

**Effective Provision Saccos to The Management Poor Households and Financial Services
The Case Services of Chawampu and Kindi SACCOS in Moshi Rural District**

**By
Judith N. Tairo**

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Leicester]
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Abstract

The primary aims of this study were to identify:

- i) Management strategies that could be adopted by Savings and Credit Co-operative Societies (SACCOS) to increase effectiveness of savings acquisition, deployment and distribution, and membership growth; and
- ii) Tools, policies and strategies for improving relationship among stakeholders (members, employed staff, board members and community).

The study sought to respond to the following questions:

- i) What are the structural, economic, institutional and cultural barriers to the professional management of SACCOS?
- ii) What are the gaps in Government policies and co-operative development that are failing to address the above barriers?
- iii) What should the Government do to address these gaps and foster professionalism in rural SACCOS?
- iv) What can SACCOS do for themselves to generate change in management and organisational culture?
- v) What could the Moshi University College of Co-operative and Business Studies do to assist the change process in SACCOS?

This study was carried out at Chawampu SACCOS and Kindi SACCOS, both in Moshi Rural District, Kilimanjaro Region. Two case studies were carried out to assess management performance and the effectiveness of financial services provision by the two SACCOS to their members. The sample for this study included 16 co-operative members, 16 noncooperative members, 15 business persons, 6 SACCOS' Board Members and 10 young business persons.

Further, 4 churches, 6 schools and 2 mosques were represented in the sample. Structured and unstructured interviews were conducted during data collection. Also' self-administered questionnaires with both closed and open questions were employed to get information especially from SACCOS' management teams, staff and board members.

Further, several books of accounts, annual reports, key meetings' minutes and other accounting records were reviewed for purposes of getting more information. The collected data were analysed using descriptive and explanatory methods. Raw data were presented in tables, percentages and graphs. Then, they were interpreted. Explanation was used to provide detailed information on qualitative data while descriptive and analytical approaches facilitated analysis of quantitative data related to research objectives.

The study results indicated that there were ample democratic practices in the management of the two studied SACCOS. The societies did stick to co-operative principles and regulations as stipulated in their by-laws. Any matter concerning the overall managerial operations of these SACCOS was tabled in their respective annual general meetings. Decision arrived at in those meetings had to be implemented by the board members in collaboration with other relevant organs. However, there were several drawbacks in managing the societies. Both SACCOS were suffering from lack of proper accounting records. Both were not able to produce monthly records on time which in turn, led to delays in getting audited final accounts. According to many respondents (51%), there were managerial problems in their SACCOS mainly caused by lack of enough skills to produce timely financial reports and keeping accurate records. Moreover, many members (87.9%) were not selling their produce through their AMCOS so as to save in their SACCOS.

On whether it was possible to know how loans from their SACCOS were being used, about 80% of the respondents said it was not possible mainly because loans were very personal. However, about 60% of the respondents said they were normally satisfied with services delivery of their SACCOS. In particular, 91% of respondents from Kindi SACCOS said the financial services capacity indicators gave a favourable performance position for their SACCOS. The corresponding percentage for Chawarnpu SACCOS was 78.9%. In general, therefore, both SACCOS were rendering relatively good financial services to members though they had limited resources.

Nonetheless, about 77% of the respondents suggested that improvement was needed in service provision, particularly in terms of micro credit services, loan processes and loan security. Both societies had members who had small, non-agricultural based businesses. These members were likely to want to invest in their businesses by utilising the SACCOS credit.

On loan repayment, the study established that in Kindi SACCOS the repayment period, as per loan policy, varied from 6 to 12 months. In Chawampu SACCOS, on the other hand, the repayment period was 4 months. Chawampu members, therefore, could secure loans twice a year. At Kindi SACCOS, the biggest defaulter was the AMCOS which borrowed for crop advances. At the time of this study, the outstanding loan was Tshs. 102,249,295 with 11,239,360 overdue, representing a ratio of 11%. At Chawampu SACCOS, the outstanding loan balance was Tshs. 39,443,081. It was not possible to ascertain whether all the outstanding loans were in good state as there were neither loans reports nor details on the aging of loans.

The study also examined the status of dividends distribution on patronage rebate. It was found out that the two SACCOS were depositing their members' savings with banks which, in turn, provided interest at the going rate applied to the end-of-year balance. Kindi and Chawampu SACCOS had accounts at Kilimanjaro Co-operative Bank and CRDB Ltd.

However, the study found out that interest realised from the bank accounts had not been distributed to members, but had been retained in the societies. In principle, the interest reserves ought to have been combined with the interest on loans and, after deducting administrative expenses, the gross surplus ought to be transferred into the appropriation account from where the distribution into different reserves could be made. The study showed that the two SACCOS had not paid dividends to their members since 2003. The reason given by members of the management teams was that they didn't know how to calculate dividends and, therefore, the amount was still retained in their accounts.

On loan policies, the study revealed that there were loan policies, in both SACCOS, which governed loan operations, as testified by 68% of Chawampu respondents and 73% Of Kindi respondents. In Chawampu, the policy provided 5% as a provision for bad debts every year, while Kindi SACCOS was, at the time of this study, trying to establish a loan loss reserve to which there was a monthly contribution of 15%. The by-laws of Kindi SACCOS did not provide for the provision for bad debts but for loan losses reserves. Pricing of loan portfolios and loan repayments were also covered in the loan policies. Powers to grant were delegated to credit boards in each society.

With regard to structural barriers to professional management of SACCOS, the study noted that the horizontal system of co-operative workings was not effective enough because most rural cooperatives covered large geographical areas such that it was often very difficult to organise meetings.

Further, professional management was lacking and many co-operatives were engaged in activities which did not benefit their members but were used as sources of income for management.

On economic barriers, it was established that most of the co-operative societies had small numbers of members who contributed to the societies' capital. In these co-operatives; members limited their contribution only to the required minimum share capital. Moreover, the value of shares and assets remained static and hardly re-valued to reflect changing market conditions.

Due to the small capital base, such SACCOS could not attract professional management as they could not afford to pay attractive salaries to these professionals. In order for the Government, as a catalyst of co-operative development, to provide environment that is conducive for SACCOS' growth and sustainability, the study recommended that the department or directorate responsible for co-operative development should enhance continuous inspection and audit.

On the part of SACCOS, the study recommended that rural SACCOS should open up common bond of association to attract a mixed-bond membership of farmers, business persons and workers to ensure continued flow of savings into the SACCOS all the time.

Further, the SACCOS had to ensure that they have a sound capital base and financially self-sufficient before starting loan operations. SACCOS could no longer survive by simply being community-based organisations that provide loans and employ voluntary managers.

Also, SACCOS ought to set stable and attractive interest rates on loans in order to attract members to borrow. In view of this, the SACCOS' Board members should revisit their loan policy from time to time.

Further, the study recommended that the two SACCOS should open up their common bond of association so as to win a larger membership to increase their capital base. Also, they should consider introducing other types of savings and loan products (e.g. term deposits, savings for education, savings for sickness, group savings for women and youths, etc.) so as to meet a wider spectrum of financial needs and attract new members to join the SACCOS.