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Investment Strategies and Institutional Sustainability of Microfinance Institutions in Tanzania: Evidence from Ubungo Municipality

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Abstract

Microfinance institutions (MFIs) play a vital role in promoting financial inclusion and socio-economic development; however, their long-term sustainability remains a significant challenge. This study examines the influence of selected investment strategies on the institutional sustainability of MFIs in Tanzania, focusing on Ubungo Municipality in Dar es Salaam. Guided by the Resource-Based View and Institutional Theory, the study considers technology investment, human capital investment, and risk management investment as key independent variables. A descriptive and correlational research design was employed, involving 86 respondents drawn from management and operational staff across six MFIs using stratified and simple random sampling techniques. Data were collected through structured questionnaires and analysed using descriptive statistics, Pearson correlation, and multiple linear regression. The findings indicate that although MFIs actively invest in technology, staff development, and risk control systems, these strategies exhibit a statistically insignificant positive effect on sustainability (B = -0.112, p = 0.453). This suggests that sustainability challenges arise not from insufficient investment but from misalignment between investment decisions and long-term institutional resilience, governance, and efficiency. The study highlights the need for sustainability-oriented investment appraisal models that balance growth objectives with capacity building and long-term financial stability.

Keywords: *Investment Strategy; Sustainability; Microfinance Institutions; Resource mobilisation.*

1.0 Introduction

MFIs are critical actors promoting financial inclusion, poverty alleviation, and small enterprise development, especially in developing countries. MFIs address the financing needs of low-income households and small business operators who are typically excluded from formal banking systems by offering micro-credit, savings and other financial products. However, several MFAs struggle to attain long-term institutional sustainability.

Influencing investment strategies is MFI management's other key managerial lever for improving performance and sustainability. In MFIs, investment strategies are intentional efforts to deploy both financial and non-financial resources across areas such as technology systems, human capital, risk management systems, and branch/portfolio growth. These strategies should strengthen institutional capacity, efficiency, and sustainable financial growth.

Evidence on the poor global alignment of investment strategies also suggests that this misalignment has been detrimental to sustainability worldwide. Research from India and Cambodia finds that aggressive growth, funded through aggressive lending and technology investments, in the absence of sufficient risk controls, commonly results in increased portfolio at risk and declining financial self-sufficiency (Sahu, 2018; Seng et al., 2024). On the other hand, MFIs that strategically focus their investments (in staff skills, digital credit monitoring, and internal controls) exhibit greater operational resilience (Caballero-Montes, 2022).

In Africa, the results of sustainability are so far ambiguous. Kenyan MFIs have experienced rising non-performing loans despite substantial investments in digital finance and branch expansion,

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suggesting a potential incongruity between growth financing and risk management (Cheboi et al., 2024). On the other hand, MFIs in Rwanda are becoming increasingly sustainable as a result of corresponding portfolios for liquidity management and regulatory compliance (Mugisha & Twesigye, 2024). These case examples suggest that not all investment tactics have the same impact on sustainability.

Tanzania's financial inclusion has increased significantly, with formal financial access at about 89 per cent in 2023, largely attributed to mobile financial services (Magambo, 2024). Along with this growth, MFIs have devoted more resources to expanding their loan portfolios, technology platforms , and general operational infrastructure. However, several organisations still face sustainability challenges, such as high operational costs, weak governance systems, and vulnerability to credit risk. Even more so in the increasingly competitive urban municipalities of Ubungo, these challenges are ever three-pronged.

For this study, the financial sustainability of an MFI is its capacity to cover its operating costs from its own income, combined with achieving a certain level of operational efficiency and the ability to adapt to both internal and external changes. Thus, sustainability is not simply about profitability but also about protecting capital, managing risk effectively, maintaining adequate institutional capacity, and continuing to expand financial services without jeopardising stability.

Despite greater investments in technology and human capital and the development of larger portfolios, sustainability problems for many MFIs in Tanzania remain persistent. To date, empirical studies have predominantly focused on capital structure and sources of funding, with little attention to how specific internal investment strategies contribute to sustainability outcomes, especially at the municipal level. Furthermore, the unprecedented expansion of finance within MFIs is widely discussed in policy debates but rarely conceptualised in empirical sustainability analyses. This study fills this gap by investigating the relationship between various investment strategies and institutional sustainability among MFIs in Ubungo Municipality. Thus, the purpose of this research is to investigate the effect of investment strategy on the institutional sustainability of MFIs in Ubungo Municipality.

