FACTORS LEADING TO LOAN REPAYMENT PROBLEMS WITHIN THE BANKING INDUSTRY;

A CASE STUDY OF TPB BANK PLC (MWANZA)

FACTORS LEADING TO LOAN REPAYMENT PROBLEMS WITHIN THE BANKING INDUSTRY;

A CASE STUDY OF TPB BANK PLC (MWANZA)

By

Miriam Halelwa

A Dissertation Submitted to the School of Business in Partial/Fulfillment of the Requirements for Award of the Degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe University.

2018

CERTIFICATION

We, the undersigned certify that, I have read and here by recommend for acceptance by Mzumbe University, a research report **entitled "Factors Leading To Loan Repayment Problems Within The Banking Industry; A Case Study of TPB bank PLC (Mwanza)"** in partial/fulfillment of the requirements for award of Degree of Master of Business Administration in Corporate Management of Mzumbe University.

____

Major Supervisor (Dr. Hawa Petro)

____

Internal Examiner

____

External Examiner

Accepted for the Board of School of Business

DEAN- CHAIRPERSON/SCHOOL BOARD

DECLARATION AND COPYRIGHT

I, Miriam Halelwa declare that this research report is my own work, developed from my efforts and it has never been presented for the purpose of academic awards in any learning institutions. Copying of any part of this document will need permission from the author or Mzumbe University.

Signature …………………………

Date ……………………….

ACKNOWLEDGEMENT

I would humbly thank the almighty God for his blessings and protections during the whole period of preparing this dissertation as without him the task couldn't be easily completed.

A number of individuals provided me with support, encouragement and assistance during the period of my research. Foremost I thank my family for their support. I also thank my coworkers for their full support in providing the information i needed to complete my research.

I sincerely thank my supervisor Madam Hawa Petro for her full guidance throughout in preparing the dissertation.

Furthermore i am thankful to my colleagues and coordinator Mr. Mmbaga for their cooperation and assistance in preparing the dissertation.

DEDICATION

I dedicate this work to my family who have been supporting me throughout my research, my co workers who have been giving me time for my research and my supervisor who has been providing me with guidance for my research.

ABBREVIATION/ ACRONYMS

BOT	Bank of Tanzania
CRB	Credit Reference Bureau
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Information Technology
MNO	Mobile Money Operators
NBC	National Microfinance Bank
NPL	Non Performing Loans
SACCOS	Savings and Credit Cooperative Societies
SPSS	Statistical Package for Social Sciences
TPB	Tanzania Postal Bank

ABSTRACT

The study investigated the factors leading to loan repayment problems within the banking industry. The specific objectives were examine how borrowers characteristics, project characteristics and loan characteristics leads to unsuccessful loan repayment, evaluate the role of technology in enhancing loan repayment and assess the credibility of loan appraisal procedures in the bank. The targeted population was 350 business operators who are taking loan from Tanzania Postal Bank. The study employed simple random sampling technique to select 100 businessmen who were taking loan at TPB. Data was collected using questionnaire and interview. The study employed descriptive statistics and hypothesis testing design in investigated the factors leading to loan repayment problems within the banking industry.

The study discovered that borrower characteristics (in this case gender, level of education, size of household and experience in business), project characteristics (business activity, size of labour and ownership of the business) and loan characteristics (size of the loan, loan processing time and loan diversion) have effect on late repayment of loan to the bank. Furthermore, the technological used in payment of loan to the bank had impact on the clients' ability to make on time payments. Finally the study found that credible loan appraisal procedures have significantly effect to timely repayment of loan to the bank.

The study recommends that the bank management should make efforts on allowing borrowers characteristics, loan characteristics, and project characteristics capitalized in credit policy so that provision of loan base on critical analysis of them in order to reduce late repayment of loan to the bank

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

PROBLEM SETTING OF THE STUDY

1.1 Introduction

This chapter highlights the core rationale for this research. It provides the background of the organization, background of the problem, statement of the problem, research objectives, and research questions, significance of the study as well as scope of the study.

1.2 Background to the study

Financial services are one of the crucial segments that play an important role in the growth of the economy. The size of the financial system in Tanzania measured by the ratio of financial assets to GDP has grown up to 43 percent of GDP in September 2015, with the banking sector accounting for 71 percent of the total while insurance companies and collective investment schemes accounting for the rest. The growth of the banking sector is mainly driven by expansion of branch network, agent banking, and increase in linkage banking with Savings and Credit Cooperative Societies (SACCOS) and Mobile Money Operators (MNOs) (The Central Bank Financial Stability Report, 2015).

