LOAN RECOVERY AND CREDIT POLICY IN MICROFINANCE INSTITUTIONS:
A CASE OF FINCA MAGOMENI BRANCH, DAR-ES- SALAAM, TANZANIA

By
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LOAN RECOVERY AND CREDIT POLICY IN MICROFINANCE INSTITUTIONS:
A CASE OF FINCA MAGOMENI BRANCH,
DAR-ES- SALAAM, TANZANIA
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled Loan Recovery and Credit Policy in Microfinance Institutions: The Case of Finca Magomeni Branch Dar es Salaam Tanzania, in partial/fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

Signature

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Internal Examiner

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I, Pelegrini Pelegrin Mpinge, declare that this research report is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other award.

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DEDICATION

This study is dedicated to my beloved sisters Melania and Gracenzia Mpinge my younger brother Henrick Mpinge. This work also dedicated to Mr and Mrs Mpinge as well as my beloved grandmother Melania Mwenenyi you are the world’s greatest person I love you. You have always believed in me! You add something special to me, I’m proud of you, I love you bibi, whose love, good advice, and encouragement enabled me to reach where I am.
LIST OF ABBREVIATIONS AND ACRONYMS

FINCA  Foundation for International Community Assistance
CRDB  Credit and Rural Development Bank.
BEST  Business Environment Strengthening.
IMF   International Monetary Fund
BOT   Bank of Tanzania
SEDA  Small Enterprise Development Agency
SACCOS Savings and Credit Cooperatives societies
SACAs Savings and Credit Associations
PRIDE Promotion of Rural Initiative and Development Enterprises
ACP   Average Collection Period
NGOs  Non Government Organizations
GOT   Government of Tanzania
MOF   Ministry of Finance.
TPB   Tanzania Postal Bank
WB    World Bank
BRAC  Bangladesh Rural Advancement Committee
CBOs  Community Base Organizations
ACB   Akiba Commercial Bank
SPSS  Statistical Package for Social Scientists
ATMs  Automatic Teller Machines
TAMFI Tanzania Association of Microfinance Institution
NMB   Nation Microfinance Bank
YOSEFO Youth Self Employment Foundation
SIDO  Small Industries Development Organization
PTF   Presidential Trust Fund
SELFINA Sero Lease and Finance Limited
Mbinga CB Mbinga Commercial Bank
NBAA  The National Board of Accountants and Auditors
MCIs  Micro-credit Institutions
IDYDC Iringa Development of Youth Disabled and Children Care
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<tr>
<td>MFTransparency</td>
<td>Micro Finance Transparency</td>
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<tr>
<td>COASCO</td>
<td>Co-operative and Audit and Supervision Cooperation</td>
</tr>
<tr>
<td>TZA</td>
<td>Tanzania</td>
</tr>
<tr>
<td>TSHS</td>
<td>Tanzania Shillings</td>
</tr>
<tr>
<td>USS</td>
<td>United State</td>
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<tr>
<td>MKUKUTA</td>
<td>The National Strategy for Growth and Reduction of Poverty</td>
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<tr>
<td>WOCCU</td>
<td>World Council of Credit Union</td>
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<td>MFIs</td>
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ABSTRACT

This study investigated the loan recovery and credit policy in microfinance institutions (MFIs) in Tanzania. Specifically, this relationship between the MFI’s loan recovery and her credit policy was explored using survey data from 30 clients randomly selected from FINCA Tanzania Magomeni Branch in Dar-es-Salaam. Quantitative methods were employed to assess and analyze FINCA’s credit policy and Pearson Correlation Coefficient of Rank was used to analyze the relationship between the credit policy and the loan recovery.

The study revealed that the majority of the clients served by MFIs are females. The age bracket of most of these clients was 31-40 years. Although the majority of the clients are married, there is a large group that is widowed. Furthermore, most of the clients of MFIs take short term loans mostly for business purposes. The study further revealed that the character and integrity of the clients is the major factor considered before these MFIs issue out loans. The study also revealed that these MFIs charge very high interest rate on credit while giving low credit time. On the positive note, the study found that there was a strong positive relationship between good credit policy and loan recovery.

The study recommends that MFIs review the methods of extending their services so as to better service recovery. Also, there is need for market research by MFIs so as to come up with new products to cover new clients such as those in the agricultural sector. Lastly, the MFIs need to better train and empower their loan officers in order to improve on service delivery.
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CHAPTER ONE
INTRODUCTION AND PROBLEM SETTING

1.1 INTRODUCTION

The concept of microfinance is not new in the world. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world (www.globalenvision.org).

Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived microcredit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift’s idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually (www.globalenvision.org).

Loan recovery (operational definition) refers to process and the rate at which the clients pay back the principal plus interest amount extended to them in form of loans, it is determined by repayment rate, portfolio quality ratios, profitability ratios, productivity and efficiency ratios and scale of depth of outreach.

According to Ssewagudde (2000) credit policy provides parameters, defines procedures and directives that have been carefully formulated, administered from top and well understood at all institution’s levels. FINCA undergoes a set of three procedures of evaluating credit applicants to establish whether or not loans should be granted, these are credit information, credit investigation and analysis in a bid to
maintain proper credit standards, avoid excess risk and evaluate business opportunities.

Mugisa (1995) stated that loan recovery rates enable the measuring of performing and non-performing asset ratios (ability to measure the recycle of financial resource levels) hence enabling the institution to enjoy public confidence. Efficient and quick loan recovery minimizes default risk; transport cost for locating the defaulters as well as operating cost thus comfortable loan recovery is any lending institution’s necessity.

A recent 2005 survey done by the Bank of Tanzania (the overseer of microfinance under the Ministry of Finance) updated the directory of microfinance practitioners and includes basic information on microfinance institutions including commercial banks, financial institutions, financial Non-Governmental Organizations (NGO), Savings and Credit Cooperatives Societies (SACCOs) and Savings and Credit Associations (SACAs). The directory includes a total of 8 banks, 45 CBOs, 2 companies, 95 Government programs, 1,620 SACCOs, 48 SACAs and 62 NGOs (www.wikipedia.org/wiki/Microfinance).

Recovery includes all efforts of collecting loan balances in arrears to maintain a profitable loan portfolio Alexis (2010). Boah (2010) adds that a credit policy is the primary means by which senior management and the Board of an institution guides the lending activities. It therefore provides the scope for achieving the loan portfolio quality and returns, guides the risk tolerance levels in a manner commensurate with the institutions strategic direction.

Ahamed (2010) describes a credit policy as a management philosophy spelling out the decision variables of credit standards, credit terms and collection efforts by which managers in MFIs have an influence on their operations. The credit policy impacts on the outreach of MFIs depending on the lending approaches used to screen clients for credit facilities which are either liberal or stringent in nature. These approaches
are effective provided managers are competent with the relevant skills, knowledge
and experience of leading teams to achieve targets set Frey (2010).

In the light of FINCA Tanzania the study assess the credit policy and loan recovery
in financial institutions and to provide a broad framework within which loan
recovery and credit policy can manage in microfinance institutions and provide
expected results to the researcher.

1.2 Historical Background for Foundation for International Community
Assistance (FINCA) Tanzania.

FINCA, the Foundation for International Community Assistance, was formed in
Latin America in the 1980s. It set out with the Village Banking Manual with the idea
to run a savings-and-loans club run by the poor women clients with initial help from
outsiders. It turned savings in to lump sums with support from various NGO’s who
took on the project and spread it around the world. These village banks blended ‘hot’
(members’ savings) and ‘cold’ (external financing) money to provide these time-
based services. It runs multiple savings accounts and grows from interest on loans.
Its strategy of financing and blending money allows for the system to become self-
sustaining from the NGO after several cycles of loans, aiming for sustainability and
long-term services which is of course a huge advantage. The disadvantage of this
model is it’s assumption that larger loans are needed by their clients, and although
that may be true to a certain degree, each group of clients has different needs and
maximum loan capacity due to their income. Situations must be tailored to fit the
needs of their clients rather than assuming that growth is inevitable. The other
disadvantage is the same with many informal and semi-formal financing and it is that
if one defaults on their payments it disrupts the whole system. (www.wikipedia.org/wiki/Microfinance).

FINCA Tanzania is an affiliate of FINCA International. FINCA International has up
to 26 programs in Africa, Asia, the Americas, and Eastern Europe which operate
under the “village bank method” as a form of micro-credit lending. Village banks are
expected to be community-managed credit and savings associations. It is assumed
that small working capital loans provided to micro-enterprise will improve their income and productivity Nelson et al (1996). In Africa, FINCA International has programs in Uganda, Malawi, Tanzania, South Africa, and Zambia and in the Democratic Republic of Congo.

The FINCA Tanzania mission is to provide access to micro-credit and savings services to economically disadvantaged people, especially women, and to support asset accumulation of clients.

The organization started its activities in 1998 and up to date it has approximately 45,000 clients covering 11 regions in Tanzania. FINCA Tanzania headquarters is situated in Dar es Salaam.

Currently there are four main branches namely Ilala, Magomeni, Lake Zone and Temeke. There are additional sub-branches in several areas where FINCA operates in Morogoro, Dodoma, Ifakara, Iringa, Mbeya, Njombe, Mwanza, Mara, Shinyanga, Tabora, and Bukoba it now covers about 40% of the country overall, including 65% in population centres. In addition to offering loans and savings products through village banks, FINCA Tanzania provides micro-leasing, progressive loans, salary loans, working capital loans and insurance. For the purpose of this paper, clients accessing progressive loans within FINCA Tanzania, Magomen branch are the ones under study.

1.3 Statement of the Problem

FINCA Tanzania Magomeni branch is one of the major MFI which has engaged its activities in the provision of working capital for poor micro-entrepreneurs in Tanzania. In general, women entrepreneurs who are in the informal sector are largely classified to be clients of this organization. Women of all social groups, ages, and wealth who are engaged in the informal sector can access credit from FINCA.

Like any other financial institution, FINCA Tanzania has credit policies as a way of administering loans. The policies have objectives of maximizing profits to the benefit of the shareholders as well. Since 1998, the institution faced hardships in loan
recovery, despite all the efforts of attaching assets to secure loans, building up equality loan portfolios and keeping the rate of deficit under control. The branch manager cited that FINCA problem is as a result of inadequate application of the tools of credit policy management (FINCA annual management report 2012) locking it into a large and increasing proportion of nonperforming loans. For instance the use of the collateral group method which emphasizes peer pressure on to the clients has led to the seizure of assets of defaulters. This has damaged the institution’s-client relationship. Many business dealings with credit clients have ended up in the court of law than having regular flow of receivables from those clients within the allowed credit period.

A few academic papers exploited observational data from existing borrowing groups to test how joint liability worked, but the question, “Does joint liability work?” was answered largely on revelation. Microfinance institutions employing joint liability were lending to poor individuals without collateral, by that very fact microfinance must “work”. In truth, the performance of joint liability lending contracts had been mixed, and qualitative evidence documents a number of limitations. But until recently, we lacked any hard evidence on the relative performance of joint versus individual liability lending Fischer (2009).

1.4 Objectives of the Study
1.4.1 General Objective
Generally the paper evaluates and assess the credit policy and loan recovery in micro financial institutions, with reference to FINCA Tanzania Magomeni branch, the aim of designing this objective is not to provide policies, procedures and practices for loan recovery and credit policy in micro financial institutions but rather to provide a broad framework within and to bridge gaps that will be identified so that credit policy and loan recovery could be explain and provide expected results to the study.

