

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Prevailing Gaps in the Functioning of Microfinance Institutions in Rural Areas; the Case Study of Lokingamma SACCOS at Mwika in Moshi Rural District, Tanzania

Grace Thomas Mori

Assistant Lecturer, Moshi Co-operative University (MoCU), Moshi, Kilimanjaro, Tanzania

Johnson James Kimambo

Assistant Lecturer, Moshi Co-operative University (MoCU), Moshi, Kilimanjaro, Tanzania

Abstract:

The purpose of this study was to assess the challenges facing Microfinance Institutions in their operations. The specific objectives were to identify the services provided by Microfinance Institutions in their areas of operations and to examine the challenges they faced in providing financial services to their clients in rural areas. Data were collected using different techniques, questionnaires, interview and observation. The sample size involved 60 respondents. Data were analyzed and presented using descriptive statistics. The study findings showed that Lokingamma SACCOS offered services such as savings, small loans, deposit and training to its members and leaders. This study also identified a number of challenges Lokingamma SACCOS is facing in providing financial services including; poor repayment of loan, improper recording and bookkeeping, negative perception toward Co-operatives among SACCOS members, inadequate skills and knowledge of members, lack of capital to lend to members and career development to the staff. This study recommends that in order to deal with the mentioned challenges, penalty upon late repayment of loan should be introduced and emphasized; mobilization about the significance of SACCOS should be provided in the community to reduce negative perception toward co-operatives. Also, the government should support SACCOS through setting supportive legal frame work that improves all SACCO's undertakings.

Keywords: Microfinance, Microfinance Institution, SACCOS

1. Introduction

Around the world, poor people are excluded from formal financial systems. Exclusion differ from partial exclusion to near full exclusion. Due to inadequate access to formal financial services, the poor have developed a wide variety of informal, community based financial arrangements that meet their financial needs. Microfinance is the term that has come to refer generally to such informal and formal arrangements offering financial services to the poor people particularly in the rural areas.

Microfinance Institutions (MFIs) are involved in the provision of finance services dealing with very small deposits and loan (Johnson and Logally, 1997). MFI has the purpose of supporting livelihood of low income family and their enterprises that failed to access financial services from main stream financial institutions. Although the word Microfinance literally comprises of the two words micro and finance which means small credit. Today, there are thousands of MFIs providing financial services to an estimated 100 - 200 million of the world's poor (Christenet al., 1995). The main assumption is that MFIs enables the poor to access credit (Pitter, 2006) through the use of their available services.

Microfinance in Tanzania is one of the approaches that the government has focused its attention in recent years in pursuit of its long-term vision of providing sustainable financial services to majority of Tanzanian population. In Tanzania, before the current financial and banking restructuring took place, most of financial services for rural, micro and small enterprises were offered by the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (Bagwacha, 1994).

Since 1991, the government has been implementing financial sector reforms aimed at putting in place a competitive, efficient and effective financial system. Although the reforms have had reasonable success in bringing about the growth of competitive and efficient mainstream banking sector, it has not brought about increased access to basic financial services by the majority of the Tanzanians, particularly those in rural areas.

The realization of the above shortcoming led to the government's decision to initiate deliberate action to facilitate alternative approaches in the creation of a broad based financial system comprising of a variety of sustainable institutions with wide outreach and offering diverse financial products (Bagwacha, 1994). The government's choice of microfinance was influenced by the conviction that, given adequate attention, microfinance has the potential to contribute considerably to the economic development of the country because it is more adapted (Bagwacha, 1994).

Microfinance has evolved as an economic development approach intended to benefit low income women and men. The term refers to the provision of financial services to low income client, including the self employed. Financial services generally include savings and credit; however, some MFIs provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self confidence and training in financial literacy and management capabilities among members of group. Thus, the definition of microfinance includes both financial and social intermediation (Joanna, 2000).

The concept of microfinance goes beyond the provision of small credit to the poor. The poor use financial services not only for business investment in their micro enterprises but also to invest in health and education, to manage household emergencies, and to meet wide variety of other cash needs that they encounter. Evidence from the millions of microfinance clients around the world demonstrates that access to financial services enable poor people to increase their household incomes, build assets, and reduce their vulnerability to crises that is part of their daily lives (Littlefield, 2003).

