



THE PERFORMANCE OF FINANCIAL COOPERATIVE SOCIETIES AND NETWORKS IN PROVISION OF PRODUCTS AND SERVICES TO RURAL COMMUNITIES – A CASE OF SAME KAYA SACCOS, TANZANIA

REPORT BY

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LIST OF ABBREVIATIONS

AMCOS	Agricultural marketing cooperative societies
ANOVA	Analysis of Variance
CBO	Community based organizations
CFG	Community financial groups
FGD	Focus group discussions
IFAD	International fund for agricultural development
LGA	Local government area
MFI	Microfinance Institutions
MIVARF	Marketing infrastructure, value addition and rural finance
NGO	Non-governmental organizations
NSSF	National social security fund
NUSACCO	Northern union of savings and credit cooperative
PEML	Producer empowerment and market linkages
ROI	Rate of interest
SACA	Savings and credit association
SACCOS	Savings and credit cooperative societies
SME	Small and medium enterprises
TCDC	Tanzanian commission for development of cooperatives
UN	United Nations
VICOBA	Village community banking
VSLA	Village savings and loan association
WDI	World development indicators

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EXECUTIVE SUMMARY

Rural microfinance services are essential for development interventions. In many Sub Saharan African countries, financial institutions regard low income earners as too poor, making it difficult for them to access loans and other financial services. According to a World Bank report in 2017, about 40% of the population in Tanzania is excluded from formal financial institutions. The reluctance of the banking sector to reach out to rural dwellers highlights the importance of cooperative societies. Many financial cooperatives provide services such as savings, credits and insurance for their members. Cooperative societies enable development of rural business and land ownership through increased access to affordable loans. They increase household income, ownership of household assets and enterprise assets. They also encourage relationships, develop self-esteem and increase interdependence. They have served as a cost-effective means of providing financial services to those people who cannot access them due to their socioeconomic conditions (Shamma et al., 2015). 2012 was declared international year of cooperatives by the UN. The main objective of this study is to assess the effectiveness of savings and credit cooperatives in service delivery to members and proffer recommendations to enable better outreach.

The study was conducted in Same district of Kilimanjaro region, Tanzania. The Same Kaya SACCOS was one major savings and credit cooperative identified as a case study. Data was collected through survey questionnaires distributed to members as well as key informant interviews. In-depth interviews were carried out among management staff of cooperatives. A sample frame of 4,900 members was identified. Purposive sampling technique was used to select 600 members who have received loans from the cooperative, after which simple random sampling technique was implemented to collect data from 306 members. Stratified method was also adopted to conduct in-depth interviews with management staff of the cooperatives.

The research provides detailed report on performances, products and services provided by financial cooperatives. It sheds light on rural financial institutions and how they can be strengthened to meet the demands of clients and facilitate accelerated rural-sector growth.

Major findings of this study showed that cooperative societies have a direct effect on household incomes. Studies showed individuals who had been in the cooperative for longer periods had

considerably higher income profiles since they are now able to access bigger loans for their businesses while at the same time serving as guarantors for new members. The flexible loan recovery period and low interest rate also provided evidence to support the claim that cooperative societies offer more satisfaction to their members than formal financial institutions like commercial banks. In terms of outreach, cooperative societies and other microfinance organizations are able to penetrate rural areas ordinarily inaccessible to commercial banks.

The findings of this study are relevant because they will enlighten policy makers to take active steps towards supporting rural microfinance institutions. Having identified the central role cooperatives play as a determinant of growth, there is a need for governments and private institutions to pay special attention to provide the right environment for them to thrive. Increase in efficiency of cooperatives often brings about a ripple effect in terms of increased household incomes, better education, food security, ownership of assets and consequently, poverty reduction. This is key to achieving economic growth and development and will serve as a step in the right direction towards achieving the Sustainable Development Goals.

Key words; Microfinance, cooperative societies, rural finance, development

CHAPTER ONE: INTRODUCTION

1.1 Problem Statement

Rural Microfinance services are essential for development interventions particularly for small holder farmers in rural areas in Developing Countries. Most financial institutions regard low income earners as too poor, making it difficult for them to access loans and other financial services. According to research, many rural dwellers and poor people are not served by formal financial institutions and about 40% of the population in Tanzania is still excluded from the financial system (World Bank 2017). The reluctance of the banking sector to reach out to these rural dwellers highlights the importance of cooperative societies. The Tanzanian post-colonial government attempted to use the cooperative movement to achieve inclusive socioeconomic development. Although this was not entirely efficient, it enabled small holders' farmers mainly for cash crops to participate in production and marketing cooperatives, creating better market for their products. The strategy was aimed at integrating the cooperative model into Government Rural Development Policies. Agricultural marketing cooperative societies (AMCOS) and savings and credit cooperatives (SACCOS) were predominant since majority of rural populations embarked on small scale businesses and agriculture. By the end of 1990s, there had been a growth in the establishment of other cooperatives in the country following the development of the Cooperative Act of 1991¹. In 2000s there had been some prominent Savings and Credit Cooperative Societies (SACCOS) in different parts of the Country as a result of Government collaboration with development partners to expand the reach of financial services to rural areas. This was done through the rural financing programme where many farmers participated. The participation of Small holder farmers has been growing since then and there are currently over 10,000 cooperative societies with, 5,918 SACCOS and 3413 AMCOS in the Country.²

Major contributions of these cooperatives include; facilitating access of farm inputs to members, supervising marketing of products for members, providing storage for members produce while waiting for bulk sale and transport, providing education and training to members, providing

¹ Tanzania Affairs, September 1, 1992, issues 43, politics

² Tanzanian Cooperative Development Commission 2017

innovations to improve income, serving as social welfare facilitators, enhancing women participation, providing savings and credit, amongst others.

Realizing the immense contributions of these cooperatives in development efforts, The Tanzanian government further established the marketing infrastructure, value addition and rural finance programme (MIVARF) designed and suited to strengthen grassroots financial institutions to expand and provide effective financial services to low income households in rural areas on sustainable basis. It was relevant to the needs of poor rural farming households who had experienced a significant reduction in their access to financial services after the collapse of the cooperative system and the state-managed financial sector in the late 1980s. Participation has been recognized as essential in ensuring inclusive development, but as a result of complexities and weak institutional frameworks, it has been a major challenge. A brief study by the United Nations indicates that cooperatives have contributed little to increase standard of living in Tanzania. The deteriorating conditions of cooperatives have been identified as a major contributing factor to the increasing poverty rate in most parts of rural Tanzania.

This study therefore analyses the performance of such financial cooperative societies, financial products and services offered, as well as their effect on household incomes. Results indicate that financial cooperative societies in recent times have provided a convenient means for rural households to access affordable loans without the usual complexities associated with other money lenders such as commercial banks. The low interest rates accompanied by flexible repayment periods have made cooperatives a “rural friendly” means of satisfying the financial needs of rural households.

1.2 Objectives

This research intends to achieve the following objectives;

- To identify the products and services offered by rural financial cooperatives to members
- To assess the performance of rural financial cooperative societies in provision of services to members
- To determine effect of cooperatives on household income

1.3 Justification of Study

Financial institutions are fundamental for development to any country. They are essential for development interventions and poverty alleviation of small holder farmers especially in rural areas. They are seen as an important tool in spreading the benefits of development to rural areas and providing access to financial services that are often difficult to access. In Tanzania, the National post-colonial government used cooperative societies efficiently to achieve economic independence. This was done by engaging local producers in cash crop production and creating better market for their products.

This study is significant because it provides relevant information on the contributions of financial cooperative societies to development. With the increasing number of microfinance institutions in Tanzania, one would expect a significant rate of poverty reduction due to rural financing. But this has not been the case. Although there have been achievements in terms of poverty reduction, the process has been slow (Mwelukilwa Joshua Sizya 2001)³. This study sheds light on this by assessing the performance of cooperatives in provision of products and services such as savings, loans, insurance to rural households. The research aims to examine the effectiveness of service delivery by microfinance institutions, specifically the Savings and Credit Cooperative Societies (SACCOS). Information revealed within the course of this study will guide policy makers on measures to take to increase access to financial services for rural communities. It will help identify loopholes and proffer sustainable recommendations for improvement that could shape future policies.

1.4 Scope of the Study

The study captures savings and credit cooperative societies in Same district of Kilimanjaro region, Tanzania. Focus is on assessing the performance of such cooperatives (specifically the Same Kaya SACCOS) operating within that region from inception. The target group included both male and female members of the cooperative societies who are mostly small holder farmers of all age groups. The Northern Union of savings and credit cooperatives (NUSACCO) was also identified as the network to be examined within during this study. This is because it covers majority of the cooperative societies operating within the region.

³ Paper presented at the United Nations in observance of the International Day for the Eradication of Poverty on 17 October 2001.

The study only examines 4 wards under the Same Kaya SACCOS (Kisima, Station, Same, Mwembe). 600 loan recipients were identified through purposive sampling method and simple random method was used to select 306 members for data collection using questionnaires.

1.5 Organization of the Report

This research is organised into 5 chapters. Chapter two provides background information of the study by providing information on rural financing in Tanzania and the Marketing infrastructure, value addition and rural finance (MIVARF) programme organised by the government to support rural households (especially smallholder farmers) to increase productivity and consequently eradicate poverty. Chapter 3 reviews relevant literature that sheds light on concepts and theories relating to microfinance. The literature review focuses on studies on informal rural finance, microfinance in Tanzania, microfinance and contributions to household income, etc. In chapter four, the researcher presents methods adopted for the study and steps taken during data collection, analysis and interpretation. Results of the study are also presented in this chapter and interpreted using simple tables, charts and content analysis. The last chapter, chapter five concludes upon the major findings of the research and provides implications and limitations encountered during the research.

2 CHAPTER TWO: Situational analysis of the context of financial cooperative societies in Tanzania

2.1 Overview of the Marketing Infrastructure, Value Addition and Rural Financing (MIVARF) Programme

The focus of many international development institutions has been to strengthen rural savings and credit cooperative societies (SACCOS) to serve small holder farmers in rural areas in Tanzania. Rural SACCOS are the formal financial institutions closest to the farmers compared with other formal institutions. In order to enhance rural participation in financial systems and increase productivity of small holder farmers, the Tanzanian government introduced the Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF). It is a seven-year Programme whose effective implementation started in July 2011 and its completion date is 31st March 2018 with a closing date of 30th September 2018. The Programme, covering 29 regions and 73 Local Government Authorities (LGAs), has an overall goal of enhancing incomes and food security of the target group on a sustainable basis.

The Programme comprises of three components that serve as basis for the implementation of its activities. These are; Marketing Infrastructure and Systems, Rural Finance, and Programme Coordination.

Since its launching and over the last six years, the Programme has recorded significant achievements that have directly contributed to the improved lives of the target beneficiaries. Below are some of the achievements that have been recorded during July and December 2017:

Under the Marketing Infrastructure and Systems Component which has three sub-components; the Marketing Infrastructure, Value Addition and Producer Empowerment and Market Linkages the most significant achievements so far include; rehabilitation of 1078.6 Km (100% of target) of rural feeder roads, construction of 15 markets (94% of target), 26 warehouses (90% of warehouses to be constructed) and renovation of all 6 warehouses earmarked for rehabilitation by the Programme. These developments have greatly enhanced accessibility of markets by the beneficiaries, reduced transactions costs and increased marketing efficiency. In line with this, the Programme has also facilitated the setting-up of 56 (100% of target) Local Marketing Infrastructure Committees to operate and maintain the improved marketing infrastructures.

Several achievements have also been realised on the part of Value Addition interventions. These include acquisition of 35 processing machines by beneficiaries and capacity building of 25,647 beneficiaries (60% Women) on value addition and post-harvest management activities which are expected to improve household incomes through added value and loss reduction of their products.

Interventions under the Producer Empowerment and Market Linkages (PEML) sub-component have benefited a good number of Programme beneficiaries. Some of the notable achievements include mobilization and capacity building of 83,988(45% women) smallholder farmers on produce and financial market access as will be demonstrated in the remainder of this document.

Under the Rural Finance Component, significant steps have been made that include expanding financial outreach to rural people whereby as of December 2017 the Programme through its rural finance partners had reached a total of 3,990,593 individuals in Mainland and Zanzibar. The Programme had also facilitated 13,583 village community banks (VICOBAs) to provide financial services to the low-income people in most of the rural areas where banking services are lacking. Currently, there are over 58,320 (69% of target) of PEML groups that have been linked to savings and credit cooperative societies (SACCOS), Community/Cooperative Banks, Commercial banks and MFIs.

