International Journal of Ethics and Systems

An investigation into the financial sustainability of Islamic Saving, Credit Cooperative Society (SACCOS) in Tanzania
Mariam Swalehe Said, Hairul Azlan Annuar, Hamdino Bin Hamdan,

Article information:

To cite this document:

Permanent link to this document:
https://doi.org/10.1108/IJOES-11-2018-0159

Downloaded on: 30 June 2019, At: 19:25 (PT)
References: this document contains references to 36 other documents.
To copy this document: permissions@emeraldinsight.com
The fulltext of this document has been downloaded 118 times since 2019*
Access to this document was granted through an Emerald subscription provided by Token:Eprints:p9Tn7Ur4ABdR3qe46NxH:

For Authors

If you would like to write for this, or any other Emerald publication, then please use our Emerald for Authors service information about how to choose which publication to write for and submission guidelines are available for all. Please visit www.emeraldinsight.com/authors for more information.

About Emerald www.emeraldinsight.com

Emerald is a global publisher linking research and practice to the benefit of society. The company manages a portfolio of more than 290 journals and over 2,350 books and book series volumes, as well as providing an extensive range of online products and additional customer resources and services.

Emerald is both COUNTER 4 and TRANSFER compliant. The organization is a partner of the Committee on Publication Ethics (COPE) and also works with Portico and the LOCKSS initiative for digital archive preservation.

*Related content and download information correct at time of download.
An investigation into the financial sustainability of Islamic Saving Credit Cooperative Society (SACCOS) in Tanzania

Mariam Swalehe Said and Hairul Azlan Annuar

Department of Accounting, International Islamic University Malaysia, Kuala Lumpur, Malaysia, and

Hamdino Bin Hamdan

Department of Finance, International Islamic University Malaysia, Kuala Lumpur, Malaysia

Abstract

Purpose – The purpose of this paper is to assess the financial sustainability of Islamic Saving Credit Cooperative Society (SACCOS) and the factor(s) affecting their financial sustainability in the Tanzanian context.

Design/methodology/approach – The data set used in this study comes from four SACCOS audited financial reports from the year 2010 to 2014 and from interviews with SACCOS’s management.

Findings – The study found that the IMFIs in Tanzania are not financially sustainable. Additionally, having responsible staff members, regular review of financial guidelines, education to members, cooperation between employees and management and staff training are found to be highly contributing factors towards SACCOS’s financial sustainability. Moreover, the findings reveal that depending on the single source of income, i.e., charges on members contributed much in these SACCOS’s not being financially sustainable.

Research limitations/implications – Only two available registered Islamic SACCOS was used. Additionally, conventional SACCOS have been in service provision for a long time as compared to Islamic ones; hence, caution must be taken for comparison purposes.

Practical implications – Based on these findings, the Islamic SACCOS needs to initiate productive projects that can enable them to have other income sources apart from charges on members.

Originality/value – This study traces the financial trend of Islamic SACCOS in Tanzania since its establishment in 2010. Such trace enables Islamic SACCOS and other stakeholders to be aware on the financial progress of Islamic SACCOS and act accordingly to ensure sustainability.

Keywords Tanzania, Islamic microfinance, Return on assets, Financial sustainability, SACCOS

Paper type Research paper

1. Introduction

Most of the people in the world are isolated from financial services provided by the banking sector (Bhanot and Bapat, 2015). According to Marwa and Aziakpono (2015), conventional banks do not serve about 88 per cent of people. Having this large number of people not

Authors wish to acknowledge the fund provided by International Islamic University Malaysia for this research through the Accounting Research And Education Fund Research Project (IAREF 18-003-0019).
served with financial services leads to rising of concern among stakeholders such as government and financial institutions on how the financial system should be structured to help this group. Given that, a well-functioning financial system is a tool for poverty alleviation and economic growth (Tego, 2012). Due to that, microfinance as an alternative in the financial system is used in a different environment based on needs and economic situation of people (Ahmad and Ahmad, 2009). Hence, microfinance institution (MFIs) has become a reliable financial service provider to a large population in developing countries who cannot get such services from mainstream banks (Adongo and Stork, 2005; Gebremichael and Gessesse, 2016).

By definition, microfinance is “small-scale financial services to clients that are economically active in various urban and rural areas” (Harran, 2008). Services provided include microcredit, savings, insurance, pension and money transfer. Usually, small size transactions, collateral free loan, group lending, focus on poor, focus on women, simple application processes, provision of service to clients own community and market level interest (Armendariz, 2011). Therefore, microfinance relates to the provision of financial services such as saving and credit to low-income earners, as this will enable them to continue generating income as a means to sustain their life.

Furthermore, MFIs are meant to reduce poverty by giving loans to micro enterprises (MEs) which provides employment as well as business opportunities to poor people and enable them to afford basic needs of life such as food, health and education (Hartungi, 2007). MFIs allow for needy individuals to have their financial plan by saving and getting a loan (Marwa and Aziakpono, 2015). Moreover, credits to poor people help them to create self-employment which affects the economy in general by increasing consumption and investment. In other words, it provides a ground for entrepreneurship as it enables poor people with business ideas to get small capital for the startup of the business (Satta, 2006). In general, microfinance programs are considered to be a continuous strategy and policy for poverty alleviation in different parts of the world (Siwar and Talib, 2001).

