EFFECTS OF LOAN DELINQUENCY ON THE GROWTH OF SMALL AND MEDIUM MICRO FINANCES:
CASE STUDY OF FANIKIWA MICROFINANCE (FMFC) LTD
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SMALL AND MEDIUM MICRO FINANCES:
CASE STUDY OF FANIKIWA MICROFINANCE (FMFC) LTD

By
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A Dissertation Submitted Mzumbe University Dar es Salaam Campus College in
Partial Fulfillment of the Requirements for the Award of the Degree of Master of
Science in Accounting and Finance (MSc. A&F) of Mzumbe University.

2014
CERTIFICATION

We, the undersigned, certifies that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled; Effects of Loan Delinquency on the Growth of Small and Medium Micro Finances: Case Study of Fanikiwa Microfinance (FMFC) LTD, in partial fulfillment of the requirements for award of the degree of Master of Science in Accounts and Finance (MSc. A&F) of Mzumbe University

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I, Msofe, Angela Severin, declare that this thesis 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 degree award.

Signature ___________________________

Date _______________________________

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I am also grateful to my dear sister Stella Severin Msofe and my mother the late Mrs Romana C. Msofe for the help and encouragement rendered to me throughout the course and my academic journey. Indeed, without their help, I would not be where I am today. Special thanks to my friends and workmates for your encouragement and advice, your support has contributed towards the completion of the course. Thanks a lot, may God bless you. Furthermore, my thanks go to all those who have contributed to this research in one way or another, such as my fellow students and others in the preparation of this paper. Kindly receive my gratitude.
DEDICATION

This work is dedicated to my beloved husband, Mr. Peter Deus Maganga for his encouragement and an endless love to me during the whole time in my course work. I wouldn’t have reached this stage without his supports. Thanks alot my husband may god grants you all the blessings. Amen
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<table>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>MFIs</td>
<td>Micro financial institutions</td>
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<td>NGOs</td>
<td>Non-Government Organization</td>
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<td>SMEs</td>
<td>Small and Medium Enterprises</td>
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ABSTRACT

This study was on the effects of loan delinquency on the growth of micro finances. Specifically, the study sought to determine the magnitude of the problem of loan delinquency in microfinance institution, identify factors influencing clients of microfinance institution to default and assessing the impacts of defaulters on the microfinance institutions. The study was conducted at Fanikiwa Microfinance in Dar es Salaam. The sample of the population was 81 borrowers and 19 staffs from Fanikiwa Microfinance. The study used questionnaires, interviews and documentary review. In data analysis Statistical Package for Social Sciences (SPSS) was used to analyze research findings.

The research found out that majority of respondents had more than one loans and only few of them had one loan as a result many clients fails to pay on time hence become delinquency and some of them defaulted. This shows that some of the clients defaulted due to multiple borrowing behavior, small amount of loan, poor lending methodologies and business failure. The study therefore found that delinquency and defaulters affect the company and the officers working in that company. The effects analyzed are such as retrenchment of workers, bad reputation of the company, high cost to run the company, there may be bankruptcy and in some few cases collapse of the company.

The study recommended that, microfinance should provide adequate loans so as to avoid the practice of clients to re-apply for other loans so as to meet their requirement. It is also recommended that microfinance should consider revising lending methodologies and harmonize the cost. There also a need to strengthen their capacity to improve efficient of utilizing credit to beneficiaries. Provision of training to credit beneficiaries in aspects of credit management, saving mobilization, basic accounting, financial management, cash flow management, enterprises management should be enhanced and help the borrowers avoid irregular payments of loan installments. Beneficiaries also need to be well informed on the effect of loan delinquency and defaulters that they cannot borrow again on that company.
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CHAPTER ONE

1.0 Introduction
This chapter explains about the backgrounds of the research problem, it explains the formation of the microfinance industries where does it comes from, how it enters to our country and the initial companies who started the microfinance industries in Tanzania.

1.1 Background to research problem.
This study was sought to understand effects of loan delinquency on the growth of MFI's by focusing on the FANIKIWA MICROFINANCE (FMFC) LTD as a case study. Specifically, the study seeks to identify methods used by FMFC for offering loans to small and medium entrepreneurs, identify causes of loans delinquency among the entrepreneurs or customers and identify strategies used by FMFC to minimize loan delinquency among entrepreneurs.

Small and Medium-sized Entrepreneurs play a major role in economic development through income generation from their small and medium businesses. They cover non-farm activities such as manufacturing, mining, commerce and services. They are mostly involved in small businesses such as food vendors, shops like cosmetics, pharmacy etc. In the context of Tanzania, small and medium entrepreneurs are those people who are self employed with the small and medium businesses, by small business we mean the one with a capital of below 2 million and a medium business with capital amounting up to Tshs 5 million. Majority of small and medium entrepreneurs fall under the informal sector. The need to understand loan delinquency is derived from the assumption that once financial systems are established the poor people "are able to use financial tools for productive purposes and progressively incorporate themselves into financial activities, repaying the loans, and accumulating savings. This assumption reinforces the contention that microfinance or micro credit structures are essential for development of rural areas (Yates, 2009). Microfinance has received extensive attention from academicians and practitioners such as; (Ross, 2008), Srivasta, 1996; Rhyne and Rotblatt, 1994; Rhyne
and Otero, 1994; Christsen et al, 2005) who reflect on principles for successful provision of microfinance services by developing non-traditional mechanisms to screen applicants and monitor actions of borrower.

Microfinance is viewed as the application of innovative methodologies that make financial services available to relatively poor households and micro enterprises in small transactions suited to their conditions. Elsewhere, innovative microfinance institutions have had substantial success in making financial services accessible to the poor in many parts of the world (Chijoriga, 1997).

The United Republic of Tanzania is situated in East Africa and part of the Sub Saharan area with a total surface of 945,087 square kilometres and a population of 44 million (mainland and Zanzibar). The country gained its independence in 1961. In 1990, the mainland of Tanzania initiated a political transformation process to a multi-party system. Between 1999 and 2001 the economy picked up by an average of 6% and by 2007 the growth rate (7.1%) was comparable to the early years of independence – (URT – United Republic of Tanzania, 2008).

The inflation rate has been relatively stable during the last seven years with an average of 7% but it has increased significantly during the last 9 months, with a growth up to 13.5% in April 2011 (BOT, 2011). The population living below the poverty line (income is under one dollar a day) was 35.7% in 2000/1. About 80% of the population in Tanzania lives in rural areas with agriculture being their main activity (Morrinsey et al 2005). Microfinance or financial services for the poor, has emerged over the past 30 years from a narrow notion of microcredit – well-defined methodology to extend credit to target groups for enterprise development or some other specific purpose – to an ambitious and daring concept of building entire financial systems that serve low income and poor people.

In Tanzania, the history of microfinance starts way back in 1985 when the Government promoted and established the Presidential Trust Fund in mid 1990’s. Other MFIs emerged such as PRIDE, FINCA, YOSEFO, TUJIJENGE TANZANIA...
and FANI\-KIWA MICROFINANCE. In the late 1990s the Bank of Tanzania started specialized banks which are commonly known as community banks and cooperative banks. These include Kilimanjaro Cooperative Bank, Mufindi Community Bank and Kagera Cooperative Bank. Akiba Commercial Bank became the first Commercial Bank to venture into microfinance.

1.2 Typology of Microfinance Industry in Tanzania

The Microfinance industry is still at the emerging stage and constitutes a diverse range of practitioners and practices. The pioneers of Microfinance in Tanzania are NGOS which started to emerge in the mid 1990s. However, informal microfinance services providers have been in Tanzania for years these include ROSCAs, ASCAs, Burial associations, clan savings groups, etc. Savings and Credit Societies (SACCOS) is another type of Microfinance services providers which have been active in both rural and urban areas. Banks have joined the Microfinance industry during the last 10 years. Based on the background of the history of Microfinance in Tanzania, it is generally accepted to categorize microfinance institutions by the group under which the provider belongs. The groups include NGOs MFIs, Banks and Non Bank Financial institutions, Savings and Credit Societies and informal financial services providers and Government/donor programs.

Financial services are the economic services provided by the finance industry, which encompasses a broad range of organizations that manage money, including credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

There are also some organizations that deals with financial services provisions, these organizations specialize in provision of financial services to micro entrepreneurs. The major ones include; PRIDE Tanzania, Presidential Trust Fund (PTF), Poverty Africa (T), FINCE Tanzania, Small Enterprise Development Agency (SEDA), and Youth Self Employment Foundation (YOSEFO).
Limited Liability Companies are one among the financial service providers, a limited company is a company in which the liability of members or subscribers of the company is limited to what they have invested or guaranteed to the company. Limited companies may be limited by shares or by guarantee. In this case they are limited liability companies which specialize in Microfinance Services and are new players in the Tanzanian market. These providers are like Fanikiwa Microfinance limited company (FMFC), Tujijenge Tanzania Ltd and K-Finance Ltd.

There are also Microfinance Companies this is another part of the financial service providers, Microfinance Bank is an institutional provider of microfinance services, it involves activities directed at provision of access to financial services for working poor or small and micro-enterprises. Micro financial services comprise of micro credit, savings, micro leasing, micro insurance and other forms of financial services. The micro finance market consists of the poor who are essentially involved in some form of economic activities. There are also some banks who supports the micro finances services these are AKIBA Commercial bank and CRDB Bank. Also the additional organizations involved in microfinance in Tanzania, including FINCA, PRIDE and SEDA as well as the Tanzania Postal Bank. Community banks and small banks have taken an interest in this, as well as many NGOs and non-profit organizations. The first Microfinance Company was licensed by Bank of Tanzania in July 2011. Several NGO MFIs are currently lined up for the Transformation to become Microfinance Companies. Wholesale microfinance is a new phenomenon in the industry of microfinance in Tanzania. Key players in wholesale microfinance products include Oiko Credit, Stromme East Africa Ltd, CRDB Microfinance Company and some other Commercial Banks.

1.2.1 Commercial Banks and Community Banks

An institution which accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve.
System. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

Commercial banking is also known as business banking. It is a bank that provides checking accounts, savings accounts, and money market accounts and that accepts time deposits. These institutions provide a wide range of microfinance services to its clientele. The services include micro loans, savings products, wholesale credit funds to SACCOS, money transfer and micro lending. With regards to loan collateral they use chattel mortgage and peer pressure through solidarity groups. The institutions include; Akiba Commercial Bank, CRDB, Mufindi Community Bank, National Microfinance Bank, Mbinga Community Banks, Dar es Salaam Community Bank, Mwanga Community Bank, Kilimanjaro Cooperative Bank, Kagera Cooperative Bank and Tanzania Postal Bank, Azania bank, commercial bank of Africa and Mkombozi Commercial Bank.

1.2.2 Savings and Credit co-operative Societies (SACCOS)
A Savings and Credit Co-operative Societies (SACCOS) is a democratic, unique member driven, self-help co-operative. It is owned, governed and managed by its members who have the same common bond: working for the same employer, belonging to the same church, labor union, social fraternity or living/working in the same community. A Savings and Credit Co-operatives membership is open to all who belong to the group, regardless of race, religion, colour, and gender or job status. These members agree to save their money together in the SACCOS and to make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other. These comprise of formal mechanism whereby financial resources are mobilized from members, management is in the hands of members and its members constitute the main beneficiary. SACCOS are registered under the cooperatives law. SACCOS get funds for lending to members from internally mobilized savings and loans from
Commercial banks, Community Banks and Government programs such as Small Enterprise Loan Facility (SELF).

