

**THE EFFECTS OF EFFECTIVE MANAGEMENT OF FUNDS ON
FINANCIAL INSTITUTIONS SERVICE DELIVERY IN TANZANIA: A
CASE OF MANUNGU SACCOS IN KIGOMA MUNICIPALITY**

DAIMON JUMANNE

**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION
DEPARTMENT OF ACCOUNTING AND FINANCE
THE OPEN UNIVERSITY OF TANZANIA**

2021

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation entitled: *“The Effects of Effective Management of Funds on Financial Institutions Service Delivery in Tanzania: A case of Manungu SACCOS in Kigoma Municipality”* in partial fulfillment of the requirements for the Degree of Master of Business Administration of the Open University of Tanzania.

.....

Dr. Salvio Macha

(Supervisor)

.....

Date

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DECLARATION

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Signature

.....

Date

DEDICATION

The completion of this dissertation could not have been possible without the participation and assistance of many people whose name may not be enumerated. Their contributions are sincerely appreciated. They all displayed a high valuable sense of pray and patience during my study and were always a source of encouragement.

ACKNOWLEDGEMENT

I would like to express my special thanks of gratitude to my supervisor Dr.Salvio Macha who guided me from the proposal stage up to the final research writing. His patience, encouraging guidance and moral support helped me to accomplish my study on the topic “The Effectst of Effective Management of Funds on Financial Institutions”Secondly, I would like to thank all management of Manungu Saccos at Kigoma Municipality for their cooperation during the data collection stage.Finally, I would like to thank my family members for their prayers and moral support during the process of writing report.

ABSTRACT

The study explores the effectiveness of the management of funds in the financial institutions specifically Savings and Credit Cooperative Societies (SACCOs). More specifically the study aimed at determining how accounting procedures, qualifications of management personnel, good governance influence the effectiveness of SACCOs service delivery to draw a sample of staff from Manungu SACCO in Kigoma Municipality. The study adopted quantitative approach using mean, mode, median and frequency with the help of SPSS. The study found that the accounting procedures, the qualifications of management personnel and the sense of good governance lead to effective SACCOs service delivery. The study recommends employing qualified staff, seeking grants or aids or long term low-interest loans to increase their loan capital. SACCOs must be audited by an external auditor to ensure transparency and more reliable reports. Best practice by SACCOs leaders. The study found that SACCOs changed the lives of poor people. Findings reveal that SACCOs members have increased their purchasing power and therefore expanded their business. However, the findings revealed some weaknesses in SACCOs. Some of these weaknesses included the absence of experts to provide training, high administration cost and lack of access funding from banks. In order to improve the effective management of funds in SACCOs the study recommended that SACCOs should have well-defined rules of governance, internal controls, accounting manual, risk management register and disciplines supervision. Regular supervisions, workshop and seminars on entrepreneurship and financial management to members.

Keywords: *Management of funds, financial institutions, SACCOs. More specifically good governance*

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
CBO	Community Based Organizations
CECAM	Savings and Agricultural Credit Cooperative Societies in Madagascar
CPA	Certified Public Accountant
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
ICA	International Cooperative Alliance
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IPSAS	International Public Accounting standard
IT	Information Technology
MFIs	Micro Finance Institutions
MIX	Microfinance Information Exchange
MUCCOBS	Moshi University College of Cooperative and Business Studies
NGOs	Non-Governmental Organizations
OMOV	One Member One Vote
RFSP	Rural Financial Services Program
ROSCAs	Rotating and Accumulating Savings and Credit Associations
SACCOs	Saving and Credit Cooperative Societies
SCULT	Savings and Credit Union League of Tanzania
SMEs	Small and Medium Enterprises

SPSS	Statistical Package for Social Sciences
WOCCU	World Council of Credit Union

CHAPTER ONE

INTRODUCTION

1.1 Overview

The study is about the effects of effective management of funds on financial institutions specifically Savings and Credit Cooperative Society (SACCOs) service delivery in Tanzania: A case of Kigoma Municipality. This chapter covers the historical background of microfinance operations, background to the problem, Statement of the problem, research objectives, research question, significance and organization of the study.

1.2 Background to the study

Poverty has increasingly become a problem in many developing countries in the world. Tanzania being among these countries has been facing poverty problem for many years. The governments of Tanzania, donors, non-governmental organizations, social groups and researchers have been taking various measures to address the poverty problem in the country. In addressing the poverty reduction problem the government of Tanzania has been conducting various Social-Economic Reforms. These reforms include Financial Institutions Reforms which allowed the re-introduction of Private Commercial Banks and SACCOs (URT, 2006; URT, 2000 and IFAD, 2010).

The financial institutions reforms were made for the purpose of improving the financial system in Tanzania. Despite its intention of improving the standard of

living of poor Tanzanian through the reform of financial institutions, the reform left small income earners both in rural and urban areas without any access to financial services. The possibility of access to financial services was becoming narrow in rural areas as banks closed some of the branches through the restructuring process. (URT, 2006).

To facilitate access to financial services the government of Tanzania encouraged Tanzanians to establish SACCOs that will enable them to access the service and hence improving their standard of living. Tanzanians responded to the government advice and have been establishing SACCOs. These SACCOs are mostly found in working places whereby most of them are employees based SACCOs and therefore in the rural areas, Tanzanian still has the problem of access to financial service. To effectively run their business, and ensure that members benefit through their savings, the SACCOs, as it is for other financial institutions, have to effectively manage their accounting systems and practices (URT, 2006 and Kessy and Urio, 2006). As SACCOS can be formed by any group of people, whether at the workplace, market places etc. then effective accounting systems become a prerequisite to minimize ineffective management of the funds (Mihanjo, 2010). This study examined the impact of effective management of funds on financial institutions specifically SACCOs service delivery in Tanzania.

1.3 Statement of the Research Problem

SACCOS are among microfinance institution in the financial sector. They are very important to business growth and investment in the economy due to the fact that they

have an impact on capital growth in terms of human and physical capital and on technological progress. They have a direct impact on poverty reduction by spreading financial access to the poor. These impact arise from the role provided by financial institutions which enable the financial sector to mobilize savings to facilitate investment and encourage inflows of foreign capital to optimize the allocation of capital among competing uses ensuring that capital goes to its most productive use (Levine, 1997 and URT, 2003). There is a number of factors holding back the development of SACCOs, these include capitalization levels, range of products, services and poor outreach. Some SACCOs suffers from weak internal control systems and high loan repayment rates (Betru, 2010; Mihanjo, 2010 and Mgoba, 2011). The Reform and Modernization Program identifies a range of steps to be undertaken to strengthen the SACCOs. Existing SACCOs are struggling to attract new members to strengthen their capital and loan base. New SACCOs originating from different places in urban and rural areas where can be financially viable, are to be encouraged. SACCOs are urged to consider training facilities to their members so as to provide members with innovative of new products and services. Appraisal and monitoring of new loan methods are encouraged. (Levine, 1997). To increase access to credit and speed up efforts to alleviate poverty specifically in urban areas, SACCOs ought to be formed in several parts of the country. These associations are formed to serve members and these will be formed at workplaces such as offices, as well as residential areas with the purpose of serving its members. For SACCOs to effectively serve the purpose for which it was formed, that is, provision of credit facilities to its members, funds have to be managed effectively (URT, 2003). Ineffectiveness in the management of accounting systems can cause poor functioning

of the SACCOs, manifested through frauds, misuse of funds, and failure to timely provide adequate funds to the members, and sometimes resulting into closure of the loan scheme (Wambua, 2005). As the management of the SACCOs accounting systems is so crucial, there is a need to have qualified accounting personnel to assess accounting practices at SACCOs. The sense of good governance relates to effective management of funds through integrity, openness, accountability and transparency. This study aimed at examining the impact of effective management of funds on financial institutions specifically SACCOs service delivery in Tanzania.

1.4 Research Objective

The general objective and specific objectives are as follows:

1.4.1 General Research Objective

This study assessed the effects of effective management of funds on financial institutions service delivery in Tanzania especially SACCOS.

1.4.2 Specific Research Objectives

This study set out to achieve the following specific objectives:-

- i) To explore the extent to which accounting procedures lead to effective SACCOs Service delivery.
- ii) To determine the extent to which qualifications of management personnel in SACCOs leads to effectiveness of SACCOs Service delivery.
- iii) To find out the extent to which the sense of good governance relates to effectiveness in SACCOs Service delivery.

1.5 Research Questions

The study was guided by the following research questions

- i) To what extent do accounting procedures lead to effective SACCOs Service delivery?
- ii) To what extent do the academic qualifications of management personnel lead to effective SACCOs Service delivery.
- iii) To what extent does the sense of good governance relates to effectiveness in SACCOs Service delivery.

1.6 Significance of the Study

This study aimed at developing an understanding factors determining the effective in Management of Funds on financial institutions (SACCOs) service delivery, the process and issuance of loan requisitions in time by SACCOs in Tanzania. Members who apply for loan have to be scrutinized to check all the requirements required to be met and terms of the agreement if any failure may occur. The study is also aimed at benefiting management team and members of the SACCOs. The management team are the people entrusted by the members to take care of their interests in SACCOs. They will need to understand the policy and improve the policy implementation for overall financial management knowledge and skills in the financial sector. The entire SACCOs membership will be informed of the improved and reformed policy and how to apply them for better performance of their SACCOs.

The members with the common bond will appreciate their role in sustaining their welfare through SACCOs such as a vehicle. They will be willing to take a centre role

instead of complaining and finally quitting when they feel their interests are ignored by the people they entrusted them with.

SACCOs staff and secretariat benefit from their day to day activities and receive salary for their duties. They will work hard for the growth of the organization, hence secure their source of livelihood. The organization shall be known to the Cooperative society where the government may have an interest in knowing the modality of their activities as to abide by the law. This report will bring to the light framework of how to attend the overall efficiency of the SACCOs industry.

1.7 Organization of the Study

This dissertation is divided into five chapters, introduction which presents general information of the Background of the study, literature review which contains the examination of various written sources that have been written regarding micro finance operations in and outside Tanzania, research methodology which describes the various methods that were employed in data retrieval, processing and analysis., research results, analysis and discussion presents the findings of the study in general and lastly, summary, conclusions and recommendations which presents the summary of the general study, then the conclusion which focuses on the study objectives and finally recommendations and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

Chapter two covers literature review or what others have written on the topic under investigation. Specifically, it focuses on conceptual definitions, theoretical and empirical analysis, variables and the relationship between the variables, as well as the research gap. Theory and empirical analysis have been detailed to give a reader on the Assessment of the importance of accounting and management of microfinance institutions with practical experience in SACCOs.

2.2 Key Definitions Concept

2.2.1 Financial Institutions

The financial institution that engages in the business of dealing with financial and monetary services such as deposits, loans, investment etc. Financial institutions are highly regulated by the government. The major category of financial institutions include central banks, retail and commercial banks, credit unions, savings and loans associations, investment banks investment companies, brokerage firms, insurance companies and mortgage companies (Wambua, 2005).

2.2.1.1 Commercial Bank

A commercial bank is a type of financial institution that accepts deposits, offer to check account services, make various loans and offer basic financial products like savings accounts to individuals and small businesses (Kimuda, 2008)

2.2.1.2 Savings and Loan Associations

Savings and loan association or institution is a type of financial institution that deals with accepting savings, deposit and making mortgage and other loans. As financial intermediaries, savings and loans match up borrowers and lenders (Wambua, 2005)

2.2.1.3 Credit Union

A credit union is a member-owned financial cooperative, controlled by its members and operated on the principle of people helping people, providing its members credit at a minimum rate as well as other financial services. A credit union is organized by and comprised of members of a particular group who agree on terms of saving the money together and make loans at reasonable interest rates.

2.2.2 Accounting and Accounting Procedures

Accounting is defined as the systematic and comprehensive recording of financial transactions pertaining to the business. Accounting also refers to the process of summarizing, analyzing and reporting these transactions to help the organization to forecast future operations and for regulators and tax collection entities. Accounting also involves using analyzed reports to forecast future income and wealth trends of a business. An accountant prepares from book-keepers records, analyses them and interprets them for interested parties (Kimuda, 2008).

