conducted on how some SACCOS are providing loans and credits to individuals and groups in the reduction of poverty among people in its locality, it is not yet known to what extent SACCOS have achieved the intended objectives of improving the welfare of the people.

Micro-credit refers to programs that are poverty focused and that provide financial and business services to very poor persons for generation of self-employment and income. Credit is a powerful instrument to fight poverty. The role of micro-credit in reducing poverty is now well recognized all over

the world. It is no longer the subject matter of micro-credit practitioners alone. Government, donors, development agencies, banks, universities, consultants, philanthropists and others have increasing interest in it (Latifee, 2003)

How micro-credit can reduce poverty may better be understood by understanding conceptually the mechanisms by which financial services can affect the lives of the poor. It is important to consider the fulfillment of basic needs (food, clothing, shelter, health, education and psychological well-being), the means to achieve welfare at present and in the future, social networks and empowerment and vulnerability to risk. It is known that poor people live in a high risk and vulnerable conditions.

Their ability to take advantage of opportunities that will lead to increasing their income or economic status, to protect themselves against risks of crises, and to cope with these when they occur is very important. Reduction of poverty is partly a process of increasing income and economic stability which enables fulfillment of basic needs and access to different kinds of services. This may also be understood in the form of developing a range of assets that will reduce the vulnerability of the poor to physical, economic and social shocks. These assets may be defined as financial (income size, regularity and security, savings, loans or gifts), human (skills and knowledge, ability to work, good health, self-esteem, bargaining power, autonomy and control over decisions), physical (housing, land, productive and non-productive possessions etc) and social (networks, group and centre membership, trust based Relationship, freedom from violence and wider access to society and social institutions (Arriganda, 2005).

Poverty reduction may also be considered from both short term and long term perspective. In the short term it can be understood with reference to individual borrowers, their households and also the society at large. Different studies conducted in Tanzania and elsewhere show that there is positive correlation between micro-credit programs and their accrued Benedict's in terms of employment, income generation and promotion of social indicators.

1.2 Statement of the Problem

Micro-credit institutions play a vital role in both urban and rural areas where we have a great number of people who are extremely poor. It is very difficult for these people to comply with financial institutions conditions for credit facilities through cooperative societies unless they are members of SACCOS. In general SACCOS have three purposes, first to promote thrift (savings), second to provide credit at low rate of interest, thirdly to train people how to use their loans as well as efficient management of their limited resources.

Poverty reduction specific gives attention to poor household's millennium development goals for poverty reduction. This means that the targeting of poor has a greater positive impact on child and household poverty reduction (Kihombo & Makombe, 1999).

The Tanzania government recognizes the importance of microfinance in the fight against poverty. The government has considered microfinance as a means for providing more efficiency assistance to poor families both in urban and rural areas. Indeed, financial service networks including providers

like SACCOS and microfinance banks which need to be strengthened by support from the government. (Kihombo & Makombe, 1999).

Apart from the achievement that is gained in microfinance development for poverty eradication, Tanzania is still one of the poorest countries in the world. Commonly in any context, the poor always are put at the greatest disadvantages. They are excluded from access to survival needs such as food, shelter and medical care due to insufficient income from access to the necessary tools of improving economic productivity such as access to training, health care and capital and fulfill higher needs. (Kihombo & Makombe, 1999).

Therefore my study addresses the following questions; what is the achievement level attained by SACCOS members since being a member? What are the identified income generating activities benefited from a SACCOS or sources of income established after being a SACCO'S member? What are the challenges facing during and after accessed loan in the process of poverty reduction? The above research questions and many others were very pertinent to me and inspirational to carry out this study. That why there is a need to measure the contribution of KKKT ARUSHA ROAD SACCOS as a micro-credit to the teachers poverty reduction so this study is an attempt to fill this information gap by looking at the contribution of MICRO-CREDIT in poverty reduction, taking KKKT ARUSHA ROAD SACCOS as a case.

1.3 Objective of Study

1.3.1 General Objective

The general objective of this study is to assess the contribution of micro-credit in poverty reduction, and taking KKKT ARUSHA ROAD SACCOS as a case in Dodoma Municipality.

1.3.2 Specific Objectives

In order to achieve the general objective, the study aims.

- i. To identify the household income generating activities benefited from SACCOS loan.
- ii. To determine the achievement levels attained by SACCOS members in poverty reduction.
- iii. To identify challenges facing SACCOS members during and after taking loan in the process of poverty reduction.

1.4 Research Questions

1. What are the household income generating activities benefited from SACCOS loans?

Variable

- Agriculture activities
 - Commerce /trade
 - Services activities
2. What are the achievement levels attained by KKKT ARUSHA ROAD SACCOS members in poverty reduction?

Variables;

- Owning asset
- Increase of capital
- Earned income
- Consumption level in household
- Food Surplus
- New business

3. What are challenges facing KKKT ARUSHA ROAD SACCOS members during and after taking loan in the process of poverty reduction?

Variables;

- Long period of loan recovering
- Delaying to get loan
- Low investment return
- Small credit
- High interest rate
- No grace period

1.5 Significance of Study

This study was deliberately undertaken to fill the information gap on the contribution of micro-credit to poverty reduction in the study area. Therefore, findings emanating from this study and its recommendations will be an important tool for policy and decision makers and other co-operatives

societies in creating an enabling environment to deliver good services to their primary beneficiaries/ teachers.

It is also expected that findings and recommendations from this study will assist KKKT SACCOS in strive to achieve their own goals toward members and national development goals. On the other hand, findings and recommendations from this study will work as guidelines for other SACCOS which are interested in working toward overcoming poverty trap.

1.6 Scope of the Study

The study was carried out in Dodoma Municipal, the study mainly focus on the contribution of micro-credit in reducing poverty specific by KKKT ARUSHA ROAD SACCOS members as a case. The study covered only house hold (respondents) who are members of KKKT ARUSHA ROAD SACCOS.

1.7 Definitions of key terms

Cooperatives are associations of people who have voluntarily joined together for the purpose of achieving a common need through the formation of a democratically controlled organization and who make equitable contributions to the capital required for the formation of such organization and who accept risks and the benefits of the undertaking in which they actively participate (URT, 2006).

SACCOS is defined as a registered society whose principal objective is to encourage thrift among its members and to create a source of credit to its members at a fair and a reasonable rate of interest (URT, 2006).

1.8 Chapter Summary

This part of the report presents a reflection of the entire study in terms of the background to the study, statement of the problem, objectives of the study and these are main and specific objectives, research questions and significance of the study. These components are well discussed and logically presented to make a comprehensive picture of what the study is all about. This part is a combination of the students' creativity and a reflection of other works by scholars at global, national and local levels.

CHAPTER TWO

LITERATURE REVIEW

2.1 Chapter overview

Co-operatives are based on the values of self-help, self-responsibility, democracy, and caring for others (URT, 2006). As far as the government wants to encourage the establishment in all sectors of the economy the registrar may register cooperatives in areas such Agriculture, Livestock, Fishing or Bee Keeping, Mining, Savings and Credit that is SACCOS, consumer sectors which deals with wholesale or retail business amongst members, Industry, Housing Societies designed to deal with building, construction and housing programs for members and specialized skills (URT, 2003; URT, 2006).

With a view of promoting Cooperative Development Services the Cooperative development functions include promotion, registration and deregistration of cooperatives, inspection and mobilization of rural savings and credits. The government will continue to promote and strengthen cooperative movement in the sector as important rural institutions to service farmers and livestock keeper's interests (URT, 1997). To be more effective in poverty reduction as a means of improving people welfare, cooperative need finance, training and information inputs such as receipts, markets, promotion, external assistance, need to raise awareness of the cooperative amongst local people and expand the size of the membership and increase member participation (Birchall, 2008).

2.2 The Concept of Savings and Credit Cooperative Societies

(SACCOS)

SACCOS are legal institutions registered under the cooperative laws (1991 cooperative act and 1992 cooperative regulations and now coop act 2013).

SACCOS are owned by their members through payment of share capital and membership fees to the institution (Ahimbisibwe, 2007).

SACCOS as cited by Ahimbisibwe (2007) indicates that a Savings and Credit Cooperative Society (SACCO'S) is a democratic, unique member driven, self-help, not for profit financial cooperative. It is owned and governed by members who have the same common bond. A SACCO'S membership is open to all who belong to the group regardless, race, religion, color, creed, and gender or job status. These members agree to save their money together in the SACCOS and to make loans to one other at reasonable rates of interest.

Interest is charged to cover the interest cost on savings and cost of administration. There is no profit paid to anyone. The members are the owners and the members decide how their money will be used for the benefit of one another (Bailey, 2001) cited by Ahimbisibwe (2007).

Saving and Credit Cooperative Society (SACCOS) which are known as the credit unions in some other countries are defined as cooperative which furnish members with convenient and secure means of saving money and obtaining credit at reasonable rates of interest (Kabuga et al, 1995) cited by Ahimbisibwe (2007) an observation that is in agreement with (Bailey, 2001) cited by Ahimbisibwe (2007). The saving and credit cooperative are usually

organized within a group which is already united together by bond of common interests such as workers in same factory or members of the same community who are fairly well acquainted with one another (Kabuga et al 1995) cited by Ahimbisibwe (2007).

Furthermore, saving and credit cooperatives organizations, which are guided by the practices, philosophy and principles of the cooperatives movement. They differ from the rest of other cooperatives because they are financial cooperative organizations with a social context (Kabuga et al 1995) cited by Ahimbisibwe (2007).

- Emergency loans: These are normally extended to businessmen and women. They are normally short lived with relatively higher interest rates.
- Loans: These are extended to members with viable business plan and reasonable share (at least two shares) plus savings balances as per loans officers on site appraisal findings.
- Life deposits: This is normally offered for target savers who keep money for some time until opening arise.
- Christmas and eid saving: These are offered to merry makers especially during festive seasons.
- Educational savings: These are offered to members with school going children to them pay school bills without much ado.
- Housing loans: These are intended to help members improve their shelter and sanitation.

- Funeral insurance: Under this scheme members are offered assistance to enable them a decent send off to their loved ones.

