



Nexus Between Dividend Pay-Out and Financial Performance of Registered Microfinance Companies in Tanzania

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Abstract:

The majority of scholars and researchers worldwide are interested on the financial performance of entities, whether financial or non-financial. The primary goal of this study is to look at the effect of dividend distribution on the financial performance of Tanzanian registered SACCOS. In this study, a quantitative research approach and a time series research design were used. The research population comprised economic data from 2006 through 2020. This research was based on 143 observations (Annual financial data) collected from a reliable source (Bank of Tanzania). According to the study's findings, dividend distribution is positively related to financial performance. According to the study, managers should pay attention to the "macroeconomic environment in which these organizations were operating" since it was crucial to determining their success and, as a result, their greater financial performance.

Keywords: Dividend Pay-Out, Financial Performance, SACCOS, Tanzania

INTRODUCTION

The bulk of scholars and researchers across the world are concerned with the financial performance of institutions, whether financial or non-financial. Financial performance is concerned with how well businesses use their resources, including financial and non-financial, to earn money (Harahap, Septiani, & Endri, 2020). Financial performance has been a subject of concern for all firms worldwide since failing to perform in a competitive business means losing one's competitive edge and collapsing (Mbaka, 2018).

Many criteria are used to analyze an entity's performance in order to categorize it as performing well. According to Barbuta-Misu (2019), the bulk of research has used Return on Equity (ROE), Return on Assets (ROA), and Return on Sales (ROS) to measure the success of firms. In his study, Miriti (2014) analyzed the financial performance of organizations using profitability, liquidity, growth, and expansion.

Furthermore, in his research, Mokuwa (2015) considered profitability and dividend pay-out as metrics of an entity's financial success. It is vital to determine the financial performance of registered SACCOS since monitoring the financial performance of organizations is crucial. In 1849, poor people in Germany formed SACCOS to resist the misuse of money lenders (ACIST, 2003). SACCOS were first used in agricultural production regions in the 1920s as Rotational Savings and Credit Associations (ROSCA) (Kiwelu, 2016). Raiffesian and Schuze Delitzsech, two Germans, created an interest by assembling people for self-help goals, and Raiffesian made it his business to work out the plant to support small farmers who were unable to progress owing to a lack of credit facilities (Mbagga, 2013).

SACCOS in Africa may be traced back to the pioneer Revered John Mac Nutty, who organized a group among his parishioners before transforming the organization into a SACCOS in September 1955 (Mbagga, 2013). Microfinance institutions in African countries serve the bulk of the poor. Because the majority of Africa's poor have limited access to deposit and credit facilities, as well as other financial services provided by established financial institutions, this is the case. In Ghana, for example, just around 6% of the poor have access to the financial system. The remaining poor rely on microfinance institutions like SACCOS for deposits and credit.

Despite SACCOS' crucial function in providing savings and credit to the poor, its financial performance is critical in order for it to serve its members, pay taxes, and continue to exist. In a study conducted in Kenya, Odhiambo (2019) discovered that membership savings, service costs, members' income, employee competency and credentials are all factors impacting SACCO financial performance. Mmari and Thinyane (2019) conducted study in Lesotho and discovered that SACCO financial performance is influenced by member ratios, capital, loan delinquency, savings volumes, and total SACCO asset growth.

In Uganda, Kule, Kamukama, and Kijjambu (2020) discovered that a good credit score It has been highlighted that SACCOS, as one of the micro-finance organizations, were founded to serve the excluded people who were thought to be untrustworthy by financial institutions such as banks.

As a result, SACCOS institutions emerged as solutions to ensure that even the poor may bank, earn interest, and save continually (Abate, Borzaga, & Getnet, 2013). As a result, the financial success of SACCOS is critical in order to serve its members properly. Currently, SACCOS performance varies owing to varied operational methods and groupings of SACCOS that SACCOS is whether group A or group B (Cooperative Registrar, 2021). However, because SACCOS serve the majority of Tanzanians, the Tanzanian government has been assisting them by ensuring they function in accordance with the law.

