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**FEATURE**

**The Financial Management Challenges on the  
Village Socio-Economic Development**

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***Abstract.** Socio-economic development is based on the enhanced productivity and appropriate financial management of rural area resources. Financial institutions' role in socio-economic development is critical for they finance rural project activities. This study analyzes the socio-economic development status of six villages in the Arumeru District in relation to its financial management challenges and rural development strategies. The data was collected using questionnaires and the results show that most of financial challenges that affect socio-economic development in the villages are financial systems, policies and reporting, and the over-reliance on outsiders' development strategies. Further, it was found that the village financial management challenges are based only on the village global development plan settings even though villages establish most of the initiatives for their socio-economic development.*

**Keywords:** Financial challenges, development strategies, socio-economic development, Tanzania, quantitative methods.

**Introduction**

Village socio-economic development is based on enhanced productivity and appropriate financial management of rural area resources whereby financial institutions play a role in poverty alleviation by funding rural project activities. Financial institutions that have the mandate of lending and financing these activities face difficulties in assisting people. Dymski (2005) observed that every nation or organization is increasingly associating itself with people who intend to integrate into the global financial trade flows. Thus, villages that associate themselves with these organizations must use a system that facilitates reporting

and implementation of policies and this would change villages, districts, and cities for socio-economic development.

The concept of village socio-economic development in Tanzania was emphasized by the late Tanzanian President Julius K. Nyerere in his speech to the first parliamentary meeting in June 1962. He declared that village socio-economic development through village programs should become the nation's top priority (The United Republic of Tanzania, 2000). This is due to the fact that over 80% of Tanzanians are living in villages. Of these, over 50% are living below the \$1.25- poverty line. Further, about 48% of the children below five years of age in these villages are stunted due to poor nutrition and health services (The United Republic of Tanzania, 2010). As such, any concept of development that is to be adopted in Tanzania should be implemented via the villages for that is where the majority of the population lives, and most of them are under the poverty line.

This is not a novel concept. In Africa, village financial management is a potential engine for national socio-economic development. Most of the southern countries such as Botswana, Namibia and Zimbabwe, have started to enhance village financial management systems by ensuring appropriate planning, budgeting, and transparency in terms of establishing books of accounts and financial statements to reveal the village financial and economic progress (UNDP, 2001) for the same reason as Tanzania—that most of the population lives in villages and majority of that percentage lives below the poverty line.

Therefore, in order to cater for these challenges, development project activities are implemented at the village level and are meant to enhance village socio-economic development. Hence, this study analyzes and describes the village financial management challenges and village development strategies in relation to village socio-economic development of the people living in the Arumeru District.

## **Review of the Literature**

### **Socio-Economic Development**

The International Monetary Fund's (IMF) Country Poverty Reduction Report (2006) indicated that though Tanzania began its socio-economic development initiatives in 1962, the majority of the country's population, especially at the village level, has been left behind in terms of development. Further, the report pointed out that financial mismanagement was one of the major factors that impeded socio-economic development fulfillment in the villages. Socio-economic development is realized when people have the ability to easily, sufficiently, and continuously meet their basic needs and have social welfare that can promote self-actualization (Datta, 2008). This can be achieved through the proper management of financial resources in terms of accountability,

transparency, development and implementation of policies, resource management, food security, improvement of education and health services, and access to cash for income generation activities (The Tanzania Poverty and Human Development Report, 2005). This, among others, is one of Tanzania's greatest challenges.

### **Financial Management**

The Joint Implementation Review Report for Tanzania Development Program revealed that project funds are under the guidance of committee members and village authorities that have appropriate knowledge and skilled manpower on how to effectively manage all allocated funds (The United Republic of Tanzania, 2008). According to the IMF's Country Poverty Reduction Report (2006), the main financial management challenges at the village level are: skilled manpower, village financial policies, village natural resource profiles, village sources of finance profile, village infrastructure status profile, village socio-economic development plans and over centralization at the District level (The Tanzania International Monetary Fund, 2006).