Accounting procedures are standardized processes that are used to perform functions within the accounting department. The accounting procedures are like using the accounting systems which records, track and controls the income and expenses of a

business or organization. There are principles and guidelines on how to deal with accounting transactions example International Public Accounting standard (IPSAS).

2.2.3 Microfinance Institutions (MFIs)

Microfinance Institution refers to an organisation that offers financial services to lower income people. Almost all financial institution give loans to their members, offer insurance, deposit and other financial services. More broadly, microfinance refers to a movement that changes a world in which low-income households have access to a range of financial services to finance their income-producing activities, build assets, stabilize consumption, and protect against risks (Kimuda, 2008).

These services are not limited to credit but include savings, deposits, insurance, and money transfers. Microfinance institutions, such as financial cooperatives and rural banks among others, can provide low income people with small amounts of credit at reasonable interest rates. A loan as little as US\$ 50 can give poor people a chance to set up their own small business, and possibly create more jobs. Credit given help to secure a family's food supply, buy medicine and pay school fees for better education. Chijoriga (2000) and ifad¹ also supports this.

2.2.4 Good Governance

Good governance involves the assistance of the management and board to achieve objectives of the organizations facilitates effective monitoring and encourages an

¹ <http://www.ifad.org/events/yom/what.htm>

organization to use its resources in a more efficiently and effective manner. (Hong Kong Society of Accountants, 2004). Good governance is a term used to describe how public institution conducts public affairs and manage public resources in a preferable manner.

It is about organizing, coordinating, directing, and controlling human resources, how power and authority (and consequently responsibility and accountability) are allocated at the top of a SACCOs, among the three members of the governance team that are owners, board members, committee and management. A system by which SACCOs are led, enabled and held accountable, the manner in which leadership of a SACCOs is executed in the stewardship of assets and resources to increase and sustain the shareholder's value and to satisfy the needs and interests of all shareholders. Cooperative Societies (SACCOs) operate in an environment surrounded by communities who depend on them for jobs and tax revenues, customers for quality products and services. All stakeholders have interests in the well being of their SACCOs also supports this.. The cooperatives business enterprises operate in a transparent manner, where members rights, fairness and treatment of all investors, there is corporate leadership for the effectiveness and efficiency of a SACCOs. SACCOs management members are responsible for going concern, accountability, transparency, competitive and sustainable which results in effective operations (Bhimani, 2008 and Daily *et al.*, 2003).

2.3 Theoretical Perspectives

2.3.1 Overview

A co-operative is an association of persons voluntarily united to meet their common social, cultural, and economic needs and aspirations through a jointly owned and controlled enterprise (Giszpene, 2011). The members are equal in rights and duties take part in the management and the administration of the company of which they divide all the things proportionally. Board of directors is elected by the active members of the SACCOs. The Board appoints paid employees to manage the activities of the cooperative.

The fundamental objective of a cooperative is not "to maximize the profits" but "to maximize the benefit which the members can obtain from their commercial transactions with the cooperative." In fact, cooperative members try to obtain individuals benefit through the commercial transactions which they carry out with it. Thus SACCOs could be promoted by the mutual aid, the social and economic welfare of its members in their loans to cover their economic needs by supporting them on agricultural or industrial local work, by the saving produced locally (Ramsay, 2005).

In Tanzania the movement of the Savings and Credit Union started in 1961 when the Government drafted money by law to enable any group with a common bond of occupation; association and residence adopt the by-law and register. It was a protection move against the urban areas rampant with shameful activities of Pawn Brokers and Money lenders who were charging exorbitant and illegal rates of interest

and, or instituting a mechanism for attitude change of unwise spending of Rural Peasants who were earning sizeable sums of money.

Main functions include Promotion of Savings and credit opportunities to the members, Promotion of financial stability among members, Enhancement of the habit of saving regularly, borrowing wisely and paying promptly. Another function is to link SACCOs members with other SACCO's movement such as an active member of Savings and Credit Union League of Tanzania (SCULT). Nevertheless, it looks for the best credit facilities opportunities available and extends to the members at reasonable and agreeable interest. Saving and Credit Cooperatives Societies are among cooperative financial institution formed as grassroots-based financial institution. This was introduced as the best ways to building community financial strength and sustainable cooperatives development.

Tanzania has a poorly developed financial sector and its financial structure can be described as dualistic with a formal- and an informal sector. Very few people in Tanzania have access to the financial services offered by the formal financial sector. An interesting alternative to formal banking that has emerged within a semiformal sector is saving- and Credit Cooperatives. SACCOs have a wide outreach in Tanzania.

They are member-driven and democratically organized. Another important factor is that SACCOs is an alternative that encourages savings in difference from many

microfinance institutions that primarily encourages credits and investments (International Cooperative Alliance (ICA), 2001).

2.3.2 Accounting Principles

According to (AICPA, 2012), Accounting principles also referred as GAAP which stands for generally accepted accounting principles. These are rules and guidelines that business must follow when preparing financial statements. There accounting basic concepts include the following:

2.3.2.1 Cost Concept

Cost concept is a basic principle in accounting. It is also known as the historical cost principle. The principle requires the asset be recorded at cash amount given out (purchase price). The historical cost concept implies that since the business is not going to sell its assets as such there is little point in revaluing assets to reflect current values. Depreciation is done each year to record the asset on the current value as in the financial statement asset is recorded after considering its purchase cost fewer depreciations. Thus, the cost concept provides greater objectivity and greater feasibility of the financial statements (AICPA, 2012).

2.3.2.2 Dual-Aspect Concept

This concept states that there are two aspects of accounting one represent asset and the second one represents liabilities. The Accountant records events affecting the wealth of a particular entity. The accounting equation originate from this dual

concept as:- $\text{Asset} = \text{Liabilities} + \text{Capital}$. Double entry is the name given to the method of recording financial transactions so that the dual concept is upheld.

2.3.2.3 Accrual Concept

This concept tells the fact that profit is said to be the difference between expenses and revenue rather than the difference between cash receipts and expenditures. The concept requires income and expenses to be recognized in the period to which they relate rather than on a cash basis. During a period, as well as other events that affect enterprise performance, often do not coincide with the cash receipts and payments of the period.

2.3.2.3.1 Effect of Accrual Principle on the Valuation of Assets

Accrual is divided into two parts which are accrual income and accrual expense but not yet received, example rent promised to be paid on future dates, the money is earned but the organization haven't received it. It is treated on the balance sheet as a current asset, debtors are also treated the same way. Accrual expenses is opposite to accrual income, as it is expenses incurred but not yet paid for.

2.3.2.4 Conservatism

This concept recognizes expenses and liabilities as soon as possible when there is uncertainty about the outcome, but to only recognize revenues and assets when they are assured of being received. Also described as anticipating no profit and provide for all possible losses. The conservatism concept in accounting requires company accounts be prepared with a high degree of verification before a company can make

any legal claim to any profit. This concept deals with uncertainties and how to minimize losses. Conservatism principle is very important in the measurement of income and financial position of an organization.

2.3.2.5 Matching Principle

The matching concept in accounting states that expenses must match in the same accounting period as revenue earned. Matching is a combination of the revenue recognition principle and accrual accounting. The matching concept represents the difference between accrual and cash accounting. The principle requires that expenses incurred by an organization must be charged to the income statement in which the accounting period in which the revenue to those expenses relates.

2.3.2.6 Objectivity Principle

This principle states that accounting and financial information need to be independent and free from bias. The information found on the financial statements are relevant and reliable and can be used to predict future company performance. Accountants should set the performance targets on grounds of signs not only on the grounds of opinion. The main goals of this principle is always to present accurate and reliable financial statements, which can be used by auditors on making an opinion.

2.3.2.7 Consistency Principle

Consistency concept states that, once you adopt an accounting policies, system and method continue to follow it consistently in future accounting periods and if it

happens any changes then disclosure must be made. Example Valuation of asset can be done by using cost and revaluation modal if any modal is used then it has to be used for future period of time, if any changes occur then the changes must produce good results.

2.3.3 Education Qualification Theory

2.3.3.1 Constructivism

Constructivism is defined as an idea that development of understanding requires the learner to actively engage in meaning making, where students work in groups and viewed as thinkers with emerging theories about the World. Knowledge is not found in constructivism but rather constructed by humans. An important statement that reflects this position was published by Immanuel Kant (1781). All our knowledge begins with experience, it may well be that even our empirical knowledge is made up of what we receive through impressions and of what our own faculty of knowledge ... supplies from itself, (Kant, 1959, p. 29). Constructivist learning is based on the belief that learning occurs as learners are actively involved in a process of meaning and knowledge construct as opposed to passively receiving information.

2.3.3.2 ‘Education According to Nature’

In the year 1749 on a hot summer day, Jean-Jacques Rousseau was going to visit the philosopher Diderot, when he was on the way browsing through Newspaper to pass the time, he came across the announcement of an essay competition being held by the Dijon Academy. The topic: ‘Has the progress of the sciences and arts done more to corrupt morals or improve them?’ Rousseau was overcome; he ‘beheld another

universe’, and descended into a state of agitation bordering on delirium’ (Rousseau, 1953, p. 328). Education by nature provides a learning experience in different ways to facilitate connections to self, nature and community.

2.3.4 Corporate Governance Theories

2.3.4.1 Agency Theory

Agency theory is a principle that used to explain the relationship between the seller and buyer of a business, or the relationship between shareholders and company executives. In 2009 Abdullah and Valentine, agency theory explains the relationship between the principals, such as members and agents. Members who are owners and principals of the SACCOs, electing the management board as their agent (Alchian and Demsetz, 1972; Jensen and Meckling, 1976; Mitnick, 2006 and Bratton, 2008).

Principals (members) delegate the operations of the business to the management board which in turn hire and delegate authority to the managers (Clarke, 2004). Indeed, Daily *et al.* (2003) note that two factors can influence the prominence of agency theory. First, the theory conceptually reduces the corporation to two participants of managers and the owners. Second, agency theory suggests that employees or managers in SACCOs can be self-interested. Shareholders expect the agents to act and make decisions in the principal’s interest.

On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2002). In agency theory, the agent may succumb to self-interest, opportunistic behavior and falling short of the agreement between the

interest of the principal and the agent's pursuits. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008).

Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen and Meckling, 1976). This theory describes that employees must develop a good governance structure since they are held countable in their tasks and responsibilities. In order for an agent to be able to promote wealth, there must be monitored and motivated. (Arthur and Busenitz, 2003).

2.3.4.2 Stewardship Theory

According to Davis *et al.* (1997), a steward protects and maximizes shareholders wealth through organization performance, because by so doing, the steward's utility functions are maximized. In this particular, stewards are managers who working to protect and make profits for the shareholders. Stewardship theory emphasizes the role of management being as stewards, integrating their goals as part of the organization (Davis *et al.*, 1997). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of good governance structures that empower the steward

and offers maximum autonomy built on trust (Donaldson and Davis, 1991). It stresses on the position of the employee to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behavior (Davis *et al.*, 1997). Daily *et al.* (2003) In order to protect their reputations as decision makers in organizations, managers are responsible to operate the firm to maximize financial performance as well as shareholders' profits.

2.3.4.3 Stakeholder Theory

Abdullah and Valentine (2009) indicate that a stakeholder can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder suggests that managers have a network of relationships to serve, which include the suppliers, employees and business partners. Sundaram and Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholder deserving and requiring management's attention. Donaldson and Preston (1995) suggest that all groups participate in a business to obtain benefits. Nevertheless, Clarkson (1995) concludes that the firm is a system, where there are stakeholders and the purpose of the organization is to create wealth for its stakeholders.

Freeman (1984) reveals that the relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Donaldson & Preston (1995) argue that this theory focuses on

managerial decision making and interests of all stakeholders have intrinsic value, and no sets of interests is assumed to dominate the others.

2.3.4.4 Political Theory

Abdullah and Valentine (2009) propose that, political theory deals with developing voting support from the members. There are few capable African cooperative leaders and managers to the political arena hence worsens the situation. Kabuga (2005) points out that every person must have motives, integrity and competencies for SACCOs leadership that can invade the sector. In that way, fraud, corruption, mismanagement and financial indiscipline are opened. Enete (2008) observes that in Nigeria, many SACCOs have been formed through government directives to certain categories of government officials to form a given number of SACCOs in their villages of origin. In some cases, SACCOs bring up response to government promises of providing subsidized services to members.

