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Contribution of Evangelical Lutheran Church on financial performance of Uchumi Commercial Bank in Tanzania

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Abstract

Despite the government's efforts to help community banks (CBs) by giving them preferential treatment, including minimal registration start-up capital, these banks have struggled to attain superior performance. Using a quantitative research approach, this paper assessed the contribution of Lutheran Church parishes to the financial performance of Uchumi Commercial Bank (UCB), one of the community banks in Tanzania. A cross-sectional research design was used with a systematic sampling technique applied to 223 respondents. A survey questionnaire and interviews were used to collect quantitative data. Data were analyzed through descriptive statistics and multiple linear regression techniques. Parish savings, saving rate, parish non-performing loans, and shares owned by the parish were factors concluded to positively influence the bank's financial performance. Meanwhile, loans to parishes and loan repayments negatively influence performance. Additionally, the fear of losing collateral influences parishes to repay their loans, thus adversely affecting UCB bank's financial performance in terms of loan default. The study recommends that the Lutheran Church should set policies to ensure an increased level of parishes' savings, loans, and share capital to enhance the church's contribution to UCB financial performance.

Keywords: *Community Bank, Church, Financial Performance, Savings, Loans, Share capital*

1.0 Introduction

Community Banks (CBs) are among the financial institutions that have become the vehicles for success in the developing world in the last 30 years and are widely recognised as a sustainable solution for financing low-income communities in the world (Mercy Corps Global Envision, 2017). Globally, CBs have evolved as an economic development approach to benefit local businesses and financially excluded individuals (Redson and Magali, 2022; Asiedu *et al.,* 2020; Asamoah, 2018). CBs provide a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their small enterprises (Kessy and Urio, 2016).

Formally, the emergence of CBs in developed countries like the USA and the UK was facilitated by the lack of reliable and flexible banking services for informationally opaque low-income clients (Erel and Liebersohn, 2020; Loopstra, 2018). Thus, CBs have emerged to fill the gap by supporting the development of flexible regulated banking services for this group of clients. A research study conducted in South Korea on religious groups on what needs to change in the local churches to enhance confidence and credibility revealed that church involvement in the economic welfare of its congregation, including the provision of affordable financial support, is essential (GH Korea, 2016).

In developing countries, CBs have potential advantages as they apply relationship lending compared to large banks, which apply transactional-based lending. However, increases in regulatory compliance and technological requirements may have disproportionately increased community banks' burdens, thereby raising concerns for small businesses' costs of access to credit (Joseph and Hughes *et al.,* 2019). The performance of CBs depends mainly on local or regional economic conditions, as they are legally designated to cater to a specific locality or region. Despite economic conditions, training and consultancies have been useful to improve the performance of CB (Mader, 2016); still, their assets and returns are not stable compared to commercial banks (Quaicoe *et al.,* 2020).

In African countries, the performance of CBs is affected by internal and external factors (Nguyen, 2020; Garcia and Trindade, 2019; Nagaraju and Boateng, 2018), which can be classified into bank-specific (internal) and macroeconomic variables. The internal factors are individual bank characteristics that affect the bank's performance. These individual bank factors are looking at the way different products, like current accounts and savings accounts, are performing and the way banks reach customers through training and consultations. These factors are influenced by the internal decisions of management and the board. External factors are sector-wide or countrywide factors that are beyond the control of the company and affect the profitability of the banks (Littlewood and 2018; Dimitrios et al., 2016). In Nigeria, the financial performance of banking is affected by the ways bank managers are better placed to take up measures in

an effort to improve the financial profitability of the bank by taking advantage of leverage and growing their banks (Yahaya and Lamidi, 2015).

In the East African block, the financial performance of CBs is contributed to by the extent to which clients are served and transact with the banks (Chipeta and Muthinja, 2018; Juma and Atheru, 2018). The Co-operative Bank of Kenya (CBK), for example, has been doing well in financial performance as a result of 'Matatu' (public taxi transporters) groups doing large business with the bank (Aruho *et al.,* 2021; Manyara, 2020; Gathungu *et al.,* 2020; Muhoro *et al.,* 2020). It is also worth noting that there are other bank-specific factors like competition, sources of funds, product differentiation, and leadership that affect the financial performance of the banks (Partovi and Matousek, 2019; Alemu, 2019). Likewise, the macroeconomic environment within which the banking system operates also affects the financial performance of the CBs. These factors include the Gross Domestic Product (GDP) growth, effective tax rates, and yearly change of population (Dao *et al*., 2020).

In the case of Tanzania, the operation of CBs is governed by regulations and policies of the central bank. However, the CBs have been struggling with their operations using these policies and regulations (Alem, 2019). It has been argued that this is because most CBs are small and typically operate within a limited local or regional market. This pitfall is caused by focusing on a narrow line of business that may be unsustainable during an economic downturn (Kitomari and Abwe, 2016). Problems that reduce the performance of CBs and probably other banks include loan default, increasing operating expenses, interest rate risk, credit risk, and loan portfolio management (Mataba, 2019). Financial performance is also affected by capital adequacy, asset quality, management efficiency, liquidity, and GDP (Kessy *et al.,* 2020). Therefore, to ensure sound financial performance, banks are supposed to focus on the factors likely to affect profitability and the extent of their influence.