Smith's (2003) New Growth Theory considers financial management as a very important instrument in sustaining the community's socio-economic growth. Investment portfolio decisions at the village level should be well incorporated and well-coordinated among stakeholders (such as government officials and village leaders) with mechanisms that improve transparency and accountability in the use and management of financial resources. At the very least, this means that financial information must be well prepared and made available to stakeholders. This involves the budget and financial statements, by-laws, natural resources, and land use plan (Tanzania Poverty and Human Development Report, 2005).

In Tanzanian villages, the identification of financial management challenges and how those challenges affect socio-economic development at the village level are critical to the success of village socio-economic development. The studies and reports above revealed, however, that there is neither support nor participation in village financial management in terms of capability training, or in the formulation of strategies and this has become a hindrance to the socio-economic development at the village level. Thus, the focus of this study is to identify and understand these challenges in order to improve the socio-economic development at the village level.

The research questions to guide the researcher in this study are: What are the village financial management challenges in Arumeru District? What initiatives for village development strategies are effective in this setting? What is the socio-economic development of the people in this setting?

### Methodology

The main purpose of this study is to analyze the factors related to financial management challenges and development strategies on the socio-economic development in the selected villages of Arumeru District in Tanzania.

#### Research Design

The cross-sectional survey research design was employed in this study. Data was collected through the use of a structured questionnaire and both descriptive and inferential statistics were used in analyzing the data. The questionnaire focused on collecting data about individual variables within the village financial challenges, individual variables within the village development strategy categories, and individual variables within socio-economic development for community in the village categories.

#### Participants, Sampling and Questionnaire

The purposive sampling technique was used to select the villages and from the six villages selected, random sampling was used to determine the respondents. All in all, there were 329 respondents that participated in this study, among whom 204 (60%) were female and 125 (40%) were male. The breakdown of the respondents is summarized in Table 1.

The questionnaire had three sections: village financial challenge, village development strategies, and socio-economic development in the village. Respondents provided their opinions on a Likert scale with options Always (5), Frequently (4), Sometimes (3), Seldom (2), and Never (1). This questionnaire was piloted and validated before its use in this study.

Table 1

*Summary of Participants in the Study*

Respondents	N
Village 1	30
Village 2	70
Village 3	49
Village 4	80
Village 5	52
Village 6	48
Total	329

### Data Analysis

Descriptive statistics was used in this study to determine frequency and percentages and the Pearson Product Moment correlation was used to compare variables within the village financial challenges and village development strategies categories and variables within socio-economic development to determine their relationship. SPSS was used to code, compute, and analyze the data.

## Results

### Village Financial Management Challenges

There were six aspects that were surveyed under the financial management challenges. These six includes: the presence of a financial management system; presence of skilled accountants; production of financial reports; presentation of financial reports to stakeholders; following financial management policies; and the presence of a financial development plan. Table 2 is a summary of the responses to these challenges. It is apparent from these factors that the three greatest challenges facing the six villages seem to be: (a) The presentation of financial reports to stakeholders given that 53% did not see any financial report, and 36% saw the report irregularly (Somewhat); (b) Production of financial reports since 36% claimed that reports are not produced, and 30% claimed that reports are produced irregularly (Somewhat); and (c) Following financial management policies as 31% claimed that the policies are not followed, and 16% claimed that it is followed irregularly (Somewhat).

Table 2

*Summary of Responses of the Financial Management Challenges*

Village Financial Management Challenges	Yes (N = 329)	Somewhat (N = 329)	No (N = 329)
Presence of a financial management system	198 (60%)	39 (12%)	92 (27%)
Presence of skilled accountants	206 (63%)	30 (09%)	93 (28%)
Production of financial reports	114 (34%)	98 (30%)	117 (36%)
Presentation of financial reports to stakeholders	37 (11%)	119 (36%)	173 (53%)
Following financial management policies	175 (53%)	51 (16%)	103 (31%)
Presence of a financial development plan	228 (69%)	7 (2%)	94 (29%)

### Village Development Strategies Initiative

Seven aspects of the village development strategies initiatives were surveyed: village initiated development strategies; ward initiated development strategies; district initiated development strategies; presentation of financial information development strategies to villagers; participation in village development promotions; involvement in financial strategy development; and good governance in village financial management (see Table 3 for a summary of the responses). It is apparent from the descriptives that the three main impediments of development strategies initiatives are the involvement of people in the financial strategy development in view of the fact that 74% are not involved and 2% are sometimes involved. Additionally, for good governance in village financial management, 73% claimed that there is no governance; and for district-initiated development while 69% claimed the district does not initiate development strategies.

