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SACCOS AND MEMBERS' EXPECTATIONS: FACTORS AFFECTING SACCOS CAPACITY TO MEET MEMBERS' EXPECTATIONS

**By
Paulo Anania and Anthony Gikuri**

**A Paper Presented to the Co-operative Research Workshop held on 24th March, 2015 at
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ABSTRACT

The Savings and Credit Cooperative Societies (SACCOS) are financial co-operatives that aim at meeting the financial needs of all members men/women, old/young, rich/poor in particular, by encouraging savings and granting loans to the members. It belongs to its members who manage it democratically. They play important role in socio-economic development of members and communities in general as SACCOS enable easy access to financial services to people, encourage savings, create employment opportunities, support directly community development effort like helping community access to social services, stimulate growth of business, and improve members' income as well as living conditions. If SACCOS are managed properly, it becomes possible to play such social and economic roles to the members and have spiral effects to the community development process. As a result, they will be able to achieve the social and economic expectations of members. However for some SACCOS as they proceed with their operations, they face various obstacles which prevent them from fulfilling the visions/expectations that people (members) and community at large.

Therefore the aim of this paper was to analyse the internal and external factors that hinder SACCOS to achieve the expectations of their members. The descriptive design was used and the data used were mostly secondary being collected from various already documented reports, papers, researches and journals, and in some circumstances, primary data were used. The approach used in describing the findings was mostly qualitative. The paper revealed that the factors preventing SACCOS to meet members' expectations are both internal and external. Internal factors are like; financial constraints, poor loan recovery, governance problems, lack of common interests, high interest rates on loans by some SACCOS, weak leadership and institutional capacity, uninformed membership, inadequate education and training, limited range of financial products and poor quality services, poor accounting and record keeping, misuse of funds and non adherence to co-operative principles. The internal factors identified include; competition, negative impacts of external financing, weak assistance from SACCOS supporting institutions, insufficient auditing and inspection, political interference and excessive donor dependency. It was recommended that to overcome these challenges and meet members' expectations, there is a need to; promote SACCOS good governance practices, provide education and training, diversifying sources, increasing capacity and number of co-operative banks, ensure proper financial management and better accounting practices, keeping records properly and networking of the SACCOS.

Keywords: Co-operatives, Savings and credit co-operative societies, members' expectation

1. INTRODUCTION

1.1. Background of SACCOs in Tanzania

A Savings and Credit Co-operative society is a co-operative Society, whose objective is to encourage its members to save, thereby creating and accumulating capital, which is then on lend to the members at a reasonable rate of interest. The loans are given for provident purposes, i.e. to provide for social needs such as buying clothes, radio, paying school fees, and wedding gifts. Loans are also given for productive purposes, this in effect are loans for economic development, for instance, a loan to buy agricultural inputs and increase assets. The need to access to credit is unquestionably a major incentive to save.

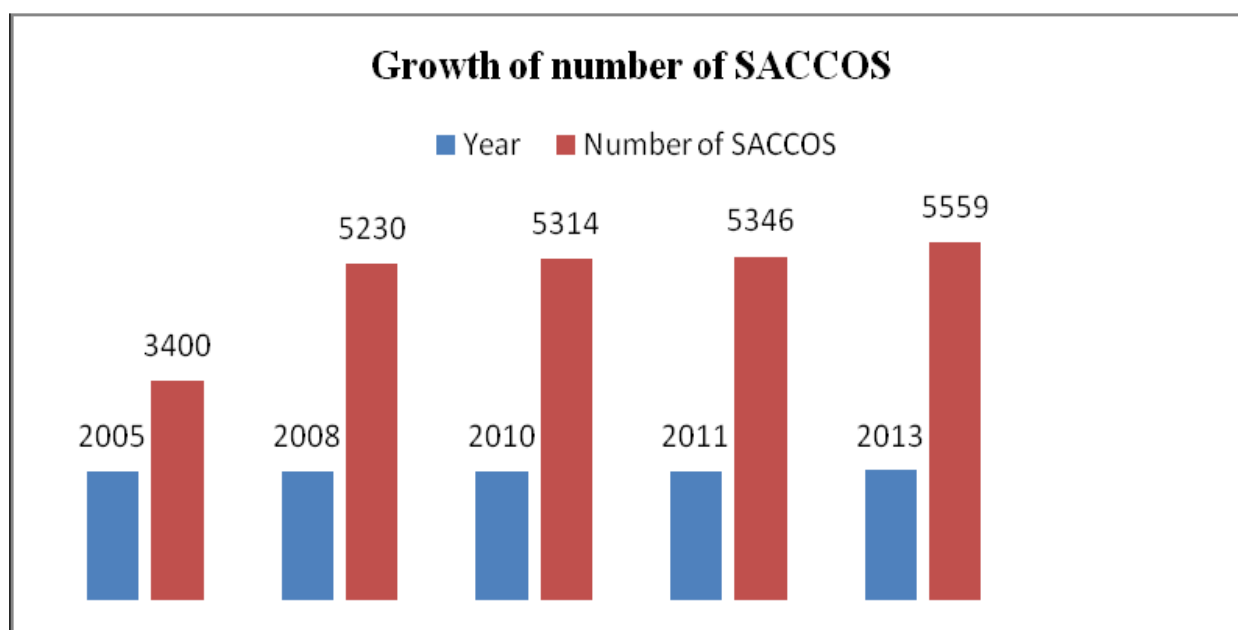
The Institute of Continuing Co-operative Education (ICCE), (2014), showed that history of SACCOS in Tanzania started from 1938 when the first SACCO was formed by Ismailia Group in Moshi town. The ideas spread and become popular when, the Catholic Church picked the idea when the Late Cardinal Laurean Rugambwa (then a Bishop) visited Michigan Credit Unions in the late 1950's to learn more about SACCOS. The increase of SACCOS led to the formation of Savings and Credit Co-operative League of Tanganyika (SCCULT) as a national organization (which later became Savings and Credit Union League of Tanzania i.e. SCULT in 1992). Absanto and Aikaruwa, (2013) described that SACCOS are being formed in Tanzania to help those who have been excluded from accessing financial services from formal financial institutions and also contribute to reducing negative impacts of local money lenders in the areas where they operate. However in the Tanzanian context, the experience shows that SACCOS institutions being formed, grow, thrive and then collapsing, ACOSCA, (2000).

