LOAN REPAYMENT BY SACCOS TO COMMERCIAL BANKS IN TANZANIA: A CASE OF CRDB BANK MOSHI BRANCH

LOAN REPAYMENT BY SACCOS TO COMMERCIAL BANKS IN TANZANIA: A CASE OF CRDB BANK MOSHI BRANCH

By

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled; **Loan Repayment by SACCOs to Commercial Banks in Tanzania: A Case of CRDB Bank Moshi Branch,** in partial /fulfillment of the requirements for award of the degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe University.

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DECLARATION

I, **Moshi Goodluck,** 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 on a similar or any other degree award.

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DEDICATION

To My Family

ABBREVIATIONS AND ACRONYMS

BFIA	-	Banking and Financial Institution Act
BoT	-	Bank of Tanzania
CRDB PLC	-	CRDB Public Limited Company
MFI	-	Micro financial Institution
OCSSCO	-	Oromia Credit and Savings Share Company
SACCOS	-	Savings and Credit Cooperative Society
SME	-	Small and Medium Enterprises
SSI	-	Small Scale Industries
UWFCT	-	Uganda Women's and Credit Trust Ltd

ABSTRACT

The main objective of the study was to find out the factors affecting the loan repayment by SACCOS to Commercial Banks in Tanzania, Specifically the study investigated the time given to SACCOS borrowers for loan, whether the SACCOS Borrowers have sufficient knowledge to conduct business in to generate sufficient income hence repay the loan and determined the effect of interest rate on loan given to Sacco's by Commercial banks in Tanzania. The study used the null hypothesis that; "Loan repayment is directly related to period of time, interest rate and technical know how to do the business".

Literature review was done to identify basic concepts and theories used in the study, and, finally designed and conceptual framework having five main concepts i.e. Time, Interest rate, Business knowledge, Loan amount and repayment.

Data was collected using open-ended questionnaire and the data was coded entered in a computer finally the final findings were obtained. The analysis was done using a Statistical Package for Social Scientists (SPSS), and descriptive statistics was used to do the analysis from which conclusion were made.

It was concluded that the study revealed that the overall repayment performance of the borrowers and the screening techniques which the institution follows to ration the loan to its members were found to be sound, improved positively the incomes, access to education, access to health facilities and nutritional status of the borrowers.

Based on the findings, it is recommended that the bank should make sure that the credit period which are given to clients is sufficient to circulate the funds borrowed and repay the loan, the loan size is appropriate for the size of the business which is sufficient to generate income and be able to repay the loan, conduct seminars on customers educating them on business planning which help in using the loan on the intended purpose and to be trustful on the repayment. Also the bank should increase the penalty for those clients who do not repay on time, charge some of the credit policies on time to repay the loan. The client should be given at least grace period of 2 months when he/she takes the second or third loan.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Information

Of recently, SACCOS had become one of the main strategies used by government of Tanzania to improve the living standard of its people. Compared to others financial institutions like banks, SACCOS are highly focused because it serves even the remote areas where most formal financial institutions cannot work (Mkukuta, 2000).

However, to be sustainable SACCOS should focus on variability and achieving efficiently financial productivity and financial viability. Therefore loan repayment problem should not be tolerated, but managed, efficiently as well as setting sustainable interest rate high enough to cover all cost of delivering services linkage to financial market, and enable to repayment loan in the banking. On one hand majority of SACCO's members contribution toward institution capital is very low, which forces these institutions to borrow from outside especially commercial banks so as to satisfy its members. On other hand a member can borrow two to three times of savings amount deposited, this create shortage of capital to the institution and results to poor repayment to a member.

In the recent years Commercial Banks have been granting loans to SACCOS hopeful they will repay on time hence creation of profitability. Conversely, critical problem has been facing banking management particularly on matters concerning the loans to the target SACCOS as a client's part of their services.

The delinquency has been increasing from time to time in the same case. In some cases SACCOS are not repaying at all the loans issued. It is very important for bank to consider the impact SACCOS loan in bank operations and survival because sometimes a bank may lose the loan issued by ignoring such impact. This problem however is more seriously to the SACCO's members who are not permanently or temporary employed to any organization or conducts any specific business.

In view of this problem situation, the researcher developed an interest of finding the impact of SACCO’S loan repayment in bank as a way to contribute to the development of Commercial Bank in Tanzania.

In recent decades, a large number of countries have experienced financial distress of varying degrees of severity, and some have suffered repeated bouts of distress (Hardy, 1998). Pazarbasioglu (1999) believes that the best warning signs of financial crises are proxies for the vulnerability of the banking and corporate sector. He showed that full-blown banking crises are associated more with external developments, and domestic variables are the main leading indicators of severe but contained banking distress. He adds that the most obvious indicators that can be used to predict banking crises are those that relate directly to the soundness of the banking system.

In the 1980's and early 1990's, several countries in developed, developing and transition economies experienced several banking crises requiring a major overhaul of their banking systems (IMF, 1998). Kenya has experienced banking problems since 1986 culminating in major bank failures (37 failed banks as at 1998) following the crises of; 1986 - 1989, 1993/1994 and 1998 (Kithinji and Waweru, 2007; Ngugi, 2001). Presently, several developed countries including the USA are experiencing a banking crisis. For example the Citibank group alone, has written off more than $39 billion in losses (Elliot, 2008). Despite the problems facing the global financial market, Canadian banks have remained relatively stable. Eliot (2008) attributes this to a combination of regulatory discipline and cultural mindset among Canadian banks.

In Tanzania Commercial Banks are the entire business bank institutions which governed and regulated by Bank of Tanzania (BOT). They provide financial services to individual, groups, institution including Savings and Credit Cooperative Societies (SACCOS) according to rules and regulation of Bank of Tanzania.

Saving and credit co-operative societies as financial institutions have been in existence for more than one and half century in the world and in Tanzania for over four decades.

The major focus of this type of institutions is to mobilize savings from members and provision of credit to their members at agreed interest rate.

SACCOS are financial cooperatives which provide financial services to both rural and urban communities. The emphasis of this type of microfinance institutions base on savings products first and credit later.

Of recently, SACCOS had becoming one of the main strategies used by government of Tanzania to improve the living standard of its people. Compared to others financial institutions like banks, SACCOS are highly focused because it serves even the remote areas where most formal financial institutions cannot work (MKUKUTA, 2000).

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CRDB BANK LIMITED is a private commercial bank. The Bank was established on July 1st 1996 to succeed the former Cooperative and Rural Development Bank (CRDB), which was a public institution with majority of shares held by the Government of the United Republic of Tanzania. The succession was a result of the liberalization of the banking industry in Tanzania.

The liberalization which followed the enactment of the Banking and Financial Institutions act (BFIA) of 1991 and Government's policy to divest its interest in the sector prompted a recapitalization of the Bank to levels stipulated by the BFIA (1991).

Restructuring

CRDB has been blessed with an invaluable partnership from the Danish International Development Agency (DANIDA). DANIDA's commitment and support in technical, managerial and financial areas of the Bank's operations has been instrumental for the success of CRDB BANK LIMITED.

DANIDA therefore was fundamentally involved in CRDB's restructuring as demanded by the BFIA (1991). The restructuring, which started in 1992, aimed at a more efficient organizational system, better returns to shareholders and overall improvement in the financial performance of the Bank.

The exercise involved:

(i.) **Organizational restructuring** where the organizational structure was comprehensively decentralized and designed to make the Bank more customer oriented, more accountable and with ability to compete in the free market economy (ii.) **Operational restructuring** where operational policies and procedures were streamlined to make the Bank more efficient and customer oriented in its operations.

(iii.) **Financial restructuring** where the Bank was to start operating on sound financial basis and fulfilled conditions and measures of financial soundness mainly as outlined by BFIA (1996).

(iv.) **Human resource management** where requirements for human resources were established and manpower downsizing was affected. To have optimum number of employees with respect to customers and bank profitability, 600 employees had to be retrenched. Measures were taken to ensure that jobs restructuring would stimulate employees to work be more productive and aim higher.

(v.) **Cultural change** where new corporate culture attributes stressing on customer service and ability to compete were introduced to Bank staff.

Ownership

Shareholding diversification was one of the aspects of the CRDB financial restructuring. In an unprecedented exercise CRDB became the first successful major Tanzanian privatization that involved the sell of shares to the public.

Table 1.1: CRDB BANK LIMITED is owned by over 11,000 shareholders under the following major groups (by value of shares):

Private individuals	37.0
Co operatives	14.0
Companies	10.2
DANIDA investment fund	30.0

Parastatals (NIC & PPF)	8.8
TOTAL	100.0

The authorized share capital of CRDB BANK LIMITED is Tsh 20.0 billion and presently the paid up capital is Tshs 12.3 billion.

CRDB Bank Limited is a bank that cares for its customers and has the capacity to advise its clients. It is a bank committed to responsible development of Tanzania's economy and society by financing only environmentally friendly projects.

1.2 Statement of the Problem

Principally, commercial banks operate with SACCOS as a bridge to channel financial services such as lending to poor people who cannot access these services direct from the banks.

Large number of community who lives in rural and urban areas has no access to financial services. Alternatively, they make use of microfinance institution like SACCOS being an important connection in accessing financial services. Commercial banks can only reach people in remote areas passing through SACCOS which are used as strategies to improve life standard of low income earners.

