FACTORS INFLUENCING MICRO LOANS DEFAULT AMONG MICRO & SMALL ENTERPRISES. A CASE STUDY OF SELECTED SMEs IN SIDO MANYARA
FACTORS INFLUENCING MICRO LOANS DEFAULT AMONG MICRO & SMALL ENTERPRISES.
A CASE STUDY OF SELECTED SMEs IN SIDO MANYARA

By

Faraji Abdulkarim

Research Report Submitted to School of Business in Partial Fulfillment of the Requirement for Award of the Degree of Master of Science in Marketing Management of Mzumbe University

November, 2019
CERTIFICATION

We, the undersigned, do certify that we have read and hereby recommend for acceptance by the University of Mzumbe a research report entitled “FACTORS INFLUENCING MICRO LOANS DEFAULT AMONG MICRO AND SMALL ENTERPRISES” in fulfillment for the requirements for the Award of Degree of Masters of Science in Marketing.

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Major Supervisor

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Internal Examiner

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External Examiner

Accepted for the Board of School of business

________________________
DEAN SCHOOL OF BUSINESS
DECLARATION

I Faraji Abdulkarim I swear in, this research report is my own original assignment that has neither been submitted to nor published anywhere else. This work has not been submitted and was not being used to any other university for a similar or any other purpose.

SIGNATURE____________________________

STUDENT’S NAME: FARAJI ABDULKARIM

DATE ________________________________

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ACKNOWLEDGEMENTS

I thank the Almighty Allah for giving me the intellectual capacity and ability to finalize this work.

I also pass a warm appreciation for supervisor Dr. George Mofulu, who was keen and willingness to guide my intellectual wisdom during research writing.

Moreover, none of this work would have been complete without the love and patience of my beloved family. They have been in love and support to strengthened me throughout my study, particularly my beloved wife Sauda Juma, whose material and moral support inspired my academic success up to this moment. I also like to extend my gratitude to my beloved Mom Fatma Abdulkarim, who supported me in moral and material support for the whole period of my study.

To all people, staff and my colleagues and the rest who are not mentioned. I honor for your support and inspiration given to me for the whole period of my study. I appreciate your assistance and may Almighty Allah bless you abundantly.

Lastly, I am thankful to the organization (SIDO Manyara) that provided me with the data. Finally, to all different people who contributed in different ways to propel me to the summit of this academic experience. I am grateful and may Allah reward you in different ways.
DEDICATION

I have no enough words to say the sacrifices you made and the dreams you had to let it happen, just to give me a chance to accomplish this work. I offer this report to my beloved wife Sauda Juma whose prayers, moral and material support helped me to finalize this report. Her tiredness and frequent reminds helped me a lot to accomplish this work.
ABSTRACT

This research on factors influencing loan defaulting among SMEs was carried in SIDO Manyara. Purposely, the study aimed to assess the default of SIDO for the period between 2016 and 2018; determine factors leading the possibility of loan defaults and assess the level of loan default among the selected SMEs in Manyara Region and to borrowers and MFIs. The study also examined income, personal and social factors how they influence loan default to SMEs.

The research used questionnaire and derivative data to collect information from the study area. Random sampling technique was used to pick 140 respondents. Generally, MFIs and informants of the Organization were chosen. For the case of key informants a sample of four staff were selected to answer questions design to get key information for this study. Primary data were gathered physically from the respondents by means of designed questionnaires and other information from key informants whereas secondary data were gathered from already published materials of the organization, periodical magazines and various publications from the organization. Data obtained were analyzed by multiple regression model so as measure the contribution factors in multiple linear regression in SPSS used to estimate the relationship between the factors influencing the borrowers to default. Data were entered in the SPSS and manipulated to get the desired results for analysis.

The result generated from the multiple regression model indicate that business income, personal and social factors were statistical insignificant at (P>0.05). However, age group and gender as controlled variables show the significant level as p = 0.007, p = 0.005.

Based on independent variables, majority of respondents identified that personal and social as major factors of loan default.
The study also portrays theoretical and practical significance of the study for SMEs, MFIs and other researchers who would like to get various information concerning this topic including references. Furthermore this research recommends micro finance institutions to share with borrowers in going through repayment of loan conditions, serious monitoring of loan funds, financial training need assessment templates and where possible the use of recognized private and court broker debt collectors. The study concludes by giving policy implications of the credit policy by suggesting the areas that need more improvement and others for further studies.
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CHAPTER ONE
AN OVERVIEW OF THE STUDY

1.0 Introduction

This section explains how the study was be carried out that examines the factors influencing failure to pay micro loans by SMEs in Manyara with reference to SIDO Manyara. It further describes setting of the problem, statement of the problem, research objectives together with question, the scope to the study and importance towards the study

1.1 Background to the study

In third world countries, financing poor country people using formal financial procedures failed to convene the microfinance requirements. The reason behind of failure was lack of any recognized formal employment and lack of collaterals for the poor (Pandey, 2011). Majority of the SMEs in these less developed countries including Tanzania is that most of SMEs have no permanent address they are very mobile from time to time as the result most financial institutions fear to deliver financial services to them because it is very difficult to tress them because they don’t have permanent address. The elevated risk, transaction costs of commercial banks associated with micro loans and savings deposits are other hindrance which made them unbankable. These hard conditions from commercial banks leave this unfortunate group with no alternative but to seek financial services from other private lenders on high interest rates and charges with a lot of conditions which sometimes the financial services does not intend to help them to improve their livelihood except to benefit themselves and left this group with nothing but a burden of debts and cries. In most countries including Tanzania, various measures have been taken by their responsible institutions including their governments to provide other means of formal credit facilities to rural people by formulating up special schemes of rural institutions/banks or commercial units to give loans to rural people. These measures includes among others Village community Banks( VICOBA) which play a
great role in Tanzania especially for women who are non bankable in formal institutions like banks and the likes because of lack of fixed assets like land, houses and other valuable assets.

Contemporary default rate statistics for third world countries shows that throughout of the 40 micro finance institutions, 15 which represents 37.5% of MFIs are exposed to default rate of (1-5) % which is constant with international recommended rate of loan default. The remaining of the surveyed micro finance institutions, 10 representing 34% have default range of (3-6) %; 4 representing sixteen percentage of defaulting rate of (6-15) % and three representing 12 percentages have default range of more than 15%. In Tanzania mainland, current default rate from FINCA and PRIDE is 3.4% and 3.8% respectively. This situation is very tense because most of portfolio of the credit organizations and institutions are lost because of this delinquency rate and therefore the survival of these institutions are in danger zone to continue with the businesses in the long run because the portfolio performance is decreasing instead of increasing. This is a disgusting rate since it is above the recommended international default rate of 4% (Korankye, 2015). Thus, it is from this basis research is done to discover the factors influencing loan default by SMEs from the ground of study.

Tanzania during the reaction to economic crisis of 1980’s tried macroeconomic stabilization policy and structural reform which resulted to the conversion of the economy from socialist to the market oriented economical system. This was one of the serious measures taken by the Government of Tanzania mainland to overcome this serious economic crisis for the betterment and welfare of citizens. Among the strategies engaged was financial liability initiative of 1990s which brought into the increase of commercial institutions like banks in Tanzania with the aim of regulating the economic pressure of the country and therefore paves a way to stabilize the economy of the country. Nevertheless, the financial institutions were very little in number to meet the demand of customers requesting loans as the result.
conditions pledged were very strong and unfavorable to borrowers because the interest right was very high and could not meet other clients to access loans especially those who poor because conditions were not easy to meet the requirement of these financial institutions. (World Bank, 2012).

MFIs actions are designed to provide financial services for MSMEs (micro, smaller and medium enterprises). These services include of micro credits, savings, micro letting, insurance & other types of financial service providers (PRIDE Tanzania, 2007). However, amongst these services micro loans and mandatory savings are the major services offered to the MFIs clients in the republic of Tanzania. The dream of majority micro finance institutions is to give monetary services to the economic-active poor people who cannot get these services from the formal financial services like banks (Nyamsogoro, 2011). In implementing this objective, majority of microfinance institutions in Tanzania have played an important role in micro, small and medium enterprises growth in Tanzania mainland compared to business banks, in most cases as organs to decrease the financial segregation among SMEs so as to attain economic growth of the poor. Remarkably, most MFIs have been one of the strategies for economic development that accelerates activities which generate incomes to the poor people; assists SMEs in maintaining source of income and enable ventures to grow and prosper into micro, small and medium business. In the advancement of market oriented business, microcredit institutions have given small and medium enterprises with micro credits and other microfinance assistance on a suitable basis with greater soft terms than other presented by risk oriented bank. The linkage access to microfinance with business growing assistance is a perfect lead to advance entrepreneurs and create business honor (URT, 2001).

Small financial Institutions in Tanzania are divided into Non Governmental Organization Microfinance Institution and Member based Microfinance Institution that is to say, Savings and Credit Cooperative association and Banking Institutions.
Non-governmental micro finance institutions function by solidarity group lending method whereby every group act as communal collateral for loan repayment. This kind of Microfinance also offer loans to few individual clients through individual lending methodologies where security is highly required. Some micro finance institutions includes: Organization for International Community Assistance, Bangladesh Rural Advancement Committee and Micro Enterprises Development Agency and Money based Micro Finance Institutions both of two types namely SACCOs and SACAs. These institutions provide loans to the registered members only. In some conditions, loans are offered to non-members whose financial records can be established and collateral is needed. In this type of MFIs, savings are obligatory before requesting for loan which acts as loan indemnity fund.

Micro finance includes the stipulation of monetary services through the variety of services that intend to low income earners. It includes other products like credits, savings and other financial services. Micro financing is amongst the financial instrument so as to facilitate the growth of the low income earners by generating means in fruitful resources most important to the upgrading of their creative generating activities. The micro finance intends to offer or advance term loan in standard conditions to borrowers so that they can meet their financial obligations like running their small businesses or ventures, buy food, build houses, send children to schools and many others like those mentioned above.

Findings have indicated that small financial institutions play three important roles in expansion through serving the marginalized family groups to meet up basic requirements of their daily life and protect them from risks, improving for domestic economic benefit and to give power to females by supporting female's economic activities and therefore promotes gender equality within the community and get away from imbalance among male and female. The studies suggest that micro- finances create entrance to productive funds for the poor, which jointly with human being capital, addressed through teaching and expanding skills, capital development,
achieved through local organization building, enables people to move out of poverty. By advancing working capital and finance to the poor people, their sense of self-esteem is capacitated and this helps to give strong powers to the persons to contribute in the economy of the country and society in general (Otero, 1999). The objective of advancing micro-finance services to the poor community according to Otero (1999) does not end there by giving those loans and run their business rather than its aim is to see if those working capitals are improving their livelihood and combat to win the poverty surrounding them and change their daily life. Because formal institutions like banks are not given priority to these poor people in giving them loans since conditions pledged to them are difficult and majority are not easy to fulfill them in getting loans. Therefore by these micro finance institutions these poor people are given chance to advance loans to run their daily income generating activities and therefore meet their basic needs for their family and other dependants. Therefore these micro finance institutions cover the gap for the poor to access funds to run their businesses without any problems of getting funds from big financial institutions like banks whose conditions are very difficult to be met by this poor group.