Triodos, (2007) reported that the government of Tanzania has also come out strongly in support of the revival and strengthening of SACCOS. The cooperative history in Tanzania is a tainted one: in the past, the system was highly politicized, resulting in mismanagement, poor governance and in many cases collapse, all at the expense of poor (rural) producers and their savings. In 2001, the Tanzania mainland Department of Cooperatives within the Agricultural Ministry was upgraded to the Ministry of Cooperatives and Marketing. In 2002, a new National Cooperative Development Policy was approved, in line with the 1995 International Cooperative Alliance (ICA) Statement of Cooperative Identity and Principles. In 2006, the Government introduced the National Economic Empowerment and Job Creation Programme. The programme encourages the establishment of SACCOS at Ward levels. The total of Tsh. 21 Billion (popularly known as the 'J.K Billions') was issued and every region received Tsh. 1 Billion. The government has approved NMB and CRDB as its agents to channel the funds to individuals and SACCOS.

Based on the Ministry of Agriculture, Food Security and cooperatives (2008) in 2005, Tanzania had a total number of 3,400 SACCOS with a total number of 5,206 SACCOS' memberships. And by December 2008, there were 5,230 registered SACCOS in Tanzania serving 773,172 members with savings worth Tshs 119,512,546,118.00, shares of Tshs 30,020,952,124.00, loans

issued were Tshs 354,670.593.368.00 and loans outstanding were Tshs 136,964,269,717.00. MOFT, (2012), until 2011, the number of SACCOS has increased to 5,346 from 5,314 in 2010, while membership has grown by 6.7 percent, reaching 970,665 from 917, 889 in 2010. The shares, savings and deposits by members have also increased to shillings 399.0 billion in 2011 from shillings 236.8 billion in 2010. The loans extended to members increased too, reaching shillings 627.2 billion in 2011 from shillings 539.2 billion equivalent to an increase of 16.3 percent. MOFT, (2013) indicated that the total SACCOS in Tanzania were 5,559 up to March 2013 whereas the number of members, amount of shares, savings and deposits were 1,153,248 and 463.5 billion TZS respectively. Qin and Ndiege, (2013) and Bwana and Mwakujonga (2013) revealed that SACCOS significantly contribute to GDP of Tanzania. The government of Tanzania promotes the establishment of SACCOS even to very remote areas because of their importance contribution to the country economy (Wangwe, 2004, Magali, 2014). The figure below shows the number of SACCOS in Tanzania from year 2005 to 2013.

Figure: Growth of number of SACCOS in Tanzania from year 2005 to 2013



The SACCOS have increased rapidly over the year because of government support. (Magali, 2014), however the sensitization to form SACCOS in Tanzania has also being done by other actors like the donors and NGOs, co-operative officers, Moshi Co-operative University and its regional offices and the politicians. The author also added that the government establishes various policies and regulations in order to supervise the SACCOS and other types of co-operatives in Tanzania. Based on the history, the literatures indicate that improper management,

frauds, inadequate capital, business misconduct and Non Performing Loans (NPL) are the problems facing cooperatives and SACCOS in Tanzania.

The challenges facing SACCOS are increasing day to day and these challenges are both internal and external. These challenges are preventing many SACCOS to fulfill the expectations that members have and which motivated them to form SACCOS. The possible impacts of such challenges are; poor provision of financial services, loss members funds, poor participation and commitment of members, withdrawal of members and members using services of other financial institutions, failure to face competition, internal conflicts, loss of SACCOS autonomy and excessive external dependency as well as feeling of lacking ownership and control by SACCOS members. These internal and external issues need to be studied in full and be provided with solution/strategies to enable SACCOS operate sustainably, be able to compete and provide all important financial services to members and as a result be able to meet the socio-economic expectations of the members, who are also the customers of SACCOS.

1.2. The Concept of SACCOS

The Savings and Credit Co-operative Societies (SACCOS) are the self-help, democratic, unique member driven financial co-operatives. They are being formed, owned, governed and managed by its members who have the same common bond uniting them. The bond can be; working for the same employer, belonging to the same church, labour union, social group or producing and marketing same produce in the community. The membership in SACCOS is open to all people who belong to the group, regardless of race, religion, colour, creed, tribe and gender or job status. These members agree to save their money together in the SACCO and to make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. The members are the owners and the members decide how their money will be used for the benefit of each other. The SACCOS are democratic organisations and decisions are made in a structured democratic way. Members elect a board that in turn employs staff to carry out the day-to-day activities of the SACCO. The number of board members can be 5 to 9 members. Members also elect a supervisory committee to perform the function of an internal audit.

The SACCOS are created to build economic power to the community through mobilization of savings and empowering people by having good manner and behavior of using savings and loans. The USAID/Rural SPEED (2006) has indicated that, the objectives of SACCOS include the following;

- (a) Encouraging and promoting to develop thrift culture within the members as well as the community by teaching wise use of their money and efficient management of their limited resources.
- (b) Teaching people how to create an asset that helps them to have a guarantee and collateral for future loan access.

(c) Making finance more accessible for members when they need it.

(d) Developing a linkage between the rural people and urban banks in order to have broader capital base.

Through SACCOS, there can be financial flows into the community, a safe place for peoples' savings, battling poverty by improving the members' economic and social conditions. They empower the powerless individuals from exploitation by the powerful individuals or institutions. This is done through helping members of given community to have access to various affordable financial services. The ideas for forming SACCO may vary from one country or society to another. But for the case of Tanzania, experience shows that the SACCOS are being formed by various individuals who pool their resources together and also by promoters such as; government, co-operative officers, NGOs and donor-funded projects, co-operative societies (e.g. dairy and agricultural co-operatives), politicians and commercial, religious and service institutions.

1.3. Objectives

1.3.1. Main objective

The main objective of this paper is to analyse various internal and external factors that hinder SACCOS to meet members' expectations.

1.3.2. Specific Objectives

The specific objectives of this paper were;

(i) To identify and describe the internal factors preventing SACCOS to achieve expectations of their members.

(ii) To identify and describe the external factors preventing SACCOS to achieve expectations of their members.

(iii) To propose solutions/strategies to enhance the capacity of SACCOS in serving its members and meet their expectations.

1.4. Significance

The Savings and Credit Co-operative Societies (SACCOS) are rapidly increasing in number than other types/kinds of co-operatives in Tanzania. They act as financial services providers for the poor and middle income earners in both urban and rural areas, sometimes things are not going as being expected by the founders and other members joined later. This is mostly due to various internal and external workings affecting their operations hence fail to effectively meet the expected socio-economic goals of their members.

This paper provides a ground toward recognition of different internal and external factors affecting SACCOS' capacity to fulfill member's expectations. The paper will enable the leaders, management and members of SACCOS to be aware of issues that need greater attention so as to

create more vibrant organizations through working on such challenges. Furthermore, the paper will enable policy makers/ government and other stakeholders such as MoCU, SCULT, Tanzania Co-operative Development Commission (TCDC) and other to recognize key areas that need well designed attention to enable the SACCOS in Tanzania to be stronger organizations capable of competing, generate surplus and fulfill members' expectations.