Despite the government's effort of helping the CBs by giving them preferential treatment at the initial registration stage on the minimum capital amount of Tshs 2 billion against commercial banks' at TZS 15 billion (BoT, 2020), there has been a sustainability struggle in the community banking sector's financial performance (Kessy *et al.,* 2020). Statistics show that the Central Bank of Tanzania (BoT) in 2018 revoked the business licenses of the five banks, including four community banks that failed to raise Tsh. 2 billion ($891,180) in capital and placed them under the Deposit Insurance Board as a liquidator (URT, 2020). These banks were Covenant Bank for Women Ltd., Efatha Bank Ltd., Njombe Community Bank Ltd., Kagera Farmers' Co-operative Bank Ltd., and Meru Community Bank Ltd. The notice to the public by the Central Bank read that the measure had been taken upon the determination that those banks were critically undercapitalised. Hence, violating the requirements of the Banking and Financial Institutions Act of 2006 and its Regulations therein (URT, 2020). In addition, the BoT also merged three government-owned financial institutions, namely Twiga Bancorp

Limited, Tanzania Women's Bank Plc, and Tanzania Postal Bank (TPB) Plc. The merger was aimed at enhancing capital and operational efficiency (URT, 2020). There is enough evidence that growth in CBs profits has not been doing well in the main sources of revenues—interest income and transaction fees. Income from currency trading has also oozed out as stable shilling and low export-import trade volumes take a toll on the Forex markets (Abbas *et al*. 2020).

1.2 Brief overview and financial services offered by Uchumi Commercial Bank (UCB)

Uchumi Commercial Bank (UCB) is a financial institution owned by the Evangelical Lutheran Church Tanzania-Northern Dioceses (ELCT-ND). The name of UCB sounds like a commercial bank, but the recognition and banks' operation criteria, like capital and area of operation (only in the ELCT-ND), are categorised as a CB by the regulator (BoT, 2020). Since its establishment in 2005, the main clients of the bank have been the parishes under ELCT-ND (UCB, 2019). Other clients are continuously being recruited to expand the banking network in the Northern zone (UCB, 2020). From that background, the financial performance of this bank can be linked to the significant role played by ELCT-D parishes, especially on key factors such as capital adequacy, management efficiency, liquidity, and asset quality due to a wide range of accessibility and trust from investors and parish members (Khandker *et al*., 2016). Such backup support from the Church is supposed to be used by UCB as a competitive advantage to make it excel in the market share and financial performance. However, UCB has been experiencing similar problems facing the rest of the community banking sector with regard to profitability and other performance indicators (Kessy *et al.,* 2021). The current study is directed at assessing the contribution of ELCT-ND parishes to the financial performance of UCB in Moshi Municipality, Tanzania.

UCB, as a church-owned financial institution, is expected to enjoy support from ELCT-ND and its parishes in terms of a ready market for its services, liquidity finance, and other favours. Thus, cutting down some of the overheads like marketing expenses, consultancy fees, and rents due to support received from the Church could have reduced the problem of low profit and poor bank performance (UCB, 2020). The operating profit before tax and impairment provisions, for example, declined to TZS 1.36 billion from TZS 1.38 billion in the financial year 2019/2020. The bank recorded a decline of 38% in net profits, standing at TZS 574 million in 2020 from TZS 926 million achieved in 2019 due to an increase of loan provisions because of COVID-19's impact on the client's business (UCB AGM, 2020). Changes in banking and financial institution regulation on capital requirements have also been the main challenges for community banks, which include increasing community banks' capital requirements to Tsh. 2 billion ($1.23 million) from Tsh. 250 million ($154,036), which has led to the collapse of most community banks, as discussed in the introduction.

Most of the previous studies focused on the impact of macroeconomic factors on general economic development, the effect of climatic change, community bank performance, and factors for the growth of CBs (Abbas *et al*. 2020; Kamran *et al*., 2020; Nguyen *et al*., 2020; Nguyen, 2020; and Dao *et al*., 2020). None of these studies focused on the contribution of parishes as a major client of CBs on financial performance. This part remains a sizable gap to be studied. Therefore, the paper assessed the contribution of the Parishes of

ELCT-ND on the financial performance of UCB in Moshi Municipality, Tanzania. Specifically, it determined the influence of ELCT-ND parishes savings, loans issued, and share capital owned by ELCT-ND and its' parishes on the financial performance of UCB in Moshi Municipality. It was hypothesised that savings, loans, and share capital owned by ELCT-ND parishes have no significant influence on the financial performance of UCB in Moshi Municipality.

2.0 Review of related Literature

2.1 Theoretical framework

In assessing the contribution of the parishes of ELCT-ND on the financial performance of UCB in Moshi Municipality, Tanzania. The present paper analysed the context of Market Power Theory (MPT) and Uncertainty Bearing Theory of Profit (UBTP) assumptions. The two theories complement each other; the first is focused on bank performance, and the latter posits banks' profitability about customers' deposits. Market Power theory developed by Berger (1995) proposes that the market structure of the industry has a significant impact on the performance of banks. The theory proposes the two approaches associated with the Market Power theory, namely the Structure Conduct Performance (SCP) and the Relative Market Power (RMP) hypotheses. SCP hypothesis can be described as the relationship between market structure, firm conduct, and firm performance.

The structure of an industry may include technology, concentration, and market conditions (Khan *et al.,* 2018; Jaouad and Lahsen, 2018), while Structure Conduct (SC) refers to factors such as pricing decisions, advertising decisions, and research and development (R&D) decisions made by the firms in a market, and performance is the profits and social welfare generated, as found out by Lelissa and Kuhil (2018). Furthermore, according to Berger (1995), as cited by Berger *et al.* (2022), barriers to entry into an industry influence a firm's profitability in that higher costs of entry help existing firms to maintain monopoly profits, as new entrants would shrink the profits. Market concentration, thus, reduces the cost of collusion between existing banks, leading to higher profits. The MPT hypothesis further states that bank profitability is influenced by market share and proposes that only large banks with differentiated products can control prices and grow their profits (Berger, 1995). Banks can exercise market power and gain monopoly profits, whereas firms with smaller market shares operate as if under perfect competition and cannot earn the same supernormal profits (Le and Ngo, 2020; Kohlscheen *et al.,* 2018).

