

Contributions of Savings and Credit Cooperative Society on Improving Rural Livelihood in Makungu ward Iringa, Tanzania

Josephine Philip Churk,
College of Business Education (CBE), Tanzania.
E-mail: ejmak09@yahoo.com

Abstract

This study examines the Contribution of Savings and Credit Co-operative Societies (SACCOS) on Promoting Rural Livelihood in Makungu ward, Mufindi district. The study uses a case study of Muvikima SACCOS in understanding its contributions in promoting rural livelihood. Mixed research method both quantitative and qualitative approach were used to capture data from the study area, include, 100 household survey, 20 key informant interviews and 4 groups discussion. Statistical Package for Social Sciences (SPSS) is the software program applied for quantitative data analysis, while descriptive and content analysis was adopted for qualitative data. The findings revealed that, SACCOS have played minimal role towards promoting rural livelihoods in the study area, the feature that made poverty situation to persist to the community members. Majority of SACCOS members failed to repay back the loan due to high dependency on agriculture sector which is not promising as depends on rainfall variability and it is seasonal. There was also partial involvement of SACCOS members in planning and decision making, the situation which has led to inadequate management of the Muvikima SACCOS. The paper conclude that, Muvikima SACCOS has minimal contributions in promoting rural livelihoods in Makungu Ward, and recommend that, to ensure effective contribution of SACCOS in the promotion of rural livelihood, SACCOS should put strategies in addressing root causes of rural poverty including limited human resources, inadequate physical capital, insufficient financial capital and support activities that meet needs of rural people than concentrating in business sector only

Key words: *Microfinance, Mvukima SACCOS, rural livelihood, poverty, Tanzania.*

1. Introduction

Africa is considered to be the poorest continent in the world followed by Asia and Latin America (PHDR, 2009). World statistics indicated that three of every four people in the developing countries live in rural areas, most of them found in Sub-Sahara Africa whose livelihood depends on agriculture economy (Kopoka, 2006). Within Africa, the Sub-Saharan region is the poorest region where poverty is unique in the sense that majority particularly rural people are extremely poor. Tanzania is one of Sub Saharan countries where poverty is also extreme. Available data show that 75% of Tanzanians are living in rural areas where the incidence and severity of poverty is twice as high than in urban areas (Human Development Report, 2011). About 50% of all Tanzanians live in Poverty and 37.6% of all Tanzanians live in absolute poverty (below one dollar per person per day) (PHDR, 2009). This is largely contributed by poor agricultural economy where people cannot afford even to get three meals and shelter (Kopoka, 2006). Alleviating poverty in such condition is largely determined by the performance of the rural economy.

No wonder the millions of rural people who are reliant on agriculture have seen very little change in their poverty status since the 1990s (Oxfam International, 2007). With recognition of that, the government of Tanzania enacted National Microfinance Policy of Tanzania in 2000, which put forward the importance of providing financial services to the rural people in order to improve agricultural sector and rural livelihoods. The overall objective of micro finance policy is to establish a basis for the evolution of an efficient and effective micro financial system in the country that serves the low-income segment of the society, and thereby contribute to economic growth and poverty reduction (URT, 2000). Through that, the country has adopted various strategies to combat poverty particularly in rural areas. The introduction of Co-operative Societies in the country is among the important strategies for achieving goals of developmental programs in which people's participation is a key requirement. Following this consideration, the government has been keen on setting co-operative development policy that enable co-operative societies like microfinance to assist their members and the nation at large in achieving developmental goals and contribute towards alleviating poverty. For example, the first Co-operative Development Policy in Tanzania was adopted in 1997 and revised in 2002 in order to achieve targeted development goals particularly in rural areas (URT, 2002). Despite the efforts taken by the government of Tanzania and the economic improvements accomplished, still the poverty situation in rural areas continues to be extensive. The available data suggests that poverty level is high and would be worsening, especially in rural areas compared to urban areas (Kopoka, 2006). Indeed the number of SACCOS has been increasing in Tanzania from 1700 in 2005 to 4780 in 2008 (Mbwana and Mwakujonga, 2013). However, there is imbalance ratio between rural

