

**EFFECT OF CAPITAL STRUCTURE ON PERFORMANCE
OF MICROFINANCE INSTITUTION: A SURVEY OF
SACCos IN SHINYANGA MUNICIPAL COUNCIL**

**EFFECT OF CAPITAL STRUCTURE ON PERFORMANCE
OF MICROFINANCE INSTITUTIONS:**

**A SURVEY OF SACCOSS IN SHINYANGA MUNICIPAL
COUNCIL**

By

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of
the Degree of Master of Accounting and Finance (MSc, A& F) of Mzumbe
University.**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Effect of Capital Structure on Performance of Microfinance Institutions: A survey of SACCoS in Shinyanga municipal council** in fulfillment of the Requirements for award of the Degree of Master of Science in Accounting and finance of Mzumbe University.

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DEDICATION

To my parents, Mr. & Mrs. Alfred Mwakabumbe for their love, support and advise throughout my life.

To my baby girl Karen Eliah for her love throughout my study

ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
EBIT	Earnings Before Interest and Tax
FINCA	Foundation for International Community Assistance
MFIs	Microfinance Institutions
MIV	Microfinance Investment Vehicle
PRIDE	Promotion of Rural Initiative and Development Enterprises Limited
SACCoS	Savings and Credit Co-operative Society
SACCoSs	Savings and Credit Co-operative Societies
SPSS	Statistical Package for the Social Science
VICOBA	Village Co-operative Bank
WACC	Weighted Average Cost of Capital
SEDA	Small Enterprise Development Agency

ABSTRACT

This study aimed at assessing the effect of capital structure on performance of microfinance institutions in Shinyanga Municipal Council. The specific objectives for the study were to examine the relationship of cost of capital and profitability, also efficiency and effectiveness of SACCoSs in relation to their capital structure. The researcher used instruments such as questionnaires, documentary review and interview to collect the data from respondents who were 37 members, 11 accountants, 7 managers, 10 chairpersons and 4 (four) cooperative officers. The qualitative data collected were analyzed using thematic approach while quantitative data were analyzed using descriptive statistics.

Research findings revealed that, SACCoSs in Shinyanga municipal use debt in large proportion than equity to finance their activities. As a result cost of capital (Weighted Average Cost of Capital) is very high compared to the profit generated. The profit generated is low for debt/equity financed SACCoSs due to high cost of fund but is increasing for equity financed SACCoSs due to low cost. Results also show that debt financed SACCoSs provide various services to their members and in large quantity than equity financed SACCoSs. Debt repayment is on time although others fail to pay and collapse for debt financed SACCoSs but they are able to reach many people although excludes the very poor. However, results show that, management of SACCoSs (whether it is Debt/Equity financed or Equity only financed) determines the performance of SACCoSs especially in decision making.

It can be recommended from the findings that, government should set regulations which limit amount to be borrowed by the SACCoSs and interest rate charged by financiers. Also SACCOSS' members should assess benefits and challenges of different types of capital structure before choosing. But also management team selected should be good advisor for good performance of the SACCoSs.

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
ACKNOWLEDGEMENT	iii
DEDICATION.....	iv
ABBREVIATIONS AND ACRONYMS	v
ABSTRACT	vi
TABLE OF CONTENTS.....	vii
LIST OF TABLES	ix
LIST OF FIGURE	x
 CHAPTER ONE	 1
1.1 Introduction	1
1.2 Background to the Problem.....	2
1.3 Statement of the Problem	4
1.4 Objectives.....	5
1.4.1 General Objective.....	5
1.4.2 Specific Objectives.....	5
1.5 Research Questions	6
1.6 Significance of the Study	6
1.7 Scope of the Study	6
1.8 Organization of the Study	7
1.9 Limitation of the Study	7
 CHAPTER TWO	 9
LITERATURE REVIEW.....	9
2.1 Introduction	9
2.2 Theoretical Literature Review.....	9
2.3 Empirical Literature Review	19
2.4 Conceptual Framework	20
 CHAPTER THREE	 26
RESEARCH METHODOLOGY	26
3.1 Chapter Overview	26
3.2 Area of the study	26
3.3 Research Design	26
3.4 Sample Size and Sampling Techniques.....	27
3.4.1 Simple Random Sampling Method.....	27
3.4.2 Purposive/Judgmental Sampling Method	27
3.4.3 Stratified Random Sampling.....	28
3.5 Data Collection Methods.....	28
3.5.1 Documentary Sources	28
3.5.2 Interviews and Discussions.....	29

3.5.3	The Administered Questionnaire	29
3.6	Data Analysis	29
CHAPTER FOUR		30
PRESENTATION AND DISCUSSION OF FINDINGS		30
4.1	Chapter Overview	30
4.2	Demographic Description of the Respondents	30
4.2.1	Categories of Respondents	30
4.2.2	Sex of Respondents	31
4.2.4	Respondents' Sex and their Position in SACCoSs	33
4.2.5	Respondent's Occupation and their Membership Period	35
4.2.6	Relationship between Product Offered and Occupation	36
4.3	Capital Structure of MFI's (SACCoSs) in Shinyanga Municipal	38
4.3.1	Sources of Fund for SACCoSs	38
4.3.2	The Capital Structure of SACCoSs in Shinyanga Municipal	39
4.4	Effect of Cost of Capital/ Interest on Profitability	43
4.4.1	Cost of Capital	43
4.4.3	Proportion of each Source of Fund and Calculation of WACC	43
4.4.4	Profitability of SACCoSs	44
4.4.5	Relationship between Interest/Cost of Fund and Profitability	47
4.5.1	Product Offered by SACCoSs	49
4.5.2	Capital Structure and Profitability	50
4.5.3	Cost per Loan Portfolio/Output per Cost	52
4.5.4	Capital Structure and Loan Repayment	52
4.6.1	Capital Structure and Loan Provided	53
4.6.2	Relationship between Capital and Loan provided for Debt/equity SACCoSs	53
4.6.3	Relationship btn Capital structure and Loan Provision for Equity SACCoSs	58
4.6.4	Capital Structure and the Effect on Outreach of Microfinance Institutions	60
4.6.7	Outreach of MFI's in Shinyanga Municipal	61
4.6.7	Relationship between Capital structure and Outreach of SACCoSs	61
CHAPTER FIVE		63
SUMMARY, CONCLUSION AND RECOMMENDATIONS		63
5.1	Summary of Findings	63
5.1.1	Sources of Fund and Capital Structure	63
5.1.2	Cost of Capital and Profitability	63
5.1.3	Capital Structure and Efficiency of SACCoSs	64
5.1.4	Capital Structure and Effectiveness of SACCoSs	64
5.2	Conclusions	65
5.3.1	Recommendations to SACCoSs and other MFIs	66
5.3.2	Recommendations to the Government	67
REFERENCES		69
APPENDICES		73

LIST OF TABLES

Table 4. 1: Category of Respondents	30
Table 4. 2: Respondents Distribution by Sex.....	31
Table 4. 3: Distribution of Sex and Occupation of Respondents	32
Table 4. 4: Relationship between Sex and the Position of Respondents in SACCoS.....	34
Table 4. 5: Respondents Occupation and their Membership Period.....	35
Table 4. 6: Relationship between Product Offered and Occupation of Members.....	37
Table 4. 7: Sources of Fund for SACCoSs	38
Table 4. 8: Reasons for Choosing Capital structure.....	42
Table 4. 9: Cost of Capital for Each Source	43
Table 4. 10: Calculation of WACC.....	44
Table 4. 11: Relationship between Cost of Fund/Interest and Profitability	47
Table 4. 12: Product offered by SACCoSs and Their Average for 2011.....	50
Table 4. 13: Profit for Debt/Equity SACCoSs.....	51
Table 4. 14: Profitability for Equity Financed SACCoSs	51
Table 4. 15: Capital Structure of Biashara SACCoSs for the Year 2010 and 2011.....	55
Table 4. 16: Loans Size per Member for Biashara SACCoSs	57
Table 4. 17: Loan Size per Member for Kizumbi SACCoSs.....	59
Table 4. 18: Number of Members for various SACCoSs in Shinyanga Municipal	60

LIST OF FIGURE

Figure 2. 1: Sources of Fund	11
Figure 2. 2: Conceptual Framework.....	22
Figure 4. 1: Capital Structure of SACCoSs in Shinyanga Municipal.....	40
Figure 4. 2: Profitability Trend for Equity only SACCoSs.....	45
Figure 4. 3: Capital Structure and Profitability for Debt/Equity SACCoSs	46
Figure 4. 4: Relationship between Interest and Profit for Debt/Equity SACCoSs	48
Figure 4. 5: Relationship between Capital Structure and Loan Provision	54
Figure 4. 6: Proportion of Debt/Equity financing for Biashara SACCoSs	55
Figure 4. 7: Relation between Capital Structure and Loan for Equity SACCoSs.....	58

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Microfinance is usually understood to entail the provision of financial services to micro-entrepreneurs and small businesses, which lack access to banking and related services due to the high transaction costs associated with serving these client categories. The two main mechanisms for the delivery of financial services to such clients are relationship-based banking for individual entrepreneurs and small businesses; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group. (wikipedia-dictionary)

Microfinance Institutions available in Tanzania includes; SACCoSs (Savings and Credit Co-operative Societies), PRIDE (Promotion of Rural Initiative and Development Enterprises Limited), Small Enterprise Development Agency (SEDA), Foundation for International Community Assistance (FINCA), VICOBA, Banks, and other informal co-operative societies.

Savings and Credit Co-operative Societies (SACCoSs) are developed under Co-operative Societies Act No. 20 of 2003 and they are semi-formal microfinance institutions which are developed for the aim of providing financial services to the poor who cannot access financial services from commercial banks. But the challenge for these SACCoSs is fund/capital to provide financial services required by low income earners.

Capital structure refers to the components of permanent sources of financing: sources of funds used to buy mainly fixed assets. The capital structure of the firm can either be 100% equity OR a composition of both Equity and Long-term Debt OR a 100% Long-term Debt. Components of long-term debt include: Medium/long term bank loans and Debentures. Many firms accept debt in their capital to either develop their activities or financing its operations (Kasilo, 2011). Pandey (2010) stated that, financial managers

should plan an optimum capital structure for the company, which is the one that maximizes the market value of the firm. That is proportion of debt and equity should aim at maximizing the value of the firm.

Sources of fund (capital structure) for SACCoSs in the past was formed of member's savings, deposits, issue of shares, interest on loan, grants, subsidies and donations. But these internal sources of fund seemed not to meet the SACCoSs' requirements for meeting their daily responsibilities and providing financial services to its members. In order to achieve their goals, enough funds are required and therefore other SACCoSs decided to use external sources of fund such as borrowing (debt financing) from commercial banks and other financiers.

1.2 Background to the Problem

Capital structure of any organization or business refers to the financing side of the balance sheet which shows different types of sources of financing i.e. Medium/Long term Loans, Debentures (Bonds), Preference Shares Capital, Ordinary Share Capital, Retained Earnings/Reserves, etc.(Pandey, 2009)

In the current world, every business operations are not only financed by the internal sources of fund such as equity or internal retained earnings, but also from other external sources of fund which are loans, debentures, etc and they may be of long term or short term loans.

In Tanzania, although some business organizations access loans to finance their activities but almost 50% of the SACCoSs end up collapsing instead of growing due to borrowing fund. This has been seen in different parts of Tanzania including Shinyanga municipal and Kahama.

Shinyanga region is located in northern higher lands of Tanzania with a population of 1,534,808 people composed of 750,841 male and 783,967 female (2012, census). It has more than 20 Microfinance institutions which are grouped into member based and non-member based institutions. The members of these institutions are involved in different economic activities including entrepreneurship activities, farmers, etc. and therefore they need fund, hence many of them are financed by microfinance institutions or by debt from banks or others depend totally on savings or composition of both member's savings and debt financing in different proportions.

Shinyanga region is populated with people who are farmers, entrepreneurs and small parts are employees. Their core activities are farming, animal keeping and conducting business (small and large business) for supporting their families and for future economic growth. But the main challenge for business people is fund, which lead most of them to enter into different financing institutions in order to get funds to finance their activities. Some of these financial institutions are such as Promotion of Rural Initiative and Development Enterprises Limited (PRIDE), Small Enterprise Development Agency (SEDA) and Foundation for International Community Assistance (FINCA). But due to lack of collateral as a security to their loans many fail to access fund and hence they join other financial institutions such as Savings and Credit Co-operative Societies (SACCoSs), Village Community Banks (VICOBA), Informal traditional groups of savings, credit and social support such as IFOGOGHO in Shinyanga, etc.

The presence of SACCoSs, VICOBA and IFOGOGHO facilitate the process of providing financial services to a large number of population by acting as middlemen into accessing funds from banks and other financial institutions (as mentioned above) and channeling them to different members. Therefore members, can access these loans from their institutions at a reasonable interest rate.

For SACCoSs which are financed mainly by internal savings only from members seem not to grow but remain stagnant due to small capital invested and members fail to get enough funds to borrow for financing their activities. Therefore they decide to borrow in order to have enough fund to facilitate their activities and meet the demands of members which is enough capital to improve their business and their lives.

Therefore, this research aimed at finding out the effects from equity only financing and debt financing in operations of microfinance institutions especially SACCoSs of Shinyanga municipal. It assessed the operations of SACCoS and how they can be affected by type of capital structure they choose. The researcher linked between capital structure and the performance of these SACCoSs in Shinyanga municipal and offer reasonable conclusion and recommendations to benefit both microfinance institutions and its members.

1.3 Statement of the Problem

Microfinance institutions originated with main intention of providing financial services to the poor/low income earners who are excluded from mainstream financial services. (Ledgerwood, 2000).

Originally, sources of fund or capital structure of microfinance institutions was formed of savings from members, subsidies, government grants, donor funds and members deposits which were of low cost and easily available. From these savings, deposits and government grants the revenue was distributed to members as loan of low interest rate to help farmers and other low income earners to access capital and perform their economic activities at low cost.

Currently microfinance institutions access commercial capital such as loans, bonds from financial markets, bank debts, etc from which they are able to access extra fund to facilitate their activities. These financial services usually have high cost due to high interest rate and conditions attached to it. Due to high costs of fund microfinance

institutions are likely to increase their interest rates and thus may fail to meet their main objective of reaching the poor (Researcher Field Observation).

Therefore, this study aimed at assessing the proper type of capital structure and if this type affects the performance of these microfinance institutions especially SACCoSs. Also the study aimed at assessing SACCoS which are debt financing if they improve the living standard of people or ignores the majority poor. There is confusion of whether type of capital structure (debt financed or equity only financing) affects, outreach, growth, efficiency, profitability and depth of these microfinance institutions.

Therefore the study analyses these different types of capital structure and their effects and proposed proper strategies in deciding capital structure of microfinance institutions.

1.4 Objectives

1.4.1 General Objective

The general objective of the study was to assess the effects of capital structure on performance of microfinance institutions in Shinyanga municipal council.

1.4.2 Specific Objectives

- i) To examine the effects of cost of capital on microfinance institution's profitability
- ii) To assess the effect of capital structure on efficiency of microfinance institutions
- iii) To evaluate effects of capital structure on effectiveness of microfinance institutions

1.5 Research Questions

- i) What are the effects of cost of capital in profitability of microfinance institutions?
- ii) How does the capital structure affect the efficiency of microfinance institutions?
- iii) How does the capital structure affect the effectiveness of microfinance institutions?

