

Empowerment of Civil Servants through Savings and Credit Cooperative Society (SACCOS): Evidences from Institute of Accountancy Arusha

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ABSTRACT

The aim of this study was to assess the importance of SACCOS in empowering civil servants economically at working places. In order to achieve this objective the researcher applied questionnaires and interview as means of obtaining primary data. The study found that 50% of respondents used the loans to build houses and buy cars and the rest of respondents (50%) said they secured loans to establish businesses and serve family issues. It was also revealed in the study that interest rates charged by the SACCOS are much lower than other mainstream financial institutions. Furthermore, it was learned that the borrower is not required to furnish immovable asset while securing the loan, further, the loan is processed in a very short period that is to say within a week the loan is out and does not involve legal procedures. Further, the study showed that the current repayment period has to be extended up to five years instead of the current three years; this will enable those members who wish to invest in long term investment to do so. It is therefore said that loans provided by SACCOS have improved the lives of civil servants economically. It is recommended that the fund has to look for other sources of finance like consulting social funds which have already such programs of financing members of social funds whom are also members of SACCOS.

Key words: Empowerment, Civil Servant, SACCOS, National Microfinance Policy, Arusha.

1. INTRODUCTION

Emergence of microfinance institutions can be traced back from 1991 when the government of Tanzania initiated financial sector reforms with the purpose of creating an effective and efficient financial system, before introduction of financial sector reforms, the government of Tanzania was following socialism and self-reliance policy whereby the economy was operated and owned by the government. The intent of introducing financial sector reforms was to allow banking institutions to operate on a commercial basis and making managerial decisions which are free from government interventions, however, these institutions should act within the norms of prudential supervision. The government of Tanzania went further by elaborating the financial reforms which included: liberation of interest rates, elimination of administrative credit allocation, strengthening of the Bank of Tanzania's role in regulating and supervising financial institutions and allowing entry of both local and foreign private banks (URT, 2000). The overall objective of financial sector reforms was to establish a basis for evolution of an efficient and effective micro financial system in the country that serves the low income segment of the society and thereby contribute to economic growth and reduction of poverty.

1.1 *Objective of the Study*

The main objective of this study was to assess the importance of SACCOS at working place in empowering civil servants economically and specifically looking at other corresponding benefits associated with loan provision.

1.2 *Institute of Accountancy Arusha (IAA) SACCOS as a Case Study*

The IAA SACCOS was registered May 2003 with 40 members; this institution operates under the cooperative societies Act, 1991 in offering savings and credit services to members. To date the responsibility of SACCOS has been placed in the hands of the Ministry of Agriculture and Cooperatives. The main objective of IAA SACCOS is to promote economic and social interest of its members by means of common undertaking, based upon mutual aid and which conforms to the cooperative principles of a society which is established for the purpose of facilitating operations of societies.

Other objectives include:

- Accept the responsibilities of membership, without gender, social , racial, political or religious discrimination;
- IAA SACCOS be democratic organization controlled by members who actively participate in setting their policies and making decisions, men and women serving as elected representatives and accountable to the membership;
- Members contribute equitably to, and democratically control the capital of their cooperative;
- IAA SACCOS is the organization which works for the sustainable development of their communities through policies approved by members.

1.2.1 Conditions for Membership

The membership goes with the following conditions

- Entry fee of Tshs. 5,000
- Any person who wishes to join the society for the first time has to buy 10 shares each share costing Tshs. 10,000.

Shares sold are for sustainability of the society (i.e. to build up the capital of the society) and any member is not allowed to buy more than 20% of the total shares.

Savings are derived from monthly contributions by members whereby each member is required to contribute not less than Tshs. 20,000 per month. Savings normally attract interests as may be determined by the general meeting. In case a member wants to draw his/her savings, s/he is allowed to do so but the balance of his/her savings should not be less than 40% of his/he total savings.

1.2.2 Sources of Finance

The IAA SACCOS depends on different sources of finance as follows;

- Entry fees
- Share selling
- Interest on loans
- Monthly contributions/savings

1.2.3 Conditions for loan Provision

Provision of credits is preceded with the following conditions:

- To attain three months membership
- To have two co-workers as guarantors/cosigners
- Interest rate applied is 1% per month or 12% per annum payable using straight line method.
- All credits would be stopped if the total bad debts go beyond 5% of total credits offered by the society.

1.2.4 Governance

The general meeting is the supreme organ of the society. This organ is responsible for overseeing and governing all affairs of the society, furthermore, the general meeting is concerned with major decisions of the society and for decisions to have legitimacy the column of attendance should not be less than 50% of the total members.

2. LITERATURE SURVEY

a. Definitions of Operational Terms

2.1.1 A Co-operative Society

A co-operative society is an association of persons who have voluntarily joined for the purpose of achieving a common need through the formation of a democratically controlled organization and who make equitable contributions to the capital required for the formation of such an organization and who accept the risks and benefits of the undertaking in which they actively participate (URT, 1997).

2.1.2 Savings and Credit Cooperative Society

Savings and Credit Cooperative Society means a registered society whose principal objects are to encourage thrift among its members and to create a source of credits to its members (URT, 2013).

b. National Microfinance Policy 2000 Perspective

Before the introduction of microfinance policy 2000, most of the microfinance institutions were faced with a number of problems including:

- Interest rates were not set by MFIs themselves and as such , in most cases they are set at levels that are too low to cover operational costs ;

- Non-Governmental Organizations (NGOs) providing microfinance services were purely depending on donor funds for their operations instead of building their own internal capacity.
- NGOs and other MFIs operated under different laws which rendered it difficult to monitor them and develop common standards and
- There had been no procedures for coordination, tracking and analysis of microfinance operations.

The financial sector reforms impacted the closure of bank branches and during restructuring process the credit services were reduced to low income people. Because of this challenge the government put much focus on expansion of financial services to micro-level clients by itself establishing the National Microfinance Bank (NMB).

2.2.1 Financial products offered

To start with, the policy is insisting on the following financial products:

2.2.1.1 Saving services

Saving services are provided to low income people for the purpose of protecting them against period of low income or emergencies and to cover large anticipated expenses such as school fees.

2.2.1.2 Credit services

Credit services are provided for the sake of doing business or investing in short term or long term investments, thus apart from credit services functioning like savings, and they are treated as startup capital.

It is therefore said that microfinance services provided by the MFIs in Tanzania are financial in nature and furthermore, these services do address the financial needs of the major sectors of the Tanzanian population and hence contributing to poverty reduction and income improvement distribution.