2.0 Literature review

The optimisation and planning of wireless local area networks (WLANs) focus heavily on channel assignment and interference reduction due to IEEE 802.11ax (Wi-Fi 6) requirements in dense network environments. The increasing number of users in high-density areas leads to two major problems that degrade network performance: Overlapping Basic Service Sets (OBSS) and Co-Channel Interference (CCI). The chapter examines modern wireless channel allocation techniques, starting with static methods and progressing through heuristic and intelligent approaches to establish a basis for developing adaptive solutions.

2.1 Theoretical Review

2.1.1 Resource-Based View (RBV)

The Resource-Based View posits that an organisation's sustainability depends on exploiting internal resources that are valuable, rare, difficult to imitate, and non-substitutable (Barney, 1991). Strategic investments by MFIs in technology platforms, skilled staff, and risk management systems are important internal resources that can improve efficiency and long-term viability.

2.1.2 Institutional Theory

Institutional Theory is concerned with how regulative, normative and corporate cultural controls shape institutional outcomes, which are subject to a very rigorous regulation of the financial sector and, in that context, have to conform the way they invest to the rules of regulation, good governance, and industry standards if they want to be considered as legitimate and sustainable

2.2 Empirical Literature Review

Cheboi et al. (2024) revealed a positive inertia between investment approaches and ESG among collective investment schemes in Kenya, emphasising diversified portfolios and governance quality. Fonchamnyo et al. (2023) found that retained earnings positively affected the sustainability of MFIs in

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Cameroon, whereas external financing undermined self-sufficiency. Dabi et al. (2023) also found that institutional size is more important than capital structure for sustainability in Ghana. Masanyiwa et al. (2022) reported in Tanzania that the challenges impeding sustainability were high overheads and weak capital reserves. While these and similar papers are indeed informative, they rarely term investment strategies as ionised aspects or study dynamics at the municipal level. This work contributes to the literature by analysing single investment strategies and their implications for sustainability.

2.3 Conceptual Framework

The study considers three types of investment technology investment, human capital investment and risk management investment as predictors, and institutional sustainability, proxied by financial self-sufficiency, operational efficiency, and institutional resilience, as the dependent variable.

3.0 Research Methodology

3.1 Research Design

The study used the descriptive correlational design. The descriptive aspect described the types of investment strategies and sustainability actions, and the correlational aspect analysed potential associations between investment strategies and institutional sustainability.

3.2 Study area and population

The study was carried out in Ubungo Municipality, Dar es Salaam. The study population consisted of 110 employees from the management and operational hierarchies of 6 MFIs, namely senior managers, branch managers, finance officers, and operations staff.

3.3 Sampling Technique

A sample size of 86 respondents was calculated using Yamane's (1967) formula with a 5 per cent level of precision. Stratified sampling was used to ensure representation of both management and non-management staff, and simple random sampling. There were 110 individuals in the accessible population; a sample Representative was calculated using the following formula (Adopted from Yamane, 1967).

$$n = \frac{N}{1+N(e)^2} \quad (1)$$

$$n = \frac{110}{1+110(0.05)^2}$$

$$n = 86$$

Whereby: n = The sample size, N = Population of study, Error estimate (e) = 5%

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3.4 Data Collection and Measurement

Structured questionnaires using a five-point Likert scale were used to collect primary data. The investment policies were measured in terms of technology investment, human capital development, and risk management systems. Indicators of financial self-sufficiency, operational efficiency, and robustness were used to assess institutional sustainability.

3.5 Data Analysis Method

Data were analysed using SPSS. Descriptive statistics summarised variable distributions. Pearson correlation analysis assessed the strength and direction of relationships between variables, while multiple linear regression evaluated the effect of investment strategies on institutional sustainability.

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The following regression model was adopted;

$$SUS = \beta_0 + \beta_1 IS + +\varepsilon \quad (2)$$

Whereby:

$$SUS = Institutional\ Sustainability$$
$$IS = Investment\ Strategies$$
$$\beta 0 = Constant\ factor$$
$$\beta 1 = Respective\ coefficient$$

$\varepsilon = Random\ variable.$

3.6 Validity and Reliability

Content validity was ensured through expert review and pre-testing. Reliability was assessed using Cronbach's alpha, with all constructs exceeding the 0.70 threshold.

