

**HOW TO PROMOTE THE DEVELOPMENT OF COOPERATIVE SELF-HELP
ORGANIZATION: CASE OF PEOPLE'S CREDIT FUNDS (PCFs) SACCOS IN
TANZANIA**

By

Prosper Mkama Buchafwe

THESIS

Submitted to

KDI School of Public Policy and Management

In partial fulfillment of the requirements

For the degree of

MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT

2011

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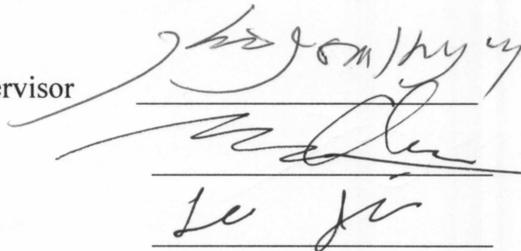
MASTER OF PUBLIC POLICY IN ECONOMIC DEVELOPMENT

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Approval as of August, 2011

ABSTRACT

HOW TO PROMOTE THE DEVELOPMENT OF COOPERATIVE SELF-HELP ORGANIZATION: CASE OF PEOPLE'S CREDIT FUNDS (PCFs) SACCOS IN TANZANIA

By
Prosper Mkama Buchafwe

The objective of this study is to explore how credit cooperatives in Tanzania can mobilize financial savings from people's credit funds the so called informal credit market SACCOs, in order to improve agricultural production for national economy growth and poverty alleviation. Cooperatives can play an integral part of a country's development policy. However, experiences in many countries have shown that it is usually a mistake to use credit cooperatives as instruments for the implementation of government policy, rather than allowing them to operate as voluntary self-help organizations of their members. The government should only support by providing access to knowledge, resources and capital, until it is self-sustaining. In Tanzania cooperative did not function as stipulated, this forced the government to intervene, it was discovered that many of the principles were broken. There was widespread misappropriation of funds, nepotism and corruption. This study involved survey conducted in five regions to hear people's opinions on Tanzania cooperative, the result shows positive respond towards SACCOs as tool for poverty reduction.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background information about Cooperative

According to Munkner (1999), the basic concept of a cooperative it is a method of organized self-help; in other words, helping others to help themselves through cooperation. It is a method of pooling members' resources, and the sharing of risk and burden in a disciplined, organized, and coordinated manner. However, for cooperation to work the members of the cooperative must operate under a system of shared beliefs, values and principles, which must be instilled over time by way of teaching and doing. Cooperatives are associations of people who join together to form an entity for their social and economic purposes for mutual understanding among themselves.

The objective of this study is to explore how credit cooperatives in Tanzania can mobilize financial savings from the informal credit market to enable farmers and small and medium entrepreneurs; to access loans for agricultural production and other small scale enterprises to grow and improve national economy and poverty alleviation. The main question here is what do Tanzanians believe on the strength of SACCOs¹ compared to other institutes such as commercial banks. SACCO offers loans at terms and conditions that are less stringent compared to other financial institutions, SACCO is more accessible

¹ Savings and Credit Cooperative Societies is a form of cooperative which aims at helping farmers and other lower income earners

and convenient to home or workplace, offers its members common bond that gives a sense of unity, belonging and loyalty among members, it is more socially minded and community-based compared to the other financial institutions and it is regarded for taking care of the poor.

Cooperative in Tanzania

The background information of cooperative in Tanzania is full of certainty and uncertainty, good and bad stories. The government and policy makers intended to use cooperative as a means to exercise social and political matters. It was established with very little democracy in the running societies, it is very common to find one group of members exploiting the other. As a result many cooperative societies in the country proved failure they did not achieve the intended objective of their members.

Despite the fact that the Cooperative Development Policy has objectives and programmes for implementation, that aim at reforming and strengthening cooperative societies in the country, the absence of a clear vision and direction that comply with the government policy of Free Market Economy, resulted into lack of concrete solutions to the persistent problems in cooperative societies.

1.2 Extended Concept of Cooperatives

According to Watkins (1986) cooperation means working together, forming certain techniques of economic and social organizations called cooperative societies. These refer

to working together according to certain fundamental principles set by Rockdale Pioneers. These principles are unity or Association, Economy, Democracy, Equity, Liberty, Responsibility or function, and education. Members associate in order to perform the functions of ownership, organization, and direction and risk bearing in order to equip themselves with economic advantage and power which individuals on their own are unable to possess. Through economic power achieved, members can meet their economic ends that act as motivation for other members to join the societies.

Table 1.1: Concepts and misconcepts regarding cooperative development

	Concepts	Common misconcepts
1	Cooperative societies are self-help organizations: working together to help others to help themselves.	Cooperative societies are direct instruments of economic aid or development.
2	Cooperative take into account the interest of member and group as a whole	Development of cooperatives must be encouraged by incentives and privileges such as subsidies and tax exemptions
3	Cooperative means to commit pool and share members' own resources.	Cooperative can be promoted by transfer of external resources.
4	Development of cooperative begins by mobilizing people and forming a cooperative group. Management of the cooperative is from the outside of the	Development of cooperatives starts with establishing an enterprises which may be initially promoted by external contributions both in terms of money and

	responsibility of the members.	management until such time when members can take over
5	Membership should be voluntary based on self-interest, individual needs, and real benefits to being a member. Membership must be meaningful and worthwhile.	Membership is compulsory or is driven by due lack of alternatives or to qualify for development aid.
6	Cooperative development is a slow learning process, a way of learning by doing at your own pace.	Cooperative development can be planned and timed
7	Member commitment is based on social responsibility, sense of ownership and accountability, and risk and burden sharing.	Maintaining membership is easy with little or no commitment, and being a passive stakeholder.
8	Cooperative capital is build up over time, controlled and managed by the members.	Cooperatives have to be funded initially by external sources.
9	In cooperatives, capital is deprived of its usual attributes of power (with regard to voting and profit distribution). Under such conditions only members-users will provide capital.	External capital can be injected and investor members' can be invested to join and yet, member-user dominance can be maintained and investor power can be restricted.

