

FINANCIAL SUSTAINABILITY FOR SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES (SACCOS) IN DODOMA AND MOROGORO REGIONS, TANZANIA

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ABSTRACT

Financial sustainability is one of important policy objective of Savings and Credit Co-operative Societies (SACCOS). However, some SACCOS have achieved financial sustainability while there are many SACCOS without financial sustainability. The existent of the two groups of SACCOS has remained inadequately established. That was a knowledge gap focused by this paper. The main objective was to assess financial sustainability of SACCOS in Tanzania. The specific objectives of the paper are to investigate internal sources of finance in SACCOS, examine loan practices in SACCOS, evaluate returns on financial investments of SACCOS and evaluate financial self sufficiency of SACCOS. The theoretical framework of the paper was based on the theory of academic achievement which says that, ability cause achievement and achievement cause ability. The paper relies on primary data collected using a questionnaire which was administered to 60 SACCOS in Dodoma and Morogoro regions, Tanzania. Financial sustainability was measured through various aspects of financial self sufficiency for SACCOS which were guided by nine equations. The aspects worked are namely average savings collected, capital accumulated, loan disbursed, loan repayment rate, generated profit, return on asset (ROA), return on equity (ROE), return on capital (ROC) and financial self sufficiency ratio (FSSR). Descriptive statistics were used to present data. The results are that savings, shares, capital loan disbursed, loan repayment rate, profit, ROA, ROE, ROC and FSSR for SACCOS were increasing with time. The increase was bigger in more financially sustainable SACCOS than SACCOS without financial sustainability. These results justify the theory used in the article. It was concluded that financial sustainability of SACCOS in Tanzania is still inadequate. The policy interventions to increase financial sustainability of SACCOS are recommended.

Key Words: *Financial Sustainability, Savings and Credit Co-operative Societies, Savings, Loans, Financial Self Sufficiency*

Introduction

The Government of Tanzania (GoT) provided an enabling environment for sustainability of microfinance institutions (MFIs) since independence in 1961. This is because of the importance of those institutions to serve low income segments of the society, and thereby contributes to economic growth and poverty reduction (URT, 2000a). This recognition of MFIs was evidenced with launching of Microfinance Policy in Tanzania in 2000. The overall policy objective is to establish a basis for evolution of an efficient and effective micro financial system. In order to ensure that policy objectives are achieved, the policy divided MFIs in four types, namely Non-Governmental Organizations (NGOs), Commercial Banks, Donor Community and Savings and Credit Cooperative Societies abbreviated as SACCOS (URT, 2000b; Mchujuko, 2007a). SACCOS means a society established under applicable laws for cooperatives or other societies, whose principal objectives are to encourage thrift (using money carefully and wisely) among its members and to create a source of credit for its members (URT, 2000b; URT, 2003; URT, 2005; URT, 2006; Mchujuko, 2007b; Kitala and Simon, 2011).

Financial and economic values of SACCOS influenced greatly increased growth and formation of SACCOS in Tanzania. For instance, after independence in 1961 there were 3 SACCOS but after about 45 years by May 2006, the number of SACCOS had increased to 2028, but the combined volume of savings, shares and deposits in SACCOS being TZS 72.85 billion. The loan portfolio amounted to TZS 66.98 billion (MAFSC, 2006; 2007). However, the increase in number of SACCOS may not bring the intended results if people's access to its financial services from SACCOS is either difficult or impossible. With such large numbers of SACCOS, there are a number of that have been able to reach the poor and extend their financial services over a long time. In this paper such SACCOS were referred to as the SACCOS that achieved financial sustainability (SAFS). The examples are Turiani SACCOS, Kibaigwa SACCOS, Kinole SACCOS and Chambasho SACCOS.

Despite the fact that SACCOS members strive to achieve financial sustainability of their societies, still there are some SACCOS without financial sustainability (SWFS). The volume of savings, shares, deposits and loan portfolio of SACCOS in Tanzania remained small despite the increase in number of SACCOS (MAFSC, 2007; FSDT, 2010). The SACCOS were small in size in 2007 and hence their services were small in volume. There were 3469 SACCOS with only 590 163 members (about 3% of adult population in Tanzania), the combined volume of savings, shares and deposits in SACCOS was TZS 77.96 billion and a loan portfolio of only TZS 116.7 billion (MAFSC, 2007; 2008).