MFI can either be conventional or Islamic. Conventional MFIs involve the element of interest in its transactions, whereas such exploitative nature of the operation in the Islamic version is not found. When they give a loan to the members, they tend to charge interest as well as pay interest when in need with the additional fund from an external source. Islamic micro finance (IMF) is asset-based financing using tools such as a benevolent loan, bai muajjal, musharakah, mudarabah and salam (Harra, 2008). Any other source of income for IMF should consider shariah aspects on such transaction. Although the primary focus of microfinance is to alleviate poverty, IMF does it ethically through various financing scheme (Rahim and Rahman, 2010). Hence, IMF provides poor people with the access to funds without a burden of interest and therefore contribute to poverty alleviation.

Tanzania is one of the six East African countries. It is a combination of two British colonies which are Tanganyika and Zanzibar, which in 1964 they formed the United Republic of Tanzania. Tanzania’s area is 364,900 square miles with a total population of 51,557,365 (National Bureau of Statistics, 2017). About 90 per cent of the people in Tanzania cannot get access to financial services from banks (Marwa and Aziakpono, 2015). Alternatively, they are served by different MFIs such as Village Community Bank (VICOB), Rotating Savings and Credit Associations (ROSCAs) and Saving Credit Cooperative Society (SACCOS). Therefore, MFIs operating in different forms such as NGOs, cooperatives and standard financial institutions have been established to serve such a large population in the country.
In Tanzania, Islamic financial products market started in 2008. This development is when one of the conventional banks known as Kenya Commercial Bank (KCB) launched an Islamic window. After that, it was followed by Amana Bank which started as the first full-flagged Islamic bank in Tanzania in October 2009 (Amana Bank, 2017). In May 2010, another two banks, Stanbic Bank and National Bank of Commerce (NBC), launched Islamic windows (Mgwabati, 2010). In January 2011, Peoples Bank of Zanzibar (PBZ) also started an Islamic window (ZoomTanzania, 2012). Therefore, up to 2012, five Islamic banks were operating in Tanzania, one as full-fledged and the rest as Islamic windows (Faye et al., 2013). At present, there are four Islamic banks, as one of the five, Stanbic Bank, stopped to operate the Islamic window. Primary services offered by these banks include savings account, current account and investment account. In providing these services, they apply some of the Islamic financial tools such as *ijarah* and *Murabaha* for financing purposes (Kisilwa, 2012).

Out of the rapid startup of Islamic banking in the banking sector, it also stimulated the establishment of Islamic Microfinance Institutions especially financial cooperatives specifically SACCOS. In 2010, Islamic SACCOS such as TAMPRO and KUTAYBA were established and to the extent of being able to reach most of the regions in the country. Though there might be others, as up to date, the sector/market is still growing. However, the two are most popular in Tanzania.

Given such a prominent role played by MFIs, the motive of this study is to understand the financial sustainability of Islamic SACCOS in Tanzania. Therefore, this is essential as financial viability is a base for all other forms of sustainability. Second, it is crucial as it provides a view of MFIs to stakeholders to take particular measures to achieve such sustainability. Therefore, this study has two main objectives: first, to assess and compare the financial sustainability trend of Islamic SACCOS and traditional SACCOS within five-year period; and second, to determine factor(s) contributing to their financial sustainability.

The remaining part of this paper is structured as follows: Section 2 explains the significance of the study. Section 3 provides a literature review of empirical findings on MFI’s financial sustainability. Section 4 describes the theoretical framework. Section 5 presents a methodological approach. Section 6 shows results and discussion. Finally, conclusion and recommendations are presented in in Section 7.

### 2. Significance of the study

This study is important for three main reasons. First, it provides the trail regarding financial sustainability of Islamic SACCOS since its start in 2010 to 2014 (5 years’ period). Meaning that it allows for some empirical data on whether Islamic SACCOS are financially sustainable.

Second, the findings from this study will be useful to various stakeholders, starting with Islamic SACCOS as they can assess themselves using the result out of this study and where necessary to take the appropriate measures towards attaining their objectives. The regulatory body such as Cooperative Auditing and Supervisory Corporation (COASCO) can also find this study useful in case they will have to provide consultancy services to this type of cooperatives.

Finally, the study will also contribute to the existing knowledge on the same topic such as researchers may refer to as this study provide additional literature on the financial sustainability of IMFIs. It studies the financial trend of Islamic financial cooperatives in Tanzania since its establishment and factors that contribute to strengthening or weakening their economic viability.
3. Literature review

3.1 Financial sustainability

Sustainability is a broad concept which means a capacity to maintain a well-defined performance continuously (Spodick, 2016). Dutta and Das (2014) state that the idea of sustainability has different dimensions such as impact sustainability, legal policy environment sustainability, market sustainability, mission sustainability, programme sustainability, institutional sustainability, financial sustainability and human resource sustainability. On the other hand, sustainability can also be categorized as organizational, managerial and financial (Thapa, 2010). As contended by Marwa and Aziakpono (2015), short-run financial viability can indirectly indicate other dimensions of sustainability. Furthermore, profitability is a precondition for organization long-term survival and success (Yazdanfar, 2013). Consistent with Yazdanfar (2013) and Marwa and Aziakpono (2015), the focus of this study is on financial sustainability dimension of Islamic SACCOS.

