# THE IMPACT OF STAFF TRAINING AND FINANCIAL REGULATIONS ON FINANCIAL SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN TANZANIA:

## A CASE OF MOROGORO MUNICIPALITY

# THE IMPACT OF STAFF TRAINING AND FINANCIAL REGULATIONS ON FINANCIAL SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN TANZANIA:

# A CASE OF MOROGORO MUNICIPALITY

**By**

**Shesaa Shabani Chamshama**

**A Dissertation Submitted in Partial Fulfilment of the Requirements for the Degree of Masters of Business Administration (Corporate management) – MBA (CM) of Mzumbe University**

## CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis titled; The impact of staff training and financial regulations on financial sustainability of microfinance institutions in Tanzania: A case study of Morogoro Municipality, in partial fulfillment of the requirements for the award of the degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe University.

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DEAN/DIRECTOR, FACULTY/DIRECTORATE/SCHOOL/BOARD

## DECLARATION

I, Shesaa Shabani Chamshama, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any degree award.

Signature ……………………………...…

Date ……………………………………

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# DEDICATION

This work is dedicated to the memory of my lovely and adorable mother Joyce John Daffa, may her soul Rest in Eternal Peace. To my family for their prayers, support and encouragement during the period of my MBA-CM studies.

## LIST OF ABBREVIATION

| | |
|---|---|
| BOT | Bank of Tanzania |
| CBO's | Community based organizations |
| FINCA | Foundation for International Community Assistance |
| FSS | Financial Self-Sufficiency |
| GONGOs | Government Non-Governmental Organizations |
| ICT | Information and Communication Technology |
| MFIs | Microfinance institutions |
| MoF | Ministry of Finance |
| NBC | National Bank of Commerce |
| NBS | National Bureau of Statistics |
| NGOs | Non-Governmental Organizations |
| NMB | National Microfinance Bank |
| OSS | Operational Self-Sufficiency |
| PRIDE | Promotion of Rural Initiative and Development Enterprises |
| SACAs | Savings and Credit Organizations |
| SACCOs | Savings and Credit Cooperative Societies |
| SIDO | Small Industries Development Organization |
| SMEs | Small and Medium Enterprises |
| URT | United Republic of Tanzania |
| YOSEFA | Youth Self Employment Foundation |

# ABSTRACT

Microfinance institutions (MFIs) generate or bridge the gap left by commercial banks in issuing microcredit to poor people, small businesses and micro entrepreneurs. The main objectives of MFIs include outreach to the poor, making positive impact and maintaining financial sustainability. The objectives are interrelated as for MFIs to fulfil the objective of outreach to poor population and making positive impact they should operate on a sustainable basis.

The aim of the study was to determine the impact of staff training and financial regulations on financial sustainability of MFIs in Tanzania case of Morogoro municipality. The study followed a descriptive research design using a set of 42 observations from 14 MFIs over the period 2011-2013 out of the population of 116 MFIs in Morogoro municipal. Stratified random sampling technique was used to get the number of MFIs during the study. Two types of data were collected, primary and secondary by using questionnaires and documentation review respectively. Data was analysed using descriptive analysis, correlation analysis and multiple regression.

The findings reveal that there is a positive statistically significant relationship between staff training and financial sustainability. The study also revealed that there is a negative statistically significant relationship between financial regulations and financial sustainability of MFIs in Tanzania. The study show that 76.1% of the variability in financial sustainability is due to variability of staff trainings and financial regulations meanwhile the remaining 23.1% was due to other variables which were not studied in the research. Financial regulation makes the strongest statistically significant unique contribution in explaining financial sustainability of MFIs in Tanzania compared to staff training.

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# CHAPTER ONE

# INTRODUCTION, OBJECTIVES AND PROBLEM DEFINITION

## 1.0 Introduction

This chapter covers the background information which is about the impact of staff training and financial regulations on financial sustainability of Microfinance institutions (MFIs) in Tanzania. In addition, the chapter also covers the following sections: statement of the problem, research objectives, research questions, significance of the study, scope, limitation and delimitations of the study.

## 1.1 Background information

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

In Africa, MFIs have become the main source of funding Micro enterprises (Anyanwu, 2004). For instance in Nigeria, microfinance has been identified as an effective tool in achieving three objectives; strong and focused emphasis on economic growth, better access by the poor to social services and adequate infrastructure and targeted interventions to protect low-income populations (Babandi, 2011).

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

The positive impacts of MFIs on socio-economic welfare of the poor can only be sustained if the institutions can achieve a good financial and outreach performance (Kinde, 2012). To fulfil the objective of outreach to poor population, MFIs should better allocate the available resources as well as operate on a sustainable basis (Kipesha, 2013a). It has been reported that only those MFIs which are financially sustainable stand a chance of reaching the vast of millions of poor (Nyamsogoro, 2010). Schreiner (2000) argued that “unsustainable MFIs might help now, but they will not help poor in the future because MFIs will be gone”. The MFIs have continued to depend on donor funds for their operations instead of building their own capacity (URT, 2000). However, researchers identified several reasons for failure of donor funded MFIs such as high default rates, poor fund management and lack of knowledge on better use of funds among members served (Aghion and Morduch, 2005; Cull, Demirgüc-Kunt and Morduch, 2009a; Zeller and Johannsen, 2006). Therefore, financial sustainability of MFIs is a necessary condition for the attainment of its long term objectives.

The employee performance in an organization depends on various factors like job satisfaction, knowledge and management (Khan, Khan and Khan, 2011). But the most important factor of employee performance is training. So to improve the organizational performance and the employee performance, training must be given to the employee of the organization. Training is appropriate when there is; poor performance, lack of basic skills (reading, writing, technology, math skills), legislation or policies requiring new knowledge or skills, new technology, higher performance standards and new jobs (Cole, 2002). Despite that, the external regulation may be related to firm performance (Mersland, Randøy and Strøm, 2011). A regulated MFI is more likely to earn customer trust, which should lead to a higher financial performance. However, the fragility of financial market can be originated from inconsistent government policy which hampers the effective regulations and supervisions and leads to financial crisis (Caprio, Demirgüç-Kunt, and Kane, 2008).

Out of the approximately 10,000 MFIs worldwide, it is estimated that only 3% to 5% have achieved full financial sustainability (Dichter and Harper, 2007). Furthermore various studies have shown that most of MFIs in Tanzania have not attained financial sustainability (Kipesha, 2013a; Nyamsogoro, 2010; Kawiche, 2013). Indeed it has been reported that most of the MFIs were reported to operate at high costs and low productivity, which in turn resulted in low outreach and high losses (Marr and Tubaro, 2011; Nyamsogoro, 2010). It must be acknowledged however, that some of the larger Tanzanian MFIs have undertaken major efforts to achieve financial sustainability, and may in future set the example for others to follow (Marr and Tubaro, 2011). Such MFIs in Tanzania that have attained self-sustainability include Promotion of Rural Initiative and Development Enterprises (PRIDE) and Youth Self Employment Foundation (YOSEFO) (Kessy and Urio, 2006; Marr and Tubaro, 2011). There is a necessity to research on the impact of staff training and financial regulations on financial sustainability of MFI’s in Tanzania so as to ensure that MFI’s attain sustainability to achieve their objectives for long period.

### 1.2 Statement of the problem

Loans from MFIs play important role in both rural and urban areas worldwide because they encourage economic and social development through loan provision to small and medium enterprises and other economic activities (Kessy and Urio, 2006).

This is simply because they generate or bridge the gap left by commercial banks in issuing microcredit to small businesses and micro entrepreneurs. The main business of MFIs is to accept deposit from surplus units and lend them to the deficit units; they are earning profit through interest on amount lent to customers. Given the importance of MFIs, the knowledge of factors affecting financial sustainability is therefore essential not only for the managers, but as well as for numerous stakeholders such as central bank and the government (Tehulu, 2013).

Most MFIs normally require financial assistance during earlier years. Donors should be used temporarily to build the institutional capacity of MFIs, develop supporting infrastructure and support needed services and products (Consultative Group to Assist the Poorest [CGAP], 2004). It has been realised that to secure sustainability, improve efficiency and to secure ability to meet growing demand for capital, the MFIs as they mature must strive to become self-sustainable. The problem is how to attain financial sustainability by MFIs. Despite that, MFIs have faced increasing competition for scarce donor funds and increased market competition due to entrance of commercial banks in the microfinance business (Hermes, Lensink and Meesters, 2011). They are also facing declining donor support which affects their operations (Kipesha, 2013b). Financial sustainability is taken into great consideration by MFIs, donors and investors who bring financial support to microfinance and the various stakeholders (Torre and Vento, 2006).

A number of MFIs have demonstrated that low income earners can use small loans productively to pay higher rates of interest for their loans (Kimando *et al*., 2012). The interest rates charged by MFIs in Tanzania compared to commercial banks are very high (Kessy and Urio, 2006). Despite the high interest rates charged by MFIs and the number of customers they serve in a year, they are not financially self-sustainable. A lot of MFIs still depend on loans from donors to cover their operational costs. As most of them reported difficulty in sustaining its operations without continued reliance on grants, external fund raising, or other subsidies (Kimando *et al*., 2012). Financial sustainability of MFIs is important because donor constancy is not guaranteed and this will ensure that MFIs do not deviate from their objectives. Moreover, there is still a huge gap between supply and demand of microfinance services which cannot be filled with unsustainable MFIs in the long run (Guntz, 2011).

The training and development of the employees has direct contributions in the high achievements of organization which shows better performance (Raza, 2014). As identified by Niazi (2011) training increases the organizational performance as predicted by many researches, which in turn can increase financial sustainability of MFIs. Financial regulation is designed to improve the way in which financial markets function by increasing financial stability, protecting consumers, improving information and limiting risk (Jomini, 2011). Regulation brings benefits, but also involves costs (Jomini, 2011). In some cases, costs can exceed the economic benefits that could be expected from the regulation. It is therefore essential to optimise regulation by weighing its costs against its benefits (Jomini, 2011). Due to the aforementioned statement, it necessitates to conduct a study on assessment of staff training and financial regulations on financial sustainability of MFIs in Tanzania as it is possible for MFIs to attain sustainability even with very poor clients.

Several studies have been carried to determine factors that influence financial sustainability of MFIs using large and well developed MFIs across different countries (Cull, Demirguc-Kunt and Morduch, 2007; Woller and Schreiner, 2002). For instance, locally there are few studies that have been carried out on financial sustainability of MFIs including; Nyamsogoro (2010) who carried out the study on financial sustainability of rural MFIs in Tanzania, Chijoriga (2000) did a study on the performance and sustainability of MFIs in Tanzania, Kawiche (2013) did a study on the determinants of financial performance of MFIs in Tanzania and Kipesha (2013b) did a study on the Impact of Information and Communication Technology (ICT) on efficiency and financial sustainability of MFIs in Tanzania. However, the level of significance of these factors varies with studies (Kawiche, 2012; Kinde 2012; Nyamsogoro, 2010). Some of the determinants are found to be significant in one economy or applicable to a set of MFIs, some are not significant

(Cull *et al.*, 2007; Woller and Schreiner, 2002). In addition, the different methodologies used in different studies on a similar topic result in different findings or outcomes. Previous studies have suggested different sets of important factors of financial sustainability of MFIs as they have used different variables depending on research questions, available time and data availability. No study has been published on the impact of staff training and financial regulation on financial sustainability of MFIs in Tanzania. Therefore, this study was carried out to fill this knowledge gap.

## 1.3 Research objectives

### 1.3.1 Main research objective

The general objective for this study was to find out the impact of staff training and financial regulations on financial sustainability of MFIs in Tanzania.

### 1.3.2 Specific objectives

The specific objectives of the study are as follows:-

i. To assess the influence of MFIs staff training on the financial sustainability of MFIs in Tanzania.

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

### 1.4 Research questions

#### 1.4.1 General research question

In the effort of finding the solution for this study, the general proposed research question is: What is the impact staff training and financial regulations on financial sustainability of MFIs in Tanzania?

#### 1.4.2 Specific research questions

The general research question in meeting the research objectives resulted into the following specific research questions:

i. Does the MFIs staff training influence financial sustainability of MFIs in Tanzania?

ii. What is the effect of the MFIs financial regulations on the financial sustainability of MFIs in Tanzania?

### 1.5 Significance of the Study

The study is important to the following groups:

I. Government/Regulatory Bodies

By focusing on the impact of financial regulations on financial sustainability of MFIs in Tanzania, regulatory bodies such as Bank of Tanzania (BOT), Ministry of Finance (MoF) and Registrar of Cooperatives will have in-depth understanding of how financial regulations impact financial sustainability of MFIs in Tanzania. This will lead to the formulation of various financial regulations and policies that will provide a conducive environment for the operations of MFIs in the country.

II. Owner/Managers and employees of MFIs

The study explores and recommends potential areas that MFIs need to put more efforts when delivering their services so as to build financially sustainable organizations. The MFIs owners and employees will understand the importance of staff training and financial regulations on their organization's performance. This will increase attention of owners and managers to invest more in staff training so as to improve financial sustainability of their organizations. However, there are some employees who get training opportunities but they do not find them important for their organization's performance. This study will provide them with depth understanding of the impact of staff training to the financial sustainability of their MFIs.

III. Small, medium and micro enterprises

Building of capacitated and sustainable MFIs will create a conducive environment for enterprises to obtain funds at lower interest rates. This will in turn have impact on the standard of living of people and economic growth in the country. However, the study will help owners of Small and Medium enterprises (SMEs) to understand their contribution to the financial sustainability of MFIs in the country.

IV. Researchers and academicians

The study will help in filling the research gap which exists on the impact of staff training and financial regulations on financial sustainability of MFIs in Tanzania so as to avoid future repetition of work by different researchers. The study will also provide source of reference for future studies on the subject matter. Researchers will be able to identify other research areas of interest based on the knowledge provided by this study. Lastly, the study will act as the source of literature for academicians in the field of business.

V. Community

As mentioned, majority of Tanzanians population are poor and depend on agricultural activities. These people do not have the requirements to be served by commercial financial institutions and their only solution is MFIs. The study will help MFIs to attain financial sustainability which directly will have impact on the society as whole as the MFIs will be able to reach a lot of poor Tanzanians and provide affordable loans which will have remarkable impact on the community at large.

## 1.6 Scope of the study

The study did not cover all MFIs in Tanzania, as it covered only those that are located in Morogoro Municipality to determine the impact of staff training and financial regulations in Tanzania. The reasons for selecting this scope are limited time, financial constraints, accessibility and the area has all the main types/categories of MFIs that are in Tanzania. The study considered all main types of MFIs that operate in Tanzania, that are; cooperative based institutions, Non-Governmental Organizations (NGOs)/Faith based and banks to enhance generalization of the findings.

## 1.7 Limitations of the study

A lot of challenges were faced by the researcher especially in data collection process. The researcher used a simple evaluation form in Appendix 2 to easily identify the challenges which were faced especially in the process of data collection. The following were the major challenges of this study:

I. Time and financial resources constraint

The study was limited in terms of time and financial resources as the researcher was a self-sponsored. Due to this limitation, the researcher was not able to cover majority of the regions in Tanzania in order to increase the probability of the generalization of the findings, as different regions have different economic and demographic characteristics which in one way or another might affect the findings.