Littlefield and Rosenbergs (2005) reported to the deprived poor people are normally not considered by big financial institutions like banks in getting loans and other financial services because they are more risky therefore this being the case micro finance institutions have covered this problem to address this segment of the market left without any assistance in the financial sector. By identifying this gap micro finance institutions have come up with other mechanism of helping these marginalized group by setting soft conditions which can be met by this group to access funds and therefore be in position to meet their daily requirements. This has helped MFIs to expand their services to rural people who were ignored by big financial institutions like banks (Otero, 1999).

However, Banking Institutions like those which are profit-making banks are currently providing micro loans services. Among them are National Microfinance Bank, Tanzania Postal Bank, Kilimanjaro Community Bank, Bank of Africa and
other private Banks. These financial institutions are providing loans but at a high interest rate whereby among the majority few are capable to seek loans from these financial institutions and a big number of people are left with nothing to do because they cannot complete the required conditions from these financial institutions.

The study based to MFIs specifically SIDO as one which provide a clear image of the loan default than other type of MFIs and its lending methods that is individual and group lending explained here below.

The major objective of micro finance is to provide micro credits to the poor income earners especially isolated women (Strom, 2007). The possibility that MFI might not obtain its capital together with interest back from beneficiaries is the main reason and serious liability in microcredit institutions. The common problem of loan repayment difficult of MFIs is under repayment and defaulting. A term loan is termed to be under delinquent when installment is delayed and default means totally fail to repay back remaining balance i.e principal and interest. (CGAP,1999). A loan becomes delinquent or defaults when the possibility to repay becomes negligible. Delinquency is calculated because it shows an increase risk of loss of loan, this acts as indicator signs of day to day operations problems, and always help to predict how much of portfolio would ultimately be missing because it would never be paid.

1.2 The Statement of the problem

Given that loan defaults deteriorate the performance operation of MFIs, a variety of measures have been designed to decrease this problem. These efforts are expressed in credit assortment policies which are used to administer the account receivables and manage loan base of MFIs (Pandey John, 1996). These guidelines put into business various institutional mechanism to reduce the rate of loan defaulting. These measures are lending methods, selection techniques, pledging of security, credit assurance, credit score and use of set of agencies (Sewagudde, 2001).
According to Mulema, (2011), Small financial institutions use various measures to reduce the risks involved in unsecured lending business. These include; group lending, compulsory savings deposit to the amount taken, rewards for on time repayment in form of future access to bigger loan amount, penalties for late payments such as service charges and denial of bigger loan amounts in future.

On top of that majority of financial institutions have the policy to pledge valuable assets more than the loan amount applied about 125% in value in order for the client to feel pain incase he/she fails to repay his or her loan amount. Since the value of collateral pledged is of high value the clients will make sure he does not mess up in paying his dues in fear to lose his/ her valuable assets pledged. Past experience, ability and willingness of the borrower are also observed before advancing loan to a client (Vasanthi and Rajab, 2006). Using a simple random sampling in estimating the probability of default gives a purpose and direct forward approach.

In spite of all mentioned means, loan default is distressing majority of MFI’s. In Tanzania mainland FINCA, National Micro Finance Bank, Small Enterprises Development Agency and BRAC identified experience default rate (Korankye, 2015). Common information reveals that default rate is linked with personal, income and socio cultural factors (Berharm, 2006; Agarwal, 2008) Marjo, 2010; Vasanthi and Rajab, 2005 Marjo, 2010; and Bichanga, 2012).

Though, there is inadequate information on how current business and small financial institutions characteristics decide the factors influencing micro loans default among micro & small enterprises. Basing on this background the research is intended to find /determine factors influencing loan default among the chosen SME’s in Manyara particularly borrowers from SIDO Manyara.
1.3. Objective of the study

1.3.1. General objective

The general objective of the study is to examine factors influencing micro loans default among micro and small enterprises a case to selected micro and small enterprises from SIDO Manyara in Babati - Manyara.

1.3.2. Specific objectives

i. To evaluate the level of loan default among the selected SMEs in Manyara Region for the period between 2016 - 2018

ii. To examine the influence of business income factors on loan default of selected SMEs in Manyara Region

iii. To examine the influence of personal factors on loan default of selected SMEs in Manyara Region

iv. To examine the influence of social factors on loan default of selected SMEs in Manyara Region.

1.4. Research Questions

i. To evaluate the level of loan default among the selected SMEs in Manyara Region for a period between 2016-2018?

ii. To examine the influence of business income factors on loan default of selected SMEs in Manyara Region?

iii. To examine the influence of personal factors on loan default of selected SMEs in Manyara Region?

iv. To examine the influence of social factors on loan default of selected SMEs in Manyara Region?
1.5 The Significance of the study

The major motive of the study was to verify and expand the available knowledge and understanding regarding to loan default. The study also intended to strengthened available information on loan default. Various studies conducted regarding this topic but they didn’t cover each and every thing, therefore my report will add some knowledge which will be useful for other researchers and other interested parties on this field.

Another motive of this research was to give knowledge and assist future researchers who wish to study on this field regarding loan default in micro finance institutions. The study help MFIs, SMEs, and banks to have a good mode that can efficiently forecast the chance of loan default. This also acts as a tool required to support credit officers in building lend decision, calculating and monitoring credit portfolio risk and unraveling loans that want special attention.

Scope of the Study

The study focus to the factors influencing micro loans default among selected micro and small enterprises, and was be carried out from Small Industries Development Organization in Manyara, Tanzania. The study targeted SIDO workers like managers, credit officers and other financial and non-financial officers who have the knowledge on loan default together with its clients. The research was conducted in the period between September 2018 to June 2019.

1.6 Limitation of the study

Other respondents delayed to fill in questionnaires and much time was used to make a follow up on them to collect. Other respondents hesitated to disclose their information until when much explanation were given that data was required purposely for academics and not other way around. Because some respondents thought that the information asked was required by Tanzania Revenue Authority (TRA) for tax assessment.
During the collection of questionnaires some respondents did not fill in all parts of the questionnaires therefore much of the time was required to go back and request them to fill in the missing sections.

Key informants of the Organization like Managers, accountants, Credit officers were not available for some time because of other duties. Therefore I delayed to get the required information for my study. Lastly when I requested information of the organization there was some bureaucracy from the organization. The procedure of getting that information was first to seek permission from Headquarters of the Organization which also kept me to wait for permission for a while.

1.7 Organization of the report

The research report is divided into six chapters. Chapter one comprises an introduction of the topic, background to the study, statement of the problem, objective of the study which also include main and specific objectives, research questions, limitations of the study and scope of the study. Chapter two of the study comprises introduction of the chapter, theoretical literature review of the study which includes conceptual frame work, theories, hypotheses and empirical literature review of the previous studies conducted related to this study. Chapter three also comprised the introduction of the chapter, research design, area of the study, sampling design, population of the study, units of the analysis, sample size, sampling techniques, data collection methods, statistical models, data analysis methods and reliability.

Chapter four presents the presentation of results from the findings. Chapter five was about the discussion of the results attained in analysis and interpretation of the data in chapter four and the last chapter which is chapter six present summary conclusions and policy implications of the study.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section presents literature review. First section contains definition of the key terms, theoretical framework, theoretical literature review together with conceptual framework of the study.

2.1 Conceptual Definition

2.2. Loan default

Loan default means failure of making the required and specified payments of the loan taken at a given time according to loan repayment schedule of the loan contract. Pearson and Greeff (2007) expressed default as the threat that financial institutions face when the borrowers failed to repay their installment more than three times consecutively without any notice and any response. This situation is regarded by MFIs as bad sign because there is a possibility of losing the money landed to this borrower. This always happened because majority of SMEs are informal and they are not easy to trace them in making their installments therefore this situation exert pressure for micro finance institutions to recover their loan funds.

In parallel vein, Ameyaw, (2012) and Murray, (2001) defines default as failure of a borrower to settle the money taken i.e interest and principle which is not paid. If a borrower fails or institution accountable for repaying a loan or making an interest payment fail to settle the installment on point in time and various measures taken against him/ her fails including writing of demand notice of reminding him to pay it means the client is regarded to be in default situation and therefore the is possibility of client to fail to pay remaining balance if serious measures are not taken on time. In default, client or borrowers might lose their property pledged as collateral to acquire the loan. When the client default the financial institution will be responsible to make
a follow up to the client and remind him or her to pay the dues. In case the borrower fails to meet the obligations it means the institution has the right to take off the pledged assets to cover the loan amount.

The process of default is facing majority of SMEs because when they take loans from financial institutions they encounter a lot of problems including family problems, personal factors and other inconveniences which hinder them to repay their balances on time and therefore default. Non-payment has a negative collision on credit record and credit achievement, which generally makes it complicated to borrow again in the coming days. The study’s description is steady with Pearson and Greeff (2006) which express that, default is a situation reached by clients who fail to pay his or her installment on time according to loan contract and therefore cause fluctuations to loan officers to recover those loans. Therefore when such situation happened it means the loan in default becomes difficult to be recovered.

2.2.1 The Microfinance and microcredit

The sense of microfinance differs from one intellectual to another. Their difference is based on form of monetary services and credit provided to loan beneficiaries; and kind of people received the service. For instance: Quayel & Hartarska, (2017) describe Microfinance similar to the prerequisite of monetary needs including, savings, credits, insurance, re financing of loans in case the client fails to meet its objectives of business performance and to these groups of micro finance who are not served by the big financial institutions therefore the microfinance bring the service to this group in order to fill the gap because they are not served by financial institutions because they are very risky. These intellectuals considered financial institutions may reduce loan default to borrowers by offering trainings before on how to use loan funds effectively so that in the future the borrower is in position to pay installments on timely basis.
Tanzania Association of Microfinance Institutions (2014) describes microfinance as, actions aimed to advance of monetary services for cash flow capital to small and poor households who are marginalized by big financial institutions like banks and always majority of these groups are women who does not own fixed assets needed to acquire loans. The services include of small loans, refinancing of current loans, leasing and other typies of monetary services.

In comparable way, Fant (2013) define Micro finance as disbursement of applied loans by the client to run their business. Normally these micro loans provided to clients have soft conditions because even their assets pledged are those which are movable like furniture, electronic equipments like TV, radio, refrigerators and the like. These micro loans are provided under the condition that they will be repay after six to twelve months which normally is one year.

Studies treat microcredit and microfinance interchangeably; nevertheless there is a difference between them. Sinha (1998) defines microcredit as small loans advanced to borrowers while microfinance are small institutions which offer loans to small borrowers either in groups or in individual bases. These might be savings, pension or insurance (Okiocredit, 2005).

2.2.2 Micro, Small and Medium Enterprises

The SMEs classification is used to mean micro, small and medium enterprises. However, this is sometimes refers to micro small & medium enterprises (MSMEs). The small and medium wrap to farming economic activities which are not agriculture are mainly industrialized, commerce, mining as well as services. Nothing universally accepted meaning of Small and Medium Enterprises. Unlike countries use various measures of size depending on the development level. The commonly used indexes are sum number of employees, sum investment and sales turnover. On the side of Tanzania, micro enterprises are categorized according to the SME Policy of Tanzania formulated by the Ministry of Industry and Marketing in collaboration with United
Nations Industrial Development Organization which was launched in 2002 and till now it is that policy which is used to categorize the SMEs in Tanzania. This is illustrated in the table below:

Table 2:1 Categories of SMEs in Tanzania

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Capital investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprise</td>
<td>1-4</td>
<td>Up to 5mil</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>5-49</td>
<td>Above 5mil – 200mil</td>
</tr>
<tr>
<td>Medium enterprises</td>
<td>50-99</td>
<td>Above 200mil – 800mil</td>
</tr>
<tr>
<td>Large enterprises</td>
<td>100+</td>
<td>Above 800mil</td>
</tr>
</tbody>
</table>

2.2.3. Business Income

This can be referred as financial recompense generated from firm or entrepreneurs’ operations. Business income represents money gained from dealings before any expenses or other financial obligations are deducted. According to the Internal Revenue Service (2005), business income may include income received from the sales. For instance, rents received by a person in the real estate business are business income. A business must include in income payments received in the form of property or services at the fair market value of the property or services.