By definition MFI's financial sustainability is “[…] capacity to cover all of its expenses by its revenue and to generate a margin to finance its growth” (Ayayi and Sene, 2010). Alternatively, MFI's financial sustainability can be defined as the ability of MFI to produce revenue out of its operations to cover all its expenses in current time and also in future when it needs to expand (Acharya and Acharya, 2006; Borbora and Kumar Sarma, 2007; Dutta and Das, 2014; Marwa and Aziakpono, 2015). Financial sustainability as one of the fundamentals of sustainability denotes the firm's capacity to stand on its own feet financially. It implies that MFIs should not be dependent on donors or government subsidies (Siwar and Talib, 2001). Therefore, controlling costs, offering satisfactory products and services as well as reaching new customers can lead to MFI's financial sustainability (Nyamsogoro, 2010).

Financial sustainability, when attained by microfinance institution, may lead to positive impact such as attraction of sufficient investor's fund and hence become viable. Moreover, these MFIs can become more efficient and transparent (Rulindo, 2012). With all this MFIs will be able to contribute to economic development by alleviating poverty as long as their financial system is sustainable.

Operational sustainability and financial sustainability/financial self-sufficiency (FSS), also referred to as profitability, are two ways of determining the financial sustainability of an organization (Nyamsogoro, 2010). The first one is indicating the ability of MFIs to cover its operational costs using its operational revenue. Whereas, financial self-sufficiency occurs when MFIs can cover both costs; financing cost as well as operating expenses. So, MFIs is financially sustainable if they can pay their total costs using their operating income and remain with a surplus.

At the moment, unsustainability and outreach appeared as challenges among MFIs as most of them need or still depend on donation, grants and subsidies to survive. Due to this, there have been efforts to encourage independence from donors and government subsidies. However, some MFIs are still financially dependent (Beg, 2016; Kyereboah-Coleman and Osei, 2008). Different empirical results are in the literature.

Siwar and Talib (2001), evaluated performance of three MFIs, namely, Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM) and Koperasi Kredit Rakyat (KKR) in relation to financial viability and sustainability, the findings from their study revealed that two of them have not attained complete financial viability and sustainability as they still need grants to keep on operating.

Adongo and Stork (2005) used a sample of 143 MFIs in Namibia, and the findings indicate that MFIs are not yet to attain financial sustainability.

Borbora and Kumar Sarma (2007), examined the tradeoff between outreach and sustainability of the MFIs using a case study of one of the matured MFI in India known as
Credit and Savings Program-Rashtriya Grameen Vikash Nidhi (CSP-RGVN). Results revealed that MFIs are operationally sustainable but financially unsustainable. Gebremichael and Gessesse (2016), taking a sample of 134 MFIs from 36 African countries, provide the findings that African MFIs are technically inefficient. In addition to that, cooperative-based MFIs are more inefficient compared to NGOs and non-bank.

Nyamsogoro (2010) examined factors affecting the financial sustainability of rural MFIs in Tanzania. This study used 98 rural MFIs, and the results was explained that capital structure, interest rates charged, differences in lending type, cost per borrower, product type, MFI size, number of borrowers, yield on gross loan portfolio, level of portfolio at risk, liquidity level, staff productivity and the operating efficiency affect the financial sustainability of rural microfinance institutions in Tanzania. Further analysis shows that 80.2 per cent of sample MFIs in Tanzania rural area are financially sustainable.

Marwa and Aziakpono (2015) study estimate profitability and financial sustainability of SACCOs in Tanzania using 98 samples. Findings show that not all SACCOs in Tanzania are financially and operationally sustainable as the results show that 61 per cent of sample SACCOs is operationally viable and only 51 per cent of the sample appeared to be operationally and financially feasible.

Therefore, out of such a brief overview of the financial sustainability of MFIs from different studies, the next section explains factors influencing the sustainability of MFIs as discussed from previous studies as well.

3.2 Factors affecting MFI’s financial sustainability
There are different determinants of sustainability of an organization. Previous studies categorized these determinants into various groups which include institutional factors, capital asset, revenue, efficiency, growth, portfolio quality, macroeconomic factors and environmental and business strategy (Dutta and Das, 2014; Marwa and Aziakpono, 2015). Example of institutional factors includes; the age of MFI, lending model, product type and legal status. Whereas, capital assets include capital to asset ratio and debt to equity ratio. For revenue category, it includes yield and interest rate. In case of efficiency, it includes administrative efficiency and cost per borrower. Growth category comprises the number of borrowers, size of MFI, an outreach of the MFI and gross loan portfolio. Portfolio quality includes portfolio at risk and writes off, while macroeconomic factor comprises inflation and lending rate (Dutta and Das, 2014).

Dutta and Das (2014) reported that portfolio quality and capital management are significant determinants for Indian MFIs. Moreover, Bhanot and Bapat (2015) found that Indian MFIs financial sustainability is significantly affected by gross loan portfolio, borrower per staff member, portfolio at risk and return on assets.

Using a convenient sample of 52 MFIs in Ghana, Kyereboah-Coleman and Osei (2008) explained that governance plays a significant role towards MFIs profitability and outreach.

Nyamsogoro (2010) analyses factors that determine financial sustainability in two stages: start-up stage and growth stage. Financial sustainability of MFIs on startup can be affected by the following factors: staff productivity, level of portfolio risk, depth of outreach, interest rate and operating expenses ratio. Whereas in growth state it includes the age of MFI, number of borrowers, staffs cost per loan, average loan size, maturity terms and administrative costs per borrower, as well as all factors, found in startup stage.

