THE IMPACT OF FINANCIAL REGULATIONS ON FINANCIAL SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN TANZANIA: CASE OF MOROGORO MUNICIPALITY

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CERTIFICATION

I, the undersigned, do hereby certify that I have read and hereby recommend for acceptance by the Open University of Tanzania, a dissertation titled; **The impact of Financial Regulations to the Financial Sustainability of Micro- Financial Institutions in Tanzania**: **a case study of Morogoro municipality**, in partial fulfilment of the requirements for being awarded Master's Degree of Project Management of Open University.

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DECLARATION

I, Musa John, do hereby declare that this dissertation is my own original work and that it has not been-presented and will not be presented to any other University for a similar or any other Degree award.

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ABSTRACT

The study investigated on the impact of financial regulations on financial sustainability of microfinance institutions in Tanzania using the case study of Morogoro Municipality. Specifically To identify the extent the MFIs financial regulation on the financial sustainability of MFI's in Tanzania, to assess the influence of MFIs financial regulation on the financial sustainability of MFI's in Tanzania, to assess the challenges facing MFIs sustainability in Tanzania. Data was gathered from 50 respondents with a population of the study consisted of 116 Microfinance Institutions (MFIs) which were selected using stratified random sampling at Morogoro Municipal basing on the available statistics from register of cooperatives in municipal office and census survey done by the researcher. The primary and secondary sources of data was used and data were analysed by using Microsoft exel and SPSS. It was noted that inadequate training in all of the surveyed MFIs in Morogoro was the major factor that negatively impacted the performance of MFIs. This also implies that trainings are crucial for sustainability of MFIs. The study recommends the need for enhancing training in MFIs in Tanzania. Moreover, it recommends for an imperative need for lessening the loan provision conditions and also of lowering the high interest rates charged to MFIs. It is suggested that there is a need of striving to create ideal business environment in rural areas. This is due to the fact that this study noted that almost all MFIs are concentrated in the urban settings where they reap most profits due availability of favorable business conditions.

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LIST OF ABBREVIATIONS

BOT   Bank of Tanzania

CBO's   Community based organizations

FINCA   Foundation for International Community Assistance

FSS   Financial Self-Sufficiency

GONGOs   Government Non-Governmental Organizations

MFIs   Microfinance institutions

NBC   National Bank of Commerce

NGOs   Non-Governmental Organizations

NMB   National Microfinance Bank

OSS   Operational Self-Sufficiency

PRIDE   Promotion of Rural Initiative and Development Enterprises

SACAs   Savings and Credit Organizations

SACCOs   Savings and Credit Cooperatives Societies

SIDO   Small Industries Development Organization

SMEs   Small and Medium Enterprises

YOSEFA   Youth Self Employment Foundation

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter covers the background information, the statement of the problem, research objectives and research questions.

1.1 Background Information

Microfinance has become a vital tool for poverty reduction in many parts of the world especially in developing economies for providing financial services such as savings, credit, insurance and remittance services. Lack of access to credit is generally seen as one of main reasons why many people in developing economies remain poor (Hermes & Lensink, 2007). Poverty reduction has been the foremost target of Micro finance institutions (MFIs); therefore an increase in number of MFIs is an indicator for the growth and success of micro-finance especially in the rural areas (Ullah & Routray, 2007). MFIs target poor through innovative approaches which include group lending, progressive lending, regular repayment schedules and collateral substitute (Kimando *et al.*, 2012; Thapa, 2006).

In Africa, MFIs have become the main source of funding Micro enterprises (Anyanwu, 2004). For instance in Nigeria, microfinance has been identified as an effective tool in achieving three objectives; strong and focused emphasis on economic growth, better access by the poor to social services and adequate

infrastructure and targeted interventions to protect low-income populations (Babandi, 2011).

Tanzania is a small-sized economy, with a large portion of population below the poverty line of $2 a day, particularly in rural areas (Marr & Tubaro, 2011). Agriculture is the backbone of the economy in the country. In 1991, the government initiated financial sector reforms in order to create an effective and efficient financial system (URT, 2000).Through the reforms; there have been a lot of financial institutions including MFIs being established in Tanzania. The microfinance sector in Tanzania has recently experienced tremendous growth due to the increased number of firms engaging in microfinance services including banks and other profit oriented firms (Triodos Facet, 2011). For the majority of Tanzanians whose incomes are very low, access to microfinance services have offered the possibility of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future, and taking advantage of investment opportunities for economic returns (URT, 2000). In short MFI serves the financial needs of the poor Tanzanian population. However, still 56% of the population in Tanzania has no access to financial services, a proportion that has slightly grown over the last few years (Finscope, 2009).

The positive impacts of MFIs on socio-economic welfare of the poor can only be sustained if the institutions can achieve a good financial and outreach performance (Kinde, 2012). To fulfil the objective of outreach to poor population, MFIs should allocate better the available resources as well as operate in sustainable basis(Kipesha,

2013a).It has been reported that only those MFIs which are financially sustainable stand a chance of reaching the vast of millions of poor (Nyamsogoro, 2010). Schreiner (2000) argued that "unsustainable MFI's might help now, but they will not help poor in the future because MFI will be gone". The MFIs have continued to depend on donor funds for their operations instead of building their own capacity (URT, 2000). However researchers identified several reasons for failure of donor funded MFIs such as high default rates, poor fund management and lack of knowledge on better use of funds among members served (Aghion & Morduch, 2005; Cull, Demirgüc-Kunt & Morduch, 2009; Zeller & Johannsen, 2006). Therefore, financial sustainability of MFIs is a necessary condition for the attainment of its long term objectives.

Various studies have shown that most of MFIs in Tanzania have not attained financial sustainability (Kipesha, 2013a; Nyamsogoro, 2010; Kawiche, 2013). Indeed it has been reported that most of the MFIs were reported to operate at high costs and low productivity, which in turn resulted in low outreach and high losses (Marr & Tubaro, 2011; Nyamsogoro, 2010). It must be acknowledged however, that some of the larger Tanzanian MFIs have undertaken major efforts to achieve financial sustainability, and may in future set the example for others to follow (Marr & Tubaro, 2011). Such MFIs in Tanzania that have attained self-sustainability include Promotion of Rural Initiative and Development Enterprises (PRIDE) and Youth Self Employment Foundation (YOSEFO) (Kessy & Urio, 2006; Marr & Tubaro, 2011). There is a necessity to research on determinants of financial sustainability of MFI's

in Tanzania so as to ensure that MFI's attain sustainability to achieve their objectives for long period.

1.2 Statement of the problem

Loan from MFI's play important role in both rural and urban areas in the worldwide because it encourages economic and social development through loan provision to small and medium enterprises and other economic activities (Kessy & Urio, 2006). This is simply because they generate or bridge the gap left by commercial banks in issuing microcredit to small businesses and micro entrepreneurs. The main business of MFIs is to accept deposit from surplus units and lend them to the deficit units; they are earning profit through interest on amount lent to customers. Given the importance of MFIs, the knowledge of factors affecting financial sustainability is therefore essential not only for the managers, but as well as for numerous stakeholders such as central bank and government (Tehulu, 2013).

Most MFIs normally require financial assistance during earlier years. Donors should be used temporarily to build the institutional capacity of MFIs, develop supporting infrastructure and support needed services and products (CGAP, 2004). It has been realised that to secure sustainability, improve efficiency and to secure ability to meet growing demand for capital, the MFIs as they mature must strive to become self-sustainable. The problem is how to attain financial sustainability by MFIs. Despite that, MFIs have faced increasing competition for scarce donor funds and increased market competition due to entrance of commercial banks in the

microfinance business (Hermes *et al*., 2011). They are also facing declining donor support which affects their operations (Kipesha, 2013b).