The earnings motive behind business income is universal to business entity. However, how business income is taxed is treated differently for each of the most common business forms, sole proprietorships and partnerships.

2.2.4. Personal factors

Personal factors are characteristics that are specific to a person and may not relate to other people within the same group. These characteristics may include how a person makes decisions, their unique habits, interests and opinions. While considering personal factors, decisions are also influenced by age, gender, background, culture, and other personal issues. For a case in point, an elder person was obviously show different behaviors for loan default than a younger person, means they suffered
differently and spend their money on things that may not attract younger persons. This study was based to personal factors that influence to loan default. It was center on 5 factors that are: death of borrowers, family problems, misuse of loan, and lack of savings and few sources of income.

2.2.5. Social factors

These are the factors that affect our thought and behavior in social situations. This includes life style, educational activities and religious belief. Social factors affecting credit differ greatly among different places. In rural areas and in up countries the high percentage of literacy and computer knowledge is very low because education accessibility for most of people is very low and the opportunity available are not utilized fully the situation which left majority of people with little knowledge in social issues hence difficult in utilizing the available opportunities for their development. In third world countries, social grievances hinder the SMEs of getting means to establish business through acquiring credit funds to run their business and issues of daily basis. These factors can include education skills, life style, marriage and divorce, religion believes, background of families and the wealth of the community surrounding them.

2.3 Theoretical Literature

The theoretical literature was about going through various theories concerning the study to get a real picture concerning the topic under the study as elaborated hereunder.

2.3.1. Theory of the study

The study based on the following theory which are elaborated hereunder as follows.
2.3.2. Agency theory

Agency theory studies refers to how economic actors can and do construct contractual arrangements, generally in the presence of asymmetric information. A standard practice of the agency theory is to represent the behavior of a decision maker under different situation and to identify optimal decisions. The strength of this theory falls in finding hypothetical ways to encourage middle men to take suitable actions, even beneath an insurance agreement.

This technique has been applied to the agency theory frame for more than a few typical situation, labeled moral hazards and unfavorable selection. In more danger models, the information irregularity is the principal's incapability to observe or verify the agent's action. In different selection models, the principal does not notify about a certain distinctive characteristics of the agency. Adverse assortment referred to market process in which undesired results occur when buyers together with sellers have unique information (access to dissimilar information); the "awful" customers are likely to apply in favor to the product.

This research identifies the relationship between Agency theory and the likelihood of loan beneficiaries to default from paying their payment on time. Hiding information of the borrower and failure of the lender to investigate the character of the borrower lead the borrower to fail to pay the loan in full amount. If the loan is advanced to such client the possibility of repaying back of the principal and interest is very minimal hence increase the possibility of default from the borrower.

If a borrower has accessed a loan, the loan defaults depends on borrowers procedures. This means that if the procedures are not observed well it means the borrower is in position to fail to repay back dues. Because you will find even security pledged for a loan are not in place or has low value compared to loan amount taken. But if the loan has guarantee it means the loan will be covered from the guarantee funds.
In this research Principal represents micro finance institutions while Agency represents the loan beneficiaries who are entrusted with loans and expected to repay as per MFIs requirements. Therefore, the MFIs incapable to access borrowers’ information concerning socioeconomic uniqueness, business background, portfolio and experience and general business performance may lead to failure to repay loans which eventually termed as default. In addition in the some cases the study reason that when loan supervisors becomes an Agents of MFIs, usually be unsuccessful to meet up the MFI’s interests acting as Principal to make sure the borrowers are well supervised and report any element that signals defaults for immediate and suitable measures.

This study uses the Agency theory which recommends that financial institutions enter in the business with the borrower without having enough information of the borrower as the result of moral hazards or other selections

2.3.3. Microfinance lending models

Lending models referred to the methods applied by money lenders to provide loans to the borrowers. The mainly ordinary lending methodologies or microfinance lending models as tinted in the above subsection are Individual and Group lending models.

2.4. Individual lending model

Under this methods loan is disbursed to an individual after pledging the collateral security. The individual client is responsible himself or herself to repay his full amount without any assistance from the group. Training assistance is offered to client before given loan on payment schedules and business management training to enable the borrower to settle the loan on time (Hazeltine and Bull, 2004).

There is a vast threat in advancing in case the loan is paid financial institutions can not grant another loan in future because the client has not shown the good history in
the previous loan (Kay, 2005). Due to this risk of paying back a loan lenders are supposed to screen all the requirements needed prior before advancing a loan to a borrower.

Some of the grievances that the credit institutions think before granting credit include: character of the loan beneficiaries, amount requested by the borrower, intention for the loan, capacity of the borrower to administer the venture successfully, revenue foundation of reimbursement and insurance. Other factors are reputation of the client from the community, whether the client has other loans from other financial institutions to avoid malt loans, permanent address of the client to avoid the client to run away and avoid paying the loan and willingness of the client to pay the loan amount.

Therefore, this method reported to be much cost and require a number of credit officers who strongly supervise individual clients through profound ground research to select credit worth clients, especially for clients who do not own tangible securities.

2.4.1 Joint Liability Group model

Joint Liability Group method is also known as group lending model. Normally it contains five to ten individuals grouped together to borrow a loan in peer group. Members who form these groups are self-selected basing on their status and relationship to one other. Normally member groups know each other and always leave in the same locality and therefore become easy for them to meet and discuss their issues and then collect money together ready for loan installment. It is the duty of all members within the group to repay installments on time, which means whenever one member fails to repay dues all members are supposed to be accountable. This model has been originated from Bangladesh in Asia and spread to other countries all over the world including Tanzania.
Though, the discussed methods are not the only microfinance methods. Other methodology are designed and applied according to the environments and needs of the clients in respect to their economic activities.

2.5. Theoretical foundation of the study

The study was guided by the following indicators of loan default and hypothesis which are elaborated hereunder.

2.5.1 The relationship between business income and loan default

As the study defined the loan default as a risk threshold that describes the point in the borrower’s repayment history where he missed to repay at least 3 installments within a month period (Pearson and Greeff, 2006). This is incapability of a client to pay debt when gets due. If a client responsible for repaying a loan fails to meet that obligation on recommended time, that person or group is regarded as default client. Financial recompense generated from firm or entrepreneurs’ operations can lead to defaulting. Income gained from transactions before any expenses or other financial obligations as it is deducted hence not much so that the borrowers can pay for their loan for 3 months. Business income generated from the sales are not enough able to operate the business hence repay for loan

Therefore, loan defaulting has a negative relationship on business income, which generally makes it difficult to borrow again in the future. This implies that the more the business factors appear, the more the level of loan default. Hypothesis 1: Business income is negatively related to loan default.

2.5.2. The relationship between personal factors and loan default

If it happens a client fails to repay dues on time the person is regarded to be a default client. After default may lead the client to lose the security kept as a property to obtain a loan. This default may also be caused by personal factors. These include
characteristics that are specific to a person and may not relate to other people within the same group. These characteristics may include how a person makes decisions, their unique habits, interests and opinions. When considering personal factors, decisions are also influenced by age, gender, background, culture, and other personal issues. As example provided previously, the elder person was likely show different behaviors for loan default than a younger person due to interest and other characteristics.

The discussion above assumes that there is positive relationship on personal factors, which lead difficulties to borrowers having a loan in the future.

Hypothesis 2: Personal factors are positively related to loan default

2.5.3. The relationship between social factors and loan default

Loan default represents a situation whereby the client delay to repay the loan as per loan agreement, it is the sign of bad client and serious measures should be taken on time to rescue the situation. There is a comprehensible raise in the risk that the client finally was really unable to pay the loan obtained from MFIs, hence increasing repayments amount. Default as incapability of a borrower to pay the interest on arrears when it is due. Normally, in default level, a borrower might lose his/her property kept as security to acquire the loan. These may be reasoned among others, social factors. These are the factors that affect thought and behavior in social situations. This may include life style, educational activities and religious belief. A high rate of literacy and computer savvy coupled with an understanding of the importance of scholarship and research fuel the need for materials libraries including those provided through interlibrary loan.

Social factors have positive relationship on loan default. The higher the degree of social factors, the higher the degree of loan default.

Hypothesis 3: Social factors have a positive relationship on loan default
2.6. Empirical literature review

Makorere (2015), studied grivances influencing loan repayment habits which cause to default in the regions of Dar -es- Salaam and Morogoro, because the data available and reports reveal that majority of financial institutions are suffering a lot to recover loans taken by borrowers because of various economic parameters facing them. The research utilized simple random sampling and applied sampling technique to get sample size of 120 respondents. The research used the method of interviews, research questionnaires to obtain primary data which always are collected from the field, as expressive statistical was applied to run the data in SPSS and information which are in frequencies and percentages were obtain. The descriptive findings showed that the most important factors like moral behavior, electricity blackout, and economic instability have strong impact in inspiring loan repayment behavior in Tanzania mainland. The research concluded that government should take serious measures in helping these MFIs to regulate this sector in their operations of this financial performance. Therefore micro credit institutions should observe five criteria of loan applicants in assessing them to get good screening list of clients who can manage to pay their dues on time, these parameters are character, capital, condition, capacity and collateral. These conditions are very important and should be observed. Furthermore, Kinyondo (2009) studied the key factors that influence loan repayment amongst group clients of microfinannce organs at Dar es salaam. The study focused on 150 respondents from PRIDE and BLAC in Kariakoo, Dar es salaam. The multiple regression results indicate that experience, character size of loan taken suggests the loan repayment rate. Finally, Kinyondo concluded by suggesting policy option to improve loan recovery performance amongst borrowers of micro financial institutions in Tanzania.

Furthermore, Bichanga (2013), studied reasons of loan defaults to micro credit institutions and identified that majority of clients who seek loans from these financial institutions misuse their loan instead of investing in the purpose, they use loan funds
to celebrates and other social ceremony like birthday and buying valuable home assets like televisions, furniture and the like as the result when it comes to loan repayment the business fails to repay the loan. Unforeseen events were also seen as the factors that affect business to repay a loan.

Also, Marjo (2010) studied that socio-demographic and behavior variables have effect on loan defaulting. Among other demographic variables age, income, education and character were found important. Also there were behavior variables that cause major influence on loan defaults. These are loan amount and the information if client has been given a loan before from the same institution. The results had variation to some extent when excluding few of the variables outside the model.

