

**FACTORS RESPONSIBLE FOR INEFFECTIVE LENDING
PERFORMANCE BY COMMERCIAL BANKS IN TANZANIA:
THE CASE OF NATIONAL BANK OF COMMERCE
(NBC) CORPORATE BRANCH**

**FACTORS RESPONSIBLE FOR INEFFECTIVE LENDING
PERFORMANCE BY COMMERCIAL BANKS IN TANZANIA:
THE CASE OF NATIONAL BANK OF COMMERCE
(NBC) CORPORATE BRANCH**

**By
Mbena Anna**

**A Dissertation Submitted in Fulfillment of the Requirements for Award of the
Degree of Masters of Science in Accounting and Finance
(Msc A&F) of Mzumbe University
2013**

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: **Factors Responsible for Ineffective Lending Performance By Commercial Banks in Tanzania: The Case Study of National Bank of Commerce (NBC) Corporate Branch, Kinondoni, Dar Es Salaam, Tanzania;** in fulfillment of the requirements for award of the degree of Masters of Science in Accounting and Finance of Mzumbe University.

Signature

Major Supervisor

Signature

Internal Examiner

Accepted for the Board of

.....

Signature

DEAN/DIRECTOR,
FACULTY/DIRECTORATE/SCHOOL/BOARD

DECLARATION

AND

COPYRIGHT

I, Anna Mbena, do hereby declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature _____

Date _____

©

This dissertation is a copyright material protected under the Berne Convention, the Copyright Act 1999 and other international and national enactments, in that behalf, on intellectual property. It may not be reproduced by any means in full or in part, except for short extracts in fair dealings, for research or private study, critical scholarly review or discourse with an acknowledgement, without the written permission of Mzumbe University, on behalf of the author.

ACKNOWLEDGEMENT

I greatly thank my Almighty God, as I am able to finalise my studies in a successful manner. Nothing can be effectively achieved without the glory of God. As an academic work, several efforts have been in line in supporting the achievement of the study in hand. Therefore, this study acknowledges the following efforts for their contributions throughout the course of study.

I'm very much indebted to my supervisor of this study, the Late Mr. A. M. Komunte for his constructive support and patience that he has shown me from the start of this work up to the finalization my work; he had been guiding me in every step. May his soul continue rest in eternal peace. My sincere appreciation also goes to Mr. Rocky Alex for his assistance on absence of my supervisor.

Secondly I am having so much gratitude from the NBC Bank Limited; Corporate Branch Dar Es Salaam for the assistance given to me, all the data and information they provided made the completion of this work, without them nothing would have been possible.

Also, I deeply thank my family; my mother Mrs. Merina Mbena for the support in all aspects also I thank my sisters Irene and Rehema and few friends who were there for me when I needed their assistance most.

DEDICATION

To my Late father Mr. Herman Thomas Mbena and my mother Mrs. Merina Andrew Mbena and my young sister Irene.

LIST OF ACRONYMS AND ABBREVIATIONS

AFCP	–	Annual Finance and Credit Plan
AICPA	–	American Institute of Certified Public Accountants
BoT	–	Bank of Tanzania
CAS	–	Computerized Accounting Systems
EACB	–	East African Currency Board
EDP	–	Electronic Data Process
EDPAA	–	Electronic Data Processing Auditors Association
GDP	–	Gross Domestic Product
ISACA	–	Information System Audit and Control Association
ITA	–	Information Technology Auditing
IT	–	Information Technology
MDL	–	Manager’s Discretionary Limit
MFI	–	Micro Finance Institutions
NBC Ltd	–	National Bank of Commerce
RFF	–	Rural Finance Fund
SSI	–	Small Scale Industries
TZS	–	Tanzanian Shillings
URT	–	United Republic of Tanzania

ABSTRACT

This study mainly aimed at identifying factors responsible for ineffective lending performance among commercial banks in Tanzania: The Case of National Bank of Commerce (NBC) Corporate Branch, Kinondoni District, Dar Es Salaam, Tanzania. In the methodology, the study used documentary review, questionnaire, and interview as techniques in gathering data from a sample size of eighty respondents. The findings were presented and analyzed using figures and tables, both supported by percentage in comparing and making consideration from respondents' views upon which, conclusion and other final steps were drawn. The study had to achieve four specific objectives which were; to examine whether effective lending performance can lead commercial banks to achieve desirable return on investment from lending exercise; to identify factors responsible for the ineffective lending performance achieved by commercial banks in Tanzania, to determine whether there is influence from inappropriate repayment process that leads to ineffective lending performance in commercial banks, and to assess the influence of available banks lending policies on the favourability of effective lending performance in commercial banks.

Based on findings obtained from the whole process, this study found out that effective lending performance can lead commercial banks to achieve desirable return on investment from lending exercise, since each and every aspect from there in will be as well as desirably achieved. The study also found that lending performance at NBC seems to be unsuccessful (ineffective). The study further concluded that the ineffective lending performance is the result of several factors amongst others which include; low trend in returning credits (loan) by borrowers, tight lending conditions leaving most of borrower incapable of benefitting by this exercise. The study found that factors that hinder the implementation of effective lending performance include; poor lending policies, low trend in returning credits/loans, all other conditions governing lending exercises being too tight, high interest imposed in returning credit, and son. For, it was

found that lending policies are not favorable toward effective lending performance. Therefore, since, many issues relating to lending exercise, in commercial banks, in Tanzania remain critical, commercial banks were recommended to take urgent action to rectify the situation. Further studies recommend to touch either similar or same areas as the way to the either extend or put more clarification about knowledge pertaining to lending business.

TABLE OF CONTENTS

CERTIFICATION.....	i
DECLARATION.....	ii
AND	ii
COPYRIGHT	ii
ACKNOWLEDGEMENT	iii
DEDICATION	iv
LIST OF ACRONYMS AND ABBREVIATIONS	v
ABSTRACT.....	vi
LIST OF TABLES	xii
LIST OF FIGURES	xiii
 CHAPTER ONE	 1
1.0Introduction	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem.....	4
1.3 Research Objectives	6
1.3.1General Objective	6
1.4Research Questions.....	6
1.5.2Limitations of the Study.....	7
1.6Delimitation of the Study	8
1.7Significance of the Study	9
 CHAPTER TWO	 10
2.0 Introduction.....	10
2.1 Conceptual Definitions of Key Terms	10
2.1.4 What is Lending Policy?	11
2.1.8 Review of Common Factors Responsible for Ineffective Lending Performance in Tanzanian Context	15

2.1.9	Principles of lending	18
2.1.10	The canons of lending	20
2.3	Empirical Literature Review	24
CHAPTER THREE		33
3.0	Introduction	33
3.1	Research Design.....	33
3.2	Study Target Area	34
3.3.1	Population	34
3.3.3	Sample Size.....	34
3.3.4	Sampling Procedures.....	35
3.4	Data Collection Techniques	36
3.4.1	Interview	36
3.4.3	Documentary sources	37
CHAPTER FOUR.....		40
PRESENTATION OF THE RESEARCH FINDINGS AND DATA ANALYSIS		40
4.0	Introduction.....	40
4.1	Respondents' Characteristics.....	41
4.1.1	Age Distribution of Respondents	41
4.1.2	Sex Distribution of Respondents	43
4.1.3	Respondents' Areas of Expertise	45
4.1.4	Duration in either Working with or Borrowing from NBC	47
4.2	Can Effective Lending lead Commercial Banks to Achieve Desirable Return on Investment?	49
4.2.1	Is Lending Exercise Performing Well or Otherwise?.....	50
4.2.2	Trend in Paying Back Credit by Borrowers	52

4.2.3	Can Low Trend in Returning Loans cause Low ROI?	54
4.3	Factors Responsible for the Ineffective Lending Performance achieved by Commercial Banks in Tanzania	57
4.3.1	Common Factors Faced by Commercial Banks in Lending Performance	57
4.3.2	What should be done to mitigate the ineffective lending performance?	60
4.4	Is there any Influence from Inappropriate Repayment Process that leads to Ineffective Lending Performance in Commercial Banks?	62
4.4.1	A view of Credit/loans Re-payment Process	63
4.4.2	Can Retard in Returning of Loan/credit cause Ineffective Lending Performance?	66
4.4.3	How can Paying-Back process cause Ineffective lending performance?	68
4.5	Can Lending Policies Influence the favourability of effective lending Performance in Commercial Banks?	69
4.5.1	Rank of lending Policies for the Favourability of Effective performance	70
4.5.2	Can Policies be used as catalyst for Effective Lending Business?	72
CHAPTER FIVE		76
SUMMARY, CONCLUSION AND RECOMMENDATION		76
5.0	Introduction	76
5.1	Summary	76
5.2	Conclusion	77
5.3	Recommendation	80
5.4	Area for Further Studies	81
REFERENCES		82

Appendix I: Questionnaire to NBC Workers	74
Appendix II: Questionnaire to NBC Credit Customers	79

LIST OF TABLES

Table 3.1:	Summary about the Distribution of respondents	35
Table 4.1:	Summary about the collection of data using both methods	40
Table 4.2:	Age Distribution of Respondents (Customers)	42
Table 4.3:	Customers' Areas of Expertise	45
Table 4.4:	NBC workers' Duration in the Business	47
Table 4.5:	Customers' Views about Lending Exercise at NBC	50
Table 4.6:	Trend in Returning Credit/Loans by Lending Customers at NBC ...	54
Table 4.7:	Common Factors faced During the Lending Performance	58
Table 4.8:	Factors for Ineffective Lending Performance in Commercial Banks	60
Table 4.9:	Whether Retard in Returning Loan can cause Ineffective Lending Performance or Otherwise	66
Table 4.10:	Rank of Policies in favouring effective lending performance	70

LIST OF FIGURES

Figure 2.1:	Research Model.....	30
Figure 4.1:	Age Distribution of Respondents (NBC workers)	43
Figure 4.2:	Sex Distribution of Respondents (Customers)	44
Figure 4.3:	NBC workers' Areas of Expertise	46
Figure 4.4:	Customers' Experience in Lending from NBC	49
Figure 4.5:	Trend in Paying Back Credit by Borrowers	52
Figure 4.6:	The Effect of Low Trend in Returning Credit on ROI	55
Figure 4.7:	Factors Hindering the Effective Lending Performance	59
Figure 4.8(a):	Respondents' Views about the Re-payment Process	63
Figure 4.8(b):	Respondents' Views about the Re-payment Process	64
Figure 4.9:	Whether Retard in Returning Loan can cause Ineffective Lending Performance or Otherwise	67
Figure 4.10:	Whether Policies can Favour the Effective Lending Performance	71
Figure 4.11:	Whether Policies can be used as Catalyst for Effective Lending Exercise	74

CHAPTER ONE

INTRODUCTION AND BACKGROUND INFORMATION

1.0 Introduction

This chapter introduces the study mainly by presenting the information back-ground, statement of the problem, objectives, research questions, scope and limitations, significance and delimitation of the study in hand.

According to Eitman, and Stonehill, (2005) it can be noted that lending exercises have become a “hot topic” circumambient different banks around the world in desiring to circumvent the actually ravaging poverty. This signifies, (Hostung, 2008) most of financial Institutions have an impact on growth and economic development through their role in stimulating an increase in investment, a better management of ethnic diversity and conflicts, better policies and an increase in the social capital stock of a community. Such evidence wants to show the extraordinary role played by credit/loans through which lending exercise take place whose results in terms of successfulness need to be scrutinized. Based on this explication therefore, this study seeks to investigate factors for ineffective lending performance among commercial banks in Tanzania.

1.1 Background of the Study

In 1961 Tanganyika (now Tanzania mainland) gained its independence. However, this independence was preceded by massive flight of capital and withdrawals from commercial banks, as the business community was uncertain about the future under the independent government that would take over. However, evidences stipulate that lending exercises in Tanzania commenced many several decades back. For, according to Protas, (2001) in 1967, Arusha declaration came into action and one of its effects was nationalization of banks presented at that time. According this evidence, lending environment had since then been facing many difficulties in many Tanzanian societies.

And one of the reasons for such difficulties faced was because after colonialism in fact, most of Tanzanians were not educated the reason for why they could massively not participate intensively in lending activities. Many banks which were present during that period were mainly for the interest of the holders and not for the sake of indigenious.

Just few years after the independence, Tanzania experienced a number of changes characterized by establishment of several banks. One of the evidences was the creation of the Bank of Tanzania which was established in 1966 by act of Parliament, to perform all the traditional functions of central banking. In this regard, evidences explicate that the Arusha declaration was announced in 1967 which was only eight months after its establishment. From then, the BoT reoriented its functions to reflect the change in political direction. The use of indirect instruments in monetary policy implementation was immediately suspended and direct instruments were introduced instead. Among the instruments were Annual Finance and Credit Plan (AFCP).The AFCP targeted specific levels of credit growth to different sectors of the economy, to be attained through administered interest rates.

To enable the BoT to address development problems, the BoT Act was amended in 1978. The focus of the bank was broadened, so as to allow the Bank to be involved in development financing, particularly in the promotion of credit to the agricultural sector. A Rural Finance Department was established in the BoT, to enable the BoT to advise the government and financial institutions on matters pertaining to credit for agricultural development. Similarly, special funds were created to facilitate the attainment of development goals. The funds included the RFF, which was used to finance rural development, including the guaranteeing of loans to the agricultural sector and also a refinancing facility for banks which lent money to agriculture.

After the announcement of Arusha declaration, evidences precise that many events came into being amongst others included the implementation of the policies in 1978, of which led to led to rapid growth in the money supply; mainly caused by central bank

accommodations of the government and commercial banking lending to government-owned parastatal institutions. Most of the credit was extended to these institutions without a proper assessment of the economic viability of the projects. However, the Banking and Financial institution Act, 1991 provided for the major changes in the financial sector. The act led to the allowance of privately owned banks and financial institutions to do business in Tanzania for the first time since independence. The objective was to stimulate domestic competition among banks and financial institutions so as to increase efficiency and strengthen efforts to mobilize savings. Lending was one of the main activities of the commercial banks which led competition in the business of banking.

Further evidences also precise that from 1967, a number of banks were established among which NBC Ltd was established under the Incorporation Act of Parliament No.22 of 1997, which came into operation on 1st October 1997. The act applied to Tanzania Mainland as well as Zanzibar. NBC Ltd. was formed on 1st April 2000 when NBC (1997) Ltd. was privatized and sold to ABSA Group Ltd. of South Africa. NBC (1997) Ltd., was itself born out of the nationalization of banks and financial institutions in Tanzania in 1967. Tanzania later deregulated banking in 1991. In 1997, a decision was taken to split NBC into three entities, namely NBC Holding Corporation, National Micro – finance Bank (NMB) and NBC (1997) Limited. This was the first step towards privatization of NBC. The headquarters of the bank is situated at the center of Dar es Salaam City (along Azikiwe/Jamhuri Street).

NBC Ltd. needs to be seen as a partner with government, and other organizations, in promoting the socio-economic development and prosperity of Tanzania. The government of the Republic of Tanzania has committed itself to transforming the economy of the country from being public-sector driven to being private-sector driven. To this end, privatization has been chosen as one of the key routes by government. Privatization entails that government is moving out of business - as in the management

of companies - and promoting an enabling environment for economic growth and development as supported by the private sector.

More precisely, NBC is one of the largest commercial banks in Tanzania with a network of 53 branches and 6 business centers strategically located in retail centers and other major towns across the country.

Based on all evidences provided above, the study is designed to address the measures to give and to eliminate the hindrance of the ineffectiveness of the lending environment in Commercial banks in Tanzania. Because, the Bank of Tanzania Act, 2006 had secondary objectives and one of these secondary objectives under monetary policy was to increase in credit consistent with growth and money supply targets. BoT was promoting the rate of credit that was consistent with the target growth of GDP and inflation.

The approach was to explore the main parameters that will lead to efficiency measurement of lending; these are:-procedures for granting loans, environmental factors that hinder loan granting, repayment terms, the interest rate and the overall lending performance of the NBC Head office. While from that respect, the researcher feels the need to study the lending environment as it is conducted in commercial banks by reviewing the procedures and policies for granting loans so that to determine its effective operation in banks.

1.2 Statement of the Problem

The universe of low income households in Tanzania is quite large, whose number goes parallel with their potential demand for lending service Satta, 2003. Meanwhile commercial banks put much zeal, enthusiasm and efforts in striving to achieve either tremendous financial services offering, or specifically effective lending exercises with the aims of mitigating the actually ravaging poverty and in turn achieve high return on investment for their businesses (Chijoriga, 2000). In this respect, therefore, the problem

conceived for this concern stemmed from the fact that the said demand has not been and is not likely to be met in the near to medium by various financial institutions now providing such services whose causes still remain unknown. However, it should meanwhile be remembered that one of the central intentions of commercial banks to establish lending services is to meet the said demand to the maximum extent possible level. While it is up to now believed that banks must be facing a number of constraints parallel with infrastructure under which they operate causing them to not reach the desired level of effective lending exercise.

It seems there are apparently no sufficient evidences in Tanzania describing any successful lending exercise achieved by good number of commercial banks since it's practicably rare to get the correct balance between the financial return the lender expects to receive, and the risk that the borrowing may not be repaid as anticipated. In real sense, commercial banks need to balance the need for the bank to obtain more lending business against the risk of the proposition put to financial institutions and latter on focus on achieving tremendous return on investment.

The most important issue to mitigate the actual concern is to know the factors responsible for the ineffective lending environment being experienced by commercial banks in Tanzania. This is being so focused because, on top of all intentions, banks' core ambition is to meet tremendous ROI. Whereas, still there is not tangible evidences describing the extent to which such an exercise has been effectively achieved. In other and simple words, it is doubtlessly a reality that there must be particular factors which inevitably cause ineffective lending environment to be achieved by commercial banks in Tanzania of which must be known. Based on this explication, this means there is much to be done to find factors responsible for ineffective lending environment circumambient in commercial banks in Tanzania. To investigate this problem, the study will utilize the case of NBC Bank head quarters as representative of all other cases.

1.3 Research Objectives

The study was guided by one general objective out of which four others were built.

1.3.1 General Objective

The general objective of this study was to identify factors responsible for the ineffective lending performance achieved by commercial banks.

