

# Impact of Saving and Credit Cooperative Societies in Poverty Reduction. Empirical Evidence from Tanzania

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## Abstract

The objective of the study was to examine the impact of Saving and Credit Cooperative Societies (SACCOS) in Poverty Reduction. The study was justified based on the fact that poverty level and microfinance services change continuously and therefore a lot remains to be desired. Descriptive as well as multiple linear regression methods were used in this study which involved a sample of 40 beneficiaries of microfinance services. Microfinance services and entrepreneurial skills were independent variables and poverty reduction was the dependent variable. Data analysis was done using Statistical Package for Social Sciences (SPSS). The findings revealed that microfinance services contribute 50 percent of poverty reduction indicating the strong impact of SACCOS in poverty reduction given that the loans are invested in income generating activities. SACCOS beneficiaries have experienced increased income, improved social services and self employment. The study further revealed that SACCOS provide entrepreneurial skills although at a very small rate and the training provided meant to create member's awareness of terms and conditions of loans and savings and not creating business skills. This study recommends that SACCOS need to ensure that microfinance services provision is expanded to include large number of clients. Furthermore, I recommend SACCOS to introduce entrepreneurial training to all members and ensure simultaneous provision of microfinance services and entrepreneurial skills for effective poverty reduction.

**Keywords:** microfinance services, entrepreneurial skills, investment and poverty reduction.

## 1. Introduction

Globally poverty incidence is still at the high level especially in developing countries (MDG, 2014). About one in five persons in developing regions live on less than \$1.25 per day (MDG, 2014). The area which is highly affected is the Sub-Saharan Africa whereby the proportion of people living below \$1.25 is 48 percent followed by Southern Asia (30 percent) and Southern Asia excluding India (22 percent). In addition, vulnerable employment accounts for 56 percent of all the employment in developing regions, compared to 10 percent in developed regions (MDG Report, 2014). This is a clear indication that poverty is a problem among countries especially developing countries. According to the World Bank (2008) microfinance institutions have proved the possibility of providing reliable services to the poor customers which ultimately contributes to reducing poverty. Khan & Rahaman (2007) demonstrates that Bangladesh is currently the home to the most extensive microfinance operations in the world. It has been noted that saving and credit cooperative societies in Bangladesh has not only helped people to develop in their material capital but also in human capital by ensuring better access to health care, education system and general awareness among the people about their rights and duties. The study by Bwana and Mwakujonga (2013) indicates that SACCOS in Kenya contributes over 45 percent Gross Domestic Product and it is estimated that at least one out of every two Kenyans drives their livelihood from these kinds of cooperative movement. SACCOS by providing small loans and savings facilities to those who are excluded from commercial services has been developed as key strategy for reducing poverty throughout the World (Ramath and Preethi, 2014).

In Tanzania poverty incidence remains to be a challenge whereby out of every 100 Tanzanians, 28.2 were poor in 2012 (HBS, 2012) compared to 36 in 2000/01. According to the World Bank (1997) Social Sector Review in Tanzania, a third of Tanzanians live in household's classified hard core poverty and a further fifth of Tanzanians live in households classified as poor on the basis of their income. Tanzania is committed to reduce by 19.5 percent the proportion of people below national basic needs poverty line by the year 2015 (MDG, 2006). Among the intervention for poverty reduction includes the Saving and Credit Cooperative Societies (SACCOS) which the Government encourage as key drivers of efforts to fight against poverty (PRSP, 2000: Cooperative Development Policy, 2002:10.). This has made SACCOS more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries (Munyiri, 2006).

Major challenges facing entrepreneurs is lack of skills and capital for investments (Bwana and Mwakujonga, 2013). In response to missing capital, SACCOS have tempted to bridge the gap by extending small loans for income generating purposes. According to Magali (2013) many SACCOS studies have been conducted more in Kenya compared to Tanzania. Majority of SACCOS research studies in Tanzania has concentrated on outreach issues, sustainability, growth and few focused on efficiency of microfinance in poverty reduction. This study examined the extent microfinance services have been successful in delivering their promise, particularly to the poor, examined whether SACCOS provide entrepreneurial skills as well as its contribution in poverty

reduction and the relationship that exist between SACCOs investment and poverty reduction.