The Structure Conduct Performance has been the most studied of the two Market Power hypotheses, mainly testing the relationship between profitability and concentration measures (Naylah and Cahyaningratri, 2020; Moudud-Ul-Huq, 2020; Maghfuriyah *et al.,* 2019). MPT is relevant for the current study as it explains indicators of bank performance in terms of profitability (financial performance) by linking with market powers, which in this study are the parishes. Parishes are expected to act as the market power, which is used as a source of UCB financial performance in the study.

Regarding profit and performance of the banks, the present paper focused on the uncertainty-bearing theory of profit, developed by Knight in 1921. This theory asserts that profit is the reward of bearing non-insurable or uncertain risk. The Knight's (1921)

theory of profit is relevant in this study as it is used to interpret findings regarding the causality between bank profitability and stability in terms of the elements of banks' operations like product development, deposits by clients, loan management, and share capital. It must be noted that bank profitability can be measured using two profitability ratios, namely ROA and ROE, while bank stability may be measured using the Z-score and the ratio of NPL/TL. Z-score and the ratio of NPL/TL should be measuring the effect of insolvency and credit risks, respectively. Based on Knight's (1921) theory, the bank with higher credit and insolvency risk is expected to be more profitable compared with the bank with lower credit and insolvency risk.

2.2 Empirical Literature

2.2.1 Savings and bank financial performance

In the banking business, a savings bank is one whose primary purpose is accepting savings deposits from clients and paying interest on those deposits. On whether saving deposits influence banks performance, Tuyishime *et al.* (2015) found a positive relationship between deposits and financial performance in Rwanda among commercial banks. Anginer *et al*. (2014) concluded that if a savings deposit is insured, it can lead to a negative consequence on bank performance, including a risk increase during normal times if greater in magnitude. Ihaddaden (2020) examined factors of the Tunisian banks' financial performances using ratio analysis and found that the highly performing banks are those who maintained a high level of deposit accounts compared to their assets. Aggregating the ratio of total deposits from customers' savings to total assets means increasing the funds available to use by the bank in various profitable ways, such as investments and lending activities. Likewise, Khalfaoui and Derbali (2021) used canonical correlation analysis to measure the association between the performance of banks and the profitability determinants. Among the financial statement variables measured in this study were the composition of bank credit, bank costs, and the composition of bank deposits. The study findings indicated that the factor that had the greatest influence on bank financial performance was bank costs, followed by the composition of deposits and the composition of loans.

Furthermore, Ali and Puah (2019) on fifteen Pakistani commercial banks on top of the list in terms of financial performance investigated the impact of assets, loans, equity, deposits, economic growth, inflation and market capitalisation on profitability indicators i.e. ROA, ROE, ROCE and NIM. The findings of their study indicated that savings deposits, among others, had a positive correlation with ROA. Deposits, however, had a negative relationship with ROCE. Correspondingly, total deposits to total assets had a negative correlation with ROCE, which shows that banks that rely on deposits for their funding are less profitable. However, other studies, like those of Ahmad and Zakariyah (2020), Ahmad *et al.* (2020), and Mehmood and Sabeeh (2018), investigated the determinants of the Tunisian banks' financial performances and indicated that the highly performing banks are those who maintained a high level of deposit accounts relative to their assets. Enhancing the ratio of total deposits to total assets means increasing the funds accessible to be used in multiple cost-effective ways for investments and loaning undertakings.

Likewise, Nyangarika and Bundala (2020) investigated socio-economic factors affecting deposit growth in SACCO's development in Geita, Tanzania, using ratio analysis. Study

findings indicated that well-capitalised Savings and Credit Cooperative Societies (SACCOS) ranked higher in terms of their ability to collect deposits than their poorly capitalised counterparts. These are attributed to the likelihood of inherent deposit insurance, which in turn inspires more savings. They, however, found less confirmation connecting capitalisation to revenues. Also, their study findings indicated that some SACCOS were able to attract more deposits by paying lower rates depending on their tier categorisation by the central bank. The ability to attract deposits at lower rates would mean higher net interest margins and hence higher profitability, as found out by Issangu (2020) for the financial performance of microfinance institutions in Tanzania.

Furthermore, research on the influence of savings deposits on banks' performance has produced mixed results. The study by Mndolwa and Alhassan (2020) investigated the determinants of small and medium banks' interest margins and profitability using a regression analysis. The study findings indicated that banks that rely mainly on deposits for their funding were less profitable since deposits require more branching operations and more expenses for that matter. Similarly, Bacchetta (2018) indicated that growth in deposits each year did not affect profitability significantly. They found no empirical evidence that banks in Switzerland were able to convert an increasing amount of deposit liabilities into significantly higher income-earning assets to evidence financial performance for the banks studied. This paper provides additional insights into parishes' financial deposit influence on community banks, a rarely explained concept in church and community banks.

2.2.2 Loans contribution to the performances of financial institutions

Several studies across the world in the banking sector indicate that the major explanation for the failure of banks is poor asset quality and management (Icnsan *et al.,* 2021; Alim et *al.,* 2021; Kasonga, 2020). In their study, Audat and Ali (2020) on the effects of bad debt, market capitalisation, operation cost, capital adequacy, and cash reserves on the financial performance of banks in Bahrain using ratio analysis revealed that since the interest income acquired from the assets of the bank is an important component of the bank's net income, the impaired loans or poor asset quality hurt the financial performance or profitability of banks.

Similarly, Koten (2021) investigates the determination of the relationship between Non-Performing Loans (NPL) and profitability in the Turkish banking system with panel regression analysis. The study findings indicated that among the reasons for the increase in non-performing loan ratios are shown in rough or inadequate credit guarantees, ineffective credit risk management, and excessive interventions in the lending process. As a result, these factors have led to an undesirable influence on the financial performance of banks. Therefore, considering the importance of loans in the banking sector and their serious economic impacts, it is extremely important to reveal the relationship between loan performance and profitability of the community banks.

