

A Study on the Viability of Savings and Credit Cooperatives, As a Tool for Raising Capital and Poverty Alleviation in Rural Communities a Case Study of Nkayi SMEs

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DOI: <https://dx.doi.org/10.47772/IJRISS.2025.914MG00237>

Received: 27 November 2025; Accepted: 04 December 2025; Published: 12 December 2025

ABSTRACT

The study assessed the viability of Savings and credit cooperatives as a tool for raising capital and poverty alleviation in rural communities .A case study of Nkayi SMEs The SME sector plays a pivotal role in Zimbabwe, as SMEs are the backbone of the economy. They provide employment and alleviate poverty among households. Despite their immense economic contribution to the economy, the SME sector faces a plethora of challenges. The problems include lack of access to funding as most of the SMEs do not have collateral, which is required by the financial institutions, and they also face poverty as a result of poor rainfall. The study targeted 60 participants who are rural entrepreneurs in the leather and furniture manufacturing cluster of the economy. Participants that were chosen met the inclusion criteria. Data to be used in the research was gathered by structured questionnaires which were self administered with the help of assistants which are trained. Descriptive and Inferential statistics were generated using the Statistical Package for Social Sciences (SPSS) version 23. Regression Analysis was used to analyse data collected from the research. The study concluded that there is a positive effect between the viability of SACCOs as a tool for raising capital and poverty alleviation among SMEs in Nkayi . The study came up with the crucial link between the effect of SACCOs and raising capital for rural SMEs .The study represents the opinions of a sample carried out in Nkayi , the importance of choosing the study area was to explore the viability of SACCOs in the particular study area. Future studies can focus on the role of SACCOs in the growth of the SME sector . This will help the government to come up with policies that govern Savings and credit Cooperatives . The study proposed that in order for SACCOs to be viable, there should be one governing body that governs SACCOs , availing of support to SACCOs by the government To avert the challenge of funding faced by the SME sector there should be the formalization of Savings and Credit Cooperatives. To the outcomes of the current study have vital implications for both SME practitioners, government, Nkayi rural district and academics. The study revealed that the challenges experienced by SMEs directly contribute to their slow growth in Bulawayo.

Originality/Value- The study contributes to researchers and practitioners as it proffers approaches that promotes the growth of the SME and poverty alleviation through the viable implementation of SACCOs, there is little research on the viability of SACCOs in providing capital for SMEs and poverty alleviation.

Keywords: SACCOs, SMEs

INTRODUCTION

Cox (2012) advocates that a Savings and Credit Co-operative (SACCO) is a n independent, unique member driven, sustenance co-operative. SACCOs are owned ,governed and managed by members who share the same goal . Mboka (2011) articulates that members concur to put their finances together in the SACCO and grant loans to members at an affordable interest rate . Interest which is charged on loans aims to cover the costs which are associated with the day to day running of the SACCO Co -operative .The members own the SACCOs and make decisions regarding the use of finances so that they empower each other . (Savings and Credit Co-operative League of South Africa, SACCLSA).Ounza(2015)articulates that SACCOs play an important role in entrepreneurial development as they deliver proactive affordable and people oriented services which cater for the specific needs of their members.

LITERATURE REVIEW AND HYPOTHESES FORMULATION

Theories of SACCOs

Social Capital Theory

The theory is developed from the social capital . Osoti(2014) affirms that social capital theory comes from social capital which are the institutions the relationships ,the attitudes and values that govern interactions among people, and contribute to economic and social development .Woolcock and Narayan (2011) agrees that social capital is that one family, friends and associates constitute an important asset ,one that can be called upon in a crisis ,enjoyed for its own sake .He further affirms that those communities are endowed with a diverse stock of social networks and civic associations will be in a stronger position to confront poverty and vulnerability and take advantage of new opportunities Anderson, Locker and Nugent(2012).The social capital theory focuses on collective responsibility that enhances better loan payment the theory affirms that when people work as a group as in a Savings and credit cooperative it result in the economic and social development of the group and the community as a whole .