Commercial banks generally serve as financial intermediaries that are established for lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money of a respective country. Among their activities, credit provision is the main product which banks provide to potential business entrepreneurs as a main source of generating income through mobilization of resources from surplus economic units to deficit economic units within the economy. Banks mostly generate income from interest earned on loans as they mobilize funds from savers to investors and entrepreneurs. Their success and performance chiefly depends on their effectiveness of their credit management systems.

However, prior research shows that banks faces high risks when it comes to credit provision as some borrowers tend to delay payment of their debt while others even end up defaulting.

Rose, (2007) defined successful loan repayment as the ability to repay the loan as per the loan agreement and loan defaulting as the inability to repay the loan by either failing to complete the loan as per the loan agreement or neglect to service the loan. Inability to repay a loan tends to lead to Non-Performing Loans (NPL) which results due to problems faced during repayment of loans. NPL deny the bank of interest income that would have been earned which leads to missed chance of investing in some return-earning investment, thereby affecting future stream of profits. They also affect the liquidity of banks as they impose constrains of cash at hand to the banks. Most importantly banks reputation is also at risk which can have a negative impact on credit rating and hence limiting opportunities of banks co-financing and syndication with other banks.

Non-Performing Loans (NPLs) are important because they affect the financial intermediation role of commercial banks which constitutes the banks' main source of their income, and ultimately, the financial stability of an economy (Klein, 2013). For this reason, NPLs have increasingly attracted attention recognizing that a consequence of large amount of NPLs in the banking system is bank failure as well as economic slowdown (Lata, 2014). There is abundant evidence that the financial/banking crises in East Asia and Sub-Saharan African countries were preceded by high non-performing loans. For instance, in Indonesia where over 60 financial institutions collapsed during the financial crisis, non-performing loans represented about 75% of total loan portfolios. The banking crisis which affected a large number of Sub-Saharan African countries in the 1990s was also accompanied by a rapid accumulation of nonperforming loans (Caprio and Klingebiel, 2002).

Moreover, the level of bad and doubtful debt provision of banks operating in Tanzania has increased significantly over the past few years in monetary terms and also as percentage of non- performing loans. The banking sectors in Tanzania have experienced a number of banks (TWIGACORP, National Bank of Commerce (NBC)[1]) and other non-banking institutions such as savings and loans, micro finance and credit unions failures; with NPL becoming the forerunner to these financial institutions ultimate failures. NPL are loan facilities which customers or borrowers often have difficulties in settlements or repayments (Viswanadham & Nahid, 2015).

An increase in NPLs rate is a reflection of the failure of credit policy resulting to performance problems of banks and financial crises in both developing and developed countries (Saba, Kouser and Azeem, 2012). International Monetary Fund (IMF) report (2016) shows that there have been rising levels of non- performing loans ratios of some banks in Tanzania, both domestic and foreign owned banks, which is above the indicative ceiling of 5% set by the Bank of Tanzania (BOT). The ratio of nonperforming loans to total loans in year 2007 was 6 percent, in year 2008 it was 6.5 percent, and in year 2009 it was 7 percent (Mutarubkwa, 2011). Whereas the average ratio of nonperforming loans total loans for 2013 it was 7.4 and 7.9 for 2014 (The Central Bank Financial Stability Report, 2015)[2]. This situation has an adverse impact on banks profitability. This is because the financial performance of any commercial bank is measured in terms of profitability and NPLs have a direct adverse impact due to the provisions which the banks are forced to make on account of the NPLs (Chimkono, Muturi, &Njeru, 2016). The trend does not only threaten the viability and sustainability of commercial banks but could also possibly impact the banks capabilities to provide credit to the unbanked population and bridge the financing gap. Therefore, this study was conducted in order to factors that influence the performance of borrowers on successful loan repayment in the context of Tanzania.

[1] Before being restructured and privatized
[2] http://www.bot.go.tz/Publications/Fin-stability/FSR%20_March%202015%20%2030%20Jun2015.pdf

1.3 Statement of the problem

From the above discussion, we see that non-performing loans is a serious crisis in the banking industry as people face several problems that make them unable to repay their loans on time. Loan repayment problems often lead to poor allocation of credit which results in poor investment projects, raises costs to the successful borrowers, erodes the fund that would be available for future investment, reduce banks flexibility in redirecting financial resource towards alternative activities, reduce the lending capacity of the financial institution (Kibrom, 2010). Hence, it is important to study and identify the factors that determine successful loan repayment performance and those that lead to unsuccessful loan repayment.

