GLOBAL JOURNAL OF COMMERCE & MANAGEMENT PERSPECTIVE
(Published By: Global Institute for Research & Education)
www.gifre.org

IMPACTS OF CORPORATE GOVERNANCE ON EFFICIENCY AND SUSTAINABILITY OF THE BEST RURAL SACCOS IN TANZANIA

Joseph John Magali & Joel Kiprotich Lang'at
Accounting School, Dongbei University of Finance and Economics,
P.O Box 116025, Dalian, P.R. China.

Abstract

This paper assesses the influence of the corporate governance on the efficiency and sustainability of the rural SACCOS which have relatively good financial performance in Tanzania. The paper compares the three best rural SACCOS, their efficiency and sustainability in order to obtain the best overall performer and outline reasons for the overall best performance. The paper applies the descriptive and qualitative analysis styles. The findings from the analysis reveal that the SACCOS in Morogoro outperformed the Dodoma and Kilimanjaro best rural SACCOS because it has enough experience in conducting the SACCOS business, was committed in loans screening, processing and recovery, it adhered to good leadership and corporate governance principles, possessed the loyal staff and its management has proper credits risk mitigation techniques. This paper recommends that the least performers rural SACCOS should apply the corporate governance principles and imitate some strategies of the overall best rural SACCOS to improve their efficiencies and promote their sustainability and should not rely on external funding and grants.

***Key words**: Impacts, Corporate governance, Efficiency, Sustainability, Best rural SACCOS, Tanzania.*

Introduction

Savings and credits cooperatives societies (SACCOS) are the types of the cooperatives which offer savings and credits services in Tanzania. These are the partly formal financial institutions which serve most people located in the rural areas of Tanzania (Wangwe 2004). Despite other forms of cooperatives have been functioning in Tanzania since the colonial periods in 1920s, SACCOS in Tanzania have emerged since 1980s (Maghimbi 2010). SACCOS have solved the problem of capital inadequacy for the clients who were not served by commercial banks and other formal financial institutions because they offer small amount of loans without demanding the legally valuation of the collateral. Bwana and Mwakujonga (2013) and Qin and Ndiege (2013) asserted that SACCOS in Tanzania not only have solved the problem of capital inadequacy to the rural dwellers but also contribute positively to economic development of Tanzania by adding value to the GDP.

However, various scholars declared that SACCOS in Tanzania face problems of poor corporate governance, embezzlement and lack of skilled staff (Bibi 2006; Hakikazi 2006; Maghimbi 2010). These problems have lead to not only to poor performance of SACCOS but also to low efficiency which affects their sustainability (Magali and Pastory 2013). Some scholars also revealed that poor corporate governance and poor management have accelerated the amount of Non Performing Loans (NPL) in SACCOS (Karumuna and Akyoo 2011; Mwakajumilo 2011; Magali 2014). Moreover, some scholars revealed that because of their structures, most SACCOS especially those operating in the rural areas of Tanzania and in other developing countries are inefficient (Dong and Featherstone 2004; Tesfamariam et al 2013; Nyankomo and Aziakpono 2013).

Dong and Featherstone (2004) and Kipesha (2013) asserted that generally, efficiency measures how the provided sets of inputs are effective in producing the optimum amount of outputs. Various scholars classify efficiency into pure technical, intermediation, scales and allocative. Moreover, they apply the data envelopment analysis and other models to measure the efficiency of a decision making unit (DMU), in this case is a microfinance institution (Qayyum and Ahmad 2008; Awotide et al 2011; Abaye et al 2011; Kipesha 2012; Tesfamariam et al 2013).

Literatures stress that it is important to make sure that the MFIs will exist in the future. They argue that all MFIs operations should focus on durability (Woller et al 1999; Schreiner 2002). However, in order for the MFIs to be permanent, they have to operate profitably. Hence profitable MFIs must struggle to ensure that their revenue obtained exceed the operating expenses. Scholars usually apply Operational Self Sufficiency (OSS) and Financial Self Sufficiency (FSS) ratios to measure the extent to which operational and financial expenses are covered by the operating income (Yaron and Manos 2007; Nyamsogoro 2010). For the rule of thumb, a MFI is regarded to be sustainable if the OSS and FSS ratios are above 1. However, some scholars use the returns of assets (ROA) and profitability to measure the sustainability of a MFI (Conning 1999; Meyer and Zeller 2002; Kumar and Gupta 2011; Zaigham and Asghar 2011).

Scholars assert that good corporate governance enables the efficient utilization of MFIs resources and hence is very vital for promoting the MFIs or SACCOS' financial performance (Agumba 2008; Lukwago 2012; Thrikawala et al 2013). Moreover, scholars assert that the good corporate governance also promotes outreach, efficiency and sustainability of the MFIs (Barry and Tacneng 2011; Jayamaha and Mula 2011; Bos and Millone 2012; Hossain 2013). Furthermore, most scholars assert that the MFIs corporate governance variables which influence the MFIs performance, outreach and sustainability include size of the board, gender diversity, board members composition (internal vs external), external facilitation variables (expatriates, grants, auditing, rating), loans lending methodology, remuneration and skills adequacy (Hartarska 2004;Mersland and Strømb 2008;Ekadah and Mboya 2009;Danoshana and Ravivathani 2013).

