



The Impact of Microfinance Cost on Small Micro Enterprises in Gezira State, Sudan

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Abstract

The study had focused on how to know the composition of transaction costs in order to be able to derive the implications of how to reduce lending rates in microfinance in a sustainable manner. As the study required in-depth insights about the processes that are followed within microfinance, institutions so that they can provide many microfinance service that face different costs. The study applied the descriptive and analytical method, whereby data were collected from (300) small and medium enterprises and (20) microfinance institutions in Gezira State, Sudan, whereas the questionnaire and data analysis had applying the Statistical Package for Social Sciences (SPSS) program. Sustaining the provision of microfinance service and the continued profitability of microfinance institutions, which had led to the emergence of separate costs (direct and indirect costs) for financial services. In addition, it is not possible to separate or divide the costs of microfinance institutions easily in relation to non-financial services, such as consulting training, and technical assistance. The study had also focused on the need to ensure good credit behavior and reduce risks. Transaction costs are major contributors to the rise of interest rates on microfinance loans. The study results indicate while the main drivers of the cost of direct transactions compensate for field workers and the number of SMEs had dealt with per field worker. Not only that but, the study results had also shown that the implications for government and policymakers, both of which were in need to take into account transaction costs when examining interest rates, imposed by MFIs. In order to spread microfinance to new areas, the government should finance media campaigns that can help reduce the costs of establishing small and medium enterprises and thus attract MFIs to these areas in Gezira State.

Key Words: Microfinance, SME, Transaction costs, Direct and Indirect costs, Gezira State

Introduction

This study intended to examine the impact of the direct and indirect cost, which can be assessed in term of how it effects Small and Medium Enterprises in Gezira State Sudan, when accessing Microfinance Loans. The studied motivation stem is because few studies that had been done in Sudan. It had focused on the cost and benefit of Microfinance loans to Small and Medium Enterprises and weather Microfinance low cost helped the SME's owner's to grow. In a study done by Chijoriga and Cassimon (1999) revealed that, to get finance from Microfinance's involves high transaction cost due to bureaucratic procedures and time involved in processing the finance, the study also pointed out that asymmetric information between borrower and lender (Microfinance) is very high and this had led to Microfinance's imposing tight monitoring and supervision rules to the borrower. However, despite of high transaction costs. Small and Micro Enterprises are still utilizing the service, and thus, it's worth taking into consideration the true cost of Microfinance loans.



Statement of the Problem

Small and Micro Enterprises in Gezira State (Sudan) consider the direct and indirect cost of accessing Microfinance loans, whether if they create a critical problem which can be addressed by this study. According to Mosley (2001), MFI are said to be a cheaper way of a source of finance to Small and Medium Enterprises. Despite of Microfinance service been cheaper way of source of finance to MSEs, the interest rate is not the only cost of credit incurred by SME's. There are also other costs related to the process of obtaining information about the services and the whole process of applying for the finance, cost of getting transportation to make finance payments time obtaining finance and tracking the debt, all these are referred to as transaction cost. Therefore, the study seeking to investigate the benefit received from microfinance loans if they outweigh the cost incurred by Small and Micro Enterprises when receiving the finance liability. Also there is no study which had been conducted in Sudan to look on the cost and benefit of Microfinance loans to Small and Micro Enterprises and weather the Microfinance loan had helped the SME's to grow despite the true cost incurred on the process .

Research Questions: To be able to meet the above objective, the study adopted the following key guiding question:

1. What are the direct and indirect costs that Sudan Small and Medium Enterprise incur when accessing microfinance services?
2. What's the actual cost for Microfinance clients when they access the services?

Specific Objective: which the study had focused:

- I. To assess the direct and indirect costs that Micro and Small Enterprises in the Sudan incur when accessing microfinance services.
- II. To examine the actual cost for Microfinance clients when they access these services

Research Hypotheses: In this study the following hypotheses were tested:

H1: High transaction costs (direct and indirect costs) on Microfinance loans to Small and Micro Enterprises have a negative impact on the growth of SME's.

H2: The Transactions or the Finance cost will Influence Microfinance Market for Customers and the Finance applicants (The supply part), while the negative Influence will deprive having it, which will create a gap between Supplies (Finance Institutions) and Demand (SMEs or the Customers)..