In the literature on banking business, some studies suggest that credit risk has a positive effect on the financial performance of banks, while the majority of the studies concluded that there is a negative relationship between credit risk and financial performance (Ekinci and Poyraz, 2019; Gadzo *et al.,* 2019; Serwadda, 2018). Other studies advocate there are other factors apart from credit risk management that impact performance. Yusuf and Surjaatmadja (2018), in their study using a correlation analysis, found a negative relationship between credit risk and bank financial performance. Similarly,

Robin *et al.* (2018), in their study on the financial performance of commercial banks in the post-reform era: further evidence from Bangladesh using a ratio correlation analysis, found a significant and negative relationship between the performance of banks and credit risk management.

Furthermore, Onsongo *et al.* (2020) analysed the impact of credit risk management on the profitability of commercial banks in Kenya. In this study, where a regression analysis was used, it was concluded that total loans and non-performing loans have no significant effect on the financial performance of the banks under the study. Nevertheless, it is stated that a number of variables had an impact on bank performance. Likewise, Abbas *et al.* (2020) in their study to investigate the association between bank performance and credit risk management in emerging economies where the variables of return on equity (ROE) and return on assets (ROA) are included in the model as they represent the bank performance. The ratio of non-performing loans to total loans was used to represent the credit risk of the banks. The findings of the study concluded that performance indicators are negatively related to non-performing loans (credit risk). Ahmad *et al.* (2020) and Alemu (2019), using ratio analysis, indicated that the increase in credit risk as a result of an increase in the cost of debts and in cost per credit decreased the financial performance of the banks.

2.2.3 Performance of banks and influence of share capital

Share capital contributes to capital structure, which describes how an organisation raises the finances to support their operations in business (DeYoung *et al.,* 2018). It comprises a mix of debt and equity, and the decision to choose either source of funds is based on balancing the subsequent costs associated with them because they imply the performance of a firm. Debt results in tax and monitoring benefits. However, use of excessive debt exposes a firm to bankruptcy risks and reduces the value of the firm. The appropriate use of the optimal capital structure in the financing acquisition of assets is important in the maximisation of the return to all stakeholders and enhances the ability of the firm to compete by minimising the cost of the capital (DeYoung *et al.,* 2018).

Fang and Yeager (2020), in their study on a historical loss approach to community bank stress testing using descriptive statistics research design, found that shares in the capital structure of the banks are an important managerial decision because they influence the shareholder's risks and returns. Financial managers should always make an effort to build up an optimal capital structure that would be advantageous to the equity shareholders in particular and also to other stakeholders such as creditors, employees, customers, and society at large. Banks, therefore, have a chance to adjust their cost of capital and market value by changing the bank's capital structure (Fang and Yeager, 2020).

Likewise, Rambi *et al.* (2019), in their study on determinants of capital structure and firm financial performance using the PLS-SEM approach with evidence from Malaysia and Indonesia, concluded that short-term debt has a positive relationship with profitability because of low interest rates. They also established that a positive relationship exists between total debt and profitability because total debt comprises largely of short-term financing. However, long-term financing was found to have a negative relationship with performance because they are more expensive in the capital markets.

Furthermore, Mutual and Atheru (2020) did a research study on the effect of share capital on the financial performance of SMEs. The study was comprised of 295 SMEs located in Nakuru town and employed a multiple regression approach and descriptive statistics for analysis. The results indicated that shares in the capital structure have a negative effect on the profitability of the firm, although they have a positive effect on the growth of sales.

3.0 Methodology

The study was conducted in the Evangelical Lutheran Church Tanzania-Northern Dioceses (ELCT-ND). ELCT-ND was selected as a study area since it is the main client of Uchumi Commercial Bank, which consists of 168 parishes. The population of this study was 504 parish leaders accountable for church transactions and management. A purposive sampling procedure was used to select parishes of ELCT-ND employing Uchumi Commercial Bank product services. The sampling frame was the parish pastor, accountant, and chairperson of the finance committee from the parish. To ensure an equal chance of all the leaders being selected from each parish during the sampling process. The systematic sampling technique was used to select parish leaders from the list of all leaders in the ECLT-ND at an interval of 2 respondents, where the first selection employed a random number table.The sample size for this study was 223 respondents determined through Yamane (1967) formula $n = \frac{N}{1+N(e)^2}$=$\frac{504}{1+504(0.05)^2}$ =223; Where; n = number of sample size, N = population size 504 who are parish leaders and e = standard error (5%).

3.1 Data, Type and Tools

Primary data was collected from the respondents using survey questionnaires, while secondary data on various UCB published and unpublished materials included the financial statements, annual reports, and product development data. An interview checklist was used to collect data from 4 key informants who were General Secretary and Treasury of ELCT-ND, and the Uchumi Bank operational manager and branch manager. The key informant's face-to-face interview was conducted for at least 15 minutes. The interview was necessary as it enabled the researcher to ask probing questions, thus enabling them to get detailed information about key issues in bank operations and prevailing setbacks.

Before data collection, pre-testing was conducted to ensure reliability and validity, followed by a Cronbach's alpha test with a result of 0.7, which is an acceptable standard. A competence assessment method was employed for the validity and reliability of the interview tool. Competencies to be assessed were identified; the assessor also employed a notebook for recording notes and a recorder machine for transcription and validation of the recorded notes. Considering that the item for Likert scales should be reasonable and capture the intended content without a specific number of items (Brown, 2011; Davey, 2007), Table 1 shows Likert items assessed for reliability tests with six items and above.