2.2.2 Scope of the Policy

The policy covers the provision of financial services to household, small farm holders and small and micro enterprises in rural and urban areas. The policy is directed at services for low income families and their enterprises that have lacked access to financial services from mainstream financial institutions.

2.2.3 Objective of the Policy

The overall objective is to establish a basis for the evolution of an efficient and effective micro financial system in the country that serves the low income segment of the society and thereby contribute to economic growth and reduction of poverty by:

- Establishing a framework within which micro finance operations will develop;
- Laying out the principle that will guide operations of the system
- Serving as a guide for coordinated intervention by the respective participants in the system; and
- Describe the roles of the implementing agencies and the tools to be applied to facilitate development.

2.2.4 Pricing

Pricing is one of the most important determinants of the potential of micro-finance services to become sustainable. Prices should be set by the micro-finance organizations themselves, not by the government, the Bank of Tanzania (BOT), or donors because it is the institution that has the full

knowledge of its costs, the market it faces, and its own business strategy that forms the basis for pricing decisions.

2.2.5 Loan Security

A variety of collateral substitutes and repayment incentives can be used so that loans are not secured in conventional sense, but are adequately protected against risk. One of the main differences between microfinance and other form of finance is the prevalence of loan that are not secured in a conventional manner.

2.2.6 Governance

Institutions should have sound governing structure suitable to their institutional types. Participation by clients may in some instances be a fundamental principle of the governance structure. However, the government and political interference in governance should be avoided as it has been shown in many countries that direct involvement of the government and political entities in financial service provision is usually counter-productive.

2.2.7 Regulation and Supervision

In regulating and supervising microfinance operations, the supervisory authority applies the same fundamental principles it applies to other parts of the financial system. These principles involve protection of depositors and of the financial system through the application of prudential financial norms. However, institutions like micro lending NGOs there is little need to regulate such institutions because they are not deposit takers, but those institutions licensed to accept deposits from the civil or from other financial institutions are subjected to regulation and supervision.

2.2.8 Capacity Building

Most of the microfinance institutions currently operating in the country are small and/or new. A great deal of capacity building is required to bring them to the level at which they can operate with large outreach, quality services and profitable operations. Much of the capacity building is taking place within institutions, through their development of systems, training of staff, and building of management and governance capabilities. The government considers this area a priority and donors are encouraged to do the same.

2.2.9 Government Roles and Responsibility under the Policy

The government's major role is to create a supportive macroeconomic setting and a regulatory environment that allows sound financial institutions offering micro-finance services to emerge. With this regard the government's functions include keeping inflation rate low, allowing interest rates to set freely, developing rural infrastructure to allow access to remote areas, building a healthy credit culture through civil awareness programs, providing high-quality and independent banking supervision, and develop a legal framework supportive of financial institutions' operations. The government at time takes on a promotional role. For example, it may encourage and guide donors in establishing programs to support microfinance institutions in building internal capacity, it may promote the adoption of best practices and standards by service providers and it may support capacity building efforts. In its promotional activities, the governments leaves it to the institutions to make their own choices on matters that properly belong to the institutions themselves such as product development, delivery methodology , loan terms and pricing, geographic location and target clientele.

2.3 Empirical Literature Review

Maseko and Mlungwe (2013) carried out a study on performance of savings and credit cooperative in Arusha city council – Tanzania, researchers considered a sample of 80 comprising of 65 being members and 15 management team. The sample size was both randomly and purposively selected. Authors used both secondary and primary data whereas they used questionnaire and interview methods to get primary data and they used financial statements, annual general minutes and brochures as a means of secondary data. Data were presented and analysed using tables, graphs and figures. The findings revealed that the rate of default was low at 5% meaning that the management was able to collect the amount of loans at 95%, this may have been facilitated by women having big share in membership of 70% who are said to be faithful and committed when it comes a question of repaying loans due as it is reported that women in all four SACCOS their repayment rate was 100% while that of men counted 85%. It was further found that members who took loans, used such loans in income generating and non-income generating activities whereby income generating activities included trade, poultry rearing, small industries and horticulture constituted 47% of the amount of loans and non-income generating activities included land/plot purchase, house construction, car purchase and repayment of school fee, all constituting 53% of the loans taken. Furthermore, the results showed 78% of members who ejected their borrowed money in business said to have their capital increased and hence their income increased as well. It was also revealed that the sources of finance for SACCOS were shares selling, interest on loans, savings/monthly contributions. It is concluded that the SACCOS have played great role in providing financial services to the need particularly members and as result the life standards of members have improved economically. However, it was revealed that less effort is put on training about cooperative education and hence recommended to put much efforts on short term training and seminars.

3. METHODOLOGY USED

For the sake of accomplishing this study the researcher divided this part in the following sub-headings:

3.1 Population

The population of the study was all members of IAA SACCOS. Members are both male and female, also these members were categorized into academic and technical and administrative staff, and furthermore, these members differ in age, income and education level.

3.2 Sample Size

Sample size was obtained randomly. The researcher got a list of members from the chairperson of IAA SACCOS then from that list the researcher picked respondents randomly. A sample of 30 members was randomly selected but who responded/returned the questionnaires were only 26 members.

3.3 Data Collection Methods

The researcher applied questionnaire and interview as a means of getting intended data. Questionnaires were used because most of respondents were able to read and write. Personal interview was used only to IAA SACCOS officers particularly the chairperson because there were some issues which were administrative in nature in such a way that normal members could not tackle some issues if they were placed in the questionnaire.

4. DATA PRESENTATION, ANALYSIS AND FINDINGS

Data obtained through questionnaire and interview were presented in tables, expressed in percentages and shown in figures. Each question was analysed and interpreted separately.

4.1 Gender of the Respondents

The demographic analysis from the study showed that 16 respondents equivalent to 62 % were male and 10 respondents equivalent to 38 % were female as represented in Table 4.1. The results pointed out that there was a dominance of male respondents over female respondents who have responded to the study.

4.2 Age of the Respondents

The study showed the age of respondents ranged from 26 and above. Majority of respondents fell under the range 26 and 45 years constituting 61% while the rest of respondents fell under the age of 46 and above which is equivalent to 39%. When we go case by case, it showed respondents fell into the age of 26-30(8%) were the least while the majority of the respondents fell into the age of 46 and above (39%). Impliedly this study showed that most of borrowers are a bit grownups and probably who are thinking about their retirement fate and therefore they need to build up their future before the retirement age approaches. Table and figure 4.2 can be used to illustrate more about the age of respondents.

