

**FACTORS AFFECTING THE REPAYMENT PERFORMANCE
OF MICROCREDIT IN DAR ES SALAAM TANZANIA: A CASE
OF TUJIJENGE TANZANIA LIMITED**

**FACTORS AFFECTING THE REPAYMENT PERFORMANCE
OF MICROCREDIT IN DAR ES SALAAM TANZANIA: “A CASE
OF TUJIJENGE TANZANIA LIMITED”**

**By
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**A Research Report Submitted to Dar es Salaam Campus College in Fulfillment
of the Requirements for the Award of Masters Degree in Business
Administration in Corporate Management (MBA-CM) 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 Assessment of **Factors Affecting the Repayment Performance of Microcredit in Dar es Salaam Tanzania: “A Case of Tujijenge Tanzania Limited”** in partial fulfillment of the requirements for award of the degree of Masters of Science in Procurement and Supply Chain Management of Mzumbe University.

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I **Benbela John Makengo** hereby declare that the work presented in this dissertation entitled **Factors Affecting the Repayment Performance of Microcredit in Dar es Salaam Tanzania: A Case of Tujijenge Tanzania Limited** is my original work and has never been presented to any other University or Institution of higher learning for any academic qualification or otherwise. Where it is indebted to the work of others, the acknowledgement has been made.

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DEDICATIONS

To God, my Dad John Makengo (RIP), then the three pillars:- my mum Regina Msae and my wife Bahati Mosha Makengo for their un comparable assistance that rekindled my dream to come to realization. I greatly appreciate all the love and support you rendered me, May the Lord God bless you profusely.

ABBREVIATIONS

ERP	Economic Recovery Program
GDP	Growth Domestic Products
MFI	Micro-Finance Institution
NBC	National Bank of Commerce
NPES	National Poverty Eradication Strategy
RIP	Rest in Piece
SACCOs	Savings and Credit Co-operatives
SMEs	Small and Medium Enterprises
TAMFI	Tanzania Association of Microfinance Institutions
UNDP	The United Nation Development Program
URT	United Republic of Tanzania

ABSTRACT

This study has assessed the factors that affecting the Repayment Performance of Microcredit in Dar es Salaam Tanzania. Loan repayment has been a serious problem for most small holder credit programmes. Problems of loan recovery to most micro-credit programmes are attributed to several factors including natural calamities. An observational study was carried out in one MFI in the Dar es Salaam city namely the Tujijenge Tanzania Limited located in Kijitonyama - Makumbusho ward.

The general objective was to analyse factors affecting the repayment performance of Microfinance industry in Dar es Salaam Tanzania. Data were collected using informal and formal interviews where structured questionnaires were administered to 100 randomly selected respondents. Data were analyzed by using simple excel table, figures and a regression analysis was done to analyze factors affecting the repayment performance in Tanzania.

The study findings show that 68.9% of the factors affecting loan repayment related to the level of household annual income, education level, household labor size, household assets and amount of loan obtained. Also findings shows that most of the borrowers are female while 64 of the respondents state that interest rate is friendly for charging at 4% per month which translate to 48 per annum

The conclusion is that the study discovered that positive factors affecting loan repayment performance are amount of loan obtained by client, composition of household, labor size, education level and household annual income. Meanwhile the value of household assets negatively influences repayment of loan.

The study recommends that: (a) interest rate should be lowered (b) business education should be provided to both loan officers and clients and (c) the government in collaboration with the Bank of Tanzania should review the financial policy giving opportunity to micro investors to access loans.

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CHAPTER ONE

PROBLEM SETTINGS

1.1 Introduction

Poverty is a serious problem in most of African countries including Tanzania. Both income and non-income poverty measures reported in the household Budget survey (2002) indicate that the incidence of poverty is as 39%. The world Bank (2002) reports that about 36% of the population lives on less than US\$ 0.50 per day, which is below the defined poverty line of UD\$ 0.65 per day. The poverty situation is believed to be worse in the rural areas (World Bank, 2002). This is attributed to poor performance of agriculture, which is the main source of rural income to Tanzanian. The United Nation Development Program (UNDP) revealed the average Human Poverty Index estimates that about 36.3% of the population is poor (Human Development Report, 2002). Based on these statistics, the World Bank (2002) ranks Tanzania to be among the ten poorest countries in the world.

According to the National Poverty Eradication Strategy (NPES) paper, indicators which reflect realities of intensive poverty in Tanzania; illiteracy, prevalence of malnutrition, inadequate clean and safe water, poor social services communication, infrastructure, poor housing and poor health services, high incidence of unemployment and environment degradation (Vice Presidents Office, 1998).

A recent strategy adopted by the Government in the fight against poverty in Tanzania, especially in the rural areas where the majority of the poor population live, has been the establishment of MFIs, which provide credit on favorable and affordable terms. This was after the Government realized that, while financial market principles enshrined in the 1991 financial sector reforms should be the guiding force as the basis for a sound financial sector development, the research for a better alternative to reach the poor directly was needed and hence, additional focus was placed on the expansion of financial services to micro level clients (MoF, 2000).

The government tried to convince commercial banks to support small and medium businesses. Once the National Microfinance Policy was implemented in 2001, microfinance was officially recognized as a tool for poverty eradication and with its increased use and exposure to the country; banks have taken an interest in offering microfinance. The National Microfinance Bank is an institutional provider of microfinance services, and the AKIBA Commercial bank and CRDB Bank are also two big supporters of microfinance. There are additional organizations involved in microfinance in Tanzania, including FINCA, PRIDE and SEDA as well as the Tanzania Postal Bank. Community banks and small banks have taken an interest in this, as well as many NGOs and non-profit organizations like TUJJIJENGE TANZANIA (MoF, 2000).

Loans disbursements to the poor individuals have been among the major efforts done by governments, Banks and Microfinance in Tanzania. However, credit programs have also been widely plagued by serious problems of loan recovery and most loans have gone away from the targeted population and the need. Moreover these credit programs have not been comprehensive in operation as they have been mostly confined to particular target groups and designed to promote specific technologies (Mohamed, 1999).

However there is no clear understanding of which factors affecting loan repayment. This study was conducted to identify and evaluate different factors affecting loan repayment performance of Microfinance institution in Tanzania.

1.2 Background Information

In Tanzania financial sector reform began with the Economic Recovery Programme (ERP) of 1986. The Banking and financial institutions Act (1991) permitted the entry of private banks into the financial market and subsequently led to restructuring all of Government Of Tanzania's (GOTs) major banks and financial institutions (URT, 2003a). Following the Structural Adjustment Programmes (SAPs) there has been financial sector restructuring that has encouraged more participation of private and NGOs in credit schemes in the country (Kashuliza, 1993).

The implementation of SAPs in financial sector, eventually led into the enactment of the Banking and Financial Institution Act (1911). Private Banks and Financial Institutions have been allowed to enter Tanzania financial market and this marked the beginning of major financial sector reform programme. Together with the Financial sector reforms, there was also an enactment of a new Cooperative Societies Act (1991), which enabled the formation of voluntary and autonomous SACCOSs, and the National Microfinance Policy of 2000 to address the development of enabling environment for rural and micro financial services (URT, 2002). In general the aspects of financial sector reform (FSR) are concerned with restructuring the banking sector (Baden, 1996)

Microfinance was meant to stand for financial intermediation between micro savers and micro borrowers, or, in other words, to comprise micro savings and micro credit. Micro finance is the provision of a wide range of financial services, such as deposits, loans, and insurance. The basic principle of micro finance is a provision of a package of financial services to low-income households. Micro credit (which is a component of micro finance) is a provision of credit facilities to low income household. The basic principle of micro credit is to give poor people access to capital and exploit their capacities and potentialities for economic development. The fundamental differences between these two terms understand of poor people economy and livelihood conditions. Thus, microfinance covers the acute need of poor people's financial services and protect from being further vulnerable but micro credit seems to be more technical and a stand-alone approach to provide only credit services (Seibel, 1979).

Nowadays, Micro-Finance Institutions (MFIs) are increasingly and becoming an essential part of the country's financial sector. This process has been growing in most developing countries, including Tanzania. This is due to the majority of citizens are facing poor economic conditions and severe poverty. Provision of micro-credit to small scale and micro entrepreneurs, small-scale farmers and low-income households is seen as one way of breaking the poverty trap and enhancing the country's development.

1.3 Problem Statement

Since independence in 1961, the Government of Tanzania had poverty reduction as its main goal. In 1997, the Government adopted the National Poverty Eradication Strategy, which spells out a vision of a society without abject poverty, and with improved social conditions. This vision, which is in line with the International Development Goals, remains a point of reference for current poverty actions.

Commercial banks in most developing countries exclude the poor and hardcore poor by imposing strict rules and regulations. The demand for the products and services offered by commercial banks is low among the poor, not because “*poor do not need financial services*”, but the product and service are not designed to meet their requirements.

However, Loan repayment has become a serious problem for most small holder credit programmes. Default rates i.e. the amount of loans not collected on current and past due loans for the reference period, for loans taken from credit institutions vary from country to country, region to region, sector to sector. But all credits of developing countries were found to share one common characteristic; all suffer from a considerable amount of default rate. For instance, microfinance credits found in the city of Addis Ababa, which are striving to meet the financial need of the lower class of the society, primarily composed of the informal sector, are recently suffering from considerable amount of default/delinquency rate. Based on a preliminary data collected, on average for the year ended 1997 (EC), delinquency rate was estimated to reach around 31%. (Kashuliza 1993).

Therefore, whether default is random and influenced by erratic behaviors or if it is influenced by certain factors in a specific situation needs an investigation so that the findings can be used by micro financing institutions to manipulate their credit program for the better (Khandker et al., 1995). These states of affairs have necessitated the launching of this research to identify factors affecting the repayment performance of Microfinance Institutions in Dar es Salaam Tanzania.

1.4. Research Objectives

1.4.1 General Objective

The general objective of this study was to analyse factors affecting the repayment performance of Microfinance industry in Dar es Salaam, Tanzania.

1.4.2 Specific Objectives

- i. To evaluate factors affecting the repayment performance;
- ii. To assess the process mapping of MFIs in loans disbursed;
- iii. To review terms and conditions for giving loan and the repayment schedules;
- iv. To assess the way credit received and how it is used by the recipient; and
- v. To give credit policy making/adjustment of credit conditions.