Moreover, Vasanthi and Raja (2006) reported the possibility of default risk linked with business income and other factors which was reported by the Bureau of Australia in Statistics (ABS 2002) in a sample taken of 3434 households in that particular year. The study intended at looking for the relationship among the defaulting rate and socio-economic and households characteristics of the borrowers. The findings reported that the age father of the household is important in shaping the probability of level of loan default in the family. That is, the younger members of the family most of them are not good in paying loans and majority of them are affected in paying loans and the burden is increasing of installments. Income as socio-demographic variable showed to have a important effect, and that low income contributes to default. Another important factor was the misuse of loan funds; level of education and the leader of household and marital status of the family had important impact on default. Vasanthi and Raja concluded that the likelihood of default is very high with those borrowers who are less educated or never educated, younger people because they are very mobile seeking employment jobs and divorced ones especially those who get early marriage.
In parallel way, Agarwal et al (2008) observed the position of human being in social capital information character on family level default and failure to pay loans and its outcome. They applied monthly board data of 180,000 credit cardholders for duration of over three years. The results from of each client’s default and insolvency file status they managed to find misery factors such as diseases, spending much than what is gained, income, prosperity, economic conditions, legal surroundings, social and demographic characteristics to significantly affecting loan to default. Their findings revealed that loan clients who move from their place of birth default more than those borrowers who origin in birth. Another result was that borrowers who are married and posse’s houses of their own have a lower risk of default from loan compared to those who do not own the fixed assets like houses.

Above all, Berhanu (2005) studied social and economic conditions, institutions and usual factors that influence repayment of loans ability of small farmers and nomards in North Gondary, Ethiopia. Data utilized for this research were obtained from a sample of 158 clients through well questionnaires. Statistical model by regression was applied to analyze factors affecting loan payments of the clients and concentration of loan recovery among small farmers and pastoralists. A total of 18 descriptive variables were measured in the econometric designed. From these eight variables were found to considerably affect the loan installment. In this study it was revealed that the size of the family, property owned by the family which are land, livestock and other generating income activities were among the sources of generating income and source of getting income to repay loan installment. The family size, reason of borrowing and the amount of loan were regarded to have less contribution effect on loan default for majority of small farmers and pastoralists in that region.

With reference to the research conducted by Mungure (2015) states the impacts and causes for loan default to Micro Finance Institutions operations using PRIDE T. Limited - Nyamagana branch in Mwanza City as a case study. The study based on
investigative the impact of loan default on financial institutions running costs, income, profit and examining degree in which loan management, monitoring & control affect loans repayment, identifying if multiple borrowing by clients lead to loan default, decide whether the use of funds by clients for unplanned purpose accelerates to loan default. Research plan applied was the case study design.

The research was conducted in Mwanza city in Nyamagana and Ilemela district sample size comprised of 90 clients who benefited from PRIDE (T) services and ten credit officers of PRIDE (T) Ltd. Sampling techniques applied was simple random sampling used for credit officers and Purposive sampling technique applied in sampling clients from microfinance institutions. Data was processed through SPSS and analyzed and presented in the form of frequencies, percentages and tables. The study findings revealed that interest rate imposed on microloans, misuse funds from its intended purpose, multiple borrowing has a direct impact on repayment. The study also revealed some of the causes that contributed to the default by some customers such as lack of collateral and high interest rates. The study also concluded that group landing and solidarity groups are solutions in preventing high default rate. MFIs should also provide appropriate training and supervision to clients regarding the use of their loans. Moreover, MFIs should have clear and effective credit or lending policies and procedures and must be regularly reviewed.

Murthy & Mariadas (2017) were carried out the research on the factors contributing to loan repayment in MFIs based in Shah Selangor, Malaysia. In their research, data were collected through questionnaire that was distributed to one hundred twenty thousand loan borrowers of micro MFIs in Shah Selangor. Moreover, data was analyzed with SPSS. The study observed that nature of business operated by borrowers is one of the factors that was influence loan repayment. Finding of this research are recognized that there is a +ive relationship between nature of business operation and -ve relationship between age of borrowers, misuse of funds by borrowers as well as repayment installments to loan default.
Mensah, (2012) argued that default of the loan is the failure of the borrower to fulfill his/her responsibility with respect to repayment of a loan. Loan defaults owe the financial capability of the organization to fulfill its obligation to other applicants. Mensah seeks to find some risk hindrances that persuade loan default among customers in Akatakyiman Bank Limited – Komenda. The secondary data on some variables which influence whether a customer defaulted or not in a loan accessed was obtained from the credit sub department of Akatakyiman Bank Limited – Komenda. A total of one hundred observations for a period of four years (2006-2010), there were eleven variables in the data table. A logistic regression model was posed to the data.

It was discovered that amongst the variables that were applied, collateral and type of loan were important to the study in which marital status, sex, age and the education level were not important to the study. Mensah concluded that the risk of default for a client who used property as a security in securing the loan less than for a client who used personal security. Taking loan transport as a reference group, the risk of client defaulting when given a personal loan is less than when given a transport loan, all other factors remain constant.

On top of all, Berhanu (2005) argued about accessibility of alternative source of income, family dependents and intention of borrowing. From empirical point of review, it is concluded that business habits (profit of business, acquisition of business management education skills, experience on business etc.) and micro finance institutions characteristics like (interest of the loan screening techniques, credit score) were not involved in variables that affect loan default. Therefore, the study intends to fill the gap by investigating out business and SIDO characteristics establish the possibility of a loan beneficiaries to default rate
2.7. Conceptual framework

With reference to Dinhg and Kleimer, (2007), present that there are two significant standards of unpredictable assortment; first, the variable should have important coefficient and give to explanations of the dependent variable discrepancy. Second, the variable should have strong correlation with integrated variables.

In the middle of the factors commonly influences the level of loan defaults include the entrepreneur’ income, business past experience, time to repay loan, amount for payment, monthly profit, death, family issues, misuse of loan, fashion and life style, more dependants, age, gender, education, occupation, region, housing status, marital status, collateral value and loan duration. This research divides these variables at different variables like business income, personal factors and social factors.

Initial independent variable is business income that results to failure to repay a loan. This study assumed that the business income factors assisted to identify the reasons for loan default from client side. This relationship is also agreed by other studies like “factors affecting loan repayment behavior” conducted by Makorere (2014).

The next independent variable is the personal factors of undertaking to be funded by loans. The study assumed default arises due to incapability of the undertaking to provide returns. Therefore, the study assessed if loan is spent on personal expenditure. The death of borrowers, family issues, misuse of loan etc. was taken in consideration.

The other independent variable was social factors. This variable is measured by the life style; business education; spouse obstacles and religion belief. The assumption is that the influence of these issues has a significant influence on the defaults of loan.
Figure 2.1: Determinants of Loan defaults

Source: Author, 2019

Research gap.
Given that loan default weakens the financial performance of Micro financial institutions, various methods have been put in place to solve the problem. These measures are uttered in credit collection policies which are used to manage the accounts receivables and manage loan portfolio of MFIs (Pandey, 1995). These guidelines put into operation various institutional mechanisms to decrease the rate of loan defaulting. These include lending methods, screening techniques, pledging of security, third party credit assurance, credit score and use of set of agencies (Sewagudde, 2000).

According to Mulema, (2011), Micro financial institutions exercise various methods to decrease the risks involved in unsecured borrowing. These include; peer lending, compulsory saving deposit to the amount taken, rewards for on time installments in
structure of future access to higher loan amounts, penalties for late payment such as fees and denial of bigger loan amount.

Moreover the decision to disburse money to the borrower depends on history of the client because from there is when the lender can have a real picture of the borrower if is going to settle the dues on time. Majority of SMEs use the credit history of the client to determine whether the borrower will pay back the loan without using force and frequent visits. Also the capacity, condition, capital, collateral and character are mainly used to determine how far the client will enable abide the rules present in the contracts. Also MFIs use the policies available to enable the client to make payments, Vasanthi and Rajab, (2006). Using regression analysis in calculating the possibility of default gives a lender to understand the ability of the client to repay back principal and interest on time.

In spite of all the elaborated strategies, loan default is distressing majority of MFIs in the country. The Foundation for International Community Assistance (FINCA) and Promotion of Rural Initiative and Development Enterprises (PRIDE) addressed to experience defaults (Korankye, 2015). Broad information reveal that default rate is linked with economic and social grivancies (Berharm, 2005; Agarwal, 2009; Pendey, 2010; Vasanthi and Rajabu, 2006 Marjo and Sirlha, 2010; and Bichanga, 2014).

However, there is few information on how does present micro finance institutions character determine the factors influencing micro loans default among micro & small enterprises. Basing on this background the research is intended to examine /determine factors influencing loan default among the chosen SMEs in Manyara particularly borrowers from SIDO Manyara.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section identifies the procedure and technique that was be applied to collect process and analyze the data. This section focuses on the research design that was be applied, the target population of the study, the sampling design and the sample, the data collection instruments and the data analysis techniques respectively.

3.1 Research Design

The research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper and Schindler, 2003). A random sampling design was applied to collect information since a chosen population to get the fully picture as it reveal in the study area. In response to this, data from chosen respondents was collected at a single point in time. The plan was selected because of being economic to carry by considering the time factor.

3.2 Area of the study

The study was carried out in Manyara region Babati District, the case of SIDO Manyara. The study was administered questionnaires to a sample of microcredit of individual customers in Babati District in SIDO Manyara. The main purpose of conducting this research in this area is that the problem is very intense as most clients are facing difficulties in repaying loans at SIDO Manyara. Also the accessibility of data was be easy to get from the Organization.

3.3 Population of the study

Population referred to all elements in the field of inquiry (Kumar, 2008). The population of this study included management staff of SIDO Manyara and customers. The study was collect information from staff dealing directly with loan
administration within the organization because of their knowledge on the topic under the study. Specifically, this study focused on loan department of the Organization i.e employees, like credit officers, accountants and clients or loan borrowers of the Organization.

3.4 Sampling design

Ngechu (2005) emphasizes the significance of choosing the representative sample by making the sampling frame. Since it is the population frame the required number of subjects, respondents, elements or firms was chosen in order to compose a sample. Simple random sampling method was applied to select the required sample. As per Babbie (2010) simple random sampling technique provide estimates of the whole population dimensions with greater accuracy and ensure a more representative sample is derivative from a relatively uniform population. Simple random sampling is a subset of elements chosen from larger population. According to Mugenda (2003) a sample of between 10-30% of the target population is considered adequate for generalization of the findings to the whole population. However, Mugenda (2003) added that the chosen sample size should comprise of at least 30% of the whole elements. The study was randomly select 140 respondents from the field including SIDO staffs as a sample size.

3.5 Type and Sources of Data

There are two major types of data; primary data which is information collected directly from the source/field for purposes of the study & secondary data which is information collected from the available work of other authors and published materials (Wilson, 2010). This study used both primary and secondary data as sources of information; primary data was gathered from the respondents while secondary data was sourced from published works like records of the organization. According to Mugenda and Mugenda (2003), secondary data is information collected from already published works such as books, articles, newspapers, and the internet. The secondary data is important because it acts as a support arm of the primary data;
it provides already available information on the research topic and it serves as a check and standard for evaluating primary data (Stevens et al, 2006). Secondary data was applied to get information since they are already available. These are; records, magazine articles, journals, published books, textbooks and internet sources.

3.5.1 Data Collection methods or Instruments

This study utilized questionnaires for primary data collection. The questionnaires designed in this study were comprised of two sections. The controlled questions were applied in order to serve time and money as well as to make easier analysis as they are immediate usable form; while the opened ended questions was used so as to make the respondent to give a detailed response of the questions asked. A questionnaire is a schedule of various questions intended for self-completion by survey participants (Brace, 2008). It is a cost effective method to acquiring information especially from a large or sparsely located group of respondents. It also allows for anonymity.