Significance of the Study

First , the study contribution to the body of knowledge on the cost of finance in Sudan which can affect the Small and Medium of Enterprises taking into consideration the true cost incurred by MSE's apart from the interest cost. Second, this will help them to come out with substantive possible alternative policy interventions which might help to address problems and challenges which Small and Micro Enterprises can face.

Scope and Limitation of the Study

To cover all the States in the entire country will be impossible because of the limited time fame. For this reason, the research will cover Gezira State .The choice of Gezira



State is due to the fact that this state has large number of SME's and high concentration of Microfinance's which are distributed through the State which can provide good source of data for the study .And the impact of Microfinance cost to growth of SME's.

Methodology

Both quantitative and qualitative data had been used. primary data collected through observation, structured questionnaires using checklist of leading questions, Secondary data will be obtained from the following sources: (300)SMEs and about (20) banks which obtained microfinance services in the urban and the rural areas in the Gezira State (Sudan). The data analyzed using descriptive statistic. Closed questions were analyzed using quantitative analysis, while open-ended questions were analyzed using qualitative methods. The data will be presented in the form of frequencies, percentages cross tabulation and correlation analysis, so as to established the relationship of variables. Correlation analysis will be done in order to test some of the assertions raised. Pearson's Correlation Coefficient (Chi-Square, X^2) used to quantify the strength of association between the variables as well as the use P-Value, and the significance of relationships. Moreover, both mean and mode were calculated to establish norms, and the dispersion of the standard deviation.

Previous Studies:

Mohamed (2011) "Dealt with reasons of Non-reliance Tools and Means of Lessening Microfinance Cost of the Sudanese Banks": The study objective is to know the reasons of non- reliance tools and means of lessening microfinance cost of Sudan Banks and to know the extent of the possibilities of applying tools and means, which can lessen microfinance cost. The study had attained that there are many reasons, which had inclined, weather the banks can use the tools and means of lessening microfinance cost. The importance of weak assisting infrastructure to spread the idea of microfinance, and the weakness of awareness and knowledge of the subjected sections of microfinance about modern technologies and about microfinance idea, its modernity, its high risks and the coverage of microfinance cost from other financing revenues. The study had recommended the necessity of avoiding the reasons through the initiation of a specialized microfinance in every bank to spread the idea of microfinance through the activation of its culture. The informational and the awakening role about the concept of microfinance, and carry out the experience of Grameen (group financing) and its attempt of putting it down on the earth on the Sudanese existence and carry out imitating non-traditional guarantees. The study had also recommended the necessity of participation of the CBOS with the banks to bear the risks resulting from micro financing, because of the modernity of microfinance experience and its high risks till the banks are be able to lessen the high costs to this type of finance.

Savita Shankar (2007): Transaction costs in-group microcredit in India, Institute for financial management and research, Chennai, India: The purpose of the study was to examine the composition of transaction costs to be able to draw implications on how lending rates in microcredit could reduce the transaction costs (direct and indirect costs). As the study required in in-depth insights on the processes being followed within a microfinance institution, the case study method was used, three established MFI's mainly engaged in microcredit, using group lending model were studied. The



results of the study indicate that the key drivers of direct transactions costs are field worker compensation and the number groups handled per field worker. It is suggested that MFIs in order to reduce direct transaction costs increase the number of group per square kilometer. In order to reduce indirect cost, MFIs could minimize the number of layers of fixed costs.

As an attempt to mark a comparison between the previous studies and Salvia's study, it is noticed that both studies had focused on analyzing the transaction cost so as to find mechanisms that can lead to reductions whether they are direct or indirect costs. In addition of taking in-depth studies with [aerial sampling to be applied on the whole as a shortcoming of comparison]. So, comparative in-depth the studies should be conducted on various societies in all parts of Sudan, and thus comes the possibility of coming up to conclusions and recommendations which can be generalized.

The Theoretical Framework

The theoretical framework for this study is based on the transaction on the direct and indirect costs of microfinance, the transaction costs are:

- Search and information costs.
- Bargaining and decision costs.
- Policing and enforcement cost.

The transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of the loan. The cost incurred by the lender include; cost of searching for funds to loan most of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application most of providing credit training to staff and borrowers that is SME's. For this case may incur cost ranging from cost associated in screening (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling paper work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings.