Beg (2016) indicates that the critical determinant of financial self-sustainability is portfolio at risk less than (30) days, gross loan portfolio, size and age. Findings by Marwa and Aziakpono (2015) show that ROAs, deposit mobilization, cost per loan, technical efficiency and loan size had a statistically significant influence on the sustainability of
SACCOS. Moreover, the finding indicates that ROA is a steadily most important factor influencing the financial sustainability of SACCOS in Tanzania.

On the other side, Acharya and Acharya (2006) used a qualitative approach to study from small farmer’s perspective, the understanding of MFIs sustainability and the factors that contribute to sustainable MF in rural areas. The sample includes three cooperative organizations, comprising most successful, medium and least prosperous. The results show that farmer’s perspective on sustainability concept is related to their benefits; they do not think regarding institutional sustainability. It means what is sustainability to MFI’s management can be different from what is sustainability to its members, and this can be due to lack of sense of ownership towards the organization. Moreover, the finding shows that different perception of the two groups (MFI’s management and members) in the same organization resulted in high credit default which in turn affects the MFI’s sustainability.

Additionally, using a qualitative approach in the Indonesian context, Hartungi (2007) provides an in-depth understanding of factors affecting MFIs in a developing country. His findings revealed that the decision to keep adapting MFIs practice with environmental changing, trained and committed staffs, transparent system, clear incentives to staffs and clients, tight internal supervision and audit capacities and financial procedures and sound financial risk management plays a role towards sustainability of MFIs. Moreover, being innovative in choosing collaterals that encourages customers to lend money but also to secure the loan in case of default and hence safeguarding the sustainability of the MFI. Moreover, microfinance regulation has an indirect impact on the sustainability of MFIs (Satta, 2004). Given such awareness on the determinants of MFI’s sustainability, the second objective of this study is focused on determining factor(s) that affect Islamic SACCOS financial sustainability from SACCOS’ management perspectives in Tanzania.

4. Theoretical framework
Institutional theory provides a framework in studies aiming to determine factors for institution’s sustainability for example in Marwa and Aziakpono (2015) and Dutta and Das (2014). In addition to that, Bhanot and Bapat (2015) used a holistic approach in which institutional is included. Two branches of the institutional theory namely, Old Institutional Economics (OIE) and New Institutional Economics (NIE) are applied in this study in guiding the analysis explanations of the research. Both sub-theories are concerned with determinants of change over time, the former one argues in a general manner rather than individualistic, whereas the second one presents changes in the way of giving the vital role of the individual towards cost efficiency (Rutherford, 1994).

NIE is neo-classical economics that includes the role of transaction costs in exchange; it argues institutions to become a means to reduce these costs and have transaction costs less than benefits (Powell and DiMaggio, 1991). NIE theory maintains that operating efficiently (having profitability through cost minimization) is an economic factor that plays a vital role in the financial sustainability of an organization. It means MFIs with profitability; it becomes an indicator that they are financially sustainable. Thus, it can enable them to attain other forms of sustainability easily, whereas for those with loss or deficit, this is not the case. Therefore, for MFIs to continue existing (being sustainable) they need to operate efficiently such that being able to produce maximum benefits as compared to costs (Hoque, 2006). Supporters of the institutional theory argue that for the firm to be considered sustainable, it needs first to be financially viable and sustainable. As for MFIs, the primary objective is to provide sustainable financial services to poor segments of the society. When MFIs are financially sustainable, they will be able to survive and deliver lasting services to their customers/members. In this case, financial sustainability becomes an indicator for the success of MFIs (Marwa and Aziakpono,
2015). Therefore, institutional theory, i.e. NIE, agrees with the fact that, for the firm to be considered sustainable, it needs first to be financially viable and sustainable.

Furthermore, in understanding the factors that tend to affect financial sustainability or unsustainability of IMFs, the OIE theory is applied. OIE as a branch theory of institutional covers both change and stability; instead of explaining only the existence of a specific structure, this theory provides a map in explaining how or why specific structure or behaviors came into existence, sustain or change after time, using holistic approach (Hoque, 2006). In this perspective, the definition for institutions refers to a standard and continuous manner of thinking and acting, which comes out of the habit of groups of people (Hoque, 2006). This theory emphasizes organization to take into account varieties of effects that shape or re-shape preferences and taste of the organization over time. Thus, this effect refers to institution such that involves habits, rules, routines, norms, power and politics, learning and technological innovation which can contribute in shaping a whole process of the organization within a range of time.

OIE theorist has underlined the study of regular organization habits and their impact over time on the knowledge and thinking mechanisms of the organization (Hoque, 2006). This theory argues on explaining how or why specific structure or behavior exist over time. Thus, this theory fits in providing a framework in determining the factors that lead to either financial sustainability or financial unsustainability of Islamic SACCOS. As the coverage of this theory, the elements can either be internal or external (macro analysis level). Therefore, through OIE theory, various factors that tend to affect IMF’s financial sustainability can be determined and explained from a management view of point. In summary, as depicted in Figure 1, the combination of the two sub-theories gives both micro and macro analysis on determinants of MFI’s financial sustainability.

