

Contributions of savings and small loans made in Iringa Hope Joint SACCOs towards improving household welfare in Iringa region in Tanzania

Enock Stanley Ugulumu

Abstract: *This study evaluates the small loans and regular savings deposits by members of Iringa Hope Joint SACCOs (IHJS) towards improving household welfare in Iringa region in Tanzania. Primary data were collected using a questionnaire from 170 SACCO members. The sample was chosen from each SACCO using a simple random sampling technique. The analysis was performed using Statistical Package for Social Science (SPSS ver. 20, IBM, USA). The results revealed that Iringa Hope Joint SACCOs household welfare in Iringa region is improving due to increased household income, decision making, and capacity building that influences regular savings deposits by members. Furthermore, the study also revealed that employment has been increasing due to SACCOs' financial access and it becomes sustainable as income increases. Therefore, IHJS should consider offering financial services at low interest rates to enable poorer smallholder farmers and small businesses to access finance. It should continue supporting the SACCOs' members with training to enable them to improve governance and performance of financial services.*

Keywords: business, decision making, financial, income, interest

Introduction

FINANCE IS THE KEY DRIVER in the development process. Empirical evidence from scholars and development practitioners has proven that efficient and well-functioning financial systems are crucial as conduits of funds to the most productive uses and in apportioning risks to risk takers, thus enhancing economic growth, developing opportunities and income distribution, and reducing poverty. In many developed and developing countries, improving access and building inclusive financial systems remain the goal that is important to economies at all levels of development (Levine and Dermigüç-Kunt, 2001; Evans et al., 2002; Qin and Ndiege, 2013).

According to Tanzania Cooperative Development Policy (2002), Cooperative Societies Act (2003), and Cooperative Society Rules (2004), Savings and Credit Cooperative societies (SACCOs) are defined as a group of people who work together voluntarily to meet their common economic, social, and cultural needs through a jointly owned and democratically controlled enterprise. Tanzania National

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Financial Inclusion framework report (TNCFI, 2016) and African Development Bank (2016) acknowledge financial inclusion, which formally encompasses all sections of the citizenry, as one of the key drivers of economic growth, leading to reduced economic vulnerability for individuals and households, poverty alleviation, and improved quality of life of the people. Ferka (2011), Bwana and Mwakujonga (2013), and Churk (2015) urged that SACCOs are the predominant form of external financing for small and micro enterprises in most developing countries and their role in developing these small enterprises is increasing rapidly. The growth of SACCOs' wealth depended on loan management, institutional strengths, compliance with by-laws, income from investment, and innovativeness of SACCOs products (Anyelwisye, 2007; Al-Naif, 2012; Garabi and Mwakaje, 2013; Orlando et al., 2013).

Due to the advantages of SACCOs, the University of Iringa and other partners supported the development of a financial network known as Iringa Hope Joint SACCOs (IHJS) Enterprise Ltd with 35 rural and urban SACCOs supporting smallholder farmers and small and medium enterprises throughout the region. The first mission for IHJS is to promote and facilitate the formation of new micro-loan funds (SACCOs) in selected villages. The second mission is to provide support and training to village SACCOs officers and members. The training includes orientation for new members and multi-day training sessions for officers twice a year. Furthermore, IHJS has been supporting members with small loans since 2010 and is currently working in 37 villages. Almost all these village SACCOs who are members of IHJS are making loans. Loans are made for income generating activities primarily for farming and to a lesser extent for raising livestock and small/medium businesses. As IHJS is being continuously operationalized, many loan beneficiaries started income generating activities from the programme area that needs financial services. The study sought to find out living conditions of the IHJS services beneficiaries and how these services improve household welfare in Iringa region in Tanzania.

Structure and geographical coverage of Iringa Hope Joint SACCOs (IHJS)

Iringa Hope Joint SACCOs Enterprise Ltd is responsible for: providing ongoing training and education, monitoring, legal and governance assistance, and oversight of the primary local SACCOs being formed through the Microfinance Institute of the University of Iringa. The Institute works closely and collaboratively with Iringa Hope USA which mobilizes finances to fund SACCOs through capital requirements as per Cooperative Act requirements. IHJS was founded and registered in February 2012 as an umbrella organization and it serves as a central bank for primary local SACCOs which benefit by seeking membership with IHJS and gain access to capital, auditing, management services, and capacity building. IHJS is 100 per cent owned and operated by members (primary SACCOs). Each SACCO elects 5–9 board members and may join IHJS as soon as they get their registration. Currently there are 35 full members. The Joint SACCOs are operated by an elected board; the structure, functioning, and geographical coverage of IHJS are shown in Figures 1 and 2.