Table 3

*Summary of Responses of the Development Strategies Initiative*

Village Development Strategies Initiative	Yes (N=329)	Somewhat (N=329)	No (N=329)
Village initiated development strategies	168 (51%)	49 (15%)	112 (34%)
Ward initiated development strategies	112 (34%)	—	217 (66%)
District initiated development strategies	61 (18%)	42 (13%)	226 (69%)
Presentation of financial development strategies to villagers	100 (30%)	61 (19%)	168 (51%)
Participation in village development promotions	81 (25%)	91 (28%)	155 (47%)
Involvement in financial strategy development	85 (26%)	7 (2%)	244 (74%)
Good governance in village financial management	88 (27%)	—	241 (73%)

### Village Financial Challenges and Village Development Strategies

Table 3 presents the results of the relationship that was found between village financial challenges and village development strategies as seen in the villages of the selected district. There were five strategies. These are represented in the columns: good governance; food security; accessing cash; reliance on outside assistance; and leadership transparency.

Table 3  
*Relationship Between Village Financial Challenges and Development Strategies*

	Good govern.	Food security	Access to cash	Outside assistance	Leadership Transparency
Village financial management system	-.294**	-.420**	-.775**	.522**	-.160**
Level of education for accountant for the village	-.261**	-.240**	-.691**	.470**	-.179**
Village financial management reports	-.286**	-.356**	-.468**	.341**	
Sharing of village financial reports	-.288**	-.257**	-.297**	.354**	
Availability and use of financial policies	-.272**	-.607**	-.629**	.493**	
Availability and use of village development plan			.384**	-.284**	

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed)

The challenges are represented in the rows by presence of a village financial management system; level of education of accountant; financial reports; sharing of financial reports; availability and use of financial policies; and availability and use of village development plan.

Results from Table 3 show a high positive significant correlation between village financial system and the strategy of relying on the outsider ( $r = 0.522$ ). Further, there was a significant negative correlation between financial systems and good governance of leadership in the village ( $r = -0.294$ ), access to cash through financial institutions ( $r = -0.775$ ), ability to provide food ( $r = -0.420$ ), and leadership transparency in the village ( $r = -0.160$ ). The results imply that

the village financial system in this study relies on outsider's strategies. The negative significance of relationships observed mean that the trends in the village system follow what happens in other regions and that strategies developed in the village are not aligning well with the village financial systems as they should.

Findings in Table 3 show that there was a positive significant correlation between the level of education of accountants working in village financial management and the reliance on the outsider ( $r = 0.470$ ). This means that the higher the education of accountants, the better the strategy of relying on outside assistance. The results also indicate that there was a significant negative correlation between education of accountants and good governance of leadership in the village ( $r = -0.261$ ), access to cash through financial institutions ( $r = -0.691$ ), ability to provide food ( $r = -0.240$ ), and leadership transparency in the village ( $r = -0.179$ ). This means that the level of education of accountants does not guarantee good governance of leadership strategies, access to cash through financial institutions, ability for food security strategies, and transparency strategies. This implies that educated accountants in the village do not apply their theoretical knowledge learned from their educational training, for the sake of the village development.

Table 3 shows a significant positive correlation between village financial report and the strategy of relying on the outsider ( $r = 0.341$ ). Additionally, there was a significant negative correlation between village financial report and good governance of leadership in the village ( $r = -0.286$ ), access to cash through financial institutions ( $r = -0.468$ ), and strategy of ability to provide food ( $r = -0.356$ ). This excellence in financial report did not reflect good governance strategies of leadership, access to cash strategies, and food security strategies for the villages. It implies that the report was likely made by an outsider with little or no consideration of what is actually happening in the village.