The Rural Finance Component has also been providing support to different financial Institutions to expand financial services to rural areas. Programme Financial Partners include; Community and Cooperative Banks and Microfinance Institutions. MIVARF also provides support for capacity building of Savings and Credit Cooperative Societies (SACCOS) to improve service delivery to members and community financial groups (CFGs) such as VSLAs and VICOBA Promoters (NGOs) to improve their performance and link them to the financial Institutions. The support to grassroots financial service providers aim at strengthening the institutional capacity of the Partners to expand financial services to cover a significant proportion of excluded rural population. The Programme revised design target of 500,000 households during midterm review to 1,000,000 new clients in rural areas, including PEML groups beneficiaries by 2018. The Programme had registered an outreach of over 3,000,000 new (direct and indirect) clients who have accessed financial services in the rural areas through the Banks, Microfinance Institutions,

SACCOS and CFGs. There are some major changes in finance performance variables of the partners apart from recruitment of new clients. In making sure there is collective action, advocacy, lobbying and technical backstopping, SACCOS had established Networks to help implement existing strategies.

2.1.1 Programme goal and objective

The Programme overall goal is to enhance incomes and food security of the target group on a sustainable basis while the development objective of the Programme is to support sustainable and profitable linkage to markets. The intermediate objective of the Programme is to ensure beneficiaries derive profits from production and value addition undertakings (MIVARF Report 2016 -2017).

Table 1 Logical framework analysis rural financing component of the project

Marketing Infrastructure, Value Addition and Rural Finance Support Programme						
Indicators			Project Year 7 (2017)			
Results Hierarchy	Name	Baseline	Mid-term	End target	Cumulative	
Outcome	3	Number of persons reporting using rural financial services.				
Rural Finance: Enhanced use of financial services and products for the low-income population in rural areas	Rural clients - Number of people	0	1,984,775	1,925,000	2,992,945	
	Females - Number	0	833,606	866,250	1,346,825	
	Males - Number		1,151,170	1,058,750	1,646,120	
Output	3.1	Number of rural clients accessing financial service (savings, credit, insurance, remittances. Etc.) PEML beneficiaries				
Enhanced access to financial services for the low-income population in rural areas on a sustainable basis	Total Number	0	2,835,393	2,750,000	3,990,593	
	Females - Number	0	1,134,157	1,155,000	1,795,767	
	Males - Number	0	1,701,236	1,595,000	2,194,826	
	Amount of loans offered with the support of the Guarantee mechanism					

	Value of loans (USD' 000) offered through Guarantee mechanism	0	0	40,000	0
	Number of successful proposals supported by Rural Innovation Fund				
	Proposals - Number	0	0	40	0
	Number of financial service providers supported in delivering outreach strategies, financial products and services to rural areas				
	Total Number	0	11	13	9

2.2 Background on Cooperative societies in Tanzania

Cooperative societies in Tanzania go as far back as 1925, when small holder coffee farmers in Kilimanjaro region formed cooperative societies to expand market access and utilize profits. The first cooperative to be formed was the Kibongoto Rural Primary Cooperative, registered in 1932 while the first Cooperative Union was Kilimanjaro Native Cooperative Union (KNCU) registered in 1933. After independence in 1961, the government's objective was to utilize cooperatives effectively to achieve inclusive development. Through proper legislature and regulations, cooperatives were systematically integrated into the government's development framework and were considered an important tool for transforming rural community production. In general, several kinds of cooperatives were formed including; production cooperatives, supply cooperatives, marketing cooperatives, workers and service cooperatives. The most predominant though were the agricultural cooperatives and the financial cooperatives in form of Savings and Credit Cooperative Societies (SACCOS). Total number of cooperatives registered increased from 573 in 1959 to 1,518 in 1967 (Mruma 2011). The surge in cooperatives after independence was attributed mainly to political expediency which did not allow for proper planning and execution of cooperative activities. Before long, complaints of mismanagement and corruption were reported by members. A presidential committee on enquiry was set up to investigate and proffer solutions. The following problems were highlighted; shortage of manpower, uninformed members, lack of democratic leadership, lack of skilled manpower, political interference. Recommendations were made for the abolition of some major cooperatives and formation of new Unified Cooperative Service Commission (UCSC) which proved very ineffective in solving these problems.

Severe changes were further implemented with the advent of socialism in the country which consequently led to the abolition of all cooperative societies in May 1976. Functions of cooperatives were taken over by state-run institutions. This was evidently very fatal as government institutions operated inefficiently and led to further deterioration. Due to severe failure in the system, cooperative societies were therefore reinstated in 1982. However, by this time, they had lost resources and skilled manpower which made it difficult to regain their previously vibrant status. Lack of morale and distrust made it difficult to operate and members became increasingly dissatisfied. Cooperative societies have been reforming since then, with the enactment of the Cooperative Society Act no 15 in 1991 providing autonomy and government relinquishing all control. Government furthermore, passed the Cooperative Development Act in 2002 to fully disengage itself and allow cooperative freedom. The Cooperative Development Act comprises guidelines within which cooperatives should operate. This attracted formation of various new cooperatives from all sectors.

Table 2 shows number of cooperatives and membership since the introduction of the Cooperative Development Act in 2002.

Table 2; Number of cooperatives and membership as at December 2017

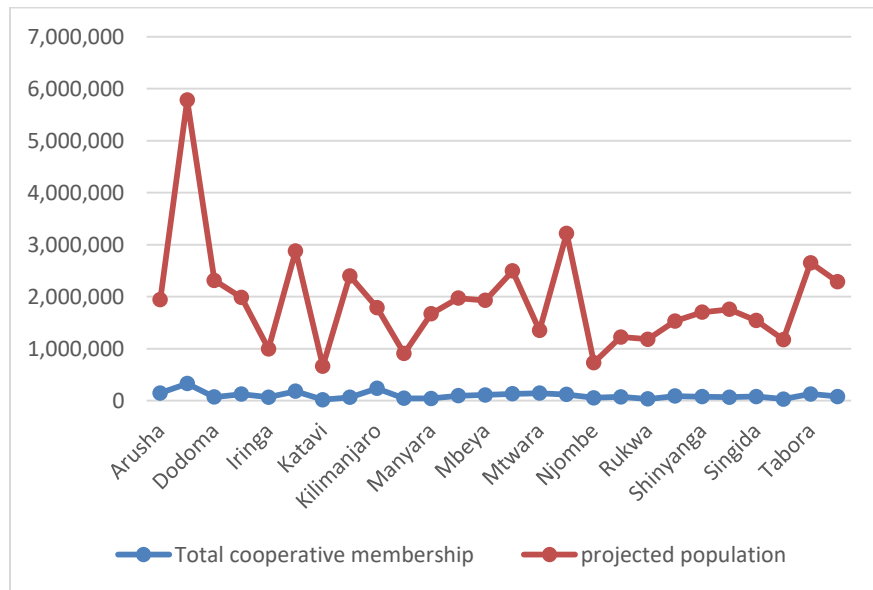
S/N	REGION	Total No	Total Membership	Projected Population	Projected Population vs Cooperative Membership
1	Arusha	508	147,558	1,943,196	7.59
2	Dar es Salaam	1094	327,811	5,781,557	5.67
3	Dodoma	248	68,411	2,312,141	2.96
4	Geita	729	124,991	1,983,653	6.3
5	Iringa	263	65,200	996,105	6.55
6	Kagera	673	181,347	2,879,231	6.3
7	Katavi	31	15,758	663,685	2.37
8	Kigoma	411	62,423	2,399,121	2.6
9	Kilimanjaro	476	235,256	1,790,113	13.14
10	Lindi	126	43,473	905,947	4.8
11	Manyara	244	42,997	1,670,191	2.57
12	Mara	479	95,217	1,972,173	4.83
13	Mbeya	401	109,859	1,929,359	5.69
14	Morogoro	737	129,771	2,495,462	5.2
15	Mtwara	379	144,832	1,351,038	10.72
16	Mwanza	721	118,659	3,217,328	3.69
17	Njombe	254	53,979	730,555	7.39
18	Pwani	534	72,489	1,224,120	5.92
19	Rukwa	175	32,262	1,179,149	2.74
20	Ruvuma	258	89,045	1,530,955	5.82
21	Shinyanga	445	76,872	1,701,220	4.52
22	Simiyu	291	66,433	1,756,839	3.82
23	Singida	246	78,946	1,539,286	5.13
24	Songwe	220	28,178	1,173,667	2.4
25	Tabora	696	129,320	2,652,514	4.88
26	Tanga	351	78,222	2,286,528	3.42
	TOTAL	10990	2,619,309	50,065,133	5.23

Source; Tanzanian Cooperative Development Commission

Figure 2.1 shows a very interesting graphical representation of total population of Tanzania as at December 2017 in comparison with the number of registered members in cooperative societies. While generally speaking, membership has increased significantly over the years, a wide gap still exists in comparison with total projected population of the country. Only a small percentage of the populations are members of cooperative societies, about 5.23%⁴. While the cooperative movement has been gaining more momentum in recent years as a result of several reforms, it only serves a small percentage of the country.

⁴ Report from Planning, Monitoring and Evaluation Unit, TCDC, December 2017. See <https://www.ushirika.go.tz/statistics/>

Figure 2.1 Projected population vs membership in a cooperative



Source; Tanzanian Cooperative Development Commission December 2017

The Cooperative Society Regulations as captured in the updated Cooperative Development Act of 2013 also serves as a regulatory framework for operations. It provides details on formation and organization, inputs and liabilities of members, duties and privileges, amalgamation, dissolution, financial provisions, etc. Additionally, the Tanzanian Cooperative Development Commission was also established to be responsible for all matters relating to cooperative development (registration, supervision, regulatory functions, sensitization, education/training for members).

Recent study showed that institutional strength, outreach, financial performance of many cooperatives in Tanzania is generally poor (Kessy and Urin 2006). Other studies show that many microfinance institutions (MFIs) do not have very clear objectives. Poor infrastructure, low population density, low income levels have been considered as constraints. Rweyemamu et al 2003 examined constraints influencing MFIs in Tanzania and found that interest rates and lengthy lending process influences borrowing decisions. Poor repayment rates especially for agricultural loans have also affected institutional efficiency.

Despite the weaknesses in cooperative movement in Tanzania and indeed other Sub Saharan African countries, reasonable improvement has been reported in terms of operational efficiency and financial sustainability. Other studies however have shown that MFIs in Tanzania have had significant impact on livelihoods. Kuzilwa 2002 found that output of enterprises increased as a result of access to credit from cooperatives. The inability of formal banking institutions to provide financial services to rural communities continue to create a gap those financial cooperative societies can fill. Lack of adequate marketing infrastructure and value addition also presents major challenges to small holder farmers that agricultural marketing cooperatives can address. Rising populations and increased poverty levels reemphasizes they need for individuals to work together towards achieving common social and economic priorities.

3 CHAPTER THREE: LITERATURE REVIEW

3.1 Introduction

Microfinance typically involves providing financial services to poor people who do not have access to conventional financial institutions. Government's efforts to assist the poor have created dependency and disincentives over the years while achieving very little in terms of poverty reduction. Despite decades of aid, communities still appear fragile. The expectation has been that by providing financial services to the poor who cannot access formal services, poverty can be alleviated, and socioeconomic structures can be transformed (Jonathan Morduch 1999). Scientists have embarked on major studies to understand the extent of contributions of MFIs in poverty alleviation.

3.2 Review of Conceptual Issues

Various models have been developed by formal and informal institutions to provide clear understanding of the types and functions of microfinance institutions and enable development of better frameworks of operations. Some of these models to be discussed include the Grameen Bank founded by Yunus in 1983;⁵ cooperatives and credit unions; village banking; associations; individuals.

3.2.1 *Grameen Model*

This model emerged from the need to provide financial services at grassroots level. A bank unit is set up to visit an area of about 15 – 22 villages. This unit then visit identified villages to familiarize themselves, identify prospective clients and explain their purpose and mode of operations. Groups of five prospective clients are formed. In the first stage of operations, only 2 members are considered eligible for loans, the group is then observed to see if members pay up with the agreed upon interest rate, after which others can be eligible. This process is put in place to ensure accountability and provide clear records. As a result of group pressure, records are clear and collective responsibility of the group serves as collateral for loans.

⁵ Widely popular and replicated by many NGOs and advocacy groups in developing countries (Hennessey 2006)

3.2.2 *Associations*

Communities form various associations through which financial operations can take place with ease. Members of such associations are often comprised of women, men, youth, religious groups, tribes, etc. They provide support services for each other where members can seek short term loans within such associations. In some countries, these groups have been formalized via legal processes requiring proper registration, taxing, fees and other levies. In many sub Saharan African countries however; these associations are informal as they constitute only a few members of a community.

