DETERMINANTS OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETY

FINANCIAL SUSTAINABILITY IN ILALA MUNICIPALITY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for the acceptance by The Open University of Tanzania the dissertation titled: *"Determinants of SACCOS' Financial Sustainability in Ilala Municipality"* in partial fulfilment of the requirements for the Master Degree of Business Administration of the Open University of Tanzania.

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Date

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DECLARATION

I, **Philomena Patrick Chundu**, do hereby declare that this dissertation is my own original work, and unless specifically indicated in the text and that it has not been submitted and will not be presented to any other university or institution for similar or any other degree award of the Open University of Tanzania.

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Signature

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Date

DEDICATION

I dedicate this dissertation to my husband Mr. Joseph Chundu and my son Henry Joseph.

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Although this work spring from myself there are number of individuals who have been contributed to the successful completion of this work. Here, I would like to mention only few of them. First, I would like to thank my supervisor Dr. Salum Mohamed; who works at The Open University of Tanzania for his wisdom, intellectual skills and guidance to accomplish this work.

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ABSTRACT

A continuing problem facing SACCOS is how to attain financial sustainability. Different study has been conducted but no one conducted in Ilala Municipality. Identification of the determinants of SACCOS' financial sustainability was not done. This study aimed to bridge this knowledge gap. The study used both qualitative and quantitative research methodology. Data was collected through questionnaires and interviews from respondents who selected through purposive and convenience sampling techniques. Collected data was analysed through SSPS software. The study found that portfolio at risk, the cost per borrower and operating self-sufficiency were among the major factors that determine financial sustainability of the surveyed SACCOS. The study noticed that majority of SACCOS have their portfolios at risk of default, while only few of them are close to being self sustaining operationally. However, this study strongly qualifies that the surveyed SACCOS are highly efficient in absolute terms because they spend below the African average cost per borrower. Other factors determining MFI sustainability were productivity and delinquency rate. This study makes contribution to the knowledge by recommends reduction of default in loan repayment by monitoring borrowers regularly so as to ensure that they use the loans they received for the agreed and intended objective. Moreover, relevant and comprehensive training should be provided to loan officers.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

MCMCAR   Microfinance Companies and Microcredit Activities Regulations

MFI   Microfinance Institution

SACCOS   Savings and Credit Cooperative Society

SCCULT   National Association of SACCOS in mainland Tanzania

TAMFI   Tanzania Association of Microfinance Institutions

WOCCU   World Council of Credit Unions

CHAPTER ONE

1.0 INTRODUCTION

1.1   Background to the Study

All over the world, financial sustainability of microfinance institutions has been one of the major issues that attracted the attention many researchers due to its importance in the livelihood of microfinance. Sustainability is widely discussed issue in the field of microfinance and two strands of thought emerge in connection to this: "The Poverty Camp" and "The Sustainability Camp" (Morduch, 2000).

According to Schreiner (2000), unsustainable MFIs might help the poor now, but they will not help the poor in the future because the MFIs will be gone. This evidence the important of the sustainability of MFIs and the study of factors that affect MFIs that ends on the sustainability of MFIs. This study aims to identify factors affecting financial sustainability of SACCOS. SACCOS is one of the Microfinance institute available in Tanzania.

Tanzania is one of developing countries in the African continent classified as one of world poorest countries with a per capita income of \$320 (URT, 2007). This situation attracts the attention of every stakeholder and others to find out ways of reducing poverty. The government of Tanzania established MKUKUTA phases I (2005/06-09/10) and II (2010/11-14/15) all these aiming to accelerate economic growth, reduce poverty, improve the standard of living and social welfare of the people of Tanzania as well as good governance and accountability (URT, 2010).

The main factors behind the slow progress and poverty incidences in Tanzania are primarily inadequate capital accumulation and productivity growth (Randhawa and Gallardo, 2003). The collective demand of financial services is large and the types of services they demand vary across households and micro-enterprises (Sharma, 2008).

MFIs provide financial services to low-income households in developing countries around the world. In the minds of many, microfinance and micro-credit are synonymous (Sharma, 2008). There are three main categories of microfinance institution (MFI) in Tanzania, the first being non-governmental organizations (NGOs), second banking institutions, third cooperative member-based institutions (SACCOS) which are not regulated by the Bank of Tanzania, providing financial services that are predominately savings based (Mf transparent, 2011). SACCOS as among cooperatives are regarded as a vehicle for economic development through provision of financial services to marginalized communities thereby alleviating the recurrent poverty (Ombado, 2011).

The registration of SACCOS is done by the Registrar of the cooperatives under supervision of the Ministry of Food Security. The supervision and auditing of SACCOS is done by saving and credit union League of Tanzania (SCCULT) since SCCULT is the National Association of SACCOS in mainland Tanzania. There are different Acts and regulation had been established under MFI as following; Act (2006) Bank of Tanzania, Bank and Financial Act of 1991, the 2001 National Microfinance Institution policy, Microfinance Companies and Microcredit Activities Regulations (MCMCAR).

Different organisations were established in the country and worldwide as well in order to sustain SACCOS. In 2001 the Government of Tanzania established new association called Tanzania Association of Microfinance Institutions (TAMFI). For the cooperatives different Acts enacted as following; Cooperative Development Policy in 1997, 2002, Act No.20 of 2003 and then cooperative societies rules of 2004. The aim of changes of legislations several times was due to its importance in the global economic changes. Then global instrument is the World Council of Credit Unions, a global trade association and development agency for credit unions for promotion of the sustainability.

1.2   Statement of the Research Problem

To facilitate access to financial services, the Government supports the establishment of member-based MFIs, with the long-term vision of providing sustainable financial services. SACCOS remain a critical and important financial institution with the ability to reach people in both urban and remote rural areas. Micro banking Bulletin (2008) shows an aggregate picture of MFIs being unsustainable (Annim1, 2009).

However, despite their role in poverty alleviation through empowering their members, many SACCOS have been unsustainable (Meyer, 2002) for various reasons (Ewala, 2007, Chale, 2009). Microfinance institutions need to be sustainable in order to provide sustainable microfinance services and contribute to poverty alleviation (Schreiner, 2000). An enduring question is how to attain SACCOS' sustainability (Dunford, 2003) and what determines their level of sustainability. Few different studies have been conducted to determine the financial sustainability of

SACCOS and the level of significance SACCOS. Unfortunately, determinants of financial sustainability of SACCOS are not clearly established.

Although different studies have been conducted on MFIs, cooperative societies and specifically SACCOS in relation to financial sustainability, fewer studies were carried out in the context of developing countries like Tanzania (Fiorillo, 2006; Dhakal, 2001; Krishnaswamy, 2007; Wisniwsky, 2010; Meyer, 2002).

The major focus of the studies carried out in developing countries has been on sustainability in general, lacking specific coverage on financial sustainability (Chale, 2009; Matogoro, 2009; Ewala, 2007). By then those studies are inadequate in that they fail to establish the determinants of financial sustainability, rather, most of them cover factors that affect sustainability of SACCOS including performance and make an attempt to provide remedial measures (Katunzi, 2009; Mgaya, 2009; Nchundi, 2009). This study was therefore set out to bridge this knowledge gap.nThe problem with financial sustainability of SACCOS has attracted the attention of numerous researchers in recent decades, and as a result many strategies have been put in place to ensure that MFIs are sustainable (Randhawa and Gallardo, 2003). Thus, means should be researched to make these MFIs sustainable and hence ensure sustainable provision of microfinance services that reached to sustainable poverty reduction.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to identify the determinants of financial sustainability of SACCOS in Ilala municipality Tanzania.

1.3.2 Specific Objectives

(i) To find out the level of portfolio at risk of SACCOS in Ilala Municipality

(ii) To determine the level of productivity of SACCOS in Ilala Municipality

(iii) To determine the level of operational self-sufficiency of SACCOS in Ilala Municipality

(iv) To determine the cost per borrower among the SACCOS in Ilala Municipality

(v) To find out the level of delinquency rates among the SACCOS in Ilala Municipality

1.4   Research Questions

1.4.1   General Research Question

What are the determinants of financial sustainability of SACCOS in Tanzania?

1.4.2   Specific Research Questions

(i) What is the level of portfolio at risk of SACCOS in Ilala Municipality?

(ii) What is the level of productivity of SACCOS in Ilala Municipality?

(iii) What is the level of operational self-sufficiency of SACCOS in Ilala Municipality?

(iv) What is the cost per borrower among the SACCOS in Ilala Municipality?

(v) What is the level of delinquency rates among the SACCOS in Ilala Municipality?

1.5   Significance of the Study

Findings of this study provides a light on the determinants of the financial sustainability of SACCOS, unveiling the various challenges impeding SACCOS' financial sustainability, as well as providing tentative suggestion on appropriate strategies to adopt so as to ensure financial sustainability of SACCOS. The findings are useful in strengthening SACCOS in Tanzania. The findings also contribute to the existing literature on microfinance, financial sustainability and SACCOS' sustainability in particular.

1.6   Scope of the Study

This study determines the sustainability of SACCOS in Tanzania and focused on SACCOS in the Ilala Municipality in Dar es Salaam Tanzania only. This was due to insufficient time, funds and resource constraints; since covering a greater geographical area or more SACCOS could have require additional time, funds and other resources.

1.7   Organization of the Study

This study is organized in five chapters. The first chapter presents the introduction. Furthermore, it is inclusive of background to the problem, statement of the problem, objectives of the study among other aspects. The second chapter presents the literature review. The various theoretical, conceptual and empirical underpinnings related to the topic under investigation are covered. The third chapter presents the research methodology, which explains arrangements on how data for this study were collected and analysed. Fourth chapter presents the findings as well as discussion, while fifth chapter presents the conclusion and recommendations.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents a theory background guiding this study. Specially, it covers the key conceptual definitions, followed by the main theories used in this study to determine the financial sustainability of SACCOS in Tanzania.

2.2 A Conceptual Discourse

2.2.1 Savings and Credit Cooperative Society (SACCOS)

According to the United Republic of Tanzania-Cooperatives Societies Act (2003) a SACCOS is a member driven, self-help cooperative which is democratic in nature in which members are supposed to be both the owners and the users of the services available. For the purposes of this study, SACCOS was used as a microfinance grouping which is concerned with collecting, lending money and other financial services to members.

2.2.2 Sustainability

According to Ssebaale (2008) sustainability is defined as the ability of a SACCO to cover its operating and other costs from generated revenue and provide for profit. It is an indicator showing how the SACCOS can run independent (free) of subsidies (Basu&Woller, 2004). For the purpose of this study, sustainability means that the SACCOS collects its savings and covers all its costs (including crediting to its members) sufficiently enough such that the lending operation can continue serving its poor clients and reading out to increasing numbers of clients, even after it is no

longer getting grants or soft loans from donors or Government. The definition also incorporates the fact that a SACCOS is operated according to the principles of good governance for the benefits of all its members.

