

Determinants of Linkage Banking Between Savings and Credit Co-operative Societies (SACCOS) and Formal Financial Institutions in Tanzania

By

Jones Tindyebwa Kaleshu

[PhD. (Business Administration), University of Dar es Salaam]

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Abstract

The primary objective of this study was to identify and examine the determinants of linkage banking between Savings and Credit Co-operative Societies (SACCOS) and formal financial institutions such as commercial banks in Tanzania. It was thought that this would assist in the understanding and facilitating of the financial linkages in the country and thus expanding access to financial services.

The specific objectives of the study were to:

- Identify contributory factors to linkage banking between SACCOS and formal financial institutions and their relationship;
- Identify motives that lead parties (SACCOS, commercial banks and other formal institutions) to participate in the linkage banking relationship;
- Ascertain the effect of linkage banking on a SACCOS' savings growth and the quality of its loan portfolio; and
- Ascertain the types of linkage banking practices undertaken in Tanzania.

This study applied a combination of survey and case studies. The adoption of a combined approach of these two research designs was meant to mitigate the limits of any single approach.

With regard to surveys, the study involved collection of data from different groups that included SACCOS, formal financial institutions, supervisors as well as regulators of financial

services, SACCOS' unions or networks, and institutions/ projects/programmes involved in the promotion, lending to and facilitation of SACCOS.

The case study was undertaken to study further the role of SACCOS' unions and networks in linkage banking. Undertaking the case study was necessitated by findings at the survey stage which showed that SACCOS' unions and networks were no reference point for SACCOS seeking to enter into financial linkages with formal financial institutions in Tanzania.

Quantitative data for this study were collected through a five-point Likert Scale questionnaire which was served to all respondents. Qualitative data were collected through an open-ended questionnaire that was served to all networks, financial institutions involved in financial linkages with SACCOS, government and donor programmes facilitating SACCOS in the country, district co-operative officers in the three regions involved in this study (Dar es Salaam, Kilimanjaro and Arusha), the Bank of Tanzania's Microfinance Institutions Supervision Department, and the Registrar of Co-operatives.

Data collection in the three regions was conducted in the districts. The number of societies to be included in the district was arrived at by using the proportion of the district total to the regional total relative to the number of the sample for the whole region. On the other hand, the selection of SACCOS to participate in the study was undertaken randomly.

Descriptive statistics were applied in the interpretations of the Likert scale through application of a point score of 5 to 1 for the highest and the lowest, respectively. Analysis of second stage data was undertaken by application of descriptive statistics such as means, standard deviations, tests of means differences, correlation, regression analysis and factor analysis.

At the exploratory stage, the following were the key findings:

- Two types of linkage banking were found to be practiced in Tanzania. One was the direct linkage banking that involved financial institutions lending to SACCOS for their on-lending purposes. The other was facilitative linkage banking in which banks were involved in capacity building, lending to SACCOS for on-lending purposes, enabling SACCOS' members to use ATM to access their accounts, money transfers and mobilization of deposits through SACCOS.

- Motives for linkage banking were found to be the extension of financial services to the poor, capacity building of SACCOS, savings mobilization, provision of credit to SACCOS' members, and meeting of SACCOS' short-term liquidity requirements.
- Main preconditions that SACCOS had to meet before entry into linkages with formal financial institutions were found to include SACCOS' management capacity in general, loan portfolio management, growth of savings, and the number of members in the SACCOS.
- Financing of linkage banking activities was found to be mainly through equity, donor support, support from the Government of Tanzania, loans and customer savings.

Findings from the survey stage were as follows:

- Contributory factors to linkage banking in the country were motives for financial linkages, extension of financial services to the poor, SACCOS' management capacity, SACCOS' savings level, types of linkage banking practices, transaction costs, ability of SACCOS' networks/unions to meet SACCOS' liquidity requirements, donor support, and trust among SACCOS' members.
- Not all items of contributory factors to linkage between SACCOS and formal financial institutions were positively correlated.
- SACCOS' linkage banking motives were identified to be meeting members' credit needs, encouraging more membership, and extension of financial services to members; while those for formal financial institutions were mobilization of savings through SACCOS, obtaining profits from the linkage banking relationship, and supply of funds to meet SACCOS' credit needs.
- The role of SACCOS' networks in linkage banking in Tanzania was found to be limited though the networks were identified as one of the contributory factors to linkage banking.

Findings from the case study stage were as follows:

- All SACCOS' networks had the same major objective .Which centred on the extension of financial services to their affiliated SACCOS.
- However, USAWA and Dunduliza were federated networks in which all systems and policies were uniform for all affiliated SACCOS; whereas, SCCULT was an atomized union in which the affiliated SACCOS did not have to adhere to uniform systems.

- There was limited use of information communications technology in SACCOS thereby limiting possibilities of linkages among SACCOS in the networks.
- Low outreach, low level of financing, non-use of uniform systems, and low or complete lack of financial intermediation in networks were found to be major causes of low participation of the networks in linkage banking.

Given the foregoing findings, the study made the following policy recommendations:

- The then Co-operative Development Policy (2002) should specify minimum qualifications required for members of boards of directors and executives of SACCOS in order to ensure that SACCOS' management capacity was improved.
- The Co-operative Development Policy (2002), the National Microfinance Policy (2000) and the Cooperative Societies Act (2003) should be reviewed to put emphasis on savings mobilization and inclusion of a depository insurance mandatory clause so as to encourage savings mobilization and secure members' deposits.
- The policy and legal framework should be changed to allow the formation of networks/unions at least at a regional or district level. The changes should also allow the networks to be recognised as co-operative organisations and allow them to undertake financial intermediation functions among member SACCOS.