2.3.4.5 Degeneration Thesis

According to Cornforth *et al.* (1988), market pressures tend to change, over time, thus leading to SACCOs becoming similar to other kinds of business entity, e.g. capitalist enterprise. Market pressures make themselves fluctuate in a number of ways, e.g. price competition and liquidity of investment. SACCOs, experience these pressures as tensions of different kinds, e.g. Management of the SACCOs should decide on the use of surpluses, the extent to which surpluses should be retained or distributed to members, over whether OMOV should be upheld but with a restricted membership or modified but with an expanded membership i.e. to open the common

bond, or over whether strict equality of members should be maintained or an element of hierarchy allowed.

Attempts to resolve such tensions can lead to ‘degeneration’ hence the “degeneration thesis”. Degeneration springs from two main sources: weak internal democracy, where the members are unable to hold the leadership/management to account or have too little stake in the SACCOs to influence decision-making processes; and abandoning the principle of member ownership and control (e.g. by allowing external investors to gain a foothold in the SACCO) (Cornforth *et al.*, 1988).

Meister (1984) contends that the process of degeneration has a life-cycle of four distinct phases. The first phase is characterized by high idealism and commitment which enables the SACCOs to get off the ground. However, over time there are clashes “between a direct democracy jealous of its prerogatives and an economic activity still badly established”. The need for greater efficiency leads to the establishment of full-time management. The second phase is a period of transition in which, if the SACCOs survives, further economic consolidation takes places and conventional principles of organization are increasingly adopted. These changes are not always accepted peacefully, and conflicts continue between idealists and managers. In the third phase, SACCOs lose their radical ideals and market values are accepted. As the SACCOs develops, democracy becomes restricted to the management board and the gap between managers and members increases. During the fourth phase members and the management, board lose all effective power as

control is assumed by managers because of their superior expertise and ability to control information.

2.3.5 Characteristics and Role of SACCOs

A SACCOs is a microfinance institution under the cooperative form. It is a legal entity, in which individuals save their money and can receive loans in order to invest in various activities (Nahayo *et al*, 2011). The basic structure of the SACCOs and credit unions is very different from banks; they are user-owned financial intermediaries. Members have a “common bond” based on geographic area, employer, community, industry or other affiliation. Each member has equal rights regardless of their deposit amount or how many shares they own.

The principal products of SACCOs are savings and credit, however some offer payment services, money transfers and insurance. Sometimes SACCOs join together to create a second-tier associations for the purposes of capacity building, manage liquidity and refinancing; these second-tier associations play a useful role in monitoring (Brian 2005). SACCOs play a very important role in the economic development of a country by providing access to services to all members of the population with a particular focus on the lowest income members. (Nahayo *et al.*, 2011).

It is agreed that poor people have significant capacity and ability to save, this is proven by the existence of various informal savings mechanisms that are found throughout the world and by a few recent empirical studies. It is further understood

that many people in rural areas are willing to save during different times of the year, such as during harvest time, in order to compensate for periods when their income is drastically reduced, such as the dry season.

Finally, it is widely accepted that not all members will need credit at the same given time, virtually all people need to save. We, therefore, conclude that poor people will deposit their savings in microfinance institution such as SACCOs. SACCOs reach out to low income individuals by offering products geared towards their unique needs within a secure and accessible structure. The government should infringe appropriate financial intermediaries for the poor to exist, example external and internal incentives must exist. Regulatory authorities have to provide effective supervision so as to maintain high performance standards in regard to higher management capabilities, cost, liquidity and risk management (Brian, 2005). The government needs to facilitate relationship formation between SACCOs and MFIs so that SACCOs will be enabled to delegate their functions to their respective secondary structures so as to benefit from the scope, economies of scale, and also provide their members with the opportunity to access larger loans (WOCCU, 2005).

2.3.5.1 Advantages of SACCOs

SACCOs plays an important role in socio-economic development for members and communities at large. The advantages are elaborated as:

2.3.5.1.1 Reach Ability

The ability to reach SACCOs members is local, as most of the members are lower income earners found in rural areas with some difficulties to have a bank account.

SACCOs provide access to members who would neither save in the formal sector nor be able to physically access a traditional financial institution, especially commercial banks, due to locality and some restrictions. This mutually understanding achieved success helps not only build a sense of ownership and pride in an area but also create a desire for saving and investing.

2.3.5.1.2 Savings

Savings is one of the key element of SACCOs. Commercial banks and other formal financial institutions provide a savings product which offers interest on savings made and a return on their deposits, the interest received will provide a new income stream for the individual which can either be reinvested or withdrawn for use. In SACCOs mobilization of saving is locally managed within the community, profits are returned to members in the form of loans with low-interest rate. The money is available within the membership of that SACCOs.

2.3.5.1.3 Ease

The formulation of a SACCOs is relative ease. People of a certain area or group of people with a common understanding such as teachers, artisans, women and farmers may opt to formulate SACCOs to build the capacity of members in their daily activities so as to earn more income in their small businesses. They develop a strategy to save and later on receive loans from the same savings with a low-interest rate compared to commercial banks, this is an easy way of organizing a population to save and reinvest savings in a given locality.

2.3.5.1.4 Stability

According to the nature of SACCOs, the deposit made are of small amount which can be manageable to all members. Due to small amount of savings they agreed they create a group which are stable and have confidence in their ability and capacity to grow high.

2.3.5.1.5 Low Overhead

The operating and administrative costs are low in Well-run SACCOs compared to other financial institutions, which help members to seek loans at a low-interest rate than those charged on other financial institution like commercial banks.

2.3.5.2 Challenges for SACCOs Development

Apart from having advantages SACCOs and credit unions have challenges to their development. These include governance problem, inadequate managerial competitiveness, lack of clear rules combined with credit rationing and corporate governance issues.

2.3.5.2.1 SACCOs Governance Problems

Branch & Baker (1998) comprehensively investigate governance problems in SACCOs and come up with a result that as SACCOs become larger and more complex, there was need for specific knowledge and skills to make a range of specialized decisions. Individual owners of the SACCOs are not likely to possess the managerial skills and technical knowledge required. This may result to hired managers who will make critical management decisions (Fama and Jensen, 1983).

The specialization of decision management increases the organization's ability to operate in an entrepreneurial manner by hiring professional expertise. Yet this separation of ownership and decision making leads to principal-agent problems.

Since managers are not part of SACCOs members ,but they are employed to assist them in decision making there is a need to establish a managing board which will have members who owns the SACCOs In order to protect themselves from the opportunistic actions or decision made by managers. A mechanism for supervision is needed. Accordingly, owners vote for representatives to serve on the management board (Branch and Baker, 1998).

The board delegates decision making functions to internal management. The board retains ultimate control to approve and monitor major policy initiatives and the general direction of the institution. The board also has the power to hire and fire and set the compensation of the manager. Board members are liable for penal sanctions if they fail to uphold their fiduciary responsibility in decision control. Decision rules are defined by the SACCO bylaws, cooperative and banking laws, commercial contract code, accounting norms, prudential regulations, and organizational budgeting systems.

All these factors constrain the decision behavior of agents, help shape the monitoring functions, and specify the performance criteria that determine rewards (Branch and Baker, 1998). SACCOs add the supervisory committee as a further element of decision monitoring and member control. The principal-agent theory problem is

controlled by checks and balances within the process of decision making and decision monitoring. However, in practice, governance problems often occur when the rules of decision making and decision control are not clearly specified or are not adequately enforced.

2.3.5.2.2 Inadequate Managerial Competitiveness

Managerial competence requires highly competitive remuneration. Many SACCO members tend to have lower to moderate levels of income. Salaries that are competitive with those paid by other financial institutions are often higher compared to salaries paid to SACCOs managers. The board may find that managerial salaries are in excess of their own earnings, particularly when the directors are dominated by lower salary level professionals (teachers, etc). In these cases, the elected board members may interfere with professional management of the SACCOs, constraining management salaries and competitiveness. This results in weak administration of the SACCOs, morale problems, and the inability of the SACCOs to attract the quality management that can produce strong results or resist the excessive interference of directors in operational decisions (Branch and Baker, 1998).

2.3.5.2.3 Lack of Clear Rules, Combined with Credit Rationing

Lack of clear rules can become crucial when there is excessive and improper manipulation of the credit granting procedures by the board. SACCOs members may actively seek election to the management board or credit committee by promising loans to friends and supporters after the election. Once elected the new board act to fulfil these promises and may provide supporters with preferential loan treatment by

sidestepping the credit committee process or they may see to it that the SACCO is lenient with supporters in credit approval or collection.

Lack of clear rules combined with credit rationing challenges occur because of the combination of the traditional borrower-dominated service structure (with its low interest rates, tax screening and collection standards, and consequent credit rationing) together with circumstances in which rules for decision making and control are not well defined and enforced. Where the rules allow volunteers substantial involvement in operational decisions and the internal controls on insider dealing are weak, the board members are able to dish out credit for their own gain and as political favour (Branch and Baker, 1998).

2.3.5.3 Corporate Governance Issues for SACCOs

According to Labie and Périlleux (2008), corporate governance tends to be more complex in management structures of SACCOs due to their democratic principle for decision-making but also because of their ownership. Firstly, there is the conflict between SACCOs individual members and managers which are the most important conflict SACCOs face (Fisher and Desrochers, 2002). As with any other type of firm, two related issues are at stake: first the “expense preferences” issue, where the question is to verify that the choices made by the managers match the mission of the SACCOs and not their personal interest; and second, the “entrenchment” issue where the managers make their choices based on securing their own permanence in the management structure (entrenchment theory).

Fisher and Desrochers (2002) indicate that these two types of behaviours have opposite impacts on their risk of bankruptcy; expense preferences translate into lower efficiency and higher bankruptcy risk, while entrenchment theory generates risk-averse choices and lower bankruptcy risk. Unfortunately “expense preferences” are more prominent in SACCOs due to the following three reasons; First, the OMOV principle which tends to increase the “free-riding” behaviour of all members (because no one member has enough influence to really care to check the others); Second, the members’ shares are not tradable (and therefore, there is no market mechanism to value the quality of the management and bring pressure for better management) and Third, there is no risk of being bought out (Desrochers *et al.*, 2003 and Labie and Armendariz, 2011).

Second, there is a conflict between SACCOs employees and volunteers. When they start, SACCOs often work with volunteers who understand their work as part of a personal commitment in a collective project which makes sense for their community. Later, when the structure becomes bigger, it is often necessary to recruit some employees who often have higher education (in order to be able to handle the more complex business of the SACCOs, but normally with a different type of vision. At that stage, it is essential to have a proper job description for the entire employee’s. Once the SACCOs achieve a scale which allows it to hire professional staff, it needs to separate decision-making and decision-control functions. As the SACCOs moves into professional operation, problems of governance impair operation if volunteer management board members engage in decision-making rather than in decision-monitoring behaviour (Branch and Evans, 1999).

Third, there exist a conflict between the members and their elected management board. The Board of directors are democratically elected by membership with “One Member One Vote” (OMOV) principle but they may remain indebted to individual members who have mobilized votes on their behalf (Rock *et al.*, 1998). The classic governance problem experienced by mutualist systems occurs at several levels due to the diluted ownership of the SACCOs structure which can encourage elected committee members to promote their own interest rather than those of the members (Chao-Béroff *et al.*, 2000).

This is even more of an issue when communication becomes a problem. A research conducted in Mali suggests that because the information did not flow properly between the members and their elected representatives, power tended to be monopolized by a few individuals (Wampfler and Mercoiret, 2002).

Fourth, there is the “moral hazard” conflict between “net borrowers” and “net savers”. In typical SACCOs, some clients have more loans than savings, while others are in the exact opposite situation; this is what makes them “net borrowers” or “net savers”. All members of the SACCOs have the same right to influence the management through the OMOV system. This can generate two main types of conflicts. Firstly, the net borrowers tend to dominate; in this case, the management board may tend to prefer favorable conditions in the providing of loans, which can affect the viability of the SACCOs. Secondly, the net savers may also dominate; in which case, the board may create restrictive conditions for allowing loans (in order to protect their savings). Of course, both cases are sub-optimal as experience has shown

that better governance is achieved in SACCOs that have a balance between net savers and net borrowers (Branch and Baker, 1998).