A significant positive correlation was observed between level of village financial policies and the strategy of relying on the outsider ( $r = 0.493$ ). Results also indicate that there was a significant negative correlation between village financial policies and good governance of leadership in the village ( $r = -0.272$ ), access to cash through financial institutions ( $r = -0.629$ ), and the strategy of ability to provide food ( $r = -0.607$ ). These findings imply that financial policies are simply not implemented.

Table 3 also shows a significant positive correlation between the level of village financial development plan and of cash access through financial institutions in the village ( $r = 0.384$ ). The results also show a significant negative correlation between financial development plan and the strategy of relying on outsiders in the village ( $r = -0.284$ ).



Table 4  
*Descriptive Statistics of Socio-Economic Factors*

Socio-economic Factors	N	%
Meals per day:		
One meal a day	155	75%
Two meals a day	3	1%
Three meals a day	62	19%
Source of food:		
Farm as source of food production	206	63%
Market sales of products	87	26%
Food from government and NGOs	17	5%
Food donation and borrowing	6	2%
Housing Materials:		
Built in bricks and concrete	196	60%
Made with semi-durable materials	69	21%
Mud houses	64	19%
Ownership of Houses:		
Owned the house	201	61%
House belong to relatives	37	11%
House is rented	63	19%
Government housing	28	9%
Monthly Income		
1000 – 100,000 tshs	254	77%
100,001 – 200,000 tshs	58	18%
200,001 – 300,000 tshs	12	4%
300,001 +	3	1%
Children Attending School		
Primary School	203	62%
Secondary School	92	30%
Higher Education	18	6%
Source of Drinking Water		
Rain Water	196	60%
Tap Water	60	18%
River Water	58	18%
Well Water	15	4%
Afford the use of hospital for medical needs		
Yes	143	44%
No	186	56%

### **Socio-Economic Development**

Seven elements were surveyed under socio-economic development: the number of meals a day; source of food; the housing materials; house ownership; monthly income generation; number of children in schools and their educational level; those who can afford to use hospitals; and the source of water. The statistics of these factors are presented in Table 4.

These factors were taken from Malcolm W. Watson's Human Development theory and Paul Romer's New Growth theory. This clearly reveals that community socio-economic development is not just about looking at development in simple economic terms; rather, it is about taking into consideration the future of those communities all together (Smith, 2003).

### **Village Financial Challenges and Socio-economic Development**

Table 5 synthesizes the relationship between village financial challenges and socio-economic development of the community. Findings in Table 5 show a significant positive correlation between levels of village financial system and number of meals per day ( $r = 0.186$ ), income per family ( $r = 0.202$ ), and housing structure ( $r = 0.270$ ). Further, the results indicate that there was a significant negative correlation with village financial system in relation to family source of income in the village ( $r = -0.183$ ) and water accessibility in the village ( $r = -0.189$ ). The results imply that financial system has a positive correlation with family food provision, family monthly income and housing structure.

There was a significant positive correlation between the level of education for accountant in the village and number of meals per day ( $r = 0.186$ ), income per family ( $r = 0.190$ ), and housing structure ( $r = 0.353$ ). The results also show a significant negative correlation between level of education of accountants and source of income in the village ( $r = -0.441$ ). This implies that the level of education of accountants does not guarantee access to income. This is in line with the fact that the main source of income of villagers is farming (62.4%), while 26% of the respondents rely on daily labor as source of income, and only 6.3% of the respondents rely on small business. Furthermore, findings indicate that there is significant relationship between education of accountants and school fees payment ( $r = -0.131$ ). There is a significant negative correlation between level of village financial reports and water accessibility in the village ( $r = -0.173$ ). The results also demonstrate a significant positive correlation between village financial reports and housing structure ( $r = 0.143$ ) and negative relationship with school fee payment ( $r = -0.118$ ).