4.0 Findings and discussion

4.1 Validity Test

Before presenting the study findings, it was important to establish whether the data were suitable for analysis. Table 1 below summarises the results of the Kaiser-Meyer-Olkin (KMO) measure and Bartlett's Test of Sphericity.

Table 1 KMO and Bartlett's Test Results (n = 86)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.753
Bartlett's Test of Sphericity	Approx. Chi-Square	339.433
	df	10
	Sig.	.000

Table 4.1 reports the results of the Kaiser-Meyer-Olkin (KMO) measure and Bartlett's Test of Sphericity for the sample of 86 observations and revealed that; with a KMO value of 0.753, sampling adequacy is deemed middling to good, indicating that factor analysis is appropriate; Bartlett's Test yields an approximate chi-square of 339.433 ($df = 10$, $p < .001$), confirming that the correlation matrix is not an identity matrix and that the variables are sufficiently correlated for factor extraction. Therefore, correlation results show weak positive correlations between investment strategies and institutional sustainability, none of which were statistically significant. This suggests that increased investment activity does not automatically translate into improved sustainability.

4.2 Reliability Test

A scale test for reliability analysis was used to compute Cronbach's alpha for each construct's measurement scale. A scale was judged to be reliably measuring its underlying construct if its Cronbach's alpha is equal to or higher than 0.7. The results are displayed in Table 2.

Table 2 Reliability test results (n = 86)

Variable	No. of Items	Cronbach's Alpha	Remarks
1. Investment Strategies	6	.731	Reliable
2. Institutional sustainability	6	.838	Very reliable

The findings in Table 2 show that the investment families had an alpha of 0.731, indicating acceptable reliability, and the institutional sustainability had an alpha of 0.838, indicating high internal consistency. This implies that the constructs were reliably measured and that the questionnaire items were sufficiently reliable for further analysis.

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4.3 Results on Descriptive Statistics

The descriptive statistics for the study's main variables are presented in Table 3. These results provide mean and standard deviation values for key variables across investment strategies and institutional sustainability measures. By looking at these numbers, we can learn about the average response of MFI personnel and the extent to which each resource mobilisation strategy is viewed and implemented.

Table 3 Descriptive Statistics (n = 86)

Variables	Mean	Std. Deviation	Variance	Skewness	Kurtosis
1. Investment Strategies	4.25	.321	.103	-.326	.283
4. Institutional sustainability	4.12	.496	.246	.464	-.585

Table 3 presents the response means and standard deviations for investment strategies and sustainable institutions. The mean scores suggested the investment strategies (M = 4.25, SD = 0.321). Institutional sustainability was M = 4.12 (SD = 0.496). The tightest consensus (smallest variances) was found among solutions for investment strategies (Var = 0.103). The most divergent ideas were found among solutions for sustainability measures (Var = 0.246), indicating greater agreement on what should be done regarding investment activities. There are more divergent views on how to evaluate the success of a sustainability outcome. The skewness values approximate zero for all variables (from –0.326 to +0.464), which indicates that the distributions are approximately symmetric, and the values of kurtosis (near 0) imply that none of the scales showed excessive peakedness or flatness.

Moreover, these findings suggest that investment strategies have the highest average score (M=4.25) and are thus perceived as the most successful among MFI activities. Also, institutional sustainability was rated high (M = 4.12) but with greater variability, suggesting uncertainty about long-term viability.

The overall results in Table 3 show that technology, human capital, and risk management investments earned high scores, indicating active investment by the MFI. Institutional sustainability also had relatively high mean scores but was less stable, again indicating uneven sustainability outcomes.

4.4 Hypotheses Testing

Before discussing the regression coefficient, Table 4 presents the model fit and parameter estimates used to test the study's hypothesis. We regressed investment strategies on institutional sustainability using linear regression, allowing us to assess both the magnitude and the statistical significance of these relationships.