2.2.3 Financial Institution

Financial Institution is an enterprise such as a bank whose primary business and function is to collect money from the public and invest it in financial assets such as stocks and bonds, loans and mortgages, leases and insurance policies (Harvey, 2011)

2.2.4 Financial Sustainability

According to Thapa, et al (2002), financial sustainability refers to the ability of the MFI to cover all its costs from its own generated income from operations without depending on external support (such as subsidies). On the other hand, Dunford (2003) defines financial sustainability as the ability to keep on going towards microfinance objective without continuing donor support.

2.2.5 Microfinance Institution

Microfinance institution is designated financial institutions dedicated to assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and obtaining access to financial services. Institutions offering microfinance services are very diverse, including commercial banks, state-owned development banks, and postal offices. In order to meet unsatisfied demand for financial services, a variety of microfinance institutions (MFIs) has emerged over time in Africa. Some of these institutions

concentrate only on providing credit, others are engaged in providing both deposit and credit facilities, and some are involved only in deposit collection (Basu, Blavy and Yulek, 2004).

2.3   Theoretical Literature Review

In a developing country context, credit is an important instrument for improving the welfare of the poor directly as well as for enhancing their productive capacity through financing investment in human and physical capital (Khandker, 1995). The demand for credit for productive investments usually comes from those poor who are less risk-averse and enables them to overcome liquidity constraints, making it possible to undertake investments that can boost production, employment and income. Formal lenders normally provide this type of credit. Informal lenders usually provide credit for consumption purposes, which can have a long-term positive impact on household productivity, allowing acquisition of skills or improvement in health status if such loans are used for education or health care.

From the 1950s through to the 1970s, the provision of financial services by donors or government funded MFIs were mainly in the form of subsidised rural credit programmes. These often resulted in high loan defaults; high loses affecting the financial sustainability of these institutions and an inability to reach poor rural households (Robinson, 2001).

However, as MFIs received no continuing subsidies, they became commercially funded and fully sustainable, and could attain wide outreach to clients. According to Markowski (2002) only about 5% of MFIs worldwide are financially sustainable

while the IMF (2006) puts the figure at only 1%. To achieve financial sustainability according to (Havers, 1996), an MFI must cover the cost of funds, operating costs, loan write-offs and inflation with the income it receives from fees and interest. According to the IMF (2006) the MFIs that have become self-sustainable tend to be larger and more efficient however they also tend not to target the very poor, as targeting the less poor leads to increases in loan size and improved efficiency indicators, whereas MFIs focusing on the poorest tend to remain dependent on donor funds.

In order to achieve such sustainability, while at the same time reaching those most in need, microfinance programmes need to be managed in a rigorous and professional manner, subsidies must be removed, and tight credit control procedures and follow-up on defaulters needs to be in place (Havers, 1996). Sustainability is also very important from clients' perspectives, as they place a high value on continued access to credit, and if they feel that the MFI will not survive it reduces their incentive to repay loans (Von Pischke, 1991).

According to Sharma (2008), sustainability requires that MFIs must cover all transaction costs (such as loan losses, financial cost and administrative cost) with return on equity (net of any subsidy received), and consequently function without subsides. It is the ability of an MFI to maintain or increase its flows of benefits or service through internally generated income or funds. Factors effecting financial viability and sustainability are: outreach, rate of interest, loan size, operational efficiency, clients' dropout, operating cost, and repayment rate, saving mobilization, management system, financial management skill and institutional capacity (Shrestha,

2008). Most of the MFIs have been experiencing difficulties on attaining sustainability over the long run due to limited outreach and poor financial management (Dhakal, 2001). In this context, financial sustainability of MFIs can be assessed using some of the financial sustainability indicators, such as financial performance, operating performance, operating and financial self-sufficiency ratio, portfolio quality ratio, administrative efficiency and staff productivity of the leading MFIs. Various financial and operational performance indicators can be used to analyse the extent to which MFIs are making the best use of resources and providing services at the least cost. Typical financial and operational performance indicators are financial performance ratios, operational performance ratios and portfolio quality ratios.

According to RFSP (2012) there are four (4) key performance indicators for financial sustainability of SACCOS. These are: (1) Operational Self Sustainability (OSS): when operating income is sufficient to cover operational costs, such as rent, salary, equipment and loan losses. (2) Financial Self-Sustainability (FSS): the ability to also cover the costs of funds and other forms of subsidies, when valued at market prices. (3) Return on Assets (ROA): measures net income earned on total assets and (4) Portfolio at Risk (PAR): Calculated as the proportion of outstanding balance of loans at 30 days or over, that is in the risk of default. Assessing SACCOS' sustainability, therefore, can base on the four key performance indicators.

Sustainability of SACCOS can be measured in several measurements depending on the user requirement. These measurements are duration, finance self-reliance, capital, percentage repayment rate, outreach, source of income scope and governance.

Various authors have written on the determinants of the financial sustainability of MFIs and specifically SACCOS. The following subsections present the empirical review of what has been written.

2.3.1 The Welfarists' and Institutionalists' Approaches

There are two competing views as to which goal of SACCOS should give high priority in as far as poverty reduction is concerned. These are Institutionist (financial system) and Welfares (poverty lending approach) as per Brau and Woller (2004). The Welfarists approach states that "reaching not just a large number of clients (breadth of outreach) but a large number of poor clients also known as depth of outreach (Brau and Woller, 2004). In SACCOS it should be as far as possible SACCOS should be able to serve as many as possible poor clients, even when it may appear not profitable.

The Institutionists approach theory views deals with finance, asserting that the financial sustainability as measured by finance self-sufficiency (profitability) should be given higher priority by all SACCOS (Brau and Woller, 2004). The SACCOS should have sustainability finance for intermediation for the poor. Provided the SACCOS can continue with operations and thereby meet their social objectives they have attained sustainability. Their focus is on targeted depth of outreach rather than scale (breadth of outreach) or financial self-sufficiently (Brau and Woller, 2004).

2.3.2 Subsidy, Profitability and SACCOS Sustainability

Subsidy refers to the financial resources received by a SACCOS at below market price (Woller et al, 1999). Subsidy (donation) may be received in monetary terms.

Subsidy refers to what donors entrust to SACCOS at price below opportunity cost (Schreiner, 2000). Subsides may come to SACCOS as financial or technical form (technical assistance), where ACCOS are required either to pay back (considered as soft loan) or just as a donation (Karlan and Goldberg, 2007).

According to Porwa (2001) the maintenance of capital by a firm is necessary in order to survive or become sustainable. SACCOS are considered sustainable if and only if they are to cover all their operating and financing costs from their own generated revenue, mainly through interest rate charges. Sustainability is the stage of financial operating where all costs of the lender are fully met from the interest charges, and where such charges are not subsidized, partly of fully met from outside sources (Thapa et al, 1992).

According to Schreiner (2000) profits are necessary but not sufficient, far sustainability while Yaron (1992) asserts that a successful SACCOS should have both profitability and outreach in its objective. According to Rhyne (1998) outreach is the only objective of SACCOS' sustainability is but a means to achieve it. Sustainability means to reach expanded outreach. There is argument saying that "the more sustainable a SACCOS is the more possible for it to rich more poor people (Cull et al, 2006).

2.3.3   Outreach and SACCOS' Sustainability

2.3.3.1 Breadth of Outreach

The breadth of outreach refers to the number of poor served by a SACCOS (Hishigsuren, 2004). Various studies have used either the number of borrowers or

number of clients as measures of breadth of outreach (Mersland and Strom, 2009). It is generally assumed that the larger the number of borrower or client the better the outreach. According to LOGTRI (2006) the number of borrowers is the biggest sustainability factor. Thus, large numbers of clients would lead an SACCOS to become more sustainable.

However this argument may be strong is and only if all other things are held constant. Otherwise, the volume in itself may lend no big impact on sustainability. To substantiate this one would need to consider the Grameen bank with a very broad client base but it has not yet attained self-sufficiency (Conning, 1999) although it remains to be among the best examples in the SACCOS.

2.3.3.2 Depth of Outreach

The depth of outreach refers to the value the society attaches to a net gain of a given client (Navajas et al, 2012). Hulme and Mosley (1996) asset that without the poor, a supposed SACCOS is no longer different from a bank. Their argument is that, outreach should not be measured by just total number of clients but it should rather be based on the number of poor clients.

This is because in the total number of SACCOS clients there are some who are not poor. According to Ledger Wood (1999) him number of clients as a measure of outreach considers. Only the total number of clients served from various products of a SACCOS without their relative level of poverty. SACCOS' loan size (average loan size) has been used as a proxy measure of depth of outreach (using relative level of poverty). Small loans indicate poorer customers (Mers and Strom, 2009).

2.3.3.3 Scope of Outreach

SACCOS should think of enhancing the attainment of sustainability by providing a broad range of financial services to the poor. These may include saving, credit, insurance cover, and house loans (LOGOTRI, 2006) depending on economic environment and customer needs. The larder the number of types of products the number of clients (breadth of outreach) will be expected to be served by the SACCOS. It has been reported that the demand for saving facilities for exceeds the demand for loans (Woller, 2005). Savings and loans deposits to SACCOS make a large and most reliable source of capital to these SACCOS. Moreover, non-loan products like savings and deposits could be more useful to poor clients as these products do not need demonstration of credit worthiness.

2.3.4 Ownership, Age and Sustainability of SACCOS

Studies indicate that non-governmental SACCOS perform better in outreach and poorly in profitability when compared with other SACCOS (Mersland and Strom, 2009). The study analyses the relationship between ownership structure and sustainability and explain whether the ownership structure, captured by SACCOS, types, affects the sustainability.

Financial sustainability could also relate to the age of SACCOS. This is referring to the period that a SACCOS has been in operation since its initial inception. Studies indicates that the SACCOS age relates on their efficiently in the early years of operations (CGAP, 2009). Basing on Micro-banking bulletin data (Robinson (2001) found that experienced SACCOS (those with age above six years) were financial self-sufficiency. Those, which were in 3 years to 6 years of age, were financial self-

efficiency, while it was for those in operation for less than three years. The finds by Robinson (2001) also reports that mature SACCOS can achieve substantial outreach to the poor. Moreover, Bogan et al (2007) also found that the age of a SACCOS relates to its substantial.

In contrast to the findings by Bogan et al (2007) reports that the age of SACCOS is insignificant in determining the level of outreach. The contradiction between these studies pose a knowledge gap as whether the SACCOS in Tanzania and the age of SACCOS is relevant in determining its outreach or not, and how the same affect its financial sustainability.

2.3.5   Policy Environment and Sustainability of SACCOS

GAP defines regulation of SACCOS as a "set of government rules that apply to SACCOS" (CGAP, 2003). The regulations are meant to protect SACCOS' clients, bring about fair playing in the SACCOS business, and enhance the public's overall confidence in the financial sector. They are also meant to be enabling environment for the operation, development and growth of the Microfinance Industry. It has been argued that the regulation of Microfinance will speed the emergence of sustainability of SACCOS (Arun, 2005).