Table 5  
*Relationship Between Village Financial Challenges and Socio-economic Development*

	Family meal per day	Housing structure	Source of Income	Family monthly income	School Fees payment	Health services
Village financial management system	.186**	.270**	-.183**	.202**		
Level of education for accountant in the village	.186**	.353**	-.441**	.190**	-.131*	
Village financial management reports		.143*	-.132*		-.118*	
Availability and use of financial policies		.228**	-.279**		-.170**	.227**
Availability and use of village development plan	-.301**	-.179**	.248**	-.235**		.339**

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed)

Results show a significant positive correlation between village financial policies and housing structure ( $r = 0.228$ ), and health services ( $r = 0.227$ ). The results also indicate a significant negative correlation with village financial policies and source of income in the village ( $r = -0.279$ ), and payment of school fees ( $r = -0.170$ ). There is a significant positive correlation between level of village financial development plan and source of income ( $r = 0.248$ ), and health services ( $r = 0.339$ ). The results also show a significant negative correlation with village financial development plan and number of daily meals per family ( $r = -0.301$ ), housing structure ( $r = -0.179$ ), and the family monthly income ( $r = -0.235$ ).

### Village Development Strategies and Socio-economic Development

Table 6 presents the synthesis of different relationships between village development strategies and socio-economic development of village communities. Findings in Table 6 show a significant negative correlation between food security through savings and housing structure ( $r = -0.164$ ). The results also indicate a significant negative correlation with food security through savings and number of meals taken per family per day ( $r = -0.120$ ).

A significant positive correlation was found between cash accessibility through financial institutions and health services ( $r = 0.229$ ), and water accessibility ( $r = 0.242$ ). The results also indicate a significant negative correlation between cash accessibility and housing structure in the village ( $r = -0.329$ ), and significant negative correlation meal taken per family ( $r = -0.148$ ) and family monthly income ( $r = -0.134$ ). Last, a significant positive correlation was found between village reliance on outsider strategy and number of meals taken per family per day ( $r = 0.261$ ), and housing structure ( $r = 0.196$ ).

Table 6

*Relationship Between Village Development Strategies and Socio-economic Development*

	Food security	Cash access	Outside assistance	Leadership transparency
Family meal per day	-.120*	-.148*	.261**	-.145*
Housing structure	-.164**	-.329**	.196**	
Source of Income				
Family monthly income		-.134*		-.216**
School Fees payment				-.161**
Health services		.229**		
Drinking water		.242**		

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed)

A significant negative correlation was found between village financial leadership transparency and family monthly income ( $r = -0.216$ ), and payment of children school fees ( $r = -0.161$ ), with a negative significant correlation with meal taken per family per day ( $r = -0.145$ ). While all these correlations can be surprising, they are in line with the conclusion reached above that reports are probably prepared by an outsider who does not take into consideration the reality of day-to-day life in the village.

### **Conclusions and Recommendations**

This study has revealed that village financial management and village development strategies remain the vital machinery for village socio-economic development. The findings have shown that the most challenging factors that affect socio-economic development and financial system in the villages are that the more financial system is organized the worse the governance, access to cash, leadership, transparency and food security strategies in the village. This implies that village financial system and village development strategies are the result of community initiatives based on village policies and development plan settings. This study concludes that wards, NGOs, and the district/government have little implication in the socio-economic development of the six villages of the Arumeru District. Government authorities and NGOs should take steps in initiating and treating people in meaningful strategies to strengthen the village financial management systems and encourage development, which will eventually improve the living standard of the people.

In partnership with businessmen and local social groups, the government should pay attention to social and economic development programs, which eventually will improve the living standards of the people. This could help them deal effectively with any type of financial and economic crisis that may occur in the future.

Village financial management committees should be formed and informed on how to implement financial policies, and take into consideration all other aspects of finance such as reporting, feedback and communication with stakeholders. Socio-economic development in the villages should be one of the priorities from the development strategic plan of the government and other parties existing in the rural areas.

Further studies are recommended in the investigation of the development strategies to overcome financial challenges and enhance socio-economic development in the village. A survey should be conducted in the villages of Arumeru District to explore the level on self-reliance and socio-economic development for households. Last, this survey should be administered to other rural communities in other districts and other developing countries to better understand this topic.

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