Anderson et al (2012) states that the focus of the social capital theory is to use social and economic development of the individuals ,the group and the community .The application of the social capital theory to the role of SACCOs in financing small businesses is that by SACCOs financing the small business it leads to the social ,financial and physical benefits to the members of the SACCOs .Bailey (2011) articulates that cooperatives are meant are meet the economic and social needs of members. The social, financial benefits to the members of SACCOs is that they can easily access loans to fund their businesses, without the need for coalateral ,ability to accumulate savings ,ability to accumulate savings and acquisition of physical assets and the expansion of businesses .Capital can arise in a cooperative because of improved interpersonal relationships and trust that can increase efficiency and reduce the costs of working together ,thus creating financial capital.

Agency Theory

Jensen (2013) make clear that agency theory is that the relationship in which one or more persons engage another person to perform some service on their behalf which involves some decision making authority to the agent .This theory is relevant to the study of SACCOs as the SACCO is the principal and the small business owners are the agents .In this case the two are supposed to act in good faith of each other .The small business owners must act in good faith and pay the loans on the required time and use the money acquired for its sole purpose .And SACCOs must act in good faith of the cooperatives and charge reasonable interest rates and the loans committee has to act in good faith and do not defraud the cooperative

Nature and Definition of SMEs

Quartley et al (2019)noted the various views regarding the definition of an SME .The authors noted that the diverging views on defining an SMES are one of the greater concern in literature about the definition of an S.M.E. Different authors came up with different views and classification of SMEs . The definition of SMEs differs from different countries and economies .Story (2009) stated that the drawbacks on the definition of the SMEs emanate from the different views of SMEs in different countries .

In Zimbabwe on 31 January 2013, The Reserve Bank of Zimbabwe governor Dr Gideon Gono in the monetary policy named three aspects which define an SME as shown in Table 2.1

Table 2.1 Indicating Characteristics of SMEs

FACTOR	INDICATOR
Asset base	\$10000 to \$2m
Employment	5 to 20 Employees
Annual turnover	\$30000 to \$5m

Source; Monetary policy 2019

It is agreed that SMEs play an important role in developing economies as they are economic agents specifically in countries where there is an unemployment rate which is high. SMEs aid in job creation which results in the creation of innovative products and services. Konerick (2005) noted that SMEs create jobs, aid in value addition whilst providing societal needs and distribution of income. SMEs are key in every sector in the economy as they create jobs and promote sustainable livelihoods. In Zimbabwe SMEs are important the reason for their importance is that they aid in the growth of the economy, the increasing of productiveness whilst generating income and promoting sustenance.

Challenges facing rural entrepreneurs

Bureaucracy

According to Peary (2019) bureaucracy has a negative effect on enterprises which result in negative losses for the enterprise by the time taken negotiating with unethical officials. Bureaucracy leads to uncompetitiveness of products and services as they might be overtaken by events. In Zimbabwe bureaucracy is rampant and has detrimental effects on entrepreneurs as there are many bodies that govern the SME sector which include Chamber of SMEs, Zim trade, Ministry of Women affairs and enterprise development and the Ministry of Industry and commerce also govern the SMEs. Entrepreneurs face bureaucratic hurdles that delayed access to necessary permits and licenses, hindering their ability to engage in formal business activities Musaidzi (2024). Entrepreneurs face bureaucracy in their quest to get support from the government and relevant governing authorities.

Access to money/Capital

Access to capital is the lifeblood of any innovative idea, Tustin (2017) argues that capital aids the entrepreneurs to acquire resources and expertise which is needed so that the innovative opportunities are put into action so that entrepreneurs survive in Volatile environments and grow. Wickham (2018) argues that failure to access capital is one of the critical factors that limits the SME sector to grow and are a hindering factor on the growth of the SME sector. According to Musaidzi (2024) entrepreneurs fail to access credit in Banks and Micro finance institutions because they do not have the collateral which is required by the banks. Financial institutions also view SMEs as a risk factor because some of them lack the required expertise and collateral which is required by the banks. SMEs need capital to come up with innovative ideas that they will materialise them to enterprises. For instance, in Zimbabwe the Women bank and Empower bank are financial institutions which cater for entrepreneurial financing but they require collateral and some of these SMEs do not have this collateral such as houses and cars. Thus, access to capital is one of the challenges faced by entrepreneurs.