2. Statement of the Problem

The rise of microfinance industry represents a remarkable accomplishment taken within historical context. In Tanzania, microfinance has become vital important because they have made their stride in delivering financial services both savings and credit to the poor especially women. Some of MFIs has got strategies such as collateral free, group based lending and mobilization of savings even in small amounts which help the poor people to access loan. These services never found in larger stream financial institutions.

Mainstream financial institutions failed to serve vulnerable poor people because they require borrowers to have a stable source of income out of which principal plus interest can be paid back according to the agreed terms and they prefer dealing with larger loans with small numbers of clients to minimize administration costs. Others also look for collateral with clear title deeds which many low-income earners cannot afford. In resolving this inconvenience, microfinance has managed to play its important role (Yaron, 2003).

However, microfinance institution, regardless of its effort in providing financial services to poor people easily and at cheaper rate than main stream financial institution, a greater number of people are still poor and small businesses are undergoing bankruptcy. One may wonder how and what this MFIs provide and its significance.

Therefore, this study sought to identify the prevailing challenges and suggest what is to be done to empower and improve MFIs' operations in order to provide more viable services to their clients and become sustainable especially in rural areas. Specifically, the study has; identified the services provided by MFIs in their areas of operations, identify conditions required by MFIs before offering their services and assess the challenges faced by MFIs in providing financial services to the people in rural areas.

3. Research Methodology

This study was carried out at Lokingamma SACCOS in Mwika village, which is situated in Moshi Rural District in Kilimanjaro Region. In the area, there are other SACCOS which provide services to nearby villages such as Nganyeni, Kiruweni and Kimangaro. However, the rationale for selecting Mwika Village is because of number of reasons; it involves several people engaged in tourism business at Marangu Mtoni which is close to Mwika. The area is also characterized by the availability of good communication system such as transport and telecommunication which facilitates economic activities. Also, large number of traders engaged in small scale businesses depend on Mwika market which is located at Mwika village. Therefore, a good number of villagers dealing with small scale businesses in Mwika and nearby villages who are members of Lokingamma SACCOS facilitated the accessibility of reliable data. Cross sectional design was employed in the study.

The study population involved the manager, loan officers, members and non-members of Lokingamma SACCOS. The sampling frame for the study is depicted in Table 1.

Targeted Group	No of Participants
Manager	1
Loan officers	4
Members	45
Non-members	10
Total	60

*Table 1: Distribution of sample size
Source: Field data, 2014*

The sampling technique employed in this study was purposive sampling technique to collect specific data from respondent with in-depth expertise, skills and knowledge about the study under investigation. Interviews were utilized to gather primary data. Also, different semi-structured and structured questionnaires were administered to members, non-members and staff. The secondary data were obtained from written sources and documents from the SACCOS. The researcher was able to review available credits/ loans records that were kept and managed by the SACCOS. The rationale for this technique was that, it allows the researcher to extend the time base of the study by being provided with data about the earlier state of the study being investigated; also, data are likely to be available in a more convenient form.

Descriptive statistics were used in analyzing quantitative data by the help of Statistical Package for Social Sciences (SPSS) version 20 for PC.

4. Results and Discussion

4.1. Social Demographic Characteristics of the Respondents

Age distribution is considered to be an important element when seeking proper representation of ideas over issues under study. Table 2 revealed that 30% of the respondents were between 50-59 years and 21.7% are in the range of 40-49 years of the age. Also 20% of the respondents are in the range of 60-69 years, 13.3% are in the range of 70-79 years and 5% are in the range of 20-29 years of age. Therefore, the sample comprised of generally mature people who have the ability to analyze things in critically and hence could be trusted for their input in the study.

	Frequency	Percentage (%)
Age category		
20-29	3	5
30-39	6	10
40-49	13	21.7
50-59	18	30
60-69	12	20
70-79	8	13.3
Sex of respondents		
Male	39	65
Female	21	35
Education level		
Primary	44	73.3
Secondary	16	26.7

Table 2: Social Demographic Characteristics
Source: Field data, 2014

4.2. Sex of Respondents

Table 2 shows that, from a sample size of 60 respondents, 65% of the respondents are male and 35% are female. The interview with some of SACCOS' members revealed that in Lokingamma SACCOS most of the members who participate in SACCOS economic activities were male. This shows that men get enough time to participate in SACCOS as compared to women because community perceive women as caretakers of the family so they should stay at home taking care of their family. Men participate more on SACCOS activities than women due to the control enforced by men over them and prohibit them from making choices on their own income generating activities or open their bank accounts. Spousal interference on women income generating activities, caused them to hide their financial dealings by avoiding use of SACCOS. Also, lack of property right and awareness on SACCOS operations is hindering most of them from membership.