SACCOS fail to manage their funds adequately enough to meet future cash needs to their clients due to various reasons

SACCOS loan create more problems to Commercial Banks because many SACCOS fail to repay back the loan which cause problem of loan delinquency. In view of this problem situation, the researcher developed an interest of finding the factors affecting loan repayment rate to Commercial banks in Tanzania.

The following were the research Questions and objectives used in this study.

1.3 General Research Question:

Why do SACCOS fail to pay loans to commercial banks in Tanzania?

1.3.1 Specific Research Question

(i.) What period of time given to the borrowers in paying back the loan?

(ii.) Did borrowers have enough technical know how to conduct business in order to be able to repay the loans?

(iii.) Was the interest rate too high for borrowers to be able to, repay the loans?

(iv.) What was the loan size enable SACCOS to be sustainable?

1.4 Research Objectives

1.4.1 Overall Objective

The main objective of the study was to find out the factors affecting the loan repayment by SACCOS to Commercial Banks in Tanzania.

1.4.2 Specific Objectives

(i.) To investigate the time person given to SACCOS borrowers for loan repayment by Commercial bank in Tanzania.

(ii.) To investigate whether the SACCOS Borrowers have sufficient knowledge to conduct business in to generate sufficient income hence repay the loan.

(iii.) To determine the effect of interest rate on loan given to Sacco's by Commercial banks in Tanzania.

1.5 Statement of Hypothesis.

Ho: Loan repayment is directly related to period of time, interest rate and technical know how to do the business.

H1: Loan repayment is NOT directly related to period of time, interest rate and technical know how to do the business.

1.6 Significance of the Study

The study is expected to generate new knowledge and assist in Policy makers to write good favorable policies to be used to the microfinance field. In addition the non-repayment of loans shall be solved, finally Stake holders shall benefit.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction:

The purpose of this chapter is to discuss the main concepts which accounted to the notion of performance of SACCOS in repayment of loan to commercial banks. Literature review for the rationale of developing the conceptual framework of this study dwells on the theoretical and empirical evidence from the discussions on the consequences of loan delinquency on profitability and sustainability of SACCO's industry. The chapter will also wind up by presenting a theoretical framework and a conceptual model derived from reviewed literature. The theoretical framework is aimed at offering guidance in analyzing the factors influencing loan repayment in SACCO's performance in general.

2.2 Theoretical Literature

The financial viability of any credit institution depends critically on selecting applicants who have a high probability of repayment and rejecting those who have a high probability of default Ssewagudde (2000). In doing so loan officers in such financial institution is put at risk and the organization as a whole. As a way of scaling down loan, the default problem Gontaezjega (1996) added a risk premium to the price of the loan to cover loan losses. This risk premium results from the fact that at the time of the loan request, the lender is unable to clearly identify which borrower would repay and which borrower would default, as actual default losses are not known until a scheduled repayments are due.

2.2.1 Credit Assessment

Credit assessment is the first stage in the lending process. It is the process through which the credit applicant presents the necessary documentations to the bank in order to obtain a loan Nsereko (1995).

Credit assessment involves the following issues:

(i.) Credit Appraisal

This is basic stage in the lending process. Anjichi (1994) describes it as the 'heart' of a high quality portfolio. This involves gathering, processing and analyzing of quality information as way of discerning the client's creditworthiness and reducing the incentive problems between the lenders as principals and the borrowers as agents. The bank's credit policy, procedures and directives guide the credit assessment process. Banks should base their credit analysis on the basic principles of lending which are Character, Capacity, Capital, Collateral and Conditions (Matovu and Okumu, 1996). It is designed to ensure lenders take actions which facilitate repayment or reduce repayment likely problems. This information about the riskiness of the borrower makes the financial institution to take remedial actions like asking for collateral, shorter duration of payment, high interest rates and other form of payment (Stiglitz and Karla, 1990) When a financial institution does not do it well, its performance is highly affected. Edminster (1980) stressed the importance of credit analysis when he observed that its abandonment often resulted into several banks using credit card to process. The variable we have, according to Hunte (1996) included the length of time taken to process applications, credit experience, proportion of collateral security to the loan approved. It was found out that long waiting time reflected a shortage of credible credit information required to make informed credit decisions. This in turn leads to greater risk more intense credit rationing and low repayment rates. Hunte (1996) also observed that loan experience indicated the ability to manage the business loans better hence good quality borrowers for the business. A less experienced borrower has less ability to manage a business loan and therefore is not credit worthy (Devaney, 1984; Robinson, 1962; Hunte, 1996). This implies that there are big risks associated with new borrowers since the loan officer has no familiarity of recovery from them.

(ii.) Credit Documentation

Credit documentation and disbursement is another aspect of credit assessment process. It encompasses the conduct of key exposure control measures that ensures securities and documentation is obtained before funds are disbursed, and that modification on all credit facilities is approved within credit policy. It also includes the maintenance of orderly up dated credit files and the imposition of relevant fees, updating of records and prompt notification of credit reviews and renewal dates (McNaughton et al, 1996) Loan documentation involves the legal drafting, document review, collateral checks and the waiver of terms. While the disbursement function involves checking the validity of notes as well as ensuring that the documentation for the credit facilities are properly executed. Loan documentation defines the necessary security and covenant before the loan is made. It provides risk protection by providing grounds for the bank to take legal action when borrowers fail to honor their obligations (Day et al, 1996). Credit documentations clearly states the credit terms which are the conditions attached to the loan after the borrower's loan application has been favorably appraised. These include among others:

(iii.) Collateral

This is the borrower's asset pledged in exchange for the receipt of a loan. Banks request for collateral before extending loans to customers. The collateral is always higher value than the loan taken to ensure that the loan is paid back. The use of groups as collateral is accepted by some banks (Yunus, 1996). When one member fails to pay, the other group members pay on their behalf. Thus, this system makes it possible for group members to monitor one another thus leading to improved loan repayment. However, some studies have found out that group members don't want paying for others and they also don't like others paying for them (Antonio, 2000)

(iv.) Interest Rate

It is the price of the loanable funds and serves to allocate credit and moderate the level of investment (Ross, 1991). Interest rates can be looked at from the borrowers' and lenders' point of view. To the borrower, interest rate is the costs of borrowing money expressed as a percentage of the amount borrowed (Martin, 1998). A borrower evaluates all costs including interest rates and expected returns before deciding to take a loan or not. To the lender, interest rate is determined by factoring in costs such as costs of production, the inflation rate, personnel, administrative costs, loan loss provisions and capital growth (Kasibante, 2001).

The rate charged should be able to cover costs and make a contribution for the financial institution. Financial institutions charge different interest rates depending on their peculiar conditions ranging from 2 to 4% per month (Brochures, 2001)

(v.) Size of Loan

Loan size is the amount of loan advanced to the client. It can be small, medium or big. Banks prefer bigger loans largely because their transaction costs are lower. Efficient loan size should fit the borrower's repayment capacity and stimulate enterprise performance. Pische (1991) argues that poor loan sizing is illustrated by extensive credit rationing, which issues too little credit to too many borrowers. However, according to Chirwa (1997), relatively large loans may tempt the borrowers to divert a portion for non-business purposes.

(vi.) Purpose of Loan

The purpose for which credit is sought is an important consideration to the bank because of the risks in the lending activities. Banks being profit driven, seek to maximize returns while minimizing risks. This seemingly paradox constrain banks to examine not only viability of a project but also loan repayment prospects. Vittas and Chao (1996) observed that in many countries, Banks favor lending for low-risk activities, such as self liquidating, short-term working capital and trade finance. They are generally less willing to finance high risk projects with long payback periods, and small forms that lack adequate collateral even though such firms may be more innovative and promising than others.

(vii.) Loan Period

The World Bank (1996) reported that Banks have little capacity and interest to provide long-term capital. This is attributed partly to the high composition of short term liabilities in their portfolio and also their concern for risks associated with lending activities. Banks in Uganda are therefore reluctant, for reasons of prudence as well as profit to lend for periods longer than twelve months and because of stringent provisions of the Financial Institutions Statute, 2004.

(viii.) Disbursement

Disbursement on the other hand ensures that money is not availed until all approvals and documentation requirements are met. It also ensures that security and other required documentations are obtained before funds are disbursed. If disbursement control is weak, the whole integrity of the credit process can be weakened and abused

(Msi, 1994 and Nsereko, 1995). Thus, documentations and disbursement are important in the management of credit because they ensure that the bank has proper documentation, collateral and guarantees. These are important in the advent of the clients' inability to pay because the bank would be properly secured and have legal recourse to ensure the settlement of debt. This would ultimately decrease the amount of bad debts the banks may have.

(ix.) Repayment of Bank Loans

After the credit assessment and disbursement is done, the credit customer is expected to payback the installment as per agreed schedule. Each bank has a different repayment mechanism. Based on the specifics of the bank, customers can pay weekly, bi-weekly or monthly installments (Odongo, 2004). In order to ensure good repayment, Banks have to ensure proper monitoring and follow up actions.