3.2.3 *Cooperatives and credit union*

Cooperatives are comprised of individuals voluntarily coming together to achieve common social or economic needs. Financial cooperative societies involve members agreeing to save up certain amounts of money to enable lending in future. Short or medium-term loans can then be given to members at an agreed upon interest rate. Members include people with shared interest or similarities such as religion, ethnic background, labour unions, etc. Such groups are usually run democratically, with members actively participating in the decision-making process.

3.2.4 *Individuals*

This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups or generating peer pressures to ensure repayment. The individual model is, in many cases, a part of a larger ‘credit plus’ programme, where other socio-economic services such as skill development, education, and other outreach services are provided.

3.2.5 *Village Banking*

Village banks are community-based credit and savings associations. They typically consist of 25 to 50 low-income individuals who are seeking to improve their lives through self-employment activities. Initial loan capital for the village bank may come from an external source, but the members themselves run the bank: they choose their members, elect their own officers, establish their own by-laws, distribute loans to individuals, and collect payments and savings. Their loans

are backed, not by goods or property, but by moral collateral: the promise that the group stands behind each individual loan.

3.3 Review of Empirical Issues

3.3.1 Microfinance in Tanzania

Microfinance institutions are proven to actively contribute to growth and development in many ways including;

- Reduce poverty through increase in income and standard of living
- Empower women
- Develop businesses through growth potential and
- Develop parallel financial sectors

Without permanent access to institutional microfinance, most poor people will have to rely on unstable informal structures.

In Tanzania, the government has focused on providing sustainable financial services to majority of the population. Since 1991, government has been implementing financial sector reforms to provide a competitive and efficient system. Deliberate action has been taken to enhance microfinance systems because of the realization that it can bring about economic development. A 2005 survey done by Bank of Tanzania on financial institutions showed that the country had 8 banks, 45 CBOs, 95 government programs, 1620 SACCOS, 48 SACA and 62 NGOs. There are currently about 10,990 with a total membership of 2,619,311million.⁶ Overall performance has been relatively poor regardless of this increase. Recent study showed that institutional strength, outreach, financial performance is poor (Kessy and Urin 2006). Other studies show that many MFIs do not have clear objectives. Poor infrastructure, low population density, low income levels have been considered as constraints. Rweyemamuet *al* 2003 examined constraints influencing MFIs in Tanzania and found that interest rates and lengthy lending process influences borrowing decisions. Poor repayment rates especially for agricultural loans also affected institutional efficiency.

⁶ Tanzanian Cooperative Development Commission

Other studies however have shown that MFIs in Tanzania have had significant impact on livelihoods. Kuzilwa 2002 found that output of enterprises increased because of access to credit from cooperatives.

3.3.2 Cooperatives and Poverty alleviation

Membership in cooperative societies and access to other microfinance services has been proven to have contributed to some extent to poverty reduction in the following ways;

- **Small and Medium Enterprises**

Kessy and Urio 2006 in their research on contributions of microfinance in poverty reduction in Tanzania found that MFIs have brought about an increase in standard of living of clients. They found that 81.3% of SMEs experienced an increase in profit after accessing loans, majority of which were 25 to 39 years of age. Majority also used income generated from businesses to access secondary school education. Many SMEs have also been able to expand their businesses.

- **Increasing level of savings**

Compulsory savings required by cooperatives enables individuals to save more. This increase in level of savings translates to increase in capital accumulation. Increased capital enhances investments in more businesses and increases household incomes. More disposable income means individuals are able to access basic needs such as health care, education, food.

- **Employment**

Increase in income does not always translate directly to employment. However, loans collected by individuals for business purposes consequently lead to expansion of businesses which creates the need for more labour, thereby creating employment.

3.3.3 Performance of Financial cooperative societies

According to Sebhatu 2011, major factors influence the performance of cooperative societies. He identified various savings and credit groups in Ethiopia to ascertain what these factors might be. Some of them include; lack of awareness and poor savings culture, weak organizational arrangement and governance, policy and regulatory environment, weak institutional capacity, low capital base, lack of differentiated products, inappropriate loan security requirements and threats from other micro finance institutions. Poor savings culture is common in many rural

communities in Sub Saharan African countries and this affects the ability of financial cooperatives to function sustainably,

Major indicators have been identified in order to measure the performance of savings and credit cooperative societies. A microfinance institution is said to have achieved growth when it has considerably increased the number of clients in its service as well as the range of services offered, (Yawn 1992). Sebhatu 2011 also stated that when there is significant progress in the mode of operations and governance, then an MFI can be identified as successful in its performance. Performance is also measured in terms of financial sustainability i.e. when an MFI can operate without fear of collapse (sustainable liquidity) Yawn 1992.

Loan repayment and disbursement methods are also important indicators in measuring performance of an MFI, especially the savings and credit cooperatives. Various researchers have pointed that reducing operational cost, not increasing interest rate can help MFIs achieve growth. According to Navaja et al, 2000, short term loans can worsen welfare of the poor. This is because payback period is short and does not allow individuals to establish a strong financial capital. Therefore, long term loans are necessary to achieve development in the long run. Frequency of loan, amount and uses are all important in eradicating poverty. However, credit alone is not sufficient to deliver people out of poverty that is why the importance of savings is highlighted (Oluyombo 2012).

Different authors argue about the link between financial sustainability and outreach to the poor. Some insist that increased outreach can trigger economies of scale for MFIs and help them achieve financial sustainability (Meyer 2002), while others argue that increased outreach means increase in number of clients which will consequently increase operational cost and lead MFIs to financial unsustainability (Hulme and Morsely 1996).

3.3.4 Role of Cooperatives in Rural Finance

Local and national governments have renewed their attention for cooperatives in developing countries. Some authors have claimed that SSA is experiencing a renaissance in cooperative development (Wanyama et al 2009). Cooperatives in Tanzania have been identified as one of the major tools necessary to eradicate poverty. Engdawork 1995 stated that the major reason for

failure of cooperatives in some countries involves lack of strategic direction. Many cooperatives face major challenges that limit their performance and reduce commitment of members. Some of these include lack of working capital and poor management (DA.Tefera et al). Other studies show lack of inclusiveness of the poorest members of the community in cooperatives (Bernard and Spielman 2009).

Financial and nonfinancial services are crucial for in enabling poor people generate income, access credit, create wealth and consequently end poverty (Rahman et al 2012). Some institutions provide both financial (savings, credit, insurance) and non-financial (non- formal schooling for disadvantaged people, legal aid and training, etc). Because of competition among MFIs, products and service delivery keeps increasing. For many institutions, social collateral is used to replace material collateral, as in the case of the Grameen bank (Rahman et al 2012). This often involves peer pressure amongst social groups which has helped enable repayments of loan in time.

Cooperative societies also encourage relationships, develop self-esteem and increase interdependence. It enables development of rural business and land ownership as a result of increased access to affordable loans. It increases household income, ownership of household assets and enterprise assets. 2005 was declared the international year of micro credit and 2012 international year of cooperatives by the UN. They have served as a cost-effective means of providing financial services to those people who cannot access them due to their socioeconomic conditions (Shamma et al., 2015).

The World Bank reported that in many developing countries, rural dwellers use majority of their household income to cater for domestic needs of family and friends, leaving no room for investments in sustainable businesses (World Bank 2000).

Cooperatives encourage people to pool their resources together to cater for their financial or development needs (Sizya 2011). Sizya 2001 also stated that cooperatives are considered the people's safety nets in terms of financial crisis or emergency. They are the most important form of participation in financial markets by rural dwellers in Tanzania.

3.3.5 *Effects of cooperatives on household income*

Ghosh and Maharja 2001 assessed the role of cooperatives in improving socioeconomic conditions of member in Bangladesh. Data was sourced through questionnaires, observation and case studies of members of cooperatives and non-cooperatives. They reported that household income was higher for members than non-members also this was not statistically tested. Larocque et al 2002 found that the household income of members was 2.9 times higher than the poverty line.

Ramotre and Kanase 2009 also carried out a study in 12 villages in India to examine the impact of cooperatives on livelihoods. This research was done with the aid of interviews. The study established positive relationships between income and household conditions since the establishment of cooperatives. Simkhada 2004 indicated that 62% of members and 20% of non-members increased their income. Other studies in Ghana by Wanyama et al 2008 showed participation increased household income. These incomes were used to support informal businesses and wages.

3.4 Review of Theoretical issues

3.4.1 *Social capital theory*

The World Bank 1998 defined social capital as the institutions/relationships that guide interaction among people and contribute to socioeconomic development. It is the ability of people to work together to achieve equity and promote development (Basargekar 2010). It promotes unity and trust among members (Oluyombo 2012).

The theory postulates that when individuals act or function in a group e.g. as part of a cooperative society, it leads to economic development of the individuals in the group and consequently their surrounding environment (World Bank 1998). Social capital creates healthy political environments which often lead to development. Social capital theory describes the framework in which most cooperative societies are built upon. This is because cooperative societies involve a group of people voluntarily coming together to achieve common economic, social and cultural needs.

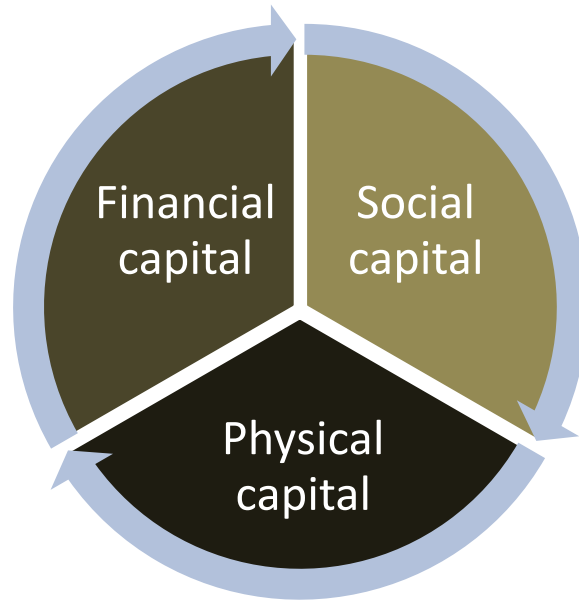


Figure 3.1 Circle of Social Capital Theory

Due of the socioeconomic benefits members derive from cooperative societies in terms of increased household incomes, assets acquisition, etc, members are inclined to protect the interest of the program to ensure continuity. (Basargeker 2010) stated that social capital theory focuses on collective responsibility that ensures members pay loans in time. This is as a result of the use of guarantors for many members without collateral assets. This arrangement also enhances interpersonal relationships and ensures members look out for each other in terms of crisis.