3.5.2 Piloting

Before conducting the study research tools or instruments were administered to participants as pre-testing to ensure that the questions are relevant, clearly understood and make sense. The pre-testing aimed at determining the reliability of the research tools including the wording, structure and sequence of the questions. This pre-testing included 10 respondents from the target population. The respondents were conveniently select since statistical conditions are not necessary in the pilot study (Cooper and Schindler, 2003). The purpose is to purify the research tools so that interviewees in the major study have no difficulty in answering the questions. Expertise opinion was required to comment on the suitability of questions and gave opinions of correction to be done to the structure of the research questions. This helped to develop the content validity and reliability of the data that collected from the field. This was done to get the assurance of the information which are needed to be collected from the field for the purpose of this study.
The pilot study was carried out to determine data needed by using designed questionnaires. Those questions were applied to see whether they will help to acquire needed data for the researcher. According to Breg and Grill (2001) validity is the way how information required will help to meet the goal of the researcher. The information collected was based on the nature of the research itself to enable someone to get the needed data to make decision Mugenda and Mugenda (2002). The researcher discussed the questions on the questionnaire with the supervisor who had more knowledge on the same.

The content validity of the research instrument was evaluated through the actual administration of the pilot study. The research used both face and content validity to determine the validity of the questionnaires. As a check on face validity, survey items are sent to the pilot group to obtain suggestions for modification (Lacity and Jansen, 1994).

According to Shanghverzy (2003) reliability referred to the consistency of measurements. This consistency was ensured. Dependability was very high by involving many similar objects on the measuring sampling and by using uniformity procedures. The study chosen a pilot group of 12 respondents from the intention inhabitants which had similar demographic as those in credit subsection and customers under the customer managers to test the reliability of the study instruments. The aim was to correct inconsistency arose from the instrument, which ensured that they evaluate what was planned.

3.6 Data Collection Procedure

The study collected quantitative data using self-administered questionnaires and secondary data from published records of the organization. The researcher informed the respondents that the inputs needed were for research purpose only and the responses from the respondents would be kept secret and confidential. The researcher obtained an introductory letter from the University to collect data from the
organization then personally he delivered the questionnaires to the respondents and the respondents fill in the questionnaires and were collected later on. The assurance was given to the respondents in order to be free in providing the required information from the field.

3.7 Measurement of variables

The following was an elaboration how the researcher measured variables. The table below gives the details along with instruments used for measurements.

Table 3.1 Measurement of variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of items</th>
<th>Measurement scale</th>
<th>Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business income</td>
<td>5</td>
<td>5 – point likert scale</td>
<td>Internal revenue service(2005)</td>
</tr>
<tr>
<td>Personal factors</td>
<td>9</td>
<td>5 - points likert scale</td>
<td></td>
</tr>
<tr>
<td>Social factors</td>
<td>6</td>
<td>5- points likert scale</td>
<td></td>
</tr>
</tbody>
</table>

3.8 Data Analysis

The data gathered for this research was analyzed using the computer-based Statistical Package for Social Sciences (SPSS) as the researcher deemed it the most appropriate given its versatility and considering the nature of the data that was collected. The SPSS has the incredible capabilities and flexibilities of analyzing huge data within seconds and generating unlimited simple and sophisticated statistical results including simple frequency distribution tables, polygons, graphs and pie charts. The qualitative data took an exploratory/conceptual content analysis process, this is more ideal as the information collected from the open ended questions which is large and could take a long time to analyze if not well planned (Wilson, 2010). The data was then presented using SPSS by multiple regression models.

3.9. Multiple regression models

With reference to the nature of the study was to study the relationship between variables, multiple linear regression models was used as suitable statistical model for
the research. The study had a population of MSEs, with various factors of the level of loan default distributed uniformly, in the population. The factors influencing the level of loan default for MSEs were related to micro finance institutions: i.e. normally known that the factors may have the chance of loan default. As a result, this may be solemn that relationship in a linear regression model, like: Level of loan default $Y = Y + X_1\text{Bif} + X_2\text{Pf} + X_3\text{Sf} + \epsilon$

Where, $Y$ is the intercept, $X_1$ to $X_3$ are parameters that factors are increased by in obtaining a prediction of loan default $\epsilon$ is the error term. This implies that the loan default is predicted by various factors, with some error. The model had the following parameters which were business income, personal factors and social factors used to test how they influence loan default.

$Y = \text{loan default}$

$B_1$ to $B_3$ = parameters/coefficients

Bif = Business factors

Pf = Personal factors

Sf = Social factors

$\epsilon$ = error term

Therefore $Y = B_0 + B_1\text{BF} + B_2\text{Pf} + B_3\text{Sf} + \epsilon$ …… equation

3.9.1 Ethical Consideration

Respondents were assured on the basis that the information they provide, were basically academic and that there was no hidden agenda which could implicated them in the coming days. This was obvious to them as the questionnaires wouldn’t demand their names. Participants were informed in advance on their freedom to provide information or not that means they had the mandate and discretionary powers to accept or refuse. After those explanation most of respondents were ready to fill in questionnaires.
CHAPTER FOUR

PRESENTATION OF RESULTS AND DISCUSSION OF FINDINGS

4.0. Introduction

The chapter portrays the demographical information of the respondents i.e. sex, age group, marital status and level of education of respondents. It also describes and finalizes with the presentation of results from the field.

4.1. Demographic information

This section presents the demographic characteristics of the respondents. The researcher intends to know the sex of respondents, their age group, marital status and level of education. These items are observed as they could influence the micro loans default among micro and small enterprises at SIDO Manyara.

4.1.1. Gender of the respondents

Table 4.1.1 indicates that the circulation of respondents according to their gender. The majority of micro and small enterprises who are borrowing at SIDO were male who comprises 71 (50.7%) out of 140 respondents 69 (49.3%) were female. The result implies that, the majority of men have been engaging in seeking loans from SIDO compared to women. This might be caused by men in the society are the majority who own land, houses and other valuable assets compared to women.

Table 4.1 Gender of the respondents

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Male</td>
<td>71</td>
<td>50.7</td>
<td>50.7</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>69</td>
<td>49.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>140</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
This implies with what Mensah (2012) stated among valuable assets used as collateral majority are owned by men as a result men have a great access to seek loans from MFIs.

4.1.2. Respondents’ age group

The result delivered from the table (4.1.2) presents the respondents who were characterized by age group from 18 to 70. Majority of micro and small enterprises seeking loans from SIDO were youth. According to this study age group between 18-35 with 56 respondents (40%) were involved in borrowing loans from SIDO followed closely by age group of 36-53 with 54 respondents (38.6%) who are elder than youth. Lastly was the group aged between 54-70 with 30 respondents (21.4%).

Table 4.2 Respondents’ age group

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-35</td>
<td>56</td>
<td>40.0</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>36-53</td>
<td>54</td>
<td>38.6</td>
<td>38.6</td>
<td>78.6</td>
</tr>
<tr>
<td>54-70</td>
<td>30</td>
<td>21.4</td>
<td>21.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

According to these results, the age group between 18-35 (40%) is more likely engaging in business of getting loans from SIDO than the age group between 36-53 and the age group between 54-70 years of age (38.6) and (21.4) respectively. Logically, people in the age group of 18 - 35 years are very energetic, graduates from universities and other tertiary educations who are not employed as a result they seek loans from SIDO and other MFIs to get self employment. This reveals the current situation of the country whereby there is overwhelming unemployment which lead majority of youth to seek another option of self employment for their survival.

4.1.3. The respondents’ marital status

Table 4.1.3 shows the marital status of the respondents. The majority of loan beneficiaries from SIDO were married who comprises 92 (65.7%) out of 140
respondents, followed by single and divorced matching each other with 17 respondents each (12.1%) and widowed with 14 respondents (10%).

Table 4.3: The respondents’ marital status

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>17</td>
<td>12.1</td>
<td>12.1</td>
<td>12.1</td>
</tr>
<tr>
<td>Married</td>
<td>92</td>
<td>65.7</td>
<td>65.7</td>
<td>77.9</td>
</tr>
<tr>
<td>Divorced</td>
<td>17</td>
<td>12.1</td>
<td>12.1</td>
<td>90.0</td>
</tr>
<tr>
<td>Widowed</td>
<td>14</td>
<td>10.0</td>
<td>10.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The findings elaborates that married people engage more in looking areas to seek loans including SIDO than any other marital status. It might be that married people SMEs (65.7%) have enough access to borrow from SIDO compared to single, divorced and widowed. Also they have assets required by SIDO like houses, plots and other immovable assets required as assets to secure loans compared to single, divorced and widowed.

4.1.4. The respondents’ education level

The result presented in this table shows that most of the participants were in secondary education 41 respondents (29.3) followed by tertiary education 38 respondents (27.1), the other group of respondents where degree and above 34 respondents (24.3%) and last respondents were from primary education level with 27 respondents which is equal to (19.3%).
Table 4.4: The respondents’ education level

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary school completed</td>
<td>27</td>
<td>19.3</td>
<td>19.3</td>
<td>19.3</td>
</tr>
<tr>
<td>Secondary school completed</td>
<td>41</td>
<td>29.3</td>
<td>29.3</td>
<td>48.6</td>
</tr>
<tr>
<td>Tertiary education</td>
<td>38</td>
<td>27.1</td>
<td>27.1</td>
<td>75.7</td>
</tr>
<tr>
<td>Degree and above</td>
<td>34</td>
<td>24.3</td>
<td>24.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The result presented in this table shows that most of the participants were in secondary education 41 respondents (29.3) followed by tertiary education 38 respondents (27.1%), the other group of respondents where degree and above 34 respondents (24.3%) and last respondents were from primary education level with 27 respondents which is equal to (19.3%). This result from the table above show that majority of respondents are coming from secondary education level. This might be that they have no qualifications to be employed in formal ways by the government institutions; as a result they look another option of seeking loans from SIDO so that they can manage to meet their daily basis in life. Marjo (2010) argues that majority entrepreneurs are those reached at secondary school education level so they decide to start business because there is no possibility of securing a job from the government.

Business capital

The researcher wanted to know business capital of SMEs who are seeking loans from SIDO to see whether they had capital already before seeking loans from SIDO or they do regard loan applied as startup capital. The respondents responded accordingly as the table number 4.1.7 below, shows their responses to this question.
The table over there indicates the range of business capital from the respondents of the researcher. The majority of the respondents had a capital ranging from 1,000,000-4,000,000 with 75 respondents (53.6%). The second range of respondents had a capital ranging from 4,000,000-7,000,000 with 51 respondents (36.4%) while the last respondents group had the capital ranging from 7,000,000-10,000,000 with 14 respondents 10.0%).

From the results in the table above show that majority had small business capital to run their businesses. This means that most of loan beneficiaries have no enough capital to run their ventures which hinder them to pay their installments as per repayment schedules because of insufficiency working capital.

**Annual business income**

The researcher wanted to know annual income of SMEs for three years (2016-2018) who are seeking loans from SIDO to see if they had enough annual income to enable them to pay their dues after securing loans from SIDO. The respondents responded accordingly as the table number 4.1.8 below, shows their responses to this question.
The table above shows the range of annual income for respondents in the year 2016, whereby the majority had an annual income range from 3,000,000-6,000,000 which are 74 (52.9%) respondents, the second range was respondents with annual income of 6,000,000-9,000,000 which are 52 (37.1%) respondents and the last group was few respondents with an annual income ranges from 9,000,000-12,000,000 which are 14 (10.0%) respondents.