1.3.2 Specific Objectives

Specific objectives of the study were as follows:-

- i. To examine whether effective lending performance can lead commercial banks to achieve desirable ROI from lending exercise
- ii. To identify factors responsible for the ineffective lending performance achieved by commercial banks in Tanzania
- iii. To determine whether there is influence from inappropriate repayment process that leads to ineffective lending performance in commercial banks
- iv. To assess the influence of available banks lending policies on the favourability of effective lending performance in commercial banks

1.4 Research Questions

The study was aimed at answering one general question from which four other specific ones were built as follow:-

1.4.1 General Research Question

The general research question of the study was; what are the factors responsible for the ineffective lending performance achieved by commercial banks?

1.4.2 Specific Research Questions

Specific research questions of the study were as follows:-

- i. Can effective lending performance lead commercial banks to achieve desirable ROI from lending exercise?
- ii. What are the factors responsible for the ineffective lending performance achieved by commercial banks in Tanzania?
- iii. Is there any influence from inappropriate repayment process that leads to ineffective lending performance in commercial banks?
- iv. What might be the influence of available banks lending policies on the favourability of effective lending performance in commercial banks?

1.5 Scope and Limitations of the Study

1.5.1 Scope of the Study

The scope of the study was based on the organisation at which the research was taken. This involved the headquarters of the NBC bank in Dar es Salaam, Tanzania. The study was based on the repayments of loans, interest rates charged to the borrowers, the canons of lending, overall performance of lending, the fundamental principles of good lending and analysis of local environment affecting lending activities. Only staffs of that bank with their respective customers were the study's potential respondents.

1.5.2 Limitations of the Study

The study fore-sees certain limitations which were encountered during the research period due to many reasons amongst which include; the natural scarcity of some of the resources needed to be utilized for its successful achievement.

i. Time Limitation

This study fore-sees time as limitation in the sense that the researcher was compelled

to utilize the scheduled time to conduct the study meanwhile attending other social activities such as; daily management of the family, attending her office, etc. In simple words; this signifies, the time allowed by academic authority to cover the study seems to be too condensed to the extent some of the activities was performed with high pressure of time. But even though, the researcher will strive to utilize the accorded time in order to meet the deadline as well as scheduled.

ii Respondents' Reluctancy:

It is fore-seen that job security to some of the expected respondents, especially NBC Bank worker is of great concern. For, it seems to be concerned that some of the respondents may refuse to provide support to disclose sufficient and relevant information because they fear to reveal organization secrets take in consideration that the study is on banking industry. But, despite all these fore-seen barrier, the researcher will strive at level best to make sure all reliable and valid information is gathered by following all steps, such as applying ethical consideration technique.

1.6 Delimitation of the Study

Any investigative work's intention is to be too curious at the whole period desiring to grasp all elements which can favour smooth finding of solution to a problem or situation being faced by any community. Whereas, this process may become impossible due to the limitations fore-seen already of which place certain limits to do so. Thus, to avoid this, the reason why the study used a single case (head quarters of the NBC bank Ltd), simply because, NBC bank is one of the largest banks in Tanzania owning more than fifty branches and serving if not hundreds, that means thousands of customers scattered around the country. It was impossible to cover all branches and customers while certain limitations did not allow such consideration to take place effectively.

1.7 Significance of the Study

It should be recognized that majority of modern experienced changes, innovations, events, and so others, are born of inquiries. This means all investigations, researches, etc have extreme influence on the way people do, act, and live, etc in today's lives. Based on this illustration, the reason why this study is expected to be so significant in many reasons amongst which include: - Firstly, the findings of the study will help the organization to serve as a guide for the future reference to other researchers in case they endeavor into conducting further study on the same a similar problem. Secondly, staff or employee becomes aware of the principles of good lending. Thirdly, the research will provide/increase the knowledge to the researcher. And fourthly, it will add useful recommendations and suggestions to NBC Ltd management on how effective lending should be taken.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter consists of presenting theoretical and empirical part of the study. In this regard, the chapter is mainly concerned with defining and describing all key terms; reviewing related theories, empirical literatures, and studies. It is also concerned with presenting the conceptual frame work of the study and hypotheses statement.

2.1 Conceptual Definitions of Key Terms

This section defines and describes all key terms/concepts involved in the study.

2.1.1 Lending

The term lending is often defined based on different contexts. But for the sake of enabling a clear comprehension about the topic in hand, the term lending is defined by this study based on the entire application in banking industry. Therefore, according Barrister, (2008) the term lending is referred to as an action involving granting to (someone, entity, etc.) the use of (something, such as money, or any other asset) on the understanding that it shall be returned, either with interest or otherwise.

While, Doris, (2005) defines the term lending as any practice consisting of allowing (a person) the use of (a sum of money) under an agreement to pay it back later, typically with interest.

2.1.2 The Concept of Commercial Bank

According to Evans, (2008) the term commercial bank is referred to as a kind of financial institution or precisely a bank that offers services to the general public and companies. It means however, the general public and companies may be referred to as borrowers, and meanwhile services referred to in this context as; financial, counseling/advice and even skills relating to the entire way of effectively conducting a

business. The reason why according to the context in hand that commercial banks are known to be responsible for providing such services as intermediaries of financial markets to borrowers commonly termed beneficiaries or customers (Philips, 2006).

2.1.3 The Meaning of Loan to Commercial Banks

According to Vivian, & Harrison, (2009) lending exercise is one of the main activities in which banks invest with the aim of later on getting profit from the interest paid by customer in returning the amount lent. In simple words; according to Daniel, (2008) loan to the bank means lending exercise considered as one of the products or services established by banks in a desire to achieve benefits and consequently achieve high competitive pressure. The benefit meant in this respect, is return on investment from investing in lending business which may be searched by any business entity of the same or similar kind. Lending to small businesses for instance is recognized by commercial bankers as an activity with certain inherent difficulties making it harder for them to make it a profitable part of their businesses. (Buckely, 1997).

2.1.4 What is Lending Policy?

Lending as any other financial service must be guided by a certain predetermined policy established by banks guiding the provision of such a service (Satta, 2003). However, Besanko,&Thakor,(1987) precisely explained that lending policy is a document prepared and used by banks which sets out the bank's fundamental guidelines to be followed when deciding whether to grant a loan under particular circumstances. Jack, (2007) on his turn explicates that banks change their lending policies in the light of altered events, government intervention and market fluctuations. Even though, an important aspect of lending policy is the size of the loan, most advances to personal customers are small and fall within the Manager's Discretionary Limit at branch level. For instance; larger loans, say for business expansion may have to be referred higher up for authority, in accordance with lending policy, say to regional office. (Satta, 2003).

2.1.5 The Meaning of Loan to the Borrower

It should be recognizable that in a loan, the borrower initially receives or borrows an amount of money, called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. , Bareson, Sparks, & Ladson, (2005) said; the loan is in fact generally provided at a cost, and referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. Albert, Mount, & Silva, (2006) also indicate that a loan to the borrower means nothing else rather than a burden and an obligation vested by interest required when paying back for the credit borrowed. Although this study focuses mainly on monetary loans, in practice any material object might be lent. Other institutions, issuing of debt contracts such as bonds is a typical source of funding to the borrower. In this regards, a loan extensively is a type of debt to the borrower. (Bareson, Sparks, & Ladson, 2005)

2.1.6 Types of Loans

In many aspects of lending environment, being either long or short term loan/credit, loans are categorized in many forms depending on each bank separately (Buckely, 1997) & (Bakeer, 2002). This means, a bank loan is has many terms and conditions and can be used for a number of different purposes. This regains to signal that there are many different types of loans and they have different qualifications. The reason why in order to get a loan you must meet banks' credit granting criteria. Each bank has their own rules, guidelines and qualifying factors. It's a good idea to contact several banks to see who has the most favorable terms and conditions (David, and Thakor, 1987). Some of the common types of loans include the followings.

i) A secured loan :

A secured loan is a loan in which the borrower pledges some asset (e.g. a car or property) as collateral. In some instances, a loan taken out to purchase a new or used car may be secured by the car; in much the same way as a mortgage is

secured by housing. The duration of the loan period is considerably shorter — often corresponding to the useful life of the car. There are two types of auto loans, direct and indirect. A direct auto loan is where a bank gives the loan directly to a consumer. An indirect auto loan is where a car dealership acts as an intermediary between the bank or financial institution and the consumer. (David, and Thakor, 1987), (Buckely, 1997)

ii) Mortgage loan:

This is a very common type of debt instrument, used by many individuals to purchase housing. In this arrangement, the money is used to purchase the property. The financial institution, however, is given security — a lien on the title to the house — until the mortgage is paid off in full. If the borrower defaults on the loan, the bank would have the legal right to repossess the house and sell it, to recover sums owing to it. (David, and Thakor, 1987), (Buckely, 1997).

iii) Unsecured Loan:

Unsecured loans Robertson, (2004) are monetary loans that are not secured against the borrower's assets. These may be available from financial institutions under many different guises or marketing packages ruling in; credit card debt; personal loans, bank overdrafts, credit facilities or lines of credit, corporate bonds (may be secured or unsecured).

iv) Demand Loans:

These are short term loans that are atypical in that they do not have fixed dates for repayment and carry a floating interest rate which varies according to the prime rate. They can be "called" for repayment by the lending institution at any time. Demand loans may be unsecured or secured. (Robertson, 2004)

v) Subsidized Loans:

A subsidized loan is a loan on which the interest is reduced by an explicit or hidden subsidy. In the context of college loans in the United States for instance; it refers to a loan on which no interest is accrued while a student remains enrolled in education.^[2] Otherwise, it may refer to a loan on which an artificially low rate of interest (or none at all) is charged to the borrower. Whereas, an unsubsidized loan is a loan that against interest at a market rate from the date of disbursement

The interest rates applicable to these different forms may vary depending on the lender-borrower agreement. These may or may not be regulated by law. In the United Kingdom for instance, when applied to individuals, these may come under the Consumer Credit Act 1974. Ideally practicably, interest rates on unsecured loans are nearly always higher than for secured loans, because an unsecured lender's options for recourse against the borrower in the event of default are severely limited. An unsecured lender must sue the borrower, obtain a money judgment for breach of contract, and then pursue execution of the judgment against the borrower's unencumbered assets (that is, the ones not already pledged to secured lenders). In insolvency proceedings, secured lenders traditionally have priority over unsecured lenders when a court divides up the borrower's assets. Thus, a higher interest rate reflects the additional risk that in the event of insolvency, the debt may be uncollectible. (Zetta, 2011)

2.1.7 Review of Policy Governing Micro-Finance in Tanzania

Microfinance in Tanzania is one of the approaches that the Government has focused its attention in recent years in pursuit of its long term vision of providing sustainable financial services to majority of Tanzania population especially the mostly disadvantaged groups such as the rural population, the disabled and the women (Rubambey, 2000).

In Tanzania, before the current financial and banking restructuring took place, most of financial services for rural, micro and small enterprises were offered by the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB). Since 1991, the government has been implementing financial sector reforms aimed at putting in place a competitive, efficient and effective financial system (Chijoriga, 2000). Although the reforms have had reasonable success in bringing about the growth of competitive and efficient mainstream banking sector, it has not brought about increased access to basic financial services by the majority of the Tanzanians, particularly those in rural areas. The realization of the above shortcoming led to the Government's decision to initiate deliberate action to facilitate alternative approaches in the creation of a financial system comprising of a variety of sustainable institutions (Rubambey, 2001).

2.1.8 Review of Common Factors Responsible for Ineffective Lending Performance in Tanzanian Context

The local environment affecting lending activities in Tanzania is characterized by the following factors (Satta, 2003).

i) Political aspects

During the first 30 years or so after independence, the country's political system was highly characterized by a single party with a strong socialism orientation. State financial institutions mostly dominated the financial system during this time. As a result, the lending function was heavily influenced by the government. Lending was done mostly to the agricultural sector, co-operative societies and some extent the industrial sector. During this time lending activities were not fully base on the principles of lending. Hence a political system had an influence on the setting of interest rates through the central bank and this was the situation in the country before the 1990s. (Satta, 2003).

ii) Legal framework aspects

The lending function usually resolves around a relationship between banks and borrowers. When a deal is struck between a bank and borrower, it results into some form of a contractual relationship guided by some legal principles. The role of legal system is to enforce this contractual relationship. With a strong and supportive legal system, the enforcement of the contractual relationship between banks and borrowers becomes easier. The absence of this is likely to result into a number of defaults by borrowers. In recently the government made strong efforts to enhance the legal system by establishing the Commercial court which provides an opportunity for banks to recover the borrowed money by defaulting borrowers (Zetta, 2011).

iii) Social attitude aspects

Experience shows in the past most borrowers exhibited a negative attitude towards the borrowed money resulting into higher default rate in banks. Even today evidence shows this problem still exists. The social attitude problem also lies on the side of credit officers and bank management. The success of the lending function also depends on the moral responsibility of these staff and management to apply the good principles of good lending; otherwise this could result into high default rate among other problems.

iv) Economic development aspects

The level of economic development is an important ingredient into the growth of the lending function in many ways. A substantial level of economic growth over a period of time is likely to lead to an increased level of investment opportunities, which in turn investors were encouraged to look for investment funds. It should be noted however that the level of economic growth of a country depends on the type of economic policies pursued. However, decline in investment opportunities result due to Tanzania pursued various economic policies .This in turn affected most banks, which found themselves

with huge amount of deposits with little lending activities forcing them to invest in government securities. In addition to that a decline in the economic growth of a country makes it difficult for the borrowers to repay due to the resulting decline in economic returns, from their investments. Satta, 2003), (Zetta, 2011).

(v) Technological aspects

The level of technological development certainly has an impact on both borrowers and lenders. Technology makes lending function becomes more efficient and faster but also all the delivery of all other banking services improves. To the borrowers the level of technological development has an influence on the performance of their operations. This in turn has an indirect influence on the repayment of the borrowed money. However, it should be noted that with liberalization of the banking sector, most banks have embarked to modernization of their operations by investing in technology. This in turn has led to a tremendous improvement in terms of delivery of banking services. Likewise, on borrowers' side, the country's overall general improvement in terms of technology advancement has provided more opportunities to most business in investing in technology. This is likely to improve their efficiency and in turn have an indirect effect on their ability to repay borrowed money.

vi) Competitive /Market Aspects

The level of competition among lenders also affects the lending function. The presence of more banks into the market results into increased competition. Prior to liberalization of the banking sector in Tanzania, the lending function was dominated by a few banks, which in economic terms resulted into something close to an oligopoly state of lending. The liberalization of the banking sector in 1991 led to increased competition not only on the lending function but also on the delivery of all other banking services.

vii) High Default Rate

This has been the trend in Tanzania for the past 30 years or so. It is only recently after the liberalization of the banking sector in the country and the enactment of the Banking and Financial Institutions Act, 1991 when the default rate starting going down.

viii) Poor Security Perfection

This is another factor which affects the local lending environment in Tanzania whereby most of the securities which were accepted by banks against lending were not perfected according to the legal requirements of the country. As a result it becomes very difficult for most banks to realize the securities when borrowers default. Reasons for such behaviour include ignorance, incompetence as well as untrustworthy on the side of some borrowers and employees. Other reasons include the types of securities taken and the valuation methods employed by banks. (Satta, 2003).

ix) Lack of Discipline on the Borrowers` Side

For so many reasons most of the borrowers have had an altitude of borrowing and not paying back. Some of the reasons have been the presence of un-conducive investment environment, diversion of borrowed funds to activities other than the purpose of the loans. (Satta, 2003).

2.1.9 Principles of lending

Khubchandani, (2000) explained that lending constitutes the main business of banking and major profits of bank come out of this function. But no lending can take place without some inherent risks. Thus, as bankers are trustees of the depositor's money, they cannot take undue risks. A banker has to follow a cautious policy and conduct the business of lending on the basis of certain sound principles. Here are some of the important principles of sound lending. (Khubchandani, 2000).

i) Safety of Funds

The duty of the banker is to see that money which he lends comes back to him. The recovery of a bank's money was ensured when the advance goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout. (Khubchandani, 2000).

ii) Liquidity

A banker has to ensure that it comes back on demand or in accordance with agreed terms of repayment. Liquidity means short term solvency of the borrower. A banker ensures that the borrower employs money for his short-term requirements and not in fixed assets or in schemes which takes a long time to repay. Long-term finance by a banker is an exception rather than a rule. (Khubchandani, 2000).

iii) Purpose of Loan

If a loan is required for a non-productive or speculative purpose, a banker was reluctant to entertain the proposal. (Khubchandani, 2000).

iv) Profitability

Any advance given has to be profitable, otherwise banks cannot run. A banker has to see that the advance is on the whole profitable. (Khubchandani, 2000).

v) Spread

A successful banker is one who can manage his risks. One of the tools of management of risks is to spread his advances portfolio not only among many borrowers but also to diversify lending to different types of industries and against different types of securities. A banker who puts all his eggs in one basket is not a prudent banker. (Khubchandani, 2000).

vi) National interest and Suitability of Advances

An advance may satisfy all the aforesaid cardinal principles of good lending and still may not be desirable if it runs counter to national interest.

2.1.10 The canons of lending

Lending decisions are based on experience, on a certain feeling that the loan should fulfill the attributes of lending. But experience comes from learning and applying the principles of good lending. These are set out in the form of lending guidelines terms as CAMPARI which stands for character of the customer, ability of the customer to borrow and repay, margin of profit, purpose of the loan, amount of the loan, repayment terms and insurance against the possibility of non-repayment.

2.2 Theoretical Literature Review

Many efforts from different authors and writers have laid the foundation of many today's operating banks operated on a common focus: to invest in various financial-related services, using specific ways such as lending policies-all seeking to achieve the same goal characterized by high profit gaining. The tens of thousands of today's banking/financial institutions stake holders put much zeal in understanding this aspect by mainly following different ideas and opinions developed by different authors. This means doubtlessly that theories about financial-related matters are significantly prominent way towards comprehending the topic in hand.