and urban areas as many SACCOS established are concentrating in urban areas (URT, 2005) despite the fact that 75% of Tanzanians live in rural areas. At the same time many literatures acknowledge the importance of SACCOS in reduction of rural poverty (e.g., Champo, Mwangi & Oloo, 2008; Mbwana & Mwakujonga 2013 & Mwelukilwa 2001), while its contribution in promoting rural livelihoods remain unclear. It is against this background that the study contributes to fill this knowledge gap using a case study of Muvikima SACCOS in Mufindi district, Tanzania. The study specifically examined the social-economic benefits attributed to Mvukima SACCOS as a component of livelihood, and determined the challenges constraint the effective performance of Muvikima SACCOS in the study area. This investigation is important to decision and policy makers at various levels to ensure that SACCOS achieve intended goals and gain support from rural peoples. It also provide guide on better operation and management of SACCOS that ensure sustainable improvement of rural livelihoods in the country and elsewhere.

2. Literature Review

2.1 Livelihood

A livelihoods perspective has been conceived different by different people. Thus, a variety of definitions have been posted in various literatures include for example, the means of gaining a living (Chambers 1995) or a combination of the resources used and the activities undertaken in order to live. Livelihood is also about the ways and means of ‘making a living’ (DFID, 2001). It encompasses the capabilities, assets (including both material and social resources) and activities required for a means of living. Different activities and interactions emphasize the diversity of ways people make a living. This may cut across the boundaries of more conventional approaches on looking at rural development which focuses on defined activities such as agriculture, wage employment, farm labor and small-scale enterprise. But in reality people combine different activities to make their livelihood (Scoones, 2009). Debates about livelihoods and poverty reduction emerged around the 1995 World Summit for Social Development in Copenhagen, but livelihoods strategies remained at the margins of the mainstream (Scoones, 2009). In realizing this many countries decided to take different livelihood approaches in achieving sustainable rural livelihood.

In Tanzania for example, agriculture is the dominant economic activity and the primary source of livelihoods for rural households. It is increasingly becoming clear that the agricultural sector alone cannot be relied upon as the core activity for rural households as a means of survival, improving livelihood and reducing poverty. Rural development should be supported by the promotion of non-farm diversification opportunities which also need financial capital (Gecho et al 2014). Financing rural farmers has been further diminished by the financial sector reforms. Banking services are focused on the high valued end of the

market in urban centers due to financial viability considerations (Mwelukilwa, 2001). The role of Savings and Credit Cooperative Societies SACCOS in providing financial services particularly in the rural areas is now more imperative than before. The Report on the Survey of Rural Savings and Credit Cooperative Societies in Tanzania revealed that the SACCOS are the most significant forms of participation in financial markets available to the rural Tanzanians aiming at improving rural livelihood (Mwelukilwa, 2001).

2.2 Overview of Theories

Two theories advanced by scholars regarding Microfinance include economic and psychological theories. The economic theory treats microfinance institutions (MFIs) as infant industries, while the psychological theory differentiates microfinance entrepreneurs from traditional money lenders by portraying them as social consciousness driven people (Khandakar et. al., 2004). Many societies have embraced microfinance based on economic theory as a major strategic tool to combat the severe poverty, particularly in rural areas. This stems mainly from the belief that providing small loans, savings facilities, insurance products, money transfer services and skills training to poor people, and more especially women, could be a way of providing opportunities to be self-reliant and play active roles in their households and communities and the economy as a whole (Yunus, 2001).

2.3 Historical Development of SACCOS

The history of SACCOS in the world can be traced based on two origins of modern cooperation. The first modern cooperation emerged in certain working class environments in European industrial cities in 1840s, particularly in Great Britain and France. These pioneers invented models of the consumer and labor cooperative that defend and promote the interest of working class in the face of the social disasters endangered by the Industrial Revolution (Assenga, 2008). The second generation of the pioneers of modern cooperation emerged in certain European rural environments in the late 19th century. The countryside was economically out of sync with the industrial cities; agricultural cooperatives enabled families of farmers and livestock raisers to organize on their own supply system of agricultural inputs and market their products and no longer depend on the merchants and businessmen in the cities (Assenga, 2008). Also the SACCOS enabled them to no longer depend on money lenders (usurers) and to find the credit necessary to modernize their agricultural operations (MUCCoBS, 2005). In African countries, the first experiences of savings and credit cooperatives were to a large degree the work of foreign missionaries (Mwelukilwa, 2001). Many of the first savings and credit cooperatives emerged in the English-speaking countries, primarily in Ghana 1955, Uganda 1946 and in Nigeria dates back to 1951-1953 (Mbwana and Mwakujonga, 2013). In Tanzania SACCOS emerged in 1954, Kenya in 1964, Liberia 1965,

Sierra Leone, Zambia and Botswana in 1967 (MUCCoBS, 2005). The expansion of these cooperatives in Africa then took root in the French-speaking regions of Africa.