1.6 Significance of the Study

Conducted research study on capital structure in microfinance institutions was very important due to number of reasons. The major ones are:

The findings from this study will serve as the basic sources and tool of information to the microfinance institutions, key stakeholders of cooperatives and management in making decision about their capital structure and deciding on proportion of debt over assets and savings over assets for proper decision making

The study findings will enable microfinance institutions to select proper debts financiers and savings proportion for their operations in terms of interest and contract agreement, and know how to evaluate maximum amount of debt financing which can be accepted and which maximize firm's value.

Also to the government different strategies are proposed on how to limit borrowing amount of SACCoSs and make it sustainable for the benefit of members.

The study adds knowledge to the existing body of knowledge specifically in areas of finance and management in different institutions for decision making and it acts as the basis for further research.

1.7 Scope of the Study

This research study aimed at finding the effects of capital structure in performance of different microfinance institutions such as SACCoSs. Specifically, this study assessed

how capital structure affects the efficiency, effectiveness and profitability of SACCoSs. There are about 12 SACCoSs in Shinyanga municipal; this study covered 10 SACCoSs only due to limited time and resources. Out of 10 SACCoSs, six (6) were debt/equity financed and four (4) were equity only financed.

1.8 Organization of the Study

This research study was organized in five chapters. Chapter one is background and statement of the problem setting. In this chapter it includes background to the problem, statement of the problem, objectives and research questions. Chapter two is Literature review where different books were reviewed by the researcher in theoretical literature review and documents and papers written by different researchers on the same study were also reviewed in empirical literature review. Also the study was conceptualized by the researcher to provide the picture of the study. Chapter three is research methodology which explained in detail methodology used by researcher in sampling, data collections and data analysis. Chapter four is presentation and discussion of findings where all findings were presented and discussed by offering more facts which were observed by the researcher and chapter five is summary of findings, conclusion and recommendations to the SACCoSs, government and members.

1.9 Limitation of the Study

From this research study, the researcher was faced by the following limitations:

In Shinyanga municipal council there is a limited number of SACCoSs available. For the whole municipal there are about only 12 SACCoSs available. Among those available SACCoSs about 6 (six) SACCoSs have less than 3 years in operation and two (2) have just one (1) year in operation. This situation has therefore hindered the researcher to collect sufficient and all relevant information concerning the study area. Hence conclusion arrived on this study is based on the limited data obtained from 10 SACCoSs in which the research work was conducted.

The researcher also faced difficulties in data collection as most of the respondents were not free to disclose some of their information. This was due to low level of understanding on research issues, which made some of the respondents to either provide wrong information or refuse to cooperate. This therefore limits the amount of information that the researcher expected to collect.

Lastly, the researcher failed to collect some information available in the financial statements of SACCoSs as some of the SACCoSs financial statements were taken to cooperative officers for auditing for the past two years, and not yet returned.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of the literature review is to situate my research in the context of what is already known about a topic. This chapter is divided into three parts; the first part is Theoretical literature review, second part is Empirical literature review and the last part is Conceptual Framework.

2.2 Theoretical Literature Review

2.2.1 Definitions of Terms

- **Microfinance Institution (MFI)**

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients. www.cgap.org

- **Capital Structure**

The term capital structure refers to the percentage of capital (money) at work in a business by type. Broadly speaking, there are two forms of capital: equity capital and debt capital. Each has its own benefits and drawbacks and a substantial part of wise corporate stewardship and management is attempting to find the perfect capital structure in terms of risk / reward payoff for shareholders. beginnersinvest.com

Ross, et al (2002), defined capital structure of any organization as the mix of various debt and equity capital maintained by firm. Also called financial structure, as the composition of a corporation's securities used to finance its investment activities; the relative proposition of short term debt, long term debt and owner's equity. Debt is a

loan agreement that is liability of the firm meaning, it is an obligation to repay a specified amount at a particular time.

According to Kasilo (2011), capital structure stands for value of the firm which is explained in the following model;

- The value of the firm is the sum of debt and equity; hence is $V = B + S$
- Where B is the market value of debt and S is the value of the equity.

If the goal of the management of the firm is to make the firm as valuable as possible, then the firm should pick the debt –equity ratio that makes the pie (total value) as big as possible.

- **Equity Capital**

Equity Capital refers to money put up and owned by the shareholders (owners). Typically, equity capital consists of contributed capital, which is the money that was originally invested in the business in exchange for shares of stock or ownership and retained earnings, which represents profits from past years that have been kept by the company and used to strengthen the balance sheet or fund growth, acquisitions, or expansion.

- **Debt Capital**

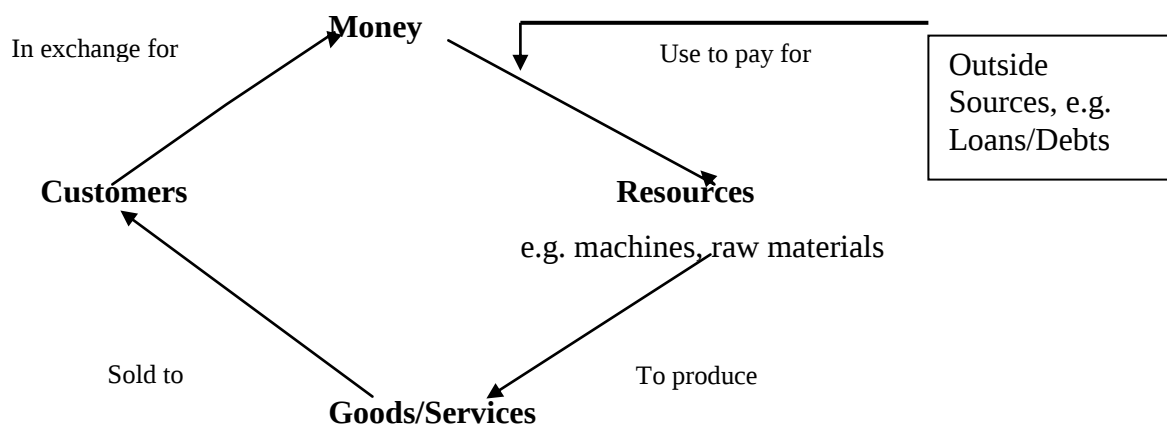
The debt capital in a company's capital structure refers to borrowed money that is at work in the business. The safest type is generally considered long-term bonds because the company has years, if not decades, to come up with the principal, while paying interest only in the meantime [beginnersinvest](#).

2.2.2 Sources of Finance

Wilson and McHugh, (1987), explained that, an enterprise's long term financial funds usually comprise debt (e.g. debenture and bank loans) as well as share capital (i.e. equity or preference capital). The proper balance of share capital and debt capital will be

determined by enterprise's growth rate, stability of sales structure, etc. commonly, cautious enterprises tend to have little debt and large current liquidity resources. But aggressive enterprise often employ large amount of debt in an effort to grow quickly. Financial manager are required to choose the financial mix best suited to the risk profile of the company (optimal range) and which keeps the Weighted Cost of Capital (WACC) as minimum as possible.

Figure 2. 1: Sources of Fund



Source: Adopted from Robert (1992)-Business Studies-A new Approach

From the figure 2.1, the capital structure of the organization comprised of debt and equity but the important point is that, the debt-equity proportion should be in companies' capacity to pay debt and meet its daily activities and improve the performance of the organization. The microfinance institutions should not only depend on external sources of fund (as per above figure) but also from internal sources such as savings and retained earnings.

2.2.3 Assessing Capital Structure of the Organization

Hannagan, (2008), explained that, in assessing the capital structure of the firm, Gearing (also called Leverage) is an indication of the relationship between the long term debt and the equity (Equity is ordinary share capital plus the reserve). It can be express as;

$$\text{Gearing} = \frac{\text{Long term debt}}{\text{Equity} + \text{Long term debt}} \times 100$$

It can be low geared when it has low proposition of long-term debt (debt). In times of poor trading condition, it is the highly geared companies that are at risk of going out of business because of their obligation to make loan repayments and pay interest at regular intervals on their long term loans.

Many consider equity capital to be the most expensive type of capital a company can utilize because it's "cost" is the return the firm must earn to attract investment. A speculative mining company that is looking for silver in a remote region of Africa may require a much higher return on equity to get investors to purchase the stock than a firm such as Procter & Gamble, which sells everything from toothpaste and shampoo to detergent and beauty products. Other types of debt capital can include short-term commercial paper. The cost of debt capital in the capital structure depends on the health of the company's balance sheet. beginnersinvest.com

Spiro, (1982), states that, the debt-to-equity ratio of the Balance Sheet is of considerable significance to corporate management, investors and potential lenders. Where there is a large amount of debt it signals the following:-

- First, in case of default, lender will be less likely to recover any of the loans extended since there is insufficient equity to absorb the difference between the book value of the assets and their liquidation value.
- Second, the larger the debt, the larger the cash flow required to serve it. Thus, significant operating income may be needed to meet debt service payment without providing an opportunity for new projects or dividend distribution to

stakeholders. Furthermore, as the business cycle turns down, the impact increases noticeably since operating income may no longer sufficient to meet debt service payment.

Tennent, (1976), advises that, no management should seek additional funds from outside sources without first ensuring that there do not exist in the company already, funds which could be more profitable redeployed. Such funds are almost always cheaper than negotiating new external sources. These funds may fall in the following categories:-

- a. Funds invested in assets which are not necessary the future prosperity of the company example; excess stock
- b. Funds invested in assets which are capable of being of being turned direct into cash e.g. debtors
- c. Funds invested in assets which may be financed by other methods than using the companies own limited capital e.g. properties
- d. Liabilities, the payment of which can legitimately be deferred without cost.

Brealey and Myers (2003) stated that, debt financing has one important advantage under corporate income tax system in United States. The interest the company pays is the tax-deductible expenses. Thus return to bondholders' escapes taxation at the corporate level. Financial managers often think of the firm's debt-equity decision as a trade-off between interest tax shield and cost of financial distress.

Trade off theory of capital structure recognizes that target debt ratios may vary from firm to firm. Company with safe, tangible assets and plenty of taxable income to shield ought to have high target ratios (debt-equity ratio). Unprofitable companies with risky, intangible assets out to rely primarily on equity financing. It is also stated from the Trade off theory that, company saddled with extra heavy debt (too much to pay with a couple of years' internally generated cash) should issue stock, constrain dividends or off assets to raise cash to rebalance capital structure (Brealey & Myers 2003.)

2.2.4 Decision and Effects of Debt-Equity Proportion

A company's reasonable, proportional use of debt and equity to support its assets is a key indicator of balance sheet strength. A healthy capital structure that reflects a low level of debt and a corresponding high level of equity is a very positive sign of investment quality. investopedia.com

Aydon, (1976) explained that, bank overdraft/loan are very useful, but they are not the ideal way of financing every business needs. It is a good thing that the banks have widened the range of their lending. There is increasing involvement of the banks in factoring and equipment leasing is emphasized, but the most important recent development in bank lending is increasing readiness to grant term loans for fixed periods of up to ten years.

According to Van Horne, (2005), a company with stable cash flow is able to take a relative more fixed charges associated with debt than that with unstable cash flow. He explained more that, the inability of the firm to meet a principle payment on its debt constitutes the same legal default as failure to meet an interest payment. Therefore it is useful to compute the coverage ratio for debt service burden as follows;

$$\text{Debt service coverage} = \frac{\text{EBIT}}{\text{Interest} + \text{Principal Payments} \times (1 - \text{Tax rate})}$$

To determine its debt capacity, a company first would calculate the fixed charges associated with additional increment of debt. For each addition, the firm then would determine the probability of being out of cash, based on the probability distribution of cash balances during the recession. (Debt Capacity; relate to how much debt can be comfortably service).

Any middle class individuals believe that the goal in life is to be debt-free but when you reach the upper echelons of finance, however, that idea is almost anathema. Many of the

most successful companies in the world base their capital structure on one simple consideration which is the cost of capital.

However, how much debt you take on comes down to how secure the revenues your business generates. Again, this is where managerial talent, experience, and wisdom come into play. The great managers have a knack for consistently lowering their weighted average cost of capital by increasing productivity, seeking out higher return products, and more. beginnersinvest.com

Ward, (1994), states that, introduction of debt financing changes the market for share in very fundamental way. Firm may have different proportion of debt in their capital structure, share of different companies, even in the same class, can give rise to different probability distribution of return

Assume value of the business is $V_j = S_j + D_j$

Where: V_j = Value of business

S_j = Market value of common shares

D_j = Market value of debt of the company

By use of Gearing ratio if $D = 60\%$ then $S = V - D$

$S = 100\% - 60\%$ which = 40% proportion

The debt financing reduce the market value of the stock, and when bankruptcy occur, the whole firm will be taken over by debt financiers as they can't finance the debt. As shown above when bankruptcy occurs the equity cannot finance the debt and the firm will be taken over by bondholders, hence, the value of stock will decline in value.

2.2.5 Theories of Capital Structure

There are two main theories of capital structure namely: Trade Off Theory and Pecking Order Theory, other commonly used theories are agency theory of capital structure and Modigliani & miller theorem.

- **Trade Off Theory**

This theory proposes to increase debt levels to balance interest to shield against the cost of financial distress. The company should keep on borrowing until the marginal tax advantage of additional debt is offset by the increase in present value of the expected costs of financial distress.

- **Pecking Order Theory**

Companies with higher earnings should take less debt, as they require less of funding requirements due to funding met by the internal resources. A high profit making company can generate internal cash to fund their new projects. A balance between risk and return met by capital structure is known as the most favorable capital structure. A sound capital structure aims at minimizing the risk and maximizing the profit margins. It maximizes the price of the stock and minimizes the cost of capital at the same time.

- **Other Financial Theories**

The Modigliani & Miller (1958) theorem states that, in the absence of taxes, bankruptcy costs, and asymmetric information, and in an efficient market, a company's value is unaffected by how it is financed, regardless of whether the company's capital consists of equities or debt, or a combination of these, or what the dividend policy is. The two most important principles which holds under the assumption of both taxation and no taxation are that; first, if there are no taxes, increasing leverage brings no benefits in terms of value creation, and second, that where there are taxes, such benefits, by way of an interest tax shield, accrue when leverage is introduced or increased. The theorem compares two companies which include unlevered (i.e. financed purely by equity) and the levered (i.e. financed partly by equity and partly by debt) and states that if they are identical in every other way the value of the two companies is the same.

However following the critical challenges of unrealistic assumption of perfect markets Modigliani and Miller (1963) revised their position by incorporating tax benefit on debt

as an influence variable on capital decision. In this dimension they argued that capital structure matters under imperfect economies and suggesting that there is a relationship between financial leverage and economic performance of the firm.