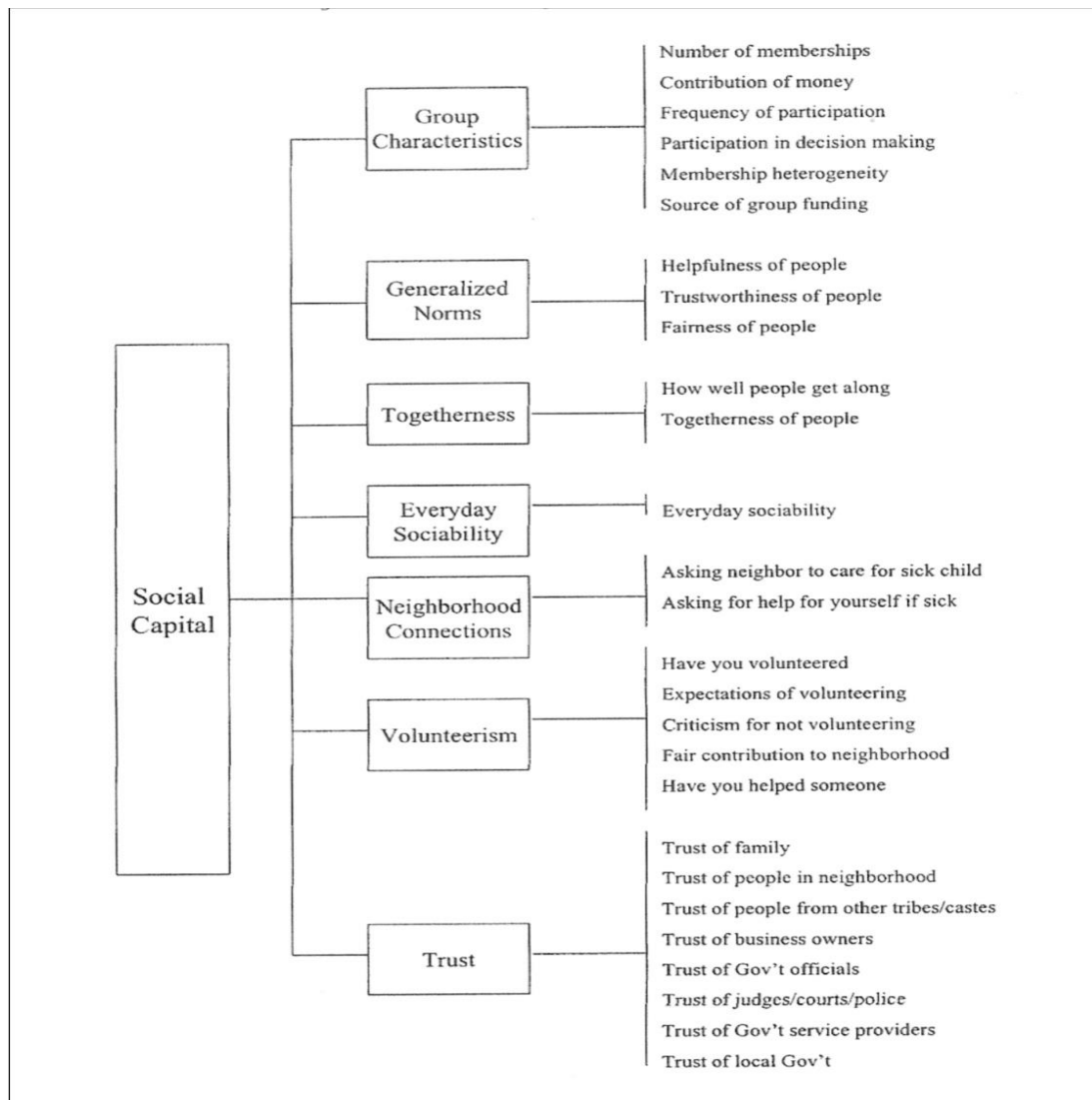
Various hypotheses have been developed to further illustrate social capital theory. Some of them include;

- The more the level of participation in voluntary associations, the greater the social capital.
- The more the networking, the greater the social capital.
- The more the mentoring and mutual support in an organization, the greater its social capital.
- The greater the social capital, the greater the confidence in government (and other institutions).
- The greater the social capital, the easier to mobilize support for problem solutions.

- The greater the social capital, the higher the percentage of problem-solving outside the governmental sector.
- The less the social capital, the greater the need to rely on authoritative controls.

Because of the multidimensionality of the social capital theory, the following table provides a description of the various dimensions involved as illustrated by Narayan and Cassidy (2001).

Figure 3.2 Showing dimensions of Social Capital Theory



Source: Narayan and Cassidy (2001)

4 CHAPTER FOUR: METHODOLOGY

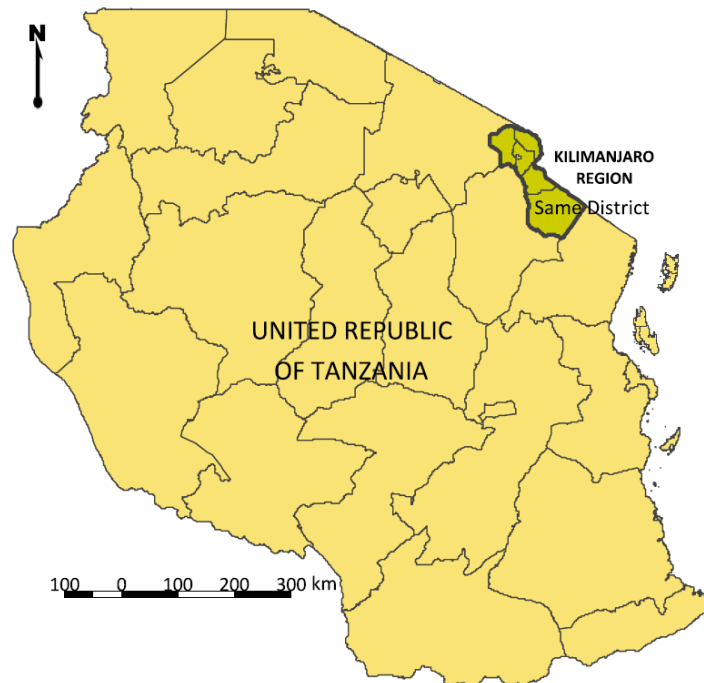
4.1 Sampling Design

This section covers the description of the type of survey adopted in the study. It is expected to define the population, the sample size as well as the sampling technique adopted in selecting the sample size. Sources of data collection, data analysis and data presentation are part of the research design. The research was designed to study the performance of savings and credit cooperative societies in providing services to rural communities. Questionnaires were administered in a survey conducted among the members of Same KAYA savings and credit cooperative society. In - depth interviews were also conducted amongst the management of the cooperative as well as the cooperative society networks.

4.2 Study Area

The study was conducted in Same, Kilimanjaro district of Tanzania. Same is one of the 7 districts of Kilimanjaro region. It consists of a total population of 269,807 according to the 2012 Tanzania National Census.

Figure 4.1 Map of Tanzania, showing Same District



The Same KAYA SACCOS was selected as case study because it is one of the major cooperative societies operating within that district and it serves majority of the population. It was founded in 2002 with an initial membership of 72. Its current membership stands at 4,900, consisting of 2,808 men and 2,092 women. It was registered to cater for the financial needs of poor rural farmers, but currently it is a source of livelihood for farmers, business owners, teachers, civil servants and other organized groups. Data was collected from 4 wards under Same Kaya SACCOS namely; Kisima, Same, Station, Mwembe.

4.3 Sources of Data/Data Collection Methods

Qualitative and quantitative sources of data were used during this research. Questionnaires were distributed to members to ascertain their level of satisfaction gained from the services offered to them by their cooperative society. In-depth interviews were carried out among management staff of the cooperative as well as management of the Northern Union of Cooperatives (NUSACCO). Key informant interviews were conducted to gather relevant information not captured in the questionnaire.

4.4 Secondary Data Review

A review of various literatures was made to capture a better understanding of the role of financial cooperative societies in socioeconomic development and ascertain their impact on households. The study examined relevant literature such as reports and journals on rural financing for rural development. Data was obtained from the MIVARF office, World Development Indicators (WDI), IFAD, Tanzania Commission for Development of Cooperatives (TCDC), Savings and Credit Cooperative societies (SACCOS), SACCOS Networks, etc.

4.5 Sample Method

A sample frame of 4,900 members was identified. Purposive sampling technique was used to identify 600 members who have received loans from the cooperative, after which a simple random sampling technique was implemented to collect data using questionnaires. 350 questionnaires were distributed across 5 wards. This represents over 50% of loan members, which is representative of the population. Stratified method was also adopted to conduct in-depth interviews with management staff of the cooperatives.

4.6 Model Specification

A loan demand model was developed and estimated using the Ordinary Least Squares (OLS) econometric technique. A linear probability model was also specified and estimated to measure odds of obtaining loans from microfinance institutions (cooperative societies) by members.

4.6.1 Model for the study – Volume of Loan Demanded Function

Going by the economic theory of demand, demand for loans in MFIs is a function of interest rate, borrowers' demographic characteristics, loan repayment period, as well as characteristics of the MFIs (J Taiwo *et al.* 2016).

Thus, the demand of a customer for loan volume (D^L) can be expressed as:

$$D^L = f(i, \mathbf{B}, \mathbf{P}) \dots \dots \dots (1)$$

Where i is a vector of the rate of interest and is expected to be negatively related to the dependent variable D^L ;

\mathbf{B} is a vector of the enterprise-related variables such as the year of establishment, location, nature of business, among others

\mathbf{P} is a vector of personal characteristics of the borrower such as age, formal educational attainment, gender, household size and so on.

Each of these explanatory variables is assumed to be linearly related to the dependent variable D^L . However, interest rate will be separately determined.

4.7 Analytical Technique

The methods of analysis of this study was based on the information extracted from survey data collected from questionnaires, in-depth interviews, and other sources of data collection. Responses from questionnaires are presented using simple tables. Further quantitative analysis was done using SPSS. One-way analysis of variance (ANOVA) was used to determine significance between demographic variables and increase in income. Furthermore, the spearman rank order correlation was used to measure the strength and direction of ordinal and interval

variables. The spearman rank order correlation was used because data agreed with the 2 major assumptions, namely;

1. Variables should be measured on an ordinal, interval or ratio scale.
2. There is a monotonic relationship between the variables

To test these assumptions, variables were run on a scatter plot graph.

Data derived from interviews were analyzed using content analysis and simple tables.

4.8 EMPIRICAL ANALYSIS OF FINDINGS

4.8.1 Introduction

Impact assessment tools and specific questions were used to guide the research. Demographic information of respondents is presented below. Results are analyzed and presented based on research objectives. Effectiveness of cooperative societies in service provision as well as impact on household incomes is presented using content analysis and simple charts. Satisfaction derived by members is also measured and presented using simple charts.

Table 3 Objectives, data required and analytical technique

S/N	Objectives	Data required	Analytical Technique
1	To identify the products and services offered by financial cooperative societies to members	Data obtained from cooperative members through survey questionnaires	Descriptive analysis
2	To assess the performance of financial cooperative societies in provision of services to rural poor	Information obtained from cooperative members through survey questionnaires	Descriptive analysis, content analysis, simple tables
3	To determine impact of cooperatives on household income	Data obtained from members	Descriptive analysis, one-way ANOVA, Spearman rank order correlation

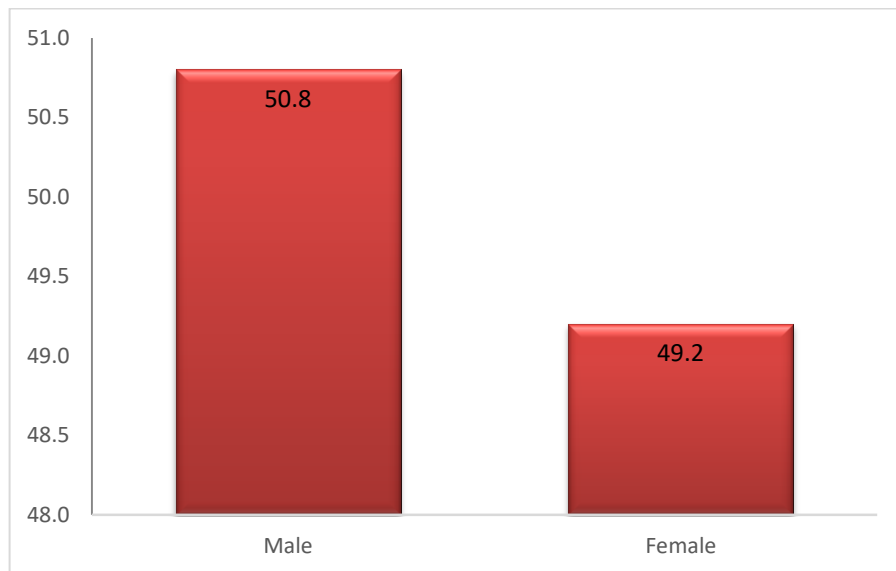
Table 4 Impact assessment, evaluation questions and tools

Impact level	Impact domain	Questions	Tools
Individual	Client satisfaction	What is the role of the cooperative in satisfying the financial needs of their members?	Questionnaire and Interviews
Household	Household Income	Does participation in a cooperative lead to increase in income of members?	Questionnaire

4.8.2 Demographic Information

Respondents were loan members of the cooperative society. Figure 4.2 shows the gender distribution. 50.8% of respondents are male while 49.2% are female. This implies that there more men collect loans from the cooperative, even though the disparity is not high.

Figure 4.2 Gender of Respondents (%)



Majority of respondents were married, with about 86.5% of the population. Only 6.3% of the population is single, while 5.9% are separated.

