

**CHALLENGES FACING MICRO FINANCE INSTITUTIONS IN TANZANIA**

**CASE STUDY SACCOS IN DODOMA REGION**

**BY**

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**A RESEARCH PAPER SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION IN AGRIBUSINESS OF SOKOINE UNIVERSITY OF  
AGRICULTURE. MOROGORO, TANZANIA**

**2007**

## ABSTRACT

The study sets out to examine the main challenges and lending systems used by SACCOS, the growth and performances of SACCOS in Dodoma region

The study was conducted through extensive secondary research, interviews with SACCOS' managements and clients in the period between June and December 2006 in Dodoma region. Structured questionnaires were used to gather primary data while focused group discussions were used to extract diverge opinions from board members about challenges.

The study reveals that, SACCOS face many challenges that hamper their growth and performance. These challenges include; competition, poor loan repayment and recovery, lack of cooperative skills for management, embezzlement of funds, robberies, weak capital bases for most SACCOS, poor remuneration of employees and shortage of cooperative officers.

SACCOS in the region use both individual and group lending approaches. Lending is based on the amount of savings a member has.

Basing on study findings it can be concluded that, the available challenges have an impact on the performance and growth of SACCOS. This was revealed in increasing loan delinquency in which 21% and 18% of the total loans disbursed were in arrears for Majengo and Kibaigwa SACCOS respectively and 28% of respondents mentioned existence of lack of cooperative skills among board members.

The study recommends that, government, donors and other stakeholders should work together in promoting policies and programmes that support the establishment and growth of SACCOS so as to save the majority poor ordinary Tanzanians. Further more

the study recommend on the improvement in SACCOS lending methodologies, by-laws, educating system for members and managements. To minimize loan delinquency by assuring collateral availability for each loan and establishment of a specialised Act which allows SACCCOS to operate as business entity

## ACKNOWLEDGMENT

I would like to express my sincerely appreciations to my supervisor, Dr. E.R. Mbiha, who devoted much of his time to scrutinizing this work, making corrections and recommendations.

Also I indebted to be thankful to my sponsor, the High Education Student Loan Board (HESLB) for supporting me financially for the whole period of my studies.

Thanks to General Manager of CRDB Microfinance Company Mr. Sebastian Masaki who has given me a chance to carrying out the MBA internship in his Company.

Special thanks go to Samson Keenja, the Senior Relation Manager CRDB (MFC) and Rehema O. Hamis, the branch manager CRDB Bank Ltd -Dodoma, for their contributions both in material and moral support in completion of this work.

Many thanks go to staff members of CRDB-Bank Dodoma branch for their uncountable help during the whole period of my internship.

Also I extend appreciation to all members of Agricultural Economics and Agribusiness Department for their suggestions and support.

Finally but not least, word of thanks goes to SACCOS' board members and members interviewed in Dodoma region, (especially Majengo and Kibaigwa) for their willingness to take the time to share information and data on their operations.

To those not mentioned in this word of appreciations I extent my profound gratitude.

**DECLARATION**

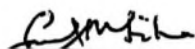
I, **PETRO MAZIKU**, do hereby declare to the Senate of Sokoine University of Agriculture that, this research paper is my own original work and has not been submitted for a higher degree award in any other University



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## **DEDICATION**

This work is dedicated to the almighty God, Virgin Mary Mother of God and to my parents Mr. Kabipi Maziku and Justina Maziku who laid down the foundation of my education history. Also to my brothers Paulo Kabipi and Elias Kabipi.

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### LIST OF ABBREVIATIONS

|         |  |
|---------|--|
| MIT:    | Ministry of Industry and Trade                                 |
| BoT:    | Bank of Tanzania   |
| GDP:    | Gross Domestic Product   |
| BAFIA:  | Banking and Financial Institutions Act                         |
| CRDB:   | CRDB Bank Ltd  |
| MFC:    | Micro-Finance Company Ltd                                      |
| DANIDA: | Danish International Development Agency                        |
| I FAD:  | International Fund for Agricultural Development                |
| FAO:    | Food and Agricultural Organization                             |
| ILO:    | International Labour Organization                              |
| FINCA:  | Foundation for International Community Assistance              |
| PRIDE:  | Promotion for Rural Initiatives and Development of Enterprises |
| MoF:    | Ministry of Finance  |
| IMF:    | International Monetary Fund                                    |
| MFI:    | Micro-Finance Institution                                      |
| NBC:    | National Bank of Commerce                                      |
| NMB:    | National Microfinance Bank                                     |
| PASS:   | Private Agricultural Sector Support                            |
| RFSP:   | Rural Finance Support programme                                |
| SCCULT: | Savings and Credit Cooperatives Union League of Tanzania       |
| SACA:   | Savings and Credit Association                                 |
| SACCOS: | Savings and Credit Cooperative Societies                       |
| SELF:   | Small Entrepreneur Loan Facility                               |
| NGOs:   | Non Governmental Organizations                                 |

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

#### **1.1. Background.**

Micro Finance institutions are organizations that provide small loans to small entrepreneurs who lack the credentials and collateral demanded by banks. Today Microfinance Institutions (MFIs) are the main source of financial services to economically active poor individuals. The financial services include; saving, credit and insurance. Apart from financial services some MFIs provides social services such as group formation and training on investment skills and group management (Salay, 2006)

MFIs mostly SACCOS are more supportive and friendly to poor ordinary people who are ignored by the sophisticated financial services systems (Banks). These institutions work hand in hand with the Government in extending small loans to poor people to avoid risks/loss of their funds. The groups use the loans in establishing micro business or enriching the already owned micro business.

#### **1.2. The SACCOS Movement in Tanzania**

Currently, Savings and Credit Co-operatives Societies are gaining popularity world wide, both economically and culturally as a way of reaching many poor people both in rural and urban areas. In Tanzania perspective this is attributed to the number of achievements registered by the same institutions (SCCULT, 2006).

Savings and Credit Co-operatives is the oldest system of mobilization of savings and provision of other financial services to members which has lived the taste of time. Savings and Credit cooperatives societies have existed in Tanzania for almost sixty years,

dating back to year 1938 when the first Savings and Credit Cooperative society was registered. By the year 1964 the movement had 35 primary societies (SACCOS), which managed to organize themselves to form their national association “the Savings and Credit union League of Tanganyika – SCCULT”. The movement gained momentum each year up to year 1976.

Unfortunately this continued growth was brought to a halt when the government intervention to Co-operative activities under ‘policy of multipurpose cooperatives’ led to the abolishment of cooperative unions and cooperative national bodies. SCCULT was affected and led to cut its activities and the government took over its activities. A tide of economical changes resulted in the establishment in 1991 of Cooperative Act through which the Savings and Credit Co-operative Union League of Tanzania- SCCULT (1992) LTD was formulated (SCCULT, 2006)

The introduction of the Cooperatives Societies Act in 1991 created the legal framework for Cooperatives to be established as privately-owned and equity-based institutions registered under the Ministry of Cooperatives and Marketing by that time, currently known as Ministry of Agriculture, Food and Co-operatives. The Act applies to all types of cooperatives. The main principle established by the Act is volunteerism and self-regulation of the Societies.

### **1.3. Current Status of SACCOS.**

By January 2001, there were 646 registered SACCOS in the country, of which 60% were rural based. The total shares and deposits of the 40% urban SACCOS far outstripped that of the rural SACCOS (World Bank, 2003). However, by June 2006 Tanzania had 1,875

registered SACCOS with 254,661 members and about 800 being affiliated to SCCULT the only National Savings and Credit Union (SCCULT, 2006)

In the case of Dodoma region SACCOS are increasing in both urban and rural areas. Up to December 2006 135 SACCOS were present in Dodoma region of which 41 were in Dodoma urban, 28 and 24 in Mpwapwa and Kondoa respectively and 16 SACCOS in Kongwa district (Table1).

**Table 1: SACCOS Present in Dodoma region as at December 2006.**

| <b>District</b> | <b>Number of SACCOS</b> | <b>Per cent</b> |
|-----------------|-------------------------|-----------------|
| Dodoma urban    | 41                      | 30              |
| Mpwapwa         | 28                      | 21              |
| Kondoa          | 27                      | 20              |
| Kongwa          | 16                      | 12              |
| Chamwino        | 12                      | 9               |
| Bahi            | 11                      | 8               |
| <b>Total</b>    | <b>135</b>              | <b>100</b>      |

**Source: Region Cooperative Office Records, 2006**

#### **1.4. Reforms in the Savings and Credit Cooperative Sector.**

More has been done in restructuring of the savings and credit movement in order to make them cost effective. Restructuring has been done at union level and at society level following the new Co-operative Act of 2003 and its regulations in 2004. This includes new SACCOS Management Boards and limited representation in the Annual General Meeting (AGM). Almost 95% of SACCOS have new Boards and separate Supervisory

Committees. SACCOS with small number of members merge to form viable SACCOS (SCCULT 2006).