A number of MFIs have demonstrated that low income earners can use small loans productively to pay higher rates of interest for their loans (Kimando, Kihoro & Njovu, 2012). The interest rates charged by MFIs in Tanzania compared to commercial banks are very high (Kessy & Urio, 2006). Despite the high interest rates charged by MFIs and the number of customers they serve in a year, but still they are not financially self-sustainable. A lot of MFIs still depend on loans from donors to cover their operation costs. Financial sustainability of MFIs is important because donor constancy is not a given and in order to make sure that MFIs do not deviate from their objectives. Due to the aforementioned statement it necessitates to conduct a study on assessment of financial sustainability of MFIs in Tanzania as it is possible for MFIs to attain sustainability even with very poor clients.

Several studies have been carried to determine factors that influence financial sustainability of MFIs using large and well developed MFIs across different countries (Cull, Demirguc-Kunt & Morduch, 2007; Woller & Schreiner, 2002). For instance locally, there are few studies that have been carried out on financial sustainability of MFIs including; Nyamsogoro (2010) who carried out the study on financial sustainability of rural MIF's in Tanzania, Chijoriga (2000)did a study on the performance and sustainability of MFI in Tanzania, Kawiche (2013) did a study on the determinants of financial performance of MFIs in Tanzania and Kipesha (2013b)

did a study on the Impact of Information and Communication Technology (ICT) on efficiency and financial sustainability of MFIs in Tanzania. However the level of significance of these factors varies with studies (Kawiche, 2012; Kinde 2012; Nyamsogoro, 2010). Some of the determinants are found to be significant in one economy or applicable to a set of MFIs, some are not significant (Cull *et al* 2007; Woller and Schreiner, 2002). In addition, the different methodology used in different studies on the similar topic will result in different findings or outcomes. Previous studies have suggested different set of important factors of financial sustainability of MFIs as they have used different variables depending on research questions, available time and data availability. No study has been published on the impact of staff training and financial regulation on financial sustainability of MFIs in Tanzania. Therefore this study will be carried out to fill this knowledge gap.

1.3 Main Research Objective

This study aims at finding out the impact of financial regulation on financial sustainability of MFIs in Tanzania.

1.4 Specific Objectives

The specific objectives include:-

 i. To identify the extent the MFIs financial regulation on the financial sustainability of MFI's in Tanzania.

 ii. To assess the influence of MFIs financial regulation on the financial sustainability of MFI's in Tanzania.

 iii. To assess the challenges facing MFIs sustainability in Tanzania.

1.5 Research Questions

1.5.1 General Research Question

What is the impact of financial regulation on financial sustainability of MFIs in Tanzania?

1.5.2 Specific Research Questions

i. To what extent the MFIs financial regulation on the financial sustainability of MFI's in Tanzania.

ii. What are the influence of MFIs financial regulation on the financial sustainability of MFI's in Tanzania.

iii. What are the challenges facing MFIs sustainability in Tanzania.

1.6 Significance of the Study

The study explore one of the most important issues of today not only for developing countries but for all countries in the world, namely Microfinance institution on the impact of financial regulation on financial sustainability of MFIs. More specifically would examine the regulations on the financial microfinance institution, which is one of the approaches considered to have a greater potential to empower the disempowered.

The knowledge generated by this study would be useful not only to microfinance operating in Tanzania but also other developing countries in the area of regulations

governing financial institutions With regard to the knowledge gap in the area, the study would contribute to widening the literature on Microfinance institution on the regulations

Through this study the researcher would gain practical knowledge of conducting different types of research.

The findings would identify various areas of weaknesses that would help the microfinance institutions and government at large to take measures to overcome such weaknesses as far as regulation is concern

1.7   Limitations of the Study

Hurdles in any investigations are inevitable; hence as the researcher the following problems expect to be faced during the study:

- Insufficient time

  The time for conducting this study was so limited in comparison to the assignment to be done.

- Financial resources expected to be another challenge which the researcher will face in the course of conducting this study.

- Difficulty in mobilizing tailored data since there is different categories of respondents.

1.8 Delimitation

- Insufficient time

The time for conducting this study was so limited in comparison to the assignment to be done however researcher used the time available to complete the research report on time

- Financial resources expected to be another challenge which the researcher faced in the course of conducting this study, however researcher used from the microfinance available so as to complete the proposal and research as scheduled

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter provides the definitions of all the important concepts and terms related to factors affecting financial sustainability of MFIs. The chapter analyses the existing literature on different conceptualization of the research topic.

2.2 The concept of Microfinance

The commercial banks usually focus on profit maximization, it is then reasonable for them to ignore poor people as their target customers. Reasons include poor people lack collateral, they are provided small loans which are expensive to administer and poor people lack credit history with banks (Dokulilova *et al.*, 2009; Van Tassel, 1999; Woradithee, 2011). The need of microfinance services is derived from the fact that majority of the population in the world do not qualify to be served by formal financial institutions such as commercial banks.

Most people think microfinance is all about lending small loans (microcredit) to poor. Microfinance is broader than that, as it has been defined by different scholars. There are various definitions of microfinance and all have the same meaning or essence just difference in words. Hartarska (2005) defined microfinance as the provision of small scale financial services to low income or unbanked people.

Similarly Barr (2005) defined microfinance as a form of financial development that is primarily focused on alleviating poverty through providing financial services to poor. All the definitions use the term financial services and not small loans to represent services offered by MFIs.

The institutions that provide microfinance services are called MFIs. Financial services provided by these MFIs may include one or any combination of savings, credit, insurance, pension/retirement and payment services (Chijoriga, 2000). Microfinance does not only cover financial services but also non-financial assistance. MFIs also provide social intermediation services such as group formation, development of self-confidence, training in financial literacy and management capabilities among members of a group intended to benefit low-income women and men (Ledgerwood, 1999).

According to Hamada (2010) there are three main objectives of microfinance. The objectives include outreach to the poor, making positive impact and maintaining financial sustainability. The outreach to the poor refers to the ability of MFIs to serve/ reach large number of poor population. Making positive impact refers to the ability of MFIs to help poor people to create their own incomes and to accumulate assets thus reducing their vulnerability to external shocks such as economic downturns or natural disasters. Maintaining financial sustainability refers to the ability of MFIs to cover their operating costs using the operating income. Therefore it

is clear that without MFIs, the poverty level would be very high as poor people will be limited to access development opportunities.

Microfinance is then based on the premise that the poor have skills which remain unutilized or underutilized.

It is definitely not the lack of skills which make poor people poor. Charity is not the answer to poverty as it only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty.

2.3 Key Characteristics of Microfinance

The key characteristics that differentiate MFIs and other financial institutions have been identified by Marc & Armendáriz (2011). There are at least nine traditional characteristics of microfinance:-

  i.   Small transactions and minimum balances (whether loans, savings or insurance).

  ii. Loans for entrepreneurial activity.

  iii. Collateral-free loans.

  iv. Group lending.

  v.   Focus on poor clients.

  vi. Focus on female clients.

  vii. Simple application processes.

  viii.   Provision of services in underserved communities.

  ix. Market-level interest rates.

The focus on poor clients is almost universal for all MFIs in the world. However there is a variation in the definition of the word poor. Some argue that microfinance should focus on the "economically active poor", or those just at or below the poverty level (Robinson, 2001). Economic active poor refers to those among the poor who have some form of employment and who are not severely food-deficit or destitute (Guntz, 2011). Others on the other hand, suggest that MFIs should try to reach the poor without considering if they are economically active poor. Not all characteristics stated are displayed by all particular MFIs. For example it is very clear that some of MFIs require collateral or collateral substitute such as household assets. Moreover most but not all, microfinance programmes focus on women while others do not.

