

**Application of Capital Budgeting Practices in Savings and Credit Cooperatives Societies
(S4CCOS)**

A Case Study of Nine SACCOS in Dar es Salaam and Kilimanjaro

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Abstract

This paper explores capital budgeting processes in SACCOS. Nine SACCOS from Dar es Salaam and Kilimanjaro were studied. SACCOS in the sample had different ranging from those with less than 500 to those with more than 4,000 members. Both questionnaires and interviews were used in collecting primary and secondary data. The findings reveal that SACCOS' management and board members make capital budgeting decisions. Major capital projects undertaken by SACCOS include office building construction, acquisition office equipment and application software, purchase of furniture and safes, and to a lesser extent, purchase of long term financial assets. It was learnt that some SACCOS had committed huge sums of money to acquire tangible fixed assets such as construction of costly buildings instead of using part of those funds to acquire profitable and liquid-generating financial securities available in financial markets. This seems to be contrary to financial speculations which would have predicted the loan portfolio size to be the most influencing factor. The supremacy of membership factor is consistent with the cooperative theory that, cooperatives member consideration takes precedence over financial consideration in cooperative decision making.

It was also revealed that SACCOS do not apply capital budgeting techniques in the same technical sense known in the finance literature. It was also revealed that the major obstacles to the use of discounted cash flow techniques (DCFT) were inability of SACCOS to estimate cash flows related to projects and failure to identify the opportunity cost of capital that could be used to discount the cash flows. It was further noted that most SACCOS initiate projects without proper assessment of related cash flows, benefits and required rate of return, something which is not financially healthy and may result in future losses and lack of sustainability. It was recommended that SACCOS should start to invest in liquid-generating long term financial assets instead of tying all the funds into show-off monumental expenditures in fixed tangible assets. They should also use financial experts in their capital budgeting decisions in order to attain financial efficiency in the use of funds.