In the process of strengthening SACCOS, it is important that they either become or are linked to professionally manage financial institutions. CRDB bank for example, through its subsidiary Microfinance Company (MFC), links with more than fourteen (14) SACCOS in Dodoma region. The MFC provides the SACCOS with basic equipment, such as a computer, safe, counter and money counting machines. In addition, the MFC provides the SACCOS with an incentive of up to Tshs. 4, 000, 000. The level and nature of support varies and depends on the initial needs assessment undertaken by the MFC.

**Management and governance structure:** The CRDB- MFC provides advice and training on how the SACCOS should be structured. This includes the separation of management and governance, and each linked institution is now hiring independent full-time staff, while the Board of Directors or Management Committee concentrate on leadership and governance.

**Training:** SACCOS' staff and board members receive an initial six days of classroom-based training. This is followed by on -job training provided by the MFC regional representatives. At the end June 2005, close to 8,000 staff, managers and Board members of SACCOS have received training. By 30 June 2006, the Bank managed to train 36,105 Board members, members and professional staffs in the country. Everyone is trained in the basics such as account entries, record keeping, tracking and monitoring of cash and capital, and internal controls.

Training is being provided to the Management Committee (board members of SACCOS), professional staff and ordinary members. Every year, depending on the number of MFIs recruited or the need for retraining, the MFC will organize training at the nearest venue to where most of the participants live.

**Technical support and advice:** The regional representatives (Relation managers) of the MFC provide on-going technical support and advice through their regular visits. This includes assisting SACCOS in product development, pricing, distribution methods, advice on marketing techniques and on-going on-the job training.

The support in product development is one of the reasons that the product offering of the various SACCOS differ based on the very specific needs of their communities. The MFC is in no way prescriptive. To the contrary, the MFC team emphasizes customization of the product offering based on local community needs and assists SACCOS in this process.

Thus, it is envisaged that stronger SACCOS will later develop into community banks, join together to form Co-operative bank or form alliances with other financial institutions

### **1.5 Problem Statement and Justification**

Currently the availability of suitable MFIs in Tanzania, which are capable of serving households, small farmers, small and micro enterprises in rural as well as in urban areas, is limited.

It can therefore be foreseen that a number of small local MFIs (of which most are SACCOS) will be formed and registered. Generally they are very small, often with no professional staff and with board members provide limited services on voluntary basis. Capital from their members in the form of entry fees and share capital is insufficient.

Incapable in doing proper bookkeeping, drawing profits and loss statement, balance sheet and lending at a very limit rate. Only to limited extent they are capable of establishing sufficient confidence to mobilize savings. In spite of this they are still enthusiastically pursuing their role as financial services provider to their local population (DANIDA, 1999).

Lack of access to finance by the vast majority of ordinary people in Tanzania is now getting the level of attention. As recently as 2002; just 6.4% of the nearly seven million Tanzanian households had access to a bank account, down from 18% at the start of the financial reforms in 1991(CRDB, 2006).

For the vast majority of Tanzanians whose incomes are low, access to financial services would offer the possibility in managing scarce household and enterprise resources more efficiently, protect against risks, provision for the future, and taking advantages for investment opportunities for economic returns and hence poverty reduction. This is only possible through establishment of well designed and sustainable SACCOS in the country.

Currently Tanzania has 1875 registered SACCOS with 254,661 members. About 800 are affiliated to SCCULT the only National Savings and Credit Union (SCCULT, 2006)

However, it has revealed that the number of these SACCOS have good intentions as well as motivated, and have a potential to be developed into advanced MFIs (banks).

Also it has been realized that, the quickly and realistic option existing to provide financial services to households, small households, farmers, small and micro enterprises in rural as well as in urban areas is through Micro financial institutions mostly SACCOS.

But it has been observed that, there is simply lack of the well functioning MFIs system in Tanzania, including SACCOS to support private sector development and it is a worthily challenging for SACCOS to attempt to rectify this situation.

Thus it can be stated that the financial needs of the rural sector have been addressed to a very limited extent, credit facilities are almost unavailable to rural people except in some localized SACCOS or Funded projects which are mostly in the formative stages.

Some limited saving facilities are available from commercial banks, post bank and other money lenders (DANIDA, 1999).

A survey of 125 SACCOS undertaken by CRDB bank recently found that, only 25 were operating on a best practices basis, the top performance of which was the women's SACCOS. One of the findings was that for mixed group SACCOS women borrowers has lower defaults rates than men, a finding consistent with other studies of micro finance lenders (CRDB,2004)

For this case, small farmers and rural micro enterprises have to depend on the informal sources of funds, mostly their relatives and friends for credits but they are limited to this source of fund. On the other hand, access to financial services especial lending to poor Tanzanian and with equal access for men and women would motivate the establishment and development of small enterprises, mobilize savings and establishment of income generating activities in which will contribute to economic growth and poverty reduction (MIT, 2002)

In an attempt to resolve this problem in Tanzania, His Excellency President Kikwete has urged government officials to mobilize, promote and strengthen SACCOS in their

jurisdiction. This move will enable poor community estimated to 16 million people to have access to financial services. The movement outreach is small only 4% while having penetration rate of 9%. This is yet has no significant for the growth, expansion and development (SCCULT, 2006).

Similarly, the SACCOS movement in Dodoma region is credit dominated at the expense of the saver (members). Currently there are only 41 and 16 registered SACCOS in Dodoma urban and Kongwa District respectively. Moreover, most of them are unable to meet the growing demand for loans from the poor people in rural and urban areas.

Within these contexts, this study strives to examine the challenges currently facing SACCOS in Dodoma region and offer suggestion on possible ways forward that will enable them to meet the need from ordinary people and global increase on credit demand

#### **1.6. Importance of the Study**

The roles of Micro finance institutions (especially SACCOS) is basically to provide small loans to their clients, creation of employment opportunities, capacity building to borrowers by offering different skills such as use of loans, entrepreneurship and managerial skills.

Findings and recommendations of this study will contribute more inputs to various categories of stakeholders in the process of strengthening the growth, performance and accessibility of microfinance institutions services to many poor people in the region as well as in the country. This in turn creates more employment opportunities and thus improvement in income levels to members and hence poverty reduction among Tanzanian population.

## **1.7. General Objectives**

To determine the challenges currently facing microfinance institutions in Tanzania

### **1.7.1. Specific Objectives**

1. To determine the lending system used by that SACCOS to their members and clients
2. To assess the effect of training provided to Board members and professional staffs on the SACCOS performance.
3. To assess the products and services offered by SACCOS to their clients

## CHAPTER TWO

### 2.0 LITERATURE REVIEW

#### 2.1 Overview

For a long time, provision of micro finance services to low income people has been hindered by lack of collaterals for small borrowers. Across the world, the evolution of microfinance institutions in 1980s has made it possible to deliver finance services to majority of ordinary people previously excluded by formal financial institutions (CRDB, 2006). Currently, microfinance institutions in Tanzania as in other Developing countries exist in many forms: credit union or financial cooperatives, commercial banks, Non Governmental Organizations (NGOs), or specialized non-banking financial institutions.

#### 2.2. Financial Sector Reforms

The government of Tanzania has for the past several years been engaged in far reaching economic, political and social reform programs, with focus on broadening the role of market forces in the economy, strengthening human rights within the context of a liberal constitutional order, and promoting democracy and good governance. A central feature of this programme is to create an enabling environment for private economic activities and enhancing the rate of the private sector growth (Mof, 2001)

In 1991, the Government initiated financial sector reforms in order to create an effective and efficient financial system. The main objective was to allow banking institutions to operate on a commercial basis, making business and management decision free from Government interventions within the norms of prudential supervision. The principle element of the financial reforms includes, liberalization of interest rate, strengthening of the Bank of Tanzania's role in regulating and supervising financial institutions,

restructuring of state owned financial institutions and allowing the entry of private banks (both local and foreign). These reforms were embodied in the Banking and financial Act, 1991. (MoF, 2000).

Further more; the Government of Tanzania also has recognized the importance of SACCOS as the means of reaching the poor population in the country. Thus, SACCOS as the saving based institutions are used by its member to deposits their savings and later borrows money for financing their households or enterprises. (World Bank, 2003)

### **2.3. Microfinance policies in Tanzania**

While Banks provide microfinance services according to their objectives and principles, it has been documented that they discriminate between large and small scale farmers and Micro enterprises (Kashuliza, 1986; Temu, 1994).

Following this situation in 1996 the Government, in collaboration with the donor community, initiated a microfinance policy formulation process which started with a national demand-side study. A draft National Microfinance Policy was discussed by stakeholders in 1999 and approved by the Government in 2001. The policy reflects the Government's recognition of the microfinance sector as an integral part of the financial sector.