Figure 4.3 Marital status of respondents (%)

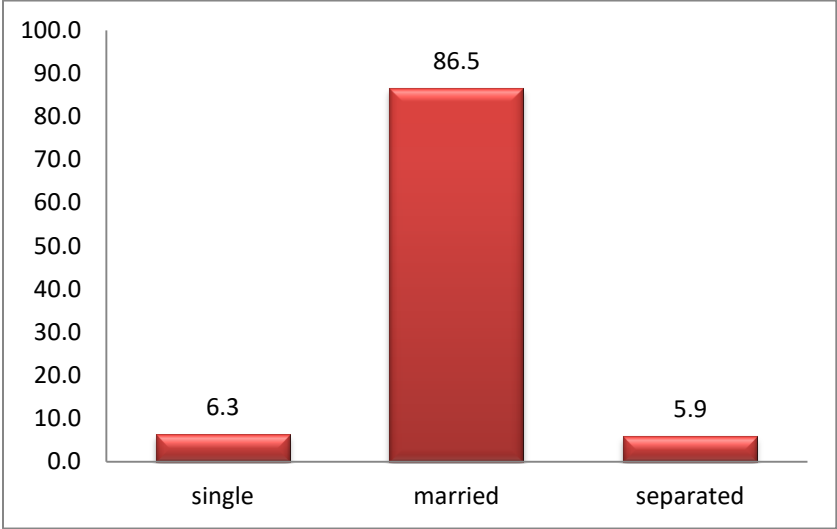
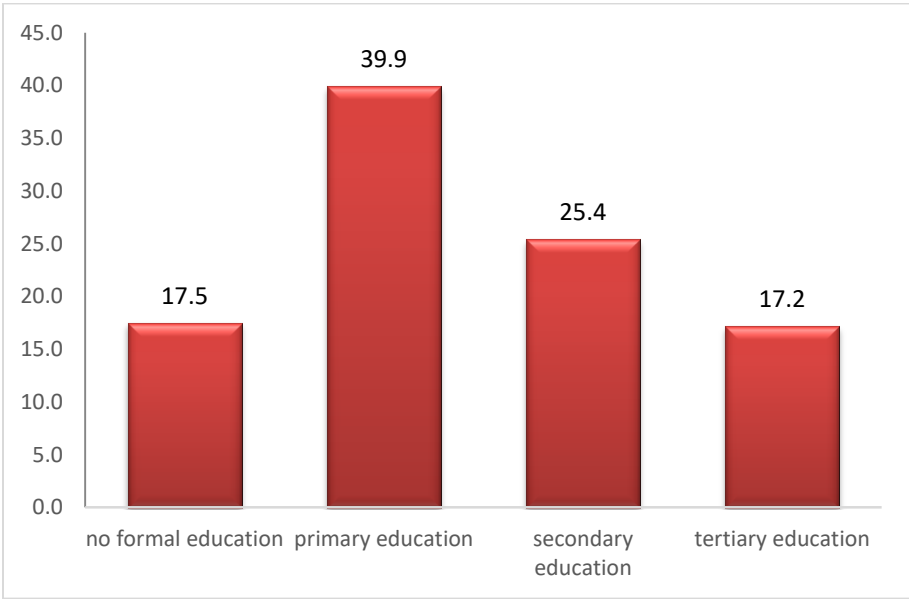


Figure 4.4 below shows that majority of the respondents only have primary education (39.9%). A significant amount of the population does not have any formal education (17.5%). While 25.4 % and 17.2% have secondary and tertiary education respectively.

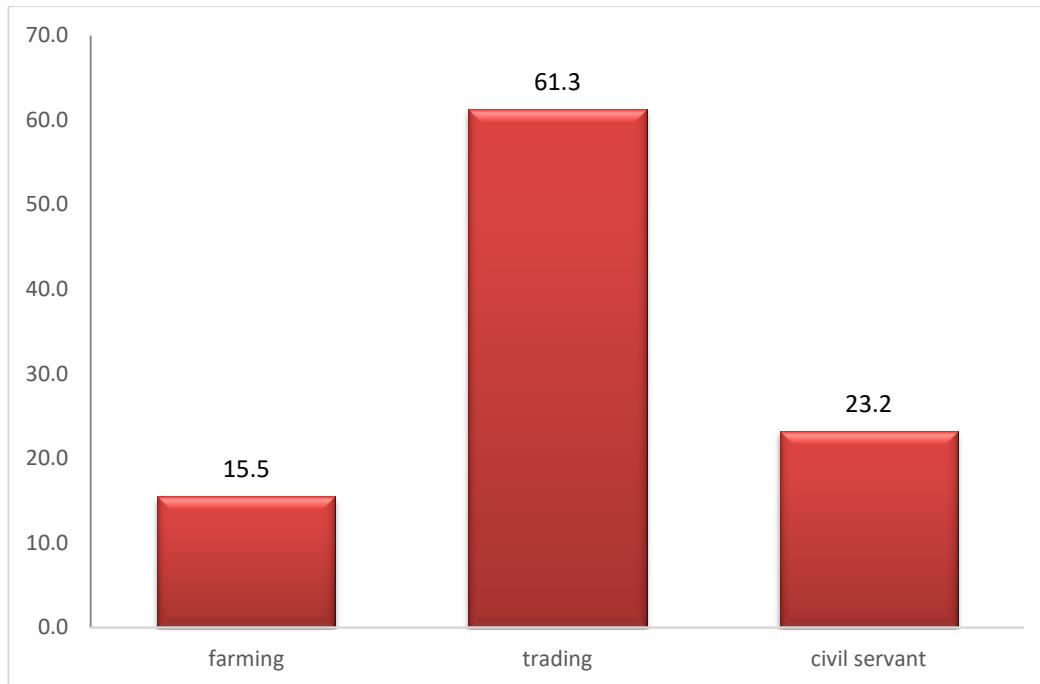
Figure 4.4 Educational qualifications of respondents (%)



Majority of rural dwellers in Tanzania are farmers or embark on agricultural related trading. 15.5% of respondents are solely into farming (livestock and/or crops). 61.3% are traders (it is

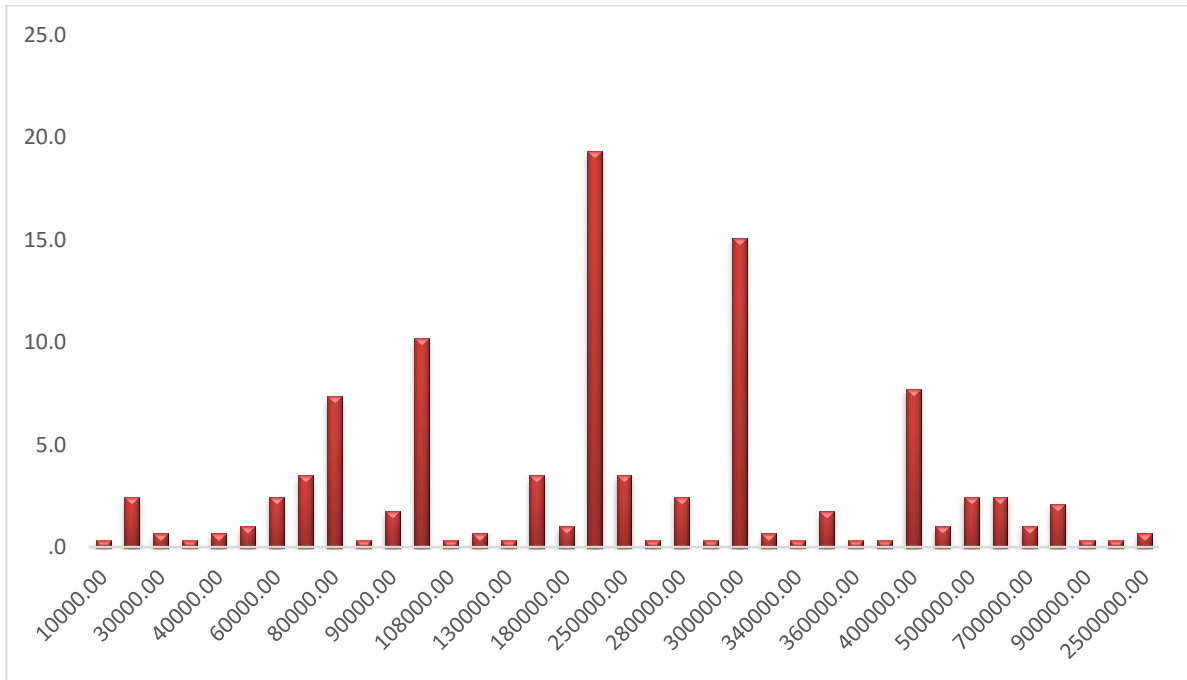
important to note here that many traders are also farmers or carry out agricultural related businesses such as selling of crops and livestock). 23.2% are civil servants as shown in figure 4.5.

Figure 4.5 Occupation of respondents (%)



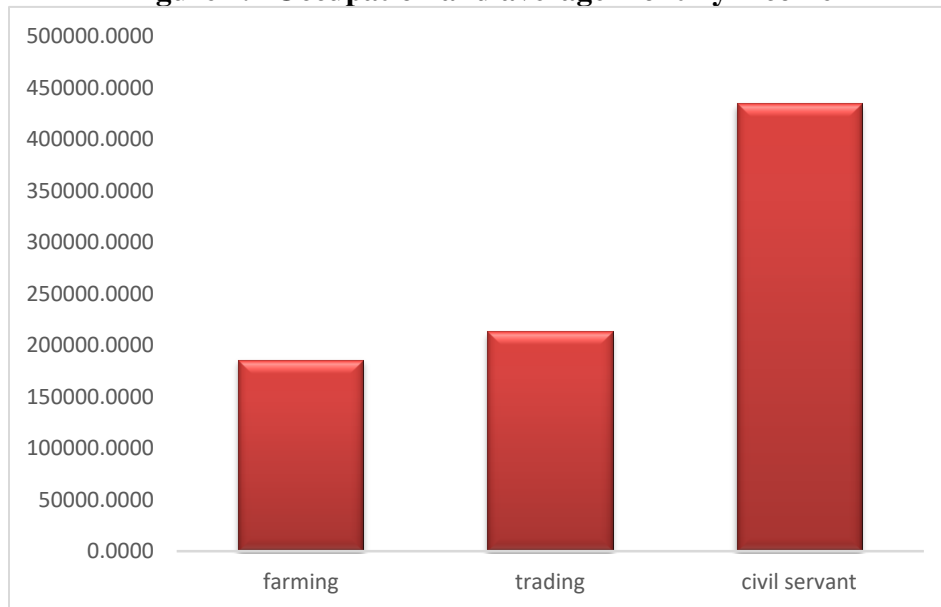
The figure 4.6 below shows average income distribution of respondents. It was observed that majority of respondents (19.3%) earned an average of TZS200,000 (\$89) monthly. Another interesting observation was that the highest income earners had attained higher educational qualifications (secondary and tertiary) as opposed to those with no formal education and primary education.

Figure 4.6 Average monthly income of respondents (TZS) (%)



Respondents that were primarily farmers earned the least as shown in figure 4.7. Their average monthly income is less than TZS200,000. Traders earned higher than farmers with an average of TZS213,300 per month. Those with the highest level of income are civil servants who have attained higher educational qualifications.

Figure 4.7 Occupation and average monthly income



We compare the means of average monthly income versus gender, educational attainment and marital status in Fig 4.8, 4.9 and 4.10 respectively. Figure 4.8 shows that average monthly income of male respondents exceeds that of female respondents. Respondents with tertiary education are also shown to earn more income than those with primary and secondary education.