(x.) Monitoring and Follow up

According to Robinson (1962) and Anjichi (1994), many of the agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visitingthe borrowers' premises to investigate the general state of affairs and maintenance of plant and equipment. Inadequate maintenance is often an early sign of financial distress. Also to be observed is the state of employee morale and the physical stock of materials and finished goods. The general business policy and advice is considered. If a bank is sanitizing to business development it can revise its own credit and loan polices as well as advising its customers. Again keeping track of deposits and balances gives clue to the affairs of the borrowers.

(xi.) Factoring of Debtors through Credit Bureaus

Banks factor debtors, where the accounts are passed onto finance house (Kakuru, 2005). The finance house advances the value of these debtors to the bank after deducting a commission. The finance house then undertakes to collect losses if they incur. The debtors are notified of the transfer and are asked to make payment directly to the finance house. Since the factoring firmassumes that risk of default on bad accounts, it makes a credit check before it commits it.

(xii.) Portfolio Management

Portfolio management is an important aspect of credit assessment process. It is relationship management process that focuses on measuring and containing individual credit risk within strategic guidelines. It involves the administration of the credit facility to ensure orderly and full payment, monitoring of the credit facilities as well as the workout strategies in situations when the credit actually deteriorates. The uccess of Banks depends on its ability to adapt to changing circumstances (Kagwa, 2003).

Institutions should have a culture of handling funds that must be repaid. They should be prepared to seize the client collateral if necessary (Garber, 1997). The organisation should have a system of tracking late payments or real losses, deploy staff or collection agencies to collect these loans in order to maximise return of resources. The purpose of portfolio management is to assess the likelihood that the credit i repaid, as well as whether or not the classifications of the loan proposed by the bank is adequate. Other considerations are the quality of the collateral held and the ability of the borrower's business to generate necessary cash (Greuning et al, 1999) Portfolio administration involves the aspects of asset classification. Asset classification is a process whereby an asset is assigned a credit risk grade that is determined by the likelihood that the debt obligation was serviced and the debt liquidated according to contract terms. In general, all assets for which a bank is taking risk should be classified. Assets are classified at the time of origination and then reviewed and reclassified as necessary (according to the degree of risk) a few times per year.

The review should consider the loan service repayment, borrower's financial conditions, economic friends and changes in respective markets and the performance (Greuning et al, 1999). Credit administration involves the management of the financial situations, covenants, collateral, and repayments as well as credit review. It focuses on ensuring that creditworthiness of the clients earlier on established is maintained. Once a loan is on the books, it must be managed actively to ensure that it does not deteriorates and that it is repaid. Good loan management can rarely overcome poor judgment, but many good credits become problem loans because lending officials did not heed the warning that arose over life of the loan.The credit administration process involves on- site visit, regular contact as well as checking for compliance with covenants in the loan agreements. Borrowers who change their behaviours (moral covenant) and those who do not supply timely and accurate information (asymmetric information), presents the most difficult monitoring challenge (Sinkey, 1998). During administration, the credit officer can detect early warning signals of non-compliance or deterioration. These signals help to maximize the effects of corrective actions and to minimize the potential loss of the bank. Some of the signals may include lower deposits, persistent failure to keep appointments, persistent rolling over credits, and requests for short term facilities on top of current facilities as well as requests forincrements without retiring the previous facility. In Africa, loan repayment performance has been poor. For example, 14% to 20% for commercial banks in Tanzania (Gagachwa, 1996) and about 45% for small agricultural loans in Ghana (Aryeetey and Nissanke, 2000). In Ghana such success stones of loan recovery are not easy to come by. We may pose the following questions. What is it that has been impeding the loan recovery rate? Besley (1994) asserted that enforcement of loan repayment constitutes a major difference between rural credit market in developing countries and credit markets in developed countries. Most lending institutions do not have experienced personnel capable of developing innovative financial product suitable for SME's (Aryeetey al, 1994).

Loan misapplication and its consequences for loan repay have been recognized by several authors. It if phenomenon that can be described as moral hazard. These are several factors that can lead to misapplication of loans. In the first instance, the delay in the release of funds can contribute to this. This view point was brought up vividly by Armah (2001), women who become the breadwinners due to the retrenchment exercise under the structured adjustment programme took a loan of 700,000 under the PAF programme. After settling her personnel bills, she was felt with only 200,000 to expand her business. We share the view of the author when she posed this question, is it practically possible to expand ones business with as meager and amount as 200,000?

Aryeetey et al (2000) also remarked that high interest rate may encourage borrowers to use the money to settle previous loan rather than finance working capital or investment. Several lending practices showed that the grace period have been too short to serve their intended purpose.

Conflicts in society lead to political instability and fuel risk and uncertainty because they can contribute to different signals given to actors in the financial sector. SME's get caught in the uncertainties and this affects their ability to pay back loans. We agree with steel and Webster (1989) and Dzambo (2001) that the success SME's projects (steel and Webster).

Political pressure for loan disbursement has been the bone of all SME credit programmers initiated by government. Political pressures for loan disbursement without knowledge about borrowers working environment has been recognized scheme are not self sustainable due to political pressure in the disbursement of loans. For examples of out of 244.7 million disbursed under the PAF by the district assembly, only 16.4% have been paid back. Due to the poor loan recovery performance, the District assembly has temporarily suspended further disbursement of the fund. (Agbelie, 2001)

2.3 Theoretical Framework

Loan repayment and its impact in microfinance institutions offer useful insights for studies on SACCOS. Ajayi (1992) employed correlation and multiple regression analysis in his study about factors affecting default in residential mortgages of the Federal Mortgage Bank of Nigeria. The study results revealed that cost of construction, monthly repayment and loan value ratios, market value or property, age of borrower and annual income of borrower contributed to loan defaults, while expected rental income from property reduces loan defaults. However, Ajayi study can not be generalized as they differ from different institutions, loan diversion and unfavorable weather condition (natural hazards) contributed to loan delinquency.

The study by Abafita (2003) on the determinants of loan repayment performance in Addis Ababa, observed the relevant variable in this study on borrowers attitude to cost of default. Of the 202 respondents, virtually all, i.e 99.5% reported that cost of default is high. Such an attitude has a clear implication in terms of improving loan repayment performance. Regarding the perceived costs of default 113(55.7%), i.e the majority of the borrowers responded social sanction as the most important factor forcing them to repay their loans in time. The study result showed that social sanctions and group pressure are important factors affecting loan repayment performance of borrowers by serving as social collateral for the lending institution.

On the other hand, during the survey it was observed from the informal discussions with borrowers that many borrowers, who took loans for purchasing farm oxen, used for farming and finally sold then in order to be repaying their loans. Also some borrowers shifted between the lending institution and moneylenders, i.e., they borrow from moneylenders for a very short period in order to repay the loan they took from Oromia Credit and Savings Share Company (OCSSCO) and then they immediately repay the moneylenders after OCSSCO releases the next cycle of loan. Although this calls for a further investigation, it was known that only 6(3%) of the sample respondents were found to have other sources of credit in addition to that of OCSSCO. Four of these reported moneylenders as their additional source of credit while the rest two indicated that they also borrow from friends or relatives since their participation in the credit scheme by OCSSCO. Therefore, this findings can not be over emphasized instead they will be useful in determining degree of loan default by borrowers who took loan from CRDB PLC.

According to Stieglitz and Weiss (1981) high interest rates lead to adverse section of loan seekers that affected loan repayment. Beasley and Coate (1995) also made it clear that repayment rate will note be 100% at a positive interest rate. Assuming the project returns is very low, borrowing at zero interest costs of production, reduces returns from a productive activity and promotes loan default among borrowers. The modern approach the problems of credit markets especially markets which serve small and medium sized enterprises (SME's) is based on the theoretical explosion of Hoff and

Stiglitz1990 which emphasizes imperfect information and imperfect Enforcement of loan contracts. The two authors based their observation on screening, incentive and enforcement problems.

The screening problems are due to the inability of lender to determine satisfactory the extent of risk inherent in project submitted for credit facilities. The incentives problems are the cost which the lender would have to incur to make certain loan repayment. The enforcement problem essentially occurs due to limitations of legal provisions of the enforcement of payments of loans. For example the selling of collaterals. According to Ishengoma (1988) studied on financing small farmers in Tanzania. He found that cooperative and rural development bank had faced serious problem loan overdue and high default (delinquency) rates. He concluded from the observed repayment situation that CRDB PLC continued lending activities because of the substantial fund infections form the Bank of Tanzania (BOT) and external donors' The data provided were those overall repayment rates were 70% for 1971/72 loan and 80% in 1972/73, This implied that delinquency rate had been rising overtime. The later had varied form an average of 50 p.a.

According to Werema (1996) studied on the factors leading to the unavailability of credits to small scale industries (SSI's). He found out that most of borrowers default because of high interest rates charged by credit institutions. He stated that the high interest rates drain all SSS's, little profits and they can not plough it back into the business and therefore, SSI(s) can not raise their equity base for further expansion.

Ngoti (1996) who made a study of financing SSIs in Uganda, the experience in Uganda Women's and Credit Trust Ltd (UWFCT) found out that UWFCT had been financing more individual activities compared to group activities preferred by Bangladesh rural advancement committee (BRAC). In this regard it appeared that the limited existence of group lending in UWFCT operations accounted for high default rates over 30%. He also pointed our other factors that affect loan repayment as staff attitudes towards the importance of high repayment visibility of the project funded and the general and cultural attitudes towards repayment in particular society. Furthermore he found out that UWFCT originally operated a guarantee scheme, the aim of which was to increase women's access to credit without demand for collateral. However, due to high default, UWFCT currently insists on tangible security.