This policy led to the introduction of Microfinance Companies and Micro Credit Activities Regulations of 2004, which govern microfinance companies (under the supervisory authority of the Bank of Tanzania) as well as the Savings and Credit Cooperative Societies Regulations of 2004. The regulations on Savings and Credit Cooperatives have come into effect in March 2005, and stipulate that cooperatives with

capital exceeding Tshs.800 million, is subject to regulation and supervision by the Bank of Tanzania. Cooperatives with capital below this amount, is subject to regulation and supervision by the Registrar of Cooperatives under the Ministry of Agriculture, Food and Co-operative with accordance of the new Cooperative Act, 2003 ( MoF,2000)

Currently there is a large number of microfinance NGOs which provide financial services to the poor people in Tanzania. The largest microfinance NGOs are the Mennonite Economic Development Association (MEDA), PRIDE-Tanzania, FINCA, Small Enterprises Development Agency (SEDA), Women Empowerment & Development Agency Ltd (WEDA Ltd) and the Presidential Trust Fund (PTF) which has been privatized as microfinance NGO. However, most of the microfinance NGOs is found to be heavily donor dependent. Their focus has been primarily the poor farmers and micro enterprises that were unsaved initially by formal commercial banks

On the other hand, Commercial banks with products and services targeted at the lower income segment include the National Microfinance Bank (NMB), CRDB, Akiba Commercial bank and some regional banks. NMB has then also engaged in 'linkages' with can sugar growers and individuals, by providing loans and deposit facilities to SACCOS.

## **CHAPTER THREE**

### **3.0. RESEARCH METHODOLOGY**

#### **3.1. Description of the study area.**

The study was conducted in Kongwa district and Dodoma Urban in Dodoma region and it involved all SACCOS which are partners of CRDB Bank Ltd in Dodoma. The selected case study Microfinance institutions (SACCOS) were Kibaigwa Financial SACCOS based at Kibaigwa in Kongwa District and Majengo Sokoni Financial Services SACCOS limited based in Dodoma Municipality in Dodoma Region. These institutions were selected because of their location and sizes; Kibaigwa SACCOS is located in rural area, this helped the study to get in formations from rural areas.

On the other hand, Majengo Sokoni Financial Services SACCOS is an urban based SACCOS and carry many transactions, thus provides in formations on challenges facing microfinance institutions in urban areas. These SACCOS are the partners of CRDB Bank under its subsidiary CRDB-Microfinance Company limited

The major economic activities in these two Districts include farming, livestock keeping and trade. In which trade is carried by the majority in Dodoma Urban and Agriculture is dominant in Kongwa District.

#### **3.2. Study instruments**

The structured questionnaires were used in gathering primary data by interviewing management and clients from the selected SACCOS.

### **3.3. Sampling procedures**

#### **3.3.1. Sample selection**

The focus of this study was based on the SACCOS which are partners of CRDB Bank Ltd in Dodoma which involve in providing financial services both in rural and in urban areas.

#### **3.3.2. Sample Frame**

A sample of 50 people were randomly selected, 30 respondents from Kibaigwa SACCOS and 20 respondents from Majengo Sokoni SACCOS.

Sampling frame were all board members, ordinary members and clients of the SACCOS, at which 30 respondents interviewed Kibaigwa SACCOS and 20 from Majengo SACCOS using the prepared questionnaires and focus group discussion for board members.

### **3.4. Type of Data collected**

#### **3.4.1. Primary data**

Primary data were collected by interviewing member of board, Professional staffs and members of the SACCOS from the selected SACCOS. The information collected include: number of members, number of loan disbursed, challenges available, quality of services, Collaterals and lending methods used by these SACCOS to their members and clients.

#### **3.4.2. Secondary data**

Secondary data were obtained from SACCOS annual and quarterly reports such as financial statement, meetings and other events, CRDB Microfinance Company ltd and Department of Cooperative in the respective District of Kongwa and Dodoma Urban.

### **3.5. Method of data collection**

Structured questionnaires and the focus group discussion were used in gathering the informations from the sources especially primary data. Also field observation was used to secure some in formations

### **3.6. Method of Data analysis and interpretation**

The Simple Descriptive methods such as Frequency, percentage, mean, and variances are used to explain the existing situations at the institution.

## CHAPTER FOUR

### 4.0 RESULTS AND DISCUSSION

This chapter presents empirical findings of the study and observations during the field survey together with their discussion. This chapter is divided into five sections, these include: Brief history of case study SACCOS, General characteristics of respondents, performances of SACCOS, challenges of SACCOS, and lending methodology used by SACCOS.

#### 4.1. Brief history of case study SACCOS

##### 4.1.1. History of Kibaigwa Financial Services SACCOS Limited

Following CRDB Bank's initiatives in Kibaigwa and the surrounding villages, Kibaigwa Financial Services SACCOS Limited was formed on the 2 May 2000 and registered on the 21 September 2000 and obtained a certificate of registration number DOR 556.

The main objectives were to improve the living standards of the residents through provision of soft loans for boosting member's capital at the same time providing a convenient place for money safe keep.

At the beginning the society was providing services to people of six villages of Kibaigwa, Pandambili, Hembahemba, Ndurugumi, Ngomai and Manyata. But following its great success in delivering financial services to the people of those six villages, other residents from other villages were attracted to join Kibaigwa SACCOS. The SACCOS evaluated itself and realized that it can rise to the challenge, therefore the society opened up its area of operation to incorporate 13 new villages that spread over the Divisions of Mlali and Kongwa which are within Kongwa District in Dodoma Region.

Currently, the society operates from its own premises built in 2005 at a total cost of Tshs.42 million

#### **4.1.2. History of Majengo Sokoni SACCOS**

Majengo Sokoni SACCOS Limited was established in May 2000 following CRDB Bank's initiatives in Dodoma town. Initially the SACCOS were established mainly to provide financial services to traders of Majengo market, a market located at the centre of Dodoma town.

By 2002 after two years in operation the society received a big number of membership applications from people residing and trading outside the Madukani ward which was its initial area of operation. After considering the opportunity for expansion and its ability to serve a larger area, the society in its Members General Meeting of 23/11/2001 resolved to extend its area of operation to cover all town wards. This move triggered immense growth from 281 members to 607 and share capital from 56.4 million to 143.4 million in a period of one year up to December 2003.

One among of the big challenges facing the SACCOS from its start was to mobilize deposits from the public and this was so because of the competition provided by other banks in Dodoma town. To overcome this competition, in December 2003 the SACCOS decided to rent a spacious, attractive and strategically located building at Mtendeni Street. It renovated that building to give it a very beautiful look surpassing those of the existing banks at that time. This move managed to attract 623 new savers and contributed to membership growth to 994 by July 2005.

In November 2004 the society saw an opportunity in providing the more secured personal loans to employees of government and private institutions in Dodoma Municipality. It

embarked on a massive campaign to mobilize employees of Diocese of Central Tanganyika, DUWASA (Dodoma Urban Water and Sewerage Authority), staff members of the Prison Department, Police Force and Tanzania Peoples Defense Forces. Currently efforts are in progress to recruit other employees from Capital Development Authority.

#### 4.2 The general Characteristics respondents

##### 4.2.1. Sex of respondents

The result from the Table 2 shows that most (about 70%) of members at the institution are male and few female were able to join with SACCOS. This implies that women are not motivated to join with SACCOS and thus fewer women group solidarity which are considered to have high loan repayment rate than men.

**Table 2: Sex of respondents**

| Sex          | Frequency | Percent      |
|--------------|-----------|--------------|
| Male         | 35        | 70.0         |
| Female       | 15        | 30.0         |
| <b>Total</b> | <b>50</b> | <b>100.0</b> |

Source: Survey Data, 2006

##### 4.2.2 Education of the respondent

From the analysis of education level for respondents' shows that, more than half (about 56%) of SACCOS' members have attained primary education and only 14% have high education level. This shows that the secondary education is still a challenge to most SACCOS member as it considered relatively expensive. Thus the possibility of having good managements with required qualifications is limited. This is because most SACCOS are unable to hire professional employees which are relatively expensive.

**Table 3: Education of respondents**

| <b>Education level</b> | <b>Frequency</b> | <b>Percent</b> |
|------------------------|------------------|----------------|
| Adult education        | 1                | 2              |
| Primary education      | 28               | 56             |
| Secondary education    | 14               | 28             |
| Diploma and above      | 7                | 14             |
| <b>Total</b>           | <b>50</b>        | <b>100</b>     |

Source: Survey Data, 2006.

#### **4.2.3. Marital Status of Respondents**

The results from analysis of marital status shows that, most of members who joined with SACCOS were married and only 34% were single in the region.

This implies that most of youth were involving in other activities such as matching guys, and or remained idle. Also it is an indication that the philosophy of SACCOS is not well understood by youth.

