ANALYSIS OF FINANCIAL PERFORMANCE AND SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN TANZANIA: A CASE OF SELECTED SACCOS IN MTWARA MUNICIPAL

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2013

CERTIFICATION

The undersigned certifies that he has read the dissertation titled "Analysis of Financial Performance and Sustainability of Microfinance Institutions in Tanzania: A Case of selected SACCOS in Mtwara Municipal", and hereby recommends for acceptance by the senate of the Open University of Tanzania in partial fulfillment of the award of degree of Masters in Business Administration (Finance).

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DECLARATION

I, Lucas Yohana Malua, do hereby declare to the senate of Open University of Tanzania that this dissertation is my own original work and that it has not been submitted to any other degree in any University and will not be submitted to any other higher institutions of learning for a degree award.

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Signature

DEDICATION

I dedicate this work to Almighty God, the source of all wisdom and knowledge, my parents, Mr. and Mrs. Malua of Tanga region, Korogwe District who are the foundation of my education, also to my Family, my child Genesis Malua and my close friend Mr and Mrs Godfrey William Mgimwa.

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ABSTRACT

Achieving performances and financial sustainability is crucial for microfinance institutions. This does not assure MFIs existence but also guarantees continual provision of financial services to the poor. The overall objective of this study was to examine the financial performance of Saving and Credit Cooperative Societies (SACCOS) in achieving financial sustainability. Four variables, namely Savings mobilization pattern, levels of interest charged on loans, Loan portfolio looking at loan size, repayment terms and pattern, and institutional capacity were used to measure the sustainability and performance of Saving and Credit Cooperative Societies.

The study involved 15 SACCOS in Mtwara Municipal. Primary data was collected using both questionnaire (Appendix 1) and semi structures interview. Apart from questionnaires and semi structured interview questions, another method that was used in data collection was documentation.

The finding implies that savings mobilization indicated positive influence on the sustainability of SACCOS. SACCOS has managed to build up its lending base by influencing savings. The existing policy that the individual can borrow the maximum amount of twice the savings level attracts saving rather than interest on savings.

The study recommends that the MFIs should continue to build their lending base through savings mobilization. This has been a major success factors to SACCOS.

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LIST OF ABBREVIATION

BFIA	- Banking and Financial Institutions Act
CRDB	- Cooperative and Rural Development Bank
GDP	- Gross Domestic Product
IFAD	- International Fund for Agriculture and Development
MFIs	- Microfinance Institutions
MFP	- Microfinance Provider
NGOs	- Non - Governmental Organizations
SACCOS	-Saving and Credit Cooperative Societies

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Problem

History of Micro Financing can be traced back as long to the middle of 1800's. The beginning of microfinance movement are most closely associated with the economist Muhammed Yunus, who in the earlier 1970's was a professor in Bangladesh. In the midst of a country-wide famine, he began making small loans to poor families in neighboring villages in an effort to break the cycle of poverty. The experiment was surprising success, Yunus receiving timely repayment and observing significant changes in the quality of life for his loan recipients. Unable to self-finance on the expansion of his project, he sought Government assistance, and the Grameen Bank was born. In order to focus on the very poor, the Bank only lent to households owning less than a half acre of land. Repayment rates remained high, and the Bank began to spread its operations to the other regions of the country. In less than a decade the Bank was operating in the whole country. (www.iilj.org/courses/FDMicrofinance).

The success of the Grameen Bank did not go unnoticed. Institutions replicating its model sprang up in virtually every region of the globe. Between 1997 and 2002, the total number of MFIs grew from 618 to 2,572. All together these institutions claimed about 65 million clients, up from 13.5 million in 1997 and still growing at 35% a year. The amount of money flowing to clients also continues to climb rapidly and the Grameen Bank has extended over USD 750 million in the past two years alone (www.iilj.org/courses/FDMicrofinance).

Alongside the explosion of the microfinance industry in absolute terms, there has been steady growth in private financing of MFIs. The bulk of microfinance funding is still provided by development-oriented international financial services at roughly 1.8 billion individuals, even at current growth rates, it is clear that microfinance will only be expected to meet enormous demand by leveraging private capital, flows of which dwarf all other potential sources. Commercial financing has grown in Latin America, where regulated financial institutions now serve 54% of the continent's microfinance clients and, importantly, are now responsible for 74% of the regions loans. Overall, 2005 saw private lending to MFIs jump from USD 513 million to USD 981 million (www.iilj.org/courses/FDMicrofinance).

The jump in investment is reflection of an increasing number of sustainable MFIs worldwide. In addition to earning a profit, sustainable microfinance providers are in a better position than their subsidized peers to expand their operations and share of the market (www.iilj.org/courses/FDMicrofinance).

Today the World Bank estimates that more than 16 million people are served by some 7000 microfinance institutions all over the world. About 500 million families' benefits from these small loans making new business possible. In a gathering at a Microcredit summit in Washington DC the goal was reaching 100 million of the world's poorest people by credits from the world lender and major financial institutions (www.microfinanceinfo.com/history).

Tanzania is a low income country with an estimated per capital income of USD 200. From mid 1960s the country pursued economic and social policies under the umbrella of the Arusha Declaration which emphasized socialist principal of economic management. Tanzania Government at that time established specific financial institutions such as the Cooperative and Rural Development Bank (CRDB) and National Bank of Commerce which offered financial support to the poor. The expectation was that this could improve the poor production capacity therefore improves national income (Nkya, 2006).

However, in early 1980s the average Gross Domestic Product (GDP) growth rate dropped drastically as the economy was faced with multi-faceted economy problems characterized by large fiscal deficits, declining per capital income and erosion of tax base. The causes of this deterioration was due to the fall of international prices of traditional export crops, high prices for manufactured imports, poor weather conditions for agricultural activities, the burden from break up the East African Community, the effect of war with Amin's forces, the pressure of domestic resources due to historical problem of refugees and a general decline in donor financing (URT, 1999).

In response to that, in 1991, the Government of Tanzania initiated financial sector reforms in order to create an effective and efficient financial system and to stimulate Micro Finance Services. In order to liberalize the financial markets; the Government enacted the Banking and Financial Institution Act (BFIA) 1991, Cooperative Societies Act 1991, and National Microfinance policy in 2000. To reflect the implementation of the policies aimed at reforming the financial sector, the Government in collaboration with donors and recipients set up various institutions and organs like MKUKUTA, MKURABITA, SELF, TASAF and SIDO to facilitate poverty eradication by providing loanable funds, creating access to financial services and assisting the poor to establish their own financial institutions. The assumption behind the establishment of these programs is the creation of income generating enterprises to increase income, productivity, employment and improvement of the livelihood of the poor (Nkya, 2006).

In order to facilitate the creation of income generation projects sustainable financial services are required. Financial services such as loans and savings instruments can raise household income, consumption levels, and investments. This can be achieved in three ways: by increasing production that will generate more income; by allowing more risk-efficient "asset portfolios" (animals, land, materials, and so on); and by smoothing consumption patterns (tiding over a drought, seasonal scarcity, crop failure, illness, and so on) (Zeller and Meyer, 2002).

For the majority of Tanzanians, whose incomes are very low, access to financial services offers the possibility of managing scarce household and enterprise recourses more efficiently, protection against risks, provision for the future, and taking advantage of investment opportunities, for economic returns (National Microfinance Policy draft by URT (2002). For households, financial services allow higher standard of living to be achieved with the same resource base, while for enterprises and farmers, financial services can facilitate the pursuit of income growth (Mushi, 2004).

One of the problems facing the informal sector in Tanzania is the unavailability of credit since the existing financial institutions find it difficult to lend to the rural population and low income earners because of the associated follow-up and administrative costs (Mlowe, 1994). In this case, the solution to financial requirements of the poor may well be different from the public management. A study report by United Republic of Tanzania on informal sector enterprises in Tanzania (URT, 1991), pointed out that credit availability problem is one of the issues which affect low income earners and poor peoples to access loans from the financial institutions. At the end of the study the Government recommended to establish other programs of financial services to support the financial sector, hence establishment of special types of "local based Banks to financial institutions of the country would become a solution (Macha, 1994).

1.2 Statement of the Problem

Several studies (Muturi, 2000; Mkwizu, 2004; FSAP, 2003; and Seibel, 2001) conducted on the microfinance institutions in developing countries have pointed out on the importance of financial performance and sustainability of microfinance institutions. The study further note that, the sustainability of MFIs and outreach are being hindered by inadequate savings mobilization, huge operating costs, and lack of access to credit services. The inefficiency of the MFIs in Tanzania have been studied and written (Chijoriga, 2000). There is also literature concerning the state of financial and operations sustainability of the institutions. The Government in collaboration with donors has established various institutions and organs to facilitate poverty eradication by providing loanable funds, creating access to financial services, assisting the poor to establish their own financial institutions (Pius, 2005). However, few studies have been conducted in order to understand the continual state of the two aspects i.e. (performance and sustainability). Even though Chijoriga (2000) has successfully analyzed the performance and sustainability of the MFIs in Tanzania, but her study fails short of determining and analyzing the factors that affect performance and sustainability and thus limiting the sustainability of these institutions. Furthermore, there have been no apparent efforts to analyze the factors of sustainability as perceived by the clients, Similarly, Nkya (2006) study on the sustainability of microfinance institutions did not analyze the performance though acknowledges no sustainability without performance. However, achieving financial performance and sustainability is crucial for microfinance institutions, as they do not only ensure their existence but also guarantees accessibility of financial services to the poor on a permanent basis (Chijoriga, 2001).

The research objective was designing to investigate factors that affect the financial sustainability of MFIs is a concept which has to be addressed as it can lead to poverty eradication. This research aimed at determining the extent to which savings, interest and loan delivery method affects financial sustainability of SACCOS and other challenges faced by MFIs in their quest to achieve sustainability. With reference to the National Microfinance Policy draft (2002), for the majority of Tanzanians, whose incomes are very low, access to financial services offers the possibility of managing scarce household and enterprise resources more efficiently, protection against risks, provision for the future, and taking advantage of investment opportunities, for economic returns. For households, financial services allow higher standard of living to be achieved with the same resource base, while for enterprises and farmers, financial services can facilitate the pursuit of income growth (Mushi, 2004).

One of the problems facing the informal sector in Tanzania is the unavailability of credit, as the study report on informal sector enterprises in Tanzania 1991 pointed out that there exists credit availability problems and hence the government was advised to establish other programs of financial services to the sector. Referring to the existing, most of them find it difficult to lend to the rural population and low income earners because of the associated follow-up and administrative costs (Mlowe, 1994)

Therefore the solution to financial requirements of the poor may well be different from the public management, hence establishment of special types of “local based banks to financial institutions of the country would become a solution (Macha, 1994).

1.3 Research Objectives

1.3.1 General Objectives

The overall objective of this study was to examine the financial performance of saving and Cooperative Societies (SACCOS) in achieving financial sustainability.

1.3.2 Specific Objectives

(i) To determine the savings mobilization pattern of SACCOS and its impact on financial sustainability.