2.4 Lending models of Microfinance Institutions

MFIs might differ with respect to the models of delivering micro financing services to their clients. MFIs lending model is based on whether clients are treated as individuals or group members. Marc & Armendariz (2011) identified three basic models of liability employed by MFIs. The lending models can be classified as follows:-

2.4.1 Solidarity Group Lending

The solidarity group lending is also called "peer lending group" (Guntz, 2011). The solidarity group lending model soften referred to as the Grameen model (Marc & Armendáriz, 2011).This model applies to small groups usually within larger groups,

which are socio economically homogeneous especially five people (Marc &A rmendáriz, 2011). The model has low to moderate interest rate charges, element of group responsibility for repayment, and repayment incentives based on peer pressure and future loan eligibility. If any of the group members fail to repay their loans, the other group members must repay for them or face losing access to future credit (Marc & Armendáriz, 2011). After a successful repayment of the loan the group may qualify to get a larger loan (Guntz, 2011). It has strict repayment and savings schedules. However, the frequent group meetings increase the transaction costs for members.

Therefore the MFI has less work to do since most of the work is done by the borrowers (Group) as they are responsible for forming the group and selecting the right members, administration and organization of repayment plan and scheduling group meetings and meetings with the loan officers from the MFI(Hazeltine & Bull, 2003).

2.4.2 Village Banking

The model was founded by John Hatch, the founder of the American non-governmental organization (NGO) Foundation for International Community Assistance (FINCA) (Felder-Kuzu, 2005). Village banking describes a community-based credit and saving association, run by a village itself (Guntz, 2011). This model applies on larger groups of 15–30 people, who are responsible for the management of the loan provided by MFI ("the external account"), as well as making and collecting loans to and from each other ("the internal account") (Marc & Armendáriz, 2011).After the loan is received by a self-appointed village committee,

the committee divides the loan into small loans which are then provided to the members of the group. The model enables saving deposits as well(Guntz, 2011).The role of the MFI is to assist only in administration and technical issues (Hazeltine & Bull, 2003). In India, self-help groups (SHGs) operate according to similar format (Marc & Armendáriz, 2011).

2.4.3 Individual Model

This model resembles that of the formal system, where the borrower is taken as an individual; usually resulting in higher interest rate charges. The model is expensive and labour intensive because it requires deep field research in order to choose the right client (Guntz, 2011). The main sources of information are the family, friends and leaders of the community (Hazeltine & Bull, 2003). Most of the time MFIs requires collateral from borrowers in this kind of model to minimize risks.

It focuses on savings and individual repayment responsibility. Technical assistance as well as payment schedules and business management training is generally provided by the MFI (Hazeltine & Bull, 2003).

2.5 Establishment of Microfinance in Tanzania

In Tanzania, before financial and banking restructuring took place, most of the financial services for the rural, micro and small enterprises were offered by the National Bank of Commerce (NBC) and the Cooperative and Rural Development Bank (CRDB) (Chijoriga, 2000). Statistics indicate that before restructuring, informal sector accounted for 80% (Rutashobya, 1991), only 0.4% people obtained their credit from formal banks (Malima, 1997).

The development of financial sector reform began with the economic recovery programme of 1986. The Presidential Commission of Enquiry into the monetary and banking system established in 1988 examined the banking sector and made

recommendations to improve its overall performance to support economic growth. The commission recommended broad based financial sector reforms.

The financial sector reform has made an appreciable impact (URT, 2000).The Banking and Financial Institutions Act 1991 permitted the entry of private banks and financial institutions into the market and vested the Bank of Tanzania with the power to supervise and regulate. This enhanced competition, improving the quality of financial services and products offered.

To implement this commitment, the principal elements of the financial sector reform include liberalization of interest rates, elimination of administrative credit allocation, strengthening of the Bank of Tanzania's role in regulation and supervising financial institutions, restructuring of state owned financial institutions, and allowing entry of private banks, both local and foreign (URT, 2000).

These reforms were embodied in the Banking and Financial Institutions Act, 1991. Since 1991, much of the financial sector reform agenda has been implemented and has an appreciable impact (URT, 2000). The state owned commercial banks in existence prior to the reforms, namely the former National Bank of Commerce was split into two independent commercial banks the NBC and the National Micro finance Bank (NMB). Local and foreign private banks have also been established.

Due to the vacuum left by formal financial institutions and the recognition of the increasingly important role of Small and Medium Enterprises (SMEs), the need for

creating an alternative financing system has risen. As a result, a good number of MFIs have been established.

Research shows that the MFIs were established as earlier as 1985, with majority of the schemes initiated in 1994 to 1995 (Makombe, Temba & Kihombo, 1999). Most of the schemes were registered as NGOsfor privately operated schemes, and those operating as government departments are registered as government NGOs (GONGOs).Government of Tanzania therefore initiated the micro finance policy formulation process in 1996. The National Micro finance policy was approved in February 2001.

2.6 Microfinance Service Providers in Tanzania

According to the 2011 country survey in Tanzania done by MF Transparency MFIs are divided in three main categories. The first being most dominated MFI which is cooperative based institutions (Savings and Credit Cooperatives Societies (SACCOs) and Savings and Credit Organizations (SACAs)) which are not regulated by BOT and they are comprising of people having some formal common bond (such as living in the same community, work in the same organization or field) and agreeing to save money together and lending to one another, usually at relatively low interest rates for the members. Examples of SACCOs in Tanzania are Small Industries Development Organization (SIDO), YOSEFO and the Zanzibar based Women Development Trust Fund.

The second is bank schemes serving microfinance by offering a range of microcredit products (MFTransparency, 2011).Some formal banks run a small window that lends to micro enterprises. Sometimes the window may operate as a credit guarantee scheme through which bank receives funds at a subsidy in the form of interest rates subsidies, or partial guarantees from the government or donor sources, thereby enabling the bank to share the risk of lending due to lack of formal collateral. They are generally seen as social programme and these banks usually operate as public relations efforts. The largest banks are the NMB and Akiba Commercial Bank (ACB). However there are a few regional and community banks that offer microcredits, namely Dar es Salaam Community Bank, Mwanga Community Bank, Mufindi Community Bank, Kilimanjaro Cooperative Bank, Mbinga Community Bank and Kagera Cooperative Bank.

Lastly, NGOs are associations that operate independently of government while dealing with microfinance services. The most prominent NGOs include PRIDE TZ and FINCA.

In 2005, the Bank of Tanzania carried out a country survey to update the directory of microfinance practitioners. The main purpose was to provide the main stakeholders and public with information of MFIs in Tanzania. The directory discovered that there are 45 Community based organizations (CBO's), 48 SACAs, 1635 SACCOs, 57financial NGO's, 8 banks,1 financial service associations and 105 governmental programmes/schemes(Bank of Tanzania, 2005).

2.7 Financial Sustainability of MFIs

Sustainability is the ability of an organization to continuously carry out activities and services in pursuit of statutory objectives (Guntz, 2011). In MFIs, sustainability can be considered at several levels of institutional, group, and individual and can relate to organizational, managerial, and financial aspects (Rao, 2001). However the issue of financial sustainability of MFIs has recently attracted more attention. Financial sustainability refers to ability of MFIs to cover their operating costs using their operating revenue (Kipesha, 2013b). The simple definition of financial sustainability is the balance between MFIs profit gained and the cost of carrying the operations of MFIs without depending on donations and other types of subsidies from the government. The costs include present cost incurred to support current operations and those incurred to support growth (Nyamsogoro, 2010).

Financial sustainability can be measured in two stages which are operational self-sufficiency (OSS) and financial self-sufficiency (FSS) (Forster, Greene & Pytkowska, 2003; Nyamsogoro, 2010). The OSS indicates whether or not enough revenue has been earned to cover operational costs without considering the support of financial subsidies (grants and soft debts) (Torre & Vento, 2006).FSS refers to the ability of the MFIs to cover from their own generated income, both operating and financial costs and other forms of subsidy valued at market prices (Nyamsogoro, 2010).That is, an organization earns positive net income independently of donor support and can offer positive returns to its investors (Forster *et al*., 2003).