Coase (1960) pointed out that financial intermediation involves transaction costs and according to Chijoriga and Cassimon (1999) transaction costs comprise cost involved in finding a lender, mismatch costs and risk premium, all these transactions increase the gross cost of credit for the borrower. The conceptual framework reflects the effect of transaction cost on SMEs when accessing and servicing Microfinance services. High transaction cost limit SMEs effective utilization of the services received, hence limit SMEs and household growth.

Microfinance Cost in Gezira State (Sudan)

Microfinance cost is considered the most influential factor on both the demand wings behavior (the banks and the institutions) and the applicants (the customers), so these factors are considered, which will lead to the appearance of the gap between the supply and demand, leading to the result of a deprivation of a big section of microfinance customers. Some other think that the services of microfinance are costing, and will not encourage more of the operating banks of the banking sector to enter this field, because of its multiple intercourses of the needs of microfinance. So the success of microfinance institutions is linked with achieving suitability and the



coverage of all its financial expenses, the operational and the administrative, in addition to the capital cost including the cost of inflation, the loss of loans as a result of stumbling (El-Laithy, 2008).

Transaction Cost

Transaction costs of borrowers include both opportunity costs, for example the time spent for group meetings and meetings with the loan officer, and indirect expenses for notarized documents, transportation/travel expenses to the bank etc. Such transaction costs borne by clients as out-of-pocket expenses are not revenue for the microfinance organization and are often neglected when calculating the total cost of a microfinance service, (Schreiner and Colombet, 2011).

However it is impossible to measure these costs in terms of material figures. The poor borrower's pure transaction costs are in general higher if they borrow from a financial institution instead of from informal moneylenders who would have more of an 'all inclusive' calculation of interest. Nevertheless, total borrowing costs are much lower at financial institutions (Robinson, 2003). Transaction cost comprises two components, direct and indirect.

Direct Transaction Cost

This is defined as the cost of (usually the field worker) carrying out the group finance transaction. Its three main components are group formation costs, cost of direct administrative activities and cost monitoring. Cost of group formation and training includes the cost formation and training of the group with the objective of using it to deliver credit.

The costs of direct administrative activities comprise cost of appraisal, documentation, disbursement, other direct administrative activities and the cost of branch manager supervision. The Cost of appraisal is the cost of processes for appraising / grading the group before the sanction of finance. Cost of documentation is the cost of documents and the completion of documentation formalities relating to the finance. Cost of disbursement is the cost of completing formalities relating to disbursement of funds. Cost of other direct administrative activities is the cost of time spent by the field worker in completing administrative formalities such as report and format completion, reporting to immediate supervisor (usually the branch manager), filling up movement register, filling up expenses claims for travel and bank related duties, if any. Since the branch manager closely supervises the entire finance process and in many cases also helps in appraisal / documentation / disbursement, the allocated (per person) supervision cost of the branch manager is also included.

Monitoring cost is the cost of finance utilization checks and allocation of installments. It is inferred from the field staff that additional time was spent with a group only if there was a problem in the group, but this varied from case to case. The cost of "avoiding default" is not taken into account in this study.

Indirect Transaction Cost

While direct transaction costs capture the human resources cost of the branch, there are other costs such as rent, electricity, and facility maintenance, which also need to be allocated. Furthermore, there are expenses of the regional offices and head offices –which do not do direct business but supervise the branches – which also need to be taken in consideration. Indirect transaction cost basically includes allocated fixed costs of the branches office, regional office and head office. However, depreciation and taxation costs had not been included since these would make the results between MFIs less comparable.



Table (1)
Direct and Indirect Costs in Gezira State

➤ The Direct Costs	➤ The Indirect Costs
<p>1- Charges and expenses cost which the applicant's bear to ensure documents and the eventual papers, this type of cost which results from these obligations is known as the direct cost.</p>	<p>1-The other expenses which the finance applicants bear, during the negotiations period till having finance are known as the indirect cost.</p>
<p>2- The proximity cost.</p>	<p>2-Data collection related to the avoidance of the recovering all or part of the finance is known as the risks cost, and is considered as an indirect cost.</p>
<p>3- The nature of the financial activity i.e. the agricultural finance is of a high cost.</p>	<p>3-Supervision and follow-up to know about any emerging change on the economic client's situation, or to avoid any misuse of the finance or illegal behavior on the part of the client regarding the mortgage or the guarantee accompanying the finance operation.</p>
<p>4- The procedures and guarantees needed by the granting bodies for having finance.</p>	