1.4.2 Specific Objectives of the Study
The specific objectives of this study are:
i. To examine the credit policy used by FINCA in her extension of credit to client.
ii. To examine the loan recovery system used by FINCA as an institution.
iii. To assess the relationship between credit policy and loan recovery system practice by FINCA as an institution.

1.5 Research Questions
i. What is the state of the credit policy used by FINCA?
i. What is the state of the method of loan recovery used by FINCA?
ii. What is the relationship between credit policy and loan recovery system practice by FINCA?

1.6 Significance of the Study
The findings will be the basis upon which appropriate policies for credit extension especially with Micro finance institutions will be formulated. The finding will further provide up to date literature for academicians in business school at Mzumbe University who are interested in learning more in the field of loan recovery and credit policies of MFI’s and therefore expand more on the research.
The findings will be expected to highlight areas of credit policies that may need to be modified by FINCA Tanzania.

The study will serve as guide for future reference for them in case they endeavour in conducting further studies on the same or similar problem, serves as stepping stone for new research in the field base on the findings.

The study will help MFIs in developing strategies of increasing client and equipping staff with appropriate skills to increase competence.

The study findings will also assist to add to the body of knowledge. Since research always adds something new to the given topic. On top of that, the short falls/challenges faced by the researcher during research will open up areas for further research.
To the researcher, the study is a partial fulfilment of requirements for the award of a master’s degree in business administration in corporate management of Mzumbe University.

1.7 Scope of the Study

Geographical Scope.
The study was carried out at FINCA Tanzania Magomeni Branch. Where the emphasis is on the credit department and loans department for data relating to credit and loans.

Time Scope
Credit policies and loan recovery between 2010 and 2013 was considered.

Content Scope
This covers the performance (loan recovery) as per credit polices carried out in FINCA Tanzania Magomeni branch to confirm credit policies was improved loan recovery rate.

1.8 Limitations of the Study
The study had the following limitations which the researcher tried to alleviate.

Funds: Due to the size of the study, the funds provided by the sponsor were not enough. However, the researcher used his own funds to ensure that the work was of high quality and completed on time.

Time: Time was also short was short to carry out all the activities. The researcher thus had to send some of the questionnaires with the clients who filled them and brought them after sometime. This led to many questionnaires not being returned. Thus the researcher had to send more questionnaires than those required for the study.

Confidentiality: FINCA Tanzania just like any other organization has some information that is confidential. And yet most of this information was important for this work. The researcher had to do a lot of lobbying in order to gain trust so as to
access some of this information. This took a lot of time. Information such as credit policy and strategies employed was hard to come by. However, despite of the above constraints, the researcher was determined and gathered enough efforts to produce quality work.

1.9 Organization of the study
The study was organized into five chapters. Chapter one gives the background information and provides the statement of the problem, purpose and objective of the study, research questions scope and significance of the study. Chapter two provides review of the literature on the related topic under study, Chapter three outline methodology and tools employed in this study. Chapter four provides findings, analysis and discussions of findings and lastly chapter five give the summary, conclusion, issue for further research and recommendations of the study.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review will set a researcher in contexts by critically discussing reference work that has already been undertaken by drawing out key point and presenting them in a logical argued way and highlighting those areas where will provide fresh insights.

The chapter giving detailing information for which findings are collecting from it, some definition of terms, theories, models, conceptual framework and, Empirical approach also being including in order to capture ideas and arguments which will guide the development of the study.

Micro-finance has emerged as a fundamental part of the new development paradigm, described by the phrase “participation and development.” Many aid donors and Non Governmental Organizations (NGOs) are attracted by the tremendous success of the micro-finance programs. First, micro-finance programs are successfully reaching the poor, particularly low-income women micro-entrepreneurs. Second, the programs are recovering outstanding loans, some program recording over 95 percent repayment rates.

Third, micro-credit is seen as a development model designed to reduce poverty Hulme and Mosley (1996), Johnson and Rogaly (1997), Gulli (1998) and improve self-sufficiency. Fourth, while micro-credit was purposely designed to reduce and or alleviate poverty, empowerment has emerged as one of the key objectives of micro-finance programs Lairap-Fonderson (2002), Khandker (1998), Kabeer (2001).

Perhaps influenced by traditional Western views about usury, the role of the traditional moneylender has been subject to much criticism, especially in the early stages of modern microfinance. As more poor people gained access to loans from
microcredit institutions however, it became apparent that the services of moneylenders continued to be valued. Borrowers were prepared to pay very high interest rates for services like quick loan disbursement, confidentiality and flexible repayment schedules. They did not always see lower interest rates as adequate compensation for the costs of attending meetings, attending training courses to qualify for disbursements or making monthly collateral contributions. They also found it distasteful to be forced to pretend they were borrowing to start a business, when they were often borrowing for other reasons (such as paying for school fees, dealing with health costs or securing the family food supply). The more recent focus on inclusive financial systems (see section below) affords moneylenders more legitimacy, arguing in favour of regulation and efforts to increase competition between them to expand the options available to poor people.

Access to credit can play a pivotal role in economic growth. Banks and lending institutions provide the services that allow people to save and invest available assets and resources, which further support and strengthens economic activity. Within an underdeveloped community, the role of microfinance institutions provides the credit access and financial services needed to develop income-earning businesses. (Jacquelyn Jeanty).

Microfinance in Tanzania also faces negative coverage in the local media. In July 2010, Tanzanian MFIs came under attack by the Daily News for charging deceptive interest rates to borrowers. The tendency for microfinance companies to advertise very low interest rates, sometimes as little as one or two percent was labeled as a “calculated gimmick”, often causing clients more harm than good. The Assistant Commissioner of the Policy Section in the Ministry of Finance and Economic Affairs responded to these attacks by outlining basic conditions underlying the problem, including insufficient regulation and lack of financial literacy.

According to Mr. Mwakipesile, “the majority of microfinance companies take advantage of the existing vacuum as there is no specific body to regulate their operations. Borrowers are undoubtedly lured by money lenders who talk sweetly to
them, setting low interest rates of between two and five per cent. No one remembers that five per cent a month is equivalent to 60 per cent annually.”61 Several internationally recognized initiatives, such as MFTransparency, are working to help the sector address these issues and to promote a more responsible form of microfinance in Tanzania.

Microfinance institutions fill a needed gap within the financial services industry by offering small loans, or micro-loans, to people unable to access conventional loan services. Microfinance institutions vary in size and function with some organizations focusing entirely on micro financing, while others work as extensions of large investment banks. People living in under-developed areas such as Latin America, Kosovo and countries within the Sub-Saharan region can access needed financial resources through the services provided by microfinance institutions. (Jacquelyn Jeanty).

Within any society, financial services provide a means for people and businesses to obtain credit and manage available assets on a continuous basis. Access to financial services enables existing businesses to grow and provides the starting capital for starter businesses. Microfinance institutions provide these services within communities that have limited resources and few avenues for economic development. People within these communities can use microloans to develop small businesses based on their existing talents and skill sets. Examples of small businesses funded through micro financing institutions include food preparation, tapestries and manufacturing clothing. (Jacquelyn Jeanty).

Although Tanzania has taken major efforts to reform the banking and financial institutions sector over the last two decades, the issue of consumer protection has remained virtually untouched by the reforms. This situation has led to increasing abuse of good business practices by many of the financial institutions and banks, as well as a lack of transparency in dealing with customers.

Only one institution, the Tanzania Consumer Advocacy Society, is in process of building foundations for consumer protection efforts. This is a private voluntary,
non-partisan and nonprofits making organization that was registered as a company limited by guarantee in July 2007 under the Companies Act of 2002. The Society has been providing an advocacy platform that would allow consumers’ voices to be heard, raise consumers' awareness of their rights, and build consumers' ability to claim their rights, as well as make markets accountable and more responsive to consumers' needs and interests. The Bank of Tanzania, which has the mandate to supervise the banking and financial industry as a whole, has no straightforward consumer protection guidelines.

The microfinance in Tanzania is relatively young and limited in scale. The World Bank estimates that less than 20% of Tanzania’s working population – approximately 13 million people – has access to mainstream banking services. In an attempt to address this, many banks have recently begun targeting the poor by extending collateral-free and low interest microcredit and loans. Due to lack of skills and experience within the market these efforts are not widespread and mostly favour borrowers in urban areas, leaving the rural areas largely underserved. Of the estimated 800 institutions providing financial services to low-income borrowers in Tanzania, like FINCA Tanzania Magomeni branch but most are reluctant to move into rural areas due to the poor national infrastructure, perceptions of high risk and due to the higher expense of operating costs.

On average, loan repayment rates for microfinance institutions range around 97 to 98 percent, according to the Developing World Markets news and reference site. This high repayment rate results from the approach methods used by microfinance institutions when working within communities. One approach uses a group method in which borrowers work within a group environment that fosters educational and supportive interactions among members. The group method also requires members to hold one another accountable for repaying loan obligations and also holds each group member accountable for unpaid loans. Microfinance institutions also work with another approach that uses self-help groups formed by government and non-government organizations within each community. Self-help groups also function as
a supportive environment and can also open bank accounts under the group's name. (Jacquelyn Jeanty).

2.2 Theoretical Literature Review

Thus Microfinance can be defined as the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services. More broadly, it is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers Peck et al (2004)." Those who promote microfinance generally believe that such access will help poor people out of poverty.

Walugembe (2000) defines microfinance as the provision of savings and credit services to self-employed, low-income people to enable them start up or expand their small generating businesses. Jordan (2001) simply states that MFI’s offer financial services to small businesses which have limited or no access to commercial banking. From the above definitions one can conclude that microfinance is a crucial concept for the development of low income generating households and aims at improving standards of living of the poor majority.

Microfinance is a broad category of services, which includes micro credit. Micro credit is provision of credit services to poor clients. Although micro credit is one of the aspects of microfinance, conflation of the two terms is epidemic in public discourse. Critics often attack micro credit while referring to it indiscriminately as either 'micro credit' or 'microfinance'. Due to the broad range of microfinance services, it is difficult to assess impact, and very few studies have tried to assess its full impact Feigenberg et al (2004).

2.2.1 Micro Finance Development

Micro finance institutions were introduced in Tanzania as a means of bridging the financing gap for the poor, and as the most viable strategy for economically
empowering the poor over time. This was meant to break dependency on government and donors for poor investment decisions and low repayment rates made by the development institutions unable to sustain their lending programs. It was also assumed that poor people find great difficulties in obtaining credit and are charged high interest rates by monopolistic lenders.

The success of Grameen Bank in Bangladesh promoted in the world through World Bank has prompted many governments to change their opinions about MFI’s. Grammeen Bank lends 1.8 million people, 94% women and with a repayment rate of 98% Ledger (2000). The government’s commitment in eradicating poverty through private sector development of micro and small business enterprise especially in rural areas has resulted into increased number of MFI’s in Tanzania.

Marguerite Robinson describes in The Microfinance Revolution, the 1980s demonstrated that "microfinance could provide large-scale outreach profitably," and in the 1990s, "microfinance began to develop as an industry" (2001, p. 54). In the 2000s, the microfinance industry's objective is to satisfy the unmet demand on a much larger scale, and to play a role in reducing poverty. While much progress has been made in developing a viable, commercial microfinance sector in the last few decades, several issues remain that need to be addressed before the industry will be able to satisfy massive worldwide demand. The obstacles or challenges to building a sound commercial microfinance industry include:

- Inappropriate donor subsidies
- Poor regulation and supervision of deposit-taking MFIs
- Few MFIs that meet the needs for savings, remittances or insurance
- Limited management capacity in MFIs
- Institutional inefficiencies
- Need for more dissemination and adoption of rural, agricultural microfinance methodologies.