### **1.1 Statement of the problem**

Tanzania uses SACCOs as a strategy of eliminating poverty in the community (URT, 2010). However, it has not performed creditably well and hence has not played the expected vital and vibrant role in poverty reduction (URT, 2010). SACCOs have the opportunity to widen access to the poor who doesn't have flexible access in other financial institutions like Commercial Banks. They perform the roles of mobilization of savings for investments, facilitate and encourage flow of capital from agents with no investment opportunities to those who have them, optimize allocation of capital between competing uses and ensure capital goes to the most productive use (Levine, 1997).

Despite the increasing number of SACCOs institutions, poverty incidence remains to be a challenge in the community whereby 32 percent of the population in Dodoma is below the poverty line (Kessy et al, 2011). Previous studies conducted on the role of SACCOs in poverty reduction focused on the extent these institutions have been able to provide loan accessibility to the beneficiaries ignoring the social-economic outcomes of those loans to the community (Kessy and Urio, 2006). The outcome of SACCOs services is not clearly known which includes the extend SACCOs Loans, saving mobilization and entrepreneurial skills has enabled growth of investments and income, self employment and improved social services. Important to note is that, knowledge about the outcome of micro-credit initiatives among households remains only partial and contestable. Therefore, this study examined the extent micro finance services and entrepreneurial skills have contributed towards poverty reduction at the household level.

## **2. Literature review**

Izah (2014) conducted a study to examine the efficiency and productivity of Cambodian microfinance institutions (MFIs) during the period 2008-2011 using regression analysis. He found that overall efficiency of microfinance institutions was 92 percent during 2008-2011 suggesting an input waste of 8 percent. Furthermore, the results suggested that the MFIs in Cambodia have exhibited productivity growth of 1.7 percent during the period 2008-2009. It was noted that the success of MFIs in Cambodia is partly attributable to the effective implementation of regulations for microfinance. Boss (2014) supporting the study by Izah (2014) noted that in Cambodia there is an established Microfinance Association which is responsible for providing assistance to members by sharing microfinance information, providing training and representing member in negotiation meetings. These findings implies that Microfinance institutions are productive as well as efficient in bringing about economic change for development and poverty reduction. Similar study done by Mazunder and Wencong (2013) using regression model in Bangladesh demonstrate that loans by SACCOs have a positive coefficient equal to 0.055 indicating that SACCOs loans have a positive contribution in poverty reduction. Mahmood (2011) demonstrated that despite that loans and savings exhibit positive contribution in poverty reduction through increase in income, in Pakistan 62 percent of Women used that loan for starting new business and the remaining 38 percent was used for unproductive activities. This was attributed to lack of training of the purpose of borrowing whereby the borrowed funds is used in non productive activities which reduces the possibility of poverty reduction.

Akonyi and Ilemona (2013) conducted a study to assess the impact of entrepreneurship skills acquisition in poverty in Kogi State of Nigeria. They used primary data collected with the aid of a well structured questionnaire which were administered to beneficiaries of entrepreneurship acquisition skills randomly sampled from six Local Government Area of the state. Descriptive analysis method was used. The result shows that 65 percent of the respondents accepted that lack of entrepreneurship skills among youth is responsible for the high rate of poverty in Nigeria. In connection to that, it was illustrated by Boitumilo (1995) that entrepreneurial skills are essential for enhanced productivity and therefore poverty reduction. Borrowers with these skills have an opportunity to utilize the loans in productive assets than those without them. The result also revealed that at least 60 percent of the people who benefitted from the skill acquisition programme can now afford the basic necessity of life (Akonyi and Ilemona, 2013).

Ali (2013) identified the relationship between entrepreneurship development and poverty reduction at Benadir region in Somalia. He used Correlation research design which comprised of 80 participants of micro and small enterprises in Benadir region. The study found that Significance level or P-value was less enough, suggesting that there is weak positive correlation between entrepreneurship development and poverty reduction. The findings contradicts the study by Akonyi and Ilemona (2013) who found that entrepreneurial skills have a positive impact in poverty reduction. Ogundele et al (2012) using simple linear regression model found that entrepreneurial training and education were significantly related to the youth empowerment and social welfare Services. It was recommended that for entrepreneurial skills to contribute in poverty reduction there is need for empowering clients to acquire financial skills and focus on goals of investment.