2.4 SACCOS in Tanzania

Savings and Credit Cooperative Societies (SACCOS) are among the Micro-finance institutions operating in Tanzania. The introduction and establishment of modern cooperatives in Tanzania is associated with cash crops economy as a result early cooperatives Institutions flourished in the coffee, cotton, and tobacco growing areas of Kilimanjaro, Kagera, Mwanza, and Ruvuma (Assenga, 2008). By 1947 there were a total of 5 SACCOS located in Moshi, Iringa and Dar es salaam, the improvement were slowly recognized where as by 1970, for instance, there were about 239 SACCOS in Tanzania mainland. It has increased to 419 by 1990 and out of these 55 were found in Kilimanjaro alone and 20 in Iringa and Arusha (Banturaki, 2012). Indeed the number of SACCOS has been increasing in Tanzania from 1700 in 2005 to 4780 in 2008 (Mbwana & Mwakujonga, 2013; URT, 2008) and despite this increase still there is imbalance ratio between rural and urban where only 37% of the total number of SACCOS is situated in rural areas. The poverty situation to rural people remains steady (37.6% of rural households live below the basic needs poverty line (PHDR, 2009 & Erdal, 2005) and the majority cannot access credits and other financial services due to their poor and unsustainable income. Indeed rural people are the one who suffer a lot with difficult life situation where they are hindered by insufficient social services such as banks, schools, hospitals, transport and communication compared to urban areas while their major economic income depends on agriculture (PHDR, 2009). However, the government and many studies put emphasis on establishment of SACCOS as a way to increase rural income, without putting efforts to understand the extent of its contribution in promoting rural livelihoods.

2.5 Policies, Laws and Acts Supporting SACCOS in Tanzania

SACCOS in Tanzania gain support from Co-operative Society Acts and Policies. For the example, *The Co-operative Societies Act, 2003* ensure that the government created conducive environment for Cooperative Societies and their members to perform their functions in a free democratic manner and promoting economic and social interest of the members for economic growth by setting International Cooperative Alliance (ICA) principles (Komba et al. 2005). *The Co-operative Development Policy of 1997 and revised 2002* recognizes the importance of the National Poverty Reduction Strategy Paper (PRSP) accords to cooperative development. Also provide the structure of cooperative society from primary society at base level and federation at top as stressed by Section 14(1) of the Co-operative Societies Act, 2003, revised Edition, 2004. Further, *The National Micro-finance Policy of Tanzania, 2000* emphasized on serving the low-income segment of the society whose incomes are very low with limited access to financial services thereby contribute to economic growth and reduction of poverty

(URT, 2000). This provides advantage of investment opportunities for economic returns while financial services allow higher standards of living to be achieved at household level.