Table 4 Hypothesis Testing Results (Regression Analysis Results)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.736	.721		1.021	.310
Investment Strategies	-.112	.149	-.073	-.753	.453

a. Dependent Variable: Institutional Sustainability

Results in Table 4 (investment strategies) show a negative but non-significant coefficient (B = –0.112, β = –0.073, t = –0.753, p = .453), suggesting that differences in investment policies cannot account for differences in sustainability scores. When the effect of investment strategies on institutional sustainability was examined, the results showed that the former had a negative but statistically insignificant effect on the latter. The limited variation in the model's explained sustainability suggested

the importance of other institutional and contextual factors.

5.0 Discussion

The analysis suggests that although greater attention is paid to investment activities, the initiatives do not appear to lead to greater sustainability within the organisations studied. This may be a case of money being spent in the wrong place, as it were, or at least equivalent to being spent in the wrong place with respect to what underpins long-term resilience, that is, in "capacity-building, technological upgrades or risk mitigation mechanisms." Therefore, they need to closely monitor their investment portfolio on the account side to direct capital injections towards projects and assets that strengthen operational resilience, rather than merely increasing financial obligations without a clear connection to sustainable institutional wellness.

The study finds that investment strategies have little direct effect on institutional sustainability, which stands in striking contrast to the positive relationship found by Cheboi, Asienga, and Otuya (2024), who indicated that investment strategies significantly enhance the profitability and sustainability of collective investment schemes in Kenya. While the focus of their study was on a portfolio of high-yield assets and vigorous capital deployment as sources of institutional health, respondents at Ubungo largely regard such strategies as at odds with the factors that sustain them over the long term. This implies that, in contrast to the Kenyan setting, Tanzanian MFIs may need more clearly defined investment frameworks, i.e., ones that link capital injections to specific operational or risk-mitigation goals rather than to the general expansion of asset holdings.

Similar trends are observed between our results and those of Fonchamnyo et al. (2023) in Cameroon and Dabi et al. (2023) in Ghana. Fonchamnyo et al. revealed that external funding sources, such as debt and grants, can erode self-sufficiency. However, retained earnings became the predominant source, and equity adjustments had statistically insignificant effects. Dabi et al. also found that changes in the debt-to-equity ratio did not significantly affect the firm's long-term stability, although changes in asset size were significant. Together, these panels reinforce the view that the quality, orientation, and source of financial resources matter, rather than the absolute amount of investment.

In the Tanzanian context, as in Masanyiwa and colleagues (2022), where low capital bases and high administrative costs significantly endangered sustainability, the advice to reduce overhead and diversify revenue finds sister echoes in our own announcement. Instead of adopting undirected investment policies, MFIs in Ubungo could enhance their resilience by investing in efficiency gains, technological upgrades, and complementary lines of business. In this way, they would remedy not only the mismatch that emerged in our study but also the capital base problems identified in Zanzibar and lay the groundwork for a more enduring institutional base of support.

In contrast, the findings indicate a divide between investment activities and sustainability outcomes. This runs counter to Cheboi et al. (2024), who found positive impacts in Kenya, but mirrors Fonchamnyo et al. (2023), who highlighted the minimal influence of financial structure on sustainability. The findings also demonstrated that MFI in Ubungo could invest in growth-oriented projects at the expense of insufficient attention to efficiency, governance, and risk management. Overall, the study provides novel evidence at the municipal level by breaking down investment strategies into constituent elements and demonstrating that sustainability issues persist even under active investment. In contrast to previous research focusing on the financial volume of capital structure, the current study finds that expansion-oriented investments, especially those aimed at high financial growth, may negatively affect sustainability if they do not align with risk management and institutional capabilities. This contributes to the literature by demonstrating the importance of strategic alignment between investment decisions and sustainability goals.

6.0 Conclusion, Policy Implications, Limitations and Future Research

6.1 Conclusion

The study finds that the investment strategies currently pursued by MFIs in Ubungo Municipality have an insignificant impact on the sustainability of these institutions. The challenges of sustainability have

arisen from competing investment priorities and a rapid increase in financial resources without adequate institutional strengthening.

6.2 Policy Implications

MFIs need to develop sustainability-based investment models that couple growth capital with investments in governance, risk management, and human capital. Regulators and development partners should endorse investment appraisal principles that connect financial scaling with robust institutional resilience.

6.3 Limitations and Future Research

It is a cross-sectional study and focuses on only one municipality. Future research should incorporate longitudinal data and investigate the evolving dynamics among investment strategies, financial expansion, and regulatory changes.

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