2.2.1 Review of Monetary Circuit Theory

The Monetary Circuit Theory was developed by French and Italian economists after World War II; and was immediately officially presented by Augusto Graziani. (Zizzaro, & Alberto, 2010). The notion and terminology of a money circuit dates at least to 1903, when amateur economist Nicholas Johannsen wrote *Der Kreislauf des Geldes und Mechanismus des Sozial-Lebens* (The Circuit Theory of Money). Therefore, Graziani, and Augusto, (1989) précised that monetary circuit theory is a heterodox theory of

monetary economics, particularly money creation, often associated with the post-Keynesian school. According to Zizzaro, & Alberto, (2010) the theory holds that money is created endogenously by the banking sector, rather than exogenously by central bank lending; it is a theory of endogenous money. It is also called circuitism and the circulation approach. However, circuitism is easily understood in terms of familiar bank accounts and debit card or credit card transactions: bank deposits are just an entry in a bank account book (not specie – bills and coins), and a purchase subtracts money from the buyer's account with the bank, and adds it to the seller's account with the bank. (Zizzaro, & Alberto, 2010)

Griziani, & Augusto, (1989) further explicate that as with other monetary theories, circuitism distinguishes between hard money – money that is exchangeable at a given rate for some commodity, such as gold – and credit money. Unlike mainstream monetary theory, it considers credit money created by commercial banks as primary (at least in modern economies), rather than derived from central bank money – credit money drives the monetary system. While it does not claim that all money is credit money – historically money has often been a commodity, or exchangeable for such – basic models begin by only considering credit money, adding other types of money later. (Zizzaro, & Alberto, 2010)

In circuit, as in other theories of credit money, credit money is created by a loan being extended. Crucially, this loan need not (in principle) be backed by any central bank money: the money is created from the promise (credit) embodied in the loan, not from the lending or relending of central bank money: credit is prior to reserves. This means, when the loan is repaid, with interest, the credit money of the loan is destroyed, but reserves (equal to the interest) are created – the profit from the loan. (Griziani, & Augusto, 1989)

In practice, commercial banks extend lines of credit to companies – a promise to make a loan. This promise is not considered money for regulatory purposes, and banks need not hold reserves against it, but when the line is tapped (and a loan extended), then bona fide credit money is created, and reserves must be found to match it. In this case, credit money precedes reserves. In other words making loans pulls reserves in (assuming that the regulatory need for bank reserves exists), instead of reserves being pushed out as loans which is assumed by the mainstream model.

2.2.2 Theory of Financial Contracting

The theory of financial contracting Douglas, Rajan, & Antony, (2004) under asymmetric information provides a general framework for understanding why smaller, information-intensive borrowers rely on intermediaries (Charles; Himmelberg, Donald & Morgan. 2009). To reduce agency costs, such firms submit to tight, detailed loan covenants in their debt contracts. Such a situation in turn leads to many low income holders incapable of borrowing from the bank and consequently causes ineffective lending performance to take place. To better explicate this scenario, Andarr; Paul, and Rosengren, (2009) describe that because the monitoring and renegotiating of these contracts is costly, however, these tasks are more efficiently delegated to an intermediary where some of the conditions are well directed. Intermediaries' lower monitoring and renegotiation costs mean they can write covenants that entail more frequent monitoring. More frequent monitoring, in turn, means intermediaries become better informed about firms over the length of a relationship. That, the theory argues, is why intermediaries--especially banks, but also finance and insurance companies--are "special," in theory and not in practice and this is one of the reasons for their failures. (Chijoriga, 2009)

2.2.3 Theories of microfinance

Elahi, Khandakar, Danopoulos & Constantine, (2004) have developed a theory which stipulates that capital required for establishing private financial ventures is of two types: equity capital supplied by the main owners of these ventures and share capital collected

from the members of the public. Individuals interested in microfinance enterprises have little equity capital and they can expect little public interest in investing in their businesses. In addition to problems of seed capital, it is quite unlikely that micro lending would prove profitable at the outset. Because of this, micro finance enterprisers need assistance from private (mainly non-profitable) and public donor agencies for seed capital as well as for running micro lending operations, especially in the initial stages. (Sangchung, 2009)

The main and core idea about this theory is that, in order to justify this assistance, micro-financiers are required to give two kinds of rationale: one social and the other economic. From the social perspective, microfinance entrepreneurs need to show that they are different from traditional informal creditors. Owing to vast differences in education and wealth, micro lenders should not be as greedy as traditional bankers in doing business with the poor. The economic rationale demands that the would-be entrepreneurs should be helped with outright grants or low interest loans, but reality is different. (Bakeer, 2000) & Sangchung, 2009)

However, microfinance theoreticians have advanced two theories regarding their aims- an economic and a psychological. While, on the other side, the economic theory treats microfinance institutions (MFIs) as infant industries, while the psychological theory differentiates microfinance entrepreneurs from traditional money lenders by portraying them as "social consciousness driven people." According to Remenyi, (2008) the gist of the economic argument is that success in any business venture, including MFIs, is determined by the entrepreneurs' ability to deliver appropriate services and profitably.

However, studies conducted in different parts of the TW show that there are no successful MFIs by this definition. At best, some MFIs cover their operating costs while some of the better known among them are able to cover in part the subsidized cost of capital employed. This situation suggests that the MFIs will not become financially viable in the long run. (Remenyi, 2000).

2.2.4 Relevance of theories and principles to the proposed study.

Financial institutions especially commercial banks they attract much importance to the liquidity of their investments and as such they specialize in satisfying the short term credit needs of business rather than the long term (Shekhar R.C 1999).

2.3 Empirical Literature Review

Hashemi, Schuler, and Rilley, (2006) have indicated that the concept of commercial banks' lending practices and credits as a whole are not too new in the field of research. This means there are many literatures achieved years and years back upon which this study should rely if it is to look at the gap so that it successfully fills the gap left by previously conducted studies.

2.3.1 Review of Study from Europe

A survey by Hans, in collaboration with European Central Bank, (2011) on the access to finance of SMEs in the Euro Area was conducted using European Central Bank as the case study. One of the study's concerns included; finding most pressing problem, affecting borrower access to financial services from commercial banks between September 2010 and February 2011 with more than 300 respondents all being customers of the ECB. In fact, about a quarter of survey respondents replied; "Access to finance", "costs of production or labour" and "competition" were indicated as the most pressing problem by approximately 15% of respondents. Compared with the two previous survey rounds, there was an increasing number of respondents pointing to problems linked to input costs (14%, compared with 11% in the previous survey and less than 10% in the 2009 surveys).

The study concluded that the proportion of SMEs quoting “access to finance” as their most pressing problem was broadly similar to that of the previous survey. By contrast, “access to finance” is considered as the most pressing issue by only 10% of large firms. The study further concluded that the proportion of SMEs quoting “access to finance” as their most pressing problem was broadly similar to that of the previous survey. By contrast, “access to finance” is considered as the most pressing issue by only 10% of large firms.

2.3.2 Review of Studies from Madagascar

Zeller (1994) studied the determinant of credit rationing, a study of informal lenders and formal credit group in Madagascar. It has been observed that failure by borrowers to honor their obligations with financial institutions to return their loans due to high competition faced by them in operating their businesses in an obstacle that contributes poor loan repayment.

Also Zeller observed that, the reluctance of borrowers to commit themselves to long-term loans at high interest rates during a period of economic uncertainty and with possibility that interest rates fall during the term of the loan cause the borrowers to repay loans on time.

2.3.3 Review of Studies from Tanzania

Recent studies have shown that, there are over 50 registered MFIs in Tanzania, but their overall performance has been poor due to various reasons ruling in prescribes criteria for effectively reaching potential customers (Chijoriga, 2001). In her study Chijoriga (2001) evaluated the performance and financial sustainability of MFIs in Tanzania, in terms of the overall institutional and organizational strength, client outreach, and operational and financial performance.

In that study, 28 MFIs and 194 MSEs were randomly selected and visited in Dar es Salaam, Arusha, Morogoro, Mbeya and Zanzibar Regions. The findings revealed that, the overall performance of MFIs in Tanzania is poor and only few of them have clear objectives, or a strong organizational structure. It was further observed that MFIs in Tanzania lack participatory ownership and many are donor driven. (Olomi, & Rutashobya, 1999). Although client outreach is increasing, with branches opening in almost all regions of the Tanzania mainland, still MFIs activities remain in and around urban areas. Their operational performance demonstrates low loan repayment rates and their capita structures are dependent on donor or government funding.

In conclusion, the author pointed out low population density, poor infrastructures and low house hold income levels as constraints to the MFIs' performance. Many of these MFIs have no clear mission and objectives. Also their employees lack capacity in credit management and business skills. Among the questions arising out of these research finding is whether these MFIs whose performance is questionable will have any impact on women empowerment.

Other studies on microfinance services, in Tanzania were carried out by Kuzilwa (2002) and Rweyemamu et al, (2003). Kuzilwa examines the role of credit in generating entrepreneurial activities. He used qualitative case studies with a sample survey of businesses that gained access to credit from a Tanzanian Government Financial Source. The findings reveal that the output of enterprises increased following the access to the credit.

It was further observed that the enterprises whose owners received business training and advice, performed better than those who did not receive training. He recommended that an environment should be created where informal and quasi-informal financial institutions can continue to be easily accessed by micro and small businesses.

Rweyemamu et al (2003) evaluated the performance of, and constraints facing, semi-formal microfinance institutions currently providing credit in the Mbeya and Mwanza Regions. The primary data, which were supplemented, by secondary data, were collected through a formal survey of 222 farmers participating in the Agricultural Development Program in Mbozi and the Mwanza Women Development Association in Ukerewe.

The analysis of this study revealed that the interest rates were a significant barrier to the borrowing decision. Borrowers also cited problem with lengthy credit procurement procedures and the amount disbursed being inadequate. On the side of institutions, the study observed that both credit program experienced poor repayment rates, especially in the early years of operation, with farmers citing poor crop yields, low producer prices and untimely acquisition of loans as reasons for non-payment.

2.3.4 Research Gap

The common logics and reality from all these reviewed studies dragged the study towards stating that if MFIs exist it is because they are on one way or another of great importance especially in sustaining and contributing on the evolution of MEs/SMEs in all over the world. Therefore, strictly speaking of this, it seems even many studies have been conducted on this area but yet could not touch the actual target concerned especially with Tanzanian case. Thus, with the case of NBC Limited head quarters, sufficient knowledge, and information about factors for ineffective lending performance in commercial banks were effectively found and consequently fill the identified gap left by previously conducted studies. It is in fact with this supporting argument and reason for why this study has to be conducted.

2.4 Conceptual Frame Work

Albert, Mount, and Silva, (2006) indicated that lenders attempt put more effort and zeal in an aim to achieve high and tremendous results in terms of gains from investing in lending businesses. This calls for the reason for why most of assumptions laid herein this study are based on the entire picture detailing the comprehension about why commercial banks in Tanzania do not succeed in conducting lending businesses. For, one issue that encompasses the whole discussion is to know particular factors responsible for the ineffective lending performance being achieved by commercial banks. (Andorra, Paul & Rosengren, 2009).

Based on literatures reviewed, the study then, assumes that majority of commercial banks have apparently not achieve successful lending exercise. However, this situation is doubtlessly the result of certain factors of which would be mitigated if a sense of success needs to be met.

To better explain this assumption, the study establishes that modern banks perform two lending functions: pre-lending screening of loan applicant (credit analysis) and postlending monitoring (supervision of borrower's management of the set financed with the loan) (Albert, Mount, and Silva, 2006). The assumption here is that each borrower can simultaneously approach multiple banks, and there is unobservable heterogeneity in loan applicants' creditworthiness for, some are creditworthy and some are not. It means, each bank knows how many other banks the borrower has approached, and based on that formation the bank would rely on to determine whether it will (noisily) screen the applicant and then whether it will extend a (monitored) loan. The assumption is set up in such a way that banks would not lend to a borrower it has not screened in order to get rid of failure that might occur as the result.

Majority of literatures reviewed have given ways through which the study got capable of putting forwards assumption which scrutinizes factors responsible for the ineffective

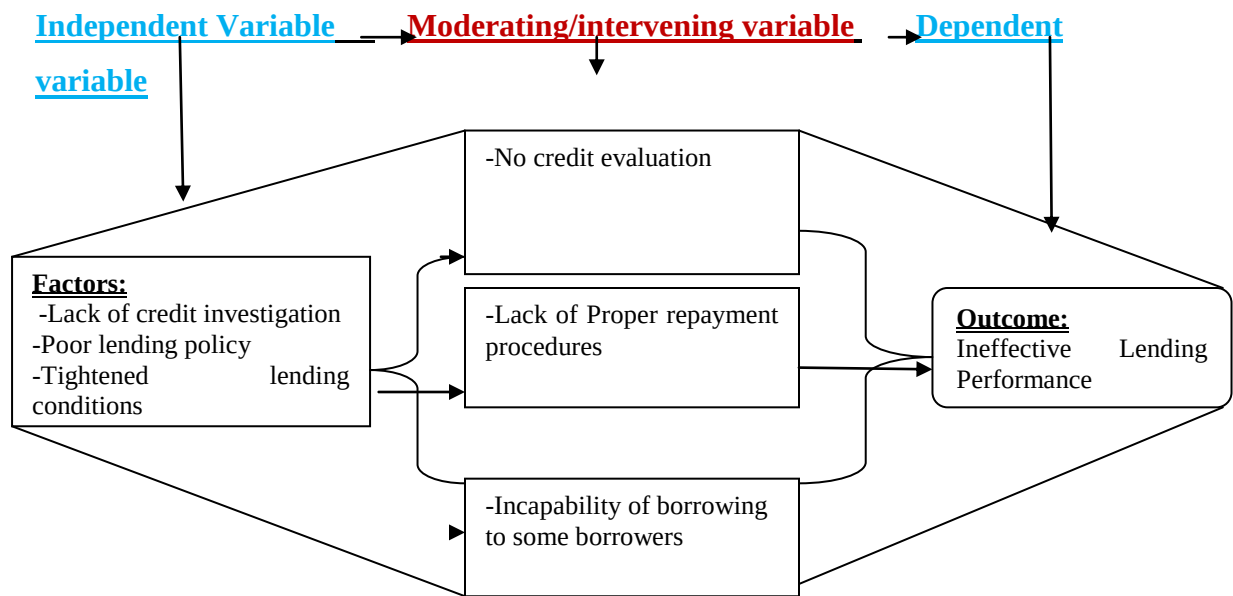
lending performance in commercial banks in Tanzania. Thus, the study assumes that issues like; loan conditions, lending policies, and many other related aspects are assumed to be on the main stance for why commercial banks fail to achieve effective lending performance. Therefore, if this is the case, all in all, the study provides that all conditions/requirements regarding lending process would be smoothened so that massively borrowers end up benefiting from lending exercise and consequently enable commercial banks to achieve high lending performance characterized by high ROI.

Bareson, Sparks, & Ladson, (2005) provide that repayment process is among other crucial aspects whenever talking of any lending-related matter. In simple word, Bareson, Sparks, & Ladson, (2005), Charles, Himmelberg, and Morgan (2009) further precise that lending exercise depends much more on the extent to which borrowers pay back all credits/loans accorded to them. If so, this study therefore, assumes that perhaps, commercial banks beneficiaries in Tanzania practice mal-repayment scenario of which in turn causes lending performance to fail. Ideally, based on this assumption, the study further establishes that commercial banks in Tanzania would start thinking of placing favourable repayment policies which will necessarily call for borrowers to pay-back loans under reasonable terms; the situation which in turn will allow commercial banks to achieve effective lending performance.

In fact, many literatures provide that policy is the key and central tool which can appropriately guide the proper conduct of lending business (Protas, 2001). In other words it signifies, lending as any other financial-related activities cannot stand and cannot be undertaken by itself without a direction detailing stages and criteria to be met for its effective implementation (Protas, 2001), (Elahi, Khandakar, Danopoulos & Constantine, 2004). Thus, the study assumes that commercial banks need to establish good lending policies which will call for conducive and successful lending environment to take place. Based on the picture in hand, the study further assumes that it seems apparently the actual utilized lending policies are not favourable

to the effective lending performance, but in turn are one of the real factors for ineffective lending performance being experienced by commercial banks in Tanzania.

Figure 2.1: Research Model



Source: Researcher's Own Construct, 2012

Figure 2.1 above connotes that ineffective lending performance is an outcome derived from certain actions in terms factors to have taken place. In fact the assumption here is that; lack of credit investigation, poor lending policy, tightened lending conditions are the main influential variables whose effect result into extended effects like; no credit evaluation, lack of proper repayment procedures and incapability of some of the borrowers to borrow from the banks, of which in turn lead to ineffective lending performance to be experienced by commercial banks. In further explication, Figure 2.1 provides that both the influencing and caused variables' actions are well supported by the intervention of the middle variable which has been termed as moderating or intervening one.

Variable Description

The study utilizes two main variables of which on one side there is an independent variable, and dependent variable on the other side respectively.

i) Independent variable:

Independent variable of this study include factors such as lack of investigation, poor lending policies, tightened lending conditions whose further effect result into consequences like; lack of evaluation, lack of proper repayment procedures, and later on, some of the borrowers become incapable of borrowing. All these elements are assumed pure factors causing commercial banks to achieve ineffective lending performance and consequently yield undesirable ROI. Therefore, if the above is the case, all in all, CB in particular should favorably establish, or even enhance lending policies so that they get rid of poor lending performance they are currently experiencing.

(ii) Dependent Variable

Dependent variable of this study is the achievement of ineffective lending performance caused by several factors such as lack of investigation, poor lending policies, and many others assumed by the study. The assumption under this regards is that, CBs need to establish good lending policies, conduct frequent investigations, etc. so that they consequently achieve effective lending performance and in turn yield high return on investment from investing in lending business.

(iii) Relationship between Variables

The relationship between these two variables, which are independent and dependent variables exists due to the effect or impact one has on another. More precisely, dependent variable which is all about ineffective lending performance does come in to existence just as the consequence of independent variable's

action to have taken place. This study assumes that factors (such as lending policy, etc) are on one way or another key causal for why ineffective lending performance is experienced by most of commercial banks.

In simple term, their relationship exists due to influence one (independent variable) has on the other whose result leads to the happening of the other (dependent variable). It means, in reality, establishment of good lending policies and other related factors including good repayment policy guiding reasonable paying-back procedures, allowing many borrowers to become capable of meeting a number of borrowing criteria and in turn get loan from banks, etc, are assumed to be the real influential aspects for why lending performance may be achieved either desirably or otherwise.

2.5 Hypotheses Statement

Statement of hypotheses for the study was done based on the entire logic about the topic being tackled. This activity enabled the researcher to get a clear comprehension about the interdependence of variables comprised in the study as follows.