So, the question is: if there is that number of SACCOS, why have the volume of financial services remained low? This call for a serious re-thinks in policy towards SACCOS. Some probable causes can be small initial capital during registration, and poor governance. The entire effect is that, with a big number of outlets (4780 SACCOS), and a loan portfolio of only TZS 116.7 billion (MAFSC, 2007; 2008; FSDT, 2010).

The main objective of this paper is to assess financial sustainability of SACCOS in Tanzania. Specific objectives of the paper are namely to investigate internal sources of finance in SACCOS, examine loan practices in SACCOS, evaluate returns on financial investments of SACCOS and evaluate financial self sufficiency of SACCOS

Literature Review

Sustainability of SACCOS can be defined as the persistence and capacity of the society to deliver services/benefits to its members (despite unexpected difficulties) for the aim of accomplishing its purpose (Sergio et al., 2000). To achieve sustainability, MFIs need to ensure that the cost of providing services are kept low and are covered by income earned through interest and fees on loans (Mbeiyererwa, 2000).

There are two kinds of sustainability that we could observe in assessing sustainability of MFIs. The two kinds are operational self-sustainability and financial self-sustainability. Operational self-sustainability is when the operating income is sufficient enough to cover operational costs like salaries, supplies, loan losses, and other administrative costs (Ledgerwood, 2000). Financial self-sustainability, which he referred to as a high standard measure, is when MFIs can also cover the costs of funds and other forms of subsidies received when they are valued at market prices (Ledgerwood, 2000). Financial sustainability helps to maximize outreach of SACCOS. Financial sustainability has become an important goal of the Grameen Bank and other MFIs (Yunus, 1995 cited by Aminur, 1999).

Different literature sources have noted that financial sustainability is one of the areas that we need to look at to assess the performance of micro finance institutions (Kereta, 2007). The poor needed to have access to financial services on a long-term basis rather than just a one-time financial support (Navajas et al. 2000). The financial un-sustainability in the MFI arises due to low repayment rate (Kereta, 2007). Furthermore, argues: "Measuring financial sustainability requires that MFIs maintain good financial accounts and follow recognized accounting practices that provide full transparency for income, expenses, loan recovery, and potential losses." Regarding indicators of financial sustainability loan repayment (measured by default rate) could be another indicator for financial sustainability of MFIs because low default rate would help to realize future lending, (Khandler et al. 2003).

Financial sustainability ratios are among indicators used in measuring success of MFIs. In this article sustainability was measured through financial sustainability/financial self sufficiency ratio (FSSR), SEEP and Calmeadow (1995). Unless at least 100 percent FSSR is attained, provision of financial services in the long term cannot be achieved, that is no financial sustainability (CGAP, 1997; Ledgerwood, 2000; Kessy and Urio 2006).

Nevertheless, alternative measures were used to assess financial sustainability of SACCOS in the study for this paper. Operational sustainability examination, as a component of financial

sustainability measurement, revealed that SACCOS as an industry are measured by return on asset (ROA) and return on equity (ROE) (Kereta, 2007). The paper measured savings and shares collection, loan disbursement, loan repayment rate, provision for bad debts, return on Equity (ROE), return on capital/investment (ROC), profitability ratio, Return on assets (ROA) and financial self sufficient ratio, (Ledgerwood, 2000; Navanjas et al.,2000; Kereta, 2006).

Theoretical Framework

A theory of academic achievement used to guide the study which provided empirical findings for this paper. This theory was advocated by Maruyama and Magarey (1980). This theory forms a theoretical framework of this paper as explained by Jarvis (2014). The theory states that ability causes achievement. Furthermore, they said that, in reality, achievement may cause ability. The statements regarding ability and achievement that each of the two can cause one another are true as far as this paper is concerned. When SACCOS are new they are characterized by small ability depicted by being without financial sustainability. Hence they have small assess to finance people and no impact on poverty reduction. The ability and effort of SACCOS are expected to make more people to get services from SACCOS and increasing financial sustainability.

