Financial Linkages and Sustainability of Microfinance Co-operatives in Tanzania

By

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This thesis examines the relationship between financial linkages and sustainability of Microfinance Co-operatives (MFG) in Tanzania using the agency theory and relationship lending theories. The agency theory was used to explain the relationship between financial leverage and MFCs sustainability. The also explain the moderating effect of board of directors as a mechanism (board size and board meetings) on the financial linkages-MFCs sustainability relationship. In addition, relationship lending which have been widely tested in the non-financial sector were used to explain the association between lending relationship aspects (duration of relationship and multiple lending relationships) and MFCs sustainability. Based on the reviewed literature, the financial leverage, duration of relationship and multiple lending relationships are treated as independent variables, while operational sustainability and employee productivity are dependent variables. A balanced panel data of 1 15 MFCs from Tanzania for a period 2011 to 2014 with a total of 460 observations has been used. The data was hand collected from the MFCs which were the unit of analysis. The panel regression models were employed to analyse data. The robustness check was performed by categorizing the MFCs into community and employee bases. Also, the Davidson-MacKinnon test of exogeneity was conducted to establish the presence of endogeneity. The results show a negative and significant relationship between the financial leverage and MFCs sustainability both in terms of operational sustainability and employee productivity. Also, the results show that duration of the relationship is negatively and significantly related to operational sustainability and employee productivity. Further, the results demonstrated that frequency of MFCs board of directors' meetings reduces the disadvantageous effect of financial leverage on operational sustainability, but had no effect on other financial linkages aspects. The results also indicated that the size of the board of directors significantly moderated the relationship between multiple lending relationships and MFCs sustainability. The results of this study extend to the existing literature on the agency theory by showing that an increase of loans in MFG results in lower performance due to higher costs of debt. The study has also shown that frequency of board meetings enhances sustainability. Furthermore, the findings position relationship lending between control and monitoring of MFCs management bon-owing strategies hence improved wholesale loans providers and MFCs in the body of literature within the context where the market for wholesale loans is less competitive, leading to high financing costs. The study argues that MFCs have to contain their costs and ensure that they generate more revenues from loans accessed from other financial institutions. The study also argues for the reinforcement and regulations on MFcs operations and applications of managerial practices associated with financial linkages