Since 2003, there have been positive developments in Tanzania’s microfinance industry as numerous banks and financial institutions have provided increased funding either directly to beneficiaries or through intermediary institutions. Despite
this progress, it is estimated that microfinance service providers have a combined outreach of approximately 500,000 clients, which is only about 5% of the estimated total demand.

Microfinance institutions provide a reliable source of financial support and assistance compared to other sources for financing. Sources operating outside the microfinance industry typically form informal relationships with borrowers and have no real legal or substantial ties with their customers. As a result, loan terms tend to carry high costs with no guarantee that lenders will remain in one place for any length. In contrast, microfinance institutions typically work alongside government organizations and also have ties with larger global organizations. In addition, microfinance institutions make modern technologies available to borrowers in the form of credit cards, ATMs and mobile phone banking capabilities. (Jacquelyn Jeanty).

Mobile banking was started in Tanzania in 2009 with the launch of ZAP, a mobile banking partnership between Standard Chartered Bank and Airtel. ZAP is a payment system that allows Airtel customers to deposit, transfer and withdraw money at their convenience through their Airtel handsets, at any place where mobile coverage exists. The introduction of mobile banking in Tanzania has helped extend banking facilities to both the banked and unbanked community. Vodacom M-pesa is now Tanzania's leading mobile payment services provider. M-pesa enjoys widespread influence with over TZS. 17 billion monthly transactions and 4 million subscribers served by 4,700 M-pesa agents and Vodashops around the country. Other providers offering mobile money services include Zain's Zap, Tigo Cash and Zantel Z-pesa. Mobile phone users can use their phone to make deposits, withdrawals, check balances, transfer, pay utility bills, purchase airtime etc. The uptake of mobile payment solutions in Tanzania has been a bit slower than in neighbouring Kenya. This is partly due to technical differences (example, M-PESA in Kenya is technically more user-friendly) and partly due to weaknesses in the communication and marketing strategies. Nevertheless, as supported by evidence from Kenya, mobile
banking is expected to revolutionize microfinance – and the financial sector at large. (MFI's according to MFTransparency data 2011 & MIX data 2010)

2.2.2 The Concept of Micro-Finance Institutions (MFI’s)

Over the past centuries, practical visionaries, from the Franciscan monks who founded the community-oriented pawnshops of the 15th century to the founders of the European credit union movement in the 19th century (such as Friedrich Wilhelm Raiffeisen) and the founders of the microcredit movement in the 1970s (such as Muhammad Yunus and Al Whittaker), have tested practices and built institutions designed to bring the kinds of opportunities and risk-management tools that financial services can provide to the doorsteps of poor people. While the success of the Grammeen Bank (which now serves over 7 million poor Bangladesh women) has inspired the world, it has proved difficult to replicate this success. In nations with lower population densities, meeting the operating costs of a retail branch by serving nearby customers has proven considerably more challenging. Hans Dieter Seibel, board member of the European Microfinance Platform, is in favour of the group model. This particular model (used by many Microfinance institutions) makes financial sense, he says, because it reduces transaction costs. Microfinance programmes also need to be based on local funds.

The history of micro financing can be traced back as far as the middle of the 1800s, when the theorist Lysander Spooner was writing about the benefits of small credits to entrepreneurs and farmers as a way of getting the people out of poverty. Independently of Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany. The modern use of the expression "micro financing" has roots in the 1970s when organizations, such as Grammeen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hameed Khan.

MFI’s are non-government institution, savings and credit co-operation that provide micro-loans to poor individuals, enterprises or groups Ledgerwood (1998). There are
groups of people who have experienced difficulties in accessing financial services from the formal sectors for the purpose of engaging in viable economic activities. These are the main clients of MFI’s.

There are three main categories of microfinance institution (MFI) in Tanzania, the first being non-governmental organizations (NGOs). The most prominent NGOs include PRIDE TZ, FINCA, SEDA and PTF. Banking institutions also offer a range of microcredit products. The largest banks are the National Microfinance Bank (NMB), CRDB bank and Akiba Commercial Bank (ACB). There are a few regional and community banks, namely Dar es Salaam Community Bank, Mwanga Community Bank, Mufindi Community bank, Kilimanjaro Cooperative Bank, Mbinga Community Bank and Kagera Cooperative Bank. Lastly, cooperative based institutions (SACCOS and SACAS), which are not regulated by the Bank of Tanzania, provide financial services that are predominately savings based. Examples include Small Industries Development Organization (SIDO), YOSEFO, SELFINA, Tanzania Gatsby Trust, Poverty Africa and the Zanzibar based Women Development Trust Fund. The market share in terms of both loan portfolio and numbers of active borrowers of the largest ten MFIs in Tanzania are displayed in the diagrams below.
Figure: Number of active borrowers of ten largest MFIs

Source: MFIs according to MFTransparency data 2011 & MIX data 2010
Tanzania under Tanzania Association of Microfinance Institution (TAMFI) play a great role in supporting MFI’s due to its vision and mission statement. The vision is to become a strong member driven association representing the entire Microfinance sector, that will through lobbying and advocacy create suitable environment for the Microfinance Institutions and provide them with services that will guarantee its sustainability while the mission is to develop the Microfinance Industry/sector by becoming a forum of networking capacity building, lobbying and advocacy for the Microfinance Institutions in Tanzania. (www.TAMFI.com).

2.2.3 Roles of Microfinance Institutions (MFI’s)

It is important to note that different MFI’s exist, and as such each has its own objectives serving a different group of clients. However most of the MFI’s play a great role in poverty reduction and often put more emphasis on the poorest segment
of the population Dutcher (1999). Unlike government credit programmes and traditional bank credit that emphasizes large loans for longer payment periods microfinance provides small loans that are paid in within a short time period Kabeer (2001). Such loans are essentially used by low income individuals and households who have few or no assets that can be used as collateral and are too poor to qualify for traditional bank loans.

The main objective of MFI’s is to increase national savings mobilization level and reduce on the rural urban transfer of financial resources through re-investment in local communities Chen (1999).

Based on the roles above, Micro-finance providers select a target market in order to address a specific client population. Ledgerwood (1999), states that target markets can be identified by the characteristics of the clients or their poverty level. It mostly includes business activities it wishes to support.

Ledgerwood (1999), argues that if a customer is not making a daily profit, the institution should not be over expected to be rapid the loan and the customer to expand. MFI’s risk targeting a segment of population that has no access to business opportunities because of lack of market, inputs, and demand, productive credit is of such people without other inputs that cannot be served by the formal banking industry.

Namatovu (1999), states that MFI’s in Uganda for instance concentrate mainly on serving women community due to their ability and commitment to repay the micro-loans. Studies in Tanzania have shown that women in rural areas tend to plan more for the family’s future and spend more of their earnings on their families than their male counter parts Terry (2006).

It’s true, that firms use credit policy as a marketing tool for expanding sales as asserted by Pandey (1993). Furthermore, considerable numbers of persons are still seen to be poor and living below poverty line. The main issue, which still remains
unclear, is whether the credit policies and methodologies used by MFI’s are sufficient for capturing a larger client despite their existence. There is need for a clear system of identification among the rural poor in order to assist MFI’s make prudent lending decision, identify respective outreach scale, and provide them with the necessary short term credits Labongo (1999).

2.2.4 Operations of Micro-Finance Institutions (MFI’s)

MFI’s have branch offices in the rural areas to serve as field level operational units. The branch offices play a predominant role in the operations and management of MFI’s and is the most important operational units. The branch offices reports performance of the MFI’s operations is limited within urban centres.

MFI’s are able to serve the needs of the poor in a way which commercial banks cannot by addressing the key issue of collateral and risk in unconventional ways Jordan (2001). One of the eligibility criteria for loan is that the clients should have collateral as a credit guarantee, which is proved to be effective. Furthermore, the client should be unable to access the financial services from any other formal financial institution. MFI’s uses both social and chattel collateral.

Social collateral is the most common alternative which is used in two main types of lending schemes, that is; the village banking and solidarity group lending. Prompt payment is rewarded by access to higher loan amounts. According to FINCA Tanzania, village banking comprises of 30-50 people who guarantee each other’s loan and run a democratic organization. Meetings are highly participatory. Members elect their own leaders, design their own rules and regulation, keep the books, manage the funds and are fully responsible for loan supervision including enforcement of penalties for non-compliance Torell et al (2007).

Solidarity group lending is less formalized, involving groups of typically 5-7 members who guarantee each other’s loan. Each group member’s performance affects the others according to the standard rules and policies established by the MFI Torell et al(2007). Group lending gives the poor dignity and self esteem that comes
from knowing that with a little help, they can work towards bettering their lives as well as that of their children. Mostly group lending gives the poor hope and the possibility of improving their lives through their own labour.

Chattel collateral are items which may not have a high value in terms of money, but have a higher personal value to the individual in the context of his/her economic activities Jordan(2001). Some micro-lending programs lend relatively higher amount of investment capital to individuals for start up of businesses due to the availability of the chattel collateral. Most of these lenders do not use social collateral but require chattel items to be put up against the loan.

The credit delivery mechanism of MFI’s quite differs from the mode of traditional financial institutions. It is unique in that they cater for the financial needs of small-scale producers more efficiently and cost effectively than the traditional financial institutions. MFI’s make use of self help groups and local leadership to ensure appropriate selections of borrowers and timely repayment of loans. Village heads may be used to determine credit worthiness of individuals in the community Yaron (1994).

In a country like Tanzania, where economic activities are basically agricultural and micro in nature, the role of MFI’s cannot be more emphasized. Majority of the rural poor (70%) access credits from the individual money lenders and informal associations in rural areas of Tanzania with only 23% accessing from both traditional institutions and credit agencies including government initiated agencies Terry (2006). Most of the lending carried out in Tanzania is got from individuals but not micro finance Institution due to the existing literature, MFI’s have sufficient reasons to grow. MFI’s in Tanzania should grow in order to reach the poor. Micro-finance activities can support income generation for enterprises operated by low-income households. MFI’s can help build financially self sufficient, subsidy free, often locally managed institutions. It sometimes mics’ traditional system such as rotating savings and credit associations. They provide the same services in similar ways but with greater flexibility at a more affordable price to micro-enterprises and on a more
sustainable basis. This can make micro-finance services very attractive to a large number of low-income clients.

2.2.5 Credit Policy
Kahura (2000) defines credit policy as a set of policy actions designed to minimize costs associated with credit while maximizing the benefiting from it. Pandey (1995) defines credit policy as the only way in which the financing manager can affect the volume of credit sales and collection period. Credit policy can also be defined as an institution’s method of analyzing credit and its decision criteria for accepting or rejecting applications Edminister (1980). The objective of such a policy is to have optimal investment in debtors. A credit policy may be lenient or stringent. A lenient credit policy tends to give credit to customers on very tolerant terms and standards. Credit granted for longer periods even to those customers whose credit worthiness is not fully known or whose financial position is doubtful. Here credit is usually granted at high discount rates.

Stringent credit policy gives credit on a highly selective basis only to those customers whose credit worthiness has been ascertained and who are financially strong. The credit periods are shorter and discounts are lower. This may be advantageous in the sense that low costs involved may be determined to sales returns (clients). The above two credit policy alternatives represent the two extremes in credit policies. In practice, however, firms follow credit policies that range between the two extremes. Thus in order to maximize its operations a firm needs to formulate a credit policy which is optimum.

A credit policy spells out guidelines which are followed in extending credit to customers including the procedures for recovering loans in arrears. A credit policy is important because of its impact on customer retention and outreach strategies adopted by MFIs Yoran (2010).