According to Norell (1998) in his study on aging and reducing areas in MFI's came out with the following causes of areas:

(i.) Borrowers are testing MFI to see if it is serious in its collections micro entrepreneurs that the employees of the employees of the MFI are not responsible to a board of directors and shareholders to make a profit. Clients may therefore test the resolve of the staff to collect on the money.

(ii.) Client often lives are often full of unpredictable crisis. Often the relatives of clients have sickness or death in the family. Clients are called out to provide finances to assist the extended family. If the client refuses they are seen disloyal to the extended family. Thus, they are compelled to provide finances, even it these funds are borrowed form MFI therefore, given such precarious lifestyle.

(iii.) Sickness, death are common reasons for late payment or nonpayment of loans.

(iv.) Loan sizes may be too large for the cash needs of the business. The extra funds may have been used for personal uses. Then, when the loan needs to be repaid the business does not have the capacity to back loan without capitalizing the business. In other words, the micro entrepreneurs have to use the equity of the business to pay back the loan.

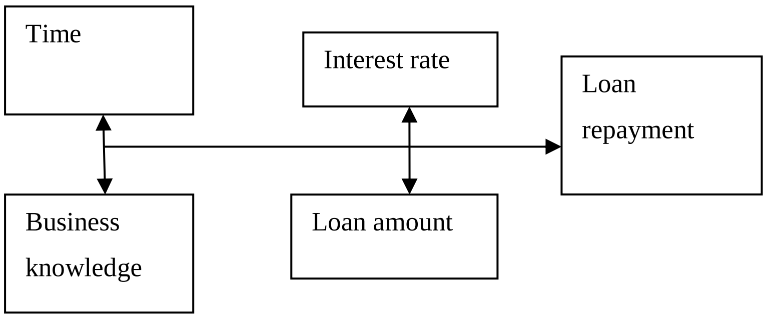
(v.) Loans may have been given to the clients on the basis of favoritism. The client may be friends and family of the companies. If the loans were obtained on the basis of favoritism, the client will probably attempt to delay the payment or plant to default. The hope is that the family member will have the organization write off the loan rather than take the client to court and have client property seized. This favoritism seems to be more of a problem to small business loans. The larger the loans the greater incentive for friends of the companies to receive these loans.

Therefore, the business should be located in the same market area as the CRDB branches the processes the application. When a business customer applies for aloan he should be prepared to put up some money towards the total cost of undertaking. This is necessary for a number of reasons which include; this forces the customer to put more efforts towards the success of the undertaking as he knows that not only the banks money will be lost in the event of a failure but also his money. This instills a greater sense of commitment.

If the customer has a substantial stake in the investment, losses would first be borne by the customer before the banks stake is endangered. Generally, the banks stake should not exceed the borrower's stake in the business even if the lending is secured.

2.4 Conceptual Framework of Loan Repayment by Sacco's to CRDB.

Figure 2.1: Conceptual Framework



The time can be divided in short and long periods where if the time is too short then the borrower will not generate much income to repay back the loan. The same will be applied to long term period where the borrower will generate much income hence repay back the loan. The Business knowledge and practice have greater impact on the performance of the project which will turn generate the income to pay back the loan. In the proposed research we shall look if the business knowledge and practice can affect the performance of repay back the loan.

The interest rate also has greater impact negatively and positively on the loan amount by Borrower. If the interest rate is greater can result to default by the borrower and we shall look into this factor its impact on the applied loan.

In the research we shall look the three factors Time, business knowledge and practice and the interest rate how can affect the repayment of loan.

2.5 Empirical Literature Review

Empirical studies on loan repayment and its impact in microfinance institutions offer useful insights for studies on SACCOS. This section draws from previous empirical findings. Ajayi (1992) employed correlation and multiple regression analysis in his study about factors affecting default in residential mortgages of the Federal Mortgage Bank of Nigeria. The study results revealed that costs of construction, monthly repayment and loan value of property, age of borrowers and annual income of borrower contributed to loan defaults, while expected rental income from property reduces loan default. However, Ajayi study differs from the current study whereby the multiple borrowing from institutions, loan diversion and unfavorable weather condition (natural hazards) contributed to loan delinquency.

Vigano (1993) study on the case of credit scoring model for development bank of Burkina Faso employed a credit-scoring model. The study found out that factors such as being women, married, aged, more business experience, and value of assets, timely of loan release, small periodical repayments, project diversification and being a pre-existing depositor were positively related to loan repayment performance. On the other hand, loan in kind, smaller loan than required, long waiting period from application to loan release and availability of other source of credit were found to have negative relation with loan repayment performance.

Kashuliza (1993) used a linear regression model to analyze determinants of loan repayment in smallholder agriculture in the southern highland of Tanzania. The study showed that level of education, attitudes towards repayment; frm income and off-farm income positively affect loan repayment with farm income being significant, while age, household expenditure and household size have negative influence on loan repayment with household expenditure being significant. Njoko and Odii (1991) studies on determinants of loan repayment under the Social Emergency Loan Scheme in Nigeria. The study showed that late release of loans, complicated loan processing procedures, loan diversion to non-agriculture enterprise, low enterprise returns resulting from low adoption rate of improved agricultural technologies and emphasis on political considerations in loan approvals contributed to poor loan repayment performance of smallholders. Loan volume, years of formal education, household size and interest paid on loan were found to positively and significantly affect loan repayment; while years of farming experience, loan period, farm size, farming as major occupation, farm output and value of assets were found to negatively affect loan repayment.

Chirwa (1977) used a probit model to estimate the probability of agricultural credit repayment in Malawi. The result indicated that crop sales, income transfers, degree of diversification and quality of information are positively related to while size of club negatively related to the probability of repayment. Other factor like amount of loan, sex. Household size and club experience were found to be insignificant. Arene (1992) evaluated the credit delivery system of Supervised Agricultural Credit Schemes among smallholder maize farmers in Nigeria employing multiple regression analysis. The analysis indicated that loan size, income, age, number of years of farming experience, level of formal education and adoption of innovation are significantly and positively related to repayment rate. Distance between home and source of loan, household size and credit needs were found to be negatively related to repayment rate.

Adeyamo (1984) used descriptive analysis on loan delinquency in multi-purpose cooperative union in Kwara State, Nigeria. The result showed that natural calamities, crop failure due to pest, poor storage facilities, inadequate transport facilities, farm size, and tenure status of borrowers are factors associated with loan delinquency. The study by USAID (2006) on SACCOS delinquency management and control mentoring in Uganda used econometric analysis to examine the repayment behavior of borrowers and the credit rationing technology of lenders in Kitagata Development SACCOS. The study estimated loan rationing and loan repayment equations using probit model and found out that only 33% of the criteria utilized identified credit worthy borrowers implying that the screening system was not efficient. The conclusion and recommendation from the study was to advice the Kitigata Development SACCOS to ensure that screening system is efficient in order to minimize the occurrence of loan delinquencies and defaults from borrowers who are not creditworthy. Michael (1999) studied on impacts of financial services on smallholders live hood in Moshi Rural District and observed that the bulk of lenders transaction costs is related to the assessment of creditworthiness and the viability of loan recocery. The result from the study showed that the high rate of loan delinquency and defaults leads the increase of transaction costs in assessing the creditworthiness' of the borrowers.
Other factors like increasing collection costs, legal costs, and analysis costs were found to be significant in loan recovery. The probability and sustainability of SACCOS were affected by the increase in the rate of loan delinquency and default in the society. The result from the study also showed that the percentage for loan delinquency was above 5%, thus it was dangerous to the SACCOS as it affected the financial services operation of the society through decrease in loan repayments and saving of members. The study concluded that SACCOS failed to meet member's loan demand and member's interest to the society was lessened.

Lyimo (2008) evaluated the sustainability of SACCOS in Tanzania. The study used statistical tests on loan repayment of SACCOS in Tanzania. The study used statistical tests on loan repayment rate status in the multiple case studies in Kilimanjaro region. The result showed that borrowers diverted loans to activities other than those intended, famine, droughts, etc. are the factors that leads members fail in repay-back loan. The study concluded that the average loan repayment was only 25% from all case studied. Thus, the probability and sustainability of SACCOS was affected in terms of of financial operations and services rendered by the SACCOS to members due to high rate of loan delinquency and defaults.

Mcharo (2007) did the study on assessment of the financial capacity of SACCOS in meeting member's financial needs in Kilimanjaro, Tanzania. The study investigated the lending and loan repayment performance from Wazalendo and Same – Kaya SACCOS. The result showed that on lending, both Wazalendo and Same – Kaya SACCOS, management were guided by credit policies on determining the capacity of lending money i.e. savings determined the amount of loan to be issued. A member has a right to get loan equivalent to multiples of his savings. On repayment the result showed that there was the delay in of loans that affected financial capacity the SACCOS to provide loans to members. The percentage of delinquency was equal to 50%9181-361 Days).The study therefore managed to find out the impact of loan default and loan delinquency on SACCOS profitability and sustainability. Tenty four responds (80%) interviewed have reported that loan delinquency and defaults reduced profit that accrues to the SACCOS performance.