2. OPERATIONALISATION OF THE PAPER

In writing this paper, the authors have used descriptive design that has mostly based on the secondary data. The tool used in data collection was the desk review where various data and information related to the topic of this paper were collected. This was through making reference to various books, journals and research reports, conference papers and documentary review of various reports of the SACCOS and other internet materials were used to facilitate writing this paper. There were some primary data previously collected by one of the authors from the field visit to dairy co-operatives and SACCOS in Tanga done in December, 2014. The qualitative approach was mostly used to describe various issues related to the subject matter.

3. THE CONTEXT OF MEMBERS' EXPECTATIONS IN SACCOS

Gibson, (2005), argued that co-operatives play important role in community development in rural and urban areas by fulfilling the expectations of their members. They provide a means for addressing many social and economic concerns such as youth retention, community identity/spirit and preventing leakage of local money. Lapenu and Zeller (2002), describe that many credit initiatives for development work in splendid isolation and survive because of external assistance. Quite often a SACCO is grafted onto existing organization (parish, trade unions, company etc) or another co-operative (mainly agricultural co-operatives) Very much like other Microfinance institutions (MFIs), SACCOS respond to the ever imminent need for access to capital by the poorer segments of society in Africa.

Purden (1980) provided that, first function of credit unions (SACCOS) is to meet the financial needs of the members and the second one is that of serving the community at large. SACCOS assist finance projects like construction of school, hospitals, water supply and recreational facilities. They should identify areas in the business life of the community where financing could fill a service gap or create employment, or stimulate trade and they have to endeavour to make such funds available for local use. Verma et al, (2006), co-operative organization which is actuated by service motive can play a unique role in providing not merely a facile credit, but a safe and productive credit. In fact, it educates and guides the borrower; it teaches the borrower the lessons of mutual and self help. Through giving loans members will be able to conduct their activities and meet their expectations in their communities.

The SACCOS as among the types of co-operatives providing financial services, they are mostly been formed to meet certain kind of social and economic (financial) goals of members in a certain community. Through achieving these two kinds of goals, the SACCOS will be able to meet the desired expectations of its members and make them satisfied and committed hence promising condition for the sustainability of the SACCOS. The importance of the SACCOS in development and poverty alleviation and the general economic growth of Tanzania should not be under estimated (Kasunga, 2007). If the SACCOS are well managed and capable of overcoming various internal and external challenges, they can possibly bring the following socio-economic benefits like;

(a) Facilitating the accessibility to members (excluded group) who could otherwise not be accessible to these services.

(b) Allows poor people access to lump sums of money that can be invested in income generating activities or cope up various crises like sickness, food insecurity, natural calamities and financial shortages.

(c) The SACCOS do not have complicated requirements in providing loans to members like no need for detailed business plan or any detailed description of their member activities/business is required in getting loans.

(d) Make easy access of loans through using collateral substitutes like, individual guarantors, group guarantee, deposited savings and un-surveyed houses enable even the poor people to get loans.

(e) The SACCOS promote culture of saving to their members.

(f) Improvement of economic welfare of the community and enterprise stability and facilitate growth of income.

(g) The SACCOS also have been a source of employment to the people who work as employees and

(h) Play the role of financial intermediation.

If these benefits will be achieved, then the SACCOS will be in a position to achieve the expectations of the members. These expectations of members are social and economical. The social expectations include the capacity to access social services, improved housing conditions, food security, and insurance from various risks and education and training, emotional safety, enjoy benefits of solidarity and co-operation in local development issues as well as feeling control, ownership and sense of belonging to the organization. Also the SACCOS members have some economic expectations such as improved income (through surplus, voluntary savings), access financial services (loans, savings, micro-insurance, micro-lease etc), increasing assets, security from economic problems, expanded personal and group investment hence create sustainable economic development to individuals and community at large.

4. INSTITUTIONAL THEORY

Institutional theory is among widely accepted theoretical position that emphasizes rational myths, isomorphism, and legitimacy. It focuses on the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemes through which the rules, norms, and routines, become established as authoritative guidelines for social behavior (Scott, 2004). DiMaggio and Powell, (1983), as contributors to the theory, identified ways that organizations face pressures to conform to forms and processes considered legitimate. These result in the similarity of such forms and processes within the organizational field which they labelled 'institutional isomorphism'. These pressures towards institutional isomorphism are described by DiMaggio and Powell as mimetic, coercive and normative forces.

Mimetic forces are pressures to copy or emulate other organizations' activities, systems or structures. Innovations that are deemed to enhance legitimacy are seen as desirable, especially under conditions of uncertainty where actors cannot be sure of what the outcomes of the adoption of different processes or systems will be. Such copying may be undertaken without any clear evidence of performance improvements. In particular, ambiguous goals, poorly understood technologies or symbolic uncertainty may cause organisations to model themselves on other organisations. Mimetic forces explain the widespread adoption of, for example, management practices for which there is little empirical evidence of performance benefits, for example, the following of fashion or copying others' products/services.

Coercive forces are the external pressures exerted by government, regulatory or other agencies to adopt the structures or systems which they favour. These pressures are often associated with legal requirements, health and safety regulations and so on, but may also stem from contractual obligations with other actors which constrain organizational variety. The role of coercive forces in institutional theory highlights the impact of political rather than technical influences on organizational change. Scott (2004), an institutional perspective gives special emphasis to authority relations: the ability of organizations, organizations, to rely on legitimate coercion. Normative forces describe the effect of professional standards and the influence of professional communities on organization. They capture the ways in which organizations are expected to conform to standards of professionalism and to adopt systems and techniques considered to be legitimate by relevant professional groupings. These norms are conveyed through the education and training of professionals and certification processes accredited by professional bodies.

Ragsdale and Theis,1998; Peters, (2000), described that the assessment of the state of an institution can be done based on four dimensions through which one can judge the level of institutionalization of any structure that we observe: autonomy, adaptability, complexity, and coherence. These four have been applied to several types of institutional arrangements and they do provide one avenue for understanding the transformation that structures must make in order to

survive, and to be able to influence their members and their environment. Taken rather briefly and simply these four concepts can be understood in the following ways:

(a) *Autonomy*: represents a concern with the capacity of institutions to make and implement their own decisions. Arguably, to the extent that they are not dependent upon another organization or institution they can be said to be institutionalized. This concept might be operationalized in terms of budgets and autonomous sources of revenue;

(b) *Adaptability*: taps the extent to which an institution is capable of adapting to changes in the environment, or more importantly capable of molding that environment. As with open systems approaches to social life the institution should be able to continue to import needed resources despite changes in the relevant environment;

(c) *Complexity*: demonstrates the capacity of the institution to construct internal structures to fulfill its goals and to cope with the environment. Again, this conception is analogous to thinking in systems theory and structural-functionalism that discussed the importance of structural differentiation.