2.2.3 SACCOS Operating Standards

SACCOS are therefore charged with providing its members efficient services such as Savings and Credit Services. SACCOS like every other cooperative operation based on certain principles. As far as SACCOS is in business to help its members, the SACCOS have to operate in a sound manner. The members have been entrusted with the confidence of the membership is running the SACCOS and determining if a SACCOS is operating as efficiently as possible, there is need to develop a set of minimum operating standards to sue as a tool in evaluation. The standards include both qualitative and quantitative measures and present the minimum level of performance for sound SACCOS. According to BOT (2004) qualitative minimum operating standards for SACCOS are here under:-

- SACCO's officials and employees must conduct the affairs of the society in such manner that the confidentiality of members' business is ensured.
- SACCOS should provide a physical facility that is office for its business. The office should be easily accessible to the majority of membership. The accessibility should be judged both by the location and operation hours.
- SACCOS should have a designed and mounted a sign showing the name of the SACCOS and the normal business hours in a conspicuous, easily viewable place.

- SACCOS should operate as a true cooperative by observing the cooperative principles.
- The SACCOS should observe the statutory requirements stipulated in the cooperative societies act and rules.
- The SACCOS should pay their subscriptions to affiliated bodies promptly.
- SACCOS should have honest and competent staff to keep the books of accounts correctly.
- SACCOS should use and provide to members appropriate materials in their offices.
- SACCO's records should be clearly and securely kept in the SACCOS office to allow review and checking.
- SACCOS should have a loan written policy and make this policy available to all members. The loan policy should allow for the processing of loans as quickly as possible, so those members will find withdrawal of shares and savings more convenient. The policy should be in conformity with the bylaws and be strictly followed during every credit committee meeting.
- SACCO's committee should make comprehensive and informative reports to the management committee of directors on a monthly basis while the management committee of directors should make a comprehensive and informative report to the membership at least once a year at annual general assembly.

- SACCO's board should meet at least once a month or as stipulated in the respective by laws to review operations and make necessary decisions.
- Full and complete minutes of the management committee, committees and annual general assembly should be taken and maintained in the records. These minutes should include all annual general assemblies, all committees and at board policies and decisions.
- SACCOS should prepare an annual report giving the total member and amount of loans granted annually and the number outstanding, broken down by purpose at the end of the year. It should also take into account the types of loans.
- Delinquency control and loan collection procedures should be identified and implemented by each SACCOS. Delinquency reports should be submitted to the board at least once each quarter and annual delinquency report on the prescribed form should be made available annually.
- SACCOS should prepare annual work plans and realistic business.

Many of the authors have pointed out that SACCOS are very important in improving the life standard of its members despite the problems they face. However this study intends to analyze the impact of SACCOS in improving the living standard of its members in Dodoma Municipal as a case study. As the above historical background shows that SACCOS are registered society whose principal objective is to encourage thrift among its members and to create a source of credit to its members at a fair reasonable rate of interest

so that they can meet the common social, economic and cultural needs through creating opportunities for people to take responsibility for their own financial organization. Thus to achieve all mentioned above, democratic process is an integral part of the cooperative and encourages people to take control of their own financial affairs by considering the objectives of a savings and credit cooperative as well as products offered by SACCOS to their members such as shares, savings, emergence loans, housing loans, life deposit, educational savings and other so many products.

2.3 Historical Background of SACCOS

Savings and Credit Cooperative first appeared in Germany in the 1870s. The ideas moved to North America in 1900 with European immigration. Canada, the United States, Australia and Ireland have the most established movements. In many regions of these countries SACCOS are much larger than the commercial banks (De Jong, of 2006).

760 million people around the world are members of SACCOS. SACCO's members make up 29% of the population of Argentina, 33% of Norway and 40% of the USA. SACCOS provide 100 million jobs worldwide. SACCO's entities are among the largest and most successful in the world. In the United States, SACCOS serve four million members and their gross business is about \$93 billion, fourteen of these SACCOS are included in the 'Fortune 500' list of the largest corporations. Credit Mutual in France and the Rabobank in the Netherlands are leading banks in their countries and in the industry globally (Okaye, 2009).

Private sector SACCOS' are well developed in Argentina, Brazil, Chile and Uruguay. Elsewhere in Latin America there are numerous examples of successful SACCOS, for example in Bolivia poultry producers SACCOS in Cochabamba produces 60% of the country chickens and nearly 30% of its eggs. In India where they play a major role in supporting the green revolution, 90,000 such SACCOS exist, where they supply 34% of fertilizer inputs.

In Tunisia, 60% of milk production is marketed and payments are made through SACCOS. In some of the economies in which agricultural exports were important, private sector SACCOS contribute substantial percentages of financing agricultural export for example, cote d'voire, cotton, 99% and cotton, 40% (OKoye, 2009).

History of cooperates in Tanzania dates as back as 1925 when the Kilimanjaro native planters association was formed. However, the first cooperative legislation was not passed until 1932 when the cooperative ordinance (Cap. 211) was enacted. After independence, the government policy was to make the cooperative movement an engine for economic development. Further, the Arusha declaration of 1967 advocated and recognized cooperatives as instruments for implementing the policy of socialism and self-reliance. Through a number of legislations, cooperative were systematically promoted to act as an important tool for transforming rural community production into a socialist planned economy (URT, 2006). Changes in the macro – economic policies, which started in late 1980s, aimed at introducing free market and trade liberation policies, in turn led to the on-going efforts to make cooperatives members based organizations.

The cooperative society act of 1991 was enacted for that purpose. For more than 70 years of cooperative history in the country there was no cooperative policy to support different cooperative legislations. The first cooperative development policy was thus formulated in 1997. The policy reiterated the government commitment for development of cooperative that belong to members, in recognition of the international cooperative alliance principle (URT, 2006).

In Tanzania, SACCOS are the main providers of financial services in the rural areas. In December 2006, there were over 3,500 SACCOS registered with the Ministry of Cooperative and Marketing, with approximately 420,000 members. About 60% can be classified as rural and 40% as urban (mostly wage-based).

Over the past two years, the number of SACCOS has increased rapidly (to a large extent, recent growth can be attributed by the decision of the president of Tanzania honorable Jakaya Kikwete to disburse one billion to each region as part of his empowerment policy, especially through Saving and credit cooperative societies (SACCOS) and it is one of the major initiatives that a large proportion of the Tanzania community are waited for so long “JK Billion” is the nick name of such fund, however, the average number of members per SACCOS has come down to about 120 (Duursma, 2007). The government has been encouraging the formation of cooperative financial institutions like SACCOS since recognizes that the pace of growth of SACCOS has been slow, especially in rural areas. Most have been established in urban areas and workplaces. As a result, members of rural primary societies have unable to access adequate credit. To improve this

situation government plans to encourage the development of SACCOS in all rural areas. Advice will be made available at district level regarding setting up SACCOS and technical assistance will also be provided to all existing SACCOS to strengthen their capital base and development (URT, 2006).

2.4 SACCOS Role in Improving Welfare of People through Poverty

Eradication

Different authors have put forward different views concerning the role of saving and credit societies. The study focuses on how SACCOS are helpful in changing the living standard of members in order to attain the objectives of savings and credit societies that is to improve socio-economic status of members by increasing their income through increased access to credits.

The national strategy of growth and reduction of poverty (NSGRP) with regard to income poverty reduction in rural areas, emphasize on increasing access to rural micro-financial services for subsistence farmers, particularly targeting youth and women and promotion and sustain community based savings and credit schemes such as SACCOS and revolving funds as well as strengthening cooperative and export credit guarantee fund for cooperative and other farmer's organizations. Given the history of dominant government lead cooperative development in Tanzania and the recent fundamental policy changes, only a tentative synoptic description of the role cooperative play in poverty reduction in Tanzania are attempted.

2.4.1 Facilitation of Financial Services

Financing rural farmers has been further diminished by the financial sector reforms. Banking services are focused on the high valued end of the market in urban centers due to financial viability considerations. The role of savings and credit cooperative societies SACCOS in providing financial services particularly in the rural areas is now more imperative than before (Chambo, 2001).

SACCOS are the main providers of financial services in the rural areas. In 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 (mostly wage based).over the past two years, the number of SACCOS has increased rapidly (to a large extent growth can be attributed to the 'JK Billion', however, the average number of members per SACCOS has come down to about 120 (Duursma, 2007).

The outreach is obviously still very small and limited in its impact on poverty reduction. The point however is that the service being provided is in great demand among the rural poor. Provision and facilitation of banking services to the rural poor will contribute poverty reduction among the rural communities (Chambo, 2001).

2.4.2 Education Support to Children of the Poor

Coffee cooperative in Kagera and Kilimanjaro are reputed for the support they have provided for education to the poor in their regions. In particular Kagera Cooperative Union (KCU) has struggled to provide this support from

the premium earnings of its fair trade operation against many odds (Sizya, 2006).

A study done by Mwaipopo (2006) found that SACCOS such as TAZARA in Mbeya city has achieved to the large extent the goal for reducing poverty to its members for instance have managed to pay tuition fees for their children.

Also Isote (2007) found that through loans from the SACCOS rural primary teachers in Dodoma have managed to pay tuition fees for their children.

2.4.3 Employment Creation Potential

The employment potential of cooperative has been little acknowledged in the long history of the Tanzanian cooperative movement. Obscured by the dominant poor performance the cooperatives have never the less contributed significantly in employment creation. The large number of agricultural cooperatives, the savings and credit cooperatives and other types of cooperatives has provided employment tot many people across the country.

The registrar of cooperatives reports indicates that there are 400 cooperatives workers of which 231 are industrial, 81 mining, 59 service and 18 fishery cooperatives. With the deepening effect of the retrenchment process, these types of cooperatives may provide employment for many more people (Chambo, 2001). Eventually, the government sees cooperatives as an important means to the achievement of development goals. People working together can solve problems that cannot be solved by individuals (URT, 2006).

This is why cooperatives are so important, particularly for poor countries such as Tanzania whose only hope of development is through working together.

2.4.4 Strengthen Family Ties

SACCOS also strengthen family ties thus promoting peace. This is true as one of the main factors for family instability is the financial problem, often caused by mismanagement of the family income. In SACCOS people are shown how to avoid the pitfalls of money mismanagement; this no wonder strengthens love and family ties (Syed, 1991) cited by Ahimbisibwe (2007).

Also SACCOS help to teach people how to earn money profitably and how to spend it intelligently for the benefit of members and their community. SACCOS have enabled the savers to attain the capacity to build low cost, yet high quality, housing units and to buy vital household items and put their some of their loans in agricultural development thereby increasing the productivity in the agricultural sector and enhancing food security (Ahimbisibwe, 2007).