A stringent credit policy turns away potential customers and slows the loan portfolio growth which lowers customer retention whereas a liberal credit policy attracts slow
paying customers and increases the arrears rate. In addition a credit policy whether stringent or liberal is composed of lending terms which are the methods used to analyze credit requests and used in decision making. Lending terms are therefore a combination of credit conditions and standards of advancing credit.

Riach (2010) forwards that a credit policy enables an MFI to limit bad debts and improve cash flows since loans are in most cases the core business activities in MFIs.

Similarly MFIs use on time service delivery to serve customers by allowing customers to fill in loan documents at once before loans are disbursed (FINCA, 2010). The documents are key to credit quality and they are needed to legally enforce loan agreements including the analysis of the borrower’s financial capacity. Common loan documents used include promissory notes, note guarantees, collateral agreements, and chattel mortgage and loan application appraisal forms. These documents are kept safely since they act as evidence that the customer took the loan. In case one document is missing or improperly filled, the chances of losing a legal action when a customer defaults is high and becomes a loss to the company Churchill (2010).

The credit policy also addresses the procedures of recovering loan from customers which are due for payment but stuck in the portfolio Zeller (2010). MFI therefore carry out continuous education and training of customers on loan usage and importance’s of on time payments to influence customer compliance to the loan terms. They in addition use management information systems to track loan payments and arrears on a daily basis through activities like ringing clients mobile phones before the due date, sending text messages and physical visits to defaulting customers.

Similarly the credit policy designates responsibilities to staff that are accountable for the accuracy of risk ratings Bitner (2010). In most cases MFIs use Branch accountants to analyze the credit information contained in loan files before credit
decisions are taken. This ensures that loans advanced are subjected to minimal transactional risk from the Branch which helps in portfolio quality control.

Though most consumers expect to pay cash or use a credit card when making a purchase, commercial customers typically want to be billed for any products and services they buy. You need to decide how much credit you're willing to extend them and under what circumstances. There's no one-size-fits-all credit policy--your policy will be based on your particular business and cash-flow circumstances, industry standards, current economic conditions, and the degree of risk involved.

As you create your policy, consider the link between credit and sales. Easy credit terms can be an excellent way to boost sales, but they can also increase losses if customers default. A typical credit policy will address the following points:

- **Credit limits.** You'll establish dollar figures for the amount of credit you're willing to extend and define the parameters or circumstances.

- **Credit terms.** If you agree to bill a customer, you need to decide when the payment will be due. Your terms may also include early-payment discounts and late-payment penalties.

- **Deposits.** You may require customers to pay a portion of the amount due in advance.

- **Credit cards and personal checks.** Your bank is a good resource for credit card merchant status and for setting policies regarding the acceptance of personal checks.

- **Customer information.** This section should outline what you want to know about a customer before making a credit decision. Typical points include years in business, length of time at present location, financial data, credit rating with other vendors and credit reporting agencies, information about the individual principals of the company, and how much they expect to purchase from you.

- **Documentation.** This includes credit applications, sales agreements, contracts, purchase orders, bills of lading, delivery receipts, invoices, correspondence, and so on.
An often-overlooked element in setting a credit policy is the design of invoices and statements. The invoice is the document that describes what the customer is being billed for; the statement is the follow-up document that indicates the status of the account. One collection and creditor rights expert says that invoices and statements that are clear, easy to read, and allow the customer to quickly identify what is being billed are likely to be paid faster.

2.2.5.1 Elements of Credit Policy

The term credit policy is used to refer to a combination of three decision variables, these include:

i. Credit standards
ii. Credit terms
iii. Collection efforts/procedure

2.2.5.1.1 Credit Standards

Kakuru (2000) defines credit standards as the criteria which the firms follow in selecting customers for credit extension. Two aspects are usually considered here, namely:

a) The average collection period (ACP), that is, the period in which the debt remains outstanding.

b) Default rate, that is, the ratio of uncollected receivables. From this ratio, the firm is able to determine whether the customer is able to meet his credit obligation or not.

Sound lending firms/individuals evaluate their clients basing on the traditional 5C’s. That is character, capacity, condition, capital and collateral Kakuru (1998). Character mainly concerns the moral aspects of the borrower and credibility. Capacity is the ability of the client to pay the credit advanced to them. Condition stands for the assessment of the prevailing economic and other factors like social and political, which may affect the customer in his business. Collateral is the security against failure to pay the debt. The collateral may be in form of title deeds, post dated
cheques, among others. However, when lending to groups collateral is substituted by well organized community group or guarantors.

Character it refers to the willingness of a customer to settle his obligations Kakuru (2000) it mainly involves assessment of the moral factors.

- Social collateral group members can guarantee the loan members known the character of each client; if they doubt the character then the client is likely to default.
- Saving habit involves analyzing how consistent the client is in realizing own funds, saving promotes loan sustainability of the enterprise once the loan is paid.
- Other sources of income. Other source should be identified so as to enable him serve the loan in time. This helps micro finance institutions not to only limit loans to short term projects such qualities have an impact on the repayment commitment of the borrowers it should be noted that there should be a firm evidence of this information that point to the borrowers character Katende (1998).

Capacity, this is subjective judgment of a customer’s ability to pay. It may be assessed using a customer’s ability to pay. It may be assessed using the customer’s past records, which may be supplemented by physical or observation.

Condition, this is the impact of the present economic trends on the business conditions which affects the firm’s ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client ability to pay Kakuru (2000)

Collateral security, This is what customers offer as saving so that failure to honour his obligation the creditor can sell it to recover the loan. It is also a form of security which the client offers as form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfil their obligations the creditor may seize their asset Girma (1996).
According to Chan and Thakor (1987), security should be safe and easily marketable securities apart from land building keep on losing value as to globalization where new technology keeps on developing therefore lender should put more emphasis on it. Many MFI’s have adopted alternative forms of collateral in a bid to attract clients who have no access to formal banking sector. What remains unanswered, however, is whether collateral alone can depict leniency in the standard set by the MFI’s. According to Ledge

According to Ledgerwood (1999), the appropriate loan amount is dependent on the purpose of the loan and the ability of the client to pay the loan. When determining the debt capacity of the potential client, it is necessary to consider the cash flow as well as the risk associated with this cash flow, and other claims that may come before repayment of the loan to the MFI. Pandey (1993) emphasizes that if credit standards are loose the firm may have larger sales but may have to carry larger receivables. On the contrary, if the firm extends credit only to those most reliable and financially strong customers, the firm may not be able to expand sales but no bad debt losses will result.

2.2.5.1.2 Credit Terms
Credit terms focus on the conditions under which credit is to be extended and it answers the question “Under what conditions should credit be extended?” Credit term is the period of time during which the entire loan must be repaid Kakuru (2000). A firm lengthens credit period in order to increase its operating profits through expanding sales. Loan term is the most variable issue in MFI’s. The loan term affects the repayment schedule, the revenue to the MFI, the financing costs of the client, and the ultimate suitability of the loan Ledgerwood (1999). Terms of credit are important to the MFI because they influence the decision to extend credit to a client. Terms of credit determine how much credit has to be extended, for what period and at what cost and concession if any is to be allowed Brealey and Myers, (1988).

Ringtho (1998) observes that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit. Credit terms may include;
Length of time to approve loans, this is the time taken from applicants to the loan disbursement or receipt. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position.

Maturity of a loan, this is the time period it takes loan to mature with the interest there on.

Cost of loan. This is interest charged on loans, different micro finance institutions charge differently basing on what their competitors are charging.

The chartered institute of bankers and lending text (1993) advises lending institutions to consider amount given to borrowers.

Robinson (1994) pointed out that the maximum loan amount per cycle are determined basing on the purpose of the loan and the ability of the client to repay (including guarantee).

2.2.5.1.3 Collection Efforts/ procedure

Mc Naughton (1996) defines a collection effort as the procedure an institution follows to collect past due account. Collection policy refers to the procedures micro finance institutions use to collect due accounts. The collection process can be rather expensive in terms of both product expenditure and lost good will Brighan (1997).

Effort may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation Myers (1998). Micro finance institutions may send a letter to such individuals (borrowers) when say ten days elapse or phone calls and if payment is not received with in thirty days, it may turn over the account to a collection agency Myers (1998).

Collection procedure is required because some clients do not pay the loan in time some are slower while others never pay. Thus collection efforts aim at accelerating collections from slower payers to avoid bad debts. Prompt payments are aimed at increasing turn over while keeping low and bad debts within limits Pandey (1995).
However, caution should be taken against stringent steps especially on permanent clients because harsh measures may cause them to shift to competitors Van Horn (1995).

2.2.6 Credit Policy in Micro Finance Institutions
The Tanzanian government has voiced concern over the alarming state of poverty and is actively involved in programs focused on stimulating poverty alleviation. The government views microfinance institutions as a powerful weapon in combating poverty and to this end has been keen to improve and develop the microfinance industry. It has established a fully-fledged Directorate of Microfinance within the Bank of Tanzania, which has spearheaded several influential programs, including the formation of the National Microfinance Policy.46 Established in 2002; the National Microfinance Policy provides the legal, regulatory and supervisory framework for microfinance activities. The entire process to write the comprehensive legislation, from policy formulation to the development of legal, regulatory and supervisory framework, was highly participatory involving all the stakeholders in the industry including MFIs. It aims to serve the low-income segment of society by building an efficient micro financial system, thereby making banks more effective in poverty reduction. This policy focuses on serving households, small holder farmers and small micro-enterprises in rural as well as urban areas 47.

The legislation was concluded in 2003 by an amendment of the Banking and financial Institutions Act 1991, Bank of Tanzania Act 1995 Cooperative Societies Act 1991, and other related statutes. This gave the BoT the mandate to license, regulate and supervise deposit taking equity-based microfinance companies48. The legislation also empowers the BoT to regulate and supervise cooperative based institutions whose sizes are above a certain threshold. Under the framework, MFIs could now be licensed to take public deposits and hence carry out financial intermediation just like banks. Under the legal framework, the credit only NGOs are not subjected to prudential norms but are required to abide by non-prudential guidelines and supervision under the Ministry of Finance. (MFIs according to MFTransparency data 2011 & MIX data 2010).
The National Microfinance Policy has been amended over time to give the BoT the mandate to license, regulate and supervise deposit equity-based microfinance institutions. Furthermore, the policy gives the BoT regulatory oversight over cooperative-based institutions that are above a certain size.

Ministry of Finance NGOs Review external audits prior to authorizing disbursement of funds provided by Government or donors, Grant accreditation to NGOs as “Micro-credit Institutions-MCIs”, In coordination with NBAA review external audit report and conduct random examinations of audit firms monitoring the respective NGOs. (MFIs according to MFTransparency data 2011 & MIX data 2010).

2.2.6.1 Eligibility Criteria and loan use
Practitioners and donors from the charitable side of microfinance frequently argue for restricting microcredit to loans for productive purposes—such as to start or expand a microenterprise. Those from the private-sector side respond that, because money is fungible, such a restriction is impossible to enforce, and that in any case it should not be up to rich people to determine how poor people use their money.

Finances are available for productive activities that contribute to the economic development of the society by utilizing indigenous materials and adding value to them or by reducing the need for importation. These are enterprises that form a vital link in the economic chain and enterprises that fulfil a definite need in the rural area and also those that provide repairs and maintenance services; and those where the owner has showed that he/she is eligible when requesting the loan Hochschwender (1986).