- **Agency Theory of Capital Structure**

Berle and Means (1932) initially developed the agency theory and they argued that there is an increase in the gap between ownership and control of large organizations arising from a decrease in equity ownership. This particular situation provides a platform for managers to pursue their own interest instead of maximizing returns to the shareholders. Lubatkin and Chatterjee (1994) argue that increasing the debt to equity ratio will help firms ensure that managers are running the business more efficiently. Hence, managers will return excess cash flow to the shareholders rather than investing in negative NPV projects since the managers will have to make sure that the debt obligations of the firm are repaid. Hence, with an increase in debt level, the lenders and shareholders become the main parties in the corporate governance structure. Thus, managers that are not able to meet the debt obligations can be replaced by more efficient managers who can better serve the shareholders. This means that leveraged firms are better for shareholders as debt level can be used for monitoring the managers, thus debt improves accountability and efficiency use of resources by managers.

Ross et al., (2007), explained that, the limiting factor affecting the amount of debt a firm might use comes in form of bankruptcy costs. As the debt –equity ratio rises, so too does the probability that the firm will be unable to pay its bondholders what was promised to them. The firm becomes bankrupt when the value of its assets equals the value of its debt. When this occurs, the value of equity is zero, and stockholders turn over control of the firm to the bondholders. This can lead to Agency costs (conflict of interest arises between bondholders and stakeholders). Therefore the following methods are suggested to reduce cost of debts:

1. Protective covenants which reduce costs of bankruptcy and ultimately increasing value of the firm. This can be done by:-
 - a. Issue no debt; because of tax advantage to debt it is costly
 - b. Issue debt with no Restrictive and Protective covenants which will require bondholders to demand high interest rate to compensate unprotected status of their debt.
 - c. Write Protective and Restrictive covenants into the loan contract which if are Clearly written, creditor receive protection with small cost hence low interest rate.
2. Consolidation of Debt where by proper arrangement of bondholders and stakeholders where one lender can shoulder the entire debt and make them one.

2.2.6 Analysis of Theoretical Literature Review

Many authors talked about the equity capital and debt financing but the weakness in their review is that they do not propose what should be done for microfinance institutions which have either high debt compared to their assets or small fund based on equity financing different from demand from members.

Also most of them do not state clearly on debt to equity proportion which is conducive for Tanzania's MFIs. According to Tanzania environment we usually have little capital which requires low cost of fund in debt financing but also they should base on equity financing where by other authors say that equity financing is expensive.

For weak MFIs can collapse totally if it tries to apply trade off theory as it may fail to repay the debt but the combination of both debt and equity is more appropriate. Pecking theory of capital structure can be beneficial or at the same time can lead to poor performance as the firm may fail to grow quickly due to low earnings. They could also borrow from other sources although the risk may be high.

2.3 Empirical Literature Review

Microfinance institutions (MFIs) have three main sources to fund their growth: debt, equity, and deposits (for those allowed to mobilize deposits). In addition to understanding the landscape and source of funds, it is important for both funders and MFIs to assess the relative cost and terms of debt. The source of funds has its own implications for the structure, pricing and terms of loans (**Sapundzhieva, 2011**).

Bogan, et al (2006) in their paper named Measuring the Performance of Microfinance Institutions explained that MFIs finance their activities with funds from various sources, both debt (deposits from clients and borrowings from banks and other financial institutions) and equity. Measures of *financial structure* describe these various fund sources and compare them with assets purchased. In their study they used the regression analysis to show the relationship between various factors (profitability, depth and outreach) and capital structure and the results were explained through the use of graphical presentation. The findings show that where as MFIs around the world (except in the LAC region) rely heavily on donations and retained earnings to fund their activities. African MFIs fund only 25 percent of assets with equity. African MFIs mobilize deposits as their main source of liabilities (72 percent), significantly more than MFIs in other global regions do. Borrowings represent only a small proportion of funding for African MFIs in the study. Unregulated MFIs are the most dependent on equity for financing. NGOs and unregulated MFIs often face challenges in attracting funding from banks and other potential investors because they have non-corporate ownership structures and unclear legal status. Moreover, they often are poorly leveraged because they are unable to mobilize savings. Cooperatives sometimes find it difficult to attract equity investment given their non-corporate ownership structure and certain limits on membership, share purchases, and voting rights; however, certain cooperatives that have created a bank holding or other corporate legal structure have successfully mobilized equity financing from investors. Not surprisingly, deposits comprise a greater percentage of total liabilities for cooperatives than for regulated and unregulated MFIs.

A. Latortue a Deputy CEO of CGAP in a report from Microfinance Information Exchange (MIX) and Consultative Group to Assist the Poor (CGAP) of 2006 stated that, microfinance institutions are for-profit, paving the way for more efficiency, sufficient capital for scale, and innovations, uptake of deposit services is broad, even greater than that for credit services. Non bank financial intermediaries (NBIFs), credit unions /financial cooperatives, banks and other nongovernmental organizations (NGOs) have a great diversity of financial service provided to serve poor and low-income people.

Yet, serious challenges persist and threaten this positive momentum which includes; high operating expenses, returns are falling, portfolio quality has been stubbornly poor, and supervision is very weak.

The researcher used Statistical Package for Social Sciences (SPSS) to analyze data which included borrowing trend, growth in number of borrowers/ depositors and in showing proportions of debts, equity and deposits. Graphical presentations and tables were used to show varieties of services provided by MFIs in Sub Sahara Africa, and growth rate of these variety services.

Findings showed that, South Saharan Africa is the only region where grants are used as widely as debt up to 38 percent, while debt following at 37 percent. Equity from cross-border funders is on the rise up to 20 percent and it was spurred by retained earnings.

From this paper, the researcher showed that MFIs use various sources of fund to finance its activities and led into growth in savings, deposits and borrowing but it did not show the relationship between the sources of fund and increase and decrease in service provided by the MFI. Also the study did not show the effect of each source of fund and the proper proportion of sources of fund in an institutions which maximizes owners equity.

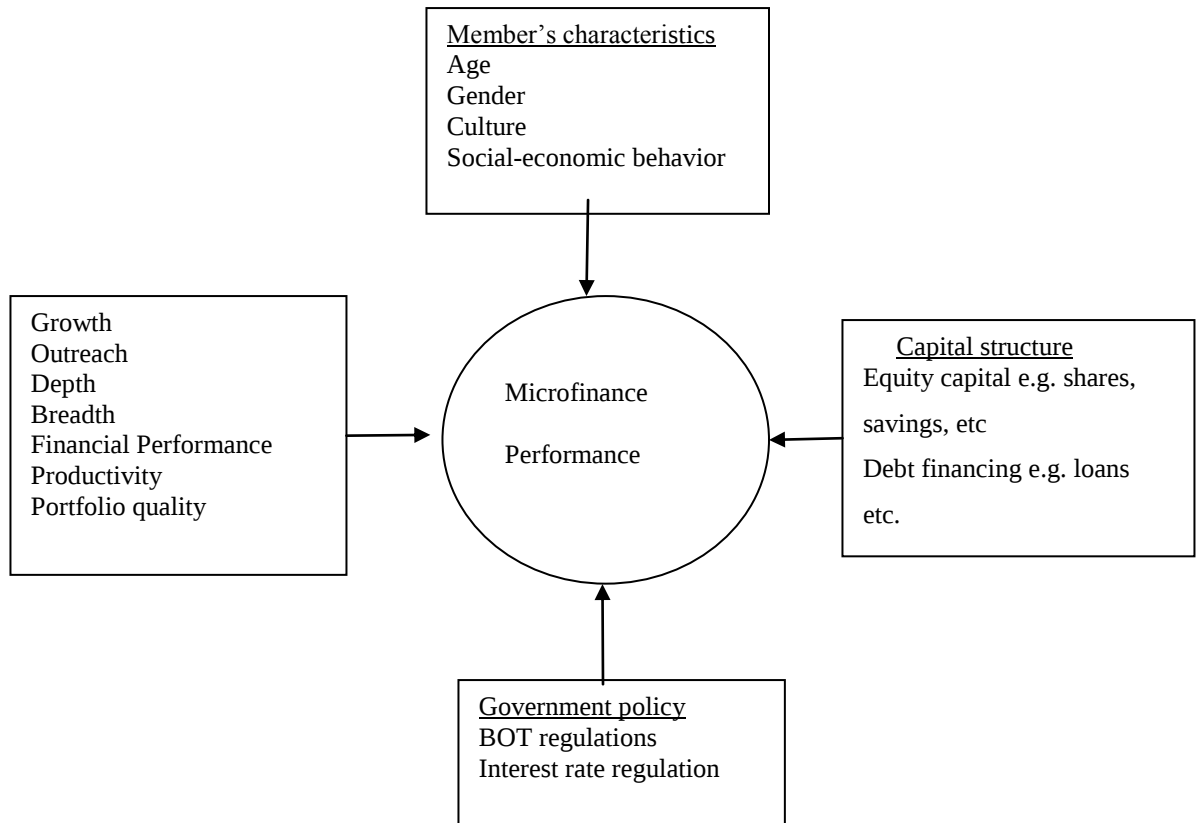
2.4 Conceptual Framework

The conceptual framework from this study is built around theoretical premises of agency theory which support that high debt reduces the agency problem. Also is built from Trade-off theory, the pecking order theory and Modigliani and Miller 1963 theory

which consider debt and equity financing. Therefore after reviewing what other searchers have said concerning the capital structure in performance of microfinance institutions, the researcher formulated the conceptual framework that summarizes the study in case of independent and dependent variables.

From the conceptual framework the Capital structure can affect the performance of microfinance institutions by affecting the growth, outreach, depth, breadth, productivity and portfolio quality. But apart from these factors which affect the performance of microfinance institutions also government policies such as regulations developed by Bank of Tanzania (BOT) to regulate microfinance institutions also affect the performance. Member's characteristics such as age, cultural believe, and gender my direct or indirect affect the performance of microfinance institutions in growth, profitability, portfolio quality, etc see figure 2.2.

Figure 2. 2: Conceptual Framework: The Effect of Capital Structure on the Performance of Microfinance Institutions



Source: Own Construction- developed from Literature Review

2.4.1 Explanations of the Variables in the Conceptual Framework

The key factors that affect the performance of microfinance are explained below as follows:

- **Depth**

MFIs offer financial services to low-income clients. Some MFIs achieve deeper outreach by targeting. The client groups that are most vulnerable such as women and/or people with very low incomes. Therefore depth show how deep can microfinance reach the targeted customers.

- **Outreach**

It is the efforts to extend microfinance services to the people who are underserved by financial institutions. Outreach can be measured in terms of *breadth* i.e. number of clients served and volume of services (i.e., total savings on deposit and total outstanding portfolio) or *depth* i.e., the socioeconomic level of clients that MFIs reach.

- **Breadth**

This shows how MFIs reached savers and borrowers in their daily operations. The Microfinance institutions may be reaching most savers than borrowers or borrowers than savers but the important thing is how they satisfy their customers in savings, deposits, loans, etc.

- **Financial Performance**

MFIs earn financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions. Financial revenue also includes income from other financial assets, such as investment income. An MFI's financial activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (i.e., operating income exceeds total expenses).

- **Efficiency**

Efficient institutions minimize costs of delivering services. The efficiency of an MFI can be calculated in various ways which includes; costs per borrower and costs per saver, operation costs, receivables, collection efficiency as indicators of efficiency.

- **Productivity**

It is important that every business makes effective use of its assets. The investment in production capacity is often significant often measured in terms of borrowers per staff member, output, and cost per unit. Productive MFIs maximize services with minimal

resources, including staff and funds. However, productivity is difficult to compare at the product level: On the one hand, serving a loan client can be more labor intensive and costly than serving a depositor, because it implies a series of interviews and site visits before the loan can be disbursed; on the other hand, collecting deposits involves expenses such as cashiers, security, and cash management.

- **Portfolio Quality**

The loan portfolio is an MFI's most important asset. Portfolio quality reflects the risk of loan delinquency and determines future revenues and an institution's ability to increase outreach and serve existing clients. When MFIs are faced with poor portfolio quality, they may write off the loans from their books or refinance the loans by extending the term, changing the payment schedule, or both. The research work focuses on how the sources of fund affect the operations and performance of microfinance institutions. This capital structure is accessed basing on dependent variable which includes outreach of the organization.

- **Government Policies**

Government Policies affect the performance of microfinance institutions. Several policies developed by Bank of Tanzania (BOT) in regulations of Microfinance Institutions such as minimum requirements for microfinance institutions or the reserve per day of microfinance and setting of interest rate ceiling may affect the operations of microfinance institutions in providing loans to people. Also interest rate set by the government on portfolios may hinder growth of microfinance institutions.

- **Member's Behavior and Characteristics**

Member's behavior and characteristics can also affect the performance of microfinance institutions. This can occur in situations of age were the member might be very old and unable to perform economic activities which will generate fund to repay the debt or fund taken from its institution. Also where there are social- cultural behaviors such as

believes on loan repayment and interest rate repayment may affect the performance of microfinance. For the case of Tanzania in several areas women are not allowed to hold assets as a result, it becomes difficult for women to access fund from microfinance institutions due to lack of collateral but also to even conduct business.

This study concentrated on collection of data basing on Independent variable which is capital structure as it can lead to deteriorating the microfinance or improving the quality of life for microfinance members and the community at large. The data collected enable the researcher to conclude whether the capital structure has positive or negative effect in the microfinance.

The key concepts explained above, were used by the researcher in collecting data and analyzing their effects. The breadth, depth, financial performance and efficiency of microfinance was assessed on how are affected by the type of capital structure. The capital may determine number of members to reach, amount of loan per member, products and services offered and quality of portfolio provided to members.

Government policies such as Co-operative societies Act of 2003 is important in assessing how policies affect the performance of SACCoS apart from their capital structure. Poor policies such as not setting maximum loan to borrow or maximum interest to be charged to SACCoS leads to collapse for SACCoS which are debt financed.

Members' behavior and characteristics especially beliefs affect the performance of SACCoS especially in decision making on capital structure, fund allocation, repayment capacity and contribution in capital.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Chapter Overview

This part describes the methodological framework of the study which includes area of study, research design, units of inquiry, sampling techniques, data collection methods, data presentation methods and analysis plan. The methodology selected met the objective of the study which was to assess the effect of capital structure in performance of MFIs.

3.2 Area of the study

The study was carried out in different Microfinance institutions at Shinyanga Municipal council which included institutions such as SACCoSs. Ten (10) SACCoSs were visited and assessed their capital structure and how it affected their performance. Shinyanga municipal was selected because it has many natural resources and its people are mostly involved in business activities including extraction of minerals and other small business. Therefore the study assessed their contribution and participation in SACCoSs in order to access capital for business.

3.3 Research Design

The research design for this study was cross sectional design. A cross sectional survey enabled the researcher to collect data and make inference about a population of interest at one point in time. It is described as snapshots of the population, where data is gathered using any mode of data collection, including structural interview, questionnaires and participatory observation. Based on this design the researcher gathered information on the sources of capital, capital structure, cost of capital and profitability using different methods of data collection such as interview, questionnaires and reviewing of documents.

3.4 Sample Size and Sampling Techniques

This study had 70 respondents from different parts, including, 5 co-operative officers, members, managers, chairpersons, accountants and clerks. These respondents came from 10 SACCoSs selected which are in Shinyanga Municipal council.