2.5 Challenges Facing the Development of SACCOS

According to Okoye (2009), SACCO's development is stumbled upon by the following challenges:-

2.5.1 Promotion of a Savings Culture

The reduction of consumption trends and reliance on easy to obtain loans should be discouraged. This can be done through sensitization campaigns to help change the culture of expenditure on unnecessary goods and

learning how to produce some of the basic items like vegetables, fruits, maize and rice. A culture of savings needs to be inculcated amongst all young and old people. The starting point is in schools where a cooperative curriculum should be developed and taught at all levels of the schools system. The formation of savings and credit cooperatives in all work places should be made mandatory, while encouraging the formation of savings clubs in our education institutions. Countries like Kenya have introduced cooperative training in schools.

2.5.2 Funding of Unviable Cooperatives

When the government funds a weak SACCOS, it will never make the SACCOS become strong. In fact wholesale lending of such a cooperative runs the risk of doing more harm than good when it is lent to SACCOS with weak management, ineffective governance or poorly performing portfolios. Wholesale loans to a SACCOS can impact the savings culture of the members positively or negatively. In the weak SACCOS that we have seen here, government support in terms of funding changed the orientation of the cooperative from savings led, to being simple mechanisms for the disbursement of funds, resulting in a deterioration of loan portfolio quality and amounts of members savings. However, the change in a SACCO's savings culture depends more on the quality of management and governance than on anything else.

2.5.3 Inadequate Institutional Support Structure

The current institutional support structure for SACCOS is weak, understaffed and lacking in knowledge and skills in cooperative management. A

suggested model that could be tried is the rearrangement of the cooperative division as follows, at district level, the introduction of the offices for district cooperative officer in charge of all cooperative staff and activities e.g. savings and credit, agricultural cooperatives, housing cooperatives, handicraft cooperatives etc.

2.5.4 Capacity Building in the Cooperative Movement

Efficient capacity building in cooperative is crucial, since the success of SACCOS is largely dependent on the quality of human resources, government and management. Unfortunately, there is much evidence of insufficiently trained manpower, overlaps and contradictory messages given by different training providers to the SACCOS: poor timing of interventions lack of accountability and a mismatch between institutional assessment and the assistance given to cooperatives.

2.5.5 Monitoring, Evaluation and Mentorship

Monitoring and mentorship of cooperatives especially SACCOS are not adequate. SACCOS should be constantly monitored to find out whether they comply with co-operative laws, BOT regulations, SACCOS by laws and policies, WOCCU guidelines, long term planning and annual budgets.

Such constant monitoring could lead to improvement in management practices of the SACCOS (Okoye, 2009).

2.5.6 Regulatory Framework

Regulatory and legal framework needs to undergo through the necessary legislative development concurrently with the imperative of designing

management and accounting system appropriate for finance cooperative and building service capacity among the SACCOS. The development of SACCO's regulatory framework is an every changing phenomenon and there is therefore a need to learn from countries that have progressed more the SACCOS field.

The national micro finance policy 2000 is guided by a vision of achieving widespread access to micro finance throughout the country. A wide range of institutions could be involved in the provision of service, including specialized banks non bank financial institutions, rural community banks, cooperatives banks, SACCOS and NGOs. Therefore, using financial sector policy and the national micro financial policy as a guide LGAs in collaboration with the BOT and private sector organization could promote establishment of a variety of MFIs on demand driven basis, which include SACCOS, community banks and SACCOS (URT, 2001).

However, the above cites studies concentrated on the assessments of SAACOS performance and none has touched the role of SACCOS in improving welfare of the peoples, thus; this study examined contribution of SACCOS in improvement of people's welfare using a case of KKKT Arusha Road SACCOS.

In general SACCOS in Tanzania are one of economic catalyst as they play a huge role providing funds to the majority poor through less condition compared to other financial institutions such as banks. In fact many poor people through SACCOS loans have prospered and enable to send children to school, initiating and expanding business hence providing employment to

other, strengthen family ties by increasing household income, cultivating saving culture in reducing poverty in aggregate to the Tanzania nation.

2.6.1 Concepts of Poverty

Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life. This is caused by lack of resources and capabilities to acquire basic human needs as seen in many, but often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, squalid surroundings, high infant, child and maternal mortality, low life expectancy, low per capital income, poor quality housing, inadequate clothing, low technological utilization, environmental degradation, unemployment, rural-urban migration and poor communication (Arriagada, 2005).

Poverty is a global issue, despite changes in development paradigms in the last half of the 20th century; the promise to bring wellbeing to all human being remained unfulfilled. As it stands, more than 100 million children of primary school age have never stepped inside a class room, about 29000 children die each day from largely preventable malnutrition and disease and more than 1.2 billion people in the world are struggling to survive at the margins of human existence “on under a dollar a day. Poverty is a problem for all the countries irrespective of their level of development. It can be observed in many forms. It has both income and non income dimensions. It may be a lack of income or resources, a lack of coping capacity, a lack of basic human capabilities, a lack of institutional defenses or in extreme cases a lack of all of these. In a wider sense, it may be a combination of economic, social and political deprivations. In consideration of poverty line, people in

each country can broadly be divided into 2 categories namely poor and non-poor. The non-poor are living above and the poor are living below the poverty line), extreme poor (those in the bottom 10 to 50 percentile of households below the poverty line), and moderate poor (the top 50 percent of households living below the poverty line). A further category of vulnerable non-poor may also be recognized who may slip into category of poor anytime (Latiffee, 2003).

2.6.2 Causes of Poverty and its Reduction Process

In this section cause of poverty and overall objective of its reduction has discussed. Poverty is measured by deprivation of basic needs like shelter, food, clothing, treatment, education, safe drinking water, asset to generate income and ability to resist against disaster. If all basic needs are absent it can be said people are living under poverty. According to World Bank; poverty is an income level below some minimum level is usually called the “poverty line”. What is necessary to satisfy basic needs varies across time and societies.

Therefore, poverty lines vary in time and place, and each country uses lines which are appropriate to its level of development, societal norms and values. But the content of the needs is more or less the same everywhere. Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerless, lack of representation and freedom. Natural disasters

like tornado, flood, hurricane, tsunami and cyclone are also the causes of poverty. When these natural catastrophes hit the country wealth has been destroyed. However, low income, unemployment, lack of industries and factories in a place are also the causes of the poverty (Micro-Credit Summit, 1997).

2.6.3 Poverty and Micro-credit

There is an ongoing debate whether credit alone or credit plus is needed for poverty reduction. There are views that credit alone on its own is inadequate to fight poverty. The need for other services is also important in this respect. Most of the practitioners believe that credit plays a vital role as an instrument of intervention for a poor person to discover her potential and to stride for better living. Muhammad Yunus advocates that credit is a human right. Once this right is established, the entitlement to other rights for leading a dignified life becomes easier. It empowers to break the vicious cycle of poverty by instantaneously creating self-employment and generating income. When in the ultimate analysis nothing can be said to be panacea, by over emphasizing that micro-credit is not a panacea is in a sense overreacting and underestimating the role of credit as an instrument to combat poverty. Micro-credit is itself a very powerful tool. But if it is combined with others, it is definitely more empowering. How micro-credit can reduce poverty may better be understood by understanding.

Conceptually, the mechanisms of financial services can affect the lives of the poor. It is important to consider the fulfillment of basic needs (foods, clothing, shelter, health, education and psychological well-being), the means

to achieve welfare at present and in the future, social networks and empowerment and vulnerability to risk. It is known that poor people live in a high risk and vulnerable conditions. Their ability to take advantage of opportunities that will lead to increasing their income or economic status, to protect themselves against risks of crises, and to cope with these when they occur is very important. Reduction of poverty is partly a process of increasing income and economic stability which enables fulfillment of basic needs and access to different kinds of services. This may also be understood in the form of developing a range of assets that will reduce the vulnerability of the poor to physical, economic and social shocks. These assets may be defined as financial (income size, regularity and security, savings, loans or gifts), human (skills and knowledge, ability to work, good health, self-esteem, bargaining power, autonomy and control over decisions) physical (housing, land, productive and non productive possessions etc) and social (networks, group and centre membership, trust based relationship, freedom from violence and wider access to society and social institutions. Poverty reduction may also be considered from both short term and long term perspective. In the short term it can be understood with reference to individual borrowers, their households and also the society at large. Different studies conducted in Bangladesh and elsewhere show that there is positive correlation between micro-credit programs and their accrued benefits in terms of employment, income generation and promotion of social indicators (Hulme & Mosley, 1998).

2.6.4 Micro-credit Impact

A recent study concluded by the World Bank in Bangladesh provides a strong indication that micro-credit do help the poor in consumption smoothing as well as in asset building. The study also suggests that micro-finance programs promote investment in human capital like schooling. It raises awareness to reproductive health and increases both individual and household welfare. While the short run impact of micro-credit has been widely acknowledged, the questions are raised about its long run and aggregate impacts. Is it sustainable overtime? Given the high incidence of poverty in countries like Bangladesh where micro-credit programs are widespread and successful, critics argue that this reflects the limitations of micro-credit as an instrument for poverty is a result of failure of micro-credit movement or it is an outcome of a low economic growth rate. It may be argue if significant poverty reduction is mainly a function of sustained high economic growth, what is then the net over all contribution of micro-credit movement? These and so many other questions may be raised in connection with impacts and effectiveness of micro-credit programs but the fact remains that it helps the poor participants to overcome their poverty and also benefits the non participants because of its externality at the micro level. If one considers the benefits the extreme poor deserves critical evaluation. While many argue that the extreme poor get little benefit from it as they are mostly excluded, a recent World Bank study in Uganda has come with encouraging results (Latifee, 2003).

It reconfirms that micro-finance matters a lot for the very poor borrowers and also for the local economy, it helps reduce extreme poverty more than

moderate poverty. Many MCP's ignore their commitment to the bottom poor on the grounds that sustainability cannot be attained by providing financial services to the extreme poor. They forget that sustainability is a directional goal. The immediate non-negotiable goal is to reach the poorest and enable them to lift themselves out of poverty, which is the ultimate goal. One should not run for attaining sustainability overnight at the cost of those who are very poor (Latifee, 2003).

Evidences also show that serving the poorest and at the same time attaining sustainability are not contradictory goals. It needs appropriate planning. For a well designed program it is a matter of time. Though it has a waiting time it is highly rewarding. In order to meet the client's needs and satisfaction, it is important that MCP's should have considered appropriate product development that will serve different needs of clients and enables them to improve the quality of their lives. Given the assumption that at the entry point all clients should come from the poorest, the need for developing different products for different levels of borrowers (1st, 2nd 3rd time loaners and so on) is also important. Once an appropriate mechanism for credit delivery and recovery are in place, it will not only reduce individual and aggregate poverty (may not be very significant) but will also help create a strong foundation for sustainable operation of MCP's (Latifee, 2003).