The overall impact of loan delinquency and default from the study was reported to negatively affect the performance of SACCOS because the capital was diminished and hence members were not able to borrow and SACCOS failed to cover or to meet management costs.

Maghimbi (2003) attempted to analyze the loan repayment performance of borrowers from Mashati and CHAWAMPU SACCOS in Kilimanjaro region. The result indicated that, in Mashati SACCOS loan repayment period as per society lending policy was reported to be twelve months (on year) while in CHAWAMPU SACCOS loan recovery period by society lending policy was to be made within four months. The study showed that due to the loan repayment period set up in CHAWAMPU SACCOS, members have been able to secure micro-credit twice a year and managed to repay back loans without causing any administrative problem. The loan repayment had been successful done because in CHAWAMPU SACCOS members are able to harvest and make effective sales of their rice in a less than five months period compared to Mashati SACCOS where members are largely depend on a single coffee harvest including much dependence on petty business income generation.

The study concluded that the surveyed result from documentary study in Mashati and CHAWAMPU SACCOS revealed a doubtless situation with regard to the existence of bad loans in the two SACCOS i.e. no delinquent loans in either of the two SACCOS which were reported during the study. Smith (2006) employed multiple regression analysis to determine factors influencing loan repayment performance of smallholders in Ethiopia. The researcher used data on 309 borrowers of inputs loans in the Oromia and Amhara National Regional states and observed that individuals who took larger loans had better repayment performances than those who took smaller loans. Furthermore, the result of the study revealed that late disbursement of inputs purchased by the loan funds was an important bottleneck in loan repayment while livestock were found to be important in improving the farmer's repayment performance. Bahanu (2006) in his study on the Project Office for the Creation of Small-Scale Business Opportunity (POCSSBO)
In Addis Ababa, used probit model and found out that education, timely loan granting and the use of accounting system are negatively related to the proportion of loan funds diverted. However, the loan size, numbers of dependents within the household and consumption expenditure is positively related to loan diversion. The study reported that loan size is negatively related to full loan repayment while age is positively related.

Retta (2000) also employed prohibit models for loan repayment performance of Women Fuel Woods Carriers (WFCs) in Addis Ababa. The study reported that frequency of loan (repeat borrowers), supervision, suitably of repayment installment period and other income sources are found to encourage repayment and hence the probability of loan default. The study by Abafita (2003) on the determinants of loan repayment performance in Addis Ababa, observed the relevant variable in this study on borrowers attitudes to cost of default. On the 202 respondents, virtually all, i.e 99.5% reported that the cost of default is high. Such an attitude has a clear implication in terms of improving loan repayment performance. Regarding the perceived costs of default 113 (55.7%), i.e, the majority of borrowers responded social sanction as the most important factor forcing them to repay their loan in time.

The study result showed that social sanction and group pressure are important factors affecting the loan repayment performance of borrowers by serving as social collateral for lending institution. On the other hand, dyring the survey it was observed from the informal discussions with borrowers that many borrowers, who took the loan for purchasing farm oxen, used oxen for farming and finally sold them in order to be able to repay their loana. Also some borrowers shifted between the lending institution and money lenders, i.s, they borrow from moneylenders for a very short period in order to repay the loan they took from Oronia Credit and Savings Share Company (ocssco) and then they immediately repay the moneylenders after OCSSCO releases the next cycles of loan. Although this cells for a further investigation, it was known that only 6(3%) of the sample respondents were found to have other sources of credit in addition to that of OSCSSCO.

Four of these reported moneylenders as their additional sources of credit while the rest two indicated that they also borrow from friends or relatives since their participation in the credit scheme by OCSSCO. The findings doesn't seem to support the behavior of the borrowers explained above i.e based on the informal discussion made with themselves, since only 2% of the borrowers reported to have borrowed from moneylenders, after all.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Study Area.

This study on loan repayment by SACCO's to CRDB Bank was done in Moshi municipality in Kilimanjaro region which has seven districts i.e. Moshi rural, Same, Mwanga, Rombo, Siha, and Hai. Geographically Kilimanjaro is located between 2.850 and 4.50N of latitude and 370 W and 380E of longitude.

3.2 Types of Data

Both Qualitative and quantitative data from primary and secondary sources were collected in order to get the required information related to the loan repayment rate. The data was collected from the following offices

(i.) Management Department of CRDB Bank

(ii.) Accountant Department of CRDB Bank (iii.) Credit Department of CRDB Bank and SACCOS

(iv.) Members of both CRDB Bank and SACCOS

3.2.1 Secondary Source of Data

Vital information concerning this research assignment was gathered from various books, journals, periodicals in the library at Mzumbe University, CRDB PLC Moshi Branch files, District Cooperative Officers' office including financial reports files and annual general minute's files.

3.2.2 Primary Source of Data

The data was collected direct from the field using questionnaires, interview and observation methods and techniques. The respondents who were interviewed were selected from CRDB Bank Plc, the customers who took loans from the Bank in Moshi branch

3.3 Data Collection Techniques

3.3.1 Questionnaires

Questionnaires were used to collect data from respondents in CRDB bank and SACCOS clients and members and other stake holders who get services in Moshi CRDB bank branch.

3.3.2 Interview

This method was used to get information from Clients, Board and the staff of CRDB bank. The interview guide was designed and prepared in order to collect additional information, which the questionnaire was not able to collect. Also Focus Group Discussion was used to collect information from various stake holders.

3.3.3 Observation

This method was used in order to supplement data to be obtained through interviewing process and those from administered questionnaire.

3.4 Sampling and Sampling Procedure

3.4.1 Purposive Sampling

The tool was used to select some interviewees purposively whose responses were of significance in an attempt to fulfill certain purposes related to Clients' from CRDB bank. The sample comprise of three groups of people namely; borrowers-bank clients, board and staff

3.5.1 Sample Size

Sample size was used to select randomly by taking members of CRDB PLC from which the sample was taken to represent the population that was be studied. Sample size of borrowers comprises a total number of all CRDB PLC clients.

3.6 Data Analysis Techniques

Data was presented in tables; in which qualitative analysis was applied in analyzing information gathered while other information from the field was also analyzed, through descriptive statistics.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter contains an analysis and discussion of the research findings. In the course of this study, illustrations and elaborations to justify certain outcomes were thereby provided in a form of tables, percentages to enhance clarity. These were mainly based on the findings from data analysis information gathered from the structured and unstructured interviews using questionnaires and oral interview respectively. Furthermore, this chapter intended to provide the research findings through an organized manner, that is, according to the research question and objectives.

4.2 Characteristics of the Respondents

4.2.1 Sex of Respondents.

Table 4.1 Shows the distribution of the respondents according to their sex, out of 50 respondents who were involved in this study, 24 were males (48%) and 25 were females (52%). The statistics gives the general picture of customers' gender balance of the respondents from the employees from CRDB Bank, SACCOS and SME.

Table 4.1: Respondents Distribution by Sex.

	Respondents category				
Gender group	**SACCOS**	**Employees from CRDB**	**SME**	**Total**	**(%)**
Male	9	7	8	24	48
Female	11	8	7	26	52
Total	**19**	**16**	**15**	**50**	**100**

Source: analysis of field data collected by author of this study

4.2.2 Marital status of Respondent

The table 4.2 shows that 36 (72%) out of 50 are married. It was observed that 14 (28%) out 50 were single. Most of this married engaged in small business like vending activities simply because of family responsibility like paying school fees for their children's, food and others.

Table 4.2: Marital status of Respondents

	Respondents category				
Marital status	**Sacco's**	**Employees from CRDB**	**SME**	**Total**	**(%)**
Married	15	9	12	36	72
Single	5	5	4	14	28
Total	**20**	**14**	**16**	**50**	**100**

Source: Field data (2013)

4.2.3 Education level of Respondents.

In assessing people's capacity and SACCOS' performance, respondents were asked to state their education levels. The study found out that 40% of respondents had secondary education, 36% of respondents had college and university level 24% had primary education (Table 4.3).

Members who were literate were expected to use the loan proceeds for the intended purpose. But sometimes members may divert in search of more profitable areas of investment and thus, making the repayment performance became very difficult. People who were knowledgeable on SACCOS' operation were expected to have the capacity to establish loan amount for lending purposes in order have capacity of analyzing the behavior of borrowers before approving loans. The low education levels had poor performance on record keeping and in fewer financial products offering in the studied SACCOS.

Table 4.3: Education level of Respondents

	Respondents Category				
Education level	**Saco's**	**Employees from CRDB**	**SME**	**Total**	**(%)**
Primary	10	0	2	12	24
Secondary	13	3	4	20	40
College/University	7	7	4	18	36
Total	**30**	**10**	**10**	**50**	**100**

Source: Field data (2013)

4.3 General Characteristic of the studied SACCOS

The SACCOS in which respondents were drawn includes OKOA, WAZALENDO, USHIRI, KCMC, Mashati, and ELCT-ND SACCOS. The services offered were predominantly credits. They also reported to offer training and savings in addition to credit. The interest charged on loans by these SACCOS is the same as those for commercial rate, ranging from 20 - 40%.