It has been claimed that regulating Microfinance intuition will enable SACCOS to increase their capital from collected deposits and borrowing from the capital market (CGAP, 2003). Bogan et al (2007) assert that unregulated SACCOS have limit options of finance, that is, limited sources of capital. Experience from Ghana and the Philippines indicates that the financial performance and sustainability profiles of

regulated SACCOS have different significantly (between pre and post regulation performance), the reasons being among others higher base of unimpaired capital and ability of owners to step forward with addition capital (Gallardo, 2001).

A recent study by Hartarska and Nadolynyak (2007) on whether regulated SACCOS achieve better sustainability an outreach than unregulated SACCOS reports that, regulatory status (and regulatory power) had no direct impact on the financed sustainability of SACCOS. Their results, however, also indicate that outreach is affected by the level of deposits (saving, suggesting indirect effect of regulation on outreach if regulations the only way for SACCOS to attract savings. Another study by Mersland and Strom (2009) has found that regulation of SACCOS has no impact on the financial and outreach performance of SACCOS.

There are between arguments from different studies that have already done. Some authors said that there were direct impacts of regulated SACCOS which were as follows; (Arun, 2005, CGAP, 2003, Bogan et al 2007, Gallardo, 2001). At the same time other authors opposed them by saying that there were no direct impacts of regulated SACCOS compared to unregulated ones as follows; (Hartarska and Nadolynyak 2007, Mersland and Strom ,2009). These studies make it more concern to study in order to evidence the regulations status regarding to the SACCOS' financial sustainability of in Tanzania.

2.4   Empirical Review

A number of studies on SACCOS and sustainability have been carried out globally, in Africa, and Tanzania in particular.

2.4.1 Empirical Literature Review World Wide/ Globally

Different studies on SACCOS and sustainability have been carried out globally as follows:

Dhakal (2001) related to MFIs sustainability revealed that most of the MFIs operating in Nepal have been experiencing difficulties on attaining sustainability over the long run due to limited outreach and poor financial management. In assessing financial sustainability of MFIs, financial sustainability indicators used were financial performance, operating performance, operating and financial self-sufficiency ratio, portfolio quality ratio, administrative efficiency and staff productivity of the leading MFIs.

Meyer (2002) carried out a study in Bolivia on factors that hamper sustainability of SACCOS found out that the financial un-sustainability in the SACCOS arises due to low repayment rate or un-materialization of funds promised by donors or governments.

Hermes et al (2008) on a number of SACCOS in Bolivia to determine factors that affect their sustainability came up with a conclusion that the objective of the SACCOS had an impact on the way SACCOS carried out their operations, that is, there are some SACCOS that aiming at making profit (financial objective) and those that whose objective is reaching the poorest. The authors came up with a conclusion that a SACCOS that abandons the poor by selling big loans and big deposit is not a suitable SACCOS, an argument supported by Schreiner, (2000), because, as Hulme and Mesley (1996) argue, without the poor, a supposed SACCOS is no longer different from bank. On the other hand, studies carried out in Bangladesh by Paxton

(2003), supported by Navajas et al (2012) and Schreiner (2000) provide a contradictory view on the objectives of SACCOS by arguing that without profits SACCOS will be unable to sustain their operations.

Robinson (2001) carried out in India came up with the conclusion that financial sustainability is attributed to its conformity to the perspective that only independent, financially sustainable microfinance institutions will be able to attain the wide outreach necessary to achieve the highest level of impact on their target population, based on a globally affordable model that does not depend on long-term support, either from donors or the government (Robinson, 2001).

Mark (2001) in Bolivia investigating challenges microfinance sustainability in Peru revealed that to achieve true financial sustainability, a credit programme must be able to cover the following costs from the income it receives from fees and interest: its cost of funds, its operating costs and its loan write-offs.

2.4.2   Empirical Literature Review in Africa

Several studies on MFIs sustainability including SACCOS have been carried out by a number of scholars in the context of Africa.

The study carried out by Orlanda et al (2013) in Ghana revealed that lack of sufficient growth of SACCOS' wealth has made it difficult for them to absorb their operational losses, which has threatened their sustainability. This has led to the losses being absorbed by members' savings and share capital, hence lose of members' savings. The growth of SACCOS' wealth significantly depends on financial

stewardship, capital structure, and funds allocation strategy. The study further recommended that the use of institutional capital as a mode of financing SACCOS' activities would ensure their sustainability in the competitive co-operative sector.

The study carried out by Fiorillo (2006) in Uganda on the effect of multiple borrowing on clients and the MFIs, in which he revealed that multiple borrowing had a positive effect on loan repayment and sustainability of MFIs. This was also supported by Krishnaswamy (2007), who reported that multiple borrowers have been found to have equal or better repayment records than their single borrowing peers in the same villages. However, studies by Chaudhury et al. (2002), Rhyne (2001), Johnson (2004), and Wisniwski (2010) show the opposite.

Using panel data collected from 53 MFIs in Uganda over a period of six years, Okumu (2007) examined the determinants of financial sustainability and outreach of MFIs. The study indicates that sustainability is negatively and significantly related to the ratio of gross outstanding loan portfolio to total assets. However, as the loan market, especially credit to households and firms, is risky and has a greater expected return than other assets, one would expect a positive relationship between loans intensity (loans/total asset) and profitability (Bourke, 1989).

Related to ways in which SACCOS thrive to become sustainable, the study by Fiorillo (2006) revealed that in ensuring financial sustainability of the SACCOS, members in some SACCOS were required to purchase an additional share every time they applied for a loan. This deliberate increase in share capital was used to increase resources for on lending as well as to increase members' sense of ownership and

investment in the institution. For Bunyaruguru SACCOS, this new initiative was seen as a way to reach self-sufficiency and sustainability, although it increases the effective cost of borrowing substantially.

The study carried out by Adongo J. & Stork C., (2005), who investigated factors influencing the financial sustainability of selected microfinance institutions in Namibia. The finds revealed that donor involvement in providing start-up funds for the loan portfolio is positively associated with financial sustainability. The study recommended that to ensure in order the microfinance institutions (SACCOS) to become financial sustainable, the cost of providing non-financial services should be managed and separated from that of providing financial services.

The study carried out by Skosana N., (2007), the study carried out to find out whether the microfinance organizations (SACCOS) organizations in rural South Africa are sustainable. In this study self-reliant, self-sufficient and ultimately self-sustaining were used to check its sustainability. The study came up with recommended the usage of the micro – credit. Then it advised the retaining and attacking donor funds in order to ensure the financial sustainability of SACCOS.

2.4.3 Empirical Literature Review in Tanzania

With regards to Tanzania, a number of studies have been carried out related to SACCOS and sustainability such as:

Chale (2009) who assessed the performance of microfinance institutions in Tanzania, with a specific focus on MFI outreach, financial sustainability as well as

identifying any challenges faced by MFIs in their operations. The major findings revealed that although clients benefited from loans from the MFIs, sustainability was threatened by high interest rates that militated against SMEs profitability and capacity for repayment, as well as the small loans that were given for new members.

While Matogoro (2009) investigated factors influencing loan repayment and delinquency in Tanzania revealed that loan diversion and multiple borrowing from different institutions were the most significant factors influencing negative loan repayment performance and overall financial sustainability of the SACCOS. The study recommended that to ensure profitability and sustainability of SACCOS, consideration should be paid on suitability of loan repayment period as well as minimizing loan delinquency.

Then, Ewala (2007) conducted a study to find out whether linkages between formal and informal financial affected sustainability of MFIs, specifically SACCOS. The findings revealed that financial linkages between formal and informal financial institutions have a positive influence on financial sustainability of MFIs. SACCOS that have linkages activities have been found to be doing better than those without linkages. Therefore for MFIs to become financially sound and sustainable they should engage in financial linkages.

Furthermore, Nyamsogoro (2010) carried out a study to find out whether SACCOS in Tanzania were self-sustaining; the results revealed that majority of the surveyed SACCOS were sustainable, signifying that the microfinance sector in Tanzania is relatively healthy.

Moreover, a study by Marwa (2013) revealed that majority of SACCOS were operating well, as noted by the higher return on asset (7%) compared with other microfinance institutions internationally. The study used return on asset and cost per loan portfolio as the most important determinants of sustainability.

Last but not least, Tehulu (2013) who investigated SACCOS' sustainability based on loan intensity and size revealed that majority of surveyed SACCOS were sustainable as far as those two criterions are concerned. The review of various studies by various scholars has made it clear that there is inadequacy of studies on financial sustainability of SACCOS with a specific coverage on developing countries like Tanzania, and this study, therefore intends to fill that knowledge gap.

2.5   Research Gap

From the literature review that have been surveyed, it has been noted that although a number of studies have been carried out on MFIs, cooperative societies and specifically SACCOS in relation to financial sustainability, fewer studies were carried out in the context of developing countries like Tanzania (Fiorillo, 2006; Dhakal, 2001; Krishnaswamy, 2007; Wisniwsky, 2010; Meyer, 2002).

The major focus of the studies carried out in developing countries has been on sustainability as a whole, lacking specific coverage on financial sustainability (Chale, 2009, Matogoro, 2009, Ewala, 2007; Marwa, 2013). Moreover, the studies are inadequate in that they fail to establish the determinants of sustainability, rather, most of them cover factors that affect sustainability of SACCOS including

performance and make an attempt to provide remedial measures (Katunzi, 2009, Mgaya, 2009, Nchundi, 2009;). This study is therefore set out to bridge this knowledge gap.

2.6 Conceptual Framework
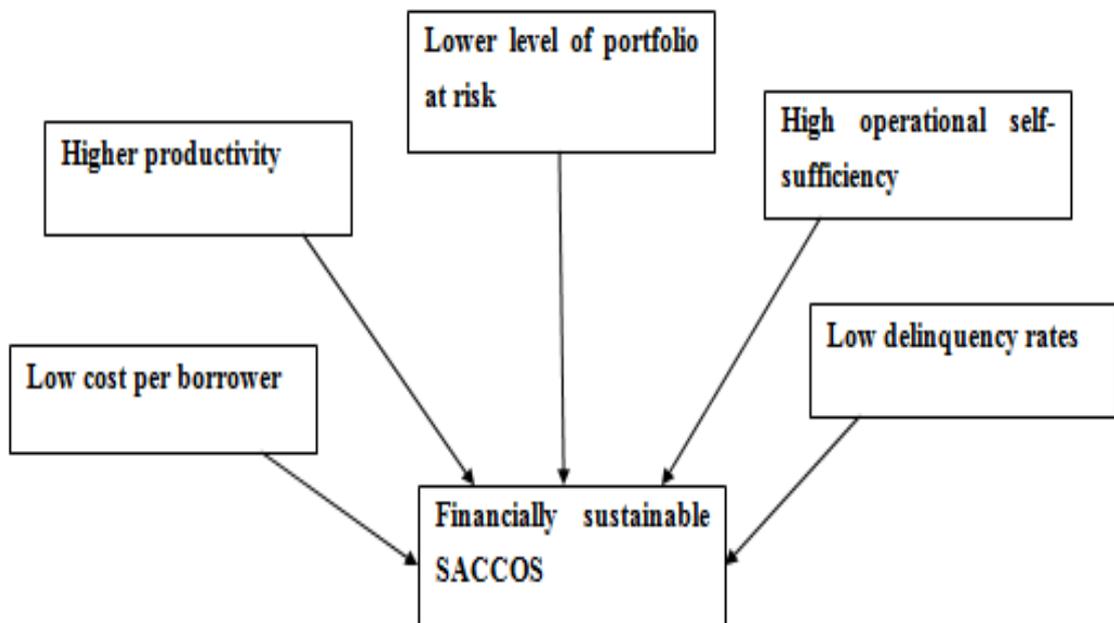
Figure 2.1: Conceptual Framework

Source: The researcher (2014)

2.7 Theoretical Framework

This study is guided by two theories. First is the sustainability asymptogram, which according to Onwueme, and Borsari (2007), there are three major factors that contribute to sustainability, which are environmental suitability, economic viability and social acceptability (Bell and Morse, 2000). Previous attempts at modelling sustainability have invariably incorporated these three factors (Blanc et al., 2004; Bonazountas et al., 2004). For any system or practice to be considered truly

sustainable, all three factors should be achieved simultaneously while failing to meet even one of these renders the system unsustainable. In a sustainable system instead all three factors move toward each other, achieving sustainability when they fully overlap. In practice, however, a system normally falls short of the absolute in meeting one or more factors. Then we have to design a system's score for the environmental, economic, and social factors.