1.5. Research Questions

1.5.1 General Question

- a) What are the factors affecting the repayment performance of microcredit?

Specific Questions

- a) How are MFIs performing in terms of loan disbursement?
- b) What the terms and procedures for giving a loan?
- c) What are the possible causes of loan diversion?
- d) What are the options available for improvement of credit policy making?

1.6. Significance of the Study

The Government initiative on poverty reduction policies is based on the perception that poverty affects the country's economy and individuals' as well. MFIs have been given a big role of helping the poor with instruments and tools to help them out their poverty trap.

The study provides the input that can be used to evaluate the credit provided by the TUJJIJENGE TANZANIA for poverty reduction and recovery of the loan. The results

obtained on this have both significant challenges and consequence to the formal banking industry, MFIs and the Government. Also findings from this study have an important impact to the appraisal of the future strategies to be adopted by TUJIJENGE TANZANIA.

The Researcher benefits from this study by getting both experiences in research work and general knowledge on how Microfinance can improve the repayment performance.

This study gives recommendations related to the financial sectors especially Microfinance in Tanzania in order to assist towards credit policy making/adjustment of credit conditions.

1.7. Limitation of the Study

Several factors was hindered the study, these include;

Limited Financial resource: The researcher was followed the respondents from one place to another which is significantly expensive due to the borrower's place of business and or residences being far apart.

Low level of literacy: Time utilized to accomplish interviews and questionnaires was long due to low level of literacy amongst the respondents in answering questions.

Time constraints: Due to the nature of the population that was relevant to this study, more time was needed for data collection activities. The researcher was spend more time to convince and win respondents hearts to receive truthful and relevant information.

1.8. Delimitation of the Study

Financial resource: The researcher has been able to overcome this limitation by given out questioners through loan officer who normally visit customers during the loan repayment. Therefore at this part researcher incur free cost

Low level of literacy: Group leaders must know how to write and read as per Tujijenge Tanzania credit policies and procedures manual, therefore questioners were given to those leaders for response

Time constraints: Loan officers helped to collect questioners on time as it was well organized by Tujijenge Tanzania Operations Manager

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section of the study outlines some theoretical arguments of the prior researches in relation to factors affecting loan repayment in microfinance. Over the last several decades, many experimental researches have been done related to microfinance and performance of repayment or arrears or delinquency. Understanding these research and research results, from the prior studies concerning this specific topic is very important, and it gives firm foundation for a smooth process of this research.

2.2 Definition of Key Terms

Microfinance

Microfinance refers to the provision of financial services to poor or low-income clients, including consumers and the self-employed. The term also refers to the practice of sustainably delivering those services. Microcredit (or loans to poor microenterprises) should not be confused with microfinance, which addresses a full range of banking needs for poor people.

More broadly, it refers to a movement that envisions “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers. Those who promote microfinance generally believe that such access will help poor people out of poverty (Wikipedia, 2009)

"Microfinance is the supply of loans, savings, and other basic financial services to the poor." As the financial services of microfinance usually involve small amounts of money – small loans, small savings etc. – the term "microfinance" helps to differentiate these services from those which formal banks provide.

Why are they small? Someone who doesn't have a lot of money isn't likely to want to take out a \$5,000 loan, or be able to open a savings account with an opening balance of \$1,000. Hence – "micro".

Microcredit

Microcredit refers to very small loans for unsalaried borrowers with little or no collateral, provided by legally registered institutions. Currently, consumer credit provided to salaried workers based on automated credit scoring is usually not included in the definition of microcredit, although this may change.

Credit

A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company.

The amount of money available to be borrowed by an individual or a company is referred to as credit because it must be paid back to the lender at some point in the future. For example, when you make a purchase at your local mall with your VISA card it is considered a form of credit because you are buying goods with the understanding that you'll need to pay for them later.

Loan

This is an arrangement in which a lender gives money or property to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future point in time. Usually, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan, though modern capital markets have developed many ways of managing this risk (Allen, 2003).

Loan Disbursement

Robinson M.S report on microfinance revolution Volume I (1994) defines a loan disbursement as an extension of credit to another person (client) which maybe long term (more than a year) a short term (less than a year).

Breth (1999) stated that before a deal in signed a loan application is to be completed. This provides risk protections by enabling the lending institutions to follow up when the borrowers fail to honor the agreement.

Borrower

A person that has applied, met specific requirements, and received a monetary loan from a lender. The individual initiating the request signs a promissory note agreeing to pay the lien holder back during a specified timeframe for the entire loan amount plus any additional fees. The borrower is legally responsible for repayment of the loan and is subject to any penalties for not repaying the loan back based on the lending terms agreed upon.

Recipient

A recipient is a person who receives something (item, goods, services, money) from someone or some entity (such as an individual, group, organization, company, or agency). A recipient can receive a wide variety of things, including a letter, a telephone call, a message, a sum of money, or even a physical embrace.

2.3 Theories and Concepts**Theory of microfinance**

Microfinance has spawned a large theoretical literature, which can be divided into two.

The first addresses the specific problems that poor people have in gaining access to financial services at an affordable cost, particularly as a result of their lack of collateral. Would-be lenders are also deterred by high costs of collecting reliable information about the actual, or projected, incomes that borrowers might be able to lend against, particularly for potential clients with low overall 'debt capacity' (von Pischke 1991). Section 1.2.2 elaborates on this literature with particular reference to the potential for reducing loan monitoring, screening and enforcement costs through group lending.

The second strand of literature explores impact pathways of microfinance on enterprises, households, and individuals. We take account of the ways communities assign access to livelihood opportunities, and how problems of access to credit, their income and consumption smoothing opportunities can at least partially be overcome by engagements with MFIs. Section 1.2.3 elaborates on this literature.

Theory of Group liability on repayment performance

The first wave of theoretical work on microfinance focused exclusively on joint liability. The term joint liability can be interpreted in several ways, which can be lumped under two categories. First, under explicit joint liability, when one borrower cannot repay her loan, group members are contractually required to repay in her stead. Such repayments can be enforced through the threat of common punishment, typically the denial of future credit to all members of the defaulting group, or by drawing on a group savings fund that serves as collateral. Second, the perception of joint liability can be implicit. That is, borrowers believe that if a group member defaults, the whole group will become ineligible for future loans even if the lending contract does not specify this punishment. One form in which this can happen is if the microfinance organization itself chooses to fold its operations when faced with delinquency.

Ghatak and Guinnane (1999) review the key mechanisms proposed by various theories through which joint liability could improve repayment rates and the welfare of credit-constrained borrowers. These all have, in common, the idea that joint liability can help alleviate the major problems facing lenders — screening, monitoring, auditing, and enforcement — by utilizing the local information and social capital that exist among borrowers. In particular, joint liability can do better than conventional banks for two reasons.

First, members of a close-knit community may have more information about one another (that is, each other's types, actions, and states) than outsiders.

Second, a bank has limited scope for financial sanctions against poor people who default on a loan, since, by definition, they are poor. However, their neighbors may be able to impose powerful non-financial sanctions at low cost. An institution that gives poor people the proper incentives to utilize information about their neighbors and to apply non-financial sanctions to delinquent borrowers can do better than a conventional bank.

Theory of Fair Interest Rates on Microcredit

Microcredit pertains to the unexpectedly high rates of interest charged on microloans. Microcredit is supposed to be to the advantage of borrowers in some of the poorest regions of the world, but at the same time commercial institutions need to cover their comparably high costs. This article seeks to find a theoretical basis for a more balanced way of setting prices on microcredit; i.e. a theory of fairness in interest rates. By drawing on both contemporary debates in the industry as well as more general philosophical ideas, the article discusses four main theoretical approaches. In the end the authors favour a combination of consequentialism and liberal galitarianism which seems able to adequately balance the needs of the institutions with the needs of the clients. However it is also acknowledged that further research in the area is needed. **(Marek Hudon and Joakim Sandberg, 2011)**

Entrepreneurship Theory & Practice

Microfinance is stimulating entrepreneurial activity in developing and developed countries. Although microfinance grew as a means of providing uncollateralized start-up loans to groups or individuals living in poverty, today, it reflects a range of financial services including debt and equity financing, insurance, savings, and retirement plans. Denominated in relatively small amounts, microfinance instruments provide entrepreneurs with financial services that are difficult for them to acquire otherwise. As its popularity has grown, the provision of microfinance has become a contested terrain. Banks, savings and loan organizations, for-profit investment funds, insurance companies, and mobile network operators are all vying for a share of the microfinance market. In addition, individuals have new opportunities to

participante in micro finance as microbandes and microlenders. Révolutionner développements in technology are also changing the landscape of entrepreneurial financing, and, in the case of new technology and media ventures, may be superseding the traditional role of seed venture capital. Specifically, mobile technologies, social networking tools, and crowdfunding mechanisms make it easier to pool and distribute small amounts of seed capital from individuals who want to invest in or lend to entrepreneurial ventures. The evolution of microfinance is accelerating, yet our understanding of the effects that it has on entrepreneurs starting and growing new ventures remains in its infancy.

A Positive Theory of Social Entrepreneurship

Social entrepreneurship, commonly defined as “entrepreneurial activity with an embedded social purpose” (Austin, Stevenson, & Wei-Skillern, 2006), has become an important economic phenomenon at a global scale (Mair & Marti, 2006; Zahra, Rawhouser, Bhawe, Neubaum, & Hayton, 2008). Some of the most striking social entrepreneurship innovations originate from developing countries and involve the deployment of new business models that address basic human needs (Seelos & Mair, 2005), such as the provision of low-cost cataract surgeries to cure blindness or the deployment of sanitation systems in rural villages (Elkington & Hartigan, 2008). Yet, social entrepreneurship is a vibrant phenomenon in developed countries as well. For example, according to the Global Entrepreneurship Monitor 2005 survey, an estimated 1.2M people in the UK (representing 3.2% of the working age population) are social entrepreneurs (defined in the survey as being involved in founding and running a social oriented venture younger than 42 months). Given that the comparable number for commercial entrepreneurship is 6.2%, these data raises the intriguing possibility that social entrepreneurship may be almost as important a phenomenon as commercial entrepreneurship (Harding, 2006).