MFIs are usually established to fulfil a mission of reaching financial services to poor who are otherwise not reached by banking sectors, with an eventual goal of reducing poverty but the high costs of administering small loans usually lead to insufficient profit. Financial sustainability is necessary to reach significant number of poor population because it allows the continued operation of the MFI. Building a financial sustainable MFI is the only way to reach significant scale and impact far beyond what donor agencies can fund (CGAP, 2004). Brau and Woller (2004) argue that most MFIs are not financially sustainable and add that the MFIs cannot survive without subsidies and funds from government and donors. This ideology has been supported by Hermes and Lensink (2007) who claim that due to high cost of administration, MFIs are thus reliant on donor subsidies.

However, Morduch (2000) support those MFIs should be financially sustainable to continue to serve the poor by developing the institutional capacity and management of these MFIs and by encouraging new innovations and experimentation in the field of microfinance. MFIs that are truly financially sustainable tend to target poor clients because they can benefit from economies of scale by extending their loans to marginally poor and non-poor clients. Hollis and Sweetman(2001) prove that microcredit institutions in Ireland in 18th and 19th centuries were financially sustainable for more than a century because they adapted to economic and financial environment. All these studies support that it is possible for MFIs to attain financial sustainability.

2.8 Staff training and Financial Sustainability of MFIs

Training refers to the teaching and learning activities carried on for the primary purpose of helping members of an organization to acquire and apply the knowledge, skills, and abilities and attitudes needed by that organization (Mahapatro, 2010). Training equips the employees with skills and knowledge to contribute to the MFI efficiency and cope with changes in the environment. It is clear that staff training in many organizations across the world lead to increased returns. Staff training is one of the most cited Critical Success Factors (CSFs) in ensuring sustainability of MFIs (Goodwin, 1999).

2.9 Regulations and financial Sustainability of MFIs

Regulation refers to the set of governmental rules that apply to microfinance (CGAP, 2003). The regulation of microfinance may take any of the following forms: interest rate ceiling, foreign exchange controls; control over admitting new entrants into the market; as well as establishing reasonable capital requirements (Nyamsogoro, 2010).

Arsyad, (2005) found out that growing economy and supporting governmental policies together with central bank regulations had contributed to the success of the MFIs in Indonesia. To be sustainable MFIs may charge high interest rates or attract deposits from savers. But when the regulations limit MFIs to charge high interest rates, it may impact the sustainability and the survival of MFIs.For example in the 1960s, the government of Ireland put an interest rate cap, MFIs became less

competitive and later disappeared (Seibel, 2003). Regulations of MFIs strengthen their financial sustainability (Satta, 2004).

2.10 Theoretical Framework

2.10.1 Agency Theory

An agency model suggests that as the result of information asymmetries and self-interest, principals/owners lack reasons to trust their agents/managers and will seek to resolve these concerns by putting in place mechanisms to align the interests of agency with principals and to reduce the scope for information asymmetries and opportunistic behaviour (Institute of Chartered Accountants, 2005). In simple words, the theory emphasizes that when ownership and management is separate then incentives and control are needed to induce managers to maximize profits or other organization goals such as social performance (Mersland *et al*., 2011). It is clear that both principal and the agent want to maximize returns and income respectively (Woradithee, 2011).

The focus of the agency theory is to design a mechanism for resolving the agency problem. There are various mechanisms that may be used to try to align the interests of agents with principals and to allow principals to measure and control the behaviour of their agents and reinforce trust in agents (Institute of Chartered Accountants, 2005). This includes remuneration packages, incentives to managers and hiring and firing by the board of directors. Employing the mechanisms for

minimizing agency problem will maximize the returns of owners and the income of managers.

The theory may be linked to financial sustainability which is the indicator of MFIs performance. The board of directors are supposed to develop mechanisms that will force managers attain financial sustainability. For example an audit provides an independent check on the work of agents and of the information provided by an agent, which helps to maintain confidence and trust. Therefore principles play a significant role in order to reduce agency costs in any organization whether for profit or not.

2.10.2 Micro Credit theory

The psychological component of the micro credit theory known as social consciousness driven capitalism has been advanced by most ardent promoter of micro finance (Yunus, 1998). His theory argues that a species of profit-making private venture that cares about the welfare of its customers can be conceived. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to the fair interest of their customers (Elahi & Danopoulos, 2004).

The rationale of the theory is straight forward. Although altruism is not totally absent, capitalism is founded mainly on the premise that human beings are selfish by nature. Based on this theory it is clear that individuals interested in business are naturally motivated by the principle of profit-maximization, with little consideration for the

interest of their clients (Kawiche, 2013). This premise is too limited to be general model for capitalism, however, because it excludes individuals who are concerned about the welfare of their fellow human beings. A more generalized principle would assume that an entrepreneur maximizes a bundle consisting of financial return or profit and social return. This assumption creates three groups of entrepreneurs (Elahi & Danopoulos, 2004).

The first group consists traditional capitalists who maximize financial returns or profit. The second group consists of philanthropic organizations (like traditional micro credit NGOs) and public credit agencies that mainly maximize social returns. The third group consists of entrepreneurs who combine both rates in making their investments decisions under the additional constraint that financial return cannot be negative. This group includes the microfinance enterprisers who are to be treated as socially concerned people, and microfinance, which is to be treated as a social consciousness-driven capitalistic enterprise.

2.11 Empirical Literature Review

In this section, various studies made by various scholars relating to the study are analysed in order to provide some insight on the specified objective.

2.11.1 Empirical Studies Outside Tanzania

The study by Wambugu and Ngugi (2012) looked at the influence of factors such as service delivery, branch network, staff training and capital adequacy on sustainability

of MFIs in Kenya. The research design used was a descriptive study of a population of 135 lower and middle managers from Kenya Women Finance Trust with the sample of 30% being selected using stratified random sampling. The study concludes that quality of service delivered, branch diversification, staff competencies, cost of capital have positive impact on the financial sustainability of Kenya Women Finance Trust.

Abafita (2003) identified two most important objects for MFIs to be successful namely financial self-sustainability and more outreach to the target rural population. Financial self-sustainability is said to be achieved when the return on equity, net of any subsidy received equals or exceeds opportunity cost of funds. Outreach was assessed on the basis of the type of clients served and the variety of financial services offered including the value and the number of loans extended, percentage of total rural population served, the real annual growth of the rural financial institution assets over recent years and the participation of women clients.

Kinde (2012) used a balanced panel data set of 126 observations from 14 MFIs in Ethiopia over the period 2002-2010. The study found that microfinance breadth of outreach, depth of outreach; dependency ratio and cost per borrower affect the financial sustainability of MFIs in Ethiopia. However, the capital structure, and staff productivity have insignificant impact on financial sustainability of MFIs in Ethiopia during the study period.

Tehulu (2013) conducted a study on determinants of financial sustainability institutions in East Africa from 23 MFIs in East Africa for the period 2004 to 2009. The study found that MFIs financial sustainability is positively and significantly driven by loan intensity and size. However, management inefficiency and portfolio at risk have a negative and significant impact on financial sustainability. Breadths of outreach and deposit mobilization are not important determinants of financial sustainability based on the study.

2.11.2 Empirical Review in Tanzania

In Tanzania few studies have been done on financial sustainability of MFIs and related concepts, one of the researcher is Chijoriga (2000) using 28 MFIs and 194 medium and small enterprises randomly selected from Arusha, Dar es Salaam, Morogoro, Mbeya and Zanzibar regions. The researcher evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance. The study found that the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organization structure. It was further observed that MFIs in Tanzania lack participatory ownership and many are donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. The researcher pointed out to low population density, poor infrastructures and low household income levels as constraints to the MFI's performance. The study did not cover factors affecting financial sustainability of

MFIs in Tanzania. This study therefore has been designed to identify the factors affecting financial sustainability of MFIs.