Mahajan and Nagasri (1999) lay a basis for another theoretical underpinning. According to them, sustainability of microfinance institutions (also known as institutional sustainability) can be seen in several dimensions depending on user requirements. According to them, these dimensions are: mission sustainability, programme sustainability, human resource sustainability, and financial sustainability.

The mission sustainability refers to sustainability of microfinance in its mission. This will keep the organization in its chosen path in the long-term. Programme sustainability occurs when customers (clients) perceive that the services that they receive are of sufficient importance and valuable and are willing to assume responsibility and ownership of them. A good demand driven product design will make the programme sustainable. According to them, microfinance institutions' product delivery should be supported by well-qualified personnel who are capable of delivering the services (products) as required to meet the organization's mission. This is known as human resource sustainability. Financial sustainability of MFIs, which according to the authors is the key dimension of microfinance sustainability, refers to the ability of an MFI to cover all its costs from its own generated income

from operations, without depending on external support (such as donors or subsidies).

This theoretical framework guides this study on the fact that financial sustainability is a key issue in the wellbeing of any SACCOS. In assessing financial sustainability of SACCOS, a number of issues are considered as follows:

2.7.1   Portfolio at Risk

Portfolio at Risk (PAR) greater than 30 days measures the value of all loans outstanding that have one or more instalments of principal past due more than 30 days (Epifanova et al, 1999). The portfolio at risk determines how efficient an MFI is in making collections. The higher the PAR, the lower the repayment rates and therefore less financial sustainability (Tehulu, 2013).

2.7.2   Productivity

This is a combination of outreach and efficiency; it is often measured in terms of borrowers per staff member and saver per staff member. However, serving a loan client can be more labor intensive and costly than serving a depositor; because it implies a series of interviews and site visits before the loan can be disbursed (Kinde, 2012). The higher number of borrowers per staff would indicate efficiency of MFI staff, as they comparatively handle more borrowers.

2.7.3   Operating Self Sufficiency

Financial sustainability indicates that income from the microfinance services should be greater than the cost of providing services, and therefore, self-sufficiency is an

indication for the financial sustainability of the MFIs (Sarma, 2011). Operating self sufficiency ratio (OSS) is a measure of sustainability of the lending operations. It determines the extent to which operations are becoming (increasingly) self-sustaining.

2.7.4 The Cost per Borrower

The cost per borrower (CPB) is to explain the contribution of efficiency in reducing the components of cost per borrower namely, administrative expenses, financial expenses, and staff or personnel related expenses (Kinde, 2012). Efficient institutions minimize costs of delivering services.

2.7.5 Delinquency Rate

The delinquency ratio measures the institutional weakness. It is the ratio of the total value of loans that have not been repaid by their due date to the total value of loans outstanding (Epifanova et al, 1999).

Based on these, it is clear that for SACCOS to be financially sustainable, a number of factors need to be there, such as lower level of portfolio at risk, higher productivity (higher number of borrowers per staff), high operational self-sufficiency, low cost per borrower, as well as low delinquency rates.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1   Introduction

This chapter presents research methodology and design of this study that will tends to get results our research questions.

3.2   Research Design

Research design is the general plan of the research that showing the direction of how you will answer the research question (Saunders, et al; 2012). This study attempts to determine factors affecting financial sustainability of SACCOS in Tanzania. Both quantitative and qualitative data analyses were used. Quantitative was applied because the study dealt with numbers and data collection technique was questionnaire and its analysis was done through statistics. Since qualitative research design deals with non-numeric data; its data were collected through interview and its analysis was done through categorizing data (Saunders, et al; 2012). The study used a survey research design since it is the one which belongs in obtaining data for running quantitative analysis and the data were collected in cross-section study due to the time limit whereby survey strategy was applied (Saunders, et al; 2012).

3.3   Area of Study

The study was conducted in Dar es Salaam, at Ilala district. The selection of Ilala district is based on the fact that there are numerous SACCOS operating in the district. Moreover, Ilala being an urban area is heterogeneous in that residents engage in a diverse number of income (formal and informal) generating activities rather than

other areas, which are conducive for the existence of SACCOS to serve a wide range of members.

3.4   Population of the Study

Population is the complete set of cases or group members (Saunders, et al; 2012). The population for this study comprised SACCOS' officers, inclusive of management and non-management staff, as well as SACCOS' members. These were picked from 30 SACCOS in Ilala Municipal.

3.5   Sample Size

The sample was drawn from a population and studies to make inferences about population whereby survey approach analytical was applied. The sample size comprised 60 respondents, made up of 60 SACCOS' officials (made up of 30 management staff and 30 non management staff). That is, two respondents were picked from each of the 30 SACCOS. According to Stephen (1997:113), a sample of over 30 would be sufficient for most purpose and it allows the measure of sample statistics against the standard normal distribution and the estimate confidence levels on the ground of probability. On the same issue, Busha (1980) argued that with a sample size of 35 units or larger, the desired precision could be achieved regardless of the size of the original population. Table 3.1 shows distribution of the sample.

Table 3.1: Distribution of the Sample

Category	Number
SACCOS non management staff	30
SACCOS management staff	30
Total	**60**

Source: Researcher (2014)

3.6   Sampling Techniques

A research needs to draw a suitable sample from population (Mbogo S. et al., 2012). There are two different types of sampling techniques. In this research non-probability sampling techniques used since there is a use of statistic inferences about the characteristics of the population on selecting sample.

The thirty SACCOS members included in the study were selected through systematic sampling whereby a criterion was established and all SACCOS categorized themselves. Some of them were fit while others were not. The first criterion was duration of the SACCOS from 3 years and above. The second criteria was the capital of SACCOS from one hundred million Tanzanian Shillings (100,000,000.00 Tshs) and above.

The third criterion was the SACCOS with members from 500 and above. After selection of the SACCOS, the respondents were selected through purposive sampling (SACCOS loan officers and management staff) as well as purposive sampling technique (SACCOS' members). This applied technique was suitable due to the nature of the research whereby it needed judgments to select cases that enabled the research questions to be answered that meet objectives of this research.

The judgements on how to choose response with sufficiently diverse characteristics to provide the maximum variation possible in the data collected the heterogeneous or maximum variation sampling was applied in order to provide proper answers on these research questions.

3.7 Data Collection Methods

3.7.1 Secondary Data

Secondary data for this study were collected through review of documentary sources, in which books, journal articles and reports, both published and unpublished, were reviewed. Online sources were also consulted. These data helps to triangulate finds based on other data collected like questionnaire (Saunders, et al., 2012).

3.7.2 Primary Data

Primary data were collected through the questionnaire and interview. Since the study meant to determine factors affecting sustainability of SACCOS in Tanzania, specific data under the prepared questionnaires were collected.

3.8 Data Collection Tools

3.8.1 Questionnaires

Questionnaires are set of questions that are used to collect data from respondents. In this research the descriptive research was applied since it was used of opinions. Questionnaires were standardized for the response to understand well and reply and also to provide proper comparison from one SACCOS to another that ends on providing answers of research questions. The questionnaires, with both close and open ended questions were administered to thirty (30) non management staff (loan officers) at each of the SACCOS. Questionnaires are advantageous because they have a high response rate.

3.8.2 Face-to-Face Interviews

Interviews were conducted with thirty (30) management staff from each SACCOS surveyed, as well as 30 SACCOS' members. This method enabled the researcher to

get in-depth information necessary for the subject under study that is not possible to be obtained through other methods like questionnaires.

Additionally the instrument enabled the researcher to clarify responses obtained through other methods such as the questionnaire, studying abstract factors like attitudes, reactions and emotions.

According to Kidder (2005), an interview helps to clarify ambiguous responses and fill in missing gaps. An interview guide was used to solicit answers from the respondents. The researcher read the questions to the respondent and recorded the answers whereby the qualitative analysis was applied.

3.9 Validity and Reliability of Data

3.9.1 Validity

The term validity refers to whether the research method used in the research measures what the researcher has intended it to measure. (Ghauri & Grønhaug, 2005) For example, if the respondents of a questionnaire do not understand the questions as the researcher has meant them to be understood, the answers do not give answers to the original research questions.

If the researcher goes ahead with the analysis as he or she originally intended it and uses these misinterpreted answers when analysing, the research will not be valid (Hirsjarvi et al, 2007). Testing research tools during pilot study to see whether answers given were well interpreted and provided valid information tested the validity.

3.9.2 Reliability

According to Ghauri & Gronhaug (2005) reliability refers to the stability of the measure. Research reliability means how similar the results would be if another researcher conducted the same research in another place and time. In the case of this research, reliability was ensured through conducting a pilot study. Findings from in-interview are not necessary to be repeatable due to their real reflection of time and situation that makes changes (Marhall and Rossman, 2006). Moreover, the questionnaire contained both close and open-ended questions depth

3.10 Pilot Study

Before fieldwork, the instruments were pre-tested, in order to determine if the questions in the instruments met the needs and objectives of the study. The questionnaires were administered to 8 SACCOS' members at Magomeni, Dar es Salaam. Views and criticisms that were noted from the tests were incorporated into the questionnaires to determine necessary areas for improvements.

3.11 Data Analysis and Presentation

Statistical Package and Service Solutions (SPSS) software was used to analyse quantitative data. Descriptive statistics gave a summary of distribution of responses, central tendency and dispersion so as to be able to classify and explain the association among and between the variables. Content analysis was used to analyse qualitative data. Content summaries, figures and frequency tables were used to present the data.