Source prepared: by the Researcher, based on the field Survey Study Results (2015)

Reasons of High Costs in Gezira State:

The administration of microfinance products are characterized by its high costs, that is microfinance institutions carry out the collection about clients data, on the funded activity, reaching clients and the field follow up of their activities, and hence microfinance is considered a high cost activity. So the acceptance is considered a challenge facing microfinance institutions, which is the chief element on its successful performance, which necessarily needs the banks to reinforce its crises management, better the efficiency and increase all its personal productivity, diversity of its products, and its markets services, increase its transactions volume and the control of the salaries expenditure reasonably. In addition to study, the setup costs of this industry with a high accuracy and compare it with preventing prices in the market till it becomes able to achieve the reasonable level of profit. The fact, which needs from the banks to design systems to count the costs so as to be able to raise its quarter year reports to assist it to carry out its transactions accurately and regularly.

Factors Influencing the Finance Cost:

There are many factors, which make the cost of microfinance high (El-Laithy, 2008), some of these are:

- (1) Customers Experience: whenever the customer's experience is more dealing, with the banks and the other financial institutions, the more lessening of hindrances and difficulties, and the contrary is right.



- (2) Finance Money Volume: whenever the finance money volume is big, the more leading to lessen the cost, which means that presence of a contrary relationship between them.
- (3) Speedy Settlement about the Finance Decision: whenever was the timely period, between the progress of finance application and having it in a short period, the more leading to finance lessening cost, which means the presence of a relationship between them from all sides.
- (4) Proximity: whenever the distance is far between the financing institutions and the places of the customer's presence, the more will be the reason of high finance cost, which means the presence of a relationship from all sides between the special extent and the finance cost.
- (5) The Nature of the Financed Activity: the difference of the finance issue activity is considered a reason for high finance cost, i.e.: the agricultural finance cost will be high compared with the industrial finance cost or financing the service activity.
- (6) Usage of Electronically Technology: it is true that the usage of the banking technology will result in a big decrease of providing the banking services, and the impact will result on microfinance service.

In addition to the study, of cost transactions as an important part the researcher thinks that the study will carry out studying with concentration on the cost analysis so as to know its impact on the existing enterprises in Gezira State. The methodological analysis plus getting use of the different methods of analysis whether it is local or foreign to measure and know the impact of the cost upon the growth of the Small and Micro Enterprises.

Reasons of High Microfinance Cost:

The experience indicates that the high microfinance cost might be related to a number of factors about supply and demand (the institutions on the side of supply and the customers of microfinance on the side of demand) , and this could be explained as in Figure (1.1) :



Figure No. (1)
Costs Resulting from the Two Parties, when carrying out an Operation of Microfinance

From the Side of the Financer	From the Side of the Financing Applicant
<p>(1) Data collection through, which the institutions can know the factors related to the customer's credit worthiness (the customers study), and to know the sides related to the finance activity (the operation study), and so the cost will be known by the data cost.</p> <p>(2) Supervision and follow up to any accidental change to the customer or to avoid the bad usage of the customer finance to avoid the illegal behavior of the customer such as mortgage or the accompanied guarantee of the finance operation.</p> <p>(3) Data collection related to the avoidance of non-repaying the finance partially or wholly. So the cost will be known here under the name (risks cost).</p>	<p>(1) The fees and the expenses, which the financing applicants bear to provide documents and the evident papers needed by the financer. So the cost resulted of these obligations will be known under the name (direct cost).</p> <p>(2) The other fees, which the finance applicant bear during the period of negotiations of finance till having it. So this type of cost will be known under the name (indirect cost).</p> <p>(3) The customer's time lost through the period of negotiation of financing can be viewed from the income, which can be used in any activity that can bring a return to them. So the cost resulted due to the lost time will be known under the name (the opportunity cost).</p>

Source: Study of Finance Cost and its Influence on the Bank Behavior, (El-Laithy, 2008)

- **H1: High transaction costs on MFI finances to SMEs have a negative impact on the growth of SMEs.**

This hypothesis assumes that in all the cases of high transaction costs on MFI finances to SMEs have a negative impact on the growth of SMEs in Gezira State. This study is dealing with the high cost of the negative impact on small establishments, because they had led to scalable growth within the small facilities, while the cost includes all the processes involved in the funding process, administrative cost, the cost of interest rate of finance and the performance of small businesses control costs. This hypothesis deals with the direct and indirect costs, and the extent of their impact on the negative side variables independent of others.