Although social entrepreneurs usually start with small, local efforts, they often target problems that have a local expression but global relevance, such as access to water,

promoting small-business creation, or waste management. The innovative solutions that social entrepreneurs validate in their local context often get replicated in other geographies and can spawn new global industries (Zahra et al., 2008). An example is the growth of the microfinance industry throughout the world (Seelos et al., 2005). Social entrepreneurship is thus having profound implications in the economic system: creating new industries, validating new business models, and allocating resource to neglected societal problems.

These developments have started to spark academic interest. Practitioner oriented research and several books focused on social entrepreneurship have been published in the last 3 few years (Dees, Emerson, & Economy, 2001; Elkington et al., 2008; Nichols, 2006). Business schools which, with a few exceptions (Dees, 2001), had largely ignored this phenomenon, have been joining the field in the last six years by creating academic centres and developing new courses and research (Mair et al., 2006). Yet, and despite the increasing academic interest in social entrepreneurship, the management field still lacks a good conceptual understanding of the economic role and logic of action of social entrepreneurship. Definitions abound - a recent paper summarized twenty of them (Zahra, Gedajlovic, Neubaum, & Shulman, Forthcoming) - but they are usually driven by practice rather than theory (Mair et al., 2006). Current research typically (and tautologically) define social entrepreneurs as entrepreneurs with a social mission (Dees, 2001; Martin & Osberg, 2007) and considers social entrepreneurship as entrepreneurial activity with an embedded social purpose (Austin et al., 2006). Definitions are then derived from the integration of these two concepts – entrepreneurship and social (Mair et al., 2006; Martin et al., 2007). Social entrepreneurship has also been called the simultaneous pursuit of economic, social, and environmental goals by enterprising ventures (Haugh, 2007). One approach offers a more idealized view of social entrepreneurs as change agents in the social sector (Dees, 2001). This approach contrasts with more pragmatic definitions that see social entrepreneurship as the generation of earned income by ventures in the pursuit of social outcomes (Bosch, 2001).

The concept of social entrepreneurship has thus become a large tent (Martin et al., 2007) where many different activities are finding a home under a broad umbrella of “activities and processes to enhance social wealth”(Zahra et al., Forthcoming) or “entrepreneurship with a social purpose” (Austin et al., 2006). As a consequence, the concept of social entrepreneurship is poorly defined and its boundaries with other fields of study remain fuzzy (Mair et al., 2006).

Repayment performance

The borrower’s ability to pay installments and interest on the loan is the number one requirement for getting a loan. What is crucial here is that the applicant’s income is regular and that loan repayments leave the applicant with enough money for other expenses and living. The borrower is required to disclose his or her income, expenses and debts. To avoid excessive indebtedness, it is necessary to include servicing costs on other loans in the expense calculation. Any guarantees or pledges issued by the borrower are also taken into account, as they may lead to further indebtedness if the borrower becomes liable to pay under the commitments (Finland, 2007)

Loan funds

The first approach made by the government of Tanganyika toward providing credit to farmers was during the World War II when it granted loans to promote agricultural production to alleviate food shortages. This was followed after the war by establishment of the African Loan Funds. The Local Development Loan Fund and the African Productivity Loan Fund were set up in 1947 and 1955 respectively to provide special credit facilities as a means of increasing the productivity of the peasant farmer and of promoting projects that would generally aid production in the Territory. After the war some of the native Authorities and cooperatives also started to make loans to African farmers (Binhammer, 1975)

Credit defaults and repayment capacity

The majority of small credit program has been affected by serious defaults rates ranging from 50% to as high as 80%, have been reported in small credit programs in Africa, Asia and Middle East (Kashuliza, *et al.*, 1986)

There is an opinion that credit program supported by funds from the external aid agencies often encountered loan repayment problems simply because both borrowers and lending institutions take loan recovery rather lightly. She observed that unwillingness to impose sanctions by the lending organization allows willful defaulters to go free as the respective organization can't pressure the borrower to meet their loan repayment obligations (Biseth, 1987).

The lower the proportion of the cost of an investment financed by borrowing, the lower the risk to the lending institution. Borrowers should always be encouraged to contribute as high as proportion of the cost of the proposed loan as possible from their own resources rather than a fixed minimum percentage (FAO, 1989)

It has been observed that the inefficiency or the absence of registration titles or title deeds often constitutes as a serious handicap to the supply of credit in cases where security of landed property is required. In this respect several governments of developing countries could make a valuable contribution to the expansion of agricultural credit by taking steps to organize and keep up to date efficient systems of registration of title deeds which enable agricultural credit institutions to determine with a sufficient degree of accuracy the existence of rights in land (FAO, 1989)

Microfinance, Repayment and Delinquency

A microfinance portfolio even with very low arrears can, within a few months, exhibit a dramatic rise in arrears, which can destroy the MFI" (Norell 2001). The risk that the borrower tends not to repay the interest and or the principal of the loan that he has received normally expressed as Credit Risk. In point of fact credit risk can be explained further as a risk of an unexpected change in the credit worth of the borrower that may go below the value of the loan. Credit risk, is not only taking into

consideration the amount which is expected not to repay but also taking into consideration the inestimable value of the borrowers down grading. The effect of increased credit risk will smash up the whole group as it will reduce the total capital of the group and also the respect of members within the society.

In the micro finance, the insolvency loss effect is the main element of credit risk. In microfinance the two important factors for delinquency or arrears are the interest rate and the installment of repayment. Members within a group need to consider the capital, donations, outside interest rate by other institutions and provisions for risk and profit while they decide about the rules and regulation for the whole system of micro finance for the group, and also decisions on interest rates (Torre and Vento 2006).

Schreiner (2004) in one of his researches had mentioned that micro lenders provide small, short, unsecured loans to the self-employed poor people using microfinance as a strategy. Some of these borrowers have collateral for their loans, credit bureau records, or formal day pay jobs. In the past, lenders main challenge was to guess the risk of lending to the borrowers in microfinance. So it was hard for them to calculate the risk and to set up a suitable interest rate. The lenders were accused for usury if they set the interest rates of loans to overcome the costs of small loans, but if the lenders tend to set lower rates, then they will be in greater risk of losing money through interest (Schreiner 2004).

According Bond and Rai (2002), microfinance has defined a new way to reduce the cost of judging the credit risk of the self-employed poor in savings and credit groups as the responsibility is being partially passed on to that particular group itself. The group members are from the same community and know each member and their attitude it will be easy to them to judge the credit risk. At the other hand individual lenders control the risk through complete evaluations of the borrowers and their businesses, regular repayments, step of loan sizes, and collateral (Bond and Rai, 2002; cited by Schreiner 2004).

Desai (2007), in his work had mentioned the common practices for micro finance, regardless of the environments in which they function. "These are pinched from the Micro enterprises best practice project and do not abuse the idea that improvement strategies be context precise and not one-size-fits-all" (Desai 2207). The first common practice mentioned is that the service can be changed as to the local consumer population. This includes contribution and short-term loans or small loan, opening offices in available locations. The other practice is to function efficiently so that the MFIs can keep the costs down; like any other regular business. The decrease of unit costs will eventually benefit to the customers as it will bring down the minimum interest rates or functional and processing fees. The last one is that the on time repayment income, in which MFIs must concentrate a great deal and must encourage clients continuously.

Nature and character of Micro Finance Institutions

It is said that MFIs cater for the needs of the poor without imposing cumbersome conditionality inherent in the traditional banking system. Yet providing at the same time mechanisms that will ensure maximum loan repayment (Benedict, 2001). Micro finance entails development of appropriate financial institutions for mobilizing financial resources from small urban and rural servers and directing credit to Small and Micro enterprises (SMEs) and small scale farmers (SSFs) who do not have access to credit facilities from the established commercial banking system (Benedict, 2001). Methods of financial services delivery in micro-financing are devised in such a way that services are appropriate for the target market and yet avoid obstacles that inhibit traditional financial institutions from reaching these SMEs and SSFs. Most formal banking institutions avoid lending to these groups of people. Limited capital and lack collateral make them from the point of view the banks, risky borrowers. In addition, they do not seem profitable to commercial banks because they require high supervision and administration. MFIs seek to reach out to those vulnerable groups especially women, the landless and unemployed.

Most MFIs have faith in lending to poor women rather than men because they consider women as more responsible and trustworthy. Goetz and Gupta (1994) have

observed that women may be preferred to men as participant of micro-credit programmers because they are seen to be more reliable and tractable and are easier for field workers to access. In addition, different research findings (Rattus, 1998, and Philemon, 1996)) suggest that women are regular borrowers of MFIs. This is due to the fact that most women did not receive appropriate education which could give them a chance to be employed in the formal labor market. As a result women tend to employ themselves in micro and small scale businesses for the ambition to receive income and sustain their families.

Role of Microfinance Institutions

Microfinance has played a great role in provision of a broad range of financial services such as deposits, loans, payment services, money transfer, and insurance to poor and low income households and their micro enterprises. On top of it other non financial services such as training and business advice are provided by Microfinance.

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 Tanzanian population. In Tanzania, before the current financial and banking restructuring took place, most of financial services for rural, small and medium enterprises were offered by the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB).

Microfinance credit and SME enterprises' Performance

The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (SMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services.

There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most

cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million.

As referred from Microfinance development policy 2002 of the United Republic of Tanzania SME's defined basing on number of employees and capital, see the table below:

Table 2.1 Categories of SMES in Tanzania

Category	Number of Employees	Capital Investment
Micro-Enterprises	1-4 Employees	UP TO 5M
Small Enterprises	5-49 Employees	Above 5M-200M
Medium Enterprises	50-99 Employees	200M-800M
Large Enterprises	100 and above	Above 800M

Source: United Republic Of Tanzania, Small and Medium Enterprises Development Policy 2002.

Kessy and Urio, (2006) came with the following results; much of the study's data indicates that MFIs improve the business of SME's. Of the research sample, eighty one percent SME's experienced increased levels of profit after receiving loans from MFIs, fifty percent of observed SME'Ss stated their income levels were higher after attaining an MFI loan and ninety eight percent answered that access to MFI loans is influential to their plans for future expansion of their businesses.