10	Members in general meeting are supreme authority	Members are unaware, and unable to organize and operate an effective cooperative enterprise.
11	Members' capability and skills are developed through life-long education and training.	Substituting members' lack of capabilities and skills with outside sources.
12	Cooperatives must promote active and meaningful participation members.	Passive participation by members is accepted.
13	Leadership of cooperative is elected from among the members and trained for their tasks based on their ability and trust of members, lead and to manage the cooperative.	Recruiting outsiders to manage the cooperative enterprise
14	Interest of leaders and managers of cooperative must be aligned with interest of the members.	Leaders, usually outsiders, focus on business success, market share, growth, job security, national development goals (institutional efficiency and development oriented effectiveness)
15	Cooperatives must be under member control, and must undergo an external audit.	Cooperatives must be under external control, inspection and supervision, especially where external funds are involved.

16	Surplus earned in the cooperative enterprise belongs to the members who decide if the surplus should be invested, put in reserves or paid out as dividend to members.	Surplus can be extracted by price control and state monopolies and used to finance public tasks and institutions. Cooperatives can be kept away from lucrative business (e.g. import, export, processing) and left to be provincial work.
17	Role of promoters should to encourage self-help at the initial stage, to discover new ways of putting locally available resources to productive use, and to act as external development entrepreneurs.	Promoters and external aid are substitutes for lack of self-help, to help the poor who unable to help themselves or to implement development schemes.
18	Promoter need to have deep knowledge of cooperative values, principles and practices, of mechanics of organized self-help and of local forms of mutual assistance.	Anyone with training in operating and managing any enterprise or business can promote self-help cooperatives. There is no need for specialists with deep understanding of cooperatives.
19	Poverty mainly is due to lack of ability to cope with rapid change, lack of knowledge in pooling resources and supply and demand, and lack of access to information, technologies, goods,	Poverty is mainly due to lack of resources. Hence, transfer of resources will alleviate poverty.

	services and markets.	

Source: Hans-H, Münkner (1999), “Rediscovery of Cooperatives in Development Policy”

Cooperatives can play an integral part of a country’s development policy, the introduction of credit union in Korea in the 1960s and 1970s through private and not through the government initiative offers unique example among developing countries: Korea was able to successfully introduce self-help credit unions through a bottom-up approach without government support. There were significant impacts of Korea’s credit union movement. First, Korean poor people were able to have a real deposit account for the first time. Although the amount of saving may have been small, it provided a sense of being part of the greater society, instilling further hope and confidence for better future. Second, the values of cooperatives such as elections based on 1 person/1 vote rule were able to contribute to the initiation of grass-root democracy in Korea by emphasizing the importance of education.

1.3 The role of agricultural sector

Agriculture is regarded as small businesses which have been recognized as a major source of employment and income in many of the third world, as many quarters of all people of working age in the third world are engaged in small businesses (Mead and Liedholm, 1993). In Tanzania agriculture employs more than 80% of Tanzanian population, it is a source of raw materials for industries, food, employment opportunities

and cash for livelihood. Agriculture has linkages with the non-farm sector through forward linkages to agro-processing, consumption and export. Small –scale enterprises-SSEs may mean different things to different people under different situations and can include formal and informal activities. Furthermore, the definition of small-scale enterprises varies from country to country, government to government and time to time. Small scale enterprises cover both factory and non-factory producers of manufactured goods, it also includes traditional and modern enterprises, hand and machinery type of production and urban and rural establishments making any of the hundreds of manufactured products in Tanzania.

1.4 The role of the government in developing cooperatives

What are the roles of the government in developing sustainable cooperatives? The initiation and formation of cooperatives should be left to the individuals themselves who are seeking to help themselves by self-help organizations. Cooperation in one form or another is part of human nature and exists in every society. The government should not be obligated to initiate cooperatives, since individuals by themselves will seek out and form cooperatives if found to be mutually beneficial. Second, support of cooperatives should only goes as far as helping others help themselves by providing access to knowledge, resources and capital, until it is self-sustaining. Third, the government should take active roles in creating an environment that fosters cooperative work, such as 1) ensuring the freedom of the association and the right to exercise any legal economic

activity in group, 2) preventing misuse of cooperatives, 3) enacting laws that give autonomy to cooperatives to align its by-laws with the needs and objectives of its members, 4) Ensuring equal opportunity with other business organizations, 5) protecting cooperatives against unfair competition, and 6) creating a tax regime in consideration of cooperatives. Members have opportunity to give their ideas for the benefit of the organization and to enjoy available benefits from the organization equally. For lower income earners cooperatives play party in improvement of their livelihood, based on principles of voluntary a large number of poor people able to join so as to form a strong economic sound. According to (ICA, 2008) Cooperatives are based on the cooperative values of "self-help, self-responsibility, democracy and equality, equity and solidarity" and the seven cooperative principles;1) voluntary and open membership, 2) democratic member control, 3)member economic participation, 4) autonomy and independence, 5) education, training and information, 6) cooperatives, 7) concern for community.

The main constraint has been the inability of cooperatives to operate under a liberalized economy. Cooperatives were in a weak structural and financial position at the start of reform process, which was introduced without giving them any breathing space to adjust to the vagaries of the new economic order.

1.5 Financial Cooperative

Major role played by Financial Cooperative is to act on behalf of the entire group, it provide banking services for members and other people, the services provided includes

loans, credits and other related services. Things which differentiate from others, they offer services above average with competitive rates in the areas of insurance, investment and lending dealings. Most of financial cooperatives offer products and services that are comparable to provided by other diversified banks. The Cooperative Development Policy document of United Republic of Uganda, 2005 states that, Cooperative financial institutions are a very important factor in cooperative development. Financial institutions, which are established as cooperative societies are an alternative to commercial banking systems and may be utilized to encourage thrift and saving habits of cooperators. The government will encourage formation of cooperative financial institutions in order to reactivate thrift and saving habits among members and thus enable Cooperatives to benefit from the capital generated (United Republic of Uganda, 2005). Regulation 3 of the Banking and Financial Institutions (Financial Cooperatives Societies) Regulations, 2005 defines a 'Financial Cooperative Society' as a non banking institution whose primary activity is to furnish secured and unsecured loans to households, smallholder producer and small micro-enterprises of the rural and urban sectors.' Financial Cooperatives which must be licensed by the Bank of Tanzania are those engaged in accepting savings and deposits from their members for an amount that totals or is greater than Tshs 800 million.