5. Methodology

5.1 Data set

This study used mixed method. Both primary and secondary data were collected from audited financial reports of five (5) years from 2010 to 2014 and interviews with management members respectively. The only two registered Islamic SACCOSs in Tanzania
were used in this study which for this study they are referred as SACCOS 1 and SACCOS 2. For comparison purpose, the other two conventional SACCOS operating in the same region with the two Islamic ones were selected: SACCOS 3 and SACCOS 4. The characteristics of this sample are presented in Table I.

An interview was conducted to collect the opinions on the financial sustainability of these institutions from management of each SACCOS. Therefore, it enables to understand the factors affecting the financial sustainability of Islamic SACCOS. Thus, five meetings of maximum 30 min were conducted for manager and accountant of each SACCOS in their offices (face-to-face interview) based on appointment schedule, and it was audiotaped. Table II provides the background of the participants.

5.2 Data analysis
Referring to the above discussed quantitative and qualitative data, in this study the method of data analysis used, follows the mixed research design, i.e. convergent parallel design. It means that quantitative data and qualitative data were separately analyzed; finally, the mix interpretation was provided.

Given the data from five years’ financial reports, a simple descriptive analysis was conducted using profitability as an indicator of financial sustainability. Profitability was used as it appeared as a significant factor in explaining financial sustainability. Its proxy is Return on Asset (ROA) = Net income/Total assets, as used in most studies such as Yazdanfar (2013), Bhanot and Bapat (2015) and Marwa and Aziakpono (2015). ROA was used as a proxy for profitability in this study as well to assess the financial sustainability trend from 2010 to 2014.

ACCION is a nonprofit organization aiming to provide high-quality microfinance by providing various services such as consultations to MFIs worldwide. According to ACCION (2004), the satisfactory range for ROA in MFIs is 3 per cent and above (Bi and Pandey, 2011; Marwa and Aziakpono, 2015). Given such benchmark, the percentage of ROA for five years was calculated in all sample SACCOSs then compared whether they reach or did not reach such benchmark for them to be considered financially sustainable. Finally, the financial trend for Islamic SACCOSs is compared with the pattern of conventional SACCOSs.

<table>
<thead>
<tr>
<th>S/N</th>
<th>SACCOS’ name</th>
<th>HQ location</th>
<th>Year established</th>
<th>No. of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SACCOS 1</td>
<td>Dar es Salaam</td>
<td>23 April 2010</td>
<td>2,460</td>
</tr>
<tr>
<td>2</td>
<td>SACCOS 2</td>
<td>Dar es Salaam</td>
<td>15 October 2010</td>
<td>4,983</td>
</tr>
<tr>
<td>3</td>
<td>SACCOS 3</td>
<td>Dar es Salaam</td>
<td>10 February 2003</td>
<td>1,068</td>
</tr>
<tr>
<td>4</td>
<td>SACCOS 4</td>
<td>Dar es Salaam</td>
<td>21 February 1995</td>
<td>628</td>
</tr>
</tbody>
</table>

Table I. Characteristics of sample SACCOS

<table>
<thead>
<tr>
<th>S/N</th>
<th>Gender</th>
<th>Age</th>
<th>Position</th>
<th>Education level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>M</td>
<td>28</td>
<td>Accountant</td>
<td>Postgraduate diploma in financial management</td>
</tr>
<tr>
<td>2</td>
<td>M</td>
<td>33</td>
<td>Manager</td>
<td>Bachelor degree in Accounting</td>
</tr>
<tr>
<td>3</td>
<td>M</td>
<td>51</td>
<td>Manager/Accountant</td>
<td>Masters in financial management</td>
</tr>
<tr>
<td>4</td>
<td>M</td>
<td>37</td>
<td>Manager</td>
<td>Ordinary Level Secondary Education</td>
</tr>
<tr>
<td>5</td>
<td>F</td>
<td>55</td>
<td>Manager</td>
<td>Certificate in Education</td>
</tr>
</tbody>
</table>

Table II. Background information of the interviewees
As for interview data, thematic analysis was used. After the information of interview being transcribed; themes development was conducted, and data from interviewees were compared and contrasted up to the point that no new issue raised. Lastly is a generalization of the themes such that to generalize the situation to other Islamic SACCOS in Tanzania. The main ideas generated were integrated with the findings of quantitative data to provide the general outcomes after that.

6. Results and discussions

This section reports the results of the study, starting with the trend presentation of each SACCOS then followed by general discussion. Next subsection covers thematic analysis results.

6.1 Financial trend

Figure 2 presents a simple description analysis whereby only the percentage of ROA for five years in SACCOS 1 were calculated. From the figure, this SACCOS scores were 3.1, −2.5, 0.4, 0.3 and 0.5 per cent for five years. Given the benchmark by ACCION, of three per cent for ROA in MFIs to be considered financially sustainable, this SACCOS was able to attain this benchmark only in its first year of operation. For the subsequent four years, the scores are below the benchmark.

For SACCOS 2, Figure 3 presents its simple description analysis whereby only the percentage of ROA for five years was calculated. From the figure, this SACCOS scores were −1.9, −1.9, −40.7, −28.48 and −7.7 per cent for five years. Referring the benchmark, this SACCOS scores for ROA are below 3 per cent in all five years, from the beginning of its operations. For all those years, it has a deficit which resulted in negative scores of ROA.