Research Design, Sampling Procedures and Sample Size

This paper use data from a survey of 60 SACCOS in Dodoma and Morogoro regions, Tanzania. The survey adopted cross sectional research design which allowed to collect data once A list of 21 regions was obtained from the Ministry of Cooperatives and Marketing (MCM, 2005) in Dodoma, Tanzania. The list showed that each region in Tanzania mainland has a SACCOS. To give equal chance to each region a simple random sampling was used to select the two regions. Two sampling frames or source lists of SACCOS were prepared for each of selected region; one sampling frame consisting of SAFS and the second one consisting of SWFS. Through stratified random sampling 60 (30 SAFS and 30 SWFS) were selected to make sample size for study which provide data for this paper Mugenda and Mugenda, (2003);

Data Management Procedures and Variable Measurements

Primary data were collected by using structured questionnaire and interview guide while secondary data were collected through documentary review (Kothari, 2004; Bailey, 2009).SPSS version12 and excel software were used during data processing and analysis. Financial sustainability (financial self sufficiency) was measured firstly through its various aspects as described below. Finally the financial self sufficiency ratio (FSSR) was computed (Ledgerwood, 2000). Various measuring aspects were as described in the following sections.

Investigation of internal sources of finance in SACCOS

The investigation was done through measuring values of savings and capital per year. Value of savings, and capital collected per annum were measured. The criteria are that for those aspects, their values should increase from one year to another to show that sustainability is increasing. That is savings and capital accumulated should increase from time to time.

Average savings accumulated every year was measured and comparison of figures of SAFS from those of UNSUS was done.

$$S = \frac{\sum Si}{n} \text{-----(1)}$$

Where S = Average savings

Si = Savings collected by SACCOS in a year

n = Sample size

Average capital accumulated every year was measured and comparison of figures of SAFS from those of SWFS was done.

$$C = \frac{\sum Ci}{n} \text{-----(2)}$$

Where C = Average capital

Ci = Capital accumulated by SACCOS in a year

n = Sample size

Measuring of loan practices

Average loan disbursed and repayment rate (R) of loans disbursed every year were measured and comparison of figures of SAFS from those of SWFS was done

$$L = \frac{\sum Li}{n} \text{-----(3)}$$

Where L = Average Loan

Li = Loan disbursed by SACCOS in a year

n = Sample size

The ratio of value of actual loans returned divided by value of expected loan to be returned per annum times 100. The standard minimum value of R is 95%.

$$R = \frac{\text{Actual value of loan repaid}}{\text{Expected value of loan to be repaid}} \times 100 \geq 95\%$$

Let f be frequencies of SACCOS which attained R = 95%.

Let g be percentages of SACCOS which attained R (95%). Then

$$g = \frac{\text{SACCOS attained R} \times 100}{n} \text{-----(4)}$$

g = 100f.

Where n is sample size.

Comparison of SAFS and SWFS was done based on g.

Evaluation of returns on financial investments of SACCOS

The measurement of returns of financial investments was made five aspects namely return on assets (ROA), return on equity (ROE), return on capital (ROC) and profit.

Return on Assets (ROA). The main asset of SACCOS is provision of loan, other factors being held constant.

ROA = Average profit of sample SACCOS per annum -----(5)
Average of total value of loans disbursed per annum

ROA should be in the range of 0.08 to 0.15 (8% to 15%), similar to interest charged on loan.

Return on Equity (ROE). The main equity of SACCOS is shares, other factors being held constant.

ROE = Average total value of profit of sample SACCOS p. a. ----- (6)
Average total value of shares of sample SACCOS p.a.

ROE should be in the range of 0.1 to 0.15 (10% to 15%), similar to interest charged on loan.

Return on Capital (ROC). The capital composed of shares and savings of SACCOS, other factors held constant.

ROC = Average profit of sample SACCOS per annum -----(7)
Average of total capital per annum

ROC should be 1 or more (100% or more) for a SACCOS to be sustainable, otherwise they are unsustainable.

Profit was calculated by taking Income minus Expenditure.