1.6 Benefits of Credit Cooperatives

Credit cooperative enable members through contribution to access loans for their businesses. Small and medium entrepreneurs manage to overcome capital problem in some extent. In most cases loans seem to be a problem hindering the growth of entrepreneurial sector in many of developing countries. Members have mandate to decide the level of interest rate they wish to offer. Farmers in Tanzania like other developing countries face the problems of loans for agricultural inputs such as tractors that can manage to cultivate a large land for short time. Irrigation equipment for sustainable agricultural activities throughout the year are needed, transportation means from production areas to market places. Voice in international organizations such as international crop market with crop cooperatives, producers can have a say in the international crop market for better prices. Experience has shown in many countries cooperative is a source of democracy as members practice elections, for their leaders and nation election in their countries. This is because of effective and efficiency knowledge they get from the organization. Among other responsibility to their member's cooperative provides education, training, extension service to make them up-to-date in technology. Other benefit members in group can be trusted to get loans from financial institutions if it is well registered and known and when people are in group some costs for advertisement their products or services tend to go down, as each member has a role of advertising to customers at a right time and place.

Throughout the history of Tanzania, cooperatives have been an indispensable factor in the economic and social development of the country. Cooperatives have and will continue to promote to the fullest possible degree, participation of cooperators in the economic development process. This is supported by the observed worsening conditions of poverty as revealed by the Poverty Reduction Strategy Paper. The potential for cooperatives to contribute to poverty reduction is however well recognized (Sizya 2001). In the Poverty Reduction Strategy Paper the deteriorating conditions of cooperatives are identified by the rural poor as contributing to the deepening of the rural poverty status. Under these conditions the Government has taken steps for promoting the evolution of an autonomous member controlled cooperative movement with the capacity to reduce poverty among its members (See Sizya 2001). Great ingenuity for innovation is called for to restructure the cooperatives to provide services that extend the capacity of individual members to earn more for their labor thereby contributing to poverty reduction among members (See Sizya 2001).

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Cooperation in Tanzania

In Tanzania cooperative has a long history since 1920s where was established by farmers for various reasons. Areas like Mwanza, Mara and Shinyanga reagions where cotton crop grows cooperatives were formed for crop marketing purpose. According to the *Cooperative Documents, 2006*...The Government policy was to make the cooperative movement an engine for economic development. Further, the Arusha ²Declaration of 1967 advocated and recognized cooperatives as instruments for implementing the policy of socialism and self-reliance. Through a number of legislations, cooperatives were systematically promoted to act as an important tool for transforming rural community production into a socialist planned economy. The cooperative Societies Act of 1991 was enacted for that purpose. Information market for better prices and inputs availability farmers were required to form an association which provides an integrated approach type of support such as access to finance. Capital factor for starting and business expansion leave them out of the economic system. According to the *Cooperative Documents, 2006* for more than 70 years of Cooperative History in the country there was no Cooperative

² Arusha is one of the cities in Tanzania, a place where the Ujamaa policy was inaugurated

Policy to support different Cooperative Development Policy was thus formulated in 1997. The policy reiterated the Government commitment for development of cooperatives that belong to members, in recognition of the International Cooperative Alliance Principles. There is a lot of fact about cooperatives to be a way of connecting producers and customers, inputs and outputs. The paper of *REDEP-Publications Framework paper, 2007* emphasizes much as these concerns and efforts at reviving cooperatives are important they have so far given much attention to ‘traditional’ cooperative movements (mainly producers cooperatives) specializing in the production, purchase and marketing abroad of agricultural products.

Tanzania’s cooperative structure has a four tier-structure: (a) primary cooperative societies (these are generally registered societies whose members are individual person or an association of such individual persons and any cooperative body other than a body registered under the Companies Act); (b) secondary society (these are registered cooperative societies whose membership is open only to primary societies); (c) Apex cooperative societies (these are registered cooperative societies whose membership of which is restricted to secondary societies and which is established to facilitate the operations of all primary and secondary societies); and (d) Federation (these are generally cooperative societies whose members are apexes specialized primary and secondary cooperative societies

2.2 Cooperatives for marketing purpose

The Tanzania cooperative marketing started as early as 1925 in order to market agricultural produce from producers. In Tanzania cooperative marketing is important because most of the members are too poor to own their own transport, storage facilities or even to influence prices of their commodities. Cooperative Movement in Tanzania grew slowly at the beginning to reach 79 societies by 1949. It later grew faster to reach 1670 Societies by 1969 (Cliffe et al 1975). The objectives of the movement were to promote the economic and social welfare of its members and to market their commodities more efficiently than the middlemen. The other objective was to increase accessibility to credit, and educations to members at the same time serving the needs of their consumers effectively. However, the movement did not function as stipulated, forcing the government to intervene in 1968. In 1976 it was discovered that many of the principles it was base on were broken. There was widespread misappropriation of funds, nepotism and corruption. For example in 1966 The Victoria Federation of Cooperatives lost over 3 million Tanzanian Shillings (Kriesel et al 1970). In Iringa Region tractor loses amounted to Tz.Shs. 480000 in the 1966/67 season. Overhead costs were soaring where 71% to 75% of the total cost was attributable to salaries, wages and allowances due to over employment (Kriesel 1970). It was also known that most of the society's management served only the interest of a few well to do rural people (Naali 1985). Due to these problems the Movement was established in 1976. Its functions of procurement from the villages and marketing were now entrusted to the newly formed villages established under the Villagisation Programme, and the newly formed Marketing Boards and the Crop Authorities. Between 1976 and 1984 when the Cooperative Union was re-established the Crop Authorities and Marketing Boards suffered worse problems. Most

suffered from high transport costs and lack of transport itself due to scarcity of spare parts brought about by scarcity of foreign exchange.