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents, discusses and analyses the findings of the study. The main concern of this study was to identify the determinants of financial sustainability of SACCOS in Ilala municipality Tanzania. Specifically, the study aimed at finding out the level of portfolio at risk of SACCOS in Ilala Municipality, determining the level of productivity of SACCOS, determining the level of operational self-sufficiency of SACCOS, determining the cost per borrower among the SACCOS, as well as finding out the level of delinquency rates among the SACCOS in Ilala Municipality. Based on the objectives and research questions, the research instruments (questionnaires, and interview guides) were devised so as to gauge information that addressed the issue under study. The research instruments contained specific questions that answered research questions directly and other general questions that had no direct reflection to the objectives of the study but added value to it. The second category of questions supplied only general information useful to the study.

4.2 Background Information of Respondents

4.2.1 Demographic Characteristics of Respondents

It was important for this study to get information on the demographic characteristics of the respondents, that is, information based on gender, age, highest educational qualifications as well as experience in employment. A total number of 30 questionnaires were distributed to 30 SACCOS' officers.

Information on gender of the respondents showed that 19 out of 30 respondents or 63.3% of the respondents were male while 11 out of 30 or 36.7% were female. This shows that there were almost equal numbers of male and female respondents. This is due to the fact that like men, women nowadays are engaged increasingly employed in the formal and informal sectors. It was therefore possible for the researcher to get information from both genders.

Table 4.1 Presents Information on the Age Range of the Respondents

Table 4.1: Age Range of Respondents (N=30)

Response	Frequency	Percentage
20-29 years	6	20.0
30-39 years	17	56.7
40-49 years	6	20.0
50 and above	1	3.3
Total	30	100

Source: Field data (2014)

The information in Table 4.1 reveals that 20.0% of the respondents were in the age category of 20-29 years, the majority (56.7%) were aged between 30-39 years while 20.0% were aged between 40-49 years. Only 3.3% of the respondents were aged above 50 years. This implies that those aged between 30-39 years are the ones who are more interested in joining SACCOS. It is assumed that at that age bracket people are active in terms of business and other economic activities therefore in need of financial support.

Education qualification is an important variable because it is directly related with the level of effectiveness in the management of SACCOS' funds and henceforth

sustainability of SACCOS in the long run. Information on the highest level of education of respondents is presented in Figure 4.1.
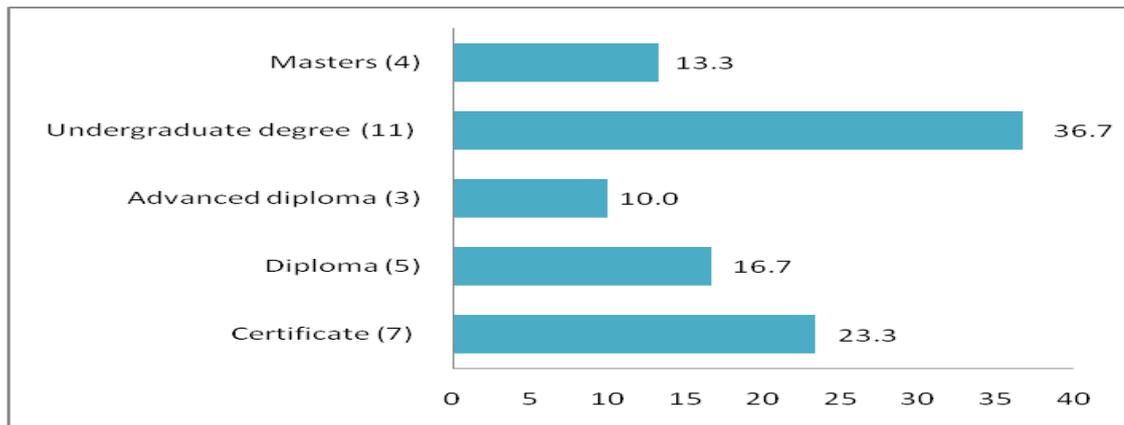
Figure: 4.1: The Highest Educational Qualifications

Source: Researcher (2014)

Information in Figure 4.1 shows that respondents were highly educated with qualifications ranging from Certificate (8 or 26.7%), Diploma (5 or 16.7%), Advanced Diploma (3 or 10.0%), Undergraduate degree (11 or 36.7%), and Masters (4 or 13.3%). The findings indicate that most respondents have a high level of skills and knowledge as required by the nature of SACCOS which needs great understanding of the concept of microfinance in general.

Experience in employment is an important factor as it has a bearing on the competence of staff in the provision of customer service. Knowledge obtained in class or college becomes more meaningful the more one puts it into practice. Information about how long the respondents have been members of SACCOS is presented in Figure 4.2.
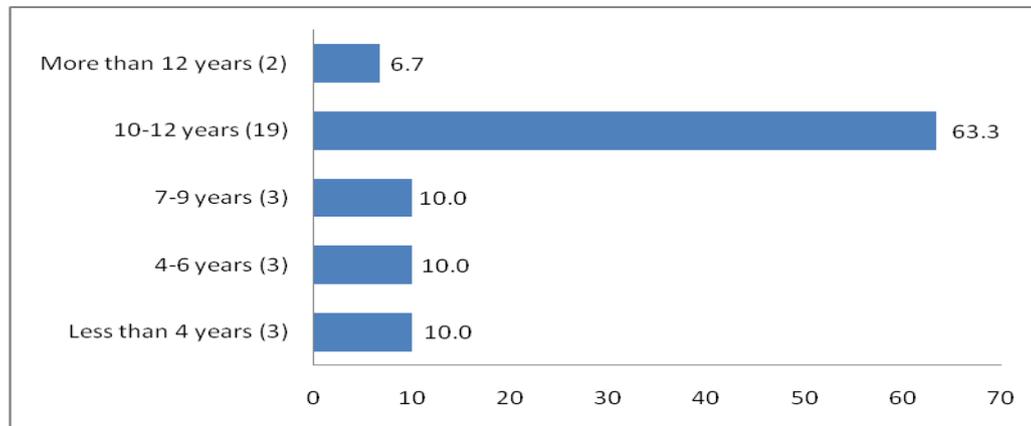
Figure: 4.2 Working Experience in SACCOS

Source: Field data (2014)

The findings in Figure 4.2 show that majority of respondents (63.3%) have been members of SACCOS for 10-12 years meaning that they have wide experience related to SACCOS. The results also show that 3 (10%) respondents have been in employment for less than 4 years, 3 (10%) for between 4 and 6 years, 3 (10%) for between 7 and 9 years, while 2 (6.7%) have been in employment for more than 12 years. The fact that majority of members at surveyed SACCOS had a longer experience with their institutions means that they were in a good position to provide the necessary information needed by this study.

4.2.2 General Information Related to SACCOS

It was important to know the background information of surveyed SACCOS. Respondents were asked a series of questions that provided information related to that aspect.

4.2.2.1 Type of Ownership

First, the respondents were required to provide information related to type of ownership. The findings show that all surveyed SACCOS (100%) were member

based. Member based SACCOS are voluntary associations where by members regularly pool their savings, and subsequently members obtain loans which they may use for different purposes. Generally, the idea behind establishment of SACCOS is to promote savings and make credits available to the members.

4.2.2.2 Purpose of Establishment

The respondents were asked to state the purpose for which SACCOS was established. The responses are presented in the Table 4.2.

Table 4.2: Purpose of Establishment (N=30)

Response	Frequency	Percent
Save financial services to members	23	76.7
Poverty alleviation	20	66.7
Improve members standard of living	16	53.3
Provide loans to its members at low interest	19	63.3

Source: Field data (2014)

As shown in Table 4.2, there are a number of purposes for which SACCOS was established. Among these are saving financial services to members (76.7%), poverty alleviation (10%), improving members standard of living (53.3%), and providing loans to its members at low interest (63.3%).

During the interview, the SACCOS officials told the researcher that despite providing loans to its members, SACCOS also provided a small loan of up to 100,000 Shillings whenever a member faced an emergency problem no regardless of whether the member had completed repaying a loan or not. This provided security to the SACCOS members, as emergencies, such as deaths, can occur without notice.

4.2.2.3 Number of Loan Officers

It was important for this study to get information on the number of loan officers from each surveyed SACCOS. The findings are presented in Table 4.3.

Table 4.3: Number of Loan Officers (N=30)

Response	Frequency	Percentage
1 - 2	16	53.3
3 - 4	8	26.7
5 - 6	4	13.3
7 - 8	2	6.7
Total	30	100

Source: Field data (2014)

Table 4.3 shows that majority of SACCOS employed between 1 and 2 (66.7%) loan officers. Other responses were 3 to 4 (26.7%), 5 to 6 (13.3%), and 7 to 8 (6.7%). Generally, in some cases, the numbers of loan officers were considered inadequate, given coverage of business operations.

4.2.2.4 Type of Service Offered

The respondents were also required to provide information on the type of service they offer. The findings are presented in Table 4.4.

Table 4.4: Type of Service Offered (N=30)

Response	Frequency	Percentage
Loan	17	56.7
Savings	17	56.7

Source: Field data (2014)

Table 4.4 shows that loan services are offered by majority of SACCOS (56.7%). Likewise, 17 (56.7%) of the surveyed SACCOS indicated that they offer savings to their members.

4.2.2.5 Type of Lending

The respondents were also required to provide information on the type of lending.

The findings are presented in Table 4.5.

Table 4.5: Type of Lending (N=30)

Response	Frequency	Percentage
Individual	30	100.0
Group	7	23.3

Source: Field data (2014)

Table 4.5 shows that all surveyed SACCOS offer individual lending (100.0%) while

fewer of them (23.3%) offer group lending. The implication is that individual lending

is the most common type of lending compared to group lending. This can be

explained by the size of loan that can be provided by SACCOS since most of them

are member based, as well as security related to because group lending is a risky

business.

4.3 The Determinants of Financial Sustainability of SACCOS

The study sought to find the determinants of financial sustainability of SACCOS in

Ilala Municipality. The following subsections present the findings.

4.3.1 Portfolio at Risk

Portfolio at Risk (PAR) greater than 30 days measures the value of all loans

outstanding that have one or more instalments of principal past due more than 30

days (Epifanova et al, 1999).The portfolio at risk determines how efficient an MFI is

in making collections. The higher PAR the lower the repayment rates, and therefore

less financial sustainability (Tehulu, 2013). The findings on the PAR are presented in

Table 4.6: Portfolio at Risk (PAR) greater than 30 Days in SACCOS

Response	Frequency	Percentage
0-3	6	20.0
4-6	4	13.3
7-8	2	6.7
9-10	10	33.3
Above 10	8	26.7
Total	**30**	**100**

Source: Field data (2014)

Table 4.6 shows that 26.7% of the SACCOS sampled have their PAR greater than 30 days standing at over 10%, 33.3% of them have PAR greater than 30 days between 9-10%, 6.7% of the SACCOS have their PAR greater than 30 days between 7-8%, 13.3% of the SACCOS have between 4-6% and only about 20.0% of the SACCOS have theirs ranging between 0-3%. This means that only about 20.0% of the SACCOS have their portfolios being recovered as per the agreement, the rest have their portfolios at risk of default.