Among 10 (ten) selected SACCoSs from each 5 members were interviewed, three (3) leaders of each SACCoSs were interviewed and 5 (five) different co-operative officers from regional offices and municipal were interviewed in order to have a comprehensive understanding of the relevant issues which affect the performance of different MFIs'. To explain in detail the sampling procedures was as follows;

3.4.1 Simple Random Sampling Method

The sample selected for this study especially members simple random sampling was used whereby five members were chosen from each SACCoSs among many members. These members were chosen from their SACCoSs with no special reason but selected randomly among many. Also each SACCoSs was selected/ chosen randomly and entirely by chance, each SACCoSs had the same probability of being chosen whether they are equity only SACCoSs or those with proportion of debt and equity financing. Therefore through this method members were selected and so does the SACCoSs was solicited to have a sample which answered my research questions and met my objectives.

3.4.2 Purposive/Judgmental Sampling Method

Purposeful sampling is a non-random method of sampling where the researcher selects "information-rich cases for study in depth. Information-rich cases are those from which one can learn a great deal about issues of central importance to the purpose of the research.

For this study the researcher selected chairpersons, managers, accountants and cooperative officers with main purpose of finding enough information concerning the performance of microfinance institutions. The accountants were selected in order to

provide financial information of SACCoSs while the managers are the main decision makers and supervisors of microfinance activities. The chair persons are leaders who commented on movement of SACCoSs sources of fund and growth of the SACCoSs. For cooperative officers they commented on cooperative act and policies.

Also this method was employed in determining the SACCoSs to represent microfinance institutions which are debt financed or equity financed or both basing on their position, experience and knowledge of the topic at hand so as to be able to assess the benefits and challenges from each source.

3.4.3 Stratified Random Sampling

In this sampling, at least two types of sampling units were used. Where it included members and management team from each SACCoS visited. From each group, five (5) members were selected and different managers and accountants were selected randomly from each stratum to represent the respective stratum. This provided the researcher an opportunity to get necessary information from not only the management team but also from members to know how they benefit or suffer from each source of fund.

3.5 Data Collection Methods

The researcher reviewed various documents in collecting data, conducted interviews and discussions with various members and management team concerning different issues especially in years of membership and on challenges of different sources of capital. Also the study used questionnaires as well in order to get enough information concerning the capital structure. Data collection processes and rationale for the selection of the techniques was as follows:

3.5.1 Documentary Sources

The researcher reviewed official as well as non official documents so as to gather secondary data for the study. The documents reviewed were Cooperative Societies Act, No. 20 of 2003 and Cooperative Societies Rule and other SACCoSs' documents. The

researcher also reviewed some of contract for few SACCoSs showing contract of loan between SACCoSs and financiers also repayment schedules for the loan and interest rate charged per year.

3.5.2 Interviews and Discussions

The researcher conducted interviews and discussions with various Microfinance managers and members to collect primary data, when assessing the effects of capital structure in MFIs. Interviews conducted were structured, that is the questions and their sequences were fixed such a way that information was sought. The specific information obtained includes benefits of each type of capital structure, challenges for each source and strategies for development of MFIs.

3.5.3 The Administered Questionnaire

The aim of using the written questionnaire in this study was to gather data on the demographics of the respondents, on their reasons, benefits, challenges and strategies (way forward) for their MFIs capital structure. Also through questionnaires enough information was collected which could not be collected through interviews and this was through the use of open ended questions, and multiple choice questions which were included in order to enable the respondent to have enough room to offer their views which have to be captured among the choices. Questions and approach used in the study are shown in the **Appendix 1**

3.6 Data Analysis

Data collected from this research study were analyzed by the use of Statistical Package for the Social Sciences (SPSS) on demographic description of members and sources of fund and effect of cost of fund. Also Excel programme was used to show the time series of relationship between performance of microfinance and capital structure. Also in other data researcher used STATA package to analyze the correlation between various factors and how they affect the performance of microfinance institutions.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Chapter Overview

The main objective of this study is to assess the effects of capital structure on performance of microfinance institutions in Shinyanga Municipal. Specifically the study examined the following: (i) the effects of cost of capital in profitability of microfinance institutions (ii) the effect of capital structure on efficiency of microfinance institutions And (iii) effects of capital structure on effectiveness of microfinance institutions

Findings from the research study are presented with detail explanations obtained from interviews, questionnaires and documentary methods. This chapter is therefore divided into two sub-sections; the first section consists of demographic description of the respondents and the second part provides detailed results and discussion of the research objectives

4.2 Demographic Description of the Respondents

4.2.1 Categories of Respondents

Table 4.1 shows the distribution of respondents according to their position in SACCoSs. The research study involved 37 members (52.9%), 10 chairpersons (14.3%), 11 accountants (15.7%), 7 managers (10%), 4 cooperative officers (5.7%) and 1 Board member (1.4%).

Table 4. 1: Category of Respondents

Position	Frequency	Percent
Members	37	52.9
Chairperson	10	14.3
Accountant	11	15.7
Board Member	1	1.4
Co-operative Officer	4	5.7
Manager	7	10.0
Total	70	100.0

Source: Research Findings (2013)

From Table 4.1 the respondents interviewed included, members who were 37 (52.9%) who are owners of SACCoSs that is why they have high proportion. From members the researcher was able to assess provision of services, satisfaction of members, and efficiency and effectiveness of performance in microfinance institutions. Also 10 chairpersons (14.3%) were interviewed for the purpose of this research. The chairpersons are the one who supervises the day to day activities of the SACCoSs. The information collected from chairpersons includes sources of funds in a SACCoSs, benefits from different sources of fund and education provided to them concerning capital structure of the SACCoSs. 11 Accountants also were interviewed on loans provisions, cost of capital, capital structure and profitability of SACCoS.

On assessing the policies and procedures guiding the capital structure of SACCoSs 4 cooperative officers (5.7%) were interviewed and gave their views on different sources of fund. Mrs. Nkuba explained that, SACCoSs should be formed of shares, 10% savings, 20% retained profit and grants from different donors. But many SACCoSs they have loans more than 50% and small amount of shares and savings. Mr. Mwika, cooperative officer argued that, the Cooperative act and policies are silent concerning the percentage/proportion of debt to total capital structure leading SACCoSs to depend more on debts than internal sources of fund.

4.2.2 Sex of Respondents

Table 4.2 shows the distribution of respondents by sex and their percentage. From the total 70 study respondents, there were 42 male respondents which is 60% and 28 female respondents which is 40%.

Table 4. 2: Respondents Distribution by Sex

Sex	Frequency	Percentage
Male	42	60.0
Female	28	40.0
Total	70	100.0

Source: Research Findings (2013)

Table 4.2 reveals that most of respondents are men as compared to women. Out of 70 members, 42 are men who constitute about 60% of respondents. On the other hand women comprise of 40% of the total members.

Relating sex of respondents to their contribution in capital structure; it was learned that female members contribute in capital structure through every month savings, shares and interest on loans. Male respondents included penalties in contribution to sources of fund because it shows that are the one who mostly face this penalties than female who do not delay in payments of loans.

4.2.3 The Distribution of Respondents by Occupation and Sex

Table 4.3 summarizes the distribution of respondents by sex and their occupation. Respondents were grouped into government employees, private sector employees and self employed. Findings show that, most of SACCoSs members (among respondents) are government employees with the total of 41 respondents which is 58.6% where by 25 are male government employees and 16 are female government employees. For private sector there are only 2 respondents who were employed in SACCoSs which is 2.9% including 1 male and 1 female. From the findings, 38.6% were self employed (farmers and business persons) in proportion of 16 male and 11 female making total of 27 self employed respondents.

Table 4. 3: Distribution of Sex and Occupation of Respondents

Occupation	Sex		Total
	Male	Female	
Government Employed	25	16	41
Private Sectors employees	1	1	2
Self-employed	16	11	27
Total	42	28	70

Source: Research Findings (2013)

From the research findings as per table 4.3, it revealed that, 41 of the respondents were government employees which are 58.6% of the total respondents. These respondents had good knowledge on capital structure and their contribution. The findings shows that, they participated in decision making concerning capital structure in annual general meetings and decide whether to accept or reject the capital structure. Also most of them recommended that, they expect the capital structure of any SACCoSs need to change as the SACCoSs grows and as per change in technology. According to Mr. Juma who is a member of SACCoSs, stated that, many government employees join SACCoSs to easy their burden of life. SACCoSs help them to meet immediate demands, get capital for their business and support their family and not depend only on salaries.

Self employed respondents were 27 (38.6%) who were farmers and businesspersons. Farmers need other sources of fund to support them in their business activities and in their daily lives. Also business persons need enough funds to support them in their business. Many people in Shinyanga municipal are business persons and most of their funds is from different sources including borrowing, therefore many business persons join SACCoSs to get more fund to support them. For capital structure decision they participate in deciding the proportion which maximizes their benefits and meet their demands at required time. The findings also included two private sector employees who are employees of SACCoSs which are private owned.

4.2.4 Respondents' Sex and their Position in SACCoSs

From the research study, it shows that among the members there are 21 male respondents and 16 female respondents bringing a total of 37 respondents who are members. There were ten (10) respondents who are chairpersons in proportion of 6 males and 4 females. Eleven (11) accountants were interviewed in proportion of 6 male respondents and 5 female respondents. Also four (4) co-operative officers were interviewed including two (2) males and two (2) female respondents. Also six (6) male managers and one (1) female manager were interviewed. Therefore the findings show

that, many respondents (42) in different positions were males than females who were only 28. All this is summarized in the following table 4.4.

Table 4. 4: Relationship between Sex and the Position of Respondents in SACCoS

Sex	Position in a SACCoSs						Total
	Member	Chairperson	Accountant	Board Member	Co-operative Officer	Manager	
Male	21	6	6	1	2	6	42
Female	16	4	5	0	2	1	28
Total	37	10	11	1	4	7	70

Source: Research Findings (2013)

Decision making in capital structure of microfinance institutions (SACCoSs) involve different people with different positions in the SACCoSs. The key decision making body in the SACCoSs is members through Annual General Meeting (AGM). This is where all decisions are made concerning capital structure and other matters concerning policies and procedure of their SACCoSs.

From the study findings, the main group is members who are 37 whereby it includes 21 male members (57%) and 16 female members (43%). Since members are the key decision makers, then they are expected to participate effectively in supervising and managing their capital structure. Also from the study 10 chairpersons were interviewed in proportion of 6 male (60%) and 4 female (40%). As summarized in table 4.4, 47 respondents were male members making 60% of the total number of respondents and female members were 28 respondents making 40% of total respondents.

The findings reveled that, male members are participating more in various economic activities and in decision making. According to the manager of Mwigana SACCoSs, female members and leaders are afraid in making decisions concerning various issues. Therefore male members are the one who most of the times hold different positions also in decision making. Female members and leaders must involve men in many activities

and mostly before reaching any decision. This was caused by cultural a practice which still exist especially in Shinyanga region and that is why even in positions many men hold different positions than female/women.

Managers and accountants are employees of the SACCoSs and therefore they do not participate in decision making for capital structure but they advise the SACCoSs in sources of fund and ways to increase shareholders' welfare. Lubatkin and Chatterjee (1994) stated that, managers should make sure that they return excess cash flow to the shareholders rather than investing in negative NPV projects since the managers will have to make sure that the debt obligations of the firm are repaid. Financial Managers should provide information to management and Board of Directors after analysing the profitability impact of a combination of Equity and Debt Financing, therefore managers are important in advising on capital structure decision.

4.2.5 Respondent's Occupation and their Membership Period

The table below shows the membership period and their occupation. Many members of SACCoSs have a less than five (5) years in co-operative societies and also among 37 of them, 19 (51.4%) were government employees and 16 (43.2%) who have less than five years in SACCoSs are self employed. Also for members who have a period of 5 to 10 years in SACCoSs 10 are government employed and 11 are self employed. For members who have more than 10 years in cooperative societies, all are government employees.

Table 4. 5: Respondents Occupation and their Membership Period

Occupation	Membership period in SACCoSs					Total
	Less than 5	5 - 10	11 - 15	16 - 20	More than 20	
Government employee	19	10	4	2	6	41
Private sector employee	2	0	0	0	0	2
Self-employed	16	11	0	0	0	27
Total	37	21	4	2	6	70

Source: Research Findings (2013)

The period of members and respondents of various SACCoSs ranges between those with less than 5 (five) years to those with more than ten years up to more than 20 years as shown in the Table 5.5 above. These findings above shows that large percent of respondents were currently involving in SACCoSs activities and among them more than 50% are government employees. This explains that, government employees are currently most advised to join SACCoSs and the government has motivated its employees to establish many SACCoSs so as to reduce poverty in our country. Government employees join SACCoSs as soon as they are employed and mostly all of their monthly contributions are deducted direct from their salaries therefore easing the repayment and contribution activities.

Self employed employees have participated effectively in SACCoSs activities. According to the findings 44.4% of respondents were self employed including farmers and business persons. This means that, self employed need enough fund to operate in their activities, that why they join SACCoSs.

4.2.6 Relationship between Product Offered and Occupation

Table 6.6 shows the relationship between product offered by the SACCoSs and occupation of respondents. From the findings, it shows that government employees are the one who save more; receive loan services more, share and deposits than self employed. Those who receive saving services are 17 government employees while for self employed are only 8. For loan services 23 of respondents receive loan services and 12 self employed receive the loan services. Eight (8) government employees access deposit services and 6 (six) self employed respondents access deposit services. Depositing their money as shares, only 12 government employees access that service while for self employed only seven (7) respondents' access the service

Table 4. 6: Relationship between Product Offered and Occupation of Members

Occupation	Products offered by the SACCOSS					Total
	Saving	Deposit	Loan	Share	Other services	
Government employee	17	8	23	12	4	23
Self-employed	8	6	12	7	5	12
Total	25	14	35	19	9	35

Source: Research Findings (2013)

According to the findings in table 4.6; government employees access products more than self employed. Among the 35 respondents, 23 of government employees access loan services compared to 12 self employed. Also 17 respondents who are government employees access savings products and only 7 (seven) self employed access savings products. This means that, government employees participate more in accessing products than self employed.

The Accountant of Walimu SACCoSs said that, government employees are active participants in various products offered because all contributions are deducted direct from their salaries each month depending on what they want to contribute. Also even in loan provisions and repayments, all deductions are done direct from their salaries and hence reduce the delay in payments.

Self employed employees do not have constant sources of fund to contribute in various activities such as share, savings, deposits and loan services. According to the findings from respondents only 8 (eight) self employed participate in savings products and only 12 respondents access loan services. Limited fund and lack of constant flow of cash leads to small contribution and participation in various activities and product accessing.

4.3 Capital Structure of MFI's (SACCoSs) in Shinyanga Municipal

4.3.1 Sources of Fund for SACCoSs

Savings and Credit Cooperative Societies (SACCoSs) have different sources of fund depending on the capacity and management of it. The common sources of fund as per findings (table 4.7) includes; entrance fee which 33.8% of the respondents agreed that it is their source of fund, penalties on late repayments of loans which is 13.5% of sources, interest is contributing more as source of fund because it covers 37.8% of total sources of fund. Printing documents such as policies, rules and regulations and selling them is among the sources of fund for some SACCoSs and it is 13.5% of all sources mentioned. Writing different projects is not commonly sources of fund, that is why only one respondent mentioned it as source of fund for SACCoSs and hence it is only 1.4% response proportion.