Material and methods

Sampling techniques and sample size

The sampling technique and procedure were based on simple random sampling techniques where individuals were randomly selected from the study population of IHJS. The respondents were randomly selected by use of probabilistic sampling where every individual had an equal chance of being selected and with similar economic characteristics prior to the commencement of microfinance support through IHJS. The sampling of households took place in villages that operate the SACCOs.

The selected sample comprised individuals who are involved in getting loans through their respective primary cooperatives (i.e. SACCOs) from the apex joint SACCOs in Iringa region. Mugenda and Mugenda (1999: 46–8) recommend that if the study population is less than 10,000, the following formula is recommended for a desired sample size:

$$nf = \frac{N}{1 + N(0.5^3)}$$

Where nf = desired sample size (when population is less than 10,000)

n = desired sample size (when population is more than 10,000) at 95% confidence level

N = the estimate of the population size

The study had a population of 1,100, therefore $N = 1100$, $n = 384$

$$nf = \frac{1100}{1 + 1100(0.5^3)} = 3.94$$

Then $n = N \times nf = 1,100 \times 3.94 = 140$, plus number of other stakeholders, 30

Therefore, the sample consisted of 170 respondents randomly selected from a list of registered SACCOs.

Data collection

Both primary and secondary data were collected. Semi-structured questionnaires were administered to both SACCOs' leaders and individuals with IHJS loans.

Data processing and analysis

Data analysis included both qualitative (to a lesser degree) and quantitative (to a larger degree) methods. Quantitative data was analysed using descriptive statistics which were used to describe the basic features of the data in the study and then replicated in tabular form. It involved use of percentages and frequencies. The qualitative technique employed content analysis to investigate open-ended responses to questions. Conclusions from inferential statistics were extended beyond the immediate data alone to the relationships that establish themes and conclusions that were arrived at further strengthen the quantitative data. This model of analysis examined the simultaneous effects of the independent

variables on a dependent variable. Qualitative data results were analysed according to the emerging themes, looking for patterns across groups and key differences or unexpected findings. Results were underscored by illustrative quotes that convey the depth and texture of responses. Descriptive statistics and regression models were used in quantitative data analysis.

Results and discussion

Financial position at family level

The findings (Table 1) of this study contend that 142 (83.6 per cent) of those interviewed responded that the loans issued by IHJS are satisfactory and lead to enhancement of family financial position; of those, 89 (52.4 per cent) agreed strongly and 53 (31.2 per cent) agreed about the subject matter. This result indicated that members are well served due to the conducive and genuine service provided by SACCOS.

Table 1 Family level financial position

	<i>Frequency</i>	<i>Percentage</i>
Strongly agree	89	52.4
Agree	53	31.2
Neutral	13	7.6
Disagree	12	7.1
Strongly disagree	3	1.8
Total	170	100.0

Health care accessibility to the family members

The IHJS has succeeded well in implementing loan procedures to its members. The services have simplified money transactions for members, which accelerated families' ability to access health care in an acceptable manner. This was confirmed by 74 (43.5 per cent) of the interviewed respondents, of which 33 (19.4 per cent) strongly agreed and 41 (24.1 per cent) agreed about the subject matter (Table 2).

Table 2 Access to health care at family level

	<i>Frequency</i>	<i>Percentage</i>
Strongly agree	33	19.4
Agree	41	24.1
Neutral	44	25.9
Disagree	34	20.0
Strongly disagree	18	10.6
Total	170	100.0

Regular savings towards reasonable interest rate

IHJS services have proved to be so friendly to its members who are able to easily manage saving without difficulties, which parallel to its reasonable interest rate, lead to members being able to access loans in an acceptable manner. Also the SACCOs have managed to control the interest rate so that members do not get overstretched when accessing loans. Furthermore the SACCOs have simplified the loan provision system to their members due to the high level of savings, which pleases the customers and is a great achievement. This fact has been verified by the 109 (64.1 per cent) respondents to this research whereby 53 (31.2 per cent) strongly agreed and 56 (32.9 per cent) agreed about the subject matter (Table 3).