Despite various scholars asserted that most SACCOS in Tanzania are inefficient, they are poorly operated and they are not sustainable, Maghimbi (2010) also revealed that they are few SACCOS with best performance in Morogoro, Kigoma, Dar es salaam and Kilimanjaro regions in Tanzania because of good corporate governance. However, more details especially on the quantative data which contributed to their best performance and efficiency were not given. The study also didn't disclose the overall performer of all SACCOS in the study area. Moreover, the study didn't specify if the location has an effect on the SACCOS' the financial performance. Therefore, this paper compares the best rural SACCOS in Eastern, Central and Northern zones in Tanzania, particularly in Morogoro, Dodoma and Kilimanjaro regions. In this paper we examined the influence of corporate governance on efficiency and sustainability of the best rural SACCOS in Tanzania. The paper is designed to compare each best rural SACCOS in each region with others in the other two regions in order to obtain the overall performer in the three regions. The paper also explains in details the reasons for outperformance of the overall best rural SACCOS. We believe that the results from this paper can be used by the least rural SACCOS performers to improve their financial performance and hence maintain their sustainability.

Moreover, we are motivated to write this paper because most of the least rural SACCOS performers believe that SACCOS will be sustainable only by accessing the external funding and they ignore the importance of adhering to the corporate governance principles in order to improve their financial performance. The rest of this paper is structured as follows: The next section covers the reviews from the literatures where the concepts of corporate governance, efficiency, financial performance and sustainability of the SACCOS and other MFIs will be presented. Then, the methodology used to analyze this paper follows thereafter. Comparisons of the efficiency and sustainability of the best rural SACCOS in the three regions is found in the discussion of the findings where both descriptive and qualitative methods are used. The comparison focuses the influence of corporate governance on both efficiency and sustainability of the best rural SACCOS in Tanzania. The last section provides the conclusion and recommendations drawn from the findings of this paper.

Literature Review

Concept of corporate governance

Corporate governance describes on how the organization should be operated based on the stakeholders' interests so as to improve her performance (Agumba 2008). Scholars assert that leaders following the good governance principles whether in SACCOS or other institutions should operate in a democratic way. They should also act as stewards and agents for their clients, should use the organization resources and make good decisions for the benefits of clients and other stakeholders (Agumba 2008; Odera et al 2012; Lukwago 2012; Adeusi et al 2013). Lukwago (2012) stressed that good corporate governance promotes efficient management and hence help to maintain the MFIs reputation and maintains the clients' trust. Adeusi et al (2013) argued that corporate governance places the structure, processes and management mechanisms to enhance the firm's performance.

Council of Microfinance Equity Funds (2012) stressed that sound governance in the MFI will keep an organization on track towards implementation of its major decisions. It further stressed that the sound governance will foster implementation of the MFIs goals and strategies and hence will maintain the MFI's health in terms of ensuring that it has the adequate human and financial resources and it will mitigate risks. Odera et al (2012) revealed that corporate governance related problems occurred in Kenyan SACCOs because they had no apparent and appropriate rules which describe the chain of commands in decision making, had incompetent staff and management lacked trust. Thrikawala et al (2013 asserted that training in corporate governance for the MFI's board is important for improving the financial performance.

Corporate governance and MFIs performance and sustainability

Most scholars use Return on Assets (ROA) while few use Return on Equity (ROE) to measure the financial performance (profitability) of both banks and MFIs or SACCOS which also indicates the sustainability of the MFIs or SACCOS respectively. Scholars also further argue that banks, MFIs or SACCOS with large amounts of Non Performing Loans (NPL) also have lower profitability and this is an indication of poor corporate governance and credits risk management (Aemiro and Mekonnen 2012; Naveen et al 2012; Magali 2013b; Kaaya and Pastory 2013; Magali 2014).

Various scholars have revealed the influence of corporate governance on MFIs performance. Thrikawala et al (2013) argued that good corporate governance practices promote the social and financial sustainability of MFIs and reduces risks. Tadele and Rao (2014) argued poor corporate governance has led to commercialized MFIs in Andhra Pradesh in India to cease because of unethical business practices. They further argued that poor corporate governance has led to disbursement of loans without considering the creditworthiness of the clients, lack of loans portfolio diversification, poor Management Information and accounting systems and inadequate staff control which permitted the loan officers to handle high amounts of cash which have lead to frauds and embezzlement of funds. Das (2011) and Thrikawala et al (2013) revealed that good governance in MFIs defines the roles of the management, preserve a positive image and attract customers and hence increases the financial performance of the MFIs. They stressed that transparency promotes sound decision making and hence attract investors and donors.

The influence of corporate governance variables in the financial performance

Most scholars describe the influence of corporate governance by analyzing empirically the relationship between the corporate governance variables and the financial performance which is measured by profitability, ROA or ROE**.** Lukwago (2012) found that ROA for MFIs in Uganda were positively correlated with board size, audit committee, board and educational qualifications. He further revealed that corporate governance influenced positively the MFIs financial performance. However, Aboagye and Otieku (2009) revealed that there was no connection between the corporate governance on outreach and financial performance for the rural and community banks RCBs' in Ghana.

Strømb and Mersland (n.d) revealed that in MFIs female leaders perform well is in larger boards, younger firms, non-commercial legal MFIs and in MFIs with many female clients. Similarly, Lukwago (2012) revealed that gender diversity of board members influenced positively the financial performance of MFIs in Uganda while Ekadah and Mboya (2009) found that for Kenyan banks, board diversity does not influence the financial performance. Also Adeusi et al (2013) noted that that number of executive directors and board composition does not improve the bank performance in Nigeria. They further revealed that external board members influenced negatively the banks performance in Nigeria. Moreover, Mersland and Strømb (2008) by using the random effects panel data estimations found that the MFI financial performance (ROA) improves with local directors, internal board auditor and a female CEO. They further found that group lending improves outreach as opposed to individual lending which reduces the outreach and portfolio yield and operational costs increase if the MFIs lend only the urban clients. Similarly, Jegede et al (2012) revealed that group loans lending method determines MFIs sustainability.