Let P be profit

P = Y-E -----(8)

P should be positive and grow from one year to another.

Where P is profit of SACCOS, Y is income, E = Expenditure

Evaluation of financial self-sufficiency ratio (FSSR)

FSSR indicates whether or not enough revenue has been earned to cover both direct costs including financing costs, provision for loan losses, and operating expenses for loans losses, and operating expenses, and indirect costs, including cost of capital.

FSSR = OI/(TOE+CC) -----(9)

Where:

FSSR = Financial self- sufficiency ratio

OI = Operating income

TOE = Total operating expenses (Operating expenses + financing costs + Provision for loan losses)

CC= cost of capital.

Unless at least 100 percent financial self-sufficiency is reached, provision of financial services in the long term is not there, no financial sustainability (CGAP, 1997); (Ledgerwood 2000); Urio and Kessy (2006); Mlowe and Kaleshu (2009). This was adopted as a measure of financial sustainability in this paper.

Research Results

The assessment of financial sustainability of SACCOS was conducted based on financial self-sufficiency. The analysis was guided by equations (1) to (9). The financial self-sufficiency aspects assessed include savings collected, capital accumulated, loan disbursement, repayment rate, income, expenditure, profit, ROA, ROE, ROC and financial self sufficiency. The flow of presentation and discussion is according to objectives of this paper starting with general findings, internal sources of finance, loan practices, returns on financial investments and finally financial self sufficiency ratios.

Generally, the findings for financial sustainability were as shown in Table 1. It was revealed that SAFS operating costs were covered by revenue by 93.3% while only 83.3% were covered in SWFS. The increase in members’ savings and loans disbursed were both about 96.7% in SAFS while in SWFS they were just 50% and 43.3% respectively. Increase in depositors and active savers and borrowers was more than 80% in SAFS while in SWFS it was less than 71%. The growth of revenue to replace donor support (subsidy) appeared to be low 65.0% in SAF and 43.3% in SWFS. This is obvious because SACCOS are less dependent on subsidy. The findings suggest that SAFS were more sustainable than SWFS.

Table 1: Distribution of SACCOS based on their financial sustainability

| Sustainability of the SACCOS | SAFS (n=30) | | SWFS (n=60) | | Difference in % |
|--|-------------|------|-------------|------|-----------------|
| | Freq. | % | Freq. | % | |
| Amount of loans disbursed increase with time | 29 | 96.7 | 13 | 43.3 | 53.4 |
| Amount of deposit increase with time | 25 | 83.3 | 9 | 30.0 | 53.3 |
| Increase in active savers and borrowers. | 25 | 83.3 | 10 | 33.3 | 50.0 |
| Financial costs are covered by revenue. | 29 | 96.7 | 15 | 50.0 | 46.7 |
| Member's savings increase with time | 29 | 96.7 | 19 | 65.0 | 31.7 |
| Presence of FOSA in the SACCOS | 15 | 50.0 | 10 | 35.0 | 15.0 |

| | | | | | |
|---|----|------|----|------|------|
| Operating costs are covered by revenue | 28 | 93.3 | 25 | 83.3 | 10.0 |
| The growth of revenue replace the donor support | 15 | 50.0 | 13 | 43.3 | 1.7 |

Investigated internal sources of finance in SACCOS

The savings collected and capitals accumulated in SACCOS were involved. Savings have been revealed to increase from one year to another. The increase of savings has been revealed to be very big in SAFS while the increase of savings in SWFS has been small. This can be depicted by figures of averages of savings for SAFS, SWFS and overall sample of this study as shown in Table 2. The increases in savings from one year to another are bigger in SACCOS which have big savings. This reflects the theory of academic achievement which says ability cause achievement and achievement cause ability, Maruyama and Magarey (1980). This indicates that the more the savings the more success and sustainability of SACCOS.