4.3 Marital Status of Respondents

The study gave options of marital status of respondents but among the options, the respondents seemed to fall under married and unmarried only. The leading category of marital status was married by 77% while unmarried category was 23% of the total respondents as shown in the table and figure 4.3.

4.4 Level of Education of Respondents

The level of education for respondents ranged from standard seven up to post graduate level. The leading education level of respondents was falling under postgraduate level where it showed 50% of respondents had postgraduate education followed by undergraduate level which was equivalent to 35% of the total respondents. It can be learned that this high level of education (50%) is mostly raised by staff belonging to academic staff category. For more details about education levels see the table and figure 4.4.

4.5 Staff Category

Staff at the Institute of Accountancy Arusha is divided into academic and technical and administrative staff. The academic staff is forming the core function of the institute and technical and administrative staff is regarded as supporting staff to the institute. Therefore, the study showed that 58% of the respondents were technical and administrative staff while 42% of the total respondents came from academic staff. It can therefore be said that most borrowers are coming from technical and administrative staff category as indicated in the table and figure 4.5. The reason for this disparity can be contributed by income differences, since it is said that academic staff are well remunerated in relation to other category of staff and hence the academic staff don't have pressing needs like their colleagues.

4.6 Respondents' Monthly Salary

The monthly salary of respondents is ranging from Tshs. 358,000 to Tshs. 4,439,000. The number of respondents with respective salary ranges is indicated in table 4.6 and figure 4.6. Most of technical and administrative staff are falling to the range of Tshs. 358,000 to Tshs. 2,278,000(73%) and this is the

leading borrowing category as indicated in table 4.5. Further, the salary of tshs 2,422,000 and above (27%) is received by academic staff were relatively few as far borrowing was concerned. Though it is evidenced that those with relative low pay seemed to outnumber the borrowers with relative high pay, the reality is that those having high pay normally take up large loans sizes relative to those with low pay simply the former is able to service their loans comfortably.

4.7 Borrowed Loan

The researcher wanted to know among the respondents, how many took up the loan and how many did not. It should be clear that for a member to be eligible for the loan, his/her membership should not be less than 3 months since s/he joined the SACCOS. For those who did not take up the credit this can be one of the reasons. Thus, the study shows that 69 % of the total respondents found to have borrowed the money and the remaining 31% of the respondents said did not get the loan. When respondents were asked why they did not take up the loan while they were members, some said, had not yet fulfilled the conditions under the by-laws and others said that it was just a matter of time (they were underway to take the loan).

4.8 Purpose of Borrowed Loan

The respondents were given a number of options among those options, 50% of respondents said that the loan that was provided was spent in acquiring fixed assets for own/family use such as building houses and cars and this was followed by 35% of respondents who spent their loans benefits on settling family issues and lastly, 15% of respondents said to have spent the borrowed money to establish businesses. From the findings it can be learned that 85% of the credit was not directly invested in productive activities.

4.9 Interest rate Charged by SACCOS

The respondents were requested to give their opinions regarding the interest rate charged by the SACCOS, whether it is fair relative to other financial service providers. It was found that 62% of respondents strongly agreed that the interest rate charged by the SACCOS is much lower than other financial service providers, followed by 23% of respondents agreed by appreciating the interest rates charged by the SACCOS and 15% of respondents were not able to give their views regarding interest rate charged by SACCOS as they had no clue about other financial service providers. Generally, the respondents appreciated the interest rates charged by the SACCOS.

4.10 Terms of the Loan

Currently the repayment period is three years (36 months). The aim of the study was get opinions of the members whether they were satisfied with the current situation or they wanted something different to happen. The findings showed that 42% of respondents suggested five years to be the repayment period instead of three years followed by 31% of respondents who neither fell under two nor four nor five. Further, 19% and 8% of respondents recommended two years and four years respectively. From this study, members would like the repayment period be extended up to five years.

4.11 Collateral of the loan

Respondents were asked whether the loan is free from security or not. 62% of respondents replied “Yes” meaning that whenever a member wants a loan s/he has to find a guarantor and 38% of respondents replied “No” meaning no guarantor is required while applying for a loan. However, the reality is that any borrower should have two guarantors who are co-workers.

4.12 Type of Guarantee

62% of respondents who replied “Yes” meaning that any loan provision has to be guaranteed (table 4.10), there was an additional question demanding the type of guarantee, 62% of respondents who replied ‘Yes’ mention two fellow members are required as guarantors/cosigners. Guarantee is one of the conditions for loan borrowing; any member who wants to borrow has to fulfill this condition by obtaining two guarantors among the members.

4.13 Non-financial Benefits Offered

Respondents when were asked about the reasons for their joining the society, they responded as follows;

- It takes less than a week to get a loan; they went further by saying that there is a specific day set in week for this purpose(loan processing is short)
- There is no legal consultation fee (legal contract), along with this there is no stamp duty.
- No loan application fee
- There is no movement of here and there, every process is done within the working place (high convenience is maintained).

Generally, respondents said apart from financial benefit they get, they use less effort when seeking for a loan.

4.14 Credit risk

When one of the officers was asked about borrowers who fail to repay the outstanding loans in case someone has lost a job, he replied by saying that normally the by-laws requires the guarantors to be responsible for any amount of money guaranteed upon. However, there is a room for the money borrowed to be recovered from terminal benefits or social funds contributions made by the employee(s)/beneficiary and this is done in collaboration with the employer.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

It can be concluded that since the establishment of SACCOS particularly at working places, members have been benefiting a lot by getting loans with fair interest rates; short loan processing time and less bureaucracy in loan process ,further borrowers are not required to pay stamp duty and legal officer consultation fee. The study shows that SACCOS has empowered the civil servants economically and socially particularly by having fixed assets such as buildings, motor vehicles and also establishing new businesses as well as enhancing household wellbeing. Furthermore, unlike other financial service providers, SACCOS does not required immovable assets like land or buildings as collateral/security.

5.2 Recommendations

The study shows that the current repayment period has to be extended up to five years; this will enable those members who wish to invest in long term investment to do so. The society is advised to look for other sources of finance other than depending on the current sources of finance, for instance it can approach social funds since these funds have policies of advancing contributors (workers) through their SACCOS.