II. Availability of data

Some MFIs do not keep proper records of their information. This challenge led to some respondents to provide guess information which is not reliable and others to skip the questions which they did not have records for. This happened much on questions which required quantitative data such as number of staffs in the organization and financial data.

III. Uncooperative respondents

Some of respondents did not give full cooperation in the process of data collection. These respondents were not able to disclose material fact especially relating to financial information of the MFIs because of fear and other related phobia. Despite that there are some MFIs which did not allow the researcher to conduct the study because of various reasons. This led to some incomplete questionnaires and a short fall of 17 (26.6%) uncollected questionnaires against the planned sample.

IV. Bureaucracy

Most of the respondents in MFIs under the category of NGOs/Faith based required the researcher to obtain written permission (letter) from their headquarters. This bureaucracy in the process of obtaining permission forced the researcher to travel or send people to various regions where the headquarters are located. This challenge led to increased financial costs and time wastage compared to budgeted amount.

V. Confidentiality of data

There were few respondents who did not provide true-opinions/answers on some questions in the questionnaire because they regarded the information sensitive and confidential to disclose. The challenge was common to questions relating to financial information of the MFIs and age of respondents.

VI. Limited information

There are a lot of studies which have been conducted and will be conducted on MFIs in Tanzania. However, still different authorities governing MFIs in Tanzania do not display most of the key and updated information on their official websites or easily accessible publications. The researcher faced a challenge on obtaining various key updated information regarding MFIs in Tanzania. For instance, the updated information on the number of MFIs in Morogoro municipal (including names and addresses) was difficult and expensive to obtain.

VII. Communication barrier

Some respondents did not understand English in the questionnaires due to low educational level. When this happened, information/clarifications were provided in Kiswahili.

## 1.8 Delimitations of the study

Based on the challenges that the researcher faced in this study, the following are some delimitations which were adopted to maximize number of respondents. As for the limitations of the study, the researcher used evaluation form in Appendix 2 to easily identify all delimitations which were used on their respective limitation as follows:-

- The researcher made frequent follow-ups on questionnaire through making calls to remind respondents on the date of the final collection of the questionnaires.
- The researcher explained the essence of the research clearly to all respondents and assured them that their information will be kept confidential. Furthermore, the researcher promised every MFI that have participated in the study to get a copy of the final dissertation at the discretion from Mzumbe University as a way of increasing response and expanding knowledge to the target unit.
- The researcher provided a reasonable time (not fixed) for respondents who do not keep proper records to go through their files so as to minimize guessing and uncompleted questionnaires.
- The researcher used interviewer administered (face to face) questionnaire to respondents who do not understand English well.
- The researcher built friendly environment with a lot of respondents to foster their cooperation in this study.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

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

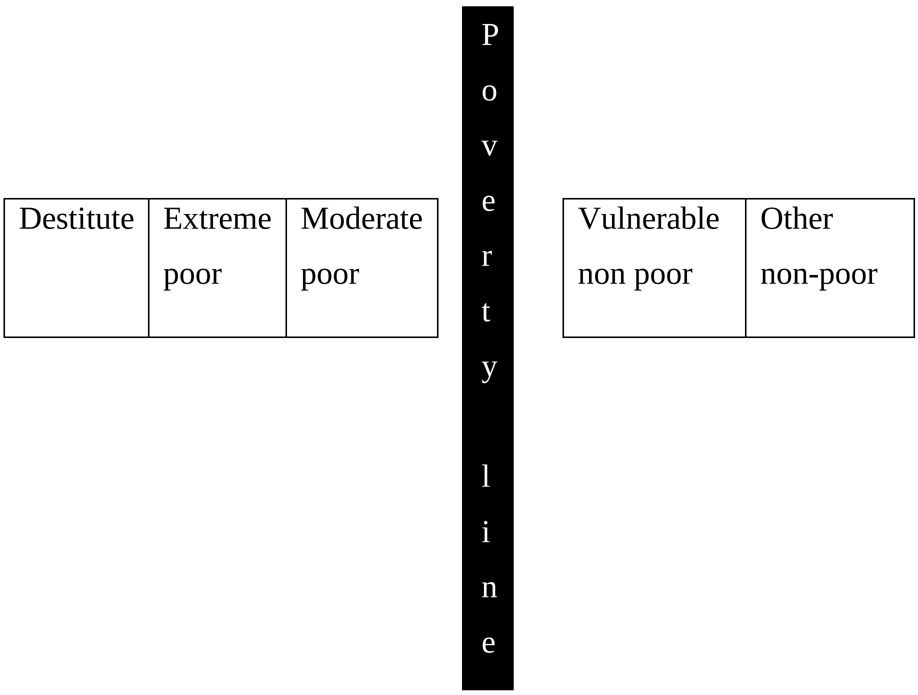
## 2.1 Theoretical literature review

### 2.1.1 Poverty

Poverty is a common term all over the world especially in developing countries. Throughout the report, the term poverty has been used often because there is a link between MFIs and poverty which is explained in section 2.1.5. Poverty can be defined as the income below some minimum level necessary to meet basic needs (Mugendi, 2013). The minimum necessary level/poverty line is not the same throughout different countries in the world. Poverty lines are then defined as the amount of income required to satisfy those needs (National Bureau of Statistics [NBS], 2013). The poverty line is subject to changes with time due to reasons that affect the monetary aspect of the economy such as price changes (inflation and deflation), employment level and Gross Domestic Product (GDP). Therefore, the definition of the term poverty varies with different countries based on the minimum necessary level to meet basic needs in that country. The basic needs here are commonly referred to food, clothing, shelter, safe drinking water, all of which determine quality of life (Mugendi, 2013). It may also include the lack of access to opportunities such as education and employment which aid the escape from poverty and/or allow one to enjoy the respect of fellow citizens.

Poverty lines are calculated using various approaches, however the most common that are used by National Bureau of Statistics (NBS) include basic needs approach and food poverty line approach. The basic needs approach is used to measure absolute poverty. It attempts to define the absolute minimum resources necessary for long-term physical well-being in terms of consumption of goods (NBS, 2013). The food poverty line is the level at which households total spending on all items is less than they need to spend to meet their needs for food (NBS, 2013). It is also often referred to as the extreme poverty line. Individuals who fall below this level are classified as extremely poor (NBS, 2013). Figure 2.1 shows the different extents of poverty from the poverty line based on the basic need line approach. Those who are below the food poverty line are termed as extremely poor. Destitute are the poorest of all. On the other hand, the vulnerable non poor are the people whose income is slightly above the poverty line that means they can afford basic needs but they have little to save. Other non-poor are the ones who can afford all the basic needs and have a lot to save.

**Figure 2.1: Defining the Poor**




Source: (CGAP, 2003a)

### 2.1.2 Indicators of poverty

Poverty has many faces, changing from place to place and across time, and has been described in many ways (Mugendi, 2013). However, poverty has a number of common indicators including low income, low production, unemployment, illiteracy, hunger, poor infrastructures, high mortality rate, malnutrition, homelessness or poor housing and powerlessness (Mugendi, 2013). It also includes poor social services such as poor health services and lack of clean and safe water, prevalence of diseases, squalid surroundings, low life expectancy, low per capita income, inadequate clothing, low technological utilization, environmental degradation and rural-urban migration.

### 2.1.3 Poverty in Tanzania

According to 2011/12 Household budget survey done in Tanzania mainland, the basic needs poverty line is Tanzanian Shillings (TZS) 36,482 per adult equivalent per month and food poverty line is TZS 26,085 per adult equivalent per month (NBS, 2013). Using these two poverty lines, in 2012 more than a quarter (28.2%) of the Tanzanian population fell below the basic needs poverty line and 9.7% fell below the food poverty line (NBS, 2013).

**Table 2.1: Poverty headcount rates by area, Tanzania mainland, 2011/12**

| | Dar es Salaam | Other urban areas | Rural areas | Tanzania mainland |
|---|---|---|---|---|
| **Basic needs poverty** | 4.2% | 21.7% | 33.3% | 28.2% |
| **Food poverty (extreme poverty)** | 1.0% | 8.7% | 11.3% | 9.7% |

Source: (NBS, 2013)

### 2.1.4 Trend of poverty since 1991

Based on Table 2.2, overall in the 21 years period between 1991 and 2012, poverty fell by about 10%. But most of this change can be explained by progress in Dar es Salaam as the poverty fell by about 24%. In rural areas and other urban areas, the decline in poverty is too small to give confidence that poverty has actually fallen. However, in general this could be interpreted that poverty has fallen over the 21 years period.

**Table 2.2: Poverty incidence since 1991**

| Area | 1991 | 2001 | 2007 | 2012 |
|---|---|---|---|---|
| **Dar es Salaam** | 28.1% | 17.6% | 16.0% | 4.2% |
| **Other urban** | 28.7% | 25.8% | 24.2% | 21.7% |
| **Rural** | 40.8% | 38.6% | 37.4% | 33.3% |
| **Tanzania mainland** | 38.6% | 35.6% | 33.4% | 28.2% |

Source: NBS (2011 and 2013)

### 2.1.5 The concept of microfinance

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

Most people think microfinance is all about lending small loans (micro credits) to poor. Microfinance is broader than that, as it has been defined by different scholars. There are various definitions of microfinance and all have the same meaning or essence just difference in words. Hartarska (2005) defined microfinance as the provision of small scale financial services to low income or unbanked people. Similarly Barr (2005) defined microfinance as a form of financial development that is primarily focused on alleviating poverty through providing financial services to poor. All the definitions use the term financial services and not small loans to represent services offered by MFIs.

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

According to Hamada (2010) there are three main objectives of microfinance. The objectives include outreach to the poor, making positive impact and maintaining financial sustainability. The outreach to the poor refers to the ability of MFIs to serve/reach large number of poor population. Making positive impact refers to the ability of MFIs to help poor people to create their own incomes and to accumulate assets thus reducing their vulnerability to external shocks such as economic downturns or natural disasters. Maintaining financial sustainability refers to the ability of MFIs to cover their operating costs using the operating income. Therefore, it is clear that without MFIs, the poverty level would be very high as poor people will be limited to access development opportunities.

The core principles for microfinance are as follows; the poor needs access to appropriate financial services, the poor has the capability to repay loans, pay the real costs of loans and generate savings, microfinance is an effective tool for poverty reduction, MFIs must aim to provide financial services to an increasing number of disadvantaged people, microfinance can and should be undertaken on sustainable basis and last, microfinance NGOs and programmes must develop performance standards that will help define and govern the microfinance industry towards greater reach and sustainability.

Microfinance is then based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor. Charity is not the answer to poverty as it only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty.

### 2.1.6 Key characteristics of microfinance

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

i. Small transactions and minimum balances (whether loans, savings or insurance).
ii. Loans for entrepreneurial activity.
iii. Collateral-free loans.
iv. Group lending.
v. Focus on poor clients.
vi. Focus on female clients.
vii. Simple application processes.
viii. Provision of services in underserved communities.
ix. Market-level interest rates.

The focus on poor clients is almost universal for all MFIs in the world. However, there is a variation in the definition of the word poor. Some argue that microfinance should focus on the "economically active poor", or those just at or below the poverty level (Robinson, 2001). Economic active poor refers to those among the poor who have some form of employment and who are not severely food-deficit or destitute (Guntz, 2011). Others on the other hand, suggest that MFIs should try to reach the poor without considering if they are economically active poor.

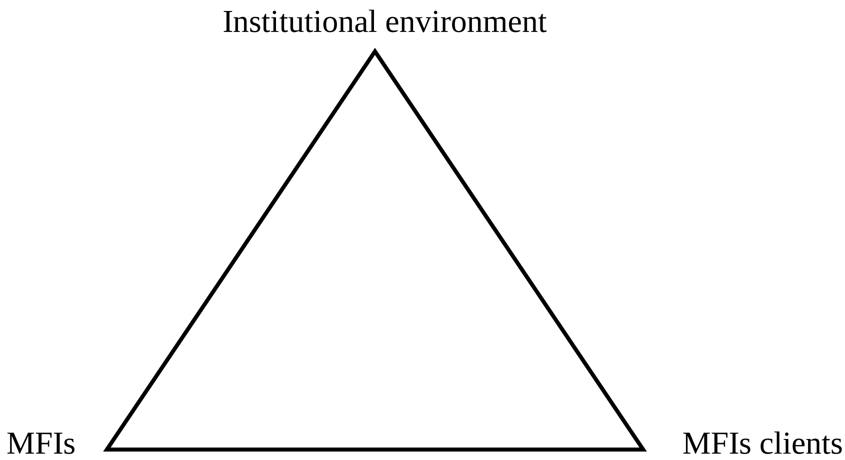
Not all characteristics stated are displayed by all particular MFIs. For example it is very clear that some of MFIs require collateral or collateral substitute such as household assets. Moreover, most but not all microfinance programmes focus on women while others do not.

### 2.1.7 Microfinance stakeholders

Woradithee (2011) identified three essential stakeholders engaging in microfinance as shown on Figure 2.2. The stakeholders include MFIs, institutional environment and MFI clients as follows: -

- MFIs are institutions which provide microfinance services to underprivileged clients, which mostly are the poor.
- Institutional environment are different authorities which govern and regulate MFIs. Namely, governments on behalf of the policy maker and the regulator will frame microfinance direction and enact regulations by which MFIs have to comply with (Woradithee, 2011).
- MFI clients are poor and non poor people that are served by MFIs. Mostly these are people that are excluded from conventional banking (Woradithee, 2011).

**Figure 2.2: MFI stakeholders**




Source: Woradithee (2011)

**2.1.8 Financial services offered by MFIs**

Over the past years, the offer of financial services by MFIs to low-income people meant the granting of micro credits to develop micro businesses. The clients were referred as the poorest of the poor (Torre and Vento, 2006). However, in the modern days, the poorest of the poor are not the only clients/customers of the MFIs (Torre and Vento, 2006). The MFIs have developed various products/financial services that carter the needs of their customers. Torre and Vento (2006) distinguished four basic needs of modern MFIs customers as follows; medium and long term funding needs (circulating and fixed capital), access to safe, fast and cheap payment systems, saving and liquidation needs and finally risk hedging. For the MFIs to meet these needs, they had to develop different financial products as follows:-

#### 2.1.8.1 Credit services

The most common credit products in MFIs are microcredit and micro leasing (Torre and Vento, 2006). Micro credits are loans of small size that can help poor to escape their conditions (Torre and Vento, 2006). Micro leasing is a low value contract with which one party/MFI (the lessor), in exchange for the payment of a regular instalment, concedes to another party/customer (the lessee) the use of equipment, however the ownership of the asset remains to the lessor/MFI (Torre and Vento, 2006). Low income customers are usually not able to afford the equipment and therefore MFIs allow them to obtain the availability of the asset without having to tie up capital equal to the whole leased asset. Credit facility can be used in different ways such as source of meeting consumption needs, source of short term working capital, and source of long term investment capital (Mukama, 2005).