Table 1 : Reliability of the items assessed

Category of items	Number of items	Total number of respondents	Cronbanch alpha coefficient
Savings	6	223	0.707
Loans	9	223	0.870
Share capital	6	223	0.758

3.2 Variable measurements and analytical approaches

The collected data were analysed first using descriptive statistics and inferential analysis. An index was developed to obtain the financial performance of the bank's products. The index was measured by using Likert scale analysis techniques. Five Likert scale levels were employed, numbered 1 = not at all, 2 = low performance, 3 = neutral performance, 4 = moderate performance, and 5 = high performance. The mean score of the Likert scale level 3 was used in the decision range. The items with a mean score of 3 and above were regarded as having a high contribution, while the mean score of less than 3 was regarded as having less contribution.

Following the approach by Taiwo and Abayomi (2013) on the panel data regression model, inferential analysis was employed. The covariance analysis test of the model was investigated, and any covariance between two variables was found; one was omitted. The test for multicollinearity was found to be VIF < 1.5, which is not enough to be overly concerned with the presence of multicollinearity. The consistency of the model was captured by incorporating continuous variables by 60% and above their measurements as given in Table 2.

Since performance by financial institutions can be captured by changes in deposits and loans, share capital, and income and profit, the three variables were thus employed as the dependent variables. Therefore, ROA was calculated by dividing net income by total assets, while LTD was calculated by the ratio of loans to deposits. Meanwhile, CAP was calculated by taking the sum of all capital since the establishment of the bank. Further details are on variable meaning and measurements as they appear in Table 2.

The analytical models are hereby presented objective-wise for the purpose of linking the independent variables and dependent variable following stated hypothesis as follows:

H_{O1} - Savings by ELCT-ND Parishes have no significant influence on financial performance of UCB.

$$LDT = \beta_0 + \beta_1 SP + \beta_2 RP + \beta_3 SF + \beta_4 LP + \beta_5 RB + \beta_6 NPL + \varepsilon$$

H_{O2} – Loans issued to ELCT-ND Parishes have no significant contribution on financial performance of UCB

$$ROA = \beta_0 + \beta_1 SP + \beta_2 RP + \beta_3 SF + \beta_4 LP + \beta_5 RB + \beta_6 NPL + \varepsilon$$

H_{O3} – Share capital owned by ELCT-ND Parishes have no significance contribution on financial performance of UCB

$$CAP = \beta_0 + \beta_1 CA + \beta_2 SA + \beta_3 SF + \beta_4 Sh + \beta_5 ShP + \beta_6 Fsh + \varepsilon$$

Whereby;

β_i = are coefficient of independent variables

β_0 = the constant term

ε = the error term which stand for the unexplained variations in the model.

Table 2 : Table for variable definition and meaning

Variable		Value	Definition	Units
Performance				
Y_1	LTD	Numerical	Increase in deposits and loans	T. Shillings
Y_2	CAP	Numerical	Increase of share capital	T. Shillings
Y_3	ROA	Numerical	Increase in income	T. Shillings
Bank products				
X_1	CA	Numerical	Current account	T. Shillings
X_2	SA	Numerical	Savings account	T. Shillings
X_3	CT	Numerical	Consultations and training.	T. Shillings
Saving deposits				
X_4	SP	Numerical	Amount of saving from Parish	T. Shillings
X_5	RP	Numerical	Rate of saving from Parish	T. Shillings
X_6	SF	Numerical	Frequency of savings.	T. Shillings
Loans				
X_7	LP	Numerical	Amount of loans to Parish	T. Shillings
X_8	RB	Numerical	Repayment behaviour	Numbers
X_9	NPL	Numerical	Non-performing loans originate from Parish	T. Shillings
Share capital				
X_{10}	Sh	Numerical	Number of shares owned by Parish	Numbers
X_{11}	ShP	Numerical	Shares owned by parish	T. Shillings
X_{12}	Fsh	Numerical	Frequency of purchasing shares	T. Shillings

Source: *Authors' design*

4.0 Results and discussions

4.1 UCB performance for the year between 2016 – 2021

The financial performance of UCB for the years between 2016 and 2021 is provided in Table 6. The results are such that the bank was performing well from the year 2016 until the eruption of the COVID-19 pandemic when it impacted returns on assets negatively by 1.1% in the year 2020. However, during the COVID-19 pandemic from 2019 to 2020, much of the bank's deposits were from parish savings; the bank had been enjoying the benefit of having parish savings. This parish deposit increased from TZS 27.04 billion to TZS 28.7 billion from the year 2019 to 2020, respectively, but there was a sharp rise to TZS 34 billion in the year 2021, indicating the good performance of a UCB bank in terms of deposits.

With the COVID-19 eruption, the ratio of loans to deposits in 2019 was above 100%, the period at which the bank was struggling to increase its deposits through the Parish platform as they were the only customers who deposited in large amounts. The bank's performance in terms of capital growth showed a positive trend. This implies that not only were the parish members encouraged to buy shares, but also individuals were mobilised by the bank management to acquire shares. Being a religious bank institution, buyers of shares had confidence in bank investment that it would not be wasted or stolen. This finding concurs with Yin (2020) that religious institutions command significant social trust when managing financial development services.