Table 2: Distribution of SACCOS based on averages of savings collected per SACCOS in Tanzanian Shillings from year 1998 to 2007

| SACCOS | SAFS (n=30) TZS | SWFS (n=30) TZS | Overall sample (n=60) TZS |
|--------|-----------------|-----------------|---------------------------|
| 2007 | 264 779 815.21 | 8 348 971.58 | 149 920 166.50 |
| 2006 | 215 326 222.22 | 5 747 343.78 | 135 690 122.10 |
| 2005 | 67 192 110.43 | 4 289 328.80 | 45 350 866.81 |
| 2004 | 57 347 840.14 | 5 164 966.00 | 40 781 848.35 |
| 2003 | 36 227 615.55 | 3 177 794.29 | 26 370 651.32 |
| 2002 | 33 804 652.41 | 2 795 026.13 | 24 443 255.79 |
| 2001 | 26 536 650.69 | 2 664 852.65 | 18 879 658.87 |
| 2000 | 25 034 253.59 | 1 801 699.29 | 16 973 979.65 |
| 1999 | 20 691 598.07 | 791 088.94 | 13 337 062.09 |
| 1998 | 803 943.33 | 595 071.24 | 723 242.75 |

Capital of SACCOS is formed by savings and shares. However, savings take large portion of capital as shown in Table 3. Capital has been increased in more magnitude in SAFS than SWFS something focusing on the theoretical framework of this paper, Maruyama and Magarey (1980). The increase in capital demonstrates more sustainability of the SACCOS taking other things constant.

Table 3: Value of shares, savings and capital during data collection

| SACCOS | Shares (TZS) | Savings (TZS) | Capital (TZS) |
|------------------------|--------------|---------------|---------------|
| SAFS (n= 30) | 87009486 | 331787375 | 449498226 |
| SWFS (n= 30) | 5749326 | 21022409 | 30964886 |
| Overall sample (n= 60) | 47439321 | 181954266 | 253670697 |

Loan practices in SACCOS

Loan disbursed, loan repayment rate and provision for bad debts are addressed in this section.

Table 4 shows loan disbursed by SACCOS in each year from 1998 to 2007. The amount of loan disbursed increased for SAFS, SWFS and overall SACCOS. However the increases were bigger in SAFS than in SWFS. The increase in loans disbursed from one year to another are bigger in SACCOS which have big savings and capital accumulated. This reflects the theory of academic achievement which says ability cause achievement and achievement cause ability, Maruyama and Magarey (1980).

Table 4: Loan disbursed by SACCOS in each year from 1998 to 2007

| Year | SAFS (n=30) (TZS) | SWFS(n=30) (TZS) | Overall SACCOS (n=60) (TZS) |
|------|-------------------|------------------|-----------------------------|
| 2007 | 62645957 | 458661036 | 297643916 |
| 2006 | 21319852 | 300931207 | 217803507 |
| 2005 | 22973563 | 214743549 | 168170838 |
| 2004 | 19644907 | 179410915 | 139469413 |
| 2003 | 13318815 | 183097132 | 141397195 |
| 2002 | 13335457 | 193007309 | 150956444 |
| 2001 | 11512205 | 155359394 | 120961154 |
| 2000 | 9756851 | 30482933 | 25301413 |
| 1999 | 7672656 | 21282279 | 17717853 |
| 1998 | 5959792 | 5970858 | 5963255 |

Table 5 shows proportion of SACCOS based on percent averages of attainment for repayment rate of 95% and above. In 1998 only 15% of SAFS attained 95% repayment rate. The numbers of SACCOS among SAFS which attained 95% repayment rate grew gradually to 46% in the year 2007. On the other hand, in 1998, only 8% SWFS, attained the repayment rate of 95%. Also, there was gradual growth of SWFS which attained 95% of repayment rate to 39% in 2007, which attained 95%. In the overall sample, the repayment rate for SAFS and SWFS, in 1998, was 13% and in 2007 it was 44%. Therefore, based on these research findings, the attainment of 95% repayment rate in SACCOS was difficult. This may call upon attention to increase the loan repayment rate in order to ensure sustainability of SACCOS.

Table 5 shows distribution of SACCOS based on money set aside as provision of bad debt in TZS. Provision of bad debts was done by SAFS since 1998 to 2007 while SWFS did it in some years only. In SAFS, the provision for bad debts was TZS 4 659 (average) in 1998 and it grew up to TZS 46 537 676 (average) in 2007. This growth indicates struggle towards sustainability. It may also mean that repayment rate is not good as we saw in Table 5. However, the provision of bad debts appeared to grow with success of the SACCOS. This has been obvious because even the maximum TZS 1 848 712 755 were provided by SAFS against the bad debts.