2.6.4.1 Economic Effects

Micro-credit has been widely researched and recognized for making a difference in the lives of its members. A study examining the economic effects of Grameen on the life of its borrowers compared the situations

“before” and “after”, “with” and “without” micro-credit. It considered the effects of micro-credit operation on capital accumulation, employment, and income and poverty alleviation. the study found that without any capital base at the beginning , the micro-credit borrowers started accumulating capital as they joined in difference MCPs which has not been possible by others, loan is required to be paid back in small installment are per agreement . The borrowers pay the installment from generated income, leaving the original capital intact. Their capital base usually increases in large amounts as they go for subsequent loans that enable them to go for medium and long-term investments (Bernasek & Alexandra ,2003).

2.6.4.2 Coping Capacity

If an increasing capacity to cope with calamities is considered to be an indicator of improving poverty situation, the experiences of micro-credit program show that micro-credit members are in better positions to cope with such situations. For example during two and a half months of devastating floods that hit Bangladesh in 1998, it was found that grameen borrowers were relatively less vulnerable and more capable to deal with the situation both during and after the flood. They had their savings, institutional back-up and peer support. They were able to go for rehabilitation immediately after the flood water receded. In fact, the severe flood provided both a challenge and an opportunity for the micro-credit program only facing the challenge to recover from the losses caused by the flood and to bring the poor back onto the path of sustainable development. The opportunity was to consolidate and improve upon the existing modalities in order to bring the most affected

families within the fold of the MCP and to have more impact on the socio-economic condition of the poor. MPCs could do more under such disaster situations if they had access to more funds. Such funds are needed to replenish their cash flow which gets depleted due to withdrawal of savings by members, fresh loans to old borrowers, new loans to new borrowers and non-recovery of loans from flood affected borrowers (Bernase. & Alexandra H, 2003).

2.6.4.3 Savings

Saving has always been an integral part of the micro-credit program. It is designed to address production and other risks as well as market imperfections. If savings is a function of income, a balance in savings account of borrowers is definitely an indication of their increased income and capacity building (Bernasek & Alexandra ,2003).

2.6.4.4 Social Effects

The poor have little access to education, health, sanitation and other social service. They are social condemned, rejected and powerless. For example in the case of poor women the situation is more deplorable. In many societies including Tanzania, women are generally confined to their homes. They are not supposed to be seen by other than their family members. Their sphere of work is largely restricted. Under these circumstances, micro-credit provided them a forum, a network where they are organized into groups and federated into centers. They become decision makers, leaders and a social force. But also enjoy a gracious social status. These women have brought

the world closer for themselves as well as for their communities (Bayes, A, 2001).

2.6.4.5 Political Participation

Poverty alleviation does not only mean meeting basic food and non-food requirements but also exercising political rights and enjoying political freedom. freedom of speech, choice, human rights, casting and seeking votes for public office and other posts are some of the indicators by which it may be measured whether the poor organized under micro-credit have a better understanding of their political rights and obligations also their household members are taking part in large numbers as voters and candidates in local and central government elections. They are encouraged to discuss their rights at their center meetings before elections and to take decision to vote for candidate who according to their judgment will advocate for and serve their cause (Nicholas, 2007).

2.6.4.6 General Outcome of Micro-credit Utilization in Household Level

Micro-credit services through MFIs across the globe and particularly in the third world countries have experienced explosive growth since the 1980s. And they have been discovered to have the potential to alleviate poverty among the marginalized poor populations especially in the rural areas. Micro-credit is an essential input to increase productivity at household level. Many scholars in the development field argue that MC globally improves the borrowers well being as, boost income levels and increase employment of household members (Okurut *et al* 2004). However, they are many variables

which influence the extent of success at individual, households, organization and environmental level, for example, the borrowers' skills and knowledge level, gender relationship in the household, and any other external support available to the borrowers. It is therefore important to examine existing literature on the outcome of MC intervention on households well-being.

According to Navajas et al (2000), the professed goal of micro-credit is to improve the welfare of the poor. However, Berger (1989) observed that microfinance tend to stabilize rather than increase income and tend to preserve rather than create jobs. In addition, Mosley and Hulmey (1998) in their study of 13 MFI's in seven developing countries concluded that; household income tended to increase at a decreasing rate, as the debtors income and asset position improve.

Other scholar such as Diagne and Zeller (2001) in a study in Malawi suggested that microfinance did not have any significant effect on household income. Equally so, Ross (2002) asserted that the arguments developed above do not necessary imply that a few individuals are not about to rise above their previous condition. Nevertheless, the transformation claimed by the advocates.

2.6.5 SACCOS and Household Improvement

The savings and credit cooperative societies (SACCOS) are the principle semi formal institution accessible to the poor population in the rural and urban areas. They are savings and credit cooperative established with the purpose to encourage savings among members and using the pooled funds to extend loans to its members at reasonable interest rates, and providing

related financial and non financial services such as business training to enable members improve their household economic conditions. In Tanzania, SACCOS were established by the cooperative policy No. 20 of 2003 so as to furnish secured and unsecured loans or credit to households, small holder producers and micro enterprises in rural and urban areas (URT, 1994). These SACCOS function as bridges between individual borrowers, particularly small borrowers and the formal financial institutions (Wangwe, 2004). SACCOS services involves two types of products; savings products (savings and deposits) and credit products (emergency, short term and medium term) purposively for the improving household life standard among the participant.

2.7 Theoretical Review

2.7.1 Theoretical Arguments on the Poverty Caused by Individual Deficiencies

This first theory of poverty is a large and multifaceted set of explanations that focus on the individual as responsible for their poverty situation. Typically, politically conservative theoreticians blame individuals in poverty for creating their own problems, and argue that with harder work and better choices the poor could have avoided (and now can remedy) their problems. Other variations of the individual theory of poverty ascribe poverty to lack of genetic qualities such as intelligence that are not so easily reversed. The belief that poverty stems from individual deficiencies is old. religious doctrine that equated wealth with the favor of God was central to the protestant reformation (Weber, 2001) and blind, crippled, or deformed people were believed to be punished by God for either their or their parents sins. With the

emergence of the concept of inherited intelligence in the 19th century, the eugenics movement went so far as to rationalize poverty and even sterilization for those who appeared to have limited abilities.

Books like Herrnstein and Murray's *The Bell Curve* (1994) are modern uses of this explanation. Rainwater (1970) critically discussed individualistic theories of poverty as a "moralizing perspective" and notes that the poor are "afflicted with the mark of Cain. They are meant to suffer, indeed must suffer, because of their moral failings. They live in a deserved hell on earth". Rainwater goes on to say that it is difficult to overestimate the extent to which this perspective (incorrectly) undergirds our visions of poverty, including the perspective of the disinherited themselves. Ironically, neo-classical economics reinforces individualistic sources of poverty. The core premise of this dominant paradigm for the study of the conditions leading to poverty is that individuals seek to maximize their own well-being by making choices and investments, and that (assuming that they have perfect information) they seek to maximize their well-being. When some people choose short term and low-payoff returns, economic theory holds the individual largely responsible for their individual choices for example to forego college education or other training that will lead to better paying jobs in the future. The economic theory that the poor lack incentives for improving their own conditions is a recurrent theme in articles that blame the welfare systems generosity on the perpetuation of poverty. In a *Cato* journal article, economists Gwartney and Mc Caleb (1985) argue that the years of the war on poverty actually increased poverty (adjusted for non cash transfers) among working age adults in spite of un-presented increases in

welfare expenditures. They conclude that “the application of simple economic theory” suggests that the problem lies in the war on poverty programs: (welfare programs) have introduced a perverse incentive structure, one that penalizes self-improvement and protects individuals against the consequences of their own bad choices. Gwartney and McCaleb (1985,p.7) this and similar arguments that cast the poor as a “moral hazard” also hold that “the problem of poverty continues to fester not because we are failing to do enough, but because we are doing too much that is counterproductive” Gwartney and McCaleb (1985,p.15). The economic model would solve poverty by assuring that the penalty of poverty was great enough that none would choose it (and welfare would be restricted to the truly disabled or otherwise unable to work)

a less widely critiqued version of the individualist theory of poverty comes from American values of individualism .Horatio Alger (2002) myth that any individual can succeed by skills and hard work, and that motivation and persistence are all that are required to achieve success . Self-help literature reinforces the belief that individuals fail because they do not try hard enough. Frank better (1977) in the Dale Carnegie tradition tells how he got a list of self-improvement goals on which to focus and became one of the most successful and highly paid salesmen in America. He goes on to say that anyone can succeed by an easy formula focused goals and hard work. This is the message of hundreds of self-help books, articles, and sermons. By extension, this literature implies that those who do not succeed must face the fact that they themselves are responsible for their failure. While scientifically it is routine to dismiss the individual deficiency theory as an

apology for social inequality, it is embraced in anti-poverty policy which suggests that penalties and incentives can change behavior.