5.3 Further Research Directions

The researcher would like to advise readers and other interested parties in this area to go further by broadening the scope of study as this may not be a good representative of other public institutions having SACCOS at working places also prospective researchers are advised to consider private institutions for comparison purposes.

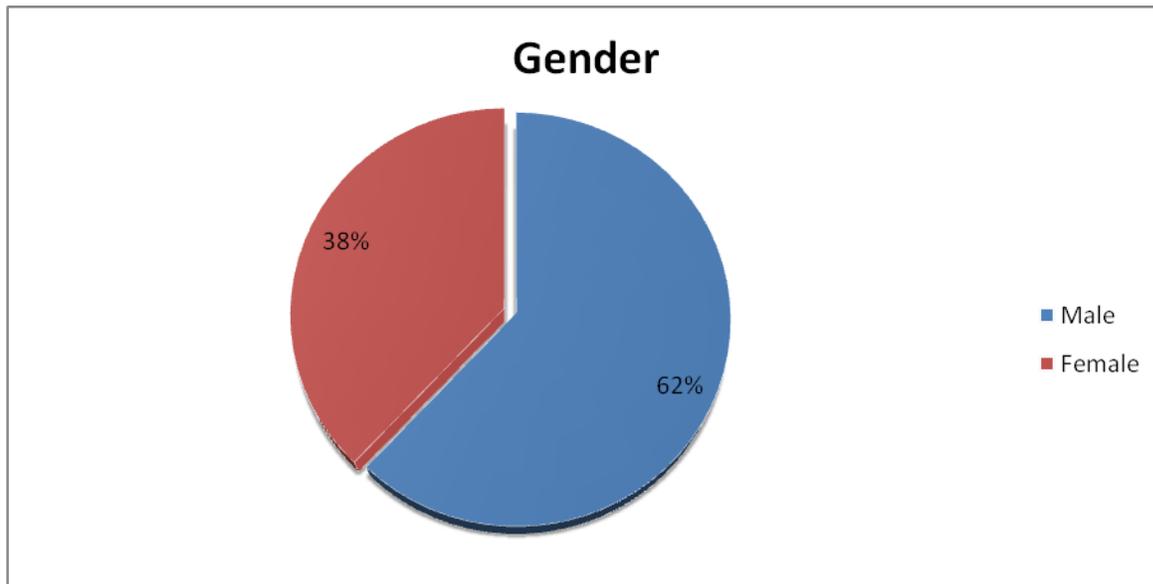
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Table 4.1 Gender of the respondents

Responses		Frequency	Percent (%)
Valid	Male	16	62
	Female	10	38
	Total	26	100.0

Source: Field data (2015).

Figure 4.1 Gender of the respondents

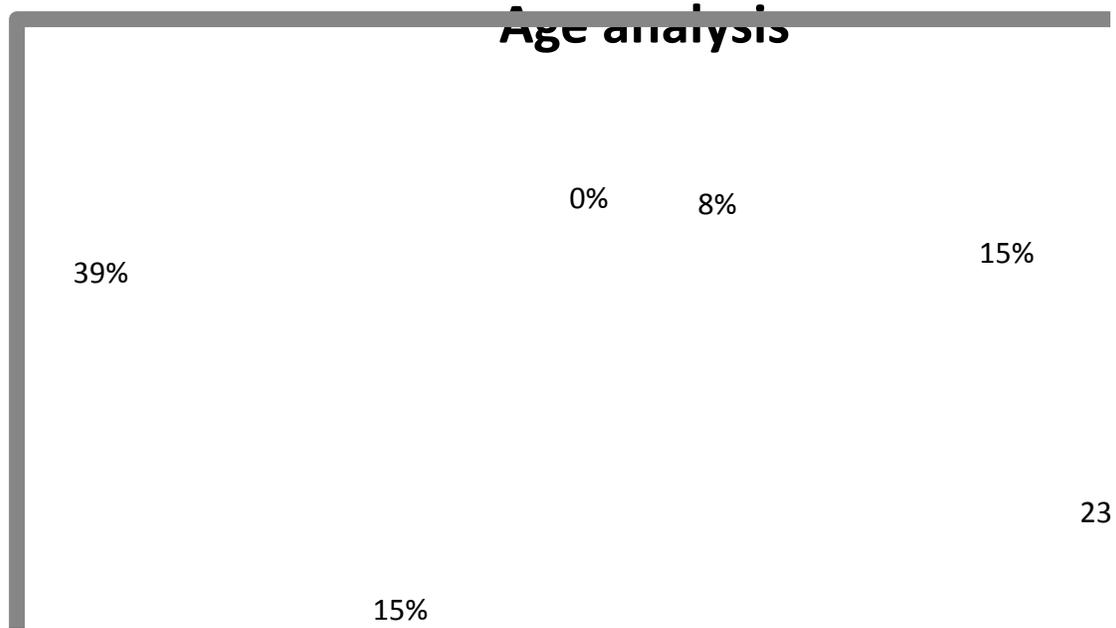
Source: Field data, (2015)

Table 4.2 Age of the respondents

Responses	Frequency	Percent (%)
20-25	0	0
26-30	2	8
31-35	4	15
36-40	6	23
41-45	4	15
46 and above	10	39
Total	26	100

Source: survey data (2015)