4.3.2 Productivity

Productivity (Product) is a combination of outreach and efficiency; it is often measured in terms of borrowers per staff member and saver per staff member. However, serving a loan client can be more labor intensive and costly than serving a depositor; because it implies a series of interviews and site visits before the loan can be disbursed (Kinde, 2012). Thus, in this study borrower per staff member was used as a measure of productivity. All things being equal, the higher number of borrowers per staff would indicate efficiency of MFI staff, as they comparatively handle more

borrowers. The descriptive statistics shows the minimum and maximum borrowers per staff were 42 and 362 respectively. Anne-Lucie *et al.* (2005) found that MFIs in Africa are among the most productive in terms of borrowers (143) per staff member compared with the global averages (139) borrower per staff member. Thus, the surveyed SACCOS staffs were found to be more productive even above the African average productivity over the study periods.

4.3.3 Operating Self Sufficiency

Financial sustainability indicates that income from the microfinance services should be greater than the cost of providing services, and therefore, self-sufficiency is an indication for the financial sustainability of the MFIs (Sarma, 2011). Operating self-sufficiency ratio (OSS) is a measure of sustainability of the lending operations. It determines the extent to which operations are becoming (increasingly) self-sustaining. The findings on self-sufficiency ratio are presented in Table 4.7.

Table 4.7: Operating Self-Sufficient Ratios

Response (in %)	Frequency	Percentage
0-20	6	20.0
21-40	13	43.3
41-60	1	3.3
61-80	5	16.7
81-100	5	16.7
Total	30	100

Source: Field data (2014)

The findings in Table 4.7 show that a significant number of SACCOS studied (approximately 43.3%) have their operating self sufficiency ratios ranging between 21-40%. Approximately 20.0% have theirs falling between 0-20%, 16.7% have theirs

between 61-80% while 16.7% have their operating self sufficiency ratios above 81%. MFI is considered being financially sustainable when OSS reaches 110% which might a reasonable assumption be when analysing a single country with certain characteristics (Bogan, Johnson &Mhlangay), therefore, the results means that only about 18% of the SACCOS sampled are close to being self sustaining operationally.

4.3.4 The Cost per Borrower

The cost per borrower (CPB) is to explain the contribution of efficiency in reducing the components of cost per borrower namely, administrative expenses, financial expenses, and staff or personnel related expenses (Kinde, 2012). Efficient institutions minimize costs of delivering services. The efficiency of MFI can be calculated in various ways; this study analyzes costs per borrower as indicators of efficiency.

The study found that all surveyed SACCOS have the average cost per borrower of between 25 USD to 50 USD. According to Anne-Lucie, *et al* (2005), the average cost per borrower among reporting African MFIs is USD 72, which is higher than MFIs in other global regions. This study, therefore, strongly qualifies that the surveyed SACCOS are highly efficient in absolute terms because they spend below the African average cost per borrower. However, there may be some limitations in comparing efficiency of microfinance institutions in different countries as it has been reported that there are country effects like operating and regulatory environments that affect their efficiency (Harmes *et al*., 2008; Balkenhol, 2007).

4.3.5 Delinquency Rate

The delinquency ratio measures the institutional weakness. It is the ratio of the total value of loans that have not been repaid by their due date to the total value of loans

outstanding (Epifanova, *et al*, 1999). The findings on the delinquency ratio are presented in Table 4.8.

Table 4.8: Delinquency in SACCOS

Response (in %)	Frequency	Percentage
0-3	6	20.0
4-6	5	16.7
7-8	3	10.0
9-10	13	43.3
Above 10	3	10.0
Total	**30**	**100**

Source: Field data (2014)

The findings in Table 4.8 reveal that approximately 63.3% of the SACCOS studied have their delinquency ratio to total gross loan portfolio standing at above 6%, while only about 36.7% have their ratio below 6%. This means 63.3% have chances of not recovering fully the money lent out.

4.4 The Level of Financial Sustainability of SACCOS in Ilala Municipality

The study sought to find the level of financial sustainability of SACCOS in Ilala Municipality.

4.4.1 Trends on Loan Portfolio

Loan portfolio indicates the amount of loan issued and remained outstanding by the end of the period. Higher loan portfolio, other things being equal, indicates better microfinance outreach as more loans have been issued whose probable effect could be largely felt compared to just a small amount of loans (Nyamsogoro, 2010).

4.4.1.1 Number and Amount of Loan

Both number and amount of loans were part of factors used to measure the level of financial sustainability of SACCOS in terms of loan portfolio. The respondents were first asked to provide information related to number of loan disbursed. The number of loans is theoretically expected to be positively related to financial sustainability because it reduces per unit cost of the lending (Nyamsogoro, 2010). The findings are presented in Table 4.9.

Table 4.9: Number of Loans Disbursed (N=30)

Response	Frequency	Percentage
Below 2000	26	86.7
2000 - 3999	2	6.7
4000 - 5999	-	-
6000 - 7999	1	3.3
No response	1	3.3
Total	30	100.0

Source: Field data (2014)

As shown in Table 4.9, the number of loans in majority of the surveyed SACCOS was below 2,000 (86.7%) while fewer of them were ranging from 2000 to 3999 (6.7%), and 6000 to 3999 (3.3%). The results indicate that most of these SACCOS have inadequate number of borrowers, which is likely to affect their total income and expenditure. Usually, few number of borrowers combined with high costs of operation undermine the viability and sustainability of the surveyed SACCOS. This would have negative implications for interest revenues, more so, because it is the major source of revenue generation.

When asked about the amount of loan disbursed, majority of respondents (66.7%) said that it was below 1,000 Million Tshs. According to Schreiner (2000), the results imply greater average depth of outreach, as poor borrowers are likely to take smaller loans than less-poor borrowers. It is generally assumed that, the smaller the loan size, the more poor clients will be reached by SACCOS (Schreiner, 2000). However, this may have negative effects because when an MFI serve a large section of population who lives below poverty line, the probability of poor repayment in the case of adverse economic shocks to their lives increases delinquency rate (Bichanga, 2013).

It was also important for the researcher to know the number of active loans. Table 4.10 presents the findings as obtained through questionnaires.

Table 4.10: Number of Active Loans (N=30)

Response	Frequency	Percentage
Below 400	19	63.3
401 - 800	5	16.7
801 - 1200	-	-
1201 - 1600	2	6.7
1601 and above	1	3.3
No response	3	10.0
Total	30	100.0

Source: Field data (2014)

As shown in Table 4.10, majority of respondents (63.3%) indicated number of active loans was below 400. The results imply inadequate number of active loans and lesser growth of SACCOS when growth is viewed in terms of number of customers served during a specific period of time. There may be a number of reasons for this. One possible explanation that can be envisaged is lack of suitable lending opportunities (real or perceived).

The respondents were also required to indicate the value of outstanding loan portfolio, and overdue loan payment (in arrears). The questions were open ended. The findings are presented in Table 4.11.

Table 4.11: Value of Outstanding and Overdue Loan Payment (in Million Tshs)

Response	Outstanding N=30		Overdue (arrears) N=30	
	Frequency	**%**	**Frequency**	**%**
0 – 903.6	28	93.3	28	93.3
3614.4 - 4518.0	1	3.3	1	3.3
No response	1	3.3	1	3.3
Total	30	100.0	30	100.0

Source: Field data (2014)

Findings in Table 4.11 show that majority of respondents (93.3%) indicated that the value of outstanding loan portfolio was ranging from 0 and 903.6 Million Tshs while only 3.3% of the respondents indicated 3614.4 to 4518.0 Million Tshs. Regarding overdue loans (in arrears), the same 93.3% of respondents stated that they have loans still overdue. This implies that majority of borrowers were in arrears as far as loan overdue was concerned (Okwee, 2011). Furthermore, it indicates that majority of the surveyed SACCOS are experiencing liquidity problems.

4.4.1.2 Number of Borrowers

Number of borrowers in the SACCOS was part of factors used to measure if there were some growth in terms of outreach. The findings are presented in Table 4.12.

Table 4.12: Number of Members (N=30)

Response	Frequency	Percentage
Less than 700	23	76.7
700 - 1399	2	6.7
1400 – 2099	1	3.3
2100 – 1799	1	3.3
2800 and more	1	3.3
Total	30	100

Source: Field data (2014)

As shown in Table 4.12, majority of SACCOS have less than 700 (76.7%). The study also revealed that about 6.7% of the SACCOS have borrowers numbering from 700-1399; while only 10% of surveyed SACCOS had total borrowers of above 1399. This has negative implications to financial sustainability since most of surveyed SACCOS have fewer numbers of members. It is generally assumed that the larger the number of borrowers the better the outreach (Kinde, 2012). Information on the number of non-loan customers' shows that majority of SACCOS (33.3%) serve both savers and depositors. Fewer of them serve depositors only (23.3%), and savers only (3.3%).

4.4.2 Aspects of Loan

It was also important to know the aspects of loans for both individual and group lending.

4.4.2.1 The Initial Loan Size

The respondents were required to provide information on the aspects of loans for both individual and group lending. The findings on the amount of the individual initial (minimum) loan size are presented in Table 4.13.

Table 4.13: Amount of the Individual Initial (Minimum) Loan Size (N=30)

Response	Frequency	Percentage
Below 400,000.00	20	66.7
400,000.00 - 799,999.00	6	20.0
800,000.00 - 1,199,999.00	2	6.7
1,200,000.00 – 1,599,999.00	-	-
1,600,000.00 - 1,999,999.00	1	3.3
No response	1	3.3
Total	30	100.0

Source: Field data (2014)

The findings in Table 4.13 show that most of surveyed SACCOS provide amount of individual lending below TZs 400,000.00 (66.7%). This small amount of individual lending is inadequate to the borrowers and also, it can lead to low revenue collections to the lenders as well. Generally, the small amount of loan has negative implications to SACCOS because it makes them to realize smaller business profits. On the other hand, this amount guarantees fewer defaults as majority of borrowers will afford to pay their instalments to the lenders. Moreover, the results show that some SACCOS provide loans up to two millions only. This may be a result of number of reasons including insufficient funds and poor loan repayment rate. The respondents were also required to indicate the amount of the group initial (minimum) loan. The findings are presented in Table 4.14.

Table 4.14: Amount of the Group Initial (Minimum) Loan Size (in Million Tshs) (N=30)

Response	Frequency	Percentage
1.0 – 2.49	2	6.7
2.5 – 3.99	1	3.3
4.0 – 5.49	-	-
5.5 and more	1	3.3
No response	26	86.7
Total	30	100.0

Source: Field data (2014)

Table 4.14 shows amount of the group initial (minimum) loan size. It was noted that only fewer borrowers obtained the amount of the group initial (minimum) in the range of TZs 1 to 2.49 million (6.7%), TZs 2.5 to 3.99 million (3.3%), and more than TZs 5.5 million (3.3%). Despite the fact that even poorer can form groups to secure loan from SACCOS with such small initial loan size, for group lending, the initial loan size should be large enough. Thus, even with large loans, the group lending will guarantee less defaults and, therefore, higher profitability. However, twenty six (86.7%) did not respond to the question.

4.4.2.2 Instalments Required for the Minimum Loan

The respondents were asked to indicate the number of instalments required for each of the minimum loan. The findings are presented in Table 4.15.