Table 4. 7: Sources of Fund for SACCoSs

Sources of Fund for SACCoSs	Responses	
	No	Percent
Entrance fee	25	33.8%
Penalty	10	13.5%
Interest received	28	37.8%
Projects contribution	1	1.4%
Printing and selling documents	10	13.5%
Total	74	100.0%

Source: Research Findings (2013)

From the findings, the sources of fund of the SACCoSs depend on policies, financial strategies of the respective SACCoSs and members willingness to support them. The entrance fees, penalties and interest are commonly sources of fund in almost all SACCoSs visited.

The major sources of fund for different SACCoSs in Shinyanga municipal are interest on loan, entrance fees, penalties for late repayments of loans, printing of documents and selling them and at very minimum rate. Interest received from loans is the major contributor (37.8%) in all sources of fund. This is because SACCoSs members are low income earners and they depend on loan for various family and business activities and therefore from the loans they take they pay interest rate. The interest charged for different loans offered to members is 18% of the loan given that is why it contributes a lot to the total fund/capital of the SACCoSs.

Entrance fee also contribute a lot in the sources of fund, 33.8% of respondents agreed that entrance fee contribute to the sources of fund. The limitation for this source of fund is that, it is paid only once by the member and it requires new member in order to generate more fund.

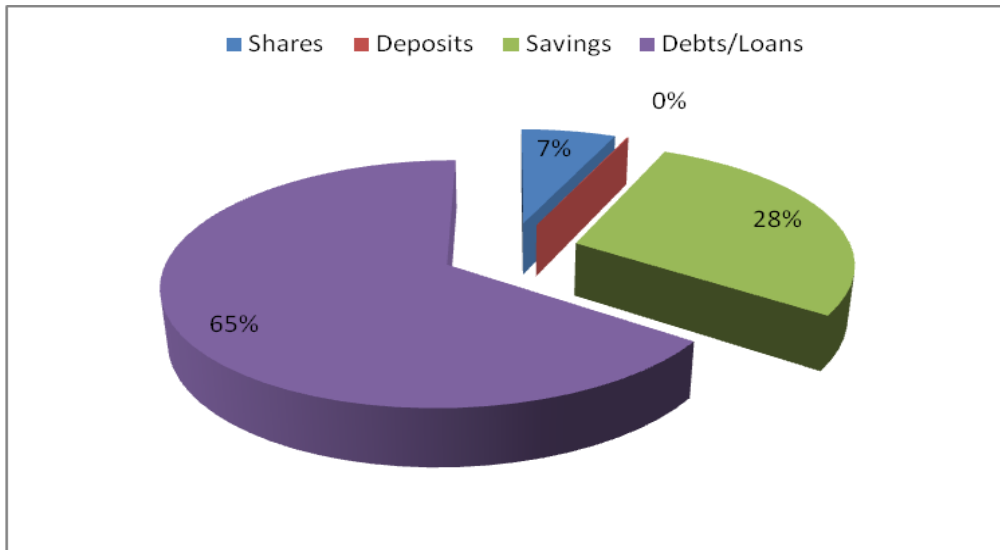
In SACCoSs of Shinyanga municipal they do not use writing of projects as the source of fund for their growth. According to the findings it shows that, people in SACCoSs are not educated in project writing and others are not aware even how it contributes to fund growth. Project write up requires enough skill and knowledge but when it is successful it contributes a lot to the growth and development of SACCoSs.

4.3.2 The Capital Structure of SACCoSs in Shinyanga Municipal

Capital structure refers to the components of permanent sources of financing: funds used to buy mainly fixed assets. The capital structure can either be 100% equity OR a composition of both Equity and Long-term Debt OR a 100% Long-term Debt

Capital structure of various SACCoSs in Shinyanga municipal is formed by either debt only or debt/equity proportion capital structure. Combining both SACCoSs with their capital structure, the findings revealed that, many SACCoSs depend on debt financing rather than equity financing. Even for those which are Equity only financing their capital is very small compared to debt/equity financing SACCoSs.

Figure 4. 1: Capital Structure of SACCoSs in Shinyanga Municipal



Source: Research findings, (2013)

Figure 4.1 shows the capital structure of SACCoSs in Shinyanga municipal. The loans hold an average of 65% of total capital structure for all SACCoSs followed by savings which constitute a proportion of 28%. Others are shares forming a 7%; and very small part 0.1% for deposits.

The capital structure of a firm is how the firm has elected to finance its assets. Each firm has an optimal level of debt and equity at which it can operate most efficiently and profitability. As per findings shown in figure 4.1; the capital structure of most microfinance institutions in Shinyanga municipal they most depend on debt financing rather than internal sources of fund (equity financing). In average for all SACCoSs the proportion of debt financing is 65% compared to equity/internal sources which is 35% (savings 28%, shares 7% and deposits 0.1%).

The details of each SACCoSs visited and proportion of capital structure is shown in Appendix III where the capital of different SACCoSs forms up to 95% debt and only 4% equity financing. This shows how some SACCoSs depend totally on debt rather than

equity financing. Only four (4) SACCoSs are equity only financed and six (6) are have proportion of equity and debt financed.

Debt financing is an expensive source of fund for SACCoSs because they pay interest of 16% on the loan provided and for short term loans they pay interest of 11% on flat rate method. Debt financing requires minimum operating expenses in order to be profitable because, this loan is charged out to members at 18% only. Therefore, this interest rate should be used to cover operating expenses and remain with profit. According to Kasilo (2011), ‘the larger the Debt Equity Ratio the more the risk shareholders assume!’

Equity financing (internal sources of fund such as shares, savings, deposits and reserves) are the cheapest sources of fund for SACCoSs. In Shinyanga, few SACCoSs provide interest on shares and it is only 3% per year. For deposits; those who are non members but only customers’ interest of 3% to 4% is provided. But about (80%) of SACCoSs of visited, they do not provide interest on internal sources of fund. Deposits are not much encouraged by SACCoSs that is why they are at minimum level. According to the findings, members believe that deposits are for non members and therefore they do not bother to keep their funds as deposits.

4.3.3 Reasons for Choosing Type of Capital Structure

Capital structure of various SACCoSs in Shinyanga municipal as explained above is selected due to various reasons. Table 4.8 shows the response of members concerning the reasons for choosing the type of capital structure. 12 respondents (36.4%) among 33 who were total respondents stated that, they choose the type of capital structure because it is easily available while the other 33.3% of respondents (11 members) argued that, they were advised by cooperative officers to have that type of capital structure. The remaining 30.3% of respondents (10 respondents) stated that, members themselves choose the type of capital structure depending on their needs and the capacity of the SACCoSs to manage and supervise the activities.

Table 4. 8: Reasons for Choosing Capital structure

Reasons for choosing capital structure	Responses	
	Number	Percent
Easy availability	12	36.4%
Member selection	10	30.3%
Cooperative officers advice	11	33.3%
Total		100.0%

Source: Research Findings, (2013)

According to the findings, SACCoSs choose the type of capital structure because it is easily available and therefore meet the needs of members in time. The field study shows that members need enough capital and due limited amount of shares and savings they can't meet those needs and therefore they decide to borrow from external sources which are easily available such as loans from commercial banks. Although may be expensive but it is fund which is easily available.

Also they choose the type of capital structure because members decided to have that structure. Members in SACCoSs are the final decision makers and therefore they are the one who decides what type of capital structure they need during the annual General Meeting (AGM).

Cooperative officers are also used by SACCoSs in decision making concerning capital; structure and other necessary matters. 33.3% of respondents stated that, cooperative officers advised them on the type of capital structure they have. In some SACCoSs cooperative officers prepare the financial statements of the respective SACCoSs and also they are required by the government to audit the financial statement. Therefore they play a great role in development and growth of SACCoSs.

4.4 Effect of Cost of Capital/ Interest on Profitability

4.4.1 Cost of Capital

Capital is the term used by firms for funds needed for investment purposes (not for day to day operating needs). This capital carries a cost because the investors want a return on their investment (shares, bonds, bank loans, etc). Each of these sources carries a different cost based on the required rate of return of each provider (source) of these funds.

Table 4. 9: Cost of Capital for Each Source

Source	Amount	Cost
Shares	181,918,224	3%
Deposits	2,836,250	0%
Savings	785,407,593	0%
Debts/Loans	1,817,697,643	16%
Total	2,787,859,710	

Source: Research findings

In Shinyanga municipal they provide constant interest rate on share, it does not grow but remain constant at that rate. For loans/credit the interest charged is 16% for long term loans but it is expected to grow up to 18% for the year 2013. Deposits and savings no return/interest is provided to investors and therefore it is offered at 0% rate as shown above.

4.4.3 Proportion of each Source of Fund and Calculation of WACC

From the total capital structure of the firm, the proportion/percentage of each source of fund in optimal capital structure is explained in table 4.10. The debt proportion is higher and it is 65.2% followed by savings with 28.17%. The cost of capital is finally calculated by calculating the Weighted Average Cost of Capital (WACC). According to Pandey (2009), WACC measures the weight of each cost of capital in relation to its proportion/percentage in total optimal capital structure as follow:

$$WACC = (WT_d \times AT k_d) + (WT_p \times k_p) + (WT_s \times k_s)$$

Whereby;

WTd =Weight of debt,

ATkd= After tax cost of debt,

WTp= Weight of preferred stock,

kp = Cost of preferred stock,

WTs=Weight of equity and

ks = Cost of equity

But since our capital structure is formed by only debts/loans and equity (shares, savings, deposits, retained earnings) therefore, calculation of WACC will be as follows:

$$WACC = (WT_d \times AT k_d) + (WT_s \times k_s)$$

Table 4. 10: Calculation of WACC

Source	Amount	Proportion (%)	Cost	WACC
Shares	181,918,224	6.5%	3%	0.20%
Deposits	2,836,250	0.1%	0%	0.00%
Savings	785,407,593	28.17%	0%	0.00%
Debts/Loans	1,817,697,643	65.20%	16%	10.43%
	2,787,859,710		WACC	10.63%

Source: Research findings (2013)

Therefore weighted average cost of debt is 10.63% for all sources of capital structure. This cost includes interest rate, but others such as; business risks rate, market risks, financial risk, inflation and market price per share are mostly ignored but they are also considered as cost of capital.

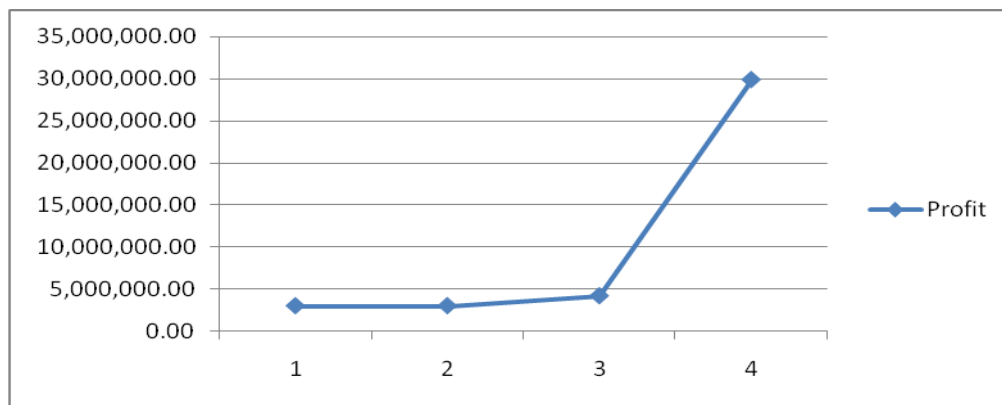
4.4.4 Profitability of SACCoSs

- **Profitability for Equity only SACCoSs**

Equity only financing SACCoSs their profitability increases year after year, this is because they do not pay interest or return from their sources of fund. No interest on share, deposits or savings is provided to them but people use SACCoSs as the place of

safety for their money. Therefore the profitability trend for equity only SACCoSs was at first increasing at decreasing rate but from the year 2010 the profitability has been increasing at increasing rate because many people have been joining SACCoSs and so as capital increases the profitability also increases as no interest is charged for sources of capital as shown in the table below.

Figure 4. 2: Profitability Trend for Equity only SACCoSs



Source: Research Findings, (2013)

Figure 4.2 above means that, from year 1 (2008) to year 2 (2009) the profit remain constant at 3 Million, but for year 3 (2010) the profit increased to 4 Million which is 26.9% increase. From the 3rd year (2010) to 4th year (2011) profit increased at increasing rate up to 29Million due increase in number of SACCoSs and accumulation of capital.

As per correlation coefficient results, equity only SACCoSs has 0.5 linear relation which is 50% relation. This means that as profit increases the amount of capital for equity SACCoSs increases from one year to another. Therefore capital is affected by the profitability generated from it and therefore it also affects its growth. **(Appendix v)**

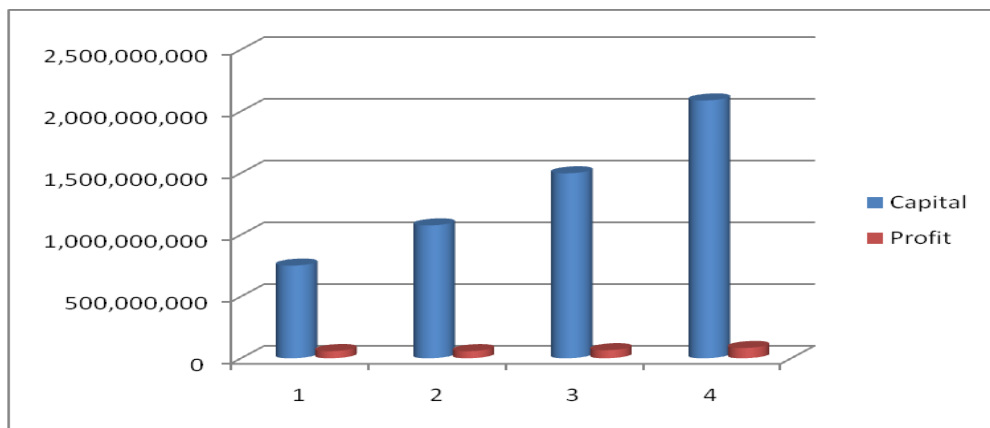
Profitability for Debt/Equity Financed SACCoSs

Figure 4.3 shows the relationship between capital structure and profitability for debt/equity SACCoSs. The findings show that, the profit is very small in comparison to

capital structure which is very high. The profit is less than 100Million while capital is more than 2 billion.

Also from results of correlation coefficient shows that, there is positive linear relationship of 0.68 which is 68% between debt/equity financing and profitability. The profitability affects the performance or the amount of debt/equity SACCoSs a lot and therefore may affect the performance.

Figure 4. 3: Capital Structure and Profitability for Debt/Equity SACCoSs



Source: Research Findings, (2013)

Profitability for debt/equity financing SACCoSs as per findings it is low in comparison to capital. For the first two year it decreased at low rate but the last two years it was increasing although not in the required rate. This was affected more by payments of interest to financiers which was 16% for long term debts and 11% for short term loans. Therefore debt/equity SACCoSs their efficiency and growth of profitability is affected by debts they have and therefore the profitability is satisfactory. According to the findings, many members from this type of SACCoSs argued that, their profitability is good/average although activities are performed well.