The result from the table indicates that most of borrowers from SIDO Manyara have no enough annual income obtain from their businesses therefore it becomes difficult for majority to repay installments as per contract.

**Table 4.7 Annual business income 2017**

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tsh30000000-6000000</td>
<td>69</td>
<td>49.3</td>
<td>49.3</td>
<td>49.3</td>
</tr>
<tr>
<td>Tsh60000000-9000000</td>
<td>52</td>
<td>37.1</td>
<td>37.1</td>
<td>86.4</td>
</tr>
<tr>
<td>Tsh90000000-12000000</td>
<td>19</td>
<td>13.6</td>
<td>13.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The table above shows the range of annual income for respondents in the year 2017, whereby again the majority had an annual income range from 3,000,000-6,000,000 which are 69 (49.3%) respondents, the second range was respondents with annual income of 6,000,000-9,000,000 which are 52 (37.1%) respondents and the last group was few respondents with an annual income ranges from 9,000,000-12,000,000 which are 19 (13.6%) respondents.

This results show that many of borrowers from SIDO Manyara for the year 2017 their annual income was between 3mil – 6mil which means that the number of beneficiaries in terms their income increased by 5%
Table 4.8 business income 2018

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Tsh3000000-6000000</td>
<td>73</td>
<td>52.1</td>
</tr>
<tr>
<td></td>
<td>Tsh6000000-9000000</td>
<td>51</td>
<td>36.4</td>
</tr>
<tr>
<td></td>
<td>Tsh9000000-12000000</td>
<td>16</td>
<td>11.4</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The table above indicates the range of annual income for respondents in the year 2018, whereby again the majority had an annual income range from 3,000,000-6,000,000 which are 73 (52.1%) respondents, the second range was respondents with annual income of 6,000,000-9,000,000 which are 51 (36.4%) respondents and the last group was few respondents with an annual income ranges from 9,000,000-12,000,000 which are 16 (11.4%) respondents.

The findings from the table above show that, the majority of SMEs for duration of 3 years (2016-2018) had small annual income which range from 3,000,000-6,000,000. These findings concur to the study of Vasathi and Raja (2006) who estimated the majority of SMEs have low annual income which leads to loan default.

The table below summarized the business income for three years from 2016 – 2018 in terms of frequency and percentages.

Table 4.9 Annual business income 2016 – 2018

<table>
<thead>
<tr>
<th>Tsh. 3mill - 6mill</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
<td>Percent</td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>74</td>
<td>52.9</td>
<td>69</td>
<td>49.3</td>
</tr>
<tr>
<td>Tsh. 6mill - 9mill</td>
<td>52</td>
<td>37.1</td>
<td>52</td>
</tr>
<tr>
<td>Tsh.9mill -12mill</td>
<td>14</td>
<td>10.0</td>
<td>19</td>
</tr>
</tbody>
</table>

Reliability results

In this section scales internal consistency is tested in order to measure personal factors, personal factors, social factors and loan default variables.
Table 4.10: Reliability statistics of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Default</td>
<td>0.759</td>
<td>0.759</td>
<td>8</td>
</tr>
<tr>
<td>Personal factors</td>
<td>0.722</td>
<td>0.726</td>
<td>4</td>
</tr>
<tr>
<td>Social factor</td>
<td>0.717</td>
<td>0.707</td>
<td>9</td>
</tr>
<tr>
<td>Personal factor</td>
<td>0.751</td>
<td>0.748</td>
<td>3</td>
</tr>
</tbody>
</table>

The results show that the loan default as dependent variable, personal factors, personal and social factors were checked as factors affecting loan default. The alpha value was derived and resulted to the scale’s overall Cronbach’s alpha coefficient was 0.073 (above 0.7) Cronbach’s alpha level; i.e. all these four variables were reliable to 140 sample size.

**Descriptive analysis**

This section describes the mean and standard deviation of the variables in order to show how a particular independent variable relates with dependent variable; i.e. loan default. In this case when the mean ranges from 0-2.49 its implication is that a particular independent variable has no relationship with dependent variable. When the mean ranges from 2.58- 3.08 it means there is slightly relation between independent variable and dependent variable and when the mean ranges between 4.7 and above it means there is a close relationship between independent variable and dependent variable.

The findings show that business factors as independent variables had contributions to a loan default. Set of questions was asked by the researcher to the respondents. Mean and standard deviation were derived hence major and minor contributions were produced. The table (4.3) below clarifies the above statement.
Table 4.11: Descriptive Statistics on business income factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too early to pay the loan</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.7071</td>
<td>1.62930</td>
</tr>
<tr>
<td>Past experience to your business</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8000</td>
<td>1.25921</td>
</tr>
<tr>
<td>Amount to pay too much</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8500</td>
<td>1.22283</td>
</tr>
<tr>
<td>Business income enough to pay loan</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.5643</td>
<td>1.27065</td>
</tr>
<tr>
<td>Business generate enough profit</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8286</td>
<td>1.34615</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>140</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Too early to pay the loan as independent factor shown to have mean 2.7071 and standard deviation of 1.62930, this means that too early to pay the installments has slightly relationship with loan default.

Past experience of the business as independent factor indicated to have the mean 2.800 and std deviation of 1.25921, this means that past experience of the business as independent factor has slightly relationship with loan default (dependent factor).

Loan installment or amount to pay to be much as independent factor indicated to have the mean of 2.8500 and standard deviation of 1.2228, this means that loan installment to be big as independent factor has slightly relationship with loan default.

Business profit as independent factor indicated to have the mean of 2.8286 and standard deviation of 1.3462, this means that business profit as independent factor has slightly relationship with loan default.

Business to generate enough profit as independent factor indicated to have the mean 2.8286 and standard deviation of 1.34615, this means that business to generate enough profit as independent factor has slightly relationship with loan default.
Table 4.12: Descriptive Statistics on personal factors

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death lead loan default</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>3.0643</td>
<td>1.47014</td>
</tr>
<tr>
<td>Family problems lead hinder repayments</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9643</td>
<td>1.34331</td>
</tr>
<tr>
<td>Mult loans lead loan default</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>3.0786</td>
<td>1.50332</td>
</tr>
<tr>
<td>Misuse of loan</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9643</td>
<td>1.33255</td>
</tr>
<tr>
<td>Loan with clear objective</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8000</td>
<td>1.30962</td>
</tr>
<tr>
<td>Lack of saving cause default</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9500</td>
<td>1.32668</td>
</tr>
<tr>
<td>Lack of income cause default</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.9929</td>
<td>1.44688</td>
</tr>
<tr>
<td>Characters reason for default</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8071</td>
<td>1.40859</td>
</tr>
<tr>
<td>Failure to inform spouse is a problem</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8857</td>
<td>1.39931</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>140</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Death of loan beneficiary as independent factor indicated to have the mean of 3.0643 and standard deviation of 1.47014, this means that death of loan beneficiary as independent factor has close relationship with loan default.

Family problems as independent factor indicated to have the mean of 2.9643 and standard deviation of 1.34331, this means that family problems of loan beneficiary as independent factor has slightly relationship with loan default.

Multiple loans as independent factor indicated to have the mean of 3.0786 and standard deviation of 1.50332, this means that multiple loans as independent factor have slightly relationship with loan default.

Misuse of loan funds as independent factor indicated to have the mean of 2.9643 and standard deviation of 1.33255, this means that misuse of loan funds as independent factor have slightly relationship with loan default.
Lack of savings as independent factor indicated to have the mean of 2.9500 and standard deviation of 1.32668, this means that lack of savings as independent factor has slightly relationship with loan default. Character as independent factor indicated to have the mean of 3.721 and standard deviation of 0.975, this means that character as independent factor has close relationship with loan default.

Lack of income as independent factor indicated to have the mean of 2.9929 and standard deviation of 1.44688, this means that lack of income as independent factor has slightly relationship with loan default.

Character as independent factor indicated to have the mean of 2.8071 and standard deviation of 1.40859, this means that character as independent factor has slightly relationship with loan default.

Failure to inform spouse when securing loan as independent factor indicated to have the mean of 2.8857 and standard deviation of 1.39931, this means that failure to inform spouse when securing loan has also slightly relationship with loan default.

### Table 4.13 Descriptive Statistics of social factors

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life style hinder repayment</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.6714</td>
<td>1.36999</td>
</tr>
<tr>
<td>Business skills education</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8286</td>
<td>1.41900</td>
</tr>
<tr>
<td>Wife husband hinder loan repayment</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.4000</td>
<td>1.51159</td>
</tr>
<tr>
<td>Religion beliefs forbid to have loan</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.4429</td>
<td>1.39512</td>
</tr>
<tr>
<td>More dependants in family</td>
<td>140</td>
<td>1.00</td>
<td>5.00</td>
<td>2.5000</td>
<td>1.51966</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>140</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Life style as independent factor indicated to have the mean of 2.6714 and standard deviation of 1.36999, this means that life style as independent factor has slightly relationship with loan default. Business skills education as independent factor
indicated to have the mean of 2.8286 and standard deviation of 1.41900, this means that business skills education as independent factor has slightly relationship with loan default. Transparency in marriage husband/wife as independent factor indicated to have the mean of 2.4000 and standard deviation of 1.51159, this means that transparency in marriage has slightly relationship with loan default.

Religious believes as independent factor indicated to have the mean of 2.4429 and standard deviation of 1.39512, this means that religious believes as independent factor has slightly relationship with loan default. More dependants in family as independent factor indicated to have the mean of 2.5000 and standard deviation of 1.51966, this means that more dependants in family have slightly relationship with loan default.
## Correlation analysis

### Table 4.14: Correlations

<table>
<thead>
<tr>
<th></th>
<th>Level of Loan default</th>
<th>Personal factors</th>
<th>Social factors</th>
<th>Business income factors</th>
<th>Gender</th>
<th>Level Of Education</th>
<th>Marital Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan default</strong></td>
<td><strong>1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>140</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Personal factors</strong></td>
<td></td>
<td>.097</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.255</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>140</td>
<td>140</td>
<td>140</td>
<td></td>
<td></td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td><strong>Social factors</strong></td>
<td></td>
<td>.102</td>
<td>.019</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.230</td>
<td>.823</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>140</td>
<td>140</td>
<td>140</td>
<td></td>
<td></td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td><strong>Business income factors</strong></td>
<td></td>
<td>.068</td>
<td>-.079</td>
<td>-.041</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.426</td>
<td>.355</td>
<td>.629</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>140</td>
<td>140</td>
<td>140</td>
<td></td>
<td></td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td>-.228(**)</td>
<td>-.111</td>
<td>.186(*)</td>
<td>.347(**)</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.007</td>
<td>.192</td>
<td>.028</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>140</td>
<td>140</td>
<td>140</td>
<td></td>
<td></td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td>-.081</td>
<td>.186(*)</td>
<td>.180(*)</td>
<td>.094</td>
<td>.095</td>
<td>1</td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.344</td>
<td>.028</td>
<td>.034</td>
<td>.270</td>
<td>.262</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>140</td>
<td>140</td>
<td>140</td>
<td></td>
<td></td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td><strong>Marital Status</strong></td>
<td></td>
<td>.400(**)</td>
<td>-.109</td>
<td>.042</td>
<td>.548(**)</td>
<td>.059</td>
<td>-.381(**)</td>
</tr>
<tr>
<td><strong>Pearson Correlation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td>.000</td>
<td>.199</td>
<td>.620</td>
<td>.000</td>
<td>.490</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>140</td>
<td>140</td>
<td>140</td>
<td></td>
<td></td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td>1.5012</td>
<td>3.7867</td>
<td>2.5686</td>
<td>2.7500</td>
<td>1.4929</td>
<td>3.5643</td>
<td>2.2000</td>
</tr>
<tr>
<td><strong>Std Deviation</strong></td>
<td>.37268</td>
<td>.73834</td>
<td>.62939</td>
<td>.70481</td>
<td>.50174</td>
<td>1.06082</td>
<td>.77923</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**

* Correlation is significant at the 0.05 level (2-tailed)
Objective 1: Level of loan default and Personal factors

The relationship between loan default and personal factors was examined by using Pearson correlation coefficient. The results indicates that in the sample of 140 respondents, there is strong relationship between the level of loan default and personal factors ($r = 0.97$). Equally, there is a positive relationship between the level of loan default and personal factors hence the sample selected do not reflect the population values.