4.3. Level of Education

The level of education is very important because it helps to create and assess awareness, positive attitudes, values and motivation. Education tends to stimulate self confidence and self reliance. Therefore, if all factors are kept constant, the level of education would contribute positively to household income as it is a factor in development of income generating activities. However according to research findings, Table 2 shows that 73.3% of the respondents attained primary education followed by 26.7% of respondents who reported to have secondary level of education. This shows that respondents had lower level of education.

4.4. The Services Provided by Lokingamma SACCOS

Microfinance as a tool for poverty alleviation provides different services to its clients. Table 3 stipulates such services provided by Lokingamma SACCOS.

Services	Frequency	Percentage
Savings	10	16.7
Small loans	30	50
Deposits	5	8.3
Training	15	25
Total	60	100

Table 3: Services provided by Lokingamma SACCOS
Source: Field data, 2014

4.5. Savings

The results in Table 3 shows that 16.7 % of respondents argued that service mostly offered by Lokingamma SACCOS is savings. This implies that not all the members in the SACCOS are interested with savings services but majority of them are interested with other

service provided by the microfinance such as loan where by 50% of respondents are mostly interested with small loans. This clearly indicate that major motive for a person to become MFIs members is access to small loans.

One of the Lokingamma staff said, "Lokingamma SACCOS assist the members to save their money and realize return to their savings. Saving service provided by SACCOS helps client to ensure security for their money. It is through Lokingamma where members save their money in a secured and trusted place. Therefore, staff members and leaders are working hard to advice members and non-member about the importance of making savings to SACCOS rather than keeping their money informally somewhere else".

4.6. Small Loans

Table 3 shows that, 50% of the respondents responded that service offered by their SACCOS was provision of small loans. This implies that about 50% of the microfinance clients are interested in small loans to facilitate their businesses. Furthermore, respondents argued that small loans are necessary for self-employment in various economic activities that help them to improve their standard of living in their families. The interview made between researcher and loan officers of Lokingamma SACCOS shows that the SACCOS has developed instrument that allow such small loans to be granted in a favorable environment. The repayment of these small loans becomes favorable when clear analysis is made before the loan is offered to the members.

4.7. Deposits

Table 3 shows that 8.3% of respondents responded that deposit is another service that provided by the SACCOS. This is because most of the members trust SACCOS as a safe place for keeping their money. This help them to meet their needs when arises. This shows that members trust SACCOS as a safe place to deposit their money. This service is vital as a member can deposit a certain amount and withdraw the amount whenever the need arises basing on the policies. The service is available at any time in the SACCOS working hours.

4.8. Training

The data in table 3 shows that 25% of the members of Lokingamma SACCOS responded that they are interested in training as the service offered by the SACCOS. Lokingamma SACCOS organise trainings to its leaders, staff and members such as basic business concepts including rights and responsibilities, bookkeeping, marketing and good governance. Lokingama SACCOS offer these services to its members so as to enable them realize the return when they take loans from the SACCOS. These skills enable the members to have business knowledge that facilitate supervision of their business and realize positive return on investment. This helps to facilitate loan repayment by the members and reduce loans defaults.

4.9. Challenges Facing Lokingamma SACCOS

Lokingamma SACCOS is faced with a number of challenges as explained below;

4.9.1. Poor Repayment of Loan on Time

Table 5 shows that there is no good repayment of loans by the members. In 2012 total loan offered by Lokingamma SACCOS was TSH. 21,782,000/= where by only 69% of loan was repaid at the end of the year. This means there is loan delinquency and there is a danger for SACCOS to write off bad debts over 25% of loan. In 2013 the loans issued to members were TSH.21, 978,700/= out of this only 72.5% was collected which means 27.5% remained uncollected. However, in 2014 the situation was improving as total loan issued was TSH.11, 264,950/= out of it 82% was collected.