After observing the trend of the two Islamic SACCOS, now the next two figures present the trend for two conventional SACCOS; thereafter, comparison can be carried out. From Figure 4, SACCOS 3’s ROA scores are 3.9, 3.8, 0.8, 1.1 and 1.6 per cent for five years. For the first two years, it attained the benchmark of above 3 per cent. In the subsequent three years, it attained below the benchmark though; it was because the outside loan is taken by it to finance its assets, as the manager explained this during the interview section.
Figure 5 shows the financial trend for other conventional SACCOS, namely, SACCOS 4. The score for which is 0.056, 0.229, −0.017, 0.049 and 0.077 per cent for five years. Thus, ROA's scores for this SACCOS are below the benchmark in all five years.

From the above results, it is observed that SACCOS 1 is financially unstable for most of its years of operation, and as for SACCOS 2, it incurred a loss for all years, and hence financially unstable. SACCOS 4 also operates under financial stress for all five years, whereas for SACCOS 3, the trend is a bit good; though for the last three years, they were not able to attain the benchmark of 3 per cent. However, SACCOS 3 was being able to achieve the benchmark for some years as compared to the rest of the sample. The reason for this is due to the additional element in its operation, whereas the other three SACCOSs do not have as being revealed in the interview session. Such a feature is that this SACCOS has another...
source of income apart from charges on members, i.e. rental income. It enables this SACCOS to contribute in its total income towards covering its costs. Whereas other sample SACCOS do not have other sources of income apart from charges on members.

Generally, from the financial trend of all four sample SACCOSs, it indicates that they are all not financially sustainable. This result is in line with results of some studies such as Adongo and Stork (2005); Thapa (2006); Borbora and Kumar (2007); Marwa and Aziakpono (2015) and Gebremichael and Gessesse (2016). For example, Marwa and Aziakpono (2015) revealed that 51 per cent of the sample is both operationally and financially sustainable. Thus, implies that 49 per cent of SACCOS are not operationally and financially sustainable. Additionally, Gebremichael and Gessesse (2016) explained that “[…] African MFIs are technically inefficient. Further, […] cooperatives/credit unions are least efficient.” In conclusion, the sample SACCOS in this study are still not operating efficiently. Therefore, it is implied that Islamic SACCOS are not financially sustainable.

6.2 Thematic analysis
This section explains the findings as per the theme developed from five interviews. Hence, each theme reflects an interview question.

6.2.1 Definition of financial sustainability. The study identified three ideas that explain the meaning (perception) of the term financial sustainability according to selected members of SACCOS management. The first meaning is the “ability to survive on its cash flow”; the second meaning is “capital growth to both SACCOS and member’s projects”; and the third meaning is “continuous service provision to intended customers”.

On first meaning, this Informant 1 stated:

Financial sustainability, according to my perception is the ability of the institution to survive by its cash flow or by its mode of finance for a long period.

On the second meaning, similarly and respectively informant 5 and 2 defines:

[...] my understand on financial sustainability is all about the members to understand the importance of buying shares as shares help to give them a loan.
[...] because we gave him a loan, and then we go to the business and see if the capital has increased from 3 million 6 million for example and that we can define it as financial sustainability to our members.

Lastly, on the third meaning, the third Informant reported:

[...] capability of continuing to offer the services to the customer of which is intended or the business which is continuing and expand in a particular area.

The study has found three meanings that elaborate on how management of SACCOS perceives organizational financial sustainability. All the definitions emphasize in being able to produce enough revenue to cover all costs, having a surplus to expand capital as well as the coverage. The above finding on the definition of financial sustainability is in line with the results of some studies such as Ayayi and Sene (2010) and Dutta and Das (2014). For example, Ayayi and Sene (2010) defined financial sustainability as a “capacity of the institution to pay all its incurred costs using its revenue, then remain with a surplus to add up to its growth.” Based on the above views, it is obvious that the informants have a clear understanding of the meaning of the financial sustainability of their SACCOS.

6.2.2 The prospect of SACCOS’s financial sustainability. In elaborating the view of management on SACCOS’s financial sustainability for five years from 2014 backward, the study has found two main prospects, namely, “have good financial performance trend throughout” and “have a fluctuating financial performance trend”.

The second prospect is supported by the quantitative analysis in the previous section, whereby some of the SACCOS have fluctuations in the ROA scores. Therefore, it indicates that some of the years, they reached the target, while other years, they failed to meet the goal. On this, the informants identified the prospects of SACCOS’s financial sustainability as follows:

[...] for five years the financial trend or performance keep on fluctuating due to various challenges. (Informant 3)

So, it was doing well up to that years, but in the year 2016, 2017 income of SACCOS or performance of SACCOS was dropped. (Informant 5)

Whereas Prospect 1 is not supported with the quantitative analysis, though the respondent considered a good trend due to some reasons such as SACCOS are still existing, they have cash, and there was an increase in capital for some years. Their perception is not supported by quantitative analysis. Informants 1 and 3 explained this respectively as follows:

[...] the trend is good and is well because we have money in the account and we have money in member’s arms. They have our money. Because we can do our activities, we give a loan; we give other services and people they keep joining with us.

We say at least we are going well as your look in 2003 the capital was 800,000 but up to 2016, the capital is 167,703,762. So, I can say we are moving well. First, we use to rent this building for our office but now we own since 2007, so I think we are going well.