Another portion of data displays that fifty two percent of the studied SME's considered financial services rendered by MFIs as not helpful, due to undersized loans and short timelines for loan repayment. Forty eight percent asserted that interest rates for loans from MFIs were too high.

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.

Importance of Small and Medium Enterprises

It is estimated that about a third of the GDP originates from the SMEs sector. According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons that were about 20% of the Tanzanian labor force. Though data, the SMEs sector are rather sketchy and unreliable, it is reflected already in the above data that SMEs sector plays a crucial role in the economy.

Since SME's tend to be labor-intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labor force every year. About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labor market, leaving about 660,000 to join the unemployed or the underemployed reserve. Most of these persons end up in the SMEs sector, and especially in the informal sector. Given the fact that Tanzania is characterized by low rate of capital formation, SMEs are the best option to address this problem. SMEs tend to be more effective in the utilization of local resources using simple and affordable technology. Also play a fundamental role in utilizing and adding value to local resources. In addition, development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, technologies are easier to acquire, transfer and adopt. Also, SMEs are better positioned to satisfy limited demands brought about by small

and localized markets due to their lower overheads and fixed costs. Moreover, SMEs owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation.

Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where SME's and large enterprises not only coexist but also function in a symbiotic relationship. However, the linkages between SMEs and large enterprises are very weak in Tanzania. SMEs development policy creates the potential for enhancing linkages within the economy. In addition, SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations.

There are also opportunities indicating a bright future for SMEs sector development in Tanzania. This includes the various on-going reforms that are oriented towards private sector development and, thus, lay the ground for SME's development. In addition, the recognition of SME sector that it has higher potential for employment generation per capital invested attracts key actors to support SMEs development programmers. Since SMEs Development does contribute significantly to poverty alleviation, resources earmarked for poverty alleviation will also be availed to the SME sector. Given the fact that Tanzania is endowed with abundant natural resources, the creation of enabling business environment will facilitate exploitation of these resources through SME's. This is again an opportunity for SME's development.

2.4 Empirical Studies

Quite several studies have been conducted in different developing countries regarding micro credit performance in terms of loan repayment and impact .We begin by those that focus on factors affecting loan repayments in Microfinance:

2.4.1 Tanzania Case

Krain (1994) provided more causes for low repayment as occasional debt forgiveness, lack of good marketing facilities, deficient technical package, lack of

inputs and transport facilities and low unstable prices. Citing a specific case, he notes that Zanzibar State Trading Corporation as by 1992 was unable to recover Tshs 42 million from clove growers. Low loan recovery of around 40% was caused by those farmers who managed to get away by not repaying their loans and thus setting a bad example to those who had paid back in time and fully.

According to the tendency of politicians to exempt farmers from payment has, to a large extent, affected the loan repayment performance of a small credit scheme for rice farmers of Zanzibar. The catastrophic effect of political decisions to ignore outstanding debts is to create expectation that future accumulations of arrears will be treated likewise. Similar outcomes were observed with credit programmes for fisheries in Zanzibar. The precondition for getting a loan was that the applying fishermen had to form cooperatives. In response to this requirement, several cooperatives were hastily formed and most of them included members who were not fishermen, a situation which caused a big portion of the fund not to be used for the intended purposes and to remain in arrears. The biggest trouble lies with the adjustable loans that begin with artificially low interest rates. Those rates may only last for a month, a year, or two years, and then comes a "payment shock" as the rates reset in ways that can double the required payments (Krain, 1994).

Kashuliza(1993) used a linear regression model to analyze determinants of loan repayment in smallholder agriculture in the southern highlands of Tanzania. His study showed that level of education, attitude towards repayment, farm income and off-farm income positively affect loan repayment with farm income being significant, while age, household expenditure and household size have negative influence on loan repayment performance with household expenditure being significant.

2.4.2 Abroad Case

Earlier this year, an analysis by First American Real Estate Solutions in Santa Ana, Calif., estimated that \$368 billion in adjustable-rate mortgages originated in 2004

and 2005 are at risk of default because of this pattern. Many more borrowers with traditional ARM (Adjustable-Rate Mortgage) loans also face the prospect of rising interest rates, but of a more manageable magnitude.

"This translates into 1.8 million families that are at risk as a result of the possibility of default and another 500,000 that are likely to go into foreclosure," Allen Fishbein of the Consumer Federation of America said last week at a Senate hearing on nontraditional mortgages (Adams, *et al.*, 1979)

Ajayi (1992) employed correlation and multiple regression analysis in his study about factors affecting default in residential mortgages of the Federal Mortgage bank of Nigeria. His results revealed that cost of construction, monthly repayment, loan to value ratio, market value of property, age of borrower and annual income of borrower enhance loan defaults, while expected rental income from property reduces loan default.

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

Zellar (1996) analyzed the determinants of loan repayment of credit groups in Madagascar with the purpose of quantifying the effect of intra-group pooling of risky assets or projects by controlling for community level and program design factors that influence the repayment rate of group loan. He employed a tobit model using a data set on groups from six different lending programs. The results showed that socially cohesive groups pool risks by diversifying the members' asset portfolio so that their repayment performance is improved even in communities with high risk exposure. Groups with higher level of social cohesion as measured by the number of common

bonds, have a better repayment rate. Moreover the results also indicated that it is not the level of physical and human assets of group members but the degree of variance of such assets among members that leads to better repayment, by pooling risks among group members.

Njoku and Odii (1991) studied determinants of loan repayment under the Social Emergency Loan Scheme in Nigeria. Their study showed that late release of loans, complicated loan processing procedures, loan diversion to non- agricultural enterprise low enterprise returns resulting from low adoption rate of improved agricultural technologies and emphasis on political considerations in loan approvals contributed to poor loan repayment performance of small holders. Loan volume, years of formal education, household size and interest paid on loan were found to positively and significantly affect loan repayment; while years of farming experience, loan period, farm size, farming as major occupation, farm output and value of assets were found to negatively and significantly affect loan repayment.

Chirwa (1997) used a probit model to estimate the probability of agricultural credit repayment in

Malawi. The result indicted that crop sales, income transfers, degree of diversification and quality of information are positively related while size of club is negatively related to the probability of repayment. Other factors like amount of loan, sex, household size and club experience were found to be insignificant.

The other important study is that by Arene (1992). He evaluated the credit delivery system of Supervised Agricultural Credit Schemes among smallholder maize farmers in Nigeria employing multiple regression analysis. The analysis indicated that loan size, farm size, income, age, number of years of farming experience, level of formal education and adoption of innovation are significantly and positively related to repayment rate. Distance between home and source of loan, household size and credit needs were found to be negatively related to repayment rate.

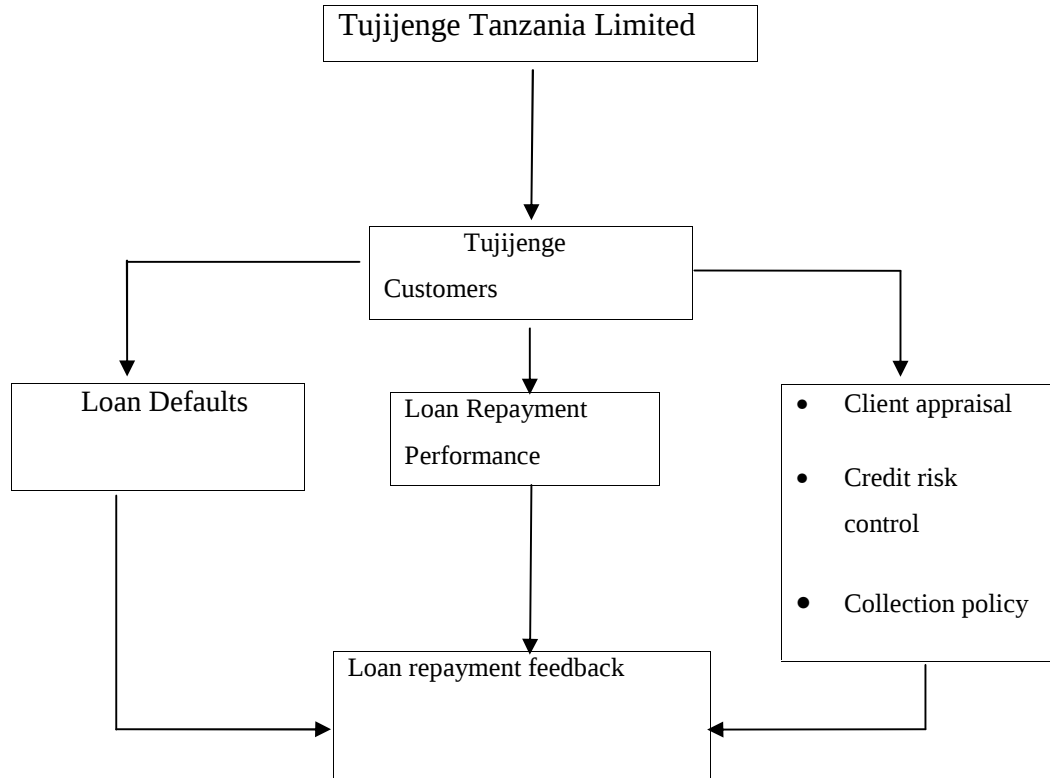
Adeyemo (1984) used descriptive analysis on loan delinquency in multipurpose cooperative union in Kwara state, Nigeria. The result showed that natural calamities, crop failure due to pest, poor storage facilities, lack of adequate transport facilities, sales income, farm size, education, tenure status of borrowers are factors associated with loan delinquency.

The Study by Hunte (1996) examined repayment behavior of borrowers and the credit rationing technology of lenders in a rural financial institution, Hunte estimated loan rationing and loan repayment equations using tobit model and found out that only 33% of the criteria utilized identified credit worthy borrowers implying that the screening system was not efficient. Impact analysis for any credit program is essential to evaluate the success of the program or to see whether the program brings the desired benefits to the target groups. In recent years impact assessment has become an increasingly important aspect of development activity as agencies, and particularly aid donors, have sought to ensure that funds are well spent (Hulme, 2000).

Conventionally, economic indicators have been widely utilized in assessing the impact of micro finance where analyzers are particularly interested in measuring changes in income, expenditure, consumption and assets. Recently, social indicators such as educational status, access to health services, nutritional levels, contraceptive uses, etc., together with the above economic indicators have been used to assess impact of micro finance on the beneficiaries (Ibid).