Figure 4.8 Average Monthly Incomes by Gender⁷

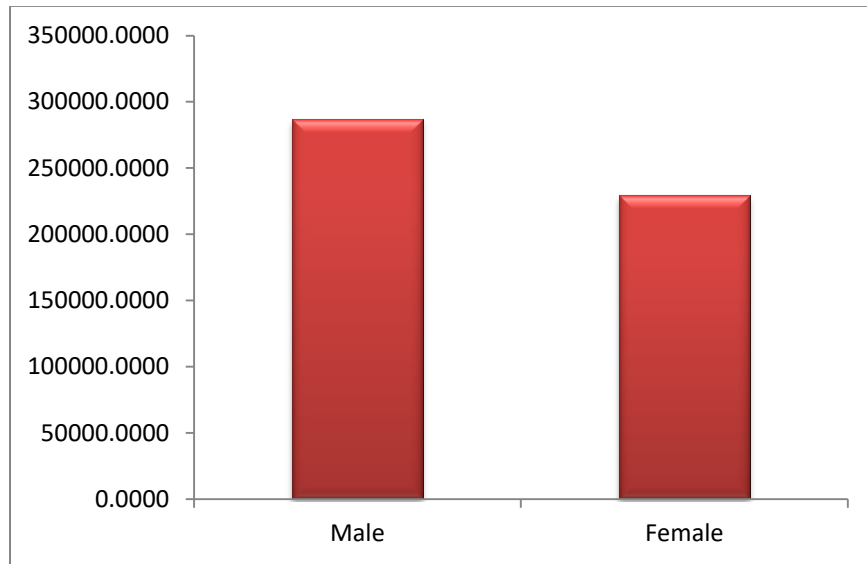
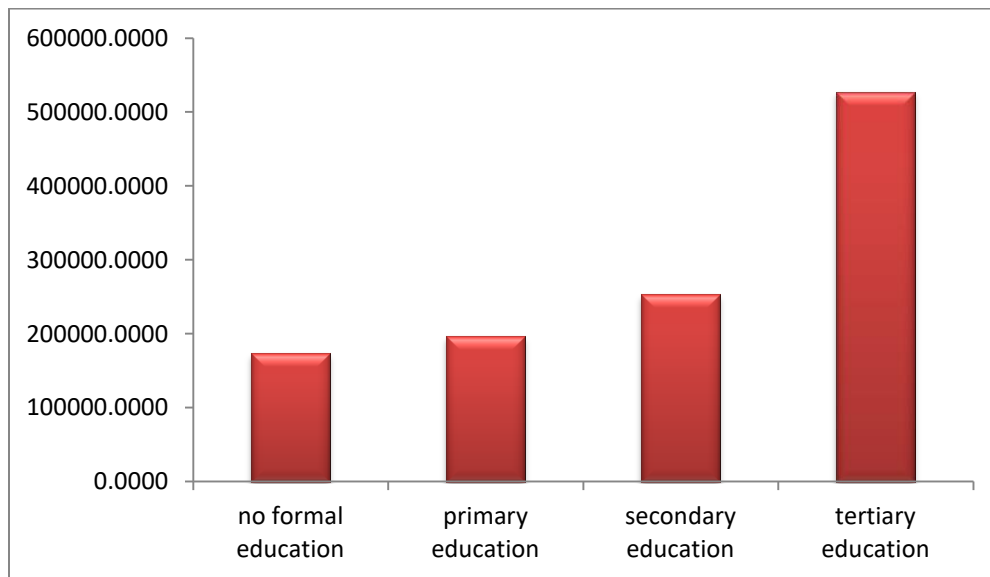


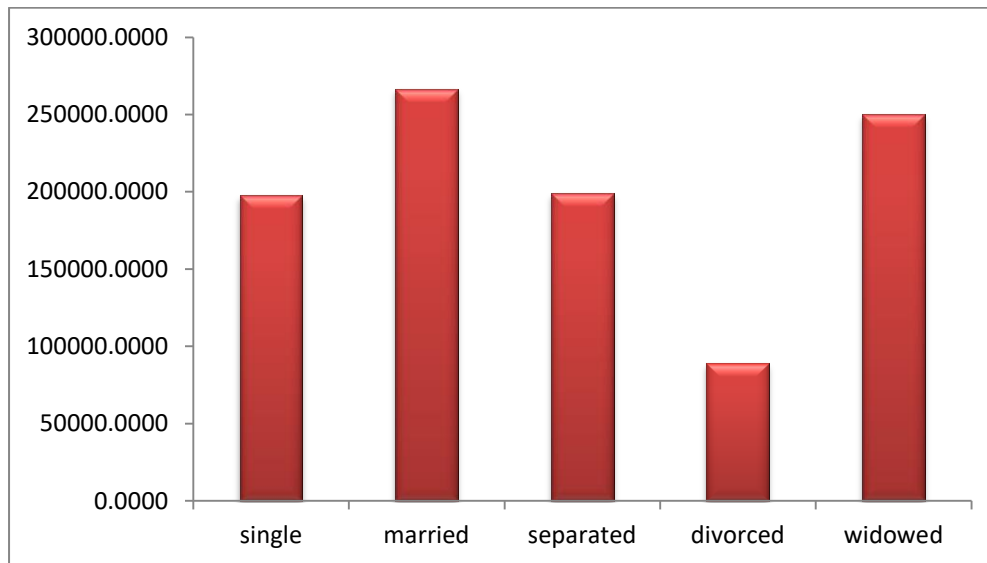
Figure 4.9 Average Monthly Incomes by Educational Attainment



⁷ All figures are in Tanzanian Shillings

Individuals with the highest average monthly income as depicted in figure 4.10 are those who are married, while those with the least income are divorced, although there is no statistical evidence to explain this disparity.

Figure 4.10 Average Monthly Incomes by Marital Status



4.8.3 Nature and Types of products and services offered by rural financial cooperatives to members

Specific questions were asked using survey questionnaires and key informant interviews/in-depth interviews to identify various products and services offered by cooperatives to members.

The two basic services identified are savings and credits. Cooperatives provide financial and nonfinancial services to members. Financial services include access to savings and short-term loans for agriculture, businesses and household expenditure. Non-financial services include business advisory services, technical support and entrepreneurial training.

In an in-depth interview with a management staff of SACCOS, respondent had this to say;

“We provide our members with loans for the small-scale business, education for their children and for agriculture. In a year we provide approximately TZS300million in agricultural loans to our members”

Many respondents however, stated that there are many other services they will like their cooperatives to provide them. Key informant Interview responses showed that many members will want their cooperative to offer services such as education before granting loans, dividends in time, increase rate of interest on savings, reduce number of shares required before applying for loans, more branches and so on.

A 34year old woman with 2 children had this to say;

“This cooperative has helped me so much. I’ve only been a member for 3 years but I have been able to collect loans to help with my maize farm. I will really like the cooperative to improve the process by providing insurance for this loan I take for my farm”.

A 60year old woman with 5 children said this;

“It will be very good if the SACCOS provide training to educate people on the terms and conditions of loans before giving the loans. When I first joined, I did not really understand the way the loan process worked”

Many rural dwellers in Tanzania live in remote areas not easily accessible especially during rainy season. Therefore, some respondents called for cooperatives to open more branches closer to these areas for easy access.

A 55year old male respondent stated;

“I live in Mwembe close to the mountains. It is very difficult for me to go to Same or other places to deposit money in the cooperative especially during rainy season when it is very difficult to move around even though I have a motorbike. The SACCOS need to open more branches close to us”

Results from questionnaires, in-depth interviews and key informant interviews showed cooperative society provide both financial and non-financial services to their members. These financial services include agricultural loans, business loans, educational loans, etc. One cooperative specified that they offer agricultural loans worth an average of TZS300 million (\$133,630) to members. Other non-financial services they offer are entrepreneurial training, training on agricultural practices and items like commercial motorbikes on a hire purchase

agreement. Despite these services, members stated that they would like more services to be added to ensure the cooperatives effectively address their needs. Some of them include; insurance, education before assessing loans, pay dividends in time, open more branches closer to the people, increase agricultural loans, provide loans for building materials, reduce the number of shares required to access loans, etc.

4.8.4 Assessment of the performance of rural financial cooperative societies in provision of services to members

To assess the performance of rural financial cooperative societies in provision of services to members, key performance indicators were identified to capture relevant information. Performance is also measured based on impact of cooperatives in terms of savings, loans and membership satisfaction.

These indicators show performance of cooperatives based on client outreach, client poverty level, loan repayment/disbursement and financial sustainability. These indicators were selected because they provide a broad picture on the growth and overall performance of cooperatives as identified by many researchers. Details are provided in chapter 3 of this study.

Indicators show that in terms of outreach, the Same Kaya SACCOS experienced significant growth between 2002 when it started to 2018 of 73 to 4,900 members respectively. Client poverty level indicates that the SACCOS' focus is on individuals of low and middle-income status. Loan repayment period as described in the table above shows that the cooperative requires collateral before individuals can access loans, however in the absence of one, guarantors can be used. The guarantor system ensures individuals do not default on loans, ward leaders are also appointed to verify application processes before it's granted. Clients will need to identify the purpose for which they intend to use loans, i.e. whether for agricultural purposes, education for children, small scale businesses, etc.

The research found that the SACCOS under study can give loans to an individual from 0 – 3million TZS (0 – 1,336\$) on the condition that such individual have a minimum of 10 shares worth TZS50,000 min (an equivalent of \$22). This helps increase savings habit and ensures financial sustainability of the cooperative.

In terms of financial sustainability, the cooperative generates income from interest rates charged on loans, entry fees, loan application fees (1% of loan amount) and loans from other financial institutions. Another method adopted to ensure sustainability is reducing cost of operations; the cooperative ensures their operational costs are kept at minimum rather than increasing interest rate to generate revenue. The National Social Security Fund (NSSF) also provides funding to cooperatives for members to access in form of loans.

Other non-governmental organizations and government institutions provide support during trainings, or for expansion to reach other communities.

Table 5 Key Performance indicators to measure performance in the cooperative

Outreach	
Number of clients	73 members in 2002 4,900 members (2,808 men, 2,092 women) in 2018
Client poverty level	Low – middle income earners, small holder farmers
Loan repayment/disbursement	Immovable collaterals are required
	In the absence of one, guarantors are used
	Intended uses of loans have to be identified, ward leaders usually verify loan applications before it's granted
	2% interest rate per month, reducing balance
	300 million TZS (\$133,630) agric loans approx, annually
	0 – 3 million TZS (\$1,336) worth of loans can be given to individuals, individuals must have a min 10 shares (10 shares = 50,000TZS/\$22)
	75% of members pay loans in time
Financial Sustainability	Income comes from ROI, entry fees, loan application fees (1% of

	loan amount)
	Loans from other financial institutions
	Government and NGOs support in kind

4.8.4.1 Impact based on Loans

Cooperative loans are given for different purposes, often without the need to own collateral assets. Use of a guarantor ensures that the poorest members of the community without tangible assets can also access loans for agricultural purposes, businesses, household expenses and even education for their children. To establish if the loans given by Same Kaya SACCOS to their members has any significance, specific questions were asked in the survey questionnaires.

The questionnaire results reveal that 302 out of 305 respondents are satisfied with the interest rate of 2% per month (reducing balance) charged by the cooperative. This indicates 99% positive result response. Another 301 which is 98.7% of respondents were also satisfied with the process of lending and loan recovery of the cooperative society.

Table 6 Interviewee’s responses on satisfaction

	No.	Percentage
Are you satisfied with the interest rate of 2% offered by your cooperative?	302	99
Are you satisfied with the loan lending and recovery process?	301	98.7

Fig. 4.11 shows that 276 respondents which represent 90.5% use their loans for agricultural purposes and small business. 25 respondents, which is 8.2 % of the total number use theirs for household expenditure while only 4 (1.3%) use the loans for other unstated purposes.

Figure 4.11 Uses of loans

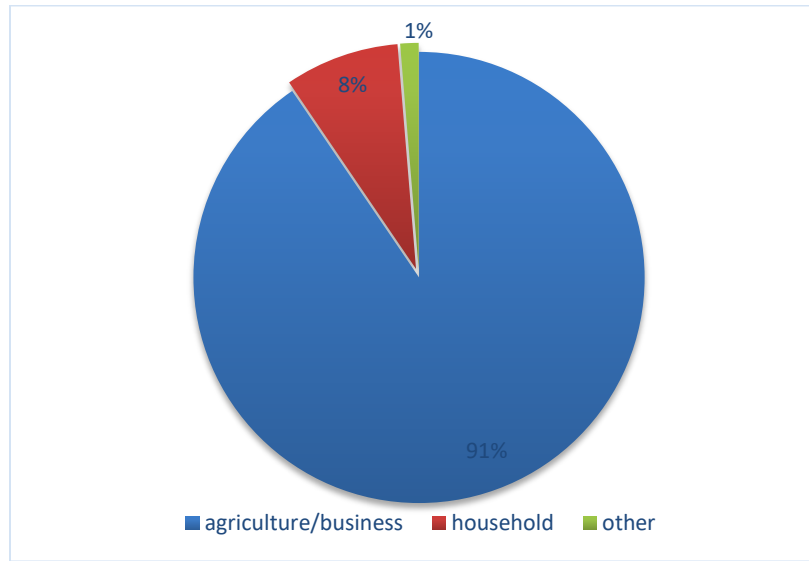


Table 7 highlights the payment methods adopted by members to repay their loans. 94.4% indicated that they use income from agriculture and small-scale businesses to repay their loans. This represents 288 respondents, while 14 members (4.6%) use income from salaries and wages.

Table 7 Interviewee responses on loan payment methods

What methods do you adopt to repay?	No.	Percentage (%)
Salary & Wages	14	4.6
Business & Agriculture	288	94.4
Loan from friends	1	0.3
Others	2	0.7
Total	305	100

The questionnaire results reveal that interest rate of 2% per month (reducing balance) is satisfactory and does not affect the interest of members. This agrees with studies from Lohlein and Wehrheim (2003) that show that cooperative interest rate is often times much more favorable than that of other financial institutions. Loan repayment process is not “cut throat” like many commercial banks in that it allows members pay back in installments according to their income patterns. The results also show that majority of the members use their loans for agricultural purposes and petty trading. In an interview with a management staff of the Same Kaya

SACCOS, it was stated that the cooperative society offers about 300million TZS in agricultural loans, which goes a long way in supporting members since majority are small holder farmers.