3. Methodology

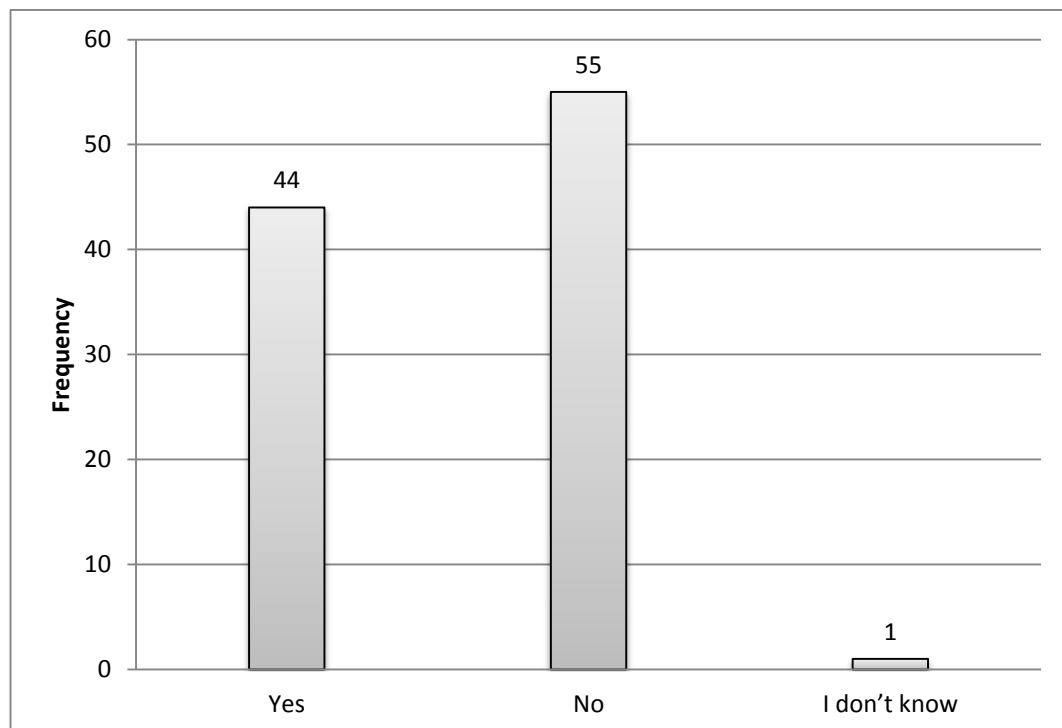
This study focus on two main research questions which are; i) What are the socio-economic contributions of Muvikima SACCOS on improving rural livelihood in Makungu ward? ii) What are the challenges facing Muvikima SACCOS on improving rural livelihood in the study area? In respond to main research questions, the study was carried out in three villages namely Makungu, Lugema and Lugolofu found in Makungu Ward, Iringa, in the Sothern Highlands of Tanzania. The villages were selected based on having significant number of active members participating in Muvikima SACCOS. A total of 100 household were randomly selected from three study villages for survey. The survey captured broad understanding of the contribution of SACCOS at household level. In addition, interview with 20 key informants mainly village leaders, ward executive officers and SACCOS leaders together with focus group discussion with local and SACCOS members were conducted to get the overview of the Muvikima SACCOS, its impact in promoting rural livelihood and people attitudes towards the SACCOS. Various literatures were reviewed to gather the information related to research topic. The data collected from survey were then analyzed quantitatively with the aid of computer software SPSS and Microsoft Excel. Descriptively and contextually analysis was applied to qualitative data from interview and groups discussion. Then, the data were presented in form of tables, figures and descriptions.

4. Results and Discussions

4.1 Social-economic Contributions of SACCOS to Rural Livelihood

The objective of micro-finance system in Tanzania is to serve low-income segment of the society and contribute to economic growth and reduction of poverty (URT, 2000). The findings revealed that Muvikima SACCOS has little contribution in supporting business, agriculture and education sectors in the study area. The respondent's perceptions (Figure 1) on the contribution of Muvikima SACCOS in development of Makungu ward indicate that, the majority 55 of the respondents acknowledged that there was lack of significant contribution brought by SACCOS to the very poor, while 44 of the respondents reported that SACCOS has helped to improve life of the people in their respective villages and acknowledged that most of the members succeeded to build improved and modern houses compared to the time before joined SACCOS. This mixed perceptions of the local people in the study area might imply lack of significant benefits attributed to SACCOS, particularly at household level a feature that constrain efforts towards improving rural livelihood.

Figure 1: Contribution of SACCOS to the Development



Kopoka (2006) noted that the majority (75%) of rural Tanzania depending their livelihood on agricultural sector. Findings revealed that Muvikima SACCOS has been providing a minimal financial support in agriculture sector, a feature that prevents rural people to access important agricultural inputs that could help them to improve production and ultimately contribute to alleviate poverty in study area. The same case was supported by Chambo (2003) who noted that in rural areas, SACCOS were not seen as providing alternative financial mechanisms for the agricultural economy, but centers for storing money, separated from investment activities in agriculture. As it was anticipated that credits and savings facilities enable farmers to invest in land improvements or agricultural technology such as high-yielding seeds and mineral fertilizers that increase incomes (IFPRI, 1998). In spite of Muvikima SACCOS to operate for numbers of years, efforts toward supporting agriculture sector were not observed in the study area, an indicator that the improvement of rural livelihood will not be achieved if at all rural SACCOS will not focus on agricultural sector.