2.3 Tanzania Federation of Cooperatives Ltd

According to the document itself, Tanzania Federation of Cooperatives Ltd is the national Cooperative Umbrella Organization that promotes, serves and coordinates the development and prosperity of all Cooperative societies in Tanzania Mainland TFC is an autonomous, nongovernmental and non-partisan body that is member owned and managed in the spirit of internationally recognized cooperative principles and values. TFC was registered on 8th December, 1994 with Registration Number 5503. Founding Members of TFC ³ consists of five National Cooperative apexes from Tobacco, Cotton, Coffee, Cashew and Cereal and other produce industries; two specialized Unions Savings and credit Cooperative Union of Tanzania SCCULT and Tanzania Industrial Co-operative Union and six Cooperative Unions. Currently, Cooperative movement comprises of about 6000 Cooperative Societies having about 700,000 members. The number of TFC members is expected to rise to over ten following the enactment of the Cooperative Act of 2004. TFC replaced the then Cooperative union of Tanzania (CUT)⁴ following the adoption of the new policy and enactment of the cooperative Act in 1991stressed on promoting autonomy of Cooperatives and member empowerment, there was a need to have an independent cooperative body as a result TFC formed. Since its establishment TFC has participated in different ways in uniting

³ TFC is abbreviation of Tanzania Federation of Cooperatives

⁴ CUT is abbreviation of Cooperative Union of Tanzania

cooperative societies in the country, thus creating a prosperous environment for them to operate on the basis of Co-operative Principles. TFC has promoted member empowerment and ownership in cooperative societies for the mutual benefits of Co-operators and the Country at large (Tanzania Federations of Cooperative Limited of June, 2005 [htt://www.ushirika.coop](http://www.ushirika.coop)).

2.4 Review of various cooperative reports

The President of the United Republic of Tanzania the late Mwalimu Julius K. Nyerere on 26th January, 1966 formed The President Special Committee of Enquiry into the Cooperative System and Crop Boards, known as the 'Mhavile Committee'. The main objective of this committee was to review the functions and organizational structures of the Cooperatives and Crop Boards for the purpose of recommending appropriate steps that could strengthen these institutions for the benefit of both producers and consumers. In the report, the committee analyzed and pointed out a number of problems, which related to the system of buying and selling farmers' crops through Cooperative Societies and Crop boards as follows:-Low prices paid for farm produce, failure of Cooperative Unions to give a second installment to farmers due to business losses, leaders and management of cooperatives engaging in corruption, nepotism, embezzlement of members' funds and theft. The report also stated the existence of exploitation and unfairness in selling of gunny bags to farmers, failure of District Council to maintain and repair roads, despite the fact that such councils were collecting levies from farmers

through the cooperatives, leaders of cooperatives ignoring democratic governance by overstaying in their leadership positions.

2.5 The Cooperative Societies Act, 1991 and Cooperative Development Policy, 1997

The cooperatives Societies Act of 1991, this law primarily aimed at building cooperative societies in accordance with the International Cooperative Alliance (ICA) principles. Secondly, it aimed at enabling cooperative societies to build the capacity to be managed efficiently and thirdly to ensure that the government creates a conducive environment for cooperative societies and their members to perform their functions in a free and democratic manner. However the Act did not incorporate cooperative policy reforms related to the Free Market Economy. For the purpose of implementing some recommendations of the Nyirabu Commission, the government made two major decisions between 1991 and 2000. The first was to enact and later review and amend the cooperative societies Act of 1991 and the second was to prepare the new Cooperative Development Policy of 1997.

2.6 The Status of Cooperative Development after Reforms

According to (Sizya, 2001), the Cooperative movement has been reformed after the enactment of Cooperative Societies Act no.15 in 1991. This new legislation provides a departure from previous legislation by providing an autonomy status for cooperatives to be government supported and controlled institutions. For the purpose of separate

cooperative from government control Cooperative Development Policy was promulgated in 1997 to allow greater freedom and autonomy to cooperative The Cooperative Development Policy formulated to adopt value and principles of International Cooperative Alliance. The Cooperative Development Policy contributes to advocates the upholding of the International Cooperative Values and Principles as adopted by the International Cooperative Alliance. Concerning the mainstream agricultural marketing cooperatives, single commodity co-operative marketing cooperatives have been permitted by the new law to integrate from primary, union, to apex levels for all the major cash crops such as coffee, cotton, tobacco, and cashew nuts. To allow for economic rationalization the law further allows the cancellation or amalgamation of particularly primary cooperatives and division of particularly cooperative unions, where the members view this as expedient. Following the implementation of these provisions; the number of primary agricultural marketing societies had decreased to 4,316 by 1994 from 8,978 in 1990; the number of cooperative unions had increased from 27 to 45 unions in the same period; a total of 4 Apex organizations have been registered (Sizya, 2001). (At the overall national level: - The Tanzania Federation of Cooperatives TFC has been registered as the body to which the 4 Crop based Apexes; SCCULT; and TICU are affiliated (Sizya, 2001). In total there were, by December 1999, 5,205 cooperative societies with a total membership of 600,000 people. The outreach of the services provided by these cooperatives is far greater than this. If membership is pegged on household heads and an average household to have 6 persons, then the outreach could well be 3,600,000 people .The breakdown of the cooperative by type of activity is as follows :-

Table 2.1: Status of Registered Cooperatives as at December 1999

Type of cooperatives	Total	Active	Dormant
Federation of cooperatives	1	1	
Specialized Coop Apex Organizations	4	3	1
Cooperative Unions	45	32	13
Agricultural Marketing Cooperative Societies (AMCOS)	2,640	2,240	400
SACCOS	921	606	315
Livestock	108	73	35
Industrial	295	180	115
Consumer	698	88	610
Fisheries	70	46	24
Transport	12	6	6
Service	284	146	138
Mining	7	5	2
Housing	45	15	30
Banks	2	1	1
Agricultural processing	5	1	4
Others	69	26	43
Total	5,205	3,471	1,734

Source: COASCO status report on statistics of cooperative societies as at 31th December 1999, compiled in June 2000 and MAC report July 2000.