(ii) To ascertain the levels of interest charged on loans made by SACCOS and its impact on financial sustainability.

(iii) To determine the loan portfolio of SACCOS looking at loan size, repayment terms, pattern and its impact on financial sustainability.

(iv) To ascertain the institutional capacity of SACCOS as a support for financial sustainability.

1.3.3 Research Questions

In line with the research objectives, the study was seeking answers to the following questions:

(i) What is the savings mobilization pattern of SACCOS which enhance their financial sustainability?

(ii) What are the levels of interest charged on loans made by SACCOS?

(iii) What is the loan disbursement and repayment patterns of a portfolio of loans made by SACCOS?

(iv) What factors affects the institutional capacity of SACCOS?

1.3.4 Hypotheses

A research hypothesis is the statement created by researchers when they speculate upon the outcome of a research experiment (Explorable.com/research hypothesis). In other language, Research hypothesis are the specific testable predictions made about the independent and dependent variables in the study. The following are hypotheses to be tested at the end of the study:

i) H_o; If Saving mobilization pattern of Saving and Credit Cooperative Societies (SACCOS) will attract interest rate on savings then these will make SACCOS to have enough amount of money which will increase its outreach to the poor then financial sustainability.

H_1; If Saving mobilization pattern of Saving and Credit Cooperative Societies will not attract interest on savings to their members then will limit savings which will lead to SACCOS to lack enough fund to lend to its members hence will limit the SACCOS to increase its outreach to the poor then no financial sustainability.

ii) H_o; if the level of interest charged on loans made by Saving and Credit Cooperative Societies can cover their operation costs will ensure their performance hence financial sustainability.

H_1; If the level of interest charged on loans made by SACCOS will not be able to cover for operation costs this will make the SACCOS not to operate in standard which will limit their financial sustainability.

iii) H_o; If Loan disbursed pattern and repayment pattern will include both individual and group will make the SACCOS to have wide outreach hence will make SACCOS to have wide operating area which will ensure their performance and hence financial sustainability.

H_1; If the Loan disbursed pattern and repayment pattern will be limited to individual only will make the SACCOS to have small outreach hence will make SACCOS to limit their performance and financial sustainability.

iv) H_o; If Saving and Cooperative Societies will be operating in a highly institutional capacity in terms of highly skilled employee, good management and know how this will ensure highly institution performance and hence financial sustainability.

H_1; If Saving and Cooperative Societies will not operate in a highly institutional capacity in terms of highly skilled employee, good management and know how will limit institution performance and also financial sustainability.

1.3.5 Significance of the Study

The findings in the study would bring contribution into three parts: Academic, policy maker and practitioners. Academically, this study adds knowledge on the practice of MFIs specifically on the performance and sustainability. This study is also a stepping stone for other studies in micro finance policy framework as sustainability and performances of MFIs is vital for poverty eradication.

For practitioners, this study is crucial as it enable microfinance practitioners to understand the key issues related to financial performance and sustainability. The findings highlight to the stakeholders about the technical assistance required by the SACCOS and MFIs network in the areas of establishment and institutional development towards viability, self reliance and outreach.

To Policy maker this study address the broad development agenda for vision 2025 and contribute to sustainable poverty reduction strategies through increasing outreach, ensure MFIs are viable, sustainable and growing (Seibel, 2001). This study highlights the government areas in the implementation of millennium development program goals through improvement in microfinance as a way to achieve eradication of poverty.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Definition of Key Concepts

2.1.1 Microfinance Institutions

Microfinance Institutions (MFIs), can be defined as specialized organizations established to provide financial services to people who are generally poor, and who have not been able to access financial services of the existing commercial banks. This is supported by Urasa (2007) who asserts that MFIs provide micro financial services to significant member of poor people, through savings mobilization as well as through mobilizing funds from commercial sources. MFIs do provide savings facilities, loans and other financial services without fixed collateral as practiced in the formal financial systems (Ballali, 2001). MFIs can also be defined as an organization that provides financial services to the rural and micro enterprises sector including savings mobilization, provision of credit as well as extending payment to cover large part of low income earners particularly in rural areas with objective of poverty alleviation (Microfinance gateway, 2000).

In Tanzania, MFIs refers to institutions that provide microfinance services to the poor on the basis of their interim objectives such as poverty alleviation and self-help. Such institutions include commercial banks, Non-Banks financial Institutions, Community Banks, Saving and Cooperative Societies (SACCOS) and Non Governmental Organization (NGOs). All MFIs programs in general aim to accomplishing two principle goals; Financial self sufficiency and to reach large number of poor in a population. In order for MFIs to be sustainable in terms of outreach to cover large number of low-income earners in both rural and urban areas, it has to overcome some problems that affect their sustainability. Such problems pose a challenge due to the fact that the poor normally require small loans that are relative expensive to administer, and the lack of collateral or credit worthiness to guarantee their loans (Mshangama, 2006).

2.1.2 Savings and Credit Cooperative Societies (SACCOS)

According to Urasa (2007) Saving and Credit Co-operative Society (SACCOS) is defined as a democratic, unique member driven, self –help co-operatives. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labour union, social fraternity or living /working in the same community. A SACCO’s membership is open to all who belong to the group, regardless of race, religion, skin colour, creed and gender or job status. These members agree to save their money together in the SACCOS and make loans to each other at reasonable rates of interest. Interest on loans is inevitable to cover the interest cost (Urasa, 2007). The general structure of a Saving and Credit Cooperative Societies (SACCOS) is a board of directors and a small number of committees; usually that is loan and credit committee, an executive committee and a supervisor committee (Urasa, 2007). In a SACCOS, it probably comes as no surprises that are different from other financial Institutions (Table 1.1).This uniqueness is what entitles SACCOS to have tax-exempt status, and serves as a basis for the existence. The public belief is that SACCOS look like a bank, sounds like a bank, and offer the same services as a bank, and then it must be a bank and should be taxed and regulated in the same way as a bank. This is a popular argument; and to counter it effectively, the difference between a SACCOS and other Institution must be known clearly.

Most Saving and Credit Cooperative Societies (SACCOS) are capitalized by illiquid shares. The shares/savings function as an instrument of ownership, and a basic feature is that the saving and Credit Cooperative Societies (SACCOS) should be capable of running on the financial resources of the membership alone. In Tanzania, the average number of membership in one Saving and Credit Cooperative Societies (SACCOS) is 209 persons.

Donor or Government. A microfinance institution requires covering its costs of funds and other forms of subsides when received at market prices to achieve financial sustainability (Gonzales, 2005). According to Chijoriga (2001), sustainability is usually understood as a process involving three stages:

Stage one, operation sustainability, whereby the MFI covers its administrative cost and loan loss expenses from internally generated funds. Stage two, financial sustainability, whereby an MFI is an operational sustainable and able to cover the costs of funding including inflation. Such MFIs can raise resources from their national financial markets and are likely to have rediscount lines from the central bank. Stage three, institutional sustainability, whereby MFIs covers all its operational and financial costs and is able to generate enough surpluses to meet its institutional development.

Finally, for MFIs to remain sustainable in operation, it must strive to satisfy the needs of its clients by providing quality service in good time. The author here theorized that this (quality of service) is the most underlying factor for the sustainability of an MFI and its performance. If an MFI finds strategic approaches to address the issue of quality of service, it will have addressed the other entire internal factor mentioned above. This is because if these factors are factorized and analyzed, it would be found out that they are all factored by client. So whether the client is satisfied or not will always evidently determine the qualities of the factors mentioned above. In other words the quality of service is an independent variable to almost all the internal variables of sustainability of an MFI. Almost all the others are dependent to it. The exceptions here are few, such as operating expenses and governance of the institutions.

Table 1.1: The difference between SACCOS, Banks and other Financial Institutions

S/N.	CRITICAL AREAS	SACCOS	BANKS AND OTHER FINANCIAL INSTITUTIONS
1	Purpose	Not for charity, not for profit but for service	To make profit
2	Definition	A financial co-operative owned and controlled by its members	Business owned by groups of shareholders who may not have accounts there
3	Structure	Democratically structures, every member has an equal say about a SACCOS goals, function and services.	Depositors have no vote. In a bank or other financial institution, only shareholders may vote on goals, functions and services.
4	Directors	Directors are elected by members and volunteer.	Boards members are elected by their shareholders and are paid
5	Earnings	Earnings are returned to members in the form of dividends, higher savings rates, lower loan rates and improved	Earnings are returned to shareholders.

Source: SCULT head office magazine (2007)

2.1.3 Sustainability

Sustainability means that the MFIs collects its loans and covers all its costs well enough such that the lending operation can continue serving its poor clients and reaching out to increasing numbers of clients, even after it is no longer getting grants or soft loans from

Quality of service is also of particular importance now as circumstance propels the MFI to become commercial. Thus, it is envisaged that the more the institution satisfies the needs of its clients (and potential clients) the more it becomes popular and thus remaining competitive in the market. This satisfaction must come in terms of:-

- The appearance of the MFI physical facilities, equipment and personnel (Tangibility).
- The ability of the MFI to issue products that answer to all its clients' financials needs (Reliability).

- The MFI’s willingness to help clients and provide prompt service (Responsiveness).
- The knowledge and courtesy of the MFI’s employees and their ability to convey trust and confidence to customers (Empathy).
- The MFI’s ability to perform the promised service dependably and accurately (Assurance).

2.1.4 Performance

Performance in relation to MFIs can be defined as how well an institution has translated its goals into practice. These goals which have to be predefined in the institution’s strategy can be; increase the number of “poor” clients, improve the quality and adequacy of products, improve the living conditions of clients. Performance of the institutions can be measured by the strategies and staff capacity to operate the SACCOS effectively (Saving and Credit forum, 2004).

2.1.5 The Link between Performance and Sustainability

There are two current imperatives within the microfinance sector. “Increasing performance and improving sustainability”. There is, however, a creative tension between these two imperatives. On the one hand, if “increasing performances” is taken to mean clients from a similar demographic then performance and sustainability are effectively synonymous terms. Increasing client’s performances provides economies of scale that in turn makes the microfinance provider (MFP) more efficient and therefore more sustainable at least in immediate financial terms. It is a case of “more of the same”, while continually seeking incremental improvements in operational efficiency (Urasa, 2007). On the other hand if “Increasing performances “is taken to mean “targeting hard-to-reach clients “such as people living in remote areas, then “performances” and “sustainability” are effectively competing terms. Reaching clients in remote areas is relatively expensive, which makes the MFP less efficient therefore less sustainable. This is the real performance challenge for MFPs because it requires new, as yet unproven business models and process, including technological innovation (Urasa, 2007).