Table 3 Saving and reasonable interest rate

	<i>Frequency</i>	<i>Percentage</i>
Strongly agree	53	31.2
Agree	56	32.9
Neutral	23	13.5
Disagree	26	15.3
Strongly disagree	12	7.1
Total	170	100.0

Capacity building towards running a business professionally

The IHJS is oriented to be ready to help the customers through training on business issues. This is what credits the IHJS as the SACCO that is dedicated to caring for its customers. Out of 170 (Table 4) interviewed respondents, 87 (51.2 per cent) asserted that IHJS staff are empathetic and willing to help their members in terms of knowledge. Member-focused businesses or service organizations work to improve their bottom line whether in terms of market share, profits, or mandated performance measures due to loans and training provided. The findings of this study are supported by Ssekakubo et al. (2014) and Kariuki and Ngahu (2016) whose argument is based on managerial competency and interest rates on financial performance.

Table 4 Capacity building

	<i>Frequency</i>	<i>Percentage</i>
Strongly agree	34	20.0
Agree	53	31.2
Neutral	36	21.2
Disagree	32	18.8
Strongly disagree	15	8.8
Total	170	100.0

Decision making towards increasing loan accessibility at family level

The IHJS has qualified staff with relevant SACCO knowledge who provide training to members. As a result, decision making in the family about loans is enhanced significantly so its sustainability is unquestionable. The proper knowledge of the IHJS staff enables them to tackle modern challenges in terms of services provision, ensuring a good environment of offering training to its customers regularly. This finding has been (Table 5) confirmed by 143 (84.1 per cent) of the customers who were interviewed.

Table 5 Decision making at family level about loan accessibility

	Frequency	Percentage
Strongly agree	85	50.0
Agree	58	34.1
Neutral	15	8.8
Disagree	12	7.1
Total	170	100.0

Analysis of IHJS capital in relation to number of loans provided

The findings of this study contend that the number of loans issued by IHJS are satisfactory and lead to enhancement of households' financial position. The result proved positive since the level of capital is significantly related to the number of loans provided. This is indicated by a strong significance of 0.000335 (Table 6). Therefore, the findings reveal that the IHJS programme has greater impact on household welfare. Furthermore, the result is in line with IHJS strategies which are to increase capital, as the product of SACCOs members savings contribution to reach Tsh3 bn (US\$1.3 m), to build a warehouse which will be able to store about 3,000 tonnes of agricultural products, and help to market the product, since the IHJS consists of about 31 Agricultural Marketing Cooperative Societies (AMCOS). Another aim is to register other AMCOS which are associated with SACCOs with the aim of opening a friendly space for small and medium enterprises and smallholder farmers to organize themselves and benefit from the contribution of IHJS to their family income.

Table 6 Level of significance

	Df	SS	MS	F	Significance F
Regression	1	1.96	1.96	16.12961	0.000334672
Residual	32	3.9	1.22		
Total	33	5.86			
	Coefficients	Standard error	t Stat	P-value	
Intercept	5161773	3027359	1.705042	0.097878	
Number of loans – SACCOs capital	205615.3	51196.88	4.016168	0.000335	

Note: SS: sum of squares; MS: mean squared; F: F-test; Df: difference

Conclusions

The findings of this study revealed that factors such as capacity building, decision making at family level, and employment opportunities contributed to improvement of members' welfare. Findings indicated that access to finance could have been helpful to generate income if it had been supported by SACCOs. The study also revealed that growth of household income, reasonableness of interest rate on loans, and increase in household saving contributed to household welfare. The study revealed that there was better access to health care by family members following the increase in profitability from the economic activities being undertaken. In the same way, capacity building or knowledge assistance received by members from the IHJS was found to be helpful in supporting members to run their businesses professionally.

Therefore on the basis of the findings of this study, the following conclusions were made. IHJS households' welfare in Iringa region is improving due to household income, decision making, and capacity building that influences regular savings deposits by members. Furthermore, employment increases due to the SACCOs' contribution and the SACCOs become sustainable as income increases. IHJS should consider offering financial services at low interest rates to enable smallholder farmers and small businesses to access finance. It should continue supporting SACCOs' members with training to enable them to improve governance and performance of financial services. It should also consider extending financial services to reach other people who are yet to benefit from the financial services. With 35 SACCOs, IHJS outreach services remain limited and it would like to upscale to cover at least 55 SACCOs in the next five years. As Tanzanian people from different ethnic groups are living and working together without prejudice, this makes it possible for IHJS to upscale its activities and services in other areas. Thus, SACCOs management should keep in mind that when services remain limited to one area they will reach a time where operating activities will be limited in terms of ethnic group and people from an ethnic group that is different to the founder will not be able to join. Therefore, it is advisable to upscale activities so as to cover a large area and allow different people to join without basing membership on ethnicity, colour or race, and religious denomination.

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