Despite SACCOS' significant role as an alternative financial remedy for the poor through their savings, some factors cause SACCOS to fail to achieve its financial objectives, including members' contributions, member size, inability to use entrepreneurial skills to manage SACCOS, delay in returns of loans by members, interest rates, and poor dividend payments (Renatus, 2019; Ndiege, Mataba, Msonganzila, & Nzilano, 2016; Magali, 2013).

Several academics and researchers, including (Danga & Yusuph, 2019; Renatus, 2019; Mohamed, 2018; Mwizarubi, Kumar, Mnzava & Prusty, 2016; Kengia, 2015), have taken the time to identify elements that impact the financial success of SACCOS in Tanzania. However, most research on the effect of registered SACCOS on financial performance do not explicitly address issues such as capital sufficiency, membership size, liquidity, and dividend pay-out. Furthermore, the studies are not sufficiently related to financial success. As a result, there is a need to investigate the impact of these variables on the financial performance of registered SACCOS.

The purpose of this study was to identify factors influencing the financial performance of registered SACCOS, with a focus on determining the influence of capital adequacy, membership size, liquidity, and dividend pay-out of five SACCOS located in Dodoma City on the financial performance of registered SACCOS from 2006 to 2020, and to assess how well these variables

influence the financial performance of registered SACCOS. Because of the rapid increase in population from 410,956 to 601,609, as well as the movement of government operations from Dar es Salaam to Dodoma, this study was conducted in Dodoma. Oigo (2015), on the other hand, determined the capital adequacy, asset quality, management capacity, and earning quality using a variety of criteria.

Tanzanian microfinance started in the 1990s, when the government launched financial sector reforms to establish a more effective and stable financial system. The country's financial sector reforms aimed to provide access to financial services for low-income citizens and improve their social and economic well-being (Bikk & Joseliti, 2003).

The Cooperative Societies Act of 2013 was enacted in 2013 to make cooperatives more legal and effective. Furthermore, procedures for granting licenses to SACCOS operating in Tanzania were introduced in 2020. According to the guidelines, SACCOS are divided into two groups: those with a capital of less than \$10 million (Group A) and those with a capital of more than \$200 million (Group B) (Registrar of Cooperative Societies, 2020). These SACCOS are classified as follows:

According to the Hazina SACCOS report (2021), the SACCOS had enrolled 500 new members by the end of 2021 and had 6700 members. This indicates an increase in the number of members. Other SACCOS, such as Mkombozi Soko Kuu SACCOS in Kondoa, have been losing members, and member contributions have been low, negatively affecting the organization's financial performance.

The rise in the number of SACCOS members leads to an increase in contributions, which affects the SACCOS's capital structure (Renatus, 2019). If the SACCOS's membership and donations expand, the board of directors may decide to pay a dividend to its members at the annual general meeting if the SACCOS does well financially.

According to Gikuri and Sanka (2018), the level of savings of SACCOS members has a considerable influence on lending. SACCOS members may take loans by giving assets such as bonds or securities, which will be referred to as liquidity if a member fails to pay their dues.

This ensures that the money granted by SACCOS as a loan to a member is not squandered. Several studies in Tanzania have been conducted on factors influencing the financial success of SACCOS (Renatus, 2019; Said, Anuar, & Hamdan, 2019; Mohamed, 2018), employing several variables to measure financial performance. These studies, however, have not sufficiently investigated how factors such as dividend distribution impact the financial success of Microfinance Companies in Tanzania.

LITERATURE REVIEW

Miller and Modigliani (1961) created the Dividend Irrelevance Theory. According to this argument, dividends do not appear to increase a company's prospective profitability or stock price. Dividend payments do not determine the worth of a firm. They also demonstrate that in a perfect capital market, a firm's optimal investment decisions are unaffected by how they are financed (Jain & Rastogi, 2020).

Previous studies, such as Priya and Mohanasundari (2016) and Jain and Rastogi (2020), have used this hypothesis to determine the influence of profitability on dividend distribution. Several assumptions have been created by the theory, including: i) the absence of taxes; and ii) when a business issue shares, there are no flotation charges or transactions. iii) when the company determines its capital budgeting and dividend policy.