H1. Effective lending performance leads commercial banks to achieve desirable ROI from lending exercise

H2. Poor lending policies lead commercial banks in Tanzania to achieve ineffective lending performance

H3. Inappropriate repayment process leads to ineffective lending performance in commercial banks

H4. Good banks lending policies must favour the effective lending performance to be achieved by commercial banks

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the whole methodology in terms of techniques and other related issues to be use and which will guide the conduct of the study in hand. In this regards therefore, the chapter presents the research design, population, sample size and sampling procedures, data collection techniques to be utilized in gathering data from the field of NBC Limited. It also presents the techniques to be used in the analysis and presentation process, and the way ethical consideration was applied.

3.1 Research Design

The design to be adopted in this study was useful in answering questions in the conceptual frame work whose key objective was to investigate factors responsible for ineffective lending performance in commercial banks in Tanzania. Moreover, qualitative kind of research was concerned with revealing what is happening, seeing new insight, asking questions, and assessing a phenomenon in a new light. Generally, the study will listen to the information and built knowledge based on their ideas, comprehension, and experience about the phenomenon to explain it more deeply and exhaustively, and its advantage lies in its flexibility. Quantitative research on the other hand; uses systematic empirical investigation of social phenomena via statistical, mathematical or computational techniques to evaluate the situation. Quantitative researches were done to determine the relationships, effects, and causes between interacting variables. They usually include experiment research, quasi-experiment and survey research. (Kothari, 2004; Creswell, 1994).

More precisely the study will utilize case study design. According to Kothari, (2009) case study design focuses on a single area and allows variety of data collection method to be deployed. This type of study design will allow the researcher to intensively explore and analyze information over the life of a single unit which

was NBC Ltd head quarters (Kothari, 2009). On the other hand, Stake in Cresswell (1994) observes that, case study research is concerned with the complexity and particular nature of the case in question. Case study entails the detailed and intensive analysis of a single case.

3.2 Study Target Area

The study was entirely conducted in Kinondoni district of Dar Es Salaam where NBC Ltd Corporate Branch is located. The geographical location for this study is intentionally specified which is Kinondoni District. Kinondoni District is one of the districts forming Dar Es Salaam the capital city of Tanzania. Kinondoni municipality is known as the down town and the center area of the capital city of Dar Es Salaam. Ideally, according to available evidences, NBC Ltd is one of commercial banks with several years in lending exercises. This signifies, NBC Ltd was a vital source for the expected reliable and valid information which enabled a smooth achievement of the study in hand.

3.3 Population, Sample Size and Sampling Procedures

3.3.1 Population

Population for this study included all workers at NBC Ltd Corporate Branch and their corresponding lending beneficiaries (borrowers). These formed a significant universe part from which all expected information was successfully obtained upon which the study achieved its objectives as scheduled. This explicates that a population is the totality of the objects under investigation.

3.3.3 Sample Size

The study required a sample size of eighty respondents who were divided into two main sub-groups. Thus, one group included forty lending customers on one side, and other forty emanated from the group of NBC workers at the Corporate Branch.

In précised details, the sub-categorization of respondents was performed in such a way all sub-groups are equally fully represented so that the study gather information relating to the entire population considered the real universe for the study in hand.

3.3.4 Sampling Procedures

Selection of a study sample is a very prominent step in any research work since it is on the old occasion; realistic, proficient, or fair to study the whole population (Marshall, 1996). This study employed purposive sampling. Purposive sampling specifically, involves selection of informants based on an important characteristic under study, such as where they work (at their office, work place, etc.) position in the bank or respective business (for example, Loan Officer, customer, business man, credit manager, etc.), or specific cultural knowledge (for example, direct responsible for credit or lending exercise and their respective customers, etc.). In this regard, this study opted for purposive sampling in selecting the respondents. Through informal consultations, the researcher choose only NBC Corporate branch workers especially those in credit unit and their corresponding customers who are relatively better off in terms of knowledge about why commercial banks experience ineffective lending performance. Also to ensure knowledge-ability of the respondents, priority was put to credit and customer care units. And these respondents are grouped into the following array;

Table 3.1: Proposed Distribution of the Study's Sample Size

Units and Respondent Category		Data Collection Method		Total
		Interview	Questionnaire	
NBC Workers	Customer services Unit	6	14	20
	Credit officer	4	16	20
Customers	Number of customers	6	34	40
Total		16	64	80

Source: Researcher's own construct: 2012

Based on Table 3.1 above, the study interviewed a total number of 16 respondents and as well gathered data on the basis of questionnaire from total number of 64 respondents. Thus, this sample size was obtained using particular procedures described in the following manner.

3.4 Data Collection Techniques

The study utilized three types of data collection techniques ruling in; interview, questionnaire, and documentary review, just because it required both primary as well as secondary data. This means, the use of three data collection techniques was useful since some of the techniques were useful for collecting primary data, and vice versa.

3.4.1 Interview

In this study there was an exact a direct interaction with respondents. So, researcher intentionally used unstructured interview in which researcher had to undergo a face-to-face questioning where respondents were given almost full liberty to express response from the question asked by researcher. In this process, research gave lead questions and meanwhile recording the response so as in latter find factors responsible for ineffective lending performance in commercial banks. In this view, interview was used as the tool to gather information that will explore the there is any influence of repayment policies that lead to ineffective lending performance whose responses was provided by respondents from the field through interview process. This was conducted for the selected number of employees of the Credit department, customer care and loan customers of the bank who are expected to give the reliable information needed by the researcher to meet the purpose of the study.

3.4.2 Questionnaire

It may be to the highest degree fruitless to not recognize that the study in hand aims at knowing factors for ineffective lending performance among commercial banks in Tanzania. Thus, some of the information needed for the smooth accomplishment

necessitates obtaining certain written information that was provided by respondents on their own time as responses to fore-laid-down questions which was asked by the researcher in well arranged manner. So, questionnaire was used as one of the methods of data collection. In this respect, all questions in this technique was fore-set by researcher on well arranged paper then filled and latter on submitted back by respondents. More precisely, questionnaire were utilized to gather information that will assess whether there commercial banks have achieved a desirable ROI from investing in lending business. But also, this technique was be used to identify factors responsible for ineffective lending performance in commercial banks in Tanzania.

3.4.3 Documentary sources

The researcher reviewed various banks' credit policy, credit procedures manuals, organization laid down policies, files, publicized materials, monthly and annual reports as well as evaluation and research reports of the organization. This was aimed for understanding the policies and procedures established by the banks about administration of lending policy, loan terms and conditions, credit investigation before the borrowing takes place and credit operating procedures. The review enable the researcher to obtain the information necessary to provide sufficient evidence as to whether the prescribed procedures concerning lending activities are being carried out on source commercial basis in conformity with the credit policy as well as established norms of banking for the purpose of minimizing credit risk.

3.5 Types of data

In fact, both secondary and primary data were desirable, simply, because they were both supporting the reliable and smooth findings expected for the successful accomplishment of the study in hand. During the study both primary and secondary types of data was taken. Primary data was collected through interview and questionnaire to be conducted by the researcher. Secondary data was collected through documentation that is the

researcher read intensively various authorized documents plus un-published materials that relates to the research problem.

3.5.1 Primary data

Primary data are types of data which was for the first time collected by the researcher using questionnaires, interview and to some extent using documentary review. This consideration is supported by White (2002), who mentions that primary data can be collected by using research assistance from the field for the purpose of answering the pre-set research questions/issue.

3.5.2 Secondary data

Secondary data are kind of data which was obtained from literature sources or collected by other people for some other reason which were to provide second hand information that was on one way or another entail the success of this study. (Henery, & Jacques, 2001) More precisely, these data were collected using documentary technique of collecting data.

3.6 Data Presentation and Analysis Plan

During the analysis of data, the process was undertaken using graph, Tables and charts meanwhile certain procedure was followed to ensure all data are collected and analysed accordingly as in the following details.

3.6.1 Procedure to be undertaken in Analyzing Data

In the array of analyzing data, in the first instance, distribution and meeting respondents for interview and questionnaire process and consulting various documents indifferent literature sources, was performed as the first step in trying to obtain necessary data and information from respondents.

Afterwards, collection of responses from the interview and questionnaire and other particular information was undertaken and was followed by presentation and analysis of the data/information gathered from the field of which were able to yield the result known as findings for this study.

3.6.3 Data analysis Techniques

During the course line of analyzing data and all other information obtained from the field, certain predetermined methods were utilized to ensure that data are presented and analyzed according to the requirements. Tables and graphs (pie charts) are among the tools which were used to analyze the data gathered from the field and presented the information obtained in percentages.

CHAPTER FOUR

PRESENTATION OF THE RESEARCH FINDINGS AND DATA ANALYSIS

4.0 Introduction

This chapter present and analyses all the data gathered from the field in a manner of what was expected in terms of solution or result to the problem under concern.

Summary about collection of Data from both Interview and Questionnaire Methods

The summary of findings is dictated by the number of questionnaire distributed and submitted back by respondents, and likewise, based on particular number of interviewees who actively participated, whose summary is presented in Table 4.1 below;

Table 4.1: Summary about the collection of data using both methods

Units and Respondent Category		Data Collection Method		Total
		Interview	Questionnaire	
NBC Workers	Customer services Unit	6	14	20
	Credit officer	4	16	20
Customers	Number of customers	6	34	40
Total		16	64	80

Source: Research Findings, 2013

Based on Table 4.1 above, it was quite obvious that the collection of data from the field was 100% successful meaning that all proposed number for both interview and questionnaire was found. This means, the calculation of percentage in presenting and analysing findings has based on all 64 questionnaires distributed and submitted back. The same applies to the interviewed sample.

Moreover, it should in advance be noted that all information from every sub-category of respondents was analysed by considering the total number of either questionnaires submitted back or interview conducted whose further clarification is given as follows.

Namely; during the presentation of findings gathered from bank workers using questionnaire, 30 questionnaires submitted back, I have constituted the basis for hundred percent in calculating and illustrating responses from this process. Likewise, ten as hundred percentage basis for finding collected on the basis of interview from bank workers. However, this process put forward clear comprehension that 34 constituted the hundred percent base for all information gathered from customers through questionnaire and likewise 6 as 100% for information gathered from customers using interview process.

4.1 Respondents' Characteristics

In the early stance, the study focused on finding particular information relating to respondents characteristics. The aim of this focus was done just as the way to understand the extent to which every respondent separately is or not well positioned in understanding for why lending performance result into ineffectiveness from majority of commercial banks in Tanzanian. This is because, elements like, education level, area of expertise, experience are one of the key elements determining the level of understanding about the said problem by any individual.

4.1.1 Age Distribution of Respondents

Age of respondents is one of the components of characteristics-related information sought by the study. The aim of this concern was simply to find whether some of the bank employees and business owners are either very young or otherwise. And this was done simply to identify whether all generations are involved in the running of either banks or in borrowing from the banks. In fact, all information collected on the basis of this concern from lending customers are presented in Table 4.2 below

Table 4.2: Age Distribution of Respondents (Customers)

Variable		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Between 18 and 19 years	0	0	0	0
	Between 20 and 30 years	4	11.76%	11.76%	11.76%
	Between 31 and 40 years	12	35.29%	35.29%	47.05%
	Between 41 and 50 years	8	23.52%	23.52%	70.57%
	Between 51 and 60 years	4	11.76%	11.76%	82.33%
	Above 60 years	6	17.64%	17.64%	100%
	Total	34	100.0	100.0	

Source: Research Findings, 2013

Based on Table 4.2 above, the study established that there is a zero participation of customers ranging from 18 and 20 years of age in borrowing from the bank. Meanwhile based on the same findings presented in Table 4.2 above, this study found that almost all other generations participate in the running of businesses and borrow money from the banks.

Information about age distribution was likewise searched from NBC workers whose results are well presented in graph 4.1 below.

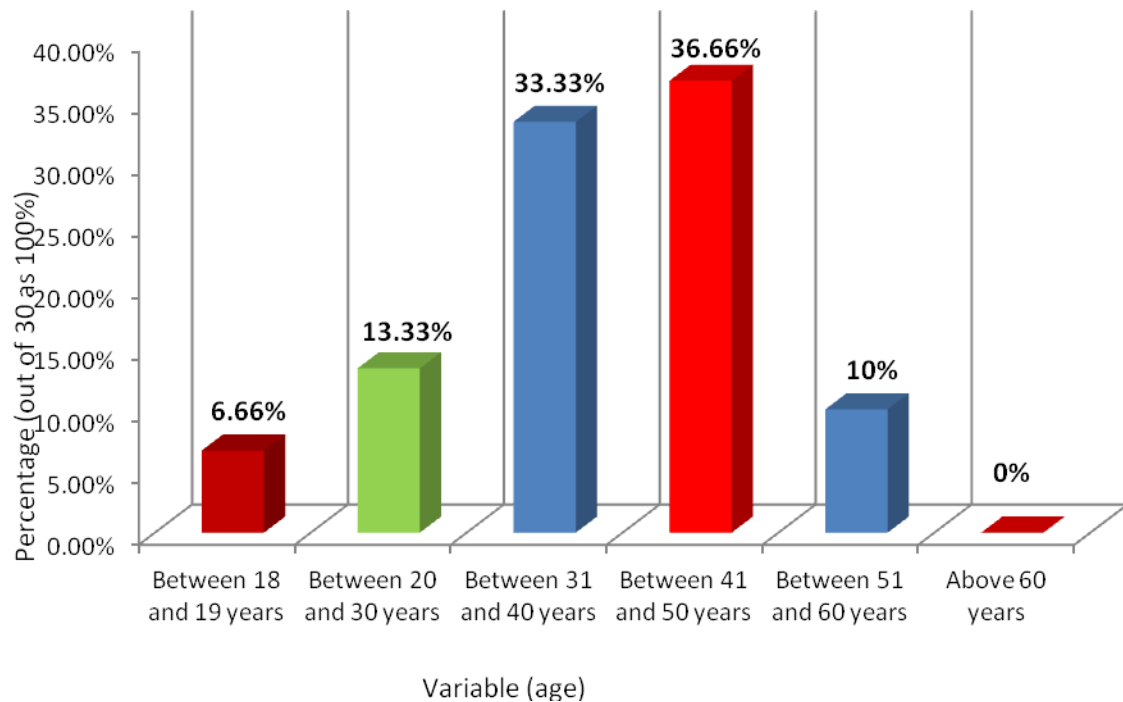


Figure 4.1: Age Distribution of Respondents (NBC workers)

Source: Research Findings, 2013

Based on Figure 4.1 above, it was then noted that almost all generations are involved in the running of NBC activities including lending as well. This was so mentioned based on finding in Figure 4.1 above, where findings precise that almost all generations have revealed to be existence.

4.1.2 Sex Distribution of Respondents

In further stance of finding respondents characteristics, this study searched for information relating to sex/gender of respondents. In this respect, the study aimed at finding whether both genders participate either in the running of NBC activities or in borrowing from commercial banks.

In order to find the target information about this point, respondents were studied whose results are well presented in Figure 4.2 below for analysis;

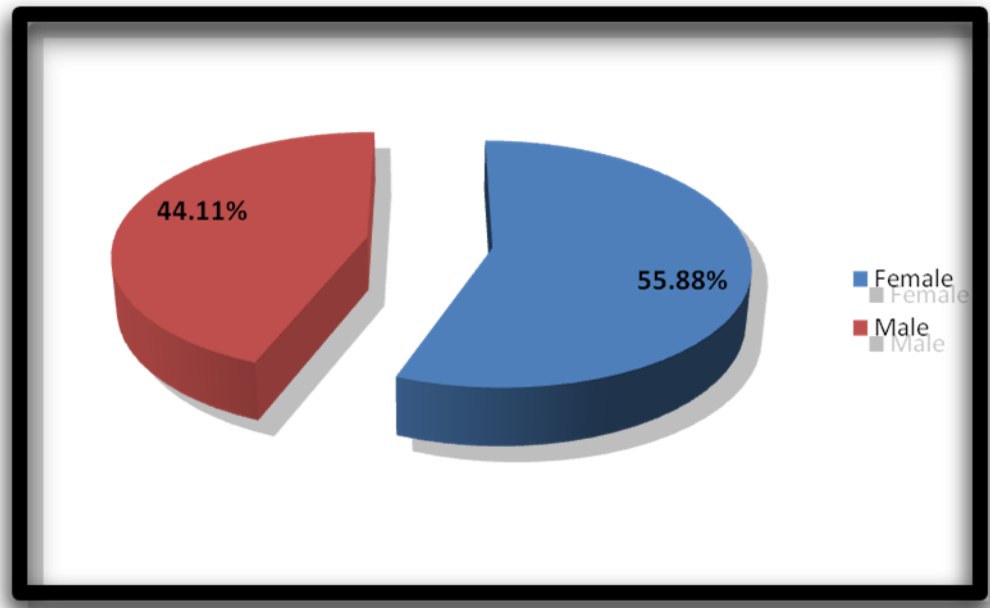


Figure 4.2: Sex Distribution of respondents (Customers)

Source: Research Findings, 2013

Based on Figure 4.2 above, the study established that females dominate males in borrowing from the bank. This consideration was so taken simply based on the results provided by NBC lending customers where it was found that 55.88% of all studied customers were females.

The same information about sex was investigated from NBC workers during the interview from which it was found that amongst 10 bank workers interviewed, 6 which make 60% of them were males, while other 4 of them which make 40% were females. This doubtlessly provides a reality that males dominate females in the running of banking activities.

But still, even though this information provides certitude that both genders are involved in the running of bank activities despite the slight difference in terms of percentage, perhaps this was due to consideration put by males to show more willingness in participating in the interview than did females.

4.1.3 Respondents' Areas of Expertise

Another aspect searched by this study, was area of expertise possessed by every respondent. The main aim of this concern was to find the extent to which both customers and NBC workers are well expertise in all matters relating to lending exercise. For, with such a concern, it was very helpful to find the ways lending stake holders do understand reasons for why lending exercise may or not fail to perform well and consequently intervene in rectifying the situation in the subject. Thus, all information obtained from this concern are presented in the following sequence, where majority (41.17%) of all customers studied by questionnaire mentioned, other, meanwhile the least part (5.88%) of them mentioned, finance, and are presented in Table 4.3 below.