Poor loan repayment in Lokingamma SACCOS is due to unfavorable climatic condition that do not favor farmers in their activities as they do not get the planned harvests which results into difficulties in repayment of their loans. Most of the members do not use loan for productive purposes rather they use for consumption and hence fail to repay the principal loan and its interest. They also lack business management skills that can enable them to get positive returns on their investments. Another reason is poor follow up by SACCOS management. Much effort is still needed in order for a SACCOS to manage loans so as to minimize loan losses.

Details	Year	Loan %	Year	Loan %	Year	Loan %
	2012	%	2013	%	2014	%
Loan to Members	21,782,000	100	21,978,700	100	11,264,950	100
Loan Collected	15,116,708	69.4	15,934,557	72.5	9,243,000	82
Uncollectable Loans	6,665,292	30.6	6,044,142	27.5	2,021,950	17.9

Table 5: Loan offered and repayment schedule
Source: Field Data (2014)

4.9.2. Improper Record Keeping

From the observation Lokingamma SACCOS use local and improper methods in keeping records of their SACCOS. All data and information of the SACCOS are processed and kept manually and not poorly. Lokingamma SACCOS does not have professionals in the area and do not have a computerized office system as a result they do manual work to prepare financial statements such as statement of comprehensive income, statement of financial position and statement of change in equity and all this needs good skills and expert in preparation which the staff members of the SACCOS do not have.

4.9.3. Negative Perception towards Cooperatives among SACCOS Members

Most of the MFIs at Mwika are co-operative financial institution (SACCOS) which offers various services and products to their clients but most of the clients have negative perception towards this institution because formally operated co-operatives such as agricultural and marketing co-operative societies collapsed and therefore people expect the same to happen to co-operative financial institutions hence most members who join SACCOS do not commit themselves fully as they think anything can happen.

4.9.4. Inadequate Skills and Knowledge of Members

Education levels of members highlighted its importance to Lokingamma SACCOS. As many authors, have discussed in different literatures, the low educational level of members lead to lack of awareness among MFIs' clients and members on their collective rights and responsibilities which subsequently results in small and irregular cash flows from clients that affect the institutions growth thereby increasing the risk experienced by MFIs.

4.9.5. Lack of Skills among Staff

Staff members of Lokingamma SACCOS lack necessary required skills and profession in provision of services. This situation threatens the overall performance of the SACCOS, which indicates that the staff needs other forms of training specifically related to microfinance. MFIs that do not have the capacity to develop skills of their staff are also experiencing a problem of instituting appropriate staff incentive schemes that could enhance employees' morale. Hence such MFIs that remain with de-motivated staff have a higher chance of failure to grow. Table 6 shows that 66.3% of staff member of Lokingamma SACCOS had primary education and only 33.7% had secondary education level. This include one manager, one loan officer and seven board members, however no any staff with the professional skills on job performed, they just use experience in performing their daily activities.

Education level	Frequency	Percentage
Primary level	6	66.3
Secondary level	3	33.7
Total	9	100

Table 6: Staff's skills and knowledge

Source: Field Data (2014)

4.9.6. Lack of Sufficient Capital for Lending

The main source of capital for the SACCOS is the members' contributions which is not adequate to cover all the needs of the members and SACCOS operations. Lack of capital to lend to the members lead to loan applications that are processed on a queuing basis which sometimes can cause favoritism in loan allocations and fraud. Although the sources of capital can be internal or external there is a need for the SACCOS to work with a focus on the growth of their funds. There must be good strategies to enable the members understand their role and participate actively especially on the savings to increase their capital. With inadequate funds, it is difficult for the members to get reliable services from their SACCOS.

5. Conclusion and Recommendation

5.1. Conclusion

The findings from the study indicated that the core services offered by Lokingamma SACCOS were savings, small loans, deposits and training which were supported by different respondents from staff, members, board members and non-members. The findings from the study revealed that members benefited from the services offered by the SACCOS since they were able to start business, expand pre-existing business, reduce their poverty and take their children to schools. The study identifies several challenges facing Lokingamma SACCOS which are poor repayment of loan, lack of sufficient capital to lend to members, negative perception towards co-operatives among SACCOS members and inadequate skills and knowledge of members and staff as well as improper bookkeeping and recording system.