The study will use these hypotheses to collect data to examine the levels of administration costs of MFIs, because most of the MFIs agreed to incur costs on debt collection, appraising client's applications and identifying and screening clients. MFIs also incur information about clients, in addition to legal charges on client's .Moreover, regarding the levels of monitoring costs of MFIs, to further understand how transaction costs are related to affect outreach programs of micro financial institutions in Gezira state. The study used Person's correlation to explore the indication that there is a significant negative relationship between high transaction costs of MFIs and the growth of MSEs in the Gezira state.



The conceptual framework reflects the effect of transaction cost on SMEs when accessing and servicing MFI services. High transaction costs have the effect of limiting entrepreneurs' performance and outcomes. This hypotheses will use the relationship between the dependent and independent variables, plus the direction of the correlation is a negative relationship.

Reasons of High Cost of Transaction from the Financier:

Table No. (1.2) shows the importance of studying the research objectives, which are limited about knowing the finance, cost impact on the micro and the small enterprises in Gezira State. Where it is found that the high costs will lead to the refrainment of the beneficent bodies to have microfinance, because the management of microfinance products are characterized by its high expenses, and that microfinance institutions carry out a collection of information about the client and the financed activity till reaching the clients through a field follow-up of their financed activities. Hence microfinance is considered a high cost activity, which means that the decrease is considered a challenge facing microfinance institutions the back bone of the successful performance needed by the banks to reinforce its crisis management and better the efficiency and productivity increase to all its staff, diversifying its products, market and services to increase the volume of its transactions and control suitably the wages expenses, then studying with an accurate precision and compare it with the current market prices till it can achieve the responsible profitable standards, which the banks need to design systems to count the cost to fit and submit it's quarter –year reports which will assist it to inspect operations regularly. The most outstanding body which had dealt with the finance cost is the Central Bank of Sudan (www.cbos.gov.sd/sites/2011). Where the academic paper had explained that microfinance cost is one of the most factors affecting both sides: the suppliers (the banks and the institutions) and the demanders (the clients). Which had revealed factors which had led to the appearance of a gap between supply and demand. The reality which will deprive a big sector from microfinance clients as a result of some who think that microfinance services are costing, the fact which will encourage a number of the operating banks into the banking sector to enter into this field, as a result of multiplication of transactions and the needs of microfinance. So the success of microfinance institutions is connected with achieving sustainability and coverage of all its financial, operational and managerial expenses, in addition to the capital cost including inflation cost and the finance loses as a result of failure.



Table No (2)
Reasons of the High Cost of Transaction from the Financier

No	Reasons of the high cost of Transaction from the Financier or the Microfinance Applicant :	Mean
1.	High charges and expenses of the period needed to confirm documents and papers by the financing institutions or the banks as an indicator for finance high cost (direct cost)	3.78
2.	Other expenses during negotiations about finance till having it , an indicator for finance high cost (indirect cost)	3.73
3.	Lost time during finance negotiations period ,an indicator of finance high cost (the opportunity cost)	3.74
4.	The clients or the customers experience (an indicator for lessening obstacles and difficulties for the sake of providing finance –a contrary relationship, whenever the customers experience is big, the indictor will lessen obstacles to have finance).	3.98
5.	Finance high cost due to the big finance cash finance (resources of the big volume – a contrary relationship between the finance volume and the finance cost).	3.68
6.	Speedy action about the finance decision, an indicator of reducing the finance cost (the relationship is between speedy decision action of finance and the finance cost).	3.85
7.	Proximity of distance between the finance insinuations and where the customers are an indicator of finance high cost (a direct correlation relationship between the specific distance and the finance cost).	3.54
8.	Different activities, an indicator finance high cost (the agricultural finance is of high cost).	3.69
9.	The usage of banking technology will lead to lessen the finance cost.	3.95