Therefore, the study revealed that SACCOS’s management is aware of the trend in their SACCOS’s financial sustainability; however, different base or determinants are used to conclude that. As seen in the above discussion, some of them use capital growth to understand their financial trend, while others use cash available. Using the wrong determinant will lead to the wrong conclusion and hence affect the SACCOS, as the management will consider the SACCOS financially sustainable, whereas, in reality, it is not financially sustainable.
6.2.3 Source of income for Islamic SACCOS. Diversified sources of income tend to contribute to organization’s total income; hence, there is an increase in profit. The study found that out of sample SACCOS, only one has more than one source of income. Thus, Respondent 4 explains as follows:

Apart from charges on members, there is one source which is rent out of three frames in front of this building, and the rent is 70,000 per month. Also, we have another rent from the hall we own which was first used for our offices before we move into this building, we bought in 2007 and the rent is 200,000 per month.

Rest of the sample SACCOS rely only on a single source of income which comes from charges to members. Example as it is expressed by Respondent 1:

At the moment we don’t have any project which is generating a source of income. Income comes only from members. We don’t have other sources like grant though it was on the pipeline but not yet implemented.

Thus, it is observed that Islamic SACCOS rely only on charges on members to raise its income, and this contributes to some extent on their deficit for years and finally being financially unstable. Whereas for the conventional SACCOS with an additional source of income was able to attain surplus in most of the years and achieved the benchmark for being financially sustainable in some of the years.

6.2.4 Contributing factors towards financial sustainability. Generally, various factors contribute to the financial sustainability of MFIs. In this, the study found five main factors that lead to the attainment of SACCOS’s financial sustainability. These factors include responsible staff, regular financial review guidelines of the SACCOS, education to SACCOS members, cooperation between employees and management and staff training.

Starting with responsible staffs, in this, the SACCOS will be affected by committed employees who do their duties accordingly by following the procedures needed. Informant 1 said:

So, to us by having this good staff, by having this person who is making follow up on this member. By making follow up on rules and regulations which we have, I think that is the only thing which makes us strong because we are trying our best to make sure we follow these procedures.

Additionally, to attain financial sustainability, it is essential to have regular review financial guidelines. It involves review on internal financial guides that explain the proper procedures in dealing with the financial duties of the SACCOS. Such guides should be reviewed time after time to be amended for improvement where necessary. In expressing this concern, Informant 5 said:

[...] one is to review guidelines of SACCOS itself. Still having a meaning or is it still holding what may be a SACCOS was intended. Including, do we still have the same goal of which may be when SACCOS was established, is that goal existing or still have a meaning to SACCOS. So, at first is to review and make analysis so that we can come up with new guidelines of which will support SACCOS to be sustainable.

Furthermore, education to SACCOS’s members, having members with a primary and full understanding of the role of SACCOS as well as their responsibility as members are one of a supportive factor in attaining sustainability. In considering this, SACCOS take measures to educate its members about its services to achieve support from them. As they will be doing what is required for a member, it leads them to be responsible members. This is revealed by Informant 3 as follows:
SACCOS's management provides important education for our members for the development of the SACCOS.

Moreover, cooperation between employees and management and close relationship among employees and board members towards day-to-day operations have a significant impact on the smoothly running of the SACCOS. As most of SACCOS operates on a small-scale basis, in cases of specific problems such as defaults, board members work hand to hand with management and other employees to ensure suitable solutions. Therefore, cooperation between all workers of SACCOS is essential, as this will have an impact on SACCOS's sustainability. This was expressed by Informant 4 as follows:

"...first of all we have a very well establishes cooperation among employees and management of the SACCOS, and so monthly we do have a meeting for evaluations."

Finally, staff training. Training helps to improve staff's capabilities towards their duties hence efficiency. This is very important to SACCOS as they usually employ people with basic knowledge to minimize cost or because they cannot afford to pay for qualified personnel. Due to different training through various means such as seminars, workshops and short courses, it contributes towards improving the capabilities of employees in their daily responsibilities. Various agents can organize such training in supporting MFIs of which these institutions incur nothing or small cost in sending their employees for such training. Informant 4 explained this as follows:

"Another one is seminars being prepared by cooperative officers and COASCO as well, as they brief us on how to plan and so it helps us a lot."

These factors have also been addressed by other studies like that of Hartungi, 2007. His research supports the first, second and fifth factors discussed above. It explained that among the determinants that play a significant role towards MFIs sustainability are trained and committed staff as well as having robust internal financial procedures. From the above explanation, it is observed that Islamic SACCOS's financial sustainability according to management perspectives is mostly influenced by having responsible staff members, regular review of financial guidelines, staff training, education to members and cooperation between employees and management.

**6.2.5 Challenges towards financial sustainability.** Towards attaining sustainability of MFIs, challenges are inevitable. The study found seven significant obstacles encountered by the SACCOS towards achieving financial sustainability. These challenges are as follows.

First is member's doubt on Islamic SACCOS operational sustainability; this is a big challenge as some members doubt the viability of Islamic SACCOS. They question if it is possible to run *riba*-free transactions and then the institution to be able to survive. Such challenge resulted from unawareness among members. This is explained by Informant 2 as follows:

"So, some Muslim don't believe it, or they don't believe that we can sustain or we can run a financial institution in an Islamic way. They are so covered up with interest transactions, so the main challenge was to brainwash them, to teach them, to remind them that there is Islamic finance."