The discussion with SACCOS management reported that the co-operative also has a role to play in construction and improvement of various basic rural infrastructure such as school classrooms, school desks and other rural infrastructure. It was noted that Muvikima have special budget for supporting social development like sports in primary schools and paying school fees for the orphans in the ward. Islam (2006) supported this when he stated that the poorest can benefit from microfinance from both a material and social well-being as studies have proof of impact of microfinance on health, nutrition and school supporting. It also helped people resolve issues such as, obtaining money for medical services, purchasing food,

farm implements, setting up small scale businesses, construction of improved houses, paying school fees, and dowry (MUCCOBs, 2005). Despite that fact, the findings revealed that only sports in primary school have been supported by Muvikima SACCOS for the past three years, a condition that limits its contribution in improving rural welfare and development.

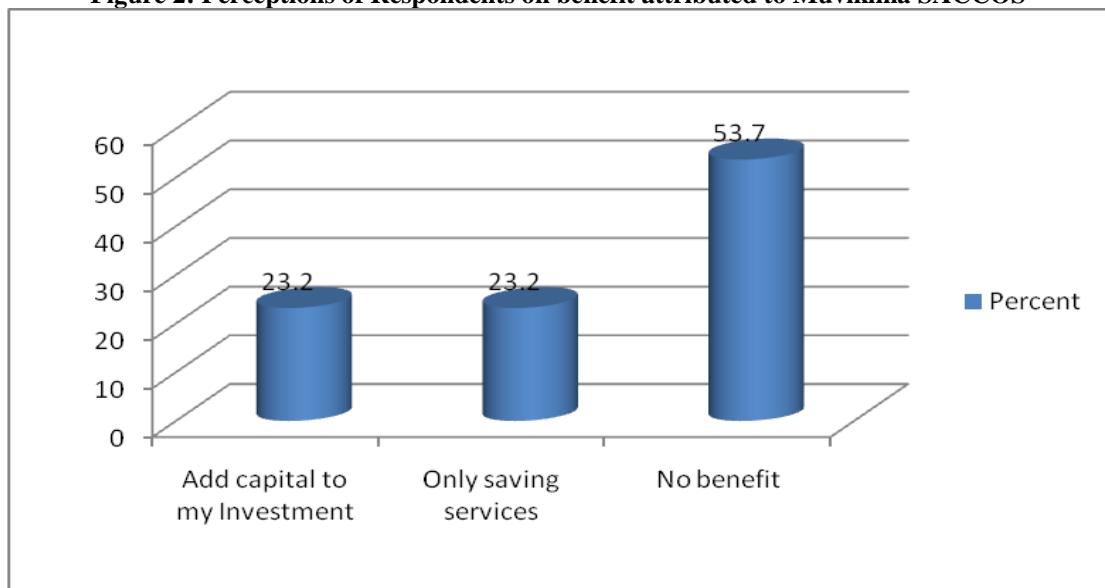
4.2 Benefits of Muvikima SACCOS on Poverty Reduction

In assessing the true relationship between microfinance services and poverty reduction, there is a need for looking on perception of the SACCOS beneficiaries; observing changes of member's income after embark on micro credits and establishing who has risen up from the poverty line (Assenga, 2008). The impact of financial services on welfare is likely to vary with accessibility to complementary inputs such as irrigation, education, and market services. In some environments access to microfinance may do no good, while for other groups it can make an important difference (Kasanga, 2005). The findings from the study area indicate that the majority 53.7% of the respondents perceived that no benefit is obtained for being a member or non member of Muvikima SACCOS, 23.2% benefited only by doing saving in their SACCOS account due to the fact that there is no other financial service provider in the area, and 23.2% acknowledged that SACCOS benefited them through adding capital to their small-scale business and agricultural activities as indicated in Figure 2. Some respondents reported that their life after joining SACCOS is even worse compared to the time before joined the SACCOS as explained in statement below from one of respondent. This is due to the fact that, sometimes they have to take some amount of their loan (even before investing anywhere) to repay back the loan on time for the fear of losing their assets pledged as collateral security for the loan.

Before I joined Muvikima SACCOS I owned a car, since I took a loan for boosting my small business, I decided to sell my car in order to repay the loan for the fear of losing my other properties like my house, thus I found myself poorer than I was before. I really regret my decision to join SACCOS and especially making a decision to take the loan.