2.2 External and Internal environment influence on Financial Sustainability

The external environment includes microeconomic factors such as legal and regulatory framework of microfinance and policies. According to Gallardo (2002), the experience of Ghana and the Philippines shows that a transparent, inclusive regulatory framework is indispensable for enabling microfinance institutions to maintain market specialization and to pursue institutional development that leads to sustainability. The judicial process and legal system should address the threshold for capitalization and capital adequacy, asset quality and provision of nonperforming loans and liquidity management trough prudent regulatory standards (Seibel, 2001). As far as microfinance institutions are concerned, the existing Tanzanian laws relating to the legislation of banks and financial institutions providing or intending to provide microfinance services in Tanzania are insufficient and inadequate to ensure public confidence and protect the integrity and stability of the financial sector in Tanzania (Benedict,2001).This issue is being addressed the Tanzanian and other microfinance institutions stakeholders whereby in the National Micro finance policy (2000), one of the strategies is regulation and supervision of microfinance operations within the same fundamental principles that applied to other parts of the financial systems. In July 2004, the Minister of Finance approved the regulations and supervisory framework for microfinance operations. These regulations are still going through necessary process to make them operation.

As microfinance institutions move towards the formal sector, financial sustainability can no longer be disregarded. Sustainability is the area of interest of the government and donors as a tool for poverty eradication (Seibel, 2001).

The internal environment is influenced by institutional and technological innovations and best practices that contribute to improving financial sustainability (such as employment of cost reducing information systems), impact (such as designing a demand-oriented services for the poor and more effective training of clients), or outreach to the poor (such as introducing more effective targeting mechanisms or by introducing lending technologies that attract a poorer group of clients (Zeller and Meyer, 2002).

As far as the external factors are concerned, available literature indicates that there is a strong relation between sustainability of the MFI and donor (& subsidy) dependence, population density, level of monetarization and communication infrastructure. The author here also agrees with Chijoriga (2000) that sustainability of the institution also depends on the type and performance of its clients. There is indeed a strong relationship between performances of the institution with that of its clients, thus no comprehensive study of the sustainability if MFIs can be done without involving the clients.

Between the internal factors and the external factors, the internal factors are generally more manageable. They are the “controllable “that an MFI can do something about. In terms of client’s population, general the more the client the more the amount of loan fund invested, which at the end of the day, determines the revenue realized. This is because the average loan amount per client is generally small for MFIs, so they greatly depend on the size of their clientele to survive. Unfortunately, it is envisaged that the gradually increasing competition among MFIs, increasing economic hardship and competition among micro-business in informal sector are likely to lead to an increase in dropouts (Mshangama, 2006).

Also, as far as client retention is concerned, MFIs which have a “revolving door” kind of client retention will not easily reach sustainability. This is because it is always more costly to register a new client than to maintain an already existing client. Unlike the new client, the old existing client is already a valuable asset for the MFI servicing big loans, which attract high returns (Mushi, 2004).

2.2.1 Loan Portfolio

Loan Portfolio refers to the loans that have been made bought and are being held for repayment. Loan portfolios are major asset to banks, and other lending institutions. The value of loan portfolio depends not only on the interest rates earned on the loans, but also on the quality or likelihood that interest and principal will be repaid. Loan portfolio quality is of great significance to SACCOS, because it determines the ability of the amount invested (Loan portfolio) to yield returns. This is usually expressed in terms of loan repayment rate (qualitatively and quantitatively), arrears, and/or portfolio at risk rate (Mushi, 2004).

According to Humaira (2000), the cost of being in arrears is not only terrible for the institution’s image, but also in terms of the institution’s sustainability. It is known by everyone that in a situation of arrears, institutions are faced with a lack of portfolio turnover, which will lead to an erosion of the institution. It has been seen in institution that fall into arrears that the clients usually inform themselves for the chance that the institution will fail and debt begins to grow rapidly.

Pricing of the products also has a direct implication to the sustainability of MFIs. Theoretically, for any business, the more the unit prices the more the revenue, and thus sustainability. But again the pricing policy has to be strategically managed so as not to impair the turnover of the stock (or service) and thus affecting sustainability negatively (Humaira, 2004).

2.2.2 Mobilization of Domestic Savings

According to (Seibel, 2001), micro savings refer to the deposit facilities for safekeeping of savings; consumption smoothing, emergencies, and accumulation of resources and self-financing of investments. Also micro savings should go hand in hand with microcredit which is the access to loans of various sizes and maturities for external financing of investments, consumption-smoothing and emergencies.

In order for the MFIs to be sustainable they must be able to mobilize domestic savings. According to Seibel (2001), MFIs must offer attractive interest rates or profit -sharing margins on savings with positive real returns (Preventing the erosion of the value of savings) and mobilize their own resources.

Various Studies (Dessing, 1990; Seibel, 1989; Chandavakar, 1989) found that savings mobilization is an important feature that enhances the success of a lending program. Saving mobilization provides the basis for sound financial institution; it increases the capital of the loan fund (through expansion of activities; discouraging haphazard loan use, risky business ventures and poor repayment morale. Saving mobilization also helps to create savings habit which will be a psychological basis for investment behavior; It also helps remove the capital constraints for borrowers by giving them more security (emergence fund) and a greater sense of self esteem by effectively enforcing the self help principle.

The Centre for Agriculture and Rural Development (CARD) in the Philippines has changed from an unsustainable credit Non Governmental Organization (NGO) to a viable rapid growing rural bank with outreach to very poor women (Seibel, 2001). It accomplished this through a combination of several things. These include mobilizing its own resources from the poor and non poor clients, innovation a variety of financial products, enforcing a strict credit discipline and increasing its lending outreach to its target group that is very poor woman.

Another success story of saving mobilization is the Income Generating Project for Marginal Farmers and Landless in Indonesia, where a credit project for small farmers and fishermen turned from credit channels to a genuine self help movement with growing membership and credit associations. As credit provided through the Government owned Bank Rkyat Indonesia turned out to be inadequate (in terms of amount and timely availability), women in marginal areas were the prime movers in transforming small groups into larger, self-reliant savings and credit associations.

In Tanzania, IFAD has supported the transformation of SACCOS from credit channels into genuine self-help organizations in Southern Highland areas (Mushi, 2004). The Southern highlands SACCOS have vigorously mobilized savings and diversified their lending to the agricultural and micro-enterprise sectors and enhanced institutional sustainability (Seibel, 2001). This has substantial improved food security and women income. In this study savings mobilization as a factor is examined through both qualitative and quantitative analysis. SACCOS can mobilize savings through increasing the number of its members and encourage members to save more of their income.

2.2.3 Level of Interest Charged on Loans

To be financially sustainable MFIs must cover operation cost and cost of funds through internally generated funds (Chijoriga, 2001). In order for MFI to remain in business it is crucial to watch the interrelationship between the borrowing interest rate charged by the MFI and the administration costs of the MFI, as well as the default rate of the institution (Hulme and Mosley, 1998). Apart from interest margin, most MFIs depend on other sources of finance like service fees, training fees and consultancy fees (Joseph, 2004). For the purpose of this research, the interest on loan has been determined as the major revenue that covers the operation costs of the SACCOS.

The potential tradeoffs between depth of outreach and financial sustainability (profitability) have been noted (Sharma and Buchenrieder, 2002; Schereiner, 2001). The impact of finance can be enhanced through complimentary non-financial services, such as business or marketing services or training of borrowers. This complimentary income and the income from loan financed projects increase the MFI profits. However, care must be taken because the complimentary services increases the complexity of the MFIs operations and their costs, thereby foregoing efficiency gains from specialization and jeopardizing financial sustainability if the additional costs are not covered by borrowers (Sharma and Buchenrieder, 2002).

2.3 Institutional Capacity of SACCOS

Building the institutional capacity to reach the poor is vital for sustainability of Micro Finance Institutions (Sharma, 2005). However, most of the MFIs lack institutional capacity to manage a rapid growing demand for financial services. They suffer from lack of charity in their mission, weak governance, low level of technical skills in banking and finance and lack of transparency in their accounting and operations (Stephanie and Rahman, 2002). In Tanzania, upon review of SCULT’s business and strategic plan (2002-2006), FSAP (2003) identified a number of constraints that hinder their sustainability. These constraints included inadequate and low skilled staff; lack of appropriate internal control systems and policies; inadequate financial infrastructure; and lack of office equipment and transport facilities. To foster Institutional capacity development and sustainability, MFI need to encompass information systems, accounting policies and procedures and training (Sharma, 2005).

2.4 Theoretical Framework on Microfinance

In 1990s, IFAD conducted a study in Asia and Africa which led the concept of the "critical triangle of microfinance". The triangle theory defines the need for any MFI to manage simultaneously the problems of outreach (reaching the poor both in terms of numbers and depth of poverty), financial sustainability (meeting operation and financial costs over the long term), and impact (having discernible effect upon clients' quality of life) (Zeller and Meyer, 2002).

