

ENABLING ENVIRONMENT FOR FINANCIAL CO-OPERATIVES IN RURAL TANZANIA: BEYOND CO-OPERATIVE PRINCIPLES

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ABSTRACT

Financial access is critical for the development of rural Africa including Tanzania. Huge numbers of rural inhabitants in Africa live in poverty and marginalized in all aspects of development. Besides, people residing in rural areas of Tanzania similar to other parts of rural Africa have been excluded over the years from access to financial services. The article mainly aims to ascertain enabling factors for financial co-operatives set up in rural Tanzania. This article employed qualitative methodology where critical review of secondary data was made and findings presented thematically. The analysis noted internal and external set of factors as enablers for financial co-operatives. The internal enabling factors include member empowerment, improved internal governance and innovation. On the other hand, external enablers include strengthened co-operative support institution, favourable policies, and regulations and finally stable economic, political and cultural environment. It is concluded that internal factors support both horizontal growth (new membership registration) and vertical growth (forming apex and networks) of financial co-operatives, while external factors mainly influence the set up of new financial co-operatives. It is recommended that all financial stakeholders and government to seriously invest resources in strengthening the internal and external set of enablers for financial co-operative set up.

Key words: Enabling, Environment, Financial Co-operatives

1. INTRODUCTION

Financial Co-operatives existed in Tanzania since before independence of Tanganyika and Zanzibar. Apparently, only less than two percent of Tanzanians access financial services through financial co-operatives (Tanzania Commission for Co-operatives (TCDC), 2017). This shows very steady growth in the country where 34% of rural people aged above 16 years old are excluded from financial services (Finscope, 2017). This limited access to financial services especially through financial co-operatives has adversely affected the development of the rural people in Tanzania.

According to Finscope (2017) the levels of financial exclusion differ significantly between urban and rural population aged above 16 years. The distributions show that 34.9 percent of rural people are financially excluded while 14.8 percents are residing in urban areas. Most of financial co-operatives located in developed areas such as cities, municipalities and towns are formed by employees in both private and public sector organisations with their common bond being their salary and wages while those rural co-operatives are bonded mainly by agricultural activities.

Studies have indicated that rural households that have access to these financial services have better opportunities to invest in different productive activities which respectively reduces the poverty (Hussaini and Chibuzo, 2018; Kwai and Urasa, 2015). This indicates that persistence of poverty largely in rural areas unlike urban counterpart in Tanzania can be attributed to limited access in financial services. The poverty level differentials in Tanzania are indicated in Figure 1.

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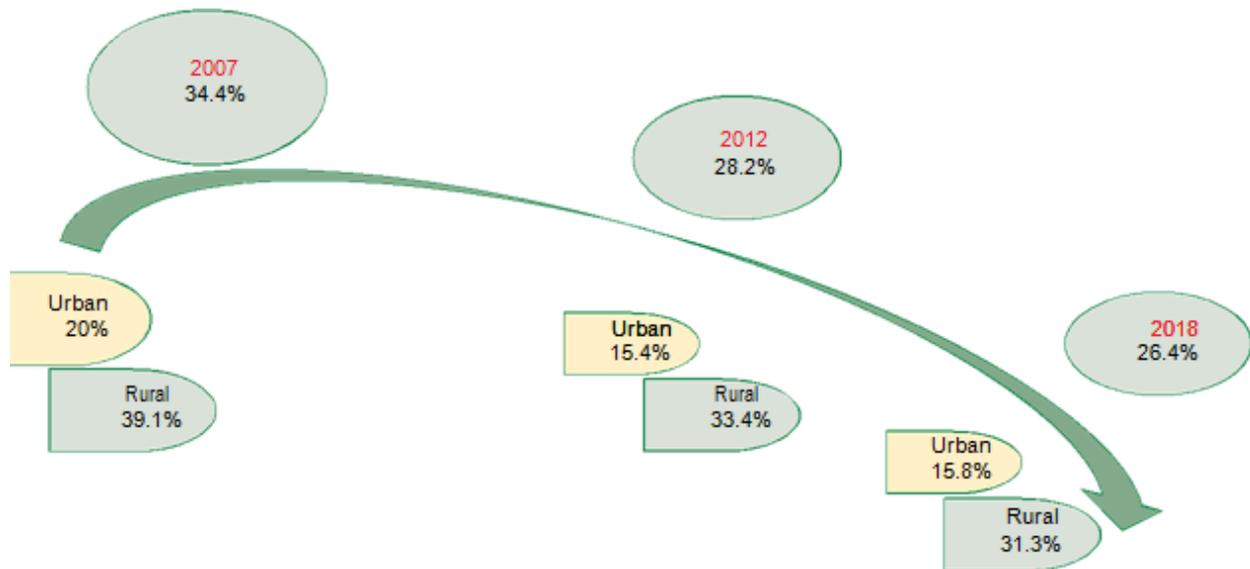