Shibutse, Kalunde, and Achoki (2019) evaluated the influence of liquidity and dividend distribution on the financial performance of deposit-taking SACCOS. From 2013 to 2017, the researchers utilized a mixed technique approach to collect primary and secondary data from 174 deposit-taking savings (DPS) and credit cooperative societies (CCS). Descriptive statistics and regression models were used to analyze the data. The findings demonstrated that dividend distribution plays an important role in DPS and CCS's financial performance, supporting in the management of the institution's assets and liabilities, as well as ensuring optimal liquidity and cash flow management. Koduk (2016) investigated the relationship between SACCOS financial performance and dividend distribution. In 2011, the study relied on secondary data from 164 SACCOS.

Mohamed (2018) researched the elements influencing the financial performance of Majengo Sokoni SACCOS in Dodoma once again.

A cross-sectional design was used in the investigation. For analysis, descriptive statistics and multiple regression models were utilized. The study's findings demonstrated that dividend payout had a considerable beneficial effect on ROA and ROE. As a result, dividend payments have a substantial impact on SACCOS's future profitability and are likely to attract new members.

Malua (2013) conducted research on the financial performance and sustainability of microfinance organizations in Tanzania. The study included 15 SACCOS in Mtwara Municipal. Data was gathered through a questionnaire, document examination, and an interview. According to the conclusions of the survey, 73% of SACCOS do not pay dividends.

RESEARCH METHODOLOGY

A quantitative research technique and a time series research design were employed in this investigation. Financial data from 2006 to 2020 were included in the research population.

This study was founded on 143 observations (annual financial data) obtained from reputable sources such as the Bank of Tanzania (BOT). To choose registered SACCOS in Dodoma, the purposive sampling approach was utilized. The fixed effect model was employed to meet the study's specific goal of demonstrating the relationship between a dependent variable and independent factors.

Therefore, the fixed effect model is described as follows;

$$y_{it} = \beta_1 DP_{it} + a_i + u_{it} \dots \dots \dots (1)$$

Whereby;

y_{it} = Return on Asset (ROA)

DP_{it} = Dividend Payout

u_{it} = error term associated with companies and time
 a_i = unobserved fixed effect
 $t = 2006, \dots, 2020$.

RESULTS AND DISCUSSION

Between 2006 and 2020, secondary data was obtained from the audited financial reports of (13) Registered SACCOS. The ratios of the primary SACCOS financial performance indicators (dividend pay-out and ROA) were gathered and evaluated to answer research questions.