1.2.3 Informal Financial Services Providers

Informal finance is a broad concept that encompasses the wide range of financial activities and services that take place beyond the scope of a country’s formalized financial institutions and lie outside financial sector regulations.

In contrast to formal finance, most informal providers focus on one service - savings, credit, money transfers, or insurance - rather than offering a bundle of services. Informal finance is common in both urban and rural contexts and is usually based on personal relationships and socioeconomic proximity. Informal providers are neither legally constituted nor regulated by any institution. These are member owned and controlled by members themselves. They include, Rotating savings and credit Associations (ROSCA’s), Accumulated Savings Credit Associations, Burial Associations (micro insurance services), Money lenders, traders Self Help group (SHGs) and Village Community Banks (VICOB/SLA).

Government Programs/Projects

Local government i.e. District, Municipal, and City Councils have established youth and women funds for lending. The councils are required by Law to set aside 10% of the revenue to provide loans to women and youth who want to establish or expand their businesses. The Central Government through SELF Project and JK Funds charge subsidized interest. SELF Project is funded by a loan from African Development Bank (ADB) to the Government of the United Republic of Tanzania.

Back to the topic the research was conducted in order to understand the effects of loan delinquency and defaulters, this was conducted in the Fanikiwa microfinance as a case study, the company started since 2010 as part of the non-profit-organization called Tanzania Gatsby Trust where they were dealing with providing training to the small entrepreneurs later they decided to produce a branch that will deal with providing the loans to the small entrepreneurs who have been trained, thereafter was the growth of Fanikiwa Microfinance. It provides loans to small entrepreneurs by first giving them some education concerning the company and the loan itself.
Now days the company is self-independence it grows by using the loan portfolio inherited from TGT.

But the problem comes later after 2014 at the end of the year where the company’s performance goes bad and thereafter I decided to conduct a research basing on the bad condition of the company.

1.3 Statement of Problem
Various measures have been taken by the government and financial institutions to provide microfinance to small and medium enterprises in Tanzania as a way of making them operate successfully and grow. Unfortunately, such efforts have been affected by high rates of loan delinquency among small and medium enterprises who take loans from microfinance institutions fails to pay them on time and reduce the ability of such microfinance institutions to provide loans to other small and medium enterprises and in the long run affect the sustainability of microfinance institutions. It is thus, the objective of this study was to establish effects of loan delinquency by focusing on FMFC as a case study by first checking on what constitutes to the facts above.

1.4 Research Objective

1.4.1 Main Objective
The main objective of this study was to identify the effects of loan delinquency on the growth of MFI’s in Tanzania by focusing on FMFC as a case study.

1.4.2 Specific Objectives
The study was guided by the following specific objectives
(i) To examine lending conditions of FMFC and profile of borrower.
(ii) To identify strategies used by FMFC to minimize loan delinquency.
(iii) Knowing the main indicators/causes of delinquency.
(iv) Identify the effects of loan delinquency.
1.5 Research Questions
The study was guided by the following research questions;
(i) What are lending conditions of FMFC and what is the profile of borrowers?
(ii) What are the causes of loan delinquency at FMFC?
(iii) What are the strategies used by FMFC to minimize loan delinquency?
(iv) What are the possible effects of the delinquency to the development of MFI's?

1.6 Significance of the Study
Several studies have been conducted on the role played by microfinance institutions in providing loans to small and micro enterprises, but little attention has been paid on the issue of high rates of loan delinquency and defaulters. As a result, there is a knowledge gap that needs to be addressed. The findings of this study will fill that gap by identifying the causes of high rates of loan delinquency and suggest strategies for minimizing it. Understanding factors which contribute to loan delinquency will add knowledge on limitations of micro financing in Tanzania. Findings of this study could also help to develop alternative strategies to overcome the constraints and hence effectively minimize loan delinquency and loan default among micro and small loans borrowers for FMFC and other microfinance institutions. This will help to have well performing microfinance.

1.7 Scope of the Research
This study was based on the microfinance institutions this is because they are the ones, who provide the loans to small and medium enterprises, and also they are the ones who are suffering from the much effects of not paid on time loans; therefore basically the study was conducted for the microfinance institutions and some of the microfinance banks.
CHAPTER TWO

LITERATURE REVIEW

1.0 Introduction
This chapter is about reviewing what other authors has explained about the effects of the loan delinquency, checking on the measures used by the previous authors in addressing this issue of delinquent clients within the microfinance industry.

2.1 Theoretical Literature Review
The concept of loan delinquency can be defined as the person or group of individuals who fails to pay their loan installments on the due dates, that is an individual fails to pay on the dates required by the institutions, here the delinquency are paying their loans but not on the due dates. In consumer installment loans, missing two successive payments will normally make the account delinquent. They are sometimes called the partial payers. The effects of partial payers is that the company will fail to meet the liability of giving loans to other group of people due to inadequacy funds as the payments are not made on time. This concept of delinquent clients results to the defaulting of the loans.

Then what are the defaulters? These are the individuals who fails completely to pay their loans as they become due, here the person fails totally to pay his/her loans. The loan may be recovered through confiscation of the items of the person i.e. taking the items of the client which has been signed by him as collaterals for the loans, these collaterals may be taken willingly by the client or sometimes may be taken by force if the client is not willing to give it out, then the collaterals are sold for loan recovery. The loan become delinquent and if it ages 270 days it goes into default. If you default, you have to pay the entire unpaid balance and any accrued collection fees immediately.
2.1.1 Non Performing Loans

“Non Performing Loans” means a sum of borrowed money upon which the debtor has not made his or her scheduled payments for at least 90 days. A nonperforming loan is either in default or close to being in default. Once a loan is nonperforming, the odds that it will be repaid in full are considered to be substantially lower. If the debtor starts making payments again on a nonperforming loan, it becomes a reperforming loan, even if the debtor has not caught up on all the missed payments.

It is any loan that repayment of principal and interest in whole or partial had not been effected for 90 days or more after due date (BAFI Act, 1991). Once a loan becomes non-performing, the lender must classify it as especially mentioned, substandard, and doubtful or loss. Conclusively, “Non Performing Loans” are microfinance facilities in which total losses or minimal recoveries are anticipated.

2.1.2 Loan Classification

Refers to the process banks use to review their loan portfolio and assign loans to categories or grades based on the perceived risk and other relevant characteristics of loans the loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This process enables the banks to monitor their loan portfolios and to take remedial actions in case of any dangers that may tackle the loans.

2.1.3 Non-Accruing Loans

Means a nonperforming loan that is not generating the stated interest rate because of nonpayment from the borrower, typically due to financial difficulties. Nonaccrual loans are more likely to default, meaning that the investor will not recoup his or her principal. It is the loan on which the lender is not generating the expected interest rate due to non-payment. A loan is classified as nonaccrual if no principal or interest has been paid in 90 days. A nonaccrual loan is rather likely to default. The interest is no longer accrued on the books of the bank or financial institution not taken into income unless paid by the borrower in cash but shall be recorded in a memorandum
account or register. The accrual of interest on the books of the bank shall resume only if the unpaid interest is paid.

2.1.4 Past Due Loans
Loan on which payments are not being made on time and which is 30 to 60 days behind schedule, although partial payments have been made. It is a loan which has passed its due date. Usually, it is referred to as a 'past due loan' when payments fall behind for over a couple of months, regardless of the fact whether partial reimbursement has been given or not. This loan has only being delinquent there is possibilities of it become paid by following the recovery procedures.

2.1.5 Substandard Loans
A classification for a loan that is expected to result in a loss of interest for the lender, because the borrower is unlikely to be able to completely pay back the loan for some reason. A lender will occasionally agree to a substandard loan even though it means some revenue will be lost, because typically no principal is lost on a substandard loan, only some interest. Loans classified as substandard are characterized by the distinct possibility that the lender will sustain some loss if the deficiencies are not corrected. Some loss of interest is anticipated, or may have already occurred, but loss of principal is considered unlikely.

2.1.6 Emerging Theory of Microfinance
Recent developments in African and other developing countries reinforce the contention that microfinance or microcredit structures are essential for development of rural areas in consideration of the fact that areas of development in these countries have been traditionally urban-centered. According to Mullei (2004), adopting economist suggests two basic assumptions why the development of microfinance has taken an important turn.

These assumptions fit in with factor distribution and availability whereby the missing factor of production (from among land, labour, and capital), is supposed to be provided in order to give impetus to development. The first assumption is that poor
populations possess the capacity to implement income generating activities that the main limitation to their initiative is the lack of access to capital. This limitation arises because of two main reasons: financial markets are still in their infancy; and that given their poor track record and lack of collateral, the existing financial institutions are reluctant to extend credit facilities to poor people or their organizations. Another factor is that often, mutual associations and thrift societies that have dealt with financial institutions have been huge failures (Viswanathan, 2003). In spite of this negative evaluation, the idea persists that poor people given access to capital and guided properly are in a position to implement and manage income generating business enterprises. In other words, poor people too, have the capacity to run economic activities just like the rest of society given a congenial environment. The second assumption is that once the financial systems are established, the poor people "were able to use it. With the help of funding from bilateral and multilateral organizations most countries in Africa, including Tanzania have adopted micro entrepreneurship as an alternative approach to development, in order to avoid these negative tendencies. The intent is to by-pass corrupt public officials, make credit directly available to the very poor and thereby promote their self-sufficiency (ibid).

The World Bank, United Nations Development Programme (UNDP), United States Agency for International Development (USAID), Canadian, Swedish and Danish governments have all made funds available to microfinance non-governmental organizations in Nigeria with varying levels of success. Microfinance institutions have rapidly evolved in the last decade and have been able to create significant income and employment opportunities for the poor in developing countries. Other scholars and policy analysts have identified the inhibiting factors that make rural microfinance enterprises unsuccessful. Yaron (Dongili and Zago, 2002) identified high risks, heavy transaction costs and mounting loan losses as some of the many factors that drained state resources, yet the programmes have reached only a fraction of the target population consequently have failed to provide financial self sustainability.
2.2 Empirical Literature Reviews

2.2.1 Measurement of Loan Delinquency
Measuring Delinquency and Default in Microfinance Institutions by R Srinivasan March 2007. The central issue addressed is the measurement of loan delinquency and default in microfinance institutions (MFIs) at top management level. Simulation is used to see how effective standard default and delinquency measures are. The paper concludes that the “mature” (i.e. the rate after seven year of operations of an MFI) current collection rate is a good measure for estimating default. If loan provisioning is based on this estimate, net portfolio-at-risk [PAR] numbers will not mislead. With improper loan loss provisioning net PAR may be not reflect delinquency correctly. The onetime collection rate is useful for estimating delinquency. However, only the primitive collection ratio, based on tracking each period’s loan disbursement will identify a shock in loan repayment.