Figure 1: Poverty levels in Tanzania. (Source, World Bank, 2019)

1.1 Overview of Financial Co-operatives

Like other types of co-operatives, financial cooperatives have existed long time ago globally. According to World Bank (2007) financial co-operatives started their operation initially by providing small loans to members based on their locality. Later on they extend their operations in to other places within and outside their countries with first pioneering country being Germany around 1848. Financial co-operatives mode later was adopted in many parts of Europe and North America. Most of these initially established financial co-operatives were successful in development and many of them were transformed into co-operative banks with guidance of the respective financial regulations.

Unlike commercial banks which were established by colonial powers in most of developing countries especially Africa, financial co-operatives establishment were similar to those in developed countries. Most of them started as informal associations based in local places. These organisations were later on registered as Serving and Credit Organisation societies. Also some of these financial co-operatives formed Apex. The practice show that like any other business organisation, once the financial co-operative is registered it undergoes some managerial challenges and member service challenges. However as time goes the management will slowly minimize the challenges until the organisation matured where clear separation become evident.

It is estimated that there are over one billion and 68 million members of co-operatives worldwide. Financial co-operative members cover almost half of the total co-operative members globally. The World Council of Credit Unions alone has a membership of 118 million (Shaw 2006). However, there are those primary co-operative societies which do not belong to any of the apexes implying more membership to co-operatives globally. Africa is not far behind in terms of co-operative organisation whereby it is a home to more than seventy million co-operative members with the exact figure of cooperative organisations not clearly established as many are operating in less formal environment (ILO, 2014).

1.2 Financial Co-operatives in Tanzania

Tanzania registered her first financial co-operative organisation in the year 1938 in Kilimanjaro (Moshi town). The financial co-operatives have grown rapidly since then unlike other types of co-operative organisation (Maghimbi, 2010; Bwana and Mwakujonga 2013). Since 2000 the financial cooperatives grew from 803 with 133,134 members who invested Tshs. 9.04 billion in terms of shares, savings, and deposits to 4,093 with a total membership of 733,876 who have invested Tshs 377.6 billion in December, 2015 (Tanzania Co-operative Development Commission, 2017). Despite this tremendous growth in trend, the large parts of rural areas in this country do not access financial services. Table 1 shows registered co-operatives in Tanzania by the year 2017.