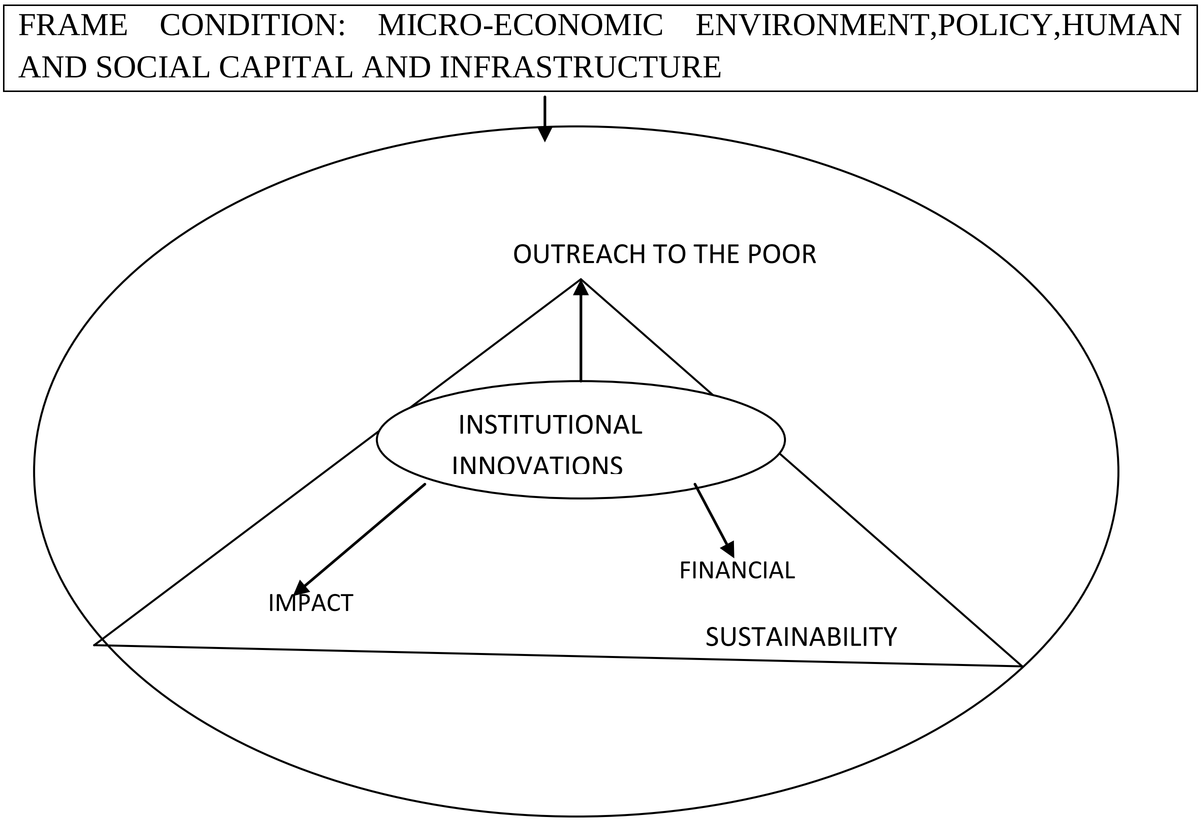

Figure 2.1: Triangle of Microfinance Operation and Impact

Source: Zeller and Mayer (2000); International Food policy research

The triangle indicates that the broader and deeper outreach to the poor may require a tradeoff in financial sustainability. While the poorest are generally considered less credit-worthy, the real cost to MFIs is in obtaining information about an individual's credit-worthiness, no matter how big or small the loan. The trade off stems from the fact that transaction cost have a large fixed cost component so that unit costs for smaller savings deposits or smaller loans are high compared to larger financial transactions. The unit transaction costs for handling micro savings and micro loans is high regardless of lending technology and model in use. To cover the higher transactions costs, interests rates have to be set higher than market rates of interest on loan(which are considerably above commercial prime rates of interest) and cover all their costs from the interest rate margin (Seibel, 2001). While MFIs clearly do best in areas with better infrastructure, market access and complementary services, the most reliable indicator of impact is their continued use by clients and their ability to function without direct subsidies (Zeller and Meyer, 2002). Hence, MFIs striving for sustainability requires better products and demand-oriented approaches and increase its efficiency with cost-reducing information systems, new lending technologies and other such measures. MFIs can therefore employ the concept of triangle of outreach, financial sustainability, and impact as they choose their target clients and create the products they will offer (Zeller and Meyer, 2002). Only viable institutions can continually increase their outreach to the poor. However, expanding financial services to the poor may improve the welfare of the poor but not necessarily and other factors that expand the production frontier.

Another theory by Classical financial institutions typically require the existence of collateral as security before granting loans to a client. However, low income levels and the lack of assets would exclude most people in developing countries from obtaining credit from standard banks. In contrast, micro finance institutions apply the concept of group-lending. Instead of requiring collateral from each individual, they use peer pressure and social selectivity to increase repayment rates and hedge against default risk. Several individuals are grouped, where each person receives a special loan, but still the whole group is responsible for repaying credit. As groups are formed voluntarily, no group is willing to accept a member whose reputation is questionable and who is likely to take too high risks in investing the loan and risks to be unable to repay by hindsight. In case of

Grameen Bank, the sanction for default is loan denial for all group members (Morduch, 1999,:1575). Using peer preasure, a microfinance institution substitutes collateral with the mechanism of social reputation within a group. This mitigates the risk of default due to adverse selection through asymmetric information in the detriment of the MFI. In addition, group-lending decreases transaction costs, another cause for standard banks to refain from lending to the poor (Sachs, 2005, :13). Theoretical implications of the benefits of microfinance institutions usuals are granted the possibility to access local financial markets and to invest in small businesses. This approach is also interesting to encounter the often assumed insuficient creditworthiness of the poor, which is one of the main arguments to explain why contracts between standard banking institutions and poor people are often said to be not feasible. Yunus argues that "one major institution that needs to be redesigned is the financial institution", and in fact criticises that poor people are often not assumed to be credit-worthy (Romanes Lecture, 2008). The design of group-lending by Grameen Bank described above can be formalized by means of a game-theoretical approach. In fact, the design involves a trigger strategy.

2.5 Conceptual Framework on Perfomance and Financial Sustainability of MFIs.

In this study a conceptual framework on financial sustainability of microfinance institutions from the accounting profitability theory. The framework expands on the key determinants of profitability: income and expenses. It is based on two microfinance performance parameters namely outreach and efficiency, which may affect their profitability. The outreach parameters may affect interest rate, loan amount, and repayment rates which are key determinants of interest income. They may also affect the volume of other income earned by microfinance institutions. The microfinance efficiency parameters include quality of loan portfolio, cost reduction, and efficient use of microfinance human resources, all of which may affect interest income and other income earned by microfinance institutions. Again, as indicated in the conceptual framework

(Figure 2.2), both microfinance Outreach and efficiency parameters may affect the volume of microfinance expenses, and, therefore, their profit.

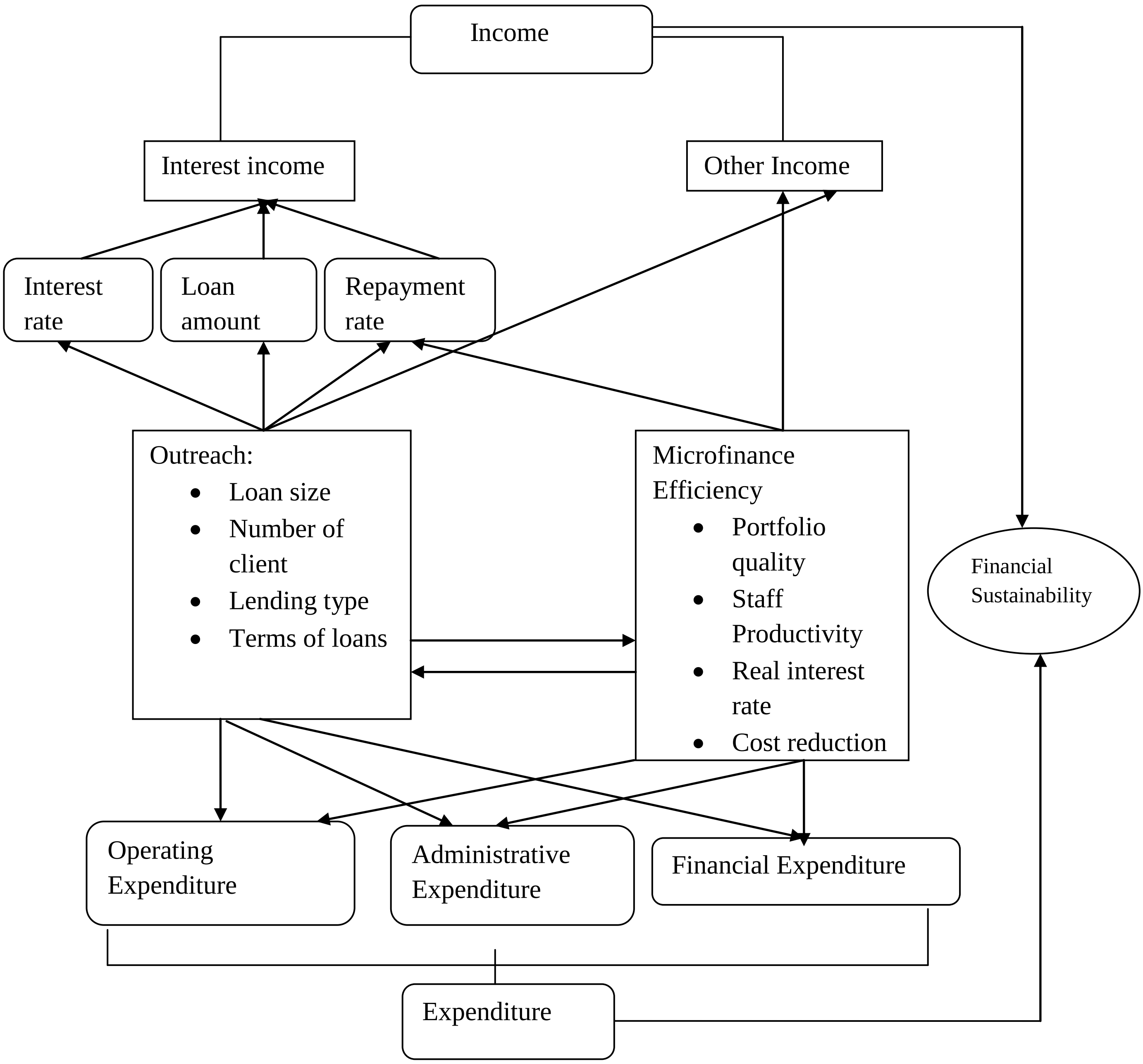

Figure 2.2: Conceptual Framework: Accounting profitability Theory and Financial Sustainability and performance of Microfinance Institutions

In the next section explain the theoretical relationship between microfinance outreach and profitability or financial sustainability.

2.5.1 Outreach and profitability of Microfinance Institutions

The long-term vision of MFIs is to provide sustainable financial services to the economically active poor who lack access to these services from the main stream of financial services (Satta, 2002). According to Baumann (2001) the main goal of rural MFIs is to provide sustainable microfinance facilities to the poor. In developing countries, microfinance institutions also offer loans and technical assistance on how to start and develop a business (Hartungi, 2007). From the above definitions of microfinance two goals of microfinance can be seen.

These are reaching the poor (outreach) also known as social impact goal and becoming sustainable, commonly referred to as profitability objective. According to Schreiner (2000) profits are necessary but not sufficient, for sustainability. Yaron (1994) asserts that a successful rural microfinance institution should have both profitability and outreach in its objective. This adds another parameter to be considered when judging the sustainability of the MFIs, the outreach. Conning (1999) defines outreach as the ability of MFIs to reach the ever-wide audience (also known as breadth of outreach) and especially the poorest of the poor (depth of outreach). It is "the social value of the output of a microfinance organization in terms of depth, worth to users, cost to users, breadth, length, and scope" (Navajas et al, 2000:335) and a means to improved social welfare (Rhyne, 1998). According to Rhyne (1998) outreach is the only objective of MFIs;

Financial Sustainability of Rural Microfinance Institutions in Tanzania acknowledges the existence of the dual goals of microfinance: the outreach and profitability (Aubert et al, 2009; Armendáriz and Morduch, 2007; Copestake, 2007; Cull et al, 2007; Brau and Woller, 2004; Drake and Rhyne, 2002; Stack and Thys 2000; Ledgerwood, 1999; Hulme and Mosley 1996). One interesting question that normally arises when the dual goals of microfinance are being considered is whether or not there is a trade-off between sustainability (profitability) and targeting the poor (outreach). Taking the institutionists position, CGAP and best practice literature say no. Sustainability is a means to reach expanded outreach. Their argument is that the more sustainable a microfinance institution is the more possible for it to reach more poor people (Cull et al, 2007; Brau and Woller, 2004). CGAP‟s fourth key principle of microfinance states that „financial sustainability is necessary to reach significant numbers of poor people. Most poor people are not able to access financial services because of the lack of strong retail financial intermediaries. Building financially sustainable institutions is not an end in itself. It is the only way to reach significant scale and impact far beyond what donor agencies can fund‟ (CGAP, 2004:1). The arguments put forward imply that financial sustainability precedes outreach. In this study, shows that the two, outreach and financial sustainability depend on each other throughout the life period of microfinance institutions.