5.2. Recommendations

Lokingamma SACCOS should have strategies to overcome the challenges through improving their strength by conducting different productive workshops and trainings to the members, leaders and staff. Also, they should make proper analysis of borrowers before offering loan so as to see their creditworthiness, evaluate the value of the business and assess collateral presented by members is also crucial. To deal with loan delinquency, penalty upon late repayment of loan should be introduced and proper mobilization about the significance of SACCOS should be provided to reduce negative perception toward co-operatives in the community. On the other hand, government, should also support SACCOS through setting supportive legal frame work that supervises all SACCOS's undertakings.

6. References

- i. Alan (2004) The Impact of Microfinance in Kenya: The Case of Nairobi University. Master Thesis, Nairobi University: Nairobi Kenya.

- ii. Assefa A. Gebrehiwol, A and Mulat, D. (2005) Rural finance in Ethiopia: Assessment of the Financial Products of Microfinance Institution AEMFI, Occasional Paper NO.12: Addis Ababa; Ethiopia.
- iii. Bagachwa, M.S.D. (1994). Poverty Alleviation in Tanzania. Dar es Salaam, Dar es Salaam University Press.
- iv. Besly, A.(1995). Poverty Alleviation and Empowerment: The Second Impact Assessment study of BRAC'S Rural Development Programme, BRAC Publication.
- v. Daley-Harris, S. (2005). "State of the Microcredit Summit Campaign Report.
- vi. Hashemi S. Schuler S.R. and Riley A.P (1996). Rural Credit Programs and Women Empowerment in Bangladesh, World Development, Vol.24, No.4.pp635-653.
- vii. Johnson and Rogally(1997). Microfinance and Poverty Reduction; Oxfam and Actionaid: Oxfam Print Unit.
- viii. Khandker S. (2005). Fighting Poverty with Micro-credit: Experience in Bangladesh. The University Press Limited, Bangladesh.
- ix. Kothari C.R. (2004) .Research Methodology Second Edition. New Delhi: New Edge International Publisher Limited.
- x. Kombo K D and Tromp A D (2009). Proposal and Thesis Writing an Introduction, Paulines Publications Africa, Nairobi, Kenya.
- xi. Ledger Wood J. (2000). Sustainable Bank with the Poor: Microfinance Handbook, The Institutional and Financial Perspective. The World Bank: Washington D.C.
- xii. Littlefield(2003). The impact of Microfinance in Ethiopia: the Case of DECSI in Ganta-Afeshum Woreda of Eastern Tigray, Master Thesis, Addis Ababa University: Addis Ababa, Ethiopia.
- xiii. Narayana S.L.(2005). Financial Systems Approach and Institutionalization of Microfinance Savings: Trends, Experience and Policy Perspective in Gerbrehiot A.(ed) AEMFI: Addis Ababa
- xiv. Pilipinas, B.S. (2002). Notes on Microfinance,
- xv. <http://Www.bsp.gov.ph/archive/Regulation-2002/Circulars/notes.htm>.
- xvi. Pitter, Wolf. (2006). Impact of Microfinance on Household Income and Employment: A Study of Andhra Pradesh State in India in Gebrehiot A. (ed), AEMFI: Ethiopia.
- xvii. Radhawa, B. and Gallardo, J. (2003). Microfinance Regulation in Tanzania: implications for Development and Performance of the Industry,
- xviii. <http://www.worldbank.org/arf/wps/wp51.pdf>.
- xix. URT (2000) .National Microfinance Policy, Dar es Salaam.
- xx. UNDP (2010). Human Development Report 2010: Millennium Development Goals, New York: Oxford University Press.
- xxi. World Development Report (2000/2001). Attacking Poverty. World Bank: Washington. D.C
- xxii. World Bank (2006). Poverty reduction and the World Bank. New York: Washington. D.C.
- xxiii. Wangwe,S. and Semboja H. (1997). Establishing Micro and Small Enterprise(MSEs) Research Progamme, A Paper Presented to the Workshop on Micro and Small Enterprise Reseach, November, Dar es salaam.
- xxiv. Yaron J. (2003). What Makes Rural Finance Institutions successful? The world Bank Research observer. Vol.9 No.1. World Bank, Washington.D.C.