Apart from the above corporate governance issues, SACCOs face the following constraints as they grow; they lose their information advantages, they are forced to rely on salaried rather than voluntary managers and they must increasingly count on formal sanctions to enforce contracts. Growth compels SACCOs to act increasingly like formal financial intermediaries. With growth, the altruistic motives that may have led to the formation of the SACCOs are replaced by hard-headed business decisions. Principal-agent problems, transaction-costs, and prudential regulation also become increasingly important as the SACCOs grow (Adams, 1999).

Fundamentally, the issue is to make sure that the SACCOs does not give up the original principles and specificities that make it special for its members (Magill, 1994; Fournier and Ouedraogo, 1996). Labie and Périlleux (2008) identifies three risky which may influence the development and governance of SACCOs in times of growth. The first risk is linked to a change in the nature of the membership, which can lead to a change in mission, and a higher risk of free-riding among the members.

When SACCOs grows, it can do so in a number of ways. It can focus on the same type of members but try to cover a wider geographical area, or it can stay in the same area but open the common bond to members working in different activities than the original founders of the SACCOs (Labie and Périlleux, 2008). Both scenarios offer pros and cons for the SACCOs. On the “plus” side, by opening themselves, SACCOs

attract new customers with different financial profiles (in terms of cash flow cycles, credit and savings needs), allowing the SACCOs to have a better mix of financial profiles in its portfolios.

On the “minus” side, the more diverse and diffuse the members is, the more risk there is that members stop identifying themselves with the SACCOs, thereby more easily adopting a free-riding attitude, which would ultimately result in lower scrutiny and weaker corporate governance (CGAP, 2005). Of course, some compromise can be found. For instance, a SACCOs could open to other members for daily operations such as in the front office service activities (FOSA), while structuring the decision-making process in such a way that the original founders maintain control of the SACCOs structures in practice. CERISE has documented the case of CECAM (Savings and Agricultural Credit Cooperative Societies) in Madagascar, which is an example of this type of compromise (CERISE, IRAM, 2005).

The second risk is linked with the recruiting of (significant numbers of) new staff in times of growth. In any firm, when facing extensive growth, recruitment will tend to be an issue. Not only there is a need (which is not always easy to fulfil) to find enough of the right people at the right time, but there is the huge challenge to integrate the new people properly into the structure. When a structure is hiring progressively, newcomers tend to be influenced by former workers and managers and therefore they adapt to the structure by incorporating progressively the procedures and culture of the SACCOs (Labie and Périlleux, 2008).

When growth is happening fast (especially in decentralized network structures), the number of newcomers will be such that often there won't be enough "old" employees to format the newcomers. In such a situation, the result may be that growth by itself generates a loss in procedures and culture, resulting in management problems. In the typical SACCOs context, all this may happen and be worsened by the conflict mentioned above between "old volunteers" and the "professional salaried" newcomers. Not only will there be many new people to accommodate, but they will be of a different profile, resulting in even more complex problems to deal with (Labie and Périlleux, 2008).

The third risk results from the increasing complexity of the products, the organization and the structure of the SACCOs network (with an increasingly longer distance from the local units). First, the increasing complexity of products and organization can lead to inadequate members' knowledge and thus reduce member's control. Branch and Baker (1998) observe that as SACCOs become larger and more complex, they require specific knowledge and skills to make a range of specialized decisions. Individual owners are not likely to possess the required managerial skills and technical knowledge. Second, growth in SACCOs often happens through networks based on different layers (local, regional and national). When this happens, the chances to see a certain distance established between the local SACCOs and their "roof" structure is quite high. The national level of the mutualist networks is the most susceptible to risk. Because of the existence of multiple layers of delegated power, elected members at this level are almost completely immune to the social control of grass-roots members (Chao-Béroff *et al.*, 2000). This sometimes translates

into divergence in strategies, with managers sometimes being more inclined toward growth than local members (Fournier and Ouedraogo, 1996).

2.3.5 The SACCOs Model

Although SACCOs faces a lot of challenges they can be an effective tool if governed properly, regulated and held to best practices, and if guided by the core values of self-help, self-responsibility, democracy, equity, solidarity, honesty, openness, social responsibility and caring for others. SACCOs models varies throughout the world and there is no one model which applies to every country or group of people, but there are some best practices and standards. The International Cooperative Alliance (ICA) stresses that SACCOs are democratic organizations that are controlled by their members who set their own policies. Therefore, SACCOs are self-determined and self-monitored; its policies must be set by its members and should be internally managed.

2.4 Empirical Literature Review

This part discusses studies within and outside Tanzania.

2.4.1 Empirical Studies from Outside Tanzania

Olando *et al.* (2013) conducted a reseach in Kenya aimed at investigating the contribution of the financial management on the growth of SACCOs' wealth with a view to improving their operations procedures for the benefit of the individual members and the country at large. This study used a descriptive survey on SACCOs which had been in existence for more than two years in the year 2010. The study

focused only on 44 SACCOs and respondents includes the Chief Executive Officers (CEOs) of these SACCOs. The study shows that, the growth of SACCOs wealth depends on managerial strengths such as the competitiveness of its staffs, credit management and innovativeness of SACCO Products.

In a study conducted by Ssekakubo et al (2014), with the aim of examining the relationship between financial performance, managerial competence and Cooperative Societies in Uganda. The approach used were a quantitative research. The researcher technique used to select a sample size 59 was a simple random sampling. Data used were collected from Credit and Cooperative Societies operating in the eastern part of Uganda called Busoga using questionnaires. The method used to analyse data were descriptive statistics, correlation and regression analysis methods. The outcome shows that there is a positive relationship between managerial competence and financial performance. This study did not identify specific managerial competencies are important for SACCOs managers. The current study will determine specifically the role of financial competence on SACCOs efficiency in services provision.

Chemonics International Inc (2006) study on Financial Management Training for SACCOs: Urgent mentoring – Helping the SACCO set up a proper accounting system in fulfillment of UIB vision and mission, the Financial Management in SACCO course was developed and designed by UIB Microfinance Competence Center, and sponsor by USAID Rural SPEED to strengthen the capacity of Ikongo Rural Co-operative Savings and Credit Society Ltd (IRCSC) staff to assist them in their day to day activities in as far as financial management is concerned. For smooth

running of SACCOs, finance management is one of the issues that have been specifically identified as one of the major challenges faced in the industry. Most SACCOs, Ikongo included have not been able to appreciate the importance of prudent financial management leading to slow and/or no continued improvement of their performance and hence, no measurable sustainable development and growth.

The findings showed that they are still on a single accounting system and are not providing for loan loss. They have problems on budgeting process and control hence the implementation of budget and how to manage expenditure Accounting system will help to reduce problems on budget control and expenditure management by setting commitment control against budget.

Wambua (2005) conducted a study to Report on Governance Mentoring Program Mbarara Region. There were a total number of 30 participants which composed of the chairperson and Manager represented the SACCOs. The main aim of this workshop was to make awareness to the participants of successful governance models including and not limited to organizational structure, the roles of boards, committees and management, review of SACCOs by laws. In order to emphasize the training from the workshop, a mentoring exercise was made to all nine partner SACCOs. This mentoring addressed the challenges of a specific SACCOs which was facing governance and management problems. Based on the workshop and mentoring of the SACCOs partners the major findings and conclusion revealed that provision of capacity building in the following areas could result in improvement of efficiency of SACCOs and hence increase access of financial services in the rural

areas: Leadership development; Strategic management skills; and Membership awareness and responsibilities. Within these, emphasis should be on organizational structures with clearly defined roles, functions and responsibilities, separation of ownership and control and review of bylaws. Financial management systems that will guarantee transparent financial reporting and accountability by those mandated to lead these institutions. The workshop and mentoring concluded that SACCOs have a huge potential for growth as financial service providers .

Wherry *et al.* (2012), on the report of Policy Development Guide, showed that the qualifications, knowledge, experience and skills of each director and the Board members are important elements in the success and viability of the credit union. Furthermore, it was recommended that it is important for directors to have appropriate competencies in order to fulfil their responsibilities to the credit union, its members and shareholders thereby, contribute to the safety and soundness of the credit union system. Structures, policies and processes only work in a practice where there are knowledgeable and competent individuals, with a clear understanding and strong commitment to their roles. The management members are supposed to use ethical actions made in accordance with established laws, rules, and organizational values that are supported by reasoned and objective evidence without any bias of self-interest. Directors are expected to fulfil their responsibilities in an objective and prudent manner with due regard to the best interests of the credit union.

Onsase *et al.* (2012) did a study on the assessment of the effects of performance management practices on provision of financial services by savings and credit

cooperative societies: a case of Gusii Mwalimu SACCOs, Kisii central district Kenya. The study had the aim of assessing how performance management will affect the Provision of financial services by SACCOs. The population comprised 1021 members of the SACCOs. The study used stratified and random sampling technique to obtain a sample of 162 respondents. The study shows that SACCOs management should implement specialization for efficiency and effectiveness on performance.

Okwee (2011) did a research on Corporate Governance and financial performance of SACCOs in Lango sub-region in Lango sub-region. The research aims to establish the level of compliance to corporate governance guidelines, determine the relationship between corporate governance, financial performance and risks, and examine the relationship between corporate governance and financial performance of SACCOs in the Lango sub-region. Sample of 63 was drawn from a population of 75 SACCOs in Lango sub-region. Findings revealed the majority of the SACCOs had operated for a period up to four years only and none of them operated in more than 5 branches. A significant number of SACCOs were found to not fully comply with corporate governance guidelines, the risk was tend to be weakly and negatively correlated with corporate governance and financial performance where as corporate governance and financial performance were concluded to be strongly positively correlated. The study revealed that less compliance with corporate governance as well as high risk levels may explain the poor financial performance of these SACCOs. SACCOs were therefore advised to create awareness amongst the members regarding their rights as well as encourage SACCOs to implement and adhere to corporate governance principles, process and procedures among others.

Talking to corporate governance is talking about integrity where this study is aiming at investigating.

Brillantes and Fernandez (2011) did a research on restoring trust and building integrity in government: Example in the Philippines and areas for reform by trust and good governance are always linked together. Without good governance, people do not believe what their leaders say (Dennis, Goleman and O'Toole 2008). The characteristic of a good leader include honest and integrity, inspire others, good communicator, decision making capabilities, empowerment, delegation, and accountability. People trust in this kind of leadership as they could see in him the elements of good governance such as integrity, accountability, honest, transparency and participation. They play an important role in reforming public administration whether it is in institutions, mindsets, leadership, or engaging the citizens. These reforms triggers changes of many kinds of job description, organizational structures, and management by systems – anything associated with the process must be reformed to fit with these erratic changes

Zairi (1994) declared that the right processes and routines surrounding PMP are to ensure effective communication with stakeholders and smooth implementation of strategic objectives leading to improved performance results in the organization. Communication channels across organizational from top management to other staff members and vice versa. effective communication is directly linked with the concept of honest and openness which are part and parcel with integrity in good governance where this study aims in its objective.

2.4.2 Empirical Studies from Tanzania

Karumuna and Akyoo (2011) carried out a study on Kibaigwa Financial services and Credit Cooperative Society (KIFI SACCOs) in Kongwa District on Rural Finance Challenges in Tanzania – It has a total number of 2052 members, where 480 were female, 1572 were men and 70 groups. They have a total shared value of TZS 50 493 138. The results showed that there are some challenges when it comes to the provision of loans and financial services in rural areas. Awareness was needed on the financial services provided by the KIFI SACCOs and the requirement needed to be met in order to qualify for the services. Creating a savings culture, building capacity with regard to financial services, provision of loans following the annual agricultural growth cycle are among the recommendations given. The results were combined with an institutional reform of the credit co-operative society and concluded that financial management has to be improved and reformed in tailored lending services which would improve the standard of living in rural community.