2.6 Review of Empirical Studies

2.6.1 Empirical Studies Outside Tanzania

Amin et al (2003) used a unique panel dataset from northern Bangladesh with monthly consumption and income data for 229 household before they received loans. They found out that while microcredit is successful in reaching the poor, it is less successful in reaching vulnerable, especially the group most prone to destitution (the vulnerable poor). Coleman (1999) also finds little evidence of an impact on the program participants. The results, coleman further explains, are consistent with Adams and von Pischke’s assertion that “debt is not an effective tool for helping most poor people enhance their economic condition” and that the poor are poor because of reasons other than lack of access to credit.

According to Mosley (1999), microfinance makes a considerable contribution to the reduction of poverty through its impact on income and on income and also has a positive impact on asset level. But the mechanism through which poverty reduction works varies between institutions. Generally, institutions that give, on average, smaller loans reduce poverty much more through lifting borrowers above the poverty line.

2.6.2 Empirical Review in Tanzania

Pius (2005) conducted a research on managing operation risk by savings and credit cooperative society in Ilala Municipality. The study concluded that SACCOS as financial institutions, recognized operation risk as an important for the function of any financial intermediaries. The findings proved that the SACCOS internal control system play role in the monitoring and control the operational risk under the supervisor committee. The study further asserts that SACCOS policies and procedures need to be reworked so as to reflect the needs of members, technology advancement and obtaining circumstances. In this case SACCOS must move away from the tradition way of operating if they wish to improve their performance. SACCOS operated under the modern environment will protect the members fund from operational risks by using the insurance services available and through the improvement of external supervision.

Nkya (2006) conducted a research on the analysis of the sustainability of Microfinance Institutions in Kinondoni district. He used an exploratory and descriptive type of research and covers 41 SACCOS in Kinondoni district, out of 81 registered SACCOS, She concluded that MFIs should increase capacity of lending base through member’s savings. The researcher advice that the government to formulate proper policy on which will benefit SACCOS and hence poverty alleviation.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Location of the Study Area

The study was carried out in Mtwara Municipal whereby 15 SACCOS were included operating in different places. The choice of Mtwara Municipal was purposefully because it had active and large number of SACCOS than any other district in Mtwara Region which helps the researcher in conclusion about the analysis of the performance and financial sustainability to provide a better solution to the problem hence contribute to the improvement of MFIs in Tanzania.

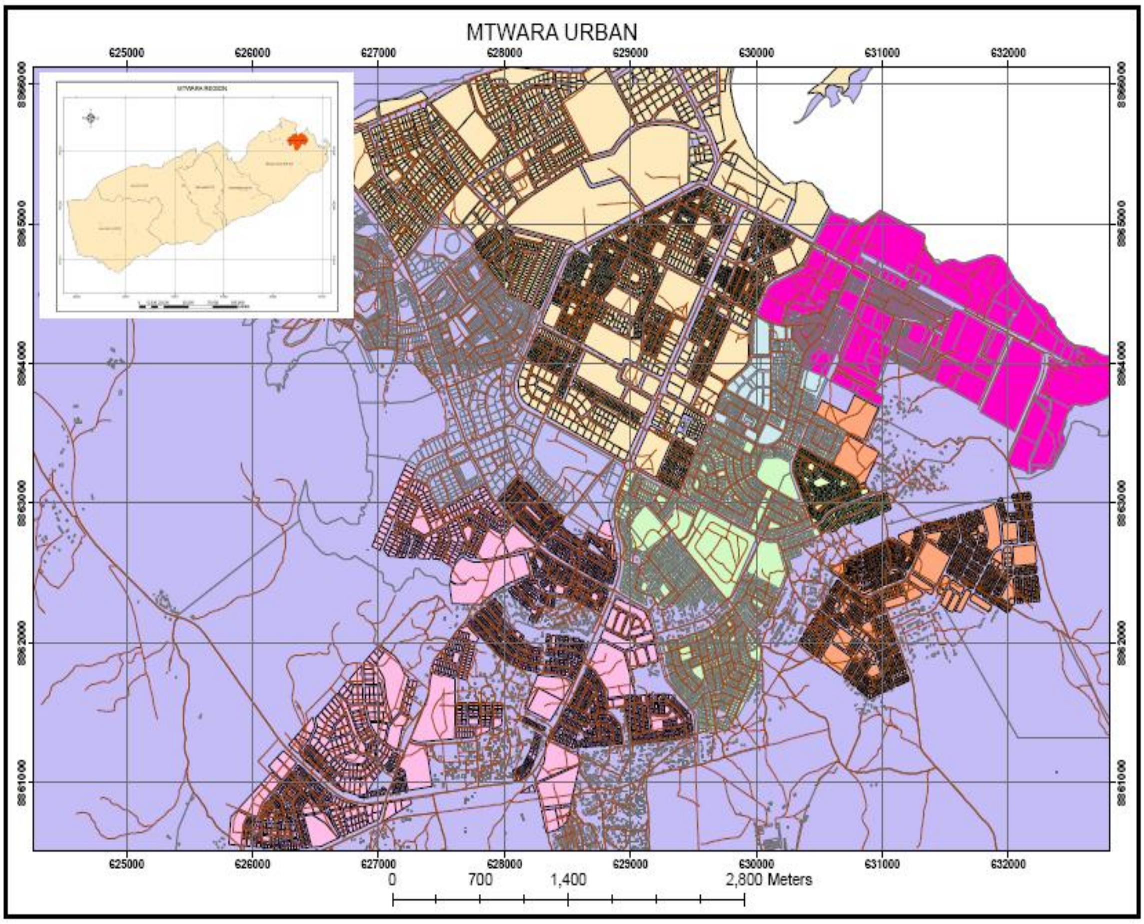

Figure 3.1: Mtwara Municipal Map (Source: Mtwara Municipal GIS Unit, March 2013)

3.2 Research Design

A research design is a master plan specifying methods and procedures for collecting and analyzing required information (Kothari, 2005). A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purposes with economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blue print for the collection, measurement and analysis of data (Kothari, 2005). The study was exploratory and descriptive in nature.

3.3 Sample Size and Sampling Procedures

Sample size included 15 SACCOS operating in Mtwara Municipal. The researched SACCOS selected randomly as one of the criterion which it must be in operation for two years. Also some SACCOS duration information was been taken from Societies Credit Union Limited (SCULT) office in Mtwara municipal and from District Cooperative office to get a list of SACCOS and pick the SACCOS which are in operation. The sample included all SACCOS that actively operate in Mtwara Municipal and which have been registered for two years or more. Two years of operation is sufficient periods to measure performance and financial sustainability of a SACCOS. Also this time is sufficient time for a SACCOS to have chosen a specific strategy in reaching out its customers. Also by using two years the validity of data obtained from them has increased.

3.4. Data Collection Methods

Since the study was an exploratory study both qualitative and quantitative methods were used to achieve the purpose of the research.

3.4.1 Data Types

According to Kothari, (2005), there are two types of data, namely primary and secondary data, the primary data are those which are collected afresh and for the first character.

Secondary data are those which have already passed through the statistical process. Several text books and journals articles used as secondary data for the purpose of expanding and comparing the results (Kothari, 2005). This study used the annual reports and other reports of selected SACCOS available at Mtwara Mikindani District Cooperative Office as secondary data.

3.4.2 Data Collection Techniques

Primary data was collected using both questionnaire (Appendix 1) and semi structures interview. The interview was conducted with SACCOS officials using questionnaires to gain insight of what is happening. The questionnaires were distributed to the management of SACCOS and short interview was conducted. Interview data were recorded by notes taking. The questionnaire was collected one or two weeks depending on the availability of the responsible officials. The self administered questionnaires that were used are attached in appendix 1. Apart from questionnaires and semi structured interview questions, another method that was used in data collection was documentation. Several text books and journals articles used as secondary data for the purpose of expanding and comparing the results (Kothari, 2005). My research used the selected SACCOS annual reports and other reports available at Mtwara Mikindani Municipal cooperative office as secondary data.

3.5 Data Analysis

The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data (Kothari, 2005). In this study Quantitative data were analyzed using statistical computations, to asses factors considered to have an effect on the financial sustainability such as saving mobilization, interest rates on loan and loan delivery model. The financial sustainability was analyzed using financial records indicating number of loan issued, number of members, external loans, level of savings and profitability. Each research questions was tested against dependent variable. Frequency distribution tables were used to analyze the opinions of the respondents to show frequencies and percentages of the tested variables.

CHAPTER FOUR

4.0 RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings from the fieldwork which was conducted on selected SACCOS in Mtwara Municipal.

4.2 General Profile of the SACCOS in the Study Area

The general profile of SACCOS in the study area is given in Table 4.1. The result shows that SACCOS under study had been into existence for different lengths of time. About 20% of the SACCOS had been into operation for approximately 2-3 years, while 13% had been into operation for approximately 4-10 years and 67% had been into operation for more than 10 years.

From the results in Table 4.1 it can be said that majority of SACCOS have been into operation for more than 4 years. This is a reasonable time which deserves the assessment of performance and financial sustainability of the organization as well as outreach and impact to the society. While few SACCOS have been into existence for the period between 2-3 years, their existence provided an opportunity to examine the problem of SACCOS at initial stage.

Table 4.1: Profile of SACCOS in the Study Area

Years since incorporation	Frequency	Percent
2-3 years	3	20%
4-10 years	2	13%
Over 10 years	10	67%
TOTAL	15	100%

Source: Research Data (2013)

4.2.1 Gender and Age Group of Respondents

The respondents for this study consisted of 9 (60%) males and 6(40%) females. The age group of the respondents is given in Table 4.2. The majority of respondents are aged between 31 and 40 years. This age group is followed by those between 25-30 years old.

From the below table one can see that the SACCOS under study have employed people of all ages. However, only few (13%) are above 50 years. On the other hand, if we combine those between 25 and 50 years we have a total of 87%, probably this would be the normal situation.

Table 4.2: Respondents Profile by Age

	Frequency	**Percent**
25-30years	4	27%
31-40years	6	40%
41-50years	3	20%
Above 50years	2	13%
TOTAL	15	100%

Source: Research Data (2013)

4.2.2 Work Experience and Level of Education of the Respondents

The study also examined the respondents in terms of the duration they have been employed in SACCOS. The objective was to analyze their working experience with SACCOS. The study results are summarized in the Table 4.3.

From the results in Table 4.3 one can see that the majority of the respondents about 67% have work experience between 4-10 years and only 13% have experience of more than 10 years of working with SACCOS. The results show that respondents are knowledgeable on matters related to SACCOS operations. Therefore, the respondents were in position to provide reliable assessment on the performance and sustainability of SACCOS.

Table 4.3: Staff Experience of Working with SACCOS

Years	Frequency	Percent
1-3years	3	20%
4-10years	10	67%
Above 10	2	13%
TOTAL	15	100%

Source: Research Data (2013)

The study also assessed the level of education of respondents as summarized in Table 4.4.