Measuring Delinquency and Default in Microfinance Institutions
The focus of this article is on measuring loan delinquency and default in microfinance institutions (MFIs) at top management level. The core issue addressed is how well an MFI’s management control system accurately assesses delinquency and default. By this I mean how senior managers judge the quality of the loan portfolio from financial data. I do not intend to cover how a field-level staff responsible for, say, 150 borrowers monitors her loan portfolio. The article is clearly not intended for MFIs with high quality loan portfolios, but for the run-of-the mill MFIs (such as the typical Indian MFI with a Portfolio-at-Risk [PAR 60] of 14.1% (M-CRIL 2005). In this article, a loan is delinquent if installments are delayed and in default if one or more installments are never repaid. The background is as follows: 1. A typical MFI has a large number of essentially short-term loans (say one year), that are contractually expected to be repaid in number of installments (weekly/monthly).Such a loan differs both from that of mainstream commercial banks and the accounts receivable portfolio of industrial corporations.
A commercial bank (even one with rural operations) would have loans with a single bullet installment. stipulates single installment after harvest), medium-term loans of say 5-7 year duration with half-yearly/annual installments, or an overdraft account (with an out-of-borrowing clause requiring that the outstanding balance be brought to zero for a specified period). On the other hand the typical accounts receivable extended by an industrial corporation is an ‘open account’ expected to be settled within a few months. An MFI usually has a loan portfolio that grows rapidly, sometimes with seasonality.MFI Loans are stepped up with principal amounts increasing with each cycle. Loans have no collateral so that expected loss given default is the entire amount of unpaid installments. I shall use this background to subsequently argue that default and delinquency measures appropriate for commercial banks need to be applied with care when used with MFIs, and that the monitoring approach used in the industrial corporation accounts receivable may be of some help to MFIs. A classic paper by Rosenberg (1999) covers significant ground in measurement of delinquency in MFIs. In a sense this article takes off from that paper. Let summarize the Rosenberg paper. Measures of delinquency that work are the on-time collection rate, current collection rate, cumulative collection rate, and portfolio-at-risk (PAR). Measures that do not work too well are the Asian collection rate and arrears rate. In this article we will restrict ourselves to the measures that Rosenberg shows work well, these are defined.

2.2.2 What Causes Delinquency and Defaulting Loans?
From Central Bank of Nigeria (CBN) reports on Microfinance Banks and Loan Defaults, it explains that high interest charged by the microfinance banks has been discovered to be the reason behind the alarming default. A microfinance loan is a facility granted by a microfinance bank to an individual or a group of borrowers, whose principal source of income is derived from business activities involving the production or sale of goods and services.

By practice, a microfinance loan is granted to the customers of microfinance banks, such as peasant farmers, artisans, fishermen, women, senior citizens and non-salaried workers in the formal and informal sectors. The loans are usually unsecured, but
typically granted on the basis of the applicant's character and the combined cash flow of the business and household. Microfinance loans may require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, or monthly basis in accordance with amortization schedule in the loan contract.

Microfinance banks were essentially to provide credit and other financial services to people in lower income groups, with one of its major characteristics being that it offers limited products with no formal collateral. According to Drake (2002), by 1997 there were nearly 300,000 active microfinance loans in Bolivia, with the number of consumer loans also approaching that level. Market penetration by microfinance alone was near 50%, at a rate probably unprecedented in the microfinance world. Clients took advantage of the offer of quick and easy credit from so many institutions, maintaining two or more loans at a time. In an increasing number of cases, clients borrowed more than they could handle. Some let repayment slip or, in worst cases, began “bicycling” loans- using the proceeds of one loan to pay off another. Such behaviour seriously damaged the carefully constructed culture of repayment in microcredit. When delinquency began to rise at BancoSol (private bank), it was concerned among clients with loans at other institutions. Clients did not see multiple loans as risky: the logic of clients is that they will earn more by investing more. Multiple loans have even become a status symbol. Moreover clients felt that maintaining access to two or more institutions reduced their risk by widening their choices when in reality, for most borrowers, too much credit is a quick route to financial disaster (Drake et al, 2002).

2.2.3 How the Existence of Delinquency and Defaulters Affects the MFI’s
A study conducted in Italia by Dongili and Zago (2005) asserts that at macroeconomic level, problem loans may be a signal of a wrong allocation of credit that may cause a decrease of funds available for good and safer investments. Moreover, problem loans influence expected losses and so they may influence the state of the economic cycle causing a reduction in the supply of loans or changing the perception of depositors about the risks that Banks take.
In a recent study by Writtle (1999) which involved 11 successful MFIs findings indicate that lending institutions experience some loan losses when certain borrowers fail to repay their loans as agreed. Principally, the credit risk of a bank is the possibility of loss arising from the fact that interest or principal or both on securities and loan will not be paid as they fall due. The study, the researcher recommended that, to overcome losses arising from non-repaid loans, microfinance institutions must develop a credit culture supported by a well conceived management strategies for controlling credit risks. That for a bank to set a correct culture it must establish its priorities with respect to the market place the bank must design its credit risk management strategy. Shepheard-Walyn (2004) argues that banks now appreciate that there is “expected loss” or average like hood of a loss to any particular class of borrowers, a loss that is seen as cost of extending credit and is usually reflected in the credit spread. In addition, other banks like City group use derivatives techniques to mitigate the risk and this has enabled them to gain access into riskier portfolios. Even if macroeconomic instability has always been a major factor for Banking crisis, the issue of borrowers selection, and therefore of credit quality is an important instrument or an intermediate target for regulators in order to dampen possible crisis.

Despite years of reform, the banking industry in Tanzania remains of high risk, costly and great operational difficulties due to factors such as non-repayment of loans. It has been identified that one of the problems that microfinance institutions have faced in developing countries is that it has always included social welfare projects which divert attention from financial sustainability. Thus microenterprises had limitations in reaching their target populations, the poorest of the poor. Microfinance institution must be able to provide the development activities necessary to generate financial sustainability. Critics have been quick to point out that the rate of failure of microfinance programs is an indication that they are not an appropriate policy tool. Some economists however, counter that [microfinance] is an inappropriate policy intervention, and that it is macroeconomic reform and not microcredit delivery, that it is needed for cultivating entrepreneurship, and developing the private sector in low-income countries. As a result, our study contributes in filling a gap in the borrower-loan officer literature in microfinance.
through empirically testing to what extent relationship lending impact the probability of loan default at the branch level. To do so, we use a novel approach, the Multilevel Analysis, which is suitable when analyzing hierarchical models as is the case in this empirical study. This approach has been widely used in other fields of knowledge as medicine, but scarcely in economics. In particular, we applied this technique in our study by estimating a 3-level Random-Intercept-Model to measure the probability of individual “loan default” taking into account three hierarchical levels, Borrower, Loan officer, Branch levels. For this study, information was collected from a sample of 441 borrowers that were randomly selected according to the portfolio that each particular Loan Officer had at the time of the interview. This survey was conducted between December, 2010 and March, 2011 in 18 branches and contains quantitative and qualitative information on loans, borrowers and loan officer characteristics along with information on the institutional environment in which the branches are operating. On average, 8 borrowers per each Loan Officer were interviewed with the support of 25 trained enumerators. The information that we used for this study corresponds to the latest two credit cycles as it was easier for borrowers to recall this information than information about their complete credit history, which in some cases if of more than ten contracts. Other effects of loan delinquency and defaulters can be seen as in the table bellow;

<table>
<thead>
<tr>
<th>Effects of delinquency and defaulters</th>
<th>Delinquency is the biggest threat in Micro-finance: it threatens the long term institutional viability. It questions the survival of the organization and so the services provided to the poor.</th>
<th>Micro-finance institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff of MFI</td>
<td>Donors</td>
<td>Slowing rotation of portfolio</td>
</tr>
<tr>
<td>Demonization</td>
<td>Loss of credibility</td>
<td>Delaying of earnings</td>
</tr>
<tr>
<td>Less time to promote and grant loans</td>
<td>Lessening the donation</td>
<td>Increasing collection costs</td>
</tr>
<tr>
<td>Decreasing operation spreads (less time to promote)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ever-increasing repayment problems</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Delinquency Management Training Manual(2009)
2.2.4 Financial Impact of Delinquency and Default

(i.) Loan loss provision (provision for bad debts) reduces surplus.
(ii.) The institution loses non recoverable portion of outstanding loan.
(iii.) Written-off loans require recapitalization of the institution.

2.2.5 Measuring Delinquency

Quality of Loan Portfolio

The outstanding portfolio of a microfinance institution is defined as the principal amount of loan balances outstanding

<table>
<thead>
<tr>
<th>INDICATOR</th>
<th>RATIO</th>
<th>MEASUREMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio at Risk (PAR)</td>
<td>unpaid principal balance of all loans with at least 1, 30, or more days past due outstanding portfolio</td>
<td>Answers the question “How much could you lose if all late borrowers default?” Portfolio aging separates more risky loans from less risky. (The longer a loan goes unpaid, the higher the risk it will never be paid</td>
</tr>
<tr>
<td>By Ag</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrears Rate</td>
<td>amount past due outstanding portfolio</td>
<td>Answers the question “How commonplace is non-payment?” Measures amount of loan principal that is due but not paid</td>
</tr>
<tr>
<td>Past Due Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment Rate</td>
<td>amount received (current and past due)less prepayments total amount due this period + amount past due from previous periods</td>
<td>Shows amount paid compared to amount due or expected during a Specific period. Does not provide useful information about the performance of the outstanding</td>
</tr>
<tr>
<td>Current Recovery Rate</td>
<td>amount received this period (P or P+I)amount due this period (P or P+I) under original loan terms P = Principal I = Interest</td>
<td>Fluctuates from month to month. Is meaningful only for longer periods. Can be processed algebraically to predict eventual loan loss rates.</td>
</tr>
</tbody>
</table>

Source; Delinquency Management Training Manual(2010)

2.2.6 Consequences of Defaulting on a Direct Loan

If you are late making your direct loan monthly payments, your loan will be considered to be delinquent. Delinquencies on your direct loan payments are reported to national credit bureaus after being 60 days late. After 240 days of being
delinquent, the entire loan, including interest, becomes due immediately and in full. Loan default occurs after one is 270 days late.

**The Consequences of Loan Default are Severe and Include:**

The defaulting process may have the following impact on the performance of the company, It will severely damage the credit rating, making it more difficult to obtain affordable credit in the future from other companies hence resulting to bankruptcy; if defaults are reported to national credit bureaus and can remain on your credit report for seven years; incase the court brokers are involved you will have to pay additional fees and court costs for the collecting of your loan hence it is very costs to handle it;

2.2.7 **Controlling Delinquency**

There is no means for removing the defaulters but there is methods for controlling it these are rescheduling and refinancing but we should put in mind that if used to reduce delinquency, rescheduling and refinancing can spell disaster for the portfolio that is to say once clients discover they have the option of rescheduling, they tend to stop paying. Hence these two methods should be used very careful in such a way that the clients should not understand that their loans have been rescheduled.

**Curing Delinquency**

Curing delinquency is extremely difficult but can be accomplished by examining and changing the institution’s image, philosophy, and methodology that means changing the policies of the company will enable the development of new strategies for provision of loans that will reduce loan defaulting that is to say the examination should lead to the identification of trends. For example: if certain activities are more delinquent than others, loan sizes and terms may be wrong for these activities. A high delinquency rate for a certain loan officer suggests poor performance, insufficient training, or possibly fraud or if loans made during a specific month are more delinquent (for example, before a major holiday), the institution may consider not making loans in that month.
New loans are not a solution to a delinquency crisis, but loans to borrowers who pay on time can continue hence it should be noted that rescheduling and refinancing should never be considered a cure for delinquency but rather a primary tool for controlling it.

2.3 Risk and Vulnerability

Risk is defined as the chance of a loss or a loss itself (Sebstad and Cohen, 2001). According to Rahman and Hossain (1995) risk has many facets as follows: structural risks such as seasonality, inflation or vagaries of weather, unanticipated crises and emergencies such as sickness or death of a family member, loss of employment, high costs associated with life cycle events such as marriage, funerals and education for children. Likewise, risks are associated with operating enterprises and taking a loan. In considering microfinance services, it is useful to consider risk in terms of non-repaid loans. The risk may be short-lived, long term or permanent. Income loss from non-repayment of loans may also force a reallocation of income away from consumption (Rahman and Omari, 1995).