Table 5: Proportion of SACCOS based on percentage of attainment of repayment rate of 95% and above

| SACCOS Year | SAFS (n=30) | | SWFS (n=30) | |
|----------------|-------------|--------------|-------------|-----------|
| | % | (TZS) | % | (TZS) |
| 2007 | 46 | (46 537 676) | 39 | (227 919) |
| 2006 | 46 | (11 175 439) | 27 | (167 123) |
| 2005 | 45 | (3 375 619) | 27 | (29 167) |
| 2004 | 40 | (2 452 699) | 26 | (0) |
| 2003 | 36 | (1 214 648) | 15 | (0) |
| 2002 | 28 | (1 046 045) | 15 | (16 031) |
| 2001 | 26 | (467 235) | 8 | (2516) |
| 2000 | 26 | (359 859) | 9 | (0) |
| 1999 | 25 | (321 004) | 8 | (3572) |
| 1998 | 15 | (4659) | 8 | (3506) |

Figures in parentheses represent money set aside as provision for bad debt in TZS

Table 6 shows binary data of confirmed SAFS and SWFS from field data as cross-tabulated with range of percentage repayment rate of loans for years 1998 - 2007. The repayment rate was 95% to 100% in only 5 out of 30 SAFS and 4 out of 30 SWFS. The majority of SWFS, 16 out of 30, attained repayment rates of 89% to 100% while the majority of SAFS, 21 out of 30, had repayment rates of less than 89%. This may suggest the required repayment rate of 95% to be on the high side. The repayment of 89% may be suggested to be taken as a required minimum rate, other factors held under *ceteris paribus*.

Table 6: Binary data of confirmed SAFS and SWFS range of percentage repayment rate of loans for ten years (1998 - 2007) Cross-tabulation

| Type of SACCOS | Range of percentage repayment rate of loans | | | | | | Total n |
|-----------------|---|------------|------------|------------|-------------|------------|---------|
| | ≤ 76% | 77% to 82% | 83% to 88% | 89% to 94% | 95% to 100% | | |
| SUS 1 | 5 | 9 | 7 | 4 | 5 | 30 | |
| UNSUS 0 | 1 | 5 | 8 | 12 | 4 | 30 | |
| Over all sample | 6 | 14 | 15 | 16 | 9 | 60 | |
| Percentage (%) | 10 | 23 | 25 | 27 | 15 | 100 | |

Returns on financial investments of SACCOS

Return on equity (ROE), return on assets (ROA), return on capital (ROC) and profit are covered in this section.

Table 7 shows ROA, ROE and ROC for SAFS, SWFS and overall sample, in 2007. Return on assets (ROA) was smaller for SAFS than for SWFS. Loan disbursed was taken to be equal to assets, other things held constant. The ROA for SAFS is within the recommended range of 0.08 to 0.15 (Ledgerwood, 2000; Kereta, 2006). It was more than double for SWFS, something which may indicate exploitation to members of SWFS by charging them high interest on loan and not paying salaries because in most cases there was no employee. This suggests that there was higher sustainability in SAFS than SWFS.

Return on Equity (ROE) had similar pattern to ROA; it was more than two times in SAFS compared to SWFS as shown in Table 7. This is a sign of sustainability. Therefore, through ROE, it may be suggested that SAFS are more sustainable than SWFS.

Return on Capital (ROC) was such that ROC for SAFS was twice in size that for SWFS. Again, the ROC of SAFS, which was 0.139, was within the recommended range of 0.1 to 0.15. The ROC of SWFS, which was 0.0648, was below the above recommended range and therefore suggests un-sustainability. These findings suggest that SAFS are sustainable than SWFS.