Financial scheme particularly those using individual methodology require customer to be operating full time in business or to be in manufacturing to be eligible for loans. Hochschwender(1986) further argues that since it is desirable to encourage more of the poor, including women into activities with higher returns one should not be buried on the premises of activity. What really matters is the ability of the customers to pay the loan. (Best practices Manual, 2000). Holt (1999) argues that targeting the
use of credit is not justified in terms of sustainability, administering and monitoring loan use is time consuming and difficult while the repayment rates does not seem affected. He further argues that it is rather important to ask if the loan use and eligibility certainly meet the credit needs of the poor who may need to utilize their loans for a variety of purpose (consumption and investment) rather than specific targeted use.

2.2.6.2 Loan application and approval
Hospes (1998) states that poor people more often than not are well-off to face temporary crises or setbacks needing rapid access to credit. There may be a business opportunity that is limited in time. It is therefore considered best practice that small loans should be approved in not more than one week. Grammeen bank has found that emergency loan approved in 24hours is very popular with the poor Coulin (1997). It is therefore important to ask if management can be approved in a time that meets the needs of the poor people.

2.2.6.3 Collateral and Guarantees
MFI’s lend to low-income clients who often have very few assets, consequently tradition collateral such as property, land, machinery and other capital assets is often not available. Various innovative means of reducing the risk of loan loss have developed, including collateral substitutes and alternative collateral like character lending. One of the most common collateral substitutes is its peer pressure, either on its own or jointly with group guarantee Ledgerwood (2000).

Johnson and Regaly (1997), argued that many MFI’s facilitate the formation of groups whose members jointly guarantee each other loan. Some MFI’s like FINCA Tanzania require members to a group guarantee fund, which is used if one or more borrowers fail to repay. In case the group guarantee fund is managed by the MFIs, the fund is seized to the extent of the defaulted loan, with other group members making up any short fall. Failure to do so means that the entire group no longer has access to credit.
2.2.6.4 Loan disbursements

This is the method of how loan is given to the client. Once a loan application has been reviewed and a decision has been made, there is need to notify the client and disburse the loan. The procedure will differ according to the nature of the relationship with other financial institution (Best Practices manual, 2001)

2.3 Empirical Literature Review

For a long time, empirical research in microfinance long lagged behind the early wave of theoretical advances. More recently, the field has attracted a great deal of attention, inspiring randomized control trials, lab experiments and more traditional econometric work. In this section, we look at some of the areas where gaps exist between empirical evidence and the theoretical framework.

Much of the early theoretical work on microfinance focused on joint liability. Yet despite attention from theorists, empirical research lagged behind. A few academic papers exploited observational data from existing borrowing groups to test how joint liability worked, but the question, “Does joint liability work?” was answered largely on revelation. Microfinance institutions employing joint liability were lending to poor individuals without collateral, by that very fact microfinance must “work”. In truth, the performance of joint liability lending contracts had been mixed, and qualitative evidence documents a number of limitations. But until recently, we lacked any hard evidence on the relative performance of joint versus individual liability lending Fischer (2009).

Motivated by this knowledge gap, Gine and Karlan (2009) analyze two randomized control trials to evaluate the efficiency of joint liability relatively to individual liability on the monitoring and enforcement of loans. This paper is an interesting and important example of the experimental approach to microfinance. They find that loan repayment behaviour did not differ across clients of a large Philippine bank that were randomly assigned to either joint or individual liability lending contracts. However, as they discuss in their paper, all these borrowers were already borrowing under joint liability when the experiment was carried out. As a result, it is possible that the pool
of these borrowers was already safer than average (as implied by, say, Ghatak, 1999). Keeping or removing the instrument of joint liability would not make a difference if peer-screening is the most important mechanism through which joint liability works. As the authors point out, their experiment does suggest that conditional on this selection, the mechanisms of peer monitoring or peer pressure did not differ enough between the contract types to affect repayment rates.

As the focus of academics and, more importantly, microfinance practitioners themselves has moved away from joint liability, high frequency repayment has attracted well-deserved attention. The typical microfinance client repays her loan in small, frequent instalments beginning almost immediately after origination. Most lending contracts require weekly repayment. Yet empirical evidence on the effect of repayment frequency is both limited and mixed. BRAC, one of the largest MFI with nearly six million clients, abandoned a move to biweekly repayment when an experiment showed increased delinquencies Armendariz and Morduch (2005). In Latin America, several MFIs have migrated a portion of their clients to biweekly repayments but have been reluctant to lengthen instalments further Westley (2004). Satin Credit Care, an urban MFI targeting trading enterprises saw delinquencies increase from less than 1 percent to nearly 50 percent when it tested a move from daily to weekly repayment. In Bolivia, BancoSol has revised its repayment policy repeatedly in response to fluctuating arrears (Gonzalez –Vega, 1995; Westley, 2004).

Recently, the importance of this issue has attracted experimental and quasi-experimental investigation. In 2000, FINCA Uganda, one of the largest and best-established microfinance institutions in Africa, introduced the “flexibility program”, under which borrowing groups in selected areas could elect by a unanimous vote to change from weekly to biweekly repayment. As with many other microfinance institutions, FINCA shared the belief that frequent instalments are critical for repayment performance and thus was reluctant to offer less frequent repayment despite the high costs associated with weekly meetings.
One naturally worries that FINCA only offered the less frequent repayment option in areas where it felt the risks of increasing delinquency were the lowest, which would induce selection bias in estimates of the change’s effects due to endogenous program placement. Using an econometric strategy designed to account for these effects, McIntosh (2008) finds that, relative to borrowing groups choosing to stay with the weekly repayment schedule, and those that elected biweekly repayments have higher retention and, surprisingly, slightly better repayment performance. However, as he notes, this tests the effects of allowing existing clients to decide from a menu of contract options and not the direct effect of changing repayment terms.

Field and Pandey (2008) conducted just such a test by randomly assigning clients of a large Indian microfinance institution to either weekly or monthly repayment schedules. They found no significant effect on delinquencies, with all treatment groups reporting extremely low default and delinquency rates. As their study extends to future and larger borrowings for which the incentive compatibility constraint for repayment is more likely to bind, differences may emerge.

Tanzanian cooperatives need to undergo a comprehensive transformation and refocus attention on their founding principles in order to survive. To be successful, cooperatives must be sustainable, viable business enterprises that maintain the trust of their communities. A number of significant steps have been taken in the last ten years to help revive this sector, including the 2000 Special Presidential Committee on reviving cooperatives and the new cooperative legislation of 2004. These efforts culminated in the writing of a key strategic document, The Cooperative Reform and Modernization Program 2005-2015. This is a home grown initiative and was produced with the direct involvement of Tanzanian cooperatives, rather than by external consultants. A number of important issues were identified. These included concerns about poor management, inappropriate cooperative structures, a lack of working capital, a lack of cooperative democracy and education, weak supporting institutions, and some instances of corruption and embezzlement. The Program is now working towards establishing economically strong cooperative societies that are capable of facing competitive challenges, and an empowered membership with good
governance and accountability. The aim is to develop a network of cooperatives that
has an efficient and cost effective structure, and is able to respond easily to the needs
of its members. (MFIs according to MFTransparency, December 2011).

The program is a part of a larger effort on behalf of the Tanzanian government to
promote economic development, including MKUKUTA – the National Strategy for
Growth and Reduction of Poverty adopted in June 2005. In October 2010, Tanzania
also invited the World Council of Credit Unions (WOCCU) to develop a stronger
regulatory framework for the credit union sector. Additionally, WOCCU hopes to
address the scarce liquidity and long waiting periods to obtain a loan with SACCOS.
Many of these organizations are volunteer-run and despite efforts taken by the Bank
of Tanzania, regulation and supervision have been virtually non-existent in rural
areas of the country. This is particularly important as the number of financial
cooperatives in Tanzania has exploded in recent years, increasing over 50% in only
three years. Despite the proliferation of SACCOS, no single entity provides
centralized financial or statistical information on the institutions. As the SACCOS
sector continues to grow, it faces an increasing need for central oversight to ensure
appropriate the financial discipline needed to protect member savings. (MFIs
according to MFTransparency, December 2011).

2.4 Conceptual Framework
The conceptual frame work above shows the relationship that exists between the
variables and highlights the indicators for credit policy and loan recovery
measurement.
Figure: Conceptual Framework

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit policy</td>
<td>Loan recovery</td>
</tr>
<tr>
<td>- Credit standard policy</td>
<td>- Loan collection efforts</td>
</tr>
<tr>
<td></td>
<td>- Portfolio outstanding per credit</td>
</tr>
<tr>
<td></td>
<td>- Loan disbursements</td>
</tr>
</tbody>
</table>

Source: developed by researcher from several literature reviews.

- **Credit policy**

Edminster (1990) defined credit policy as an institutions’ method of analyzing credit request and its decision criteria for accepting or rejecting applications. The objective of this policy is to have optimal recovery from debtors as a firm may follow a lenient or stringent credit policy.

- **Loan recovery**

Loan recovery (operational definition) refers to process and the rate at which the clients pay back the principal plus interest amount extended to them in form of loans, it is determined by repayment rate, portfolio quality ratios, profitability ratios, and productivity and efficiency ratios.

- **Credit standards policy and loan recovery**

Finca microfinance employees a combination of three decision variable measures as were also defined by Pandey (1995) credit standards, credit terms and collection efforts. Credit standards (accessibility measures) are criteria to decide the types of customers for purpose of extending credit such as capital adequacy and asset quality. Credit terms are stipulations under which credit is granted, they specify the duration of credit and terms of payments by customers such as loan period and loan size. Collection efforts determine the actual collection period that is procedures that the institution follows to recover payments of past dues. Like phone calls and individual visits.
• **Loan collection efforts and credit standards policy**

Effort may include attaching mandatory savings forcing guarantors to pay, attaching collateral assets, courts litigation Myers (1998). Credit policy and loan recovery determine the actual collection period of the loan, it may involve sending a letter to such clients when they are for instance, ten days past due date or phone calls, if payment is not received with thirty days court action may be taken. Collection procedures are needed because some clients do not pay their dues in time if firms carry out this policy, it will quicken recovery portfolio and hence reduce bad debts. Pandey (2000).

Credit policy also addresses the procedures of recovering loan from customers which are due for payment but stuck in the portfolio Zeller (2010). MFI therefore carry out continuous education and training of customers on loan usage and importance’s of on time payments to influence customer compliance to the loan terms. They in addition use management information systems to track loan payments and arrears on a daily basis through activities like ringing clients’ mobile phones before the due date, sending text messages and physical visits to defaulting customers. However, it may not guarantee full recovery because some clients are slower in repayment while others never pay. Pandey (1992). Credit policy decisions are based solely on borrower’s will and ability to recover loans, the amount of loan is therefore based on the client’s needs and assessed loan recovery ability of the enterprises.

• **Portfolio outstanding per credit and credit standards policy**

Repayment rate measures the amount of payment received with respect to the amount due. Portfolio quality ratios; involves the arrears rate portfolio risk and the ratio delinquent borrowers. The arrears ratio rate shows how much of the loans have become due and has not been received. Portfolio rate refers to the outstanding balance of all loans that have an amount due. Delinquent borrowers determine the number of borrowers who are delinquent relative to the volume of delinquent loans.
Profitability ratio measures on micro finance institutions net income in relation to the structure of its balance sheet. This helps investors and managers determine whether they are earning an adequate return on funds invested in the microfinance institutions. Productivity and efficiency ratios provide the information about the rate at which micro finance institutions generate revenue to cover their expenses. Productivity ratio focuses on the productivity officers because they are primary generators of revenue. The ratio includes:

- Number of active borrowers per credit officer (performing assets).
- Total amount disbursed in the period per credit officer.
- Portfolio outstanding per credit officer (Non performing assets).