Table 2: UCB performance during 2016-2021

YEAR	ROA	ROE	LTD	CAP	LOANS	DEPOSIT	PROFIT
2016	1.7%	9.7%	81.5%	6,566,712.00	16,924,110	20,772,555	635,883
2017	1.6 %	8.7%	85.0%	8,072,914.00	19,332,679	22,741,691	705,612
2018	2.1%	11.8%	92.2%	8,578,862.00	23,432,801	25,416,554	1,013,439
2019	2.5%	13.9%	97.8%	9,501,496.00	27,049,113	27,667,195	1,319,008
2020	1.4%	7.7%	102.2%	10,294,988.00	29,356,294	28,711,823	790,252
2021	1.3%	7.38%	90.55%	10,708,857.00	31,577,386	34,872,816	790,763

Source: *UCB audited financial statements*

4.2 Parishes leaders' perception towards savings influence on bank's financial performance

Findings on leaders' perception towards savings influence on the bank's financial performance are provided in Table 8. Descriptive statistics from a five-point Likert scale level question were provided. In capturing parish leaders' perception of whether the amount they saved could improve UCB financial performance. The key question was: Are parish savings affecting the bank's financial performance? To achieve this, five Likert scale points, i.e., 1 = not at all, 2 = low extent, 3 = neutral, 4 = moderate extent, and 5 = high extent, were employed to capture responses. The mean score for the response decision was computed; a criterion of mean rating of 3.0 and above was considered to influence performance to a high extent, while a mean rating below 3.0 was regarded as contributing to a low extent. The findings were such that the grand mean score was 3.6, closer to 4 = moderate extent, indicating that savings contribute to financial performance to a moderate extent. This implies that leaders perceive to a moderate extent that parish savings influence the bank's financial performance.

Table 3: Leaders' perception of savings influences on bank's financial performance

Savings perception on Bank's financial performance	1	2	3	4	5	Mean score
	frequency	frequency	frequency	frequency	frequency	
Amount of savings from parishes help UCB bank to improve its performance	2	8	50	110	51	3.49
Parishes saves at high rate which influences UCB bank financial performance	0	8	70	121	21	3.69
Frequency of saving from parishes helps the bank to improve its financial performance	0	30	112	65	13	3.26
Saving duration from parishes influence financial performance	0	10	22	130	58	4.06
Savings from parishes stimulate banks financial performance	3	29	70	101	17	3.47
Total mean score						17.97
Grand mean score						03.60

Authors' computation

4.2.1 Rate of saving per period

The study wanted to know the average amount of savings made by the parishes in the study area. The findings in Table 4 reveal that 39.1% of respondents saved an average amount ranging from TZS 101 000 to TZS 500 000, 36.8% of respondents saved an average amount ranging from TZS 501 000 to TZS 800 000, 10.5% of them saved an average amount of TZS 801 000 – TZS 1 000 000, 6.8% of them saved an average amount of 1 001 000 – 5 000 000, 4.55% of them saved an average amount ranging from TZS 5,001,000 to TZS 10,000,000, while 2.3% of them saved an average amount of TZS 1,000–100,000 per month, and an average amount ranging from 5 001 000 – 10 000 000 while 2.3% of them saved an average amount of 1 000 – 100 000 per month and none of them saved more than 10 000 000. This means that most of the parishes saved at an average of TZS 0.1 million to TZS 0.5 million per month. The parish's savings depend on collections from church services, which are held on Sundays, Wednesdays, and Fridays per week.

Table 4: Rate of Savings

Average amount of savings in TZS. "000" per month	Saving Frequency	Percentage (%)
1 – 100	5	2.3
101 – 500	86	39.1
501 – 800	81	36.8
801 – 1000	23	10.5
1001 – 5000	15	6.8
5001 – 10000	10	4.5
10001 and above	0.0	0.0
Total	220	100.0

Source: *Authors' computation*

With 168 ELCT-ND Church parishes depositing their weekly savings in UCB, it implies that parishes contribute a significant amount of savings to UCB bank that influences its financial performance. The findings disagree with Mndolwa and Alhassan (2020), who argued that banks that rely mainly on deposits for their funding were less profitable since deposits require more branching operations and more expenses for that matter. Similarly, Bacchetta (2018) indicated that growth in deposits each year did not affect profitability significantly.

4.2.2 Inferential results of savings influence on bank financial performance

Inferential analysis results on the hypothesis that savings by ELCT-ND parishes have no significant influence on UCB financial performance. The model's significance with an R square of 0.651 implies that 65% of the explained variable is influenced by explanatory variables. Details are in Table 5. The remaining 35% is influenced by the exclusion of other independent variables.

Table 5: Model summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Change Statistics**				
					R Square Change	F Change	df1	df2	Sig. F Change
1	0.807	0.651	0.6324	1.356	0.302	.254	4	119	0.042

Source: *Authors' computation*

Table 6 presents the regression results, with LTD being a dependent variable. It was found that parish savings, saving rate, and parish non-performing loans were statistically significant factors influencing bank financial performance (p-value < 0.05). The coefficient of parish savings implies that every unit change of parish savings leads to a performance change of 0.643 at a significance p-value of 0.032, which is less than 0.05. Also, the unit change of the saving rate was positive and significant at a p-value of 0.028, thus influencing the change of bank financial performance by 0.846. These findings differ from those by Mndolwa and Alhassan (2020) and Bacchetta (2018) that savings or deposits have no significant effect on bank performance. However, the findings aligned with those of Tuyishime et al. (2015) and Anginer et al. (2014). The coefficient of loan repayment was found significant but discussed in section 5.3.1.