Table 4.3: Customers' Areas of Expertise

Variable		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Finance	3	8.82	8.82	8.82
	Accounting	2	5.88	5.88	14.7
	Administration	5	14.70	14.70	29.4
	Marketing	4	11.76	11.76	41.16
	Business	6	17.64	17.64	58.8
	Other	14	41.17	41.17	100.0
	Total	34	100.0	100.0	

Source: Research Findings, 2013

From Table 4.3 above, this study found that lending customers have different areas of expertise. Even though, majority (41.17%) of them seemed to possess areas of expertise different from what have been asked to them from questionnaire, and this may be due to others being not educated to higher level of education or otherwise.

Results about areas of expertise from NBC workers indicate that majority (26.66%) of them from questionnaire process possess bank expertise, while the least (10%) of them possess marketing expertise, whose results are presented in Figure 3.3 below.

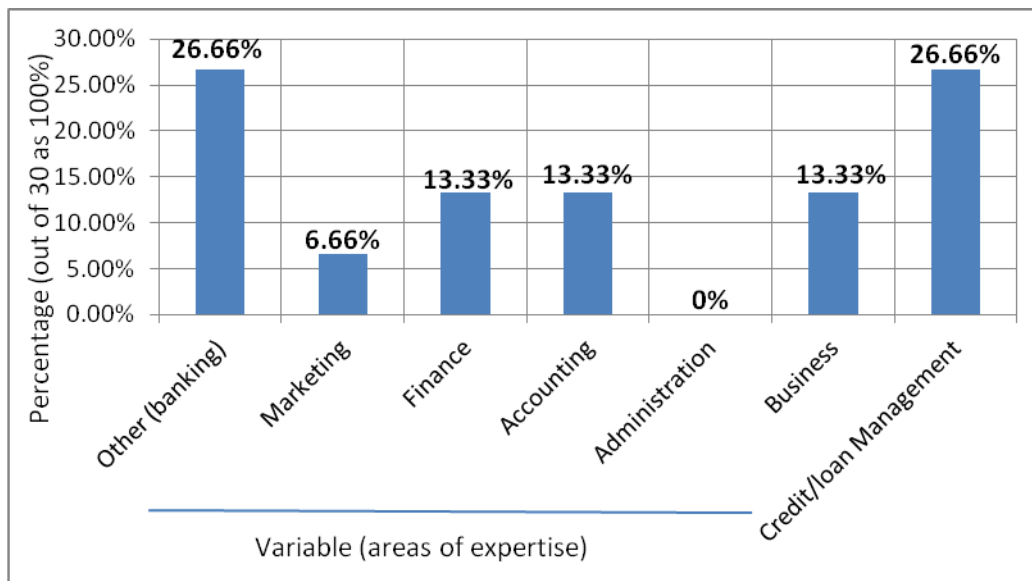


Figure 4.3: NBC workers' Areas of Expertise

Source: Research Findings, 2013

Findings presented in Figure 4.3 above indicate that almost all areas of professions are involved in the running of NBC activities. But, even though, it is quite true based on the same findings that majority of them are of banking profession. This was found simply based on the percentage rate variation, where bankers were represented by the highest percentage rate of 26.00% in parallel with loan management professionals.

4.1.4 Duration in either Working with or Borrowing from NBC

The study further searched for the information about duration spent by every respondent in either working with the bank or in borrowing or running business. This kind of information was searched just to determine the extent to which respondents were aware about the problem being tackled. In reality, it is very common that more the duration in any field, more the capability some may have in deeply knowing a particular issue relating to the business or activity of the same business.

In order to find the reality about duration of respondents in everyone's field, they were studied using questionnaire in which they were each, required to mention the exact duration spent already while either working with NBC or borrowing from the bank whose results indicated that out of 34 customers studied by questionnaire, majority (12 as 40%) of them mentioned, more than 10 years, while the least part (2 as 6.66%) of them mentioned, 1 year and are presented in Table 4.4. below.

Table 4.4: NBC workers' Duration in the Business

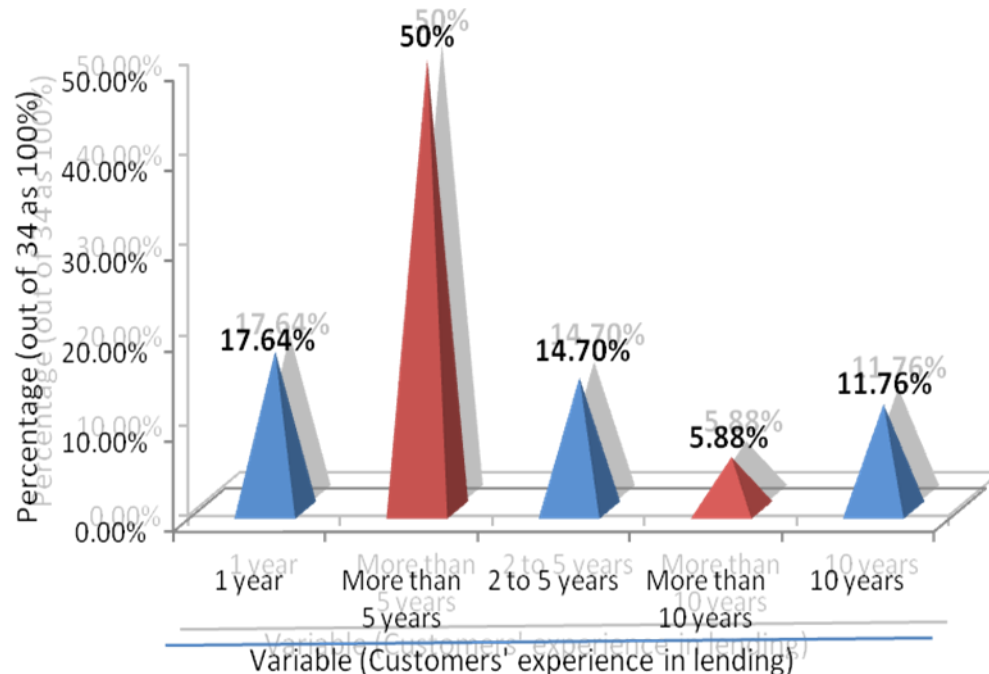
Variable		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	More than 10 years	12	40	40	40
	Between 2 and 5 years	5	16.66	16.66	56.66
	More than 5 years	6	20	20	76.66
	10 years	5	16.66	16.66	93.32
	1 year	2	6.66	6.66	100.0
	Total	30	100.0	100.0	

Source: Research Findings, 2013

Based on findings presented in Table 4.4 above, this study established that majority of NBC workers have spent more than 10 years working with NBC. This information was very crucial and supportive as for why the study ascertained that NBC workers are very much experienced in whole matter pertaining to lending exercise, and this doubtlessly testifies the extent to which they had reliable and valid information about factors for either ineffective or the side on lending exercise.

On the other side of respondents, customers were also studied using the same question which was requiring them each to mention the duration spent in doing business and specially borrowing from NBC Bank. Therefore, results from 34 studied customers indicate that majority (17) of them which make 50% mentioned, more than 5 years, while other 5 of them which make 14.70% mentioned, between 2 to 5 years. Meanwhile other 6 of them which make 17.64% said, one year, and likewise 2 others making 5.88% said, more than 10 years and finally the remaining 4 others which make 11.76% mentioned, 10 years. These results are presented in Figure 4.4 below.

Figure 4.4: Customers' Experience in Lending from NBC



Source: Research Findings, 2013

Based on findings from Figure 4.4 above, the study found that even customers have reliable and sufficient information about the whole affair relating to lending environment at NBC. This is being so addressed based on the fact that majority of customers from the Figure 4.4 above have shown to have spent many years while participating or benefiting by borrowing from the bank.

4.2 Can Effective Lending lead Commercial Banks to Achieve Desirable Return on Investment?

One of the specific tasks of the study was to examine whether effective lending performance can lead commercial banks to achieve desirable ROI from lending exercise. In this regard, the study assumed that high return on investment from any activity is quite a key indicator showing a success achieved thereon. The same assumption was applied for this task whereby the study wanted to examine whether there is a connection between effective lending exercise and achievement of good ROI.

4.2.1 Is Lending Exercise Performing Well or Otherwise?

In order to find the link between effective lending exercise and achievement of good ROI, the study saw it is better to first find whether lending performance at NBC has been successfully achieved or otherwise. This was so searched simply as it was believed that whatever result from this scenario would be a primary indicator that was expected to provide a detailed picture about the whole lending exercise being either successful or otherwise achieved by NBC.

Therefore, the study struggled to find the reality about this fact by requiring respondents each to provide his/her opinion the way he/she would view lending performance at NBC in terms of success or failure. Results about this fact from customers show a very disappointing results since majority (55.88%) of lending customers said, ineffective, while only 14.28% said, lending performance is successful, and are presented in Table 4.5 below.

Table 4.5: Customers' Views about Lending Exercise at NBC

Variable		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Effective	2	5.88	5.88	5.88
	Ineffective	19	55.88	55.88	61.76
	Successful	5	14.28	14.28	76.04
	Unsuccessful	8	23.52	23.52	100.0
	Total	34	100.0	100.0	

Source: Research Findings, 2013

Results from Table 4.5 above led the study to establish that lending performance at NBC seems to be if not successful on one side that means ineffective on the other side. This is very true based on the reason that majority of customers as main lending exercise stake holders seemed to have shown a negative response pertaining to lending exercise in terms of success at NBC.

In the same line, the same concern was addressed to NBC workers whose results indicate that out of 30 studied bank workers, 12 of them which make 40% said, unsuccessful, while other 9 of them which make 30% did not answer this question for unknown reason, and finally the remaining 9 which make 30% said, the lending performance at NBC is successful.

During the interview process, a similar query was addressed to customers, which was requiring them to mention the reason for such ineffectiveness. The aim of this concern was to drag customers to provide reason for why majority of them have indicated that lending exercise is ineffective (unsuccessful). Thus, customers have provided many reasons amongst which the most common ones had included the following;

..... Lending exercise at NBC is unsuccessful based on the reason that their lending policies are very tight to the extent do not provide a wide chance for massive user to borrow for the bank. But also because issues like interest rate being too high and many others remain factors for why many borrowers do not benefit by this exercise. Again, some borrowers do not pay back their credit due to high interest being imposed by NBC. Also, we often hear many bank workers claiming that lending exercise is not performing well since the return on investment seems to not meet the expected standards, ...

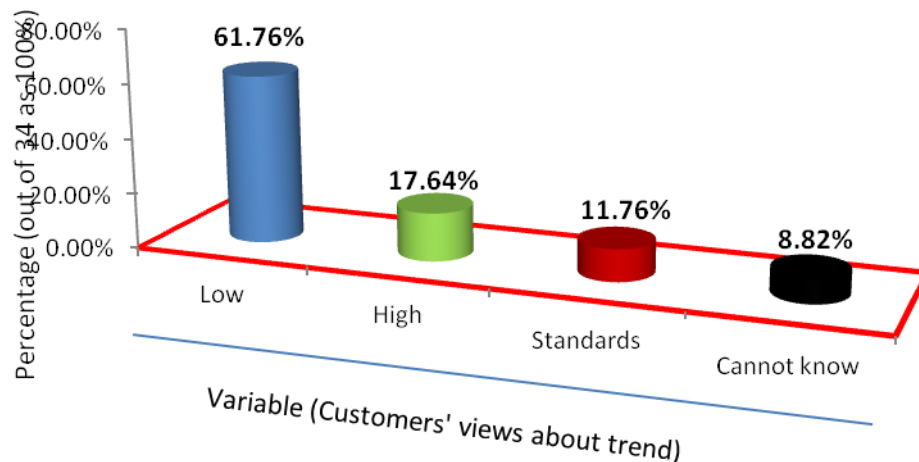
Based on all information gathered from respondents and presented about image of lending exercise in terms of failure or otherwise, this study analysed that it is true lending performance at NBC is not effective based on several reasons, among others include; conditions being too unfavourable for the massive customer to borrow such as high return of interest rates, reluctance among some borrowers to pay back their credit as well as scheduled, and so on.

4.2.2 Trend in Paying Back Credit by Borrowers

Another point used to find the effectiveness of lending exercise achieved by NBC was the trend in paying back credits by customers. This information was so significant based on the reason that in whatever the case the reality is that; higher the trend in paying pack credits; more would be the ROI that should be achieved by NBC. For, the lending exercise in any bank rely more on the trend in paying back credit than any other aspect.

In order to find the logic behind this scenario the study investigated customers by requiring them each to rank the trend in paying back credits by most of fellow borrowers whose result indicates that out of 34 customers; 21 of them which make 61.76% said, the trend in paying back credit is low, while 6 others which make 17.64% said, the trend if high, meanwhile other 4 of them which make 11.76% said, the trend in paying back credit by most fellow borrowers is at standards level and finally the remaining 3 of them which make 8.82% said, cannot know, and are presented in Figure 4.5 below.

Figure 4.5: Trend in Paying Back Credit by Borrowers



Source: Research Findings, 2013

Figure 4.5 above denotes that trend in paying back credit taken by borrowers is quite low. This is being so mentioned because findings in Figure 4.5 above show majority (61.76%) of customers indicating the fact being addressed. Thus, based on this information, this study in similar words, established that lending exercise at NBC is not performing in a favourable environment as many of its customers cannot pay back credits as well as per time schedule or most of customers are not willing to pay credit as massive as they have borrowed.

In further steps of finding the real picture about trend in paying back credits by borrowers, NBC workers were interviewed in which they were required to describe the trend that exists in paying back credits from which several opinions were addressed by them whose most common ones include the followings.

..... *Borrowers are not time conscious in paying back credits. Most of borrowers do pay back their credits out of the time mutually agreed and this in most of the times leads lending exercise not to perform well. But also, borrowers pay back their credits very slowly and sometimes without achieving the whole interest rate agreed*
.....

Information above was quite sufficient as to why this study established that the trend in paying back loans is not favourable to foster the development of lending exercise at NBC where majority of borrowers do pay back their credits with a very huge retard.

During the review process, researcher got the chance to review the lending slid in NBC in which it was found that 223 short term credit/loans were accorded to various borrowers between 2011 and 2012 but only 124 credit/loans which make 62% were returned in/on time up to November, 2012. Amongst this 200 accorded short term credits/loans, 120 which make 60% were fully returned with complete interest rates. This information was obtained whose summary is presented in Table 4.6 below for further understanding about the matter being tackled.

Table 4.6: Trend in Returning Credit/Loans by Lending Customers at NBC

Variable	Frequency	Percentage (out of 223 credits borrowed in 2011 and 2012)
Credit returned with all interest	68	30.49
Credits returned with no interest	7	3.13
Credit returned with half interest	61	27.35
Credit returned on time	79	35.42
Unreturned credits	8	3.58
Total	223	100.0

Source: Research Findings, 2013

Findings presented in Table 4.6 above, led this study to establish that the trend in returning credit is not as good as to why could favor the effective lending performance to take place as based on the reason that lending as lending requires complete compliance in returning credit. For, lending exercise's effectiveness relies on the whole returning process plus all its related interest of which can provide a full reign toward its success.

It is up to this stage very clear that trend in returning credit by customers is not so good to the extent cannot favor the effective performance of lending exercise at NBC. This is being characterized by several standing facts like, delay in returning credits, returning credit with half or not interest, and others not returning credit. All these are key factors for why trend in returning credit remain too low and perhaps one of the factors for why lending exercise is not effective in most commercial banks in Tanzania.

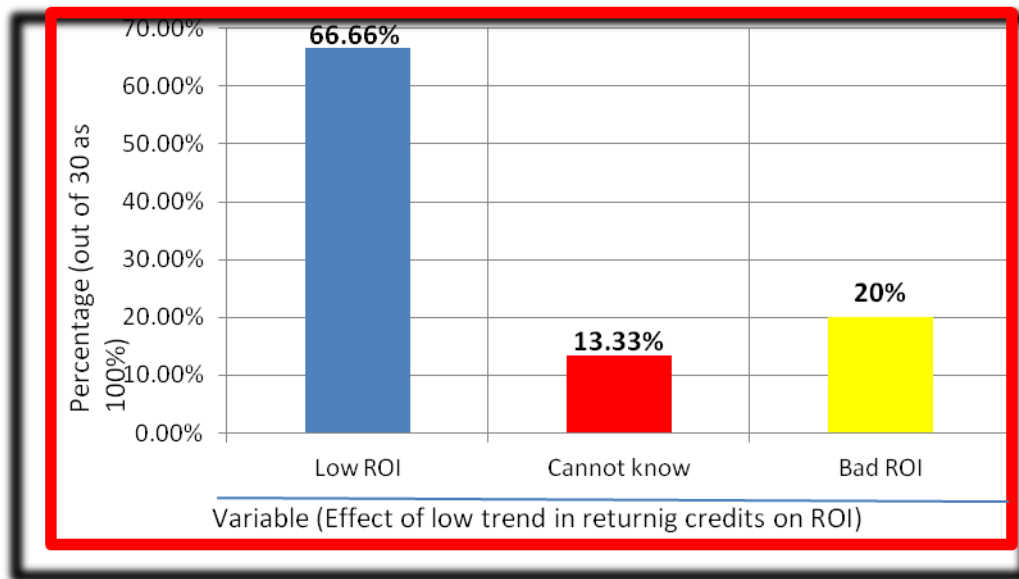
4.2.3 Can Low Trend in Returning Loans cause Low ROI?

Furthermore, the study was interested to find reason for current situation in lending exercise. The searching for this information was pushed by the reality found in preceding sections where it was found that trend and performance of lending exercise is not as good as desirable.

Therefore, in order to ascertain the reliability of the above presented information, respondents were studied in which they were required to provide reasons for why lending exercise remains to some extent unsuccessful whose results are presented in the following sequence.

This aspect was searched by mainly requiring NBC workers to explicate in reference to everyone's answer in preceding stages, what he/she thinks the trend mentioned might be one of the reasons for why NBC may achieve one of these result from lending exercises; low return on investment, bad return on investment. In fact, results indicate that 20 out of 30 NBC workers which make 66.66% mentioned, low return on investment, while 6 others which make 20% said, bad return on investment and finally the remaining 4 of them which make 13.33% said, they cannot know whether the trend in returning credit can or not be the reason for why NBC may achieve low return on vestment or otherwise.

Figure 4.6: The Effect of Low Trend in Returning Credit on ROI



Source: Research Findings, 2013

Findings in Figure 4.6 above provided and evidence upon which the study established that trend in returning credit has very much effect on the entire ROI.

This is true in the sense that according to the findings in Figure 4.6 that majority (66.66%) of bank workers have ascertained this effect wherein they have mentioned that low trend in returning credit can doubtlessly cause commercial banks to achieve low ROI.