Another study on MFIs in Tanzania was carried out by Nyamsogoro (2010) who determined factors affecting financial sustainability in rural Tanzania. The study followed a quantitative research approach using panel data regression as the main data analysis technique. The study was based on four years primary and secondary data obtained from 98 samples of rural MFIs in Tanzania. The study found that microfinance capital structure, interest rates charged, differences in lending type, cost per borrower, product type, MFI size, number of borrowers, yield on gross loan portfolio, level of portfolio at risk, liquidity level, staff productivity, and the operating efficiency affect the financial sustainability of the rural MFIs in Tanzania. The study was largely quantitative and focused on MFIs that are located in rural areas and did not consider staff training as the factor affecting financial sustainability. This study will use both rural and urban areas to make a comparative analysis on financial sustainability among MFIs.

Kawiche (2013) studied determinants of financial performance on MFIs in Tanzania by integrating financial performance measures. The study was analysed using Ordinary Least Square (OLS) regression model. The findings show that financial performance of reviewed MFI was low due to low profit margin and high amounts of operating expenses and liabilities drained down the amount of net income of the MFIs. The study further adds that MFIs need to balance the financial performance to

ensure survival in a competitive market while meeting their social objective. The study did not cover the financial sustainability of MFIs in Tanzania.

2.12 Conceptual Framework

Conceptual framework is a set of coherent ideas or concepts organized in a manner that makes them easy to communicate to other (Msabila & Nalaila, 2013). In a conceptual framework, there are three types of variables, independent variables and dependent variables.

In this study as conceptualized by the author (2014) the independent variables are financial regulation and staff training. However the dependent variable is financial sustainability of MFIs.

Based on the literature review it can be theorized that there may be a positive relationship between financial regulation and financial sustainability of MFIs in Tanzania. AsArsyad (2005) found out that growing economy and supporting governmental policies together with Central Bank regulations had contributed to the success of the MFIs in Indonesia.

Based on theory, staff training can be assumed to have a positive relationship with financial sustainability of MFIs in Tanzania. As according to Mahapatro (2010) employees training and development initiatives can transform organizations with providing extra skills and knowledge to the employees do not only increase safety

and productivity but training leads to higher job satsisfaction, which shows up in better corporate performance.

Financial Regulation

Financial sustainability of MFIs

Staff training

Independent Variables   Dependent Variable
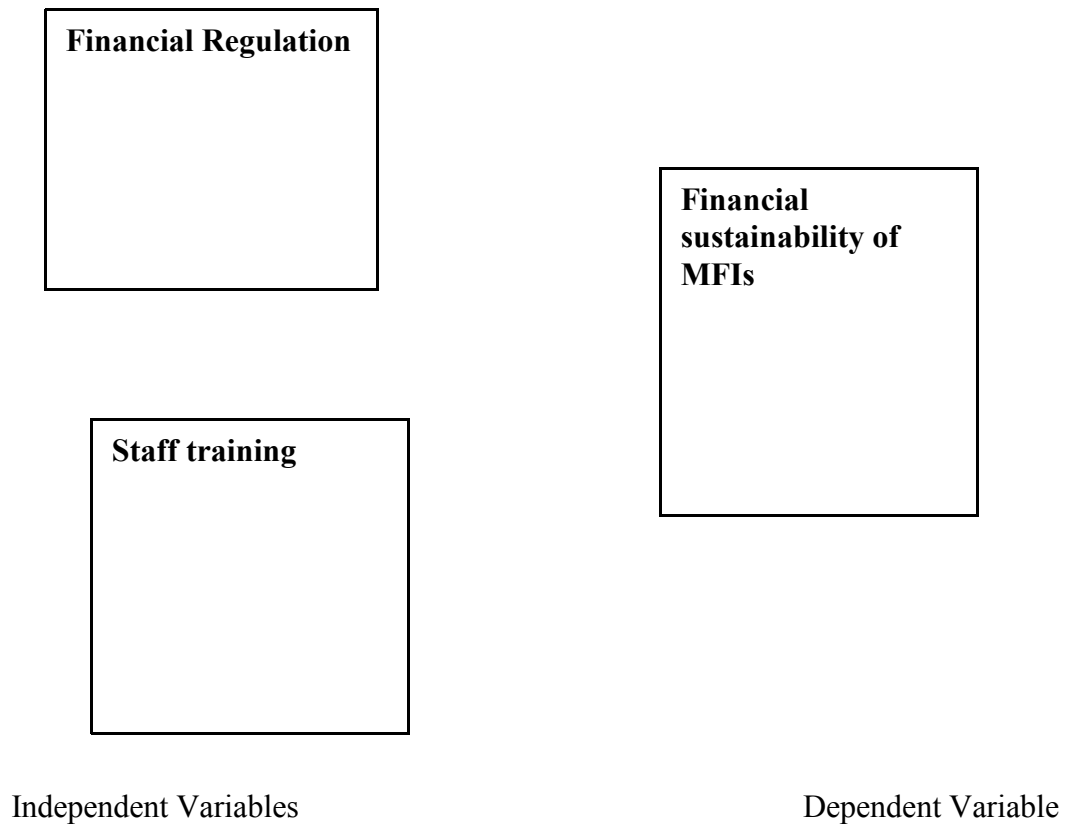
Figuren 2.1 Conseptual Framework

Source: Researcher (2015)

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter looks at the methodologies that were used in the study of factors influencing financial sustainability of MFIs in Morogoro municipality. The chapter is structured into research area, research design, population and sample of the study, data collection and data analysis technique.

3.2 Research Area

The study was conducted in Morogoro Municipality in Tanzania. Morogoro municipal lies at the crossings of longitudes 37.0 East of the Greenwich Meridian and latitude 4.49 South of equator. The area selected is convenient to the researcher due to the possibility of acquiring data easily. The accessibility of the area under the study leads to the collection of reliable and relevant data within given limited resources in terms of time and money.

3.3 Research Design

The proposed study adopted descriptive research design. The descriptive research design is preferred as the study aims at investigating the relationship that exists among and between variables for three years. The method was successfully used by

Kimando *et al*(2012) in a study of factors influencing sustainability of MFIs in Murang'a Municipal in Kenya.

A study used Morogoro municipality as the case study. This was because the case study enabled to study deeply few cases in the system (Kothari, 2004).

Data from case studies are greatly comprehensive and reliable because of their ability to explore instances in depth and enables the research to get the information which is purposive and comprehensive.

3.4 Population of the Study

The target population for this particular study are all MFIs that operate in Morogoro municipality. The population of this study consist of 116 MFIs in Morogoro Municipal according to available statistics from register of cooperatives in municipal office and census survey done by researcher. The MFIs was categorized into main three groups as follows109 cooperative based institutions, 5NGOs and 2 banks.

3.5 Sample of the Study

This study is limited to the MFIs that operate within the municipality to obtain relevant data on the subject matter. The sample size of interest in this study consists of 16 MFIs that have operated from 2011 to 2013. The sample of 16 MFIs was made up of 12 cooperative based institutions, 3 NGO's and 1bank schemes serving microfinance as indicated in Table 3.1. Normally, this number does not violate the general rule of thumb that for generalizability, a ratio of number of observations to number of independent variables should never fall below 5:1 (Hair *et al*, 2006).

Although the minimum is 5.1, the desired level is between 15 to 20 observations for each independent variable (Hair *et al*, 2006). The study has 2 independent variables this requires the minimum number of observations to be 10 and the desired to fall between 30 and 40. However with three years data from each MFI, the minimum number of observations was 4 MFIs and the desired to fall was between 8 to 14 MFIs. Therefore the sample size of 16 MFIs is large enough to make generalization of the population based on the study.

Table 3.1 Sample Size

MFI type	Planned Sample	Percentage
Cooperative based institutions	12	75%
NGOs	3	18.75%
Banks	1	6.25%
Total	**16**	**100%**

Source: Author, 2014

3.6 Sampling technique

The study employed the stratified random sampling technique. The stratified random sampling is unbiased sampling method of grouping heterogeneous population into homogeneous subsets then making random selection within the individual subset to ensure inclusivity (Wambugu & Ngugi, 2012). This technique helped the researcher to collect data from each type of MFIs operating in Tanzania to make inferences about the population.