Urassa and Kwai (2015) studied the contribution of SACCOs in income poverty reduction in Tanzania by examining activities undertaken by SACCOs that can lead to reduction of income poverty. They used

descriptive method and multiple linear regression method to draw conclusion. Using multiple regression method the study assessed independent variables like education level, habit of saving, household size and whether clients received any entrepreneurial training against household income as dependent variable. The findings have shown the impact of SACCOs in income poverty reduction is significant which imply that SACCOs play a critical role in income poverty reduction. Any addition training to members, the more they gain skills of operating projects efficiently.

Magali (2013) applied multivariate regression analysis to assess whether rural SACCOs in Tanzania are sustainable using a sample of 37 SACCOs in Morogoro, Dodoma na Kilimanjaro regions. The study revealed that 46 percent of SACCOS in rural Tanzania especially in Eastern and Central Zone were not sustainable because they accumulated large amount of None Performing Loans. It was further concluded that positive sustainability SACCOs means its ability to sustain cash flow generation to its members with a focus to alleviate poverty. Kipesha (2013) used input oriented approach while Singh et al (2013) used input and output orientation. These studies were done in Tanzanian and Indian MFIs respectively. Kipesha (2013) concluded that the MFIs in Tanzania are efficient as producer and inefficient as intermediary, indicating better allocation of input resources in the production of outputs. The study contradicted earlier studies which reported inefficiency under both production and intermediation approach and non-banks to have lesser efficiency than commercial banks and pure MFIs.

### 3. Research Methodology

The study adopted a cross sectional design. In addition quantitative research design which is descriptive and analytical in nature was used to establish the impacts of SACCOs in Poverty reduction. The study adopted cross-sectional design because it involved the collection of data at one point in time. This study used two sampled SACCOs institutions in Dodoma Municipality. The data used for this study was collected using structured questionnaires which were administered from the beneficiaries of SACCOs microfinance services in Dodoma. The population included the beneficiaries from Mwashita SACCOs ( $N_1=420$ ) and Dodoma Municipality Teachers SACCOs ( $N_2=380$ ).

The sample size of this study was 40 beneficiaries of SACCOs which was determined as

$$n = \frac{Z^2 pqN}{e^2 (N - 1) + Z^2 pq} \quad (\text{Kothari, 2004}) \quad (1)$$

Whereby;

- n = Sample size for a finite population
- N = Size of the population which is the number of beneficiaries in both SACCOs
- p = Population reliability or frequency estimated for a sample size where the value of p = 0.5 which is taken for all developing countries population and p+q=1
- e = margin of error considered is 15 percent for this study
- $Z_{\alpha/2}$  = Normal reduced variable at 0.05 level of significance,  $Z=1.96$

The calculated sample size was

$$n = \frac{(1.96)^2 \times 0.5 \times 0.5 \times 800}{0.15^2 (800 - 1) + (1.96)^2 \times 0.5 \times 0.5} = 40 \quad (2)$$

Descriptive as well as multivariate regression model was used to analyses the impact of SACCOs in poverty reduction in Tanzania whereby microfinance services and entrepreneurial skills were the independent variables and poverty reduction was the dependent variable. The model was measured by a unit change of independent variables against dependent variable and was constructed as follows:

$$PR = \beta_0 + \beta_1 L + \beta_2 S + \beta_3 GO + \beta_4 FS + \mu \quad (3)$$

Where,  $PR$  is the poverty reduction,  $L$  is the SACCOs loans,  $S$  is SACCOs savings,  $GO$  is goal orientation and  $FS$  is financial skills,  $\beta_i$  is the Beta coefficients and  $\mu$  is the error term of the model specified. The model was used to establish the extend independent variables explain the dependent variable in this case poverty reduction. To test the reliability of variables Cronbach alpha method was used which indicated a range of 0.755 to 0.93 for both variables.

This implies that reliability was excellent for both variables in the model.