BUSINESS PROFILE

Business experience

The researcher wanted also to know the experience of SMEs who were interviewed to know whether they had enough experience concerning to business they are running. The respondents responded accordingly as the table number 4.1.6 below shows their responses to this question.

Table 4.15 Business experience

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year</td>
<td>11</td>
<td>7.9</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Two years</td>
<td>14</td>
<td>10.0</td>
<td>10.0</td>
<td>17.9</td>
</tr>
<tr>
<td>Three years</td>
<td>30</td>
<td>21.4</td>
<td>21.4</td>
<td>39.3</td>
</tr>
<tr>
<td>Four years</td>
<td>17</td>
<td>12.1</td>
<td>12.1</td>
<td>51.4</td>
</tr>
<tr>
<td>Five years</td>
<td>33</td>
<td>23.6</td>
<td>23.6</td>
<td>75.0</td>
</tr>
<tr>
<td>Six years</td>
<td>17</td>
<td>12.1</td>
<td>12.1</td>
<td>87.1</td>
</tr>
<tr>
<td>More than 7 years</td>
<td>18</td>
<td>12.9</td>
<td>12.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>140</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

The table above shows the result after running in the SPSS. Majority of loan beneficiaries have the experience of five years which were 33 respondents (23.6%), the second group had the experience of three years which were 30 with (21.4%), the third group was closely related each other with more than 7 years being 18 respondents with (12.9%), followed by those with respondents with 17 participants having (12.1%). Other respondents were 14 with (10.0%) and the last were respondents with one year experience who were 11 respondents with (7.9%)
This means that majority of borrowers have enough experience in operating business and therefore they have enough knowledge to operate their ventures. Those with one year experience might be among of those who default in paying their dues.

The relationship between loan default and personal factors was examined by using Pearson correlation coefficient. The results show that in a sample of 140 respondents, there is weak relationship between the level of loan default and personal factors ($r = 0.10$). Evenly, positive relationship between the level of loan default and personal factors was derived; therefore the sample selected reflects the population values.

The relationship between loan default and social factors was studied. Pearson correlation coefficient was used to measure the relationship. The results depict that in a sample of 140 respondents, there is strong relationship between the level of loan default and social factors whereas $r = 0.68$). Similarly, there is a positive relationship between the level of loan default and social factors hence the sample selected reflect the population values.

The relationship between loan default and gender, level of education and marital status was studied. Pearson correlation coefficient was used to measure the relationship. The results depict that in a sample of 140 respondents, there is very strong relationship between the level of loan default and gender, level of education and marital status whereas $r = 0.22$, $r = 0.08$ and $r = 0.4$. Similarly, there is a negative relationship between the level of loan default vs. gender and level of education but positive relationship with marital status however the sample selected reflects the population values.

**Results for objective one**

To evaluate the level of loan default among the chosen SMEs in Manyara Region for a period between 2016 – 2018
Multiple regression analysis

Table 4.16 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.454(a)</td>
<td>.206</td>
<td>.164</td>
<td>.36549</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), MARITAL STATUS, Social factors, Personal factors, GENDER, LEVEL OF EDUCATION, Age group, Business income
b. Dependent Variable: Loan default

The data were analyzed by multiple regressions, using independent variables (business income; personal factors; social factors) and dependent variable (the level of loan default). However, marital status, gender and level of education were also used as controlled variables. The regression model was good since R-square = 20.6% or 0.206 as it is presented in table 4.10, model summary).

Table 4.17 ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>4.585</td>
<td>7</td>
<td>.655</td>
<td>4.903</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>17.633</td>
<td>132</td>
<td>.134</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Total</td>
<td>22.218</td>
<td>139</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), MARITAL STATUS, Social factors, Personal factors, GENDER, LEVEL OF EDUCATION, Age group, Business income
b. Dependent Variable: Loan default

The result from the table 4.11 show that the overall relationship was significant as ‘F = 4.903, p = 0.0001’.
Regarding to other variables held constant, the level of loan default were positively related to business income and personal factors, but again, it is positive related to social factors (see Table 4.12). The results show that the level of loan default was increasing by 0.006 for the influence of business income, and by 0.085 for the influence of personal factors. Also, the level of loan default was increasing by 0.137 for the influence of social factors. Due to these result, there is statistical significance of age group and gender factor though there is no significant to business income, personal and social factors variables.
CHAPTER FIVE
DISCUSSION OF THE RESULTS

5.0. Introduction

Chapter five presents the discussions from available results in the previous chapter. A concisely discussion is justified based on the field outcome thus interpretation of the results in relation to the previous studies.

5.1. Discussion of the Demographic Information

The information which has covered in this section was the gender, age group, marital status and education level. The research assumes that whether there are participants with low level of education subsequently the chance for loan payment could be low. Also, those married respondents were supposed that they would pay their loan in a conductively way since they get motivation and some incentives from their husbands/wives. The result discovered that 50.7% out of 140 respondents were male, followed by 49.3% that were female. Majority of SMEs entrepreneurs had secondary completed level of education, about 29.3% higher than other level of education.

This result implies that many entrepreneurs who completed secondary level of education benefited from the loan provided by SIDO in Manyara region. And, they are wasingly to obtain loan for business. At the same time most of married people obtain loan for businesses. The result is in line with the study of Marjo (2010) who studied that social demographic and behavior categories have influence of loan default. Amongst these demographic variables includes age, income and education level. Furthermore Berhanu (2005) reported that source of income, education were among variables that affect loan default.

5.2. Business income, personal and social factors to the level of loan default

Regarding to business income, were observed as factors contributing to the level of loan default. Starting time for loan installment was seen as hindering factor for
borrowers to repay because majority were not given enough grace period to be prepared to pay their dues, as a result they start to deduct from the loan itself and pay the loan installment. Profit generated from the business was also another hindrance factor because most of the businesses were not generating enough profit to enable borrowers to repay their loan installments on time hence they pay just partial of their installments which lead to loan default in the long run. Experience in running the business was seen as influencing factor in loan default. Most of entrepreneurs lack experience in managing their businesses which includes failure to keep records, sharing family expenses and business and the like. This concur with the study conducted by Vasanthi and Raja (2006) who reported that loan default is associated with lack of income from the business since low income accelerate to loan default for majority of loan beneficiaries from SIDO Manyara.

Personal factors like death of borrowers, family problems, multiple borrowing, misuse of loan funds, character of borrowers and low income were assumed as factors influencing loan default. The result show that most loan beneficiaries from SIDO are affected by these personal factors mentioned above. Though the results show the most personal factors influencing loan default includes death of borrowers, multiple borrowing and character of the borrowers. This concur with the study reported by Onyeagocha (2012) who exposed that diseases, stress, loan size taken by a borrower and behavior influences to loan default. There has significant positive relationship between personal factors as well as the loan default is concerned.

Another aspect found in the study is the social factors, it argued that change of fashion, life style, business education skills in business, lack of transparency within a family religious belief and having more dependents in the family contributes to loan default. This might be because of above factors hinder the borrower to repay his/ her loan installment on time because of the burden of more dependents in the family. Change of fashion/ style also influence loan repayment especially those SMEs dealing with clothes, because they normally fashions and style change within a short
time and they can change before the old stock finish as the result the borrower fails to repay on time simply because they lack sales. Lack of education skills for most of loan borrowers was among another factor which contributes to loan default. Majority of loan beneficiaries have no skills to keep records of their business as the results the stock is finished and the borrower never realize the profit. This in turn led the borrower fail to repay his/ her loan on time hence loan default. Generally speaking social factors was seen as one of the hindrances constraints in loan default. The results show that there are major challenges based on personal challenges that hinder loan repayment. It might be that, these social factors in one way or another have contributed in large extent for loan default of clients of SIDO Manyara for the period the study was conducted. This is supported by the study conducted by Bichanga (2013) who concluded that loan default was because of social factors like inadequate training skills and lack of supervision of loan borrowers by MFIs together with socio demographic variables like income and education level.

The level of loan default is the probability of dependent variable and explanatory variables were defined as $\beta_0$ is the constant term of the regression line, while $\beta_1$, $\beta_2$ and $\beta_3$ are the components of level of loan default factors i.e. factor $\beta_1$ was business income, $\beta_2$ was personal factors and $\beta_3$ was social factors.

The results show that business factors have parameter 0.96 which is statistical insignificance at 0.05%; 0.31 for personal factors estimated parameter which is also statistical insignificance by 0.05% test and social factors have parameter 0.11 that is again statistical insignificance at 0.05. Therefore the study rejects the null hypothesis which said that loan default level and business income, personal and social factors are not significance. The result implies that these factors bring the influence to the level of loan default to some extent and without these factors to the SMEs then, there was probability for loan to be paid.
RESULTS FROM KEY INFORMANTS

The researcher also got the key information from the key informants, amongst was number of borrowers in past three 2016 to 2018. The table below shows the results.

**Table 5:1 Results From Key Informants**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Borrowers</th>
<th>Peer Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sum</td>
<td>M</td>
</tr>
<tr>
<td>2016</td>
<td>341</td>
<td>172</td>
</tr>
<tr>
<td>2017</td>
<td>262</td>
<td>121</td>
</tr>
<tr>
<td>2018</td>
<td>267</td>
<td>128</td>
</tr>
</tbody>
</table>

The researcher also got other information from the key informants of the organization that, the borrowers were paying service charge before being issued loans. Borrowers were frequently visited before given loan to assess their businesses, and it was observed that majority of clients seeking loans from SIDO Manyara were those looking loans for working capital of their businesses. The findings also reveal that majority were given some training to help them to manage their portfolio hence not to default. SIDO Manyara was not very much interested in giving loans to solidarity groups this is proved by the data portrayed in the above table because for the period under the study SIDO Manyara managed to disburse to three groups only with 37 males and 68 females only.

On criteria to secure higher loan/ second loan Credit officers responded that the criteria were good records in paying the previous loan and other 5 Cs were mainly observed. Further more Credit officers addressed some challenges in loan follow up which included among others escaping from the business and going to other places of the country hence became difficult to tress them which led to loss of portfolio funds. Also credit officers addressed some challenges in loan follow up which includes unreliable transport means for loan follow up and multi borrowing of some clients to other financial institutions. Some measures were taken to minimize loan default which is training before disbursement, defaulters assigned to debtor collector and good screening of loan applicants. Also key informants suggested that borrowers
should never misuse loan funds and avoid multi borrowing to make them repay their dues on time so that they can secure another loan.