#### 2.1.8.2 Savings services

Almost all poor need to save in order to protect themselves against periods of low income or specific emergencies and to store the value of excess income for future investments (Mukama, 2005). There are two broad forms for which MFIs collect savings, compulsory savings and voluntary savings (Torre and Vento, 2006). Compulsory saving products consist of mechanisms of forced saving, which imply that a certain percentage of the supplied loan is held back and placed in a fund that acts as a guarantee (Torre and Vento, 2006). The customers can assess the amount at the end of the loan cycle. Nevertheless, the poor normally prefer voluntary saving products. These are volunteer methods of saving collection that allow the saver to deposit and withdraw, with varying frequency and expiry dates, according to the products' liquidity (Torre and Vento, 2006). Hence micro saving deposits provide facilities for safe keeping of savings, consumption smoothing emergencies and accumulation of resources as well as self-financing of investments (Mukama, 2005).

#### 2.1.8.3 Insurance services

Micro insurance products drawn up to reduce uncertainty and its effects, represent a fundamental instrument in microfinance, given the vulnerability of the poor to risk (Torre and Vento, 2006). The micro insurance services include specialized insurance services such as life, health, accident or cattle insurance and non-specialized services that provide social protection through access to a client's savings or credit in cases of emergency for risk management, social security and loan protection (International Fund for Agriculture Development, 2002). This type of financial service is not common in Tanzania (Mukama, 2005).

#### 2.1.8.4 Payment services

This is the service that allows poor to transfer money through secure channels. The MFIs that offer payment services are not, so far, numerous because of the complexity of the infrastructure and the technology that payment systems require (Torre and Vento, 2006). This payment service in mainly used by banks which force MFIs to use affiliated banks to transfer money. In this circumstance, MFIs should develop good relationship and partnership with banks.

### 2.1.9 Lending models of microfinance institutions

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

#### 2.1.9.1 Solidarity group lending

The solidarity group lending is also called "peer lending group" (Guntz, 2011). The solidarity group lending model is often referred to as the Grameen model (Marc and Armendáriz, 2011). This model applies to small groups usually within larger groups, which are socio economically homogeneous especially five people (Marc and

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

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

#### 2.1.9.2 Village banking

The model was founded by John Hatch, the founder of the American NGO Foundation for International Community Assistance (FINCA) (Felder-Kuzu, 2005). Village banking describes a community-based credit and saving association, run by a village itself (Guntz, 2011). This model applies to larger groups of 15–30 people, who are responsible for the management of the loan provided by MFI (“the external account”), as well as making and collecting loans to and from each other (“the internal account”) (Marc and Armendáriz, 2011). After the loan is received by a self-appointed village committee, the committee divides the loan into small loans which are then provided to the members of the group. The model enables saving deposits as well (Guntz, 2011). The role of the MFI is to assist only in administration and technical issues (Hazeltine and Bull, 2003). In India, self-help groups (SHGs) operate according to similar format (Marc and Armendáriz, 2011).

#### 2.1.9.3 Individual model

This model resembles that of the formal system, where the borrower is taken as an individual, usually resulting in higher interest rate charges. The model is expensive and labour intensive because it requires deep field research in order to choose the right client (Guntz, 2011). The main sources of information are the family, friends and leaders of the community (Hazeltine and Bull, 2003). Most of the time, MFIs require collateral from borrowers in this kind of model to minimize risks. It focuses on savings and individual repayment responsibility. Technical assistance as well as payment schedules and business management training are generally provided by the MFI (Hazeltine and Bull, 2003).

### 2.1.10 Establishment of microfinance in Tanzania

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

The development of financial sector reform began with the economic recovery programme of 1986 (Wangwe and Lwakatare, 2004). The Presidential Commission of Enquiry into the monetary and banking system established in 1988 examined the banking sector and made recommendations to improve its overall performance to support economic growth. The commission recommended broad based financial sector reforms (Wangwe and Lwakatare, 2004).

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

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

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

Due to the vacuum left by formal financial institutions and the recognition of the increasingly important role of SMEs, the need for creating an alternative financing system has risen. As a result, a good number of MFIs have been established.

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

### 2.1.11 Microfinance service providers in Tanzania

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

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

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

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

### 2.1.12 MFIs Supervisory Framework in Tanzania

The law in Tanzania has established a tiered system of regulation to supervise MFIs, to BOT, MoF and Registrar of cooperatives (MFTransparency, 2011). The 2011 county survey done by MFTransparency have identified the supervisory framework in Tanzania. Table 2.3 provide in depth summary of all the supervisory authorities in the country.

**Table 2.3: Supervisory framework in Tanzania**

| Supervisory authority | Institute to be supervised | Responsibilities |
|---|---|---|
| **BOT** | •Commercial Banks<br>•Financial Institutions (including Micro Finance Companies) | • License commercial banks<br>• License micro finance companies<br>• Review microfinance operations of commercial banks and other financial institutions (whose core business is not microfinance) through segmented financial reporting<br>• Conduct on-site and off-site examinations<br>• Review external audit reports and conduct random examinations of audit firms |
| **MoF** | •NGOs | • Review external audits prior to authorizing disbursement of funds provided by Government or donors<br>• Grant accreditation to NGOs as “Micro-credit Institutions”<br>• In coordination with NBAA, review external audit report and conduct random examinations of audit firms monitoring the respective NGOs |
| **Registrar of Cooperatives** | | •Register SACCOS<br>•Conduct on-site and off-site examinations of SACCOS<br>•Review external audit reports and conduct random examinations of audit firms |

Source: MFTransparency, (2011)

### 2.1.13 Importance of MFIs in the economy

Microfinance has become an important component of development, poverty reduction and economic regeneration strategy around the world. Micro finance can be a critical element on effective poverty reduction strategy. Improved access and efficient provision of savings, credits and insurance facilities in particular can enable the poor and small and medium enterprise’s to smooth their consumption, manage risk better; built assets gradually develop micro enterprises, enhance their income earning capacity and enjoy improved quality life (Rubambey, 2001). The main features of a microfinance institution which differentiate it from other commercial institutions, are such that, it is a substitute for formal credit; generally requires no collateral; have simple procedures and less documentation; easy and flexible repayment schemes; financial assistance of members of group in case of emergency; most deprived segments of population are efficiently targeted; and, last but not least, is groups interaction.  Therefore, for the poor people, the need of MFIs is derived from the fact that majority of poor do not qualify for access to financial services in formal banking system (Mukama, 2005).

### 2.1.14 The concept of financial sustainability

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

Financial sustainability of MFIs depends on different micro and macro factors. Micro factors include institution transparency, good governance and cost allocation/savings (Guntz, 2011). At the same time, MFIs have to operate under favourable outside environment such as easy, low-cost access to a large number of economically active poor clients, a favourable legal environment without regulative interest rate ceilings and demand of rather large average loan sizes (Dichter and Harper, 2007).

### 2.1.15 The concept of staff training

Training refers to the teaching and learning activities carried out for the primary purpose of helping members of an organization to acquire and apply the knowledge, skills, and abilities and attitudes needed by that organization (Mahapatro, 2010). Gordon (1992) defined training as a type of activity which is planned, systematic and it results in enhanced level of skill, knowledge and competency that are necessary to perform work effectively. Based on the definitions, the main purpose of training is to acquire and improve knowledge, skills and attitude towards work.

Training is one of the major functions of human resources management in an organization.

Cole (2002) identified major benefits of training including; high morale, low cost of production, lower turnover, change management, improve the availability and quality of staff and finally provide recognition, enhanced responsibility and possibility of increased pay and promotion to employees. Most of the benefits derived from training are easily attained when training is planned.

### 2.1.16 The concept of financial regulation

Regulation refers to the set of governmental rules that apply to microfinance (CGAP, 2003b). The regulation of microfinance may take any of the following forms: interest rate ceiling, foreign exchange controls; control over admitting new entrants into the market; as well as establishing reasonable capital requirements (Nyamsogoro, 2010). Financial regulation and supervision ensure that MFIs are run prudently and cases of poor people losing their money due to fraud or incompetence are minimized (Kimando *et al*., 2012).

### 2.1.17 Theoretical framework

#### 2.1.17.1 Agency theory

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

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

The theory links to the study since the owners can put in place mechanism such as staff training programme which in turn will increase employee's productivity and competence thus increase in financial sustainability of the MFI. As the organization productivity increases owners tend to provide better incentives and packages to their managers and employees which will help to reduce agency costs as all of the parties will satisfied. The board of directors are supposed to develop various other mechanisms that will force managers attain financial sustainability. For example an audit provides an independent check on the work of agents and of the information provided by an agent, which helps to maintain confidence and trust. Therefore principals/owners play a significant role in order to reduce agency costs in any organization whether for profit or not.

**2.1.17.2 Resources based view theory**

Barney (1991) offered a theory of Resource based view in which the organization can achieve the competitive edge only on the base of its internal resources which included skills of the employees and knowledge etc. The organizations can maintained its performance by implementing the training at strategic level, and if they failed to implement strategies their internal capabilities will be exploited (Barney, 2001).

The resource based view theory supported that any training designed for the organization is based on the creation of values and enhancing the capabilities for continued organization performance (Barney, 1991). The theory can be linked to the study as it is possible for MFIs to serve poor clients and attain financial sustainability through provision of staff training.

#### 2.1.17.3 Micro Credit theory

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

The rationale of the theory is straight forward. Although altruism is not totally absent, capitalism is founded mainly on the premise that human beings are selfish by nature. Based on this theory it is clear that individuals interested in business are naturally motivated by the principle of profit-maximization, with little consideration for the interest of their clients (Kawiche, 2013). This premise is too limited to be general model for capitalism, however, because it excludes individuals who are concerned about the welfare of their fellow human beings. A more generalized principle would assume that an entrepreneur maximizes a bundle consisting of financial return or profit and social return. This assumption creates three groups of entrepreneurs (Elahi and Danopoulos, 2004).

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

It is then should be believed that MFIs in any country can achieve financial sustainability if there are conducive internal and external environment. Therefore

MFIs can still serve the poorest customers and attain financial sustainability if there are good and conducive regulations in place.  The regulatory bodies in the count

**2.2 Empirical literature review**

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

The study by Wambugu and Ngugi (2012) looked at the influence of factors such as service delivery, branch network, staff training and capital adequacy on sustainability of MFIs in Kenya. The study concludes that quality of service delivered, branch diversification, staff competencies, cost of capital have positive impact on the financial sustainability of Kenya Women Finance Trust.

Kinde (2012) found that microfinance breadth of outreach, depth of outreach, dependency ratio and cost per borrower affect the financial sustainability of MFIs in Ethiopia. However, the capital structure, and staff productivity have insignificant impact on financial sustainability of MFIs in Ethiopia during the study period.

Tehulu (2013) study found that MFIs financial sustainability is positively and significantly driven by loan intensity and size. However, management inefficiency and portfolio at risk have a negative and significant impact on financial sustainability. Breadths of outreach and deposit mobilization are not important determinants of financial sustainability based on the study.

Chijoriga (2000) evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance. The study found that the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organization structure. It was further observed that MFIs in Tanzania lack participatory ownership and many are donor driven. Although client outreach is increasing, with branches opening in almost all regions of the Tanzanian mainland, still MFIs activities remain in and around urban areas. The researcher pointed out to low population density, poor infrastructures and low household income levels as constraints to the MFI's performance. The study did not cover factors affecting financial sustainability of MFIs in Tanzania. This study therefore has been designed to identify the factors affecting financial sustainability of MFIs.

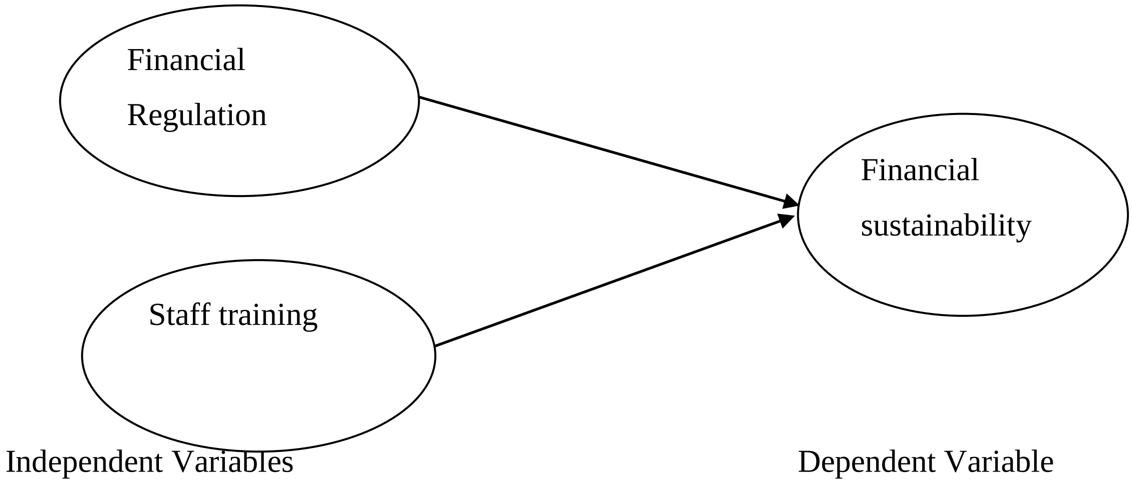
Nyamsogoro (2010) conducted a study on factors affecting financial sustainability in rural Tanzania. The study found that microfinance capital structure, interest rates charged, differences in lending type, cost per borrower, product type, MFI size, number of borrowers, yield on gross loan portfolio, level of portfolio at risk, liquidity level, staff productivity, and the operating efficiency affect the financial sustainability of the rural MFIs in Tanzania. The study did not consider staff training as the factor affecting financial sustainability.

Kawiche (2013) studied determinants of financial performance on MFIs in Tanzania by integrating financial performance measures. The findings show that financial performance of reviewed MFI was low due to low profit margin and high amounts of operating expenses and liabilities drained down the amount of net income of the MFIs. The study further adds that MFIs need to balance the financial performance to ensure survival in a competitive market while meeting their social objective. The study did not cover the financial sustainability of MFIs in Tanzania.

## 2.3 Conceptual framework

Conceptual framework is a set of coherent ideas or concepts organized in a manner that makes them easy to communicate to other (Msabila and Nalaila, 2013). In a conceptual framework, there are two types of variables, independent variables and dependent variables. In this study as conceptualized by the author (2014) the independent variables are financial regulation and staff training. However the dependent variable is financial sustainability of MFIs.

**Figure 2.3: Conceptual framework**




Source: Author (2014)

**2.3.1 Financial sustainability of MFIs**

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

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

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

### 2.3.2 Staff training and financial sustainability of MFIs

Training equips the employees with skills and knowledge to contribute to the MFI efficiency and cope with changes in the environment. As according to Mahapatro (2010) employees training and development initiatives can transform organizations with providing extra skills and knowledge to the employees do not only increase safety and productivity but training leads to higher job satisfaction, which shows up in better corporate performance. It is clear that staff training in many organizations across the world lead to increased returns and hence financial sustainability. Good performance means how well employees performed on the assigned tasks (Sultana, Irum, Ahmed and Mehmood, 2012). So organizations invest huge amount on the human resource capital because the performance of human resource will ultimately increase the performance of the organization (Khan, Khan and Khan, 2011). Staff training is one of the most cited Critical Success Factors (CSFs) in ensuring sustainability of MFIs (Goodwin, 1999).