The results show no distinction in socio- economic life made among members and non-members of Muvikima SACCOS, a situation that discourages even non-members to join the SACCOS, thus the persistence of poverty situation in the study area. Harper and Roy (2000) noted that, privately-owned businesses, which have been the main engine of socio-economic growth nearly everywhere, are established and managed by individuals, or groups of individuals, mainly for their own profit. This was revealed well in the study area where most of the respondents perceived that Muvikima SACCOS as a cooperative society benefited more than its members through interest rates, forfeited shares and other penalties upon default of the debts.

Figure 2: Perceptions of Respondents on benefit attributed to Muvikima SACCOS



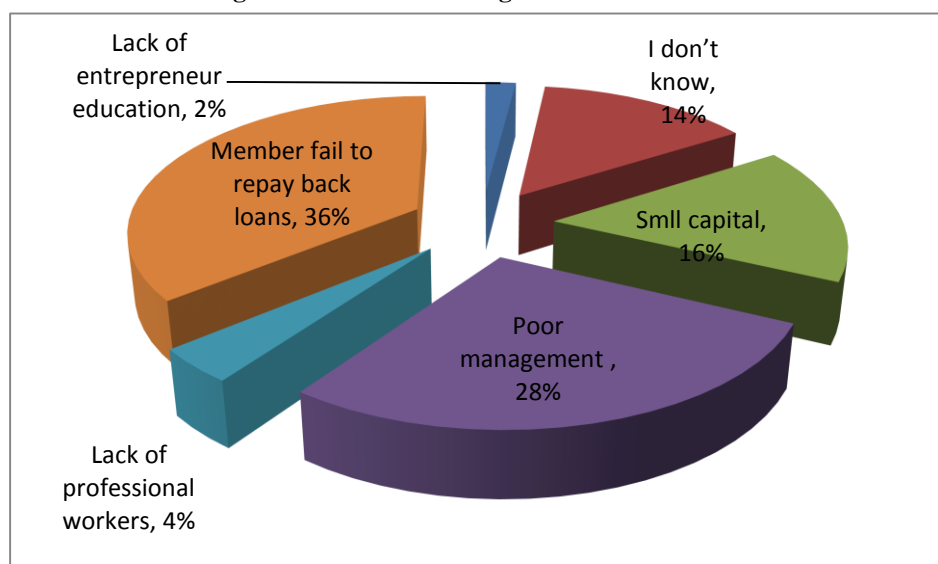
It was also revealed some respondents complained that, the SACCOS has made them to become slaves of repaying back loan on time, while their business situation were not better off. It was a starting point for them to experience a difficult life situation compared to the time before they joined Muvikima SACCOS. Amin et al., (2003) noted similar case that, microfinance is not considered by beneficiaries to be an effective and powerful tool for poverty alleviation. Perhaps this is due to low circulation of money in the study area as a result members fail to meet their economic goals and at the same time fail to repay their loan on time. This also may imply lack of entrepreneurship skills for most of SACCOS members resulting in misallocation of their loans. Given the new trends in the sector and their possible effect in diluting the poverty focus of MFIs, the question of their impact on the poor is clearly of great policy interest (Wangwe and Lwakatare, 2004). In the study area the findings show that the impact of SACCOS on promotion of rural livelihood was very minimal despite the fact that Muvikima was the best SACCOS in the district. Wangwe and Lwakatare (2004) noted that, if the poor are unable to make profitable use of financial services priced at full cost, then these services ought not to be used as instruments of poverty alleviation. To realize positive rural changes, access to credit has to be improved so that the poor can finance productive activities that will allow income growth, provided that there are no other binding constraints (Weiss and Montgomery, 2005).

4.3 Challenges Facing Muvikima SACCOS

Among the qualifications that enable a member to acquire a loan is that he or she must be able to repay the loan plus interest on an agreed time (MUCCOBs, 2005). The study revealed that about 36.4% of the respondents reported that the main problem facing their SACCOS is that, members failed to repay back loans on time while 27.9% mentioned that there was poor

management of SACCOS contributed by lack of professional leaders as shown in Figure 3. The same case was noted by Komba (2003) that low repayment rate of loans among majority of rural SACCOS is due to the fact that most of the members are non-salaried and depend their income on agriculture which is seasonal. This was indeed supported by Wangwe and Lwakatare (2004) who reported that poor loan repayment and high loan delinquency is among the major challenges facing Tanzania's SACCOS.