**Table 4: Marital status of respondents**

| <b>Marital status</b> | <b>Frequency</b> | <b>Percent</b> |
|-----------------------|------------------|----------------|
| Married               | 33               | 66             |
| Single                | 17               | 34             |
| <b>Total</b>          | <b>50</b>        | <b>100</b>     |

Source: Surveyed Data 2006

#### **4.2.4. Managements and organization structure of SACCOS**

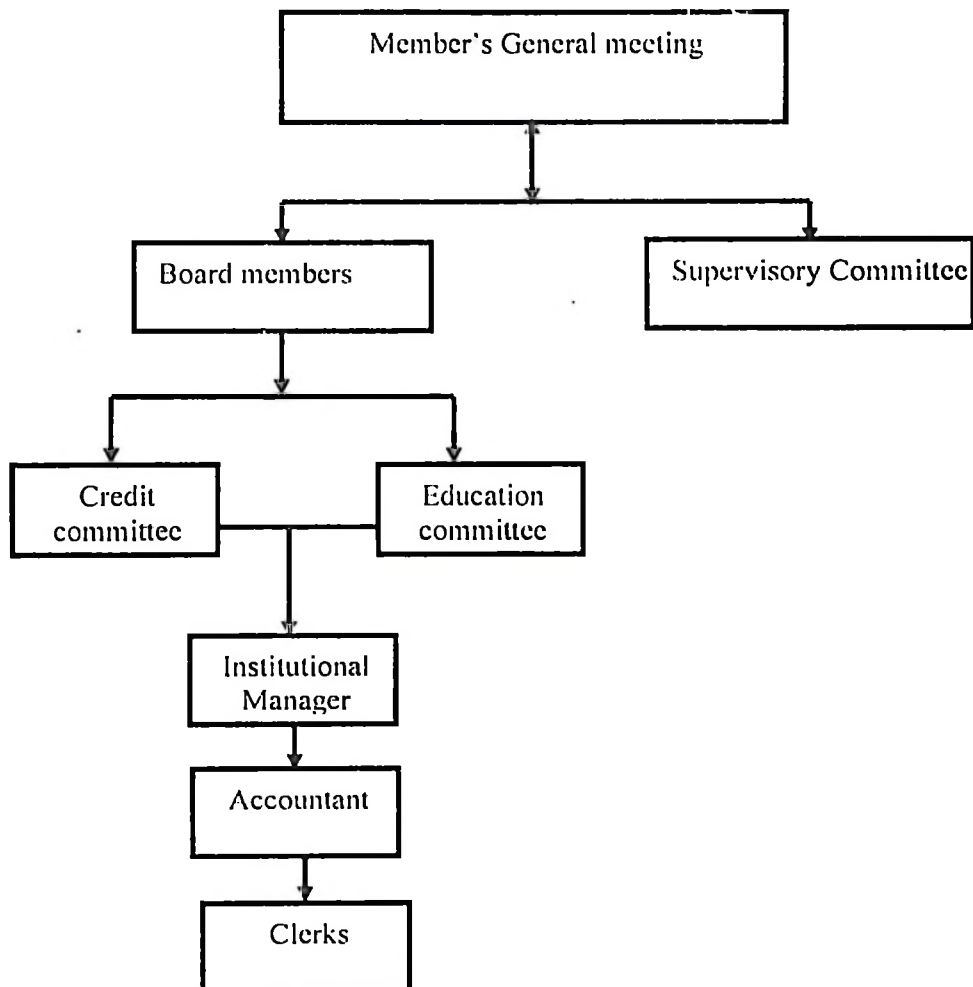
Member's general meeting was the overall governing body of the society. All matters pertaining to the running of the society were discussed and decisions were made at the

members' general meeting. It is where members elect their leaders under one-man one vote system of election.

The daily activities of the society including leadership and employment of employees are vested under the board members who are elected by members. The board is comprising of two committees namely, credit committee and education and promotion committee. Credit committee is mainly concern with receiving and screening loan applications, approval and disbursement of loans to applicants and monitoring loan repayments.

During Election Day, members elect nine board members and three members of the Supervisory committee. Election took place after nine years, but after the period of three years one third of elected board members are voted out. The Supervisory committee it function as an internal auditing body at the society in which meets three to four times per month. Its main responsibilities are to oversee all daily activities such book recording, loan disbursement and repayments if were correctly transacted. Also it advice the board to call for an external auditing if it found that there is a need.

**Figure 1: Organization structure of SACCOS**



#### **4.3. Performance of case study SACCOS**

The SACCOS performance was evaluated based on the number of members, clients, shares and deposits, and loan portfolio quality of the institution

##### **4.3.1. Membership Profile of Kibaigwa SACCOS**

Kibaigwa SACCOS membership is dominated by male, with female individual members representing only about 18% of all individual clients. Additionally, up to October 2006, the society had 72 women solidarity groups each with approximately ten members. Kibaigwa has a substantial and growing number of both members and non-member

clients, totaling 654 which is one quarter of the total number of clients by October 2006. These explain the extent of the society's services outreach to poor rural people at Kibaigwa (Table 5).

**Table 5: Kibaigwa Financial SACCOS - Membership Profile**

|                             | Dec-02     | Dec-03       | Dec-04       | Dec-05       | Oct-06       |
|-----------------------------|------------|--------------|--------------|--------------|--------------|
| No. of male members         | 477        | 945          | 1,272        | 1,365        | 1,389        |
| No. of Female members       | 144        | 286          | 412          | 448          | 456          |
| Groups(Women solidarity)    | 34         | 46           | 58           | 63           | 72           |
| <b>Total No. of Members</b> | <b>655</b> | <b>1,277</b> | <b>1,742</b> | <b>1,876</b> | <b>1,917</b> |
| Non-Members Clients         | 42         | 309          | 432          | 590          | 654          |
| <b>Total No. of Clients</b> | <b>697</b> | <b>1,586</b> | <b>2,174</b> | <b>2,466</b> | <b>2,571</b> |

Source: Kibaigwa SACCOS, 2006.

#### 4.3.2. Performance of Kibaigwa SACCOS

In December 2000, the society started lending activities by disbursing agricultural loans to 216 members worth shillings 5,409,000. All of these loans were internally financed with the intention of gathering practical experience in credit management. These first loans acted as a catalyst as enrollment of new members increased at an increasing rate, that was equally contributed by the massive mobilization campaign that had been going on at that particular time. Kibaigwa deposits and net profit shows a trend of increasing from Tshs. 3.5 million in 2001 to Tshs.111 million in 2005. Up to October 2006 Kibaigwa deposits and profit stands at Tshs.216.96 million and 36.4 million respectively (Table 6). This implies that the society is accessible to many people at the domicile area.

**Table 6: Growth and performance of Kibaigwa SACCOS**

| <b>Year</b> | <b>Members</b> | <b>Shares<br/>Tshs</b> | <b>Deposits<br/>Tshs</b> | <b>Loans Issued<br/>Tshs</b> | <b>Net Profit Tshs</b> |
|-------------|----------------|------------------------|--------------------------|------------------------------|------------------------|
| 2000        | 216            | 5,527,000.             | 365,000                  | 5,409,000.                   | 0.00                   |
| 2001        | 507            | 34,857,000             | 7,352,720                | 63,637,000.00                | 3,475,000              |
| 2002        | 665            | 48,217,000             | 24,856,164               | 127,724,250                  | 28,880,000             |
| 2003        | 1,277          | 153,073,194            | 73,068,109               | 380,834,500                  | 45,742,103             |
| 2004        | 1,691          | 195,818,969            | 103,696,519              | 397,009,950                  | 65,952,152             |
| 2005        | 1,876          | 431,206,817            | 249,477,739              | 1,134,715,900                | 111,354,211            |
| OCT, 06     | 1,917          | 446,938,747            | 216,958,698              | 2,711,034,170                | 36,412,279             |

**Source: Kibaigwa SACCOS records, October 2006**

#### **4.3.4 Products and services offered to its clients**

**Credit Products;** The credit products offered by the Society includes; Agriculture loans, Business Loans; Emergency Business Loan, Social Loans, Grain reserve Loan and Implement Loans.

**Agricultural loans** intend mainly to finance cultivation of maize. These loans have a grace period of eight months which is the time taken from land preparation to harvest and have a lump sum repayment after harvest that includes principal and interest attracting interest rate of 3% per month flat on principal. (On full repayment 1% of the interest is credited into the members share account increasing his/her share amount)

**Business loans** are issued to increase capital for the existing businesses with a repayment period of up to six months with equal monthly repayments. Interest rate is 3% p.m flat on principal.

**Emergency business loans** are issued to meet emergency business financial needs that can not wait for a couple of days. It is issued even if a member has another loan; it has a ceiling of 1 million repayable in 30 days (month) and attracting interest rate of 3%. This loan is either secured by chattel mortgage or landed property.

**Social loans** are intended to meet emergency social obligation of members such as funeral costs, medical expenses arising from illness or accidents. Have a ceiling of Tshs. 60,000 repayable in three months attracting interest rate of 3% per month and they can be issued to a member enjoying other development loans.

**Grain reserve loans (inventory loans)** are issued to members who wish to store agricultural produce during the time when prices at the market are very low until when they have improved. These loans have a grace period of up to 8 months repayable by a single installment after sells and attract interest of 3% per month flat rate on principal

**Implements loans** have so far been issued to finance purchase of tractors; these loans are issued after a member has deposited Tshs. 3,500,000 in his share account to qualify for a tractor loan of Tshs. 11,000,000. Security for the loan is mainly the implement itself and the shares that have been deposited with the SACCOs. Repayment period is 12 months and attracts interest rate of 3% per month.

**Deposit Products:** These include; Savings account, Minor account (popularly known as Watoto account), Fixed Deposit account.

**Savings accounts** are opened by members and non-member clients, these does not earn any interest and does not attract any charges.