2.8 Information Gap

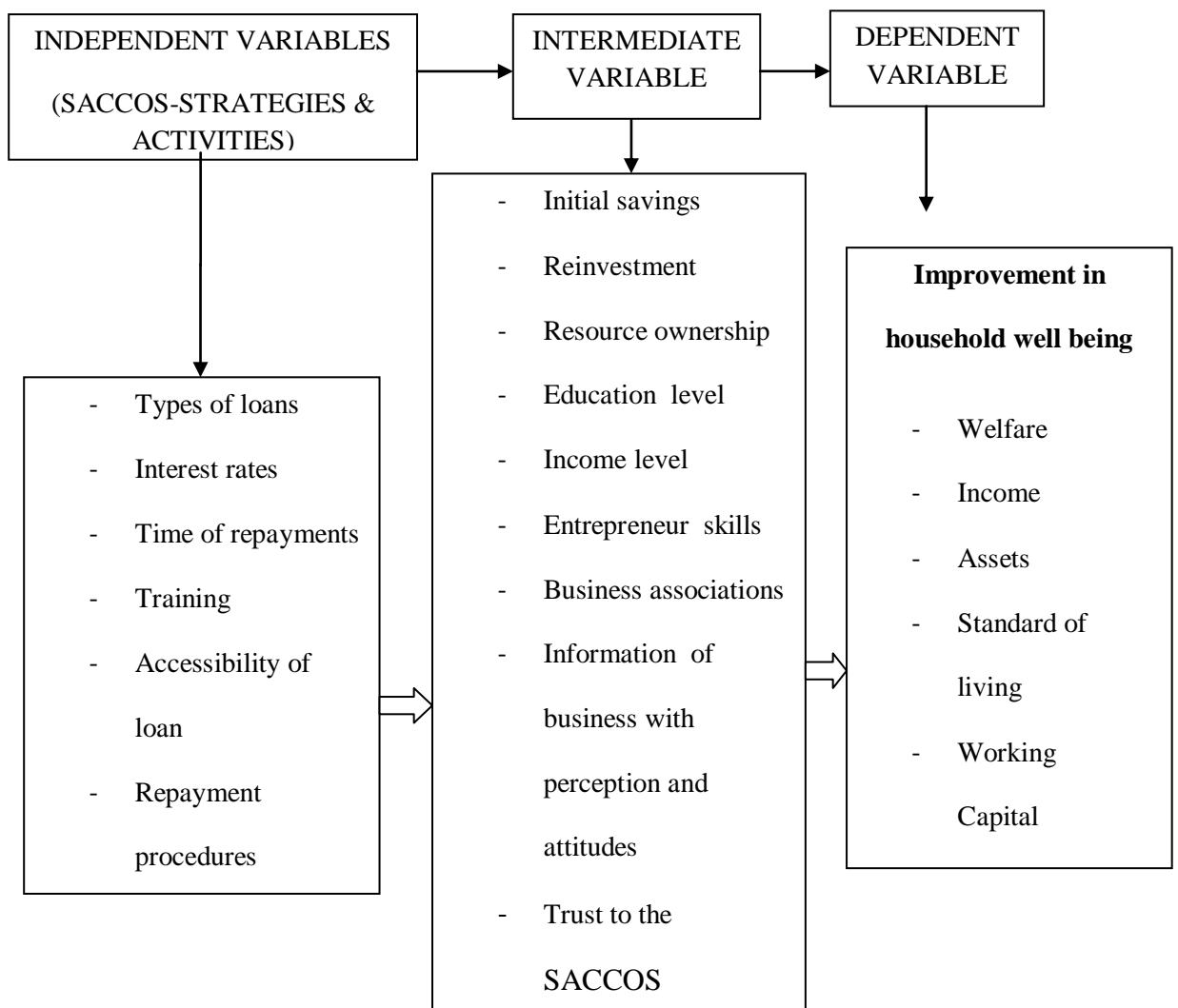
Micro-credit exaggerated. Thus, the impact of micro-credit on household income remains only partial and contested. On one end of the spectrum, there are studies arguing in that micro-credit has very beneficial economic and social impacts of the household. While on the other end of the spectrum are scholars who contend against such optimism. Given the fact that there is a knowledge gap in the reviewed literature, the impact of access to and utilization of micro-finance loans program on the households remains a critical area of study. This inspired me to pursue this study measuring the outcome of credit on household members.

Generally, the above literature exhibits' several knowledge gaps which needs more contributions. Several questions are not adequately answered by already existing literature and studies: where attempts are made, it is limited by time and geographic scope. Do borrowers have individual and group capacity to effectively and efficiently use the loan facility to achieve the desired outcome? This question and the already identified knowledge gaps in the reviewed literature formed the back bone of my study, and the study findings presented and discussed explicitly answer these questions.

2.9 Conceptual Framework

The conceptual framework of the study is to show the relationship between three variables, these are independent variables which show the impact of the problem to the existing situation, intermediation variables shows the intervention of the problem and poverty reduction, dependent variables which can be determined by independence variables, all these independent variables will improve the household income of the KKKT SACCOS members

TABLE 2.1 CONCEPTUAL FRAMEWORK OF CONTRIBUTION OF MICRO-FINANCE TO POVERTY REDUCTION.



Source: Researcher, 2015

2.10 Chapter Summary

This chapter presented a theoretical, empirical, research gap, and conceptual frameworks' analysis of the entire study. The theories, are critically analyzed to develop the theoretical gap within it as a scholarly contribution. Besides, the literatures by other scholars are again thorough discussed to establish a research gap of which, is to analyze the contribution of SACCOS towards poverty reduction. Furthermore, the conceptual framework reflects a comprehensive picture of the entire study on ARUSHA Road SACCOS in contribution of poverty reduction through loans.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Chapter overview

This chapter is about the research procedure and methodology which the researcher will explain steps to be followed in order to solve the research problem during the whole research period. It includes, area of the study, research design, research used in data collection, where different methods like interviews, observation, documentary reviews and questionnaires.

3.2 Area of Study

This study was conducted in households which were located in around the Society at area C in Dodoma Municipal. The rationale for choosing the area; was based on proximity of getting respondents and researcher was familiar with the study area. The target population depended on all members who have more than three years in doing business of loans with KKKT ARUSHA ROAD SACCOS.

3.3 Research Design

Research design involved the gathering and analysis of data; this was determined by the nature of the research. It also involved establishing the validity and reliability of the study and data collection were conducted through two main instruments. Those were semi-structured interviews which key informants were interviewed. Other one was structured questionnaire which comprised the open and closed ended questions which were providing the freedom for the respondent to give his/her own views

while in the closed one the respondent chose the appropriate response among the given alternatives.

3.4 Sampling design

3.4.1 Sampling frame

- The sampling frame for this study was based on the list households who had accessed loan from KKKT ARUSHA ROAD SACCOS.

3.4.2 Sampling unit

- Sample unit was individual household who had accessed credit service from SACCOS

3.4.3 Sample size and sampling procedure

3.4.3.1 Sample Size

The study was comprised the sample size of 65 derived from the following formula

$$\text{Sample size (n)} = \frac{N}{1+N(e)^2}$$

When: N= Sample size estimate

N=number of respondents who access loan (185)

E= error of detection (0.1)

$$N= 185/1+185(0.1)^2=65$$

Sample size was 65 household, this particular sample size was selected because it was enough to generate findings as well as to generalized the findings

TABLE 3:1 RESPONDENTS SAMPLE COMPOSITION

CATEGORIES	TOTAL
SACCOS Members (respondents)	60
SACCOS leaders	5
TOTAL	65

3.4.3.2 Sampling procedure

This involves decision on the techniques to be used in selecting the items of the sample. Purposive sampling technique and random sampling were employed to enhance the sample for interviews and distribution of questionnaires.

The purposive sampling technique was used to interview five leaders of SACCOS, whereby personal interviews were conducted by the researcher as per given appointments and convenient times.

The Random sampling technique was also employed by distributing questionnaires to the members of SACCOS who have joined for not less than three years. Duly filled questionnaires were returned to the researcher from 60 respondents.

3.5 Data Type

Both primary and secondary data types were used, primary data was obtained through interview questions (structured and non- structured) non-

participatory observation was used during data collection. The secondary data was obtained through documentary review guide was used as an instrument during data collection from different documents. The documents reviewed included: Audited financial statements by external auditors COASCO, Rules and Regulations issued by TCCD, society's by laws, various performance reports, books and journals published and non-published SACCOS's documents.

3.6 Data Collection Methods and Tools

Data collection techniques used during data collection was interviews, questionnaires and documentary analysis. These research methods were used interchangeably a practice which ensure defective collection of reliable as well as quality data. Research instruments used were interview questions, questionnaires and documentary review guide.

Interviews are two way conversations between the one who ask questions and another who provides answers to the questions posed to him/her. Structured and non- structured interviews were used during data collections and that provided a room to respondents to provide extensive information as they managed. The employment of both structured and non-structures interviews were facilitated by the use of both closed and open- ended questions (research instrument) and that motivated respondents to effectively participate in the study. To ensure that effective collection of data, interview schedule was used designed before interviews.

3.7 Data processing, analysis and presentation

3.7.1 Data processing and analysis

Data analysis gives compelling reasons to reduce bias and to assist the study to make fair analytical conclusion that rules out misinterpretations, this process helps to transform the collected data into meaningful descriptive interpretations. A substantial part of the analysis in this study will be based on descriptive statistics analysis and multiple response statistics. These include statistical product for social solution (SPSS), frequencies, percentages, correlation coefficients of some variables and Microsoft Excel. Also verbal information was analyzed using content analysis.

3.7.2 Data presentation

Various data presentation forms were used. Figures such as words, tables were employed to depict the information, hence drawing the recommendations and conclusion for the studied problem.

3.8 Validity and Reliability of Data

Validity and reliability are most important characteristics of any scientific research instrument. Thus, the instruments that was developed and used in this study, have been described in the following paragraph.

3.8.1 Validity of Data

To achieve validity, triangulation methods (*methods triangulation, triangulation of sources, analyst triangulation & perspective triangulation*) were employed in the study. In this study, semi-structured interview, documentary analysis, and direct observation were triangulated. Collecting rich data as possible using asking questions for justification and clarification

from respondents provided the researcher with very rich data; the flexibility semi-structured interviews were also yield data. Moreover, the use of back translation, the interview schedule which were initially in English were translated into Kiswahili for easy understanding and communication with participants.

3.8.2 Reliability

Reliability is a measure of degree to which research instruments yield same results or data after repeated trial (Mugenda & Mugenda, 1999), (Bryman, 2001). A reliable instrument measures the data in a consistent and accurate manner rather than randomly. To make the instruments reliable, the researcher provided clear instructions of the instruments and clarified them in order to remove ambiguity of the instructions. Moreover, to ensure reliability, the instruments generate similar data when used by independent researchers. In qualitative research, an instrument to yield similar results over time is too difficult (Ezzy, 2002). Reliability, like validity, depends on how transparent the narrative is (Silverman, 1993). Therefore, the researcher made logical inferences from data, being accurate and minimising researcher bias or subjectivity. Reliability refers to the ability to repeat the research and find the same results. Grinnell (1993) observes that, reliability measures the degree of accuracy in the measurements that an instrument provides.

3.9 Summary of the Chapter

This chapter is part of the report, it presents the research methodology regarded the critical part of the study report. In this respect various issues

related to research methodology are discussed including the research design, area of the study, research approach, and population of it, sampling frame, size and techniques, types of data, validity and reliability of the study, data analysis techniques and ethical issues. This report has dealt with each of the components thorough while justifying the selection of each the parts.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Chapter overview

This chapter presents and discusses the major findings of the study; the findings explained in line with specific objectives. The analysis and interpretation of data which collected from the field were on SPSS including descriptive statistics and multiple-response statistics and then integrated according to the tables and figures.