Table 4.4: Respondents' Level of Education

Levels	Frequency	Percent
Standard Seven/O-Level	1	7%
A-Level	2	13%
Diploma/Certificate	8	53%
Bachelor/Advance Diploma	4	27%
TOTAL	15	100%

Source: Research Data (2013)

The respondent's level of education is important as it can provide information in making appropriate recommendation regarding the type of training that is required to improve their performance. The levels of education when combined with work experience were also important in assessing the validity of information gathered through questionnaires. This is because the more the experienced and educated respondents, the more is likely to provide relevant information regarding SACCOS activities.

4.3 Saving Mobilization Pattern of SACCOS

The first key question which was asked in this study was about the savings mobilization pattern of SACCOS. Key variables in respect to saving mobilization considered were the number of members, interest rates on savings and the level of savings. Banks and other MFIs mobilize savings and lend these financial resources to borrowers. The level of savings guarantees access to credit for the beneficiaries (Thus improving the small scale Enterprises and household consumptions).

4.3.1 Number of Members in the Study SACCOS

In an attempt to establish the size of saving mobilized by SACCOS in the study area, the study established the number of members in the studied SACCOS as shown in Table 4.5.

The result shows that most of the SACCOS (about 93%) have less than 500 members, while 7% have members between 501-1000. The latter is the lowest group in the range which hinders the saving mobilization and performance which makes SACCOS to lack operational sustainability. SACCOS membership is an important factor in saving mobilization. It is important because the more the member the more the savings and the more the funds to be provided as loans.

Table 4.5: The Size of Membership in the Study SACCOS

Levels	Number of SACCOS	Percent
1 - 500	14	93%
501-1000	1	7%
TOTAL	15	100%

Source: Research Data (2013)

4.3.2 Level of Saving Among SACCOS

This study assessed the level of savings for the SACCOS. The levels of savings basing on the financial statements of SACCOS in the study area are given in Table 4.6. The level of savings determines the availability of loan to issue as credits to members thus enhancing the provision of service. The level of savings mobilization was important to be accessed for SACCOS because it serves as collateral. As per SACCOS lending policy the maximum amount of loan that the borrower can obtain should not exceed twice the amount of his/her savings. This regulation ensures that the organization remain viable, competent, liquid and profitable.

Table 4.6: Level of Savings for Sample of SACCOS

Levels	**Number of SACCOS**	**Percent**
Less than 20 million	1	7%
20-50 million	4	27%
50-100 million	4	27%
100-300 million	5	32%
Above 300 million	1	7%
TOTAL	15	100%

Source: Research Data (2013)

Savings mobilized by local financial institutions are the main source of growth of funds and enhances the independence from external subsides and interference (Seibel, 2001). The study further sought to find out the major source of funds for SACCOS. Many SACCOS reported that the main sources of operating funds were savings/deposits, loans from commercial banks, donors and membership fees. Among 15 (87%) SACCOS reported that their major source of finance is member’s savings and deposit in addition membership fees (agreed by 98%), while loans from banks and other financial institutions (agreed by 2%). However, there were no SACCOS that obtain funds from donors. Other sources like interest on loan, members' shares and penalties were also mentioned as sources of funds.

4.3.3 Interest Rate on Savings

Interest rates have been claimed as one among the way to mobilize recourses for MFIs (Seibel, 2001). The study asked on the rate of interest paid on member's savings, in this respect, most of the respondents (about 80%) from studied SACCOS could not provide the interest rate on savings. One can conclude that interest on savings is not a significance factor saving mobilization for the SACCOS.

The study further asked whether there have been changes of interest rate on loans provided within the last three years. In this respect 11 (73%) of SACCOS indicated that there have been no changes while the remaining 4 (27%) SACCOS acknowledged that the interest rate has been changed.

SACCOS have been successful in savings mobilization; however interest rate on savings is not a significant factor that contributes to that success. This was also supported by respondents who expressed their view about 20% agreed that the interest rate attracts savings and the majority 80% disagree that interest rate attracts savings. This is contrary to Seibel (2001) who asserts that MFIs must offer attractive interest on savings to mobilize their own resources. Dressing (1990) and Seibel (1989) argue that savings and credit can be linked. One can either up set up a dual purpose financial institution, or by making loan disbursements conditional on meeting specified savings requirements that may include savings in kind. Part of the savings fund can be deposited with bank as collateral for a contractual loan savings scheme. In such scheme, a fixed credit-to-savings ratio is recommended, contingent upon the availability of funds. This savings fund can also be used for direct lending. In this case, a flexible ratio can be applied that varies with the amount of savings deposited and the number of satisfactory repayment cycle. This encourages both savings and promptly repayment.

4.4 Interest on Loan in the Study Area

The study assessed the second research question on the level of interest rates on loans made by SACCOS. Following the hypothesis that interest on loan affects financial sustainability, the rates of interest on loans used by SACCOS in the study area are given in Table 4.7.

Table 4.7: Interest on Loan in the Study Area

Interest rate	**Number of SACCOS**	**Percent**
1-2	15	100%
TOTAL	15	100%

Source: Research Data (2013)

The result in Table 4.7 shows that 100% SACCOS charge an interest rate of 1% to 2% which attracts more borrowers. The lending rates for SACCOS are lower than commercial banks (banks and other MFIs) market rates which charge interest rates more than 3% monthly for individuals.

As noted by (Chijoriga, 2001) in order for MFIs to be financial sustainable it must cover its operational costs and cost of funds through internally generated funds. The interrelationship between interest margin and administration costs of the SACCOS was assessed in two parts:

According to Seibel (2001), MFIs must charge rural market rates of interest on loans and cover all their costs from the interest rate margin. According to Dessing (1990) credit programs should charge non subsidized interest rates. The danger of cheap credit is that it may undermine the informal financial institutions, which play a key role particular in the development of rural possibly leaving the community without any institution should fails.

The study also investigated if the interest received were sufficient to cover administration costs for the purpose of confirming the operational sustainability of SACCOS. The study found that most of the respondents (about 80%) were in agreement that the amount charged was sufficient to cover administrative costs. On the other hand, 20% of the respondents felt that the interest on loan was not sufficient. The results indicate that the interest rates charged is enough to cover operational expenses and that SACCOS are operationally sustainable. This is further confirmed by the financial performance of SACCOS as shown in Table 4.8.

Table 4.8: Financial Performances of SACCOS in the Study Area

Performance	Number of SACCOS	Percent
Profit	15	100%
TOTAL	15	100%

Source: Research Data (2013)

The results show that all SACCOS have earned profit in the previous year. It can therefore be concluded that financial performances of the SACCOS were good. The study further investigated if there has been change of interest rates for the last two years in order to establish the flexibility of the applicable interest rates. The volatility of the interest rates in the studied SACCOS is given in Table 4.9.

Table 4.9: Volatility of Interest on Loan

Changed	Number of SACCOS	Percent
Yes	4	27%
No	11	73%
TOTAL	15	100%

Source: Research Data (2013)

The result show that most of the respondents (about 73%) indicated that the interest rate has been constant for last two years, meaning the data on interest on loan are reliable.

Similarly it was further analyzed to see whether the profit earned was further distributed to members or ploughed back in the business by enquiring whether dividend was paid in the last two years. Most of the SACCOS about 73% do not pay dividends to their members. This means the profit earned is normal reinvested in the business.

4.5 Loan Portfolio of SACCOS

The study also investigated the loan portfolio as a variable that affects financial sustainability and performance. The assessment of loan portfolio was carried out by looking at the size of portfolio, the loan outstanding size, loan purpose, loan delivery mechanism and default rate.

4.5.1 The Loan Size

The loan size in the studied SACCOS was assessed as an overall loan amount that has been disbursed to the borrowers. The loan size in the study area is given in Table 4.10. The general rule is that the greater the loan size the higher the profitability for the lender but lesser depth in terms of outreach for the borrower (Schreiner, 2001).This measure ignores time for maturity of the loan.

For borrowers, amount disbursed matters because it represents the largest single purchase possible from loan proceeds. The range of loan sizes per borrower was enquired in order to have further knowledge of the loan sizes. From the respondents, the loan sizes per borrower ranges from the minimum amount of 50,000 to the maximum of 10,000,000. Most of the loans are of higher size. For lenders, small loans have higher operation costs involving evaluation and follow up costs. A small loan means high depth of outreach but less profits which has an impact on the financial sustainability.

Table 4.10: The Size of Loan for SACCOS for the Year 2010/2012

Amount range	**Number of SACCOS**
20-50 million	2
50-100 million	8
100-300 million	2
Above 300 million	3
TOTAL	15

Source: Research Data (2013)

4.5.2 Loan Delivery Model

The study investigates the loan delivery model in use by the SACCOS. The application of two models; group lending model and individual lending model were assessed from the respondents.

The study results indicated the majority of SACCOS (about 87%) use individual lending model only and the remaining 13% use both individual and group lending models.

4.5.3 Loan Application Purpose

The study assessed the common purpose of loan applications by the respondents. The alternative choices were for personal use, emergency, business and other reasons. From the study the rank of common purpose of loan applications are first personal use, second emergency, third business and fourth other reasons like education and construction. This means loans are mostly used to support families and personal needs than for business purpose. Therefore the impact of SACCOS in poverty alleviation is in the area of consumption supports rather than business support.

4.5.4 Loan Default Rate

The loan default rate of SACCOS was also examined through the questionnaire. Loans issued by studied SACCOS for the year 2011 only half the respondents were able to respond on the default rate. Out of the 9604 loan, the default rate was only 4% (158 loans). The observed rate of default is low, indicating/showing that the loans beneficiaries are honesty. The study sought the causes for default by ranking the respondents comments on lack of integrity, business failure and poor follow up from management. The first ranked response ranked was lack of integrity of borrower. Second is business failure, followed by weakness on follow up from management. Lastly other causes of default identified were death and redundancy.

On the other hand the defaulters were asked on the action taken by management for non performing loans as; the defaulters reported the common actions to include court action (37%), liquidation of the defaulters (13%), and other actions (50%). The other action included freezing gratuity benefits, freezing savings, freezing salaries and penalty charges of 2-5%. Various studies (Dessing, 1990; Seibel, 1989; Chandavakar, 1989) pointed out that the action to be taken to loan defaulters are court action and liquidation of securities held to the SACCOS to secure the loan.

4.6 Institutional Capacity of SACCOS

Institutional capacity was investigated through the research question that asked on the factors affects institutional capacity as a supporter of financial sustainability and performances. The institution with better capacity can have a wider outreach and therefore impact on the society as a result of continuous use of poverty alleviation.

Several variables were considered as having an impact on building the institutional capacity which affects the performances and sustainability in the long term. The variables that were considered in this study were organizational mission, business strategies, competitive issues, financial performances, computer literacy of the staffs and financial sustainability.

4.6.1 Organizational Mission

The organizational mission defines the purpose or objective of the business; the study assessed the staff understanding of the organization mission by enquiring what their organization mission is; about 40% of the respondents were able to clearly explain their organizational mission while the remaining 60% were partially able to define their mission. The organization missions identified by respondents in the study area mainly focused in 3 themes which are poverty alleviation, sustainability of beneficiaries (members) and loan provision.