2.7 Lessons from failed cooperative development policies of the past

Sizya 2001 in the *role of Cooperatives play in Poverty Reduction in Tanzania Paper*, discusses the role of cooperatives in poverty reduction in Tanzania that it bases on the cardinality of participation of the poor in the design and implementation of interventions aimed to reduce their poverty. Participation has revealed as away to achieve development. However institutionalizing participatory working culture has been a complex task posing fundamental challenges particularly for government bureaucracies. Various surveys and researches show that there is a little development in rural communities, out of the intended goal of improving the livelihood of local communities. This is supported by the observed worsening conditions of poverty as revealed by the Poverty Reduction Strategy Paper. The potential for cooperatives to contribute to poverty reduction is however well recognized (Sizya 2001). In the Poverty Reduction Strategy Paper the deteriorating conditions of cooperatives are identified by the rural poor as contributing to the deepening of the rural poverty status. Under these conditions the Government has taken steps for promoting the evolution of an autonomous member controlled cooperative movement with the capacity to reduce poverty among its members (See Sizya 2001)

2.8 Constraints from Within the Cooperatives Themselves

There are several constraints identified as leading to an early collapse of cooperatives. Lack of effective capital, both in funds and capital equipment, education, and training of

personnel are amongst them. Lack of capital has led not only to insufficient business but also to little security with which they can obtain larger loans for expansion (Widstrand 1972). This has led to failure of most of these societies to tap economies of scale. It has also been observed that with very little funds for expansion, women societies have relied on non government financial assistance. However since this assistance never lasts, many of societies financed in this manner, which are many, collapse immediately the assistance is withdrawn. Low education and lack of skills like bookkeeping, stock principles and management of funds have hampered the development of all women societies (Koda 1980). The studies of Klastrup (1969) and Odegaard (1969) on Dodoma Region cooperatives found that in the 6 societies surveyed the management had an education level of only between 3 to 8 years of school. The more literate ones usually exploit the illiterate ones (Yourela 1984). Most of the above problems have contributed to inefficiency and total failure of many of these societies.

2.9 Impact of Economic Policy changes on Cooperative Development

According to the paper of '*The role of Cooperatives play in Poverty Reduction in Tanzania*' the last thirty years the Agricultural Marketing Cooperative Societies (AMCOS), enjoyed a monopoly of the marketing of agricultural produce, which was additionally dominated by parastatal crop-marketing institutions. In due course it was realized that the poverty reduction potential of the cooperatives was compromised by the arrangement that did not guarantee high returns to the farmer due to the added marketing margins expropriated by the marketing infrastructure. The situation has fundamentally

changed since government policies have taken a new turn. From 1986 to date continuous comprehensive economic and structural adjustment programs supported by major donors including the IMF and the World Bank are being implemented. The agricultural marketing structure has been liberalized as well as the financial sector of the economy (See Sizya 2001). The monopoly status of cooperatives has been officially withdrawn allowing other private traders to participate in the marketing of agricultural produce alongside the AMCOS. This has opened up opportunities for small holder farmers to dispose of their produce to the buyer offering the best price in the market. In tandem with these changes, The Cooperative Societies Act Number 15 of 1991 was passed by the Tanzania Parliament and duly endorsed by the President to become the new cooperative legislation repealing previous laws. The 1991 legislation reestablished the principle of voluntary association in cooperatives. The removal of monopoly status and the greater freedom for the members of cooperatives has set into motion large-scale reorganization among cooperatives and support institutions. The primary cooperatives have to prove their relevance to the members particularly in enhancing member's poverty reduction potentials.

2.10 Rebuilding the Cooperative Movement to enhance Poverty Reduction

To show the commitment the President of Tanzania in 2000 appointed a Task Force which was equipped with cooperative professional and politicians, to review the current status of cooperative movement. The Task Force was assigned to come with proposes and strategies for rebuilding the truly member based cooperatives, responsive to members

needs under the current market driven economic environment ((See Sizya 2001). This underlines the Government policy which still considers cooperatives as critical institutions in the economic development of the people. The Government has committed itself to the implementation of the Taskforce Recommended Strategies. The Task Force Report elaborates the current government policy and objectives relating to Cooperative development. In the preface to the report cum action plan, His Excellency the President of The United Republic of Tanzania underscores the government objectives as being “to support cooperatives to become institutions which truly enable the people to achieve their own development needs”.

2.11 Financial Institutions

A microfinance entity can be established as a financial institution. A financial institution is defined under section 3 of the Banking and Financial Institutions Act, 2006 as an ‘entity engaged in the business of banking but limited as to size, locations served, or permitted activities, as prescribed by the Bank or required by the terms and conditions of its licence’ (See Bank of Tanzania Act, 2006). A financial institution includes commercial banks, community banks and cooperative banks. Section 7(1) of the (Bank of Tanzania Act, 2006) provides that ‘The Bank may, upon application in pursuance of the provisions of this Act, grant license to undertake the banking business to an entity formally established in accordance with the Companies Act, Companies Decree (Zanzibar), Cooperative Societies Act, 1986 (Zanzibar) and Cooperative Societies Act, 2003.

2.12 Non Governmental Organizations

The microfinance entity can be established as non-governmental organization (NGO). NGOs can be registered under four different legal frameworks. These are Societies Act; Trustees Incorporation Act; Companies Act; and Non Governmental Organizations Act. **Society** is relatively independent group of people dealing with a particular function usually more or less united and incorporated by common links of territory, language and culture. Every branch of a society is deemed to be a society if such branch consists of ten or more members. The Registrar of Societies can affect registration of a local society by entering in a register the particulars given in the application form and the date of such entry. Once registered as a society, a new entity must apply for a certificate of compliance from the Registrar of Non Governmental Organizations. A microfinance NGO can initially be established as a **trust**. Under section of 2 of the Trustees' Incorporation Act, a trustee or trustees appointed by a body or association of persons bound together by custom, religion, kinship or nationality, or established for any religious, educational, literary, scientific, social or charitable purpose, and any person or persons holding any property on trust for any religious, educational, literary, scientific, social or charitable purpose, may apply to the Administrator-General for incorporation as a body corporate. If the Administrator-General considers such incorporation expedient, he may grant a certificate of incorporation, subject to such conditions or directions generally as he may think fit to insert in such certificate, and in particular, he may impose restrictions on the amount of land which such body corporate may hold, and the uses to which such