4.2 Characteristics of respondents

The characteristics of respondents were important because it affected on how to reduce poverty through micro credit in terms of borrowing and repayment of loan, the main criteria of respondents based on numbers of accessed loan (must accessed loan more than three times) and time of being a SACCOS as a members (more than three years).

TABLE 4.1 DISTRIBUTIONS OF RESPONDENTS BY MARITAL STATUS

Marital status	frequency	percent
Single	8	12.3
Married	49	75.4
Widow/widower	8	12.3
Total	65	100.0

All respondents were members of KKKT SACCOS Arusha Road and distribution characteristics of respondents by marital status are shown in table 4.1 above.

And large number of them were married 75.4%, single were 12.3% and widow were 12.3%. This implied that most of respondents have family which helps to Measure how SACCOS contribute to poverty reduction at household level.

4.3 Income Generating Activities before and after acquiring loans a SACCOS

The entry point to this was to identify the major sources of income of household members.

Table 4.2 shows a summary of the major sources of income generating activities to the households.

TABLE 4.2 INCOME GENERATING ACTIVITIES

Source of income	before joined SACCOS		After joining SACCOS	
	Frequency	percentage	frequency	percentage
Services activities				
Mobile money	0	0%	5	5%
House renting	10	16.7%	15	15.1%
Min Bus (daladala)	0	0%	2	2.1%
Motorcycle (bodaboda)	4	6.7%	5	5%
<u>Sub-total</u>	14	23.4%	27	27.1%
Agriculture activities:				
Cash crops	3	5%	5	5%
Food crops	10	16.7%	13	13.1%
Livestock	15	25%	28	27%
<u>Sub-total</u>	28	46.6%	46	45.1%
Small business:				
Shops and other business	18	30%	28	27.7%

<u>Sub-total</u>	18	30%	28	27.7%
Total	60	100%	101	100%

Were 46 (45.1%) respondents as a majority involve in agriculture activities and reported activities was poultry, food crops and cash crops farming as a sources of activities, 28 (27.7%) respondents they involved in small business like small shop and others, lastly 27(27%) respondents were involved in service activities and the reported services were transportation interns of min- bus daladala), mobile money, house renting and motorcycle bodaboda. But before it was different most of them they have few sources of income; 28(46.6%) respondents they involved in agriculture (food crops cash crops and livestock- poultry and others activities) and 18(30%) respondents involved in small business only 14 (23.4%) respondents offer services activities (house rating and motorcycle bodaboda), all above are the major sources of income in household level which helps them to reduce poverty due to diversification of income source. Further examined responses from key informants and respondents they confirm to the starting income generating activities;

Further study shows that, most people seek credit facilitates for boosting income generating activities like business (Mogale ,2007). Indeed according to micro-credit summit (1997), micro- loans are a few hundred dollars or less; used for small scale as starting up a market food stall, buying livestock and catering businesses among other. The major arguments are that trade and commerce or business has high income streams and profit margins more than other activities like semi-skilled services (Campson, 1991). The

revelation that trade and commerce is the major source of income in the household concur with Anyanwu (2004), who argued that 78 per cent of MFIs in Nigeria finance trading activities more than activities like farming. the most peculiar observation is that most micro borrowers invest in small income generating activities like require small loan for capital to start up

However, it is worth nothing that respondents reported having more than one source of income. Many households have established business, farming activities, poultry and other semi-skilled services. No household was found of without income generating activities. Income sources overlap and change over seasons and geographical location. For example, I discovered that most people engaged in business during harvest season where people have more streams of income and at the same time engage in agriculture. Also, there was flexibility in income generating activities carried out by households mean that have not master and specialize in one given activity or business.

4.4 Achievement Level Attained By the Members of SACCOS

The first specific objective of the study was to determine the achievement attained by SACCOS members, this was consider by the monthly level of income monthly surplus income and asset owned before and after being a SACCOS member by considering how many times members accessed loan and the time of being a SACCOS member as well as other variables including benefit received by a SACCOS members.

4.4.1 Increases of Monthly Income Level

Respondent's income before and after being a member of SACCOS by considered time of being SACCO's member and numbers of respondents to frequency of accessed loans.

TABLE 4.3 MONTHLY INCOMES BEFORE AND AFTER JOINING A SACCOS

Tzs	Before		After join SACCOS	
	Frequency	Percentages	Frequency	Percentages
Below 200,000	7	10.7	3	4.6
219,999-250,000	25	38.5	10	15.4
260,000-300,000	20	30.7	11	16.9
310,000-350,000	9	13.8	17	26.2
Above 350,000	4	6.3	24	36.9
Total	65	100	65	100

Table 4.3 above shows that there was an increase of level of income by comparing before and after being a SACCOS member, where before bulk income levels were between TZS 250,000/= its about 38.5% but after being a SACCOS member majority were between above TZS 350,000/= second level of income majority before were between TZS 310,000/= and 350,000 thirdly TZS 260,000/= and TZS 300,000/= fourthly were 210,000 and

250,000. Hence most of them after being SACCOS members there was raises of level of income improvement as shown in the tables above.

From the experience of the Grameen bank micro – credit increased the income of borrowers and led to the improvement in specific aspects of their lives and that it has the potential if used in conjunction with other progressive social and economic policies to contribute to long term sustainability of social change (Bernasek 2003). Micro- loan facility is not only needed by the poor people but is also profitable. Low income people make good and profitable financial services as such monetary transfusion were available(Erna 2006), these and other financial services help low income people improve house hold and enterprise management, increase productivity, smooth income flows and consumption cost, enlarge and diversify their micro business and increase their incomes (Robinson 2001)

Furthermore, studies indicated that; household income of families with access to credit is significantly higher than for comparable household without access to credit. in Indonesia a 12.9 per cent annual average rise in income from borrowers was observed while only 3 percent rise was reported from non-borrowers (control group). Remenyi notes that, in Bangladesh, a 29.3 percent annual average rise in income was recorded and 22 percent annual average rise in income from non-borrowers. Sri-Lanka indicated a 15.6 rise in income from borrowers and 9 percent rise from non-borrowers. In the case of India, 46 per cent annual average rise in income was reported among borrowers with 24 percent increase reported from non – borrowers.

The effects were higher for those just below the poverty line while income improvement was lowest among the very (Remenyi, 2000). It's true that micro credit help to increases of household income which help in poverty reduction process

4.4.2 Increases of assets owning.

In this study it was found that majority of respondents they improved levels of owning assets by comparing the quantity and quality of assets they owned before and after join SACCOS. As shown in the table 4.4 there was an increase in asset own, compared between before and after joining a SACCOS.

TABLE 4.4 ASSETS OWNED BEFORE AND AFTER JOINING A SACCO

Asset	Before joined SACCOS		After joined SACCOS	
	Frequency	Percentage	Frequency	Percentage
Shop	10	5.5	25	8.4
House	20	11	35	11.7
Car	1	0.6	7	2.3
Land	15	8.3	23	7.7
Radio	58	32	65	21.8
Television	20	11	38	12.8
Livestock	15	8.3	28	9.5
Bicycle	30	16.6	45	15.1

Motorcycle	4	2.3	11	3.7
Refrigerator	8	4.4	21	7
Total	181	100	298	100

The table 4.4 shows that there was an increase of levels of owning assets compared the asset owned before and asset owned after. Before majority of respondents own radio at 32% , 16.6% own bicycles, 11 % for house and television, 8.3% stand for livestock and land, 5.5% own shops and 4.4% owned refrigerators and 2.3% own motorcycles and only 0.6 owned car. But by comparing frequency and percentages before and after joining SACCOS there was an improvement of owning potential assets like house 11.7%, land 7.7%, car 2.3% livestock 9.5% shop 8.4% and motorcycle 3.7% all these are some of assets which was so potential in generating income of household and as stand sources of income in household which lead to poverty reduction and the quotation below shows some supportive example of some words which said by the key respondents and noted that;

“Our SACCOS have highly qualified loan officer who assist members before receiving a loan offering education of entrepreneurship and visit physically where the business will be intended, which helps member to use the loan as intended and not start planning after receiving loan. Frequently seminar held to all members during annual general meeting proceedings to empower them on proper of use resources that have acquired from SACCOS.....”
 Leader of KKKT Arusha Road SACCOS explained to me during my visit to the offices located at Area C Mrs. Nowadia A. Lyaro

4.4.3 Positive impact after joined SACCOS

In this section, I explore the benefit and enjoyment of proceeds of being a member of the SACCOS which help the respondents to reduce poverty and created the foundation of income generating in their household. This study found that there were extra benefits of being SACCOS' member through loan services.

Table 4.5 shows a summary of the response categories of the extra benefit that members got from credit utilization

TABLE 4.5 BENEFIT OF BEING A MEMBER OF KKKT SACCOS

Benefit	Frequency	Percentages %
Friendship and connection (unity among Christians)	30	12.7
Skill training	51	21.6
School fee/ Education loans	34	14.4
House building & innovation	30	12.7
Expansion / starting of business	23	9.7
Increase of education level	15	6.4
Having surplus food	28	11.9
Reducing of salary dependant	25	10.6
Total	236	100%

Table 4.5 indicated that majority of respondents benefited, 12.7% friendship and connection, through SACCOS, members were integrated hence the

exchange of experience happen especial during annual general meetings proceedings, 21.6% received training on loan management, entrepreneurial training, proper management of business, another 14.4% benefited from receiving education loans which assisted in paying schools fees to their children's and relatives, 12.7% benefited in house building and innovation, 11.9% having surplus food due to increases of production and other as table shown above which show how SACCOS help their members in poverty reduction

Table 4.6 shows achievement level of respondents towards poverty reduction through KKKT ARUSHA ROAD SACCOS.