The study also found that the use of guarantor system helps members without collateral assets set up small businesses long enough to ensure they can function on their own without the strict regulations often associated with commercial banks. This arrangement fosters personal and interpersonal development and helps in bridging the gap between rich and poor. This is in line with the social capital theory that explains the importance of collective action among members of a community.

Repayment period for most members is between 9 to 12months. Although studies found that some members default on paying loans, most of them pay up within the stipulated time frame. The Same Kaya SACCOS relies on the interest rate gotten from loans to make profit and ensure financial sustainability; therefore, the ability of members to pay up in time is vital to the continuity of the cooperative. The low interest rate accompanied with the short duration it takes for loans to be processed (less than 1 month) is satisfactory to members. Bank loans on the other hand take much longer with lengthy administrative processes.

4.8.4.2 *Impact based on Savings*

Savings within a cooperative society involves setting aside a fixed or flexible sum of money in other to access it in future. This has been considered vital to development because it improves spending habits and ensures individuals put their finances to productive uses. Key informant interviews show that members are happy with the compulsory savings required by their cooperatives.

A 39year old male who has been a member for over 10years said this;

“The cooperative has encouraged me to save from income I make from my business and has increased my savings over time. I’m also able to access bigger loans now”.

This is what a 47year old male had to say;

“The cooperative helps us save money that we would have spent carelessly. It also helps us feel like joint owners and because of this we get to express ourselves freely”.

Because savings within the cooperative serves as a condition for assessing loans, individuals are encouraged to save more and reduce unnecessary spending. Saving within the cooperative increases self-esteem and gives members a sense of ownership that ensures continuity. This is in line with the social capital theory that suggests that associations build individual's confidence and self-esteem. Cooperatives provide a platform for individuals to save with ease where they initially found it difficult to do. Another major trigger for savings within the cooperative is the interest rate given on savings. Though relatively small, it is considered more useful than spending money on unnecessary things.

The concept of savings as a leading factor of economic development also agrees with many economic growth theories, particularly the Harrod Domar growth model. This model highlights the importance of savings as a major source of capital accumulation. More savings means more money will be available for investment in various sectors, which will mean increase in employment and productivity and in the long run can lead to growth and development.

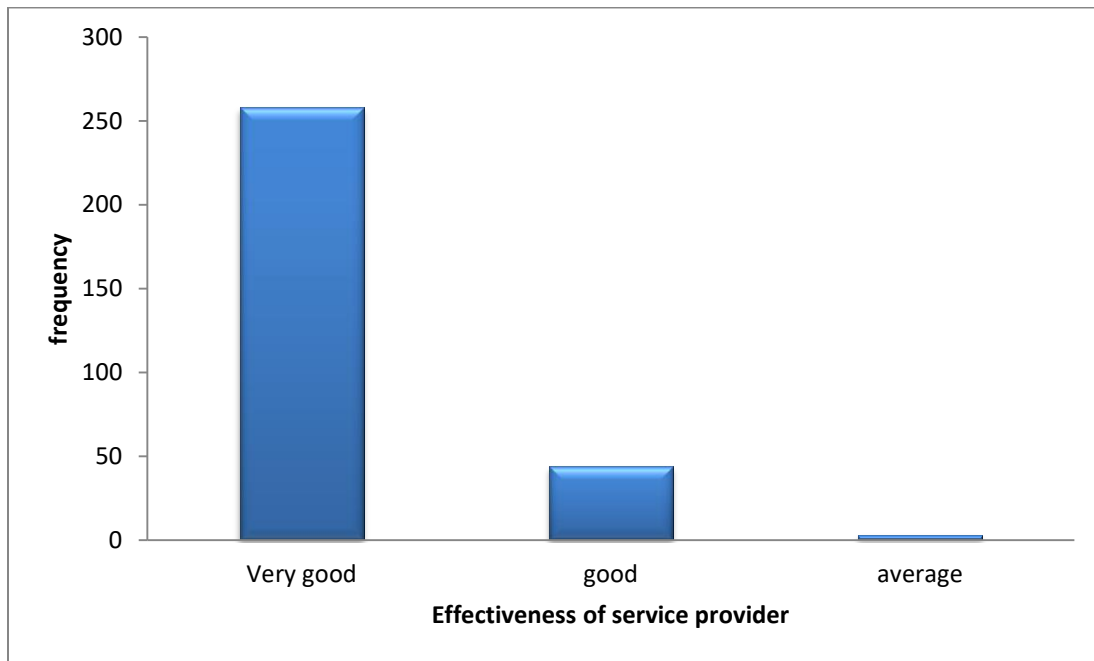
4.8.4.3 Member Satisfaction

This section discusses what members like or dislike about the program in general. This includes reasons why members continue to be a part of the cooperative and whether or not they will encourage others to join. The results are presented below.

The interest rate charged by the cooperative brought satisfaction to 99% of respondents. 98.7% were also satisfied with the loan lending and recovery process.

Figure 4.12 below shows that 84.6% of respondent consider the cooperative very effective in provision of services. 14.4% consider it to be good, while only 1% consider the service provision average.

Figure 4.12 Effectiveness of service providers



Specific questions were asked in other to ascertain member satisfaction. From the table above, all respondents agreed that being a member of the Same Kaya SACCOS has improved their livelihoods and that they will encourage others to join.

Table 8 Interviewee responses

Other questions from survey questionnaire	No.	Percent (%)
Being a member has improved my livelihood	305	100
I will motivate others to join	305	100

Findings show that members are satisfied with the savings and interest rates required by their cooperative. The interest rate is satisfactory to members as earlier stated as well as the payment plan. The cooperative society also requires members to save a minimum amount of money that ensures they can access loans at a later time. This arrangement increases savings habit and helps in proper management of finances by members. Unnecessary spending by members is reduced as

more money is being saved to ensure access to more loans. The cooperative society gives members up to 3times the amount of money they save as loans. This strategy in the long run ensures financial upliftment for members. This is very similar to what Wanyama et al (2008) found that cooperatives encourage accumulation of savings. Banks often times do not give loans without concrete collaterals. This is in line with the findings of Edgcomb and Garber (1998) and Falaiye (2002) that reported that the acceptance of guarantors made it easy to provide loans and brought satisfaction to clients. Majority of commercial banks in Tanzania do not even offer agricultural loans at all as they are often considered too risky due to seasonal variations, pests and diseases and many other uncertainties. This makes the Same Kaya Cooperative very important in rural development since majority of its members are small holder farmers.

Despite this satisfaction recorded in the course of this study, it is important to note that many members stated that they will like the cooperative society to offer more diverse services. 74% of respondents said they will like their cooperative to provide more education to members before giving loans. They also highlighted the need for expansion of the SACCOS to more remote areas to ensure other rural dwellers can access the services easily. Many stated that they will like the cooperative to pay dividends in time and provide insurance services. This means that the cooperative still has a lot more to do in other to satisfy the financial needs of their members.

The findings of this study indicate that members are more likely to get out of poverty and improve standard of living if they effectively utilize their savings and loans. Another important discovery of this study is that low interest rate is a major reason why members remain in cooperative. Any move to increase interest rate in other to expand the cooperative may not be wise. This is in line with the discovery of Park and Ren's (2001) that clients are happier with interest rates lower than that of other sources of credit available to them.

4.8.5 Effects of cooperatives on household income

Here, we examined the pattern of change among members and their level of income. Hypothesis was developed to test if membership in a cooperative society affects the level of household income of members;

H₁; There is a relationship between membership in a cooperative society and increase in household income

H₀; There is no relationship between membership in a cooperative society and increase in household income.

A spearman rank order correlation was run in other to test this hypothesis. Variables used to test this were average monthly income of members and duration of membership in the cooperative society. Another test was run to see if there is a significant relationship between average monthly income and educational qualification.

Results are presented below.

Correlation

			Average monthly income (TZS)	How long have you been a member
Spearman's rho	Average monthly income (TZS)	Correlation Coefficient	1	.132*
		Sig. (2-tailed)	.	0.026
		N	285	285
	How long have you been a member	Correlation Coefficient	.132*	1
		Sig. (2-tailed)	0.026	.
		N	285	305

*. Correlation is significant at the 0.05 level (2-tailed).

The table above shows a significant level of 0.026 which is less than 0.05. This means that there exists a significant relationship between average monthly income and duration of membership in the cooperative.

Correlations

			Average monthly income (TZS)	Highest educational qualification
Spearman's rho	Average monthly income (TZS)	Correlation Coefficient	1	.429**
		Sig. (2-tailed)	.	0
		N	285	283
	Highest educational qualification	Correlation Coefficient	.429**	1
		Sig. (2-tailed)	0	.
		N	283	303

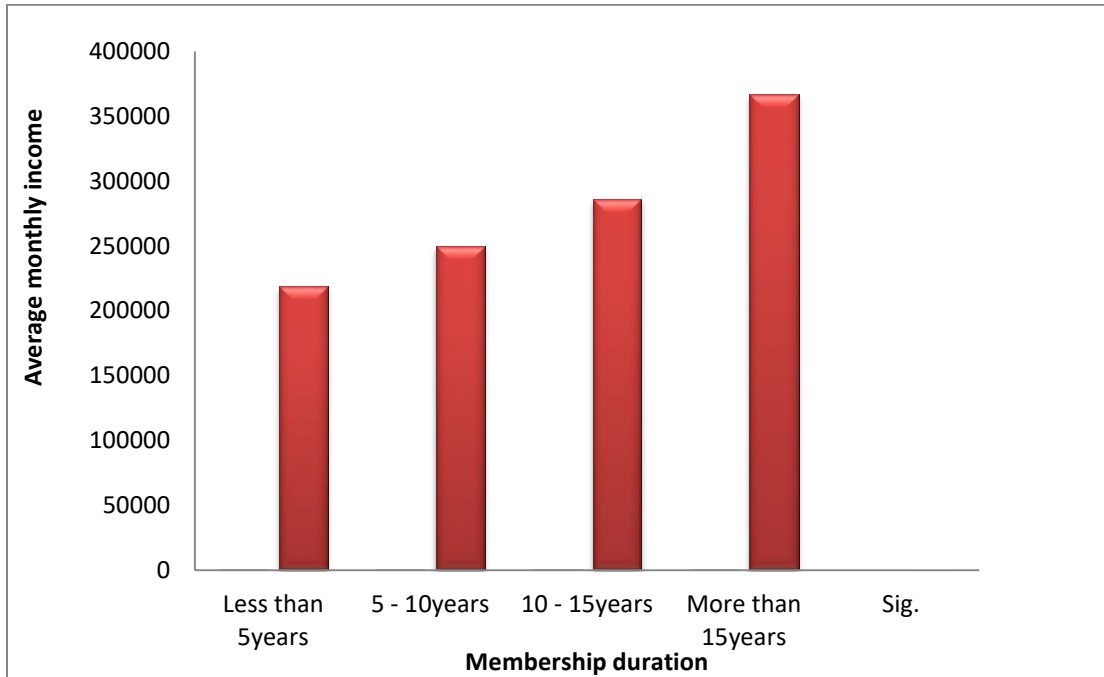
**, Correlation is significant at the 0.01 level (2-tailed).

The table above shows a significance level of 0.01 and results show a p value of 0. This value is less than 0.01 which indicates a significant relationship. This means there is statistical evidence to indicate a relationship between average monthly income and educational qualification of members.

The spearman rank order correlation and ANOVA tests were also used to indicate that increase in income is associated with duration of membership in the cooperative. Being a member for a longer period has a significant effect on income status. Holmgren 2011 found that early members enjoyed higher income levels because they had access to the earliest services and trainings offered by their cooperatives. These members often have accumulated savings and thus can access larger loans which enable them to invest in businesses, education and purchase of land. They can also serve as guarantors to new members.

Figure 0.1 below indicates that members with the highest income are those who have been in the cooperative society for more than 15years as opposed to those members who only joined less than a 5years ago.

Figure 0.1 Chart showing R/ship between Income and Membership duration



It was important to test these variables because of the ripple effects associated with contributions of cooperatives to standards of living. Increase access to financial services increases individual's ability to run successful businesses, generate more income, ensures food security and better education. The Same Kaya SACCOS provides other financial services to their members' asides savings and credits such as entrepreneurial trainings and educational loans. The result of the study also provides basis to support the social capital theory that membership of an association increases socioeconomic conditions (Anderson et al., 2002).