Figure 3: Problems Facing Muvikima SACCOS



The findings from FGDs showed that there is lack of transparency and communication with some Muvikima leaders. The Muvikima SACCOS management is confined to rule hence they are not prepared to deliver information of the SACCOS to the members regularly. For example, it was reported that loan interest rates charged by other financial institutions like CRDB which provide loan to their SACCOS normally not communicated to the SACCOS members, a feature that hinders opportunity for members to participate in decision making whether their SACCOS should accept loan or not. This results Mvukima SACCOS to remain with big debts burden from CRDB bank and fail to lower interest rate to its members. Also the practice of the management in SACCOS is running routine business without proactively getting acquainted with the poverty situation of the members which causes delays in repayment of loans. This is supported by Chambo (2003) who noted that lack of participatory planning, poor management and poor SACCOS' leaders who do not have member empowerment strategies have therefore prevented attainment and achievement against poverty.

4.4 Proposed Measures to Improve the Performance of Muvikima SACCOS and Rural Livelihood

Provision of necessary knowledge and skills to leaders and staff to modernize their activities is crucial for SACCO's performance in Tanzania (URT, 2005). The study revealed that, 23.5% (Table 1) of the respondents suggested the need of training to SACCOS workers in order to improve its performance. This is supported by URT (2005) that microfinance should encourage management to use better loan appraisal and follow-up methods. The finding also showed that 23.5% of the respondents suggested SACCOS management and administration should be reshuffled in order to ensure its effective performance that will contribute to improvement of livelihood in Mufindi. This also has been supported by Mbeiyererwa (2000) that, lack of operational skills may also lead to poor identification of profitable lines. Therefore, lack of professional workers together with poor management and administration were the major constraints that lead to minimal contribution of Muvikima SACCOS in improving socio-economic and rural livelihood in the study area.

Table 1: Proposed Measures to Improve SACCOS Performance

What should be done to improve SACCOS performance	Frequency	Percent
Provide more capital	25	18.3
Provide education to workers	32	23.5
Repay loan on time	11	8.1
Improve SACCOS management and administration	32	23.5
Reduce interest rate	20	14.7
I don't know	16	11.9
Total	136	100

Fan and Rao (2005) noted that the priority sectors to improve the life of the rural people are basic education, primary health care, rural roads, water supply, agricultural (including livestock) research and extension, the judiciary and rural HIV/AIDS program. The study revealed that, 34.3% (Table 2) reported that infrastructure particularly the road connecting Makungu ward and Makambako center should be improved as it plays a great role for the development of the ward. Thus supporting infrastructure particularly physical infrastructure could suffice the need of the local people for transport and communication. Furthermore Mchomvu et al. (2002) noted that poor rural infrastructure hindering effective rural urban linkages; hence led to concentration of economic activities in urban areas. In Mufindi it was revealed that poor infrastructure has led the economic activities to be highly concentrated in the urban areas like Mafinga and Makambako. This has great implication in rural market as it created low money circulation in the rural areas like at Makungu ward. Thus it affects socio-economic contribution of Muvikima SACCOS in promoting rural livelihood in study area and be constraints towards achieving rural development.

Table 2: Proposed Measure to Improve Rural Livelihood

Category label	Frequency	Percentage
Reduce conditions for acquiring loan	13	7.7
Improve infrastructure	58	34.3
Peoples commitment to work hard	8	4.7
Improve market	7	4.1
Create more financial services	25	14.8
Reduce interest rate	8	4.7
Introduce alternative source of income generation	49	29
Provide education	1	0.7
Total	169	100

5. Conclusion and Recommendations

The study concluded that, Muvikima SACCOS proved inadequate in the promotion of rural livelihoods in Makungu ward. Failures to repay back the loan and inadequate SACCOS management such as partial involvement of SACCOS members in planning and decision making have been identified to be the great challenges facing rural SACCOS. It is recommended that, to ensure effective contribution of SACCOS in promoting rural livelihood, SACCOS should put strategies in addressing the root causes of rural poverty in the study area including limited human resources, inadequate physical capital, and insufficient financial capital. This will go hand in hand with lowering SACCOS interest rate, extending time for repaying back SACCOS loan, and SACCOS should also provide financial support to the activities that meet the needs of the rural people than concentrating much on the business sector.

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