(d) *Coherence*: represents the capacity of the institution to manage its own workload and to develop procedures to process tasks in a timely a reasonable manner. This also represents a capacity of the institution to make decisions about its core tasks and beliefs and to filter out diversions from those.

The mimetic, coercive and normative forces reflect the situation of SACCOS in terms of its internal and external environment. These three forces are affecting the performance and operations of the SACCOS positively or negatively depending on how they adapt these forces. The above four institutional dimensions if well practiced they build survival strengths of the SACCOS, influencing membership commitment and participation and influence at the environment they operate. The failure to manage and adapt to these forces and institutional dimensions put SACCOS at risk to face various internal and external challenge that may harm their operations and fail to attain members' expectations.

5. THE INTERNAL AND EXTERNAL HINDRANCES FOR SACCOS TO MEET MEMBERS' EXPECTATIONS

In most cases, many SACCOS in Tanzania, regardless of the good objectives they have , they fail to deliver adequate socio-economic benefits to members as a result what members expected when established the SACCO are not achieved. This paper have identified that the total failure or inadequate capacity o the SACCOS to meet members' expectations in Tanzania is due to different internal and external factors affecting SACCOS performance or operations. As time goes, these factors/challenges may cause other SACCOS to be dormant or collapse totally and for other may keep with operation but fail to deliver greater impacts to the members and community at large. They cause SACCOS fail to provide services to members, lead to poor members participation and commitment, loss of members' funds, failure to overcome competition, endless internal conflicts and even loss of SACCOS' autonomy and independence, just few to mention. These external and internal factors are discussed below.

5.1. The internal hindrances for SACCOS to meet members' expectations

5.1.1. Financial constraints in SACCOS

In most cases, the capital base of grassroots financial institutions is commonly narrow, thereby diminishing their capacity to lend or honor cash withdrawals. Similarly, the lack of capacity and weak capital base often forces most grassroots financial intermediaries to offer very limited product range, thereby leaving them unattractive to a broad segment of the rural population (CRDB microfinance, 2015). Although the financial results of most of the SACCOS surveyed do not seem very alarming, several issues might put their financial sustainability at risk in the future. Many SACCOS, especially smaller ones, are over-dependent on subsidization. The quality of the SACCOS' loan portfolio, a main indicator for the capability of lending institutions, seems to be another critical point that threatens the viability of many SACCOS. However, the growth pattern of many smaller SACCOS seems uneven since they have difficulties to attract savings deposits from their members. So, lack of savings is a major blockage to growth for SACCOS (Distler and Schmidt, 2011).

This creates a threat to meet members' expectations. As a result of financial viability challenge and limited ability to compete with commercial banks and other microfinance institutions. Usually in this case, the SACCOS find themselves in a position failing to meet financial expectations of members through offering them with various financial services. As Turtiainen (1992) indicated that, in theory, credit unions (SACCOS) could raise their interest margin and service charges to the levels that would ensure adequate income and long-term survival, but they seldom do this, partly due to government policies in most cases requires that small farmers and other low incomers be given credits at low interest rates. The inadequate funds make SACCOS go to other Microfinance institutions and banks to take loans as a way to increase their capital base, which in long run lead to debt burden to the SACCOS and their members. Many SACCOS (and even other co-operative financial institutions like Co-operative banks) suffer from serious low profitability and depend on state handouts as well donor assistance and other external resources. But also it must be clearly known that such financial deficit may be due to low saving culture poor loan recovery and misappropriation of SACCOS' funds from internal or external sources.

5.1.2. Weakness in loan recovery

Arene (1992) outlines the main factors that determine loan repayment are loan size, enterprise size, income, age, number of years of business experience, distance between home and source of loan, education, household size, adoption of innovations, and credit needs. Von Pischke (1980); Absanto and Aikaruwa (2013) identified two problems as major causes of poor loan recovery performance: firstly, credit project design problems include debt versus equity, realism versus aspiration (how realistic the projection of the project designer is), expected value versus dispersion (detailed consideration of the variety of results which occur in the field), book keeping, convenience versus borrower cash flow patterns, collection mechanism, institutional

scope or range of services offered and interest rates. Secondly is credit project implementation problems include low service levels, coordination, access (i.e. information problem and lack of decision making experience in lending to specific target groups) and financial recording.

The SACCOS credit committee members in most cases are not very effective in collecting those loans that are overdue. This may be due to a number of reasons such as inadequate funds to make follow up, lack of (fuel and) transport facilities by loan officers, poor timing of borrowers e.g. in rural areas where people may be going to work in their farming and other livelihood activities. This is evident as you may mostly find that in most SACCOs, there is large amount of loan issued to members but the rate of recovery is very low. To what extent the loan/credit screening variables are effective in determining one's capacity to borrow/qualify for the loan? e.g. asset/collateral, guarantors, group guarantee, savings level, deposit, age, education, experience in conduction the business, the alternative source of income and sex. Even if all these criteria are being followed before issuing loans, the weakness in supervisory and loan committee members to make effective loan provision process and follow-ups create a problem. The ICA (2005) shown that, organization of co-operative credits to individuals depends on the way the loan is used and the regularity with which it is repaid. The borrowers have to show the reason for loans and be evaluated by the committee before issuing the loan. The conflicts usually arise as some members want to take their voluntary savings or emergency loans than they find there is inadequate or no funds at that time to meet their needs.

5.1.3. Institutional governance challenges

According to Branch & Baker (1998), where SACCO ownership is diffused among a large number of members the governance problems may occur. To attain economies of scale, SACCOS may large number of members. With such ownership spread over a large group, only a few members may actually carry out the responsibilities of monitoring the performance of the SACCO by attending the annual general meeting or by monitoring their elected representatives to the management board. Members may fail to closely examine the prudential actions of the board. Odera, (2012) indicated once elected the new board act to fulfill various promises and may provide supporters with preferential loan treatment by side stepping the credit committee process. The governance problems occur because of the combination of the traditional borrower-dominated service structure (with its low interest rates, lax screening and collection standards, and consequent loan rationing) together with circumstances in which rules for decision making and control are not well defined and enforced. Branch & Baker, (1998) shown that these weaknesses make the board members are able to dish out loans for their own gain and as political favour.

