Sustainable Loan Interest Rates Setting in Savings and Credit Co-operative Societies A Strategy Towards Building Viable Microfinance Institutions (MFIs)

By
Lucas Mataba, Tito Haule and Innocent Makungu
Moshi University College of Co-operative and Business Studies (MUCCoBS)
(2010)

Abstract
This paper focuses on evaluation of factors and methods used in setting up sustainable loan interest rates in Savings and Credit Cooperative Societies (S4CCOS), using three selected SACCOS in Dodoma as a case in point. Multiple case study design was opted. Furthermore, questionnaires, observation and interview were used to collect data from three selected SACCOS in Dodoma Municipality. The paper deploys a model by Consultative Group to Assisting the Poorest (CGAP) in sustainable interest setting model and attempts to test its applicability in Tanzania. The model is developed as a method for estimating interest rate that an MFI will need to realize on its loans, if it intends to fund its growth primarily with commercial funds at some point in the future. The model claims to be simplified and it yields an approximation that should be useful for many MFIs especially the young ones. The study reveals that all three SACCOS consider different factors in setting up interest rates and no specific formula is used to calculate interest rates. The current interest rates charged by these SACCOS were either below or higher than the calculated interest rates. From the findings, it is concluded that, CGAP model, as it is currently, is not directly suitable for SACCOS in Tanzania as it appears to be relatively more sophisticated compared to level of development for most SACCOS development in the country. It is recommended that training for board members and staff is crucial especially on financial management skills as these institutions deal with money business. Furthermore, it is recommended that modification of CGAP model or development of a new model to suit Tanzania environment should be done in order to enable SACCOS estimate sustainable loan interest rates.