**Watoto accounts** are opened by parents or guardians of children with age less than 18 years, withdrawals are restricted to twice per annum with each withdrawal not exceeding half of the account balance at the time of withdrawal

Fixed deposits account earns the following interest rates (Table 7)

**Table 7: Interest rate for fixed Account at Kibaigwa SACCOS**

| Up to Months | Interest rate per annum (%) |
|--------------|-----------------------------|
| 3            | 2.5                         |
| 6            | 5.0                         |
| 9            | 7.5                         |
| 12           | 10                          |

Source: SACCOS' Policy, 2006

#### 4.3.4.1. Tembocard Services

In September 2003 CRDB Bank Limited brought to Kibaigwa Tembocard product, first as a pilot project and later after its success it was fully launched and now it is accessible to members and non-members clients. Tembocard has been a great help to businessmen and women who were traveling with cash from other region to Kibaigwa to purchase maize in so doing endangering their lives. In reality a number of businessmen had lost their lives at Kibaigwa. Currently Tembocard Express is sold at Kibaigwa and one card costs Tshs. 10,000 only.

#### 4.3.5. Kibaigwa Loan portfolio quality

However in year 2006, the percentage of business loan outweighs that of agriculture this indicate the effect of drought experienced by the region. But for the good rain season the

number of agriculture loans is high as it is a main activity for most members of Kibaigwa (Table 8).

**Table 8: Kibaigwa SACCOS Loan Profile Sector wise**

|                              | Dec-03      | Dec-04        | Dec-05        | Oct-06        | percent of Oct-06 |
|------------------------------|-------------|---------------|---------------|---------------|-------------------|
| Total Amount Disbursed(Tshs) | 790,511,460 | 1,678,285,710 | 2,813,001,610 | 2,711,034,170 | 100%              |
| Agriculture                  | 348,934,460 | 764,923,710   | 1,213,559,610 | 1,010,186,770 | 37%               |
| Trade                        | 334,697,000 | 721,247,000   | 1,055,337,000 | 1,130,597,000 | 42%               |
| Implements                   | 0           | 0             | 290,100,000   | 296,100,000   | 20%               |
| Social                       | 106,880,000 | 195,115,000   | 254,005,000   | 254,495,000   | 1%                |

Source: Kibaigwa loan portfolio, 2006.

#### 4.3.6 The membership profile of Majengo

The membership profile for Majengo SACCOS is dominated by male in two years consecutively 2005-06. This reflects the impact of the decision made by the SACCOS in 2003 to expand its operations to cover all wards in Dodoma town.

By 30 November 2006 the society had 1,336 members who had contributed shares worth Tshs. 370,070,020.92 and had 1,237 clients maintaining deposits worth Tshs.60,526,802.59 (Table 9)

**Table 9: Majengo Sokoni SACCOS - Membership Profile**

|                             | Dec-02     | Dec-03     | Dec-04       | Dec-05       | Nov-06       |
|-----------------------------|------------|------------|--------------|--------------|--------------|
| No. of male members         | 125        | 297        | 382          | 625          | 772          |
| No. of Female members       | 160        | 304        | 359          | 487          | 553          |
| Groups(Women solidarity)    | 6          | 6          | 7            | 7            | 11           |
| <b>Total No. of Members</b> | <b>291</b> | <b>607</b> | <b>748</b>   | <b>1119</b>  | <b>1,336</b> |
| Non-Members Clients         | 47         | 71         | 360          | 842          | 1,237        |
| <b>Total No. of Clients</b> | <b>338</b> | <b>678</b> | <b>1,108</b> | <b>1,961</b> | <b>2,573</b> |

Source: Majengo SACCOS reports, 2006

#### 4.3.7. Performance of Majengo Sokoni SACCOS

From the data obtained from the society it shows that, up to November 2006 the society has already issued loans to its members worth Tshs. 2.2 billion. And it has exhibiting a rapid increase in profit trend from Tshs.8.6 million in 2002 to Tshs.68.2 million in November 2006. Similarly there is a continuous increase in both shares and deposits (Table 10).

**Table 10: Growth and performance of Majengo Sokoni SACCOS**

| Year   | Members | Shares (in Tshs) | Deposits (in Tshs) | *Loans Issued (in Tshs) | Net Profit (in Tshs) |
|--------|---------|------------------|--------------------|-------------------------|----------------------|
| 2002   | 291     | 6,900,328        | 2,403,820          | 183,362,000             | 8,622,220            |
| 2003   | 607     | 143,422,480      | 4,494,860          | 576,266,500             | 31,215,522           |
| 2004   | 748     | 180,365,517      | 14,295,826         | 960,976,500             | 43,886,062           |
| 2005   | 1,119   | 283,654,329      | 40,094,720         | 1,525,598,60            | 42,990,447           |
| Nov.06 | 1,336   | 370,070,021      | 60,526,803         | 2,221,823,60            | 68,183,633           |

Source: Majengo SACCOS Records, 2006

\*Cumulative value

#### 4.3.8 Products offered by the Society to its Clients

However, the society offers a range of credit as well as deposits products. Credit products include; Business loans, Emergency Business loans, and Social loans.

**Business loans** are issued to increase capital for the existing businesses with a repayment period of not more than 12 months with equal monthly repayments. Interest rate is 2% p.m flat on principal.

**Emergency business loans** are issued to meet emergency business financial needs are not expected by the businessmen. It is issued even if a member has another loan; it has a ceiling amount of 2.0 million repayable in one month attracting interest rate of 10%. These loans are fully secured by shares and deposits maintained by borrower or guarantors in the society.

**Social loans** are intended to meet emergency social obligation of members such as funeral costs, medical expenses arising from illness or accidents. Have a ceiling of Tshs. 100,000 repayable in one month attracting interest rate of 10% p.m. and they can be issued to a member even if he/she has other development loans.

Other services offered by the society include; Tembocard express, money transfer which enable members and other people to send money to any people in Tanzania main land who has an account in CRDB Bank or SACCOS.

#### **4.3.9 Majengo SACCOS loan portfolio quality**

Majengo loan structure is predominated by business loans disbursement of about 95% of the total loans disbursed at the end of year 2006. This implies that most of its members involves in business as their major activities and signify the meaning of Majengo Sokoni SACCOS, that the society was initially established to serve traders at the central market (Majengo Market) in Dodoma town.

**Table 11: Majengo Sokoni SACCOS - Loan portfolio Sector wise**

|                   | Dec-2003    | Dec-2004    | Dec-2005      | Nov-2006      | percent<br>of Nov-06 |
|-------------------|-------------|-------------|---------------|---------------|----------------------|
| Total Amount      | 576,266,500 | 960,976,500 | 1,525,598,600 | 2,211,823,600 | 100%                 |
| <b>Disbursed:</b> |             |             |               |               |                      |
| Agriculture       | 0           | 0           | 0             | 0             | 0%                   |
| Trade             | 567,969,500 | 948,309,500 | 1,491,657,000 | 2,105,024,000 | 95%                  |
| Processing        | 0           | 0           | 0             | 0             | 0%                   |
| Social            | 8,297,000   | 12,667,000  | 33,941,600    | 106,799,600   | 5%                   |

**Source: CRDB Microfinance Company Ltd, 2006**

#### **4.4 Challenges Facing SACCOS**

Currently, there are an increasing number of Microfinance institutions operators (especially SACCOS) in Tanzania compared to the past. Their contribution to economic development in the country has been revealed through financial sector performance and benefits obtained by clients, as it addresses the financial needs of many sectors of the Tanzanians poor population.

However, in spite of these benefits and growth of microfinance institutions (especially SACCOS) in the country particularly in the region (Dodoma), yet they have been facing with a number of challenges which are prevailing both at local and global level and it need an immediately actions so as to enhance the growth of the institutions. These challenges include:

##### **i) Poor loan repayment and recovery**

Loan repayment has been a big challenge in which about 28% of respondent mentioned the existence of the challenge (appendix 1) for most SACCOS in the region especially those rural based institutions whose members depend highly on agriculture which depend on rainfall. The study found that loans in most SACCOS

are not paid on the agreed period. For this case a large number of loans disbursed remained unpaid even if the date of repayment has expired. For example, about 75 % of SACCOS surveyed in Dodoma region experienced the same problem. The reasons given out were:

- Not abiding on the credit policies by loan committee on loan disbursement and management this includes lending loan amount beyond the lending ratio of 1:3.
- Misuse of loans by borrowers such as buying of clothes instead of investing in the intended activities or business,
- Poor business plans for some members,
- shortage of rainfall which affects crop harvests which is the main activities of most SACCOS members in the rural areas and
- Lack of means of transport such as car and motor bike in conducting loan recovery by loan committee.

This has led to an increasing in loan delinquency and defaults to the institutions which are not a good indicator to the financial institution. For example, about 21%, 18% and 16% of the total amount of loan disbursed are in arrears for Majengo, Kibaigwa and Chambasho SACCOS respectively (Table 12).