Studies by Sebstad and Cohen (2001) have revealed non-repayment of loans may result in loss of a variety of assets such as financial assets: savings, credit etc; physical assets such as housing, tools, equipment or other productive assets; human assets such as household labour resources and health and social assets such things like relationships of trust in the community, participation in community groups, networks and freedom from violence. The ability to cope with shock depends on whether it can be anticipated, one off or repeated, whether more than one shock or stress occurs at the same time.

Banks are also reluctant to offer loans to SMEs due to unfavorable regulations set by BOT on SMEs loans. The regulations limit the operations of banks. An example is the regulation on Loan Provisions. The regulation of the BOT stipulates as shown in the table above:
This shows that when the corporate loan is overdue for 181 days it should be written off while for micro finance when it is overdue for 45 days it should be written off. This is not realistic, as micro finance clients pay even after 45 days. Also the bank is required to provide 2% as provision for bad debts in the total loan outstanding where by the bank does not expect to have any bad debts. These regulations reduce profit of banks due to written off loan and high rates of delinquency.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction
This chapter is about the methodologies used by the researcher in conducting the research study. It will explain why I decided to use the methodology used and also will explain the area of the study, sampling techniques, and the sample size which I was dealing with during my data collection process.

3.1 Research Design
In this study a case study was used as a research design for my research, Case studies are analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods. The case study is the subject of the inquiry will be an instance of a class of phenomena that provides an analytical frame to an object within which the study is conducted and which the case illuminates and explicates." According to J. Creswell, data collection in a case study occurs over a "sustained period of time."

Another suggestion was that case study could be defined as a research strategy, an empirical inquiry that investigates a phenomenon within its real-life context. Case study research can mean single and multiple case studies, can include quantitative evidence, relies on multiple sources of evidence, and benefits from the prior development of theoretical propositions the decision on how to select the case(s) to study is a very important one that merits some reflection. In an intrinsic case study, the case is selected on its own merits. The case is selected not because it is representative of other cases, but because of its uniqueness, which is of genuine interest to the researchers. An example of an intrinsic case study, Hellstrom et al.studied an elderly married couple living with dementia to explore how dementia had impacted on their understanding of home, their everyday life and their relationships. For an instrumental case study, selecting a "typical" case can work well. In contrast to the intrinsic case study, the particular case which is chosen is of
less importance than selecting a case that allows the researcher to investigate an issue or phenomenon. Sampling a "deviant" or "atypical" case may however prove even more informative, potentially enabling the researcher to identify causal processes, generate hypotheses and develop theory. In collective or multiple case studies, a number of cases are carefully selected. This offers the advantage of allowing comparisons to be made across several cases and/or replication. The selected case study site(s) should allow the research team access to the group of individuals, the organization, the processes or whatever else constitutes the chosen unit of analysis for the study. Access is therefore a central consideration; the researcher needs to come to know the case study site(s) well and to work cooperatively with them. Selected cases need to be not only interesting but also hospitable to the inquiry if they are to be informative and answer the research question(s). Case study sites may also be pre-selected for the researcher, with decisions being influenced by key stakeholders.

It is also important to consider in advance the likely burden and risks associated with participation for those who (or the site(s) which) comprise the case study. Of particular importance is the obligation for the researcher to think through the ethical implications of the study (e.g. the risk of inadvertently breaching anonymity or confidentiality) and to ensure that potential participants/participating sites are provided with sufficient information to make an informed choice about joining the study. The outcome of providing this information might be that the emotive burden associated with participation, or the organizational disruption associated with supporting the fieldwork, is considered so high that the individuals or sites decide against participation.

**Advantages of a Case Study**

A case study has the following advantages over other methodologies as follows, it helps in develop analytical and problem solving skills as the researcher will be aware of the area of the study will enable him to develop new strategies/skills for solving a problem that is it allows student to apply new knowledge and skills hence be creative. Also it allows for exploration of solutions for complex issues as the
researcher will get enough time to go into details about the problem and therefore will be easy develop skills for problem solving.

What were the potential pitfalls and how can these is avoided?
Case study research has sometimes been criticized for lacking scientific rigour and providing little basis for generalization (i.e. producing findings that may be transferable to other settings). There are several ways to address these concerns, including: the use of theoretical sampling (i.e. drawing on a particular conceptual framework); respondent validation (i.e. participants checking emerging findings and the researcher's interpretation, and providing an opinion as to whether they feel these are accurate); and transparency throughout the research process. Transparency can be achieved by describing in detail the steps involved in case selection, data collection, the reasons for the particular methods chosen, and the researcher's background and level of involvement (i.e. being explicit about how the researcher has influenced data collection and interpretation). Seeking potential, alternative explanations, and being explicit about how interpretations and conclusions were reached, help readers to judge the trustworthiness of the case study report.

3.2 Area of the Study
The case study was conducted at FANIKIWA MICROFINANCE LTD (FMFC), Dar-es-Salaam branch located at Ubungo Plaza Building first floor, the place housing both the Head Office and Dar Branch. This area was selected because the researcher was familiar with the area and it is thus hoped that familiarity with the area helps the researcher to get the necessary data and information easily. Also the researcher selected the area of the study due to its proximity to FMFC Company where the researcher is working hence I obtain more cooperation from Fmfc staffs and also from the clients.
3.3 Sampling Techniques

3.3.1 Sample and Sample Size
Kothari (2006) defines sample as a collection of some parts of the population on the basis of which judgment is made small enough to convenient data collection and large enough to be a true representative of the population from which it had been selected. Sample size refers to a number of items to be selected from the universe to constitute a sample. The sample must be optimum. An optimum sample is one which fulfils requirements of efficiency, reliability and flexibility. Hence during the research process the sample size from the customers was taken.

3.3.2 Sampling Procedure
According to Kothari (2006), sampling is defined as selection of some parts of aggregate of the totality based on which a judgment or inference about the aggregate or totality is made. It is a process of selecting a group of people, events, behavior, or other elements with which to conduct a study. An important issue influencing choice of a sampling technique is whether a sampling frame is available. For example a sample size of 81 respondents was purposively selected from among the population of clients who was taking loans from FMFC. The sample also included 19 members of staff from FMFC from the Credit Departments. In this study a simple random sampling have been used to select a sample size where each individual has got probability of being selected as a sample size,
Sample size \( n \) was computed as follows:
Sample size \( n = \frac{N}{r} \) where by
N is the sample size and r is the Population size

3.4 Data Gathering Instruments
During the study both primary and secondary data collection methods were used. Primary data collection methods included Observation, Questionnaires and Interviews. Secondary data collection methods were documentation.
3.4.1 Questionnaire
A questionnaire is a set of questions which are usually sent to the selected respondents to answer at their own convenient time and return back filled questionnaire to the researcher (see appendices 1&2). In these study questionnaires was used to collect information from respondents on effects of loan delinquency and defaulters among clients of FMFC. Reason for using questionnaires was that they cover large sample at low cost and give respondents adequate time to give answers.

3.4.2 Observation
According to (Kothari, 2006) observation is the method where the information is sought by the way of own direct observation and environment scanning without involving respondents. The researcher was made observations on the effects of loan delinquency and defaulters in FMFC performance (growth). Observation method was used because it allowed the researcher to see the situation by him before getting information from respondents. Hence the researcher went to the field in the areas where the groups are meeting and see for himself that there were some problems in attendance of the customers and also be able to reach at the residential areas of the defaulted clients, also he was able to see the overall performance at FMFC after the existence of the defaulters.

3.4.3 Interview
According to (Kothari, 2006), an interview is a set of question administered through oral or verbal communication or face to face discussion between the researcher and the interviewee respondent. Both group and individual interviews has been conducted with respondents using both, open ended and close-ended interview questions. This method was used to enable the researcher to supplement information obtained by using questionnaires. Here the researcher was able to go to the field area where the clients are met see them and ask them questions concerning the issue raised, not only that but the researcher was able to ask questions within the company to understand the overall effect of the study.
3.4.4 Documentation

Documentation method was used because it enable the researcher to get ready-made data and information by passing through various documents such as; Annual Reports and journals on the topic in question. This method was especially used because it helps to simplify the task of the researcher by providing statistical information recorded in terms of numbers and percentages and represented in tables, charts and graphs. Mostly documents used by the researcher are those available at the office. I was able to see the arrears reports from the managers and see where the company was and where it is going.

3.5 Data Reliability and Validity

In order to ascertain reliability of the study, a pilot study was conducted. Questionnaires were distributed to respondents. This was done so as to identify questions that might be unclear or ambiguous to the respondents. It also aimed to identify any non-verbal behavior of the participants that may possibly show discomfort or lack of comprehension on the questions asked in the questionnaires.

The conduction of a pilot study allows the corrections to be done before the questionnaires are distributed to the larger sample. Prior arrangements will be made to meet respondents for the pilot study; the questionnaires will then be given to the respondents to complete and return on the next day.

3.6 Variables and Measurements

Any loan with a missed amortization of even one day is a delinquent account. The loan must be measured in order to know the amount that will not be paid and also to design the ways of recovering by checking the amount that we are expecting to be difficult for us to be paid; the following are some of the measurements of the delinquency loans that are used by microfinance companies to measure their loans;

(i.) Arrears Rate/Past Due Ratio
(ii.) Portfolio at Risk Ratio
(iii.) Annual Loan Loss Rate
**Arrears/Past Due Rate**

This measures the amount of principal that is due but not paid. It estimates the default risk in portfolios by taking into account the actual past dues in portfolios. Less rigorous yardstick in measuring portfolio quality. It only shows amount of overdue payments. Does not reflect portfolio risk that is to say it is not a suitable measure for the loans because of not showing the exactly amount which will be lost by the loan becoming in arrears, let’s take a look on a simple formula below.

It is calculated as

\[
\frac{\text{Amount past due}}{\text{Total loan outstanding}}
\]

The lower the rate the lower the risk in the portfolio,

This measurement understates the risk in the portfolio because it only counts payments as they become past due. It does not take into account that the entire amount of the outstanding balance of the loan is at risk as well. The method is also not suitable because when you increase the outstanding portfolio means that the calculated rate will be low and hence hides the chance of losing the principal past due.

**Portfolio at Risk (P A R)**

Portfolio at risk (PAR) refers to loans that are late in their repayments; it is the universal measure for quality of a loan portfolio. It is an applicable measuring tool used to evaluate portfolio quality of microfinance loans; it considers a loan account with a missed payment of even one (1) day as already a delinquent account, Indicates how much could a MFI lose if all late borrowers default It is calculated as;

\[
\frac{\text{Unpaid principal balance of all loans with missed payments of one day or more}}{\text{Total Outstanding portfolio}}
\]
The researcher has been satisfied with the above information that are obtained from the office and up to the day of collecting the information the portfolio at risk of the company was 6.06% (below 30 days). For the company which performs well in the microfinance industry the portfolio at risk should be less than 5% for a period of 1-30 days.

**Annual Loan Loss Rate**

It is also called a loan loss provision, is a balance sheet account that represents a bank's best estimate of future loan losses. That is to say the amount that the bank may declare it to be lost due to the financial problems of the borrowers, Suppose that microfinance or bank lend money to a client amounted to Tsh 1,000,000/- a one-year loan. After few months later the borrower runs into financial problems, the bank will create a loan loss provision. If the bank believes the client will only repay 50 percent of the borrowed amount, the bank will record a loan loss provision of 500,000 (100 percent - 50 percent) x 1,000,000).