Poor technological advancement

The world being a global village, with the rise in new technologies and technological advancements. It has given birth to new enterprises which thrive on quality assurance and technological advancements, Rural entrepreneurs need to have access to the latest technological advancements so as to enable them to have competitive advantage and keep abreast with the global trends in the market place Kobe (2017) advocates that using latest technology in the small businesses sector helps them to bring innovative products and services and becoming efficient. Mutula and Brakel (2017) argue that technology is both critical in small firms and big corporations as with small firms it help them to have a market share in a competitive world thus the government must thrive to equip the women entrepreneurs with advanced technology as this will enable them to grow.

Lack of adequate business training

Sharma (2018) advocates training is increasing the knowledge and skills of the human capital so as to serve a purpose. Training includes procedures which are systematic which helps transfer the technical ability of employees with the aim of increasing their knowledge, skills and problem-solving abilities by undergoing training. Muniyiva (2020) advocates organisations who perform well have realised the need of acquiring excellent training services and development practices so as to increase competitive advantage. Training and development are critical for increasing value and extracting potential on people so as to enable them to grow,

attain economic growth and sustainability among their business, because some people become opportunity entrepreneurs without the necessary skills.

Lack of Access to working infrastructure

According to Hussain et al. (2019), infrastructure develops an economy's productivity, SME growth proves that countries with better infrastructure have a greater inclination for private sector expansion including SMEs. Countries with advanced telecom infrastructure are becoming information-based economies that have a valuable influence on the productivity of businesses. Thus, telecommunications lower operation costs; this improves company operations effectiveness and can therefore encouraging the improvement of small businesses OECD (2016). Bhebhe (2020) argued that poor working space had a negative impact on the SME sector on the sustainability of their enterprises as well as attracting potential customers.

H₀: There is a positive relationship between challenges facing rural entrepreneurs and their limited growth

Services provide by financial cooperatives in poverty alleviation

The main objectives of SACCOs are to provide services such as loans, and promote the culture of savings. Loans and savings are a critical component in granting financial services to low income households. The financial services offered by SACCOs and the needs of the members have a huge gap .Services include payment services which include insurances, remmmittances and money transfers Magill (2009.)The core existence of financial cooperatives was to help the poor citizenry access credit, they extended their objectives as they realised that savings are also critical. Financial cooperatives are a safe place to save ,as they facilitate members in accessing funds which they can use in emergency cases, And they also help members in acquiring financial resources which they can use for investment purposes.

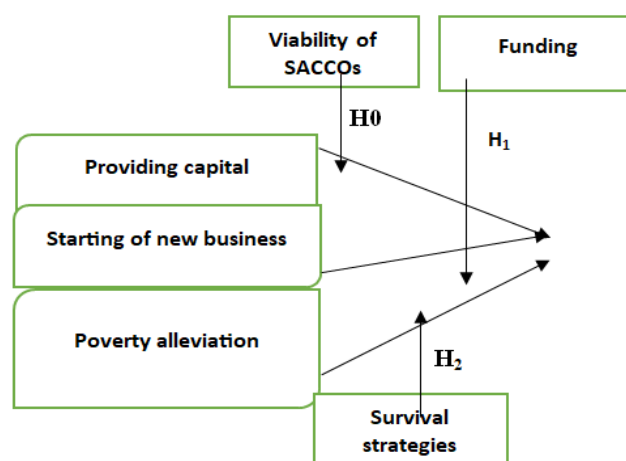
H₁: There is a positive relationship between services provided by financial cooperatives and providing capital for SMEs