3.7 Data collection

The study used both primary data and secondary data sources. Primary data was collected from 3 employees of the organization or supervisors and 1 manager using structured questionnaires provided in Appendix 1 and interview. Secondary data was collected from financial reports, documentation, archival records, magazines, internet and other documents that were relevant to the study.

3.8 Data Management

3.8.1 Editing

After collection, data editing and cleaning were done to ensure data consistency, uniformity and completeness. The researcher employed the use of computer software such as SPSS for analysis and presentation. These statistical packages are useful because of their simplicity and ability to draw graphs and tables with the help of Micsosoft excel 2007.

According to Kothari, (2004) content analysis refers to a technique used to analyze communication with systematic, objectives and qualitative manner in order to measure variables. And thus in this microfinance qualitative data were quantified subject to content analysis with a view to extract relevant information. Data analysis were also involved in making comparisons and contrasts from one respondent to another so as to obtain alternative explanations for the findings. Data analysis was made simultaneously with data collection, data interpretation and report writing of this study.

3.8.2 Coding

Coding is an interpretive technique that both organizes the data and provides a means to introduce the interpretations of it into certain quantitative methods. Most coding requires the analyst to read the data and demarcate segments within it, which may be done at different times throughout the process. Saladana, Johnny (2012). Each segment is labeled with a "code" – usually a word or short phrase that suggests how the associated data segments inform the research objectives. When coding is complete, the researcher prepared report via a mix of: summarizing the prevalence of codes, discussing similarities and differences in related codes across distinct original sources/contexts, or comparing the relationship between one or more codes.

3.8.3 Validity

Validity refers to the extent to which methodologies and instruments precisely measure what they are supposed to measure. A data collection method is reliable and valid to the extent that it produces the same results repeatedly. Valid evaluation are one that take into account all relevant factors, given the whole context of the evaluation, and weight them appropriately in the process of formulating conclusion and recommendations. to ensure that ,the collection of data were valid ,expected respondent were selected and be given questionnaire or be interviewed basing on simple random sampling.

3.8.4 Reliability

Enon (1995) define reliability as the manner research procedures or techniques are consistent. Reliability entails consistency and dependability of data collected through repeated use of a scientific instrument or data collection procedure under the same conditions. Absolute reliability of evaluation data is hard to obtain. However, training of evaluators can improve both data reliability and validity.

3.9 Data Analysis Plan

According to Kothari (2004), data analysis plan refers to computation of certain measures along with searching for pattern of relationship that exist among data groups. Therefore, data analysis is intended to derive descriptive statistics by classifying, organizing and summarizing the data into tables and graphs as deemed appropriate. In addition, data analysis led to the development of inferences from the findings and provide room for decision making on interested bodies in the community as well as the whole country for the better of women empowerment through microfinance institutions.

Both qualitative and quantitative data were collected. The statistical tools were used in the inferential analysis to reach conclusions and interpretation on the study objectives. Qualitative data were quantified subject to content analysis, with a view of extracting relevant and useful information (Kothari, 2004). The quantified data were then presented in simple tables and charts; where frequencies and percentages were calculated to facilitate comparisons between respondents for the purpose of

drawing up of inferences related to a particular research question of this study. Data analysis were done simultaneously with data collection, data interpretation and report writing. In order to maintain internal validity, consistency, reliability and accuracy, the researcher constantly compared data from interview responses.

3.10 Operational Definition

This section explains the variables used as dependent and independent variables. The measurements used for these variables are described and summarized under the following table.

3.10.1 Dependent Variable

The dependent variable is financial sustainability which was measured by operational self-sufficiency (OSS). The OSS is computed as follows: -

$$OSS = \frac{Financial\ Revenue}{(Financial\ Expenses + Impairment\ losses + Operating\ Expense)}$$

Operating sustainability is defined as having OSS level of 100% or more. However financial sustainability is defined as having OSS level of 110% or more.

3.10.2 Independent Variables

The independent variables are staff training and financial regulation that was measured using likert scale. The study used the scale of 1(Strongly disagree) to 5 (Strongly agree). However an open ended and close ended question was also used.

CHAPTER FOUR

DATA ANALYIS, FINDINGS AND DISSCUSSION

4.0 Introduction

This chapter presents findings and results as regard to financial regulation on financial sustainability of micro finance institutions in Morogoro municipality. This study assessed the experience of MFIs staffs in service providing as well as the micro financial regulation if hinders the development of these micro financial institution's and the possible solutions to them were determined and analyzed a well as suggestions on areas for improvement so as to create friendly environment for small scale business operation. Tables and figures will be used to present the findings of the study in this chapter.

4.1 Challenges and Success Faced During Data Collection

In the process of data collection some challenges are met even though the process is conducted successfully. The problem of illiteracy among staffs of MFIs on academic researches reduced the proper answers as expected. Also, rough responding resulted from carelessness of the respondents gave out unexpected answers which even caused incomplete answers on questionnaires. Failure of providing feedback on time as promised due to negligence among some of the respondents like misplacing, damaging (tearing0 and losing of questionnaires, this resulted in additional costs of printing more questionnaires o as to fix the missing ones.

Refusing to give out the views, fears of being sued especially for those who conduct their business illegally. Out of these challenges, success was also met.

Accomplishment of the exercise as all expected questionnaires was collected. Frankly, views from the respondents out of the questionnaires give room for improvements which came to be used in the study. Collection of extra questionnaires and having wide chance of using those with perfect answers resulting in accuracy of expected feedback.

4.2 General Characteristics and Personal Details of Respondents

The study considered some of the social, culture and economic nature of the respondents. In Morogoro Municipality there are many MFIs and it is easy for various studies to be conducted as regard to business issues. The collection of data from different types of MFIs ranges from small MFIs to large MFIs makes a place vibrant for business environment. Many entrepreneurs operate their business through depending on micro loan from these financial institutions.

Table 4.1 Employees Academic level

	Academic level	Frequency	Percent	Valid Percent
Valid	Secondary	24	48.0	48.0
	completed High school	12	24.0	24.0
	Completed undergraduate	8	16.0	16.0
	Post graduate	6	12.0	12.0
	Total	50	100.0	100.0

Source: Field Data (2015)

The distribution of academic qualification of the respondents who are staff and owners of MFIs as shown in Table 4.1 point out that most of the respondents 24(48%) do have a secondary school qualification, followed by 12(24)% who are completed high school as well as 8(16%) who completed undergraduate and 6(12%) who are completed undergraduate and postgraduate respectively. During the study researcher observe that most of these MFIs owners do not have proper academic qualification as well as knowledge on how to operate them, they do rely on experience and the amount of capital to operate them.

4.2.1 Gender of the Respondents

In analyzing the gender of the respondents who participated in this study both owners and employees of MFIs, researcher uses pie chart to conduct the analysis of the gender variable.

Table 4.2 Respondents Gender by percentage Ratio

	Gender	Frequency	Percent	Valid Percent
Valid	Male	28	56.0	56.0
	Female	22	44.0	44.0
	Total	50	100.0	100.0

Source: Field Data (2015)

During the data collection gender issues were very well considered by the researcher where the sample size of 50 respondents constitute 28(56%) of respondents were male and 22(44%) of respondents were female. This implies those males are exceeding female in terms of working under MFIs in Morogoro Municipal.

4.3 Analysis Outcome

4.3.1 MFIs Location

The study also tried to explore the location of the Micro financial institutions in Morogoro Municipality, by doing so researcher ask the owners of these MFIs whether their institution is located in urban areas or peri – urban areas and the analysis of their answers is shown in table 4.3 below.