Table 4.4: General Characteristics of the Studied SACCOS

SACCOS NAMES	**Interest %**	**Members**		
		Male %	**Female%**	**Groups %**
OKOA	24	51.1	40.3	8.6

ELCT-ND	20.42	61	39	0
KCMC	30	59	33	8
WAZALENDO	20	44	34	22
UMOJA	24	39.3	46.5	14.2
MASHATI	24	62	37	1

Source: Field data (2013)

In evaluating the mission of the studied SACCOS in Kilimanjaro region, almost all SACCOS were entered on the empowerment of the economically disadvantaged groups although the objective were different from one SACCOS to another. The findings revealed that one of the mission of the studied SACCOS were to create sustainable financial and information services network for micro and small- scale entrepreneurs to increase income and employment and stimulate business growth. Another mission was to provide access to micro credit and monetize savings services to economically disadvantage groups, women and youth in particular that constitute the largest proportional of active population in Tanzania. This is facilitated through credits, savings mobilization and business skills training. The findings indicated that, the overall mission of the studied SACCOS was to assist micro and small groups and individuals to increase their performance, however the study found out that the interest rate charged on loans by all the studied SACCOS is relatively high as compared to commercial banks which charge 10% and 17% e.g. CRDB PLC.Bank for groups and personal borrowers respectively (www.crdbbank.com). 4.3 Presentation of findings and Analysis.

4.3.1 Amount of loans Borrowed by Members from SACCOS.

The Respondents were asked to indicate the amount of loans received from SACCOS in order to meet thir needs. The results indicated that 37(53%) of the Respondents received Tshs.1, 100,000 and above, 21(30%) of the respondents received loans between Tshs.560, 000-1, 000, 0000, 7(10%) of the respondent received loans of less than Tshs. less than 50,000 (Table 4.5). In general respondents who have taken loans from the studied SACCOS were asked to state the use of loans they acquired from SACCOS. Surveyed results clearly indicate that, working capital and small business set up was found to dominate all other activities as 30% of the respondents were involved in running business (Table 4.6).Education was found to be the second largest activities which constituted 22.9%;members used their loans in paying the school fees for their children (Table 4.6).Farming activities was considered to be the third economic activities that were under taken by the respondents which accounted for 20%.The remaining 17.1% was taken by building house and 10% of respondents used loans for meeting emergency cases (Table 4.6)

Table 4.5: Loans Received by Customers from CRDB Bank Plc

Sex		Amount of loan received from SACCOS TSH				Total
		Below 50,000	**110,000 To 550,000**	**560,000 To 1,000,000**	**Above 1,100,000**	
1	Male customers	1	3	11	10	28
2 3	Female customers	4	4	10	22	40
4 5	Groups customers	0	0	0	2	1
	Total customers	5	7	21	37	70
	Percent (%)	7	10	30	50	100

Source: Field data (2013

Table 4.6: Type of Activities Undertaken by Individual and Group Members

Category label	Frequency	Percentage (%)
Farming	14	20.0
Building house	12	17.1
Working capital and small business set up	21	30.0
Education	16	22.9
Emergency	7	10.0

Total	70	100

Source: Field data (2013

Regarding loan utilization for the intended purposes; 92.5% (47) of respondents said that, they spent the received fund for the purpose specified in the loan agreement, while 7.5 %(3) respondents said that they diverted loans to activities other than those specified in the loan agreements. The impact of loan diversion depends on what use the diverted is put to. If is used for productive purpose than the intended ones then repayment will be enhanced. If on the other the loan is diverted to non- productive uses, it will have a negative impact. It has also been reported that, some members receive funds from SACCOS for farming activities and that they diverted to livestock keeping and hence, undermine repayment performance.

4.3.2 Loans Issued to Members by SACCOS.

Loans extended by SACCOS to interested borrowers can generate a substantial amount of income in form of interests. The substantiality of SACCOS always depends on income generated from loans issued to members. Failure to issue more micro-credits result into loses of income in form of interest. The loans values issued by the surveyed SACCOS on the 5 years period are shown in Table 4.7

Table 4.7: Loans issued to Members from 2007 - 2011

Names of SACCOS	**YEARS**				
	2007	**2008**	**2009**	**2010**	**2011**
OKOA	1,413,350	1,693,350	3,822,000	36,119,750	171,816,060
%change	0	19.8	125.7	845.0	375.7
WAZALENDO	113,378,000	121,973,000	106,327,000	85,393,000	62,577,000
%change	0	7.6	-12.8	-24.5	-26.7
KCMC	272,715,200	258,213,480	309,923,716	502,386,691	741,070,648
%change	0	-5.3	20.0	62.1	47.5
MASHATI	23,526,950	39,592,450	95,635,300	240,630,650	422,342,300
%change	0	68.3	141.5	151.6	75.6
UMOJA	6,460.000	11,960,000	25,470,000	70,718,000	131,752,000

%change	100	85.1	113.0	64.0	86.3
ELCT-ND	211,986.270	291,015,174	395,008,296	800,363,954	674,887,000
%change	0	37.3	35.0	1036.5	-15.7

Source: Field data (2013

Result in Table 4.7 Revealed that for OKOA, Mashati, and Umoja showed an increase of loans issued to members from 2007-2011, which was associated with an increase of members and savings deposit. For KCMC and ELCT-ND showed a decrease on loan issued in 2007 and 2011 respectively although there was an increase on members and savings deposits. The decrease of loans issued from these two SACCOS was due to the decrease on loan able capital and decrease in loans issued to members from 2008-2011 which was influenced by the decrease of members and savings deposits. The gross interest's income from loans issued to members of the studied SACCOS at the end of 2011 was indicated in Table 4.8. The interest on loans for Wazalendo SACCOS was 20% for 2007-2011 and 42% for 2011 per anum. The interest on loans charged by OKOA. KCMC, Mashati and Umoja had remained constant over five years. A constant interest rate had an advantage of predictability. It enabled both lender and borrower to determine income and cost. The analysis of financial statements as illustrated in Table 4.8 Table 4.9 shows the financial sustainability of the studied SACCOS in terms of of gross interest income in relation to net annual interest income earned from loans. Generally, the performance of the studied SACCOS was encouraging, because they managed to earn an income from interest in order to cover some operational costs of the societies.

Table 4.8: Gross Interest Income from Loans Issued to Members

SACCOS	**YEARS**				
	2007	**2008**	**2009**	**2010**	**2011**
OKOA	339,204	406,404	917,280	8,668,740	41,235,854
WAZALENDO	22,675,600	24,394,600	21,265,400	17,078,600	26,282,340
KCMC	81,814,500	77,464,044	9,297,815	150,716,607	222,321,194
MASHATI	47,053,900	49,822,000	191,270,600	48,126,130	84,468,460
UMOJA	1,550,400	2,870,400	6,112,800	16,972,320	31,620,480
ELCT-ND	508,76,705	69,843,642	94,321,991	192,087,349	161,972,880

Source: Field data (2013

Table 4.9: Net Annual Interest Income Earned From Loans.

SACCOS	Years				
	2007	**2008**	**2009**	**2010**	**2011**
OKOA	8,724	67,200	286,236	1,313,950	14,074,438
WAZALENDO	13,438,016	14,483,800	15,249,200	14,049,313	20,687,520
KCMC	39,815,016	46,311,168	48,112,77	90,156,313	120,186,642
MASHATI	17,691,000	20,459,100	45,561,700	15,335,670	19,032,640
UMOJA	370,800	1,489,200	3,445,140	9,017,040	19,459,884
ELCT-ND	48,217,956	62,428,980	81,702,181	171,652,994	134,420,160

Source: Field data (2013

4.3.3 Loans Repayment Status from 2007-2011

Its the obligation of SACCOS to ensure that borrowers are repaying their loan as their scheduled by instituting controls and close supervision to ensure loan compliance. The finding indicated that ,loan repayment period for OKOA SACCOS as per society lending policy was to range from 1 to 7 months from the date of finance of such loan. Repayment period for Wazalendo SACCOS was between 1 t 24 months. Same KCMC SACCOS repayment periods were between 1 t 12 months. For Mashati SACCOS were between 2 to 12 months. Repayment for Umoja and ELCT-ND SACCOS were 4 to 12 months and 6 to 24 respectively. With this loan repayment period set up in the studied SACCOS, members have been able to secure micro-credits twice a year and manage to repay back loans without causing any administrative problems. It is expected that better. Borrowers, who find the repayment period suitable, can perform better. When respondents were asked to on the loan repayment period of the loans, 89.7% of respondents and that the period is manageable while 10.3% of the respondents replied that the period should be extended to 36 months. On the other hand, when the respondents (members) were asked to state the current status of their SACCOS loans,41.4%of respondents said that the loans was paid as per repayment schedule of the SACCOS,37.1% of respondents said that loans was fully paid and the remaining 17.1% of respondents didn't know the current status of the loan. The further findings from the credit boards of the studied SACCOS also revealed that, loan repayment figure from 2007 to 2011 showed an increase in loan repayment for OKOA, KCMC, Mashati and Umoja SACCOS, with the exception of Wazalendo and ELCT-ND SACCOS, which showed a decrease from Tshs 70,247,000 in 2009 to Tshs.49, 256,000 in 2011 for Wazalendo SACCOS and a decreases from Tshs 715,220,810 in 2009 to Tshs 560,084,000 in 2011 for ELCT-ND (Table 4.10).