Table 1: Registered Co-operatives in Tanzania by 2017

S/N	REGION	AMCOS	TFC/APEX	BANK	SERVICES	JOINT ENTERPRISES	MINING	LIVESTOCK	MULTIPURPOSE	BEE KEEPING	HOUSING	SACCOSS	IRRIGATION	UNION	TRANSPORTATION	FISHING	OTHERS	INDUSTRIES	CONSUMER	GRAND TOTAL
1	ARUSHA	55	-	-	8	-	1	25	-	-	-	373	3	1	-	-	5	12	25	508
2	DAR ES SALAAM	27	1	-	114	6	-	1	-	-	12	883	-	4	-	4	9	15	18	1,094
3	DODOMA	43	-	-	-	1	1	4	-	7	1	186	2	-	-	-	3	-	-	248
4	GEITA	189	-	-	-	-	126	9	36	5	1	356	2	-	-	5	-	-	-	729
5	IRINGA	81	-	-	-	3	-	3	-	1	2	160	-	1	-	1	5	4	2	263
6	KAGERA	246	-	1	12	-	2	30	-	-	7	332	-	4	2	14	15	2	6	673
7	KATAVI	9	-	-	-	-	-	-	-	-	-	21	-	1	-	-	-	-	-	31
8	KIGOMA	115	-	-	10	1	-	2	-	5	-	249	-	1	-	12	8	8	-	411
9	KILIMANJARO	140	-	1	3	11	3	10	-	-	-	243	28	3	1	-	18	4	11	476
10	LINDI	108	-	-	-	-	-	-	-	-	-	16	-	2	-	-	-	-	-	126
11	MANYARA	62	-	-	-	-	3	14	-	4	-	155	-	1	-	-	-	5	-	244
12	MARA	154	-	-	4	-	36	5	1	2	1	256	1	2	1	7	1	4	4	479
13	MBEYA	89	-	-	7	1	-	22	-	-	-	222	14	6	4	15	13	3	5	401
14	MOROGORO	182	1	-	-	4	4	23	1	-	7	257	4	3	7	5	199	-	40	737
15	MTWARA	270	-	-	2	-	-	-	-	-	-	93	-	2	6	-	4	2	-	379
16	MWANZA	197	-	-	26	1	1	1	-	-	2	445	4	1	2	15	12	5	9	721
17	Njombe	104	-	-	2	2	-	6	-	1	-	127	-	2	-	1	5	2	2	254
18	PWANI	191	-	-	2	3	-	1	-	-	-	286	-	1	-	2	5	43	-	534
19	RUKWA	48	-	-	2	-	-	5	-	-	-	115	-	-	-	3	2	-	-	175
20	RUVUMA	134	-	-	-	-	-	-	-	-	-	116	3	3	1	1	-	-	-	258
21	Shinyanga	223	-	-	-	-	13	8	-	1	-	187	-	2	-	-	10	1	-	445
22	SIMIYU	159	-	-	-	-	-	14	-	-	-	115	-	-	-	-	-	2	1	291
23	SINGIDA	108	-	-	-	-	15	2	-	10	-	106	-	2	-	1	1	1	-	246
24	SONGWEE	91	-	-	-	-	-	12	-	-	-	93	-	-	-	-	23	-	1	220
25	TABORA	336	-	-	2	1	2	2	14	19	-	287	8	3	-	7	-	4	11	696
26	TANGA	52	-	-	2	-	1	18	-	1	-	239	9	2	-	1	23	1	2	351
	GRAND TOTAL	3,413	2	2	196	34	208	217	52	56	33	5,918	78	47	24	94	361	118	137	10,990

Source: Planning Monitoring and Evaluation Unit_Tanzania Cooperative Development Commission

1.3 Role of Financial Co-operatives in Rural Context

These organisations have significant advantage unlike other financial organisations through members' savings, investment and external funding. The services offered by the financial co-operatives to its members are cheaper relatively compared to other financial organisations such as banks and NGOs. Basing on the localities of the members the financial co-operatives aim to boost up socio-economic activities and wellbeing of the members. It offer members education, loans for education, purchase of agricultural inputs, hiring of land, buying house facilities and for purchasing equipment, such as computers and photocopying machines. It also facilitates the diversification to non-agriculture entrepreneurial endeavours.

According to world bank (2007) the contribution of financial co-operatives can be achieved through targeting three strategic areas; first rural economic activities, second, engaging people in development activities and third, reduction of vulnerability to economic, physical, and other shocks. Regarding rural economic activities, access to financial services helps small farmers to improve productivity through investment in irrigation, production equipment, inputs or hired labour, and also to invest in post-harvest handling, processing, and marketing. It may also help to create opportunities for non-farm enterprises for instance businesses such as handicrafts and telecommunications.