Huge lot of findings about whether effective lending can lead commercial banks to achieve desirable return on investment or otherwise have been presented upon which much can be analysed to provide a clear understanding about this aspect. Thus, based on findings, this study analysed that lending performance at NBC seems to be if not successful on one side that means ineffective on the other side. This is very true based on the reason that majority of customers as main lending exercise stake holders seemed to have shown a negative response pertaining to lending exercise in terms of success at NBC particularly. Meanwhile the study analyses that the ineffective lending performance is the result of several factors amongst others include; low trend in returning credits/loan by borrowers, tight lending conditions leaving most of borrower incapable of benefitting by this exercise. But also, due to interest rate being too high imposed for returning credits whose effect leads most of borrowers to retards the paying back, or paying returning credit without interest, and so on.

Furthermore, the study analysed that image of lending exercise in terms of failure or success is rather to some extent unsuccessful due to the fact that some of the credit accorded in 2012 were returned back as scheduled while another good number of them could not meet a number of requirements governing returning of loan/credit. In this regards, the study analysed that if commercial banks experiences ineffective lending performance is due to several reasons whose effect leads to such a situation in the said exercise in commercial banks and NBC in particular.

4.3 Factors Responsible for the Ineffective Lending Performance achieved by Commercial Banks in Tanzania

The study was also interested to specifically identify factors responsible for the ineffective lending performance achieved by commercial banks in Tanzania. This was investigated based on the information that most of lending exercises in most commercial banks are reported unsuccessful whose causing factors were unknown.

4.3.1 Common Factors Faced by Commercial Banks in Lending Performance

In line to find factors for ineffective lending performance the study achieve this by necessitating information from respondents where one of the concerns was to require respondents to explain from everyone's experience, common factors they face which may cause ineffective lending performance to take place in their bank. This is true based on the fact that despite there may be huge number of factors responsible for ineffective lending performance, yet there must be some of them which are very common and experienced in day-to-day lending exercise.

Interestingly, results from bank workers reveals much and nurture an extensive comprehension about common factors whose one of the results précised that 24 of them which make 80% mentioned elements like; poor lending policies, tight lending conditions, while 5 others which make 17% mentioned issues like; interest rate imposed by banks for returning credits/loans, incapability of some borrowers to pay back credit as per time scheduled, and finally 1 of them which make 3% said, amount of capital requirements, and other related conditions of which lead potential customers unable to either pay back credit or borrowing from the bank, the situation of which in turn cause commercial banks to achieve unsuccessful results from investing in lending business. These findings are presented in Table 4.7 below.

Table 4.7: Common Factors faced During the Lending Performance

Variable		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor lending policies, tight lending conditions	24	80		80
	High imposed interest rate, and incapability of some borrowers to pay back credit on/in time	5	17	55.88	97
	Amount of capital requirements, and other related conditions	1	3	3	100.0
	Total	30	100.0	100.0	

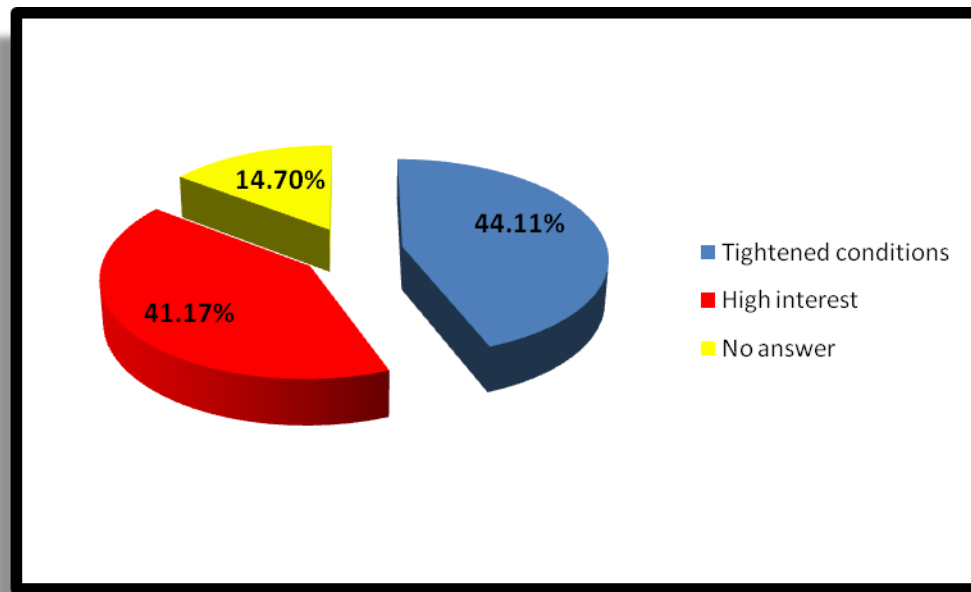
Source: Research Findings, 2013

Findings in Table 4.7 above shows that amongst other common factors faced daily which may be one of the factors for ineffective ending performance include; high imposed interest rate, which cause some of the borrowers to go incapable of either borrowing or returning credit/loans, amount of capital requirement being high, and above all, poor lending policies. This is being so mentioned based on the fact that majority almost all respondents have been on similar responses despite a slight difference in their statements, but all tend to provide one fact denoting the way lending performance is ineffectively achieved by commercial banks in Tanzania.

In order to ascertain the validity, reliability and accuracy of the above presented and analyzed findings, the study searched for the same information from customers in which they were required from every of them experience, to mention common factors they think can be cause for failure in lending performance in most of commercial banks in Tanzania.

Thus results from this concern indicate that majority (44.11%) of customers mentioned tightened conditions governing the whole lending exercise, while 41.17% others mentioned, high interest rate required in returning credit, and finally 14.70% did not answer this question, and are presented in Figure 4.7 below for more illustration.

Figure 4.7: Factors Hindering the Effective Lending Performance



Source: Research Findings, 2013

Based on findings in Figure 4.7 above, the study found that issues like; conditions governing lending conditions being tight, high interest imposed in paying back credit/loans, are one of the major factors causing lending exercise to go ineffective.

In further stance, the study likewise searched for particular information that would allow the way to ascertain the accuracy of the above presented and analysed information. This process has involved requiring respondents to associate a range of items in Face A with its corresponding item in face B with regard to the way every one understand every factors with its reason for why it affects the effective lending exercise in commercial banks in Tanzania, and are presented in Table 4.8 below

Table 4.8: Factors for Ineffective Lending Performance in Commercial Banks

Variable		Association	Frequency	Percentage (out of 34 customers as 100%
Face A	Face B			
i. Lending conditions	a). High/tight	i:b,a)	5	14.70
		i-d	7	20.58
ii. pay back interest rate	b). Unfavourable	ii: a,c,)	8	23.52
iii. Possibility of paying back credit on time	c). Favourable	iii: a)	8	23.52
iv. Not sure	d). Unaffordable	-	6	17.64
Total			34	100.0

Source: Research Findings, 2013

Information presented in Table 4.8 above provides critical information upon which the study found that certain elements remain critical to foster the effective conduct of lending performance in commercial banks.

4.3.2 What should be done to mitigate the ineffective lending performance?

It is up to this state understandable that lending performance is not performing well and this is the result of certain factors to have taken place. Therefore, if factors have been found already, that is the way forward and milestone for easily finding way to mitigate the said problem. This is very important as to why lending performance can be effectively achieved by commercial banks in Tanzania and consequently consent commercial banks in Tanzania to achieve high and even desirable ROI.

In order to find the logic about the above consideration the study investigated respondents during the interview process in which it was requiring according to everyone's respondent to suggest particular ways to be used by commercial banks if they are to alleviate the situation being herein described whose one of the common opinions mentioned by them include the following;

..... Banks need to reduce all conditions governing lending-borrowing business so that a vast number of customers may borrow, and pay back loans according to time scheduled and it turn consent bank to achieve high benefits. But also, interest rate imposed by commercial banks for paying back loans/credits would be reduced to the extent almost all borrowers become capable of borrowing and consequently pay back the loans. This is quite true as such an event must inevitably boost lending performance and in turn causes high return on investment to be achieved

Findings presented obtained which were gathered using interview process, led the study to analyse that ways for rectifying the situation of ineffective lending performance are available.

However, according to the findings, commercial banks would opt for reducing all conditions governing lending-borrowing business, reduce interest rate imposed for borrowing and returning credit so that customers can massively borrow, and pay back credit in/on time and in turn allow commercial banks to achieve high ROI for investing in lending business.

In addition to all what have been found about factors responsible for the ineffective lending performance achieved by commercial banks in Tanzania the study analysed that most of lending exercises in most commercial banks are reported unsuccessful. More interestingly, this study established that factors may be several but there some of them which are very common particularly for the case being tackled.

Thus, according to the findings, factors responsible for ineffective lending performance include amongst others factor like; high interest imposed in paying back credit/loans, which cause some of the borrowers to go incapable of either borrowing or returning credit/loans, amount of capital requirement being high, and above all, poor lending policies, and other conditions governing lending conditions being tight. In fact, according to the findings, these are one of the major factors causing lending exercise to go ineffective in commercial banks. Furthermore, the study analysed that there are ways, which can be adopted by commercial banks in rectifying the situation of ineffective lending performance ravaging their lending businesses. One of the ways found on the basis of findings include; commercial banks would opt for reducing all conditions governing lending-borrowing business, reduce interest rate imposed for borrowing and returning credit so that customers can massively borrow, and pay back credit in/on time and in turn allow commercial banks to achieve high ROI for investing in lending business.

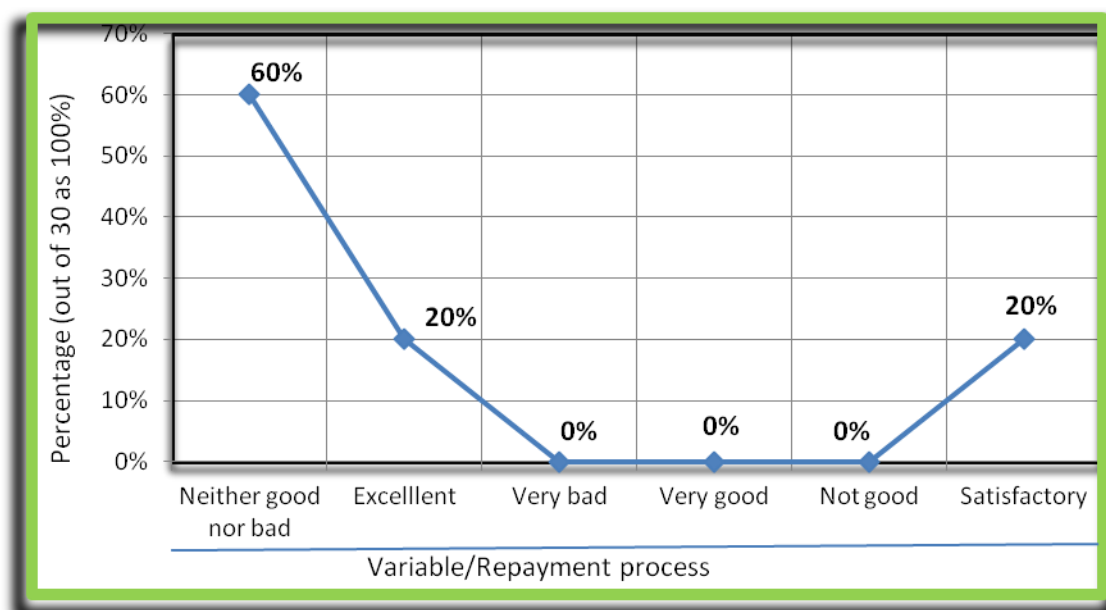
4.4 Is there any Influence from Inappropriate Repayment Process that leads to Ineffective Lending Performance in Commercial Banks?

The study was further interested to specifically determine whether there is influence from inappropriate repayment process that leads to ineffective lending performance in commercial banks. This information was investigated by the study based on the mere reason that paying back credit/loan is one of the key difficult issues that borrowers fail to adhere to. So, the focus was to find whether some of the borrowers are reluctant to pay back credit of which in turn causes lending exercise not to perform well. For, under normal circumstances, lending business' flourishing and success in terms of benefit as well depend much more on the trend in paying back credit plus the interest returned with the credit borrowed within a mutually accepted period of time.

4.4.1 A view of Credit/loans Re-payment Process

In line to determine whether there is any influence from re-payment process which causes lending exercises not to perform well. This was investigated based on the fact that if the re-payment process is undertaken by customers slowly will probably affect the lending performance in a negative way, while in case it is the other side way (as scheduled) this will normally tend to yield a positive results (success) in lending exercise. Thus, in order to find the logic behind this concern, respondents were studied by being required to mention from their experience in borrowing for NBC, the way each of them would categorize the re-payment (paying back) process together from potential borrowers/lending customers. The main aim of this concern was to get views from NBC workers which would provide detail about the whole picture reigning in paying-back credit process whose results have narrated the way the said process was. And results about this concern from NBC workers are presented in Figure 4.8a) below and which show that the biggest number (60%) of them mentioned, not neither good nor bad, while fewest (20%) of them mentioned, excellent.

Figure 4.8(a): View on Re-payment Process

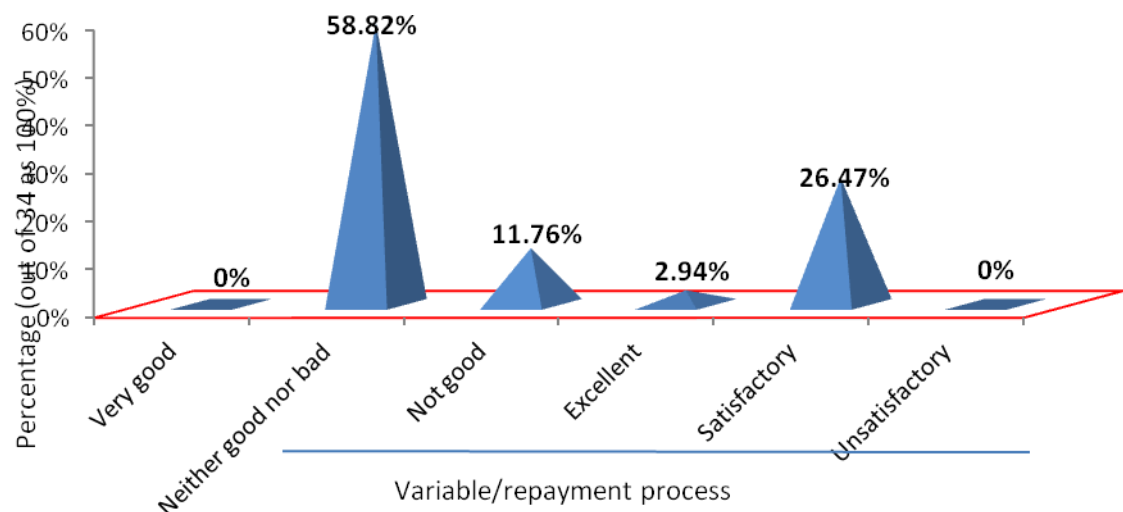


Source: Research Findings, 2013

From Figure 4.8(a) above, the study found that the re-payment (returning of credit) process as undertaken by borrower is in the half-half situation where to some extent is agreeable while to some other extent is not agreeable. The study found this as the reality about the matter being pin pointed based on the whole picture from findings where it was shown that majority (60%) of all studied NBC workers have been on the view that repayment process if not neither good nor bad.

The same question however, was addressed to lending beneficiaries whose results show similar to those obtained from NBC workers where it was found that 20 out of 30 studied by questionnaire which make 58.82% mentioned not neither good nor bad, while 9 others which make 26.47% mentioned, satisfactory, meanwhile 4 others which make 11.76% mentioned, not good, and finally the remaining 1 of them which make 2.94% mentioned Excellent and are presented in Figure 4.8b) below.

Figure 4.8(b): View on Re-payment Process



Source: Research Findings, 2013

Findings in Figure 4.8(b) above is not very much distinct from those in Figure 4.8a) in the sense that majority (58.82%) of lending customers have put forward that the returning of credit/loans by customers is in a half-half way. That means the said process is not neither good nor bad. So, this study analysed that the repayment process is in the half way. Perhaps what is important for commercial banks would place measure that would nurture high responsiveness in returning credit/loan as per time mutually agreed.

Likewise during the interview, NBC workers were asked to state from everyone's experience the way he/she find the returning of credit by customers in terms of either excellent or others pace upon which several opinions were addressed amongst which included the followings.

Borrowers seem to be too reluctant to pay back credit. Sometimes some of them do return loans very slowly, while others do so after having spent a very long period of time with credit and some of them remain with credit even beyond the mutually agreed time. It is why in most cases, bank fails to establish a good connection in terms of systematically keeping record of credits/loans returned by borrowers to delay caused by them in returning loan. Again; some of them opt for returning loan without its related interest while others do the other way side and vice versa.

Based on finding about a view on returning loan/credit, the study then analyzed that the process of paying back credit/loan is not neither good nor bad. Because, it happens some of the borrowers return loan in/on time while others no. but again, some of them customers stay with credit/loan even beyond the time boundary set by the bank and mutually agreed between borrower and lender. In fact, according to the findings, this study analysed also that lending exercise in commercial bank seems to face a very tough constraint as the retarding of credit being not at the desirable level and this is very bad for the progress r even survival of the said lending business.

4.4.2 Can Retard in Returning of Loan/credit cause Ineffective Lending Performance?

In this stage, the study focused on finding whether it is possible or otherwise that retard in returning loan can influence the failure on lending performance or otherwise. This was done simply as one of the further ways of striving to find whether repayment process is one of the responsible factors for ineffective lending exercise being experienced by most of commercial banks in Tanzanian ruling NBC in particular.

Very interestingly, particular ways were used to get into the logic about this fact in which respondents were studied by being required to either agree or disagree on the fact that whether retard in paying-back credit can cause ineffective lending performance or to occur otherwise. In such, results from NBC workers indicate that the biggest number (80%) of them agreed, while only 10% could not reveal anything about this aspect, and are presented in Table 4.9 below for more clarification in understanding.