Table 4.3 MFIs Location

	MFIs Location	Frequency	Percent	Valid Percent
Valid	Inside Municipal town	23	46.0	46.0
	Peri urban areas	27	54.0	54.0
	Total	50	100.0	100.0

Source: Field Data (2015)

When interpreting and analyzing the above figure, researcher found out that 23(46%) the micro financial institutions are located inside municipal towns where as 27(54%) are located in peri urban areas (immediately adjoining in urban areas). When exploring the nature for this exceeding factor researcher observe that most of micro financial lenders are located in those areas where they are adjoining into urban areas because in those areas there is a large opportunity in establishing new businesses

unlike in town where a lot of businesses have already been established hence little opportunity to make a successful business operation for them.

4.3.2 Types of Micro Financial Institutions Ownership and Key Mission

When researcher tried to ask about the type of MFIs ownership from the managers and owners with the intention of classifying them in terms of Cooperative based institutions such as SACCOSS and SACAS, NGOs/ faith based and Government and knowing their key missions here under are the results of their answers.

Table 4.4 Micro financial Institution Ownership and Key Mission

	Micro financial Institution Ownership	Frequency	Percent	Valid Percent
Valid	Cooperate based institutions	35	70.0	70.0
	NGOs/ faith based	3	6.0	6.0
	Government	7	14.0	14.0
	Others	5	10.0	10.0
	Total	50	100.0	100.0

Source: Field Data (2015)

The above data revealed that 35(70%) of the available MFIs in Morogoro Municipal are corporative based institutions such as SACCOSs and SACASs, 7(14%) are owned by the government where as 3(6%) are NGOs/faith based and 5(10%) are owned by the other institutions which is not stated in the questionnaire's respectively. When researcher further asked them about the key mission of these MFIs all of the respondents do argue that they are both for poverty reduction and profitability.

4.3.3 Products offered by MFIs to Customers

Table 4.5 shows the types of services and products offered by MFIs, the large percentage of the respondents who engage in the MFIs businesses declared that the type of services offered to a great extent is Loan service comprising of 43(86%), however there is a little group of MFIs which provides savings comprising of 6(12%) and those providing deposits comprising of 1(2%). However researcher observer that those MFIs which provide the other two services (savings and deposit) are mostly located in urban areas due to presence of many business activities which required the depository and saving service.

Table 4.5 Product Offered by MFIs to Customer

		Frequency	Percent	Valid Percent
Valid	Loan	43	86.0	86.0
	Service	6	12.0	12.0
	Deposit	1	2.0	2.0
	Total	50	100.0	100.0

Source: Field Data (2015)

4.3.4 MFIs Lending Model

Table 4.6 shows the mode of lending used by MFIs of Morogoro Municipality. In exploring these question researchers ask the managers and employees of these institutions if the lending is in individual, group lending or both of them and the results of their answers are presented in the following figure

Table 4.6 MFIs Lending Model Used

	MFIs Lending Model	Frequency	Percent	Valid Percent
Valid	Group lending	36	72.0	72.0
	Individual lending	9	18.0	18.0
	Both	5	10.0	10.0
	Total	50	100.0	100.0

Source: Field Data (2015)

The above figure revealed that 36(72)% of MFIs uses group lending model, where as 9(18%) uses individual lending and the remaining 5(10%) of the MFIs uses both models. The reasons which makes most of these financial institutions to opt for group lending model is the easiness of the mode in running and collecting the returns as it is stipulated in Grameens model. This model requires prospective borrowers to form or join a group of five members who meet weekly in a local community. The group encourages a culture of financial responsibility where peer – support leads to 99% of repayment. These groups also serves as a social network of voluntary mutual support as members are individually responsible for their own loans.

4.3.5 Types of Staff Training Provided in MFIs

Researcher also tried to analyze the types of Staffs training provided by the MFIs with the aim of assessing them if they are applicable to the micro finance institutions globally. In doing so researcher ask respondents who were employees of these MFIs and the analysis of their answers put in figure 4.7 for interpretation

Table 4.7 Types of Staff Training Provided by MFIs

	Staff Training	Frequency	Percent	Valid Percent
Valid	Technical (Skill) Training	35	70.0	70.0
	Business skill training	10	20.0	20.0
	Person development	5	10.0	10.0
	Total	50	100.0	100.0

Source: Field Data (2015)

The above data revealed that 35(70%) of respondents who are employees of Morogoro Municipal MFIs do argue that they receive training on technical (job skills) where as 10(20%) do argue that they received business skills training, 5(10%) argued that they receive personal development skills and none of the respondent argue that he received other training than the mentioned ones.

4.3.6 Staffs Training Contribution in Organization Efficiency

In analyzing if the provided training contributes towards organizations efficiency, researcher uses frequency table to analyze and interpret the findings as follows

Table 4.8: Staff Training Contribution in Organization Efficiency

	Staff Training Contribution in Organization	Frequency	Percent	Valid Percent
Valid	Strong Agree	20	40.0	40.0
	Agree	10	20.0	20.0
	Disagree	15	30.0	30.0
	Strongly disagree	5	10.0	10.0

		50	100.0	100.0
	Total	50	100.0	100.0

Source: Field Data (2015)

Table 4.8 shows that; 20 of respondents that equivalent to 40.0% strongly agree that staffs training contribute to increase in efficiency in their organizations whereas 10 respondents comprising of 20% still agree. However 15 respondents equivalent to 30% strongly disagree with the notion that staffs training contributed in organization efficiency and 5(10%) respondents disagree.

4.3.7 Body Regulate MFIs in Tanzania

Researcher ask the managers which body in Tanzania regulate their MFIs whether it is BoT, MoF, or Registrar of cooperatives or any other; the results of their answer is interpreted below

Table 4.9 Body regulates MFIs in Tanzania

	Body regulates MFIs	Frequency	Percent	Valid Percent
Valid	BoT	8	16.0	16.0
	MoF	6	12.0	12.0
	register of cooperatives	36	72.0	72.0
	Others	0	0.0	0.0
	Total	50	100.0	100.0

Source: Field Data (2015)

Table above shows the number of staffs as well as managers of MFIs who stated about which body regulate their financial activities, as it is shown 36(72%) of respondents argue that the registrar of cooperatives control their financial activities, 8(16%) of respondents argue that Bank of Tanzania (BoT) control their financial activities whereas 6(12%) of respondents argue that Ministry of Finance regulate their financial activities.

4.4 Discussion of the findings

This study has come up with three major findings. In the first place, the data have Confirmed findings of this study are in line with previous researchers such as Ledgerwood (1999) who advocate that MFIs need to also provide social intermediation services such as group formation, development of self-confidence, training in financial literacy and management capabilities among members of a group intended to benefit low-income women and men.

Likewise, the findings of the present study resonates those of the studies by previous scholars who argued for group lending model. For example, Marc & Armendáriz (2011) opine that the model has low to moderate interest rate charges, an element of group responsibility for repayment, and repayment incentives based on peer pressure and future loan eligibility. Arguing still further for the group lending model, it has been remarked that the model is relatively ideal since if any of the group members fail to repay their loans, the other group members must repay for them or face losing access to future credit (Marc & Armendáriz, 2011). Emphasizing the point, it is

stated that if after a successful repayment of the loan, the group may qualify to get a larger loan (Guntz, 2011).

This study has however found that Staff training has potential contribution to the financial sustainability of MFIs as argued by previous scholars. Training refers to the teaching and learning activities carried on for the primary purpose of helping members of an organization to acquire and apply the knowledge, skills, abilities and attitudes needed by that organization (Mahapatro, 2010). Training equips the employees with skills and knowledge to contribute to the MFIs efficiency and cope with changes in the environment. It is clear that staff training in many organizations across the world lead to increased returns. Staff training is one of the most cited Critical Success Factors (CSFs) in ensuring sustainability of MFIs (Goodwin, 1999).

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter provides the summary of the major findings of the study, conclusions and recommendations for action and for further studies.