The growing membership and weakness in governance may turn members into free-riders by getting benefits of the SACCOS without/with minimal participation. The board and supervisory committee members may allocate themselves loans without adhering to loan procedures or favour other people they know, particularly where internal and external (supervisory) controls

are weak. These may result from too much and unacceptable manipulation or failure to follow procedures by the board. These weaknesses in SACCO corporate governance create inefficiency and lack of effectiveness in providing services to members like service being accessible by few, misunderstandings within SACCO and even low members' participation like in meetings, saving and even borrowing.

5.1.4. Lack of common interests among members

The SACCOS must be formed by members with common interests. There is a challenge for the SACCOS that have membership with different occupations, especially in rural and semi-urban areas. It happens that members of certain occupation feel deserve more priority or have more rights to get services than others. The experience from SACCOS in Tanga has shown that some SACCOS face conflict of interest as there are members with different occupations such as farmers, business persons, workers and livestock keepers. For example, in the last year 2014 Annual General Meeting (AGM) at Talanta SACCOS in Mombo, contradiction arose as from which financial institutions among CRDB Bank, SELF, NSSF and TIB where the SACCO intended to borrow for the budget of 2015/2016. It was identified that, the previous loans from CRDB, SELF and TIB were mostly given to members engaging in business and other non-farm activities that those who are livestock keepers and farmers. Therefore, the group of farmer-members proposed borrowing from NSSF (the new creditor/lender) hoping that they will get more agricultural loans to buy farm inputs including machines and tractors.

The other slightly similar confusion was observed at Manundu SACCOS at Korogwe which also have members with different occupations. The SACCOS with members with identical occupation were observed to have strong bond and less conflict of interest, for example the performance of the Handeni Teachers SACCO in Handeni district is impressive. Furthermore, SACCO formation should avoid having more with much differences in status especially education, occupation and income.

5.1.5. Weak leadership and institutional capacity

In many SACCOS, internal control suffers from a lack of capacities of board members. The reporting structure between the management and the board of directors is still weak in most SACCOS, as no written evidence of the meetings exists. Most of the SACCOS also do not have Management Information System (MIS), which makes it difficult to monitor the performance adequately (Distler and Schmidt, 2011; USAID, 2007). Tanzania is estimated to have more than 5000 SACCOS with generally distinct structures of management, policies and procedures as well as financial products. They are characterized with weak institutional capacity due to challenges like lack computer technology, untrained leadership, poor management, low portfolio quality, poor planning, weak asset/liability management and corruption. The weakness in leadership limits the capacity of the SACCO to create effective institutional capacity to initiate and lead change towards its expected futures. This may be in term of absence or poor implementation

strategic plan in SACCOs. All these limit their capacity to grow into stronger organization capable of meeting members' expectations.

5.1.6. Poor accounting system and record keeping

ICA (2005) shows that among the main challenges in SACCOS is about the tendency of management staffs to ignore some of the accounting system's requirements such as keeping up-to-date records and making timely, correct and complete records. There is also the temptation for leaders to ignore lending policies and procedure like issuing loans without recording the borrowers' details as well as over lending to members even if their savings do not enable them to do so. As Chambo, (2004); Mukama et al, (2011) indicates, failure to maintain good quality of loan books lead into delinquency risk, credit risk and payment default risk.

Most of the SACCOS in Tanzania do not have well skilled and educated staffs that have capacity of doing accounting works. The accountants used are those doing as volunteers and have no adequate knowledge in accounting; as a result, they cannot do such professional works effectively. The presence good accounting and record keeping enable effective management of funds by the co-operatives including the SACCOS. The management of financial resources in co-operatives involves managing assets such as cash, accounts receivable, inventories, fixed assets, and investments in other organizations. It includes managing liabilities, such as accounts payable and current notes payable, and obtaining favorable long-term financing.

5.1.7. Interest rates on loans compared to other Financial Institutions

In Tanzania and elsewhere in the World, SACCOS are formed with the expectation of providing good financial services at low cost compared to the option of going to other Microfinance institutions or/and commercial banks. Grace (2008) argues that deposit rates must be competitive so that the financial cooperatives can attract savings and grow. Loan rates need to be set appropriate enough so that the financial cooperative can earn profits and build an adequate capital cushion that ensures the strength of the financial cooperative. Ondieki et al (2011) identified that, the external funds (loans) are always associated with high interest rates hence become a burden to the members.

The SACCOS are sometimes charging higher interest rates than other financial institutions including banks. This reduces the rate of borrowing among the membership. As a result members tend to not to use SACCO's services and decide to go borrow elsewhere like from other MFIs and banks. The experience obtained from Tanga region shows that, higher interest rate in SACCOS is due to overdependence of external financing. Such dependency is due to low saving culture, members' failure to fulfill the provision for minimum number of shares and reluctant to do voluntary savings be used to add internal capital. For example, the Manundu SACCO Ltd in Korogwe is charging an interest of 24 % per annum on loans given to members where, 17% is the for repay CRDB loan and 7% is the SACCO interest to get profit (working capital). This has recently made the members reduce rate of borrowing from the SACCO and opting to borrow

directly from CRDB bank. With a huge amount of loan from the bank (more than Tshs 200 million), the repayment capacity of the SACCO may at risk.

5.1.8. Uninformed membership

The presence of uninformed membership is the greatest threats to a SACCO. For SACCO members, the training should also include the cooperative values and the responsibilities of a member as well as the basic questions they should be asking the board and management. These themes are normally handled during member education days or Annual General Meetings (AGMs) (SCC, 2008). Members should be aware of everything going on in their organization like being informed by their leaders and staffs as well as the access to various reports available. Furthermore, uninformed membership and inadequate education and training are contributing to dropout of members, reluctance to save and make various mandatory payments and even neglect to borrow from their SACCOS as well as poor participation in SACCOS' affairs. Lack of effective means of communications and sometimes transparency make it difficult for the SACCOS members to be well informed adequately and timely for issues concerning their organization.

5.1.9. Inadequate education and training programmes

The SACCOS members are also not being equipped with various education and training programmes to build their capacity. It is evident that in many SACCOS in Tanzania, the Board members and staffs are the one mostly enjoying the education and training opportunities than the rest of the members. Lack of information and adequate training make difficult for members to detect misconduct like misappropriation of funds, understand the financial position of their society and making analysis of various financial reports. As Levi and Litwin, (1986) indicated, co-operative education enables people to learn about the business world and to operate in democratic system and practice ethical concerns. The illiteracy or inadequate education, training and lack of transparency/information may result into misuse of funds, for example, literate committee members may violate regulations/policies like issuing unauthorized or oversized loans among themselves and/or their supporters which they do not repay. The cashier and manager/leaders may even falsify documents to allocate funds for their own purpose without members' awareness. All these usually result to financial problems as the SACCOS fail to effectively provide services to members, repay debts and expand its operations (such as new business investment and product development).