land may be put. Upon the grant of a certificate the trustee or trustees will become a body corporate by the name described in the certificate, and will have– (a) perpetual succession and a common seal; (b) power to sue and be sued in such corporate name; (c) subject to the conditions and directions contained in the said certificate to hold and acquire, and, by instrument under such common seal, to transfer, convey, assign and demise, any land or any interest therein in such and the like manner, and subject to the like restrictions and provisions, as such trustee or trustees might, without such incorporation, hold or acquire, transfer, convey therein, assign or demise any land or any interest. A microfinance NGO can initially be established as a **company limited by guarantee**. This can be done through registration of a company limited by guarantee under section 2(b) of the Companies Act. Normally, companies limited by guarantee are usually formed for charitable purposes. They usually raise their funds by subscription. Once registered as a company limited by guarantee, such company must apply for a compliance certificate from the Non Government Organizations Registrar. A microfinance NGO can be **registered directly** in accordance with the procedure provided for under the Non Governmental Organizations Act. The registration can be applied by one or more than people, members should be accompanied by a copy of the constitution of Non Government Organization, minute documents filled with names and signature of founder members, personal particulars of office bearer, address and physical location of the head office of the Non Government Organization, an application fee, and any other particulars or information as may be required by the Registrar of Non Governmental Organizations.

2.13 Saving and Credit Cooperative Societies (SACCOS)

In Tanzania Credit Unions started in 1995 and increased with greater success, to copy with microfinance internationally. After the implementation of the National Microfinance, SACCOs were officially recognized as a means for poverty reduction. *The Uganda Cooperative Development Policy of January, 2005*, says that the establishment and development of SACCOS in rural areas has been slow, most SACCOS have been established in urban areas and at workplaces. As a result members of agricultural marketing primary cooperative societies have found it impossible to save money that could have enabled them to buy shares and thereby increase the capital of their cooperatives. The other hand, some primary cooperative societies have not been able to access credit for collection of produce and buying of inputs for their members. According to the paper Cooperative Reform in Tanzania of (2006) “In 2006 there were about 1,400 registered SACCOs, ranging from community-based initiatives recruiting members working in the informal economy to workplace-based SACCOs” One of these is Posta na Simu, Tanzania's largest cooperative, which provides savings and loans services to employees of Tanzania Telecommunication Company, Tanzania Postal Company, the Postal Bank and the Communication Regulation Authority. Posta na Simu is also aware of the need for cooperatives to adapt to changing times: with widespread redundancies a current feature of the telecoms sector, the SACCO is changing its approach so that, among other things, it can assist members who want to set up their own businesses (DCOMM .2006). The overall long-term goal of socio-economic development of Tanzania over the next generation, as provided by the Tanzania Development Vision

2025, is to attain sustainable human development. Cooperatives are among the major tools for the realization of this vision.

Both the government and other stakeholders encourage people to create SACCOs. This has resulted into rapid growth of the sector. This has resulted into rapid growth of the sector. There are over 1,800 registered SACCOs throughout the country covering from community areas to work places. The government is of the view that SACCOs are an important agency of change especially in its efforts to alleviate poverty and hence the campaign throughout the country encouraging people to form or join SACCOs. SACCOs are also perceived as an appropriate and micro financing outlet for rural and poor people. SACCOs are also perceived as an appropriate and micro financing outlet for rural and poor people. This is because SACCOs are simple to form and serve as financial institutions for poor communities in rural areas. Furthermore, SACCOs are seen as important institutions for the community to participate from the local level. The people have, so far, positively responded to the call to form SACCOs. However, some questions can be asked Firstly, is there a legal framework adequate to handle cooperative of SACCOs character. Some cooperative scholars are of the view that although the SACCOS movement is growing very fast there is lack of professional capacity and supervision. They propose that to strengthen the sector there is need to create an Act of SACCOS and thus free them from the generic cooperative Act of 1991.

CHAPTER THREE

3.0 METHODOLOGY

3.1 Case study

This study involved the case study which was conducted in Tanzania main land, five regions were taken as sample to represent 21 regions of Tanzania main land. About 20 cooperative societies and 20 saving and credit cooperative societies (SACCOS) were interviewed, where by 30 leaders and 70 members from both cooperative societies and SACCOS were asked to give out their views and opinions. The methods which were adopted to collect information are structured questionnaire and direct interview to executive managers (or directors) of different cooperatives by filling questionnaires and direct interview. In respect to the school's first draft submission thesis document, it took about two months to go around the selected regions in Tanzania to collect the required information. The study's findings, results and recommendations intend to improve legal and regulatory environment for cooperatives as well as a way to find directions for the development of cooperatives in Tanzania.

3.2 Study area

The five regions were selected because of their cooperative historical background, various surveys and researches show that cooperatives started in 1920s before even independence of Tanzania. The regions surveyed include Mwanza, Kilimanjaro, Dodoma, Coast Region and Tabora⁵. Mwanza is located northern of Tanzania it is popular in cotton growing and it where one of Tanzania Federation of Cooperatives found Victoria Federation Cooperative nowadays is known as Nyanza Cooperative Union. Kilimanjaro region is famous for coffee it has also historical background in cooperatives as farmers joined together to market of their produce seeking for better prices. Dodoma and Tabora grow tobacco and other food crops, they also adpted cooperatives in early days. Leaders were direct interviewed and fill questionnaires, likewise members of both societies were direct interviewed and also filled structured questionnaire to collect information as much as possible.

3.3 Data analysis

⁵ Mwanza, Kilimanjaro, Dodoma and Coast Region are names of regions in Tanzania main land selected as a study area.

Data were summarized and analyzed by using tables where by numbers and percentages were used in comparing views and people's opinions on cooperative concept in Tanzania. A total number of 100 respondents were commonly used in this study to make it possible and easy for comparison and obtain percentage required. Nine questions were used in the questionnaire list to collect information as much as possible.