Table 4.9: Whether Retard in Returning Loan can cause Ineffective Lending Performance or Otherwise

Variable		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	24	80	80	80
	Disagree	3	10	10	90
	Strongly agree	0	0	0	90
	Strongly agree	0	0	0	90
	No answer	3	10	0	100.0
	Total	30	100.0	100.0	

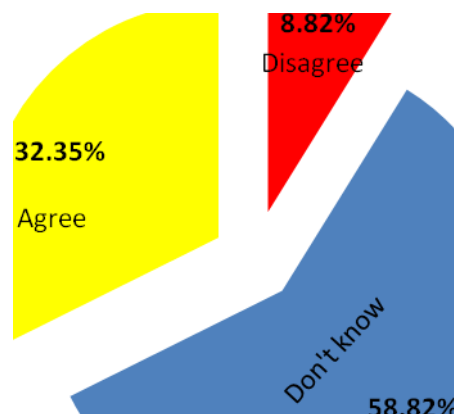
Source: Research Findings, 2013

Findings in Table 4.9 above provide that a good number (80%) of NBC workers have agreed that retarding the returning of loans/credit by borrowers has a huge negative effect on the entire lending performance.

So, this study found that a non-retarded and returned loan/credit can inevitably allow commercial banks to achieve and even undertake a very successful lending business/exercise.

Using the same questions to borrowers, results from them provide a slight contradicting results where majority (20as 58.82%) of them said, they don't know, while 11 others which make 32.35% agreed, and finally 3 others remaining which make 8.82% have disagreed, whose clear details are presented in Figure 4.9 below

Figure 4.9: Whether Retard in Returning Loan can cause Ineffective Lending Performance or Otherwise



Source: Research Findings, 2013

Despite the distinction in terms of borrowers' response from NBC workers, still the logic remains the same. Perhaps this contradicting result from borrowers is due to their status of feeling to accuse themselves as being source for the failure in lending exercises.

But yet even though, the study establish that based on 32.35% which is the biggest number compared to 8.82 who disagreed, it is realistic that retard in returning loan/credit can doubtlessly cause lending business to fail dramatically.

4.4.3 How can Paying-Back process cause Ineffective lending performance?

Furthermore, during the interview, NBC workers were asked to explain how the fact of retarding the returning of loan/credit can dramatically lead to ineffective lending performance in commercial banks. On the basis of this concern, NBC workers said the following;

.....retard in returning loan can cause lending performance to fail simply because such a situation will probably hinder the progress of the business as other borrowers will not get access to loans/credit since they are in hands of other borrowers. But also, this will create an environment where lending performance will not be capable of achieving a desirable ROI as it extensively rely or depends on the whole process of paying back credit/loan by borrowers....

Based on findings presented above, the study found that retard in returning credit/loan is quite a big factor for why lending exercise can fail to perform well. This was true since arguments from all NBC workers revealed much in terms of reality, where it was indicated that retarding the pay-back of credit can be the reason for why other borrowers may not access loan as being detained by other borrowers. Also, such a situation may probably result into failure of business since no gain will be achieved as such a business depends more on the returning of credits plus their related interest.

A huge number of findings have are in possession already and have up to this stage laid down one and common understanding about the effect of repayment process on the whole endurance of lending business in commercial banks in Tanzania. Straightly based on findings, this study analysed that re-payment (returning of credit) process as undertaken by borrower is in the half-half situation where to some extent is agreeable

while to some other extent is not agreeable and perhaps what is important for commercial banks would place measure that would nurture high responsiveness in returning credit/loan as per time mutually agreed. This situation is characterized by the state of affair where borrowers return loan in/on time while others no. but again, some of them customers stay with credit/loan even beyond the time boundary set by the bank and mutually agreed between borrower and lender. The reason why the study analyzed also that that lending exercise in commercial bank seems to face a very tough constraint as the retarding of credit being not at the desirable level and this is very bad for the progress and even survival of the said lending business.

The study further analysed that retarding the returning of loans/credit by borrowers has a huge negative effect on the entire lending performance. For, according to the findings, non-retarded returned loan/credit can inevitably allow commercial banks to achieve and even undertake a very successful lending business/exercise. The reason for such statement is that retard in returning credit/loan is quite a big factor for why lending exercise can fail to perform well. This is true since arguments from all NBC workers reveal much on reality where it was indicated that retarding the pay-back of credit can be the reason for why other borrower may not access loan as being detained by other borrowers, also, such a situation may result into failure of business since no gain will be achieved as such a business depends more on the returning of credits together with their related interest.

4.5 Can Lending Policies Influence the favourability of effective lending Performance in Commercial Banks?

The study was further specifically aiming at assessing the influence of available banks lending policies on the favourability of effective lending performance in commercial banks. Policies in every sector are the key tools for determining the standards of any activity.

And above all, policies are tool for directing any business towards the effective/successful implementation of such an activity. Hence, the study thought if lending performance is not performing well perhaps is due to poor lending policies being used or otherwise.

4.5.1 Rank of lending Policies for the Favourability of Effective performance

In order to specifically assess the influence of lending policies in the effective lending performance, the study further used this point by mainly focusing on finding the rank of lending policies favourability in favoring the effective lending performance in commercial banks. The reliability and precision about this information was sought from respondents understanding and experience as every one of them would rank the favourability of policies towards effective lending exercise. However, this information was found through studying respondents by requiring them, each to rank the favourability of any bank's lending policies on effective lending performance.

Very precisely, out of all 30 NBC workers studied by questionnaire, 27 which make 90% of them said policies are key and majority favor for the effective lending exercise, while only 3 others which make 10% said, somehow and are presented in Table 4.10 below.

Table 4.10: Rank of Policies in favouring effective lending performance

Variable		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Favourable	27	90	90	90
	Somehow	3	10	10	100.0
	Total	30	100.0	100.0	

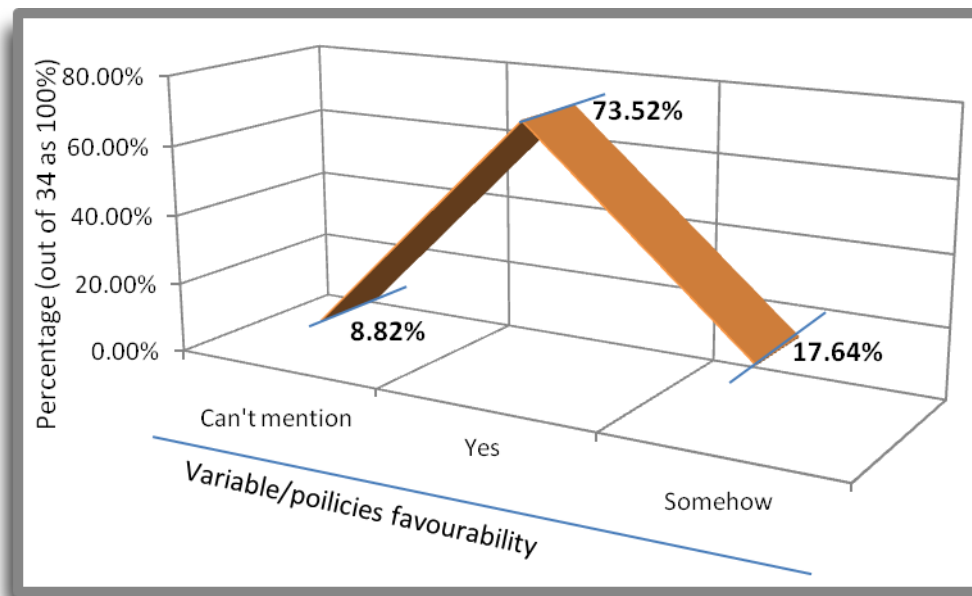
Source: Research Findings, 2013

Table 4.10 above imply that lending policies are very important as they favor to large extent the effective performance of lending business in any bank ruling in NBC in particular. This argument is being established simply based on the findings presented in Table 4.10 above where majority (90%) of respondents have ascertained the viability of this aspect.

Similarly, customers were studied using the same question as was to NBC workers. The aim of this concern to customers was just to find view from them which would probably provide the rank of policies intervention in favouring the effective lending performance to take place in commercial banks.

In fact, out of all 34 customers studied by questionnaire, 25 of them which make 73.52% said, yes they are favourable, while 6 others which make 17.64% said, somehow, and finally 3 others which make 8.82% cold not mention any thing pertaining to this matter, and results are presented in Figure 4.10 below for further analysis.

Figure 4.10: Whether Policies can favor the Effective Lending Performance



Source: Research Findings, 2013

Based on Figure 4.10 the study found that it very true that policies have power to favor the effective lending performance to take place in commercial banks. This saying emanates from the fact that even majority of customers have been on the same opinion saying, lending performance has the viability of favouring the effective performance to take place.

4.5.2 Can Policies be used as catalyst for Effective Lending Business?

Another point used in finding the favourability of lending policies on effective lending performance was to find whether policies can be used as catalyst in favouring the effective lending performance to take place in commercial banks. For, many evidences have provided ways to say, policies in any business settings are one of the main fundamentals for the smooth and systematic conduct of any business as they normally provide guidance on how every stage and relating requirement would be met and resultantly effectively achieved.

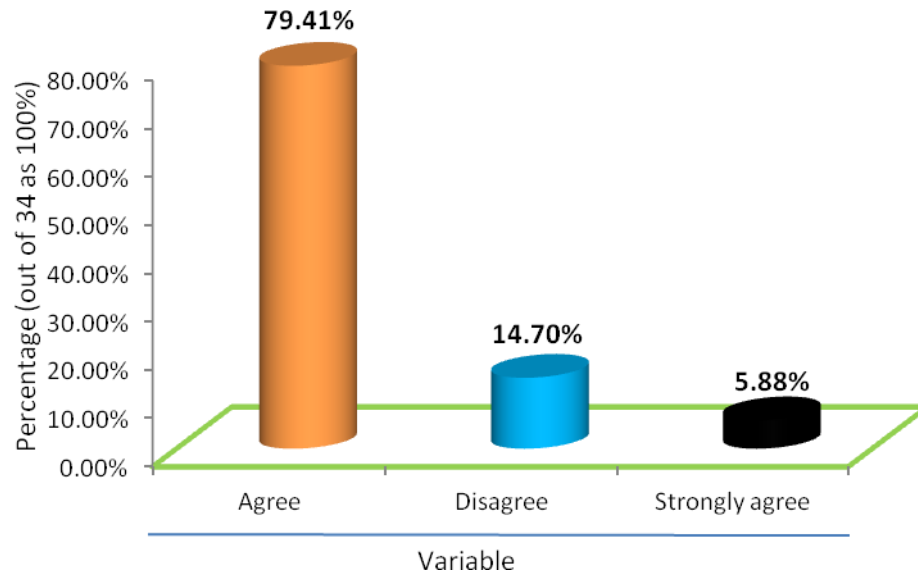
During the interview, respondents were asked to provide everyone's opinion about how policies can be used a catalyst for realising effective lending performance in commercial bank from which several opinions and arguments were given amongst which include most of the following important ones

..... Policies are very crucial in lending business. Policies in fact do provide ways and standards for every aspect concerned in the business. So, policies are called catalyst since they stand and basis of requirements that should be adhered by everyone if and only if he/she needs to either borrow or even lend and latter on achieve a desirable ROI. This means policies should always be used by banks to guide the whole conduct of their lending businesses. And undoubtedly, applying policies as well as it should be, must necessarily lead banks to achieve favorable earning as every step in the whole course is undertaken accordingly and meanwhile all standards and requirements are met

Based on findings from interview presented as citation above, it was obvious that lending policies play critical role in consenting the effective lending performance to take place based on several reasons ruling in; they place standards to be met in the entire course, they provide requirements which should be met if and only commercial banks need to systematically conduct lending exercises and consequently achieve desirable ROI.

The study further searched for information that would establish further analysis that explicate the extent to which policies are catalyst for the success of any business ruling lending. Hence, this information was sought by requiring respondents to provide everyone's view by either agreeing or disagreeing whether lending policies are key catalysts for effective lending exercise of any bank or otherwise. And many respondents from them were given which read that all 30 NBC workers studied by questionnaire which make 100% have agreed. Connectively, as the same concern was addressed to customers, results from them seem to be somehow similar to NBC workers where it was found that out of 34 customers studied by questionnaire, 27 of them which make 79.41% have agreed, while 5 others which make 14.70% have disagreed and finally the remaining 2 of them which make 5.88% have strongly agreed. These results are presented in Figure 4.11 below.

Figure 4.11: Whether Policies can be used as catalyst for Effective Lending Exercise



Source: Research Findings, 2013

Figure 4.11 above is sufficient for the study to analyse that lending policies can undoubtedly be used as catalyst for implementing the effective lending performance to take place. This is being so mentioned just based on the findings presented in Figure 4.11 where the biggest number of customers have been willing to mention this aspect and upon which the study rely as logic about the matter under concern

Findings about the favourability of lending policies on the effective lending performance have been abundantly found presented and now particular and common comprehension must be in possession. In this regards therefore, the study analysed that lending policies are very prominent in all ways when talking of lending business. Based on findings, this immediately implies that lending policies favor to large extent the effective performance of lending business in any bank ruling in NBC in several ways amongst which include; placing standard to be met for adhering to any business activity, place all necessary requirements that any stakeholder must comply with if he/she wants either to lend or

borrow for the bank and so on. However, based on findings, the study further analyzed that policies have power to favor the effective lending performance to take place in commercial banks as being used as catalyst in favoring the effective lending performance to take place in commercial banks. But also because it is a fundamental for the smooth and systematic conduct of any business as they normally provide guidance on how every stage and relating requirement would be met to be effective. So, this undoubtedly signifies that lending policies play critical role in consenting the effective lending performance to take place based on several reasons ruling in; they place standards to be met in the entire course, they provide requirements which should be met if and only commercial banks need to systematically conduct lending exercises and consequently achieve desirable ROI.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter is concerned with summarizing the study, drawing conclusion and recommendation based on the whole picture about all what have been found in terms of findings, the way they were presented and their intervention in terms of solution obtained as it was expected before.

5.1 Summary

Lending business in commercial banks is one of the main businesses areas from which banks yield nice return on investment. Meanwhile it should be recognized that the ROI from lending business depend more on the trend in paying back credit/loan by customer plus their relating interest returned with. So, commercial banks need to place measures that will favor them to nurture high lending performance and consequently achieve with them desirable ROI. However, this information is quite the result of the presentation and analysis of findings gathered from the field of 80 respondents who were divided into two major sub-categories, ruling in customers on one side, as well as NBC workers on the other side. The study in fact used questionnaire, interview, and documentary review to gather data from the field.

Finding of the study provide clear comprehension that factors that hinder the implementation of effective lending performance include; poor lending policies, low trend in returning credits/loans, all other conditions governing lending exercises being too tight, high interest imposed in returning credit, and son. But also the same findings stipulate that lending policies are not favorable towards effective lending performance. With this fact, one suggestion was given which was asking commercial banks to establish and ameliorate (improve) their lending policies so that in turn, yield high and desirable ROI.

5.2 Conclusion

Based on findings, it is quite believable that commercial banks in Tanzania have many things to do and put in place if they are to achieve effective lending performance and consequently yield good earnings. In such, the study concludes that effective lending can lead commercial banks to achieve desirable return on investment or otherwise. But still according to findings, this study concludes that lending performance at NBC seems to be if not successful on one side, and ineffective on the other side. This is very true based on the reason that findings stipulated that main lending exercise stake holders seemed to have shown a negative response pertaining to lending exercise in terms of success at NBC particularly. However, the study then concludes also that the ineffective lending performance is the result of several factors amongst others include; low trend in returning credits/loan by borrowers, tight lending conditions leaving most of borrower incapable of benefitting by this exercise. But also, due to interest rate being too high imposed for returning credits whose effect leads most of borrowers to retards the paying back, or paying returning credit without interest, and so on.

The study further concludes that image of lending exercise in terms of failure or success is rather to some extent unsuccessful due to the fact that some of the credits accorded in 2012 were returned back as scheduled while another good number of them could not meet a number of requirements governing returning of loan/credit. In this regards, the study in fact, concludes that if commercial banks experiences ineffective lending performance is due to several reasons whose effect leads to such situation in the above said exercise in commercial banks and NBC in particular.

Furthermore, the study concludes factors responsible for the ineffective lending performance achieved by commercial banks in Tanzania may be several but there some of them which are very common particularly for the case being tackled. Thus, according to the findings, this study concludes that factors responsible for ineffective lending performance include amongst others; high interest imposed in paying back credit/loans,

which cause some of the borrowers to go incapable of either borrowing or returning credit/loans, amount of capital requirement being high, and above all, poor lending policies, and other conditions governing lending conditions being tight. In fact, according to the findings, these are one of the major factors causing lending exercise to go ineffective in commercial banks. Even though, based on the same findings, this study further concludes that there are ways which can be adopted by commercial banks in rectifying the situation of ineffective lending performance ravaging their lending businesses. One of the ways found on the basis of findings include; commercial banks would opt for reducing all conditions governing lending-borrowing business, reduce interest rate imposed for borrowing and returning credit so that customers can massively borrow, and pay back credit in/on time and in turn allow commercial banks to achieve high ROI for investing in lending business.

Based on findings, the study also concludes that re-payment (returning of credit) process as undertaken by borrower is in the half-half situation where to some extent is agreeable while to some other extent is not agreeable and perhaps what is important for commercial banks would place measure that would nurture high responsiveness in returning credit/loan as per time mutually agreed. This situation is characterized by the state of affair where borrowers return loan in/on time while others no. But again, some of customers stay with credit/loan even beyond the time boundary set by the bank and mutually agreed between borrower and lender. The reason why the study concludes also that that lending exercise in commercial bank seems to face a very tough constraint as the retarding of credit being not at the desirable level and this is very bad for the progress and even survival of the said lending business. Therefore, regarding this aspect, the study concludes that retarding the returning of loans/credit by borrowers has a huge negative effect on the entire lending performance. For, according to the findings, non-retarded returned loan/credit can inevitably allow commercial banks to achieve and even undertake a very successful lending business/exercise.

The reason for such statement is that retard in returning credit/loan is quite a big factor for why lending exercise can fail to perform well. This is true since arguments from all NBC workers reveal much on reality where it was indicated that retarding the pay-back of credit can be the reason for why other borrower may not access loan as being detained by other borrowers, also, such a situation may result into failure of business since no gain will be achieved as such a business depends more on the returning of credits together with their related interest.