5.1.10. Limited range and low quality of products (services) offered

The types of product and quality have strong influence on members interested in using SACCO's services. In Tanzania there many SACCOS are offering of limited range of products (services) especially those with low capital base including those in rural areas, for example, mostly they provide savings and credit services. Loan is major product used by many members (customers). The other kinds of services like long-term housing loans, micro-insurance, micro-leasing,

pension benefits, children/minors' related services (like fixed savings for children under age of 18 years) are not well adapted to be provided by most of the SACCOS in the country. The challenge of timely delivery of services in accessing loans, making savings, processing loan applications and lack of auto-teller machines (ATMs) are limiting efficiency of service provisions in SACCOS. This call for SACCOS in Tanzania to diversify their products (services) like providing majority of financial services provided by the commercial banks and other financial institution to satisfy customers (members). They do not have (enough) staffs with innovative capacity to develop new financial products and services that reflect the needs of the members.

The findings by Auka and Mwangi (2013), indicates that mostly people were attracted to other financial institutions due to the quick service they received in terms of the length of time and a variety of loan types or services. The study by Mwakajumilo, (2011) established that SACCOS in Tanzania for a long time they have been concentrating on saving mobilization and loan disbursing only, thus neglecting to adopt any innovative approach to develop other new financial products.

5.1.11. The Internal contradictions (conflicts) in SACCOS

Who has more power and control of the SACCO? Rock et al, (1998); Odera (2012) described that there is the conflict between the members and their elected management board. Board directors are democratically elected by membership in the basis of one –man- one-vote, but they may remain indebted to individual members who have mobilized votes on their behalf. Chao-Béroff *et al.*,2000), indicated that governance problem occurs due to the diluted ownership of the SACCO structure which can encourage elected committee members to promote their own interest rather than those of the members This is even more of an issue when communication becomes a problem. Furthermore, Odera (2012) as quoted from Branch & Baker (1998) indicated that, there is the “moral hazard” conflict between “net borrowers” and “net savers” in SACCOS. In a typical SACCO, some clients have more loans than savings, while others are in the exact opposite situation.

Odera, (2012) indicated that this can generate two main types of conflicts in SACCOS. Firstly, the net borrowers tend to dominate; if the management board may tend to prefer favourable conditions in the providing of loans, which can affect the viability of the SACCO. Secondly, the net savers may also dominate; in which case, the board may create restrictive conditions for allowing loans (in order to protect their savings. As Cuevas (2000) indicates, the perception that co-operative financial institutions (including SACCOS) that they are associated with the “middle-class” customers and others with influence or close relation with the Board or management, has resulted into endless contradictions within SACCOS.

5.1.12. Misuse of Funds in SACCOS

Mukama et al (2011), Banturaki (2012) provided that frauds such as corruption, embezzlement, misappropriation and theft of assets have resulted into high administration costs detrimental to MFIs' growth including the SACCOS. Fraud arises from many sources but especially from manual accounting manipulation of entries such as ghost savings withdrawals or not crediting customers who back their loans and pocketing the money. The absence or lack of strong the internal control system in many SACCOS has made it easier for the unfaithful leaders and staffs to misuse the SACCO funds. There is a need for SACCOS in Tanzania to strengthen their internal control systems to improve financial performance/profitability and prevent losses. It can help ensure that the SACCO's leaders and staffs comply with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it can help the SACCOS achieve its objective, minimize risks and satisfy its members.

5.1.13. Non adherence to Co-operative principles

The co-operatives have unique characteristics and regulations that are adhered to, including co-operative principles. People must see the possibility through forming co-operatives to feel the need and be convinced that through such an organization, their needs will be fulfilled (Ouma, 1989). The SACCOS are in most cases violating the co-operative principles (and values) in their operations. The study by Pelrine, (n.d.) indicated that in Uganda , Ethiopia and Kenya, the operations of SACCOS are much deviating from the co-operative principles (and values) for instance, violated Voluntary and Open Membership principle by servicing members incapable of supporting the loan and by including non shareholders/government promoters on the Board., violated Democratic Member Control, through the Board deciding or adapting financial products without members' concerns/approval, violated Concern for Community by charging higher interest rate. Also violates education, training and information principle by not informing members of their rights and responsibilities.

Some SACCOS are charging higher interest rates just like banks and other microfinance institutions (MFIs), the Board and managers taking full control of the SACCOS affairs. The women are in most cases not given priority in leadership positions hence feel isolated from other members and the Board of directors and/or staffs (managers) exercise full control of the SACCOS instead of members (against democratic member control) hence members feel powerless in their own initiated organization. There are tendency of lending credit even to non-members of SACCOS. Also education and training is given to the staffs and Board members and none or less to members. Also there is a tendency of creditors (mostly banks) to intervene in SACCOS internal affairs like attending Board, AGM and committee meetings and try to influence decisions. For example, in the field visit in Tanga co-operatives, the Board members of Manundu SACCO said that usually commercial banks force to attend in their meetings to know what they are planning and demanding see various reports and contracts without Board's approval.

5.2. The external hindrance for SACCOS to meet members' expectations

The external factors hindering SACCOS' capacity to meet members' expectations include the following;

5.2.1. Competition from other MFIs and Banks

Auka and Mwangi (2013) argue that competition between SACCOS and other financial institutions is characteristic of a globalized economy in which the business environment is very dynamic and firms have adapted to such changes. SACCOS have to compete and attract members so as to have more customers to use its services. Ouma, (1989) argue that a SACCO accords members an opportunity for saving regularly, accumulating the savings and thereby creating a pool from which they can borrow exclusively for productive purposes at fair and reasonable rates of interest than would be obtained in other financial institutions. Munkner (1995) argue that, cooperative leaders and managers have to stand up to the new challenges. It is not sufficient to improve the level of perfection of the services they have been offering for many years and which they are offered by the competitors as well. They have to develop new services and products with their members, which correspond to their members' needs and which are not offered by others at all or not in the same quality.

Nowadays due to competition various financial institutions including banks are offering micro-credits to customers within a short period of time and have very simple requirements to make customers qualify for loans like a guarantor, a passport size photo and identification letter from the village executive officers (VEO) or ward executive officers (WEO) instead of demanding collateral security like land or buildings as it was before. The challenge here comes as the sustainability of the SACCOS may be at threat. The members who are also customers may opt to go to these institutions as they feel SACCOS cannot provide them with the services they want. This is obviously for the SACCOS with low capital base incapable of offering large amounts of loans or having prolonged procedures. Some members have been saving much expecting to borrow after sometime, but they later found themselves fail to borrow due to scarcity of funds hence decide to go and borrow elsewhere.