Table 4.15: Number Instalments Required for each of the Minimum Loan

Response	Ind. lending N=30		Group Lending N=30	
	Frequency	%	Frequency	%
1-15	25	83.3	3	10.0
16-60	4	13.3	1	3.3
No response	1	3.3	26	86.7
Total	**30**	**100**	**30**	**100**

Source: Field data (2014)

As shown in Table 4.15, majority of respondents indicated that the number of instalments required for each individual lending was 1 to 15 (83.3%) while fewer of them were between 16 to 60 (13.3%). This implies that surveyed SACCOS do not favour high/frequent instalments to avoid the possibility of default as borrowers can

easily fall into arrears. Schreiner (2000) comments that more frequent instalments would mean less time to accumulate cash for repayment and thus increase cost to borrowers. For lenders, frequency of repayment could have mixed results.

However, when asked about the number instalments required for group lending, fewer respondents stated 1 to 15 (10.0%), and 16 to 60 (3.3%) while majority of respondents (86.7%) did not respond.

4.4.2.3 Repayment Period

The typical repayment schedule offered by an MFI consists of weekly repayment starting one to two weeks after loan disbursement (Bichanga, 2013). The researchers sought to find out loan repayment trends of individual and group borrowers and the findings are summarized in Table 4.16.

Table 4.16: Repayment Period Term to Maturity) for the Initial Loan Size (in Months) (N=30)

Response	Individual N=30		Group N=30	
	Frequency	%	Frequency	%
1 - 15	24	80.0	3	10.0
16-30	1	3.3	1	3.3
31-45	4	13.3	1	3.3
No response	1	3.3	25	83.3
Total	30	100.0	30	100.0

Source: Field data (2014)

As shown in Table 4.16, majority of respondents indicated the repayment period for individual initial loan size to be 1 to 15 months (80.0%). This shows that most individual borrowers opted for short term maturity to avoid higher interest rates which is associated with longer maturity. However, this might have negative implication to financial sustainability especially when majority of borrowers fall in

arrears. According to Nyamsongo (2010), longer maturity would mean higher profitability to lenders because they usually charge higher interest rates to reflect the risk associated with longer maturity. Importantly, repayment also spins on the sustainability and permanence of a MFI.

On the other hand, the findings on the repayment period (term to maturity) for the initial group loan size show that fewer of them stated 16 to 30 months (3.3%), and 31 to 45 months (3.3%), and 1 to 15 months (10.0%). However, majority of respondents (83.3%) did not respond to the question.

4.5 Factors Hindering Financial Sustainability of SACCOS in Ilala Municipality Council

The study sought to find out information on the factors that hindered financial sustainability of SACCOS. The findings are presented in Table 4.17.

Table 4.17: Factors Hindering Financial Sustainability of SACCOS (N=30)

Response	Frequency	%
Default in loan repayment	10	33.3
Inadequacy of capital base (funds)	4	13.3
Non-involvement of all members in decision-making	7	23.3
Elections are not carried out regularly	3	10.0
Delays in disbursement of loans	7	23.3
Few number of borrowers	23	76.7
Non-transparency in financial matters	2	6.7
High cost of operation	13	43.3
The outreach of SACCOS is decreasing	4	13.3
Some members quit SACCOS	25	83.3
Inadequate well-trained loan officers	10	33.3
Inefficient auditing	7	23.3
Loan beneficiaries have loans with other financial institutions	23	76.7

Source: Field data (2014)

The responses in Table 4.17 show a number of bottlenecks to financial sustainability of SACCOS. There are some who reported delays in disbursement of loans (13.3% respondents said so). Some of the other factors mentioned were default in loan repayment (33.3%), inefficient auditing (23.3%), inadequate well-trained loan staff (33.3%), some members quit SACCOS (83.3%), high cost of operation (43.3%), and few number of borrowers (76.7%).

One of the responses given is inadequacy of funds. This finding has also been verified by the researcher through interviews. One of the reasons for inadequacy of funds can be failure of some members to submit monthly instalments to SACCOS as they are required. However, if loans are not effectively managed it can also result into shortages of funds. For example, if loan officers do not have the required skills then their performance will not be good, and this poses the SACCOS to operational risks.

This study also observed some SACCOS' members also had loans with other financial institutions, such as CRDB bank Limited, NMB, and NBC. This is good, but sometimes it results in too many instalments to pay every month, which may reduce a member's repayment capability.

Apart from the above mentioned, another response is inefficient auditing. The researcher was informed that auditing was carried out mostly by internal auditors, with little or no involvement of external auditors. Less involvement of external auditors in the auditing process means that financial auditing is not conducted in an objective way, and can imply fraud and the improper use of the organization's funds.

One of the major factors mentioned is delays in disbursement of funds. This can be attributed to failure of the SACCOS members to return monthly instalments as they are required. SACCOS members get loans from collections obtained when other members repay, therefore, if they fail to repay it means other members will not be able to get loans in time.

Another response given is non-transparency in financial matters. When the finance department fails to be transparent, this is a bad sign, meaning that the managers would try to do things not for the interest of the stakeholders but for their own interest. Objectivity in the conducting of financial matters needs to be assured and communicated to the stakeholders for increased transparency.

Another response mentioned was default in loan repayment. This has been a problem for some surveyed SACCOS. One SACCOS' official told the researcher that quitting, termination job of a member, death or disability are the major reasons for a customer to become an incident of loan default. On the other hand, SACCOS' management staff cited information as follows:

> *"Sometimes we find ourselves in difficult situations, especially, when there is a huge burden of defaults, which has great impact on our financial sustainability. As a result of this, we usually decide to penalize or send an incident to court."*

Another factor mentioned was inadequate well-trained loan officers. Despite the fact that surveyed SACCOS provide training for loan officers to improve their capacities, the training is neither unified nor standardized. The reporting structure between these staff is still weak in most SACCOS as majority of them also do not have a Management Information System (MIS), which makes it difficult to monitor the

performance adequately. Although the educational level of staff was not cited as a major problem, there are a few areas that require improvement, particularly in the area of loan portfolio management and the understanding of the concept of microfinance in general.

4.6 Views on what should be Done to Ensure Financial Sustainability of SACCOS in Ilala Municipality

The study sought to get recommendations from the respondents on strategies to adopt to ensure financial sustainability of SACCOS in Ilala Municipality Council. The findings as obtained from SACCOS' staff are presented in Table 4.18.

Table 4.18: Views on what should be done to Ensure Financial Sustainability of SACCOS (N=30)

Response	Frequency	Percentage
Secure loans with low rate of interest	14	46.7
Recruit qualified personnel,	18	60.0
Upgrading SACCOS loan staff skills	10	33.3
Increase number of borrowers	17	56.7
Involvement of members in budgeting	21	70.0
Explore new source of funds e.g. fundraising	19	63.3
Proper control of defaults in loan repayment	13	43.3
Rising capital through mobilization of more members and encouraging savings & shares	6	20.0
Education on rules, and regulations	15	50.0
Seeking subsidies from donors	17	56.7

Source: Field data (2014)

The findings in Table 4.18 reveal that to ensure financial sustainability, a number of issues had to be done. Some of them include securing loans with low interest rates

(46.7%), recruit qualified personnel (60.0%), involvement of members in budgeting (70.0%), exploring new sources of fund (63.3%), upgrading SACCOS loan staff skills (33.3%), proper control of non default in loan repayment (43.3%), seeking subsidies from donors (56.7%), and education on rules and regulations (50.0%).

According to the information obtained, most respondents suggested that SACCOS should explore new source of funds. This approach means that the SACCOS will have sufficient funds to pay salaries, utilities; stationery etc. ensuring that activities will never have to stop even if funding will be withdrawn. Funding would also be required to cover the cost of reaching the rural areas where poverty is prevalent. In his study, Moyo (2008) points out that for microfinance to attain greater outreach, it needs adequate funding.

Another response mentioned is having effective policies on funds management. The researcher was told during interviews that such policies will provide guidance on any decisions related to funds and so help to ensure consistency in the decisions taken as well as ensuring promptness in taking appropriate actions.

Some of the respondents mentioned involvement of members in budgeting. There is an annual general meeting which involves all the SACCOS members, where various issues are presented and discussed, including the budget. However, there is a need for the meetings to be conducted more frequently so as to ensure that members have more chances to participate in decision making.

Moreover, some respondents mentioned upgrading SACCOS' loan staff skills. Skilled staffs are essential to the success of the SACCOS because they should ensure

that, firstly, the borrowers fully understand the terms of the loan as well as the financial products offered to them. Secondly, they should be able to offer the necessary mentorship and other assistance required by clients to equip them with the necessary basic skills pertaining to business management. Finally, skilled loan officers should effectively monitor the loan performance to ensure that the loan conditions are adhered to.

On the other hand, when SACCOS' management staffs were interviewed, they said that they were planning to take several measures to address the problems including: increasing capital, savings mobilization, share increment, training to members & sustainable interest setting, as well as upgrading staff skills and education through seminar and training so as to increase their competence.

4.7 Discussion of the Findings

The findings from this study were compared with previous different study from different authors' from empirical studies. This means that, the findings from Ilala Municipality compared to other studies. Some of the study matched but some of they didn't.

4.7.1 Portfolio at Risk and Delinquency

Portfolio at risk and delinquency in Tanzania affect financial sustainability of the SACCOS. Then he suggested insuring the financial sustainability and profitability of SACCOS the repayment period should be suitable as well as minimizing loan delinquency by Matogoro (2009). The previous study used the following name (Loan repayment and delinquency). In other hand of this study names used were portfolio at

risk inclusive of Loan repayment and delinquency. Surveyed SACCOS of Ilala Municipality, the findings of this study revealed that the loan repayment period were too short. Under this criterion, there is a need for other researches in order come out with proper answer because currently these two studies state opposite.

4.7.2 Cost Per Borrower

Chale (2009) addressed cost per borrower as among the puller down of the financial sustainability of the SACCOS in Tanzania, while the vice versa could be the correction. The findings from Ilala Municipality confirm this previous study since stating the same as found. The previous study used High interest rate while this study used Cost per borrower but both of them have the same meaning.

4.7.3 Operational Self Sufficiency

Previous study named this criterion as self-sustaining while the current study used operational self-sufficiency. Nyamsogoro (2010) carried out a study to find out whether SACCOS in Tanzania were self-sustaining; the results revealed that majority of the surveyed SACCOS were sustainable, signifying that the microfinance sector in Tanzania is relatively healthy. The surveyed Ilala SACCOS confirmed that only few SACCOS were operational self-sufficiency, under study captured the same result as of previous study although in different level.

4.7.4 Productivity

 Marwa (2013) the majority of SACCOS were operating well, as noted by the higher return on asset (7%) compared with other microfinance institutions internationally. Current study argue the previous study under this factor on the productivity, since

there low rate of financial sustainability the higher the production could be a dream. This means that the production was low in this finds. The terminology used here were high return on asset by previous researcher while by current research is productivity.