This ratio shows how the company protects itself against the future losses.

<table>
<thead>
<tr>
<th>PAR Aging</th>
<th>Level of Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>Loans with no miss payments and therefore LOW RISK</td>
</tr>
<tr>
<td>PAR 1 – 30 Days</td>
<td>MODERATE RISK</td>
</tr>
<tr>
<td>PAR 31 – 60 Days</td>
<td>Increasingly SERIOUS RISK</td>
</tr>
<tr>
<td>PAR 61 90 Days</td>
<td>LOW CHANCE OF REPAYMENT, lots of collection effort</td>
</tr>
<tr>
<td>PAR over 91 Days</td>
<td>LOSS</td>
</tr>
</tbody>
</table>

Source: FMFC
3.7 Data Management and Analysis

After data has been collected using methods listed above, the data was reduced into summary form. The summary was then processed by using Excel computer programmed. The research findings was organized and presented by using words, numbers and percentages by using tables, charts and graphs. Data analysis and interpretation enable the researcher to get a solution to the research problem and give recommendation
CHAPTER FOUR

DATA PRESENTATION ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction
This chapter is about presentation, analysis and discussion of the findings. The first part gives summary of the demographic characteristics of the respondents who have been interviewed followed by interpretation of those data and a thorough discussion will be given for more clarification of the collected data.

4.1 Demographic Characteristics of the Respondents
This presents the general characteristics of the respondents include the response rate, gender, educational level of the respondents and others. The findings from the respondents helps to achieve the specific objectives of the study which were to examine the lending methodologies used by fmfc, find the main indicators of delinquency, to compare the strategies set by Fmfc to reduce delinquency and to identify the effects of delinquency and defaulters. The findings are represented in different forms which are pie chart, bar graphs, tables in percentage form to facilitate easy interpretation and understanding. For the sake of this study the characteristics of respondents are gender of the respondents, level of education and age of respondents, the findings will be discussed based on the specific objectives and with the will of god the solution for this problem will be discovered.

Findings obtained were from two groups of people with different sex, education level, nature of the business and the methods used by FMFC to perform their business better. The groups of people includes the clients (those who are taking loans from the company) and the staffs of the company including the loan officers and the managers also the chief executive officer.

4.1.1 Gender of the Respondents
The study explore the gender of the respondents (client) as shown in the figure 4.1 below
Figure 4.1: Gender of the Respondents

The sample size n=81

From figure 4.2 shows the gender of the respondents who participated in this survey. The findings show that out of 81 respondents, who were interviewed, 61 people comprising of 75.31% were females and 20 people (24.69%) were male. This depicts that females responds more than males in the research and this is because females are the ones who normally seek small funds from the financial institutions.

Gender is one of the cross cutting issues in various studies and also in life aspects of the society, the issue is on how to bring about the gender equality, in this study also gender have been discussed as one among the issues that can results to loan delinquency and defaulters which may bring about poor growth of microfinance industry, How?

This question can be answered as follows, from fig.4.2 (pie chart) it has been shown that during the data collection process only 24.69% of man responds and the rest (75.31%) were female, this reveals that in Fmfc company most borrowers are females than men, it’s a good habit since women are the ones who are responsible for
the growth of the family, but in the case of business performance the women are not performing well in the business industry this is because they are the ones who are responsible for making sure that the family matters are going well in a straight line, for example making sure that their children are getting education as required, in case of illness they should make sure that the treatment are given as required, so the women have got so many duties to perform as a results they becomes the low income earners this makes them difficulty to make repayments on time and that causes defaulters.

Therefore the gender imbalances also causes loan defaulters since many women are overworked and hence poor concentration in their business this may also cause them to have multiple loans as they think that they will overcome the problem but instead they are increasing it. So the pie chart gives us the clear picture that despite of their responds to the questionnaires the women are the ones who contributes more to the loan defaulters and poor growth of the Mfi’s.

As we know that the government is on the process of making sure that women empowerment process is fulfilled, then also the financial institutions are advised to empower women more than men, therefore by checking on the pie chart above the results show that the women are very highly considered in this company, but the financial companies should ask themselves about the ability of the women to participate in the generation of income?

The research shows that woman’s have got a heavy duty of taking care of the family hence less concentration in the income generation, and if you are not participating fully in income generation means that you will ending up in the irregular repayments of loans which is one among the big sign/indicator of loan delinquency, therefore from these results I have learned that if the company has got a higher percentage of women is likely to have higher percent of the defaulting loans.
4.1.2 Level of Education

The findings show that most of the beneficiaries of the financial institutions are primary and secondary school education. This shows that the beneficiaries have a basic education to know policy and procedures about these financial institutions and their general loan conditions; it is also shown in the table below.

Table 4.1: Education Level of Clients

Sample size n=81

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Level</td>
<td>1</td>
<td>1.23</td>
</tr>
<tr>
<td>High school or diploma</td>
<td>9</td>
<td>11.11</td>
</tr>
<tr>
<td>Secondary level</td>
<td>12</td>
<td>14.81</td>
</tr>
<tr>
<td>Primary Level</td>
<td>59</td>
<td>72.84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Research Data, 2014.

In the table 4.3 shows that 59 respondents were primary educated about 72.84%, 12 respondents were secondary educated about 14.81% and 9 respondents have High school and diploma level about 11.11% while 1 respondent have University level educated by about 1.23 percent, this indicates that most of the respondents were of primary level education and they are the most finders of loan for doing their business. In this education level we are trying to see if the poor educations to the customers can results to the late payments or loan defaulters.

Education can be defined as a means of moving out of poverty it is the principal means of developing human skills and knowledge (URT 2003b). From table 4.3 of education level it shows that out of the 81% respondents there is high rate of those who have only the basic education (primary education), in case of government it has attained its goal of making sure that every citizen is getting the basic education, but we should ask ourselves that can this education be enough to reduce the amount of poverty in Tanzania? Or will this level of education makes changes that will lead to the development of our country? The answer is no. Why? This is because the
government only provides the basic education that helps each people to know how to read and write but not to understand on the basic procedures for the development of the business, that is to say the techniques for the development of entrepreneurs are obtained from the higher level of education. Back to our results it shows that most of the microfinance have been occupied with the borrowers with only the basic education this is a very big problem because the customers does not have enough knowledge on how to perform the business, this poor business education level makes them to fail to perform the business and also fail to get new techniques for business development hence this results to the low income earners, due to the fact that they are obtaining the low income this cause them to feel difficult to make payments on time and therefore becomes defaulters.

Therefore in case of microfinance the level of education is a very big challenge that results to the poor performance of the microfinance industries in Tanzania. As it is known that the people with high education level are expected to have a better knowledge on credit procedures and also have skills in running their business, hence lending money to the 72.84% of primary educated clients is a very big problem in the microfinance industry. In order for the microfinance to perform better they need to have the level of education of 12% secondary education, 9% high school and 1% university level. But in seeking clients it seems that those with the basic education are the ones who are mostly deals with borrowing in the microfinance therefore it is very difficult to refuse taking this group of clients. The lending methodologies of the company do not show the discrimination among the educated and uneducated ones. It welcomes all groups of people this is a challenge to the financial institutions because this large group of primary level have poor experience on how to compete in the market this may also be the cause of not paying on time.

4.1.3 Age of the Respondents
This involves the age of those who have been interviewed the results shows that among the interviewed ones those who are below the age of 25 are only 15 clients these reveals that the loan has been given to the persons who are matured they have been old enough to engage in business, this is a good result to the microfinance
industry since the money has gone to the right persons, but the question also come which group of age defaults the loans?

The respondents answered it by saying those between the age of 25 and below they are those who frequently defaulted the loans this is because of the peer pressure that most of them miss allocates the loan. Therefore from my results this age is not suitable for them to engage in borrowing money they should first be in business for more than ten years to get enough knowledge on how to allocate the borrowed money.

Table 4.2: Ages of Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>15</td>
<td>18.5%</td>
</tr>
<tr>
<td>26-35</td>
<td>10</td>
<td>12.3%</td>
</tr>
<tr>
<td>Above 36</td>
<td>56</td>
<td>69.2%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data, 2014.

4.2 Lending Procedures of FMFC

The study identifies various factors which are used by FMFC to lend money to its clients, that is the researcher need to know before lending money to the clients what factors do they need to consider first. This was the first specific objective, here the researcher involves both groups of respondents that is the staff of the company and the borrowers, the staffs of the company gives out the procedures they are using to lend money and the borrowers gives out their opinions if the procedure are favoring them or not. The researches decides to do this because the bottle neck of the problem of defaulters is from the clients if they are not satisfied with what you are giving them then they will ending up making the irregular payments. Then let’s look on the methodologies,
4.2.1 Level of Business Experience

The study also looks on the level of business experience as a factor that needs to be considered when lending money to the customers. I asked the staffs do they lend money to the newly opened business, the answer was no, that the borrowers should at least be in business for more than two to five years then I turned back to the borrowers checking if they have experience or not, the answers was as in the figure below,

Figure 4.2: Level of Business Experience

Sample size n=81

![Bar Chart]

Source: Research Data, 2014.

In chart 4.4.1, a result reveals that out of eight one respondents interviewed, 46 interviewer about 56.8% said that they have 6-10 years experience in business, 21 interviewer have less than five years experience in business about 25.9% and the rest 14 interviewer have more than 10 years business experience about 17.3%.
These findings show that most of users of financial institutions are people who have less than ten years business experience. This question has been asked by the researcher to the respondents that how do they takes loan from the company. Most of them said that the loan is given to them by considering their level of experience to the business that is to say no new business is getting loan unless you have started it some years before, then let us check on the results that shows the experience of the clients to the business, from figure 4.4 it shows that the highest level of business experience is between 6-10 years it reveals that the users of financial services are those with the experience below 10 yrs, in the side of microfinance it is a bad results since it shows that we are lending money to inexperienced persons, the person who have poor knowledge of running business this is a big challenge to the microfinance since the clients may end up earning small income which is not enough to tackle their problems and at the same time to make the loan repayments as a results they borrow to other micro finances (multiple borrowing) to minimize their problem, therefore the business experience is the big problem to the microfinance industry it results to the loan defaulters and delinquency. Among the methodology used by fmfc to lend money to the person they should engage themselves in business for more than 6 years or ten years but from the results it seems that this is not a good period for lending money it’s not enough experience.

4.2.2 Loan Amount
The researcher need to know the amount of loan each one obtain after reaching to Fmfc, when asked respondents as to what amount do they borrow per year, most of the respondents do borrow money from MFIs as shown in the table below.
In the figure 4.4.2, almost 49% of the respondents said that they normally take loan below 5 million, and 27.16% were taking loan between 6 to 10 million while 23.46% of the respondents were taking loan above 10 million, this reveals that the company has got many clients below 5m/- hence it’s easy for them to control. From my studies I have discovered that the loan amount given to the clients is very small compared to the size of their business, but during interview there are some clients who said that there are sometimes where the loan is big than the size of the capital of their business, let us look on the results given, by the loan amount we mean the amount that the borrower have taken in order to satisfy the needs of his/her business.