Source: Prepared by the Researcher; based on the Small and the Micro Enterprises Survey (2015)

Table No. (2) shows the reasons which lead to finance high cost of the owners of Small and Micro Enterprises, where the examined reasons of the high cost of having microfinance are related to the client's experience which came with a high mean of (3.98). That is because whenever the clients experience is poor , it will lead to a negative relationship about dealing with the granting bodies, while the survey study had revealed that whenever the clients experience is great it will facilitate having finance and the possibility of continuation of the beneficent bodies to have finance for many times and the contrary is right. Overseeing the subject of the research had found that the biggest obstacles which face the beneficent are due to the absence of a thorough knowledge about dealing with the granting bodies which create costs of procedures and guarantees. So, there must be enlightenment, easiness and simplifying the procedures and guarantees for having finance to lessen the transactions cost to encourage the liable sectors to have finance. On the other hand while the banking technology usage or the easiness of communication with the beneficent came with a mean of (3.95), that is the easiness of communication between the beneficent and the granting bodies really contribute about lessening the transactions cost which came in the third place with a mean of (3.85), whereas speeding the finance decision is considered an influential factor about the transactions cost. So, what had been mentioned specify the most important reasons of the high cost of having finance which is a negative factor might lead to the refrainment of the beneficent bodies about the microfinance operation to deal with the granting bodies. So, according to the policies of the Central Bank there must be an effort to simplify the procedures, guarantees, to lessen the transactions cost and the enlightenment of the beneficent



bodies about the finance operation about how to deal with the granting bodies so as to raise the standard of living and to facilitate the exit from poverty circle .

H1: High Transaction Costs on MFIs Finances to SMEs have a Negative Impact on the Growth of SMEs.

This hypothesis assumes, in all cases of high transaction costs on MFI finances to MSEs have a negative impact on the growth of SMEs in Gezira State. This study is dealing with the high cost of the negative impact on the small establishments, because they had led to scalable growth within the small facilities, and the cost includes all the processes involved into the funding process, such as the administrative cost, the cost of interest rate of finance and the performance of the small businesses control costs. This assumption deals with knowing the direct and indirect costs, and the dimension of their impact on the negative side through the independent variables.

The study will use these hypotheses to collect data to examine the levels of administration costs of MFIs, because most of the MFIs agreed to incur costs on debt collection, appraising client's applications, identifying and screening clients. MFIs also incur information about clients, in addition to legal charges on client's .Moreover, regarding the levels of monitoring costs of MFIs, to further understanding how transaction costs are related to affect the outreach programs of micro financial institutions in the Gezira state. The study used Pearson's Correlation to explore the indication that there is a significant negative relationship between high transaction costs of MFIs and the growth of SMEs in Gezira State.

Some studies had revealed that MFIs across developing countries affect small business lending positively in urban markets and negatively in rural markets. This kind of borrowing is necessary for business performance and improving SMEs development if it is fully accessible and has reasonably fair cost of money. Most SMEs in Uganda for example have had access to financial resources from financial institutions; however, they ended up in a poor financial state and business collapse before its first anniversary due to lack of entrepreneurial skills, the lack of adequate technical and management support services. Not only that but also the cost of money on micro credits is very high, due to the large administrative costs in relation to their location of operations ,so Lending to SMEs entails higher administration and transaction cost owing to inadequacy of records and information relating to their operations. Some SMEs had difficulties in raising short-term funds for the working capital as well as the long-term funds for business investment. Enterprises can take trade credits in addition to the institution loans in short-term finances which later might hinder their performance in a short period .In order to achieve this role; the SMEs need a good state of financial health to enable them to play an economic role through access to financial services from the financial institutions.

H2: The Transactions or the Finance cost will Influence Microfinance Market for Customers and the Finance applicants (The supply part), while the negative Influence will deprive having it, which will create a gap between Supplies (Finance Institutions) and Demand (SMEs or the Customers).