Figure 4.2 Age of the respondents



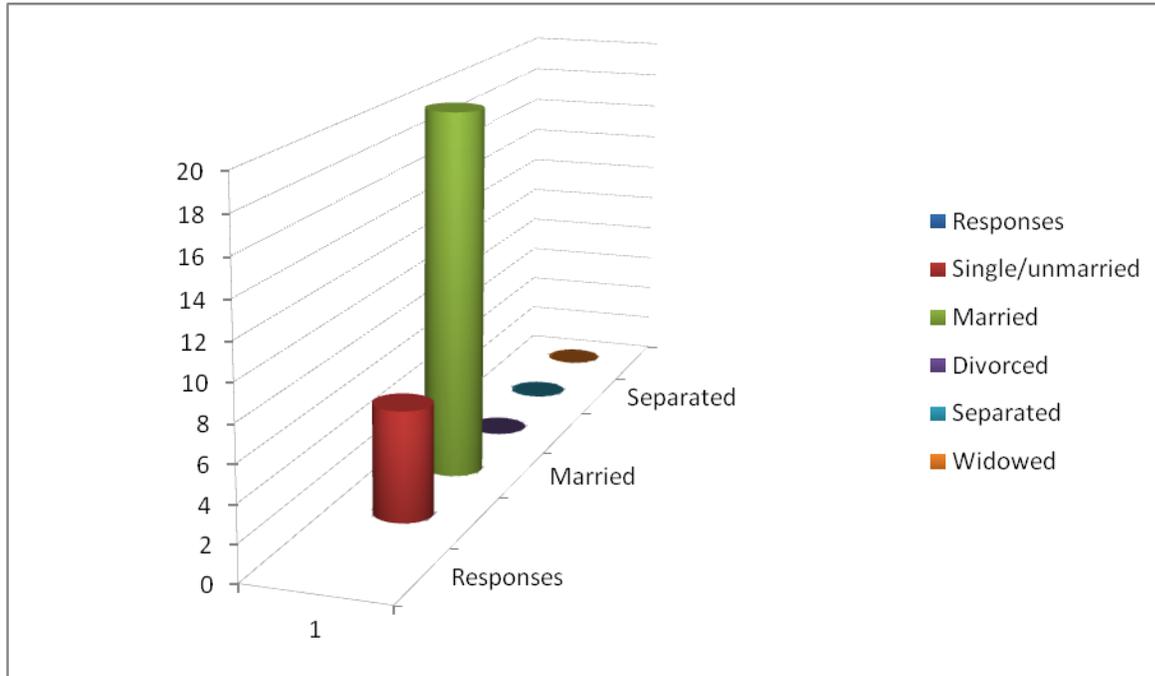
Source: survey data (2015)

Table 4.3 Marital status of the respondents

Responses	Frequency	Percent (%)
Single/ unmarried	6	23
Married	20	77
Divorced	0	0
Separated	0	0
Widowed	0	0
Total	26	100

Source: Field data (2015)

Figure 4.3 Marital status of respondents



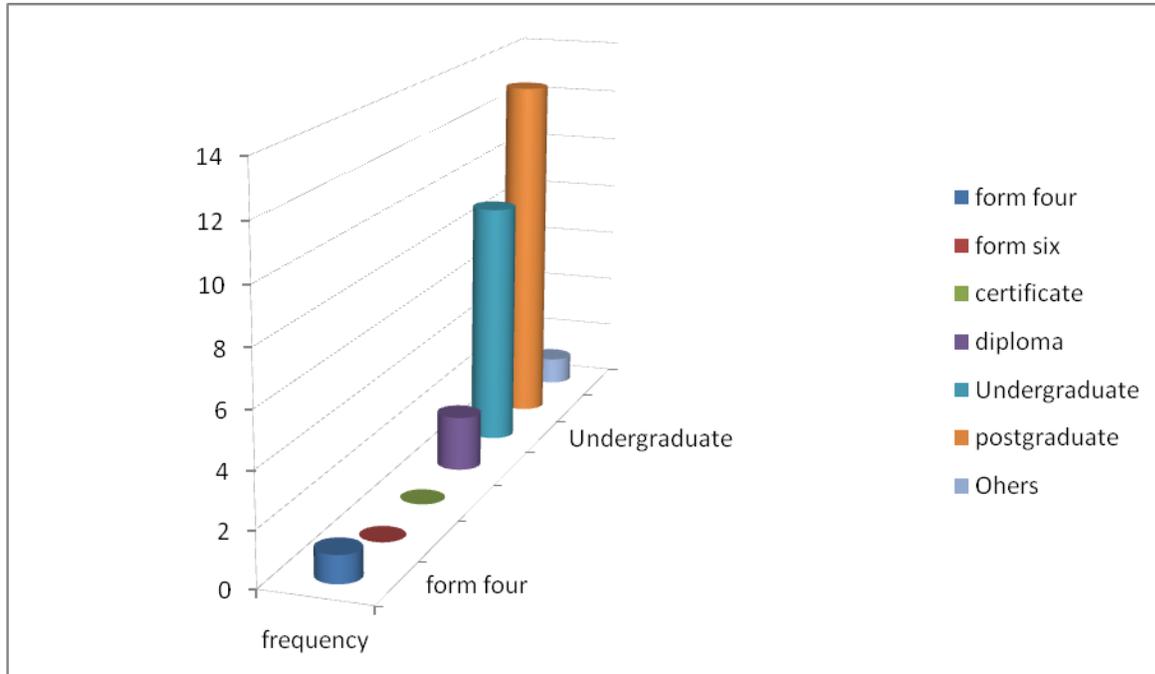
Source: Field data (2015)

Table 4.4 Level of education of respondents

Responses	Frequency	Percent (%)
Form four	1	4
Form six	0	0
Certificate	0	0
Diploma	2	7
First degree/ undergraduate	9	35
Postgraduate	13	50
Others (std VII)	1	4
Total	26	100

Source: Field data (2015)

Figure 4.4 Level of education of respondents



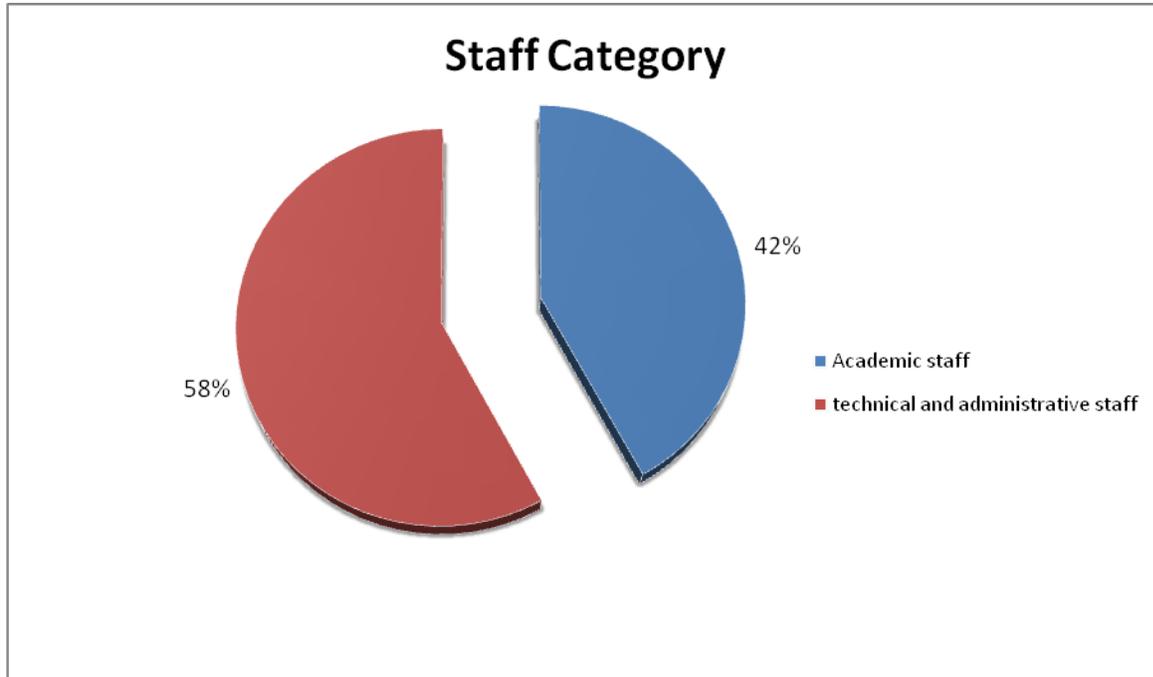
Source: Field data (2015)