### 2.3.3 Regulations and financial sustainability of MFIs

Arsyad, (2005) found out that growing economy and supporting governmental policies together with central bank regulations had contributed to the success of the MFIs in Indonesia. To be sustainable MFIs may charge high interest rates or attract deposits from savers. But when the regulations limit MFIs to charge high interest rates, it may impact the sustainability and the survival of MFIs. For example in the 1960s, the government of Ireland put an interest rate cap, MFIs became less competitive and later disappeared (Seibel, 2003). Regulations help in long term financial sustainability of MFIs. Conducive regulations of MFIs strengthen their financial sustainability (Satta, 2004).

## 2.4 Research Hypotheses

The study tested the following research hypotheses formulated based on prior literature review. The hypotheses are presented in form of alternative hypothesis as follows: -

H1: Staff training has a significant impact on the financial sustainability of MFIs.

H2: Financial regulations have a significant impact on the financial sustainability of MFIs.

# CHAPTER THREE

# METHODOLOGY

## 3.0 Introduction

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

## 3.1 Research area

The study was conducted in Morogoro Municipality in Tanzania. Morogoro municipal lies at the crossings of longitudes $37^{\circ}40'$ East of the Greenwich Meridian and latitude $6^{\circ}49'$ South of equator, approximately 200 km west of Dar es Salaam. The area selected was convenient to the researcher due to the possibility of acquiring data easily. The accessibility of the area under the study led to the collection of reliable and relevant data within given limited resources in terms of time and money.

## 3.2 Research design

The study adopted mixed method research design. Mixed methods approach is the general term for when both quantitative and qualitative data collection techniques and analysis procedures are used in a research design (Saunders, Lewis and Thornhill, 2009). The method was successfully used by Kimando *et al.*, (2012) in a study of factors influencing sustainability of MFIs in Murang'a Municipal in Kenya. There is a major advantage of choosing to use multiple methods in the same research project which is it is possible to use different methods in different purposes in a same study (Saunders *et al.*, 2009).

## 3.3 Population of the study

A population is the total collection of elements of which the researcher wish to make some inferences. The targeted population for this particular study was all MFIs that operate in Morogoro municipality. The population of this study consisted of 116 MFIs in Morogoro Municipal according to available statistics from register of cooperatives in the municipal office and census survey done by the researcher. A census survey was used to count all the elements in a population that the researcher did not have the precise number of them in Morogoro municipal such us NGOs and Banks that offer MFIs services. The MFIs were categorized into main three groups as follows 109 cooperative based institutions, 5 NGOs and 2 banks.

**Table 3.1: Population of the study**

| MFI type | Population of the study | Percentage |
|---|---:|---:|
| **Cooperative based institutions** | 109 | 94% |
| **NGOs** | 5 | 4.3% |
| **Bank** | 2 | 1.7% |
| **Total** | 116 | 100% |

Source: Author (2014)

### 3.4 Sample of the study

This study was limited to the MFIs that have operated within the Morogoro municipality to obtain relevant data on the subject matter. The researcher considered the proportion of each MFI type in the population to decide on the sample size. The sample size of interest in this study consisted of 16 MFIs that have operated from 2011 to 2013. The sample of 16 MFIs was made up of 12 cooperative based institutions, 3 NGOs and 1 bank schemes serving microfinance as indicated in Table 3.1. This number did not violate the general rule of thumb that for generalizability, a ratio of number of observations to number of independent variables should never fall below 5:1 (Hair, Black, Babin, Anderson and Tatham, 2006). Although the minimum is 5:1, the desired level is between 15 to 20 observations for each independent variable (Hair *et al.,* 2006). The study has 2 independent variables, and thus requires the minimum number of observations to be 10 and the desired to fall between 30 and 40. However with three years data from each MFI, the minimum number of observations was 4 MFIs and the desired should fall between 10 to 14 MFIs. Therefore the sample size of 16 MFIs was large enough to make generalization of the population based on the study.

**Table 3.2: Sample Size**

| MFI type | Planned Sample units | | Actual sample units | |
|---|---|---|---|---|
| **Cooperative based institutions** | 12 | 75.0% | 10 | 71.43% |
| **NGOs** | 3 | 18.75% | 3 | 21.43% |
| **Bank** | 1 | 6.25% | 1 | 7.14% |
| **Total** | 16 | 100% | 14 | 100% |

**Source**: Author (2015)

Based on Table 3.2, the actual sample size of 14 MFIs fell within the desired sample size for making generalization based on the findings from the study as it does not violate the general rule of thumb.

### 3.5 Sampling technique

The study employed the stratified random sampling technique and purposive sampling technique. The stratified random sampling is unbiased sampling method of grouping heterogeneous population into homogeneous subsets then making random selection within the individual subset to ensure representativity (Wambugu and Ngugi, 2012). The researcher selected randomly MFIs in each category that is cooperative based institutions, NGOs and bank. This technique helped the researcher to collect data from each type of MFI operating in Tanzania to make inferences about the population. Furthermore, purposive sampling technique was used to select 3 employees and 1 owner/manager in each MFI under study.

### 3.6 Data collection

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

### 3.6.1 Primary data sources

These information were gathered directly from the MFIs owners/managers and employees. This was facilitated by self-administered questionnaires and Interviewer administered (face to face) questionnaire.

#### 3.6.1.1 Self-administered questionnaire

The questionnaires comprised of list of different styles of questions such as open ended questions, closed ended questions and likert questions as per Appendix 1. Questionnaires were prepared and administered to 1 owner/manager and 3 employees in 16 MFIs located in Morogoro municipal. In this study, the questionnaires were pre-tested randomly on staffs from FINCA Morogoro branch before being used as a major data collection tool. The feedback obtained from the pilot study was used to improve questions in the questionnaires to maximise the response rate and minimise the error rate on answers. Questionnaires were distributed to stratified randomly selected MFIs during December 2014 and collected during January through early February 2015.

#### 3.6.1.2 Interviewer administered (face to face) questionnaire

This method was employed in collecting data from respondents who did not understand some questions and in the cases where the respondents did not fill the questionnaires administered to them after leaving them within a reasonable time. This method of data collection used limited time and fostered full cooperation from respondents. However, the questionnaire in Appendix 1 was used as the guide for the interview to bring consistence on the questions asked through interview and those which are in the questionnaires. This led to easy analysis and interpretation of data.

### 3.6.2 Secondary data sources

Secondary data are those that are already available in different sources. Secondary data in this study were mainly collected from the financial statements/reports of all

16 MFIs that participated in this study. However other secondary data sources include various statistics such as from NBS, books, reputable websites, journals, research reports, theses, dissertations and conference proceedings.

## 3.7 Credibility of research findings

### 3.7.1 Reliability

Reliability refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings (Saunders, Lewis and Thornhill, 2009). Generally, the design which minimizes bias and maximizes the reliability of the data collected and analysed is considered a good design (Kothari, 2004). Reliability has to do with the accuracy and precision of a measurement procedure. The researcher gave enough time (more than 4 weeks) for respondents to complete the questionnaires which reduce subject or participant errors. This is because respondents get enough time to think and write their opinions. The researcher designed the questionnaires to ensure anonymity of respondents to questionnaires so as to reduce respondent's bias because other respondents worried on what their bosses will think of them on the response they gave. The researcher also used questionnaire as a main way for data collection so as to reduce researcher's error and to increase consistence of the findings. Finally the researcher used SPSS as a tool for data analysis which reduced researcher's biasness on the findings obtained from the study.

### 3.7.2 Validity

Validity refers to the extent to which a test measures what the researcher actually wishes to measure (Kothari, 2004). Validity is concerned with whether the findings are really about what they appear to be about. The researcher did a pilot study to increase validity of research findings and incorporate the all constructive suggestions and critics. This was also achieved by constructing questionnaires that were appropriate with the research problem and drawing a representative sample using probability sampling technique. Furthermore, before using the secondary data the researcher analysed its source, content, time collected and its applicability on the research problem.

### 3.8 Operational definition

This section explains the variables used as dependent and independent variables. The measurements used for these variables are described and summarized under operational self-sufficiency (OSS) formula.

#### 3.8.1 Dependent variable

The measurement of financial sustainability of MFIs can be done in various ways/methods for which all of them aim at measuring the ability of MFIs to cover operating costs with internal inflow income without depending on external subsidies (Zeller and Johannsen, 2006). The most common methods include financial self-sufficiency (FSS), operational self-sufficiency (OSS) and subsidy dependency index (SDI). This study measured dependent variable by using operational self-sufficiency (OSS) method which is computed as follows: -

**Operational self-sufficiency (OSS) formula**

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

Barres, Curran, Bruett, Escalona, and Norell (2005) and Rosenberg (2009) provided a definition of all the key variables used in the OSS formula as follows:-

- **Financial revenue** is the total value of all revenue earned from the provision of financial services; it includes the financial revenue from loan portfolio such as interest on loan portfolio and fees and commission earned from loan portfolio and financial revenue from investments such as interest and dividend derived from financial assets rather than the loan portfolio and other revenues from provisions of financial services.

- **Financial expenses** is the total value of financial expenses incurred in the operations, it includes interest and fee from deposits taken by MFI, interest and fee from borrowing the funds loan portfolio and other financial expenses related to financial services.

- An **impairment loss** on loan is the net loan loss provision expense. It is the difference between the provision made for loan impairments for the current accounting period and the total value of principal recovered on all loans previously written off.

- **Operating expenses** is a total value of operating expenses which includes staff expenses, depreciation and amortization expenses and other administration expense.

Barres *et al*., (2005) defined operating sustainability as having OSS level of 100% or more. However financial sustainability is defined as having OSS level of 110% or more (Barres *et al*., 2005). This study used OSS level of 110% to measure financial sustainability.

### 3.8.2 Independent variables

The independent variables are staff training and financial regulation that were measured using likert scale. The study used the scale of 1 (Strongly agree) to 5 (Strongly disagree). Likert scale enables easier analysis as it removes doubt on the type of response given (Wambugu and Ngugi, 2012). However open ended and close ended questions were also used to measure independent variables.

## 3.9 Data analysis

Three types of analysis were used in this study. First, descriptive statistics such as frequencies, mean, mode and median were used on information collected. Second, partial correlation analysis was used to determine relationship between number of staff trained and financial sustainability of MFI and the relationship between number of training days provided and financial sustainability of MFI. Third, a multiple regression analysis was used to assess the combined effects of the two independent variables (staff training and financial regulation) on dependent variable financial sustainability.

### 3.10 Hypotheses testing

In order to test the significance of the two hypotheses, the study used correlation analysis and multiple regression analysis to determine the significance relationship between the variables defined and posited in the hypotheses. For both analyses financial sustainability was used as dependent variables while staff training and financial regulations were used as independent variable. If p-value $\leq 0.05$ we accept the alternative hypothesis and conclude that the relationship between variables is statistically significant.

### 3.11 Data presentation

The study used a series of tables, charts and graphs to support the data analysis and interpretation. This way of presenting the findings will give readers a quick summary and understanding of the findings. The researcher preferred to use tables, charts and graphs because they are simple to prepare, and can easily be understood and interpreted by many users.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.0 Introduction

This chapter presents findings as regard to the impact of staff training and financial regulations on financial sustainability of MFIs in Morogoro municipality.

## 4.1 Distribution of respondents

### 4.1.1 MFIs which participated in the study

A total of 14 MFIs participated in the study equivalent to 87.5% out of 16 MFIs while the remaining 2 MFIs equivalent to 12.5% failed to participate due to various reasons. From 14 participated MFIs, 10 (71.4%) were cooperative based institutions, 3 (21.4%) were NGOs and 1 (7.2%) was a bank. The questionnaires collected from the field total 47 (73.4%) out of 64 distributed to 16 MFIs in Morogoro Municipality while the remaining 17 (26.6%) questionnaires were not collected due to various reasons some of which are highlighted in chapter 1 of this report. The distribution of participated MFIs is not unexpected given the fact that 1683 (96.3%) of MFIs in Tanzania (statistics of 2005) are cooperative based institutions, 57 (3.2%) are NGOs and 8 (0.5%) are banks (BOT, 2005). Table 4.1 shows in details the respondents MFIs in the study.

**Table 4.1: Number of participated MFIs (n=14)**

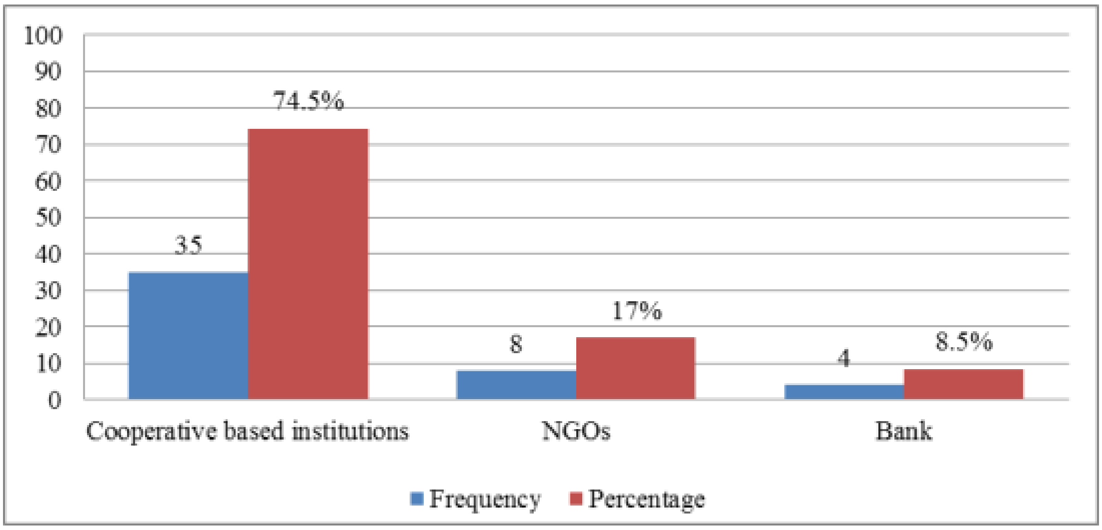
| Type of MFI | Number of MFI | Percentage of MFI |
|---|---|---|
| **Cooperative based institutions** | 10 | 71.4% |
| **NGOs** | 3 | 21.4% |
| **Bank** | 1 | 7.1% |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.1.2 Distributions of respondents

Questionnaires were distributed to three categories of MFIs, cooperative based institutions, NGOs and bank. The distribution of respondents based on the categories of MFIs was high in cooperative based institutions and low in bank. A total of 35 respondents equivalent to 74.5% were from cooperative based institution, 8 (17%) were from NGOs and 4 (8.5%) were from bank. Figure 4.1 shows the distribution of respondents in all MFIs that have participated in the study.

**Figure 4.1: Distribution of Respondents by MFI (n=47)**




Source: Field data (2014/2015)

### 4.1.3 Distribution of owners/managers and employees

The respondents of this study mainly comprised of two categories that are owners/managers and employees. Out of 47 respondents 33 (70.2%) were employees and 14 (29.7%) were owners/managers who represent their respective MFIs. This is because for every MFI, the researcher distributed 1 questionnaire for owner/manager and 3 questionnaires for employees. Table 4.2 shows the distribution of owners/managers and employees of participated MFIs.