The amount of loan is taken depending on the size of the business that is to say if the capital of your business is let say 300,000/- tsh then we expect that you will take the loan of more than 350’000/- tsh. figure 4.4.2 have explained the amount of loan borrowed by the interviewed customers, the results shows that 49.38% have taken the loan below 5m/- and 23% have taken the loan between 6m/- to 10m/- while the rest takes above 10m/-.
So what do we learn from the results is that in Fanikiwa microfinance there is high rates of those who are taking the loan of less than 5m/- this is the big challenge to the growth of the microfinance industry since we don’t know exactly if the amount of loan does it match with the capital of the business?, if the answer is no then we have end up building a defaulting society since the clients will fail to produce the income that will pay for their installments and at the same time solving their daily lives issues.

Therefore we can say that if the client does not get what they want they will not pay the loan as required ,in Fanikiwa microfinance it is the policy of the company that each client who will take the loan in a group guarantors ship will be required to start with only 300,000/ Tsh without considering the size of the client’s business this is the big problem to the company since many customers are taking the loan which does not match with the business and that makes them to miss allocate the money since cannot overcome their problems and hence they results failing to pay on time, also this policy requires the individual clients to start with only 2m/- this is a very small amount to a person who have been engaged in a business for more than five years the research shows that many clients agrees with the policy but they will end up miss allocating the money and some of them are putting the money into the business but since the fund is small the business gives small returns and thereafter mostly fail to pay their installments on time.

Therefore from my research I have discovered that the existence of defaulters and delinquency on this company is due to small amount of loan given to the clients, which causes an over-indebtedness to their clients that is the clients are forced to take other loans or to find other means of getting money and adding up to such small amount of money in order to tackle the needs of their business, the over-indebtedness may make the client to have an irregular payments of the loan because there is somewhere else where she is required to take such amount of money hence most of them ending up defaulting the borrowed money.
There is no any client among the interviewed ones that has shows that she/he has been given the large amount of loan while the business is of small capital. I have also asked the loan officers if there is such a case in the company the answer was no because before the client are getting the loan assessment is conducted on the business of the client and there after the officer will discuss with the borrower on the amount of loan to be given but they should consider the policy and procedures of the company.

4.2.3 The Guarantor Ship Mechanism

Here we are considering the group guarantors ship mechanism, the policy of the company says that the group members should guarantee themselves and they should come from the nearby areas as the company believe that it will be easy in making follow up to the delinquency client, but the research conducted to the clients and all disagreed with the beliefs of the company and they need a freedom to choose what they want to be with regardless of the remoteness of the areas.

4.2.4 Loan Repayment Rate

Here the researcher need to know the ability of the clients to repay the loan, the importance is to check if they are defaulting in the first cycle or second loan? According to the specific objective two, one sample t-test was used to test the MFIs training leads to increase of production of SMEs and were presented in the tables below;

**Table 4.3: Loan Repayment**

<table>
<thead>
<tr>
<th>Were you able to repay the loan once offered?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>29</td>
<td>35.8</td>
</tr>
<tr>
<td>No</td>
<td>52</td>
<td>64.2</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source:** Research Data, 2014.
In the table 4.3 shows that, out of 81 respondents (client), 52 people interviewed about 64.2% agreed that they were not able to repay the loan once offered and 29 respondents about 35.8% agreed that there were able to repay back the loan once offered. The results reveals that in this situation delinquency of loan has to come about since people are not repay on time.

Table 4.4: Means of the Groups

One-Sample Statistics

<table>
<thead>
<tr>
<th>Were you able to repay the loan once offered?</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>81</td>
<td>1.6420</td>
<td>.48241</td>
<td>.05360</td>
</tr>
</tbody>
</table>

Source: Research Data, 2014.

From Table 4.4, respondents were 81 as client with the mean of 1.64 and standard deviation of 0.4824, that emprise most of the respondents were aware and know the conditions for taking the loans but they were not able to repay it.

4.2.5 Statistical Significant

Table 4.5: Statistical Significant

One-Sample Test

<table>
<thead>
<tr>
<th>Were you able to repay the loan once offered?</th>
<th>T</th>
<th>Df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30.633</td>
<td>80</td>
<td>.000</td>
<td>1.64198</td>
<td>1.5353 to 1.7486</td>
</tr>
</tbody>
</table>

Source: Research Data, 2014.

From the Table 4.4.4, according to one sample t-test, the value of T was 30.633 with the degree of freedom 80, and the p-value .000 about one percent, which is less than level of significant α= 0.05. This implies that we reject null hypothesis and conclude
that the assessment of company to see why most of the client were not able to repay loan once offered is not statistically significantly differently from the expectation of its condition.

4.3 Indicators of Loan Delinquency

Bases on the third specific objective, the study finds out the main indicators which lead to delinquency of loans from SMEs. The following findings were obtained see the Table below;

Table 4.6: Indicators /Causes Delinquency of Loan to SMEs

<table>
<thead>
<tr>
<th>Indicators/causes</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor/partial payment</td>
<td>2</td>
<td>10.5</td>
</tr>
<tr>
<td>Poor attendance of the customers into the collection centers</td>
<td>4</td>
<td>21.1</td>
</tr>
<tr>
<td>Multiple loans</td>
<td>5</td>
<td>26.3</td>
</tr>
<tr>
<td>Many collection at the same time for loan officers</td>
<td>8</td>
<td>42.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Research Data, 2014.

Results from the table 4.5 above shows that 42.1% of respondents (offices) agreed that the delinquency of loan from SMEs were also contributed by having many collections at the same time for loan officers, followed by multiple about 26.3%, then about 21.1% poor attendance of the customers to the collection centers and the last indicators is poor/partial payments payment about 10.5%. This reveals that the office is aware on any changes that may lead to delinquency.

4.3.1 Many Collection at the Same Time

The loan officers have been interviewed concerning this collections, how do they conduct their collection, and how many groups do each loan officer monitor per day? The answer was that there are sometimes one loan officer is monitoring more than three groups and this is because the collections are made only monthly hence they
are colliding with one another. Then the question arise, do you think that having many collections per day may results to delinquency?

The answer was as follows: all of 19 officers said that many collections may results to the delinquency clients, then why?

The answer was because having many collections at a day causes them to be overloaded that is to say they can’t monitor the groups which are in different location within the same day; therefore the location of the groups hinders the monitoring process as a result many of them did not pay on the same day. therefore they become delinquency but if the dates for making repayments are arranged in a good manner that is if there is a gap between one and another there will be full monitoring. Since the loan officers are getting difficult times for making collections in case of more than one repayment they fail to make full repayments and there after it results to loan delinquency. The biggest challenge to the microfinance industry is how to locate the groups in such a way that it will be easy for the officers to make the close follow-ups to the groups, some of the micro finances have managed to solve this problem by having the collection centers in each area where there is many customers but the research results from this company shows that the clients are very scattered in such a way that it becomes very difficult to have the collection centers.

4.3.2 Partial Payments

By partial payments we mean that the customers are paying less than the amount of the monthly repayments, the credit officers have been interviewed and among the researched ones 4 officers appear to agree that partial payment is an indicator of delinquency. Then I decided to get their opinion concerning the partial payments, what do they think exactly may be the causes of partial payments?

The answer was some makes partial payments due to the failure in business, the poor performance of the business leads to less income and thereby the client may fail to find other source of income and hence ending up making partial payments
Another reason is due to the miss allocation of the given fund, some of the clients think that the loan is for making their lives better and thereafter instead of put the loan into the business they are solving their lives problems as a results of lowering their income which leads to irregular payments.

Also it is the habit of some clients of not paying on time; this goes hand in hand with the poor /loose policies of the company. The clients tends to weigh between the two companies or the loan installments and their needs, that is if the policy of the company is not tight enough to make the client fearing that he/she will be punished incase of late/partial payments then she will make a partial payment or not paying at all hence results into the defaulting loans let’s look on the simple example the client partially pay the loan for this month the second installment will have the amount for 2nd installment and partial of the 1st installment, that is to say if the client is paying an installment of 350,000/- per month and she pays 100,000/- tsh the 2nd installment she/he will be required to pay 250,000/- +350,000/= 600,000/-

You can see from the above results that on the 2nd installment the client is required to pay 600,000/- instead of 350,000/- which is the big amount the normal business income can afford, therefore from here we can conclude that partial payments results to loan delinquency and defaulters.

4.3.3 Poor Attendance of the Group Clients to the Collections Centers

“In making collections for the group clients the group members are required to attend at the selected areas where the meeting is conducted for collecting the money. Then if the client does not appear in the meeting the other members are required to contribute for the installment of an absent client” said one of the loan officer, then I asked him a question how do other clients responds in this situation if it occurs? He answered me that there is poor/not responding to the situation.

It seems that in order to make the full repayments the clients have to make sure that everyone appears on the date of meeting. Hence the observation comes out that poor attendance in the collection areas results to delinquency so the customers are advised
to make sure that each attend the meeting to make sure that there is full collections, not only to the clients but also to the loan officers they are also required to make sure that they attend the client’s meeting to insist them to make full payments and also to build a good collection behavior. Then the company should introduce the fines and fees that will frighten the clients and cause them to attend in the meeting frequently.

4.3.4 Multiple Loans

Having more than a loan to different companies is termed as multiple loan, I asked the loan officers do they think that having more than one loan may result to loan defaults, some of them answered “yes” and some of them “no” then I came out with 10.5% of the respondents who have agreed with the question. Those who said yes has the following reasons, that having more than one loan may results to delinquency because sometimes the income of the client is not big enough to pay two installments and there are some cases where the dates for collections between one loan and another collides hence fail to make it on time multiple loan is the big problem in the microfinance industry, then I turned back to the customers what do they think are the causes of multiple loans, the answers were due to the facts that the products does not meet with the client’s needs hence they have to suffer for another loan that will tackle the needs of their business.

For those officers who answered no they give the fact that before the client come to increase another loan he/she has enough income to make sure that all the repayments are made on time. Therefore multiple loans contributing more to the loan delinquency and defaulters.

The researcher does not ended in finding the causes of delinquency from the clients also goes beyond the company and seek other causes from other institutions. From the institute of microfinance (IMED) they give out the causes of loan delinquency as follows:

Lack of the clear definition of the targeted clients, that is to say there are sometimes the company fails to give out the clear definition of what kind of clients are needed in their lending methodologies do they targets the women only? Or do they targets
the individual clients or are they looking on the capital or size of business in order to lend money to the customers… therefore failure to provide the clear picture of where and what do they need may cause them ending up borrowing money to the unwanted clients and hence increasing the defaulting rates.

There is no emphasis on long term lending process, that is to say lack of punctuality in repayment process, this is different from irregular payments, here by punctuality we mean that if the client is an employee with a business then we should make sure that the repayments is depending on the dates where the customer is expecting to obtain his/her salary this is to reduce the partial payments and it will help to built a good relationship between the customer and the clients.

Also lack of necessary training to the loan officers, the training manuals should be available to each loan officers so as to make sure that each understands the policies and procedures of the company, also the outside trainings and seminars is needed so that the credit officers could understand different challenges expected from the customers and how to handle them.
Also the pressure to meet the targets by the loan officers from the top managements this also cause them to make poor assessment to reach the targeted goals also they may ending up selecting the undesired customers in order to make sure that the number and the portfolio amount increases, this is the major problem that has been discovered from this institute that constitute to the loan defaulters.
Lack of motivation to those clients who are paying on time, there must be a motivation to the clients who meets their due dates they should be awarded in order to motivate them and also encourage others to meet those due dates so that they will also be awarded accordingly. The motivations like reducing the interest rates for those who are taking big loans, having dinner with those who are doing better also providing them things like t-shirts that will make them feel as being recognized to the company.