5.2.2. Negative effects of external financing

Develtere et al, (2008), that apart from the internal capital, cooperatives often make use of external sources of funds to run their operations or to finance investments. The SACCOS lack access to funding/credits, which can be traceable due to the reluctance of banks to extend credit to them owing among others to poor and inadequate documentation of business proposals. Lack of appropriate and adequate collateral, high cost of administration and management of small loans as well as high interest rates (Mumanyi, 2014). Mostly the commercial banks and other microfinance institutions perceive SACCOS as having high risk of lending to especially start-ups so they delay lending to SACCOs that are still young or require a lot of documentations and

collateral back-ups for assurance of loan repayment. This prevents the capacity of the SACCO to increase its capital base to provide loans and other services to members.

The funding from government and donors also may have negative implications. The World Bank (2007) described that, in some countries, there has been a history of government and donor interventions—largely unsuccessful and sometimes fatal to the concerned financial cooperative i.e. of using these institutions to channel funding to specific target groups, without regard to the sustainability of the financial institution in the long run. Triodos (2007) described that being attached with low start-up capital, makes such a SACCO financially unstable and dependent on donor or government funds for a long time. This is evident even in Tanzania for the SACCOS established nationwide through the J.K. Billions Fund issued from 2006, where after funding and later poor financial management, most of them are currently dormant or collapse completely.

5.2.3. Administrative and Political interference

For the co-operatives operate well and manage its scarce funds they should improve bookkeeping and accounting methods so that reconciliation of different accounts is possible and fraudulence can be detected early. This is achieved through training the accounting staffs and competent controller. Mostly, the co-operatives cannot hire internal auditors and supervisors so in developing nations, the alternative has been to accept or request services of government officers provided free of charge or with minimal charges. This usually leads to another problem area; overtaking of co-operative operations and management by the government officers or reduce co-operatives' autonomy to the government (Turtiainen, 1992).

In Tanzania, such external controls have reduced members' interests in SACCOS and other types of co-operatives. The SACCOS members, who are notable to make decisions on the matters of their societies, soon regard SACCOS as government institutions and their responsibility to make savings and borrow as well as using other services begins to decrease. Therefore there is a need for the government officers to intervene in solving the problem or provide service (like auditing, inspection and others) then train the staffs and other SACCO's members to manage activities properly in the future then, they have to withdraw gradually from the SACCOS. As ILO (1999) indicates, financial cooperatives in developing countries have not always been successful as systems of financial cooperative in many countries are unsustainable, subject to political influence-taking and used by governments for their own purposes.

5.2.4. Weak assistance from national institutions supporting SACCOS

The success of co-operatives also depends on the role of the supporting institutions at national/local levels. In order to supervise and manage the SACCOS in Tanzania, the Savings and Credit Co-operative Union League of Tanzania (SCCULT) was formed linking the SACCOS across the country. Apart from supervising and managing SACCOS, SCCULT is required to provide professional technical and advisory services to the SACCOS but it has failed due to lack

of enough funds and enough skilled and experienced manpower in co-operatives (SACCO) issues. The other supporting institutions like Moshi Co-operative University (MoCU), Co-operative Audit and Supervision Corporation (COASCO), the Ministry of agriculture, food and co-operatives and others have not done much effort to help the SACCOS movement in Tanzania by creating vibrant SACCOS and assist in overcoming various management, technical and financial challenges facing SACCOS.

As a result, the SACCOS in Tanzania are operating helplessly with no enough support. They solve their problems on their own ways; hence due to inadequate skilled and experienced staffs and leaders, these SACCOS find themselves in other problems such as debt burdens from external sources, poor financial management and loan recovery, misuse of funds, poor product and services, management problems, failure to compete and others. The two-tier structure of SACCOS is also ineffective. With all SACCOS looking for assistance from a poorly performing SCCULT that is lowly funded and lack adequate competent staffs, is better to have unions for SACCOS that will at least provide assistance to some of the problems faced by members (SACCOS).

5.2.5. Insufficient auditing and inspection services

The Co-operative Audit and Supervision Corporation (COASCO) was formed in order provide auditing, inspection and supervisory services to the co-operatives. But just as SCCULT, COASCO, also lack enough personnel to do regular inspection and auditing to SACCOS and other co-operatives in the country. The Co-operative Department is also not doing enough to make inspections to the SACCOS (and other co-operatives) countrywide. This cause SACCOS not to be regularly audited and inspected hence give a chance for fraud, poor accounting practices and ineffectiveness in loan recovery to lack of strong pressure from outside higher organization demand compliance with proper accounting practice and ethics and well proper financial management.

5.2.6. Excessive donor influence and dependency syndrome

Often there is the conflict between SACCO employees and volunteers. When they start, SACCOS often work with volunteers who understand their work as part of a personal commitment in a collective project which makes sense for their community. Later, when the structure becomes bigger, it is often necessary to recruit some employees who often have a higher education (in order to be able to handle the more complex business of the SACCO, but normally with a different type of visions. At that stage, it is essential to have a proper job description for the entire employee's. Once the SACCO achieves a scale which allows it to hire professional staff, it needs to separate decision-making and decision-control functions. As the SACCO moves into professional operation, problems of governance impair operation if volunteer management board members engage in decision-making rather than in decision-monitoring behaviour (Branch and Evans, 1999).

For the SACCOS originated from donor funded projects, the donors may decide to offer large amount of money to promote and form SACCOS in various areas but the challenge is that, the members become active partners of such projects but become not “patrons” and owners of the established SACCOS. The inconsistency between donor and the members’ interest results into failure to identify and fulfill the actual expectation/goals of the members in a given community. Grace (2008) describes that reliance on external funding from donors and government builds an unhealthy dependency on outside programs that may one day be scaled back or eliminated. This jeopardizes the long term sustainability of the financial co-operatives. Therefore, co-operatives should make deposit mobilization as a major function.

6. CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion

The SACCOS are important institutions for providing financial services to marginalized communities and must be harnessed to help alleviate poverty in Tanzania and Africa in general. There is a need to build the internal capacity to meet the challenges that constrains their development. Unfavorable government policies, weak governance and management systems must be addressed. They should cooperate with the government and other development partners for better policy and legislature environment. Furthermore, in order to succeed to succeed in the new era of globalization (liberalized), the Savings and Credit Co-operative Societies (SACCOS) in different communities need to be people centred, be owned and controlled by members, should have a good leadership and management accountable to its stakeholders, and should be sensitive and responsive to the needs of its stakeholders and to changes in its internal and external environment. Beside all, SACCOS must adhere to good governance and codes of ethics and it should have flexible and transparent operating policies and systems as well as an in-built mechanism of learning. Also they should be financially viable and sustainable.