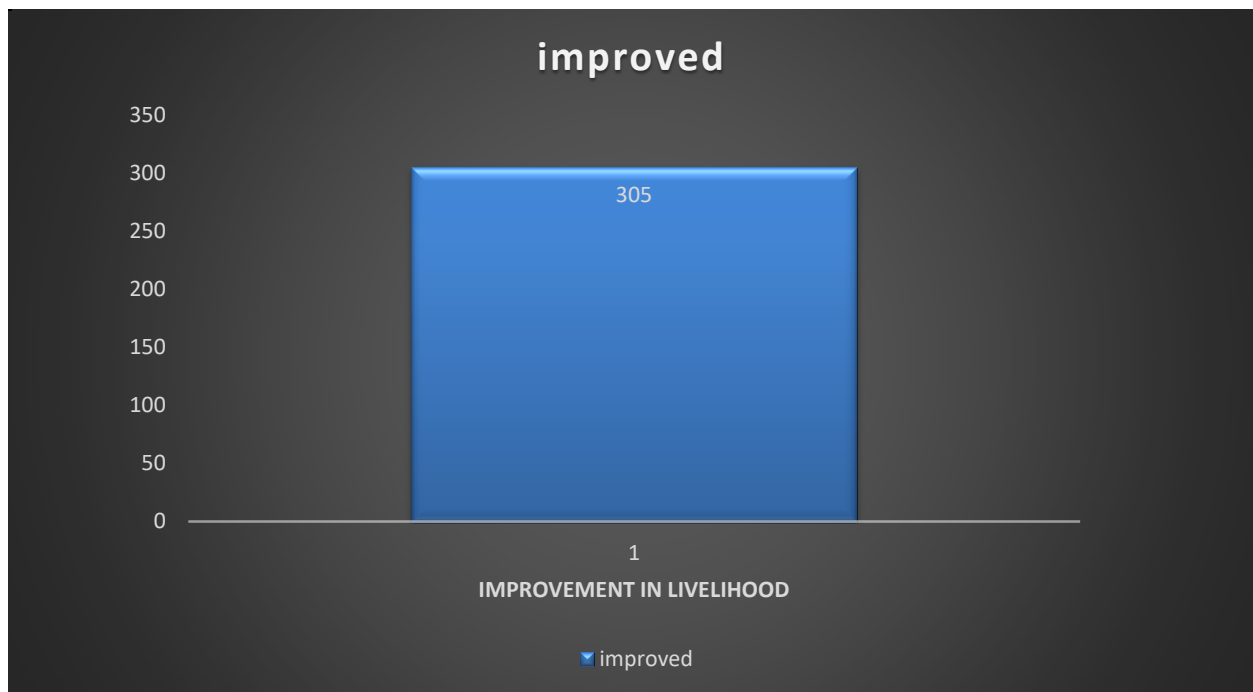
Table 9 Showing list of hypotheses

	Hypothesis	Accept	Reject
H1	There is a relationship between membership in a cooperative society and increase in household income	X	
H0	There is no relationship between membership in a cooperative society and increase in household income.		X

As a result of the findings of this study, we accept the Alternate hypothesis (H_1) and reject the null hypothesis (H_0).

The study revealed that participation in a cooperative society has improved livelihoods of members. Members now have access to agricultural loans, small scale business loans, education loans and even household expenditure.

Figure 0.2 Improvement in Livelihood



4.8.6 Challenges faced by cooperative societies in rural Tanzania

Several challenges faced by cooperative societies were identified during this study. Some of them include;

- Competition from other MFIs limiting their ability to increase outreach
- Bad debts mostly from agricultural loans due to environmental challenges that often affects yield
- High auditing fees charged by the government which increases their operating cost
- Inaccessibility of some rural areas especially during rainy season
- Lack of education and sensitization of rural dwellers on the importance of participation in cooperatives makes it difficult to increase outreach. Many are not open to new methods of savings and credits

5 CHAPTER FIVE: SUMMARY OF MAJOR FINDINGS, CONCLUSION, RECOMMENDATIONS/IMPLICATIONS

5.1 Summary of Findings

The study found that microfinance institutions provide a means for poor people to access financial services at conducive rates, where they are not able to with other structured institutions like commercial banks. MFIs include savings and credit cooperative societies (SACCOS), village community banking, microfinance banks and so on. The study showed that cooperative societies provide both financial (savings, credit, insurance) and non-financial (trainings, advisory services) services. Results also found that majority of these cooperatives are effective in their service provision to members. 4 Key performance indicators were used to test this; outreach, client poverty level, financial sustainability, loan repayment and disbursement period. Evidence showed that the Same KAYA SACCOS was performing well in terms of outreach in that in 2002 when it began, there were only 73 members, 16years later (2017) outreach had increased to 4,900 members (2,808 men and 2,092 women). The cooperative also focuses primarily on small and medium income earners. Loan repayment and disbursement processes have proven to be efficient, since they are not as stringent as that of formal financial institutions. Clients are able to receive loans less than 1 month after applying and repayment periods are flexible enough to accommodate members. Guarantor system is sometimes used in place of collateral, which makes it a lot easier than commercial banks. The financial sustainability of the cooperative is also of interest. An interview with management of the cooperative provided information on how the institution is able to operate and its sustainability in future years. Income is generated through entry fees, loan application fees and loans from other cooperatives and commercial banks. Operations cost are kept at minimum in other to avoid extravagant expenses. National social security fund (NSSF) also offer financial assistance to SACCOS to enable members benefit.

Further evidence indicated that cooperative societies improve livelihoods of their members by providing loans which could be used for businesses and household expenditure. MFIs help individuals increase household income and assets. An ANOVA test showed a positive relationship between membership in cooperatives and increase in average monthly income. Increased household income provides means to access better health care, education, assets and

general socioeconomic freedom. This means that cooperative societies and other micro finance institutions have a direct impact on poverty reduction.

5.2 Conclusion

The Tanzanian government alongside many development agencies has invested in providing financial services to rural households in an effort to eradicate poverty and achieve socioeconomic development. Since majority of rural population are smallholder farmers, the MIVARF program was developed to increase agricultural productivity and market access for goods and services. MIVARF operates in 73 local governments with 3 main programmes as their focus areas; marketing infrastructure, value addition and rural financing. Their objectives are to reduce poverty and enhance food security for the target groups.

This study was aimed at identifying and assessing the role of financial cooperative societies in provision of services to rural households in Tanzania. Major objectives include;

- Identifying the products and services offered by rural financial cooperatives to members
- Assessing the performance of rural financial cooperative societies in provision of services to members
- Determining the effect of cooperatives on household income

Various literature was reviewed to provide better information on the concept of rural financing and their role in poverty alleviation. Studies showed that MFIs contribute significantly to socioeconomic development by providing better means of livelihoods for members. Participation in cooperatives increases household income, enterprise assets, self-esteem and socioeconomic freedom. It provides information on how rural communities function in terms of building relationships, increasing self-esteem and interdependence and how this is facilitated through memberships in cooperatives and opportunities for accessing affordable credits. Information is also provided on rural businesses and how they function using finances received through cooperatives. This shows a relationship between cooperative finance and rural development.

5.3 Recommendations/Implications

Possible implications of the results of this study are as follows;

- Participation in cooperative societies increases savings habit of members. Increase in savings can lead to development of rural banks. Policy implications will require a review and regulation of banking policies by the government to allow establishment of rural banks in rural areas. Establishment of such institutions will integrate people into formal banking systems and reduce amount of money floating.
- Study showed that low interest rates and loan availability without collateral brought satisfaction to members. Financial institutions who wish to operate in rural areas must consider these factors since many rural dwellers do not have the collateral required by formal banks and other money lenders (World Bank 2000). Implication is for institutions to devise a means to reach poor people with guarantor systems. Because of this, more funds could also be mobilized through savings.
- Government needs to also provide infrastructural facilities and training schemes to help rural businesses thrive and provide them with relevant information required to compete and gain market access.
- Proper monitoring of loan uses will also ensure defaulters are minimized and loans are used for the acquired purposes.
- Study shows that cooperatives need to be developed to meet the growing financial needs of their members. Cheap funds from government at reduced interest rates will go a long way in ensuring financial sustainability. Conditions attached should also be less stringent to encourage participation of poor people.
- Rural enterprise policy development training programs can be put in place to train individuals on business practices, management, production, marketing to help them generate higher profits.
- Study also revealed high risks associated with agricultural loans. Small holder farmers should be educated on new and improved agricultural practices to increase productivity and make profit. Governments also need to assist with agricultural loans to rural areas to reduce the financial burden on cooperatives. Insurance schemes will also be useful in curtailing risks involved with agricultural loans.

- Study showed that auditing fees charged by the government increases operating cost for cooperatives. Government may need to review auditing fees in order to reduce the financial burden associated with running cooperative societies
- Huge agricultural loans often given to members from cooperatives incur significant bad debts. Government and other institutions can also provide agricultural loans and subsidies for smallholder farmers to reduce burden on cooperative societies
- To ensure and increase financial sustainability, this study provides information to enable support for cooperatives with access to cheap funds from government to increase their lending capacity

5.4 Limitations

The study, like many was not without limitations of various kinds, some of which included time and financial constraints.

- Cross sectional studies which examines phenomenon at a particular time was used to carry out this research. This may not have provided complete information of the study. Therefore, further longitudinal studies could be carried using this as baseline study to provide clearer information over a longer period of time.
- Actual amount to income could not be determined. Study relied on respondents' answers which could be untruthful or with bias
- Language barrier was a major constraint. Researcher was unable to communicate effectively and had to rely on enumerators to interpret. Content might have been misinterpreted in this process
- Some areas covered in the study area were not easily accessible due to lack of transport systems and erosion due to the rainy season

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APPENDICES

Appendix 1. QUESTIONNAIRE

Topic; the performance of financial cooperative societies and networks in provision of products and service to rural communities – a case of Same Kaya SACCOS, Tanzania

Respondent; Members of Same Kaya Savings and Credit Cooperative Society (SACCOS)

Section A: Socio-Economic and Demographic Characteristics of Respondents

Questionnaire no;

Serial No.	Variables	Responses	Code
1	Name of financial cooperative society	Name	
2	Region	Name	
3	District	Name	
4	Community	Name	
5	Age of respondent (years)		
6	Sex of respondent	Male Female	[1] [2]
7	Marital status	Single/never married Married Separated Divorced Widowed	[1] [2] [3] [4] [5]
8	Household size	Number of people	[]
9	Average monthly income	Amount N.....	
10	Highest education level attained	No formal education Primary education Secondary school education Tertiary	[1] [2] [3] [4]
11	Occupation	
12	How long have you been a member?	a) Less than 5 years b) 5 years to 10 years c) 10 years to 15 years d) More than 15 years	[1] [2] [3] [4]

SECTION B – Financial products and services

Serial No.	Variables	Responses	Code
1	What products and services does your financial cooperative society offer you?	Credits Savings Insurance Others	[1] [2] [3] [4]
2	What other services would you like your Co-operative Society to offer?	
3	How effective is your cooperative society in providing these products and services?	Very Good Good Average Poor	[1] [2] [3] [4]

SECTION C – Performance

1	Are you satisfied with the functioning of your Co-operative Society?	Yes No	[1] [2]
2	Do you have savings?	Yes No	[1] [2]
3	If yes, do you save in your cooperative society?	Yes No	[1] [2]
4	If no, why?	
5	Do you take loans from your cooperative society?	Yes No	[1] [2]
6	How often do you take loans?	Monthly Quarterly Annually Other (specify)	[1] [2] [3] [4]
7	How long does it take to get your loan once you apply?	Less than 1 month 1 month 2 months Other (specify)	[1] [2] [3] [4]

8	What do you use your loan for?	Agriculture Household expenses Business Others (please specify)	[1] [2] [3] [4]
9	What is the rate of interest taken by your cooperative society?	
10	Are you satisfied with this rate of interest?	Yes No	[1] [2]
11	How long does it take you to repay your loan?(months)	
12	What method do you adopt to repay the loan?	Salary and wages Income from business Income from agriculture Loan from Friends Other	[1] [2] [3] [4] [5]
13	Do members decide who gets loans?	Yes No	[1] [2]
14	Are you satisfied with the loan lending and recovery process of the Co-operative society?	Yes No	[1] [2]
15	If no, what steps will you suggest to improve the process of loan leading and recovery?	
16	How will you say the loans have improved your livelihood?	Improved Not improved	[1] [2]
17	Will you motivate others to become members of your Co-operative Societies?	Yes No	[1] [2]

Appendix 3