4.8   Conclusion

The findings have generally revealed that the level of financial sustainability among the surveyed SACCOS was low; majority of SACCOS have their portfolios at risk of default, while only few of them are close to being self sustaining operationally. This call for the need to address the major issues that emerged, so as to ensure the financial sustainability of SACCOS, which are the most reliable source of capital for the majority in urban areas like Dar es Salaam.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion and recommendation from the research findings. It commences with summary of findings and then continues to give careful assessment of remarks on the basis of objectives of the research and the research problem, and provides the recommendations on what should be done. Lastly, it identifies areas calling for further research.

5.2 Summary of the Main Findings

The main purpose of this study was to identify the determinants of SACCOS' financial sustainability in Ilala municipality Tanzania. Specifically, the study aimed at finding out the level of portfolio at risk of SACCOS in Ilala Municipality, determining the level of productivity of SACCOS, determining the level of operational self-sufficiency of SACCOS, determining the cost per borrower among the SACCOS, as well as finding out the level of delinquency rates among the SACCOS in Ilala Municipality.

The study found out that portfolio at risk, the cost per borrower and operating self-sufficiency were among the major factors that determine financial sustainability of the surveyed SACCOS in Ilala municipality. Specifically, the study found out that majority of SACCOS have their portfolios at risk of default, while only few of them are close to being self sustaining operationally.

The findings revealed that the SACCOS have inadequate number of borrowers, mainly because they provide inadequate number of loans. Furthermore, it was noted that the repayment period given to borrowers was very short, and thus, majority of borrowers were in arrears. Therefore, the findings of this study found that majority of surveyed SACCOS have low level of financial sustainability.

5.3   Implications of the Findings

The findings have generally revealed that the level of financial sustainability among the surveyed SACCOS in Ilala Municipality was low. First, this call for the need to address the problem as SACCOS are the most reliable source of capital for the majority in urban areas like Dar es Salaam.

Second, the study found that portfolio at risk, the cost per borrower and operating self-sufficiency were among the major factors that determine financial sustainability of the surveyed SACCOS in Ilala municipality. The study noticed that majority of SACCOS have their portfolios at risk of default, while only few of them are close to being self sustaining operationally. However, this report strongly qualifies that the surveyed SACCOS are highly efficient in absolute terms because they spend below the African average cost per borrower. Other factors determining MFI sustainability were productivity and delinquency rate.

Third, a number of factors, such as the number and amount of loan, number of borrowers, and repayment period were also considered when determining the level of financial sustainability. The results indicated that most of these SACCOS have inadequate number of borrowers because they provide inadequate number of loans.

Furthermore, it was noted that the repayment period given to borrowers was very short, and thus, majority of borrowers were in arrears. Therefore, the findings of this study found that majority of surveyed SACCOS have low level of financial sustainability.

Fourth, it was revealed that delays in disbursement of loans, inadequacy of capital base (funds), defaults in loan repayment, inefficient auditing, inadequate well-trained loan staff, non-transparency in financial matters, few numbers of borrowers, some members quit SACCOS, and high cost of operation were the major factors that hindered financial sustainability of the SACCOS. These factors had had a negative impact on financial sustainability at SACCOS and so need to be effectively addressed.

5.4   Conclusion

The conclusion made from this study which aimed to find out how the determinants of financial sustainability affect the sustainability of SACCOS in Ilala Municipality were identified. The findings had generally revealed that the level of financial sustainability among the surveyed SACCOS was low. First, this call for the need to address the problem as SACCOS are the most reliable source of capital for the majority in urban areas like Dar es Salaam.

Second, frequencies of borrower to borrow fund shows the financial sustainability of the SACCOS since it wealth the institution by providing more funds through charges of operating costs. So, SACCOS should advise its members to borrow frequently in order to ensure the financial sustainability of SACCOS. Third, the SACCOS should

have higher income than cost of providing services. This will ensure the financial sustainability of that SACCOS since it will be able to operate profitably by earning frequently. Fourth, Cost per borrower should remain below to enable SACCOS to obtain profit that ends in sustainability of financial a certain institution. Fifth, SACCOS showed the higher possibility of not been fully refunded of their funds from debts members should length refund time to enable borrower to refund accordingly.

Other strategies for empowering financial sustainability of SACCOS are as follows; including securing loans with low interest rates, recruit qualified personnel, involvement of members in budgeting, exploring new sources of funds, upgrading SACCOS' loan staff skills, proper control of non default in loan repayment, seeking subsidies from donors, and education on rules and regulations. It is expected that if these recommendations are put into practice by the management then there will be increased financial sustainability at SACCOS in Ilala Municipality.

5.5   Recommendations

The study recommends that in order for SACCOS to reduce default in loan repayments, they should monitor the borrowers regularly so as to ensure that they use the loans they received for the agreed and intended objective. This can be achieved by auditing regularly account statements from borrowers as well as physically visiting the borrowers to monitor and evaluate the progress of their loan projects.

Moreover, relevant and comprehensive training should be provided to loan officers, focusing on imparting business skills onto them. This will help much in ensuring

they effectively monitor the loan performance to ensure that the loan conditions are adhered to. Lastly, there is a need for adoption of computers and modern software by all SACCOS so as to ensure proper accounting and so increased effectiveness in management of SACCOS' funds.

5.6   Limitations of the Study

This study was carried out in the Ilala Municipality in Dar es Salaam only in order to represent other SACCOS of Dar es Salaam and the whole of Tanzania in general. I was required to limit my geographical area because my time of doing this research was to short so it could not be possible to cover a large area. Research needs funds to cover different staffs like transport since I had to travel from one SACCOS to another for data collection. Stationary where is inclusive papers, printing, photocopy, pen for organizing my information for research.

Then, editing and binding my dissertation. All these activities were required to be covered with small budget which could not satisfy. Furthermore, the accessibility of data was very hard due to the nature of the institutional (SACCOS) activities. Because, most of respondents were very busy at their normal duties so they were not reliable for responding my questionnaire and interview.

5.7   Delimitation

To overcome the limitations, the study included a number of SACCOS operating in Ilala Municipality also a reasonable number of respondents. Multiple methods of data collection were also used.

5.8   Areas for Further Research

This study has assessed determinants of financial sustainability in microfinance institutions, with a focus on SACCOS. There is a need to conduct further studies on financial sustainability, focusing on other types of microfinance institutions, such as commercial banks that provide loans and savings. Second, this research design was addressed specifically to SACCOS located in Ilala Municipality's problem. In this case, apart from SACCOS located in Ilala Municipality; this study cannot be applied to other SACCOS within and outside of Tanzania, thus creates a chance other studies. Third, apart from this research methodology used in this study, other study can be created by using other research methodology.

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APPENDICES

Appendix 1: Questionnaire or SACCOS Officers

I am a student of the Open University of Tanzania proceeding on research titled "Determinants of Financial sustainability of SACCOS in Tanzania" in partial fulfilment of the requirements for the degree of Masters in Business Administration. I request you to fill this questionnaire. Your responses will be treated with utmost confidentiality, and the findings will be used for academic purposes only. I forward you my thanks in advance.

(Please tick or fill in as appropriate)

SECTION 1: BACKGROUND INFORMATION

1. SACCOS Name: ……………………………………………………

2. Date of the registration (year) ………………………………………..

3. Ownership type (Tick appropriate)

        A.   MB – SACCOS

        B.   Non Governmental Organization (NGO)

        C.   Government (Gov)

4. Purpose of establishment of the SACCOS …………… …… ……… …… …

5. Key mission (Tick as appropriate)

        A.   Social (Poverty Reduction)

        B.   Business (Profitability)

6.   Number of customers………………………………………………………….

7.   Number of staff (loan officers) **:..**

8.   Is your SACCOS regulated? YES/ NO

9.   What types of product/ service do you offer? (Tick appropriate)

      A.   Loan

      B.   Savings

      C.   Deposit

      D.   Other (specify)

10. What lending type do you use?

      A.   Individual

      B.   Group

      C.   Others (please specify)

11. How many non-loan customers do you have?

      A.   Savers…………………………….…….…………….……….

      B.   Depositors………………………………………..………………

      C.   Other (Please specify)…………………………..………………..

SECTION 2: DETERMINANTS OF FINANCIAL SUSTAINABILITY

2.1 Loan portfolio

12.   How much loan amount was disbursed *(TZS)?:………………………*

13.   How many (Number of) loans were disbursed?:…………………………

14.   How many loans were active?:…………………………….

15.   How much was the value of outstanding loan portfolio?:…………………

16.   How much loan payment was overdue (in areas)? (TZS):…………………

17. How much was the value outstanding balance of loan in arrears (overdue)?:…………….

18. How much were loan loss provision?:…………………………………

19. How much loan was written off as bad?:………………………

2.2 Subsidy, Interest Rates and Charges

20. How much subsidy did you receive?

        A.   Monetary

        B.   In kind (Training and others)

        C.   Concession loan

21. How much were interest rates (%) charged in loan?:…………………….

22. How much interest rate (%) did you pay on

        A.   Customer savings

        B.   Customer deposit

        C.   Other service

2.3 Aspects of Loan (Terms of Loans)

23. How much was the initial (minimum) loan size?

        A.   Individual lending--

        B.   Group lending--

24. How long was the repayment period (term to maturity) for the initial loan size

   A. Individual lending

   B. Group lending

25. How many installments were required for each of the minimum loan?

    A. Individual lending

    B. Group lending

26.   How much was the TZS value of each installment of the minimum loans?

    A. Individual lending

    B. Group lending

SECTION 3: POSSIBLE HINDRANCES TO FINANCIAL SUSTAINABILITY

27.   Have there been any incidents of loan default? Yes/No

28.   If yes, what are the reasons?...

…………………………………………………………………..…………………

…………………………………………………………………………………..

29.   How does SACCOS respond to loan default?...

………………………………………………………………….………………….

30.   Please indicate "Yes" or "No" to the following statements in the table below:

Statement	Yes	No
1. Some members default in loan repayment		
2. The number of loan defaults has been decreasing		
3. The number of SACCOS members has been increasing		
4. The capital base of our SACCOS has been increasing		
5. This SACCOS does not depend on subsidy		
6. All SACCOS members are involved in decision-making related to this SACCOS		
7. Elections are carried out regularly to select new management of this SACCOS		
8. There is transparency in financial matters at this SACCOS		
9. The outreach of this SACCOS is increasing		
10. Some members quit this SACCOS		
11. This SACCOS borrows from banks to finance loan disbursement to SMEs		
12. Loan officers are adequate and well-trained		
13. Auditing is done regularly and according to established standards		
14. Loan beneficiaries have loans with other financial institutions		

SECTION 4: VIEWS ON WHAT SHOULD BE DONE TO ENSURE FINANCIAL SUSTAINABILITY

31. What is being done to address the various challenges hindering financial

sustainability of the SACCOS...

32. Do you think the measures being taken are effective in addressing the

challenges?

....

…………………………………………………………………………………………

………………………………………………………………………….………….

33.   What are your views on what should be done to ensure financial sustainability

of this SACCOS?..

………………………………………..…………………………………………

………………………………………………………………………………….

34.   Any other comment………………………………………………………

THANK YOU FOR YOUR TIME AND INPUT