6.2. Recommendations

Based on the above discussion, the following may be implemented to enhance efforts for promoting SACCOS in Tanzania.

6.2.1. Promote good governance

Good governance should be promoted in SACCOS to make them sustainable and stronger organizations. Through practicing (the pillars of) good governance, the SACCOS can develop highly accountable and responsible management and leaders with capacity to formulate and implement good strategic, business and succession plans as well as adequate organizational set-up and transparent operational system.

6.2.2. Cross-cutting education and training programmes

Intensive education and training programs should be conducted to build capacity of the SACCOS. The co-operative education is very important to allow members, staffs and Board members to function effectively by being responsible members and leaders who are committed to the SACCOS. The specialized training to build capacity of the managerial staffs and Board of directors is very important. Furthermore, it remains important to conduct continuous capacity building activities for members and SACCO leaders, and to stimulate experience sharing forums among SACCOS. The SACCO members should acquire modular training in entrepreneurship skills; group formation and dynamics; ownership and governance issues as well as members' rights and responsibilities. Management and the Executive Committees receive training in areas of business planning, governance, microfinance best practices, financial management, internal controls and accounting, savings mobilization, loan appraisal and delinquency management, risk management and interest rate setting. The education and training institutions like MoCU through its ICCE should be well supported (mostly financially) to conduct such programmes. Also institutions like SCULT and Co-operative Department (now Co-operative Development Commission) should be given sufficient funds, facilities and well skilled and experienced staffs to provide education and training to SACCO's members.

6.2.3. Diversification of income sources

The SACCOS members need to diversify their income generating activities to be able to get a better price for their products. Increasing the amount of compulsory savings will contribute to the long-term success of SACCOS as well. Also the SACCOS will reasonable amount of capital may decide to investment some of the capital in profitable business like building business apartments for rent, agent for supplying farm inputs and other investment priorities as per wishes of the members. The aim is to reduce external dependency of capital from banks, financial NGOs, donors and government.

6.2.4. Strengthening the capacity and number of co-operative banks

The initiative to capitalize SACCOS is a serious challenge especially when come to borrowing from commercial banks and financial NGOs. Due to demand for valuable collateral security to back up loans, SACCOS get more limited in term of amount borrowed. Therefore there is a need to strengthen the capacity of co-operative banks so they can offer adequate loans to SACCOS with affordable interests and easy conditions to access loans. The number of these Co-operative banks should be increased at least be allocated in terms of zones or every region in the country. Currently there are only two Co-operative banks; Kagera Farmers Co-operative Bank (KFCB) and Kilimanjaro Co-operative Bank Limited (KCBL).

6.2.5. Special programmes to building the internal capacity of the Board, staffs and committee members (supervisory and loan committees)

SACCOS operating an office is like a small bank and needs to have competent staff, quality systems and controls, security of the funds, manage liquidity and so on (SCC, 2008). Although a small institution should not be held to the same requirements as a bank, there is a need to develop the capacity of management, board members and the rest of the members so that informed decisions are made and the members' savings are protected. A clear division of roles between board and management is fundamental as well as an independent supervisory committee that can question the actions of the board. The application of technologies should find its place in the SACCOS (and other co-operatives) so as to promote effectiveness and efficiency in services provided and reduces operational costs. For instance, shift from manual working to computer applications in managing loans, savings and record keeping. The leaders and staffs need to know how to use these computerized systems.

6.2.6. Adherence to co-operative principles (and values)

The SACCOS should return to its roots. To avoid conflicts, maintaining solidarity and promoting socio-economic well-being of its members through financial services, the SACCOS need to strictly follow the co-operative principles and values. Doing so it will create sustainable organizations, promote democracy, solidarity and participation as well willingness of members to contribute ideas and resources to boost the operations of the SACCOS.

6.2.7. Ensuring proper financial management and Accounting system

For the SACCOS to be effective in their operations meet expectations of members, they require periodic analysis of the SACCO's financial position, its operating efficiency, and proposals for expansion. Basically the management of funds should involve: (i) considering funds available and source for additional capital; (ii) allocating funds among assets to be financed; and (iii) ensuring that all aspects of financing are dealt with in a manner consistent with sound business practices and cooperative principles. A complete and accurate accounting system is vital for effective management. It must produce several financial statements needed in planning and controlling, such as: (a) monthly and annual balance sheets and operating statements; (b) functional or enterprise accounts pertaining to departments or specific lines of business; and (c) special accounts such as patronage records, accounts receivable aging, member equity, and patron financing. An independent auditor periodically verifies the accuracy of the SACCOs' business record.

6.2.8. Setting better regulatory and supervisory framework for the SACCOS

The legal framework for financial cooperatives plays a double role. The legal framework governing financial cooperatives should empower them, enabling their development and encouraging outreaches towards their target population as cooperative development institutions.

At the same time, the law has to ensure that financial sector rules are appropriately applied, particularly to protect owners and depositors against poor financial management. The effectiveness of SACCO supervision is currently very low due to several reasons, including inadequate budgetary allocation to the Cooperatives Department and COASCO resulting lack of transport and funds for visiting SACCOS for supervision of their accounts and auditing. Effects of poor supervision are losses incurred through theft, engagement and investment in risky non-financial activities, delayed reporting and un-audited accounts, and violation of Cooperatives Societies Act (e.g. accepting deposits from non-members). All these challenges need to be solved if we have a vision to build strong SACCOs movement.

6.2.9. Networking of SACCOS

There is a need to form stronger networks for SACCOS through horizontal and vertical integration like forming unions and SACCOS joint-ventures. This will allow SACCOS to have stronger organizations that can be effective in overcoming their institutional and external challenges and even build a stronger voice in the SACCOS movement. These networks will allow the SACCOS to provide an increasing array of services and products over time, and thus to compete with other types of financial institutions. Also networking helps in improving good governance, improve financial capacity, and reduce risk. For example, *Dunduliza Limited*: Dunduliza is a company limited by shares registered in 2004. Dunduliza receives funding from Financial Sector Deepening Trust (FSDT), and technical assistance from Desjardins International Development (DID). Currently, Dunduliza is a network of 50 SACCOS branches with 65,000 members in various regions of Mara, Mwanza, Mbeya, Ruvuma, Iringa, Morogoro and Dar es Salaam. Services include training to the SACCO staff and leaders, material support (building, safe, stationary, furniture and Management Information System), salary for the SACCO-manager and intensive performance monitoring. The SACCOS should also form district and regional unions that will ensure building of their capacity, supervise their operations and share resources for the benefits of members.

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