In addition, the opinion of the respondents was sought on the effect of the mission on financial sustainability of SACCOS. The respondents view on whether the organization on mission limit financial sustainability is given in Table 4.11.

Table 4.11: The Effect of the Organization Mission on Financial Sustainability

Mission limits financial	Number of SACCOS	Percent
Yes	4	27%
No	11	73%
TOTAL	15	100%

Source: Research Data (2013)

The study found that most of the respondents (73%) were in opinion that the financial sustainability is not limited by their mission and therefore there is no need to change their organizational mission.

4.6.2 Business Strategy

Moreover, the study sought to know if the respondents knew the business strategies that the organizations have to achieve financial sustainability. The result on respondent's knowledge on their SACCOS business strategies is given in Table 4.12.

The results show that 13 (87%) SACCOS of respondents identified business strategies of their SACCOS; where 60% were certain on their SACCOS besides strategies while the remaining 27% was partially informed on the business strategy. The business strategies that were identified by respondents were increasing the level of savings, increase the number of members, strict loan repayment terms, decreasing operating costs, improve financial management, rise interest on loan rate, education of members (create awareness) and having skilled staff.

Table 4.12: Business Strategies

Able to say the strategy	Number of SACCOS	Percent
Able	9	60%
Partial able	4	27%
Not able	2	13%
TOTAL	15	100%

Source: Research Data (2013)

4.6.3 Staff Capacity

Another aspect of institutional capacity considered in this study was the staff capacity. The staff capacity was assessed by the composition of the number of employees and terms of employment. The number of employees in the study is given in Table 4.13. The results show that all SACCOS are having employees less than 5. This small number of staff was also identified as a constraint to financial sustainability by SCULT's Business and Strategic plan (2002-2006) (FSAP, 2003).

Table 4.13: Number of Employees in the studied SACCOS

Number of employees	Number of SACCOS	Percent
1 to 5	15	100%
TOTAL	15	100%

Source: Research Data (2013)

Also the study assessed the computer literacy level of the SACCOS staff and the usage of computer accounting software. The employee computer literacy information is given in Table 4.14.

Table 4.14: SACCOS Employee Computer Literacy

Computer literacy	Number of SACCOS	Percent
Yes	14	93%
No	1	7%
TOTAL	15	100%

Source: Research Data (2013)

The result shows that most of the staffs in the SACCOS about 93% are computer literate. This indicates that SACCOS also emphasize the use of computer in their operations. The use of computers makes proper storage of data hence improve performances and financial sustainability. However, situation was poor on the usage of computerized accounting software among SACCOS as indicated in Table 4.15.

Table 4.15: Usage of Computerized Accounting Software among SACCOS

Computer literacy	**Number of SACCOS**	**Percent**
Yes	4	27%
No	11	73%
TOTAL	15	100%

Source: Research Data (2013)

The result shows that only 4 (27%) of the SACCOS are using computerized accounting system for proper management of the financial data. On the other hand, 73% of the SACCOS are not using computerized accounting system due to absence of enough funds to buy the software.

In addition to computer literacy, the institutional capacity was assessed by looking on the employment term, whether they are permanently employed or not, the response of this question was meant to indicate the institution capacity to run an established office with permanent employees as well as the indicator of volume of transactions. The results are given in Table 4.16.

The results show that 11 (73%) SACCOS employ permanent staff, while 4 (27%) employed temporally staff (members) who are allocated some duties (they have no established office).

Table 4.16: Permanent Employees in the SACCOS

Permanent employees	**Number of SACCOS**	**Percent**
Yes	11	73%
No	4	27%
TOTAL	15	100%

Source: Research Data (2013)

4.6.4 Leadership Changes

Leadership changes were assessed by the study to gather information on the continuation of organization basing on quality of management and as the indicator of good governance. The mode of leadership changes for the last 2 years is given in Table 4.17.

The result shows that about 73% of SACCOS have changed leadership once. The reasons for changes are given in Table 4.18. The main cause was constitution requirement which is about 67% whereas leaders are supposed to be elected after every 3 years. On the other hand, retirement and resignation attributed by 20% and mismanagement 13% of leadership changes. This means most of the leaders are changed through constitution rather than fund mismanagement.

Table 4.17: Leadership Changes in the SACCOS

Number of changes in the last two years	**Number of SACCOS**	**Percent**
No change	3	20%
Once	11	73%
More than 3 times	1	7%
TOTAL	15	100%

Source: Research Data (2013)

Table 4.18: Causes of Leadership Changes in the Studied SACCOS

Causes of changes	**Number of SACCOS**	**Percent**
Retirement and resignation	3	20%
Mismanagement	2	13%
Constitution	10	67%
TOTAL	15	100%

Source: Research Data (2013)

4.6.5 On – The Job training

Training is also a significant variable in building institutional capacity. The staff knowledge of financial management was assessed in the study. The study enquired whether there was any training conducted on financial and banking matters in the last two years. More than fifty percent of the SACCOS conducted training to its employee (see Table 4.19).

Table 4.19: Training Conducted to Employees

Training	Number of SACCOS	Percent
Yes	8	53%
No	7	47%
TOTAL	15	100%

Source: Research Data (2013)

Most of the SACCOS which conducted training about 57% had one to two trainings for a period of three years. The topics which were covered included accounts and book keeping, savings and credits operations, relationship between banks and SACCOS, loan management and other financial awareness issues.

Table 4.20: Number of Trainings of SACCOS Staff

Number of training	Number of SACCOS	Percent
1 to 2	4	57%
3 to 5	2	29%
More than 5	2	14%
TOTAL	8	100%

Source: Research Data (2013)

Despite the training conducted, 93% of the respondents proposed to have more training on financial management (Table 4.21).

Table 4.21: Need for Training for SACCOS Staff

Need for training	Number of SACCOS	Percent
Yes	14	93%
No	1	7%
Total	15	100%

Source: Research Data (2013)

4.6.6 Competition

For SACCOS to be financially sustainable, they must issue competitive products. The institution capacity to innovation of competitive products will result into financial sustainability. The competitiveness of SACCOs products was assessed by enquiring on the existing market competition. The present market competition facing SACCOS is given in Table 4.22.

Table 4.22: Presence of Market Competition in the Studied SACCOS

Competition	Number of SACCOS	Percent
Yes	13	87%
No	2	13%
Total	15	100%

Source: Research Data (2013)

The results indicated that about 87% of the SACCOS perceive that, they are faced with competition and 13% believe that there is no competition. SACCOS face stiff competition on interest rates on loan, loan product and savings conditions, loan processing, efficiency of the organization and loan repayment period. Most of the SACCOS feel the existing competition is very low and not a threat to their sustainability.

In this study, Interest rates were identified by 56% of the respondents as an important area of competition. Whereas 19% of the respondents saw loan products and other factors like savings conditions, loan processing efficiency of the organizational and loan repayment period was identified by 25% of the respondents.

This study further assessed the effect of competition to the organization. Competition can have either positive or negative effect of the SACCOS performance. The results are given in Table 4.23.

Table 4.23: Effect of Market Competition on SACCOS Development

Effect	**Number of SACCOS**	**Percent**
Positive	12	92%
Negative	1	8%
TOTAL	13	100%

Source: Research Data (2013)

The majority of respondents that is 92% responded that the existing competitions have positive effect in their organization like encourage the management efficiency. On the same question, 8% of respondents said that market competition had negative on organizational income.

4.6.7 Management Information System

The study also assessed some elements of management information system. Management information system covers the compilation and preparation of financial records and budgeting. Financial and budgeting give an indication on the eventual profitability and sustainability of any financial institution. The variables that were tested are how often the organization prepares financial statements and whether organizations prepare budgets. The result of this can be seen in Table 4.24 and 4.25.

Table 4.24: Financial Statements Preparation

Periods	**Number of SACCOS**	**Percent**
Monthly	5	33%
Quarterly	2	13%
Annual	8	53%
TOTAL	15	100%

Source: Research Data (2013)

Table 4.25: Budget Preparation

Budget	**Number of SACCOS**	**Percent**
Yes	15	100%
TOTAL	15	100%

Source: Research Data (2013)

The results indicated that 33% in the financial statement are prepared on monthly basis, 13% of SACCOS prepared their financial statement on a quarterly basis, while the remaining 53% of SACCOS prepare on annual basis. All SACCOS indicated that they prepare annual budget. This is a good indicator of proper maintenance of financial records.

4.7 Respondents Assessment on Financial Sustainability

The study also gathered the respondents' own assessment on their organization operational sustainability and financial sustainability. The study enquired on the organization's ability to meet its operational costs from internally generates funds (operational sustainability). The result for SACCOS operation and sustainability is given in Table 4.26.

Table 4.26: Operational Sustainability of SACCOS

Sustainable	Number of SACCOS	Percent
Yes	13	87%
No	2	13%
TOTAL	15	100%

Source: Research Data (2013)

The results show that 87% show a positive response that their organizations are operationally and financially sustainable. The response for both operational and financial sustainability was the same because the majority of the SACCOS (80%, 12 SACCOS) do not have external financing hence no cost of funds.

The respondents also mentioned constraints for financial sustainability such as non repayment of loans, loan sizes affected by low income, high operating costs, and society based members hence few members, competition from banks, lack of proper loan benefits and management education, fund mismanagement and lack of operating tools.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the study and its Implications on Performance and Financial Sustainability of MFI

Interest on Loan has an influence on the performance and sustainability of SACCOS. All the 15 SACCOS under the study charge an interest on loan which ranges from 1 to 2 percent per month. SACCOS member feel that rates are reasonable. The level of interest rates is sufficient to cover SACCOS operational costs whereby all SACCOS under the study make profit. Very few SACCOS (20%) pay dividends to their members while the rest ploughed back into the operations.

The loan portfolio may also affect the financial sustainability of SACCOS. The majority of SACCOS about 54% of their loan portfolio size is between Tshs 50 – 100 million and about 46% is less than 300 million. The loan sizes disbursed per person ranges from Tshs 50,000 to Tshs 10,000,000. The small loans have a wide outreach but high administration costs, hence less profitable. Larger loans mean more profits but less depth of outreach. The study did not cover term to maturity in assessing the loan sizes implication to profitability of loan portfolio but in general, for SACCOS, the maximum period of maturity per constitution is 3 years.

About 87% of the SACCOS use individual lending model and 13% use both group and individual lending models. This can be influenced by the purpose of loan application which mostly for consumption smoothing purpose. The default rate for SACCOS is very low. From this study the default rate basing on the number of loans is only 4%.

The institutional capacity of SACCOS was review through several factors as discussed. Results show that the understanding and clarity of the organization mission is low. Only

40% of the SACCOS have clear mission statement that is understood by its management and staff. The mission statement focused on poverty alleviation, loan provision to its members.

Despite the low level of clarity of organization mission, most of the SACCOS have strategies towards financial sustainability. The strategies in place were mentioned as increasing the level of savings, increase the number of members, strict loan repayment terms, decreasing operating costs, improve financial management, rising interest on loan rate, education of members (create awareness) employment of skilled staff. The study shows that only 13% had no business strategies in place.