Table 4.10: Loan Repayment status from 2007-2011

Name of SACCOS	**YEARS**				
	2007	**2008**	**2009**	**2010**	**2011**
OKOA	36,350	280,000	1,192,650	5,474,790	58,643,491
WAZALENDO	67,192,000	72,419,000	76,246,000	70,247,000	49,256,000
KCMC	132,716,720	154,370,560	160,375,755	300,521,043	400,622,141
MASHATI	88,455,000	102,295,500	227,808,500	76,678,350	95,163,200
UMOJA	1,545,000	6,205,000	14,354,750	37,571,000	81,082,850
ELCT-ND	200,908,150	260,120,750	340,425,755	715,220,810	560,084,000

Source: Field data (2013)

Table 4.11: Responses on Loan Processing time Duration

Duration	**Respondents**	**Percentage (%)**
3 Days	39	77
One week	8	19
No ideas	3	4
Total	**50**	**100**

Source: Field data (2013)

From table 8 above, 96% of the respondents said that loan processing time took 3 or more days. Findings from the study revealed that customers were dissatisfied with the loan-processing time. Barclays requires that after a positive appraisal, all the necessary documentation and registration of charges be completed before a loan is disbursed. However, the borrowers complained that this delay which may last up to a week or so was not consistent with the promptness required in making business decisions. The timing of the investment is critical because business opportunities and patterns define the entry and exit point. This therefore means that a shrewd investor who want to enter the market when its prospects are rising, reap maximum obtainable profits, and then exit before the returns bottom-out may have to take credit elsewhere because of these delays. Most customers ended up taking loans elsewhere like in Microfinance institutions and other banks that have shorter credit assessment process and Disbursement.

4.3.5 Frequency of Repayment

Respondents were asked whether repayment frequency of loan affected its performance. This was used to established customers' comfort with repayment schedule Barclays uses. Table 4.12 below summarized the respondents' responses.

Table 4.12: Frequency of Repayment of Bank loans

Duration	**Respondents**	**Percentage (%)**
Weekly	12	14
Fortnightly	8	23
Monthly	24	60
Non response	6	3
Total	**50**	**100**

Source: Field data (2013)

From table 4.5 above, 37% of the customers were not favored by monthly repayment Schedule. This was part of the reason why customers were not servicing their loans Promptly. Findings also showed that more than half (60%) of the respondents preferred to Repay their loans monthly. This was because; they preferred to get their salary and use part of it to repay the bank loan.

4.3.6 Time Duration for a Borrower's Repaying Loan.

Table 4.13: Responses on Credit Period

S/NO	**Credit Period**	**Respondents**	**Percentage %**
1	Short	30	60
2	Long	5	10
3	Reasonable	15	30
Total		**50**	**100**

Source: Field data (2013)

Respondents were asked whether the loan period was adequate for the projects for which Loan was borrowed in order to ascertain the relationship between credit assessment and Repayment of bank loans. Findings indicated that CRDB PLC lent for short-term of between one to four years maximum. Borrowers pointed out that whereas CRDB bank insists on Stipulating the repayment period and schedule of installments for demand loans, the business Conditions are rarely in strict conformity to these specifics Table 4.5: Shows those 30 Respondents which is 60% of the total respondents say that the credit period is short and it means that they are affected by such period in repaying the loan. 5 Respondents which is 10% of the total respondents say that credit period is long. This implies that they are not affected by such period in repaying the loan. 15 Respondents which is 30% of the total respondents say that the credit period is reasonable. This implies that the credit period is neither long nor short and therefore it cannot be the reason for repayment problem. The short credit period affects the repayments of the loans because when the client get the loan he/she cannot generate sufficient funds for such a short time if his or her business activities requires time consuming activities.

Table 4.14: Responses on Interest Rate

No.	**Credit Period**	**No. of respondents**	**Percentage %**

1	Low	0	0
2	High	15	30
3	Reasonable	35	70
4	Not aware	0	0
	Total	**50**	**100**

Source: Field data (2013)

Table 4.13: shows that 35 Respondents which is 70% of the total respondents say that the interest rate charged by CRDB bank is reasonable. The rest of 15 Respondents which is 30% of the total respondents say that the interest rate is reasonable that is neither high nor low. This means that interest rate does not affect the loan respondents to repay back the loan. CRDB charges the interest of 2.5% per month flat (on the amount loaned) on the loans. Charges in interest rate will be recommended by the credit policy and port folio review committee based on set criteria and decided on by the Asset and liability Management Committee (ALMAC).

Charges in rates will be implemented from same data at all branches through a circular by the managing director CEO or an authorized senior officer of the 2.5 interest amount, 0.5% per month flat constitute a prompt loan repayment incentive or rebate. The amount will be returned to the borrower at the end of the loan period if all installments falling due during the period have been paid on time. This will reduce the borrowers cost to 2% per month flat. However if any installment during the loan period have not been paid on time these incentives to pay on time for the entire period will be for failed by the borrowers and entered as income to the bank. The rebate amount to 20% of the total interest amount charged on 2.5% per months. It is believed that the high interest rate drawn the profits.

4.3.7 Incidental Costs to Borrowing

Respondents were asked whether incidental costs to borrowing had an impact on lending in Order to determine it repayment. Findings indicated that costs incurred in securing a loan facility. These costs, which are incurred up-front, included; Arrangement, commitment fees, other professional charges (e.g. valuation fees and other related expenses) affected the attitude of the borrowers. Findings also showed that these costs are high and sometimes discourage the customers from repaying the loan principal plus interest, CRDB bank needs to review this arrangement and cuts down the charges. In addition, subsequent borrowing and top up loans which are currently charged full commitment needs to be revised downwards.

4.4 Data analysis and Discussion of Findings

4.4.1 Factors Influencing Loan Repayment Performance.

The respondents were asked to indicate the extent to which they agree or disagree with the statement regarding the factors influencing borrowers on loan repayment performance. Table 4.14 shows the percentage of respondents both members and employees of the studied SACCOS who said that they agree or disagree. Each item in the table was analyzed independently .USAID (2008) conducted a study on SACCOS' delinquency management and internal control in Uganda. The study managed to identify a number of factors that influencing loan repayment performance of borrowers. These factors were, inadequate loan policies and procedures, poor application of loan policies and procedures, inexperience/untrained loans committees, inadequate loan analysis and approval standards, poor loan appraisal/assessment, poor loan follow up by SACCOS management, poor application of collection policies and procedures, too many large loans and too much concentration of loans to one or several business types.

The findings in Table 4.14 indicate that, the study found out 92%(46) of respondents said that the multiple borrowing from different institutions influenced borrowers to delay to repay back their loans timely as it is stated by the lending policy of the studied Sacco's. The result also indicated that 90%(45) of respondents said that, there were delinquency of funds from the approved loan purpose to another activity and 88% (44) of respondents said that, the lack of trustworthiness on the part of borrowers are the significant factors that influenced loan delinquency to the studied SACCOS. On the other hand, 82% (41) of respondents said that, the loan for farming activities would be influenced by low production due to unfavorable weather condition (natural hazards).In his findings Mcharo (2007) argued that high loan interest rates are among the causes for the loan delinquency and default.

Table 4.15: Factors Influencing Loan Repayment Performance of Borrowers

Factors Influencing	Response	No of Members	SACCO'S Mgt. & Employees	Total Freq.	Percentage
High Interest rate charged by SACCO'S on loan borrowed	Disagree	20	9	29	58
	Agree	14	7	21	42
Unfavorable weather condition i.e. natural hazards	Disagree	9	0	9	18.3
	Agree	28	13	41	82
Divergence of funds from the intended (Approved) loan to another activity.	Disagree	33	12	45	90
	Agree	4	1	5	10
Multiple borrowing from different institution	Disagree	35	11	46	92
	Agree	3	1	4	6
The lack of trustworthiness on the part of the borrowers.	Disagree	34	10	44	88
	Agree	4	2	6	12
Lack of members training with regard to the loan utilization	Disagree	29	6	35	42.7
	Agree	40	7	47	57.3
	Disagree	58	4	62	76.5

Lack of capacity of the borrowers to use the loan	Agree	10	9	19	23.5

Source: Field data (2013)

Further more if his/her business activities do not consume time to repay, this can be due to short credit term period because most of the clients operate their businesses on credit and repayment is mostly done at the end of the period'

The problems of double loans from different banks is also one of the failure by Customers to repay back the loan as the money are taken and used to different un planned risks activities, The study also found that many customers used the loans to other activities means diversify to other projects than what was in the requested loan forms. If one of the projects fails to break the even means the loan will not be paid Loan Processing time. Respondents were also asked whether the loan processing time affected its disbursement and repayment.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the study, the conclusions based on answers to the research questions and gives recommendations for policy implications. Moreover, areas for further studies have also been pointed out.

5.2 Summary of the Study

The objective of this study was to examine factors influencing repayment of loan by Sacco's in commercial banks specifically at CRDB bank. The study was conducted in Kilimanjaro region where six SACCOS were involved in the study. They included OKOA, Wazalendo, Mashati, Umoja, KCMC and ELCT-ND. Since so many scholars support the view that there are loan repayment problems in commercial banks, this research paper was based on research questions.