4.4.5 Relationship between Interest/Cost of Fund and Profitability

For debt financing SACCoSs, the findings shows that, as the capital increases the interest rate/cost of capital was increasing also at increasing rate, but the profitability of the SACCoSs was increasing at decreasing rate. For the year 2008 to year 2009 the profitability was high compared to interest/cost (profit was 8.1% while interest was 7.8% for the year 2008 and for the year 2009 profit was 5.6% and interest was 5%) but for the year 2011 the interest paid was much higher compared to profitability, it was 88% more than profit generated in percentage term profit was 4.6% while interest was 10.7%. Therefore for debt/equity financing SACCoSs they use more of their fund generated to pay interest for their borrowed fund rather than increasing the owners' welfare.

From correlation coefficient results it show there is strong relationship between debt/equity financing SACCoSs and cost of fund which is 0.6 relations which is 60%. This means that, as capital increases so does the cost of capital. But for equity only SACCoSs there is relationship but not very strong of 0.4 which is 40%. This means that there is weak relationship between cost of capital and type of microfinance institutions. Therefore cost of capital affect equity only SACCoSs but not as how it affect debt/equity SACCoSs.

Table 4. 11: Relationship between Cost of Fund/Interest and Profitability

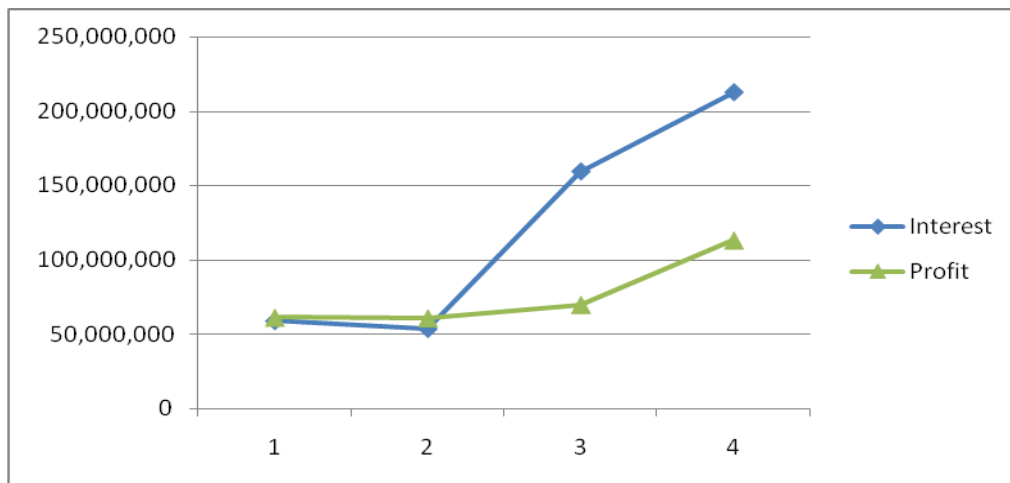
Year	Capital	Interest	Profit
2008	750,410,499	58,810,521	61,008,376.25
2009	1,076,114,666	53,497,585	60,571,438.25
2010	1,497,966,987	159,595,239	69,628,460
2011	2,088,100,709	212,868,325	113,248,523.60

Source: Research Findings, (2013)

For the year 2011 interest decreased at decreasing rate although the capital increased at increasing rate. For 2010 interest was 10.7% but for the year 2011 interest was only 10.2% decrease of 0.5% cost of fund.

Figure 4.4 summarizes the relationship between the interest and profitability for debt/equity financing SACCoSs. The debt/equity SACCoSs had 3% interest on shares and 16% was interest on loan making a total of 19% cost of capital. For profitability, it increases every year proportion to interest. For the year 2008 (year 1) to year 2 (2009) the interest rate declined but the profit increased at decreasing rate, but for 2010 and 2011 the interest increased at increasing rate but profit increased at small rate compared to interest.

Figure 4. 4: Relationship between Interest and Profit for Debt/Equity SACCoSs



Source: Research Findings, (2013)

Figure 4.4 shows that, for year 1 (2008) and year 2 (2009) profit was high in relation to interest charged were by profit was 8.1% and interest was 7.8% and for year 2 profit was 5.6% but interest was 5%. For the 3rd year interest increased for more than 100 Million while profit increased for 10 million only. For 4th year interest increased for more than 50 million so does the interest rate. Therefore change in interest rate affect profitability of SACCoSs.

According to the manager of Biashara SACCoSs, the cost of fund decreases as they borrow more because profit is generated and capital increases. Therefore, borrowing is used as the means to increase profit of the SACCoSs and therefore increase capital as the

profit will be retained and not distributed. Also he said that, some of the SACCoSs they borrow at 16% from commercial banks and issue the loan to its members at 11% which is lower than the cost of fund due to increase in profitability and growth of the SACCoSs.

4.5 Capital Structure and Efficiency of Microfinance Institutions

Efficiency for microfinance institutions is measured by product offered, cost per loan portfolio, and number of clients per loan officer, output per cost and loan repayment capacity of the SACCoSs.

4.5.1 Product Offered by SACCoSs

SACCoSs offer different products in fulfilling members' needs as indicated in table 4.12. According to the findings, the loan services are most offered in all SACCoSs visited. 34.4% of the product offered is a loan service which is the highest. Savings product is also offered where 24.5% of respondents receive savings product. The deposit services are only 13.7% while shares are 18.6% where people save their money in form of shares. The findings also showed 8.8% of services offered are other services which include family issues support, education and training in various issues and financial advice.

According to the findings, all SACCoSs without considering the capital structure showed that loans services/products are most offered and members agreed on that, followed by savings products, but, the only difference was in quantity and quality of services. The debt financing SACCoSs seems to meet needs of members more than equity only SACCoSs. Taking example of Halmashauri SACCoSs the loans provided are in large quantity, according to needs and there are various loan products offered such as agricultural loans, education loans, emergency loans and others.

Table 4. 12: Product offered by SACCoSs and Their Average for 2011

NAME	SHARE	SHARE/ MEM	DEPOSIT	DEP/ MEM	SAVINGS	SAV/ MEM	LOAN ISSUED	LOAN/ BORROWER
BIASHARA(N=89)	17.4 M	195,744	720,250	8,093	119.8M	1,346,494	476M	8,209,138
TEACHERS(N=165)	8M	50,303	-	-	-	-	27.9M	263,428
ARI MPYA(N=91)	1.4 M	15,275	-	-	4.1 M	44,835	6.1M	322,105
CCM(N=172)	3.5M	20,581	-	-	1.5M	8,647	6.8M	377,184
KIZUMBI (N=83)	8.8M	103,338	1,500,000	18,072	44M	530,310	69.8M	3,673,105
JOMU(N=219)	6 M	27,397	616,000	2,813	4M	18,219	6.5M	405,250
MWIGANWA(N=228)	10 M	43,860	-	-	58.6M	257,114	198.2M	3,603,803
MANISPAA(N=173)	13.7M	79,249	-	-	39.4M	227,672	48M	1,371,429
KURUGENZI(N=422)	32 M	75,829	-	-	53.9M	127,725	131.9M	462,807
HALMASHAURI(N=328)	70.1M	213,720	-	-	429M	1,308,019	710.3M	1,315,324

Source: Research Findings, (2013)

For equity financing SACCoSs, the findings show that, these products are not fluently provided. For example, the shares and savings of Jomu SACCoSs are constant from year 2009 up to year 2012. This means, shares and savings were deposited during the start of the SACCoSs and therefore no additions or deductions. Also loan services were provided in 2009 development loans only and for two years no loans were provided until 2012 were only 6Million loan was issued to its 19 members.

4.5.2 Capital Structure and Profitability

The findings shows that, among 10 visited SACCoSs only 2 (20%) provide interest on shares and all of them are debt/equity financing SACCoSs. Therefore debt/equity SACCoSs had 3% interest on shares and 16% was interest on loan making a total of 19% cost of capital. For profitability, it increases every year proportion to cost of capital

and it increases at increasing rate. For the year 2008 to year 2009 the profit decreased for small rate, but for 2010 and 2011 it increased for a small amount.

Table 4. 13: Profit for Debt/Equity SACCoSs

Year	Capital	Profit	Profit % of capital
2008	750,410,499	57,983,053	7.7%
2009	1,076,114,666	57,546,115	5.3%
2010	1,497,966,987	65,416,460	4.4%
2011	2,088,100,709	83,349,448	4.0%

Source: Research findings (2013)

As per correlation coefficient, there is positive linear relationship between debt/equity SACCoSs and profitability of 0.68. This means that, increase in capital leads to increase in profitability.

Equity only SACCoSs has also positive linear relationship of 0.5 which is 50% between equity financing and profitability. Therefore the profitability has an effect on the equity SACCoSs and therefore affects its performance because as the capital increases the profitability also increases **(Appendix v)**

Their profitability is increasing year after year, for the year 2011 it increased at increasing rate from Tshs 4 million to Tshs 29 million due to increase in equity only SACCoSs and joining of new members in SACCoSs therefore leads to high capital structure and hence high profit. According to the findings from members service provision is satisfactory but need more fund to meet varieties loan services needed.

Table 4. 14: Profitability for Equity Financed SACCoSs

Year	Capital	Profit	Profit % of Capital
2008	10,027,024	3,025,323.25	30%
2009	10,477,024	3,025,323.25	29%
2010	15,677,024	4,212,000	27%
2011	145,922,300	29,899,075.60	20%

Source: research Findings

4.5.3 Cost per Loan Portfolio/Output per Cost

Output of microfinance institutions such as SACCoSs is measured by the loan portfolio issued to members. Loan issued differs from what is provided by Equity financed SACCoSs and Debt/equity SACCoSs.

Debt/equity financed SACCoSs provide large amount of loans to its members, the interest charged per loan provided to each member is 18%. As per findings, the correlation coefficient results, there is 0.70 linear relationship between cost of loan/interest on loan and loan issued. This means that, increase in interest rate to member has positive effect to loan provision and decrease also affect the loan issued to members. The relationship is strong but not the same as for equity only SACCoSs because loan issued increases and are very high but the interest charged remain the same.

Equity only SACCoSs has positive and strong linear relationship between interest rate and loan issued of 0.96. This means that, increase in interest rate has very strong impact of 96% in loan provision. This is because loan issued are of average quantity while the cost of loan/interest rate remain constant at 18% and therefore it affect the borrowing rate. **(Appendix v)**

4.5.4 Capital Structure and Loan Repayment

For debt/equity financing SACCoSs they have high amount of loans than equity and therefore the repayment capacity is necessary to be accessed. From the findings it showed that, those who borrow fund they pay their debt efficiently. According to the manager of Biashara SACCoSs, new loans are not issued unless the past due debts are paid. Biashara SACCoSs are able to take loans from commercial banks every year and they pay whole debt within the year. For example in year 2010 they took Tshs 226,000,000 and at the end of the year they were able to pay the whole debt including 16% interest rate on debt. This shows that, members pay their debts promptly and there are no past due and due to this the SACCoSs also pay debt on time and be in position to

borrow again. This shows effective and efficiency management of SACCoSs in its activities.

For equity financing SACCoSs, debt repayment of members is efficient and that leads to growth in profitability of the firm. Equity financing do not have external financing but only internal therefore we can't measure the repayment of liabilities.

4.6 Capital Structure and Effectiveness of SACCoSs

Effectiveness of the SACCoSs covers various areas or indicators which includes; loans output per objectives, includes outreach which covers depth (reaching out the poor) and breadth (number of clients over time). It also covers loan size provided; number of members provided the loan services and loan size per member.

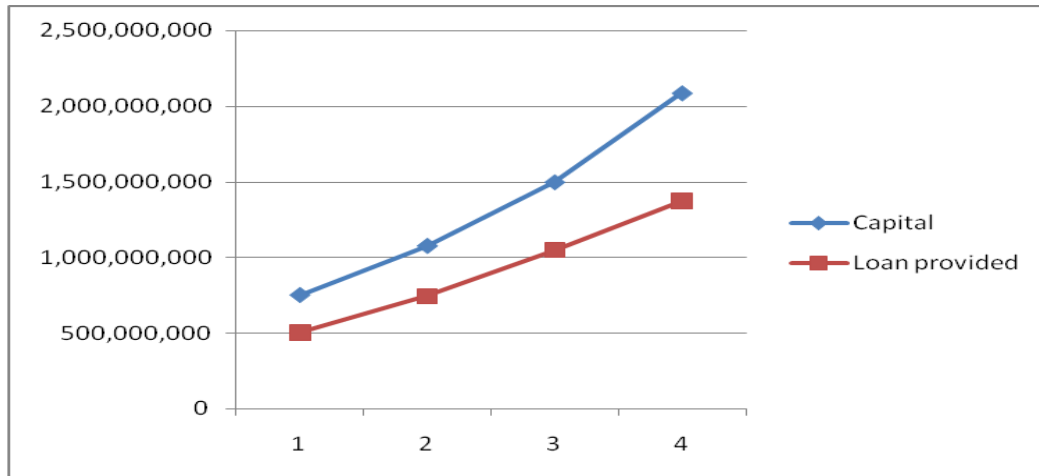
4.6.1 Capital Structure and Loan Provided

Loans/credits provided to members depend on capital of the SACCoSs. From the findings it shows that, debt/equity SACCoSs depend much on their capital to provide loans different from Equity financing only SACCoSs. Therefore the findings are divided into two groups; SACCoSs which have Debt/Equity capital structure and those which have Equity only capital structure as follows:

4.6.2 Relationship between Capital and Loan provided for Debt/equity SACCoSs

Figure 4.5 shows the trend of capital structure for four years in proportion to loans provided to members for those years. The findings shows that, as the capital increases per year so does the loans provided to members. All capital structure and loans provision are increasing per each year as shown here under.

Figure 4. 5: Relationship between Capital Structure and Loan Provision



Source: Research Findings, (2013)

Figure 4.5 shows that, as Capital increases from year 1 (2008) to year 2 (2009) for 43% the amount of loan issued to members also increased for 49% and for the 3rd year (2010) capital increased for 39% and the loan issued also increased for 41%. For the 4th year, capital increased for 39% and loan issued increased but at decreasing rate for only 31%. This means that, as capital increased, the loan issued to members also increased and when capital decreased so does the loan issued.