TABLE 4.6: RESPONDENT'S POVERTY REDUCTION STATUS

Suggested	Frequency	Percent %
YES	61	93.8
NO	4	6.2
Total	65	100.0

In connection with all achievements in Table 4.5 shows the respondents enjoyed being a member of SACCOS and accessed loan as when the need arise. Most of respondents have noted the following:-

“Yah, there are some significant changes, like for my case I bought a fridge for business, open up a shop for mobile phones at Sabasaba area near makole town, and i also acquired some modern furniture in my seating

room, on top of that I am capable of paying school fees in time for my children of which previous was had. I contributed a lot to solve health problems of my parents whom are now old enough. Most women respondents had said that have reduced dependence from their husbands” In interview beneficial you can read from face, they were happy and proud of being a member of KKT Arusha Road SACCOS”. Joseph J. Katto respondent at Nkuhungu Dodoma

And further study articulated that; Household income of families who have acquired loans have significantly improved compared to the time before joined SACCOS, Poor households that have had access to microfinance services show significant increases in asset accumulation, providing them with both a safety net against misadventure as well as resources for self-help investments. Increased household income improves nutrition, and improves the probability that poor children from poor families will go to school (Versluysen,S. and Eugene,M.1999). Hence micro credits have a lot of benefits to members which enable to be eliminated from poverty to acquire a better life than before

4.5 Challenges Facing SACCOS’S Members in the process of reducing poverty

In this study critical examined the challenges encountered by respondents during and after accessed loan in the process of poverty reduction. Table 4.7 illustrates the challenges encountered respondents in the process of poverty reduction

4.5.1 Challenges facing respondents during loan applications process

TABLE 4.7: CHALLENGES FACING RESPONDENTS DURING LOAN APPLICATIONS PROCESS

Challenges	Responses	Percent
Small amount of money	39	38.2%
Saving balance restriction	17	15.7%
Delaying of taking loan	47	46.1%
Total	103	100%

Table 4.7: presented challenges facing during loan processing, were majority of them reported 46.1% they faced challenge of delaying to get loan secondly was 38.2% small amount of money refers to the minimum savings required in order to qualify for a certain loan, mostly loan base on three times of their savings deposited as maximum guaranteed. If a member had 300,000/= savings his maximum loan to be granted is 900,000/= . Respondents complain that they receive a small amount of money that some fail to meet their targets wants the society by laws and loan polices to be amended so that will accommodate even base on capability of members repaying loan in steady of basing on savings and deposits only.

Supportive quotation from KKKT ARUSHA ROAD SACCOS treasurer said that:

“The big challenges we are facing is delaying in insuring loans to members, which is contributed by delaying on repayments from members and defaulters (some members were failed to repay loan as agreed on loan repayment schedules). Defaulters make the society to take further steps like collecting collaterals other than savings, in the process of taking collaterals society uses much of time in finding buyers for assets taken from defaulters and also increases cost to the society of holding and transporting.

4.5.2 Challenges facing respondents after receiving loan

TABLE 4.8: CHALLENGES FACING AFTER ACCESSING LOAN

Challenges	Frequency	Percent
Lack of market information	9	11.1
Long time of loan repayment	25	30.9
Low investment return	11	13.6
High cost	32	39.5
Lack of enough business skills	4	4.9
Total	81	100

Table 4.8 presented the challenges facing respondent after accessed loan, were majority 39.5% reported high cost of goods and service. For example most them they involve in poultry activities they face a challenges of high cost of food, medicines and other facilities of poultry grazing. secondary were 30.9% reported that long time of loan repayment, reason if respondents accessed below one million use sixteen monthly to repay the

loan and if more than one million use more than twenty four monthly to repay the loan. Thirdly reported that 13.6% low investment return and 11.1% reported there was lack of market information. Some respondent commented about the challenges arise after getting a loan and noted that:

“Due to low demand of my goods (small shop) I suffer of low return of investment although am not get loss all but there is very low returning which sometimes” Respondent from Kisasa

Other academicians reported that: poor system lead to delaying of loan payment which can force people to adopt complicated strategies to manage the funds until they actually need them. This problem is not encountered in systems where members can take loans at time appropriate to them. Johnson suggest that there must be flexibility in amount and timing of disbursement seem to be significant factors in providing a credit mechanism which poor people can manage in relation to their livelihood strategies (Johnson, 1997)

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Chapter over view

This chapter is divided into two major parts. The first part is the conclusion which provides a summary of a whole report including the introduction, methodology and research findings. The second part includes general recommendations made following findings from the study.

5.2 Conclusions

Report shows that most members of KKKT ARUSHA ROAD SACCOS benefited to started new income generating activities which make them to improve household income. it reported that were 46(45.1%) respondents as a majority involved in agriculture activities and reported activities was poultry, food crops and cash crops farming as a sources of activities, 28(27.7%) respondents they involve in small business like small shop and others, lastly 27 (27%) respondents were involve in service activities and the reported service were transportation in term of min bus (daladala), mobile money house ranting and motorcycle (bodaboda). But before it was different most of them they have few sources of income 28(46.6%) respondents they involve in agriculture (food crops cash crops and livestock-poultry and other activities) and 18 (30%) respondents involve in small business only 14 (23.4%) respondents offer services activities (house rating and motorcycle bodaboda)

The members of SACCOS have improved in monthly income after being a SACCO's member. Majority have above TZS 350,000 while before majority were between TZS 210,000 to 250,000 as a monthly total income.

It was reported that there is an increase in asset own, by comparing asset owned before and after being a SACCO's member. In previous 20 respondents were owning houses, 10 own shop, 15 own land, 15 own livestock and other assets, after joining a SACCO 35 respondents own houses, 25 own shop, 23 own land, 28 own livestock and other assets, as shown in the findings.

It was also reported that there are a lot of benefits especially after joining a SACCO, members where receiving various skills and training by 21.6%, 14% are able to pay school fees, 12.7% innovated houses and others had managed to build their own house, 12.7% increase friends connection, 11.9% having food surplus than before, 10.65% reduce of salary dependant and others.

Although there was a lot of success, but SACCOS members they face some challenges during and after accessed loan, loans are not offered in time, as the need arise from the time a member launch request to the cheque writing by 46.1%, 38.2% small amount of loan they need three times of their share instead of two times and 15.7% they face serving balance restriction during loan acquisition process. Challenge after acquiring loan ranked at 39.5% high cost of goods and services stand at 30.9% (long time loan repayment, 13.6% low investment return and 11.1% they face a challenge of lacking market information which cause loss to their investment

5.3 Recommendations

Basing on the above finding of the study, some recommendations are here laid down for the purpose of improving environment of households

5.3.1 Role of Governments in Promoting the Cooperative Sector

Government should take a leading role in championing the cause of the microfinance sector by taking the following strategic initiative among others to:

- i) Develop sound government policy stance fostering a competitive and fair financial sector.
- ii) Maintain macroeconomic stability through appropriate monetary and fiscal policies.
- iii) Build regulatory and supervisory frameworks to encourage all types of financial institutions to offer financial services to poor people.
- iv) Develop policies to broaden and strengthen financial infrastructure that increases risk mitigation, transparency and efficiency; reduces costs; and enhances innovation. Government should offer subsidized lending programs to enhance innovation and growth of the microfinance sector. Furthermore, governments should consider which subsidies are valuable and which are counterproductive for the development of the sector.
- v) To come up with legal reforms on how credit delinquents and defaulters should be dealt under the court of law in order to give

confidence to the financial institutions to lend more money to its clients and at more flexible terms rather than the current situation whereby most lending institutions and banks have very stringent conditions and charging very higher interest including contingencies in case of default.

5.3.2 Role of Donors and Development Agencies

Notwithstanding that most microfinance programs in the country are either initiated or supported by international donor community, however, most NGOs have not put in place well-crafted exit strategies that ensure sustainability of these programs. In view of the above, it is recommended that government should put in place policy framework that clearly spells out the role of NGOs supporting the sector in order to avoid duplication of efforts and resources. Further, this will enable coordinated and targeted investment and support into the sector so that maximum benefits can be achieved through synergies. There is need for consistency and complementarity among stakeholder initiatives in the microfinance sector and policy should guide various interventions in the sector to ensure maximum benefit.

5.3.3 Establishment of a Regional Microfinance Facility

Research has revealed that one of the impediments hindering the growth of the sector is dependence on external financing. Regional institutions such as SADC could facilitate and coordinate the establishment of a Regional Microfinance Facility which good performing SACCOS can access capital for on lending. All qualifying institutions should ensure that they address pro-poor development issues of outreach, sustainability and impact.

Furthermore, the facility should promote creativity and innovation with the sector, such promoting cost-effective branchless banking in rural areas.

5.3.4 Establishment of Credit Reference Bureau

In order to reduce indebtedness induced by multi-borrowing, efforts should be made by government, especially central banks, to establish credit reference bureau. Credit reference bureau enhances sharing of information on client histories that minimizes the risks of lending and help maintain a health portfolio quality that allows SACCOS to become sustainable. Furthermore, it reduces transaction costs by weeding out early those clients with poor repayment histories, resulting in increased institutional efficiency.

5.3.5 Product Diversification and Innovation

Development agencies, government and the private sector should support product innovation, micro-enterprise development, and development of market linkages. This will promote creativity and innovation in the sector by ensuring development products that meet the needs of the poor. Although credit is necessary, it is however not a sufficient condition for poverty alleviation. There is need to compliment it with other issues such as education, health, nutrition, etc, in order to impact the lives of the poor in meaningful way. SACCOS should therefore extend their product offering to include services such as micro-insurance, leasing and remittances.

5.3.6 Flexible Loan Terms

Most SACCOS have standardized loan terms for its clients on the different products it offers while the need among the women varies depending on size of the business, business type, business stage of growth and skills to conduct business. For those clients with business that require large capital would prefer to pay for a longer time so that they can be able to generate profit, for example they would prefer a loan term of not less than a year and repayment to be done on monthly basis. This will enable them to generate substantial profit by using the borrowed money and spend most of their time conducting business.

Also the women should be given option to pay on either weekly or monthly basis depending on the type and stage of business rather than the current situation in which the group members do their repayment on weekly basis regardless of the loan size and the loan term is four, five or six months only.

5.3.7 Increase in the Size of the Base Loan

Majority of SACCO's clients claimed the base loan to be small to meet their business demand. They recommended that the base loan should be increased to at least TZS. 100.000 and SACCOS should not base on policies of their organizations only, but should also take into consideration the inflation rate of Tanzanian shilling.

The researcher is in the opinion that the base loan should range between 100,000/= to 200,000/= depending on the individual needs. However, business appraisal should be thoroughly done before issuing the loan.

5.3.8 Provision of Entrepreneurial Skills and Business

Development

Management of fund was found to be one of the big problems to most women as a result they end up as persistent delinquents and defaulters; and sometimes they manage to pay up their loan but with no improvement in their living standard. The pre loan training currently conducted does not give women capability to compete effectively as it focus mostly on methodologies.