4.4 Handling the Delinquency Clients
Zero tolerance means NO LEVEL OF DELINQUENCY IS ACCEPTABLE!
It is the attitude of the MFI management & staff towards loan delinquency – no level of late payment is acceptable. It is an institutional culture in which late payments are totally unacceptable. The MFI will aggressively pursue past due clients, whatever the cost, to establish and maintain zero loan delinquency. This was among the specific objective of the study that is to discuss the ways used by this company to prevent and handling the delinquency clients, the research was conducted to the loan officers and manager of the company, the manager was asked what ways do the company use to tackle this problem of delinquency, the manager answered that “the problem of defaulters is a big challenge to any microfinance company in the world but here in this company they are using the following ways:

The figure below depicts the suggested measures used by the company to reduce the delinquency problems in the microfinance industry especially FMFC the solutions have been figured out by the credit officers from the company:

**Figure 4.4: Handle Delinquent Client**

Sample size n=19

Source: Research, 2014
In figure 4.6 above, the outcome shows suggested factors to be conducted to solve the problem of loan delinquency among SMEs. Due to respondents interviewed, 8 interviewer about 42.1% said that the lending methodology should be changed, followed by 5 interviewer with 26.3% who said that there should be motivation to credit officers, then 4 interviewer about 21.1% who said there should be close follow up for late repayments and also lastly, 2 interviewer about 10.5% suggested that there should be Intensive punishment for late payments. These findings reveal that common officers of the institutions have good ideas which should be taken into action for FMFC to be in a good position to work.

4.4.1 Close Follow Up For Late Payments.
Those clients who have made the late or partial payments are required to pay it again. In fulfillment of this, the close follow up day to day and door to door follow up is being made to make sure that the late payers make it on time, then I asked them do this process be successful or not? The answer was it was somehow successful because the close follow up motivates the customers to know that the company does not agree with the late/partial payers. In some cases the client’s needs to be pressurized in order to performs their duties therefore in this company the officers have got an extra duty of making sure that the clients are meeting their due dates by put more emphasis and pressure on them.

4.4.2 Punishment to the Late/Partial Payers
This are the fees and fines given to the clients when makes partial payments. The manager said that before the client get the loan he/she has to sign the loan contract where one of the contract is to make sure that the installment is made fully on time failure to comply with the situation it will lead to the fine of 0.5% of the loan amount. Then I turned back to the loan officers is this policy followed by the clients or not? They said that there are some clients who obey the policy and some of them does not, but in general most of them does not comply with this policy hence it becomes very difficult to collects fines therefore still delinquency rates reduction process is very small.
4.4.3 Changing the Lending Methodology

Other loan officers suggested that the lending methodology should be changed this is because sometimes the loan given to the clients is not enough as a result the performance of the business becomes low hence poor income. Also if you provide the loan that does not match with the capital it may force the clients to have multiple loans, therefore the credit officers have suggested that the loan should be given depending on the size of the business and not being a policy that everyone should starts with 2m/- . This helps to reduce the over indebtedness to the customers that they will be fully satisfied with what they are getting from the company, this also will reduce the multiple loans to the clients and to some other side it will help the clients to analyze their business income.

4.5 Effects of Loan delinquency

“Credit without strict discipline is nothing but charity. Charity does not help to overcome poverty. Poverty is a disease that has a paralyzing effect on mind and body. A meaningful poverty alleviation program is one that helps people gather will and strength to make cracks in the walls around them.”

Mohammad Yunus – 1998 here the author means that a loan should have a discipline in order to benefit the poorer.

If you are late making your direct loan monthly payments, your loan will be considered to be delinquent. Delinquencies on direct loan payments are reported to national credit bureaus after being 60 days late. After 240 days of being delinquent, the entire loan, including interest, becomes due immediately and in full. Loan default occurs after one is 270 days late. Having defaulted on your loan means that you have abandoned your responsibility to repay the loan.

The study aim at analyzing the effects of loan delinquency in the growth of micro finances by facing on the fanikiwa microfinance as a case study. But before understanding the effects of the delinquency we were first analyzing what causes these delinquency, what are the indicators that shows there may be an occurrence of
delinquency, there after we will look on the remedial measures that are used by the company to remove these problems. The big effect of loan delinquency is the existence of loan defaulters, therefore here in this part we shall see the effects of a long delinquent loan(defaults) on the profitability of the company/microfinance industry, the effects can be discussed in two ways direct costs and indirect costs as it has been analyzed below:

4.5.1 Direct Costs
These are the effects that are directly affect the company they can easily be seen by the staffs of the company and other top managements, the direct costs has been categorized depending on how it affects the expenses and income of the company, The expenses of the company go up in terms of the following aspects;

**Time Consuming;** It uses much time to make follow up to find the defaulted clients also the CEO has explained that among the effects of loan defaulters is the wastage of time for sensitizing new clients, sensitization process requires enough time to provide pre-training to the clients so as they can understand the policies and procedures of the company, also the assessment must be careful conducted so as to produce the good customers. Hence the existence of loan delinquency affects the officers since they do not have enough time for making assessment as a result they are ending up making bad clients poor interest rates will be obtained since no new customers has been recruited the company may ending up making loss than profit.

**Increasing of legal fees** for making follow-up, in case of difficult clients finding of the recovery agents to help in following those clients is necessary, this is another expenses to the company since hiring these recovery agents needs money, also there are sometimes we may need to hire the auctioneers who will help us in selling of the confiscated items this also requires some amount of money then increases the expenses to the company.

Higher loan losses since the company will not be able to catch all the clients who have been disappeared from the loans then many loans will be lost and many customers will be lost, and as we see above that also the time for making
recruitments is limited then no new customers has been invited to take the loan as a result of poor disbursements. If no money is lendered to the clients then what comes around is the bankruptcy.

Another direct cost of the loan delinquency and defaulters is on the Income of the Company, the income of the company goes down, and this can be contributed by the following Reasons;

**Delayed interest** this has the negative impact on cash flows, as we know that the cash inflows of the microfinance companies depends on the interest rate from the borrowed loans, also the application fees from the clients when applying for the loans. Then if we are using much time in making follow-up for the difficult clients then less clients are recruited thereafter poor interest rate will be collected, on the cash flows chart there will be seen more cash outflows than inflows in the profit and loss account there will be losses.

**Slower portfolio rotation** the portfolio rotation in the company is lowered down because there is no new customers who are recruited hence no any interest income to the company. It slowed portfolio expansion, it is the amount of loan that is needed as an outstanding portfolio to increase the amount disbursed of the company. By expansion we means that increase in size of the loan portfolio, the size of the portfolio will not increase since the recruitment of new customers is not conducted no incremental in number of clients or portfolios also the officers are busy making follow-ups instead of providing the loans early to the potential clients hence they may refuse to borrow again since they are not getting the loans on time.

Other effects is **retrenchment**, by retrenchment we mean reducing number of workers to reduce the expenses rates, the CEO of the company said that “we are using much money to give out the small income then we have to reduce the number of workers to overcome the much money out” then out of 44 officers from five branches they ends up to 21 workers of the whole company. Reducing number of workers also reduces the working power of the company and overloads the present
employees this will also affects the income of the company because they remained employees will recruit few number of clients who will produce few income. This was the bitter pills to the loan officer because many of them was ending up losing their work it was very bad, we need to work early to these delinquency and defaulters so as to reduce the above effects.

4.5.2 Indirect Cost

The indirect effects are the ones which affect the company but they may not be seen immediately but in the long run it affects the company in case of Fanikiwa microfinance the following has been analyzed as the indirect effects to the company: poor growth has been analyzed by the researcher and found that during the early of April 2012 the Fmfc company was in a bad condition many customers has been defaulted the loans the running cost of the company increases, then the management of the company declares the poor growth of the company although in the outside appearance the company does not seen to deteriorate but here is where we have found the effects of delinquency.

Financial condition of the company goes down, this was been explained by the Chief Executive Officer (CEO) of the company that the financial condition of the company goes bad, due to the facts that many loans have been defaulted for the past years and the company instead of making profit it ends up making loss, therefore the expenses of the company goes up since the cost of making follow up is big than that of investing the money, at that time the company only depends the money from donors to make disbursements to the remained few customers and also to cutter the running costs of the company.

Poor reputation of the company, the image of the company goes bad the clients see that the company is not serious with what they are doing same to the workers themselves are seen to be not serious with what they are doing, also to the investors it gives them worries of losing all the invested money in such company and may refuse to grant their money fearing that they will lose them instead of benefit from them.
The picture that has been shown from the FMFC would occur to any company if they are not serious with this issue of delinquency. The respondents however recognizes the risk of not paying the loan on time because some of them was ending up being confiscated their items this becomes a shame to the family members and to some cases it results to mental destruction to these members after being losing their home appliances. It appears that the clients who have been defaulted will not get loan again to this company and they will end up losing their loan savings. The portfolio at risk (P A R) of the company increases which reveals that the performance of the company is not good; therefore another cost will be incurred managing the bad portfolio. Bad reputation of the company is another effect that will be built as results of delinquency, the company will be seen as bankruptcy in front of the borrowers hence becomes difficult to get new customers in the company, and therefore we need to work on this problem as soon as it has been discovered.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
This section will present the summary of the study; conclusion and I will give the recommendations concerning the research conducted. I conducted the research basing on the loan delinquency because many micro finances are suffering from these delinquent clients hence I need to try to give my views concerning this problem.

5.1 Summary of the Study
This part gives the summary of what I was doing on previous pages, the study aims at analyzing the effects of loan delinquency on the growth of small and medium microfinance, before the loan become defaulted it first starts with being delinquency that the client have got an irregular payments of their installments, if the delinquency is not well treated it will end up being a defaulter.

Therefore my research aims at first finding what may be the causes of loan delinquency in the microfinance industry, after interviewing the clients and the officers they give the following possible causes, which are partial/irregular loan payments here the client is paying less amount irrespective of what she/he agrees with the company, this may be done willingly or by default may be the client is sick or have got a financial problem, also it has been detected that there is a poor training to loan officers some of them are employed without experience then they have to be trained first to make them what do they need to the customers and how to treat them in case of any misunderstandings not only that but to those who have experience they need to be trained regularly on the new techniques concerning the lending methodologies so as to improve their awareness on the microfinance industry.

Poor lending methodologies has been seen to be the major factor that constitute to the loan being delinquent, the company should check on how they deliver their
information concerning their loan products to the customers, pre-trainings should be provided before giving them loans so that before they decide to borrow they first understand the policies and procedures of the company this will help to reduce this problem of defaulters.

Many collections at the same time for the loan officers is also a problem, if the officer did not meet with the clients means that they will not pay and go back with the money, there should be a good repayment schedules that will make the officer following the collections without he/she being overloaded with the work, this will help to do a smart job. Lack of a clear defined targeted clients what type of clients do they targets, it should be very clearly stated to overcome the problem of taking the clients who are not eligible for such loan. Multiple loans to the clients is also a major challenge that is facing the microfinance industries and there has not been a way of discovering the hidden loans from the client, but the suggestion is to do a clear and strong visitation asking the local leaders to get full information about the clients.

We can see from the above causes the big cause is the poor lending methodology, then I decided to check the lending methodologies of the company if they are contributing to the loan delinquency, the answer was yes the lending methodology of the company contributes more, the methodology was based on the amount of loan given to the clients does not comply with the needs of the customers, also the business experience contributes to the delinquency clients because the experience in business gives a clear pictures of the business planning and the flow of income therefore the low the experience the higher the possibility of defaulting the loans.