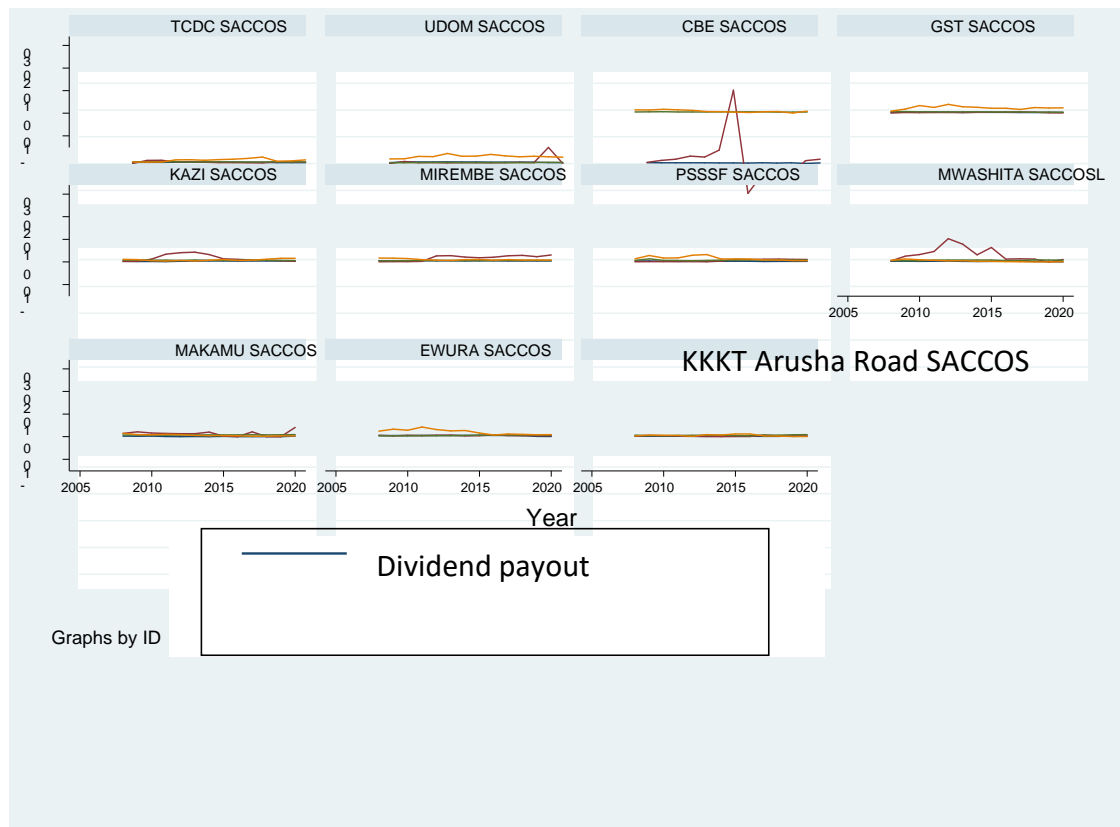


Figure 4.1: Time Series Plot for Registered SACCOS in Dodoma City, Tanzania
 Source: STATA, 2023

Before estimating, time series data should be shown to find different qualities or characteristics such as trend, seasonality, and stationarity (Wagofya, 2019). Both variables were stationary, as shown in Figure 4.1, since they varied around a steady mean and showed fluctuation in capital, dividend pay-out, and ROA over time.

Descriptive Analysis

A preliminary summary statistics analysis, as well as pair-wise correlation, were presented. It was utilized to identify the most important features of the study results and gave concise descriptions of the sample and measurements used in the analysis, as well as a graphical presentation that was easy to grasp.

Table 4.1: Descriptive Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations
ID	overall	6	2.17	1	11	N = 143
	between		1.31	1	11	n = 11
	within		0	6	6	T = 13
Year	overall	2014	2.75	2008	2020	N = 143
	between		0	2014	2014	n = 11
	within		1.75	2008	2020	T = 13
	within		0.09	-0.059	0.52	T = 13
DP	overall	0.65	0.14	0.33	1.36	N = 143
	between		0.11	0.40	0.79	n = 11
	within		0.10	0.42	1.21	T = 13

Source: Study Findings (2023)

Dividend Payout:

The term Dividend payout flexible in this study refers to the earnings per share ratio. The average dividend payout was 0.355639, with a high of 0.6808 and a minimum of 0.0059. The Dividend payout of the firms in this research did not differ significantly since the Dividend payout was 0.161916.

Pair Wise Correlation:

A pair-wise correlation was done between capital adequacy, membership size, liquidity, and dividend pay out to explore how these elements were related. To determine correlation from a particular observation with missing values for numerous variables, the pair-wise correlation approach was utilized. Table 4.2 displays the pair-wise correlation value for each variable.

Table 4.2: Pairwise Correlations

Variables	(DP)	(L_DP)
DP	1.000	
L_DP	0.718***	1.000

Source: Study Findings (2023)

The pairwise correlation for the variable included in the model is shown in Table 4.2. It is one of the most often used approaches for detecting the presence of multicollinearity. Table 4.2 shows that capital adequacy has a positive relationship with Return on Assets (ROA), although a modest positive relationship with a p-value less than 0.05.

Diagnostic Test

Panel Unit Root Test:

It is advised to examine before estimating the fixed effect model and random effect model for panel data with more than 10 observations across time (Deb & Mukherjee, 2008). The Levin-Lin-Chu unit-root test, which includes the unadjusted t and adjusted t , is then used to determine the presence of the panel unit root. Table 4.3 shows that all of the variables in the models were stationary since the p-value for all variables was less than 0.05. This means that the normal fixed effect model, ordinary least square regression, and Random effect model were adequate for that panel data.