Provision of credit without entrepreneurship skills and business training is not sufficient, because most of the credit clients misallocate the extended credit in either unprofitable business or consume it. This is because entrepreneurs have no skills on how to improve products or provision of services and anticipate customer's needs to increase market share and lack tactics to maneuver into other type of business when one fail. It is important that public, private lending institutions and NGOs should provide entrepreneurship skills and business training to entrepreneurs to improve performance in the institutions themselves and among women in the program.

5.3.9 Provision of Grace Period

SACCOS in Tanzania do not provide grace period to its clients; the clients start repayment their principal plus interest the next week after receiving the loan. Without grace period it was found that some of women used to pay what they took as credit, and this might interrupt their business plan and they will be paying interest without really using the money in a productive

manner. They should provide grace period to women entrepreneurs so that the extended credit may be injected and become productive before starting repayment the loan.

5.3.10 Members obligations

- Members must attend the Annual General Meetings for better improvements of the SACCOS by laws and different policies that will come in fever of their affairs
- Increases of physical collateral like fixed assets instead of depending on cash (deposits and savings kept by members).
- Frequently use of SACCOS for depositing and withdraw, like bank operations that will assist society to improve its liquidity form from time to time.
- Members should stop the habit of producing the fake certificates of ownership that they own. Should produce genuine and true certificate of ownership so that could make easier for societies official to make follow up when a person defaulted loan.
- Members should encourage non members to join a saccos in order to increases funds for running the business of saccos i.e borrowing and savings

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APPENDIX A

Questionnaire for leaders

Date of interview

Name of the interviewer

QUESTIONNAIRES FOR MEMBERS AS RESPONDENT

Dear respondent,

A researcher is a student at institution of St John University of Tanzania in Dodoma. Master of Science in Accounting (Msc. Accounting). As a partial fulfillment of my Master award. Researcher is conducting a research on the **ASSESSMENT OF THE CONTRIBUTION OF MICRO FINANCING ENTITIES IN PROVISION OF CREDITS TO POVERTY REDUCTION.**

Objective: the general objective of this study is aiming to assess the contribution of MICRO-CREDIT to poverty reduction, and taking KKKT ARUSHA ROAD SACCOS as case study.

Instruction: kindly fill the empty spaces. Put a tick (√) in front of the letter you find is correct answer. In place where you have been provided with “Yes” or “No” answers reply accordingly. If requested to explain or comment please do so. I request that you answer them to the best of our knowledge.

Thanks in advance for spending your time in filling this questionnaire.

B. personal particulars

Specific objective I

- To identify the household income generating activities benefited from being a SACCOS member.

1. Marital status

- (a) Single
- (b) Married
- (c) Widow
- (d) Separated
- (e) Divorce

2. When did you start to take loan from KKKT ARUSHA ROAD SACCOS?

- a) Less than one year back
- b) One year back
- c) Two years back
- d) Four years back
- e) More than four years back specify

3. How many times did you take loan at KKKT ARUSHA ROAD SACCOS?

- a) Once
- b) Two times
- c) Three times
- d) Four times
- e) More than four specific

4. What reason made you decide to join KKKT ARUSHA ROAD SACCOS

- a) A raising household income
- b) To have more sources of income
- c) Buying asset
- d) Introduce new business
- e) Explanation of business
- f) Other mention

5. What is your source of income which generated income after being a member of SACCO?

- a) Business activities
Specify
- b) Services provision
Specify
- c) Agriculture activities
Specify

Specific objective II

- To determine the achievement levels attained by SACCOS members in poverty reduction.

6. Have you received any training from K.K.K.T ARUSHA ROAD SACCOS?

- a) Yes
- b) No

7. If yes, what was the coverage of the training?

- a) Entrepreneurial training
- b) Loan management
- c) Proper management of ventures/business
- d) Other. Mention

8. How did you benefited from a loan you received from KKKT ARUSHA ROAD SACCOS?

- a) Expanded my business
- b) Children education
- c) Surplus food in the household
- d) Increases of monthly income
- e) Paying house rent
- f) Social networking among teachers and others
- g) Owning assets
- h) Other. Mention

9. What is your monthly average income from your business before and after joined KKKT ARUSHA ROAD SACCOS?

Average income before (Tshs)	Average income after (Tshs)
a) Below 200,000	a) Below 200,000
b) 210,000 – 250,000	b) 210,000 – 250,000
c) 260,000 – 300,000	c) 260,000 – 300,000
d) 310,000 – 350,000	d) 310,000 – 350,000
e) Above 350,000	e) Above 350,000

10. Mention the assets you own before and after joining KKKT ARUSHA ROAD SACCOS?

Assets owned before	Assets owned after
Land (for settlement or agriculture)	Land (for settlement or agriculture)
Car	Car
House	House
Shops	Shops
Bicycle	Bicycle
Motorcycle	Motorcycle
Bank account	Bank account
Radio	Radio
Television set	Television set
Livestock (mention)	Livestock (mention)
Other. Mention	Other. Mention

11. Is there any success you have got from KKKT ARUSHA ROAD SACCOS which help in poverty reduction?

Yes ()

No ()

12. If yes mention

.....

Specific objective III

- Challenges facing SACCO's members during and after taking loan in the process of poverty reduction.

13. Are you satisfied with the loan offered by KKKT ARUSHA ROAD SACCOS?

Yes ()

No ()

14. If NO from above question give the reason?

Yes ()

No ()

15. If YES, mention

.....

16. And suggest the specific solution(s) to the above challenges you face during loan assessment?

.....

17. Is there any challenges you facing after accessed loan?

Yes ()

No ()

18. If YES mention

.....

19. And suggest the specific solutions (s) to the above challenges you face after loan assessment?

.....

20. What is your general comments as far as member who benefited from KKKT ARUSHA ROAD SACCOS as your activity as concerned?

APPENDIX B

Questionnaire for members

Date of interview

Name of the interviewer

Name of department

QUESTIONNAIRES FOR LEADERS OF KKKT ARUSHA ROAD SACCOS

Dear respondent,

A researcher is a student at St John University of Tanzania in Dodoma. Master of Science in Accounting (Msc. Accounting). As a partial fulfillment of my Master award. Researcher is conducting a research on the **ASSESSMENT OF THE CONTRIBUTION OF MICRO FINANCING ENTITIES IN PROVISION OF CREDIT TO POVERTY REDUCTION.**

Objective: the general objective of this study is aiming to assess the contribution of MICRO-CREDIT to poverty reduction, and taking KKKT ARUSHA ROAD SACCOS as case study.

Instruction: kindly fill the empty spaces. Put a tick (√) in front of the letter you find is correct answer. In place where you have been provided with "Yes" or "No" answers reply accordingly. If requested to explain or comment please do so. I request that you answer them to the best of our knowledge.

Thanks in advance for spending your time in filling this questionnaire.

1. When KKKT ARUSHA ROAD SACCOS started? With how many members?
2. What is the average of growing numbers of KKKT ARUSHA ROAD SACCOS members within each years since started.
 - a) 1 year - 5 years
 - b) 5 years – 10 years
 - c) 11 years – 15 year
 - d) 16 years- 20 year
3. At what interest rate is charged per month on money borrowed KKKT ARUSHA ROAD SACCOS?
4. What is the minimum and maximum amount of loan offered to members?

Minimum amount

Maximum amount
5. What are types of loan offered to the members?
 - a) One
 - b) More than two
6. If more than two mention
.....
7. What are the specific ways using in poverty reduction of KKT ARUSHA ROAD members?
.....
8. Is there any kind of training provided to your staff?
 - a) Yes
 - b) No

9. If Yes, explain by mentioning when the training was conducted and coverage of training?

.....
.....

10. Is there any training provided to your clients?

a) Yes

b) No

11. If Yes, explain the frequency/period and coverage/content of those trainings?

.....

12. Mention the asset owned by K.K.K.T ARUSHA ROAD SACCOS?

.....

13. The mentioned above assets how members benefited in order to reduce poverty?

.....

14. Does your organization participate in other co-operative societies?

.....

15. If, Yes explain how it help members?

.....

16. If No, explain why

.....

17. Comment on the member's participation in SACCOS?

.....

18. What are the challenges that you are facing in your day to day functioning as you strive on member's poverty reduction?

.....

19. What are specific measures which you think should be taken to combat the above mentioned challenges?.....

20. What is your general comment on how SACCOS help members to the household poverty reduction?

.....

END

APPENDIX C

RESEARCH CLEARANCE CERTIFICATE



ST JOHN'S UNIVERSITY OF TANZANIA
DIRECTORATE OF RESEARCH AND CONSULTANCY
INTERNAL REVIEW COMMITTEE

RESEARCH CLEARANCE CERTIFICATE

FOR MASTER'S AND DOCTORAL STUDENTS

Date of Review: 30th, March 2015

Project title: *CONTRIBUTION OF MICRO-CREDIT TO GENERATE INCOME FOR HOUSEHOLDS
A CASE K.K.T ARUSHA ROAD SACCOS.*

Researcher: *ISMAIL IDDY MSHARE*

Supervisor: *Dr. David Mwendamaka*

Faculty / Institute / School: *Faculty of Commerce and Business*

Degree being studied for: *Masters of Science in Finance*

This is to certify that the research proposal herein detailed has been examined and approved by the Internal Review Committee of St John's University of Tanzania

Dr. Angela Savage
Director, DRCPGS

Prof. C. Rubagumya
DVCA

APPENDIX D

INTRODUCTION LETTER

ST JOHN'S UNIVERSITY OF TANZANIA

Directorate of Research, Consultancy and
Postgraduate Studies

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Fax: +255 26-2390025
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PO Box 47
DODOMA
Tanzania

30.03.2015

TO WHOM IT MAY CONCERN

Graduate Student's Research Clearance

This letter serves to introduce *ISMAIL IDDY MSHARE* (Registration Number *M2013/5107*), who is a bona fide student of St John's University of Tanzania in the Faculty of Commerce and Business studies.

He is currently in the research stage of his Masters studies and is required to collect data. He has already obtained ethical clearance from SJUT Internal Review Committee/

His approved research topic is:

CONTRIBUTION OF MICRO-CREDIT TO GENERATE INCOME FOR HOUSEHOLDS A CASE OF K.K.T ARUSHA ROAD SACCOS

I request that you grant this student all possible assistance to facilitate the completion of his research study.

Should you need further clarification please contact my office.

I wish to thank you for your kind assistance for this student.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Angela Savage'.

Dr Angela Savage
Director of Research, Consultancy and Postgraduate Studies
Email asavage@sjut.ac.tz