2.5 Conceptual Framework

Figure 2.1 Loan repayment conceptual frameworks



Source: Research field data, 2013

2.7.1 Variables Interconnectivity

Microfinance institution extends credit to a customer, then the credit terms will specify the credit period and interest rates, this therefore will have an effect on the performance of loans since it stipulates the time of loan repayments hence creating a timely repayment and decrease in default rate. Client appraisal helps MFIs to improve loan performance, as they get to know their customers. These 5Cs considered in client appraisal are character, capacity, collateral, capital and condition. Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. Such an event is called a default. Credit risk controls has an effect on timely repayments and decrease in default rate. They are risk based pricing,

tightening, diversification etc. Collection policy is needed because all customers do not pay in time some customers are slow payers which some are non-payers.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section presents the methodological approach which was used in this study. It covers the description of the study area, research design, sampling procedure, and data collection procedures and data analysis.

3.2 Research Design

Is a detailed outline of how an investigation done, the research design typically include how data was collected, what instruments were employed, how the instruments was used and the intended means for analyzing data collected.

A cross-sectional research design was applied in this study. The cross-sectional research design is a design that, allows data to be collected at a single point in one time and used in descriptive study and for determination of relationships of variables (Babbie, 1990). This type of research design was considered to be favourable because of resources limitations and time for data collection.

3.3 Research Setting

Tujijenge Tanzania operates on 3 regions in Tanzania which include Dar Es Salaam, Mwanza and Mara. It has 5 networking branches. Based on financial constrains and time the study was carried out in Dar es Salaam, Tanzania, where Tujijenge Tanzania has three branches Makumbusho, Tazara and Mbagala. These three branches in Dar es Salaam have 70% (6,800) of Tujijenge customers.

3.4 Population

The study was carried out in Dar es Salaam, Tanzania. The city is located on the coast belt between latitude 660 and 714 south of equator and longitude 3912 and 3967 east of Greenwich. Administratively the City is divided into three

municipalities of Ilala, Kinondoni and Temeke. The city is located between latitude 70° North and 39° East at 10 meters above sea level. Dar es Salaam is a commercial city with a population of 2.5 million according to the 2002 census data and an annual growth rate of 4.3% (URT, 2003b).

3.5 Sampling Technique and Sample Size

There are a variety of different sampling methods available to researchers to select individuals for a study. Sampling method fall into two categories:

Probability sampling: Every individual in the population is known and each has a certain probability of being selected. A random process decides the sample based on each individual's probability.

Non-probability sampling: The population is not entirely known, thus individual probabilities cannot be known. Common sense or ease is used to choose the sample, but efforts are made to avoid bias and keep the sample representative.

Simple random is an example of probability sampling. This is when a list containing all of the population is created and used to obtain participants by random selection. This random selection guarantees that each individual has an independent and equal chance of being selected. This method is very fair, unbiased and easy to carry out. therefore for this study a convenience and simple random sampling techniques were used in this study to select MFI where by one MFI was selected for the study. Due to shortage of fund, illiteracy and time resources, a list of borrowers was taken and a proportional sampling technique was employed to obtain true representative members from each group. The respondents was drawn using simple random and convenience sampling techniques, therefore the sample size was comprised of 100 respondents out of 6800 customers from Tujijenge Dar Es salaam branches

3.6 Data Collection

3.6.1 Primary data

The primary data was obtained through interviewing the respondents (borrowers) by using structured questionnaires having both open and close-ended questions and from lenders by using checklist.

3.6.2 Secondary data

Secondary data was collected from records, reports and published documents obtained from the MFI and other financial Institutions.

3.7 Data processing and analysis

The collected data was sorted, coded and summarized prior to analysis.

The factors affecting loan repayment performance was assessed using a regression analysis:

Loan repayment = f (Household income, education level for the head of household, interest rate, payback period) i.e. $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_n X_n$

Where; Y = Dependent variable (Loan repayment)

α = Constant/intercept

β = Coefficients

X1 = Household annual income (Tshs/year)

X2 = Education level for the head of household (number of years in school)

X3 = Interest rate (%)

X4 = Amount of loan taken (Tshs)

X5 = Grace period (months)

X6 = Repayment period (months)

X7 = Value of household assets (Tshs)

X8 = Family/household size (Adult labour equivalent)

The performance of MFIs in repayment performance was assessed in terms of:

- i. Loan portfolio (different groups of borrowers)
- ii. Competence of staff members (knowledge on loan)
- iii. Objectivity of the firm (e.g. money intended to be lent if met)

The causes of loan diversion by borrowers will be evaluated using the following yardsticks:

- a) Intended goal or reason for borrowing
- b) Type of loan i.e. cash or equipments like tractor
- c) Product of the loan (Does it generate income?)

CHAPTER FOUR

PRESENTATION OF FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the findings. Data are presented and analyzed according to research questions. Findings are presented in statistical tables and percentages. Basic characteristics of the sample borrowers are presented followed by the results of regression analysis.

4.2 Demographic characteristics of the respondents

4.2.1 Sex of the respondents

The table below shows the sex of the respondents.

Table 4.1 Sex of the respondents

Gender	Frequency	Percent
Female	74	74
Male	26	26
Total	100	100.0

Source: Research field data 2013

The table 4.1 indicates that majority of respondents (74%) were females while minorities (26%) were males. This implies that the study involved more females than males. This happened because Tujijenge gives small loans which most qualified customers are female. Female are busy with small activities than men.

The composition of both female staff members and female clients was higher than that of males, as far as table 4.2 is concern

When questioned about this unfair distribution, the branch manager explained that females tend to be honest in their dealings with clients and so efficient service delivery and those female customers were more than their male counterparts because women have been highly marginalized in the society and so they have embraced

microfinance as a way of elevating themselves from poverty. When one male was asked to comment on the same issue, he said that “there is a poor perception among men that microfinance is basically a government program to benefit women only, hence, they have tended to ignore it”.

Table 4.2 Gender of staff

Gender	Frequency	Percent
Female	69	69
Male	31	31
Total	100	100.0

Source: Research field data 2013

4.2.2 Marital status of the respondents’

Marital status of the respondents was another interest of the researcher in the sense that it explains the extent of one’s responsibility, therefore it was investigated and the following table shows the response.

Table 4.3 Marital status of the respondents

Marital status	Frequency	Percent
Married	41	41
Single	43	43
Divorced	16	16
Total	100	100.0

Source: Research field data 2013

According to the table 4.3, 43% of the respondents which is the biggest percentage were single while 41% and 16% of the respondents married and divorced respectively. The analysis helped the researcher to deeply understand Tujijenge’s clients and compare the rate of loan default and their responsibilities. Findings revealed the majority singles indicated poor loan repayment simply because they can

easily switch from one area to another in case legal actions were applied, the second biggest percentage who were married had few chances to move from one locality to another since they were established and were constrained by their family responsibilities much as they can default just like singles. Whereas the 16% who still borrow from Tujijenge MFI as they also involve in business ventures and are divorced exhibited higher chances of defaulting, this is complimented by the fact that they themselves failed to manage their homes.

4.2.3 .Age structure of the respondents

It was also found necessary to establish the age groups of the respondents since it could explain the perspective in which loans acquisition is viewed.

Table 4.4: Age of the respondents

Age	Frequency	Percent
Under 25	10	10
26-35	28	28
36-45	47	47
Above 46	15	15
Total	100.0	100.0

Source: Research field data 2013

In accordance with the table 4.4, 47% of the respondents were in the 36-45 age groups which were the majority. 28% were between 36 and 45 years, 15% which is above 46 years while 15% which is the minority were under 25years. This indicates that most of the clients are already married, established and mature to organize and borrow money for income generating projects. Below 25 years, they are not economically and physically active.

4.2.4 Education levels of the respondents

The education level was also considered important and therefore worth examining. The following table shows the results.

Table 4.5 Education level of the respondents

Education level	Frequency	Percent
Primary	50	50
Diploma	40	40
Degree	10	10
Total	100	100.0

Source: Research field data 2013

On this table 4.5 indicates that Tujijenge clients are fairly educated able to have capacity to understand questionnaires and answer accordingly. 10% of the respondents were found to be at the degree level, 40% were at diploma level while the majorities (50%) were found to be at the primary level. However, poor credit management was also found among the degree and diploma holders despite their ability to understand all necessities regarding loan management. This therefore showed that the problem does not only come from customer's side but also from Tujijenge's inadequate application of tools of credit policy management.

4.3 Existing credit policies and procedures in Tujijenge Tanzania

The study sought to establish the different credit policies employed in Tujijenge Tanzania. Different questions were asked and responded to by different respondents in a bid to achieve the objective. The following are the findings.

4.3 Credit policy analysis

4.3.1. Credit standards

Credit standards were set in order to identify the credit worthy clients so that the institution maximizes the revenue and minimizes bad debts. The application of the

clients is investigated basing on the character, capacity, collateral security, capital and economic condition, credit standards were the yardstick for measuring the risk level of a client. This result to each element of credit standard were as follows

4.3.1.1 Character assessment to measure the risk level of Tujijenge clients

Consideration of client's characters before extending a loan was also another aspect to be investigated by the researcher.

Table 4.6 Response on whether Tujijenge considers client's character for loan extension.

Response	Frequency	Percent
Strongly agree	39	39
Agree	52	52
Not sure	7	7
Disagree	2	2
Total	100	100.0

Source: Research field data 2013

According to the table 4.6, the respondents who strongly agreed and the ones who agreed were the majority taking the same percentage of 91% while those who were not sure and the ones who disagreed were 7% and 2% respectively. The findings revealed 91% unanimously agreed that Tujijenge considers client's character before extending the loan but then poor loan recovery has continued to increase, it means Tujijenge needs to review the implementation, monitoring and evaluation of its credit policies to revive its glory.

4.3.1.2 Collateral security assessment.

To find out whether Tujijenge considers a person's collateral before giving out a loan was also inevitable since it is a major tool in effective loan recovery. The following were the results

Table 4.7 Consideration of collateral

Response	Frequency	Percent
Strongly agree	63	63
Agree	37	37
Total	100	100.0

Source: Research field data 2013

The analysis on table 4.7 shown that 63% of the respondents which was the majority strongly agreed where as 37% agreed. This is in a bid to safeguard their money extended to clients through loans. Because clients can at any time default or change location hence this is a better control measure in the loan recovery.