**Table 4.2: Distribution of employees and managers in participated MFIs (n=47)**

| Type of respondent | Number of respondents | Percentages |
|---|---|---|
| **Owner/managers** | 14 | 29.7% |
| **Employees** | 33 | 70.2% |
| **Total** | 47 | 100% |

Source: Field data (2014/2015)

### 4.2 General characteristics of employees respondents

The study considered some of the social, cultural and economic characteristics of the employee's respondents. Such characteristics include age group, sex, level of education and years of experience of the thirty three (33) employee's respondents. Owners/managers were only asked questions relating to the characteristics of MFIs they manage which are presented in section 4.3. The general characteristics of respondents referred to above are shown in the subsections that follow.

#### 4.2.1 Age of employees respondents

Based on the questionnaire, age was continuous variable but the researcher recorded the variable into categorical variable using SPSS to allow easy presentation of the findings. According to the findings, out of 33 employees respondents, the age of majority 13 (39.4%) were ranging between 21-30 years, followed by 9 (27.3%) ranging between 41-50 years, 7 (21.2%) were aged between 31-40 years while only 4 (12.1%) were above 51 years. Table 4.3 shows the age of all employees respondents.

**Table 4.3: Age of employees respondents in MFIs (n=33)**

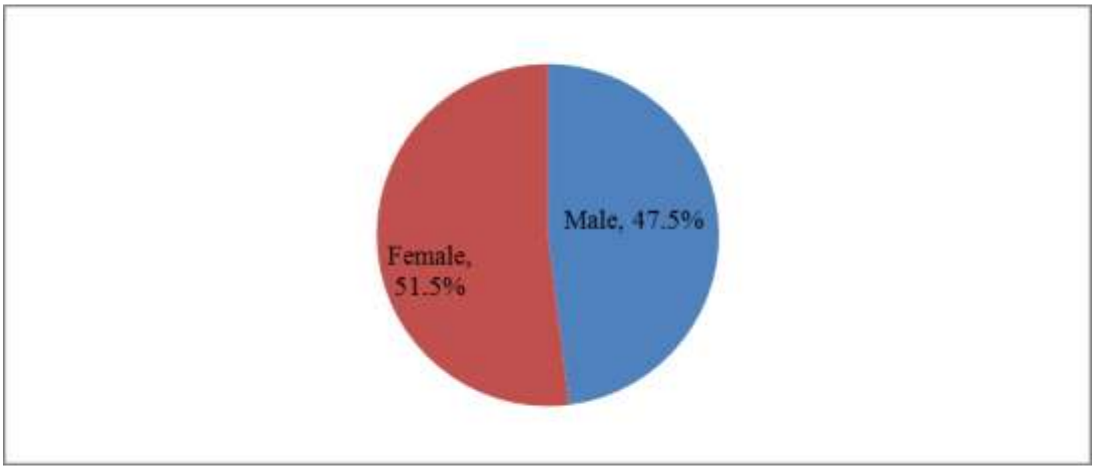
| Age group | Number of respondents | Percentages |
|---|---|---|
| **21-30** | 13 | 39.4% |
| **31-40** | 7 | 21.2% |
| **41-50** | 9 | 27.3% |
| **51 and above** | 4 | 12.1% |
| **Total** | 33 | 100% |

Source: Field data (2014/2015)

#### 4.2.2 Gender of the respondents

In analysing the gender of the employee's respondents who participated in this study, researcher uses pie chart to conduct the analysis of the gender variable.

**Figure 4.2: MFIs respondents gender by percentage ration (n=33)**




Source: Field data (2014/2015)

During the data collection, gender balancing was very well considered as from the 33 employee's respondents constituted 17 females equivalent to 51.5% and 16 males equivalent to 47.5%.

### 4.2.3 Highest education level of employees respondents

The distribution of academic qualifications of the respondents who are staffs of MFIs is shown in Table 4.4 pin point that most of the respondents 14 (42.4%) have completed undergraduate qualification, followed by 7 (21.2%) who have some additional training as well as 6 (18.2%), 4 (12.1%) and 2 (6.1%) who have postgraduate or higher qualifications, secondary and completed high school respectively. There is no any employee who had primary education level. The academic level of employee's respondents gave the researcher confidence on the reliability of their responses.

**Table 4.4: MFIs employees' academic level (n=33)**

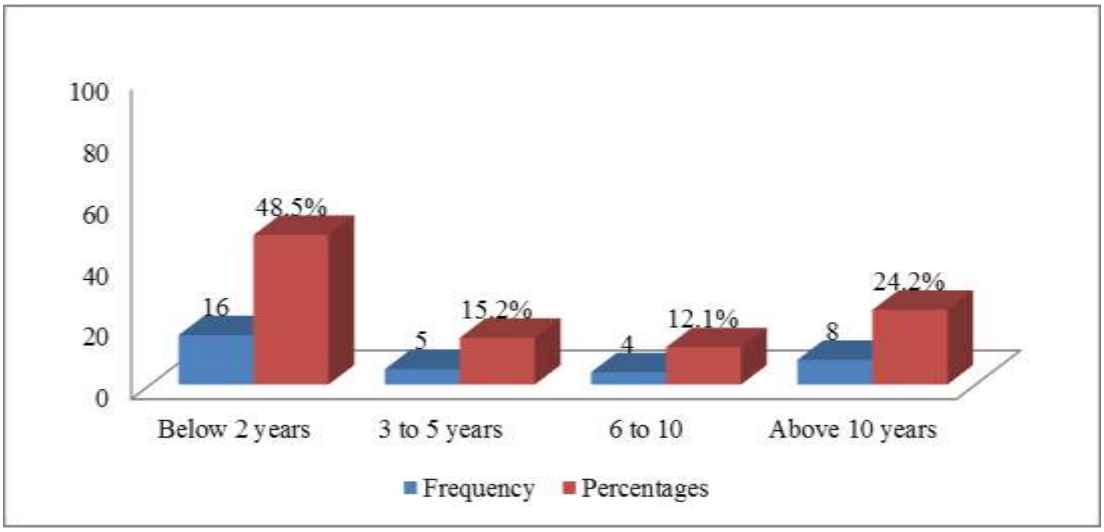
| Education level | Number of respondents | Percentage |
|---|---|---|
| **Primary** | 0 | 0% |
| **Some secondary** | 4 | 12.1% |
| **Completed High school** | 2 | 6.1% |
| **Some additional training** | 7 | 21.2% |
| **Completed undergraduate** | 14 | 42.4% |
| **Postgraduate or higher** | 6 | 18.2% |
| **Total** | 33 | 100% |

Source: Field data (2014/2015)

### 4.2.4 Experience of respondents

The study sought to establish how long the respondents had been working in the MFIs. This analysis helps researchers to as certain to what extent the responses of employees could be relied upon to make conclusions of the study. The majority 16 (48.5%) respondents indicated they had been at their respective MFIs for a period less than 2 years, followed by 8 (24.2%) who indicated they had been working for more than 10 years while 5 (15.2%) of the respondents indicated that they had been working for a period ranging between 3-5 years and 4 (12.1%) employees indicated between 6-10 years.

**Figure 4.3: Experience of respondents (n=33)**




Source: Field data (2014/2015)

## 4.3 General profile of MFIs

### 4.3.1 MFI registration status

The study explored on the registration status of MFIs based on the questionnaires which were distributed to owners/managers. The findings show that all 14 (100%) MFIs that participated in the study were registered. The findings are presented in Table 4.5.

**Table 4.5: Registration status of MFIs (n=14)**

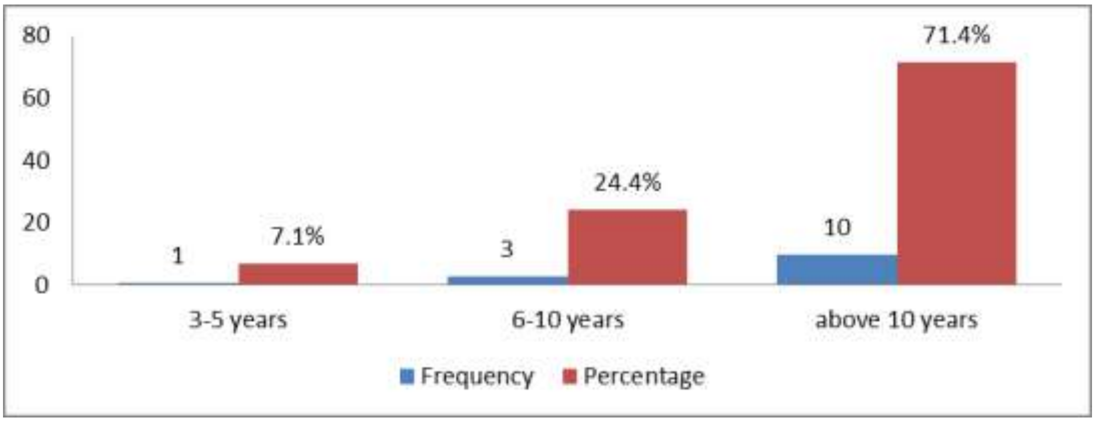
| Category of response | Number of MFIs | Percentage |
|---|---|---|
| **Yes** | 14 | 100% |
| **No** | 0 | 0% |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.3.2 MFI experience

The owners/managers of MFIs were asked about the date of registration of their organizations because it was important variable as the study required data to be collected from the MFIs that have operated more than three years from 2011. Basing on the findings, majority 10 (71.4%) MFIs were above 10 years of experience, followed by 3 (21.4%) MFIs that had experience of between 6-10 years. However only 1 (7.1%) MFI was having the experience between 3-5 years.

**Figure 4.4: MFI experience (n=14)**




Source: Field data (2014/2015)

### 4.3.3 MFIs location

The study also explored the location of the MFIs in Morogoro Municipality. The researcher asked owners/managers of these MFIs whether their institution is located in urban areas or peri-urban areas. The findings show that 13 (92.9%) of the MFIs are located inside municipal towns where as 1 (7.1%) is located in peri urban areas (immediately adjoining the urban areas). When exploring the nature for this factor, the researcher observed that most of micro financial borrowers are located in urban areas because in those areas, there are large opportunities in establishing new businesses unlike in peri urban where majority are engaging in agricultural activities and micro businesses. The plausible reason for this is the existence of supporting infrastructure and high population density in urban areas compared to rural areas (Chiumya, 2004).

**Table 4.6: MFIs location (n=14)**

| Location of MFI | Number of MFIs | Percentage |
|---|---|---|
| **Urban (Inside town)** | 13 | 92.9% |
| **Peri urban (Immediately adjoining an urban area)** | 1 | 7.1% |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.3.4 Key mission of MFIs

The researcher asked about the key mission of MFIs from the managers/owners with the intention of classifying them in terms of whether their key mission is poverty reduction, profitability or both. The findings revealed that majority 7 (50%) MFIs are mainly concerned with poverty reduction, 5 (35.7%) MFIs do have both key missions that is poverty reduction and profitability whereas 2 (14.3%) MFIs concentrate on profitability as their key mission. According to Nyamsogoro (2010) MFI is promoted as a poverty reduction tool, the mission of MFI must be to serve the poor and contribute to poverty alleviation. Kessy and Urio (2006) proved that MFIs have changed the life of poor people in a positive way that is increased their incomes, capital invested and therefore expansion of their businesses.

**Table 4.7: MFI key Mission (n=14)**

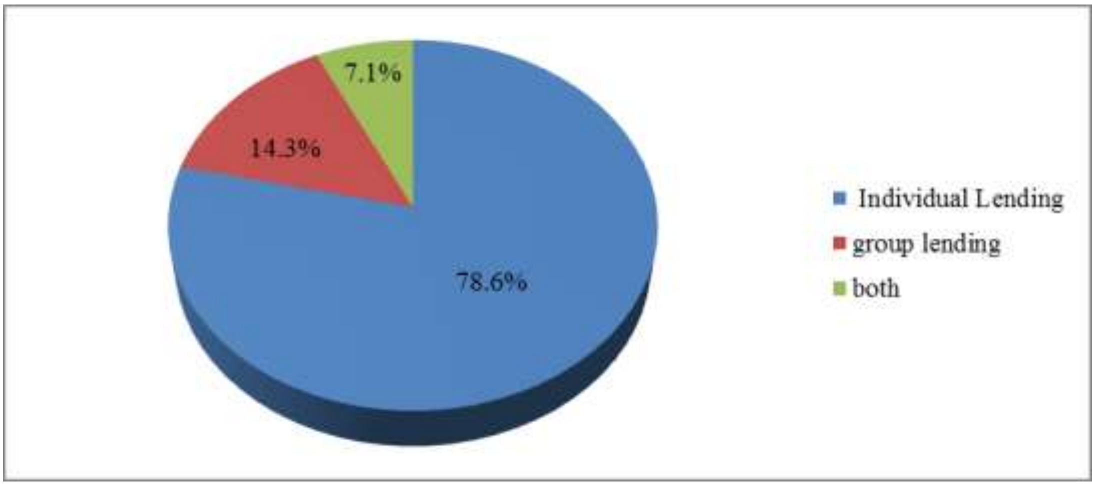
| Key Mission | Number of MFIs | Percentage |
|---|---|---|
| **Poverty reduction** | 7 | 50.0% |
| **Profitability** | 2 | 14.3% |
| **Both** | 5 | 35.7% |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.3.5 MFIs lending model

Figure 4.5 shows the lending models used by the studied MFIs. In exploring this question, the researcher asked the owners/managers of these institutions if the lending model used is an individual lending model or group lending model or both of them. Their responses reveal that majority 11 (78.6%) MFIs use individual lending model, followed by 2 (14.3%) MFIs that use group lending model and 1 (7.1%) MFI uses both individual and group lending models. The researcher further established that all cooperative based institutions use individual lending model while almost all NGOs use group lending. This finding is in harmony with the findings by Mukama (2005) that most MFs use individual lending approach and those which use a group lending approach are the lowest.

**Figure 4.5: MFIs lending model used (n=14)**




Source: Field data (2014/2015)

### 4.3.6 Financial services

Table 4.8 shows the types of services and products offered by MFIs, the large percentage of the respondents who engage in the MFI businesses declared that the type of services offered to a great extent are loan services (comprising of 9 (64.3%) MFIs). However there is a little group of MFIs which provide both loans and savings (comprising of 3 (21.4%) MFIs) and those providing loans, savings and deposits services (comprising of 2 (14.3%) MFIs). However, the researcher observed that those MFIs which provide savings and deposit services and all of the three services (loans, savings and deposit) are large MFIs and they are well established.

**Table 4.8: Products offered by MFIs to customers (n=14)**

| Products offered | Number of MFIs | Percentage |
|---|---|---|
| **Loan** | 9 | 64.3% |
| **Loans and Savings** | 3 | 21.4% |
| **Loan, Savings and Deposit** | 2 | 14.3% |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.3.7 Non-financial services

The findings reveal that the majority 8 (57.1%) MFIs provide training to customers, 3 (21.4%) provide other kind of non-financial services to their customers including technical support and social responsibility, 2 (14.3%) help customers in group formation and 1 (7.1%) provides consultation services to their customers. The researcher further found out these non-financial services helps MFIs in monitoring and control of loans provided to customers to reduce the risk of default. Kessy and Urio (2006) observed that these non-financial services are provided by loan officers who are not experts or practitioners in the area of small business.

