Financial linkages and sustainability of microfinance co-operatives in Tanzania

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This thesis examines the relationship between financial linkages and sustainability of microfinance Co-operatives (MFCs) 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 MFGs board of directors as a governance mechanism (board size and board meetings) on the financial linkages-MFCs sustainability relationship. In addition, relationship lending theories 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 115 MFCs from Tanzania for a period 2011 to 2014 with a total of 460 observations has been used. The Data was hand collected which was the unit of analysis. The panel regression models were employed to analyses data. The robustness check was performed by categorizing the MFCs into community and employees 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 that's of operational sustainability and employees 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 financial linkages aspects. The results also indicated that the size of 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 wholesale loans in MFCs results in lower performance due

to higher cost of debt. The study has also shown that the frequency of board meeting enhances control and monitoring of MFCs management borrowing strategies hence improved sustainability. Furthermore, the findings position relationship lending between 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 contained their costs and ensure that they generate more revenues from loans accessed from other financial institutions. The study also argues for the reinforcement of policies and regulations on MFCs operations and application of managerial practices associated with financial linkages