Table 4.5 Staff category

Responses		Frequency	Percent (%)
Valid	Academic	11	42
	Technical and administrative staff	15	58
	Total	26	100

Source: Field data (2015)

Figure 4.5 Staff category



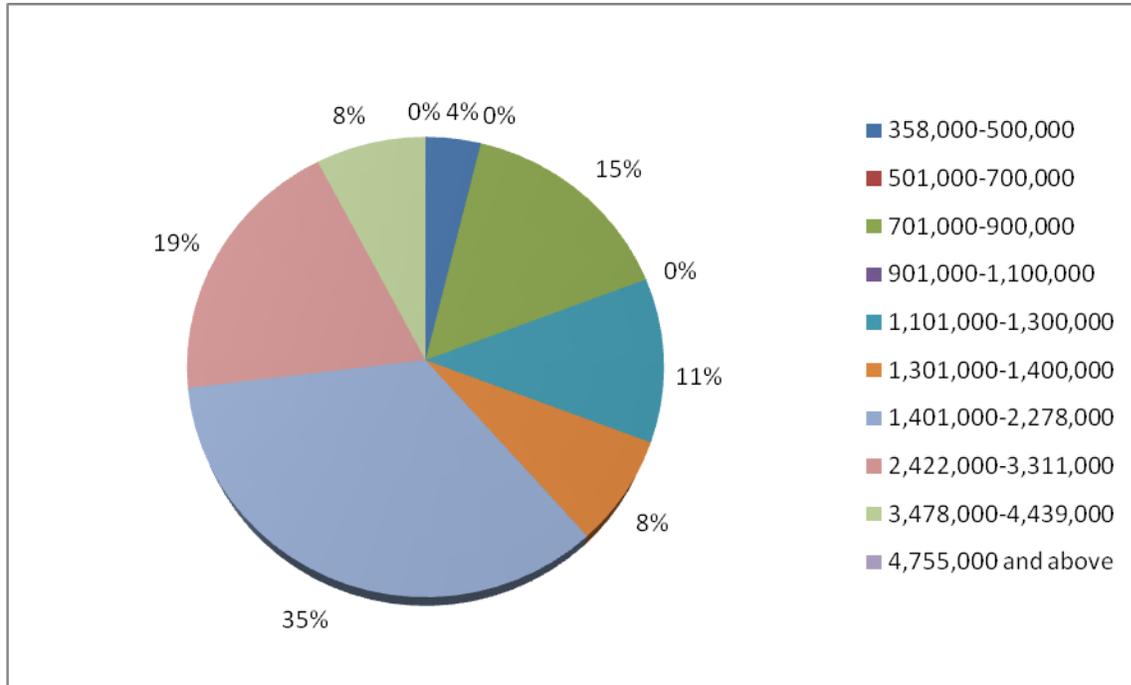
Source: Field data (2015)

Table 4.6 Respondents' monthly salary analysis

Responses - Tshs.	Frequency	Percent (%)
358,000-500,000	1	4
501,000-700,000	0	0
701,000-900,000	4	15
901,000-1,100,000	0	0
1,101,000-1,300,000	3	11
1,301,000-1,400,000	2	8
1,401,000-2,278,000	9	35
2,422,000-3,311,000	5	19
3,478,000-4,439,000	2	8
4,755,000 and above	0	0
Total	26	100

Source: Field data (2015)

Figure 4.6 Monthly salary analyses



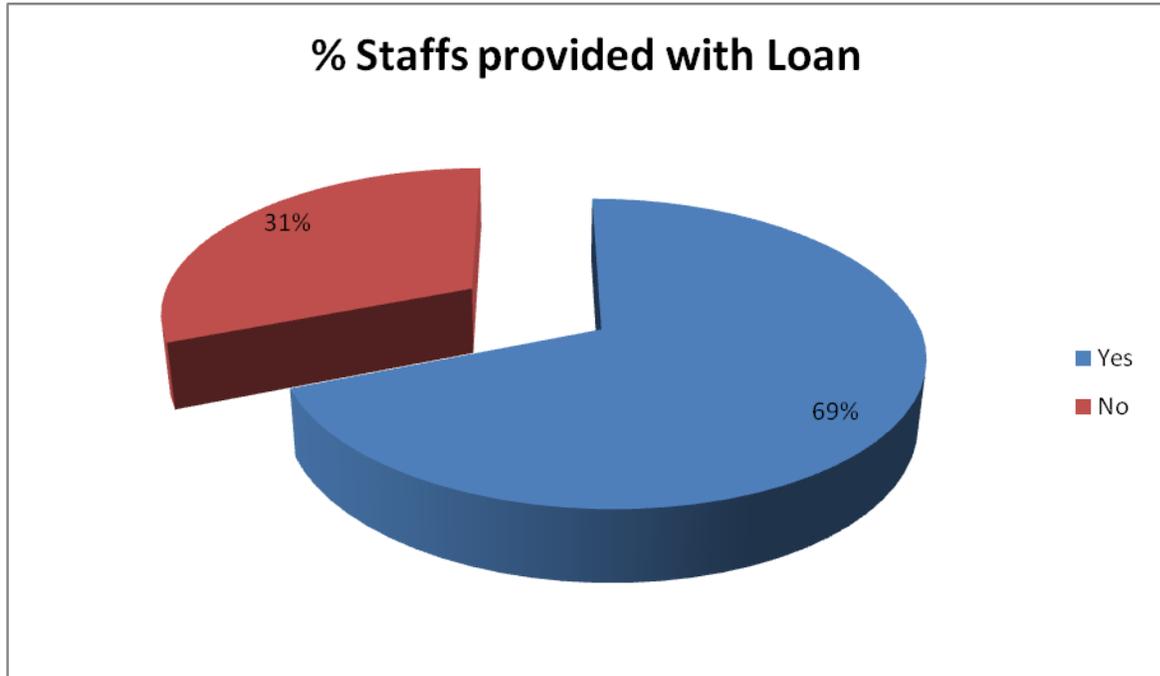
Source: Field data (2015)