Table 4.3: Panel Unit Root Tests for the Variables at Level

Variable	Statistic	P-Value
Dividend Payout		
Unadjusted t	-5.7537	
Adjusted t*	-3.2872	0.0005
L_DP		
Unadjusted t	-6.2395	
Adjusted t*	-3.5762	0.0002

Source: Study Findings (2023)

Multicollinearity Test:

Kim (2019) defines multicollinearity as "a high degree of linear intercorrelation between explanatory variables in a multiple regression model that leads to incorrect regression results." The Variance Inflation Factor (VIF), as shown in Table 4.4, is one of the diagnostic tools for multicollinearity. Table 4.4 displays the results of the multicollinearity test, which was performed to see if one independent variable in the model influenced another. According to the rule of thumb, if the variance inflation factor is smaller than 10, there is no multicollinearity. As a result of the data in Table 4.4, the mean value for the variance inflation factor was 1.03, which is less than 10. This demonstrates that there is no multicollinearity. This indicates that the independent variables in the equation are

The pairwise has related dividend pay-out and SACCOS return on assets (ROA). This notion is backed by other researchers who claim to have discovered a link between dividend payout and financial success in SACCOS.

Table 4.4: Multicollinearity Test

Variable	VIF	1/VIF
L_DP	0.33	0.97105
Mean VIF	1.03	

Source: Study Findings (2023)

Normality Test:

The normality test was used to determine whether or not the data in this study had a normal distribution. In this study, which employed pooled panel data, the normality assumption had no effect on pooled panel regression. A skewness/Kurtosis test was used to verify normalcy. If the probability of the data is larger than 0.05, it is said to be consistently distributed.

Table 4.5: Skewness/Kurtosis Tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
DP	150	0.5620	0.6320	3.20	0.3022
L_DP	150	0.2033	0.4560	2.30	0.3022

Source: Study Findings (2023)

 H_0 = Normality H_1 = non-normality

The normality assumption test, shown in Table 4.5, is used to assess whether the data are normally distributed or not before proceeding with the parametric estimating approach. Table 4.5 demonstrates that the null hypothesis was rejected for all variables since the p-value was greater than 0.05. This signifies that the variables utilized were regularly distributed, or that the distribution of all variables is normal.

Table 4.7: SA Test Model 2 (Dividend payout and Return on Assets)

Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
F (1, 4) = 0.346
Prob > F = 0.9193

Source: STATA Output (2022)

The autocorrelation problem, also known as serial correlation, is commonly encountered in time series data analysis. Serial correlation tests are used in pooled or panel data with long time series observations and short individuals. This isn't an issue with panel data (since there are so few years). When there is a serial correlation, the standard errors of the coefficients are smaller than they should be, and the R-squared is bigger. The results in Table 4.7 reveal that there is no serial correlation in the data since the P-value (0.9193) is larger than 0.05, which is the level of significance used in this investigation. This shows that at that level of significance, the null hypothesis is not rejected, implying that there is no first-order autocorrelation.

Heteroscedasticity:

The error term (it) created by variation between independent variables in the regression model can be utilized to identify heteroscedasticity. The need to test for heteroscedasticity stems from the fact that such error variables have varied variance, which can lead to inconsistent findings. When the constant error does not have a constant variance, i.e., $\text{var}(it) = 2$, it leads in heteroscedasticity (Akiwande, Dikko, and Agboola, 2015). As a result, the Heteroscedasticity test is necessary in order to achieve consistency in findings and meaningful interpretations of results. To account for heteroskedasticity, a robust standard error estimate was developed.

Selection between Fixed Effect Model and Random Effect Model

Table 4.12: Breusch and Pagan Lagrangian Multiplier Test

Estimated results:	Var	sd
ROA	0.0669728	0.258791
E	0.0482890	0.219748
U	0	0
Var(u)=0		
Test:	chibar2(01) =	0
	Prob>chibar2=	1

Source: Study Findings (2023)

In the LM test, the null hypothesis is that the variance among entities is zero. This means that there is no statistically significant difference between the units (i.e., no panel impact). Because the P-value (0.000) in Table 4.12 is less than 0.05, the null hypothesis is rejected and the alternative hypothesis accepted, indicating that there is a significant difference between the two units (the panel effect exists). In other words, rather than ordinal (pooled) regression analysis, the panel model, such as the Random effect model or the fixed effect model, is appropriate for studying the impacts of dividend pay-out on financial performance on registered SACCOS in Dodoma city.