Table 6: Parish saving effects on financial performance of UCB

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	B		
Dependent		Perfomance	(LTD)		
(Constant)	1.642	0.786	0.469	1.344	0.041
Parish Saving	0.862	0.362	0.643	0.272	0.032*
Saving rate	0.948	0.652	0.846	0.802	0.028*
Saving frequency	0.560	0.282	0.232	0.075	0.145
Loan to parish	0.652	0.251	0.028	0.043	0.121
Loan repayment	1.251	0.654	1.034	0.336	0.063
Parish NPL	1.486	0.854	1.044	0.836	0.014*

Source: *Authors' computation*

4.3. Influence of loans on bank financial performance

In this section, we analysed loan repayment behaviour using descriptive statistics, while inferential statistics employed to analyse loans acquired by parishes. To examine the loan repayment behaviour of parish borrowers as the main character that can affect loan repayment default. The respondents were requested to select the motivating reasons for loan repayment and the findings were stipulated in Table 7. The results are such that, 43.2% of respondents repay their loan due to fear of losing collaterals, 31.4% repay their loans in expectation of getting another loan, 15.5% of them repay loans by knowing that paying bank loan is their obligation while only 10% repay loans to keep trust and maintain reputation. This means that, most parish members repay their loans due to fear of losing their collateral pledged against the loan they acquired. Therefore, pledging for collateral against loans acquired is an influential factor contributing UCB performance through perpetuated loan repaying behaviour catalysed by a fear of losing collaterals.

Table 7: Loan Repayment Behaviour (n = 220)

Repayment behavior	Percentage (%)
Fear of losing collateral	43.2
To keep social status	10.0
In expectation of getting another loan	31.4
Knowing that paying bank loan is your obligation	15.5

Source: *Authors' computation*

The findings agree with Koten (2021) who reported that, among the reasons for the increase in non-performing loan ratios are shown in rough or inadequate credit guarantees, ineffective credit risk management and excessive interventions in the lending process. As a result, these factors have led to an undesirable influence on financial performance of banks. Therefore, considering the importance of loans in the banking sector and their serious economic impacts, it is extremely important to reveal the relationship between loan performance and profitability of the community banks. In linkage of this findings, during an FGD, a consensus was reached among the parish leaders, that:

> "*Members pay back the loan because of afraid the pledged assets being confiscated by the bank. Though they are aware it's by their obligation to repay bank but asset confiscation is the main concern on loan repayment*" (25th July 2022).

4.3.1 Inferential statistics results of parishes loans influence on banks financial performance

With regard to the stated hypothesis, loans issued to ELCT-ND Parishes have no significant influence on UCB financial performance (ROA) in Moshi Municipality, the R square implies 67.4% of the dependent variable is explained by independent variables. The remaining percent is explained by other independent variables excluded in the model. Details were provided in Table 8.

Table 8: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df_1	df_2	Sig. F Change
1	0.821	0.674	0.6524	1.272	0.6524	.267	4	119	0.048

Source: Authors' computation

The coefficient results in Table 9 are such that loan to parish and loan repayment were statistically significant factors but negatively influenced the bank's financial performance (ROA) at a p-value < 0.05. Thus, every unit change of loan to parish and loan repayment decreases the performance of the bank by 0.327 and 1.011 respectively. The negative causation is signalling that most parish members have encountered loan repayment challenges, including the amount of loans to the parish. This implies that loan repayment status among parish members is not encouraging the bank's performance. Further, the amount of the loan to a specific parish resulted in a high rate of loan default, therefore negatively affecting the UCB financial performance. The findings agree with Ekinci and Poyraz (2019), Gadzo et al. (2019), and Serwadda (2018), concluding that there is a negative relationship between credit risk and financial performance. The results are also consistent with those of Rambi et al. (2019) in Malaysia and Indonesia, who discovered that short-term debt has a favourable correlation with profitability due to its low interest rates. However, long-term financing was found to have a negative relationship with the performance because they are more expensive in the capital markets. For the performance of UCB, loan categorisation remains paramount to parishes.

Table 9: ELCT-ND Parish loan influence on financial performance of UCB

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	B		
Dependent	Perfomance (ROA)				
(Constant)	1.321	0.754	0.969	0.154	0.101
Parish Saving	0.512	0.322	0.499	0.274	0.231
Saving rate	0.789	0.589	0.764	0.540	0.601
Saving frequency	0.732	0.402	0.698	0.078	0.156
Loan to parish	-0.436	0.191	-0.327	0.021	0.003*
Loan repayment	-1.214	0.608	-1.011	0.551	0.006*
Parish NPL	1.245	0.758	1.139	0.736	0.506

Source: *Authors' computation*

4.4 Influence of share capital owned by ELCT-ND parishes on financial performance

Regarding the influence of share capital owned by ELCT-ND parishes on UCB financial performance. The descriptive statistics provided in Figure 5 indicates that, private sectors own TZS 5.8 billion equivalents to 58.4%, followed by ELCT-ND own TZS 3.3 billion equivalent to 32.4%. The ELCT-ND institutions own TZS 0.9 billion equivalents to 9.2% of the share capital. This implies that, share capital owned by ELCT-ND parishes contributes on bank financial performance at a rate of 9.2% of the total shares. This finding suggests that the corporate shareholding structure for a given percent of share capital contributes to UCB financial performance. Since shares represent a long-term equity component, they have a significant impact on banks' financial performance to a high extent. Furthermore, Mutual and Atheru (2020) found that shares in the capital structure have a negative effect on a firm's profitability, although they have a positive effect on sales growth. In triangulation of this finding with the results from parish leaders' FGD, it was revealed that:

"*The bank needs to make its products so attractive to meet the expectation form parish even though at initial stage it seems to be very difficult*" (22th July 2022).