SACCOs role in the alleviation of poverty

Savings and credit cooperatives provide training on financial management and entrepreneurship to rural SMEs Elton(2020). The training that SACCOs offer include starting an entrepreneurial venture and innovative ways of funding a business, thus by being trained on starting their entrepreneurial ventures and funding them through SACCOs it alleviates poverty as they partake in projects like soap making , poultry and small shops thus increasing sustainability .SACCOs are a pivotal source of financial inclusion for low-income households Hussain(2018).Entrepreneurs face a challenge in acquiring funding who are often excluded by traditional financial institutions. According to Moyo(2025) SMEs are facing financial challenges as they do not have collateral that is required by banks thereby SACCOs inclusion is crucial for poverty reduction as rural people now are able to start their own business, grow them to sustenance whilst eradicating poverty ;

H₂: There is a positive relationship between SACCOs and poverty alleviation

Research Model



METHODOLOGY

Sampling

The researcher targeted 60 participants who are entrepreneurs in rural areas . The participants were chosen in order to collect data which was required for the study process to be concluded. The 60 participants were used as point of reference to the study.

Measurement Instrument

For this study the five point likert scale questionnaire was used. It included standard questions which followed fixed schemes that aimed to collect individual data about one or specific topics from the source Taderhoost(2018). The questionnaire involved particular interview question , that is in contact which interacts and is controlled by wording , The order of questions in instruments are controlled in a way that participants are supposed to answer. The research utilised close ended questions which included five sections starting with demographics of the participants . The information gathered included age ,gender , level of education and the type of businesses that these entrepreneurs run .

The questionnaire was peer reviewed by colleageaus who have expertise in the particular study area. After reviewing some of the questions were restructured .

Procedure

Ethical clearance was applied from the directors of the SACCOs, after being granted clearance from the cooperatives, there were certain guidelines that were observed for the purposes of this research. Protecting of respondents by applying accurate ethical principles which are pivotal for the study Munhall (2018). Anonymity, confidentiality and the privacy of respondents was upheld. Participating in the study by participants was voluntarily . The researcher ensured that the participants were aware that they can withdraw from participating in the research when they deem the need to do so.

Data Analysis

The study used regression analysis (Process v3.5 by Andrew F. Hayes found in SPSS version 23 to test the hypotheses of the study. Specific objectives were assessed using a correlation analysis model from the SPSS version 23. The most commonly used method for assessing the relationship between two quantitative variables are correlations and linear regression. Correlation analysis was used to explain the strength and the direction of the linear relationship between SACCOs and providing capital for SMEs and poverty eradication . It can also be described as an average product of the standardised variables Bryman & Bell,(2017). It analyses the relationship between interval variables and ordinal variables that pursues to assess the strength and direction of the relationship between variables under study De Waal & Pienaar, (2013)Data analysis involves the reduction of accumulated data to a manageable size, developing summaries, perceiving patterns, and applying statistical techniques Shukla (2010).

Demographic characteristics of Respondents

The researcher targeted 60 participants who are entrepreneurs, the participants were chosen in order to collect data which was required for the study process to be concluded. 60 questionnaires were distributed, 57 were returned thereby giving a response rate of 95%. Three (3) questionnaires were spoiled. According to Saunders, et al. (2007) a response rate of more than 50% is sufficient so as to consider the validity of the findings .

Reliability and validity Tests

The realibility statistics for the two variables challenges and growth of entrepreneurs on **Item** analysis was conducted on all the 12 items on the scale. A high Cronbach alpha coefficient of $\alpha = .89$ was attained for performance. The item-total correlation values displayed in the Item-Total Statistics table below depict the degree to which each item correlates with the total score. Lower values, that is below .30 indicate that the item

is measuring something different from the scale as a whole (Pallant, 2016). The corrected item-total correlations, as depicted in the item-total

Table 5.1 Regression analysis between Challenges facing rural entrepreneurs and their limited growth

Regression analysis was used to test the hypothesis that challenges facing SME have a positive effect towards the limited growth of SMEs. Results indicated that organisational fit had a significant predictive effect on OCB, $B = .55$, $SE = .05$, and $p\text{-value} = .000$ which is less than $.005$. These results supported the H_1 . Approximately 42% of the variance in OCB was accounted for by the predictor (Challenges) were $R^2 = .42$. Table 4.16 depicted the results