**Table 12: Loan Portfolio quality of Some of SACCOS in Dodoma**

| Name of MFI              | arrears free  | Total Loan Portfolio in Tshs. As at the end of November 2006 |                  |                  |                  |
|--------------------------|---------------|--|------------------|------------------|------------------|
|                          |               | percent of arrears free                                      | arrears >30 days | arrears >60 days | arrears >90 days |
| Majengo SACCOS           | 492,187,952   | 79%  | 34,193,858       | 28,155,373       | 41,193,412       |
| Mshikamano SACCOS        | 2,226,528,500 | 92%  | 182,000,000      | 46,316,400       | 0                |
| Kibaigwa SACCOS          | 2,711,034,170 | 82%  | 500,000,000      | 0                | 0                |
| Chambasho SACCOS         | 171,931,505   | 84%  | 1,797,900        | 11,953,745       | 13,753,250       |
| Mshikamano Baraza SACCOS | 106,170,413   | 96%  | 0                | 3,871,577        | 0                |

Source: CRDB Microfinance Company Ltd Dodoma, 2006

**ii) Lack of appropriate skills for management and members**

It has been found that, large number of SACCOS' board members and some staffs they lack the required skills on how to operate even the simple accounting principles and financial management at the institution. The study further found that, some of board members are unable even to distinguish between share, saving and deposit. This was revealed when about 28% of the interviewed respondents mentioned the existence of the problem of lack of proper skills (Appendix 1). This has created fear of losing saving to some people. Due to this fear of losing savings, many people who can potentially benefits are reluctant to buy shares or entrust their saving to these SACCOS. This has been a source of many loan delinquency and defaults. This was due to the fact that, most of SACCOS' leaders were not receiving the right, regular and intensive proper training from the institutions or Ministry concerned (i.e. Ministry of Agriculture, Food and Cooperatives through its cooperative officers).

This also imposed some complexity for management in managing the institution's operations especially on controlling loan Delinquency and defaults, recording transactions in the right books of account. As a result the frequency of CRDB-MFC Relation Manager to visit these institutions for technical to know how and other assistance has increased.

**iii) An increase in robbery incidences with advanced armed technologies**

Currently the events of robbery are increasing in the country especially in Banks and SACCOS. In this study through interviewing SACCOS' member mentioned to experience more than four robbery incidences in SACCOS and millions of money were stolen. A good example elaborated is that of Kibaigwa SACCOS in which three robbery incidences to its offices took place; the first occurred on the 1 November 2003, the second on the 27 October 2005 and the third occurred on the 12 May 2006. In all incidences the robbers were equipped with strong fire arms while using explosives to get access to strong rooms. In the first two attempts the robberies did not manage to get any money but in the third attempt they have succeeded to get money from the society.

The same incidence occurred at Mlali SACCOS in 14 February 2006 where by about Tshs.4.36 million were stolen and office assets such as safe, computer and buildings were destroyed. Similarly to Chambasho SACCOS in 24 June 2006 where Tshs.421, 950 were stolen all of these institutions are based in Kongwa District.



**Figure 2: Mlali SACCOS office building after robbery at 14 February, 2006.**

Others were Green right SACCOS in Mikumi and Mwananchi SACCOS based in Ifakara-Morogoro where by Tsh. 4 million and Tshs.22 million respectively were stolen. This situation has imposed a challenge to the SACCOS security system as they only use security guards officers, with simple weapons and low techniques such as bow and arrows.

The frequent of robbery incidences especially in Dodoma has necessitated some SACCOS to look on other means of security such as police and other new technologies, even though they are more expensive. Many SACCOS reported that the cost of police security was about Tshs. 1.2 millions per month, a cost which is beyond the Microfinance institutions capability. Currently the wages for security guard in most SACCOS range between Tshs. 50,000 to 90,000 per month.

**iv) An increasing competition in the financial market**

The study found that, most of SACCOS are unable to withstand the prevailing kind of competition (stiff competition) due to inadequate fund to finance their promotion campaign and operational costs.

The study finding reveals that, competition of SACCOS is of two levels, SACCOS to SACCOS and SACCOS and other Microfinance institutions. At the SACCOS level, a SACCOS compete with other SACCOS in form of getting new customers and fund mobilization. For example, there are forty one (41) SACCOS in Dodoma Municipal most of them located at the same Street in “Madukani” ward with just some meters apart from each other serving the same populations.

The study further found that, the major competitors for SACCOS in the region and in the nation as whole includes; National Microfinance Bank with 115 branches in the country, PRIDE-Tanzania, FINCA and other Financial NGOs which are some how financially well. Sometime this situation has led to some microfinance institutions (SACCOS) to collapse or liquidated due to high indebtedness.

**v) To build good image to the society they serve**

SACCOS in Tanzania still have more work to do so as to change the past notion and ideas of the collapsed Co-operatives societies in the end of 1980s and build good image to many people. Many people are worrying to join with SACCOS simply because they think that even these will collapse as the previous societies did.

In this study it has discovered that, most of SACCOS are operating in renting premises with the simple building structure such as villages’ offices. These buildings and furniture used does not reflect financial business as the environment should be attractive so as to attract customers and thus build trust that the money saved is safe. This has led to many people to be reluctant to join with the society and hence deposit their savings into banks

where they see is more safe and not in these institutions (SACCOS), even if they are close to their place.

Among of the 14 surveyed SACCOS in Dodoma region only three (3) were working in their own modern building, these were Mshikamano SACCOS in Gairo, Kibaigwa SACCOS based at Kibaigwa and Chambasho SACUOS. In these SACCOS the confidence of their members is high compared with those still operating in simple buildings. Also this attracted many Donors and stakeholders to finance these societies as they are sure of their money. These Donors include; CRDB Bank Ltd, SELF and RFSP and other Financial NGOs.

The picture below is of Mshikamano SACCOS building, it is in partnership with CRDB bank. Currently the building is attracting many clients and donors.



**Figure 3: A modern building of Mshikamano SACCOS in Gairo**

**vi) Inadequate legal, regulatory and supervision framework**

SACCOS as financial Cooperatives are offering nearly banking products and services (i.e. products which are present in Banks are now offered by SACCOS). But in this study it has been found that, SACCOS they lack a clear and specialized legal, regulatory and supervision framework to guide as financial institutions in the region and in the country as whole. This is because the current Cooperative Society Act, 2003 and its regulation of 2004 was not made specifically for micro financial institution as SACCOS operate today, but it was for all Cooperatives societies. This limits much their operations as it vest the supervision and regulation under the registrar of cooperatives which demand them to operate in the cooperative ways. But in reality SACCOS are required to operate

as financial institutions as banks in order to meet with the current competition in financial sector.

**vii) Poor remunerations of employees**

About 98% of the surveyed SACCOS in the area of study, it found that they lack well structured staff remuneration and incentives system which is based on performance, qualification and job position of the employees; instead they depend on the resolution from the board member and members' general meeting. This has led to many complains from members of staff, complaining of working for along time without being motivated in spite of good performance attained by the institution. This also has created problems especially when new staff is recruited and being paid the same salary as the forma employees. Example at Majengo SACCOS a teller who worked for many years now is being paid a same salary with the junior employees. This had a negative effect of the working morale of employees.

**viii) Lack of adequate capacity to assess and manage risks**

The business of money is of high risks. However, it has found that in most SACCOS the system of risks management structure is unavailable, leader are only using traditional means of overcoming the prevailing risks such as the honest and trustfulness of borrowers. Lack of well developed strategies of risk management on loan portfolios at the society undermined their capacity to lend at full rate or to honor cash withdrawals.

On the other hand the ability of providing the varieties of product is also limited due to fear of loose for their money from bad borrowers.

**ix) Poor means of identifying dishonest members and leaders.**

During this study it was discovered that, most of SACCOS in the region are formed as community initiatives with the primary objective to save their members. Thus they are not well organized in form of strategies, policy, by-laws and regulations. This is because most people who initiate the society they are limited in terms of skills and knowledge on cooperative and financial management. For this matter the possibility of establishing suitable techniques of identifying dishonest members became more difficult. With this reference therefore, some SACCOS' board members and ordinary members provide false information about their background, collateral used as guarantees and level of education. This situation has led some board members and employees to be involved and being source of many robbery incidences, misuse of society funds and poor loan repayments and recovery.

It also found that, some SACCOS' members who are indebted at one institution find membership to another institution so as he/she can get another fresh loan.

This was experienced by SACCOS such as Chambasho SACCOS, Kibaigwa Financial services SACCOS in which the former board member accused with robbery incidence and loss of million of shillings.

**x) Increasing in loan demand**

Many SACCOS in the region are unable to meet the current growing demand for loans from their members. This was compounded by the small profit margins on loans and the members' reluctance to review interest rates so as to enable the institution to mobilize more funds.

The study conducted by World Bank (2003) reported that by January 2001, there were 646 registered SACCOS, of which 60% were rural based and 40% urban SACCOS and that they are often limited in terms of their financial capacity, access to capital, and outreach. This is because most of SACCOS are financially dependant; they depend much on donors and formal financial institutions such as Banks. This therefore limits their financial ability to meet loan demand from their members and thus, left a large number of unsatisfied loan needs especially in the rural areas.