## 4. RESULTS

### 4.1 Results of microfinance services variables from the regression equation

Table 1 below demonstrates the results of regression equation of microfinance services variables on poverty

reduction whereby the coefficients of R-square, F- statistics, standard error estimate and t- statistics indicates that the variables fit well in the equation. The coefficient of SACCOs loans was 0.068 indicating a positive relationship between SACCOs loans and poverty reduction. The result indicates that SACCOs loans have a positive impact in poverty reduction given that the beneficiaries use the loans in productive activities. On the other hand SACCOs savings have a positive coefficient 0.657 implying that SACCOs Savings and poverty reduction move in the same direction meaning that there is positive relationship between savings and poverty reduction. Therefore, both SACCOs loans and savings have positive impact in poverty reduction. In order to reduce poverty among societies SACCOs need to encourage more savings and extend more loans to beneficiaries.

These findings are in agreement with the studies done by Adugna (2000) and Hossain (1989) who commented that loans by SACCOs enables poor people overcome their liquidity constraints and undertake some investments leading to increased income and self employment. However, the findings by Nathan and Banga (2004) have shown that SACCOs is a key policy strategy for poverty alleviation although the services tend to be biased in favour of women and yet poverty cuts across gender. Furthermore, the findings by Khandker (2005) in Bangladesh confirms the results of this study whereby he found that between 1991/92 and 1998/99 poverty in all Villages declined by 17 percent and half of this reduction was attributable to saving and credit cooperatives. Kessy and Urjo (2006) in their study using a sample of 352 beneficiaries concluded that credit empowerment of beneficiaries has a positive impact in poverty reduction if directed in projects that generate income. Moreover, Jalilian and Kirkparick (2001) in the study of financial development and poverty reduction revealed that a one percent change in financial development raises growth in income by almost 0.4 percent.

Hussain (2012) in Parkstan using logistic regression model supports this study that there is relationship between levels of loan amount and increase in income of SACCOs beneficiaries. Hermes and Lensink (2007) argued that although SACCOs has a positive impact in increased income, it has not reached the poor. Microfinance is a good strategy for poverty reduction but there is a need to target the poorest borrowers first who are more disadvantaged. It has been stated that loan officers exclude the poor from borrowing because of high risk of bad credit. Mazunder and Wencong (2013) in Bangladesh using multivariate regression model found that one unit increase in loans amount results in 0.055 decreases in poverty. This indicates that microfinance loans have a strong contribution in poverty reduction. However, the study by Haque and Masahiro (2009) in Bangladesh showed contrary results that 71.4 percent of respondents felt that there had no change in their lives stiles. Loss of properties for being loan defaulters and burden of indebttness were cited as major reasons for negative effect.

**Table 1. Regression coefficient for microfinance service variables**

<b>Independent variables</b>	<b>Estimated value of coefficients</b>	<b>t- values</b>
<b>SACCOs loans</b>	0.068	0.493
<b>Savings</b>	0.657	4.774
<b>Value of R<sup>2</sup></b>	0.50	
<b>Adjusted R<sup>2</sup></b>	0.453	
<b>Value of F</b>	17.149	
<b>Standard error estimate</b>	15.309	

#### **4.2 Results of entrepreneurial skills variables from the regression equation**

The findings of entrepreneurial skills are presented in Table 2. The regression results indicate that the model fits well. The variables tested were financial skills and goal orientation whereby the results indicate a positive relationship between financial skills and poverty reduction meaning that beneficiaries with those skills are in a better position to achieve poverty reduction. Goal orientation was a dummy variable coded 1 if goal orientation and 0 if goal divergence. The coefficient of the variable was -0.040 implying that there is a large proportion of beneficiaries who used the loans in non productive activities from the goals set before borrowing. The descriptive results indicate that goal divergence was 47.5 percent meaning that majority of beneficiaries do not implement the origin intended goals of borrowing or use the funds in other activities. It was stated that the reasons of goal divergence is inadequate capital, inadequate time and lack of skills to execute the intended goals.

The beneficiaries interviewed agreed by 32.5 percent that SACCOs provide entrepreneurial skills and the remaining 67.5 percent said no. These results imply that SACCOs have not done enough to provide entrepreneurial skills to beneficiaries. Schoof (2006) supports the study that there is lack of job training focusing on technical aspects of starting up a business, project formulation and administration and management. Entrepreneurial skills are important because they complement to capital and in increasing the productivities of the borrowers. Mwangi (2013) argued that borrowers with such skills are likely to make wise investments compared to those borrowers without them. The effect of inadequate provision of entrepreneurial skills is

evidenced by beneficiary's goal divergence equals to 47.5 percent which retards the effort to fight against poverty. Therefore it has been found that SACCOs provide entrepreneurial skills although at a very small rate.