Table 7: ROA, ROC and ROE for SAFS and SWFS, year 2007

| Item | SAFS (n = 60) | SWFS (n =60) |
|--------------------|---------------|----------------|
| Shares (Se) | 87009486 | 5749326 |
| Savings (Sv) | 33178735 | 21022409 |
| Capital (C)= Se+Sv | 449498226 | 30964886 |
| Loans (L) | 458661036 | 62465936 |
| Profit (P) | 62 645 957 | 20064160 |
| ROA = P/L | 0.137 =13.7% | 0.0321= 3.21% |
| ROE = P/Se | 0.72= 72% | 0.3490 = 34.9% |
| ROC = P/C | 0.139 = 13.9% | 0.648= 64.8% |

Regarding profit earned by SACCOS, some SACCOS were not only able to cover the expenditure by income, but also they made profit. Table 8 shows distribution of SACCOS based on profit earned per annum in TZS. Research findings revealed that SWFS had been making very small profits compared with SUS. In 2007 the maximum profit made by SWFS was TZS 107 854 180 with a mean of TZS 20 064 160 while SAFS made a maximum of TZS 488 171 130 with a mean of TZS 62 645 957. Maximum and mean profits were increasing gradually from 1998 to 2007. In 1998 the maximum and mean of profits made by SWFS were TZS 53 221 511 and TZS162 135 respectively.

Table 8: Distribution of SACCOS based on their profit in Tanzanian Shillings from 1998 to 2007

| SACCOS | SAFS (n=30) | SWFS (n=30) |
|---------------|-----------------------------|-----------------------------|
| Year | Average Profit (TZS) | Average Profit (TZS) |
| 2007 | 62 645 957 | 20 064 160 |
| 2006 | 21 319 852 | 12 729 480 |
| 2005 | 22 973 563 | 10 488 336 |
| 2004 | 19 644 907 | 15 137 374 |
| 2003 | 13 318 815 | 3 763 024 |
| 2002 | 13 335 457 | 3 788 695 |
| 2001 | 11 512 205 | 1 841 513 |
| 2000 | 9 756 851 | 1 348 289 |
| 1999 | 7 672 652 | 828 105 |
| 1998 | 5 969 792 | 162135 |

These figures were big for SAFS with a maximum profit of TZS 65 667 709 and an average of TZS 5 969 792. These findings authenticate that the more the profit the more the sustainability for SACCOS. The increase in profit earned from one year to another are bigger in SACCOS which have big savings and capital accumulated. This reflects the theory of academic achievement which says ability cause achievement and achievement cause ability, Maruyama and Magarey (1980).

Table 9 shows that SACCOS had adequate income to meet all expenditures. Regarding income and expenditure, the majority of SAFS (86.7%) reported that the income met all expenditures. On the other hand, 46.7% of SWFS had adequate income to meet all the expenditures. The SACCOS which did not have adequate income to meet all the costs adopted some strategies to minimize expenses. Otherwise the SACCOS collapse, something which indicates that there was poor sustainability.

Table 9: SACCOS that have adequate income to meet all expenditures

| SACCOS | YES (Frequency) | YES (Percent) | NO (Frequency) | YES (Percent) |
|-------------------------|------------------------|----------------------|-----------------------|----------------------|
| SAFS (n = 30) | 26 | 86.7 | 4 | 13.3 |
| SWFS (n = 30) | 14 | 46.7 | 16 | 53.3 |
| Overall sample (n = 60) | 40 | 66.7 | 20 | 33.3 |

Financial self-sufficiency ratio (FSSR)

Financial self-sufficient ratio (FSSR) is the level whereby MFI generate enough revenue to cover operating expenses, financial costs and the provision for loan losses (Christen et al., 1995; SEEP Network and Calmeadow, 1995; Ledgerwood, 2000). An FSSR of at least 100% should be attained to conclude that a SACCOS is sustainable (CGAP, 2003).

Let FSSR be a financial self-sufficient ratio, OI be Operating Income and TOE be Total operating expenses (Operating expenses + Financing costs + Provision for loan losses +Cost of Capital) as shown in equation (9). In this research, average income and average expenditure of SACCOS were taken as proxy for operating income and total operating expenses respectively. Table 10 shows FSSR for SAFS and SWFS, where SAFS had bigger FSSR than SWFS to suggests that SAFS were financially self sufficient than SWFS.