Staff capacity is adequate. Most SACCOS about 53% are managed by people who have Diploma and Certificates and 67% have experience of 4 to 10 years in SACCOS. In terms of organization size, all SACCOS under study have less than 5 staff.

Leadership change of SACCOS is mostly caused by constitution requirement. The results show that 67% change by elections that occur after every 3 years, retirement and resignation contributed by 20% and mismanagement contributed by 13%.This means most of the leaders are changed through constitution rather than funds mismanagement.

On the variable of job training, 63% of the SACCOS conduct on job training on financial management. The topics that were covered included accounts and book keeping, savings and credit operations, relationship between Banks and SACCOS, loan management and other financial awareness issues. The frequency of trainings is about once to two times in three years period.

5.2 Conclusion

In this study Sustainability was hypothesized as influenced by savings mobilization, interest rate on loan, loan portfolio and institutional capacity. The major constrain identified by respondents on performance and financial sustainability were non repayment of loans, loan sizes affected by low income, high operating costs and society based members hence few members, competition from banks, lack of proper loan benefits and management education, fund mismanagement and lack of operating tools.

Based on finding of this study we can conclude that savings mobilization indicated positive influence on the sustainability of SACCOS. SACCOS has managed to build up its lending base by influencing savings. The existing policy that the individual can borrow the maximum amount of twice the savings level attracts saving rather than interest on savings. Very few SACCOS obtain funds from other financial institutions which bring independence from external subsides and interference (Seibel, 2001) as SACCOS examined in this study were not donor funded.

5.3 Recommendations

In light of this study, the researcher advances the following recommendations for performances and sustainability of MFIs.

5.3.1 Recommendation to practitioners

MFIs should build their lending base through savings mobilization. This has been a major success factor to SACCOS. The challenge should be saving attractions though innovation on loan products that attract savings.

The challenge to MFIs is also minimizing external subsidy and external financing in order to achieve financial sustainability. MFIs should ensure that the interest on loan is adequate to cover its operating costs. Rate of interest should be based on the risk of default profit that is earned should be returned in the business to build up its financial capacity.

The loan portfolio should be built up with intention to profitability. This means MFIs should take into consideration on loan sizes and repayment period. There should be a balance between profitability and outreach.

For MFIs to be sustainable both individual and group lending model should be considered. The challenge is on loan screening and loan recipients not to default MFIs. Also MFIs should have a defined organization mission and ensure that it is understood by its staff. The mission is the basis of setting the business strategies and objectives in order for the organization to achieve its purpose. Lastly, MFIs should invest in human capital by training its staff on financial management matters, innovation and competition awareness.

5.3.2 Recommendation to Decision Makers

Government should support MFIs through setting regulation and legal framework that controls the recoverability of loans.

Government should initiate savings mobilization MFIs to reduce donor funding and external indebtness. Local resources should be encouraged rather than external subsides for MFIs.

Government should provide adequate policy for economic growth that governs the sustainability to MFIs. Issues like capital adequacy, liquidity and asset portfolio should be addressed for MFIs.

Government should strengthen production capacities of its population by setting regulations and conditions that will influence outreach and impact of MFIs to the society at large. MFIs can best intervene in poverty eradication through offering loans to investments that will have an impact on raising household income and smoothen consumption pattern.

5.3.3 Recommendation to SACCOS Member

Most of the users think that SACCOS is not a Bank, in my analysis realized that SACCOS offers the same services as a bank. SACCOS offer loans with affordable terms than commercial Banks. The savings of the client can be used as collateral in order to get loan. I advise users to increase more savings in order to help SACCOS to lend more hence improve performances and financial sustainability.

5.4 Limitation of the Study

While collecting data to various SACCOS it was difficult, this is because in order to get permission you have to pass to various level of leadership which makes a delay in getting data for analysis.

5.5 Area for Further Research

Further study can be done on the adequacy of the legal regulatory framework of MFIs in order to facilitate their activities in more efficient manner. This has an influence on loan portfolio and recoverability of loans. The study may yield different results if conducted in the villages.

This study was conducted in the urban area. The SACCOS in the area are characterized by work group whereas most SACCOS are formed in work place. SACCOS are MFIs that are governed by laws and regulations of Cooperative Society Act 1991 and amendments of 2003. The study may yield different results for unregulated MFIs.

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APPENDICES

APPENDIX 1: QUESTIONNAIRES

INTRODUCTION

The question of performances financial sustainability of Micro Finance Institutions is an area of concern for Government, Donors and other Microfinance practitioners. This study aims to capture the status of Performance and Financial sustainability of Microfinance Institutions and success factors that can benefit the whole nation. The study is conducted for selected SACCOS in urban areas, Mtwara Municipal as a part of fulfillment of the requirements of the Masters Degree award of Business Administration (MBA FINANCE) of the Open University of Tanzania.

The contents of this questionnaire will only be used for academic purposes.

THANKS FOR YOUR COOPERATION

NAME OF SACCOs: ………………………………………………………………….

YEAR OF INCORPORATION: ……………………………………………….....

REGISTRATION NUMBER: …………………………………………………………

SECTION A: GENERAL QUESTIONS

(Please tick the appropriate)

1. Sex of respondent:

Male ( ) Female ( )

2. What is your group?

25-30 years	31-40 years	41-50 years	Above 50years

3. How long have you been working with SACCOs?

1-3 years	4-10 years	Over 10 years

4. What is the highest level of education you have attained?

	Education level	Tick
A	Advancer secondary school	
B	Ordinary diploma	
C	University degree/Advanced diploma	
D	Master degree	
E	Any other (please specify)	

B.FINANCIAL SUSTAINABILITY

1. What is your organization mission?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

……………………………………………………………………….

2. Does your mission limit financial sustainability?

Yes ( ) No ( )

3. If the answer is YES for above question how?

…………………………………………………………………………………………………

…..……………………………………………………………………………………..

4. In your opinion, is your organization sustainable (ie.Can meet its operational costs and cost of funds from internally generated funds)?

Yes ( ) No ( )

5. Does your institutional covers its operational costs from internally generated fund? (Operational sustainability).

Yes ( ) No ( )

6. Does your institution covers its cost of funds (interest from external financing) from internally generated funds?

Yes ( ) No ( )

7. Do you have business strategy to archieve financial sustainability?

Yes ( ) No ( )

8. What is your strategy? (Please explain)

……………………………………………………………………………………………………

……………………………………………………………………………………

9. What do you think are the most important factors to archieve financial sustainability?

a……………………………………………………………………………………...

b……………………………………………………………………………………

c……………………………………………………………………………………

10. What do you consider to be most constraints factors to financial sustainability?

a……………………………………………………………………………………..

b…………………………………………………………………………..................

c…………………………………………………………………………………….

C. INSTITUTION CAPACITY

1. Has the organization employed permanent staff?

Yes ( ) No ( )

2. If yes how many employees do you have? ....

3. How many times has the organization changed leadership in the last 2 years? ....

4. What was the cause of change?

a.Retirement

b.Mismanagement

C.Other reasons (Please explain)…………………………..

5. Has organization conducted training to its employees and management of financial and banking matters in the last two year?

Yes ( ) No ( )

If yes, how many times and what was the theme of the training?

…………………………………………………………………………………………

……………………………………………………………………………

6. If yes, how many times and what was the theme of the training?

…………………………………………………………………………………………

……………………………………………………………………………

7. In your opinion, do you need further training of financial and banking matters?

Yes ( ) No ( )

8. Do you face competition in the market?

Yes ( ) No ( )

9. If yes, what are the competitive issues?

A.Loan product

B.Interest rate

C.Any other (please comment)……………………………………………………

10. What is your comment on existing competition on organization performance?

1) Positive effect ( )

2) Negative ( )

3) No effect ( )

11. Please explain further if your answers is a or b above.

…………………………………………………………………………………………………

…………………………………………………………………………………

12. Has the organization have computer literate employees?

Yes ( ) ( )

13. If yes, how many are they? ....out of…….employees

14. Do you think there is a need to employ staffs that are computer literate?

Yes ( ) No ( )

15. Is your organization use computerized accounting software in its operation?

Yes ( ) No ( )

16. If the answer above is no, what is the possible causes of not using computerized accounting software?

....

....

......

17. If the answer is yes, are the computerized accounting software made an institution to improve performances?

Yes ( ) No ( )

D. FINANCIAL PERFORMANCE

1. What is the organization profit as per last audited accounts? (Please fill in the amount in the table below)

Yes	Profit	Loss

2. Has the organization paid dividends in the last three years? If yes, what was the dividend per share? (Please fill in the table below)

Yes	Yes	No	Dividend per share

3. What are your sources of finance?

a.Savings ( )

b. Commercial banks ( )

c.Donors ( )

d. Membership fees ( )

e.Others (Please explain)………………………………………………

4. If you obtain finance from commercial banks what are the interest rate charges? ....

5. How often do you prepare financial statements (balance sheet and income statements)?

a.Monthly ( )

b.Quarterly ( )

c. Half yearly ( )

d.Annually ( )

6. Does your institution prepare annual budget?

Yes ( ) No ( )

E.SAVINGS MOBILIZATION

1. How many members does your organization have?

Male	Female	Total

2. Basing on the last audited financial statements, what was the savings amount?

Year	Savings amount

3. What is your rate of interest on savings? ....

4. Has interest rate changed in the last two years?

…………………………………………………………………………………………….

6. In your opinion, is the interest sufficient to attract people to save?

Yes (   )   No (   )

F: LOAN PORTFOLIO

1. Basing on the audited financial statements, what is the loan amount?

Year	Loan amount

2. How many people borrowed from the institution?

Year	Males	Females	Totals

3. What is your rate of interest on loan? ....

4. Has interest rate changed in the two last years?

Yes (   )   No ( )

5. If yes, when were that and what was the previous rate?

…………………………………………………………………………………………

6. What is your opinion regarding the interest rate?

a. High (   )

b. Opinion (   )

c. Low ( )

7. Is the interest received on loans sufficient to cover operational costs of the institution?

Yes ( ) No ( )

8. Is the interest received on loans sufficient to cover institution cost of funds (Interest from external financing)?

Yes ( ) No ( )

9. What kind of credit delivery mechanism does your institution apply?

a. Individual lending mechanism ( )

b. Group lending mechanism ( )

10. What is the loan sizes applied for?

a. Minimum…………………………………………………………..

b. Maximum…………………………………………………………...

11. What types of loans do you offer? (Please rank by numbering which one is the most commonly applied for)

a. Personal ( )

b.Emergence ( )

c.Business ( )

d. Others (please specify) ( )

12. What is the institution loan default rate, as per period last audited?

Year	Number of loan issued	Number of loans defaulted

13. What are the causes for default?

a. Business failure ( )

b. Lack of integrity ( )

c. Weakness of follow up ( )

d.Other (Please specify) ( )

14. What action do you take for non performing loans?

a. No action ( )

b. Court action, ie sue the defaulter ( )

c. Attach and liquidate the defaulter ( )

d.Others (Please specify) ( )