Table5. 1: Challenges Facing Rural Smes

OUTCOME VARIABLE	PERFOMANCE
MODEL SUMMARY	
R	0.65
R-squared(R-sq)	0.42
Mean Squared Error	36.12
F	130.50
Df1	1.00
Df2	179.00
P	0.00

Model						
	Coeff	se	t	p	LLCI	ULCI
Challenges	13.91	2.41	5.78	0.00	9.16	18.67
Growth	0.53	0.05	11.42	0.00	0.44	0.63

H0There is a positive relationship between the challenges facing SMEs and their limited growth

Table 5.2 Regression analysis between financial services offered by SACCOs and poverty alleviation

Regression analysis was employed to test the hypothesis that government support had a positive effect on growth. Results indicated that financial services had a significant predictive effect on poverty alleviation , $B = .65$, $SE = .06$, and $p\text{-value} = .000$ which is less than $.005$. These results supported the H_1 . 40% of the variance in growth of SMEs was accounted for by the predictor was $R^2 = .40$. Table 4.17 depicted the results.

Table5. 2 Financial services offered by SACCOs in reducing poverty alleviation

Model Summary	
R	0.64
R-squared (R-sq)	0.40
Mean Squared Error (MSE)	57.26
F	121.83
df1	1.00
df2	179.00
P	0.00

Model Coefficients						
Variable	Coeff	SE	t	p	LLCI	ULCI
Financial services	8.30	3.03	2.74	0.01	2.31	14.28
Poverty alleviation	0.65	0.06	11.04	0.00	0.53	0.77

Table 5.3 SACCOs role in providing capital and poverty reduction

The results in Table 4.18 depicted that there is a positive relationship between SACCOs and PC R is at .769 and R^2 is at .591, which means that 59.1% of the variance in PR is necessitated by poverty reduction. These results indicated that survival strategies had a significant predictive effect on poverty reduction.

Table 5.3 Survival Strategies

Model Summary	
R	0.80
R-squared (R-sq)	0.63
Mean squared error	23.00
F	154.06
DFL	2.00
DF2	178.00
P	0.00

Model Coefficients						
Variable	Coeff	SE	t	p	LLCI	ULCI
SACCOs	9.92	1.96	5.06	0.00	6.05	13.79
Providing capital	0.48	0.05	10.16	0.00	0.39	0.57

Practical Recommendations and Conclusion

- ❖ SACCOs should reduce the interest rates on their faithful members as by so doing it will give SACCOs members confidence to save more and lend more in the SACCOs.
- ❖ Formation of an independent regulatory body that governs SACCOs for example Cooperatives were in the Ministry of Youth economic empowerment and Indigenization they moved to the Ministry of Small to Medium Enterprises and Cooperative development and currently this ministry was dissolved by the new dispensation now Cooperatives have to move to another ministry affecting their regularity.
- ❖ The SACCOs should extend their services and offer loans to non saving members and they charge them high interest rates.
- ❖ SACCOs should transform from being a cooperative to a Bank as in other countries like Kenya SACCOs have now transformed to become banks
- ❖ SACCOs should not only aim in providing capital for small businesses but they can also help in creating linkages between the small businesses and the market
- ❖ SACCOs should invest the excess money so as to be able to increase their financial base.
- ❖ SACCOs should form partnerships among themselves as by so doing it can help the SACCOs to share resources.

In conclusion the study aimed to assess the viability of Savings and credit cooperatives, as a tool for raising capital and poverty alleviation in rural communities. The research ought to assist rural entrepreneurs in navigating the turbulence of funding and poverty challenges. The results of the study revealed that SACCOs play a role in funding rural entrepreneurs as they do not require collateral that is required by the banks. In the study it was depicted that the financial services offered by SACCOs to their members who are small business owners are viable. The researcher established that apart from collecting deposits and providing loans to their members SACCOs offer financial counselling to their members they also teach and empower their members to create assets so as to help them to have a guarantee and collateral for future loan access in other financial institutions which require collateral thereby SACCOs offer viable financial services. The research proffers more conversant interventions and relevant policies which are aligned to the SACCOs.

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