Table 10: Distribution of SACCOS based on their FSSR from 1999 to 2007

| SACCOS | SAFS (n=30) | | | SWFS (n=30) | | |
|--------|-------------|----------------------|---------------------------|-------------|----------------------|---------------------------|
| | Year | Average Income (TZS) | Average Expenditure (TZS) | FSSR % | Average Income (TZS) | Average Expenditure (TZS) |
| 2007 | 81 678 880 | 58 760 109 | 139.3 | 6 065 787 | 4 641 417 | 130.6 |
| 2006 | 41 475 677 | 30 336 512 | 136.7 | 1 204 233 | 1 852 737 | 64.9 |
| 2005 | 36 187 238 | 25 801 521 | 140.2 | 1 347 558 | 1897 421 | 71.0 |
| 2004 | 29 982 762 | 15 745 451 | 190.2 | 1 005 007 | 734 942 | 136.7 |
| 2003 | 8 257 202 | 5 857 745 | 120.4 | 786 554 | 1 437 320 | 54.7 |
| 2002 | 7 893 217 | 3 263 111 | 240.4 | 1 229 863 | 364 791 | 90.1 |
| 2001 | 4 560 004 | 3 185 281 | 143.2 | 1 132 714 | 323 431 | 85.5 |
| 2000 | 4 051 939 | 3 565 477 | 113.6 | 589 874 | 569 888 | 103.5 |
| 1999 | 2 130 280 | 1 866 101 | 114.1 | 456 713 | 433 729 | 105.2 |

Discussion

The main objective of this paper was to assess financial sustainability of SACCOS in Tanzania. To achieve this main objective, four specific objectives were addressed. The first specific objective was to investigate internal sources of finance in SACCOS. The results were that the internal sources of finance namely savings and shares were initial small and hence capital of SACCOS was small. However, savings, shares and capital were smaller in SACCOS without financial sustainability than in more financially sustainable SACCOS. Furthermore, the increase of the three was bigger in more financially sustainable SACCOS than SACCOS without financial sustainability.

The second specific objective was to examine loan practices in SACCOS. The results were that the loan disbursed was initially small. However, the loan disbursed and loan repayment rate were

smaller in SACCOS without financial sustainability than in more financially sustainable SACCOS. Furthermore, the increase of the two was bigger in more financially sustainable SACCOS than SACCOS without financial sustainability.

The third specific objective was to evaluate returns on financial investments of SACCOS. . The findings were that the profit, return on asset, return on equity and return on capital, were initially poor. However, the profit, return on asset, return on equity and return on capital were poorest in SACCOS without financial sustainability compared with in more financially sustainable SACCOS. Furthermore, the improvement of the four was better in more financially sustainable SACCOS than SACCOS without financial sustainability.

The fourth specific objective was to evaluate financial self sufficient of SACCOS. The findings were such that FSSR follow similar trend to be better and increase more in financially sustainable SACCOS than SACCOS without sustainability. The results for all four specific objectives justify the theory used in this empirical paper, that ability causes achievement and achievement cause ability. It is concluded that financial sustainability of SACCOS in Tanzania is still inadequate.

Conclusions

Basing on the discussed results it can be concluded that the financial sustainability for SACCOS was inadequate. However, it was growing with time in Tanzania. The internal sources of finance namely savings and shares, together with capital are increasing from one year to another. Loan disbursement is growing from one year to another. However loan repayment rate is still low as only 15% of SACCOS attained required repayment rate of 95%.SAFS are making profit than SWFS. Profits are increasing from one year to another. The financial self sufficiency ratio is bigger in SAFS than in SWFS and it increases with time in SAFS than in SWFS.. Therefore ability causes achievement and achievement causes ability as stated in the theoretical framework. It is concluded that SACCOS have a certain level of financial sustainability whereby further improvement remains must.

It is urged to stakeholders of SACCOS to strive to attain more savings, shares, capital loans, repayment rate and hence better financial self sufficiency state. The policy interventions to increase SACCO's financial sustainability remains must because by increasing sustainability, achievement increases and sustainability will increase.

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