Magali and Lang'at (2014) conducted a study on the impact corporate governance on efficiency and sustainability of the rural SACCOs which have relatively good financial performance in Tanzania. The study used descriptive and qualitative analysis, a total number of 37 rural SACCOs from Tanzania were involved. The results from the analysis reveal that the SACCOs in Morogoro performed better than in Dodoma and Kilimanjaro, best rural SACCOs because it has enough experience in conducting the SACCOs business, committed in loans screening process, follow up on loan recovery timelines, adhered to corporate governance principles, possessed loyal staff and its management has proper credits risk register and how to mitigation

credit risks. This paper recommends that the rural SACCOS should apply the corporate governance principles and copy some strategies of the overall best rural SACCOS to improve their efficiencies and promote sustainability. Unlike Magali and Lang'at (2014), this current study will specifically assess the impact of effective management of funds in services delivery in Tanzania one of the factors determining effective corporate governance.

2.5 Research Gap

The literature review examined, and it was noted most of the studies outside Tanzania have addressed the problem but inside Tanzania, the studies have not focused on the problem, they have just insisted on problems of SACCOs operation in general especially on accessing fund from Banks and other Microfinance Institutions. There is a gap with regards to the importance of accounting information practices in those institutions as the way funds are managed, education qualifications and the way SACCOs address the concept of corporate good governance. This study was focused on covering the identified gaps.

2.6 Conceptual Framework

This is the conceptual mode which shows how one theory makes sense of the relationship among other factors that has been identified as important to the problem. When funds are effectively managed, the SACCOs will be able to provide better credit services, timely provision of funds to members, ability to provide minimum credit services to the members, the ability of the SACCOs to practice good governance i.e. integrity accountability and openness to their operations.

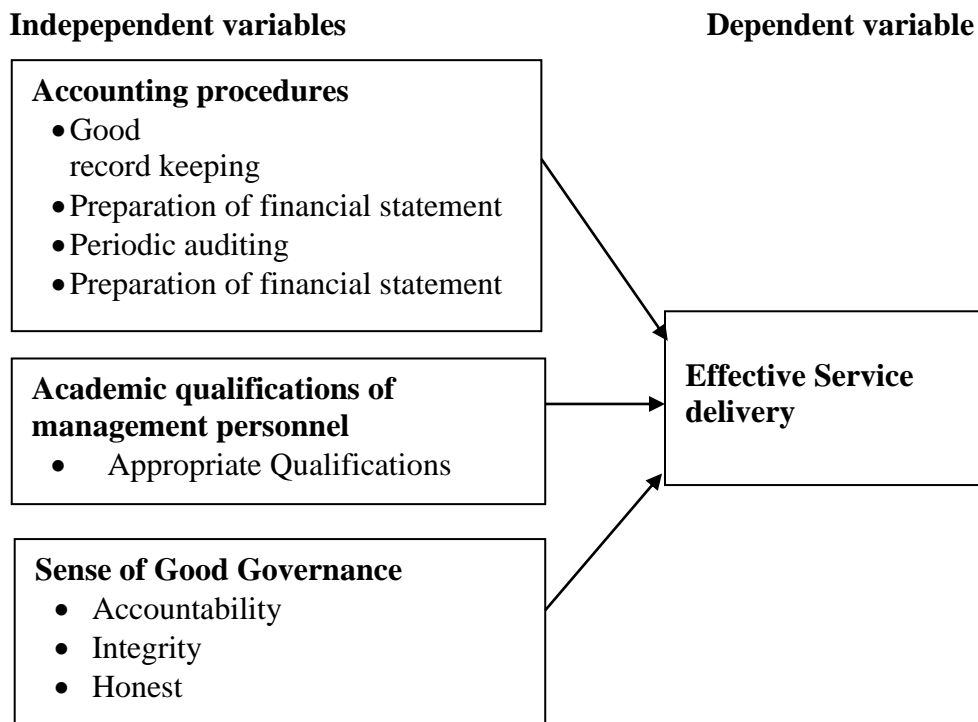


Figure 2.1: Conceptual Framework

Source: Researcher, (2020)

2.6.1 Underlying Assumptions

The research was conducted on the following underline assumptions:

- i) Proper accounting procedures lead to effective SACCOs Service delivery.
- ii) Academic qualifications of management personnel lead to effective SACCOs Service delivery.
- iii) The sense of good governance leads to effective SACCOs service delivery.

2.6.2 The Elements or Variables

This is anything that can take on differing or varying values.

The study has involved a number of variables, both independent and dependent variables that need to be measured.

Independent variable: This is the variable that influences the dependent variable positively or negatively. It assisted to explain the difference in the dependent variables. The Independent value is proper accounting procedures, good governance and academic qualifications of management personnel.

Dependent variable: This is a variable that the researcher used to in order to measure and establish the change or effect created on them. It waited for the effect an independent variable created on it. The dependent variable includes effective management of funds in SACCO's service delivery.

2.6.3 Relationship between Variables

The independent variables are the factors, which influence the performance of Microfinance institutions and SACCOs. These factors include the accounting procedures, the academic qualifications of management personnel and the sense of good governance. The dependent variable is to assess the effectiveness of Service delivery in microfinance institutions, particularly SACCOs. The relationship that exists between dependent and independent variables will lead to effectiveness in SACCOs delivery by ensuring that, proper accounting procedures are followed by management personnel of SACCOs who has the qualifications needed and the sense of good governance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

Chapter three covers research design, area of study, the population of the study, sampling design, data collection mode, pre-testing the research instruments, data analysis and presentation and validity and reliability of data collected.

3.2 Research Design

This is a detailed plan of the work done to achieve the research objectives. It includes the conceptual structure within which research was conducted; it is a blueprint which shows all the procedures to be taken, collections, measurement and analysis of data (Kothari, 2004). The research strategy comprises case study, descriptive, exploratory and casual design. Descriptive study was chosen for the purpose of this research, descriptive study was used because it facilitates study of the social units, enable constructions of the appropriate questionnaires, enables researcher to understand fully behavior pattern of the concerned units, application of one or more of the several research methods depending on prevalent circumstances (Kothari, 2004). Through case study design also generalization was made from a limited sample size in a limited geographical area and the study results become representative of the rest.

3.3 Area of Study

The study was conducted in Kigoma at Kigoma Municipality, due to the following reasons; the area is nearby the researcher's working place; hence it is cost-effective

to conduct the research in that area. The region has many SACCOs; hence more information was expected to be available for this study. Some financial institutions are also located there. The Manungu SACCOs was selected. This is among the leading SACCOs to that area though there are mushrooming SACCOs at Kigoma Municipality.

3.4 Population of the Study

Kothari (2006) defines the population as the total number of all cases that results in a comprehensive set of specifications. The population consisted of members of SACCOs (loan beneficiaries) as well as SACCOs officials (including Accountant and Cashiers). The total number of beneficiaries was 500.

3.5 Sampling Design

3.5.1 Sample Size and Sampling Units

This is the number of items selected from a population to be included in a sample. For the purpose of this study sixty four (64) respondents were selected to participate in it. The respondents consisted of 60 members of SACCOS and 4 Microfinance officers from SACCOs (including two accountants/cashiers). The presence of Microfinance officers was for the purpose of getting important information, that is, the information given supplement information obtained from the beneficiaries of microfinance loans.

3.5.2 Sampling Techniques

The methods used in choosing the sample are convenience and purposive sampling technique. Purposive sampling technique is a technique that enables a researcher to

select a sample on the basis of his or her knowledge of the population, its elements and research purposes. It is based on the researcher's understanding and purpose of the study (Upagate and Shende, 2002). This sampling technique applied by a researcher to select individuals who were information reach, who in case a SACCOs officials convenience sampling technique enables researchers to select respondents who were available and willing to respond. This method was used to select SACCOs loan beneficiaries (members) due to the fact that of ease access and save time and money.

3.6 Data Collection Methods

The study conducted used both secondary and primary data.

3.6.1 Primary Data

These are data collected by the researcher himself from the field for the purpose of answering research questions. Questionnaire and interview were used to collect primary data.

3.6.1.1 Questionnaire

These are designed questions each one providing a number of alternative answers from which the respondent can prefer most (Zikmund *et al.*, 2010). Questionnaires were sent to respondents and are completed by the respondents themselves. Questionnaires were distributed to 60 members of SACCOs. Questionnaires are advantageous in terms of economy, time-consuming, lack of interviewer bias, respondent has adequate time to give well-thought answers, a respondent who is not easily approachable can also be researched conveniently and the possibility of

anonymity (Kidder, 1981). The questions were both close-ended and open-ended in order to increase the validity of responses.

3.6.1.2 Personal Interview

This is a way to answer questions asked between interviewer and interviewee. The researcher interviewed the respondents in an organized environment. Interviews were conducted with four Microfinance officers from SACCOs. An interview is advantageous because it has high return rate (Kidder, 1981), flexibility, wide-coverage, completeness, control of interview situation and it helps to clarify ambiguous responses and fill in missing gaps. An interview guide was used in which the researcher read the questions to the respondents and records the answers.

3.6.2 Secondary Data

These are data obtained from the literature review sources or collected by other people for some other purposes. The secondary data for this study was collected through a review of different books, journal articles and reports, both published and unpublished, were reviewed. The soft copy was also consulted. The benefit of using this includes few resources particularly time and money required, minimizes the database from which specific generalization was made, the permanence of the data and longitudinal studies may feasible.

3.7 Validity and Reliability

3.7.1 Validity

Validity is the degree of appropriateness, correctness, and accuracy of data and findings in the research (Kothari, 2006). In other words, the procedure shall be used

to measure what is intended to measure. The validity of the instruments is critical in all forms of researches and an acceptable level is largely dependent on logical reasoning, experience and professionalism of researcher (Zikmund et al., 2010). The researcher discussed the contents of the questionnaires with the supervisor before going to the field. This is an essential process as it ensured that unfocused questions were eliminated or corrected prior to the collection of data for this study.

3.7.2 Reliability

The reliability of a research instrument measures the degree to which the results of a measurement, calculations, or any specification can be depended on to be accurate. The extent to which the instrument yields the same results on repeated trials. Though unreliability is always present to a certain extent, there was a good deal of consistency in the results of a quality instrument gathered at different periods.

Nachmias and Nachmias (1996) refer reliability as the extent to which a measuring instrument contains variable errors, that is errors that appear inconsistently from observation to observation during any one measurement attempt or that vary each time a given unit is measured by the same instrument. Sample selection was conducted in order to boost the reliability in existing local communities who are living in the area where this study was carried i.e Kigoma Municipality.

3.8 Data Analysis and Presentations

The data collected were organized, analyzed, coordinated and processed in accordance with the purpose of the study. The process implied editing, coding, data

capture, data validation and data analysis of the collected data. The data collected were analyzed quantitatively and qualitatively. Tables and figures have been used to present findings. Quantitative data were analyzed by using the Excel Spreadsheet. The analysis also includes descriptive statistics (frequencies, percentage and central tendency (mean, mode and median)).

3.9 Ethical Consideration

Mugenda and Mugenda (2003) recommends that the researcher has to be careful to avoid causing physical or psychological harm to respondents by asking embarrassing and irrelevant questions, threatening language or making the respondents nervous. Therefore researcher under this study firstly obtained management letter from Open University to introduce himself to management of the Manungu SACCOs. Secondly researcher sought consent with respondents and obtained permission from them to distribute questionnaires. The researcher also explained the purpose of the study to the respondents and they were also assured of high confidentiality of their responses and identities.

CHAPTER FOUR

FINDINGS, ANALYSIS AND DISCUSSIONS OF FINDINGS

4.1 Overview

Chapter four presents and discusses the data findings collected from a field survey that included samples of Manungu SACCOS' members, and leaders. The major objective of this study was to find out the effectiveness of service delivery by microfinance institutions particularly SACCOs in Kigoma Municipality. The findings based on three specific objectives namely the extent to which accounting procedures leads to effective SACCOs service delivery, to investigate the qualifications of management personnel in SACCOS and to find out the sense of good governance i.e. integrity, accountability and honest in day to day operational practice in SACCOS. Data were collected through questionnaires, interviews and observation models used for analysis include descriptive statistics (frequencies, percentage and central tendency (mean, mode and median).

The findings from this study as stated earlier have been presented within the idea of each research objective. The responses have been organized, analyzed and summarized in the form of descriptive statistics. Graphs have been used to complement the statistical methods by indicating clearly the responses from lower to greater percentage whereby the higher percentage was selected. Frequency analysis was applied to determine whether perceptions were normally shared by the SACCOS members or whether these were a different view of an individual or a

few individuals. The findings are presented in tables, figures and the subsequent sections.