Table No (3)
Factors Leading to High Transaction Cost

No.	Factors Leading to Transactions High Cost and its Negative Impact on the Growth of the Small and Micro Enterprises :	Mean	Chi - Square	P-Value
1.	Charges and expenses to prepare documents and papers needed by the finance institutions or the banks are considered relatively high cost.	3.63	34.565	0.001
2.	Customer's loose time during the negotiation period to have microfinance will lead to finance high cost.	3.79	28.804	0.004
3.	My blindness about the procedures to have finance will negatively influence having finance.	3.75	10.599	0.564
4.	Whenever finance is big will create big high cost to have finance?	3.84	16.006	0.382
5.	The time span between applying for finance till having it will lead to the high cost of finance.	3.76	13.186	0.356
6.	Whenever the far distance between finance institutions and the whereabouts of customers is a reason for finance high cost.	3.50	12.760	0.387
7.	The difference between types of finance activities is a reason for finance high cost i.e. (Agricultural finance).	3.68	33.533	0.001
8.	Do you think that the easiness of communication will result in lessening finance cost?	3.90	19.438	0.078
9.	Do you think that mortgages or guarantees will lead to finance high cost.	3.76	43.552	0.000

Through testing of Table No (3), the research found that the transaction cost has had a negative impact about the continuation of the beneficent bodies about dealing with the granting bodies, so it is found that the arithmetic mean had been limited between (3.90) and (3.50) , where the highest mean is found (3.90) , and that easy communication between granting bodies and the beneficiates will lead to the decrease of cost about having finance , so the arithmetic mean came in the second place with a mean of (3.80) , and that whenever the finance volume is big , it will lead to big raise of cost to have finance . So , it is found that there is an equality about (P-Value) level after testing the hypothesis , the fact which truly confirms the hypothesis act , where the (P-Value) level was less than (0.05) into four notifications considered with the mean with an average of (0.000) , and that the research found that these notifications will support the transaction cost in Gezira State and it will partially the finance market concerning the clients and the finance applicants (the demand part) and then it will lead partially to deprive a big sector of clients which will create a gap between the supply (the finance institutions)and the demand (the SMEs) where Pearson's Correlation Coefficient will support the negative influence of the transaction cost (the cost of finance).



Conclusion

Existing literature indicates that transaction costs are major contributors to high interest rates on microfinance loans in Gezira State ,Sudan .Hence a study using the structure questionnaire method was done to examine the transaction costs of microfinance institutions, Direct ,indirect costs were examined .Direct transaction cost comprises SME's ,administration and monitoring costs .Indirect transaction cost comprises allocated cost of the branch ,regional and head office .The results of the study indicate that the key drivers of direct transaction cost are the field workers compensation and a number of groups handled per field worker ,while the market indicates the compensation level ,geography and density of population and number of groups handled per field worker .Collection activity is the single largest contributor to direct transaction cost .Indirect transaction costs increase with the number of fixed costs with Microfinance .based on the above findings ,implications are drawn for Microfinance's .It is suggested that MFI's in order to reduce direct transaction costs ,should increase the number per areas ,as this will save both the field worker time and conveyance cost. MFI's should examine the possibility of reducing the collection frequency and the impact it could have on payment .The study also had implications for government and policymakers , both need to take into account transaction costs when examining the interest rates charged by microfinance institutions, In order to spread microfinance to newer areas ,Government funded information campaigns could help in bringing down SME's formation costs thereby attracting MFI's to these areas in the Gezira State .

Results and Recommendations

1. High transaction costs lead to limiting entrepreneurs' performance and outcomes.
2. The growth of SMEs enterprises and household levels has an impact on the true cost of the MFIs loans
3. The differences between the finance activity types will be a reason of the finance cost rise (the agricultural finance is the highest cost).
4. The mortgage and guarantees will lead to finance high cost.
5. The time loss of the client during the negotiations period will also lead to rise cost of obtaining finance
6. The study also pointed out that asymmetrical information between the borrower and the lender is very high which had led the MFIs to impose tight monitoring and supervision rules on the borrowers.
7. The government and the policymakers need to take into account transaction costs when examining the interest rate charged by microfinance institutions.
8. Direct, indirect and life cycle transaction costs should be examined by microfinance institutions.
9. Indirect transaction costs are marginally lower in rural areas.
10. Indirect transaction costs are linked to the fixed costs into the system of microfinance institutions.
11. It's found that the single activity that contributes to the maximum to direct transaction cost is collection.
12. A major proportion of direct transaction cost goes towards compensating the field worker.



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