4.3.1.3 Respondents view on whether Tujijenge considers financial status before extending the loan.

The researcher continued to find out if the economic condition of a client was always put into consideration before he is given a loan. The following are the findings as shown in the table below.

Table 4.8 Analysis of customer's financial status.

Response	Frequency	Percent
Strongly agree	15	15
Agree	12	12
Not sure	45	45
Disagree	28	28
Total	100	100.0

Source: Research field data 2013

It was observed that on table 4.8, 45% of the respondents was not sure if the economic condition was considered before a person could get a loan. 28% disagreed, 15% strongly agreed while 12% of the respondents agreed. The analysis shows that

the majority clients were ignorant about the question that is 45% and 28% who were not sure and disagreed respectively where as 15% and 12% strongly agreed and agreed that Tujijenge considers client's financial stance before extending the loan to them. However, all in all Tujijenge considers client's financial position before extending the loan to them in an attempt to reduce bankruptcy exposures and also reduce advancing credit to unworthy clients.

4.3.1.4 Assessment of the prevailing economic conditions.

Given the relevancy of the financial status of a client before a loan can be extended, the researcher had to find out if the prevailing economic conditions of a country are considered in order to give out loans. The table below summarizes the findings.

Table 4.9 Relevance of the prevailing economic conditions

Response	Frequency	Percent
Agree	43	43
Not sure	26	26
Disagree	20	20
Strongly disagree	11	11
Total	100	100

Source: Research field data 2013

The table 4.9 shows that 43% of the respondents agreed that economic conditions are considered. 26% were not sure, 20% disagreed while the rest that comprised 11% strongly disagreed. The results from the respondents show that they were ignorant and illiterate about the question. However, although Tujijenge considers this factor, loan repayment was still a problem. In order to ensure repayment from clients, these conditions such as political and economic factors need to be considered. Loans should not be given to clients during inflationary conditions or given to clients during instabilities due low returns expected.

4.3.1.5 Customer's capacity assessment

During the study, the researcher found it necessary to establish whether the client's capacity to pay back the loan in a given loan period is considered by the Microfinance.

Table 4.10 Clients' capacity to pay back

Response	Frequency	Percent
Strongly agree	23	23
Agree	49	49
Not sure	8	8
Disagree	20	20
Total	100	100

Source: Research field data 2013

From the table 4.10, the majority of the population (49%) agreed. It was followed by 23% which strongly agreed, 20% disagreed while 8% of the respondents were not sure. The loan officer assessed by looking at clients past records such as earnings, debt load and savings. However, findings revealed that where clients were not able to pay back the loan in time, their pledged property (personal assets) or tangible businesses could be sold in a bid to regain the principal. Besides this, legal actions such as imprisonment could be taken against the borrower.

4.3.1.6 Trust assessment of customers

The researcher continued to find out if trustworthiness of the customer was considered before a loan could be extended and the following were the results.

Table 4.11: Trust of the customers

Response	Frequency	Percent
Strongly agree	34	34
Agree	49	49
Not sure	3	3
Disagree	14	14
Total	100	100

Source: Research field data 2013

From the analysis on table 4.11, it can be seen that 49% of the respondents agreed, 34 % strongly agreed, 14 % disagreed while 3 % were not sure. The findings on the other hand revealed that despite the application forms which are not comprehensive enough to cater for all attributes of credit screening, there is no formal trust assessment mechanism in place.

4.3.2 Credit term analysis

The researcher sought to whether the credit terms such as credit period, loan size, interest rate to mention but a few could increase loan recovery in Tujijenge

4.3.2.1. Comfort ability of loan period analysis

Respondents were asked whether the customers were comfortable with the loan period extended to them. The following table shows the level of response.

Table4. 12: Comfort with the loan period

Response	Frequency	Percent
Agree	40	40
Not sure	11	11
Disagree	15	15
Strongly disagree	34	34
Total	100	100

Source: Research field data 2013

The results summarized in the table 4.12 show that 40% of the respondents agreed with the fact that customers are comfortable with the loan period extended to them, 34% strongly disagreed, 15% disagreed while 11% were not sure about it. The 40% besides being comfortable with the loan period, they also expressed that discounts were allowed to customers with prompt settlement of the loan this serves as an incentive to pay promptly, 11% showed they did not know what was happening, 34% and 15% strongly disagreed and disagreed that they are not comfortable with the loan

period given to them because have ever fallen victims to the application of law while enforcing payment from them.

4.3.2.2 Respondent's view on how good the loan size is.

Respondents were further asked whether the loan size that Tujijenge extends to clients was good.

The following table shows the level of response.

Table 4.13: Goodness of loan size.

Response	Frequency	Percent
Strongly agree	10	28.6
Agree	11	31.4
Not sure	8	22.9
Disagree	6	17.1
Total	35	100.0

Source: Research field data 2013

From the table 4.13, it is shown that majority of the respondents (31.4%) agreed, 28.6% strongly agreed, 22.9% were not sure while 17.1% disagreed. This implies that clients are satisfied with the size of the loans extended to them since it was commensurate with their standards of living and at the same time they are able to meet to loan obligations.

4.3.2.3 Analysis on the length of loan period.

Considering the length of the loan period, respondents had this to say in accordance with the table below.

Table 4.14: Response of the length of the loan period.

Response	Frequency	Percent
Less than 6 months	85	85
1 year	15	15
Above one year	0	0
Total	100.0	100.0

Source: Research field data 2013

The table 4.14 shows that majority of respondents (54.3%) acquired the loan for a period of less than six months. This implies that most of the loans extended have a life span of less than six months therefore no enough periods for the clients. The researcher concluded that the length of loan was insufficient in accordance to one's loan size. This however, raises concern that, the loan period might be the reason of poor loan recovery.

4.3.2.4 Respondent's view on loan amount asked for.

Tujijenge considered giving small loans to ensure quick repayment; nevertheless, loan default was steadily rising implying the existence of a problem in Tujijenge's policies. In response to the loan amount clients ask for, the table below shows the results.

Table 4.15: response to loan amounts asked for.

Response	Frequency	Percent
100,000-400,000	23	23
500,000-900,000	40	40
1,000,000-2,000,000	20	20
Above 2,000,000	17	17
Total	100	100

Source: Research field data 2013

From the table 4.15, 40% of the respondents ask for loans that range from 500,000 to 900,000 Shillings, 23% ask for the amounts from 100,000 to 400,000 Shillings, 17% ask for the amounts from 1,000, 000= to 14,000,000 while 20% ask for above 14,000,000. The results imply that Tujijenge cuts across all categories of people in loan offer a condition that encourages people from all walks of life to access loans for development.

4.3.2.5 Interest rate assessment.

The interest rate of loan offered by Tujijenge is 48 % per year and the monthly interest is 4% flat. The interest rate is set depending on loan period of the loan. Responses to the description of interest rates charged by Tujijenge Tanzania yielded the following information as shown in the table below.

Table4.16 Description of interest rates charged

Response	Frequency	Percent
Low	10	10
High	34	34
Fair	56	56
Total	100	100

Source: Research field data 2013

It is shown from the table 4.16 that 56% were convinced that the interest rate is fair, 34% said the interest was high because Tujijenge serves a number of customers who are scattered and so high operating cost. This interest rate was meant to cover operating cost and consequent burden is felt by borrowers while 20% claimed that the interest was low. This implies that the loans extended by Tujijenge Tanzania were client friendly.

4.3.3 Collection efforts analysis

Collection efforts determine the actual collection period that is procedures that the institution follows to recover payments of past dues. Like phone calls and individual visits.

4.3.3.1 Credit weekly deposits and meetings

Tujijenge requires its clients to meet weekly deposits. This method of payment is in a bid to secure their lending and minimized defaults. Tujijenge loans are in form of revolving funds administered which also constitute the payback period. It was also important for the researcher to find out if Tujijenge Tanzania requires clients to make weekly deposit in order to avoid default. The following responses were recorded

Table 4.17: Requirement to make weekly repayment

Response	Frequency	Percent
Agree	54	54
Not sure	20	20
Disagree	23	23
Strongly disagree	3	3
Total	100	100

Source: Research field data 2013

From the table 4.17, the majority (54%) agreed that clients are required to make weekly repayment in order to avoid default. They further expressed that they have to meet weekly for making repayment and discuss with loan officers regarding the business. weekly meetings did not give the opportunity to use credit to organize their businesses. 23% disagreed, 20% were not sure while 3% strongly disagreed. However, weekly meetings and repayment are meant to guarantee and enhance loan repayment together with interest rate payment.

4.3.3.2 Methods of communication to defaulting clients

The response on how Tujijenge communicates with its clients indicates that it was personal visit by loan officers and use of letters since telephones were expensive. The table below shows the list of methods used during loan portfolio collection and their frequency in use.

Table 4.18: Collection procedures or methods

Frequency and percentage

Method	Very common	Common	Not common	No opinion
letter	-	-	90 clients 90%	10 clients 10%
telephone	-	-	83 clients 83%	17 clients 17%
Personal visit	100 100%	-	-	-

Source: Research field data 2013

The results from table 4.18, indicated that 90(90%) out of respondents said letters were not commonly used in recovery procedures by Tujijenge, 10(10%) gave no opinion, 83(83%) said that telephones were also not commonly used, 17(17%) had no opinion while 100(100%) said that personal visits were very commonly used by loan officers. However, recovery rate is not all that successful due to other factors like deaths sickness and business failing hence need to revise its collection procedures such as credit screening, debt monitoring and consistency in delivery of letters and phone calls to remind its customers to pay.

4.3.3.3 Assessment of whether clients are reminded when to meet repayment

When asked how often customers are reminded in case of a default, the respondents had the following to say as summarized in the table below.

Table 4.19: Frequency of customer reminder

Responses	Frequency	Percent
Weekly	80	80
Monthly	16	16
End of contract	4	4
Total	100	100

Source: Research field data 2013

Table 4.19 shows that 80% said customers are reminded weekly, 16% said they are reminded monthly while 4% said they are reminded at the end of the loan period, this is in an attempt to reduce the rate of loan default and at the same time avoid unnecessary excuses from borrowers that they were not aware of payment date.