Chigunta (2002) supports the study that besides finance, entrepreneurs need to know how to develop a business plan, business management, financial management, time management, stress management, improving sales, managing and reducing costs, debt recovery techniques, stock control techniques, marketing and recruitment. This findings reveal that financial skills are not only necessary to enable investors choose projects with high yield but also sufficient to achieve poverty reduction. The same has been recommended by Hossain (1988) that SACCOs are providing credit schemes to the beneficiaries and training them how to repay it with less concentration in provision of entrepreneurial skills. McClelland (1961) demonstrate that entrepreneurs with skills have a better chance of creating new business ideas and then assume the risks associated with developing those ideas. However, the findings by Chigunta (2002) do not support the findings of this study because majority of beneficiaries interviewed were not able to develop business plans, not able to prepare reports and lacked the basic financial management skills. Gustavo (2000) emphasized that entrepreneurial skills through training is important to supplement credit and other microfinance services like loans and savings. He noted that the synergy between microfinance services and entrepreneurial skills is important to provide a greater impact in poverty reduction.

**Table 2. Regression coefficient for entrepreneurial skills variables**

Independent variables	Estimated value of coefficients	t- values
SACCOs loans	0.068	0.493
Savings	0.657	4.774
Value of R	0.50	
Adjusted R	0.453	
Value of F	17.149	
Standard error estimate	15.309	

#### 4.3 Relationship between SACCOs investment and poverty reduction

The study established a significant relationship between SACCOs investment and poverty reduction as demonstrated in Table 3 of a correlation matrix between SACCOs investment and poverty reduction. SACCOs investment in this study means using money to make more money. The findings imply that when SACCOs beneficiaries forgo current consumption for an increased future level of consumption, the resulting effect will be poverty reduction. The correlation coefficient (R) between SACCOs investment and poverty reduction is positive 0.326 indicating that an increase of SACCOs investment corresponds to significant poverty reduction. This result is supported by vicious cycle of poverty that high investment results into high productivity, high income, high savings and high consumption. Similarly the study by Nurkse (1953) supports this result that investments can lead to higher productivity, employment and income opportunities, and increased availability of wage goods, thereby reducing poverty by raising mean income and consumption.

**Table 3. Pearson correlation matrix between SACCOs investment and Poverty reduction**

		SACCOs Investment	poverty reduction
SACCOs Investment	Pearson Correlation	1	.326*
	Sig. (2-tailed)		.040
	N	40	40
poverty reduction	Pearson Correlation	.326*	1
	Sig. (2-tailed)	.040	
	N	40	40

#### 5. Conclusion and recommendations

It has been established that SACCOs microfinance services explains poverty reduction by 50 percent. Therefore, SACCOs microfinance services are key determinants of poverty reduction given that beneficiaries forgo current consumption in order to increase future level of consumption. Furthermore, it has been revealed that SACCOs have been providing entrepreneurial skills although at a very minimal rate as confirmed by 32.5 percent of clients interviewed. The training concentrated on familiarizing the beneficiaries with terms and conditions of loans and savings instead of proving skills which will enable clients to optimize the use of microfinance services. The beneficiaries interviewed explained that entrepreneurial skills are the corner stone for any successful investments. There is a positive correlation between SACCOs investment and poverty reduction. Beneficiaries who opted to invest their loans in income generating activities like starting new business and increasing assets of business have experienced poverty reduction as a result of increase in income and improved social services. This

study further recommends that SACCOs need to ensure that microfinance services provision is expanded to include large number of clients especially the poor. Furthermore, I recommend SACCOs to introduce entrepreneurial training to all members and ensure a simultaneous provision of microfinance services and entrepreneurial skills for effective poverty reduction.

Suggested areas for further research include the impact of insurance, creativity and interest rate microfinance variables in poverty reduction and assessing the linkage between Saving and Credit Cooperatives (SACCOs) and Agricultural and Marketing Cooperatives (AMCOS) in poverty reduction

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