

Effect of Capital Structure on Performance of Microfinance Institutions

A Survey of SACCOs in Shinyanga Municipal Council

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This study aimed at assessing the effect of capital structure on performance of microfinance institutions in Shinyanga Municipal Council. The specific objectives for the study were to examine the relationship of cost of capital and profitability, also efficiency and effectiveness of SACCOs in relation to their capital structure. The researcher used instruments such as questionnaires, documentary review and interview to collect the data from respondents who were 37 members, 11 accountants, 7 managers, 10 chairpersons and 4 (four) cooperative officers. The qualitative data collected were analyzed using thematic approach while quantitative data were analyzed using descriptive statistics. Research findings revealed that, SACCOs in Shinyanga municipal use debt in large proportion than equity to finance their activities. As a result, cost of capital (Weighted Average Cost of Capital) is very high compared to the profit generated. The profit generated is low for debt/equity financed SACCOs due to high cost of fund but is increasing for equity financed SACCOs due to low cost. Results also show that debt financed SACCOs provide various services to their members and in large quantity than equity financed SACCOs. Debt repayment is on time although others fail to pay and collapse for debt financed SACCOs but they are able to reach many people although excludes the very poor. However, results show that, management of SACCOs (whether it is Debt/Equity financed or Equity only financed) determines the performance of SACCOs especially in decision making. It can be recommended from the findings that the government should set regulations which limit amount to be borrowed by the SACCOs and interest rate charged by financiers. Also, SACCOs' members should assess benefits and challenges of different types of capital structure before choosing. But also, management team selected should be good advisor for good performance of the SACCOs.