It has been further noted that the financial co-operatives and other forms of co-operatives in the rural areas act as link between local governments and their people in the development projects (Khumalo, 2014). Financial co-operatives also help to unite community members and apply collaborative strategies such as attracting investment and influencing government efforts in reducing poverty. Through financial co-operatives the voices of the marginalized people can be easily addressed though different development initiatives without jeopardizing their cultural community setting.

Financial co-operatives being one among business organisations generate an enormous employment to skilled and sometimes unskilled people. It enhances employment to rural people who are sometimes left behind (Bello, 2005). The available statistics show that cooperatives have generally generated both full time and part time employment of at least 250 million people in the world according to official data from 74 countries. 26.4 million of these people work in cooperatives, as employees (15.6 million) or worker-members (10.8 million), while 223.6 million producers organize their production together within the scope of cooperatives (CICOPA, 2014).

Provision of member education is among the key mandated activities of financial co-operatives. Also due to joint nature of the organisation, the co-operatives members benefit information sharing, and training for their members which helps to upgrade their skills. In a business competitive environment, the financial co-operatives are currently strategizing their training activities in order to improve their members' co-operative advantage. They have recently started offering education knowledge that was used to be offered by educational institutions to the members, leaders and management staff (Marwa, 2015; Mwesigye, 2008).

Financial co-operatives are recognized for improving infrastructure through investment in different sectors. Some co-operatives own education, general businesses, agro-processing, marketing, storage facilities, and information centres. Apart from these economic contributions, financial co-operatives also engage in promoting social activities such as networking, defending members' rights, conflict resolution and assisting social events (Bezabih, 2009; Putman, 2000)

1.4 Financial Co-operative Set up Procedure in Tanzania

The set up procedure of a financial co-operative in Tanzania significantly follows the global practice. The definition and structure follow that global practice, for instance the seven ICA principles of co-operatives have been adopted. These principles are (as highlighted by Shaw (2006), first: Voluntary and open membership: The principle entails that membership in these organisations are voluntary and open to all people to access the organisational services and ready to be responsible for his or her membership, without any form of discrimination such as gender, social, racial, political or religious affiliation.

Second principle is democratic member control: According to this principle, these organisations are required to be run democratically by members who are the principal owners; meaning management and leaders are responsible to them in whatever decision they take. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner. Third principle is member economic participation: The principle requires each member to contribute equally to the association under agreed terms and conditions. Both members and the association benefit the co-operative advantage in order to keep the organisation moving. The development of the organisation is achieved through members' allocation of surpluses or setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

Fourth principle is autonomy and independence: Any act or decisions by these organisations are the responsibility of its members. These are self-help organisations controlled by their members. When the organisation enters to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy. Fifth principle is member education. These financial organisations are mandated to offer training to members, elected representatives, managers, and employees so that they can contribute effectively to the development of their co-operatives. These training opportunities are normally communicated to the members through different ways such as co-operative meetings, annual calendars and through various media advertisement.

Sixth principle is co-operation among co-operatives: These associations are allowed to grow horizontally by increasing members or vertically by joining other networks of associations locally, regionally and globally. In the course of expansion, they are guided by rules and regulations to serve their organisations. By so doing financial co-operatives work for the sustainable development of their communities and their countries at large. Lastly, the seventh principle is concern for community meaning that it should contribute to the community development locally and internationally.

There is slightly general consensus on the procedure of setting up a co-operative society globally (Bello, 2005). The procedure starts with the members with common bond availing of a need to start the organisation usually with few members. Once the need is visualized, it is followed by mobilization preliminary meetings for

formation process which include: establishment of steering committee, conducting feasibility study of the business; developing a business plan, developing legal documents, securing funds for the cooperative and recruiting members for the cooperative. The slight difference arises between the co-operative that started with project mode and one without project mode.