Waithaka et al (n.d) found that size of board, remuneration of director and directors' independence influenced negatively the social performance of MFIs in Kenya. The same way, Hartarska (2004) revealed that factors which improved the financing performance (ROE), sustainability and outreach of MFIs included rating by an external agency, managerial pay and independence of boards. However, the factors which affected negatively the MFIs performance, outreach and sustainability were audited financial statements probably because they overestimated income, expatriates possibly because they brought easy donation or grants and boards with higher proportion of insiders because they encouraged the non-active borrowers and hence the MFIs scored poor figure of ROA. Danoshana and Ravivathani (2013) found that firm's performance was positively influenced by board and audit committee size while it was negatively influenced by meeting frequency in Srilanka. Waithaka et al (2003) found that MFIs social performance in Kenya was positively influenced by CEO non duality, experience and overall leadership characteristics.

Mutambanadzo et al (2013) revealed that MFIs in Zimbabwe had poor corporate governance structures, leaders had inadequate management skills and they faced stiff competitions from the commercial banks and this reduced the MFIs profitability. The study further revealed that MFIs had poor MIS where 56.2%, 18.2% and 25.6% of the MFIs were using excel spreadsheets, manual/paper based systems and simple loans packages. Bangoura and Tobossi (2012) argued that MFIs leaders' resources embezzlement is a sign of poor governance and it lowers the MFIs profitability. They recommended the MFIs to practice good governance and disburse the riskless credits to their clients, at the same time MFIs should promote the social performance.

Corporate governance and MFIs efficiency

Most studies conducted to assess the efficiency of MFIs and SACCOS used the Data Envelopment Analysis (DEA) and others models. Studies which applied other models include Fried et al (1993), Isler (2010), Awotide et al (2011) and Abaye et al (2011) who used the parametric and stochastic techniques, cost structure, the queue management and the Cobb- Douglas Stochastic frontier model to assess the efficiency credits unions, MFIs and cooperatives in US, Swiss, Nigeria and Ghana respectively. Moreover, the studies which assessed the efficiency of MFIs and SACCOS by using the DEA model include Dong and Featherstone (2004), Kipesha (2012), Tesfamariam et al (2013), Nyankomo and Aziakpono (2013) and Magali and Pastory (2013).

Literatures from Mexico, Japan and China show that most MFIs in various countries of the world are inefficient (González 2008; Fukuyama et al 1999; Dong and Featherstone 2004). Moreover, scholars from Tanzania and Africa have revealed that most MFIs and SACCOS are also inefficient (Kipesha 2012; Tesfamariam et al 2013; to Nyankomo and Aziakpono 2013; Magali and Pastory 2013). Furthermore, scholars argue that efficiency of MFIs can be explained by various variables which include capital size, Age, geographical locations, model of regulations, loans, income and expenses (Majumdar1997; Abayie et al 2011; Kipesha 2012; Nyamsogoro 2010; Tesfamariam et al 2013; Magali and Pastory 2013).

Various scholars have linked the corporate governance and MFIs efficiency. Satagopan and Ravindran (2012) asserted that the corporate governance is very important in the allocation of capital because it encourages higher level of efficiency, quality and competitiveness of the MFIs and the private sectors and it created jobs, improved the livelihoods and alleviated poverty to the citizens in India. Bassem (2013) revealed that MFIs in 250 African countries including Tanzania, loans repayment performance (measured by % of portfolio at risk) was determined by the governance quality. The good loans repayment performance is linked with MFIs efficiency because it reduces costs of overdue loans recovery (Magali and Pastory 2013).

Barry and Tacneng (2011) by using a panel of 281 MFIs in Africa found that most clients who borrowered and saved in MFIs were not poor. They also found that NGOs attained higher profits compared with other types of MFIs. The findings further revealed that MFIs regulating bodies don't improve portfolio quality but improve efficiency and productivity. Hossain (2013) through reviewing the literatures found that despite MFIs financial performance being worsened by competition, it sometimes improves efficiency and the external stakeholders' orientation in MFI board ensures the social performance. The study further revealed that MFIs profitability don't increase because of external rating, auditing and reporting, regulation and supervision, international orientation and professional, despites sometimes they lead to expansion of outreach (Hossain 2013).

Bos and Millone (2012) revealed that increasing the size of loans, the total size of the loan and lending to more women borrowers negatively affects the MFIs efficiency. The large size of loan decreases efficiency when it poses the higher probability of default (Magali and Pastory 2013). Jayamaha and Mula (2011) found that the greater financial strength leads to higher efficiency of cooperative rural banks in Sri Lanka. They further revealed that despite the score for technical efficiency was positive; there were no significance correlation between profitability and technical efficiency.

Methodology

We selected one active rural SACCOS in Dodoma region for comparison while in Morogoro and Kilimanjaro regions we selected the best rural SACCOS among those with relatively good performance. The best rural SACCOS are drawn from the study which involved 37 rural SACCOS from Tanzania. The survey for the study was conducted in February to May in 2013. This paper aims at comparing the efficiency and sustainability of the best rural SACCOS in Morogoro, Dodoma and Kilimanjaro regions in Tanzania. In this paper we use the descriptive and qualitative analysis to compare the best rural SACCOS in Morogoro, Dodoma and Kilimanjaro regions, in order to obtain the overall best rural SACCOS. This is contrary to many scholars, who have applied the empirical models such as Data Envelopment Analysis (DEA), stochastic frontier approach, Cobb-Douglas Stochastic frontier model, multivariate regression models and other complex models. We apply the simple approach because it is not feasible to run a model by using data from the three SACCOS. Also we want all people even those who are not experts in financial management to apply the findings from this study to improve the efficiency and sustainability of the rural SACCOS and other MFIs in Tanzania and in other countries in the world.