Efficiency ratios measure the cost of providing loans to generate revenue; these are referred to as operating costs and should include neither financing costs nor loan loss provisions.

- **Loan disbursements and credit standards policy**

This is the method of how loan is given to the client. Once a loan application has been reviewed and a decision has been made, there is need to notify the client and disburse the loan. The procedure will differ according to the nature of the relationship with other financial institution (Best Practices manual, 2001).
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter represents a description of the methodology that was used in carrying out and analyzing this study. The chapter describes the research design that was used, the survey population, sampling data collection, analysis and constraints encountered in the study. Babbie (1995) argues that methodological principles in the social sciences ensure that we are able to defend our findings, and are those guidelines that researchers agreed on, that they rely on to give us acceptable research practices. Methodological principles further enable researchers to attain knowledge by providing the researchers with necessary techniques or tools.

3.2 Research Design
The study was carried out to collect as much information as possible from the credit clients. Kothari (1990) defines research design as a blueprint for collection, measurement and analysis of data or arrangement of conditions for collection and analysis of data in the manner that aims to combine relevance to the research purpose with economy in procedure. Cross-sectional investigation of a single point in time was carried to establish the relationship between the credit policy practiced by FINCA Tanzania and her loan recovery process.

3.3 Area of the Study
The study was carried out in FINCA Tanzania, Magomeni branch (Mwembechai along Morogoro road) in Dar es Salaam. It was carried out to get information on credit policy and loan recovery of clients of FINCA, a microfinance institution. The researcher has chosen FINCA Tanzania because there are so many MFI’s and yet the resources (money and time) are limited to investigate all these MFI’s. The research was also being limited to clients who benefited or who were taking short-term loans.
3.4 Target Population
Kinnear and Taylor (1996) defined population as the aggregate of elements defined prior to select of sample. For the case on hand, the population comes from members of all Microfinance institutions, FINCA Tanzania Magomeni branch being researcher’s reference. The researcher administered questionnaires to credit clients and conduct guided interviews with top managers and credit officers.

3.5 Sample Design and Procedure
3.5.1 Sample Design
The researcher was used random sampling and purposive sampling because the population consists of elements with nearly the same characteristics (the credit clients). The top managers and credit officers were chosen because of their unique features and knowledge about credit policies and loan recovery.

3.5.2 Sample Size
The study involved getting data from 30 credit clients out of 35 respondents who returned the questioners, 2 top managers and 3 credits officers thus making a total of 40 respondents.

3.5.3 Sampling Procedure
FINCA Tanzania keeps a list of all the loan applicants. This acted as the sampling frame. From this list, 30 credit clients were randomly selected and contacted. These were those that had taken individual loans and not those in groups. In order to get views of top managers and credit officers about credit policy and loan recovery, purposive sampling was used. From this 2 top managers and 3 credit officers were selected. The views from these (top managers and credit officers) were used to make more understanding of the study findings.

3.6 Methods of data collection
Data was collected from primary and secondary sources. Primary data this is the original data collected by the researcher for the first time. Methods of primary data collection used are:
Interview
The researcher was used this method to obtain data from various staffs by doing face to face interview. The targeted interviewees were credit clients and those from the different department related to the study.

Observation
The researcher was observed events directly as they were being performed by various staffs from different department related to the study.

Questionnaires
The researcher was draft a set of written questions and those were sent out to respective staffs and loan clients of the selected with a request to answer those questions with accuracy. The researcher used closed and open-ended questions. Closed ended questions had multiple choice options where by the questions have predetermined answers and the respondent had to only tick the applicable responses. For the open ended questions the respondent were required to fill the spaces provided by giving their opinions.

Secondary data are already available materials that have been prepared by other people and can be either published or unpublished. In this study data came from various documents like reviewing of textbooks, journals, newspaper articles, and internet. This was used to supplement on the primary data.

3.7 Data Processing, Presentation, and Analysis
Data analysis refers to the computation of certain measures along with searching for the pattern of relationship that exist among data group. Kothari (2004) in analyzing the data collection the researcher was used both quantitative and qualitative techniques. Quantitative analysis involved computation of some mathematical measures such as total and percentages. Qualitative data analysis on the other hand involved factual and logical interpretation, comparison and explanation of study findings.
Most of the data collected was qualitative so qualitative methods was employed to analyze the data. SPSS software was used to do the analysis.
CHAPTER FOUR
PRESENTATION, ANALYSIS, AND DISCUSSION OF THE FINDINGS

4.1 Introduction
This chapter deals with the presentation, discussion, analysis and findings obtained from the field using the methodology described in chapter three. The analysis of the data was based on the credit policies applied by FINCA Tanzania and how they affect loan recovery. The researcher was guided by the following objectives:

i. To examine the credit policy used by FINCA Tanzania in her extension of credit to clients.

ii. To examine the loan recovery system used by FINCA as an institution.

iii. To assess the relationship between the credit policy and loan recovery system practice by FINCA as an institution.

4.2 Profile of the Respondents
4.2.1 Sex of the respondents

Table 4.1: Sex composition of the respondents

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>11</td>
<td>37</td>
</tr>
<tr>
<td>Female</td>
<td>19</td>
<td>63</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Finding
The study found that more women accessed loans from FINCA Tanzania than male. The results showed that 63% of the respondents (thus FINCA Tanzania Clients) were women and 37% were male. This concurs with Terry (2006) who found out that more women get capital loans from microfinance institutions and not banks. This is because women are more disadvantaged in terms of asset ownership since most societies are male dominated and thus the assets belong to the men. As such they cannot use these assets to apply for loans in banks which require them as collateral. Terry (2006) further found out that FINCA Tanzania serves more female clients than male. When questioned about this unfair distribution, the branch manager explained that female customers were more than their male counterparts because women have been highly marginalized and honest in the society and so they have embraced microfinance as a way of elevating themselves from poverty. When one male was asked to comment on the same issue, he said that “there is a poor perception among men that microfinance institution like Finca is basically a government program to benefit women only, hence, they have tended to ignore it”.

4.2.2 Age of the Respondents
The study revealed that age groups 31-40 and 40-50 years had the highest percentage that is 43% and 27% respectively. This age group (31-40 years) was the highest. From these results, it can be argued that this group is large because this is the most
economically variable age group and this indicates that most of the clients are already married, established and mature to organize and borrow money for income generating projects as such they can make economic decision which may include setting up of businesses and thus acquiring loans.

Table 4.2: Age bracket of the respondents

<table>
<thead>
<tr>
<th>Age Bracket (Years)</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-30</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>31-40</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>40-50</td>
<td>8</td>
<td>27</td>
</tr>
<tr>
<td>50+</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.2: Age bracket of the respondents
4.2.3 Marital Status of the Respondents

Table 4.3: Marital status of the respondents

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>10</td>
<td>33</td>
</tr>
<tr>
<td>Single</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Separated</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Widowed</td>
<td>09</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings.

Figure 4.3: Marital status of the respondents

The study revealed that 33% of the respondents were married, 17% were single, 20% were separated and 30% were widowed. The analysis helped the researcher to deeply understand FINCA’s clients and compare the rate of loan default and their responsibilities. It can be argued that the married group was the largest because most families do investment decisions collectively and had few chances to move from one locality to another since they were established and were constrained by their family responsibilities much as they can default just like singles and separated. The widowed group was the second largest. This also agrees with Terry (2006). Most of these widows lack collateral and as such they cannot get loans from banks. This leaves only microfinance institutions as the source of capital.
4.2.4 Education Level of the Clients

The study further revealed that most of the respondents had at least some form of formal education. However 20% of the respondent claimed not to have had any formal education. This meant that these respondents had some challenges in as far as keeping books of accounts and interpreting the credit policies was concerned. On the other hand, this further proves that microfinance institutions are the best means of poverty eradication. This is due to the fact they give loans without segregating along education level. This is good for the overall development of the country’s economy as it gives chances to all groups of people to acquire loans which can better their lives.

Table 1.4: Education level of the clients

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>Secondary</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>University</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Training Institutes</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>No Education</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.4: Education level of the clients
4.2.5 Loans Issued by FINCA Tanzania to its Clients

Table 4.5: The kind of loan that the clients get from FINCA Tanzania

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term</td>
<td>22</td>
<td>73</td>
</tr>
<tr>
<td>Long Term</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital Loan</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>School Fees Loan</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.5: The kind of loan that the clients get from FINCA Tanzania

The study revealed that 73% of the respondents acquired short term credit, no respondent had long term credit, 7% of the respondents acquired capital loans and 20% acquired school fees loans (as can be seen in Table 4.5). Most of the respondents that got the short term loans were female and they were involved in small time businesses such as, selling fried fish, cooking doughnuts and pancakes (maandazi and vitumbua), rearing chickens, operating saloons and eating joints (mama ntilie). Another reason why many members got short term loans is because of the conditions for getting the loans. Although the clients get loans individually, the group they belong provides the security. This makes it easier to get the loans thus the large percentage of the individual loan clientele. This is also in line with Terry (2006).
4.2.6 Activities Performed by Clients of FINCA Tanzania

Table 4.6: Activities which the clients of FINCA Tanzania are doing

<table>
<thead>
<tr>
<th>Activity</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>17</td>
<td>57</td>
</tr>
<tr>
<td>Fishing</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Service</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Finding

Figure 4.6: Activities which the clients of FINCA Tanzania are doing

Table 4.6 shows the activities that are performed by the clients that acquired credit/loans from FINCA Tanzania. The majority of the clients were in business (57%) followed by services (23%). When asked why most applied the loans for business, they claimed that it was easier to service their loans if they did small businesses than any other kind of economic activity.

4.3 Credit Policy analysis

4.3.1 Credit standards

The researcher set out to investigate the credit policy of FINCA Tanzania. The study revealed that the institution makes certain considerations before extending credit to its clients. These included: character and integrity of the borrower, collateral, credit period, size of loan and interest charged among others.
4.3.2 Character and Integrity
The clients were asked whether their character and integrity was considered when evaluating their loans applications. Their responses were as below.

Table 4.7: Character and integrity of the client before being given the loan

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Agree</td>
<td>17</td>
<td>57</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.7: Character and integrity of the client before being given the loan

Table 4.7 shows that 77% agreed that their integrity and character was investigated/considered before they were given loans. FINCA Tanzania does this because the integrity and character of the client has a greater bearing on the client’s willingness to pay. Thus proper analysis of the client’s character and integrity means less default rates thus less likelihood of the institution to make losses in form of bad debts.

4.3.3 Initial Capital Contribution
Here the study tried to investigate whether initial capital contribution in business by the client was required when getting a loan. The results are as below.
Table 4.8: Findings on whether capital initially contributed in business is required when getting a loan.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>23</td>
<td>77</td>
</tr>
<tr>
<td>Agree</td>
<td>07</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.8: Findings on whether capital initially contributed in business is required when getting a loan

The study revealed that 77% of the respondents strongly agreed and 23% agreed that FINCA Tanzania required the clients to have an initial contribution to the business. The loan should be an added source of capital. FINCA Tanzania believes that having an initial capital proves that the client is serious about the business. This further implies that the loan repayment contract will be honoured.