According to various researches factors that determine loan repayment performance include; *borrowers perceived need*, competence-borrowers past personal and profit record, past prosperity, etc. *Borrowers personal character* which are related with personal qualities of the borrower including age, sex, educational level, house hold size, management capacity, loan utilization, availability of other sources of income and so forth. Also, Factors which are related with the bank such as structure of the bank, change in the lending policy, way of appraising the project, responsibility and accountability of the staff members of the bank and external factors related with the macroeconomic condition of the country, government policy and many other (Mbwambo & MairaConsolata,2014)

In Tanzania some of the reasons for poor loan repayment performance are Ineffective monitoring of loans, poor credit appraisal, long duration granted for repayment of loans, cheating in declaration of collateral, poor management, lack of business skills, poor practicing of credit policies, procedure, unavailability of accurate information, bad economic condition and high competition (Mbwambo& MairaConsolata,2014; Din'ohi, 2011; Viswanadham& Nahid,2015).

Despite the wealth of research conducted to analyze the causal relationship of these factors what has not been disclosed is the contribution of new technologies that are been upgraded in the banking industries in enhancing repayment of loans. In addition, mobile banking which is common in East African countries might have significant impact in performance of loan repayment which is also not given any attention in prior literature. This study therefore was conducted investigates whether some of the already stipulated factors have significant relationship when they are evaluated in the context of Tanzanian Postal Bank but further examined the impact of technology (credit scoring and mobile banking) in influencing successful loan repayment.

1.4 Research Objectives

1.4.1 General Objective

Based on the aforementioned discussions, the general objective was examining the factors that influence the performance of borrowers on successful loan repayment. In other words, the problems that borrowers face leading to unsuccessful loan repayment.

1.4.2 Specific Objectives

The specific objectives are to;

i. Examine how borrowers characteristics, project characteristics and loan characteristics leads to unsuccessful loan repayment
ii. Evaluate the role of technology in enhancing loan repayment.
iii. To assess the credibility of loan appraisal procedures in the bank

1.5 Research Questions

1.5.1 General Question

The general question was what are the factors that influence the performance of borrowers on successful loan repayment?

1.5.2 Specific Questions

i. Are borrower's characteristics, project characteristics and loan characteristics leads to unsuccessful loan repayment?
ii. Does technology have any influence in enhancing loan repayment at Tanzania Postal Bank?
iii. Does loan appraisal procedures in the bank is credible?

1.6 Scope of the study

This research was conducted across TPB branches in Mwanza region. This is because Mwanza is the most economic active region in the lake zone, where conditions are ripe for banks to perform profitably. Most of the trading activities, constructional activities and also more academic institutions and businesses are being established, therefore creating more demands for loans. Many banks such as Barclays, Tanzania Postal Bank, Cooperate Rural Development Bank (CRDB), Diamond Trust Bank (DTB), NBC, National Microfinance Bank (NMB), Commercial Bank of Africa (CBA) have opened new branches. This increase in demand for loans has led to increase in percentage of non-performing loans. There is therefore a need to find out how the problem can be addressed so that it does not affect the bank's profitability and at the same time support the private sector to facilitate their taking advantage of the developing entrepreneurial activities.

1.7 Significance of the study

The outcome of this study assists the banking industry to identify and develop methods and measures to reduce the effect of bad loans and increasing recovery rate as well. Also the management of these financial institutions could also use the outcome of this research in their operations so as to gain edge over their competitors within the industry in this new political arena that has more challenges in business activity and eventually in loan repayment. Lastly, the study adds up to the existing stock of knowledge on loans repayment problem in Tanzania and the extent to which proper appraisal and adoption of new technology can influence the repayment process.

1.8 Limitation and delimitation of the study

The study was limited with methodology particular coverage of the study. The study was limited on assessing factors that influence the performance of borrowers on successful loan repayment at Tanzania Postal Bank only while in Tanzania there 54 commercial bank. In addressing the problem, the finding of this study cannot be generalised but it remain as observations obtained for Tanzania Postal Bank

1.9 Organization of the Study

This study is organized as follows; the first chapter consists of the entire formulation of the study from general to specific issue which was researched. The second chapter consists of literature review which focuses on the dissemination of information pertaining to the works of others on the researched subject both empirically and theoretically.

The third chapter is the research methodology which serves as the techniques and ways to be used. The fourth chapter consists of the research findings, analysis and discussion of the findings whereas all information pertaining to what was gathered in the field is discussed. Finally, the last chapter consists of the summary of the entire inquiry from the beginning to the end, as well as conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The bank loans have been playing a significant role on business across different nations. The literature shows that even though loan plays important roles in growth of business but successfully repayment of loan by borrowers is a critical across different nations. There are different literatures that have been documented by different authors related with influential factors that contribute to performance of borrowers on successful loan repayment. Therefore this chapter discussed theoretical review and empirical review of the study problem. It further described the conceptual framework that was adopted in this study.