After knowing the causes then I came back and identifying the measures used by fmfc to control the delinquency rates, these are close follow up to delinquency clients, changing the lending methodologies, intensive punishment for the delinquency clients and the motivation to the credit officers. In small percentages the measures have been successful reduce the rates therefore I tried to check come up with my solutions to the above problems which will be discussed in detail to the recommendation part.
The effects of the loan being delinquent is the loan becoming defaulted, the defaulted loans has many costs to the company, bad reputation to the clients and to the investors, bankruptcy and may lead to the closure of the company.

5.2 Conclusions
This study was on the effects of loan delinquency on the growth of small and medium micro finances. The study found that there are many effects that attacks the microfinance industries in Tanzania due to the existence of defaulters, most of them being the negative effects, the positive ones have not yet been discovered. In order to identify well these effects the researcher first recognizes what exactly causes the loan delinquency, the respondents have analyzed the following causes of loan delinquency; multiple loans, poor loan amount, the lending procedures of the company and sometimes ignorance of the customers. The company needs to observe these causes so as to create awareness of what is going on to their clients this will help them to create a strong team to tackle these problem.

Loosing work to the officer is also one of the negative effects of the defaulters the board members will observe as a negligence of an officer to have a bad portfolios while in real sense it is because of not making a precautionary measures once the problem has been recognized. Hence the managers need to study their clients well asses their business well and also they need to involve the local leaders because they are the ones who know their citizens well and also they know their business and understands if this client had a loan to another company. Therefore cooperation with local leaders is very important for reducing these effects. The study found that the clients does not feel this effect of irregular loan payments because they have an option of getting the loan to other companies but on the company side it loses its reputation and that it becomes difficult for them to get the donors of fund from other institutions as a results may lead to collapse of the company. The study sought that there should be a cooperation between one Mfi’s and another so as to interchange the information of the clients to abandon this behavior of defaulting the loans.
The microfinance industries are advised to make sure that when the problem of delinquent clients have initially been analyzed close follow-up to the problem should be conducted to reduce the possibility of it being defaulted and make a severe damage to the company.

5.3 Recommendation

The control of the effects of delinquency should be done by checking on what causes it, from there I have come out with the following opinions for controlling the effects; Changing the Lending Methodologies, these are the policies and procedures used by the company to lend money to their customers. In order for the company to reduce the effects of loan defaulters they should changing their procedures for example the amount of loan of 300,000/- is very small comparing to the size of the business for example there are some clients doing the business of selling livestock and the capital for such a business is more than 1.5m/- hence giving him a loan of 300,00/ will not satisfy the business as a result the customers will be forced to borrow to other sources if he/she does not know how to control the cash the problem of delinquency may arise.

Strong assessment should be made to the client’s business and collaterals, this is because most of the clients in Mfi’s does not produce the true information concerning their lives this is a big challenge to Mfi’s, where ca they get a true information, this may be obtained through the local leaders i.e. ward executive Officers (WEO) they can provide some information which is true to their customers. Therefore one of the policies that the board of the company is to make sure that they have a good relationship with the local leaders to get a true in formations.

Training concerning the entrepreneurial activities should be given to the clients so as to assist them in their business. This will also helps to create a good relationship with their customers, it is very open that many of the small entrepreneurs’ does not have the knowledge of marketing their products also how to allocate fund in such a way that they can earn much income. This will help the customers not only to understand the policies and procedures but also to know the entrepreneurial activities good and
business planning methods that will help them to obtain profit and also to tackle their installments, also to know different strategies for business performance; also they will understand the effects of multiple loans and how to avoid it.

Close Follows Up a close follow up should be made so that each client should see the seriousness of the company. This will help to reduce the defaulting rates because the clients will be followed up closely from day one when the client makes a partial payment, if needed confiscation should be conducted in order to build punctuality to other group clients that they should not follow that behavior. In case of those who do not like to attend in the group meeting the follow up should also be made to insist the clients to attend in the meeting. Because it helps in the contribution to the one who does not attend and also facilitates the follow up process.

Sharing of Information there should be a transfer of information between one microfinance and another, that is to say if a bad client move to borrow to another company an officer needs to go to the former microfinance to get the payments information of that client. This free of information helps to identify the good and bad customers and it will reduce this problem of defaulting clients. Hence there should be a free of information between one company and another.

Motivation to Workers motivation be given to workers to stimulate them to work in harmony and trust fully in a company, the researcher has discovered that in most of the micro finances there is poor motivation to their workers and the officers are working under the pressure environments, therefore providing a good working environment for example assistance of managers in making an assessments of the clients will helps the officers to discover different ways that the customers may cheat to them also in sometimes there should be a team work during making follow up encourages the officers to feel that they are not abandoned due to the defaulting clients. Another motivation that can be provided is the staff loans and advances, as we know that the life expenses are very high we need to make sure that we’re finding the ways that can help to overcome these expenses one among the ways is the staff loans, give them a favorable amounts that will help him/her to overcome life
expenses and she will appreciates by working hard so that he can get more than you gave, also there may be introduction of the performance based payments that the salary is increasing depending on the performances of the worker, this will motivate them to work hard so that everyone can meet the target of the company and be paid as they performs.

Also in controlling this problem of delinquency and defaulters there should be practices to be conducted these practices come into play well before the loan is delinquent, they are called the best practices for the microfinance performances. Following here under are the practices that should be conducted:

Educate Borrowers about Product, the borrowers should get a pre-training concerning the company, knowing the company’s owners where it is located also trained about the policies and procedures of the company, educated them about the repayment schedules of the company. This will help the client who wishes to borrow in the company to examine themselves if they are eligible to borrow in the company. the pre training is given to the customers at the early stages where the client comes to ask for the loan the loan officer will provide all the information concerning the loan, not only that but also during the assessment the customer will be trained about the kind of collateral and the loan amount depending on the size of the business also at the disbursement stage the customer will be trained on the repayment schedules.

Features, collections fees and charges. The fees and other charges should be kept transparent as possible to remove the element of being not knowing about the company, in case of fines it should be explained clearly to the customers that it is the punishment for not paying on time and the amount calculated should be clearly defined.

Establish Mutually-Agreeable Payment Dates, there should be an agreement of the dates for payments in case of those clients who are the employees of certain places the dated for repayments should go hand in hand with the dated of salary this will give a relief to the customer as at that time she will have enough income to cut-off
her installments and it will also be helpful to the company since the customers will pay on time.

Address Customer-Service Complaints Quickly in case of any complaints or quarrels between the customer and the officer or between the two customers it should be solved as soon as possible so that each of them will be comfortable with the company but if the solutions does not come early the clients may default by giving a reason of poor customer care, therefore to built a good relationship we should settle the disputes early.

Another best is the use Positive Reinforcement measures to make recovery, that is we should use the polite languages in making follow-ups to the difficult clients but incase the client gives us a negative respond we may use the confiscation of the client’s properties by considering the procedures of making confiscation like passing through the local leaders and also giving a 14th days notice so that the client will make preparation of the items to be confiscated.

Reward clients who pay on time by offering them immediate access to renewals, that is for those clients who have understands the policies and have completed their outstanding on time they should be awarded by allowing them to get the new loans as faster as possible. Some clients prefer to take larger loan amounts, the preferential (lower) interest rates should be given to these clients in order to encourage them to borrow more and large amount, by preferential interest rates we mean lowering the interest rates as the repayments goes up.

Also the credit officers need to be aware of the following:
Be aware of clients who do not wish to sign a personal guarantee, in this case the officer should see it as the signs of defaulter that the client does not want to sign his document at the office means does not want to be seen with other people fearing that his behavior will be discovered early, then to the company this is not a good customer.
Be aware of clients who have difficulty obtaining third party guarantees from local officials, relatives and/or friends. This indicates that the client is not a good person and that his friends afraid of guaranteeing him because they fear that the person will escape from loan and it will cost them to pay for the loan. This is not a good client for the company. If a current owner of a business does not want to pledge collateral or sign a third party guarantee, there may be internal disputes that can negatively affect the business.

Be sure that ownership and titles match the borrower’s name and that spouses also sign collateral agreements the assurance of the collaterals will also be obtained from the local leaders because they are responsible for the ward development then consulting them will be of much helper to know the good or bad clients.

Make sure to check collateral when monitoring, this is to make sure that the collateral for the loan is will not be sold until the loan ends up. Collateral that has disappeared or significantly lost its value can be one of the first signs of trouble. Make sure to use collateral that fits the country’s conditions the assessment of this should be made after the first assessment without making the client knowing what is going on to his/her house.

Overvalued collateral is a typical problem to watch out for it. That is for example a client wants to borrow 2m and gives out a title deed for the land worth 10m then the officer should find an approval of the area for the collateral making sure that no any cheatings from the customers. The collaterals should resemble the amount of loan taken.
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APPENDICES

Appendix 1: QUESTIONNAIRE TO SMEs (clients)
I have prepared this questionnaire for purpose of collecting data concerning on my research study:

QUESTIONS

1. Gender
   (i.) Male
   (ii.) Female

2. What is the highest level of education you have attained?
   (i.) University degree
   (ii.) High school or diploma
   (iii.) Secondary education
   (iv.) Primary education

3. What is your level of business experience?
   (i.) 0-5 years
   (ii.) 6-10 years
   (iii.) More than 10 years

4. What is the size of loan you are looking for?
   (i.) Above 10 million
   (ii.) Between 6 and 10 million
   (iii.) Below 5 million

5. What are the conditions set by the bank/Microfinance for repaying the loan?
   ~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~
6. Were you able to repay the loan once offered?
   (i.) Yes
   (ii.) No

7. If Not, what are the reasons?
   ---------------------------------------------------------------
   ---------------------------------------------------------------
   ---------------------------------------------------------------
Appendix 2: Questionnaires to Staff of FMFC (Specifically Loan Officers)

I have prepared this sample of questionnaire for purpose of collecting data concerning on my research

Questions:

1. Name ____________________________  
   Position ____________________________

2. For how long have you been in this position? ____________________________

3. Does your microfinance offer loans to SMEs?  
   (i.) Yes ________  
   (ii.) No ________

4. Do you make decisions of giving or not giving loans to SMEs?  
   (i.) Yes ________  
   (ii.) No ________

5. What is the size of loans offered by your microfinance to SMEs?  
   ____________________________________________________________  
   ____________________________________________________________  
   ____________________________________________________________

6. What is the rate of repayment/non-repayment among SMEs at your microfinance?  
   ____________________________________________________________  
   ____________________________________________________________  
   ____________________________________________________________

7. What are the causes of loan delinquency among SMEs, if any?  
   ____________________________________________________________  
   ____________________________________________________________  
   ____________________________________________________________
8. Does your office offer credit management training to the expected loan recipients?
   (i.) Yes  
   (ii.) No

9. Does training in credit management help to reduce the rate of loan defaults?
   (i.) Yes  
   (ii.) No

10. Are you using credit ratings system for loan applications from SMEs?
    (i.) Yes  
    (ii.) No

11. What challenges does your office face in collecting loans from SMEs?
    ---------------------------------------------------------------------------------------------
    ---------------------------------------------------------------------------------------------
    ---------------------------------------------------------------------------------------------

12. What are your suggestions on what should be done to solve the problem of loan delinquency among SMEs?
    ---------------------------------------------------------------------------------------------
    ---------------------------------------------------------------------------------------------
    ---------------------------------------------------------------------------------------------

Thank you for participation.
Your cooperation is highly appreciated.