On other hand, the number of loan applicants at SACCOS is high in comparison with the fund available to pay all the approved loan amounts from members. This necessitates loan committee to issue loans in groups by the first in, first out process so as to avoid inconveniencies to members. But this has been the major complain for most members of SACCOS, that loan is not available at the right time especially agriculture loans in rural SACCOS. Example some members at chambasho SACCOS who were applied for business loan since March 2006, up to September 2006 were not yet secured the loan because of shortage of money at the institution. This is because the society was not yet full repaid the loans from its donors such as CRDB bank, SELF and LVIA so as it can get a fresh loan to meet loan demand from members.

**xi) Weak capital base to run the institutions**

Most of SACCOS have low ability to accumulate and mobilize internal fund from different sources so as to meet their member's loan requirements and future expansion plans since they depend on donors' sources of fund. Also this reduced their capacity to mobilize internal capital and thus weaken the capital base and failed to meet loan demand from their customers.

Furthermore the study found that, the ability of SACCOS to expand their services depends on the fund mobilized from various sources such as savings, interest, penalty and fees which are insufficient. It is also equally true that this ability itself depends very much on the image of local financial intermediaries to both formal financial institutions and the society they save.

**xii) Shortage of employees in the co-operative department**

The Cooperative Act, 2003 and the Saving and Credit Cooperative Societies Regulation of 2004, gives the regulation and supervision of SACCOS to be under the Registrar of Cooperative under the Ministry of Agriculture, Food and Cooperatives.

However, in this study it has been found that, the number of employees in the Ministry of Agriculture, Food and Co operative who are responsible for monitoring and control of SACCOS are unmotivated and very few in number when you compare with the current number of SACCOS in the nation. This situation imposed some complexity to Co-operative officers in scheduling well their time table to visit and training of SACCOS' staffs and board members about co-operatives regulations, policies, accounting principles and laws. This situation is reported as the one among of the causes of poor managements in many SACCOS.

Example, in Dodoma Municipality there were forty one (41) SACCOS controlled by only two officers with motor bike as means of transport and in Kongwa District there are only four (4) officers in the Co-operative department monitoring more than sixteen (16) SACCOS which are scattered in unevenly distribution. On top of that ,the Government had not yet put more emphasis on creating conducive and enabling environment for the development of SACCOS in many areas especially in the rural areas where poor

population live, in spite of the current Government emphases on the formation of SACCOS in which political effort is profound .

#### **4.5. Lending Methodology used by SACCOS**

##### **4.5.1 The Lending systems of SACCOS**

In this study it found that, about 98% of SACCOS are using both the individual and group lending methodology system (women solidarity groups), lending to members only, with the lending ratio of 1:3 of the members' savings value. This means that if a member has saving value of 30,000 he/she is allowed to borrow 90,000 (three times it's saving values). Group lending approach was used in lending women solidarity groups in which a group consists of five members involving in business activities.

On the other hand, shares, Savings, Marketable assets and Guarantors Properties were used as collateral for loans disbursed by the institutions as it stipulated in the established Cooperative Act, 2003 and its regulation of 2004.

This Act requires SACCOS to use amount of Savings a member has in his/her account as a bases for lending ratio 1:3 and not Shares which express the ownership at the institutions.

Tables bellow show some of SACCOS surveyed and their lending system to their members/Client

**Table 13: Lending system of SACCOS in Dodoma**

| Name of MFIs           |           | Lending Method   | based ratio | Interest | Collateral        |
|------------------------|-----------|------------------|-------------|----------|-------------------|
| Kibaigwa SACCOS        | Financial | Individual group | & Saving    | 3%       | Deposits & Assets |
| Majengo SACCOS         | Sokoni    | Individual group | & Saving    | 2.2%     | Dcposits& Assets  |
| Mshikamano SACCOS      |           | Individual group | & Saving    | 2.5%     | Deposits &Assets  |
| Kambarage SACCOS       |           | Individual group | & Savings   | 3%       | Deposits& Assets  |
| Dodoma Teachers SACCOS | Municipal | Individual group | & Saving    | 2%       | Deposits& Assets  |
| Chambasho SACCOS       |           | Individual group | & Savings   | 2.5%     | Deposits& Assets  |
| Mlali SACCOS           |           | Individual group | & Saving    | 3.5%     | Deposits& Assets  |
| Mwashita SACCOS        |           | Individual group | & Savings   | 3%       | Deposits& Assets  |
| MECO SACCOS            |           | Individual group | & Savings   | 3%       | Deposits& Assets  |

Source: SACCOS Policy, 2006

#### 4.6 Consolidated performances of CRDB Bank partners (SACCOS) in Dodoma.

Currently, the CRDB- Microfinance Company is in partnership with 193 Microfinance institutions (SACCOS and SACAS) with 105,654 customers in Tanzania mainland, where by about 51 of them, which are 26 percent, were established from the scratch by the bank (Appendix 3). By June 2006, MFC managed to train 36,105 Board members, share holders and professional staffs. However, the bank has invested a total of Tshs.833 millions in this capacity building and Tshs.11.9 million for equipment and furniture granted to its partners SACCOS free of charge. Through its microfinance methodology to linked intermediaries partners, CRDB Bank is able to access financial services in 71 Districts and 16 regions in the country.

In Dodoma region prospectively, the Bank links with 14 SACCOS through its subsidiary CRDB Microfinance Company Ltd at the time of this study.

The current growth and performance of partner SACCOS in Dodoma is summarized in appendix 2

## CHAPTER FIVE

### 5.0. CONCLUSION AND RECOMMENDATION

#### 5.1. CONCLUSION

Based on the finding of this study, it was concluded that, microfinance institutions face many challenges which hamper their development. The study further shows that, among other things; poor loan repayment, Lack of skills for managements and members especially on how to operate SACCOS, poor remuneration system for employees and competition are constrains to SACCOS' performance and growth.

#### 5.2. RECOMMENDATION

Basing on the study findings it is recommended that microfinance institutions should put in place the following recommendations:

➤ **Education and training for members.**

In order to minimize the delinquency in loan portfolio as found in many SACCOS, SACCOS must make sure that borrowers are educated well on the benefits and costs of early and late repayment of loans to the society. During this study many board members and professional staffs mentioned the need of training especially on the area of good practices, book keeping and the use of loans. This is possible only when SACCOS in collaboration with government and other donors such as CRDB Bank, SELF, IFAD and SCCULT will directly invest their efforts to SACCOS development especially in the rural areas where need is high. In addition, the board members should be educated on challenging issues through training and seminars. This will help to change the attitude of board members towards the way of delivering competitive products and services to their

members and thus meets their future expectations. It will also enable them to recognize the importance of appropriate technology, skills and systems needed to run their institutions.

➤ **Government development support**

Government through its rural finance supporting programmes such as SELF, RFSP and TASAF should increase the budgetary fund allocated to these institutions so as to fill the capital deficits. Further more the government could help SACCOS to establish reserve funds and deposit insurance. By doing so the members and society in large will trust SACCOS as other formal financial institutions. As a result many people will be willing to deposit their money into SACCOS; this will increase the customer base and capital share of SACCOS.

On other hand CRDB bank through its subsidiary MFC should extend its current financial services to many SACCOS in Dodoma as currently is in partnership with fourteen SACCOS which is only 10 % of the total (135) registered SACCOS. Further more stakeholders who are aiming at assisting employment creations in the country should develop ways of financing new microfinance institutions which employ many people.

➤ **To operate as Business oriented institutions**

Most of SACCOS are still operating in the old social oriented model which is based on saving only members and have been slowly to change into the business oriented model which is accompanied with new and demand driven differentiated products and services. This is contributed by the current cooperative Act which requires them to operate in the bases of cooperative as saving to their members only. Therefore the need of revising the

act is necessary so as to expand the operations of SACCOS and operates as purely formal financial institutions such as banks.

In addition, SACCOS to be more recently and sustainable are required also to operate profitably in order to give more returns to their members and the institution. This will need them to establish effective credit delivery and collection systems which make loan application procedures simpler. This will enable them to run their operational costs at the minimal point and thus build more institutional reserves and profits which are necessary in ensuring financial growth and stability.

However, it is important also to change attitude of board members and staffs that SACCOS has to operate as business entities by employing the available resources efficiently for the benefit of their members/clients. Thus the factor of entrepreneurial skill through training and the involvement of cooperative Officers to facilitate the process play a great role.

➤ **Create good image and philosophy**

To off set the notion of the collapsed Societies, SACCOS are required to operate in the modern business orientation system and not as social orientation ways. This will involve the development of various new products which meets community demand, developing borrower selection techniques that weed out bad client, employing of skilled and qualified staffs, building modern offices which will increase the confidence of their members. This not only will ensure safety and security of their money but also will create good image to the society.



**Figure 4: A Member of Mshikamano SACCOS asking procedures for opening saving account to staff member.**

➤ **Review of SACCOS by- laws**

To conform to the current financial market environment, by-laws and credit policies of SACCOS should be developed to focus SACCOS as business entities rather than social oriented of saving members. These will entails with the setting of entrepreneurial interest rates by taking into account technical factors such as operational costs, market forces and inflation. Also the need of expansion of the roles and responsibility of board at the society level is a paramount important.