It was also informed by credit officers that for the period under the study i.e 2016-2018 the number and clients defaulted was fluctuating that is to say in 2016 a number of 567 borrowers defaulted, 2017 the number decreased to 521 borrowers while in 2018 the number of defaulters increased up to 610 borrowers. In 2016 a total of Tsh. 373,976,976/- regarded as amount defaulted, 2017 the amount defaulted was Tsh. 248,752,053/- and in 2018 the defaulted amount was Tsh.445, 256,023/-

Lastly credit officers addressed that a loan is regarded to be delayed when it is less than 30 days from the due date and is regarded to be in default when the borrower delayed more than 30 days from the date of loan repayment.
CHAPTER SIX
SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

6.0 Introduction

This section briefly summarizes all the work and gives the conclusion, policy implication of the study and limitations observed during the whole period of the study. Part one contains the summary of the research report, part two conclusion of the report, part three portray policy implications as linked to the findings of the study and the last section presents hindrances of the study.

6.1 Summary

The objective of the study was about to find about factors influencing micro loan default among micro and small enterprises, case study was SIDO Manyara in Babati. The study involved 140 respondents from loan beneficiaries of SIDO Manyara. Data were gathered using questionnaires from the respondents, key informants of the organisations and others were obtained from records of the Organisation.

Focusing on the findings above, section 5.1 explained the demographic characters which involved variables like gender, age level of education and marital status. These variables are mainly linked borrower’s capacity to repay instalments or to default. The findings showed that a large number of borrowers are males which indicate that more males are seeking more loans compared to females because most males have many commitments compared to females. The results also indicates that majority of younger people are engaged in getting loans compared to adults this shows that SIDO is considering young people to seek loans so that they can employ themselves. The results also indicate majority of respondents have attained secondary school that makes 70.7% of the total respondents. Also majority of respondents are married and few are not married but with other informal relationships.

The study revealed the level of loan default in SIDO Manyara. The extent of loan default was revealed using available records of the client. Normally, the rate of loan
default has been reduced from year 2016 to 2018 due to appropriate screening of clients. However, for the period of 2017 to 2018 there was an increase of default rate owing to inadequate close monitoring and poor supervision of borrowers and inadequate loan supervision of business due to poor follow up.

Furthermore, the results indicated that male clients default more likely compared to female clients because females are more risk compared to males. Also males are less risk adverse compared to females. The results also indicated that youth ranging 18-34 are more likely to default compared to aged ones, default rate decrease with increase in age. Education was also seen to affect business which means that clients with certain education level pay back their dues on time compared to non educated clients because those who are not educated have the problem of keeping records and they mix business transactions with personal use as the result they fail to realize the profit hence loan default. Married borrower default less compared to those who are not married and lastly self employment clients observed to default more compared to other occupation.

Loan beneficiaries who acquired business education skills and other trainings on managing businesses manage well their businesses are less likely to fail to pay their instalments. Businesses which generate enough capital also were able to pay instalments on timely basis rather than those which do not generate enough revenues. Also the study revealed that loan purpose was another problem for loan default because the misuse of loan funds automatically will make the borrower to fail to repay instalments on time hence loan default.

Finally the findings from the study portrayed problems facing borrowers of SIDO Manyara and staff of SIDO. This happened that whenever the client failed to pay the instalments it means the security pledged will be taken to cover the remaining amount of principal and interest as the result of this bad relationship between SIDO staff and the borrowers are created.
6.2 Conclusion

The objective of this study was to determine factors that influence micro loans default among MFIs in SIDO Manyara. The study exposed that SIDO has tools for attaining economic growth and poverty eradication in the region. In spite of the importance of SIDO in the region, this findings revealed some difficult and highlighted methods to be used and solve challenges in particular loan default.

Moreover, the study concludes that age of borrowers, marital status, venture type, loan usage and business management skills are major grievances that determined the possibility of a client to default. Though other factors such business income factors, personal factors like social problems such as diseases, weak legal action to borrowers, and past knowledge in business are very important in settlement of loan instalments.

The consequences related to loan default cannot be avoided to both lender and borrower. The lender face the challenges of losing profit generated from paying interest and penalty, also the profit is reduced due to provision of bad debtors. On the other hand the borrower face the challenges of losing security pledged as collateral and the possibility to advance for next loan becomes minimal to such type of client.

From the findings of the research report it is summarized that, still there is a considerable level of loan default percentage in high rate among the loan beneficiaries of SIDO Manyara. This percentage of loan default is enhanced various business income factors, personal factors, social factors the businesses which lack strong management is likely to default because of lack of management and good record keeping as the result those borrowers who fails to manage their business well are likely to collide with credit officer during loan follow up. The accessibility of secondary data were not easily available due to restrictions of the Organisation however the study finally obtained those data to complete this study. This was due to the confidentiality policies of the SIDO Manyara as the Government institution.
However, there were complicated procedures to access the required information from SIDO relating to the borrowers and SIDO as the organisation.

The study seems to be useful for future references because it reveal what happens in industry of borrowing loans from the financial institutions point of view.

6.3 Policy implications

Credit policy seems to be good to the loan environment at SIDO hence it leads to more borrowers able to proceed obtaining loan. The policy relied much on only MFIs interest but not to borrowers. According to the policy, the matter is borrowers should ensure that the loans are paid timely. Therefore, the policy forgets concentrating on other factors i.e. personal, social and business income. The study suggests that the credit policy makers should regard not only financial factors but other environment should put into consideration in order to decrease the possibility for borrowers to loan default.

Credit policy sticks on hard conditions the same as those from formal financial institutions like interest rate, type of collaterals and penalties without considering the other side of borrowers who are the main target. Therefore the study suggest that policy makers should consider borrowers who are beneficiaries and users of this credit policy by taking their opinions and observations and accommodate them in the policy to decrease loan default. The study give the insight of problems facing the industry and its solutions to tackle the problem facing the majority MFIs.

6.4 Areas for Further Research

The report preserve be used to all Tanzanian micro finance institutions given the accessibility of funds. The researcher suggests an exploration of the borrower’s perception on micro finance institution policy and measures that persuade loan clients to default. This would help financial institutions to reform their guidelines and other rules to progress loan recovery and therefore decrease loan loss to the
maximum level. This study has not covered each and everything there are still many
gapes on this area which need to be studied for the betterment of future users.
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APPENDICES

APPENDIX I: QUESTIONNAIRES

Please, my name is Faraji Abdulkarim, a student of Master’s of Science in Marketing at Mzumbe University. I am conducting a research titled “Factors influencing loan default among micro & small enterprises: a case of selected micro & small enterprises in SIDO Manyara Region” The study requires the responses from various SMEs and key informants from SIDO Manyara. I beg you to read carefully and respond to the questions below. This information is for academic purpose only hence will not be used or presented in other way around. And the result from the study will be shared in case of need. I will be excited if you will spare you valuable time to respond the questions here under.

Thank you for your time.

Please tick the correct answer

PART I: PERSONAL INFORMATION

1. Gender
   a) Male
   b) Female

2. Age……………………

3. Level of Education
   a) Not educated
   b) Primary School completed
   c) Secondary completed
   d) Tertiary education
   e) Degree and above

4. Marital status
   a. Single
   b. Married
   c. Divorced
PART II: LOAN INFORMATION

1. Apart from SIDO, mention other microfinance institutions you have been involved with?
   a) Microfinance Bank
   b) SACCOS
   c) Not involved
   d) NGOs
   e) ROSCA and other Informal institution

2. Is the repayment scheme set by SIDO suitable for timely repayment of loans?
   a. Yes
   b. No

3. If NO, Why?

4. How many times have you taken loans from SIDO in terms of years?

5. What is the percentage of interest rate charged by SIDO? ……………………

6. To what extent does the charged interest rate set by SIDO compared to other financial institutions?
   a) High
   b) Low
   c) Medium
   d) Ordinary Market rates

7. Are the loans offered by SIDO unfair in any form?
   a. Yes
   b. No

8. Did you insert any SIDO loan amount into this/these businesses?
   a) Yes
   b) No
8. If YES, WHY?

<table>
<thead>
<tr>
<th>No</th>
<th>Reasons for injecting Loan Amount in business</th>
<th>Tick</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Capital growth</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Repayment of business debts</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Establishment of other new business</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>To meet the business running cost</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>OTHERS</td>
<td></td>
</tr>
</tbody>
</table>

9. How many times have you borrow from SIDO? ………………..

10. Did you got amount of loan from SIDO as you applied?
   a) Yes
   b) No

11. Was the amount of loan provided by SIDO enough to meet your plans in business?
   a. Yes
   b. No

12. Did you spend the entire loan in reason you specified above?

13. If No, What amount………………………..

14. If, NO, What amount did spend on other expenditures?

<table>
<thead>
<tr>
<th>No</th>
<th>Loan Expenditures</th>
<th>Tsh</th>
<th>Tick</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personal Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Luxury</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Social contributions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Repayment of family Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Meet Emergencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Payments of School fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>House constructions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Purchases of Assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
15. Have you failed to repay loan installments?
   a. Yes
   b. No

If yes, what are the reasons for business failure?

For each of the following reasons indicates how you agree or disagree with the statement using the rating scale of 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree

**BUSINESS INCOME FACTORS**

<table>
<thead>
<tr>
<th>NO.</th>
<th>QUESTIONS</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Time to repay is too short</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>You have a past experience concerning to your business</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Amount of repayment in each month is too much</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>The month business income is enough to repay the loan</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Your business generate enough profit monthly</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Others, please specify</td>
<td></td>
</tr>
</tbody>
</table>

**PERSONAL FACTORS**

<table>
<thead>
<tr>
<th>No</th>
<th>QUESTIONS</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Death of borrowers lead to loan default</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Family problems i.e. diseases, funerals etc hinder the loan payment</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Multiple borrowing is an obstacle for loan default</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>You have the misuse of loan</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>The application of loan is driven by your clear objectives</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Lack of savings causes loan default</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Lack of income sources is a root for loan default</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Lack of awareness of Loan to the (spouse) family is a problem</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other. Specify</td>
<td></td>
</tr>
</tbody>
</table>
SOCIAL FACTORS

<table>
<thead>
<tr>
<th>No</th>
<th>QUESTIONS</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Change of fashion and life style hinder the loan repayment</td>
<td>1 2 3 4 5</td>
</tr>
<tr>
<td>2</td>
<td>You have been attending in business skills education</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Your husband/wife is an obstacle for loan payment</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>There is the religion beliefs that forbid to have a loan</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>You have more than 10 dependants in your family</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others, specify</td>
<td></td>
</tr>
</tbody>
</table>

APPENDIX II: INTERVIEW GUIDE

1. What is your annual income in the following years?
2. How long is your business in operation? ……………………………
3. Have you failed to repay the loan in other Microfinance institutions
   a. Yes
   b. No
4. If yes, what were the reasons?
5. Average profit generated per month? …………………

APPENDIX III: QUESTIONS FOR KEY INFRORMANTS

Number of borrowers in Past 3 years

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual Borrowers</th>
<th>Group Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Male Female</td>
<td>Total Male Female</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. What are conditions needed to acquire a loan?
2. Do you visit the venture of the borrower?
3. What is the intention of lending to the client?
4. Do you provide trainings to clients who ask for loan before disbursement?
5. What are procedures required by the client to secure a loan?
6. What are minimum amount of the loan for first client?
7. Any challenges during loan repayment, please explain
........................................................................................................................................
........................................................................................................................................