**Table 4.9: Non-financial services offered by MFIs (n=14)**

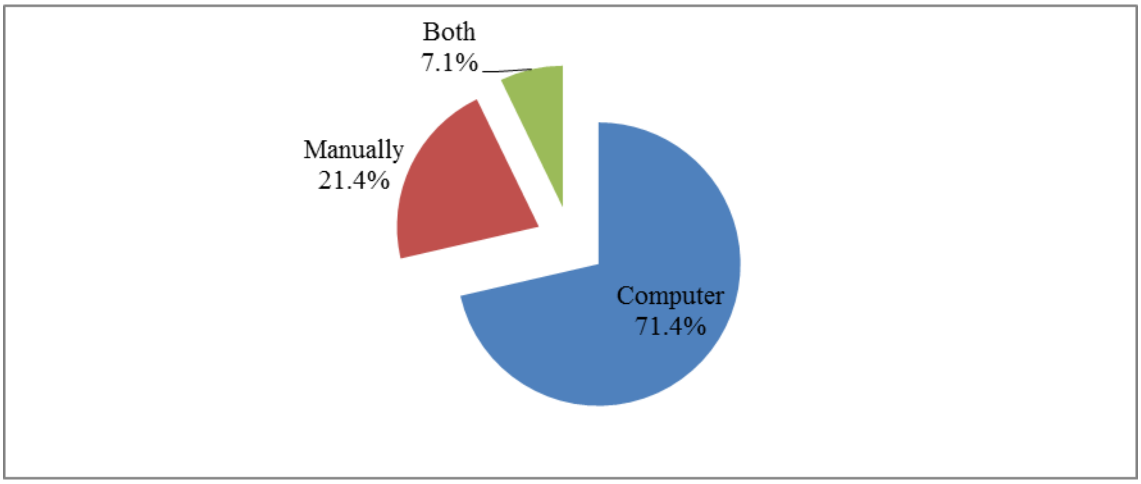
| Non-financial service provided | Number of MFIs | Percentage |
|---|---|---|
| **Training to customers** | 8 | 57.1% |
| **Group formation** | 1 | 7.1% |
| **Consultation** | 2 | 14.3% |
| **Other (e.g. technical support)** | 3 | 21.4% |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.3.8 Mode of maintaining records

The findings on the mode of maintaining records by MFIs are presented in Figure 4.6. The findings show that majority 10 (71.4%) MFIs use computer to maintain records, followed by 3 (21.4%) who keep their records manually while 1 (7.1%) MFIs use both ways to keep their records. The high percentage of owners/managers of MFIs acknowledging that they are using computer as a mode of maintaining records is in agreement with a study by Kimando *et al.*, (2012).

**Figure 4.6: Mode of maintaining records in MFIs (n=14)**




Source: Field data (2014/2015)

From the field data findings it can be concluded that most MFIs have realized the importance of maintaining records using computer. Such include easy storage of information, easy retrieval of information and easy sharing of information among different units.

### 4.4 Staff training

The study sought to establish the contribution of staff training on the financial sustainability of MFIs and the performance of the organization in general by using likert scale questions and open and closed ended questions.

#### 4.4.1 Number of employees

The study explored on the number of employees from the year 2011 to 2013 of the 14 MFIs that have participated in the study. The findings reveal that in the year 2011 to 2013 majority 8 (57.1%) MFIs have employed employees between 1 and 10. From the definition of the size of an organization based on number of employees suggest that the majority of MFIs that have participated in this study are smaller ones. Table 4.10 shows the summary of the findings.

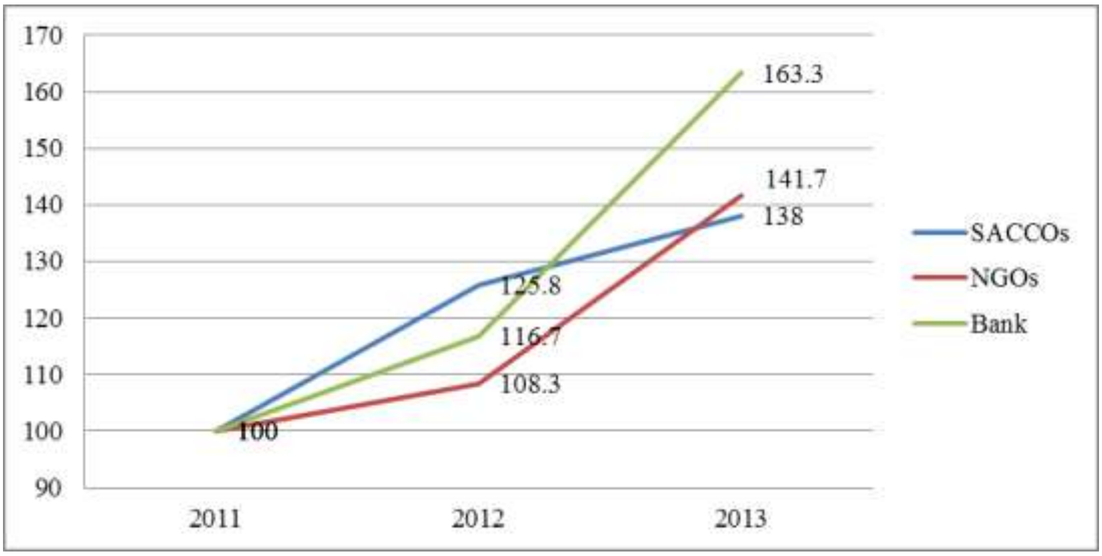
**Table 4.10: Number of employees in MFIs (n=14)**

| Number of staffs | 2011 | | 2012 | | 2013 | |
|---|---|---|---|---|---|---|
| **1-10** | 8 | 57.1% | 8 | 57.1% | 8 | 57.1% |
| **11-20** | 2 | 14.3% | 1 | 7.1% | 1 | 7.1% |
| **21-30** | 2 | 14.3% | 0 | 0 | 0 | 0 |
| **31-40** | 0 | 0 | 2 | 14.3% | 0 | 0 |
| **41-50** | 1 | 7.1% | 1 | 7.1% | 3 | 21.4% |
| **51 and above** | 1 | 7.1% | 2 | 14.3% | 2 | 14.3% |
| **Total** | 14 | 100% | 14 | 100% | 14 | 100% |

Source: Field data (2014/2015)

The researcher further expressed the findings in trend analysis where the year 2011 is regarded as the base year for the trend and so the percentage for the employees is 100%. The findings show that in 2011 there are a total of 221 (100%) staffs employed by SACCOs, 48 (100%) employed by NGOs and 30 (100%) employed by bank. For the year 2012 there are total of 278 (125.8%) staffs employed by SACCOs, 52 (108.3%) employees employed by NGOs and 35 (116.7%) employed by bank. For the year 2013 there are 305 (138%) employees employed by SACCOs while 68 (141.7%) and 49 (163.3%) are employed by NGOs and bank respectively. Figure 4.7 illustrates the trend of the number of employees over three years.

**Figure 4.7: Trend of the number of staff employed by MFIs (n=14)**




Source: Field data (2014/2015)

The trend shows that the number of employees employed in MFIs is increasing each year. This means that MFIs provide employment to people in Tanzania and therefore they are good for the economy of the country based on the increasing number of employment they offer. Based on the research findings, the growth of employment rate is higher for banks followed by NGOs.

### 4.4.2 Number of trained staffs

The researcher determined the number of trained staffs for each MFI and the findings reveal that in the year 2011 and 2013, majority 6 (42.9%) MFIs have provided staff training for employees between 1 to 10. For the year 2012, majority 6 (42.9%) MFIs both have provided staff training for employees between 1 to 10 and have not provided staff training at all. The study also reveals that the percentage of MFIs that have not provided staff training at all is high as for the year 2011 to 2013 it is 35.7%, 42.9% and 28.6% respectively. This behaviour may impact their organizational performances in the long run. If organizations invest in right type of employee training, it can enhance employee performance as well as competencies and skills (Sultana *et al*., 2012). The findings are summarized in Table 4.11.

**Table 4.11: Number of trained staff (n=14)**

| Number of staffs | 2011 | | 2012 | | 2013 | |
|---|---|---|---|---|---|---|
| **0** | 5 | 35.7% | 6 | 42.9% | 4 | 28.6% |
| **1-10** | 6 | 42.9% | 6 | 42.9% | 6 | 42.9% |
| **11-20** | 3 | 21.4% | 1 | 7.1% | 3 | 21.4% |
| **21+** | - | - | 1 | 7.1% | 1 | 7.1% |
| **Total** | 14 | 100% | 14 | 100% | 14 | 100% |

Source: Field data (2014/2015)

### 4.4.3 Training days

The study sought to identify the average number of days that MFIs use to train their staffs in the year based on the data from 2011 to 2013. The findings reveal that majority 6 (42.9%) MFIs provided staff training between 1-5 days in a year, followed by 3 (21.4%) MFIs that provided training both between 6-10 days and above 11 days. While 2 (14.3%) MFIs have not provided any training at all. Basically the average number of trained days provided by MFIs is not satisfactory. With much changes taking place in the MFIs industry such as technological changes, raising competition and new products/services, training of employees is necessary to ensure improved service delivery (Sila, 2014). The findings are summarized in Table 4.12.

**Table 4.12: Number of training days provided in MFIs (n=14)**

| Number of training days | Number of MFIs | Percentage |
|---|---:|---:|
| **0** | 2 | 14.3% |
| **1-5** | 6 | 42.9% |
| **6-10** | 3 | 21.4% |
| **11+** | 3 | 21.4% |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.4.4 Types of staff training provided in MFIs

Researcher analysed the types of staff trainings provided by the MFIs with the aim of assessing them if they are relating to the technical (job) skills, business skills or personal development skills. In doing so the researcher asked respondents who were employees of these MFIs and the analysis of their answers reveals that 14 (42.4%) employees were provided with technical (job) skills, 9 (27.3%) employees were provided with business skills and 8 (24.2%) employees were provided other types of training (Table 4.13). However, based on the analysis, 2 (6.1%) employees had not received any type of training mentioned earlier and none of the employees answered that they had received personal development skills trainings in their organizations.

**Table 4.13: Types of staffs training provided by MFIs (n=33)**

| Types of staff training provided | Number of respondents | Percentages |
|---|---:|---:|
| **Technical (job) skill training** | 14 | 42.4% |
| **Business skill training** | 9 | 27.3% |
| **Personal development training** | - | - |
| **None** | 2 | 6.1% |
| **Other** | 8 | 24.2% |
| **Total** | 33 | 100% |

Source: Field data (2014/2015)

Based on the findings, it is clear that owners/managers insist much on technical (job) skills training compared to other types of training because they believe that it will have a positive impact on their organizations performance. However, they do not offer personal development skills trainings which are also important as they could affect employee’s morale. Furthermore, training will have the greatest impact to the organizations performance when it is combined with other human resource management practices and these practices are also implemented following sound principles (Amin *et al*., 2013). Such practices include staffing, performance appraisal and compensation and benefits (Nassazi, 2013).

### 4.4.5 Staff skills in relation to job performed

The researcher asked employees the following question “Do you have all the needed skills to effectively carry your duties for the effective performance of the institution”. From the study findings, majority 16 (48.5%) employees agreed that they have all the needed skills to effectively carry out their duties. While 7 (21.2%) strongly agreed on the same, 5 (15.2%) employees were neutral, 4 (12.1%) disagree and 1 (3%) strongly disagree. This analysis agrees with the analysis on types of staff training provided by the MFIs. As it seems that most MFI provide technical (job) skills training which provide the needed skills for the employees to carry on their duties in the organization. Table 4.14 provides a summary of the findings.

**Table 4.14: Staff skills in relation to job performed (n=33)**

| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 7 | 21.2% |
| **Agreed** | 16 | 48.5% |
| **Neutral** | 5 | 15.2% |
| **Disagreed** | 4 | 12.1% |
| **Strongly disagreed** | 1 | 3% |
| **Total** | 33 | 100 |

Source: Field data (2014/2015)

### 4.4.6 Staff training and employee’s performance

The researcher asked employees the following question “Can failures observed in your performance be attributed to inadequate training?”. From the question, the study sought to establish the influence of staff training on employee’s performance. The study findings as presented in Table 4.15. The table shows that the majority 14 (42.4%) employees agreed that performance failures are caused by inadequate staff training, 6 (18.2%) employees strongly agreed and 6 (18.2%) are neutral. A total of 4 (12.1%) disagreed while 3 (9.1%) strongly disagreed on the matter. This result is in line with prior literature which presents that training impacts employee performance partly through improving employee skills which enables them to know and perform their jobs better (Harrison, 2000; Appiah, 2010). The findings are also in line with Potts (1998) and Sila (2014) who showed that training influences the performance of employees. Furthermore, Farazmand (2007) states that the uniformity of services provided and the speed and quality of service are essentially measures of employee performance.

**Table 4.15: Staff training and employee's performance (n=33)**

| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 6 | 18.2% |
| **Agreed** | 14 | 42.4% |
| **Neutral** | 6 | 18.2% |
| **Disagreed** | 4 | 12.1% |
| **Strongly disagreed** | 3 | 9.1% |
| **Total** | 33 | 100 |

Source: Field data (2014/2015)

### 4.4.7 Applicability of staff training on the job

The research question to employees was "overall, the on-the-job training I receive is applicable to my job". Through the question, the study tried to determine the applicability of staff training to the job performed by staffs of MFIs. The findings are presented in Table 4.16 as follows, majority 21 (63.6%) of employees agreed, 11 (33.3%) employees strongly agreed while just 1 (3.1%) employee was neutral. However, there is no employee that disagreed or strongly disagreed on the matter. These findings made the researcher draw conclusion that generally most staff training provided are applicable to job performed.

**Table 4.16: Applicability of staff training on the job in MFIs (n=33)**

| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 11 | 33.3% |
| **Agreed** | 21 | 63.6% |
| **Neutral** | 1 | 3.1% |
| **Disagreed** | - | - |
| **Strongly disagreed** | - | - |
| **Total** | 33 | 100 |

Source: Field data (2014/2015)

The researcher also asked employees the following question "I am generally able to use what I learn in on-the-job training in my job" to measure the applicability of staff training on the job. The findings are presented in Table 4.17 as follows, majority 21 (63.6%) of employees agreed, 11 (33.3%) employees strongly agreed while just 1 (3.1%) employee was neutral. However, there is no employee that disagreed or strongly disagreed on the matter. The findings are in line with Hoffman and Bateson (2010) who stipulated that service firms need to constantly train all employees concerning the details of what the service product can and cannot provide. In addition, training is seen as a useful means of coping with changes fostered by technological innovation; market competition, organizational structuring and most importantly it plays a key role to enhance employee performance (Sultana *et al.*, 2012).