➤ **Establishment of staff remuneration scheme**

SACCOS as financial institution they are required to establish remunerations structure which specify when and how the employee will be promoted, remunerated and

terminated at the institution. This could be done by paying employees basing on their performance and percentage of the society's revenues or basing on percentage of interest charged on member's credit transactions. This will motivate manager and its subordinates to produce more and this will enable SACCOS to operate within the arm of the employment Ordinance of 1964 and the new Employment Act of 2004. This will reduce the unnecessary cases which were observed to be normal to some SACCOS such as Majengo Sokoni SACCOS based in Dodoma Municipality.

➤ **Review of Products and Services pricing structure**

Prices for both loans and savings should be reviewed so as to reflect the prevailing financial market realities. This could be done without losing the cooperative objectives of saving members.

Board members and staffs should be empowered to set the entrepreneurial interest rate on loan through training and seminars. This also will need to set different level of interest for different credit products of different ceiling amount so as to attract different segment of customers (Very low, low and medium income earners) and gives more benefits to borrowers.

➤ **Establishment of new regulation and supervision for SACCOS**

There is a need of revising the current Cooperative Society Act of 2003 and establishment of a specific regulation which will regulate SACCOS as the financial institutions. This would entail the formation of a clear regulation which treats SACCOS as business oriented financial institutions as Co-operative banks so as to meet the current market situation rather than as only a cooperative. For this case the micro financial institutions regulations which require the Bank of Tanzania to supervise Microfinance institutions should be strengthened in these institutions.

➤ **Marketing of SACCOS product and services,**

In the current business environment of high competition marketing is a necessary action to be taken in order to enable SACCOS to expand their profits margin and outreach. During the study it found that, most SACCOS' products are not properly differentiated and therefore poorly marketed and priced since clients understand only few common products. To resume the situation, SACCOS are required to formulate competitive marketing strategies and advertisement to create the public awareness about their products and services. This will involve also the government intervention and other donors to finance marketing activities.

To rectify the situation, the committee of credit and education in the SACCOS should be empowered both financially and entrepreneurship skills so as to be able to create good market strategies such as low pricing strategies for penetrating in the existing financial market in Tanzania

➤ **Set Acceptable institutional delinquency level**

It is better for an institution from the beginning to set a target level of acceptable loan delinquency and defaults on its operation programmes and employment of competent and hardworking loan officers so as to minimize the loan defaults. This will involve issuing loan after confirmation on availability of collaterals as stipulated in the credit policies of institutions.

Together with this, the philosophy that delinquency is not acceptable and it is a sin should be established. This will psychologically motivate loan officers and board members to make sure that no delinquency is allowed. Thus they will put in place policies and strategies which aim to minimize loan defaults and thus more loan repayment

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## APPENDECES

Appendix 1 summarizes the response of respondents on challenges faced by SACCOS in Dodoma Region

### **Appendix 1: Response of respondents on challenges facing SACCOS**

| <b>Challenge</b>                                    | <b>Frequency</b> | <b>Percent</b> |
|---|------------------|----------------|
| Poor loan repayment                                 | 14               | 28.0           |
| Lack of proper skills by managements                | 14               | 28.0           |
| Lack of transportation facilities for loan recovery | 5                | 10.0           |
| Frequent robberies incidence                        | 5                | 10.0           |
| Lack of capital                                     | 4                | 8.0            |
| High competition                                    | 2                | 4.0            |
| Dishonest of members and borrowers                  | 4                | 8.0            |
| Few cooperative officers                            | 2                | 4.0            |
| <b>Total</b>  | <b>50</b>        | <b>100.0</b>   |

**Source: Survey Data, 2006**

**Appendix 2: Consolidated performances of CRDB Partner SACCOS in Dodoma as at 30 November 2006**

| Name of MFI                  | Number of Members | Shares, (Tshs in million) | Deposits, (Tshs in million) | *Loans Issued, (Tshs. in million) | Net Profit, (Tshs million) |
|------------------------------|-------------------|---------------------------|-----------------------------|-----------------------------------|----------------------------|
| Kibaigwa SACCOS Ltd          | 1,917             | 446.9                     | 217.0                       | 2,711.0                           | 36.4                       |
| Mshikamano SACCOS Ltd        | 1,837             | 412.5                     | 93.7                        | 2,226.0                           | 62.4                       |
| Majengo SACCOS Ltd           | 1,336             | 370.1                     | 60.5                        | 2,221.8                           | 68.2                       |
| Kambarage SACCOS Ltd         | 918               | 124.2                     | 9.4                         | 975.8                             | 8.4                        |
| Mwashita SACCOS              | 655               | 111.7                     | 9.3                         | 800.6                             | 16.6                       |
| Mlali SACCOS Ltd             | 430               | 25.4                      | 4.1                         | 166.3                             | 12.0                       |
| Mshikamano Baraza SACCOS Ltd | 413               | 16.0                      | 2.0                         | 208.7                             | 4.5                        |
| Chambasho SACCOS Ltd         | 435               | 7.0                       | 34.4                        | 206.3                             | 4.7                        |
| Chamihado SACCOS             | 308               | 8.6                       | 0.7                         | 311.8                             | 4.5                        |
| Mcco SACCOS                  | 353               | 16..3                     | 15.4                        | 27.4                              | 0.4                        |
| Mkombozi Afya SACCOS         | 166               | 26..3                     | 26..3                       | 127.6                             | (3..3)                     |

Source: survey Data, November 2006

- Cumulative values

**Appendix 3: CRDB Bank LTD Microfinance outreach in Tanzania**

| <b>Particulars</b>                              | <b>2004</b> | <b>2005</b> | <b>June, 2006</b> |
|---|-------------|-------------|-------------------|
| District covered                                | -           | -           | 71                |
| Partner intermediaries                          | 107         | 160         | 193               |
| MFIs customers                                  | 59,812      | 88,109      | 105,654           |
| MFIs Total funds mobilized (Tshs billion)       | 15.4        | 24.3        | 28.4              |
| Cumulative loans disbursement                   | 70,740      | 131,208     | 155,163           |
| MFIs cumulative amount disbursed (Tshs billion) | 46.8        | 85.5        | 104               |
| MFIs total outstanding loan portfolio           | 18          | 28.7        | 36.6              |
| MFIs payment rate                               | 98%         | 98%         | 98%               |
| MFIs portfolio at risk of 30 days               | 2%          | 2%          | 2%                |

Source: CRDB Bank LTD, 2006

**APPEDEX 4: Questionnaires for the study titled “Challenges facing Microfinance Institutions in Tanzania”, case of Dodoma SACCOS**

**A. Client/Member questionnaire**

1. Name.....
2. Age.....
3. Sex; 1 male 2. Female
4. Education level
  1. Primary 2.Secondary 3. Ordinary diploma/ advanced diploma
  4. Degree and above
5. Marital status; 1.Single 2. Married 3. widow
6. Name of organization.....
7. What was the source of the start-up capital?
  1. Own 2. Grant 3. Credit
8. From what organization did you obtained credit?.....
9. How long did you take to get the loan.....Days/weeks/month
10. What conditions were you required to meet so as to obtain the loan  
.....
- What are the terms and conditions of the loan in terms of
  - i. Amount of loan..... ii. Interest rate.....
  - ii. Loan duration.....
  - a) Did the loan meet your requirements? Yes/ No
  - b) How much did you require?.....Tshs.
11. In what interval are you supposed to repay your loan.....week/month.
12. How much are you supposed to pay in each installment; Principal.....  
Interest rate..... Other fee..... Total  
.....Tshs.
13. How many installment have you paid full.....ii paid late/ partially.....
14. What do you consider to be the main reasons for your late payment
15. Why do you think it is important to repay the loan?.....
16. What are the effect of late payment of the loan?.....
17. What do you think are the main challenges facing your organization?

### B. Questionnaires for SACCOS' Board members and professional staffs

1. Name.....
2. Age.....Years
3. Sex; 1. Male 2. Female
4. Education level
  1. Primary 2.Secondary 3. Ordinary diploma/ advanced diploma
  4. Degree and above
5. Marital status; 1.Single 2. Married 3. Widow
6. Name of organization.....
7. How many members do you have?.....
8. How many clients do you serve?.....
9. What are the main objectives on your institution... ..  
.....
10. What type of products does your institution offer? I.....  
ii.....iii.....
11. What types of loan does your institution offer? I.....  
ii.....iii.....iv.....
12. What factors are you considered when set linting repayment schedule/interest rate.....
13. What collateral requirements that the borrowers must fulfill first before securing credit?.....
14. When the loan is said to be delinquency?.....
15. What is the rate of delinquency in your loan portfolio.....%
16. Do you assess borrowers before authorizing credit delivery?.....
17. What characteristics do you consider during assessment?.....
18. What lending methodology are you using in offering credit to your customers.....
19. What incentives are used to encourage more saving to the SACCOS.....  
.....
20. What challenges does your institutions face?.....  
.....

What ways/methods do you use to solve these challenges.. ..

.....

21. Have you attended any training about SACCOS' operations Yes/No

a) If Yes at which organization?.....

b) If No what form of training do you need.....

22. Does the institution have any future plan to offer other financial services? Yes/ No

If yes, what future plan do you expect?