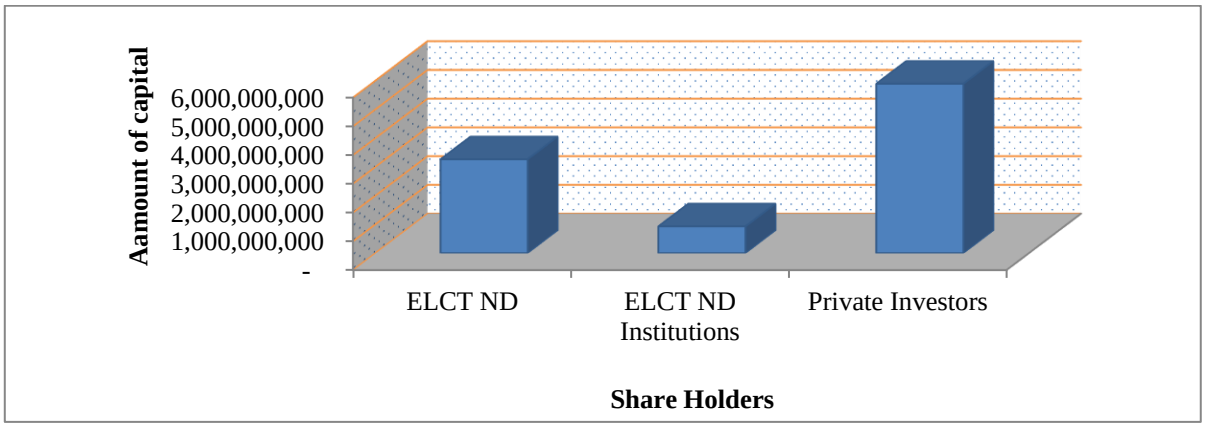

Figure 1 : *UCB Share Holdings*

Source: *UCB Bank Annual Report 2021*

The findings agree with Fang and Yeager (2020) argument that shares in the capital structure of banks are an important managerial decision because they influence

shareholders' risks and returns. It is of this view that bank leaders should always make an effort to build an optimal capital structure that would be advantageous to equity shareholders specifically and to other stakeholders such as creditors, employees, customers, and society at large. Banks, therefore, have a chance to adjust their cost of capital and market value by changing the bank's capital structure.

4.4.1 Statistical inference: Influence of share capital on financial performance

On examine the statistical inference of influence of share capital on financial performance, R square in Table 10 shows that, 76% of the independent variables explained the dependent variable which is the UCB financial performance. The remaining percent is explained by other variables excluded in the model.

Table 10: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df_1	df_2	Sig. F Change
1	0.872	0.760	0.7432	0.174	0.7432	0.219	4	119	0.043

Source: *Authors' computation*

The multiple regression analysis results in Table 11 show that the number of shares owned by parishes was statistically significant at a p-value < 0.05 in influencing the performance of UCB bank. The coefficient interpretation is as follows: for every unit change in the number of shares, there is an increase of 1.113 units in the performance of UCB bank through share capital. Therefore, the share capital owned by ELCT-ND parishes significantly influences the financial performance of Uchumi Commercial Bank.

Table 11: Influence of share capital owned by ELCT-ND Parishes on financial performance of UCB

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	B		
Dependent	Perfomance	(CAP)			
(Constant)	1.424	0.857	1.072	0.257	0.204
Current account	0.411	0.221	0.398	0.173	0.130
Saving account	0.687	0.691	0.866	0.642	0.703
Saving frequency	0.835	0.299	0.595	-0.03	0.053
Share owned -parish	0.537	0.412	0.226	0.122	0.751
Number of shares	1.112	0.506	1.113	0.449	0.017*
Purchasing shares frequency	1.142	0.861	1.242	0.839	0.159

Source: *Authors' computation*

5.0 Conclusion and recommendations

This study focused on assessing the contribution of Church parishes to the financial performance of Uchumi Commercial Bank (UCB), a community bank in Tanzania. The study concludes that the financial performance of UCB between 2016 and 2021 was influenced by parish deposits, particularly during the COVID-19 pandemic from 2019 to 2021. Parish leaders perceived that parish savings moderately influenced the bank's financial performance. Factors such as parish savings, savings rate, parish non-performing loans, and shares owned by the parish positively influenced the bank's

financial performance. On the other hand, loans to parishes and loan repayment negatively affected the bank's financial performance. The fear of losing collateral by parish members significantly influenced their loan repayment behavior, which in turn affected UCB's financial performance due to loan defaults.

It is recommended that parishes maximize financial opportunities with Uchumi Commercial Bank as their community bank. The bank should identify innovative financial products for ELCT-ND parishes and their members. Church executive leaders should develop a governance policy for ELCT-ND parishes utilizing Uchumi Commercial Bank as the main financial institution for banking services to increase deposits, loans, and shares of ELCT-ND parishes. Additionally, other aspects of the bank's financial performance, such as capital structure, internal control systems, technological factors, and service delivery factors, should be considered for further studies.

6.0 Contribution of the study

Using the market power theory, the performance of UCB is likely dependent on concentration measures, namely Parishes. The market power found by the present study does not come from ELCT-ND institutions, among others. Thus, parishes are not the market concentration as per theoretical assumptions. The majority of share capital is from private shareholders rather than church institutions and are not among the parishes. The body of knowledge is informed by the present study that the concentration measures (parishes) can contribute to firm performance at the earliest stage, and at a later stage of growth and performance, the majority non-concentration measures (private sectors and individuals) can influence firm performance.

With regard to banks' profitability and stability as depicted by Knight's (1921) theory of profit, the study contributed that the stability of the bank is influenced by concentration measures during the pandemic. The indicator of the bank performing well from Parish savings during the COVID-19 Pandemic in 2019 to 2020 when other non-Parish deposits declined. This phenomenon concurs with the theory that elements of banks' operations like product development, deposits by clients, loan management, and share capital are paramount during a pandemic and the occurrence of uncertainties.

Regarding financial policies and regulations, the findings contribute to the policies and regulatory bodies to consider the necessity of capital shares and shareholders' criteria for the better performance and sustainability of community banks. The findings enforce the establishment of policies mechanisms that will trigger the frequency of savings, loans management, and repayment among parishes. Moreover, the findings support the UCB corporate shareholding policy on restructuring to revitalize the capital share structure with reference to ownership, governance, and the value of shares between parishes and non-parish members.

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