**Table 4.17: Ability to use what has been learned in the job in MFIs (n=33)**

| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 12 | 36.4% |
| **Agreed** | 16 | 48.5% |
| **Neutral** | 5 | 15.1% |
| **Disagreed** | - | - |
| **Strongly disagreed** | - | - |
| **Total** | 33 | 100% |

Source: Field data (2014/2015)

### 4.4.8 Satisfaction with the training received

The study also sought to find out if the employees are satisfied with the amount of staff training they received by asking the question "overall I am satisfied with the amount of training I receive on the job". From the findings, the majority 13 (39.4%) employees agree that they are satisfied with the amount of training received, followed by 8 (24.2%) employees who disagree, 7 (21.1%) are neutral. However 4 (12.1%) strongly disagreed while 1 (7.1%) strongly agreed. Staff satisfaction is important because a satisfied employee will be able to meet or even exceed the organization's expectations (Sila, 2014). Further still, dissatisfaction complaints, absenteeism and turnover can be greatly reduced when employees are so well trained that can experience the direct satisfaction associated with the sense of achievement and knowledge that they are developing their inherent capabilities (Pigors and Myers, 1989). The findings are summarized on Table 4.18.

**Table 4.18: Employee satisfaction with the staff training provided in MFIs (n=33)**

| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 6 | 18.2% |
| **Agreed** | 14 | 42.4% |
| **Neutral** | 6 | 18.2% |
| **Disagreed** | 4 | 12.1% |
| **Strongly disagreed** | 3 | 9.1% |
| **Total** | 33 | 100 |

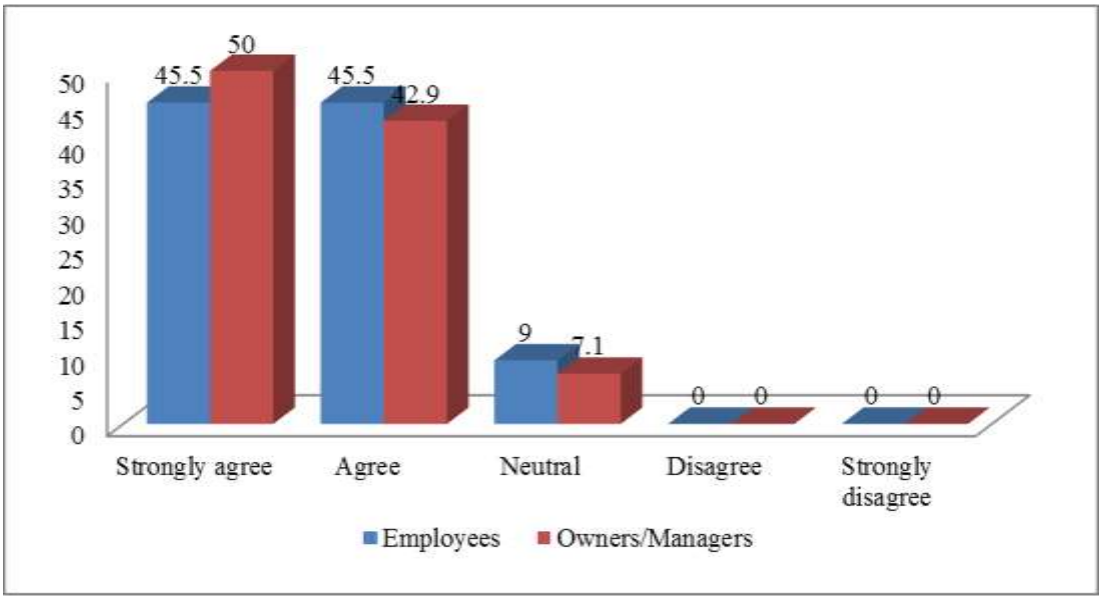
Source: Field data (2014/2015)

### 4.4.9 The contribution of staff training on increased efficiency of MFIs

From the study, the researcher tried to measure the contribution of staff training on increased efficiency of MFIs using likert scale question that “Overall, staff training contributed to increased efficiency in the organization?”. This question was asked to both employees and owners/managers respondents so as to clearly understand the views of both respondents for comparison. Employees views revealed that the majority 15 (45.5%) strongly agreed and also 15 (45.5%) agreed on the question however 3 (9.0%) were neutral. No employee disagreed or strongly disagreed with the question.

Based on the views of owners/managers the following are the findings, majority 7 (50%) strongly agreed that staff training increases efficiency of the MFIs. Followed by 6 (42.9%) who agreed on the same. However, 1 (7.1%) manager was neutral on the question and there was no any owner/manager who disagreed or strongly disagreed on the question. Although it is costly to give training to the employees but in the long run it gives back more than it took (Kaynak, 2003; Heras, 2006). Training promotes competitive advantage in context of job satisfaction and performance, decreases non-attendance and lowers suspend intention (Batool and Batool, 2012). Figure 4.8 shows the comparison of the findings from owners/managers and employees based on percentages.

**Figure 4.8: The contribution of staff training on increased efficiency of MFIs (n=47)**




Source: Field data (2014/2015)

There is a small discrepancy based on the percentage of the responses from owners/managers and employees as depicted in Figure 4.8. The analysis proves that staff training and competencies have a positive impact to increased efficiency in the MFIs in Tanzania. Staff training can boost staff productivity which increases their ability to produce as many clients as possible. The findings are in line with Wambugu and Ngugi (2012) that staff competencies contribute to increased efficiency and that training boost employees' morale in the organization. Organizations that are dedicated to generating profits for its owners (shareholders), providing quality service to its customers and beneficiaries, invest in the training of its employees (Evans and Lindsay, 1999). Therefore staff's training increase the overall efficiency of the organization.

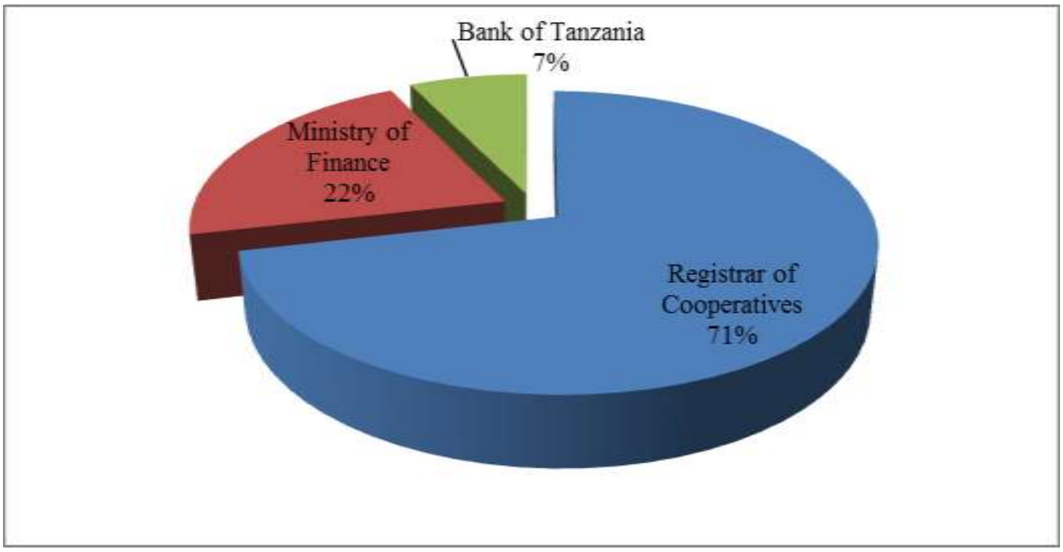
## 4.5 Financial regulations

The study measured financial regulations of MFIs by using open ended, closed ended and likert scale questions. The findings are presented in the following subchapters.

### 4.5.1 The regulations that govern MFIs

Owners/managers were asked in the questionnaires to identify which body regulates their MFIs. Majority 10 (71.4%) MFIs are regulated by the Registrar of Cooperatives, 3 (21.4%) MFIs are regulated by MoF and 1 (7.2%) is regulated by BOT. The findings are consistent with the number MFI based on type presented in section 4.1.1 of this study. The findings are presented in Figure 4.9.

**Figure 4.9: Regulatory bodies for MFIs (n=14)**




Source: Field data (2014/2015)

### 4.5.2 Financial regulations and deposits taken

The owners/managers were asked the following question "Do the financial regulations limit the amount of deposits to be taken by the MFI?". The majority 10 (71.5%) agreed, 2 (14.3%) were neutral, 1 (7.2%) disagreed and strongly agreed**.** The findings are summarized in Table 4.19.

**Table 4.19: Financial regulation limit on amount of deposits taken (n=14)**

| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 1 | 7.1% |
| **Agreed** | 10 | 71.5% |
| **Neutral** | 2 | 14.3% |
| **Disagreed** | 1 | 7.1% |
| **Strongly disagreed** | - | - |
| **Total** | 14 | 100 |

Source: Field data (2014/2015)

### 4.5.3 Financial regulations and interest rate

The owners/managers were also asked the following question "Do the financial regulations limit the interest rate that the MFI can charge on loans?" The majority 6 (42.9%) agreed, followed by 5 (35.7%) who strongly agreed, while 2 (14.3%) strongly disagreed and 1 (7.1%) were neutral. The findings are summarized in Table 4.20.

**Table 4.20: Financial regulations limits on the interest rate charged by MFIs (n=14)**

| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 5 | 35.7% |
| **Agreed** | 6 | 42.6% |
| **Neutral** | 1 | 7.1% |
| **Disagreed** | - | - |
| **Strongly disagreed** | 2 | 14.3% |
| **Total** | 14 | 100 |

Source: Field data (2014/2015)

### 4.5.4 Financial regulations contribution to organization performance

The study sought to establish the contribution of financial regulations on the operations of MFIs by using a likert scale question. The majority 8 (57.1%) agreed that staff training enhances MFIs performance, 3 (21.4%) strongly agreed, 2 (14.3%) were neutral while 1 (7.1%) disagreed. The findings show that about 78.5% agreed and strongly agreed. Table 4.21 provides a summary of the findings.

**Table 4.21: Impact of financial regulationson organization performance of MFIs (n=14)**

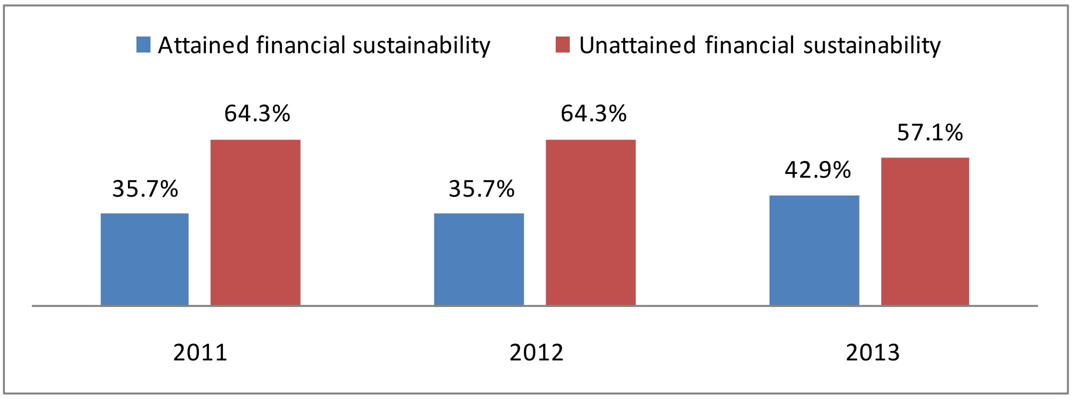
| Indicators | Number of respondents | Percentage |
|---|---|---|
| **Strongly agreed** | 3 | 21.4% |
| **Agreed** | 8 | 57.1% |
| **Neutral** | 2 | 14.3% |
| **Disagreed** | 1 | 7.1% |
| **Strongly disagreed** | - | - |
| **Total** | 14 | 100% |

Source: Field data (2014/2015)

### 4.6 Financial sustainability

The study made an observation on the financial sustainability so as to identify the number of MFIs that have attained financial sustainability in the period from 2011 to 2013 and to determine the trend for the past three years. The calculation of financial sustainability is based on the financial information provided by owners/managers and from financial statements of respective MFIs. The formula used to calculate financial sustainability is explained in depth in section 3.9.1 of this report. The findings show that in 2011, there 9 (64.3%) MFI have the OSS of less than 110% meaning that they have not attained financial sustainability and 5 (35.7%) MFIs having OSS above 110% meaning they have attained financial sustainability. In 2012, 9 (64.3%) MFIs had not attained financial sustainability while those that attained were 5 (35.7%). For the year 2013, the MFIs that had not attained financial sustainability were 8 (57.1%) while 6 (42.9%) attained financial sustainability.

**Figure 4.10: Financial sustainability of MFIs (n=14)**




Source: Field data (2015)

The trend show increase of MFIs that have attained financial sustainability by 7.2% from the year 2012 to 2013. However, the number of MFIs that have attained financial sustainability is still below the average number (50%). Besides, Kawiche (2013) confirms that the financial performance of the MFIs in Tanzania is low. The finding is also in line with Kipesha (2013a) and Nyamsogoro (2010) that most MFIs in Tanzania have not attained financial sustainability. Contrary to this finding, Kinde (2012) and Rosenberg (2008) reported that financial sustainable MFIs are much larger than unsustainable ones. The difference in findings may be caused by the difference in geographical locations as all the studies that contradicts the major findings were done outside Tanzania. MFIs should find ways of reducing cost through increasing the level of usage of information and communication technology (ICT) to increase efficiency, sustainability and overall performance as observed elsewhere (Kipesha, 2013b).

## 4.7 Correlation

The researcher established correlation of different variables so as to make accurate generalization of the findings.

### 4.7.1 Staff training and financial sustainability

To determine the relationship between staff training and financial sustainability, the researcher used three variables against financial sustainability that include number of trained staffs, number of trained days and staff training variable based on the average likert scale questions that measured staff training as presented on table 4.22.

**Table 4.22: Correlations analysis of relationship between staff training and financial sustainability (n=14)**

| | | Financial sustainability |
|---|---|---|
| **Number of trained staffs** | Pearson Correlation | 0.765** |
| | Sig. (2-tailed) | 0.001 |
| | N | 14 |
| **Training days** | Pearson Correlation | 0.538* |
| | Sig. (2-tailed) | 0.047 |
| | N | 14 |
| **Staff training** | Pearson Correlation | 0.785** |
| | Sig. (2-tailed) | 0.001 |
| | N | 14 |

Source: Field data (2014/2015)

#### 4.7.1.1 Relationship between number of trained staffs and financial sustainability

The relationship between number of trained staffs for three years (2011-2013) and financial sustainability for three years (2011-2013) was investigated using Pearson correlation coefficient. The data from the three years was averaged so as to make easy analysis and generalization to increase precision of findings. Preliminary analyses were performed to ensure no violation of the assumptions of normality and linearity. The results indicate that in a sample of 14 MFIs, there is significant strong positive relationship between number of trained staffs and financial sustainability, [$r = 7.65$, $n=14$, $p = 0.01$]. The findings are summarized in Table 4.22.