CHAPTER FOUR

4.0 RESULTS AND DISCUSSION

4.1 Results

4.1.1 Strength of SACCOs compared to commercial banks

The strength of SACCOs compared to other financial institutions such as commercial banks and policy institutions. 32 equivalents to 32% of respondents out of total number 100 asked to give their thoughts, visions or views about strengthen of SACCOs compared to other financial institutions, say SACCO is more socially minded and community-based compared to other financial institutions followed by 20 who say SACCO is regarded for taking care of poor. To establish a system to ensure security of employment in cooperatives as a means of attracting new employees and retain those already employed and many researchers have associated the contribution to the performance of economic activities with the level of education and these make SACCOs form of

cooperative seems to be strong and helpful to poor and lower income earners as recognized through researches and surveys conducted in different places in the country.

Table 4.1 Strength of SACCOs compared to commercial banks

Answers from respondents	No of Res	Total	Percentage
SACCO offers higher interest rate on the deposit compared to other financial institutions	2	100	2%
SACCO offers loans at terms and conditions that are less stringent compared to other financial institutions.	14	100	14%
SACCO is more accessible and convenient to my home or workplace	14	100	14%
SACCO offers its members common bond that gives a sense of unity, belonging and loyalty among members.	18	100	18%
SACCO is more socially minded and community-based compared to the other financial institutions	32	100	32%

SACCO is regarded for taking care of the poor	20	100	20%
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4.1.2 The weakness of SACCOs compared to commercial banks

The weakness of SACCOs compared to other financial institutions such as commercial banks and policy lending institutions. 45 equal to 45% of respondents out of 100 believe that services are considered weaker at SACCOs because their staffs do not have adequate skills and training, while 25 respondents believe that SACCOs are not able to achieve cost efficiency because of their small scale. The government's role is to protect the cooperative societies it should introduce cooperative education in schools and colleges as means of preparing the youth to be self-reliant and to ensure that government and political party leaders do not hold leadership positions in cooperative societies.

Table 4.2 Weakness of SACCOs compared to commercial banks

Answers from respondents	No of Res	Total	Percentage
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SACCO does not offer many products and services	15	100	15%
SACCOs are not able to achieve cost efficiency because of their small scale	25	100	25%
SACCOs have a negative image because of massive failures experienced in the past	10	100	10%
Services are considered weaker at SACCOs because staffs of SACCOs do not have adequate skills and training	45	100	45%
SACCOs have more strict regulations than other financial institutions	1	100	1%
There is a lack of trust for SACCOs compared to other financial institutions by general public	4	100	4%

4.1.3 The most urgent challenge or difficulties facing SACCO

On challenges or difficulties facing SACCO, 50 respondents believe that SACCO suffer from poor governance, where by 20 out of 100 believe in SACCOs face difficulty to grow because of lack of unity and loyalty among members. Small scale enterprises and farmers face obstacle on how they can improve their businesses so as to achieve the objective of economic growth and poverty reduction as they lack coordination because of ignorance in cooperatives related matter.

Table 4.3 The most urgent challenge or difficulties facing SACCO

Answers from respondents	No of Res	Total	Percentage
Insolvent SACCOs are not being resolved	15	100	15%
SACCOs are losing competitiveness because of more competition from other financial institutions	10	100	10%
SACCOs face difficulty to grow because of lack of unity and loyalty among members	20	100	20%
SACCOs suffer from poor governance	50	100	50%
SACCOs lack long-term vision and development strategy	5	100	5%

4.1.4 The most important strengths needed by board members for the development of SACCOs

60 respondents equal to 60% believe that the most important strengths needed by board members for development of SACCOs, is strong training and education in accounting and finance as well as credit experience. 35 believe in strong internal monitoring and controls for loan evaluation and risk management. The role of Savings and Credit Cooperative Societies SACCOS in providing financial services particularly in the rural areas is now more imperative than before therefore financial and other related education is needed to improve them. Effort should be applied unless otherwise a large part of

cooperative initiatives, especially at the grassroots level lightly touched or not touched at all.

Table 4.4 The most important strengths needed by board members for the development of SACCOs

Answers from respondents	No of Res	Total	Percentage
Strong internal monitoring/controls for loan evaluation and risk management	35	100	35%
Strong training and education in accounting and finance as well as credit experience	60	100	60%
Performance-based compensation scheme for board members	3	100	3%
High qualification standards for selecting board members and chairman	2	100	2%

4.1.5 The biggest reason for the failure of some SACCOs

The biggest reason for the failure of some SACCOs from human resource perspective, 46 out of 100 respondents believe that lack of accountability by senior management is the biggest reason for the failure of some SACCOs from human resource perspective. 20 believe in lack of capable staffs as a reason for failure of some SACCOs from human resource perspective. The government has to respect the independence of cooperative societies, to acknowledge that cooperatives can be established as link for agriculture and other sectors.

Table 4.5 the biggest reason for the failure of some SACCOs

Answers from respondents	No of Res	Total	Percentage
Lack of capable chairman	4	100	4%
Lack of capable board members	16	100	16%
Lack of capable auditor	14	100	14%
Lack of accountability by senior management	46	100	46%
Lack of capable staffs	20	100	20%

4.1.6 Participation in training and education program

Participate in training and education program offered by SACCO Centers. 55 respondents out of 100 asked to participate in training and education program offered by central

SACCOs, say that they did more than once in the last 4 years, while 20 say that they did more than once in the last 1 year. The government to assist in ensuring that cooperative matters in order to come up with solutions to the persistent problems of cooperatives.

Table 4.6 Participation in training and education program

Answers from respondents	No of Res	Total	Percentage
More than once in the last 1 year	20	100	20%
More than once in the last 3 years	15	100	15%
More than once in the last 4	55	100	55%
Not once in the last 4 years	10	100	10%

4.1.7 Reason for not being able to go to training

44 respondents asked to give out the reason for not get training, say that training is not available to their SACCO, where by 18 out of 100 say they cannot go to training because it is not considered important by their SACCO. Although training is very important in

SACCO but members and leaders have no enough knowledge to consider it as a tool for their development.