Second is a delay in loan repayment. Members not paying the loan on time due to various reasons tend to affect the liquidity of the SACCOS; hence, affect their financial sustainability at large. This has been explained as a challenge in all sample SACCOS. Taking quote on this from Informant 4 as follows:

"The second challenge is late loan repayment due to changes in an economic situation some of the members fail to repay on time and provide the excuse that the business is not well and so paying"
half of required money and promise to finish next month whereby when it reaches some, also fail to repay.

The third is the government policy of the one-third rule on member’s salary slip. This happened when the government requires that all employees have to remain with their one-third of salary even if they have loan repayment for more than one financial institution. This was made so, for the benefit of borrower as some of them because of multiple loans they ended up having nothing out of salary for themselves and family as well. After the start of this policy implementation, SACCOS were affected in a manner that for some customers, they cannot collect anything from such member because his balance is one-third after deduction of other institution’s loan. This is explained by Informant 3 as follows:

Second there is government, using the rule of 1/3 for members on salary slips. It affected our financial inflows [. . .]

Fourth is the high-interest rate on loans from banks. This happens when SACCOS need to expand the capital or finance its assets and then opt to go for a loan from banks. As a result, they experience being paying back much that tends to absorbs all its profits. This is stated by Informant 4 as follows:

Fifth is low interests in investing in shares among members. To have financial sustainability, SACCOS needs to think about its capital expansion. One such way is through the purchase of shares by members. However, in practice, the members tend to have low investment in shares and a lot in their savings. This has been addressed by Informant 4 as follows:

Sixth is the lack of qualified employees. This is another challenge addressed by SACCOS that tends to affect financial sustainability. Lacking qualified personnel in financial aspects contributed to failures, as financial issues are not conducted professionally. This was explained by Informant 5 as follows:

Among the factors which make the SACCOS to drop is lack of financial expertise. I mean that employees who are very well and capable to or with the qualification in financial management. No key person was employed that qualify for financial management of the SACCOS. That was one among of the big factor.

Last is the lack of financial guidelines. Financial guidelines provide an overview of handling financial matters by different employees and members. Lacking good instructions leads to loopholes for misuse of the fund. This tends to affect the financial stand of the organization. These challenges are explained by Informant 5 as follows:

The above seven identified challenges are among the constraints towards SACCOS financial sustainability. Some of them are in line with studies by Acha (2012), Josephine (2011),
Rulindo (2012) and Salina (2006). In these studies, among the identified challenges on MFI’s sustainability involves high-interest rate, lack of sufficient capital, lack of proper regulation, weak governance and internal control. Therefore, SACCOS do face challenges while attaining their financial sustainability.

7. Conclusion
This section comprises results and discussion summary of the study. Recommendations and limitations of the study are also presented.

Given the importance of MFIs in the economy, this study aims to assess the financial sustainability of Islamic SACCOS as well as determining the factor(s) affecting such sustainability. It is crucial as it provides the trail regarding financial sustainability of Islamic SACCOS since its start in Tanzania in 2010. Second, the findings from this study will be useful to various stakeholders, starting with Islamic SACCOS as they can assess themselves using the result out of this study and where necessary to take the appropriate measures towards attaining their objectives. The regulatory body such as Cooperative Auditing and Supervisory Corporation (COASCO) can also find this study useful in case they will have to provide consultancy services to this type of cooperatives.

In achieving those objectives, mixed approach was applied, and the information was collected from four sample SACCOS, two SACCOS are Islamic ones, and the other two are conventional. Using ROA, the five-year financial trend was observed. Using interview, factors that determine financial sustainability were explained from the management view of point. The findings indicate that Islamic SACCOS are not financially sustainable. Thus, Islamic management uses wrong determinants to assess their financial sustainability. In addition to that, the results show that having responsible staff members, regular review of financial guidelines, education to members cooperation between employees and management and staff training are primary factors that contribute in the process of attaining SACCOS financial sustainability. Furthermore, relying on only charges from members added much on the financial unsustainability of Islamic SACCOS.

Based on the findings, the researchers suggest that Islamic SACCOS management needs to have an interval basis assessment on their financial sustainability using relevant determinants. It will enable them to be aware and try to come up with ways to address the situation. Second, we recommend that Islamic SACCOS need to come up with other sources of income apart from charges on members, as this was observed as a contributing factor towards financial unsustainability. Moreover, it is recommended that despite the challenges that exist, the SACCOS management and other stakeholders concerned should take necessary measures to help in the process of turning these challenges into opportunities and strength.

Finally, this study has some limitations, one of it is the two sample of conventional SACCOS used. Despite that, these two SACCOS were selected from the same operational area as the Islamic ones, but they are more aged as compared to Islamic ones. Due to that, for comparison, caution can be taken. Moreover, the study uses a sample of only two registered Islamic SACCOS; future studies may consider to include unregistered ones.

References


Kisilwa, Z. (2012), *The Emergence of Islamic Banking in Tanzania: A Critical Analysis of Its Impacts to the Subsisting Regulatory and Supervisory Regime, the Case of the B.O.T, partial fulfilment of the requirements for award of the degree of Master of Laws in Commercial Law (LL.M (CL)) of Mzumbe University.


Further reading


Corresponding author

Mariam Swalehe Said can be contacted at: mariamsaid@gmail.com

For instructions on how to order reprints of this article, please visit our website: www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: permissions@emeraldinsight.com