The common start-up of a financial co-operative falls in the category of a cooperative without a project mode. When the identification of the need is done a small reference group is formed to conduct the feasibility study and identify the potential members. The group should also explain to the potential members the goals, benefits, ways of financing and risks of starting the financial co-operative society. The findings of the feasibility study will enable the reference group to make decision of whether it is worth starting a financial co-operative or not. Once the decision for startup is agreed, then the next procedure is to form a committee to carry out the formation process.

The first activity of the formation committee is to conduct the mobilization campaign by sensitizing the population and win their trust. It will inform the population about the contribution of a financial co-operative contribution to community wellbeing, promote its profitability and emphasize the role of their savings. Thus the committee will register the potential members and call for general special meeting. The general meeting will draft the objective, policies and constitution (by laws) of the financial co-operative. Next step is to apply for the registration, hire the management staff, mobilize savings and start the operation.

The enforcement of co-operative regulations is done by Registrar of Cooperatives within the Ministry of Agriculture, Food Security and Cooperatives (MoAFC), which has offices in almost all regions and some districts of Tanzania mainland. The registration of a financial co-operatives is currently at regional and district office level by following the procedure explained earlier on. For more clarity purpose, the potential members must first assemble at a meeting chaired by the District Co-operative Officer to decide a name, elect a chairperson and a committee of 10 members, create bylaws and determine the value of shares and interest. The committee then calls a second meeting to agree on a constitution (by laws), and file for registration to the District Office. Registration is ratified by regional Assistant Registrars under the MoAFC.

2. METHODOLOGY

The study employed qualitative research design. The reason for the employment of the qualitative approach is because it helps well to an insight of the enabling environment or factors for the set-up of a financial co-operative in Tanzania. Data were collected from 29 secondary sources. This involved a close scrutiny of academic papers, government reports, policies and internet sources in building sound presentation and discussion of the subject matter of this paper. It also uncovered the processes, policies and regulations that lay behind the setup of a financial co-operative.

Content analysis has been applied to analyse the reviewed qualitative data. This involved creation of specific pattern of analytical themes which were later grouped together to develop meaningful statements that support discussion of different thematic issues presented in various sections in this paper. In some cases, secondary numerical data have been included to support the qualitative data. The sources for specific data have been cited in various subsection of the article. The findings of this review will include the historical background of financial co-operatives, status of financial co-operatives in Tanzania, the contribution of financial co-operatives organisations in the rural context. Also the regulatory procedure of financial co-operative set up in Tanzania and finally the discussion on enabling environment for financial set up in rural Tanzania.

3. FINDINGS AND DISCUSSIONS

The review of the situation on the scope of financial co-operatives access indicated that the majority of financial co-operatives have been registered in rural areas than urban counterpart. However, the statistics also clearly show that the majority of rural people are financially excluded. The exclusion of rural people from financial services is supported by the fact that over 70% of Tanzanians resides in rural areas which are marginalized from those services. Over 34% of rural inhabitants in Tanzania are neither reached by financial services nor have

access to financial co-operatives despite favourable statistics of comparison between urban and rural areas (Finscope, 2017).

It is clear that the pace for the growth and expansion of financial co-operatives in Tanzania is slow comparing with some East African countries especially in rural areas despite the long history of its inception. Also it has been found that only 51% of the financial co-operatives are operationally and financially sustainable (Marwa and Aziakpono, 2015). There are number of determinants that could increase the pace of growth and expansion of financial co-operatives in the rural areas of Tanzania when taken into consideration by the stakeholders. There are two ways of increasing access of financial co-operatives in the rural areas. First, through expanding services of existing financial co-operatives horizontally (open new branches and enrolment of new members and vertically (forming apexes and joining networks) and secondly, through mobilising rural people to form new (registering) financial co-operatives.

The increase of access of financial co-operatives to rural areas through the first and second method is mainly determined by two set of factors that is internal and external factors. The internal factors are related to co-operative members and management based factor (operational factors). The external factors are mainly related to out of co-operative operational factors. Next is the discussion of the two factors in relation to existing current challenges in Tanzania.