Table 4.7 Staff who took up the loan

Responses		Frequency	Percent (%)
Valid	Yes	18	69
	No	8	31
	Total	26	100

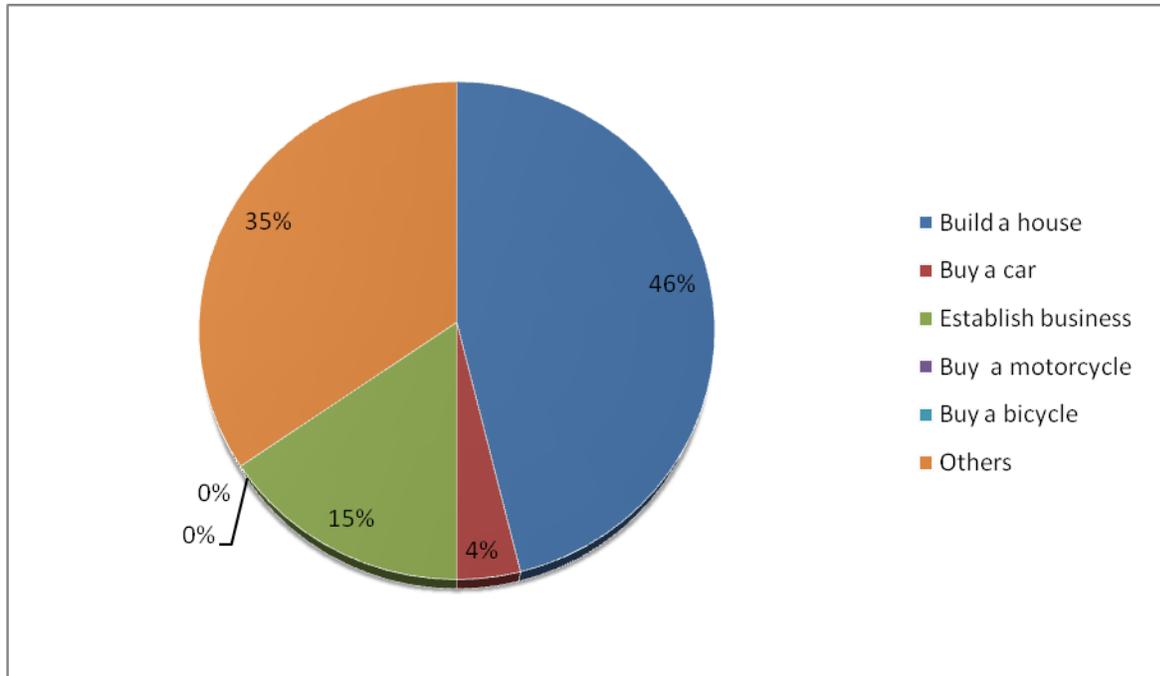
Source: Field data (2015)

Figure 4.7 Staff who secured the loan



Source: Field data (2015)

Figure 4.8 Purpose of the loan



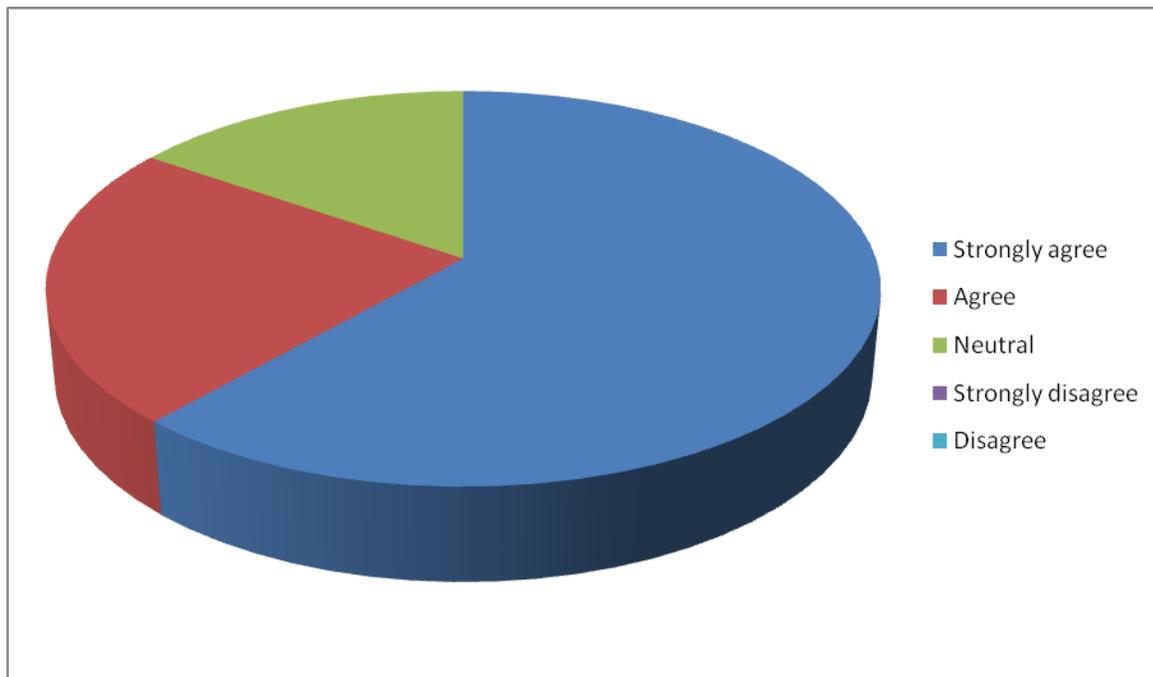
Source: Field data (2015)

Table 4.9 Fairness of the interest provided by SACCOS

Responses		Frequency	Percent (%)
Valid	Strongly agree	16	62
	Agree	6	23
	Neutral	4	15
	Strongly disagree	0	0
	Disagree	0	0
Total		26	100