4.4 Findings on how loans are recovered in Tujijenge Tanzania.

The study still wanted to examine how loans are recovered in Tujijenge Tanzania. Different questions were asked and responded to by different respondents in a bid to achieve the objective.

The following are the findings

4.4.1 Use of legal means to enforce loan repayment

The respondents too were asked if the legal means are sometimes employed by the management when all other efforts failed. The following responses were recorded.

Table 4.20: Employment of legal means in loan recovery

Responses	Frequency	Percent
Strongly agree	36	36
Agree	57	57
Strongly disagree	7	7
Total	100	100

Source: Research field data 2013

The table 4.20 shows that majority of the respondents (57%) agreed that legal means were sometimes employed. 36% strongly agreed while 7% strongly disagreed. Never the less it has continued to register an increasing low loan recovery rate despite the use of legal means this was attributed to management laxity to effect legal actions after due dates.

4.4.2 Penalties assessment

These are used in loan recovery procedures to recover the loan. The researcher also asked if the customers can face penalties if they do not pay the loan in time. The following table shows the responses.

Table 4.21: Responses on use of penalties due to failure to pay in time

Response	Frequency	Percent
Strongly agree	57	57
Agree	30	30
Not sure	9	9
Disagree	4	4
Total	100	100

Source: Research field data 2013

The table 4.21 shows that the majority (57%) strongly agreed that customers face penalties if they do not pay in time. 30% agreed, 9% were not sure while 4% disagreed. The researcher found out that there was a penalty of 0.5% charged for every day of delayed payment. However despite penalties, clients still default due to some other factors like deaths, floods, sickness, business making losses and theft, thereby making chances to recover loans minimal.

4.4.3 Respondent's view on whether Tujijenge trains officers on loan recovery

The respondents were also asked whether loan officers are trained to recover loans from clients. The respondents gave the following responses.

Table 4.22: Training of loan officers in loan recovery

Response	Frequency	Percent
Strongly agree	40	60
Agree	10	27
Not sure	37	10
Disagree	13	3
Total	100	100

Source: Research field data 2013

According to the table 4.22, 40% of the respondents strongly agreed that the loan officers are trained while 10% of the respondents agreed; it was the same percentage as those who were not sure and those who disagreed. This was in a bid to effect

proper implementation of credit policy management though the results contradicted this objective. This was attributed to limited and inefficient collection policies to influence timing of collections or payments coupled by management laxity to effect legal actions.

4.4.4 Assessment of the loan percentage recovered

It was also equally important to ask the respondents the percentage of the loan disbursed to customers if it is paid back. The table below shows the responses.

Table 4.23: Responses to loan percentage paid back

Response	Frequency	Percent
Less than 50%	10	10
50%	36	36
Between 50-75%	31	31
Between 75-100%	23	23
Total	100	100

Source: Research field data 2013

From the table 4.23, 36% of the respondents said that 50% of the loan is paid back. 31%

Said that the percentage is between 50 and 75%, 23% said it is between 75 and 100% while

10% of the respondents said it is less than 50%.

The findings above depict that loans are recovered in varying ways relying on the ability of borrowers.

4.4.5 Regulatory framework influence

The researcher also asked whether the regulatory framework influences recovery of loans and the results were as below.

Table 4.24 Influence of regulatory framework on recovery of loans

Response	Frequency	Percent
Strongly agree	12	12
Agree	34	34
Not sure	52	52
Disagree	2	2
Total	100	100

Source: Research field data 2013

From the table 4.24, 52% of the respondents were not sure whether regulatory framework influences repayment of loans and this was the majority. 34% agreed, 12% strongly agreed while 2% disagreed. It was seen that proper regulatory body could determine the obligation set by the body for example to suit their client's needs. When the government or the association of MFI in Tanzania requires MFI to charge low interest rate (Fair) the blow is felt by this institution. Especially having extended the loan on a higher interest rate than the one recommended and in this case there is reluctance from customers to meet their loan obligations like monthly interest remittances inclusive

4.5 Regression results

In this study, a multiple linear regression was used to analyze factors which influence loan repayment. Table 12 shows parameter estimates of logistic model for factors influencing loan repayment.

The following multiple linear regression model was used in this study:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu$$

Where; Y = Loan repayment, X_1 = Household annual income, X_2 = Education level, X_3 = Composition of household labor size, X_4 = Value of household assets and X_5 = Amount of loan obtained. From the analytical model above; β_1 , β_2 , β_3 , β_4 and β_5 are the coefficients of the respective independent variables.

From the results of regression analysis, the parameter estimates of the explanatory variables would fit the regression equation as follows:

$$Y = -350509 + 0.018X_1 + 13134.201X_2 + 52015.043X_3 - 0.009 X_4 + 697590.9X_5$$

From the results of multiple linear regression;

Coefficient of multiple correlation (R) = 0.83. This implies that there was strong positive correlation between the five independent variables and dependent variable is high.

Coefficient of determination, $R^2 = 0.689$. This implies that 68.9% of the variation in loan repayment was accounted by the explanatory variables included in the model while the rest which is 31.1% is accounted by other explanatory variables which were not included in the model. Adjusted R^2 is 0.625 implying that 62.5% of the variation in loan repayment was due to the five independent variables included in the model and 37.5% is due to other variables that were not included in the equation.

Table 4.25 Parameter estimates of logistic model for factors affecting the repayment performance Dependent variable: Loan repayment

Model	Unstandardized Coefficients		T	Sig.
	B	Std Error		
(Constant)	-350509	542465.5	-.646	.524
Household annual income	.018	.009	1.932	.065
Education level	13134.201	131390.8	.100	.921
Composition of household labor size	52015.043	53900.909	.965	.344
Value of household assets	-.009	.004	-2.121	.044
Amount of loan obtained	697590.9	103060.5	6.769	.000***

Source: Primary data

From the results in the Table 24 above: The value of parameter estimate of annual household income is positive. This implies that if the household annual income increases by one unit regardless of other factors, the loan repayment performance

will increase by 0.018. The positive effect of annual household income on loan repayment can be attributed to the fact that households whose annual incomes are high are more capable of repaying loans than the families whose annual household incomes are low.

The value of parameter estimate of level of education is positive. This implies that the education level of the borrowers positively affecting loan repayment. This can be attributed to the fact that the borrowers who have higher level of education are likely to have more knowledge about loans' contracts, procedures for loan repayment and the consequences for delayed loan repayment, than borrowers with no or low level of education.

The value of parameter estimate of composition of household labor size is positive. This means that composition of household labor size positively affect loan repayment capacity. This can be attributed to the fact that borrowers with families composed of people who are able to work and earn income are more likely to be able to repay the loans than those families with many dependants.

The parameter estimate for value of household assets is negative. This implies that there is negative relationship between loan repayment capacity and value of household assets. This can be attributed to the fact that not all household assets are used in income generating activities. Furthermore, some of the borrowers use the money acquired through loans to purchase assets that cannot be used to generate income.

The value of parameter estimate for amount of loan is positive. This implies that the amount of loan obtained has positive effect on the repayment performance. This can be attributed to the fact that borrowers are more capable of repaying small amount of loans than big loans.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1. Effect of credit fund to the economic condition

The findings revealed that on table 4.9, despite the negative effect of the credit terms, to some extent improvements noted on their business investments of which their business had expanded and their house hold income had increased significantly as a result of having taken loans. The most significant impact evident among the entrepreneurs involved in business activities was that the capital they owned had doubled after taking the loan. The results revealed that the beneficiaries had significant improvement in terms of infrastructure and net income. However, some entrepreneurs revealed significant improvement after taking the loan in terms of business expansion.

The findings revealed that MFIs often use monitoring and evaluation as a tool for measuring the impact or performance of SMEs. However, it was noted that most MFIs carried out impact evaluation exercises to satisfy the conditions laid down by donors. This implied that as MFIs become financially independent, less attention would be paid to monitoring and evaluation exercises mainly because of cost implications. Nevertheless, monitoring and evaluation carried out in a consistent and orderly fashion, helps in aligning the needs of clients with the implementation strategies thereby leading to a positive impact of the loan program.

The major reasons behind this claimed by borrowers were business failures, and increasing household consumption. Through discussion with the interviewees, the beneficiaries claimed that majority of people in Dar es Salaam do not have annual budget on their household consumption. They just spend the amount they have at disposal, they also regard loans as grants and subsidy of which failure to repay can be compensated by the government.

5.2. Effect on the length of loan period

The results from table 4.14 revealed that 85% respondents were under 4-6 month loan period, this is because most of clients take a group loan scheme. The respondents preferred the group loan scheme because the loans were easily accessible and the guarantee system was favorable (Group guarantorship). Though group based minimalist approach was the most preferred, few (15%) were in long term of one year which requiring the group to be in grade A which most of them are not qualifying.

The results revealed that a large majority of the respondents found no grace period and loan repayment period to be very short, thus straining and pressurizing them to make quick repayments. Consequently, the respondents did not feel the immediate impacts of the loan but instead they felt immense pressure to put all their earnings towards loan repayment. The immense pressure associated with quick loan repayment which has led some micro entrepreneurs to sell their land in order to meet the demand for quick repayment. It was observed that most MFIs were setting short repayment periods, high interest rates and short grace periods not only to meet the operational costs and shield themselves from the high risk factor involved in lending to SMEs, but also to realize bottom line.

Zeller (1998) stated that group based minimalist schemes provides peer pressure which triggered loan repayment. The high loan repayment rates among could be attributed to peer pressure from the group members.

(Urio and Kessy 2006) observed that, repayment period for most microfinance ranges from three to six months, this depends on the loan sizes. This is indicated by SMEs as short period. Most MFIs client pay back after one or two weeks and they continuously make weekly instalments for 4-6 months. This varies from one institution to another. However this period is considered too short to use credit and to be able to pay back and as a result SMEs working capital continue to be limited since payments are immediate and even at times from other sources other than the business itself hence affecting clients performance negatively, Yunus M (1983).