5.1 Summary of the Major Findings of the Study

This study has disclosed that staffs training have potential contribution to influence workers performance in MFI, s as indicated in the study. The findings show that 40% of the respondents strongly agree and other 20% agree that staffs training contribute to the efficiency of Micro financial Institutions in Morogoro Municipality while 30% and 10% strongly disagree and disagree that on the influence of training on Organization sufficiency. Staff training considered as most cited Critical Success Factors (CSFs) in ensuring sustainability of MFIs (Goodwin, 1999).

Additionally, the data revealed that 72% of MFIs use group lending model, where as 18% uses individual lending and the remaining 10% used both models. The justification for using group lending model is that it was easier for MFIs to use it. This model requires prospective borrowers to form or join a group of five members who meet weekly in a local community. The group encourages a culture of financial

responsibility in which peer groups are formed, which makes MFIs realize 99% of the loan repayment. These groups also serves as a social network of voluntary mutual support as members are individually responsible for their own loans.

5.2 Conclusion

This study sought to attain two specific objectives, namely; First, to assess the influence of MFIs financial regulation on the financial sustainability of MFI's in Tanzania; Secondly, to identify the factors that influence MFIs sustainability in Tanzania. The study was conducted in Morogoro Municipality in Tanzania. Equally an important note, the study deployed descriptive research design. The sample size of interest in this study consisted of 16 MFIs that were operating from 2011 to 2013. These included 12 cooperative based institutions, 3 NGO's and 1bank schemes serving microfinance.

The study employed stratified random sampling technique. Moreover, the instruments of data collection were structured questionnaires and interviews. Two types of analyses were used in the study, as follows: First, descriptive statistics such as frequency, mean, mode, median, variance and standard deviation. Secondly, partial correlation analysis was used to determine the relationship between staff training and financial sustainability of MFI and the relationship between financial regulation and financial sustainability of MFI.

The results obtained through data analysis have shown that there is relationship between performance of a Microfinance Institution and provision of training in all of the surveyed MFIs in Morogoro. Additionally, the data revealed that many (72%) of the MFIs studied use group lending model, where as 18% uses individual lending and the remaining 10% used both models. Basing on the findings of this study, it is concluded that provision of financial and business trainings are essential for sustainability of MFIs.

5.3 Recommendations

5.3.1 For Action

It is highly recommended that education provision is necessary for empowerment of MFIs. During the study, it was discovered that many respondents lacked enough education particularly relevant for the businesses they were conducting. They were therefore resorting to use of experience.

Moreover, it is suggested that there is a need of striving to create ideal business environment in rural areas. This is due to the fact that this study noted that almost all MFIs are concentrated in the urban settings where they reap most profits due availability of favorable business conditions.

5.3.2 For Further Studies

The study looks only on the impact of financial regulation on financial sustainability of MFIs in Tanzania. . Further research could explore on how MFIs entrepreneurs can be motivated to invest in rural areas.

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7. 0 APPENDICES

7.1 Appendix 1: Questionnaire

<div align="center">

MANAGERS/ OWNERS

</div>

Facility information

1. Name of the MFI

   ………………………………………………………………………………………

   …

2. Is the MFI registered? (Please tick as appropriate)

   [ ] Yes

   [ ] No

3. Date of registration ……………………………………………………………

4. Physical address ………………………………………………………………

5. Contact (Number)………………………………………………………………

6. Email address …………………………………………………………………

7. Where in MFI

   headquarters?……………………………………………………..

8. Location (Please tick as appropriate)

   [ ] Urban: Inside a town

   [ ] Peri-urban: Immediately adjoining an urban area

9. Type of ownership (Please tick as appropriate)

☐ Cooperative based institutions (SACCOs/ SACAs)

☐ NGO/Faith based

☐ Government

☐ Other (Please specify)…………………………………………………

10. Key mission (Please tick as appropriate)

☐ Poverty reduction

☐ Profitability

☐ Both

11. How are the records maintained (Please tick as appropriate)

☐ Manually

☐ Use of computer

☐ Others (please specify) ………………………………………………..

12. What types of products / services do you offer to the customers/members?

(Please tick as appropriate)

☐ Loan

☐ Savings

☐ Deposit

☐ Other (Please specify) ……………………………………………………

13. What are non-financial services do you offer? (Please tick as appropriate)

☐ Training to customers

☐ Group formation

☐ Consultation

☐ Other (Please specify)………………………………………………

14. Lending model used (Please tick as appropriate)

☐ Individual lending

☐ Group lending

☐ Both

☐ Other (Please specify) ……………………………………………………

2011	2012	2013

Staff training

15. Number of staff/employees in the organization

16. Number of staff trained out of total staffs

17. How many training days on average in a year are provided for employees

    ………………

18. Overall, staff training contributes to increased efficiency in the organization

    (Please tick as appropriate)

Strongly	Disagree	Neutral	Agree	Strongly Agree
Disagree				

Financial regulation

19. Is there a body which supervise/regulate you? (Please tick as appropriate)

    ☐ Yes

    ☐ No

20. Which body regulate you as a microfinance institution in Tanzania(Please tick

    where appropriate)

    ☐ Bank of Tanzania (BOT)

    ☐ Ministry of Finance

    ☐ Registrar of Cooperatives

    ☐ Other (Please specify)…………………………………………………

21. Do the financial regulation limits the amount of deposits to be taken by the

    MFI?(Please tick where appropriate)

Strongly   Disagree   Neutral   Agree   Strongly Agree

Disagree

22. Do the financial regulation limits the interest rate that the MFI can charge on

loans? (Please tick where appropriate)

Strongly   Disagree   Neutral   Agree   Strongly Agree

Disagree

23. Overall, do such financial regulations contribute to the organization

operations? (Please tick as appropriate)

Strongly   Disagree   Neutral   Agree   Strongly Agree

Disagree

24. Which financial regulations hinder your operations and why? (Please be

specific)

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

………………………………………….

Financial sustainability

Please fill in the information in the table below

	2011	2012	2013

Financial revenue			
Financial expense			
Operating expense			
Impairment losses			

EMPLOYEE

General information

1. Name of the employee……………………………………………………

2. Job description …………………….………………………………………

3. Age ………………………………………………………………………

4. Gender (M/F)……………………………………....…………………

Staff training

5. My highest level of education level is: (Please tick where appropriate)

☐ Primary

☐ Some Secondary

☐ Completed High school

☐ Some additional training

☐ Completed undergraduate

☐ Postgraduate or higher

6. Is your education background fit with your current job?(Please tick where appropriate)

Yes
No

7. How many years of working experience do you have in your current job?

2011	2012	2013

…………………………………………………………………………………

8. On average how many training days do you get in a year? (Please fill in the table below)

    9. Types of training provided is (Please tick where appropriate)

	Technical (Job skill) training
	Business skill training
	Personal development
	Other (Please specify)………………………………………………

    10. What do you think of the training possibilities provided?

    …………………………………………………………………………………

    …………………………………………………………………………………

    …………………………………………………………………………………

    11. Do you have all the needed skills to effectively carry your duties for the effective of the institution?(Please tick where appropriate)

    Strongly   Disagree   Neutral   Agree   Strongly Agree

Disagree

12. My competencies have contributes to increased efficiency in this

   organization? (Please tick where appropriate)

   Strongly   Disagree   Neutral   Agree   Strongly Agree

   Disagree

13. Failures observed in your performance can be attributed to inadequate

   training?(Please tick where appropriate)

   Strongly   Disagree   Neutral   Agree   Strongly Agree

   Disagree

14. Overall, the on-the-job training I receive is applicable to my job.

   Strongly   Disagree   Neutral   Agree   Strongly Agree

   Disagree

15. I am generally able to use what I learn in on-the-job training in my job.

   Strongly   Disagree   Neutral   Agree   Strongly Agree

   Disagree

16. Overall I am satisfied with the amount of training I receive on the job.

   Strongly   Disagree   Neutral   Agree   Strongly Agree

   Disagree