3.1 Internal Determinants for Financial Co-operatives Set up in Rural Tanzania

3.1.1 Member empowerment

The registration of new members to the existing financial co-operatives depends on how vibrant the financial co-operative is. Empowering the current members on the aspects of ownership, financial literacy and viable investment approaches will improve the existing financial co-operatives to the extent that will register new members, open new branches and join the networks. Members are mainly empowered through member education. Principally the role of training is vested in the co-operative themselves. But that role is forgotten by co-operatives in the rural areas where majority of members are not trained (Bee, 2011). The impact of not training co-operative members includes lack of sense of ownership and low financial literacy which subsequently lead to poor performance of financial co-operatives.

Studies show that the performance and vibrancy of a financial co-operative is determined by members' commitment, recognition and feelings of unity. The three factors can be also reflected on co-operative capability to meet the members' needs. Other factors such as members' education support the performance of a financial co-operative through understanding of responsibility and clear separation of powers. This makes the contribution of each stakeholder being recognized hence encouraging them to work productively (ILO, 2015; Alexander and Sara, 2013; World Bank, 2007).

Majority of financial co-operatives established around 2000 to present in rural areas in Tanzania were supported by external forces, therefore many of their membership do not have sense of ownership. They are not formed from the base of felt need as the principle of co-operative establishment requires. This situation has affected many co-operative societies as members do not exercise the control power as majority of them do not attend the important decision making meetings. Majority of the decisions in many rural financial co-operatives are done by the management in the favour of members who are the owners (Flavia, 2015). All these factors made prevalence of mismanagement of fund through corruption and generally contributed to poor performance of rural financial co-operatives. Mismanagement of members' funds has tarnished the image of financial co-operatives in the eyes of those who are not reached by financial services. It has also caused the poor performance of some rural financial co-operatives (Magali and Lang'ata, 2014)

3.1.2 Internal governance of financial co-operatives

The financial co-operative internal governance strongly influences the performance. The characteristics of the elected leaders, employed management staff, quality of governing tools and members' awareness of their roles determine the vibrancy of these organisations. If every participant in the governing structure works hard to meet

the co-operative goal and vision, it's clear that the number co-operatives can be reduced and the current financial registered cooperatives in rural areas will double (2013 Co-operative Act).

One of the major challenges facing internal governance in rural Tanzania is constrain of skilled labour. Majority of managerial manpower and members do not have financial skills/literacy. This situation has led to some financial co-operatives to gradually grow and some totally perish from operating. Loan product development, loan monitoring, savings mobilization and investment strategizing requires the management staff with relevant skills, knowledge and experience. Skilled man power understands that the diversification of resources per sector, forming attractive financial packages reduces risks to the co-operatives thereby expanding the profit and co-operative advantage to the organisation (World Bank, 2007, Maghimbi, 2010)

The study of Magali and Lang'ata (2014) made a comparison between the financial co-operatives which conduct annual auditing and those which do not. They found that those which do auditing are performing well than their counterparts. The interpretations for those who are not conducting auditing map the lack of good governance among financial co-operatives. It also postulates the potential financial risk of the members' savings and investment which led to the dearth of these organisations. Other indicators of poor internal governance include poor service quality to members and high interest rates / commissions (Mukama *et al*, 2005). Thus improving internal governance will help the current financial co-operatives to expand to the excluded population of rural inhabitants.

3.1.3 Innovation

Innovation is central to any business organisation to survive in a competitive environment. It is mainly influenced by changing demands of the society, technology generation for emerging opportunities and existing knowledge system (Alexanders and Sara, 2013). Financial co-operatives have to use those innovation avenues to improve their financial activities so as to maintain their operations sustainably. The management should thoroughly scan the market needs and related competition continuously. This evaluation will help the financial co-operative to know the market size and composition which will led to designing interesting products (quality demand criteria) and relevant distribution strategies (Rabobank,2012).