Source: Field data (2015)

Figure 4.9 Fairness of the interest provided by SACCOS



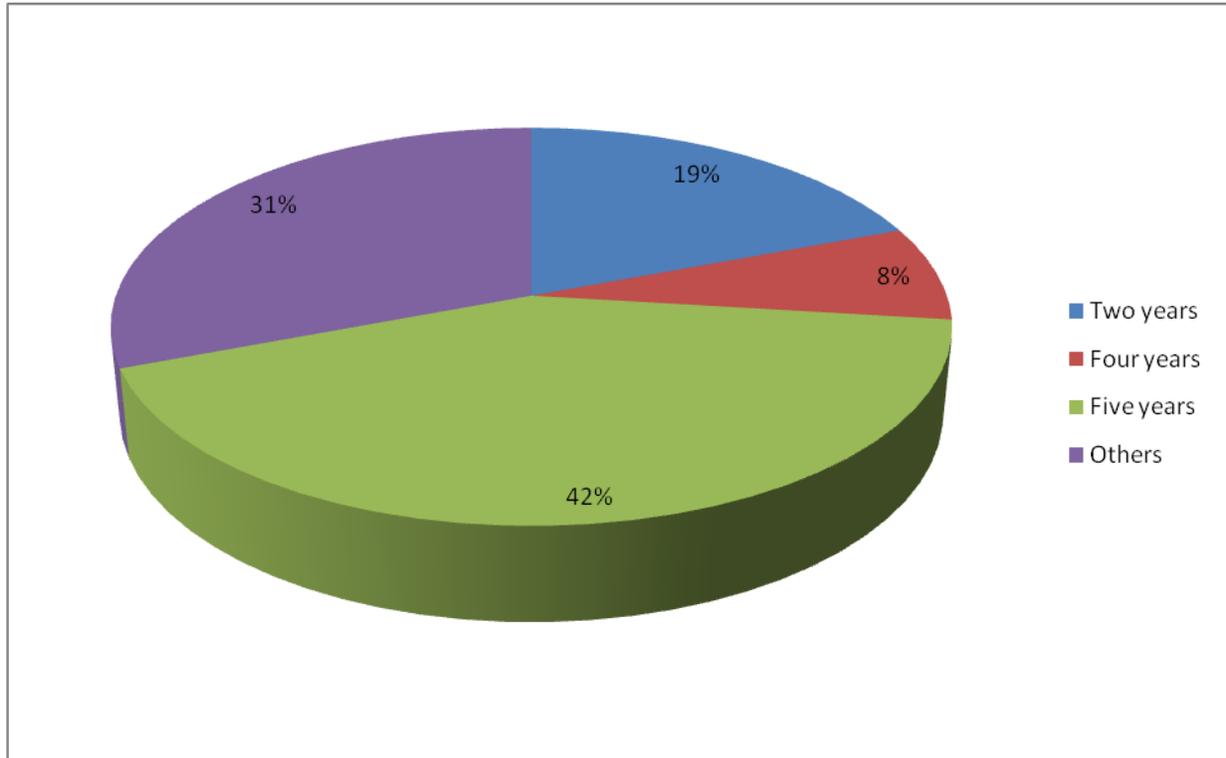
Source: Field data (2015)

Table 4.10 Terms of the loan

Responses		Frequency	Percent (%)
Valid	Two years	5	19
	Four years	2	8
	Five years	11	42
	Others	8	31
Total		26	100

Source: Field data (2015)

Figure 4.10 Loan terms



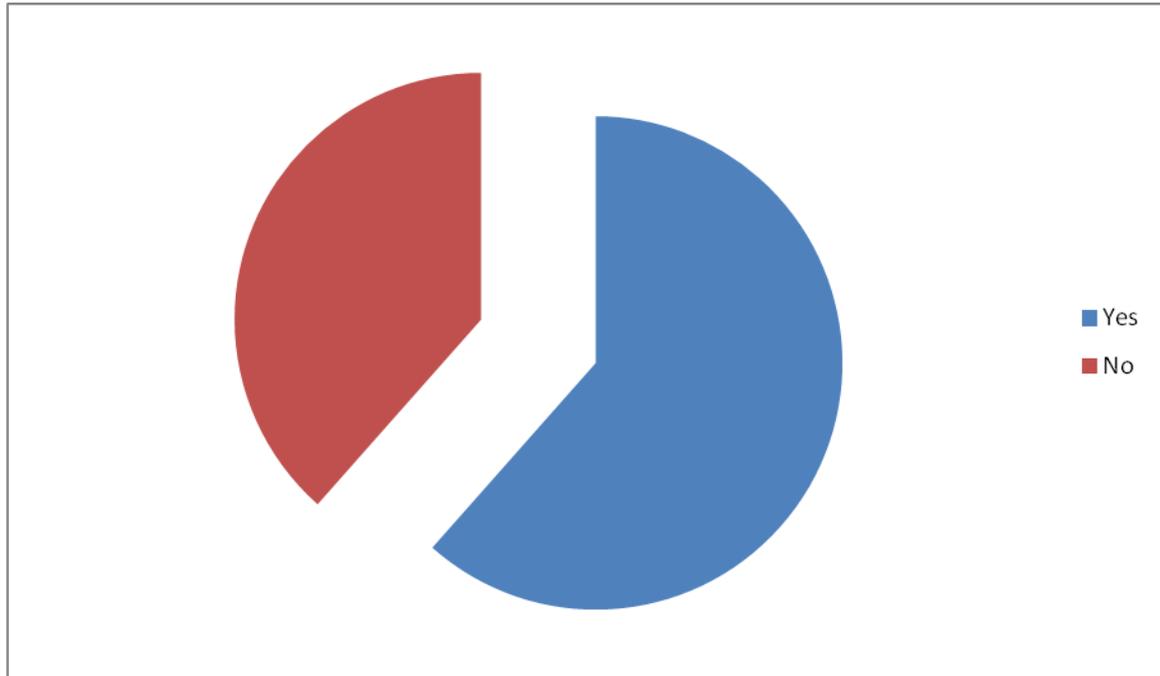
Source: Field data (2015)

Table 4.11 Loan guarantee

Responses		Frequency	Percent (%)
Valid	Yes	16	62
	No	10	38
	Total	26	100

Source: Field data (2015)

Figure 4.11 Loan guarantee



Source: Field data (2015)