4.3.4 Collateral Security

Here, the study was trying to investigate whether FINCA Tanzania required collateral before extending loans to clients. The results are as below.
Table 4.9: Findings on whether FINCA Tanzania asks for collateral before issuing loans

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>23</td>
<td>77</td>
</tr>
<tr>
<td>Agree</td>
<td>07</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.9: Findings on whether FINCA Tanzania asks for collateral before issuing loans

The research revealed that 77\% of the respondents strongly agreed and 23\% agreed that FINCA Tanzania asks for collateral before issuing the loans. Management of FINCA Tanzania revealed that they do this in order to limit the losses due to default. It was further found out that the collateral used mainly include; peer group guarantee, clients’ furniture, television sets, radios among others. However, there are times when the collateral is not sufficient to cover up the loan. In such cases then the institution has no other choice but to take matters to police.

4.3.5 Credit terms analysis

Here, the study intended to find out whether the credit period given to the clients encourages them to repay the loan. The findings are as in table 4.10.
Table 4.10 shows that when asked whether the credit period encourages them to repay the loans, 37% of the respondents disagreed and 23% strongly disagreed. In principle, longer is the loan maturity more the clients demand the credit from MFI. The argument is that lenders lend small amount and have maturity periods that minimize costs, often in a way that make their loans less attractive to businesses. The loan characteristics of microfinance schemes indicate that their loans are comparable to those of most existing informal arrangements. Loan maturities are generally short. Thus these results stress the point that microfinance institutions generally offer unfavourable terms in as far as credit period are concerned. This is in line with Togba (2009).

Table 4.10: Findings on whether the credit period encourages clients to repay loans.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
</tr>
<tr>
<td>Not sure</td>
<td>1</td>
</tr>
<tr>
<td>Disagree</td>
<td>11</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
</tr>
</tbody>
</table>

Percentage (%)

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>20</td>
</tr>
<tr>
<td>Not sure</td>
<td>3</td>
</tr>
<tr>
<td>Disagree</td>
<td>37</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.10: Findings on whether the credit period encourages clients to repay loans.
4.3.6 Size of the Loan

In this section, the researcher sought to investigate the size of the loan given out to clients. The researcher also sought to find out whether FINCA Tanzania has a maximum amount it lends to its clients. The results are as below.

Table 4.11: Finding on whether FINCA Tanzania has a maximum amount it lends to clients

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>10</td>
<td>33</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Table 4.11 shows that when asked whether FINCA Tanzania had a ceiling on the amount of loan 33% strongly agreed and 43% agreed. This may be due to the fact that different clients have different capital needs.

The study further revealed that FINCA Tanzania has a maximum amount it lends to its clients. The minimum loan size is 30,000 Tanzania shillings (Tshs) and the ceiling amount is 2 million Tshs. If a person would like to borrow more than that, FINCA
encourages them to get an individual loan, which they also administer. During each cycle, the FINCA officer visits the group weekly or biweekly to administer the repayment.

When asked whether the clients were satisfied with the loan amount issued, 50% disagreed while 20% strongly disagreed. This is much more than the 10% who agreed and 17% who strongly agreed (Table 4.12). It is therefore clear that the loan amount given is small and thus unsatisfactory. The management however revealed that they issue loans according to the size of the clients business, that is to say, the client’s cash flow. This however causes a problem of repayment in that some clients who get lower amounts than asked for end up using the money for other purposes other than business. As such they fail to pay up.

Table 4.12: Findings on whether the clients are satisfied with the size of loan issued by FINCA Tanzania

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Not sure</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Disagree</td>
<td>15</td>
<td>50</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings
Figure 4.12: Findings on whether the clients are satisfied with the size of loan issued by FINCA Tanzania

4.3.7 Interest Charges

The researcher sought to find out whether interest is charged on the loans issued by FINCA Tanzania. All respondents agreed that interest was charged on the loans. When whether FINCA Tanzania charges higher interest rates compared to other financial institutions, they responded as below.

Table 4.13: Findings on whether interest rates charged by FINCA Tanzania are higher compared to other financial institutions.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Agree</td>
<td>09</td>
<td>30</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings
Figure 4.13: Findings on whether interest rates charged by FINCA Tanzania are higher compared to other financial institutions

![Bar chart showing the percentage of respondents agreeing or disagreeing with the statement that the interest rate charged by FINCA Tanzania is higher compared to other financial institutions.]

A total of 70% of the respondent agreed that the interest rate charged by FINCA Tanzania is higher compared to 23% who disagreed. This is in line with Terry (2006) who agreed that although MFIs reach the most disadvantaged people, they however charge high interest rates. For some this acts as a dis-incentive.

4.3.8 Loan Repayment and High Interest Rate

The researcher sought to find out whether loan repayment is affected by high interest rate. The results are as below.

Table 4.14: Findings on whether loan payment is affected by high interest rates

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>16</td>
<td>53</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings
The study revealed that 70% of the respondents agreed that their loan payment is affected by the high interest rates charged while 23% disagreed, 7% were not sure. This is a serious problem for microfinance institutions. This is further emphasized by a study on the performance of microfinance institutions in Burkina Faso carried out by Congo (2002). Congo (2002) revealed that MFIs lending interest rates (12 per cent to 24 per cent per year) are obviously higher than the formal market rate (14 per cent). From this viewpoint, it can be noticed that a great number of empirical studies have shown that what is most valuable to the poor is the access to financial services. They are often willing to pay for services at full costs.

4.4 Collection efforts analysis

The researcher sought to find out the loan recovery methods that FINCA Tanzania uses. The results were as shown below.
Table 4.15: Findings on whether FINCA Tanzania has procedures for collecting loans from clients.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>08</td>
<td>27</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Not sure</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.15: Findings on whether FINCA Tanzania has procedures for collecting loans from clients

Table 4.15 shows that 67% of the respondents agreed that FINCA Tanzania has procedures in place for collecting loans from its clients, 20% disagreed while 13% were not sure. The collection procedures include sending letters to the defaulters. In case he or she fails to turn up after two weeks, co-guarantors have to look for the defaulters in order to get them to pay up. If all this fails, the property of the defaulters attached as security is seized. This is a very tiring procedure and at times the property seized may not meet the amount required. This is in line with Congo (2002), Terry (2006), Maeda (2006), and Chirwa (2002).
4.4.1 Savings from Clients

The researcher wanted to find out whether FINCA Tanzania takes savings from clients in case they fail to pay. The results were as below.

Table 4.16: Findings on whether FINCA Tanzania takes savings from members in case they fail to pay the loan.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Figure 4.16: Findings on whether FINCA Tanzania takes savings from members in case they fail to pay the loan

Table 4.16 shows that all respondents interviewed agreed that FINCA Tanzania removes savings from the clients in case they fail to pay the loan. This implies that the savings made by clients who have not defaulted has to be taken away by the management in order to meet the amount outstanding. This is one of the procedures put forward by management in attempts to help the institution recover the savings from not so good clients. These results are in agreement with Terry (2006), Maeda (2002), Congo (2002) and Chirwa (2002).
4.4.2 Clients Visited by Loan Officers

The researcher sought to find out whether clients were frequently visited by the loan officers in order to make payments for the loans issued. The results are as before.

Table 4.17: Findings on whether clients are frequently visited by the loan officers to pay back the loan

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>07</td>
</tr>
<tr>
<td>Disagree</td>
<td>08</td>
<td>27</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>13</td>
<td>43</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Findings

Table 4.17 shows that 23% of the respondents agreed that loan officers frequently visit the clients to get the loans, 7% were not sure while 70% disagreed. This shows that loan officers do not follow up the clients as they are supposed to do. This may be the reason of the high default rates. The interviews revealed that most clients physically go to the offices to make the bi-weekly deposits. The clients do this in order to limit the disturbances/inconveniences of not paying up on time although this collection is supposed to be done by the loan officers.
4.5 The Relationship between the Credit Policy and Loan Recovery

In finding out the relationship between credit policy and loan recovery of FINCA the researcher performed a correlation analysis using SPSS. The use of variables such as credit standards, credit terms and collection efforts have tried to explain the picture on the effect of a stringent or weak credit policy on the loan recovery in FINCA Tanzania. Loan recovery in this case was looked at in terms of ability to regain the loaned amount (principal) and its interest rate payment from borrowers. It was further confirmed by a test of hypothesis as shown below.

The Pearson correlation coefficient (r) was used to establish the relationship between credit policy and loan recovery as follows.

Table 4.18: The relationship between credit policy and loan recovery

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Credit policy</th>
<th>Loan recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit policy</td>
<td>Person correlation</td>
<td>1.000</td>
</tr>
<tr>
<td></td>
<td>Sig. (2. tailed)</td>
<td>.</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>30</td>
</tr>
<tr>
<td>Loan recovery</td>
<td>Pearson correlation</td>
<td>0.722**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.012</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>30</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.05 level (2-tailed).

Source: statistical package for the social scientists (SPSS) output.

The results revealed a significant positive relationship between credit policy and loan recovery (r = 0.722**, Sig. = .012). This implies that the more efforts that FINCA channels towards favorable credit policies, the better the loan recovery it shall realize. The Pearson coefficient ‘r’ reflects the degree of linear relationship between
the two variables, it ranges from negative one and positive one that is -1≤r≤1. If r=0, then, there is no relationship between the two variables, if r ranges between +/-0.1 to +/-0.4 the relationship is weak, if r ranges between +/-0.4 to +/-0.6 the relationship is moderate and if r lies between +/-0.6 to +/-0.9 the relationship is strong. Besides if r=+/−1 there is perfect relationship between the two variables. However, since the correlation coefficient (r=0.722**) lies between +/-0.6 to +/-0.9 the researcher concluded that credit policy and loan recovery are significantly related.
CHAPTER FIVE
SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the summary, conclusion, recommendations and issues for further research basing on the objectives of the study and gives other opinion which was left during the presentation in its part of recommendation.

5.2 Summary
The study was conducted basically to assess the credit policy and loan recovery in microfinance institutions based on FINCA Magomeni branch to identifying problems associated with the study and providing some recommendations. It was found out that the variables that define credit policy such as credit standard, credit terms and collection procedures or such efforts exist in the lending methodology used by FINCA microfinance institution. However, despite all the FINCA’s efforts of attaching collateral security to secure the amount loaned out, this financial institution has continued to register a steady rise of loan default. (FINCA annual management report 2012) cited that the growing rate of deficit is as a result of inadequate application of the tools of credit policy management thus locking it into an increasing portfolio of non-performing assets. This clearly showed that credit systems were only designed on paper and lacked proper implementation.

Characteristics like age, marital status and education levels were investigated and found to be having a bearing on the client’s understanding of the credit policies and loan recovery procedures.

A total of 70% of the respondents agreed that the interest rate charged by FINCA Tanzania is higher compared to 23% who disagreed. This is in line with Terry (2006) who agreed that although MFIs reach the most disadvantaged people, they however charge high interest rates. The interest rate was too high which reduced the client’s capital; businesses are ineffectively conducted thereby leading to poor loan recovery rate. However collateral security is the most considered factor for purposes of credit
extension, several tactics were used by the institution to ensure payback, and most important was legal action or threat to legal.

The study indicated a strong positive relationship between credit policy and loan recovery. According to the findings using Pearson correlation coefficient, the relationship was found to be significant with a correlation coefficient of 0.722 implying a strong relationship between the two variables. If FINCA channels more efforts towards favorable credit policies, the better it will be in as regards loan recovery is concerned. Ssewagudde (2000) pointed out that if such policies are carefully formulated, administered from top and well understood at all levels of the institution, proper credit standards and elimination of excess risk will be achieved.