Table 4.13: Hausman (1978) Specification Test

Variable	Coefficient		Difference	Standard Error
	B	B	b-B	Sqrt(diag(V_b-V_B))
	Fixed	Random		S.E.
DP	1.9737650	2.3221130	-0.3483483	1.212169
L_DP	-0.0309035	0.2401636	-0.2710671	1.307199
Chi-square test value	48.55			
P-value	0.000			

Source: Study Findings (2023)

The Hausman test is shown in Table 4.13 employed to determine which model is best for estimating the relationship between dividend pay-out and financial performance.

The Hausman rest is always used to determine whether there is endogeneity, in this case, the fixed effect model should be used, or whether there is no endogeneity, in this case, the random effect model should be used. The finding in table 4.13 shows that the fixed effect model is appropriate since the probability (Prob>chi2 = 0.00) was less than the level of significance is 0.05.

Fixed Effect Model Regression Analysis:

Table 4.14: Regression Results for Fixed Model

Leverage	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Dividend pay-out	0.116	.025	4.75	0.000	0.068	0.164	***
Lag Dividend Pay-out	0.060	.025	2.37	0.018	0.010	0.109	**
Constant	-0.731	.396	-1.85	0.065	-1.509	0.046	*
Mean dependent var	0.616		SD dependent var		0.259		
R-squared	0.363		Number of obs		1192.000		
F-test	112.312		Prob > F		0.000		
Akaike crit. (AIC)	-713.025		Bayesian crit. (BIC)		-687.608		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Study Findings (2023)

Table 4.13 shows the Hausman test, which is used to identify which model is optimal for evaluating the link between dividend pay-out and financial performance. The Hausman remainder is always used to assess whether there is endogeneity, in which case the fixed effect model is appropriate, or if there is no endogeneity, in which case the random effect model is appropriate. Table 4.13 demonstrates that the fixed effect model is suitable since the probability (Prob>chi2 = 0.00) was less than the level of significance of 0.05.

The predictor factors (dividend pay-out and lag dividend pay-out) had a significant influence on the financial performance of registered SACCOS in Dodoma. Dividend payout was statistically significant ($P < 0.01$) and had a positive influence on ROA, with a regression coefficient of 0.116, which means that for every 1% increase in dividend payout, ROA improved by 0.116 percent. Lag dividend pay-out was statistically significant ($P < 0.05$) and had a positive effect on dividend pay-out with a regression coefficient of 0.060, which means that for every 1% increase in the lag dividend pay-out ratio, ROA increases by 0.060%. According to the study's positive correlation, registered SACCOS with a high level of fixed assets opt to finance new investments with a dividend pay-out ratio.

Table 4. 19: Summary of Hypotheses Tested

Hypothesis	Results
Hypothesis 1: "There is a negative relationship between dividend payout and financial performance"	Accepted

Source: Study Findings (2023)

CONCLUSION AND RECOMMENDATIONS

According to the findings, the predictor factors (dividend pay-out and lag dividend pay-out) had a significant impact on the financial performance of Dodoma-registered SACCOS. Dividends pay out statistically ($P < 0.01$) and have a positive influence on financial performance with a regression coefficient of 0.116, implying that for every 1% increase in dividend payments, financial performance improves by 0.116 percent. Also, delayed dividend payments were statistically significant ($P < 0.05$) and had a positive influence on dividend payments with a regression coefficient of 0.060, implying that for every 1% increase in dividend payments, ROA increases by 0.060%. The favorable relationship demonstrated in this study indicates that registered SACCOS in Dodoma city provide high-quality service. It was discovered that dividend pay-out was positively associated to financial performance when exhibiting the elements impacting the financial success of registered SACCOS in Tanzania. As a result, businesses should boost revenue to guarantee that they earn more from their activities, as profit adds considerably to the financial success of Tanzanian SACCOS. There are several drawbacks to this study. To begin, there are a few SACCOS engaged in this investigation. Second, there are insufficient financial resources to finance research efforts. Third, there is a lack of time, particularly during data collection, and fourth, it is difficult to acquire all data in the intended years. Based on the study's limitations, the researcher advises more research on the financial performance of all SACCOS.

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