Using correlation coefficient shows that for debt/equity SACCoSs there is strong linear relationship of 0.75 or 75% between amount of the capital and loan provided. This relationship means that increase in capital leads to increase in loan issued or provided to members, and therefore capital affect amount of loan issues (Appendix v). Detail explanations are as follows:

Capital of Debt/Equity Financed SACCoSs

Among ten (10) visited SACCoSs, six (6) are Debt/Equity financing which marks 60% and Equity financing is 40% which is a total number of 4 SACCoSs and 3 of these Equity Financing SACCoSs have been in operation for less than five years. The growing and known SACCoSs in Shinyanga municipal includes, Biashara SACCoSs, Kurugenzi

SACCoSs, Halmashauri SACCoSs, etc. Biashara SACCoSs as Debt/equity financed SACCoSs, its capital structure and loan provided is shown as follows:

The capital structure proportion for the respective SACCoSs for two years was calculated using the following formulas:

$$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total Capital}} \times 100$$

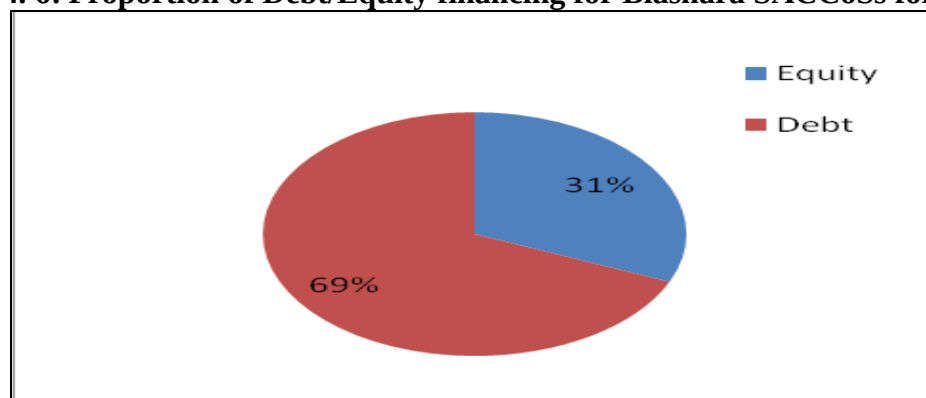
$$\text{Debt ratio over Total capital} = \frac{\text{Debt}}{\text{Total Capital}} \times 100$$

Table 4. 15: Capital Structure of Biashara SACCoSs for the Year 2010 and 2011

Year	Shares	Savings	Loan/Debt	Debt Proportion	Equity Proportion
2010	7,733,000	77,395,500	226,000,000	72.6%	27.4%
2011	17,421,200	119,838,000	300,000,000	68.6%	31.4%

Source: Research Findings, (2013)

Figure 4. 6: Proportion of Debt/Equity financing for Biashara SACCoSs for 2011



Source: Research Findings, (2013)

From the above detailed calculation of Debt/Equity ratio it can be seen that, the Debt proportion is much higher for Biashara SACCoSs and for all others which are debt and Equity financing

Loan Size of debt/equity financed SACCoSs

The capital structure of the SACCoSs has effect on the size of the loan of the SACCoSs which is provided to the member and the varieties of loans services provided to members. From the data collected, SACCoSs which are Equity financing only have been providing enough loan but limited varieties of loan services. Most of them providing development loans only; and some provide emergency loans only; and others provide development loan and few emergency loan services to its members. For example, Mwigana SACCoSs has provided only development loans up to Tshs 191,209,182/= for the year 2011. Loan provision for equity only SACCoSs is high compared to capital structure because they receive subsidies, grants and use retained profit to increase their capital. For 2011 the loans were high because some groups with high savings changed from VICOBA to SACCoSs with large amount of savings and hence they issued large loans compared to their capital structure.

Equity only SACCoSs issue large loans compared to their capital structure but others issue small loans for example, Jomu SACCoSs has provided development loan only of up to Tshs 6,120,000/= only.

Debts financing SACCoSs have been providing much loan and also varieties of loan services to its members. This has been seen from Biashara SACCoSs which provided development loan up to Tshs 454,130,000/= for the year 2011 and emergency loans up to Tshs 24,000,000/=. Also Halmashauri SACCoSs has provided development loans up to Tshs 355,137,543/=. emergency loans of up to Tshs 106,541,263/=. agricultural loans of Tshs 142,055,017/= and other loans of up to Tshs 106,541,263/.

This shows that, Debt/Equity financing SACCoSs has been providing many financial services to its members and the size of the loan they issue to its members is much higher compared to the Equity financing SACCoSs.

Loan Size per Member

Debt/equity financing SACCoSs have high amount of capital but the findings shows that, they issue large amount of money to few members. Measuring the efficiency requires consideration of loan per borrower. As per correlation coefficient results (Appendix iii) it shows that, there is negative linear relationship between debt/equity and loan per borrower of -0.05. This means that, as debt/equity amount increases number of borrowers decreases and therefore large amount of loan is issued to few members. This means that poor people do not receive a large amount of money but large income earners. This has been shown in more detailed example of Biashara SACCoSs.

Loan size varies according to capital, considering Biashara SACCoSs as a sample of debt/equity financing SACCoSs which was expected to provides loans to members who are low income entrepreneurs the results shows that, Biashara SACCoSs provide to members for the year 2009 was Tshs 93,400,000 provide to 14 members as Business loan, this shows the proportion of Tshs 6,671,428.57/= per member and for the year 2011, total development loan provided to members was Tshs 452,130,000 provided to 34 members, therefore shows the proportion of Tshs 13,297,941.18/= per individual member as shown bellow;

Table 4. 16: Loans Size per Member for Biashara SACCoSs

Year	Total Loan Amount	No. of borrowers	Estimated Loan per member
2009	93,400,000	14	6,671,428.57
2010	307,300,000	32	9,603,125
2011	452,130,000	34	13,297,941.18

Source: Research Findings, (2013)

Therefore, it shows that, loan amount provided to individual members per year has been increasing year after year; from the year 2009 to 2010 has increased up to 44% and for the year 2011 proportion loan size per member has increased up to 38.5% more than year 2010. Large amount of money is issued to few people instead of being provided to

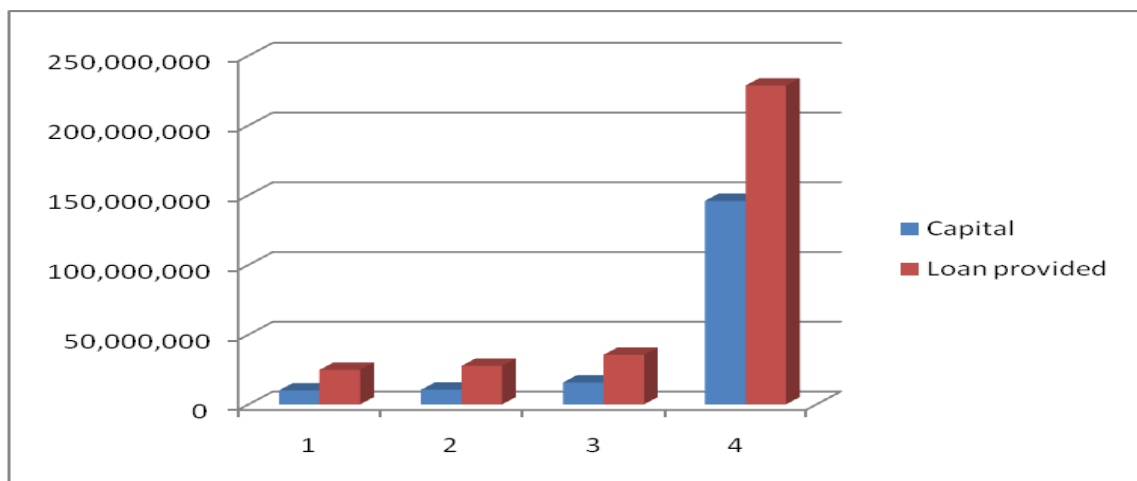
many low income earners. According to Small and Medium Entrepreneurs' policy, the low income earners are required to receive loans of Tshs 500,000 to 5 million. But the above SACCoSs provide loans to medium entrepreneur and not low income earners.

4.6.3 Relationship between Capital structure and Loan Provision for Equity SACCoSs

Figure 4.7 shows the relationship between capital structure for equity only SACCoSs and the loans provided. From the findings it revealed that, equity only SACCoSs provides more loans than even the capital they have. This is because, the profit add back to capital and they accumulate enough savings and deposits before they decided to issue loans; if there is no enough capital in a SACCoSs, then no loans are provided until another year.

Correlation coefficient shows that there is positive but weak linear relationship between equity financing SACCoSs and loan issued to borrowers which is 0.29. This means that increase in equity capital leads to 29% increase in loan issued. Therefore loan issued to members in equity financing SACCoSs is very small affected by the changes in capital

Figure 4. 7: Relation between Capital Structure and Loan for Equity SACCoSs



Source: Research Findings, (2013)

For Equity only financing SACCoSs, the loan provision and loan size depend mostly on the size of equity amount generated. Taking an example of Kizumbi SACCoSs which is only financed by equity collected from members was highly performing SACCoSs in these years among the equity only SACCoSs, the loan provision especially development loan for the year 2009 was Tshs 56,995,564 provided to 10 members which shows the proportion of Tshs 5,699,556/= per person and for the year 2010, development loan provided was Tshs 62,000,000 to 15 members shows the proportion of Tshs 4,133,333.33/= per person as shown below:

Table 4. 17: Loan Size per Member for Kizumbi SACCoSs

Year	Total loan Amount	No. of borrowers	Estimated Loan per person
2009	56,995,564	10	5,699,556.4
2010	62,000,000	15	4,133,333.33

Source: Research Findings, (2013)

From the presented data, Kizumbi SACCoSs loan provision per person for the year 2010 decreased by 24%. By the range of 4 Million and 5Million it meets the low income earners and very few medium class entrepreneurs. Therefore comparing the given two SACCoSs and others from the findings, it has been observed that, Debt/Equity financing SACCoSs have been giving large amount of loan to its members compared to Equity financing SACCoSs. Also equity financing SACCoSs they fluctuate in loan provision. For example Jomu SACCoSs provided development loan to its members in 2009 amounting to Tshs 950,000 in total to its 6 members in proportion of Tshs 158,333.33/= per person and another development loan was provided in the year 2010 of Tshs 6,120,000 to its 19 members. For the year 2010 and 2011 they were not able to provide loans to their members due shortage of fund to meet the demands.

Therefore, it has been observed that, capital structure has high influence on the loan size of the firm and the loan amount provided to members. The higher the capital, the higher

the loan amount provided to members. Also Equity financing leads to limited amount of fund/capital and hence limited loan size provided to members

But debt/equity SACCoSs provide large amount of loan per member which does not meet the low income earners needs as they are afraid to join and to repay therefore they do not meet the depth of microfinance institutions i.e. Reaching out the poor.

For equity only SACCoSs they provide small loans to many people and therefore reach the majority poor and satisfy their needs.

4.6.4 Capital Structure and the Effect on Outreach of Microfinance Institutions

The number of members reached by microfinance institutions (SACCoSs) is small in comparison to the total number of people living in the municipal. Shinyanga municipal has not more than 12 SACCoSs and the biggest SACCoSs have 422 members. From the findings, among the ten (10) visited SACCoSs, the total members from all the SACCoSs are not more than 2000 members. All the SACCoSs are centralized and service provision covers for only people living at the city centre and very few are from out of town.

Table 4. 18: Number of Members for various SACCoSs in Shinyanga Municipal

No	Name of SACCoSs	Male	Female	Total
1.	Teachers	63	102	165
2.	CCM	130	42	172
3.	Halmashauri	149	179	328
4.	Manispaa	104	69	173
5.	Ari Mpya	62	29	91
6.	Biashara	81	8	89
7.	Mwiganwa	103	125	228
8.	Kizumbi	53	20	83
9.	Kurugenzi	150	272	422
10.	Jomu	130	89	219

Source: Research Findings, (2013)

Considering type of microfinance institutions and number of members, all microfinance institutions such as equity only SACCoSs and debt/equity SACCoSs are seen have weak linear relationship of 0.14 and 0.1 for equity only SACCoSs. This means that, increase in number of members in SACCoSs has weak relationship with the type or sources of fund.

Therefore increase in number of members is almost equal to all types of SACCoSs, although for debt/equity seems to increase a little bit more than in equity only SACCoSs.

4.6.7 Outreach of MFI's in Shinyanga Municipal

The research finding shows that, the amount of capital owned by the society determine how much will be distributed to members and how many members will be able to access the services. Finance sector in Shinyanga municipal which is populated with 161,391 people (2012 Tanzania Population and Housing Census) is still very small. From the research findings the formal financial sector (Commercial banks) in Shinyanga municipal are five (5) banks. For Savings and Credit Co-operative Societies in Shinyanga municipal there are 11(eleven) known SACCoSs which serve about 2,000 people in the whole municipal which is 1.3% of the total population. Others are served by NGO's such as FINCA, PRIDE, Bayport, Tunakopesha Ltd, etc. Majority of the poor in Shinyanga municipal are either served by informal financial sectors/service provider known as IFOGONGHO and some have no access to finance of any type.

4.6.7 Relationship between Capital structure and Outreach of SACCoSs

Capital structure for SACCoSs in Shinyanga municipal is mostly either Equity financing (which combines shares, savings, and retained earnings) or Debt/Equity financing which is mostly loans from Commercial banks such as CRDB. Some SACCoSs which are formed by Debts and Equity seems to meet a large number of people in Shinyanga municipal. For example; Kurugenzi SACCoSs which provide financial services to government and non-government workers in total of 422 members (272 women and 150 men) which is 21% of total population provided financial services by the SACCoSs in Shinyanga municipal.

However, Biashara SACCoSs which is Debt/Equity financing with proportion of more than 58% and huge capital of more than 400Million it provides financial services to only 89 members (81 Men and 8 Women). From the findings, the reason behind is because, price per share is high and loans are provided at high quantity although interest rate for loan is only 18% but people are afraid to borrow and fear even to join.

Equity financing SACCoSs seems to reach very few people in municipal, among all evaluated by researcher only Mwiganza SACCoSs seem to reach many people compared to others. It provides financial services to 228 members (103 Men and 125 Women) which is 11.4% of overall total of members of SACCoSs in Shinyanga municipal.

These statistics reveal that, capital structure of the SACCoSs can influence the outreach of the SACCoSs to meet demands of the population who might not have access to those services but in a low/minimum extent. The variation between debt/equity and equity only SACCoSs is very small in number of members who receive the services.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Chapter Overview

This chapter is divided into three parts which includes (i) Summary of all the findings where main and specific objectives of the study are answered (ii) Conclusion of all the findings and (iii) Recommendations for SACCoSs and government for future development of SACCoSs and all other Microfinance institutions.

5.1 Summary of Findings

5.1.1 Sources of Fund and Capital Structure

Different sources of fund such as entrance fee, penalties, interest received on loans, printing and selling various documents such as policies and accounting books and projects are the commonly used sources in SACCoSs. These sources form part of capital especially for equity only SACCoSs but for equity and debt financing SACCoSs, most of their capital is formed by debts. According to findings, capital structure of SACCoSs in Shinyanga municipal is formed of 65% debt financing and only 35% are internal sources of fund. Therefore sources of fund contribute very little in the capital structure of the SACCoSs in Shinyanga municipal.

5.1.2 Cost of Capital and Profitability

The findings shows that, the Weighted Average Cost of Capital for most debt/ equity financing SACCoSs in Shinyanga municipal is 10.63% while their profitability ranges from 8% to 4% only. Therefore the cost of fund is higher than Internal Rate of Return (IRR)/profitability. This is shows that, cost of operation of SACCoSs which depend on debt is high than profitability. Also the findings show that, most of income generated is used to pay debt and remain with very minimum profit. But at the same time, cost of

fund declined as the debt increases, for example in year 2010 cost of fund was 10.7% but in year 2011 cost of fund was 10.2% although profit was still at a minimum level.