Likewise, the study concludes that lending policies are very prominent in all ways when talking of lending business. This implies, based on findings, lending policies favor to large extent the effective performance of lending business in any bank ruling in NBC in several ways amongst which include; placing standard to be met for adhering to any business activity, place all necessitated requirements that any stake holder must comply with if he/she wants either to lend or borrow for the bank and so on. However, based on findings, the study further analyzed that policies have power to favor the effective lending performance to take place in commercial banks as being used as catalyst in favoring the effective lending performance to take place in commercial banks. But also because it is a fundamental for the smooth and systematic conduct of any business as they normally provide guidance on how every stage and relating requirement would be met to be effective. So, this undoubtedly signifies that lending policies play critical role in consenting the effective lending performance to take place based on several reasons ruling in; they place standards to be met in the entire course, they provide requirements which should be met if and only commercial banks need to systematically conduct lending exercises and consequently achieve desirable ROI.

5.3 Recommendation

All findings presented and analyzed provide a detailed understanding stipulating the way lending performance is being achieved ineffectively. Therefore, certain measures need to be taken into action so that commercial banks get credit of ineffective lending performance that ravage and destruct their related businesses.

Commercial banks are therefore recommended to take action by establishing and ameliorating (improving) all lending policies and smoothening conditions governing lending exercises. This is being so addressed since doing so will automatically allow them to operate with precision and consistency and likewise consequently yield favorable ROI.

In the same line, customers are also recommended to be responsible and place a sense of trust which means once you are accorded any loan/credit you need to be liable to their liabilities accordingly. For, findings have stipulated that certain unacceptable behaviors like, delaying returning credit has been largely impacting the while lending exercises in the sense that it happens other borrowers lack credit as the result of being detained by previous borrowers. So, you are recommended to pay back credit as early as scheduled and mutually agreed.

5.4 Area for Further Studies

My study aimed at achieving high desirable results while by using all available resources. Nevertheless, it is not possible to large extent to possess all resources since some of them remain scarce, naturally. A large population sample size could not be covered by this study due to the reasons found from the study. So, other studies are herein recommended to cover either different or similar knowledge areas such as the impact of lending business on the business survival among Small, Medium and Large Enterprises. By doing so a further study on this would excite and put more emphasis on the obtainment of findings which would illustrate and put more elaboration about what have been found by the primary findings on this.

REFERENCES

- Albert, M.B. Mount, D.S, Silva, G. (2006). Costly Monitoring, Loan Contract, and Equilibrium rationing. Quarterly Journal of Economics. May (20th). Vol 7, 122-202
- Andorra, P.; Paul, D., and Rosengren, E.S. (2009). Bank Regulation and the Credit Crunch. Journal of Banking and Finance, vol. 4, no. I (June), pp. 679-92.
- Bank of Tanzania (1991). The circular, Prudential Guidelines on Management of risks assets, loans classification and provisioning for losses.
- Bakeer, N (2000). Conflicts Over Credit: Re-Evaluating the Empowerment Potential o f Loans to women in Rural Bangladesh. Institute of Development Studies, Brighton, Sussex, UK.
- Bareson, K. Sparks, L., & Ladson, P. K. (2005). Lending Policies: Moderator of the Lending Exercises. Journal of Financial Management. June (10th). Vol 3. London.
- Barrister, H. (2008). The Concept of Lending. New York
- Bharat, (2006) How to borrow from Banks and Financial Institutions. 2nd edition,D.C Puliani for Bharat Law House, New Delhi.
- Bedi H.L(1991). Practical banking advances. 8th edition, New Delhi,UBS Publishers` distributors Ltd.
- Buckely, G (1997) Microfinance in Africa: Is it either the problem or solution. World Development, Vol.25, No. 7 pp 1081 – 1093
- Charles P. Himmelberg and Donald P. Morgan. (2009). Is Bank Lending Special? Columbia University Press

- Chekley, K (1999). Lending. 3rd edition, Financial World publishing
- Chijoriga, M.M. (2000). The Performance and sustainability of Micro Financing Institutions in Tanzania Microfinance Journal. An.
- David, B. and Thakor, A.V (1987). Comptetitive Equilibrium in the Credit Market under Asymetric Information. The Journal of Economic Theory 42, 167-182
- Davis&Kearns (1989), “Banking operations-U.K”, Lending and International Business, Pitmann London.
- Douglas, N.; Rajan, K., & Antony, W.L. (2004). Financial Intermediation and Delegated Monitoring. Review of Economic Studies, vol. 51, pp. 393-414.
- Graziani, G.C. & Augusto, R. (1989). Theory of the Monetary Circuit. Retrieved on the 25th of September, 2012 from the World Wide Web Site: http://www.monetary_review.com/blogswfm-contents/uploads
- Eitman, D.K. and Stonehill, A.I. (2005) Multinational Business. (4th Ed.) Cedawood Press
- Elahi, B.; Khandakar, B.P., Danopoulos, K., & Constantine, A.A. (2004). Financial Management: Introduction and Application. An.
- Ghuri, P. & GrØnhaug, K. 2005) Research Methods in Business Studies. A Practical Guide Great Britain: Dorset Press
- Hostung, H.G (2008) Cultures’ Consequences. Sage Publication
- Kitua, G.D.Y (1996). Application of multiple Discriminant Analysis in Developing a Commercial Banks Loan Classification Model and Assessment of Significance of Contributing Variable. M.A Dissertation, UDSM
- Khubchandani, B.S (2000). Practice and Law of Banking, 1st edition, Rajiv Beri for Macmillan India Limited, New Delhi.
- Kothari, C.R (2004). Research Methodology: Methods and Techniques. 7th Edition. New Delhi, India
- McGregor, P (1996). Lending Bankers Workbook. CIB.

- Mwisho A.M, (2001). Basic Lending Conditions and Procedures in Commercial banking. The journal of NBAA Tanzania Volume.13 No.3 July-September 2001.
- National Bank of Commerce Ltd (November 2003). Micro credit policy and Procedures Manual, NBC Operating Manual Volume 5A.
- Olomi, D.R. and Rutashobya.L (1999). African Entrepreneurship and small business Development. Dar es salaam University Press (1996) Ltd, Tanzania.
- Pandey, I.M (1999), Financial Management: Determinant of loan repayment, Ahmedabad, India.
- Parry, C (1999). Lending and Securities, A Practical guide to the principles of good lending.1st edition, Financial World Publishing.
- Philips, G. (2006) Review of Lending Exercies in Commercial Banks: African Context. London
- Protas, G. D (2001) Lending exercises in Tanzania: Background Review. Dar es Salaam
- Remenyi, P. (2008) Micro-Finance: Theory and Practice. Retrieved on the 27th of September from the World Wide Web Site: <http://www.essays-finance.com>
- Robertson, F. (2004) Investment and Internal Organization of Capital Allocation Decision. University of Chicago Publishers.
- Rose S. Peter & Fraser, R. Donald, (1988). Financial Institutions. 3th edition, U.S.A, Business publications Inc.
- Rouse, C.N (1995). Applied Lending Techniques, CIB
- Satta, T.A (2003). Banking operations, TIOB
- Shekhar K.C (1999). Banking theory and practice.18th edition, New Delhi, Vikas Publishing House P.V.T Ltd.
- Smith Gary (1991). Money, Banking and Financial institutions. USA, D.C Heath
- Sundharam K.P.M (1994). Money, Banking and Finance. 31st edition, New Delhi, Sultan Chand & Sons .
- Vivian, W. & Harrison, R.H. (2009). Why are Small and Medium Entreprises Common Bank Credits Customers in Developing Countries?. Bruxelles

- Werema, S.M (1996). Factors leading to unavailability of credit to Small Scale Industries. M.A Dissertation: UDSM
- Zazzaro, Alberto, (2010) How Heterodox is the Heterodoxy of the Monetary Circuit Theory? The Nature of Money and the Microeconomy of the Circuit. Retrieved on the 19th of September, 2012 from the World Wide Web Site: <http://www.ideas.repec.org/p/anc/wpaper/163.html>
- Zeller, M (1994). Determinant of credit rationing, a study of informal lenders and form credit groups in Madagascar. World development 22, 1895-1907
- Zetta, M. (2011) Incentive Effect of Termination: Application to the Credit and Labour Mrket. Asian Economic review, 73, 345-467

MZUMBE UNIVERSITY

APPENDIX 1.0 QUESTIONNAIRE TO NBC WORKERS

I am Ms. Anna Mbeni, a student pursuing Master Degree of Science in Accounting and Finance at Mzumbe University. In final year of my program, I am required to conduct a study in partial fulfillment of the requirements for the award of my Masters degree.

The main aim of this study is to find out factors responsible for ineffective lending performance among commercial banks in Tanzania. The findings are expected to be catalyst for rectifying the mentioned situation in all commercial banks in Tanzania.

So, you are hereby kindly asked to assist the research by simply filling in this questionnaire. I assure you that all information you provide will be guarded with high confidentiality and will only be used for academic purposes and not otherwise.

Instruction:

Please, answer by putting (✓) in front of the answer you find correct. Likewise, explain or mention by writing in the place you are asked to explain or describe.

PART ONE:

GENERAL INFORMATION OF RESPONDENT

Question one: Your age falls in which of the following series?

- i. Between 18 and 19 years []
- ii. Between 20 and 30 years []
- iii. Between 31 and 40 years []
- iv. Between 41 and 50 years []
- v. Between 51 and 60 years []
- vi. Above 60 years []

Question Two: You are working in which of the following departments?

- i. Credit/lending department []
 - ii. Customer service department []
 - iii. Other [] if other, please mention here below:
-

Question Three: Which among the following is your area of expertise?

- i. Finance []
- ii. Accounting []
- iii. Administration []
- iv. Marketing []
- v. Credit/loan management []
- vi. Other []

Question Four: For how long have you been working with NBC Bank?

- i. One year []
- ii. Between 2 to five years []
- iii. More than 5 years []
- iv. Ten years []
- v. More than 10 years []

PART TWO

EFFECTIVE LENDING PERFORMANCE AND ROI FROM LENDING EXERCISE

Question Five: How would you assess the performance of lending in your bank?

- i. Effective []
- ii. Ineffective []
- iii. Successful []
- iv. Unsuccessful []

Question Five: In reference to your answer in question five above, how would you categorize the return on lending investment achieved by NBC?

- i. High []
- ii. Low []
- iii. Standards []

Question Six: In reference to your answer in question 5 above, what do you think was the reason for why such a return on investment was achieved?

- i. Effective lending performance []
- ii. Ineffective lending performance []
- iii. Cannot mention []

Question Seven: Based on your answer in question 5 and 6 above, do you agree or disagree that effective lending performance can lead NBC to achieve high and desirable and attractive return on investment?

- i. I agree []
- ii. I disagree []
- iii. I strongly agree []
- iv. I strongly disagree []
- v. Cannot know []

PART THREE

FACTORS RESPONSIBLE FOR THE INEFFECTIVE LENDING PERFORMANCE

Question Eight: From your experience, what are the common factors you faced which may cause ineffective lending performance to take place in your bank? Please, explain here below:

.....

.....

.....

.....

.....

Question Nine: Associate each item in face A with its corresponding assertion in face B with regard to the probability that every assertion's in face A has in causing negative lending performance according to your understanding as one of the factors for ineffective lending performance in your bank;

Face A

- i. Lending conditions
- ii. Pay back interest rate
- iii. Possibility of paying back credit on time
- iv. Not sure

Face B

- High/tight
- Unaffordable
- Favourable
- Unfavourable

Question Ten: From your experience in the NBC, what are other factors you think are very common in affecting lending performance. Please mention them here below:

.....

.....

.....

PART FOUR

REPAYMENT PROCESS AND LENDING PERFORMANCE

Question Eleven: From your experience in lending exercises, how would you categorize the re-payment (paying back) situation form customers?

- i. Excellent []
- ii. Satisfactory []
- iii. Unsatisfactory []
- iv. Very good []
- v. Not good []
- vi. Not neither good nor bad []

Question Twelve: Based on your answer in question 11 above, do you agree or disagree that such a paying-back process can cause effective lending performance or otherwise? Please explain here below:

.....

.....

.....

Question Thirteen: If the lending performance is or not effective in your bank, what do you think can be the reason for such a situation? Please, explain here below:

.....

.....

.....

PART FIVE

BANK'S LENDING POLICIES AND LENDING PERFORMANCE

Question Fourteen: How would you rank the favourability of your bank's lending policies on effective lending performance?

- i. Favourable []
- ii. Unfavourable []
- iii. Somehow []
- iv. Not at all []

Question fifteen: In reference to your answer in question 14 above, do you agree or disagree that lending policies are key catalysts for effective lending exercise of any bank including yours?

- i. I agree []
- ii. I disagree []
- iii. I strongly agree []
- iv. I strongly disagree []

THANK YOU FOR YOUR CONSTRUCTIVE COOPERATION!

MZUMBE UNIVERSITY

APPENDIX 2.0 QUESTIONNAIRE TO NBC CREDITS CUSTOMERS

I am Ms. Anna Mbeni, a student pursuing Master Degree of Science in Accounting and Finance at Mzumbe University. In final year of my program, I am required to conduct a study in partial fulfillment of the requirements for the award of my Masters degree.

The main aim of this study is to find out factors responsible for ineffective lending performance among commercial banks in Tanzania. The findings are expected to be catalyst for rectifying the mentioned situation in all commercial banks in Tanzania.

So, you are hereby kindly asked to assist the research by simply filling in this questionnaire. I assure you that all information you provide will be guarded with high confidentiality and will only be used for academic purposes and not otherwise.

Instruction:

Please, answer by putting (√) in front of the answer you find correct. Likewise, explain or mention by writing in the place you are asked to explain or describe.

PART ONE:

GENERAL INFORMATION OF RESPONDENT

Question one: Your age falls in which of the following series?

- i. Between 18 and 19 years []
- ii. Between 20 and 30 years []
- iii. Between 31 and 40 years []
- iv. Between 41 and 50 years []
- v. Between 51 and 60 years []
- vi. Above 60 years []

Question Two: Which between the followings is your gender?

- i. Female []
- ii. Male []

Question Three: Which among the followings is your area of expertise?

- i. Finance []
- ii. Accounting []
- iii. Administration []
- iv. Marketing []
- v. Business []
- vi. Other [] if other, please, mention here below:

.....
.....

Question Four: For how long have you been a customer to NBC Bank?

- i. One year []
- ii. Between 2 to five years []
- iii. More than 5 years []
- iv. Ten years []
- v. More than 10 years []

PART TWO

EFFECTIVE LENDING PERFORMANCE AND ROI FROM LENDING EXERCISE

Question Five: How would you view performance of lending in at NBC?

- i. Effective []
- ii. Ineffective []
- iii. Successful []
- iv. Unsuccessful []

Question Five: From your experience, how would you rank the trend in paying back credits by most of your fellow borrowers?

- i. High []
- ii. Low []
- iii. Standards []

Question Six: In reference to your answer in question 5 above, what do you think the trend you have mentioned might be one of the reasons for why NBC may achieve which of the followings return on investment?

- i. Low return on investment []
- ii. Bad return on investment []
- iii. Cannot know []

Question Seven: Based on your answer in question 5 and 6 above, do you agree or disagree that effective lending performance can lead NBC to achieve high and desirable return on investment?

- i. I agree []
- ii. I disagree []
- iii. I strongly agree []
- iv. I strongly disagree []
- v. Cannot know []

PART THREE

FACTORS RESPONSIBLE FOR THE INEFFECTIVE LENDING PERFORMANCE

Question Eight: From your experience, what are the common factors you think can cause failure in lending performance?

.....

.....

.....

.....

Question Nine: Associate each item in face A with its corresponding assertion in face B with regard to the probability that every assertion's in face A has in causing negative lending performance according to your understanding as one of the factors for ineffective lending performance.

Face A

- i. Lending conditions
- ii. pay back interest rate
- iii. Possibility of paying back credit on time
- iv. Not sure

Face B

- High/tight
- Unaffordable
- Favourable
- Unfavourable

PART FOUR

REPAYMENT PROCESS AND LENDING PERFORMANCE

Question Eleven: From your experience in borrowing for NBC, how would you categorize the re-payment (paying back) process together with your fellow customers?

- i. Excellent []
- ii. Satisfactory []
- iii. Unsatisfactory []
- iv. Very good []
- v. Not good []
- vi. Not neither good nor bad []

Question Twelve: Based on your answer in question 11 above, do you agree or disagree that such a paying-back process can cause effective lending performance or otherwise? Please explain here below:

.....

.....

.....

.....

Question Thirteen: If the lending performance is or not effective at NBC, what do you think can be the reason for such a situation? Please, explain here below:

.....

.....

.....

.....

PART FIVE

BANK'S LENDING POLICIES AND LENDING PERFORMANCE

Question Fourteen: How would you rank the favourability of any bank's lending policies on effective lending performance?

- i. Favourable []
- ii. Unfavourable []
- iii. Somehow []
- iv. Not at all []

Question fifteen: In reference to your answer in question 14 above, do you agree or disagree that lending policies are key catalysts for effective lending performance in any bank?

- i. I agree []
- ii. I disagree []
- iii. I strongly agree []
- iv. I strongly disagree []

THANK YOU FOR YOUR CONSTRUCTIVE COOPERATION!

PROJECTED STUDY BUDGET

Table 3.2: Projected budget for the study

No.	Item/Activity	Amount (Tshs)
1.	Stationeries (Pens, stapler machine, staple pins files,	25,000
2.	Visiting Internet and buying Modem for materials searching	275,000
3.	Printing and photocopying services	130,000
4.	Questionnaires, proposal and report writing, 10 reams @ 7,000	70,000
5.	Lunch during data collections, 30days x 6,000	180,000
	Lunch during data analysis and report writing, 60days x 6,000	360,000
6.	Transport, Morogoro to Dar es salaam: 3 trips x 6,500 x 2	39, 000
7.	Data processing and computer analysis	350,000
8.	Secretarial services and typing	250,000
9.	Consultation (libraries, and others)	750,000
Total		2,429,000

PROJECTED TIME SCHEDULE FOR THE STUDY

Table 3.3: Projected time schedule for the study

Time	Activity
September,2012	Collection of data relating to Proposal writing.
October, 2012	Proposal writing and submission of the proposal and the proposed questionnaires to Supervisor.
November, 2012	Distribution of questionnaires, Reviewing various documents detailing how lending performance is undertaken and its related achievement
December, 2012	Collection of data, Writing and editing of findings from the field
January 2013	Submission of the first draft and second draft of the research report to the Supervisor
February, 2013	Submission of final draft.