Table 4.7 Reason for being able to go to training Participation in training

Answers from respondents	No of Res	Total	Percentage
Training is not available to my SACCO	44	100	44%
Training is not considered important by my SACCO	18	100	18%
I cannot leave work to go to training because of staff shortage	10	100	10%
I cannot attend the training because it is too far from home or work	12	100	12%
Training courses that I am interested in are not offered	16	100	16%

4.1.8 The most important topic in training program

45 out of 100 respondents believe in principles and philosophy of cooperatives, 25 out of 100 respondents asked believe in management of SACCOs as the most important topics in the training program. Changes in the macro-economic policies, in turn led to the on-going efforts to make cooperatives member-based organizations. Organization or cooperation includes people of difference ideas, interests and perceptions, therefore knowledge of philosophy and management is needed for existence and development of the cooperative.

Table 4.8 The most important topic in training program

Answers from respondents	No of Res	Total	Percentage
Principles and philosophy of cooperatives	45	100	45%
Management of SACCOs	25	100	25%
Accounting and credit evaluation, etc.	12	100	12%
Leadership	18	100	18%

4.1.9 The ideal feature of SACCOs after 20 years

45 respondents out of 100 asked believe that SACCOs will become a financial institution that is based on important principles of cooperatives such as promoting unity and loyalty through strong membership after 20 years, and not based on the size. 35 respondents believe that SACCOs after 20 years is becoming small but important regional and relationship based financial institutions by focusing on services in niche market not serviced by the other financial institutions such as banks. The point however is that the service being provided is in great demand among the rural poor. Provision and facilitation of banking services to the rural poor will contribute poverty reduction among the rural communities.

Table 4.9 The idea of SACCOs after 20 years

Answers from respondents	No of Res	Total	Percentage
Increasing the competitiveness of SACCOs through rapid growth to compete with other financial institutions such as banks	20	100	20%
Becoming small but important regional and relationship-based financial institutions by focusing on services in niche market not serviced by the other financial institutions such as banks	35	100	35%
Becoming a financial institution that is based on the important principles of cooperatives such as promoting unity and loyalty through strong membership, and not based on the size	45	100	45%

4.2 Discussion

From the study challenges and weaknesses were recognized the result show that rural SACCOs are mostly poor managed, they have little saving capacity of members and poor loan repayment rate, which at times is below 30 per cent against the acceptable rate of 70 per cent. Increased political interference especially in the initiation and directing of their

resources, low corporate reputation and a mismatch between assets and liabilities. Other challenges faced by SACCOs in different areas in the country include: group management, group cohesion, access to training and fair access to credit. However, these challenges seem to be more common in rural areas compared to urban areas. To overcome these challenge and weaknesses observed in the study the government should support by providing access to knowledge, resources and capital, until it is self-sustaining. For any SACCO to perform better should put into consideration the three main areas of cooperative development such as services, innovation and training. However institutionalizing participatory working culture has been a complex task posing fundamental challenges particularly for government bureaucracies, various surveys and researches show that there is a little development in rural communities, out of the intended goal of improving the livelihood of local communities. Participation has revealed as away to achieve SACCO improvement.

Cooperative financial institutions are also a source of loans to cooperative members and other cooperative societies based on favorable loan re-payment conditions, as compared to traditional commercial banks. Further, cooperative financial institutions help to keep finances that are mobilized by the cooperators within the cooperative system and for the benefit of cooperators themselves. Thus, with the current situation where by cooperative societies are considered un-creditworthy by applying traditional commercial banks criteria, the establishment and development of cooperative financial institutions is a sine qua non to cooperative development in Tanzania.

Enhancing women participation, in the male dominated coffee cooperatives in Kilimanjaro, the promotion of SACCOS has opened up avenues for greater women participation. The liberalization of cooperative formation makes it possible for women to elevate their economic groups to cooperatives in their own right.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The credit cooperatives in Tanzania can mobilize financial savings from the informal credit market, to enable farmers and small and medium entrepreneurs to access loans for agricultural production and enhance the national economy and poverty alleviation. The study recognized that believe that SACCOs are more socially minded and community based compared to other financial institutions, is regarded for taking care of poor. SACCOs face challenges because staffs of SACCOs do not have adequate skills and training on cooperatives, suffer from poor governance and also face difficulties because of lack of unity and loyalty among members. Results show training and education in accounting and finance as well as credit experience as important strengths needed by board members for development of SACCOs. Strong internal monitoring or controls for

loan evaluation and risk management mentioned in data collection by the use of questionnaires as important for board members. Reasons for the failure of some SACCOs from human perspective, identified in questionnaire results includes lack of accountability by senior management and lack of capable staffs. The study identified some reasons for not being able to go to training first, training not available to SACCO places and second, training not considered important by their SACCOs. This study indicates that the most important topics in the training program include principle and philosophy of cooperatives, management of SACCOs, leadership and accounting credit evaluation.

5.2 Recommendations

The following are recommendations for the study

- There should be provision of education and training to SACCOs leaders and members. This is more critical for the cooperative organizational structures, which need to address new member needs rather than their predominant orientation towards provision of services along the marketing chain of the crops
- The government should not be obligated to initiate cooperatives, since individuals by themselves will seek out and form cooperatives if found to be mutually beneficial.
- The government should only support by providing access to knowledge, resources and capital, until it is self-sustaining.
- Transparent strategy for rebuilding cooperative is needed for the government so as to move in the right direction by assisting small and medium entrepreneurs

- In providing enabling environment for the cooperatives, the Government should facilitate cooperatives to secure external donor assistance.
- In order to overcome problem of cash to members of cooperative in different levels, the government should assist in SACCO formation throughout the country.
- The government should play a role of technical assistance in urban and rural areas where SACCOs are still existing
- The government should make sure that there is no political interference in cooperative business, since they should be free from the point of functions as well as organizational structure.
- The government to acknowledge that cooperatives can be established as link for agriculture and other sectors
- For the cooperative society to succeed but more importantly be self-sustaining, it must be private, independent and autonomous self-help organization.

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