4.2 Demographic Characteristics of the Respondents

It was important to determine the demographic characteristics of the respondents based on gender, age, marital status, highest educational qualifications as well as respondent time as SACCOs members.

4.2.1 Age of Respondents

Respondents were asked to indicate their age. The following Table 4.1 provides the results from the response in summary form.

Table 4.1: Age of the respondents (N=60)

Age group	Frequency	Percentage
Less than 30 years	4	6.7
30 – 39 years	16	26.7
40 – 49 years	26	43.3
50 years and above	14	23.3
Total	60	100

Source: Field Data, (2020)

Table 4.1 shows that 4 (6.7 %) of all respondents are below 30 years, 16 (26.7%) of all respondents are from 30-39 years, 26 (43.3%) of all respondents are from 40-49 years, 14 (23.3%) of all respondents are from 50 years and above. From the above results 56 (93.3%) of all respondents which are from the age of 30 years and above is the age group that most people are employed, or engaged in business activities so it is meaningful to save some money through financial institutions such as SACCOs. Specifically for respondents who are in their 50s have some special needs such as

constructing houses or an extended family with various needs that require them to find a way of saving so that they may get some loan that will enable them to attain their desired objectives.

4.2.2 Marital Status

Respondents were asked on their marital status whether single or married and Table 4.2 provides the information results.

Table 4.2: Marital status (N=60)

Age group	Frequency	Percentage
Single	20	33.3
Married	40	66.7
Total	60	100

Source: Field Data, (2020)

The findings in Table 4.2 shows that 20 (33.3%) of respondents are unmarried while 40 (66.7%) of all respondents are married. The results show that the married group is higher than a single group. From the results above, it is more likely that they would have a dependant, which signifies that they have a need to SACCOs.

4.2.3 Gender of the Respondents

Respondents were asked about their gender whether female or male and the following are the results as shown in Table 4.3.

Eable 4.3: Gender of the respondents (N=60)

Gender	Frequency	Percentage
Male	31	51.7
Female	29	48.3
Total	60	100

Source: Field Data, (2020)

The information in Table 4.3 shows that the gender percentage for male is 31 (51.7%) while the female is 29 (48.3%). From the results, there is almost an equal number of male and female respondents. This state of affairs can be attributed to reforms that have been going over the decades aimed at bringing about gender equality in all spheres including education, employment and the political arena. The reforms which had been enacted in various laws have been having positive results through the increased enrolment of women in schools, colleges and universities, as well as securing employment opportunities in various sectors. As women get a chance to attain education and also get involved in economic activities, they are able to get some income which can make them be able to save their money at SACCOs and also qualify for loans.

4.2.4 Education Qualifications

Respondents were asked about their education levels, and the results were summarized in Table 4.4 shows.

Table 4.4: Education qualification (N=60)

Category	Frequency	Percentage
No formal education	3	5.0
Primary education	19	31.7
Secondary education	22	36.7
College education	14	23.3
University education	2	3.3
Total	60	100

Source: Field Data, (2020)

The findings in Table 4.4 show that the respondents have a different level of educational qualifications, ranging from primary education 19 (31.7%), secondary

education 22 (36.7%), college education 14 (23.3%), and university education 2 (3.3%) and no formal education 3 (5 %.) In the modern world, someone without any formal education cannot fully participate and benefit in associations compared to those with formal education. The study findings also show that there are some few respondents who possess university education hence there is a need for them to group into different groups in order to be able to increase their financial stability e.g. SACCOs.

4.2.5 Experience as Members of SACCOS

Respondents were asked about the experience gained being members of SACCOs for along time; The following Table 4.5 provides the results.

Table 4.5: Experience as members of SACCOS (N=60)

Category	Frequency	Percentage
Less than 2 years	9	15.0
2 – 5 years	26	43.3
6 – 10 years	16	26.7
More than 10 years	9	15
Total	60	100

Source: Field Data, (2020)

Table 4.5 shows that 9 (15%) of all respondents have been members of SACCOs for less than two years, 26 (43.3%) have been a member of SACCOS for 2-5 years, and 16 (26.7%) of all respondents have been member of SACCOS for 6-10 years and 9 (15%) for more than ten years. From the above results, 51 (85%) of all respondents have been a member of SACCOS for more than two years. This shows how SACCOs are effective in empowering their members. There are also some

respondents who have been members of SACCOs for more than ten years. These people have built their trust in SACCOs and so consider SACCOs to be playing a crucial role in their life.

4.3 Presentation and Analysis of Finding in Relation to Objectives

The methods employed by the researcher are frequency distribution and the measure of central tendency, in particular, the means, mode and median. This shows whether or not the research question has been addressed. As noted by Upagate and Shende (2002) and Zikmund *et al.* (2010), “a measure of central tendency, which entails calculating the mean, median or mode, was beneficial in that it provided a single value that described a large frequency distribution. These measures have proven effective in establishing the most common responses of the sample to the survey statements”.

The Likert four-point rating scale 1, 2, 3, 4 was used to analyze the responses to statements in the questionnaire (1 strongly disagree, 2 disagree, 3 agree and 4 strongly agree). The average of 2.5 and above for each item and the average of appropriate facet (2.5 multiplied by the number of statements) were considered adequate and hence show that respondents were satisfied with the statement/facet. The findings in terms of percentages were aggregated to arrive at the conclusion, i.e. for satisfaction, agree and strongly agree percentages were aggregated, as well as disagree and strongly disagree percentages (Upagade and Shende, 2012 and Zikmund *et al.*, 2010).

4.3.1 The Extent to which Accounting Procedures Leads to Effective SACCOs

Service Delivery

The first objective of the study was to examine the extent to which accounting procedures results in effective SACCOs service delivery. The objective confirmation was done by exploring information from six statements. These statements included keeping records of financial transactions, evaluation of financial transactions, conducting of internal or external auditing at least once every three months, knowledge of members of the wealth of SACCOS in terms of assets and liabilities, the experience of members of shortage faced by their SACCOS and problems in the disbursement of loan to members.

4.3.1.1 Keeping Financial Records by Accountants and Cashier

Financial transactions are recorded for accuracy to show the amount of fund collected from different member and the amount used to finance the members of the organization. The accountants must keep the records of financial transactions in soft copy or hard copy, prepare financial statements which show the going concern of the organization, the financial position and performance. From this important note, the study wanted to know the extent of these SACCOs in keeping their financial records appropriately.

Respondents were asked to give their views regarding how they perceive record-keeping by accountants and cashiers, whether they are effective. Table 4.6 below indicates the responses which respondents rated the way accountants and cashiers of SACCOs keep a record of financial transactions.

Table 4.6: The Accountants and cashiers keep records of financial transactions

Responses	Frequency	Percentage
Strongly Disagree	6	10%
Disagree	10	17%
Agree	38	63%
Strongly Agree	5	8%
Total	60	100

Source: Researchers' Construct, (2020)

38 (63%) of respondents agree that records are properly kept by accountants/cashiers, 5 (8%) strongly agree and 11 (1%) and 6 (10%) indicating disagree and strongly disagree respectively Therefore basing the above aggregate responses of strongly agree and agree of 43 (71%) respondents are in agreement that accountants and cashiers keep financial transactions records.

4.3.1.2 Evaluation of Transaction on Daily, Weekly or Monthly Basis

Evaluation is a systematic and scientific approach in weighing whether the intended goal in a certain activity has been achieved including its means of achievement. Internal control is one of the major tools in evaluation. It includes all the policies and procedures established and maintained by the SACCOs. Evaluation is a part of internal control that's why this exercise is carried out in this study.

Table 4.7: Evaluation of the transaction is made daily, weekly and monthly

Responses	Frequency	Percentage
Strongly Disagree	5	9%
Disagree	17	28%
Agree	33	55%
Strongly Agree	4	7%
Total	60	100

Source: Researchers' Construct, (2020)

Table 4.7 indicates the responses which required respondents to rate the way evaluation of financial transactions is done daily, weekly or monthly 33 (55%) of respondents agree that transactions are evaluated on daily, weekly or monthly basis, 4 (7%) strongly agree while 17 (28%) and 5 (9%) indicating disagree and strongly disagree respectively Therefore basing the above aggregate responses of strongly agree and agree of 37 (62%) respondents are in agreement that transactions are evaluated on daily, weekly and monthly basis.

4.3.1.3 Auditing by Internal or External Auditor at Least after Every Three Months

There are two broad classifications of audits; the internal audit and external audits. Internal audit is a process conducted by internal auditor to assess the adequacy of the internal control system, policies, procedures, and the extent of compliance to standards. The external audit is done by a professional external auditor who performs an audit in accordance to specific laws, rules and regulations on the financial statements of a company, government entity, other legal entity or organization (SACCOs), and who is independent. Looking forward to the importance of auditing in this study entails seeing the effectiveness of this scenario in the SACCOs. The internal control system is defined as the process for assuring the organization operated in efficiency and effective manner. The strong control system will help to mitigate operational risks that SACCOs may be exposed to.

Table 4.8: There is internal or external auditing at least once after every three months

Responses	Frequency	Percent
Strongly Disagree	7	12%
Disagree	14	25%
Agree	31	50%
Strongly Agree	8	13.3%
Total	60	100

Source: Field Data, (2020)

The statement requested respondent to rate the extent auditing is conducted by internal or external auditors at least after every three months. Table 4.8 above indicates the responses of which 31 (50%) of respondents agree and 8 (13%) strongly agree while twenty-five 14 (25%) and 7 (12%) indicating disagree and strongly disagree respectively Therefore basing the above aggregate responses of strongly agree and agree of 38 (63%) respondents are in agreement that audit is conducted after every three months.

4.3.1.4 Members Knowledge about the Wealth of their SACCOS in Terms of Assets and Liabilities

Knowing what one possesses, why possessing and the value of it normally prepare in accepting strength and challenges whenever they occur in any organization. Members will be able to add their inputs to make their SACCOs work better because participation among them will be maximum after knowing their assets and liabilities.

Table 4.9: Members knowledge about the wealthy of their SACCOs in terms of assets and liabilities

Responses	Frequency	Percent
Strong Disagree	12	20%
Disagree	36	60%
Agree	7	12%
Strong Agree	5	8%
Total	60	100

Source: Field Data, (2020)

Members were requested to rate their awareness of the wealth of their SACCOS in terms of assets and liabilities. Table 4.9 indicates the responses of which 36 (60%) of respondents disagree and 12 (20%) strongly disagree while 7 (12%) and 5 (8%) indicating agree and strongly agree respectively Therefore aggregating the above responses of strongly disagree and disagree of 48 (80%) respondents are in disagreement that members have knowledge of the wealth of their SACCOs.

4.3.1.5 Shortage of Funds Faced by SACCOS

One of the big problems in financial organizations is the fulfilment of financial demand of its customers or members when you talk about SACCOs. It has been experienced in many SACCOs that inability of securing timely and sufficient amount of money causes many SACCOs fail to meet its objectives. Now, this part has a very big impact in making the SACCOs flourish or deteriorate in terms of its operations. The statement requested respondents to rate the way SACCOS sometimes faces a shortage of funds.

Table 4.10: SACCOs has sometimes faced a shortage of fund

Responses	Frequency	Percent
Strongly Disagree	16	27%
Disagree	28	47%
Agree	9	15%
Strongly Agree	7	11.7%
Total	60	100

Source: Field Data, (2020)

Table 4.10 indicate the responses of which 28 (47%) of respondents disagree and 16 (27%) strongly disagree while 9 (15%) and 7 (12%) indicating agree and strongly agree respectively Therefore basing the above aggregate responses of strongly disagree and disagree of 44 (73.3%) respondents are in agreement that audit is not conducted after every three months.

4.3.1.6 Problems Experienced in Disbursement of Loan to Members

Fund is always a scarce resource. When it comes to the issue of disbursement and the criteria almost match when problem increases. Each would like to secure first before the other in order to avoid any risk which might occur and make the exercise fail within a particular period of time. Sometimes prudence enters to try to overcome the problem but as it is known, each person has his or her perception in complying with the decision. This section tries to track information about the matter discussed above. The statement requested the respondent to rate whether members experience difficult in loan disbursement of the loan.

Table 4.11: There have been problems in disbursement of loans to members

Responses	Frequency	Percent
Strongly Disagree	32	53%
Disagree	22	37%
Agree	4	7%
Strongly Agree	2	3%
Total	60	100

Source: Field Data, (2020)

Table 4.11 indicates the responses of which 32 (53%) percent of respondents strongly disagree and 22 (37%) disagree while 4 (7%) and 2 (3%) indicating agree and strongly agree respectively. Therefore the majority of respondents i.e. 54 (90%) either strongly disagree or disagree with the statement that there are difficulties in loan disbursement by management.

4.3.1.7 Mean and Standard Deviation Results

The Likert four-point rating scale 1, 2, 3, 4 as stated earlier was used to analyze the responses to questions in the questionnaire. The mean of 2.5 from the Likert four point is simply calculated: $((1+2+3+4)/4)$ and above for each item and the mean of appropriate facet (2.5 multiplied by the number of statements) were considered adequate and hence show that respondents were satisfied with the statement/facet.

Table 4.7 gives a description of the items under accounting procedures, which indicate that accountants and cashiers keep financial records, evaluation of the financial transactions are evaluated on daily, weekly or monthly basis and there is internal or external auditing conducted at least after every three months with a mean of 2.70, 2.58 and 2.65 respectively, which are greater than 2.5, and a mode and

median of 2 and 2, respectively that signifies that respondents generally agree with the item that accountants and cashier keep financial records, transactions are evaluated daily, weekly or monthly and internal or external auditing is conducted at least after three months.

Table 4.12: Accounting procedures

Statement	Mean**	Mean*	Mode	Median	N
The Accountants and cashiers keep records of financial transactions	2.50	2.70	2	2	60
There is evaluations of the transactions on daily , weekly or monthly	2.50	2.58	2	2	60
There is internal or external auditing at least once after every three months	2.50	2.65	2	2	60
Member know the wealth of their SACCOS in terms of assets and liabilities	2.50	2.08	2	3	60
SACCOS has sometimes faced shortage of funds	2.50	2.10	2	2	60
There have been problems in disbursement of loans to members	2.50	1.60	1	1	60
Total	15.00	13.73			

Source: Field Data, (2020)

* **calculated mean** ****required mean**

However, responses to statements that members know the wealth of their SACCOS in terms of assets and liabilities, shortage of funds and disbursement of loan to the member having a mean of 2.08, 2.10 and 1.60, mode of 2, 2 and 1 and median of 3, 2 and 1, respectively, indicate dissatisfaction. The results found are in contrary to those of Olando et al. (2013) and Ssekakub et al. (2014) who found proper management of SACCOs lead to improved services delivery. Hence as in this study financial records, evaluation of the financial transactions and auditing are conducted properly, it was expected that members would appreciate services offered to them. Thus, there must be other factors such as members' participation or policies which

affect services delivery of the SACCOs. Moreover, an aggregate means 13.73, ($13.73 < 15.0$) of the facet indicates that the respondents are not comfortable with the way SACCOS handles accounting procedures is conducted to enhance SACCOS Service delivery.

4.4 Education Qualifications

The second objective of the study was to examine the extent to which qualifications of management personnel in SACCOs lead to effectiveness of SACCOs service delivery. The objective substantiation was done by exploring information from five statements. These statements were qualifications of accountants and cashiers to assist them in their daily functions, the existence of procedures and guidelines concerning preparations, storage and presentation of a business transaction, if there is business ethics documented and /or adhered by SACCOS, management formal education and the past experience of management of the same function. The findings are analyzed using percentage and central tendency (means, mode and median).

4.4.1 Accountants and Cashiers Adequately Qualified to Perform their Daily

Tasks

Accountants, cashiers and auditors must have the knowledge of bookkeeping and accountancy in order to keep proper records of accounts and preparations of financial statements. The experience and knowledge of all staff will lead to efficiency in SACCOs service delivery.

Table 4.13: Accountants and cashiers adequately qualified in their duties

Responses	Frequency	Percent
Strong Disagree	17	28%
Disagree	28	47%
Agree	11	18%
Strong Agree	4	7%
Total	60	100

Source: Field Data (2020)

As the above statement requested the respondent to rate the adequacy of qualifications of accountants and cashiers to enable them to perform their daily tasks appropriately. Table 4.12 above indicates the responses of which 28 (47%) of respondents disagree and 17 (28%) strongly disagree while 11 (18%) and 4 (7%) indicating agree and strongly agree respectively. Therefore basing the above aggregate responses of strongly agree and agree of 45 (75%) respondents are in disagreement that there are qualified accountants and cashier for them to perform their activities efficiently and effectively.

4.4.2 Rules, Procedures and Guidelines in Preparation, Storage and Presentation in Business Transactions

Organizations have their own strategic plans, goals, mission and vision which shows where the organizations need to go. There are rules, procedure, guidelines and standards which govern and guide the way transactions are managed. Cashiers and accountants are expected to perform their duties in accordance to standards and procedures as directed by the National Board of Accountants and Auditors (NBAA) and other international standards such as IFRS with due regard to the best interests of the credit union and make financial presentation professionally.

Table 4.14: Rules, procedures and guidelines in business transactions

Responses	Frequency	Percent
Strong Disagree	10	16.7%
Disagree	13	21.7%
Agree	24	40%
Strong Agree	13	21.7%
Total	60	100

Source: Field Data, (2020)

The statement requested the respondent to rate the existence of rules, procedures and guidelines guiding preparations, storage and presentation of business transactions. Table 4.13 above indicate the responses of which 24 (40%) of respondents agree and 13 (21.7%) strong agree while 13 (21.7%) and 10 (16.7%) indicating disagree and strongly disagree respectively. Therefore basing the above aggregate responses of strongly agree and agree of 40 (66%) respondents are in agreement that there are rules, procedures and guidelines pertaining to preparations, storage and presentation of business cases.

4.4.3 Business Ethics Documented and/or Adhered by SACCOS Members

Recognition of code of conduct and personal integrity in performing to the best interests of the credit union to safeguard the asset of a credit union, keep proper records of the book of accounts and confidentiality on sensitive information documentation is an important procedure. There must be a good relationship between all key management members and SACCOs members in order to achieve targeted goals.

Table 4.15: Presence of business ethics documented and or adhered by SACCOS

Responses	Frequency	Percent
Strong Disagree	1	2%
Disagree	4	7%
Agree	33	55%
Strong Agree	22	37%
Total	60	100

Source: Field Data, (2020)

The above statement requested the respondent to rate statement of the problems associated with the existence of business ethics documented and /or adhered by SACCO's members. Table 4.14 indicates the responses of which 33 (55%) of respondents agree and 22 (37%) strongly agree while 4 (7%) and 1 (2%) indicating disagree and strongly disagree respectively Therefore basing the above aggregate responses of strongly agree and agree of 55 (92) respondents are in agreement that there are documented business ethics that is being followed by members and leaders.

4.4.4 Management's Education on Business and Financial Management

Management of SACCOs must have knowledge of risk management from which they will be able to identify and manage risks facing SACCOs. The management members of the SACCOs can find ways to identify and mitigate those risks to ensure the accuracy of financial transactions which reflect the true and fair view of financial statements of the credit union. Internal and external audits through their expertise may reviewing key risks and ensuring that any identified weaknesses or deviations from objectives are rectified by management. Management of the credit union's policies may always need to review their risk in order to have sound business practices and regulatory requirements.

Table 4.16: Management staffs have formal education concerning business and financial management

Responses	Frequency	Percent
Strong Disagree	3	5%
Disagree	10	17%
Agree	31	52%
Strong Agree	16	27%
Total	60	100

Source: Field Data, (2020)

Respondents were requested to rate statement that staffs in management have formal education concerning business and financial management. Table 4.15 above indicates the responses of which 31 (52%) of respondents agree and 16 (27%) strongly agree while 10 (17%) and 3 (5%) indicating disagree and strongly disagree respectively Therefore basing the above aggregate responses of strongly agree and agree of 47 (78%) respondents are in agreement that staffs in management have formal education in business and finance.

4.4.5 Management Experience on SACCOS Affairs

The knowledge, experience and skill of the management members are very important in managing the credit union to the success and going concern of the credit union. Directors must have enough experience in managing credit union so as to fulfil their responsibilities and for its members and shareholders thereby, contribute to the efficiency and soundness of the credit union.

Table 4.17: Experience of management personnel in sacco affairs before joining the current SACCOS

Responses	Frequency	Percent
Strong Disagree	7	12%
Disagree	14	23%
Agree	30	50%
Strong Agree	9	15%
Sums	60	100

Source: Field Data, (2020)

The statement requested respondents to rate management personnel have experience of SACCOs affairs before joining the current SACCOS. Table 4.17 above indicates the responses of which 30 (50%) of respondents agree and 9 (15%) strongly agree while 14 (23%) and 7 (12%) indicating disagree and strongly disagree respectively. Therefore aggregate responses of strongly agree and agree on which make 39 (65%) respondents are in agreement that the experience of management personnel is quite enough to handle the SACCOS affairs.

Table 4.18: Education qualification

Statement	Mean**	Mean*	Mode	Median	N
There are accountants and cashiers adequately qualified to perform their daily tasks	2.50	1.25	2	2	60
There are rules, procedures and guidelines concerning preparation, storage and presentation of business transactions	2.50	2.58	3	3	60
There are business ethics documented and /or adhered by your SACCOS	2.50	3.13	3	3	60
Management has formal education concerning business and financial management	2.50	2.87	3	3	60
Management has ever done work like this before joining your SACCOS	2.50	3.25	3	3	60
Total	12.50	13.08			

Source: Researchers' Construct (2020)

* calculated mean **required mean

Table 4.18 gives a description of the items under education qualifications, which indicate that there are rules, procedures and guidelines for preparation, storage and presentation of business transactions with mean 2.58, there are business ethics documented and adhered by the entire SACCOS with mean 3.13, management has formal education concerning business and financial management with mean 2.87 and management experience on SACCOS affairs with a mean of 3.25. The only statement that respondents disagree is the qualification of accountants and cashier with a mean of 1.25.

These results are in line with those of Wambua (2005) and Okwee (2011), which emphasized adherence to the institution's policies as a means of satisfying principals and effective performance of the institution. Inline to this, studied SACCOs do not consider education qualification of their cashiers and accountant more important as adherence to financial systems and corporate management. Moreover, an aggregate mean 13.08, ($13.08 > 12.50$) of the facet shows that the respondents were satisfied by the status of the whole facet of education qualification in their SACCOS.

4.5 Good Governance

Discussion in relation to empirical theory, recall that the third study objective was good governance which is a process of decision making, participation, transparency and accountability presented in the context of the following:

4.5.1 Members are Normally Informed Development of their SACCOS Affairs at Least Once after Every Three Months

Awareness of the members about their development removes queries in many aspects of the progress of the SACCOS. Every one becomes loyal to the SACCOS and proud of it. Participation in the mission of development fastens the achievement of the intended objectives.

Table 4.19: Members informed about SACCO's development affairs on three monthly bases

Responses	No. of respondents	Percent
Strongly Disagree	7	12%
Disagree	7	12%
Agree	28	47%
Strongly Agree	18	30%
sums	60	100

Source: Field Data, (2020)

The statement requested respondent to rate the members informed about their SACCOS development affairs after every three months. Table 4.19 above indicates the responses of which 18 (30%) of respondents strongly agree and 28 (47%) agree while 14 (24%) indicating strong disagree and disagree Therefore the total number of responses who strongly agree and agree is 46 (76%) respondents are in agreement that members are informed on their SACCOS affairs at least once in every three months.

4.5.2 Guidelines which Document all Procedures to be Followed in Managing all Activities of SACCOS

Checks and balances put in place by the management of the credit union ensure that

the internal controls function properly. Controls made help to prevent operational risk from occurring. Risks can be identified through the planned objectives, i.e. the major reason for failure to complete the objectives as planned. Accounting procedures must be planned so that in any transactions there must be checks and balances by different person. eg Accounting manual which shows segregation of duties among accountants eg. Cashier, payables, debtors payroll and imprest accountants.

Table 4.20: Presence of guidelines, which document all procedures to be followed in managing all activities of SACCOS

Responses	No. of respondents	Percent
Strongly Disagree	21	35%
Disagree	30	50%
Agree	7	12%
Strongly Agree	2	3%
Total	60	100

Source: Field Data, (2020)

The statement requested respondent to rate if there are guidelines which document all procedures to be followed in managing all activities of SACCOS. Table 4.20 above indicates the responses of which 21 (35%) of respondents strongly disagree and 30 (50%) disagree while 7 (12%) and 2 (3%) indicating agree and strongly agree respectively. Therefore aggregating responses of strongly disagree and disagree of 51(85%) respondents are in agreement that there are little documented guidelines.

4.5.3 Members Participate in SACCOS Activities

Table 4.16 indicates the responses from the respondents on the statement that members participate in SACCOS activities regularly.

Table 4.21: Members participate in SACCOS activities

Responses	No. of respondent	Percent
Disagree	7	12%
Strongly Disagree	3	5%
Agree	20	33%
Strongly Agree	30	50%
Sums	60	100

Source: Field Data, (2020)

The statement requested respondent to rate that members participate in SACCOS activities regularly. Table 4.20 indicates the responses of which 50 (83%) of respondents strongly agree and agree while 10 (17%) percent indicating disagree and strongly disagree. Therefore basing the above aggregate responses of strongly agree and agree of 50 (83%) percent respondents are in agreement that member do participate on SACCOS affairs.

4.5.4 Management Information to Members for any Changes

Communication is one of the best tools in best practice. It covers transparency and openness.

Table 4.22: Members are always informed whenever there are changes concerning management

Responses	No. of respondent	Percent
Disagree	25	42%
Strongly Disagree	9	15%
Agree	21	35%
Strongly Agree	5	8%
Total	60	100

Source: Field Data, (2020)

The statement requested the respondent to rate the that members are always informed whenever there are changes concerning management Table 4.22 above indicates the responses of which is 34 (57%) of respondents strongly disagree and disagree while 26 (43%) and 20 (33%) indicating agree and strongly agree. Therefore basing the above aggregate responses of strongly disagree and disagree of 34(57%) respondents are in agreement that member is not frequently informed whenever changes occur concerning management.

Table 4.23: Good governance

Statement	Mean**	Mean*	Mode	Median	N
You are normally informed of the development of your SACCOS at least once after every three months	2.50	3.13	3	3	60
There are guidelines which document all procedures to be followed in managing all activities in your SACCOS	2.50	1.77	2	2	60
You always participated with other members in SACCOS activities	2.50	3.60	4	3	60
You are always informed whenever there are changes concerning management	2.50	2.38	2	2	60
Total	10.00	10.88			

Source: Field Data, (2020)

* calculated mean **required mean

Table 4.22 gives a description of the items under good governance, which point out that members are normally informed about the development of their SACCOS at least once after every three months with mean 3.13 and members participates in SACCOS activities mean 3.60. However, on guidelines which document all procedures in managing all activities in SACCOS with mean 1.77 and members are always informed whenever there are changes concerning management with mean of

2.38 shows slightly dissatisfactions. These findings conform with those of Karumuna and Akyoo (2011) and Magali and Lang'at (2014) which had suggested the application of good governance principles promotes SACCOs efficiency, also, with findings of Zairi (1994) which indicated the importance of communication with stakeholders to improve performance of SACCOs. Moreover, an aggregate means 10.88, ($10.88 > 10.0$) of the facet shows that respondents were satisfied by the governance of operations of their SACCOS.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter five looks at the summary of findings, conclusions, recommendations and suggestions for further research. The main objective of this study was to assess the effectiveness of Service delivery in microfinance institutions particularly Savings and Credit Cooperative Societies. Specifically, the study aimed at assessing the extent to which accounting procedures leads to effective SACCOs Service delivery, investigating the qualifications of management personnel in SACCOs and finding out the sense of good governance ie integrity, accountability and honest in day to day operational practice in SACCOs. Data was collected through questionnaires, interviews and observation.

5.2 Summary

The main aim of this research was to find the effects of effective management of funds on SACCOs service delivery in Tanzania; A Case of Manungu SACCOs at Kigoma Municipality. The study found that clients are not satisfied with the accounting procedures conducted in their SACCOs. Although from six questions posed, three showed satisfaction while the other three questions which wanted to know if members know the wealth of their SACCOs in terms of assets and liabilities, there ever been a shortage of funds to members and problems in loan disbursement showed satisfaction as the mean 13.73, ($13.73 < 15.0$) of the facet indicates that the respondents are not comfortable with the way SACCOS handles

accounting procedures conducted to enhance SACCOS Service delivery. The study revealed that some members do not submit their monthly instalments payments to the SACCOS timely. The consequences of this problem are shortage of fund, failure to fulfil the loan disbursement to the new applicants and in the balance of financial statements as expected which may hinder the delivery of this information to the members.

The study comes out with the results that, generally clients are satisfied with the education qualification of the staff as four out of five posed questions showed positive responses. The only question which showed dissatisfaction wanted to know whether the staffs are adequately qualified with the task they perform daily.

However, as stressed by Branch and Baker (1998) that as SACCOS become bigger and more complex, there are needs to acquire specific knowledge and skills to help them on specialized decisions; the dissatisfaction response has its role and needs to be addressed.

The discussion revealed that respondents responded equally from four questions i.e two questions satisfied while the other two dissatisfied. However, the mean of 10.88, ($10.88 > 10.0$) of the facet shows that respondents were satisfied with the governance of operations of their SACCOS. The study points out those members are normally informed about the development of their SACCOS and participate in SACCOS activities mean. However, on guidelines which document all procedures in managing all activities and transparency on management changes are not well addressed.

5.3 Conclusions

Performance in all objectives show some challenges in service provision due to some factors. The inability of members to make their returns on time has resulted in many challenges in daily operations. Shortage of funds was the major hindrance in fulfilling other financial objectives.

The study also discovered that some staff were not well qualified which may cause failure to create and impose mitigation measures facing SACCOs following challenges. Finding quick and correct decisions to someone who is not well qualified is difficult. Lack of grounds, lack of confidence, lack of skills etc led to improper solutions.

Finally, without transparency and guidelines, it is easy for the organization to lose its way towards objectives. The best practice is the tool in leading cooperatives, transparency smoothen the SACCOs operations and minimizes the challenges on the way.

5.4 Recommendations

The following recommendations are offered based on the work accomplished during the research of effective SACCOs service delivery based on the findings of the study:

i) Employment of qualified staff

In order to ensure effective service delivery, the researcher recommends that for management to work efficiently. The employees must possess skills and knowledge

on how to oversee managerial actions hence SACCOs has to employ appropriate personnel to cover the technical positions. There must be a segregation of duties among the members of management. Management has a duty of making a decision on a day to day operations of the SACCOs. The board has ultimate control to approve and monitor major policy initiatives and the general direction of the SACCOs. Board members are liable for penal sanctions if they fail to uphold their fiduciary responsibility in decision control. Decision rules are defined by the SACCO bylaws, cooperative and banking laws, commercial contract code, accounting norms, prudential regulations, and organizational budgeting systems. All these factors constrain the decision behavior of agents, help shape the monitoring functions, and specify the performance criteria that determine rewards (Branch and Baker, 1998).

ii) Seek grants or Aids or long term low-interest loans to increase their loan capital

Seek grants from non-government organizations or government organizations as well as getting low-interest loans from banks.

iii) External auditing should be carried out to ensure more transparency and more reliable reports

Also when acquiring funds from funders an external audit report is required as internal audit reports are unreliable because they might not be so transparent or may contain some covered frauds

iv) Best practice by SACCOs Leaders

Governance problems specific to the SACCOs pose challenges not faced by many other forms and external of organization. However, the researcher recommends that SACCOs should have well-defined rules of governance, internal controls, accounting manual, risk management register and disciplines supervision. Regular supervisions, workshop and seminars on entrepreneurship and financial management to members.

5.5 Limitations

The study does have some limitations. There are many microfinance institutions in Tanzania. Financial and time constraint has led to the choice of a small sample and at a smaller geographical coverage. The study confined itself to Kigoma Municipality due to constraints of money and time. There is a possibility that the opinion given by the SACCOs members were reflecting true picture as they regard some of the questions as very sensitive though the researcher has tried to employ an approach, which depresses the issue of sensitivity. However, this group is regarded to be small and we assume that they did not affect the overall results and conclusions. The sample chosen may not be an appropriate representation of the entire population of Tanzania.

5.6 Areas for Further Study

This study was purely on academic purposes although the findings and recommendations may be helpful to the government, policymakers and microfinance institutions especially SACCOs in Tanzania. This study has assessed the effective service delivery by SACCOs. Further studies must be conducted on accounting

practices, basing on other different types of microfinance institutions such as commercial banks that provide such services.

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APPENDICES

Appendix I: Questionnaire for SACCOS Members

I, **Daimon Jumanne**, is a student of the Open University of Tanzania carrying out a research titled “The effects of effective management of funds on financial institutions service delivery: A case study of Manungu SACCOs in Kigoma Municipal” I request you to fill this questionnaire. The information you provide will be used for academic purposes only and not otherwise.

Please circle the number from the appropriate response(s)

1. GENERAL QUESTIONS

- A) Gender
1=Male 2=Female
- B) Age range 1=Less than 30 years; 2=30-39 years; 3=40-49 years; 4=More than 50 years
- C) Marital status
1 =Married 2=Single
- D) Type of employment or business enterprise
- E) For how long have you been a member of SACCOs
1=Less than 2 years: 2 =2-5 years: 3 =6-10 years: 4 =More than 10 years

2. QUESTIONS REGARDING ACCOUNTING PROCEDURES

Options: 1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

Circle the number from the appropriate response as from the options above

- A) The accountants and cashiers keep records of financial transactions
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- B) Evaluation of the transaction is made either daily, weekly or monthly
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- C) There is internal or external auditing at least once after every three months.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- D) Members know the wealthy of their SACCOs in terms of assets and liabilities.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

- E) Your SACCOs has sometimes faced a shortage of fund.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- F) There have been problems in disbursement of loans to members.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

What other problems are experienced by SACCOs members related to funds?

3. QUESTION REGARDING EDUCATION QUALIFICATIONS

- A) Level of Education
1 =University education 2=College Education 3=Secondary Education
4=Primary education 5=No Formal education
- B) There are accountants and cashiers adequately qualified to perform their daily tasks.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- C) There are rules, procedures and guidelines concerning preparation, storage and presentation of business transactions.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- D) There is business ethics documented and/or adhered by your SACCOs.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- E) Management has formal education concerning business and financial management.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- F) Management has ever done the work like this before joining your SACCOs.
1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree
- G) What should be done to ensure effectiveness in management of funds at your SACCOs?
Please, elaborate.....
- H) Have you ever attended any course concerning business management?
Please, elaborate.....

4. QUESTION REGARDING SACCOs GOOD GOVERNANCE

- A) You are normally informed the development of your SACCOs at least once after every three months.

1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

- B) There are guidelines which documents all procedures to be followed in managing all activities in your SACCOs.

1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

- C) You always participate with other members in SACCOs activities.

1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

- D) You are always informed whenever there are changes concerning management.

1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

- E) Management of your SACCOs opens with regard to financial matters.

1=Strong Disagree, 2=Disagree, 3=Agree, 4=Strong Agree

Appendix II: Questionnaires to SACCOS Management

I **Daimon Jumanne**, is a student of the Open University of Tanzania carrying out a research titled “The effects of effective management of funds on financial institutions service delivery: A case study of Manungu SACCOs in Kigoma Municipality” I request you to fill this questionnaire. The information you provide will be used for academic purposes only and not otherwise.

Please circle the number from the appropriate response(s)

GENERAL QUESTIONS

A) Gender

1=Male

2=Female

B) Age

(1)15-24. (2). 25-34. (3). 35-44 . (4). 45-54. (5). 55 and above

C) What is your highest education qualification?

D) Do you have experience in the work of similar nature as you perform here?

If yes, for how long

E) Do you keep records in your work performance

F) Does your SACCOs ever faced shortage of fund?

If yes, give reasons

G) Do you normally have Annual General Meeting (AGM)

If yes, when was last meeting?

H) Do your members now financial status of their SACCOs?

I) What are the challenges does your face in its operations?

J) What are your opinions to make your SACCOs grow well?

THANK YOU