Results

Age of the best rural SACCOS and total members

The findings show that the age of the best SACCOS in Morogoro, Dodoma and Kilimanjaro region was 20, 11 and 11 respectively. The results show that the best SACCOS in Morogoro region is more aged than in Dodoma and Kilimanjaro regions. The findings indicate that the best SACCOS in Morogoro region had an opportunity of using its experience to improve the financial performance. Various scholars asserted that age of the SACCOS or MFI has relationship with efficiency, financial performance, outreach and sustainability. Majumdar (1997) and Kipesha (2013) revealed that despite of being productive, age influenced negatively the profitability of MFIs in India and Tanzania respectively. However, Masood and Ahmad (2010) and Abayie et al (2011) revealed that age determines positively efficiency, outreach and productivity of MFIs in India and Ghana respectively.

The findings also show that the total number of members and percentage of female members for the best SACCOS in Morogoro, Dodoma and Kilimanjaro region were 1594, 278 and 3567 and 24.5%, 32.7% and 38.5% respectively. The findings show that the best SACCOS in Kilimanjaro region had large number of members and women members respectively. It implies that the best SACCOS in Kilimanjaro attained higher outreach than her counterparts. The literatures show that Sebhatu (2011) and Ndiege al (2013) used the total number of clients to measure outreach of SACCOS in Ethiopia and Tanzania while Nyamsogoro (2010) used female clients to measure outreach of SACCOS in Tanzania respectively.

Education of the board's chairman and the manager of the best SACCOS

The findings reveal that in all of the three best SACCOS, chairman of the board possessed the primary education. The results are compatible with Magali (2013a) who noted that 81.1% of the rural SACCOS' board chairman in Tanzania possessed the primary education. However, the findings signify that lower education level is not an obstacle towards attaining the successful financial performance for the best rural SACCOS in Tanzania. Surprisingly, the findings show that the education levels of the manager in the overall best SACCOS' in Morogoro and her counterparties in Dodoma and Kilimanjaro regions possessed the primary and secondary education respectively.

Auditing frequency and financial performance

The findings show that the best rural SACCOS in Morogoro and Kilimanjaro regions were audited every year as opposed to the best rural SACCOS in Dodoma region which was audited after two years. The data on financial performance shows that annually audited SACCOS performed better than their counterparties. The findings from this paper are in tandem with Magali (2014) who asserted that lack of auditing in the rural SACCOS is an indication of poor leadership and corporate governance. Also lack of annual audit poses risks of SACCOS' money because it might indicates the presence of fraud or embezzlement of funds.

Efficiency of the best rural SACCOS

Efficiency explains how the minimum levels of inputs are transformed into the optimum number of outputs (Magali and Pastory 2013). In this paper the efficiency is described on how the best rural SACCOS use the expenses to generate the optimum level of profit. The findings on efficiency of the best rural SACCOS are presented in Table 1. The findings from Table 1 show that the percentages of NPL for the best rural SACCOS in Morogoro, Dodoma and Kilimanjaro regions were 6.7%, 13.7% and 19% respectively. The findings show that the Morogoro best rural SACCOS outperformed her counterparties since it recorded the minimum number of NPL (6.7%). The higher amount of NPL is an indication of poor credits risk management and poor adhering to corporate governance principles (Bibby 2006; Karumuna and Akyoo 2011; Magali 2014). The NPL in this study are linked with inefficiency because the SACCOS with high amounts of NPL will incur the additional costs during loans recovery and this will reduce the income of the rural SACCOS and hence will lead to inefficiency (Magali and Pastory 2013).

The findings from Table 1 also show how the best rural SACCOS use expenses to generate the profits. The profit-expense ratio shows the profit obtained as a percentage or ratio of the expenses. The findings show that the best rural SACCOS in Morogoro utilized well her expenses to generate profit since the profit obtained was 87.5% of the total expenses. The findings shows that the profit-expense ratio for Morogoro best SACCOS was approaching 1 indicating that for 1 unit cost incurred in production, it will produce approximately 1 unit of profit. However, the findings are different for the best rural SACCOS in Dodoma and Kilimanjaro regions which show inefficiency in using their expenses to generate profit as displayed in Table 1. The results show that for the Dodoma region best rural SACCOS for 100 TZS it invest, the profit earned account only in 5.3% while in Kilimanjaro region best rural SACCOS, if it invests 100 TZS the profit obtained account only for 10.2%. The findings from Dodoma and Kilimanjaro regions SACCOS is a manifestation that the rural SACCOS in China, Ethiopia and Tanzania are inefficient, meaning that they incur higher costs of operations (Dong and Featherstone 2004; Tesfamariam et al 2013; Nyankomo and Aziakpono 2013). Moreover, Jayamaha and Mula (2011) confirmed that the greater financial strength of MFIs contributes to improved efficiency.

Likewise the data from Table 1 shows that the expenses for the best rural SACCOS in 2012 for Morogoro, Dodoma and Kilimanjaro region were 53, 26 and 117 million TZS respectively. The findings from Table 1 shows that despite of having smaller amounts of the total assets, the best SACCOS in Kilimanjaro region incurred more than two times of the costs of operations than the best rural SACCOS in Morogoro region. However, the best rural SACCOS in Dodoma region incurred low amount of expenses because it possessed assets of small size. Therefore, the overall findings show that the best rural SACCOS in Morogoro region was more efficient than her counterparties.