The findings from the study indicated that, the overall mission of the studied SACCOS was to assist SACCOS as well members and individual to increase their performance in repaying back the loans borrowed however, the study found out that the interest rate charged on loans by all the studied SACCOS is relatively high when comparing with that of commercial banks which ranges from 10% to 17% for groups and personal borrowers respectively.

In this study the descriptive stastics analysis were carried out to accomplish the research questions and objectives. The descriptive stastics show that, only 48% of the respondents are male. This indicates that little is done on the part of the SACCOS in terms of men empowerment, particularly in the rural areas.

The study also found out that, 89.7% of the respondents reported that the repayment period is suitable. This belief is likely to have a positive impact on loan repayment. All of the respondents believe that the loan from such lending institution is something to be repaid back. Similarly 91% of the respondents reported that loan was released timely. This issue may have contributed relatively better repayment rate. Regarding loan utilization 7.5% of the respondents have violated loan agreement, their main reasons being inconsistency of the agreement, with their initial intention.

The findings from the studied SACCOS indicate that, a large proportion of respondents are now saving some of the amount of money with the Institution. This is one area of a positive contribution of the society; although most of the borrowers are saving just the compulsory saving amount set by SACCOS. The factors that negatively influenced loan loan repayment performance of borrowers that revealed from the studied SACCOS were the multiple borrowing from different institution (92%),divergence of funds from the intended (approval) loan purpose (90%),the lack of trustworthiness on part of borrowers (88%),natural hazards (unfavorable weather conditions) (82%),Lack of borrowers capacity on loan utilization (76.5),and lack of members training with regard to loan utilization (57.3).These factors were found to decrease loan repayment performance from borrowers of the studied SACCOS, hence loan delinquency

5.3 Conclusions

Based on the findings of this study, we draw conclusions that require attention of the SACCOS and other interested parties. Generally evidence from the study revealed that the overall repayment performance of the borrowers and the screening techniques which the institution follows to ration the loan to its members were found to be sound.

It is concluded that the studied SACCOS should focus towards using more of the factors that can be used of identifying client creditworthy and non creditworthy. Similarly, it was found that the studied SACCOS has contributed to positively in terms of improving the incomes, access to education, access to health facilities and nutritional status of the borrowers.
Loan diversion and multiple borrowing from different institutions were regards as the most influence factors affecting negatively loan repayment performance.

The effectiveness of loan supervision, education and training, loan inspection, loan review, loan recovery strategy and suitability of repayment period were found to reduce the probability of diverting the loan to non productive uses that ultimately lead to reduced recovery rate. The other significant determinant that was found to determine the repayment performance was loan size. This concluded that there is a need to determine an appropriate loan amount that just suffices the purpose of the borrowing, through investigating of the demand for loans and proposals/plans submitted by borrowers.

5.4 Recommendations

Based on the findings, it is recommended that the bank should make sure that the credit period which are given to clients is sufficient to circulate the funds borrowed and repay the loan. The bank management needs to make sure that the loan size is appropriate for the size of the business which is sufficient to generate income and be able to repay the loan. The bank management must conduct seminars on customers educating them on business planning which help in using the loan on the intended purpose and to be trustful on the repayment. Also the bank should increase the penalty for those clients who do not repay on time.

The bank should charge some of the credit policies on time to repay the loan. The client should be given at least grace period of 2 months when he/she takes the second or third loan. This is because it has been found delinquency rate is very high when the client takes such loan cycle. The delinquency is high because the credit period, which is given such loan, is only 6 months which is too short to make the client circulate the funds borrowed and repay the loan.

Also the bank should increase the penalty for those clients who do not repay on time. For the time being the penalty is only 5% of the loan in arrears. This is too small to make the client avoid unnecessary delinquency.

The commercial banks must establish a way of educating the customers by the way of seminars before embark on giving the customers loan by educating them not to be the multiple borrowers as well as divergence of funds from the intended(approved) loan purpose to another activity.

5.5 Areas for Further Research

Based on the findings, discussions and conclusions drawn in the study, recommendations are made as follows:

To the SACCOS

(i.) Education and Training to members and SACCOS Officials.

The findings showed that SACCOS members were not given any pre-training before and after, on the use of loans, repayment and delinquency and its effects. As a result borrowers diverted their loans to non -productive activities which led to the failure to repay back their loans. On the other hand some SACCOS employees and management members didn't acquire any training on SACCOS operations, loan delinquency as well as its effects which in turn led to difficulties on loan screening, monitoring and authorizing bad debts writ -off. It is therefore recommended that SACCOS' members and officials should get effective training before and after joining the institutions. The training will equip them with relevant knowledge and management skills, entrepreneurial skills, business planning, and proper use of loans.

(ii.) Interest Rates Improvement

The study observed that the interest rate charged on loans by the studied SACCOS was too high compared with other competitors such as commercial banks.

The interest rate charged by the studied SACCOS was influenced by the transaction costs from external funds borrowed. As it has been observed from study, the support of funds from outside has raised the interest to the SACCOS' in order to meet the administrative costs, thus it is inefficient for the studied SACCOS to go for external borrowing in attempt to service better its members, because it is likely to discourage members from borrowing, joining or withdraw their membership from the SACCOS. Therefore, it is recommended that the studied SACCOS and those not covered in the study should design a mechanism to build their own lending capacity in order to improve their interest rate without depending from external funds.

To the Government

(i.) The Government should support SACCOS through setting regulations and legal framework that control all SACCOS' undertakings on the recoverability of loans from borrowers.

(ii.) The government should initiate savings mobilization in SACCOS' to reduce donor funding and external borrowing. Local resources should be encouraged rather than depending on external subsides for SACCOS' performance.

(iii.) The Government should provide adequate policy for economic growth that governs the performance of SACCOS. For example, capital adequacy, liquidity and assets portfolio should be addressed for SACCOS' achievements.

5.6 Areas for Further Research.

Since the study was limited to one Region, Kilimanjaro and in one bank i.e. CRDB PLC conducting similar studies with larger samples from other region and other commercial banks e.g. NBC, NMB, EXIM Banks is highly recommended. Such studies can be conducted to determine if there are other suggestions on the management of loan delinquency among other SACCOS in the careers so as to improve in loan repayment. More ever there is need to conduct a further study on the performance of loan repayment as well as loan delinquency on profitability and sustainability of SACCOS'. Study the Causes of loan failures - to broadly assess the institutional, behavioral and Environmental aspects from both the lenders' and borrowers' perspective; Study the Borrowers' characteristics and their capacity for credit management

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QUESTIONNAIRE

1. Is interest rate makes the borrower unable to repay the loan?

(i.)	Yes	( )
(ii.)	No	( )

2. What interest rate does not favor the borrower to repay the loan? (Tick where appropriate)

(i.)	High	( )
(ii.)	Low	( )
(iii.)	Reasonable	( )
(iv.)	Not sure	( )

3. What period of time does not favor the repayment of loan by borrowers? (Tick where appropriate)

(i.)	Short	( )
(ii.)	Long	( )
(iii.)	Reasonable	( )
(iv.)	Not aware	( )

4. Is the competition in the business makes the borrower unable to repay the loans?

(i.) Yes ( )

(ii.) No ( )

5. What kind of competition does not favor the repayment of loans? (Tick where appropriate)

(i.) High ( )

(ii.) Low ( )

(iii.) Reasonable ( )

(iv.) Not aware ( )

6. What can you say about the changes in government policies which of them do not favor repayment of loan? (Tick where appropriate)

(i.) High tax ( )

(ii.) Low tax ( )

(iii.) Reasonable tax ( )

(iv.) Not aware ( )

7. Does the bank have policy of financing micro enterprises?

(i.) Yes ( )

(ii.) No ( )

8. What policies have you adopted to ensure effective lending to micro enterprises?

(i.) ……………………………………………………………………………

(ii.) ……………………………………………………………………………

(iii.) ……………………………………………………………………………

9. Do you face any problems in lending activities to micro enterprises?

(i.) Yes ( )

(ii.) No ( )

10. If yes mention any three and how you do solve them.

(i.) ………………………………………………………………………………

(ii.) ………………………………………………………………………………

(iii.) ………………………………………………………………………………

11. Do you face any difficulties during loan recovery?

(i.) Yes ( )

(ii.) No ( )

12. Does gender affect repayment of loans?

(i.) ………………………………………………………………………………

(ii.) ………………………………………………………………………………

(iii.) ………………………………………………………………………………

13. Does age affect repayment of loans?

(i.) ………………………………………………………………………………

(ii.) ………………………………………………………………………………

(iii.) ………………………………………………………………………………

14. Does knowledge among the borrowers affect loan repayment?

(i.) ………………………………………………………………………………

(ii.) ………………………………………………………………………………

(iii.) ………………………………………………………………………………

15. Customers are often given sufficient training on loan usage:

(i.) Yes ( )

(ii.) No ( )

16. Banks often monitor the loans to ensure proper repayment

(i.) Yes ( )

(ii.) No ( )

17. As a customer, I would prefer to repay my loan.

(i.) Daily ( )

(ii.) Weekly ( )

(iii.) Fortnightly ( )

(iv.) Monthly ( )