5.1.3 Capital Structure and Efficiency of SACCoSs

The efficiency SACCoSs is affected by management and its members. According to the findings, the provision of services is according to the fund/ capital the firm has but for repayment of debts and loans requires commitment of management and members. If a SACCO is well managed, then, the debt will be paid in time and repayment of loans from members will also be accurate with no past due loans as it was found from Biashara SACCoSs and Mwigana SACCoSs. They have different capital structure but repayment of loans from members is accurate and Biashara SACCoSs pay its debts from commercial bank on time.

For the case of profitability debt/equity financing SACCoSs have small but increasing capital due to interest repayment but for equity only SACCoSs their profit is growing year after year and leads to increase in capital that is why all have positive linear relationship between capital and profitability.

All SACCoSs have positive relationship between loan issued and interest rate. This means that, all SACCoSs with different capital structure increase in interest rate affect the amount of loan issued to members.

5.1.4 Capital Structure and Effectiveness of SACCoSs

The findings shows that SACCoSs with capital structure combined of debt and equity, provide more loans and at large quantity than equity only SACCoSs. The loans provided by equity only SACCoSs are formed by profits, penalties, interest on loan and other sources. The findings show they issue more loans than their capital structure due to these other sources including grants and subsidies.

In case of outreach many SACCoSs with debt and equity financing capital structure meet more people compared to equity only SACCoSs where very few meet large number. From the data, SACCoSs such as Kurugenzi SACCoSs which is debt/equity financed meet more than 400 people in Shinyanga municipal who are government employed and non-government employed but. Mwiganza SACCoSs which is equity financed meet more than 200 members which is the largest among all equity financed. Debt/equity financed SACCoSs provide large amount of loan per member compared to equity only SACCoSs. Due to this amount they fail to meet the poor (depth) which is their main objective but provide this fund to many people (breadth) at large quantity. But for equity financed SACCoSs they meet low income earners (poor) and achieve their objectives but at a minimum coverage.

5.2 Conclusions

(i) SACCoSs in Shinyanga municipal have high debt financing rather than equity financing. Equity financing are cheap sources of capital especially when no interest/cost of fund is charged and therefore profit generated increase the capital of the SACCoSs as retained earnings. Difference from debt/equity financed SACCoSs which have high cost of fund.

(ii) SACCoSs with debt/equity financing SACCoSs have high cost of their capital due to payment of interest for the debt. The profit of debt financing SACCoSs is affected by repayment of interest instead of increasing the benefit of members. Also due to this, SACCoSs do not help the low income earners which are among their mission but serve average earners and non-poor due to high cost services.

Equity only SACCoSs have small cost but their capital is at a minimum level associated with a very small rate of development and growth but they generate enough profit.

(iii) SACCoSs which are debt/equity financed perform well in product offered and in loan repayment capacity. The products offered are many due to high capital of the

SACCoSs. For cost per loan portfolio all have positive relation between interest of loan and loan issued. Increase in interest has effect in loan provision for all type of capital structure.

(iv) Debt/equity financed SACCoSs provide large amount of loan per borrower which does not meet the poor due to high amount but reach large number of people with average and high income. But for equity only SACCoSs small amount of loan is issued per borrower and therefore reach the poor although at the minimum coverage.

(v) Policies made by the government concerning capital structure are not satisfactory because they are silent concerning the maximum amount of debt in relation to the capacity of the SACCoSs. Therefore, policies affect the capital structure decision because members need guideline to make decisions for their development.

5.3 Recommendations

5.3.1 Recommendations to SACCoSs and other MFIs

Basing on the findings observed during research work, I would recommend the following:

SACCoSs through its members should choose the capital structure after considering the benefits and challenges of each type not basing from cooperative officers' advice only.

SACCoSs should find cheap sources of fund which will meet members' needs at low cost. Debts financing leads to high capital but the services offered to members are offered at high cost in order to pay cost of fund. Management team should advice the members on capital structure which benefit the members and supervise and manage the capital structure to ensure welfare of members is protected. Management is the key player in performance of SACCoSs without considering its capital structure and therefore it should work appropriately.

Service provided by SACCoSs should reach large number of people located in different areas and not only those living at the city centre. Also small loans (small quantity loans) should be issued to small income earners at minimum rate for easy repayment and for meeting their basic requirement.

5.3.2 Recommendations to the Government

As per findings, I would recommend the government to perform the following:

The cooperative societies Act and policy should be reviewed and edited concerning the capital structure of SACCoSs and set minimum and maximum amount to be borrowed by the SACCoSs in proportion to its capacity. This will limit so much dependency on loan and every SACCoSs will borrow proportion to its capacity and its internal sources of fund

Interest rate ceiling is required to be reduced on loan provision for commercial banks to SACCoSs to reduce the burden of the SACCO and increase its capital. Through limited and small interest rate the SACCoSs will be able to borrow and remain with profit to be shared to members.

Education should be provided to members concerning capital structure decision because many of them are not aware of its benefits and challenges of different capital structure. Therefore education to members, managers, accountant and board members is required including sources of fund education and management education.

Cooperative officers' support is required for good performance of SACCoSs including auditing Sacco's books on time, advising them on good capital structure and cheap sources of capital. The government needs to remind cooperative officers on their contribution to good performance of SACCoSs.

Further research study should be conducted by other researchers in different areas such as; maximum debt financing which is accurate for SACCoS, assessing if the main objective of SACCoS which is reaching the poor is applicable in SACCoSs of our country and also the study on how to improve owners equity and reduction in external fund dependency should be performed in order to develop our community and our country.

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APPENDICES

APPENDIX 1: QUESTIONNAIRE FOR MANAGERS

My name is **Christina Alfred**, I am a student of Mzumbe University, pursuing Masters of Science in Accounting and Finance. I kindly request you to complete this questionnaire which will help in gathering information/data that will be used in the study on assessment on effect of capital structure in performance of microfinance institutions in Shinyanga municipal.

You are kindly requested to complete this questionnaire accordingly and the researcher will come to collect after two days. Any information reported in this questionnaire is confidential and researcher will not report any names or private information anywhere, but use the information for this research.

Names:

Location:

Occupation:

Position:

Sex:

1. What are the sources of fund for your organization that you know?

- a) Savings
- b) Deposits
- c) Borrowings
- d) Interest and penalties
- e) Others; specify.....

2. What is your capital made off?

- a) Equity only
- b) Borrowing only
- c) Equity and borrowing
- d) Others; specify

3. Why have you chosen such source of fund (capital structure)

- a) Cheap
- b) Easily obtained
- c) Members choice
- d) Instructed by cooperative officers
- e) Others; specify

4. Are you satisfied with your capital structure?

- i) Yes ii) No

If No, what is your wish?

5. What advantages do you get from the mentioned sources of capital structure?

.....
.....

6. Do you get enough knowledge (training) concerning capital structure decision?

- i) Yes ii) No []

If yes, what type of knowledge?

- i)..... from where.....
ii)..... from where.....
iii)..... from where.....

7. How can you rank the organization growth?

- i) Very well ii) Well iii.) Average iv) Poor []

What indicators can support your answer above?

.....
.....

8. Are the activities performed well in your organization?

i) Yes ii) Average iii) No []

If No, what is not well performed?

9. How can you rank the profitability of your organization?

i) Excellent ii) Very good iii) Good iv) Poor v) Very bad []

10. Do you have plans to change your capital structure in future?

i) Yes ii) No []

If Yes, why?

If No, why?

11. Cost of Capital per Year

SOURCE	2008		2009		2010		2011	
	Amou	Interest	Amount	Interest	amount	Interest	Amount	Interest
Members shares								
Deposits								
Subsidies								
Loan								
Total								

12. From all the sources of capital, please give information on loan provision from year 2008 to year 2011

Type of Loan	2008			2009			2010			2011		
	Amount	No. borrower	Interest	Amount	No. borrower	Interest	amount	No. of borrower	Interest	Amount	No. borrower	Interest
Development loan												
Emergency												
Agricultural												
Others												
Total												

13. What is the total capital of the firm at current

Source	2008 (Tshs)	2009 (Tshs)	2010 (Tshs)	2011 (Tshs)
Member share				
Deposits				
Borrowing (Loan)				
Subsidies				
Grants				
Total				

14. What has been the profitability of the company in the last four years?

Profit/Year	2008	2009	2010	2011
Profit				

APPENDIX II: QUESTIONNAIRE FOR MICROFINANCE MEMBERS

My name is **Christina Alfred**, I am a student of Mzumbe University, pursuing Masters of Science in Accounting and Finance. I kindly request you to complete this questionnaire which will help in gathering information/data that will be used in the study on assessment on effect of capital structure in performance of microfinance institutions in Shinyanga municipal.

You are kindly requested to complete this questionnaire accordingly and the researcher will come to collect after two days. Any information reported in this questionnaire is confidential and researcher will not report any names or private information anywhere, but use the information for this research.

Names:

Occupation:

Sex:

1. How long have you been a member of this Microfinance institution?

.....

2. What type of services do you get from your organization (MFI)?

a) Savings

b) Deposits

c) Loan

d) Share

e) Others ; specify.....

3. Are you satisfied with the services provided?

a) Yes

b) No

[]

If No, why.....

4. Do you contribute to the capital of the institution?

a) Yes b) No []

How? Specify.....

5. Are the services you get relate to contribution you make?

a) Yes b) No []

If No, what should be improved.....

6. How can you rank the profitability of your organization for the past five (5) year?

1) Excellent 2) Very good 3) Good 4) Bad 5) Very bad []

Why?

7. Do you participate in making capital structure decisions?

[illegible]

If Yes, how?

If No, why?.....

8. Are you satisfied with the capital structure of your organization?

i) Yes ii) No []

Why?

9. Do you think you will need to change your capital structure in the future?

i) Yes ii) No []

Why?

10. What do you think should be done to improve the performance of your SACCoSs?

.....

APPENDIX III: QUESTIONNAIRE FOR COOPERATIVE OFFICERS

My name is **Christina Alfred**, I am a student of Mzumbe University, pursuing Masters of Science in Accounting and Finance. I kindly request you to complete this questionnaire which will help in gathering information/data that will be used in the study on assessment on effect of capital structure in performance of microfinance institutions in Shinyanga municipal.

You are kindly requested to complete this questionnaire accordingly and the researcher will come to collect after two days. Any information reported in this questionnaire is confidential and researcher will not report any names or private information anywhere, but use the information for this research.

Names:

Occupation:

Position:

Sex: **Male:**..... **Female**.....

1. How long have you been working as co-operative officer?

.....

2. Does the cooperative societies Act, and policies talk about the capital structure of cooperative societies?

i) Yes ii) No []

If Yes, does it meet the needs of the co-operative societies?

i) Yes ii) No []

If No, why?

3. What should the capital structure of SACCoSs be formed off?

a)

b)

c)

f)

Why?

If No, why?

Why?

Why?

APPENDIX IV: CAPITAL STRUCTURE OF DIFFERENT SACCOS IN SHINYANGA MUNICIPAL

YEAR	DEBT	EQUITY	TOTAL CAPITAL	DEBT PROP. %	EQT.PRO %
2009	55,000,000	52,159,500	107,159,500	51	48.7
2010	226,000,000	89,213,500	315,213,500	72	28.3
2011	300,000,000	141,279,450	441,279,450	68	32.0
2010	183,400,000	8,600,000	192,000,000	96	4.5
2011	0	8,600,000	8,600,000	0	100.0
2009	0	1,985,000	1,985,000	0	100.0
2010	0	1,985,000	1,985,000	0	100.0
2011	0	1,985,000	1,985,000	0	100.0
2012	0	5,470,000	5,470,000	0	100.0
2010	0	4,655,800	4,655,800	0	100.0
2011	0	5,027,200	5,027,200	0	100.0
2008	0	49,371,935	49,371,935	0	100.0
2009	0	51,052,757	51,052,757	0	100.0
2010	0	52,692,758	52,692,758	0	100.0
2011	0	54,092,758	54,092,758	0	100.0
2011	0	4,990,000	4,990,000	0	100.0
2012	0	10,606,000	10,606,000	0	100.0
2011	0	68,622,000	68,622,000	0	100.0
2011	297,755,488	53,097,276	350,852,764	85	15.1
2008	18,000,000	47,900,000	65,900,000	27	72.7
2009	179,000,000	59,909,000	238,909,000	75	25.1
2010	232,000,500	88,000,000	320,000,500	73	27.5
2011	330,000,000	139,900,000	469,900,000	70	29.8
2008	0	306,223,946	306,223,946	0	100.0
2009	340,000	358,243,420	358,583,420	0	99.9
2010	240,000	421,556,439	421,796,439	0	99.9
2011	0	499,130,105	499,130,105	0	100.0

APPENDIX V

Data below are for debt/equity results of correlation coefficient from data collected.

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Notes:

1. (/m# option or -set memory-) 50.00 MB allocated to data
2. (/v# option or -set maxvar-) 5000 maximum variables

running C:\Users\user\Desktop\stata\STATA 11\profile.do ...

. *(9 variables, 14 observations pasted into data editor)

. cor debtequity age noborrowers loanissued loanborrower cost profit intrloan nomembers
(obs=14)

	debteq~y	age	noborr~s	loanis~d	loanbo~r	cost	profit	intrloan
debtequity	1.0000							
age	0.2178	1.0000						
noborrowers	0.7365	0.5838	1.0000					
loanissued	0.7590	0.2090	0.7361	1.0000				
loanborrower	-0.0575	-0.4946	-0.4427	0.2037	1.0000			
cost	0.6066	0.3230	0.2014	0.0675	-0.0906	1.0000		
profit	0.6878	0.4956	0.6859	0.7943	-0.0569	0.2469	1.0000	
intrloan	0.4689	0.0255	0.1698	0.7001	0.6353	0.1357	0.7088	1.0000
nomembers	0.1483	0.9574	0.5683	0.0603	-0.7070	0.2672	0.3820	-0.1852
	nomemb~s							
nomembers	1.0000							

The data below shows correlation coefficient between equity financing and other variables which affect it.

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Notes:

1. (/m# option or -set memory-) 50.00 MB allocated to data
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running C:\Users\user\Desktop\stata\STATA 11\profile.do ...

. *(9 variables, 14 observations pasted into data editor)

. cor equity age noborrowers loanissued loanborrower cost profit intrloan nomembers
(obs=14)

	equity	age	noborr~s	loanis~d	loanbo~r	cost	profit	intrloan
equity	1.0000							
age	0.0154	1.0000						
noborrowers	0.9449	-0.1848	1.0000					
loanissued	0.2948	0.1526	0.4094	1.0000				
loanborrower	0.1807	0.6410	0.1430	0.7973	1.0000			
cost	0.4984	0.2859	0.5348	0.7691	0.8086	1.0000		
profit	0.5097	0.1100	0.6014	0.9574	0.7575	0.8386	1.0000	
intrloan	0.3744	-0.0732	0.5236	0.9674	0.6581	0.7344	0.9648	1.0000
nomembers	0.1006	-0.7566	0.2980	0.1992	-0.1641	0.2379	0.2188	0.3686
	nomemb~s							
nomembers	1.0000							