Table 1: Efficiency indicators

Best SACCOS in Region	NPL (%) in 2012	Expenses in 2012 (Million TZS*)	Profit-Expense Ratio (%)
Morogoro	6.7	53	87.5
Dodoma	13.7	26	5.3
Kilimanjaro	19.0	117	10.2

* 1 USD =1610 Tanzania Shillings (TZS)

Sustainability of the best rural SACCOS

Most scholars use ROA to measure the sustainability of the MFIs (Kumar and Gupta 2011; Zaigham and Asghar 2011). Also Zaigham and Asghar 2011) confirmed that Conning (1999) and Meyer and Zeller (2002) used ROA to measure the sustainability of the MFIs. Table 2 presents data about the sustainability of the best rural SACCOS in Tanzania. The findings from Table 2 show that the total assets, ROA and profitability for the best rural SACCOS in Morogoro were 1000 million TZS, 3.7 and 50 million TZS respectively. The findings from Table 2 indicate that the best rural SACCOS in Morogoro region had high amounts of the total assets, ROA and profitability in 2012. The findings further indicate that the best rural SACCOS in Morogoro region was assured of operating in future since it attained high amount of profit from operations. Likewise the findings from Table 2 also show that the total assets, ROA and profits for the best rural SACCOS in Dodoma and Kilimanjaro region were 200 and 800 million TZS, 0.6 and 1.5 and 8 and 12 million TZS respectively. The data indicates that the best rural SACCOS in Morogoro region performed better than her counterparties. The results indicate that the profit earned by the best rural SACCOS in Morogoro region was four and six times more than of Kilimanjaro and Dodoma best rural SACCOS. Moreover, the findings indicate that the best SACCOS in Kilimanjaro region performed better than the best SACCOS in Dodoma region.

Table 2: The Sustainability indicators

Best SACCOS in Region	Total assets (Million TZS)	ROA	Profit in 2012 (Million TZS)
Morogoro	1000	3.7	50
Dodoma	200	0.6	8
Kilimanjaro	800	1.5	12

Credits risk management for the best rural SACCOS

The findings from Table 1 shows that the NPL for the best rural SACCOS in Morogoro region was low (i.e 6.7%), indicating that it has good credits risks management. Furthermore, the findings show that among the three best rural SACCOS, only the best rural SACCOS in Morogoro region was having insurance services for her members. The presence of insurance service also is reflected by high amount of ROA and profitability attained by the best rural SACCOS in Morogoro region. However, this study reveals that the cover for insurance was narrow because it covered only the borrower and not the loans activities. Atieno (2001), Wenner et al (2007), Wenner (2010) and Moti et al (2012) recommended the use of insurance services in order to reduce the risks of loans default for MFIs and SACCOS in Kenya and Latin America correspondently. Other strategies used by the best rural SACCOS in Morogoro region so as to minimize the amount of loans default risks were carefully loan screening, appraisal and follow-up. Other credits risk mitigation techniques used were strictness in demanding of the unmovable collateral, it demanded the borrowers to have savings equal to one third of the applied loans and was strict in demanding 2-3 guarantors including the spouse of the borrowers. Also the best rural SACCOS in Morogoro region was committed to confiscate the defaulters' properties mostly by using the auctioning companies and persecuted the defaulters in courts. However, the SACCOS staff and management confirmed that before confiscation of the borrowers' properties and persecute them in courts they called them in the ward offices so that the borrowers might state the reasons for default and set strategies for repaying the loans. Evers et al (2000) stressed MFIs should apply fairly entertaining methods for enhancing the defaulted loans repayment before initiating the legal actions.

Effect of location of the best rural SACCOS' financial performance

This study reveals that the location of the rural SACCOS is not an obstacle for successful performance. The study reveals that the overall best SACCOS was located in the very remote area in Morogoro region compared to the best SACCOS in Kilimanjaro region which was located along the highway leading to importance regions in the Northern zone of Tanzania. However, the very remote located SACCOS performed well than her counterparties. Also the study finds that the best performing SACCOS in Dodoma region was located in very remote area and it performed well than the SACCOS located in Dodoma-Dar es-salaam-Singida highways. The findings indicate that the rural SACCOS should be located near to their clients in order to promote their financial performance. However, scholars revealed that location affects the efficiency of SACCOS and microfinance institutions in China, India, Tanzania and Ethiopia and correspondently (Dong and Featherstone 2004; Nyamsogoro 2010; Masood and Ahmad 2010; Tesfamariam et al 2013).

Other Reasons for outperformance for the Morogoro best rural SACCOS

This study reveals that apart from having the effective credits risks management, the best rural SACCOS in Morogoro region outperformed her counterparties because of good leadership and adhering to the principles of the corporate governance. The findings are in tandem with many scholars who revealed the influence of good corporate governance on financial performance (Hartarska 2004; Mersland and Strømb 2008; Lukwago 2012; Thrikawala et al 2013). The study finds that both annual general meeting and auditing were conducted according to schedules. Also the study reveals that the remunerations for the staff were reasonable and hence the staff were motivated to work. The findings are consistent with Hartarska (2004) and Waithaka et al (n.d) who found that remunerations improved the financial performance for Europe and Kenyan MFIs.

Likewise, the paper reveals that the SACCOS employed all required staff including the manager, cashiers and the loan officer. The Kilimanjaro best rural SACCOS also employed the loan officer while the best SACCOS in Dodoma region had no loan officer. Moreover, the paper reveals that both staff and the management team (the board members) for the overall best SACCOS were loyal to the SACCOS and they avoided fraud of funds. Furthermore, the findings reveal that the SACCOS used the strategies of developing the staff from their own remote locations and they avoid employing the unknown staff regardless of their education levels so as to curb embezzlement and theft in the SACCOS. Nevertheless, Hartarska (2004) discouraged MFIs boards' with higher percentage of insiders contending that it lead to poor financial performance. All of the listed factors are related with good governance and leadership which promote the SACCOS and MFI performance as opposed to poor management (Odera 2012; Warue 2012; Makori et al 2013). Moreover, Maghimbi (2010) asserted activeness of members, devoted management, business innovation and creativity and transparency of the management were the drivers for improved performance of the best rural SACCOS in Tanzania. However, Aboagye and Otieku (2009) revealed that corporate governance does not influence the financial performance of the MFIs.