#### 4.7.1.2 Relationship between training days and financial sustainability

The study also established a relationship between the average number of days provided for training for three years (2011-2013) and average financial sustainability for three years (2011-2013). The data from the three years was averaged so as to make easy analysis and generalization to increase precision. The researcher used Pearson correlation to determine the relationship. The findings reveal that there is significant strong positive relationship between number of trained staffs and financial sustainability, [$r = 0.538$, $n=14$, $p = 0.47$]. The findings are summarized in Table 4.22.

#### 4.7.1.3 Relationship between staff training and financial sustainability

The study further established a relationship between the average staff training and average financial sustainability for the three years under study. The researcher used Pearson correlation to determine the relationship. The findings reveal that there is a statistically significant strong positive relationship between staff training and financial sustainability, [$r = 0.785$, $N=14$, $p = 0.01$]. The findings are summarized in Table 4.22.

### 4.7.2 Financial regulation and financial sustainability

In determining the relationship, the researcher used the average of all the variables used to measure financial regulation using likert scale against average financial sustainability for three years. The questions on financial regulations were general and incorporate the general views of respondents as it was not specific to a certain year. This enabled the researcher to analyse the data using correlation against averaged financial sustainability for three years' time. The findings reveal that there is a statistically significant strong negative relationship between financial regulations and financial sustainability, [$r = -0.821$, $n=14$, $p < 0.05$]. The findings are summarized on Table 4.23.

**Table 4.23: Correlations between financial regulations and financial sustainability in MFIs (n=14)**

| | | Financial sustainability | Financial regulation |
|---|---|---|---|
| **Financial sustainability** | Pearson Correlation | 1 | -0.821** |
| | Sig. (2-tailed) | | 0.000 |
| | N | 14 | 14 |
| **Financial regulation** | Pearson Correlation | -0.821** | 1 |
| | Sig. (2-tailed) | 0.000 | |
| | N | 14 | 14 |

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

Source: Field data (2014/2015)

## 4.8 Multiple regression

In analysing the impact of staff training and financial regulation on financial sustainability of MFIs, the researcher used multiple linear regression analysis with the intention of testing how much dependent variable (financial sustainability of MFIs) related to staffs training and country's financial regulations (independent variables) while other factors are controlled; the summary of regression is presented in Table 4.24.

**Table 4.24: Model Summary (n=14)**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.893[a] | 0.798 | 0.761 | .14970 |

a. Predictors: (Constant), Financial regulation, Staff training

Source: Field data (2014/2015)

The researcher used adjusted R Square to make interpretation on regression analysis because of small sample size used in this study. The regression in Table 4.26 shows that 76.1% (Adjusted R Square = 0.761) of the variability in financial sustainability is due to variability of staff trainings and financial regulations as it was attributed to the data of the study meanwhile the remaining 23.1% was due to other variables which were not studied. The higher the adjusted R-square, the better is the model. Cut-off point: above 0.5 (50%).

**Table 4.25: Regression Coefficients[a] (n=14)**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0.713 | 0.527 | | 1.353 | 0.203 |
| | Staff training | 0.225 | 0.087 | 0.450 | 2.604 | 0.025 |
| | Financial regulation | -0.179 | 0.057 | -0.542 | -3.139 | 0.009 |

a. Dependent Variable: Financial sustainability

Source: Field data (2014/2015)

Looking in the column labelled Beta under Standardized Coefficients (Table 4.25) and ignoring any negative signs, the largest beta coefficient is 0.542, is for financial regulation. This means that this variable makes the strongest statistically significant unique contribution to explaining the dependent variable ($p < 0.05$), when the variance explained by the other variable in the model is controlled. The Beta value for staff training was slightly lower (0.450), indicating that it made less of a statistically significant unique contribution ($p < 0.05$). Therefore with other variables held constant, financial sustainability were positively related to staff training, but negatively related to financial regulation. The results show that financial sustainability was increasing by 0.225 for every improvement of staff training, and was reduced by 0.179 for any change in financial regulations.

## 4.9 Test of hypotheses

### 4.9.1 Hypothesis 1 (H1)

The first hypothesis implies that staff training has impact on financial sustainability of MFIs. Based on Tables 4.22, all paired wise correlations [0.765, 0.538 and 0.785] are positive. Furthermore the regression coefficient [0.225] is positive based on Table 4.25. This is an indication that there exists a positive relationship between staff training and financial sustainability of MFIs. From the tables the significant level (p-value) is below 0.05. This shows that, the increase in staff training will result in higher financial sustainability for MFIs. The results support the previous assumption on the presence of cause and effect between staff training and financial sustainability. There is enough evidence to support the alternative hypothesis.

Therefore the study rejected the null hypothesis as there is a significant relationship between staff training and the financial sustainability of MFIs.

Many employers have not realised the positive association between training and productivity or organizational performance (Ssewanyana, 2009). The finding are in line with the findings by Wambugu and Ngugi (2012) that staff competencies contributed to increased efficiency and that training boost employees' morale hence financial sustainability. Many studies have also confirmed this relationship that staff training has a positive significant effect on the organizational performance (Sultana *et al*., 2012; Khan *et al*., 2011; Batool and Batool, 2012). This means that, there is a significant difference between the organizations that train their employees and those organizations that do not (Appiah, 2010). Training generates benefits for the employee as well as for the organization by positively influencing employee performance through the development of employee knowledge, skills, ability, competencies and behaviour (Appiah, 2010; Harrison, 2000).

### 4.9.2 Hypothesis 2 (H2)

The second hypothesis implies that financial regulations have impact on financial sustainability of MFIs. Based on Tables 4.23 and 4.25 Pearson correlation is negative [r = -0.821, n=14] and regression coefficient is negative [-0.179] respectively. This is an indication that there exists a negative relationship between financial regulations and financial sustainability of MFIs. From the tables the Sig value is below 0.05 which results into rejecting the null hypotheses at 5% level of significance. This shows that, the decrease in financial regulations will result in higher financial sustainability for MFIs. There is enough evidence to support the alternative hypothesis.

The study supports the study by Cull, Demirgüç-Kunt and Morduch (2009b) that regulatory supervision is negatively associated with financial sustainability of MFIs. The study also confirm the findings by Otieno, Okengo, Ojera and Mamati, (2013) that there is a negative significant relationship between the level of financial performance of SACCOs and the government financial regulations. The significant coefficient for this variable, however, contradicts the findings by Kimando *et al*., (2012) that the government policies related to MFIs i.e. law that covers the MFIs, and the supervision of the MFIs influences the success and the financial sustainability of the MFIs. Furthermore, the findings are inconsistent with the finding by Lafourcade, Isern, Mwangi and Brown, (2005) that regulated MFIs report the highest return on assets of all MFI types. Countries with weak government/bureaucratic systems tend to impose harsher regulatory restrictions on the activities of banks (Barth, Caprio and Levine, 2001). Therefore, the relationship between financial regulation and financial sustainability largely depends on the government regulations within the country.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.0 Introduction

This chapter begins with the summary of the study findings, then conclusions and finally recommendations for further improvement and areas for further studies.

## 5.1 Summary of the study findings

The study intended to determine the impact of staff training and financial regulations on financial sustainability of MFIs in Tanzania: a case of Morogoro municipality. The sample size of the study comprised of 16 MFIs that have operated from 2011 to 2013 as the study seeks to make observations on these years. The required data relating to the study were gathered from 14 MFIs that participated in the study. The analysis was based on the main and specific research objectives.

The data collected were analysed using descriptive analysis, correlation analysis and regression analysis. The most used way of presenting data in this study was the use of figures and tables because of easy understandability and interpretation. The findings show that more than 50% reviewed MFIs were not financial sustainability. The findings also show that there is a positive statistical significant relationship between staff training and financial sustainability and there is a negative statistically significant relationship between financial regulations and financial sustainability of MFIs in Morogoro municipal.

## 5.2 Conclusion

The main objective of this study was to determine the impact of staff training and financial sustainability of MFIs in Tanzania. However, the study had two specific objectives that are to determine the influence of financial regulations on financial sustainability of MFIs and to determine the influence of staff training on financial sustainability of MFIs. The sample size of the study comprised of 14 MFIs that have operated from 2011 to 2013 as the study seeks to make observation on these years. The sample size included three main categories 10 SACCOs, 3 NGOs/Faith based and 1 bank.

The findings shows that the financial sustainability of MFIs participated in the study were low. The MFIs that have attained financial sustainability equals to 35.7% for year 2011 and 2012 and 42.9% for the year 2013. Majority of MFIs in Tanzania still have not attained financial sustainability.

Three measures (number of trained staffs, number of trained days and staff training based on likert scale questions) were used to determine the influence of staff training to financial sustainability of MFIs using Pearson correlation coefficient. The findings reveal that there is a positive statistically significant relationship between staff training and financial sustainability. The study also revealed that there is a negative statistically significant relationship between financial regulations and financial sustainability of MFIs in Tanzania.

The findings revealed that 76.1% of the variability in financial sustainability is due to variability of staff training and financial regulations as it was attributed to the data of the study meanwhile the remaining 23.1% was due to other variables which were not studied. Financial regulation makes the strongest statistically significant unique contribution in explaining financial sustainability of MFIs in Tanzania compared to staff training.

## 5.3 Recommendations

MFIs play vital role in the economy through provision of loans to poor people so as they can be productive to escape from poverty. However, for the MFIs to reach vast of poor population and continue to operate for a long time they need to be financially sustainable. The findings show that still most of MFIs have not attained financial sustainability. Thus, the following recommendations are put forward in order to improve the financial sustainability of MFIs in Tanzania.

- Owners/managers should put more efforts on staff training because staff trainings are very important in facilitating the attainability of financial sustainability. However they should not only focus on technical skill training rather all types of trainings because each has its own benefit to the organization.

- Financial authorities that supervise and regulate MFIs should formulate policies and laws that will improve financial sustainability of MFIs so as to build better standard of living for the people of Tanzania.
- MFIs should consider expanding to peri-urban areas so as to reach a lot of poor people. The number of poor in peri-urban areas is greater than those in urban areas. However, the government should improve infrastructures in these areas to provide conducive environment for MFIs to expand.
- MFIs should reduce their interest rate so as to allow majority of people especially the real poor to access credit. That is, MFIs should set their interest rates to a level that they attain financial sustainability at the same time affordable to poor people.
- MFIs should be innovative in designing various lending models, financial services and non-financial services to fit needs of Tanzania poor. Most MFIs are providing similar services that they imitate from international and famous MFIs but they forget that financial needs of customers are changing with time and are different from country to country.

### 5.4 Areas for further research

Financial sustainability is very wide topic consisting of various aspects. This study covered only party of the topic. The following are the suggested areas for further research.

- This study concentrated on MFIs that are in Morogoro municipal. Further studies can extend the same study to every region and the country as whole. Taking into consideration both urban MFIs and rural MFIs for better generalization.

- The study did not measure the extent to which MFIs implement the government financial regulations in place.

- This study focused on two independent variables that are staff training and financial regulations. Future studies can cover other factors such as branch network, interest rate, service delivery and loan repayment rate.

- The study did not identify the financial regulations that limit the financial sustainability of MFIs in Tanzania. Future studies can identify the specific financial regulations that hinder financial performances of MFIs.

- This study concentrated on only financial sustainability component of sustainability of MFIs. Therefore, further study can examine other dimensions of sustainability (mission sustainability, programme sustainability, and human resource sustainability) of MFIs in Tanzania.

- This study concentrated on only MFIs as financial institutions. Future studies can consider the impact of staff training and financial regulations on the financial sustainability of other financial institutions such as commercial banks.

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# APPENDICES

## Appendix 1: Questionnaire for managers/owners

### Facility information

1. Name of the MFI…………………………………………………………………
2. Is the MFI registered? (Please tick as appropriate)

   ☐ Yes
   ☐ No

3. Date of registration……………………………………………..........................
4. Physical address…………………………………………….......................
5. Contact (Number)…..…………………………………………………………
6. Email address…………………………………………………………………
7. Where in MFI headquarters? ………………………………………………..
8. Location (Please tick as appropriate)

   ☐ Urban: Inside a town
   ☐ Peri-urban: Immediately adjoining an urban area

9. Type of ownership (Please tick as appropriate)

   ☐ Cooperative based institutions (SACCOs/ SACAs)
   ☐ NGO/Faith based
   ☐ Bank
   ☐ Other (Please specify)…………………………………………………

10. Key mission (Please tick as appropriate)

    ☐ Poverty reduction
    ☐ Profitability
    ☐ Both

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

- [ ] Manually
- [ ] Use of computer
- [ ] Others (please specify) ……………………………………………………………..

12. What types of products / services do you offer to the customers/members? (Please tick as appropriate)

- [ ] Loan
- [ ] Savings
- [ ] Deposit
- [ ] Other (Please specify) ………………………………………

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

- [ ] Training to customers
- [ ] Group formation
- [ ] Both
- [ ] Other (Please specify)…………………………………………

14. Lending model used (Please tick as appropriate)

- [ ] Individual lending
- [ ] Group lending
- [ ] Both
- [ ] Other (Please specify) ……………………………………………………

**Staff training**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| 15. Number of staff/employees in the organization | | | |
| 16. Number of staff trained out of total staffs | | | |

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

18. Overall, staff training contributes to increased efficiency in the organization (Please tick as appropriate)

| | | | | |
|---|---|---|---|---|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

**Financial regulation**

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

☐ Yes

☐ No

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

☐ Bank of Tanzania (BOT)

☐ Ministry of Finance

☐ Registrar of Cooperatives

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

21. Do the financial regulation limits the amount of deposits to be taken by the MFI?(Please tick where appropriate)

| | | | | |
|---|---|---|---|---|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

22. Do the financial regulation limits the interest rate that the MFI can charge on loans? (Please tick where appropriate)

| | | | | |
|---|---|---|---|---|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

23. Overall, do such financial regulations contribute to the organization operations? (Please tick as appropriate)

| | | | | |
|---|---|---|---|---|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

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

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………….

**Financial sustainability**

25. Please fill in the information in the table below

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Financial revenue | | | |
| Financial expense | | | |
| Operating expense | | | |
| Impairment losses | | | |

**Appendix 2: Questionnaire for employee**

**General information**

1. Job description ……………..……………………………………………………..
2. Age ……………………………………………………………………………….
3. Gender (M/F)…………………………………...………………………

**Staff training**

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

   - [ ] Primary
   - [ ] Some Secondary
   - [ ] Completed High school
   - [ ] Some additional training
   - [ ] Completed undergraduate
   - [ ] Postgraduate or higher

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

   - [ ] Yes
   - [ ] No

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

   ………………………………………………………………………………

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

| 2011 | 2012 | 2013 |
|---|---|---|
| | | |

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

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

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

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

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

| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|
| | | | | |

11. My competencies have contributes to increased efficiency in this organization? (Please tick where appropriate)

| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|
| | | | | |

12. Failures observed in your performance can be attributed to inadequate training?(Please tick where appropriate)

| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|
| | | | | |

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

| | | | | |
|---|---|---|---|---|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

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

| | | | | |
|---|---|---|---|---|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

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

| | | | | |
|---|---|---|---|---|
| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |

## Appendix 3: Evaluation form

| Date | Name of MFI | Challenges faced | How to overcome the challenge | Advice for future research/ what should be improved |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |