

**AN ANALYSIS OF FACTORS WHICH CONTRIBUTE TO LOAN
DELIQUENCY AMONG SMALL AND MEDIUM
ENTERPRISES: THE CASE OF NATIONAL MICROFINANCE
BANK PLC**

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ENTERPRISES: THE CASE OF NATIONAL MICROFINANCE
BANK PLC**

**By
Farida Msham Malundila**

**A Dissertation submitted in Partial Fulfilment of the Requirement for Award of
the Degree of Masters of Marketing Management of Mzumbe University**

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University a dissertation entitled “**An Analysis of the Factors Which Contribute to Loan Delinquency Among Small and Medium Enterprises: The Case of National Microfinance Bank**” ,in partial fulfilment of the requirements for award of the degree of Master of Marketing management offered by Mzumbe University.



Major Supervisor
Signature

Internal Examiner

Accepted for the Board of.....

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I, **Farida Msham Malundila**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

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DEDICATION

I dedicate this report to my beloved husband Mr. Cyril Raynald Mchopa. with due concern of my beloved son Angellus C Mchopa and my daughter Ynamoratha C Mchopa, for their tireless support they gave me to accomplish this report my beloved young sisters Swaumu Yusufu and Jamila Mtutala, whose tender loving, care and affection have always been a perfect driving force behind my self-actualization.

LIST OF ABBREVIATIONS AND ACRONYMS

ACB	:	Akiba Commercial Bank
BFIA	:	Banking and Financial Institutions Act
BoT	:	Bank of Tanzania
CBs	:	Commercial Banks
CER	:	Centre for Entrepreneurship Research
DCB	:	Dar es Salaam Community Bank
HBS	:	Household Budget Survey
IMF	:	International Monetary Fund
MDs	:	Millennium Development Goals
MoFEA	:	Ministry of Finance and Economic Affairs
MKUKUTA	:	MkakatiwaKukukuzaUchuminaKupunguza UmasikiniTanzania(Swahili translation for NSGRP)
NBS:		National Bureau of Statistics
NMB	:	National Microfinance Bank
NGO	:	Non-government Organisations
NSGRP	:	National Strategy for Growth and Reduction of Poverty
PAR	:	Portfolio at Risk
PLC	:	Public Limited Company
SACCOS	:	Savings and Credit Cooperative Societies
SACCOs	:	Savings and Credit Cooperatives
SAPs	:	Structural Adjustment Programmes
SEAF	:	Small Enterprise Assistance Funds
SMEs	:	Small and Medium Enterprises
SMEDP	:	Small and Medium Enterprise Development Policy
TZS	:	Tanzania Shillings
UNCDF	:	United Nations Capital Development Fund
UNDP	:	United Nations Development Programme

URT : United Republic of Tanzania
USAID : United States Agency for International
Development
WB : World Bank

ABSTRACT

This study investigated factors which contribute to loan delinquency among small and medium micro enterprises financial institutions in Tanzania. National Microfinance Bank (NMB) was a case study. The data for the study were collected from 35 clients of NMB who received loans from the bank. In addition, 18 NMB staff working in the credits departments provided information on specific aspects deemed important for the study. Two sets of questionnaires were constructed one set for clients and other for NMB staff working in loan department. The collected data were analysed using the Statistical Package for the Social Sciences (SPSS) version 12.0. Frequencies and their corresponding percentages were used to detect patterns of attributes of interest in the study. The Chi-square test of independence of variables was used to ascertain the independence of key variables. It is revealed that the most common borrowers from the bank are those aged between 30-40 years (60%) and employed in the informal sector (60%). It is revealed further that use of loan proceeds contrary to loan agreement is a major factor for loan delinquency among borrowers. Those who reported using their loan proceeds outside the agreement were more likely to delay payment of their loan instalments in due course ($P < 0.001$). NMB often attach more importance to loan screening than to monitoring the use of credit. Proper documentation on customers files is done and use of strong collateral which means collateral must be of high value than a loan given to customer. It is recommended that in order to achieve a significant reduction in loan delinquency, the bank's screening process particularly with regards to the nature of business, likely returns to the business, other sources of income to finance social or unforeseen events that are likely to interfere the development of the business.

TABLE OF CONTENTS

CERTIFICATION	i
DECLARATION AND COPYRIGHT	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
LIST OF ABBREVIATIONS AND ACRONYMS	v
ABSTRACT	vii
TABLE OF CONTENTS	viii
LIST OF TABLES	xi
LIST OF FIGURES	xii
CHAPTER ONE	1
PROBLEM SETTING	1
1.0 Introduction	1
1.1 Background Information	1
1.1.1 Definition of financial institution.....	1
1.2 Historical Background of National Microfinance Bank(NMB)	6
1.2Statement of the Research Problem	8
1.3Objectives of the study.....	8
1.3.1General objective	8
1.3.2 Specific objectives	8
1.4 Research Questions	9
1.4.1 General Questions	9
1.4.2 Specific Questions	9
1.5Significance of the Study	9
1.6 Limitations of the study	10
1.7 Scope and delimitation of the study	10
1.8Organization of the Dissertation	11
CHAPTER TWO	12
LITERATURE REVIEW	12
2.0Introduction	12
2.1Theoretical Literature.....	12
2.1.1 The loan able funds theory.....	12
2.1.2 Loan delinquency.....	13
2.1.3 Loans and loans and advances	13
2.1.4 Non performing loans	13
2.1.5 Loan classification	13
2.1.6 Non-accruing loans.....	14
2.1.7 Past due loans.....	14
2.1.8 Substandard loans	15
2.1.9 Emerging theory of microfinance	15
2.1.10 Risk and vulnerability	16
2.2 Empirical Literature	19

2.2.1 The impact of financial policy on lending policies of banks	23
2.2.2 Role of individual's characteristics on loan repayment rates	24
2.2.3 The impact of screening process on loan delinquency rates	25
2.3 Conceptual Framework	25
2.3.1 Description of the conceptual framework	26
CHAPTER THREE	28
RESEARCH METHODOLOGY	28
3.0 Introduction	28
3.1 Research Design	28
3.2 Research Approach	28
3.3 Sampling Technique	29
3.3.1 Judgmental / Purposive sampling	29
3.3.2 Simple random sampling	29
3.3.3 Sample size and selection	29
3.3.4 Study Area and Population	30
3.4 Types of Data	30
3.4.1 Questionnaires	30
3.4.2 Administration of questionnaires	31
3.4.3 Data reliability and validity	31
3.4.4 Data Processing and Analysis	31
CHAPTER FOUR	33
RESEARCH FINDINGS AND DATA ANALYSIS	33
4.0 Introduction	33
4.1 Characteristics of Respondents	33
4.1.1 Borrowers/customers	33
4.1.2 Ownership of assets	34
4.1.3 Characteristics of business	36
4.1.4 Members of staff	38
4.2 Customers' Perception of Various Loan Matters	39
4.2.1 Loan delinquency and likely causes	44
4.3 Lending Conditions	48
4.4 Strategies used by NMB to minimize loan delinquency	52
CHAPTER FIVE	55
CONCLUSION AND RECOMMENDATIONS	55
5.0 Introduction	55
5.1 Research Experience and Limitations	55
5.2 Conclusion	56
5.2.1 Profile of borrowers	56
5.2.2 Lending Conditions of NMB	57
5.2.3 Causes of Loan Delinquency	58
5.3 Strategies used by NMB to minimize loan delinquency	59
5.4 Recommendations	60
5.5 Areas of Further Study	60
REFERENCES	62

APPENDIX..... 67

LIST OF TABLES

Table 2.1: Provision for Loans.....	24
Table 4.1: Profile of borrowers (customers) Source field data 2014	35
Table 4.2: Characteristics of respondents-staff.....	39
Table 4.2: Respondents ‘perception on various aspects.....	42
Table 4.3: Timing of payment of loan instalments	46
Table 4.4: Suggestions to enhance outreach to customer’s financial needs	54

LIST OF FIGURES

Figure 2.1 Conceptual Frameworks	26
Figure 2.1 Category of business.....	36
Figure 4.2 Source of Capital for business	37
Figure 4.3 Source of financing of assets	38
Figure 4.4 Time customer has been enjoying microfinance loan	40
Figure 4.5 Respondent perceptions on various loan matters.....	44
Figure 4.6 Loan lending criteria.....	49
Figure 4.7 Contribution of various factors on loan delinquency	52

CHAPTER ONE

PROBLEM SETTING

1.0 Introduction

This chapter provides the introduction of the study it presents the definition of financial institution, Historical background of the organization, Background of the Study, Statement of the Problem, Objective of the study, Significances of the study, delimitations and Limitations.

1.1 Background Information

1.1.1 Definition of financial institution

A financial institution can be a commercial or investment bank, trust company, brokerage house, insurance company, or their institution that participates in financial transactions involving cash or financial products.

The primary role of such an institution is to facilitate financing of investments, from home mortgages to the raising of funds via the issue of debt or equity for major projects.

Banking business is among the rapidly growing areas of the financial economy in Tanzania, the evidence of this fact is the growing of different foreign and local originated banks.

However for these banks and institutions to grow sustainably and profitably in the current competitive and globalize environment they must make sure that they keep up with the changes in the financial world.

This study sought to understand factors which contribute to loan delinquency among small and medium enterprises (SMEs) in financial institutions in Tanzania using the National Microfinance Bank (NMB) as a case study.

The past decade or so has witnessed growing number of SMEs in many countries across the world (Startienė and Remeikienė, 2008) Tanzania inclusive. Like many other sectors in the economy, SMEs play a crucial role in the growth of any country's economy (Lee et al., 2009; Startienė and Remeikienė, 2008; Centre for Entrepreneurship Research-CER, 2007).

According to the Banking and Financial Institutions Act (henceforth, BFIA, 1991), the term “microfinance institutions” refers to institutional providers of microfinance services who provide small loans to clientele in urban and rural areas. A loan refers to a credit (ibid). NMB defines micro and small loans according to the loan size and requirement of individual borrower’s/ business enterprise requirements.

This ranges from Tanzania shillings (TZS)100,000/= (Tanzania shillings one hundred thousand)to TZS 7,500,000/= (Tanzania shillings seven million, five hundred thousand). There are basically four types of microfinance providers in Tanzania. These are:

- (i) Non-governmental micro finance institutions,
- (ii) Commercial Banks (CBs), non-bank financial institutions and regional and rural unit bank,
- (iii) Savings and credit cooperative societies. (SACCOS) and
- (iv) Moneylenders, traders, shopkeepers, family and friends.

Other providers include several non-governmental organisations (NGOs) whose micro-credit delivery operations are funded and supported with technical assistance by international donors.

Microfinance institutions are subject to licensing, regulation and supervision by the Bank of Tanzania (BoT) under the provisions of the Bank of Tanzania Act (1995) and BFIA (1991). Also, microfinance institutions are subject to regulatory guidelines issued by BoT.

CBs are, like the other institutional providers of microfinance services, fairly new to microfinance compared to other countries in Asia and Latin America, and even to some other countries in Africa.

The main CBs whose financial services and products have aimed at the poor and low income households are: NMB, CRDB Bank, Akiba Commercial Bank (ACB), Dares Salaam Community Bank (DCB) and Access Bank.

The need to understand loan delinquency is derived from the assumption that once financial systems are established the poor people are able to use financial tools for

productive purposes and progressively incorporate themselves into financial milieu, repaying the loans, and accumulating savings.

This assumption reinforces the argument that microfinance or micro credit structures are essential for development of rural areas (Yates, 1990).

As has been argued by the United Nations Capital Development Fund (UNCDF), the development of microfinance institutions over the last two decades and a number of success stories have lent credence to the idea that microfinance is a major stimulus for development in the countries of the South, and that is a powerful instrument for combating poverty especially in rural areas.

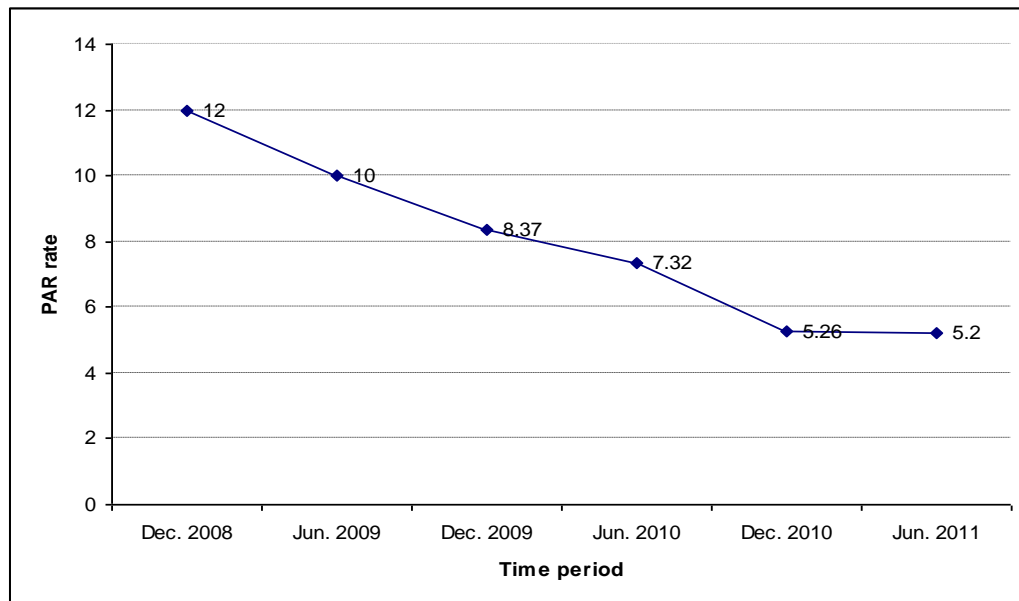
Microfinance has received extensive attention from academicians and practitioners such as Ross (2000), Srivasta (1996); Rhyne and Rotblatt (1994); Rhyne and Otero (1994); Christsen et al, (1995) who reflect on principles for successful provision of microfinance services by developing non-traditional mechanisms to screen applicants and monitor actions of borrowers.

As far as NMB's micro and small loans is concerned the motive to understand loan delinquency emerged out of several studies and theories which assert that increasing the access of the poor to sustainable financial services is an important strategy for supporting the National Vision 2025, the National Strategy for Growth and Reduction of Poverty (NSGRP)-MKUKUTA (Swahili translation *Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Tanzania*) and the Millennium Development Goals (MDs) for poverty reduction.

However, while this remains true, concern has been raised within the NMB regarding loan portfolio management. Available records show that in the past four years, that is, from 2005-2009 NMB's loan delinquency and loan default rate has increased from the tolerance rate of 8% to 12% (NMB Annual report, 2009).

Further, microfinance is regarded to be at subsistence level with minimal impact on poverty reduction. However, in recent years there has been declining trend in the rate of portfolio at risk (PAR) as seen in Figure 1 PAR rate, December, 2008 June, 2011

Figure 1.1 PAR rate, DEC 2008 JUNE2011



Source: Variations Annual Reports, NMB PLC

Microfinance is viewed as the application of innovative methodologies that make financial services available to relatively poor households and micro enterprises in small transactions suited to their conditions.

Elsewhere, innovative microfinance institutions have had substantial success in making financial services accessible to the poor in many parts of the world (Chijoriga, 1997).

In recognition of its importance elsewhere, microfinance is now increasingly been provided in Tanzania through licensed, commercial financial institutions such as NMB which are capable of mobilizing the funds necessary to significantly increase the scale of outreach. The microfinance sector in Tanzania has evolved and developed through different patterns and growth paths (ibid).

The literature on microfinance identifies the legal and regulatory framework as one factor that influences the emergence of different kinds of institutional providers of microfinance and, especially, their development into self-sustaining, commercial microfinance institutions capable of reaching growing numbers of poor clients,

especially in rural areas. Other factors are said to be a stable macroeconomic environment and sound monetary and fiscal policies.

In view of the above, the Government of Tanzania embarked on financial sector reforms or Structural Adjustment Programmes (SAPs) in 1991, in order to create an effective and efficient financial system.

This reform was largely influenced jointly by the International Monetary Fund (IMF) and the World Bank (WB). SAPs focused mainly on transforming the state-operated economy into a liberalized market economy. The lynchpin of the reforms consisted in the Government's commitment to permit banking institutions to operate on a commercial basis, making their business and management decisions free from outside intervention within the norms of prudential supervision (BoT, 2004).

The principal elements of the financial sector reforms included:

- (i) Liberalization of interest rates;
- (ii) Elimination of administrative credit allocation;
- (iii) Strengthening the role of BoT in regulating and supervising financial institutions and
- (iv) Restructuring of state-owned financial institutions.

These elements were embodied in the BFIA of 1991. The Cooperative Societies Act of 1991 provided the basis for the development of Savings and Credit Cooperatives (SACCOs) as privately-owned and organized equity-based institutions.

Government has also realized that in order to have an efficient and effective financial system, additional focus must be placed on the expansion of financial services to the low-income segment of the population (Cohen, 1990).

Recognizing the widening institutional gap the Government, in collaboration with the donor community, took action to facilitate the development of the microfinance industry. One of the important actions was initiating the microfinance policy formulation process in 1996 with a nation-wide demand study on rural and microfinance.

A draft National Microfinance Policy document that was the subject of discussions at a stakeholder meeting in May 1999 was submitted to Government for approval, which finally came in February 2001.

1.2 Historical Background of National Microfinance Bank(NMB)

This section provides the historical background of National Micro Finance Bank as provided by National Microfinance Bank Limited Incorporate Act of 1997.

National Microfinance Bank (NMB) is the one of the largest commercial banks in Tanzania, providing banking products to individuals, small to medium sized business clients, as well as large businesses.

This followed the break-up of the old National Bank of Commerce by an Act of Parliament. Three new entities were created at this time: NBC Holdings Limited National Bank of Commerce and National Microfinance Bank Limited.

Initially, NMB only provided payment products and savings accounts with limited lending capabilities, before becoming a fully-fledged universal retail bank.

In 2005, the Government of united republic of Tanzania privatized the bank when it sold part of its shareholding (49%) to consortium led by the cooperative central Raiffeisen-Boerenleenbank B.A. (Rabobank Group).

Subsequently, there was further divestiture in 2008 when the Tanzania Government off loaded another 21% of its shareholding to the Tanzanian public through an Initial Public Offering(IPO).The listing of the bank's stock.

NMB customer base remains representative of Tanzania as a whole and includes government , civil servants, larger corporate, SME and MSEs

Agriculture including small scale farmers, and microfinance institutions, as well as the Tanzanian public, both in rural and urban areas. NMB relies on its widespread distribution network to reach out its customers and is one of the key players in improving financial inclusion in Tanzania.The participation of the majority of the citizens of Tanzania in the modern economy continues to be limited. To a large extent the economy still remains in the hands of foreigners and a few Tanzanians. Among the reasons that have restricted their effective participation in the economy includes lack of capital (access to finance) to finance productive projects.

Furthermore, banks and other financial institutions are often reluctant to lend the SMEs due to a lack of collateral this hampers the ability of small enterprises to raise finance, information asymmetries, market uncertainty and higher transaction costs related to serving distant customers have restricted the flow to finance to SMEs (URT-National Economic Empowerment Policy, 2009).

The banking system in Tanzania has a very limited level of penetration in the rural areas in this case most SMEs are unreached as more than 80% population is located in rural areas. Most bank branches are located in urban areas with high population densities and high market activity. For instance, among the 35 banks and financial institutions currently operates within the banking sector, only four commercial banks that have nation wide branch networks have established a presence in rural financial markets but mainly indirectly via links with financial NGOs and SACCO's (TBA Report, 2008).

To address the above problem, the Government of the United Republic of Tanzania took the initiative to restructure major banks and financial institutions in 1996, which included the restructuring and downsizing of the National Bank of Commerce and the recapitalization of the Co-operative and Rural Development Bank through selling of shares to the general public as well as introduction of new local and foreign banks in which competition has been enhanced, resulting into improvement of quality and quantity of financial services and products offered. The government has also established the National Micro-finance Policy in 2000, the Co-operative Societies Act in 2003 and the National Economic Empowerment policy in 2004. All these initiatives were met to enhance growth and development of SMEs.

Despite of the fact that, there have been inadequate financing services deliveries to SME sector for over a decade now. Yet there is no enough empirical evidence in the country related to financial institutions contributes to the development of small and medium enterprises in Tanzania.

1.2 Statement of the Research Problem

The government in collaboration with financial institutions has put in place various strategies to reduce poverty in the country. These strategies include provision of microfinance services to SMEs. Unfortunately, such efforts have been hampered by high rates of loan delinquency among the beneficiaries (e.g., SMEs) of the schemes

High rates of loan delinquency reduce the ability of banks and other microfinance institutions to provide loans to other SMEs who are also in need of the service from the same banks or financial institutions. In the long run, high rates of delinquency may affect the sustainability of microfinance institutions, thus failure of the government's efforts to achieve a significant reduction of poverty among its people.

While several studies have been conducted to understand the role played by microfinance institutions in providing loans to SMEs, little is known regarding the causes of high rates of loan delinquency among SMEs. Consequently, there is a knowledge gap that needs to be addressed. It is against this background, the present study was designed to specially establish the causes of loan delinquency among SMEs reference to NMB.

1.3 Objectives of the study

1.3.1 General objective

The main objective of this study was to analyse factors which contribute to loan delinquency and loan default in Tanzania, with special reference to NMB.

1.3.2 Specific objectives

The specific objectives of the study were:

- (i) To describe profile of borrowers and lending conditions of NMB
- (ii) To identify and describe causes of loan delinquency at NMB
- (iii) To identify strategies used by NMB to minimize loan delinquency

1.4 Research Questions

This study attempted to answer the following research questions clustered within the three specific objectives listed above. These are:

1.4.1 General Questions

Which factors contribute to loan delinquency and loan default in Tanzania, with special reference to NMB?

1.4.2 Specific Questions

- i. What is the profile of borrowers and lending conditions at NMB?
- ii. What are the causes of loan delinquency at NMB?
- iii. What are the strategies used by NMB to minimize loan delinquency?

1.5 Significance of the Study

This study has many practical advantages in the environment in which the study was carried out. However, the most pronounced ones are as follows. The study, first, unveils the causes of high rates of loan delinquency among SMEs, thus adds knowledge on the subject of SMEs particularly regarding loan delinquency.

Second, understanding the factors which contribute to loan delinquency and loan default is a crucial step towards minimizing the predicament, thus ensuring sustainability of key micro finance institutions such as NMB in the country.

Findings of this study provides an opportunity to develop well informed alternative strategies to overcome the constraints and hence to effectively minimize loan delinquency and loan default among micro and small loans borrowers for NMB and other microfinance institutions.

Another significance of the present study is that, as it is the case with many studies, findings of this study provides baseline information for further studies on the same or similar topics, which is an integral component of many empirical studies. The

research study is also important for a researcher for partial fulfilment of Master of Marketing Management.

1.6 Limitations of the study

Limitation simply means circumstances that are beyond the control of the researcher during the study. These should always be taken into account when initializing the action plan.

The following are the limitation of the study observed;

Researcher conducted a study to only one Microfinance Institution because of limited time and funds.

Moreover Researcher faced a problem in accessing Local empirical Literature, Researcher was able to access only few Local literature as a result, the researcher uses literature sources from other countries which cannot give a true picture of the situation on the ground.

To overcome above limitations researcher was well equipped with all methodology aspects. Researcher made effort to provide short duration intensive courses for meeting the requirements

Moreover Researcher passes through most of our Government Publication which reaches our libraries so as to get true picture of the study.

1.7 Scope and delimitation of the study

Simply delimitation means the boundaries set to control the study. The reason for delimitation is to reduce time spent on unnecessary details.

The study conducted at National Microfinance Bank (NMB) in Dar es Salaam studied factors which contribute to loan delinquency among small and medium enterprises (SME's).

The study is all about evaluating on factors which contribute to high level of loan delinquency and how banks attempt to overcome them.

This study was also limited to banks and other financial institutions for instance SACCOs and microfinance, loan beneficiaries and non-beneficiaries of small and medium enterprises in Tanzania who are engaged in different economic activities. The study was carried out in three districts namely; Ilala, Temeke, and Kinondoni.

The study focused on these Districts because the largest number of small and medium enterprises, banks and other financial institutions are found in these Districts. Furthermore the study was confined to the three Districts because of time and financial constraints.

1.8 Organization of the Dissertation

The remainder of the dissertation is organised as follows: Chapter Two provides a literature review related to the research problem. Chapter Three describes how the study was carried out.

That is, it gives the methodology of the study, which covers the study area, sampling procedures, procedure for data collection and analysis. The results and discussion are presented in Chapter Four. Chapter Five concludes the study by providing a brief summary of the study findings and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents review of related (theoretical and empirical) literature. Specifically, under theoretical framework, the review focuses on the definition of relevant terminologies such as loans, non-performing loans, loan classification, non-accruing loans, and past due loans. Also discussed under the theoretical framework are the concepts of substandard loans and emerging theory of microfinance. Under empirical literature we provide a succinct discussion of only few specific studies. However, due to lack of local empirical literature on the subject, the review presented is on studies from other countries.

2.1 Theoretical Literature

2.1.1 The loan able funds theory

The theoretical underpinning of the present study is based on the loanable funds theory (henceforward, LFT) of interest rates, which postulates that savers make a decision between consumption today (or in period t) and consumption tomorrow (or in period $t+1$). In the LFT framework, more consumption in period t out of present income means less savings in the same period thus less funds available for investments, which means lower future or period $t+1$ income.

Thus savings and investment are responsible for determination of the long-term level of interest rates (Hansen, 1951) whereas the financial and monetary conditions in the economy are responsible for the determination of the short-term rates. It is argued that, *ceteris paribus*, people would prefer to consume more in period t (today) thus save less in the same period.

Therefore, to influence them to save and provide funds for investment, they have to be paid interest. In the context of the present study, it is assumed that entrepreneurs borrow money from the bank (NMB PLC) for investments thus expect to have returns from their investments and that they have to pay interest (the price of

loanable funds or the cost of borrowing) to the lender (NMB PLC in the present case).

2.1.2 Loan delinquency

Loan delinquency has been defined in many different studies including Cohen (1990) and Ledgerwood (1999). These scholars define loan delinquency as an amount that owes - is in arrears, past due, overdue - and has not been paid. Ledgerwood (1999) argue that loans are in default is also referring to delinquent loans, but most often to loans that have been or about to be written off.

Defaulted loans are often called such if there is little hope of ever receiving payment. Ledgerwood (1999) defines loans outstanding portfolio as the principal amount of loans outstanding.

2.1.3 Loans and loans and advances

BFI Act (1991) defines “loans” and “loans and advances” to include any loan, discount, advance, overdraft, export bill purchased, import bills, customer’s liability on acceptances or any other credit extended to the customer of a Bank or Financial Institution excluding un-drawn or un-availed balance of any line of credit, guarantee performance bonds, commercial letters of credit, standby letters of credit and other similar contingent account.

2.1.4 Non performing loans

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

2.1.5 Loan classification

Means, that the loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

2.1.6 Non-accruing loans

Means, that recognition of interest income on the loan has been placed on a cash basis for final reporting purposes. Interest is no longer accrued on the books of the bank or financial institution not taken into income unless paid by the borrower in cash but shall be recorded in a memorandum account or register. The accrual of interest on the books of the bank shall resume only if the unpaid interest is paid.

2.1.7 Past due loans

Means, loans which have become due for payment. These are the most product needed at NMB BANK so as to meet customers' needs, Products is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

According to Schneider and Bowen (1995) in a service oriented organization, customers are the foundation for the business. Without them there is no business, therefore the main aim of the organization has to focus on servicing them, catering to their needs and meeting their expectation. For every organization and depending on the service that it provides, there are certain expectations and criteria that customer's judge them. For example in the banking industry it is about in-depth knowledge of the industry, the monetary environment, the kind of products available and the speed at which the products are being delivered. Some of the common features that customers expect are security, trust and fairness in dealings, which is what service excellent, is all about. However, a company can define its market carefully & still fail customer oriented thinking.

Also according to Drunker (2000), Customer oriented thinking requires the Company to define customer needs neither from the customer point of view nor from its own point of view. This aims at customer satisfaction. Why it supremely important to satisfy the customer? Basically because a company's sales each period come from two groups, new customers and repeat customers.

It always costs more to attract new customers than to retain current customers. Therefore customer retention is more critical than customer attraction. The key to customer retention is customer satisfaction. A satisfied customer

- i. Buys again
- ii. Talks favorably to others about the company
- iii. Pay less attention to competing banks and advertising
- iv. Buys other products from the same company

Therefore customer satisfaction is extremely important for survival of any service business.

2.1.8 Substandard loans

Are loans or portions thereof which involve a substantial and unreasonable degree of risk to the institution because of unfavourable record or unsatisfactory characteristics?

2.1.9 Emerging theory of microfinance

Recent developments in African and other developing countries reinforce the argument that microfinance or microcredit structures are essential for development of rural areas in consideration of the fact that areas of development in these countries have been traditionally urban-cantered.

According to Mullei (2004), adopting economist suggests two basic assumptions why the development of microfinance has taken an important turn. These assumptions fit in with factor distribution and availability whereby the missing factor of production (from among land, labour, and capital), is supposed to be provided in order to give impetus to development.

The first assumption is that poor populations possess the capacity to implement income generating activities that the main limitation to their initiative is the lack of access to capital.

This limitation arises because of two main reasons: financial markets are still in their infancy; and that given their poor track record and lack of collateral, the existing financial institutions are reluctant to extend credit facilities to poor people or their organizations.

Another factor is that often, mutual associations and thrift societies that have dealt with financial institutions have been huge failures (Viswanathan, 2003).

In spite of this negative evaluation, the idea persists that poor people given access to capital and guided properly are in a position to implement and manage income generating business enterprises. In other words, poor people too, have the capacity to run economic activities just like the rest of society given a congenial environment. The second assumption is that once the financial systems are established, the poor people "were able to use it (ibid).

With the help of funding from bilateral and multilateral organizations most countries in Africa, including Tanzania have adopted micro entrepreneurship as an alternative approach to development, in order to avoid these negative tendencies. The intent is to by-pass corrupt public officials, make credit directly available to the very poor and thereby promote their self-sufficiency (ibid).

The WB, United Nations Development Programme (UNDP), United States Agency for International Development (USAID), Canadian, Swedish and Danish governments have all made funds available to microfinance non-governmental organizations in Nigeria with varying levels of success. Microfinance institutions have rapidly evolved in the last decade and have been able to create significant income and employment opportunities for the poor in developing countries.

Other scholars and policy analysts have identified the inhibiting factors that make rural microfinance enterprises unsuccessful. Yaron (Dongili and Zago, 2002) identified high risks.

Heavy transaction costs and mounting loan losses as some of the many factors that drained state resources, yet the programmes have reached only a fraction of the target population consequently have failed to provide financial self-sustainability.

2.1.10 Risk and vulnerability

Risk is defined as the chance of a loss or a loss itself (Sebstad and Cohen, 2001). According to Rahman and Hossain (1995) risk has many facets as follows: structural risks such as seasonality, inflation or vagaries of weather, unanticipated crises and emergencies such as sickness or death of a family member, loss of employment, high

costs associated with life cycle events such as marriage, funerals and education for children

Likewise, risks are associated with operating enterprises and taking a loan. In considering microfinance services, it is useful to consider risk in terms of non-repaid loans. The risk may be short-lived, long term or permanent. Income loss from non-repayment of loans may also force a reallocation of income away from consumption (Rahman and Omari, 1995).

Studies by Sebstad and Cohen (2001) have revealed non-repayment of loans may result in loss of a variety of assets such as financial assets: savings, credit etc; physical assets such as housing, tools, equipment or other productive assets; human assets such as household labour resources and health and social assets such things like relationships of trust in the community, participation in community groups, networks and freedom from violence.

The ability to cope with shock depends on whether it can be anticipated, one off or repeated, whether more than one shock or stress occurs at the same time. And or whether the shock is covariant or idiosyncratic.

Moreover get to know your customers by profiling them. You can ask them directly, through customer comment cards and surveys at your place of business and on your website. If you operate a retail business, you can distribute membership cards that customers scan when they make purchases. In addition to demographic details, learn what they like and dislike, and how your service or service directly benefits them. Note their buying preferences and interests. Consider how your customer perceives quality. Gain perspective by reversing roles. Think about what you would expect of a transaction if you were the customer, and what you would think of the service or service you are offering. Set realistic expectations for your customers about your products and products. Savvy marketing and exaggerated claims might attract customers, but the service or service must always accurately meet customer expectations. Deliver on every promise to win customer loyalty. When customers are happy, they recommend your business to their friends and family. Increased levels of customer satisfaction also mean increased expectations. Look for ways you can

improve your products, products and the overall customer experience. Establish a continuing dialog with your customers. Keep them informed of special promotions that appeal to their interests. Tell your customers how much you appreciate their business by letter, email or a telephone call. Company newsletters can also be shared with customers, engaging them in your company culture. Ask for your customers' opinions on a regular basis to ensure you are consistently delivering good customer service.

2.1.11 MSE Loan

This is also loan products in which MSE stand for Micro and Small Enterprise which means loan to micro and small enterprises to expand micro and small sustainable businesses. And it has interest rate of 2% per month charged on decline loan balance. Also applicant can borrow from Tshs 50,000/= to maximum of Tshs 5,000,000. Loan repaid on monthly basis and repayment tenure of 6 to 24 months.

2.1.11.1 The following are some of the qualities in which applicant of MSE must possess;

- Applicant must be at least 18 years of age
- At least 12 months experience in the same business.
- The business must be located within the target area covered by respective NMB branches.
- Business must have a steady cash flow
- Applicant must have proper recording system and also shows the capability of operating business profitability.

2.1.12 SME Loan

This is another kind of loan service in which enable customer for acquisition of fixed asset, additional working capital to the business, Also small and medium enterprises like companies, partnership, sole proprietor, individuals and existing borrowers of good reputation recruited from MSE loan portfolio subject to submission of the following;

2.1.12.1 General

- Detailed business plan for credit requirement exceeding TZS 30 million

- Cash flow projections for the period of finance, but for minimum of 12 months
- Audited financial statements for the last three years and management accounts up to date for financing above TZS 15Million
- Bank statements for at least the last six months with satisfactory turnover
- Copy of business licenses (including from specific sector e.g. pharmaceutical board, liquor license, forest license, EWURA and other)

2.1.12.2 Additional document required for limited company

- Minutes of resolution of board members authorizing borrowing (original certified copy)
- Memorandum and article of association
- Certificate of incorporation
- Copy of return filed with registrar of companies

2.1.12.3 Additional document required for partnership

- Partners resolution to borrow
- Certificate of registration
- Partnership deed

2.1.12.4 Additional document for sole proprietor

- Business name registration certificate
- Extract from registrar of business names

General customers said yes the Bank invest more on providing efficient products which large number customers serve their interests and promote to customers to invest

2.2 Empirical Literature

According to Drake (2002), by 1997 there were nearly 300,000 active microfinance loans in Bolivia, with the number of consumer loans also approaching that level.

Market penetration by microfinance alone was near 50%, at a rate probably unprecedented in the microfinance world.

Clients took advantage of the offer of quick and easy credit from so many institutions, maintaining two or more loans at a time. In an increasing number of cases, clients borrowed more than they could handle. Some let repayment slip or, in worst cases, began “bicycling” loans- using the proceeds of one loan to pay off another.

Such behaviour seriously damaged the carefully constructed culture of repayment in microcredit. When delinquency began to rise at BancoSol (private bank), it was concerned among clients with loans at other institutions.

Clients did not see multiple loans as risky: the logic of clients is that they will earn more by investing more. Multiple loans have even become a status symbol. Moreover clients felt that maintaining access to two or more institutions reduced their risk by widening their choices when in reality, for most borrowers, too much credit is a quick route to financial disaster (Drake et al, 2002).

In the course of our field visits, it was often reported that political factors were responsible for widespread defaults on the ostensible plea of crop failure in various regions.

The wilful defaulters are in generally socially and politically important people whose example others are likely to follow; and in the present democratic set up, the credit agencies’ bureaucracy is reluctant to touch the influential rural elite who wield much formal and informal influence and considerable power (Cooper and Schindler, 2003).

Farmers’ agitation in many parts of the country can take a virulent form, and banners are put in many villages declaring that no bank officer should enter the enthusiasm of even the conscientious members of the bank staff working in rural areas in recovery efforts. The general climate therefore is becoming increasingly hostile to recoveries. In a recent study by Writtle (1999) which involved 11 successful MFIs findings indicate that lending institutions experience some loan losses when certain borrowers fail to repay their loans as agreed. Principally, the credit risk of a bank is the

possibility of loss arising from the fact that interest or principal or both on securities and loan will not be paid as they fall due.

The study, the researcher recommended that, to overcome losses arising from non-repaid loans, microfinance institutions must develop a credit culture supported by well-conceived management strategies for controlling credit risks. That for a bank to set a correct culture it must establish its priorities with respect to the market place the bank must design its credit risk management strategy.

Shepherd-Walyn (2004) argues that banks now appreciate that there is “expected loss” or average like hood of a loss to any particular class of borrowers, a loss that is seen as cost of extending credit and is usually reflected in the credit spread. In addition, other banks like City group use derivatives techniques to mitigate the risk and this has enabled them to gain access into riskier portfolios.

Lack of access to credit has been identified as one of the major constraints hindering the development of entrepreneurial activities in Tanzania and other developing countries Commercial banks have traditionally concentrated on lending mainly to large formal enterprises which possess collateral and therefore thought to be less risky due to poor lending culture on small business and individuals customer (Kuzilwa and Mushi, 1997).

According to a study on the supply and demand of financial services in Tanzania by K-Rep (1997), less than 5% of households in urban and rural areas in Tanzania had access to credit from formal sources.

Professor Ion Morrison, in his paper, Dynamics of competition in Banking, P43, Banking operations in changing environment, the profitable use of resources. Commenting on customer culture before deregulating of financial sector.

Endogenous problems are those jurisdictions of banks authority, they include; nature of source of funds whether is short term or long term funds, which always lead to mismatch of funds and management problems. Management problems always are associated with inexperienced and “glaucoma” managers and lack of well-articulated credit policies, efficient internal control, high quality professional and qualified staff.

Exogenous challenges are those which relates to outside environment of the banks and do not have control, they include, policy inconsistencies of central bank and local commercial banks, each time there is a change in financial system, there are waves and ripples of shocks to the financial institutions.

The consequences of these have poor loan repayment in many sectors and degeneration of the assets quality of many banks.

A study conducted in Italia by Dongili and Zago (2005) asserts that at macroeconomic level, problem loans may be a signal of a wrong allocation of credit that may cause a decrease of funds available for good and safer investments. Moreover, problem loans influence expected losses and so they may influence the state of the economic cycle causing a reduction in the supply of loans or changing the perception of depositors about the risks that Banks take.

Even if macroeconomic instability has always been a major factor for Banking crisis, the issue of borrowers selection, and therefore of credit quality is an important instrument or an intermediate target for regulators in order to dampen possible crisis. Despite years of reform, the banking industry in Tanzania remains of high risk, costly and great operational difficulties due to factors such as non-repayment of loans (Kuzilwa and Mushi, 1997).

It has been identified that one of the problems that microfinance institutions have faced in developing countries is that it has always included social welfare projects which divert attention from financial sustainability.

Thus microenterprises had limitations in reaching their target populations, the poorest of the poor. Microfinance institution must be able to provide the development activities necessary to generate financial sustainability (ibid).

The establishment of NMB in Tanzania.

for instance, provides legitimacy and a statutory affirmation of the need to raise the financial sustainability of the rural poor rather than make it donor-dependent. This is because microfinance programmes are said to promote democracy, free markets, and a strong middle class, and essentially complement the bottom-up development in the administrative structure of post structural adjustment economies.

Critics have been quick to point out that the rate of failure of microfinance programmes is an indication that they are not an appropriate policy tool. Some economists however, counter that [microfinance] is an inappropriate policy intervention, and that it is macroeconomic reform and not microcredit delivery, that it is needed for cultivating entrepreneurship, and developing the private sector in low-income countries.

2.2.1 The impact of financial policy on lending policies of banks

According to Satta (2002) Banks defend their position on the requirements for and conditions they set on loans saying that they are there to protect the interests of the banks. As per BOT regulations, a bank is allowed to advance a maximum of up to 5% of its core capital without security. Only that, the loans would be classified/treated as loss from the onset.

A term core capital means the shareholders equity and capital grants plus all disclosed reserves less other intangible assets.

There are various reasons that prompt banks to review their lending policies. Banks claim that they set such conditions in order to ensure that the customers operate profitably and in turn the banks get back the loaned money.

To ensure that, some banks provide training to SMEs on credit management before the loans are advanced. The training covers bookkeeping, marketing and other necessary skills to run the business or project in question.

Banks are also reluctant to offer loans to SMEs due to unfavourable regulations set by BOT on SMEs loans. The regulations limit the operations of banks. An example is the regulation on Loan Provisions. The regulation of the BOT stipulates as follows;

Table 2.1: Provision for Loans

Corporate Commercial Bank Regulation		Micro finance Companies and Micro credit activities Regulation	
1 – 30 Days	0%	Total Loan Outstanding	2%
31 – 60 Days	5%	1 – 15 Days	25%
61 – 90 Days	10%	16 – 30 Days	50%
91 – 180 Days	50%	31 – 45 Days	75%
Above 180 Days	100%	Above 45 Days	100%

Source: Bank of Tanzania Website 2014

This shows that when the corporate loan is overdue for 181 days it should be written off while for micro finance when it is overdue for 45 days it should be written off. This is not realistic, as micro finance clients pay even after 45 days. Also the bank is required to provide 2% as provision for bad debts in the total loan outstanding where by the bank does not expect to have any bad debts. These regulations reduce profit of banks due to written off loan and high rates of delinquency.

2.2.2 Role of individual's characteristics on loan repayment rates

Individual's characteristics play a significant role on his/her loan repayment decision in many settings. Individuals from socio-economically affluent households may have different loan repayment rates than their low socio-economic counterparts.

For instance, Knapp and Seak (1992) analysed default rates on federally guaranteed student loans and find that student' socio-demographic and economic characteristics including parents' income, presence of two parents at home, student's graduation, and student's race) have a significant impact on default rates. Students from higher social-economic status had low default rates than their low socioeconomic counterparts. This finding is supported by Volkwein *et al.* (1998) in which they examined factors associated with student loan default among different racial and ethnic groups. In this study, the authors found that African American or American Indian students from families with low income were more likely to default than

Asian America or White student of parents having a college education and an income above US\$ 30,000.

Oni *et al.* (2005) employed a probit model to analyse factors influencing loan default among poultry farmers in Ogun state Nigeria. A random sample of 100 poultry farmers was used to achieve the study objective.

Among the factors that influence default in loan repayment include age, income and education level of the farmer.

Hakim and Rashidian (1995) also employed the probit model to analyse student loan default. Monthly income of the borrower, education level, family size, and parental income and economic conditions were among the factors that significantly influenced default. Gender was also found to be a key factor with women defaulting more than men.

To explain this differential default rate between men and women, the authors postulate that in many settings females-headed households are generally economically poor than male-headed households hence their high default rates than that of men.

2.2.3 The impact of screening process on loan delinquency rates

Vogel (1981) examined default and delinquency rates in Costa Rican banking system. The author found delinquency rates to be lower among agricultural compared to non-agricultural loans. In particular, lowest delinquency rates on loans to small farmers.

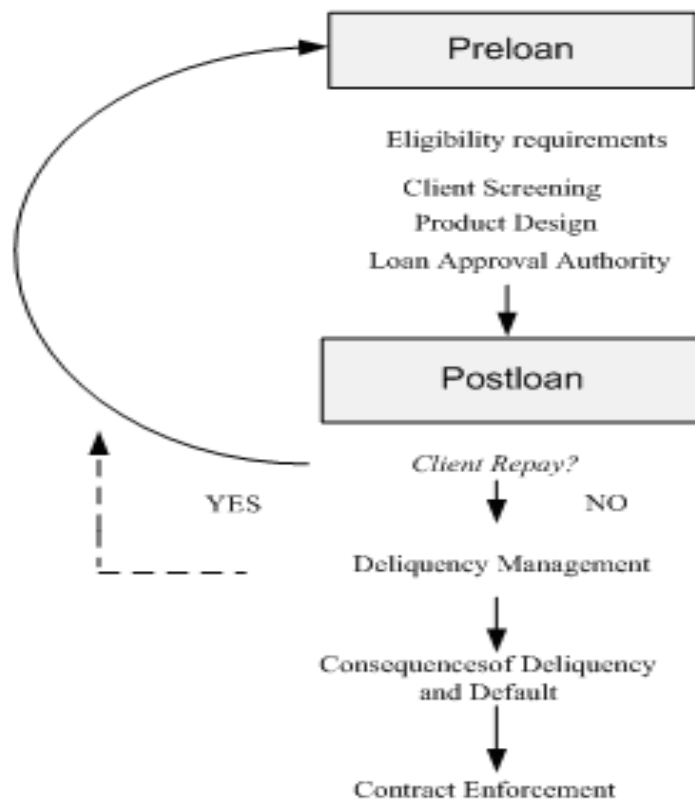
He argues that this relatively good performance of agricultural loans is attributed mainly by effective screening process and low interest rates, which act as an incentive for borrowers to repay their loans promptly in order to be sure of future loans.

2.3 Conceptual Framework

The study posits that both the clients-loan receivers (SMEs) - and the management-loan lender (micro finance institutions) - play a significant role in minimizing loan

delinquency and default. In that respect, therefore, the present study adopts Drake’ (2002) framework given as

Figure 2.1 Conceptual Frameworks



Source: Adapted from Drake (2002).

2.3.1 Description of the conceptual framework

As evident from the figure, there are essentially two key stages; a loan receiver has to experience, namely, pre-loan and post-loan stages. Before loans are issued to borrowers, the lender must be satisfied that the borrower meets eligibility requirements and after screening, loan approval is issued by relevant authorities. And once a loan is issued.

it should be followed through by delinquency management and if delinquency management is not performed properly, the client will not be able to repay the loan.

Before issuing a loan, lenders screen applicants to see if they are creditworthy. This involves business and household assessments to establish that they have capacity to repay as well as character check to ascertain the applicants' willingness to pay. Client screening is not exact science but when the process works properly, it makes other facets of managing risk more effective (Churchill, 1999). However, in many settings in real life, there is information asymmetry, which makes the screening process a difficult undertaking. Information asymmetry between the lender and the borrower significantly affects lending decision

. In most cases borrowers are likely to be much informed about the uses of funds they are seeking than the lenders (Ross, 2000). The borrower may choose to share such information honestly and openly with the lender or may prefer to hide it.

Loan applicants know more about their creditworthiness. In pre-loan assessment, information asymmetry gives rise to adverse selection (Rashid, 2005). Adverse selection occurs when the poorest quality customers are the ones who express the strongest demand for the credit products.

According to Howels and Bain (1998) as cited by Rashid (2005) the riskiest customers tend to be more aggressive in seeking loans especially at high interest rate than safe borrowers. Adverse selection problem can partially be minimized by adequate knowledge and experience of the loan officers.

However, agency problem may intervene whereby loan officers and managers may not act on the best interest of the bank. Banks usually balance incentives to repay and consequences of default in efforts to maintain the quality of their loan portfolio, which is referred to as Carrots and Sticks approach (Rashid, 2005).

The intangible ingredient affecting the risk management of a bank is customer service. This institutional value influences product design, client selection, the choice of repayment incentives and delinquency management strategies and the consequences of default. It involves number of loans an officer handles at once, customer care and support, loan monitoring and supervision etcetera.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides a detailed account of the design of the study, study area and target population, sample size and selection procedure used, types of data and instrument of collection. Also presented in this chapter is analytical procedure to achieve the study objectives. Generally, the chapter describes how the study was accomplished.

3.1 Research Design

The design of the research is a case study design whereby NMB –Ilala branch is a case for investigation. This research design is helpful in getting in- depth information relating to the topic of the study. A case study involving much in administrative sections, which are loan department, customer service, marketing and operations. The researcher selects this design because It is flexible in the sense that various methods of data collection used.

The case study was also easy to have an access to more information on the topic investigated. It helps researcher to carry out a thorough investigation on the customer It allows the use of participants' observation.

3.2 Research Approach

Researcher used both quantitative approach and qualitative approach in this study. Quantitative approach involves generation of data in quantitative form which can be subjective analysis in a formal and rigid fashion while qualitative approach involves much of listening and other oral evidences from the respondents. Individual interview, focus\ group and observation were used to get more information . For the purpose of this study, a sample size of thirty five customers was selected among the population of clients who took loans from NMB.

The selected sample would provide enough information and then it is inferred that the population has the same characteristics.

3. 3 Sampling Technique

This refers to the technique which a researcher uses to select the sample size of respondent customers and bank staffs from the organization. The techniques used are judgmental or purposive sampling and simple random sampling as explained below;

3.3.1 Judgmental /Purposive sampling

This technique help to obtain respondent at the organization form the Head of departments and units. This technique is preferred because;

It obtain the respondents that relatively informative depending on the nature of research question It involves judgment in selecting sample which provided adequate information concerning the matter.

3.3.2 Simple random sampling

This technique helps to select the sample unit from the whole population of the bank customers.

This technique is preferred because, It enables each and every unit of the targeted population to have an equal opportunity of being selected in as ample. It is also simple to use and can also be used multipurpose with other techniques

3.3.3 Sample size and selection

For the purpose of this study, a sample size of thirty five (35) customers was purposively selected from among the population of clients who took loans from NMB.

It was hoped that the selected sample would provide enough information to answer the study objectives leading to valid conclusion and recommendations. Kothari (2006) defines an optimum sample as one which meets the requirements of efficiency, reliability and flexibility.

In order to gain more insights about the study, eighteen (18) members of staff from the Credits departments were studied. Several aspects were examined from this group of respondents to complement the information provided by the clients/customers.

3.3.4 Study Area and Population

The study was conducted at NMB House in Ilala district, the place housing both the Head Office and NMB House Branch. This area was selected for easy of execution of the study since the researcher is familiar with the area and it was thus hoped that familiarity with the area helped the researcher to get the necessary data easily to permit timely completion of the research study. Also the researcher selected the area of the study due to its proximity to NMB House where the researcher is working. The target population for the study were clients of NMB who took loans from the bank. In addition, NMB members of staff from the Credits Departments (CDs) were studied.

3.4 Types of Data

To achieve the study objectives both primary and secondary data were used in the study. Primary data was gathered through the use of questionnaires (see Appendix) while secondary data was obtained from different published official documentations such as NMB Annual Reports. For primary data, information collected was mainly qualitative covering a wide range of aspects relevant for the study. Primary data collected include but not limited to causes of loan delinquency among clients of the Bank (NMB).

3.4.1 Questionnaires

The questionnaires for the study consisted of both closed-and open-ended questions. For closed-ended questions the responses were categorized into several different options from which the respondent's best answer fitted to one of the given alternative.

The questionnaires-customers and members of staff- consist of two main sections namely, general/background information and specific questions section. The sections were arranged following universally accepted standard procedures and techniques of questionnaire design.

That is, starting with the most general aspects of the study, putting sensitive or specific questions in the last sections of the questionnaire. For each category of respondent-customers or members of staff-the general information section captured

background information about the respondent whereas the latter section collected information on particular aspects of the study. The questionnaires were designed in English but translated into Swahili for ease of administration.

3.4.2 Administration of questionnaires

The study adopted a self-administration mode of data collection. This mode of data collection was chosen for several reasons including lack of resources (time and money) to make face-to-face interviews with the representative respondents, some of whom would have not been easy to access and have them interviewed face-to-face on a single attempt.

Therefore, to minimize associated costs, the researcher decided to use self-administration of the questionnaires to collect the required data.

The questionnaires were designed in English but translated into Swahili for easy of self-administration. However, to ensure that the original (English) meaning of the questionnaire items were maintained, the Swahili version of the questionnaire was translated back into English by an independent person.

The two versions were then checked and inconsistencies correlated accordingly before the (Swahili) questionnaires were distributed to the respondents for self-administration.

3.4.3 Data reliability and validity

Before they were distributed for self-administration the questionnaires were pre-tested. This was done in order to identify questions, which were unclear or ambiguous to the respondents. In addition, the test aimed at identifying any non-verbal behaviour of the participants that could have otherwise shown discomfort or lack of comprehension on the questions asked in the questionnaires, thus minimize non-response rate in the study. Where appropriate, corrections were made before the questionnaires were distributed to the representative sample of respondents.

3.4.4 Data Processing and Analysis

Information from open-ended questionnaire items was first appropriately coded. The coded information from the open-ended questions and that from the closed-ended

questions was entered and analysed using the Statistical Package for the Social Sciences (SPSS) for windows version 12.0. Descriptive statistics were employed to describe the socio-economic characteristics of the respondents-customers and staff. The chi-square test of independence of variables was used to ascertain the dependence of loan delinquency with several respondents' characteristics such as marital status, sex, type of business, etc.

The results of the study are presented in the form of tables as numbers and corresponding per cents, figures and description in Chapter Four.

CHAPTER FOUR

RESEARCH FINDINGS AND DATA ANALYSIS

4.0 Introduction

This chapter presents the study findings and analysis of data collected in the field. The results of the findings were presented in tables and figures. The chapter provides a step by step presentation of data collected and their implications to the objectives of the study.

4.1 Characteristics of Respondents

4.1.1 Borrowers/customers

Table 4.1 shows that of the total respondents (35) on the category of customers, 23 (65.7%) were males and the remaining (34.3%) were females. The majority (60.0%) of the studied respondents were aged between 30-40 years. As seen from the table, 28 (80.0%) of the respondents were married.

Similar finding was also reported in the 2007 household budget survey in which it was found that 60.4% and 59.2% of adult males and females in Dar es Salaam were married or living together (Ministry of Finance and Economic Affairs and National Bureau of Statistics, hereafter MoFEA and NBS, 2009).

Regarding educational attainment, the majority (37.1%) had attended university or college education followed by secondary education (28.6%). It is worth noting that the majority (60.0%) of the studied respondents are employed in the informal sector. This finding is in accordance with the information provided in the city's profile which estimates that approximately 95% of its population is employed in the informal sector (Dar esSalaam City Profile, 2004).

This high rate is contributed mainly by high annual influx rate (10%) for people seeking permanent residence in the city from other regions within the country most especially rural areas.

Regarding household size, 24 (about 69%) of the respondents reported having less than five (5) people in their homes.

This information is similar to that obtained in other studies such as the Household Budget Surveys (HBS). According to the report of the 2007 HBS, the average household size for Dar es Salaam in 2007 was 3.7 persons. In other urban areas the number was 4.4 and in rural areas was 5.1. The corresponding figures in these areas in 1991/2 and 2001/2 were 4.8 and 4.3 for Dar es Salaam, 4.9 and 4.5 for other urban areas in the country, and 5.9 and 5.1 for rural areas (MoFEA and NBS, 2009). Generally, as evident from the above statistics, the average household size for Dar es Salaam and other urban areas has been decreasing over years.

The impact of household size on the economic well-being of household has been explored considerably in the population and economic literature (see for example, Havanonet *al.*, 1992 and the references therein for details).

The study also collected information on number of dependants, which is an important indicator of standards of living.

The results show that the majority (about 43%) of the respondents reported having more than three dependants. Regarding employment status of spouses, the results show that of married respondents (28), approximately 18% reported that their spouses are employed.

Furthermore, other members of the respondents' households were working in about 31% of the total sample. This proportion is inclusive of respondents' spouses.

4.1.2 Ownership of assets

Of the total respondents in the study, 24 (68.6%) reported that they own a house and that about 43% own a plot of undeveloped land. In addition, approximately 29% of the respondents own a motor vehicle whereas about 23% possess a motor cycle. Paradoxically, only 7 (20%) of the respondents reported that they own a savings account with a bank.

Table 4.1: Profile of borrowers (customers) Source field data 2014

Characteristic	Categories	Respondent	
		Frequency	Percent
Sex	Male	23	65.7
	Female	12	34.3
Age (years)	Less than 30	6	22.9
	Between 30-40	21	60.0
	Between 41-50	7	20.0
	More than 50	1	2.9
Marital status	Single	5	14.3
	Married	28	80.0
	Widowed	2	5.7
Education level	Primary	8	22.9
	Training after primary	3	8.6
	Secondary	10	28.6
	Training after secondary	1	2.9
	University/College	13	37.1
Sector in which respondent is employed	Formal sector	7	20.0
	Informal sector	21	60.0
	Other	7	20.0
Household size	Less than 5	24	68.6
	Between 5-10	10	28.6
	More than 10	1	2.9
Number of dependants	None	2	5.7
	Two	8	22.9
	Three	10	28.6
	More than three	15	42.9
Spouse employed	Yes	5	17.9
	No	23	82.1
Other members of household working	Yes	11	31.4
	No	24	68.6
Business registered	Yes	31	88.6
	No	4	11.4

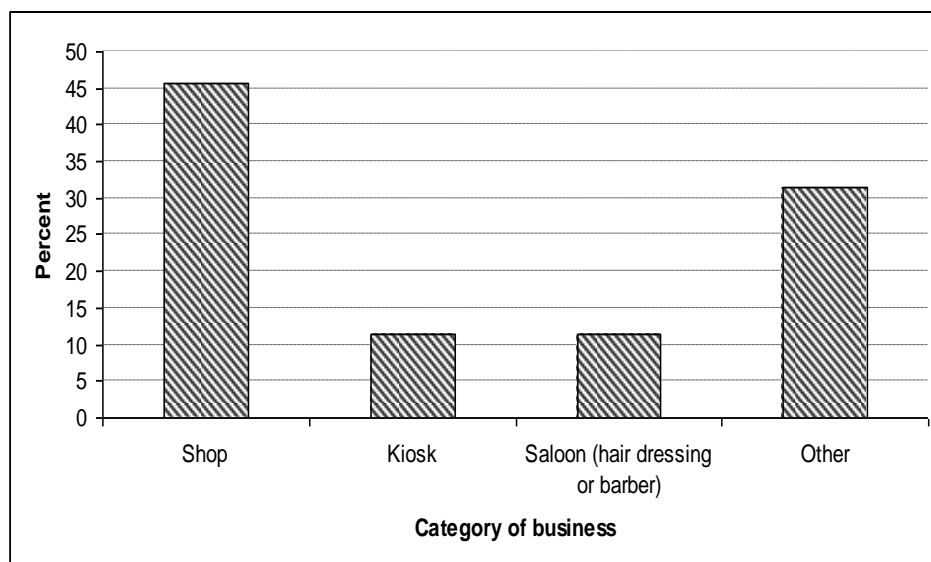
4.1.3 Characteristics of business

As evident from the results in Figure 4.1, the most common business in which the majority (approximately 46%) of the respondents are involved in is shop. However, the study did not capture information on scale and range of shops. Shops dominate the business activities among small and medium entrepreneurs in Dar es Salaam and in many other urban and rural areas in the country.

This could be partly because of trade liberalization, which made availability of goods in the country easy. Currently, there is a wide range of goods from all over the world in the country.

This motivates people to engage in operating shops and related activities. Moreover, because of limited opportunities for most of the people to acquire large working capitals, as a result, the majority opt for businesses, which do not require large initial working capitals. Of those engaged in businesses, about 89% of the respondents reported that their businesses are registered with relevant authorities in the city (Dar es Salaam).

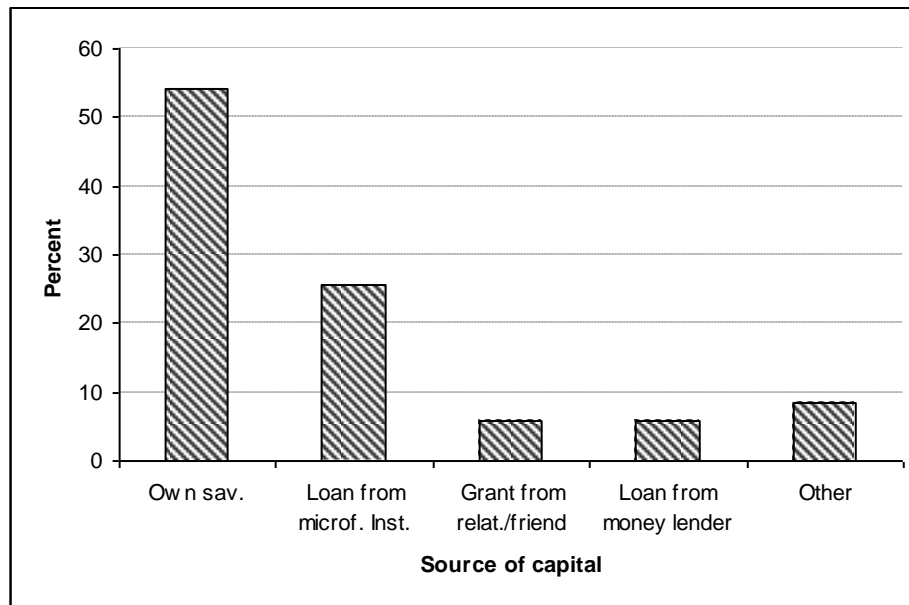
Figure 2.1 Category of business



Source: Field data 2014

Among those who reported to own a business, the most common source of capital for their businesses was own savings followed by loan from microfinance institution

Figure 4.2 Source of Capital for business

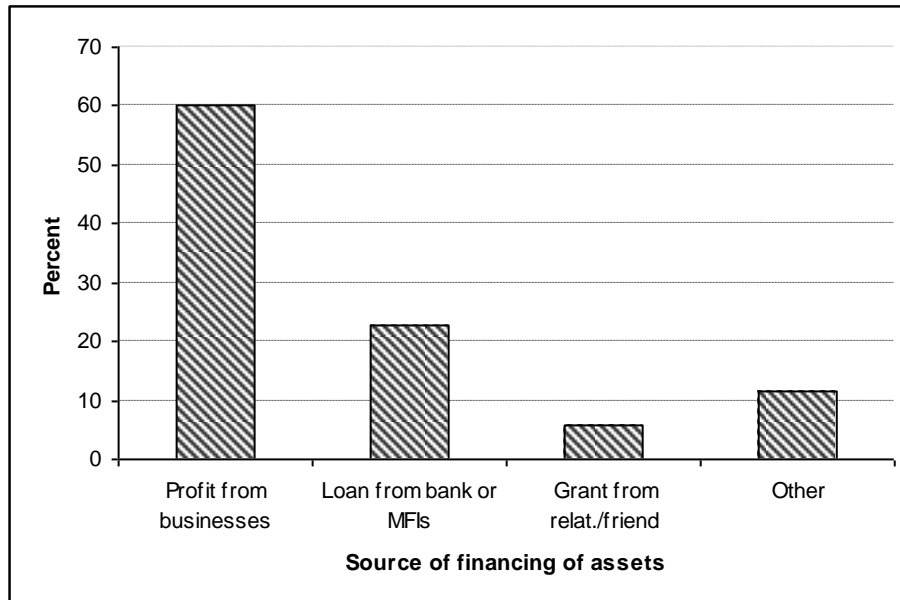


Source: Field data2014

Regarding whether respondents' livelihood depends on their businesses, the majority (about 74%) of the respondents reported that they have other supplementing sources of income. Of those who reported to own one of more assets, the majority (60%) reported that the most common source of financing of the assets was profit from their businesses (Figure 4.3).

Respondents were also asked whether they sell part of their assets as a way to deal with unforeseen events or shocks that occur in their life. The majority (about 69%) declined selling any of their assets. Only 10% reported to sometimes sell their assets when the events happen.

Figure 4.3 Source of financing of assets



Source: Field data 2014

4.1.4 Members of staff

As already mentioned, on the category of staff, the study considered 18 members of staff from the CD of the bank. Their social-demographic characteristics are given in Table 4.2. As seen from the table, well over fifty percent (66.7%) of the respondents have been working in the bank (NMB) loan department for at least six years and all of them had attended some training related to their current job.

Moreover, none of them have education below an advanced diploma. Gender-wise, equal number of males and females were studied. The majority (50%) were above 35 years of age followed by the age group 31-35 years.

Table 4.2: Characteristics of respondents-staff

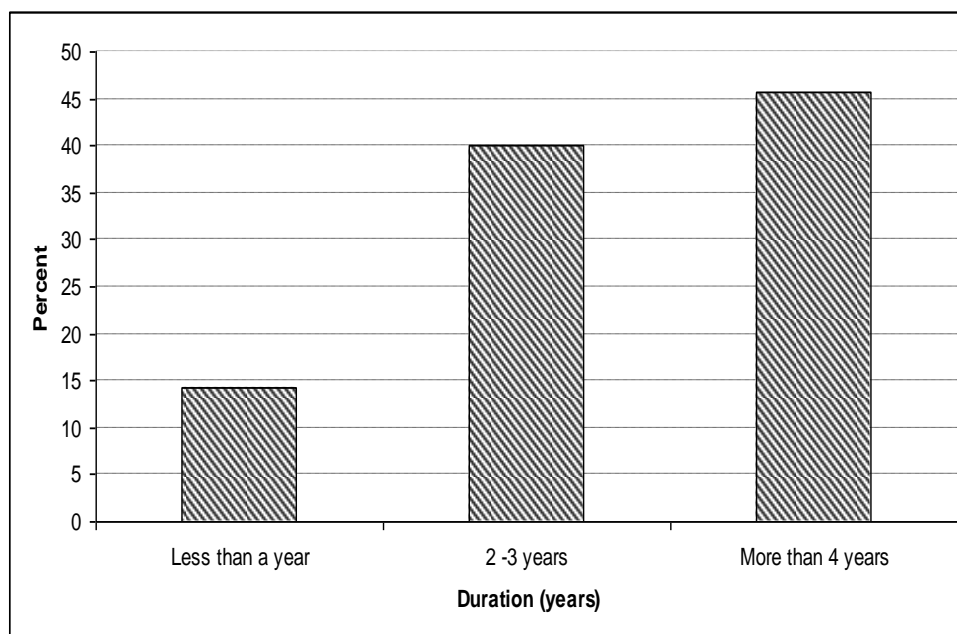
Characteristic	Categories	Respondent	
		Frequency	Percent
Sex	Male	9	50.0
	Female	9	50.0
Age (years)	Between 26-30	3	16.7
	Between 31-35	6	33.3
	More than 35	9	50.0
Education level	Advanced diploma	4	22.2
	First degree	7	38.9
	Master's degree	7	38.9
Years in NMB loan department	Between 1-5	6	33.3
	Between 6-10	9	50.0
	More than 10	3	16.7
Attended some training related to current job	Yes	18	100.0
	No	0	0.0

Source: Field data 2014

4.2 Customers' Perception of Various Loan Matters

Figure 4.4 shows duration (years) that the respondent has been enjoying microfinance loans from NMB. As seen from the figure, the majority (approximately 46%) reported that they have been enjoying loans from the bank (NMB) for over four years followed by 2-3 years (40%) and less than a year group (about 14%)

Figure 4.4 Time customer has been enjoying microfinance loan



Source: Field data 2014

Perceptions of respondents on various loan matters are given in Table 4.2. Respondents were asked to give their judgment of whether they agree or disagree with a diverse range aspects related to their loans and other matters of daily life.

For instance, respondents were asked to indicate whether they strongly agree, agree, disagree or strongly disagree with the statement.

“The safe way of coping with unforeseen events is through keeping savings in kind such as jewels, enough food stuff and other fixed assets, which I can sell back in time of shocks”.

Approximately 34% of the respondents strongly agreed with the statement whereas about 23% strongly disagreed with the statement. Regarding whether the respondents used loan proceeds out of the loan agreement in such a manner that it delayed timely loan instalment payment, the majority (about 63%) of the respondents strongly disagreed. Similar trend appears in the next three items listed below in which the majority of the respondents (approx. 49%, 46%, and 46% respectively) indicated to strongly disagree:

- (i) I'm sometimes forced to maintain multiple source of credit simply because when the shock comes in, I switch from one lender to another to get credit which will be used to absorb it,
- (ii) When the shock is very critical I can even renege from bank contract and use the loan proceeds to solve the problem,
- (iii) I set aside part of my loan amount as savings against unforeseen future events such as illness of my family and other relatives

When asked to give their judgment concerning the statement "it is necessary sometimes to keep some amount of loans in cash so as to meet first loan instalments because there is no grace period granted by the lender" the majority (31%) of the respondents strongly agreed. Concerning the question whether the cost of loans charged by bank is very prohibitive, the majority (about 43%) of the respondents disagreed and 26% strongly disagreed.

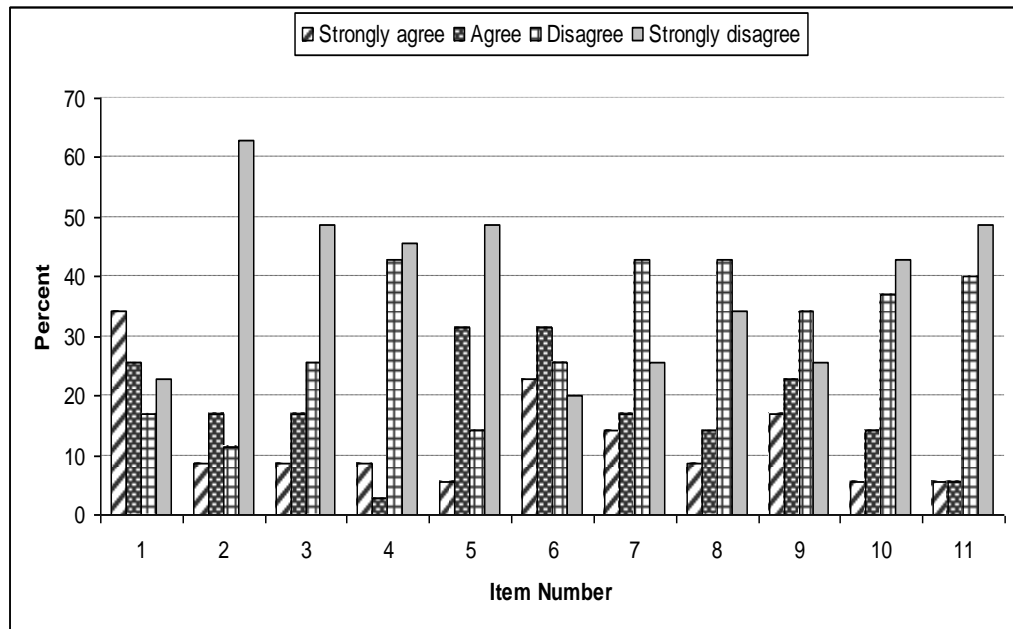
This implies that the cost of loans charged by the bank is rational. Figure 4.4 plots various loan items against proportion of respondents in each of the four response categories ("strongly agree", "agree", "disagree", "strongly disagree"). The numbers 1 through 10 represent the various question items constructs given in Table 4.2.

Table 4.2: Respondents ‘perception on various aspects

S/N	Item	Categories	Respondent	
			Number	Percent
1	The safe way of coping with unforeseen events is through keeping savings in kind such as jewels, enough food stuff and other fixed assets, which I can sell back in time of shocks.	Strongly agree	12	34.3
		Agree	9	25.7
		Disagree	6	17.1
		Strongly disagree	8	22.9
2	Unfortunately I used loan proceeds out of the loan agreement in such a manner that it delayed timely loan instalment repayment.	Strongly agree	3	8.6
		Agree	6	17.1
		Disagree	4	11.4
		Strongly disagree	22	62.9
3	I’m sometimes forced to maintain multiple source of credit simply because when the shock comes in, I switch from one lender to another to get credit which will be used to absorb it.	Strongly agree	3	8.6
		Agree	6	17.1
		Disagree	9	25.7
		Strongly disagree	17	48.6
4	When the shock is very critical I can even renege from bank contract and use the loan proceeds to solve the problem.	Strongly agree	3	8.6
		Agree	1	2.9
		Disagree	15	42.9
		Strongly disagree	16	45.7
5	I set aside part of my loan amount as savings against unforeseen future events such as illness of my family and other relatives.	Strongly agree	2	5.7
		Agree	11	31.4
		Disagree	5	14.3
		Strongly disagree	17	48.6
6	Sometimes it is necessary to keep some amount of loans in cash so as to meet first loan instalments because there is no grace period	Strongly agree	8	22.9
		Agree	11	31.4
		Disagree	9	25.7

S/N	Item	Categories	Respondent	
			Number	Percent
	granted by the lender	Strongly disagree	7	20.0
7	Cost of loans charged by bank is very prohibitive	Strongly agree	5	14.3
		Agree	6	17.1
		Disagree	15	42.9
		Strongly disagree	9	25.7
8	I find it difficult to utilize loans to the business which the loan was sought for because its return is very low in such a manner that I would not be able to repay loan plus its interest timely	Strongly agree	3	8.6
		Agree	5	14.3
		Disagree	15	42.9
		Strongly disagree	12	34.3
9	I sometimes commit substantial part of the loans received from bank to the business which quickly brings return; I understand that what bank wants is their money to be repaid not how it has been used for	Strongly agree		
		Agree	6	17.1
		Disagree	8	22.9
		Strongly disagree	12	34.3
			9	25.7
10	I'm sometimes forced to use loan from bank to pay for school fees and other consumption because bank can not be approached once again for another loans to pay for such expenses though I can manage to repay back loans when arrangement allow	Strongly agree	2	5.7
		Agree	5	14.3
		Disagree	13	37.1
		Strongly disagree	15	42.9
11	When the situation gets out of control I usually shift to another bank or MFIs to seek new loans	Strongly agree	2	5.7
		Agree	2	5.7
		Disagree	14	40.0
		Strongly disagree	17	48.6

Figure 4.5 Respondent perceptions on various loan matters



Source: Field data 2014

4.2.1 Loan delinquency and likely causes

Of the total respondents studied, 12 (about 34%) reported that they delayed payment of their loan instalments in due course. To get insight on what influences delay of payment of instalments we cross-tabulated the variable “timing of payment of instalment: delay or not delay” with various respondents’ characteristics. Table 4.3 gives the results of cross-tabulation of the variables.

As seen from the table, delay or not delay to pay loan instalments is independent of sex of customer. That is, in this study being a male or female did not influence the decision whether to timely pay loan instalments.

Mixed findings exist in the literature regarding the influence of gender on micro-credit matters, such as repayment or default. In the review of the literature, Flint (1997) notes existence of studies which found significant influence of gender on default and some which did not find significant gender effect.

Using micro-credit borrowing data Anthony and Horne (2003) find that gender composition, not gender per se, was correlated with the individual’s chance of

default on loan repayment. Although these studies focus on the effect of gender on loan default, they demonstrate an overall effect of gender on loan repayment behaviour, which takes different stages.

The results in Table 4.3 show further that timing (delay or not delay) of payment of loan instalments was independent of respondents' age, his/her education level, marital status, and household size.

Others include number of dependants, sector in which the respondent is employed, type of business and whether the business is registered. Education level is often used to proxy an individual's economic status.

Highly educated individuals are frequently placed in the highest quintile category of wealth. In the present study, the respondent's income was proxied by his/her education level. Failure to find significant dependence between timing of decision to pay loan instalments and education and other related variables in this study is in line with other studies. Flint (1997) noted mixed findings concerning the role of parental income on loan default.

Other variables that are found to be independent of timing of payment of loan instalments include employment status of spouse and other members of household, dependence of household livelihood on business, source of finance of assets, and experience of the respondent with NMB loan.

Of particular interest in the table the results in Table 4.3 is the finding that of existence of a highly significant dependence ($P < 0.001$) between timing of payment of loan instalments and use of loan proceeds outside loan agreement. Those who admitted/agreed to use loan outside loan agreement were more likely to delay paying some of their loan instalments.

Significant dependences are also observed between timing of payment of loan instalment and use of loan to solve unpredicted problems, when respondent commits a substantial part of the loan received to business, addressing unforeseen events by selling some of assets, and when the respondent switch from one lender to another to get credit in event of shocks

Table 4.3: Timing of payment of loan instalments

Variable	Categories	Payment of instalment		χ^2 DF	P-value
		Delayed	Not delayed		
Sex	Male	8	15	0.007 1	0.932
	Female	4	8		
Age	Less than 30 years	1	5	2.980 3	0.395
	30-40 years	7	14		
	41-50 years	3	4		
	More than 50 years	1	0		
Education	Primary	1	7	6.717 4	0.152
	Training after primary	2	1		
	Secondary	2	8		
	Training after secondary	1	0		
	University/College	6	7		
Marital status	Single	3	2	2.092 2	0.351
	Married	8	20		
	Widowed	1	1		
	Less than 5	8	16		
Household size	5-10	4	6	0.676 2	0.713
	More than 10	0	1		
	None	0	2		
Number of dependants	Two	5	3	4.782 3	0.150
	Three	2	8		
	More than three	5	10		
	None	0	2		
Sector respondent is employed	Formal sector	1	6	2.029 2	0.363
	Informal sector	9	12		
	Other	2	5		
Type of business	Shop	4	12	1.510 3	0.680
	Kiosk	2	2		

Variable	Categories	Payment of instalment		χ^2 DF	P-value
		Delayed	Not delayed		
	Hair dressing saloon	2	2		
	Other	4	7		
Business registered	Yes	12	19	2.356	0.125
	No	0	4	1	
Spouse employed	Yes	2	3	0.390	0.533
	No	6	17	1	
Other members of household employed	Yes	3	8	0.350	0.554
	No	9	15	1	
Household livelihood depends on business	Yes	3	6	0.005	0.944
	No	9	17	1	
Source of finance of assets	Profit from business	8	13	1.369 3	0.713
	Loan from bank	5	5		
	Friend/relative	0	2		
	Other	1	3		
Unforeseen events are addressed by selling some of asserts	Always	1	0	10.885 2	0.004***
	Sometimes	7	3		
	Not at all	4	20		
Jewels, enough food stuff and other fixed assets are the best ways of coping with shocks	Strong agree	5	7	2.390 3	0.495
	Agree	4	5		
	Disagree	2	4		
	Strongly disagree	1	7		
Loan proceed is used to solve unforeseen	Strong agree	3	0	8.665 3	0.034**
	Agree	1	0		
	Disagree	4	11		

Variable	Categories	Payment of instalment		χ^2 DF	P-value
		Delayed	Not delayed		
problem	Strongly disagree	4	12		
Switch from one lender to another to get credit in event of shocks	Strong agree	3	0	18.24 7 3	0.000** *
	Agree	5	1		
	Disagree	3	6		
	Strongly disagree	1	16		
Experience with NMB loan	Less than a year	1	4	0.539 2	0.764
	Between 2 -3 years	5	9		
	More than 4 years	6	10		
Used loan proceed outside loan agreement	Strong agree	3	0	23.73 6 3	0.000** *
	Agree	5	1		
	Disagree	3	1		
	Strongly disagree	1	21		
Commit substantial part of the loan received to the business	Strong agree	3	3	10.34 2 3	0.016**
	Agree	6	2		
	Disagree	2	10		
	Strongly disagree	1	8		

*** Significant at 1% level, ** Significant at 5% level

4.3 Lending Conditions

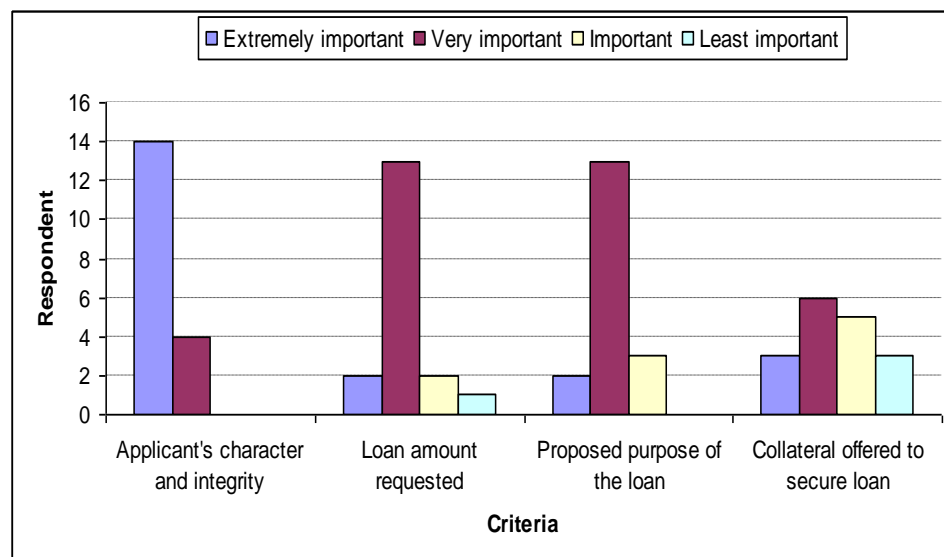
To unveil the lending conditions of the bank, staff members (whose background characteristics are given in Table 4.2) from the loan department were asked a series of questions. First, they were asked to indicate in order of importance (from 1 to 4 where 1=least important, 2=important, 3=very important and 4=extremely important) the following items, which are used in considering loan application: applicant's

character and integrity, loan amount requested, proposed purpose of the loan, and collateral offered to secure the loan.

The results are given in Figure 4.6. As seen from the figure, applicant’s character and integrity is a crucial factor in determining the outcome of loan application for NMB. None of the respondents ranked either important or least important.

Loan amount requested, proposed purpose of the loan and collateral were all ranked by the majority of the respondents to be very important factors for loan consideration. Secondly, respondents were asked how they normally confirm the authenticity of the given information by the loan applicants. The results show that about 83% of the respondents reported that: going through records, physical observing of the real situation, looking at the market and competition surrounding the business premise, and seeking reference from other business associates are all used in judging the accuracy of the information.

Figure 4.6 Loan lending criteria



Thirdly, respondents were also asked to give their opinions as to why some loan applicants do not want to disclose full information in their applications. A range of reasons were provided by the respondents.

However, the most pronounced reason is fear that their applications may be rejected. This is especially the case when the applicant’s loan purpose does not fit into the

bank's loan policy, or the applicant plans to use the requested money for other activities that are not among the recommended activities.

In such cases, the applicants tend to provide partial information about them and because of information asymmetry sometimes, despite of having guiding principles, it becomes difficult to notice before the loan is offered to the applicant. About 44% of the respondents reported that the magnitude of partial disclosure of information among loan applicants is strong, while approximately 39% reported to be moderate and the remaining 17% said the problem is very strong.

Fourthly, of particular interest in the results is the finding that approximately 94% of the respondents reported that not all applicants utilize the requested money according to purpose.

This finding is similar to that obtained from the customers where there was a strong significant dependence ($P < 0.001$) between timing of payment of loan instalments and use of loan proceeds outside loan agreement. We found that those who agree to use loan proceeds contrary to agreement were more likely to delay paying their loan instalments.

When asked to indicate the magnitude of the problem of misuse of loan, the results show that 56% reported moderate misuse, 39% strong misuse and the remaining 6% very strong misuse. As it was the case for partial disclosure of information, in this case respondents gave numerous reasons as to why some customers misuse their loans. Some of the reasons include lack of other sources of funds to solve family or social problems and other unforeseen events that are beyond the control of the customers.

Loan diversification was reported by all the respondents (100%)-members of staff studied- to be a cause for loan delinquency and a key factor for loan default. Other reasons for loan default in decreasing order of importance include family problems (50%), unforeseen factors (39%), and multiple loans (17%).

In the context of Africa where the notion of extended family is a common phenomenon, family problems account for most of households' resource allocations. The major family problem named is use of loan proceeds to pay school fees.

On the part of unforeseen factors, respondents mentioned illness of a member of a household or any relative, theft, fire, and economic crisis/market problem/policy change. These problems affect the borrower's ability to pay the loan instalments and in turn may result into loan default in many different ways. For instance, when a member of a household or relative falls sick the borrower is forced to spend part of the loan which would have otherwise used to the intended purpose. This is especially the case when the loan receiver has no any other means to finance social or family problems apart from his/her business.

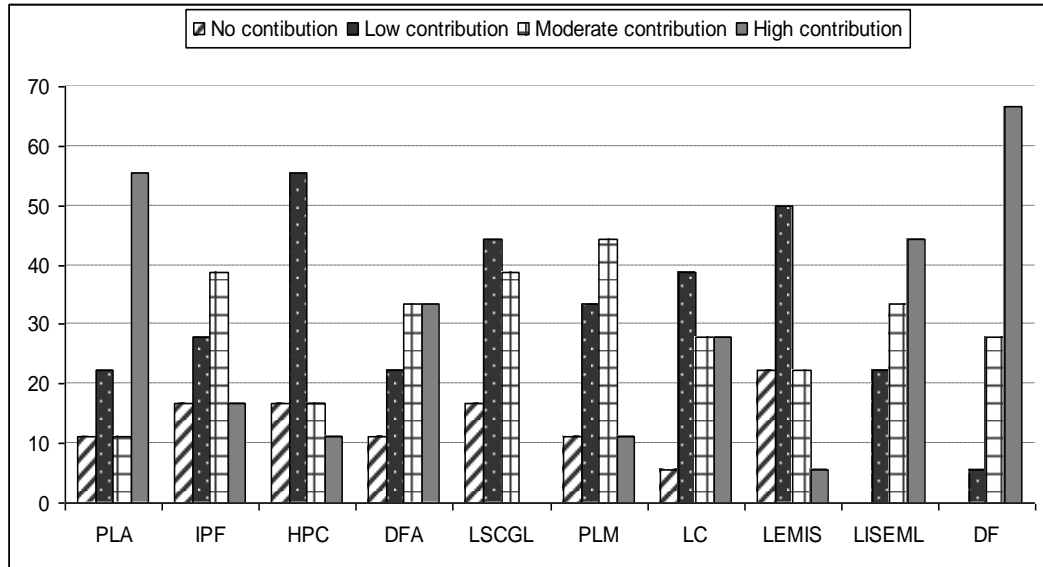
Moreover, because of existence of many social problems, which do not match with the available limited resources, often people fails to save any proportion of their income to cater for unexpected problems. Therefore, when a shock occurs, the likelihood of spending whatever is available at that particular moment is high.

Relative contributions of various factors on loan delinquency are summarized in Figure 4.7. In this figure, PLA=poor loan appraisal, IPF= inadequate product features, HPC= high price of credit, DFA= dishonest and fraudulent activities, LSCGL= lack of support and customer care after granting loans, PLM= poor loan monitoring, LC= lack of collateral, LEMIS= lack of efficient management information system, LISEML= lack of information sharing and existence of multiple credit channels, and DF= divergence of funds.

As seen from the figure and as mentioned above, divergence of funds (67%) and poor loan appraisal (56%) have high contributions on loan delinquency. Of the different factors listed, HPC or high price of credit was the leading factor to have a low contribution to loan delinquency.

This result is similar to that reported by the customers where about 43% of the customers reported that to disagree with the item that assessed whether cost of loans charged by bank is very prohibitive.

Figure 4.7 Contribution of various factors on loan delinquency



4.4 Strategies used by NMB to minimize loan delinquency

One of the strategies used by the bank to minimize loan delinquency and default rates is to visit the borrowers' business premises after loan disbursement. This strategy was reported by 15 (about 83%) of the total respondents. This is often done to check whether acceptable progress is being made with reference to the purpose of the loan.

Physical observation of the business premises may signal the client's likelihood to pay his/her loan instalments timely thus the chance to default. However, as mentioned earlier, the problem of information asymmetry may also feature out in this exercise thus the loan officer fails to make well informed recommendations to the bank regarding the possibility of the client to delay to pay his/her loan instalments and defaulting.

This is particularly the case when the client decides to hide the true picture of his/her business such that the observer's picture becomes significantly different from the client's picture of the business.

Respondents were also asked to give their experience about the timing of the decision to contact a client when he/she falls in arrears.

The results show that in most of the time (72%) the concerned client/customer is contacted immediately. Others reported to contact the customer(s) after two days and after three days-(17%) and (11%) respectively. The number of times a customer is visited before a demand notice is issued varied between 2-3 times (39%), more than 3 times (61%).

However, the key factor or criteria that determined the number of times to visit a customer before issuing a demand notice as reported by the majority (28%) of the respondents was “nature of response of customer”.

When asked whether current policy is adequate to address loan delinquency, majority (77.8%) of the respondents (staff) agreed that the policy is adequate. Seventeen percent of the respondents disagreed that the policy is adequate while only 1 (5.6%) of the respondents strongly agreed that the policy is adequate.

Concerning the question whether finance products and services offered by the respondent’s branch are able to meet various customer demands for credit, 14 (82.4%) of the respondents said yes, it meets, while 3 (16.7%) said no, it does not meet. One (5.6%) customer had no opinion on this aspect.

Respondents (staff) gave multiple answers on the question of what the bank should do to address loan delinquency. Among the suggestions reported by the respondents include but not limited to proper loan appraisal (100%), promotion of efficient screening process (5.6%), educate customers on the importance of timely payment of loan instalments (11.1%), and close relationship between customers and bank staff (11.1%).

Likewise, respondents were asked to give suggestions on what the bank should do to enhance its outreach to customer’s financial needs.

The suggestions given are summarized in Table 4.4. However, 5 (28%) respondents did not give their suggestions; therefore, the percentages in Table 4.4 are based on the remaining 13 (72%) respondents. As seen from the table, the most common suggestions given include giving education to customers on credit facilities; strengthening marketing, and employing and training more loan officers

Table 4.4: Suggestions to enhance outreach to customer’s financial needs

Reason	Respondent	
	Frequency	Percent
Broadening various local products e.g., poultry farming	2	15.4
Strengthen customer care	2	15.4
Give education to customers concerning credit facilities	3	23.1
Group lending should be introduced	1	7.7
Strengthen marketing of products	3	23.1
Give short term loans	1	7.7
Train and employ more loan officers	3	23.1

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The present study provides an empirical analysis of the factors which contribute to loan delinquency among small and medium enterprises focusing on the National Microfinance Bank in Dar es Salaam.

The analysis used information obtained from customers/clients or borrowers and members of staff of the bank from the loan/credits department of the studied bank.

Several issues in reference to the study objectives have been unveiled in the analysis. The conclusion and recommendations drawn from the analysis are presented in the following two sections: sections 5.3 and 5.4 respectively and covers the objectives of the study presented in Chapter One.

5.1 Research Experience and Limitations

The present study has attempted to provide answers to six key research questions clustered within the subject of loan delinquency among small and medium enterprises (SMEs) focusing on the National Microfinance Bank (NMB).

The key questions addressed in the study are those concerned with: (i) profile of borrowers and lending conditions of NMB, (ii) causes of loan delinquency at NMB, (iii) strategies used by NMB to minimize loan delinquency.

In addressing these research questions, a linkages been made between theory and practice of loan able funds among microfinance institutions, specifically NMB in the context of Tanzania. Accordingly, the present study has contributed knowledge on the subject of loan delinquency among SMEs in the context of developing economy. However, like many empirical studies, the present study has some practical limitations, which warrant mentioning. These are:

Firstly, resource (time and financial) constraint necessitated the researcher to conduct the study using only one microfinance institution (NMB PLC). It would have been

more informative if the research had involved various micro-finance institutions to enable a comparative analysis of the different aspects investigated in the study.

Moreover, time and financial constraints necessitated the researcher to conduct the study among a small sample in order to comply with the University's academic calendar. This might have reduced the power to detect true differences between different characteristics of interest in the study.

Use of different modes of data collection (e.g., focus group discussion) apart from self-administration employed in the present study would have added more insights into the study. Focus group discussion involving loan defaulters would have provided us with detailed information, which cannot be captured in other data collection techniques.

5.2 Conclusion

Despite the above limitations, the study, based on the sample studied whose findings are presented and discussed in Chapter Four of this dissertation, has the following conclusion.

5.2.1 Profile of borrowers

The findings have revealed that the most common borrowers are those aged between 30-40 years. This constitutes about 60 percent of the total borrowers studied and that the majority were married men-80 percent and 65 percent respectively. It is worth noting that, the largest (about 37%) group of borrowers studied had a university or a college education; secondary education formed the second largest group (approximately 29%) in the list. A great proportion (60%) of them is employed in the informal sector.

The findings have also unveiled that most of the studied customers have less than five people as members of their households and that the majority (43%) reported having more than three dependents. Concerning ownership of assets, the results the study has discovered that about 69% of the total studied customers reported that they own a house, 43% own a piece of undeveloped land, 29% own a motor vehicle, 23% possess a motor cycle, and 20% own a savings account with a bank.

The most common (60%) source of financing of these assets was profit from the borrowers' businesses. The findings indicate that the majority of borrowers (46%) studied were engaged in operating a shop in the city. Of those reported running a business, 89% said that their businesses are registered with the relevant authorities. The most common source of capital for the reported businesses was own savings followed by loan from microfinance institutions.

5.2.2 Lending Conditions of NMB

The study findings indicate that among the lending conditions of the bank include scrutiny of the applicant's character and integrity, loan amount requested, proposed purpose of the loan, and collateral offered by the applicant. Of these aspects, the applicant's character and integrity is often considered extremely important whereas the rest are considered very important.

Moreover major determinant of service quality should be considered. The same researcher develops a list of the major determinants of service quality. They found that consumers use basically similar criterion regardless of the type of service.

The criteria are as follows;

- i. Access; the service is easy to obtain in convenient locations at convenient times with little waiting.
- ii. Communications; the service is described accordingly in the consumers language.
- iii. Competitiveness; The employee's possess the required skills and knowledge.
- iv. Courtesy; the employees are friendly, respectful and considerate
- v. Credibility; The company and employees are trustworthily and have the customer's best interest at heart.
- vi. Reliability; the service is performed with consistence and accuracy
- vii. Responsiveness; The employees respond quickly and creatively to customers request and problems.
- viii. Security: the service is free from danger risk our doubt
- ix. Tangibles: The service tangibles correctly project service quality.
- x. Understanding/knowing the customer

To confirm the authenticity of the applicant's information, the results indicate that going through records, physical observation of the real situation, looking at the market and competition surrounding the business premise, and seeking reference from other business associates are all used in judging the accuracy of the information. This approach was supported by about 83% of the total members of staff from the loan department studied.

5.2.3 Causes of Loan Delinquency

The results show that of the total borrowers (customers) studied, about 34% reported that they delayed payment of their loan instalments in due course. Cross-tabulated of the variable "timing of payment of loan instalments-delay or not delay" with various respondents' attributes revealed that delay or not delay was not dependent on most of the respondent's characteristics.

However, a highly significant dependence ($P < 0.001$) was observed between delay or not delay to pay loan instalments and use of loan proceeds outside loan agreement. Those who acknowledged using loan proceeds outside loan agreement were more likely to delay paying their loan instalments in due time than those who did not. Moreover, the findings revealed that those who reported using their loan to solve unanticipated events and those who committed a substantial part of their loan to business were also more likely to fail to timely pay their loan instalments in due time.

Generally, the findings indicate that the major cause of loan delinquency is misallocation of received funds. This is supported by both borrowers and the members of staff studied. About 94% of the staff studied reported that not all applicants utilize the requested money according to purpose.

The magnitude of the problem of misuse of loan was reported by the respondents (staff) to be: moderate (56%), strong (39%), and very strong (6%). A diverse range of reasons were given as to why some customers misuse their loans. Some of the reasons given include lack of other sources of funds to solve family or social problems and unforeseen events that sometimes happen in life.

Loan diversification was reported by all the respondents (100%)-members of staff studied- to be a cause for loan delinquency and a key factor for loan default. Other reasons for loan default in decreasing order of importance included family problems (50%), unforeseen factors (39%), and multiple loans (17%).

In the context of Africa where the notion of extended family is a common phenomenon, family problems account for most of households' resource allocations. The major family problem named is use of loan proceeds to pay school fees. On the part of unforeseen factors, respondents mentioned illness of a member of a household or any relative, theft, fire, and economic crisis/market problem/policy change.

5.3 Strategies used by NMB to minimize loan delinquency

The study findings indicate that the main strategy used by the bank to achieve a significant reduction in loan delinquency and default among its customers is to visit the borrowers' business premises after loan disbursement.

This strategy was reported by 15 (83%) of the total staff (18) studied. This is done mainly to check whether acceptable progress is being made with reference to the purpose of the loan received and make appropriate or informed recommendation(s).

Whenever a client falls in arrears, the results show that the concerned individual is contacted immediately (72% of the respondents). The findings indicate further that, in most cases (61%) the client is contacted more than three times before a demand notice is issued. However, the main determining factor of the number of times to contact a customer was nature of his/her response.

Regarding whether the bank's current loan policy is adequate to address loan delinquency, the findings revealed that most (78%) of the respondents (staff) agreed that the policy is sufficient. On the question of what the bank should do to address loan delinquency, varied responses were given by the studied staff.

However, the respondents unanimously (100%) agreed that proper loan appraisal is important, promotion of efficient screening process is required (5.6%), educate

customers on the importance of timely payment of loan instalments (11.1%), and close relationship between customers and bank staff (11.1%).

5.4 Recommendations

A Given the results presented in Chapter Four the following is recommended:

- (i) In order to achieve a significant reduction in loan delinquency and subsequently loan default, the bank's screening process particularly with regards to the nature of business, potential returns to the business, and presence of other sources of income to finance social or unforeseen events that are likely to interfere the development of the business, hence fail to timely pay loan delinquency or default should be strengthened.
- (ii) Loan officers must be increased to permit random and frequent visits to the borrowers' business premises after disbursement of loan to assess the progress of the business and the likelihood of timely payment of loan delinquency. Random visits may unveil whether there is use of loan proceeds outside loan agreement and make appropriate recommendation to the relevant authority for further action.
- (iii) Education of borrowers on the importance of timely payment of loan instalments must be strengthened. In addition, close relationship between customers and the bank staff especially those from the credits department must be strengthened.

5.5 Areas of Further Study

There are three possible research areas, which can be carried out as an extension of the present study. First, to gain more insights into the subject matter-loan

delinquency- among SMEs, a comparative analysis involving at least two micro-financial institutions (e.g., a bank and a non-bank financial institution) is required.

Such study will permit a comparative scrutiny thus full understanding of key aspects of loan delinquency as discussed in the present study. That is, comparative analysis of profile of borrowers across institutions, lending conditions of institutions, causes of loan delinquency, and strategies used by the institutions to minimize loan delinquency.

To increase the power of detecting true difference (if really exists) a study may involve a reasonable number of respondents in each financial institution to be considered. Also, to ensure a high response rate, face-to-face mode of data collection may be employed in the study.

Second, the analysis in the present study has been mainly descriptive thus limits our understanding of the causal relationship between a set of independent variables and some interactions, and the outcome measure or dependent variable of interest-loan delinquency.

Therefore a further study could be carried out to find the best fit and most parsimonious model that describes (predicts loan delinquency) the relationship between loan delinquency and a set of explanatory/independent variables.

Third, a study may be carried out to understand cost (time and monetary) implication of loan delinquency to NMB PLC alone or comparing with another micro-finance institution, assuming first, perfect information and second, assuming imperfect information on the part of the loan lender (microfinance institution).

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APPENDIX

QUESTIONNAIRE FOR EVALUATION OF FACTORS WHICH CONTRIBUTE TO LOAN DELINQUENCY AMONG SMALL AND MEDIUM ENTERPRISES IN TANZANIA: THE CASE OF NATIONAL MICROFINANCE BANK PLC.

APPENDIX A1: Questionnaire for (Borrowers) Loan Receivers

To be filled in by clients who received loans from the Bank.

Dear Respondent,

You have been selected to participate in a study on factors which contribute to loan delinquency in micro and small loans. We believe that you have experience that would be of value to us and we would like to know your views on what it makes such incidence to occur. The study is conducted in partial fulfilment of the requirements for the degree of Master of Business Administration of the Open University of Tanzania. All information you give us will be treated strictly confidential and will be used exclusively for academic purpose only. No source or individual respondent will be identified or comment attributed to the originator. We thank for your co-operation.

For each of the following questions (1-31), please circle the **most** appropriate answer out of the given range of options. Only **one** answer is allowed for each question.

No.	Question	Response
1	Sex	Male.....1 Female.....2
2	Age (years)	Below 30.....1 30-40.....2 41-50.....3 Above 50.....4
3	What is your education level?	No formal education.....1 Primary.....2 Training after primary.....3 Secondary.....4 Training after secondary.....5 University/College6 Other.....20 (Please specify)_____
4	What is your marital status?	Single.....1 Married.....2 Widowed.....3 Divorced.....4 Separated.....5 Other.....20 (Please specify)_____
5	What is your household size?	Below 5.....1 5-10.....2 Above 10.....3
6	How many of your household members are dependants?	None.....0 One.....1 Two.....2 Three.....3 More than three.....4
7	Where are you employed?	Formal organisation.....1 Informal organisation.....2 Other.....20 (Please specify)_____
8	What businesses are you involved in?	Shop.....1 Kiosk.....2 Saloon (hair dressing or barber).....3 Restaurant.....4

No.	Question	Response
		Other.....20 (Please specify)_____
9	Is (are) your business (es) registered?	Yes.....1 No.....2
10	Is your spouse employed?	Yes.....1 No.....2
11	Are other members of the household working/employed?	Yes.....1 No.....2

No.	Question	Response																														
12	Household depends entirely on this business for its livelihood	Yes, it does.....1 No, there are other supplementing sources of income2																														
13	What were the sources of capital used to establish your businesses?	Own savings1 Loan from Microfinance Institution2 Grant from Relative and friends3 Loan from Moneylenders4 Other.....20 (Please specify)_____																														
14	Does your household own: A house? A plot of undeveloped land? A milling machine? A motor vehicle? Saving account with bank? A motor cycle? Other _____ Other _____	<table border="1"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> <tr> <th></th> <th>1</th> <th>2</th> </tr> </thead> <tbody> <tr> <td>A house?</td> <td>1</td> <td>2</td> </tr> <tr> <td>A plot of undeveloped land?</td> <td>1</td> <td>2</td> </tr> <tr> <td>A milling machine?</td> <td>1</td> <td>2</td> </tr> <tr> <td>A motor vehicle?</td> <td>1</td> <td>2</td> </tr> <tr> <td>Saving account with bank?</td> <td>1</td> <td>2</td> </tr> <tr> <td>A motor cycle?</td> <td>1</td> <td>2</td> </tr> <tr> <td>Other</td> <td>1</td> <td>2</td> </tr> <tr> <td>Other</td> <td>1</td> <td>2</td> </tr> </tbody> </table>		Yes	No		1	2	A house?	1	2	A plot of undeveloped land?	1	2	A milling machine?	1	2	A motor vehicle?	1	2	Saving account with bank?	1	2	A motor cycle?	1	2	Other	1	2	Other	1	2
	Yes	No																														
	1	2																														
A house?	1	2																														
A plot of undeveloped land?	1	2																														
A milling machine?	1	2																														
A motor vehicle?	1	2																														
Saving account with bank?	1	2																														
A motor cycle?	1	2																														
Other	1	2																														
Other	1	2																														
15	What were the sources of financing of those assets in question 12 above?	Profit from businesses1 Loan from bank or MFIs2 Hire purchase arrangements3 Gifts or grants from friends and relatives4 Lottery.....5 Other.....20 (Please specify)_____																														
16	When unforeseen event comes in, do you address it by selling some of your assets?	Usually1 Always2 Sometimes3 Not at all4																														
17	The safe way of coping with unforeseen events is through keeping savings in kind such as jewels, enough food stuff and other fixed assets, which I can sell back in time of shocks.	Strong agree1 Agree2 Disagree3 Strongly disagree4																														
18	When the shock is very critical I can even renege from bank contract and use the loan proceeds to solve the problem.	Strong agree1 Agree2 Disagree3 Strongly disagree4																														

No.	Question	Response
19	I'm sometimes forced to maintain multiple source of credit simply because when the shock comes in, I switch from one lender to another to get credit which will be used to absorb it.	Strong agree1 Agree2 Disagree3 Strongly disagree4
20	How long have you been enjoying micro finance loans from NMB?	Less than a year1 Between 2 -3 years2 More than 4 years3
21	Did you delay payments of instalments sometimes in due course?	Yes.....1 No.....2
22	Unfortunately I used loan proceeds out of the loan agreement in such a manner that it delayed timely loan instalment repayment.	Strong agree1 Agree2 Disagree3 Strongly disagree4
23	I set aside part of my loan amount as savings against unforeseen future events such as illness of my family and other relatives.	Strong agree1 Agree2 Disagree3 Strongly disagree4
24	Sometimes it is necessary to keep some amount of loans in cash so as to meet first loan instalments because there is no grace period granted by the lender	Strong agree1 Agree2 Disagree3 Strongly disagree4
25	Cost of loans charged by bank is very prohibitive	Strong agree1 Agree2 Disagree3 Strongly disagree4
26	I find it difficult to utilize loans to the business which the loan was sought for because its return is very low in such a manner that I would not be able to repay loan plus its interest timely	Strong agree1 Agree2 Disagree3 Strongly disagree4
27	I sometimes commit substantial part of the loans received from bank to the business which quickly brings return; I understand that what bank wants is their money to be repaid not how it has been used for	Strong agree1 Agree2 Disagree3 Strongly disagree4
28	I sometimes forced to use loan from bank to pay for school fees and other consumption because bank can not be approached once again for another loans to pay for such expenses though I can manage to repay back loans when arrangement allow	Strong agree1 Agree2 Disagree3 Strongly disagree4
29	When the situation gets out of control I usually shift to another bank or MFIs to seek new loans	Strong agree1 Agree2 Disagree3 Strongly disagree4
30	Have you undergone any formal training on basic Book- keeping skills or do you have access to	Yes.....1 No.....2

	business development services?	
31	If no, does that affect your capacity of managing your business and keeping track of your records?	Yes.....1 No.....2

END

**QUESTIONNAIRE FOR EVALUATION OF FACTORS WHICH
CONTRIBUTE TO LOAN DELINQUENCY AMONG SMALL AND
MEDIUM ENTERPRISES IN TANZANIA: THE CASE OF NATIONAL
MICROFINANCE BANK PLC.**

APPENDIX A2: Questionnaire for NMB Staff

To be filled in by NMB Credits Department Staff.

Dear Respondent,

You have been selected to participate in a study on factors which contribute to loan delinquency in micro and small loans. We believe that you have experience that would be of value to us and we would like to know your views on what it makes such incidence to occur. The study is conducted in partial fulfilment of the requirements for the degree of Master of Business Administration of the Open University of Tanzania. All information you give us will be treated strictly confidential and will be used exclusively for academic purpose only. No source or individual respondent will be identified or comment attributed to the originator. We thank for your co-operation.

For each of the following questions (1-27), please circle the **most** appropriate answer out of the given range of options. Only **one** answer is allowed for each question.

No.	Question	Response
1	Sex	Male.....1 Female.....2
2	Age (years)	Below 25.....1 26-30.....2 31-35.....3 Above 35.....4

No.	Question	Response			
3	What is your education level?	Secondary Education1 Certificate2 Ordinary Diploma3 Advanced Diploma4 First Degree5 Master's degree (e.g., MBA)6 Other.....20 (Pease specify)_____			
4	Profession	CPA Holder.....1 ATIOB.....2 CSP.....3 Other.....20 (Pease specify)_____			
5	How long have you been working with NMB Loan Department?	<div style="text-align: center;"> <input type="text"/> <input type="text"/> </div> Write "00" if less than one year			
6	Have you attended any training that is related to your current job?	Yes.....1 No.....2			
7	In your opinion, did the training you attended equip you with necessary skills, knowledge and techniques of loan appraisal?	Yes.....1 No.....2			
8	Which skills, knowledge or techniques did you specifically acquire? Please specify.				
Loan Processing and Appraisal					
9	Pease rank by putting a tick (√) in the order of importance the following items used in considering loan application: 4=extremely important, 3=very important, 2=important, 1=least important				
		4	3	2	1
	Applicant's character and integrity				
	Loan amount requested				
	Proposed purpose of the loan				
	Collateral offered to secure loan				
No.	Question	Response			

10	How do credit officers confirm the accuracy of information given by their loan clients?	<p style="text-align: right;">Going through records1 By observing the real situation2 By looking at the Market and competition surrounding the business premise3 Seeking reference from other business associates4 All of the above5</p>
11	In your opinion, what do you think are the reasons for borrowers not to reveal some important information to the lenders? Please give your reasons.	<hr/> <hr/>
12	What is the magnitude of partial disclosure of information problem?	<p style="text-align: right;">Very strong1 Strong2 Moderate3 Low4</p>
13	Does partial disclosure of the information on the part of the borrower, a key factor contributing to loan default?	<p style="text-align: right;">No contribution at all1 It slightly contribute2 It contributes3 It strongly contribute4</p>
14	Do all of your borrowers utilize funds for the purpose shown in the application forms?	<p style="text-align: right;">Yes.....1 No.....2</p>
15	If the answer is ‘No’ in question 14 above what is the magnitude of the problem? Please explain your answer.	<p style="text-align: right;">Very Strong1 Strong2 Moderate3 Low4</p> <hr/> <hr/>
16	In your opinion, what do you think are the factors that make borrowers use funds for the purpose other than shown in the application forms? Please explain.	<hr/> <hr/>
17	How many cases of loan diversification have you encountered?	<p style="text-align: right;">1-5 cases1 6-10 cases2 11-15 cases3 15-20 cases4</p>

		Above 20 cases5
18	Does loan diversification contribute to loan delinquency? Please explain	_____ _____
19	In your opinion what are the key factors for loan default? Please list them down.	1: _____ 2: _____ 3: _____ 4: _____ 5: _____
20	When a customer falls in arrears when do you contact the client? Please specify	_____ _____
21	How many times do you visit the client before issuing demand notices? Please specify.	_____ _____
22	Do you visit the business premise of the borrower after loan disbursement to check on the development of loan proceeds?	Yes.....1 No.....2
23	My understanding is that the bank has policy in place to deal with loan delinquency, in your opinion is that policy is adequately addressing the problem	Strong agree1 Agree2 Disagree3 Strongly disagree.....4
24	Do finance products and services offered by your branch able to meet various customers' demand for credit?	Yes.....1 No.....2
26	To what extent are the factors listed below contribute to loan delinquency in your Bank? (<i>Please once in each row</i>) i.e. 1= No contribution, 2= Low contribution, 3=Moderate Contribution, 4= High Contribution. Please tick at the appropriate box that best describes your answer.	
		1 2 3 4
	Poor Loan appraisal	
	Inadequate Product features	

	High price of credit				
	Dishonest and fraudulent activities				
	Lack of support and customer care after granting loans				
	poor loan monitoring				
	Lack of Collateral				
	Lack of efficient Management Information System				
	Lack of information sharing and existence of multiple credit channels				
	Divergence of funds				
27	What is your proposal to address loan delinquency? Please explain				

END