Conclusion and Recommendations

This paper finds that the Morogoro region best rural SACCOS outperformed the Dodoma and Kilimanjaro best rural SACCOS. The paper reveals that the reasons for outperforming others were enough experience in conducting the SACCOS business compared to her counterparties. It also outperformed others because it was seriousness in loans screening, processing and recovery, has adhered to good leadership and corporate governance principles, posses both loyal staff and management, has proper credits risks mitigation techniques (insurance services), motivated her staff very well and employed the staff from her location. Based on our findings we recommend that the least performers rural SACCOS should apply the corporate governance principles and imitate the strategies contributed to best performance of the overall SACCOS performer and don't rely only on external funding and grants for maintaining their sustainability.

References

Abayie, E., Amanor, K. and Frimpong, J. (2011). The Measurement and Determinants of Economic Efficiency of Microfinance Institutions in Ghana: A Stochastic Frontier Approach. *African Review of Economics and Finance,* 2, 149-166.

Aboagye, A. Q. and Otieku, J. (2010). Are Ghanaian MFIs' Performance Associated With Corporate Governance? *Corporate Governance*, Vol. 10 No.3, pp. 307-320, DOI 10.1108/14720701011051938.

Adeusi, S. O., Akeke, N. I., Aribaba, F. O. and Adebisi, O. S. (2013).Corporate Governance and Firm Financial Performance: Do Ownership and Board Size Matter? *Academic Journal of Interdisciplinary Studies,* Vol 2 No 3, 251-258. Doi:10.5901/ajis.2013.v2n3p251.

Aemiro,T. and Mekonnen, D. (2012). The Financial Performance and Sustainability of Microfinance Institutions during the Current Financial Crisis: The case of Amhara Credit and Saving Institution (ACSI) in Ethiopia. *International Journal of Business and Public Management,* Vol. 2(2): 81-87.

Agumba, N. (2008). Effectiveness of the SACCO Governance Model. Presented By KUSCCO Limited, Nairobi-Kenya at AFRACA Microfinance Conference –Benin, 2008.

Atieno, R. (2001). Formal and informal institutions' lending policies and access to credit by small-scale enterprises in Kenya: An empirical assessment. AERC Research Paper 111, African Economic Research Consortium, Nairobi, November, 2001.

Awotide, D.O., Aihonsu J.O.Y. and Adekoya A.H. (2012), Cooperative societies' effectiveness in credit delivery for agricultural enterprises in Ogun State, Southwest Nigeria. *Asian Journal of Business and Management Sciences,* Vol. 2 No. 3, 74-79.

Bangoura, L. and Tobossi, G.C. (2012). Financing and Governance of Microfinance Institutions (MFIs). *British Journal of Economics, Finance and Management Sciences,* Vol. 5 (1), 1-11.

Barry, T. A. and Tacneng, R. (2011). Governance and Performance: Evidence from African Microfinance Institutions. http://www.rug.nl/research/globalisation-studies-groningen/research/conferencesandseminars/conferences/eumicrofinconf2011/papers/1new.6.tacneng.pdf, Retrieved on 28/02/2014.

Bassem, B. S. (2013). Governance Quality and MFIs Repayment Performance. Journal of Economic Cooperation and Development, 34, 1 (2013), 47-62.

Bibi, A. (2006). Tanzania's Cooperatives Look to the Future. Retrieved from, http://www.andrewbibby.com/pdf/Tanzania.pdf, on 25/02/2013.

Bos, J.W.B. and Millone, M. (2012). Practice What You Preach: Microfinance Business Models and Operational Efficiency. Maastricht University School of Business and Economics, The Netherlands.

Bwana, K.M. and Mwakujonga, J. (2013). Issues in SACCOS Development in Kenya and Tanzania: The Historical and Development Perspectives. *Developing Country Studies,* Vol.3, No.5, 114-121.

Conning, J. (2009). Outreach, sustainability and leverage in monitored and peer-monitored lending. Journal of Development Economics, Vol. 60, 51-77.

Council of Microfinance Equity Funds (2012). The Practice of Corporate Governance in Microfinance Institutions. Retrieved from: http://www.cmef.com/document.doc?id=1026, on 27/02/2014.

Danoshana, S. and Ravivathani, T. (2013). The Impact of the Corporate Governance on Firm Performance: A Study on Financial Institutions in SriLanka. *Merit Research Journal of Accounting, Auditing, Economics and Finance*, Vol. 1(6) pp. 118-121.

Das, P. K. (2011). Towards Corporate Governance of Microfinance Institutions (MFIs) in India. Working Paper No. SRM/KIIT/2.

Dong, F. and Featherstone, A. (2004). Technical and Scale Efficiencies for Chinese Rural Credit Cooperatives: A Bootstrapping Approach in Data Envelopment Analysis. Working Paper 04-WP 366, Center for Agricultural and Rural Development, Iowa State University.

Ekadah, J.W. and Mboya, J. (2009). Effect of Board Gender Diversity on the Performance of Commercial Banks in Kenya. *European Scientific Journal*, vol. 8, No.7, 128-148.

Evers, J., Jack, S., Loeff, A. and Siewertsen, H. (2000). Reducing Cost and Managing Risk in Lending to Micro Enterprises. *Handbook for Micro-Lending in Europe.* produced by FACET, Zeist, The Netherlands and IFF- Institurt fur Finanzdienstleistungen e.V., Hamburg, Germany.

Fiorillo, A. (2006).The Effects of Wholesale Lending to SACCOs in Uganda. Financial Sector Deepening Project.