New product development and improvement of existing goods to fit the market demand is another aspect of innovation. Like other business pursuits, inventing financial products keeps the financial co-operatives updated and modernized. Currently the use of internet and mobile technology has simplified the provision of services in these organisations thus increasing efficiency and productivity. As far as financial co-operative is concerned designing loans products, minimizing processing bureaucracy fair management and monitoring strategies is of paramount importance for sustainability in rural areas. The study by Jeje (2014) noted that a co-operative society that invested in product development and market distribution approaches performed better than the counterpart.

Financial cooperatives essentially promote collective skills to the members so that they can effectively address or deal with challenges and limitations. Combining efforts through membership association harnesses better opportunities than individual struggle since they combine different talents, knowledge and skills for their mutual benefits. Financial co-operative are encouraged to join different co-operative networks and local and international federations as it facilitate accessibility to resources and learning (Alexander and Sara, 2013).

3.2 External Determinants for Financial Co-operative Set up in Rural Tanzania

3.2.1 Strengthened financial co-operative support institution

Since independence, various support systems and institutions that deal with promotion, regulation and development of co-operatives including financial co-operatives have been established in Tanzania. Some of these institutions include Tanzania Co-operative Development Commission (TCDC), Co-operatives Auditing and Supervision Corporation (COASCO) and Moshi Co-operative University (MoCU). At the beginning these institutions faced many challenges but as time went by some of the challenges have been addressed. However,

there are yet milestone to go for financial co-operatives to reach large population of rural areas who are financially excluded.

Tanzania Co-operative Commission has a mandate to provide co-operative education, promote and regulate co-operatives as per 2013 Cooperative Act. Over the time the commission is doing great job. However, it apparently faces number of challenges. The first challenge is shortage of manpower. The commission has offices in all Tanzania mainland district centres. However, it is no wonder that you may find only one co-operative officer in many districts (Maghimbi, 2010). This has affected the supervision of financial co-operatives. It is difficult for them to effectively supervise because some of districts contain over hundreds of co-operative organisations. Worse enough the co-operative officers have been reporting to the commission and to the District Executive Officers who sometimes delegate some other non-related co-operative responsibilities. Therefore co-operative officers need to be employed at the ward level in order to strengthen the supervision. The second challenge is imposition of charges to financial co-operatives. Many financial co-operatives in Tanzania complain of imposed charges by TCDC as they affect the co-operative advantage of doing business for instance annual auditing charges which amount to TZS 500,000 charged to the licensed SACCOS. TCDC has to develop alternative means of auditing the financial co-operatives.

Moshi Co-operative University offer co-operative education and conducts co-operative research. Immediately after independence the university began its core functions registered as Moshi Co-operative College and has far trained many national and international co-operators. Despite enormous success in training and research, the institution is faced by some constraints. Some of these constraints include employment of graduates by non-co-operative financial institutions located in urban areas. This has caused shortage of expertise for rural financial co-operatives. Limited resources especially funds are another challenge that could facilitate training to the established financial co-operatives but also the mobilization of new financial co-operatives and conduct innovative research in addressing financial co-operatives issues. The university is supposed to reach all financial co-operatives in rural areas for training provision and conduct mentorship programme but due to insufficient funds apparently that job is not effectively performed.

3.2.2 Policies and regulations

Co-operatives flourish in an environment where there are clear guidelines, policies and regulations. These guidelines provide for the separation of power among members and management staff for better governance of financial co-operative. All operations of financial co-operatives such as saving, lending and distribution of co-operative advantages are guided by policies and regulations. The setting of these guidelines normally consider the conditions of the environment and even the scale of financial co-operatives (Rabobank, 2012).

Currently, financial co-operatives in Tanzania are guided by the Cooperative Society Act of 2013 and its regulations developed in 2016. The tool seems to provide the basis for financial co-operative development. However, the review is needed especially on the regulations concerning arbitration cap 114 and external borrowing. Surcharge procedure concerning arbitration is too demanding and sometimes it causes unnecessary delay which affect the performance of financial co-operatives for example, the regulation states that Minister is the final decision maker in the dispute of the problem and his or her decision is not confined to legal procedure. For example the cases related to suspension of co-operative officer or board members.

Also the regulation allows the financial cooperative to borrow not more than 25% of its total assets. The regulations need to specify the limit of the interest of the borrowed loan from commercial banks or other sources that has high interest rate compared to interest rate charged by financial co-operative organisation to its members. Loans from commercial banks have affected many financial co-operatives performance in Rural Tanzania since they charge high interest rates. Another regulation that need review is concerning with leadership term of the board members which is three years term but eligible for the second term. As it stands management of the financial co-operative can dominate and temper with members resources in the situation that all board members are new. The best way is to design the succession plan where 1/3 of management boarding members will hold the office for two consecutive two year terms.

Nonetheless, some provisions need to be added to make the TCDC independent. For instance the TCDC budget follows the normal government procedure from the grass-root to the parliament. The challenges of the current practice is that in many districts of Tanzania the co-operative budget is not realistic as most Districts Council members are not aware and some of them have political interests which affect the supervision of co-operatives at district level. The co-operative districts officers are the one responsible for developing budget proposal but they don't have mandate to negotiate. The best approach could be the commission to channel her budget through the responsible ministry to the parliament.

The rules and regulations enforcement organs challenged by qualified manpower and resources especially legal and financial experts affect the sustainability of financial co-operatives in rural areas. For instance it has affected registration of new and expansion of existing financial co-operatives. The inadequacies of these institutions have damaged the image of financial co-operatives among the communities. Frauds and mismanagement of members' resources is clearly associated with the enforcement matters because most of them are not properly audited (Gallardo *et al*, 2005).

3.2.3 Stable economic, political and cultural environment

Stable political, economic and cultural environment play a significant role on the sustainability of financial co-operatives. Government sets, passes and enforces respective rules and regulations. Government is also responsible for overall enabling business environment such as keeping peace and setting fair taxes and bylaws. It should be noted that the government does not directly intervene so as to maintain the principle of autonomy in financial co-operatives. As it stand the record is mixed. Financial cooperative sectors generally grow faster and more sustainably by handling their own promotion and supporting the strengthening of their own governance as far as possible and by keeping government intervention to the minimum. Where governments do intervene, a sustained open dialogue with an independent cooperative sector is important (Wanyama, 2013).

Improvement of infrastructure in rural areas surely improves the financial co-operatives operations especially transport of goods and services, access to affordable power and distribution of information to rural members (Alexanda and Sara 2014). The areas that lack this infrastructure are faced by high business operation costs. To minimize the excluded areas from co-operative financial services, the government must support the development of infrastructure in those areas especially physical infrastructure such as roads, railways, telecommunication networks and related information and technology facilities. Such infrastructure simplifies and reduces business operation expenses (ILO, 2015).

Cultural background that supports co-operative values such as self-help, self-responsibility, democracy, equality, equity and solidarity promotes financial co-operative sustainability. Financial co-operatives embrace those values and unite all the members toward their common goal. The co-operatives have to maintain these values for the sustainability of the financial services. These values are not new in the Tanzanian context and other parts of Africa where the systems of cooperation, mutuality, reciprocity and solidarity existed and have remained to the present, especially in rural areas and in the informal economy (Wanyama, 2013).

4. CONCLUSION AND RECOMMENDATIONS

The opening and set up of financial co-operatives in rural Tanzania can be achieved through consideration of set of factors. The first set of factors focus on expanding services of the existing financial co-operatives to the excluded population by registering new members and joining apexes and networks. This vertical growth can be achieved through member empowerment, improvement of internal governance and adoption of innovative service provision. The second sets of factors mainly focus on registering new financial cooperatives. These factors include strengthening financial co-operative support institutions, favourable policies and regulations and finally stable economic, political and cultural environment. The two sets of factors will increase outreach of financial services in rural population of Tanzania. It is recommended that all financial stakeholders and government should seriously invest resources in strengthening the internal and external set of enablers for financial co-operative set up.

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