5.3. Effect of loan size and Repayment performance

Findings of the study (Table 4.15) revealed that 23 % of borrowers received loan from Tsh100, 000 to Tsh400, 000. However 40% received the loan amount ranges from Tshs. 400,001 to Tsh 900,000 while 20% receive from Tsh 1,000,000 to Tsh 2,000,000 and 17% above Tsh 2,000,000.

This implies that lenders are more sensitive to amount of loan due to a couple reasons like repayment capacity, SMEs' characters and returns from the actual business/ investment. However SMEs were concerned about the lending methodology.

when SMEs' interviewed stated that, there are several factors which hinder them on loan size to be given, some of the factors are lack of collaterals, and guarantorship where by Tujijenge require an applicant to have been in business for at least six months and is a member of a group or can find a formally employed guarantor. Also borrowers added other factors such as missing savings deposited amount first time borrowing, failure to formulate the required group for group lending, and repayment schedule together with repayment period are other factors hinders borrowers on getting the requested loan size.

Some of the respondents also felt that the size or amount of the loan issued was too small to make an impact on the businesses. An interesting finding to note was that a high percentage of clients were taking multiple loans. This could have been due to the fact that the first loan taken did not provide adequate impact and hence the need to look for the second one.

Inappropriate loan sizes do not fit between the objectives of the lender and the borrower and mostly tend to result into bad loans hence negatively affecting the performance of the borrower. Most MFIs prefer to give too little credit to too many borrowers. Waterfield (1996) noticed that, in an ideal world each client would receive a loan tailored exactly to the need of the business.

Microfinance institutions are still relying on loan sizes established long time when they were starting, they have forgotten value of money change over time, fifty thousands of ten years ago is not the same as of current. (Urio and Kessy 2000).

Churchill, (1999) argued that, MFIs should move to client focus lending which is to design the right product for the client. This will fit in the loan size required by business, loan period and repayment plans.

5.4. Effect of interest rate on Repayment performance Results in Table 4.16

shown that 66% were convinced that the interest rate charged is fair, because they are not qualifying to get loan from commercial banks due to lack of collaterals. Meanwhile 34% said interest rate is high, which Tujijenge said is because of the operating costs are too high.

The average interest rate of WAT SACCOS at Kinondoni district is 21% annually with ranges between 1.5% and 2% per month. And the average interest rate of other MFIs at Dar es Salaam (SEDA, FANIKIWA, BRAC etc) is 36% annually with 3% per month. Tujijenge Tanzania Limited charges an interest rate of 48% per annum. These rates are very high compared to income generation through business unit investment as a result failure to repay the loan Cost of loan to borrower and income to the lending institution is reflected in interest rate charged on loans (Water field and Duval 1996).

Most of organizations charges interest rates which covers operating costs, it is normally charged on flat bases or declining. Ledger wood (2000), noted that interest rates of most MFIs is charged on flat rate and it is too high to be met by a number of SMEs. Wright et al 2000, observed that when interest are charged highly, there is a tendency for borrowers to keep part of borrowed money or to use the business capital to pay the interest which greatly affect business performance by reducing working capital hence profitability.

Stiglitz and Weiss (1981) came with argument that high interest rates affect borrower's behaviour negatively by reducing their incentives to take actions conducive to repaying their loans. On the other hand it is argued that interest set too low makes MFIs fail to cover their cost which leads to poor monitoring of loans at the end MFIs losses. Gonzalez-Vega (1998).

Generally interest rates of microfinance institutions have been an issue over which there have been many debates among practitioners.

5.5. Effect on weekly repayment

The results from table 4.17 shows 54% accept weekly repayment frequency, while 20% and 23% were not sure and disagreed respectively. 3% were strongly disagreed as they said the repayment period is too short for them starting paying back the loan. In one week time they have to repay interest plus interest.

On the interview with respondents, borrowers said as the loan grows bigger the weekly repayment causes them to pull out large amount of money from the business in order to make weekly repayment, this reduces the working capital of the business and subsequent levels of profitability.

Even though economic theory suggests that a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity, micro-finance practitioners argue that the fiscal discipline imposed by frequent repayment is critical to preventing loan default. However, it is clear that weekly repayment schedules significantly increase the transaction costs faced by the clients and the MFI (by requiring it to maintain a very large staff to client ratio). It is therefore important to know whether in practice, a more flexible repayment schedules for MFIs clients worsens default, and more generally alters repayment patterns. (www.findarticles.com.2007)

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

This chapter presents the summary discussions, conclusion and recommendations of the findings

6.1 Conclusion

The general objective of this study is to analyze the factors affecting the repayment performance of Microfinance industry in Dar es Salaam, Tanzania. The specific objectives were: to evaluate factors affecting the repayment performance; : to assess the performance of MFIs in loans disbursed ; to review the terms and procedures for giving out loan and the repayment schedules; to assess the way credit received and how it is used by the recipient and to give credit policy making/adjustment of credit conditions.

The study used primary data (which was the main source of information) and secondary data. Primary data was obtained by using structured questionnaires that were addressed to borrowers and checklists that were addressed to MFIs. Furthermore, descriptive statistics were used to analyze borrowers' perception on repayment while multiple linear regression model was used to analyze factors affecting loan repayment capacity.

Results of the study revealed that major factors that positively affecting the repayment performance are amount of loan obtained composition of household labor size, education level and household annual income. On the other hand, the value of household assets negatively influences repayment of loan.

6.2 Recommendations

6.2.1 Interest rate reduction

The study has found that the interest rates charged by MFIs on loans are very high. This is a major constraint to loan beneficiaries. High interests discourage individuals to apply for credit. Lowering interest rate will encourage small entrepreneurs (borrowers) to access credit in order to improve their welfare. Fair interest rates that are lower than those charged by formal credit providers and commercial banks will enable micro and small enterprises to improve their businesses.

6.2.2 Provision of business education and training

Some of the borrowers who get loans on the condition of pledging their valuable assets as collateral sometimes get their assets confiscated by the lenders due to their failure to repay the credit timely. In this case borrowers may be limited by MFIs. Borrowers need to be educated about financial service providers and their method of operation before they choose to access credit. Such education will increase chances of the poor to improve their living standards through benefits realized from the credit services.

Moreover, managers and loan officers of such financial services need to more trained so that they can manage more effectively and efficiently government and non-governmental financial institutions to reach many poor people while improving the sustainability of the MFIs services.

6.2.3 Creation of favorable policy for borrowers

The government should revise the policies and programmes to regulate the current rules and regulations of MFIs including difficult conditions in borrowing. To implement this, the government should subsidize the MFIs in their loan recovery to encourage small entrepreneurs to participate in economic development activities.

6.2.4 Emphasis on individual lending

Individual lending should be emphasized by lending institutions. This is because, groups tend to assess credit based on need for the loan, agreed amount of money to save and repay over certain periods of time. If a group member doesn't repay his/her loan timely, no more loans are given to any other member of the group. Therefore individual lending will reduce the failure of loan repayment.

6.3 Suggestion

The research has not been exhaustive and conclusive enough due to the limited resources at the disposal of the researcher. However, areas that required further research are like whether the micro finance institutions (MFI) have helped in improving business of their clients and the implication of giving out long-term loans to clients.

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QUESTIONNAIRE TO RESPONDENTS ON RESEARCH FOR FACTORS DETERMINING LOAN REPAYMENT IN TANZANIA

A. Basic information

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B. Technical information

12. What did you use the loan for ()
1. Business
 2. School
 3. Building
 4. Others (specify).....
13. What kind of loan did you get ()
1. Cash
 2. Equipments (specify).....
14. How much did you manage to get in Tsh for ou current loan? ()
1. 100,000- 400,000
 2. 500,000- 900,000
 3. 1,000,000- 2,000,000
 4. 2,000,000 and above
15. Did you incur any cost in getting loan apart from interest? ()
1. Yes
 2. No
16. If yes how much did you spend to obtain it?
17. Did you get grace period in loan repayment? ()
1. Yes
 2. No
18. If yes what time where you given? ()
1. 1 week
 2. 2 weeks
 3. 3 weeks
19. Did borrowing help you? ()
1. Yes
 2. No
20. If yes,
how.....
.....
.....
21. Did you manage to borrow the intended amount? ()
1. Yes
 2. No

22. If no, why?
a)
b)
c)
d)
23. Was the interest rate fair? ()
1. Yes
2. No
24. If no, how much did you think is fair?
25. Did you manage to pay in due time without problem? ()
1. Yes
2. No
26. If no, what where the main reasons?
a)
b)
c)
d)
27. How can these problems be avoided or solved?
a)
b)
c)
d)
28. If yes which problems did you experience?
a)
b)
c)
d)
29. Do you plan to apply for the other loan in the same institution? ()
1. Yes
2. No
30. If no, why?.....
.....
.....
31. Give general comments on why people fail to pay their loans
.....
.....
.....

Thank for very much for your positive response!

APPENDIXES II

CHECKLIST FOR TUJIJENGE TANZANIA LTD

Introducing the topic to Tujijenge Tanzania Ltd Managing Director

A. Basic information.

1. Name of the Branch
2. District Ward
3. Date of establishment/...../.....
4. Formal registration.....
5. Organization structure (A sheet to be provided)

B. Informaton.

6. What type of credit does the institution offer? ()

1=Short term and long term loans

2=Long term only

3=Short term only

4=Others (specify)

7. To whom do give the credit ? ()

1= Employees

2=Individuals

3=Others (specify)

8. Conditions, policies and lending procedure (A sheet to be provided)

9. Terms of the loan: -interest rate.....

-loan duration.....

-Repayment schedules (A sheet to be provided)

APPENDIXES III

CHECKLIST FOR TUJIJENGE TANZANIA LTD

Introducing the topic to Tujijenge Tanzania Loan Officers

1. What top 3 factors do you consider when assessing loan application? ()
2. What problems do you face on collecting repayments?
 - a)
 -
 - b)
 - c)
3. How many loans application do you receive monthly?
4. How many of them are approved?
5. Do loan officers attend any seminars on credit management? ()
 1. Yes
 2. No
6. If yes, where..... And how many times per year.....
7. How much is your outstanding portfolio?
8. What the reayent rate of your portfolio?
9. What are the main causes for late repayments?
 - a)
 -
 - b)
 - c)
10. How do you handle clients in arrears?

Thank you so much for your cooperation!