Fried, H.O., Lovel, C.A.K. and Eeckaut, P.V. (1993), Evaluating the performance of US credit unions: *Journal of Banking and Finance,* 17, 251-265.

Fukuyama, H., Guerra, R. and. Weber, W.L.(1999),Efficiency and Ownership: Evidence from Japanese Credit Cooperatives. *Journal of Economics and Business,* 1999; 51:473–487.

Hakikazi, (2006). Cooperatives and Development in Tanzania: A Simplified Guide to the Cooperative Development Policy and the Cooperative Societies Act of Tanzania Mainland. Retrieved from, http://www.hakikazi.org/papers/Cooperatives.pdf, on 25/02/2014.

Hartarska, V. (2004). Governance and Performance of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States. Selected Paper prepared for presentation at the Southern Agricultural Economics Association Annual Tulsa, Oklahoma, February 18, 2004.

Hossain, S. (2013). Does External Stakeholder Orientation in Corporate Governance Influence in Sustainability and Outreach of Microfinance Institutions. *Research Journal of Finance and Accounting,*Vol.4, No.14,25-33.

Isler, B.F. (2010), The Efficiency of Microfinance Institutions Applying Principles of Islamic Banking. BSc. Thesis, University of Zürich.

Jayamaha, A. and Mula, J. M. (2011). Best Financial Practices Analysis and Efficiency of Small Financial Institutions: Evidence from Cooperative Rural Banks in Sri Lanka. *Journal of Emerging Trends in Economics and Management Sciences,* 2(1), 22-31.

Jegede, C.A., Kehinde, J.S. and Akinlabi, B.H.(2012). Trends of Outreach and Sustainability of Microfinance Institutions in Southwestern Nigeria. International Trade & Academic Research Conference (ITARC), 7 – 8th November, 2012, London.UK.

Kaaya, I. and Pastory, D. (2013). Credit Risk and Commercial Banks Performance in Tanzania: a Panel Data Analysis. *Research Journal of Finance and Accounting,* Vol.4, No.16, 2013.

Karumuna, L. and Akyoo, A. (2011). Rural Finance Challenges in Tanzania-the case of Kibaigwa Financial Services and Credit Cooperative Society (KIFISACCOS) in Kongwa District. Business Minds Africa, Case series, number 2 June 2011.

Kipesha, E. F. (2013). Impact of Size and Age on Firm Performance: Evidences from Microfinance Institutions in Tanzania. *Research Journal of Finance and Accounting,* Vol.4, No.5, 2013.

Kipesha, E.F. (2012), Efficiency of Microfinance Institutions in East Africa: A Data Envelopment Analysis. *European Journal of Business and Management, Vol 4,* No.17, 2012.

Kumar,V.V and Gupta, V. K. (2011). Analysis of Performance Indicators on Sustenance of Micro Finance Institutes: A Comparative Study of East Asian & Pacific, and South Asian Countries. *Research Journal of Finance and Accounting,* Vol 2, No 3, 2011.

Lukwago, J. (2012). Corporate Governance and Financial Performance/Growth of Microfinance Institutions in The Case of Microfinance Institutions under the Association of Microfinance Institutions Uganda. Unpublished Bachelor Thesis, University of Makerere.

Magali, J.J. (2013a). Factors Affecting Credit Default Risks For Rural Savings and Credits Cooperative Societies (SACCOS) in Tanzania. *European Journal of Business and Management, Vol.5,* No.32:60-73.

Magali, J.J. (2013b). The Impacts of Credits Risk Management on Profitability of Rural Savings and Credits Cooperative Societies (SACCOS): The Case Study of Tanzania. *International Journal of Management Sciences and Business Research,* Vol-2, Issue 12:62-77.

Magali, J.J. (2014). The Influence of Leadership, Corporate Governance and Regulations on Credit Risk Management: The Study of Rural SACCOS from Tanzania. *Management and Administrative Sciences Review,* Volume: 3, Issue: 2. (Article in Press).

Magali, J.J. and Pastory, D. (2013). Technical Efficiency of the Rural Savings and Credits Cooperative Societies in Tanzania: A DEA Approach. *International Journal of Management Sciences and Business Research, Vol-2,* Issue 12:49-61.

Maghimbi, S. (2010). Cooperatives in Tanzania mainland: Revival and growth. CoopAFRICA Working Paper No.14. Series on the status of cooperative development in Africa. International Labour Organization Office in Dar es Salaam, Tanzania.

Majumdar, S.K. (1997). The Impact of Size and Age on Firm-Level Performance: Some Evidence from India. Review of Industrial Organization, Kluwer Academic Publishers, 12: 231–241, 1997.

Makori, J., Munene, C. and Muturi, W. (2013). The Challenges Facing Deposit-Taking Savings and Credit Cooperative Societies' Regulatory Compliance in Kenya. A Case of the Gusii Region. *Interdisciplinary Journal of Contemporary Research In Business,* April 2013 Vol 4, No 12.

Marwa, N. and Aziakpono, M. (2013). Technical and Scale Efficiency of Saving and Credit Cooperatives: Evidence from Tanzania. University of Stellenbosch Business School, South Africa.

Masood, T. and Ahmad, M.I. (2010). Technical Efficiency of Microfinance Institutions in India- A Stochastic Frontier Approach. MPRA Paper No. 25454.

Mersland, R. and Strømb, R. Ø. (2008). Performance and Governance in Microfinance Institutions. This version: 1011-2008. Retrieved on27/02/2014 from: https://oda.hio.no/jspui/bitstream/10642/599/2/340554post.pdf.

Moti, H,O., Masinde, J.S. and Mugenda, N. G.(2012). Effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya. International Journal of Business, Humanities and Technology Vol. 2 No. 6, 99-108.