5.3 Conclusion

This study investigated the relationship between credit policy and loan recovery in microfinance institutions with FINCA Tanzania as the case study. It raised three objectives, namely; to examine the credit policy used by FINCA Tanzania in her extension of credit to clients, to examine the loan recovery system with FINCA Tanzania as an institution and to assess the relationship between credit policies practiced and loan recovery. The first two objectives used descriptive statistics and the third objectives used Pearson Correlation Coefficient. SPSS computer software was used to do the analysis.

The study found that FINCA Tanzania has a higher percentage of female clients than male clients. The ages of the clients served by FINCA Tanzania ranges from 18 years to more than 50. The greatest age group of the clients served by FINCA Tanzania is 31-40 years of age. The majority of the clients were married. However, the group of those clients who are widowed is also large. This simply explains that microfinance institutions are a major source of finance to those marginalized groups of clients. In addition, the majority of the clients served by FINCA Tanzania had at least some formal education. There were those however, who had no formal education (at least 20% of the respondents). Of all the clients contacted for this study, the majority took short term loans with business being the largest reason for
taking this loan. The business carried out by these clients included selling fried fish, cooking doughnuts and pancakes (maandazi and vitumbua), rearing chickens, operating saloons and eating joints (mama ntilie).

The study further revealed that the credit policies employed by FINCA Tanzania, though effective in ensuring low rates of default, they were unfavourable to the clients. The credit period was found to be the biggest issue with the clients. Majority of the clients claimed that the time given to pay back the loan was particularly short and thus unfavourable. Furthermore, the weekly meetings were seen by clients as time consuming and totally unnecessary. Moreover the loan amounts especially for first time borrowers were quite small. This was a major source of concern for the clients. The interest rate charged was also found to be high. At 24%, it is high for all clients. For those clients with slow moving projects, this is a recipe for disaster.

The study further revealed that the loan recovery system as rather unfair to the clients. FINCA Tanzania removes savings from the group in case one member fails to pay the loan. Although this reduces on the rates of defaults, as each member watches over the other, it is still unfair. The fault of one makes the rest of the group members to suffer.

It was also revealed by the study that the credit policy and loan recovery to be positively related. The Pearson Correlation Coefficient produced a coefficient of(r=0.722**) lies between +/-0.6 to +/-0.9. This means that there is a strong positive relationship between the credit policy employed by the microfinance institution and how successful they in collecting the loans issued. The better, more efficient the credit policies are, the better the rates of loan recovery.

### 5.4 Recommendations

FINCA Tanzania has done a recommendable job in as far as serving clients who would otherwise not get credit is concerned. However some areas need to addressed in order to further this recommendable job.
FINCA Tanzania should re-examine the methods it uses to extend its services to the clients. It should create policies to cover different sectors of the clients. This phenomenon of “one size fits all” is not good. Clients with slow moving projects such as agribusiness related are at a disadvantage because of this policy.

There is need for market research to discover new avenues. This will translate in to new services since different customers have different needs. Thus coming up with tailor made services will put the institution ahead of competition and serve more clients. This will mean more people having access to credit. For example the area of agribusiness is one that FINCA has not ventured in to. With 80% of Tanzanians depending on agriculture, I believe that this is a gold mine that needs to be exploited.

There also need for employing efficient loan officers. These will ensure that they able to follow up the clients to see how the money has been put to use and advise the institution and the clients accordingly as well as client’s assessment procedures, such as character, capacity and collateral of the borrower are followed.

There should be improved inter-institution cooperation. FINCA Tanzania should create a good network in order to break the network of defaulters who move from one MFI to another (multiple borrowing).

The interest rates charged should also be reasonable. They should not be too high in order to encourage growth of the small-scale businesses. Higher the interest rate, the more income to micro finance institutions but also means that the higher the cost to borrowing to the clients, Stem (1991). If the customers fail to pay on time, the rates can not yield income. Demand of credit is a function of interest; in accordance to the law of demand Brook (1993) customers will stop borrowing if the interest rate is high.

In order to succeed in the promotion of economic interest of member lending institutions, most recognize the responsibility to members; it is important for the aim at sustainability.
Sustainability is the ability of micro finance institutions to generate income from operation that covers administration costs and losses covering costs from earned income. To ensure long term sustainability there must be growth in customers and size of portfolio lent out. Micro finance institutions need to grow in order to generate income needed to pay for operations of their services Atuhaire (2001).

All in all the issue of personal security (collateral), loan use, interest rate, poor infrastructures, multiple borrowing, confidentiality of the credit policy from financial institutions like FINCA Tanzania, lack of faithfully among members, lack of education about credit policy among members (this clearly showed that credit systems were only designed on paper and lacked proper implementations to clients) and other challenges include the endeavours to become financially sustainable, the development of suitable products, and the various capacity building and technical assistance needs. Similar to other developing countries in Africa which FINCA operate, economic activities in Tanzania are usually conducted in the informal sector. Tanzania is beginning to take steps to create a regulatory environment that makes it easier to voluntarily register a business and formalize business activities, hoping to clear some of the impediments caused by unclear regulation and discretionary enforcement. Regardless of these there has been a continued emergence of semi-formal microfinance providers (NGOs and SACCOs) outside the changing regulatory framework. Unless these bodies are included under the Tanzania’s supervisory umbrella, they will continue to operate without regard for the laws and regulations that govern the country’s micro finance activities and leave poor people (credit clients) in torture of loan repayment. That’s why the study carried out to address the situation on micro financial institutions FINCA Tanzania as the case study (MFIs according to MFTransparency data 2011 & MIX data 2010).

5.5 Issues for Further Research
Due to limitations of time and funds, this study could not be as comprehensive as it ought to have been. Therefore there is need for further research in some key areas. Issues such as how this credit/loan affects the livelihood of the clients, how interest is across the industry and why it is high and why most MFIs are based in urban areas
and yet the majority of the poor and marginalized in the countryside need to be further addressed.
REFERENCES


Musinguzi, P. (1998). The microfinance industry in Uganda, the way forward; MK publishers (U) LTD.


Myres (1998), donors worry as microfinance institutions boom; monitor 14th Feb 2000.


www.globalvision.org

www.wikipedia.org/wiki/microfinance
## APPENDIX I

### PROPOSED RESEARCH BUDGET AND REPORT WRITING

<table>
<thead>
<tr>
<th>NO</th>
<th>INSTRUMENT/ACTIVITY/DESCRIPTION</th>
<th>COST IN T.SHs</th>
</tr>
</thead>
<tbody>
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<td>1 box of pens</td>
<td>10,000/=</td>
</tr>
<tr>
<td>2</td>
<td>10 bundles of typing and photocopy and writing papers@10,000/=</td>
<td>100,000/=</td>
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<tr>
<td>3</td>
<td>5 note books which will be used for writing of important information during the collection of data @ 2000</td>
<td>10,000/=</td>
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<tr>
<td>4</td>
<td>Travelling costs during the collection of data from Dar-es-salaam to Morogoro to meet supervisor.</td>
<td>500,000/=</td>
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</tbody>
</table>
| 5  | Typing and preparing the last research report  
  ➢ Typing  
  ➢ Photocopying  
  ➢ Preparing the last research report | 200,000/=  
  100,000/=  
  200,000/=  |
|    | **TOTAL** | **1,120,000/=** |
APPENDIX II

RESEARCH SCHEDULE

SCHOOL OF BUSINESS

THE DISSERTATION PLAN FOR MASTER STUDENTS

ACADEMIC YEAR 2013/2014

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<tbody>
<tr>
<td>Phase 1: Planning And preparations</td>
<td>Selection of a research topic, research objectives/questions/hypothesis, designing methods, literature review, completion of research proposal and submission</td>
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<td>Phase 2: Project implementation</td>
<td>Ongoing inquiry/consultation/data collection</td>
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<td>Phase 3: Data analysis and interpretation</td>
<td>Data analysis, data interpretation and write up of first draft of results</td>
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<td>Polishing first draft results</td>
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<td>Phase 4: Report writing</td>
<td>Sharpening up methods and results section, write up draft of discussion</td>
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<td>Phase 5: Finalizing report writing</td>
<td>Final overdraft and submission of it to the Dept</td>
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<td>Phase 6:</td>
<td>Internal and external marking</td>
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APPENDIX III
REQUEST TO FILL THE ATTACHED QUESTIONNAIRES

Dear Sir/Madam,

As part of my research study for completion of masters degree in Business Administration in Corporate Management at Mzumbe University. I attach the questionnaire below to fulfilment of this study. The questions will help for investigating to assess the loan recovery and credit policy in microfinance institutions. The case study of FINCA Magomeni branch, Dar-es-Salaam. Kindly I ask you to answer these questions more accurate, that your answer will lead to good research outcome and conclusion.

Enterprise Survey Questionnaire
Loan Recovery and Credit Policy in Microfinance Institutions: A Case Study of FINCA Tanzania, Magomeni branch
School of business Mzumbe University.

SECTION A
INTERVIEW FOR CLIENTS

1. Sex
   Male [ ] Female [ ]

2. Marital Status
   Married [ ] Single [ ] Separated [ ] Widowed [ ]

3. Highest level of education
   Primary [ ] Secondary [ ] Tertiary [ ] University [ ]
4. Age
   18-30 [   ]  31-40 [   ]  41-50 [   ]  50+ [   ]

5. Do you have a loan with FINCA (T)?
   Yes [   ]  No [   ]

6. If your answer in No. 5 is YES, what kind of loan do you have?
   Short term [   ]  Long term [   ]  Capital loan [   ]  School fees loan [   ]

7. From which sector are you grouped into?
   Business [   ]  Fishing [   ]  Agriculture [   ]  Services [   ]
   None of the above [   ]  Specify………………………………………………..

SECTION B
CREDIT POLICY
The following scale will be used in this section. (Please tick where appropriate)
Strongly disagree (SDA)
Disagree (DA)
Not sure (NS)
Agree (A)
Strongly agree (SA)

8. My character and integrity is considered when evaluating me for a loan
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9. My capital initially contributed in my business is called for when I am getting a loan
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10. My initial contribution in my business is required when I am getting a loan

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11. FINCA Tanzania always asks me for security as collateral before giving a loan

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12. The condition is favourable when getting a loan

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13. I am happy with the way I am evaluated before given a loan

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14. I am encouraged to service and repay the loan because of the way I am evaluated

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15. The credit period given to me encourages me to repay back the loan

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LOAN AMOUNT GIVEN TO A CLIENT

16. FINCA Tanzania has a maximum amount to which it can lend to clients

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17. What is the maximum amount the institution can lend you to?

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18. I am satisfied with the size/amount of loan I get from FINCA Tanzania.

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19. I am encouraged to payback by the loan size given to me by FINCA Tanzania.

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INTEREST RATES CHARGED ON LOAN

20. FINCA Tanzania always charges interest on its loans.

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21. Interests rates are high as compared to other financial institutions.

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22. My loan payment is affected by high interest rates.

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23. The interest rates for FINCA Tanzania encourage me to serve and repay the loan.

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**PROCEDURE FOR COLLECTING LOANS**

24. FINCA Tanzania has measures in place for collecting the loan in case I fail to pay back.

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25. The institution collects only the principal from me in case I default on the loan.

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26. Both interest and principal are collected from me in case I default on the loan.

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27. FINCA Tanzania removes savings from group members in case I default on the loan.

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28. My property is taken away by FINCA Tanzania when I default on the loan.

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29. The credit policy of FINCA Tanzania affects my loan payment pattern.

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30. I am frequently visited by the loan officer(s) to find out whether I am paying back the loan as according to the contract.

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31. The credit policy of FINCA Tanzania encourages me to pay back the loan.

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32. What should the management of FINCA Tanzania do in order to serve you better?

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THANK YOU VERY MUCH AND GOD BLESS YOU.