Mutambanadzo, T., Bhiri, T. and Makunike, S. (2013). An Analysis Challenges Faced by Zimbabwean Micro Finance Institutions in Providing Financial Services to the Poor and Informal Sector in the Dollarised Regime. *Global Journal of Commerce and Management Perspectives*, Vol. 2(3), 154-159.

Mwakajumilo, (2011). The Role of Informal Microfinance Institutions in Saving Mobilization, Investment and Poverty Reduction. A Case of Savings and Credit Cooperative Societies (SACCOS) in Tanzania from 1961-2008. Unpublished Doctoral Thesis, St. Clements University.

Naveen, K. H.,Manjunath, S.J. and Srikanth, H.S. (2012). Microfinance: A comparative Study of Bangladesh and India. *IOSR Journal of Business and Management, Volume 5,* Issue 6 (Nov. - Dec.2012), pp 27-35.

Ndiege, B.O., Haule, T. B. and Kazungu, I. (2013). Relationship between Sources of Funds and Outreach in Savings and Credits Cooperatives Societies: Tanzanian case. *European Journal of Business and Management,* Vol.5, No.9, 2013.

Nyamsogoro, D. (2010). Financial Sustainability of Rural Microfinance in Tanzania. PhD Thesis, University of Greenwhich.

Odera, O. (2012). Corporate Governance Problems of Savings, Credit and Cooperative Societies. *International Journal of Academic Research in Business and Social Sciences* November 2012, Vol. 2, No. 11.

Ogboi, C. and Unuafe, O. K. (2013). Impact of Credit Risk Management and Capital Adequacy on the Financial Performance of Commercial Banks in Nigeria. *Journal of Emerging Issues in Economics, Finance and Banking*, Volume 2 No. 3, 703-717.

Conning, J. (2009). Outreach, sustainability and leverage in monitored and peer-monitored lending. Journal of Development Economics, Vol. 60, 51-77.

Qayyum, A . and Ahmad, M. (2008), Efficiency and Sustainability of Micro Finance Institutions in South Asia. MPRA Paper No. 11674.

Qin, X. and Ndiege, B.O. (2013). Role of Financial Development in Economic Growth: Evidence from Savings and Credits Cooperative Societies in Tanzania. *International Journal of Financial Research,* Vol. 4, No. 2; 2013.

Satagopan, H. and Ravindran, G. (2012). Strengthening Corporate Governance of MFIs Looms Opportunities of Cultivating New Faith in Financial Sectors. *Asia Pacific Journal of Marketing & Management Review*, Vol.1 (4), 105-124.

Sebhatu, K.T. (2011). Management of Savings and Credit Cooperatives from the Perspective of Outreach and Sustainability: Evidence from Southern Tigrai of Ethiopia. *Research Journal of Finance and Accounting*, Vol 2, No 7/8, 2011.

Strømb, R. Ø. and Mersland, R. (n.d). Gender, Performance and Governance in Microfinance Institutions. Retrieved from:ww.microfinancegateway.org/gm/document-1.9.44301/Gender performance and governance.pdf, on 27/02/2014.

Tadele, H. and Rao, P. M.S. (2014). Corporate Governance and Ethical issues in Microfinance Institutions (MFIs)-A study of Microfinance Crises in Andhra Pradesh, India. *Journal of Business Management & Social Sciences Research*, Volume 3, No.1, 21-26.

Tesfamariam, K., Tesfay H. and Tesfay, A. (2013). Relative Efficiency of Rural Saving and Credit Cooperatives: An Application of Data Envelopment Analysis. *International Journal of Cooperative Studies Vol. 2, No. 1, 16-25.*

Thrikawala, S., Locke, S.and Reddy, K. (2013).Corporate Governance-Performance Relationship in Microfinance Institutions (MFIs). *Asian Journal of Finance & Accounting,* Vol. 5, No. 1,160-182.

Triodos (2011), Tanzania Microfinance Country Scan, Final report. Zeist, The Netherlands, Washington, D.C, Sustainable Development Department, Best Practices Series May 2007.

Waithaka, S. M., Gakure, R. and Wanjau, K. (n.d). The Effects of Board Characteristics on Microfinance Institutions' Social Performance in Kenya. Retrieved on 28/02/2014 from: elearning.jkuat.ac.ke/journals/ojs/index.php/jscp/article/download/841/752.

Waithaka, S.M., Gakure, R. and Wanjau, K. (2003) The Effects Of Leadership Characteristics On Microfinance Institutions' Social Performance In Kenya. *European Journal of Business and Innovation Research,* Vol. 1. No. 1, 26-43.

Wangwe, S. (2004). Innovation in Rural Finance in Tanzania. Paper prepared for The Third Annual Conference on Microfinance held from 15th to 17th March 2004 at the AICC, Arusha, Tanzania.

Warue, B.N. (2012). Factors Affecting Loan Delinquency in Microfinance Institutions in Kenya. *International Journal of Management Sciences and Business Research, 2012, Vol. 1, Issue 12:27-48.*

Wenner, M., Navajas, S., Trivelli, C. and Tarazona, A. (2007). Managing Credit Risk in Rural Financial Institutions in Latin America, Inter-American Development Bank.

Wenner, M.D. (2010). Credit Risk Management in Financing Agriculture, Focus 18 Brief 10 July 2010, IFPRI.

Zaigham, R. and Asghar, N. (2011). Sustainability of Micro Finance Banks: A comparative Case study from Pakistan. *Interdisciplinary Journal of Contemporary Research in Business,* Vol 3, No 8:570-584.

Zeller M. and Meyer, R. L. (2002). The Triangle of Microfinance: Financial Sustainability, Outreach and Impact. International Food Policy Research Institute Washington, D.C. Number 40, November 2002.