2.2 Definition of Key Concept

2.2.1 Bank Loans

Bank loan is defined as the loan capital for a business that business operators are able to access from different bank (Anyanwu, 2014). It is either a short term, medium or long-term finance from the bank that customers are able to access. The bank sets the fixed period over which the loan is provided to the customers in which the customers require to pay in terms of principal plus rate of interest attached on it.

2.2.2 Loan Borrower

According to Acharya, Hasan & Saunders, (2006) a loan borrower is a person or company that has received money from another party with the agreement that the money will be repaid. Most borrowers borrow at interest, meaning they pay a certain percentage of the principal amount to the lender as compensation for borrowing

2.2.3 Successfully loan repayment

According to Green et al (2014) successfully loan repayment is a commitment taken by loan borrowers to pay their loan dues as it was schedules in order to ensure ability of loan providers to increase their ability to offer more loans. The situation to which loan borrowers are able to pay their loan as it is scheduled on repayment installment. The ability of borrowers use the loan as it was intended and successfully commits to pay loan installment until the whole amount is paid.

2.3 Theoretical Review

Adverse Selection Theory: information sharing reduces adverse selection by improving banks information on credit applicants. The theory of asymmetric information tells us that it may be difficult to distinguish well from bad borrowers, Pagano et al (1993). Adverse selection is problematic in loan markets because borrowers with high credit risk are the ones who usually line up for loans and those who will provide bad customers are likely to be selected/picked from this group (Matanda, 2010).

Moral Hazard Theory: The moral hazard problem implies that a borrower has the incentive to default unless there are consequences for his future applications for credit. This result from the difficulty lenders have in assessing the level of wealth borrowers will have accumulated by the date on which the debt must be repaid, and not at the moment of application. Moral hazard is a problem in loan market because borrowers may have incentives of engaging in activities that are undesirable from the lenders point of view in such situations; it is more likely that the lender will be exposed to the hazard of default.

Adverse selection and moral hazards have led to significant accumulation of non-performing loans in banks (Bofondi & Gobbi, 2003). An attempt by commercial banks to solve these problems helps in managing credit risk through screening, monitoring, collateral, compensating balance requirements, credit rationing among others.

2.3.1 Credit Management

According to Asiedu-Mante (2011) credit management involves establishing formal legitimate procedures and policies that will ensure that the proper authorities grant credit, the credit goes to right people, the credit is given for the productive activities or for businesses which are economically and technically viable. The appropriate size of credit is given, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity. Loans management refers to the effective use of the four major credit policy variables to ensure that there is quick collection of loan given to borrowers when due and at the same time improve on their confidence and loyalty to the bank (Van Home, 1995).

Guidelines for Pakistan Banks (2009) perceive loans administration as a process of controlling risk associated with credit this kind of risk occur from a situation where a borrower is either unable to repay or is unwilling to repay the loan. This could result from the fact that the borrower's ability might have been impaired resulting in economic loss to the financial institution. An appropriate credit assessment and monitoring systems yield wealth of information to assist financial institutions evaluate risk and realize opportunities, thus protecting the institution and making it profitable. Knowing your customers more the better your credit decision about a customer will be reviewing credit profiles and monitoring it provides you with important pieces of information about the particular customer you are dealing with. This depict the fact that credit can negatively affect a financial institution's financial position when it is not managed well hence the need for this survey.

2.3.2 Credit Management Practices

Myers and Brealey (2013) argued that survive of microfinance institution depend upon proper and effectively credit management practices. The microfinance that takes important efforts to ensure credit are properly managed for survive of the organization remains very vital for performance of micro finance institutions.

The credit management practices are made up with strategies of reducing exposure of credit risk. This involves the process related with credit analysis, credit rating, credit classification and credit reporting. Nelson (2002) credit management is associated with offering credits to right people who are able to pay the credits on time in order to reduce risks.

Lending in developing countries such as Tanzania, Kenya, Uganda, Malawi, Mozambique and other has been a critical challenge (Richard, 2006). Higher defaulting rate is associated with insufficient effort for management of credits properly and more effectively (Basel, 2010).

The market in developing country is dominated with higher asymmetric information problem between microfinance institutions and customers (Basel, 2010). Credit assessment practices are one of the important credit management practices but it has been a great challenge in developing countries. The market is so fragile in developing countries many businesses operate in informal and properties are also not formalised that creates even the security provided for credit remain at higher risks.

According to Greuning and Bratanovic (2003) the basis of a sound credit risk management system include guidelines that clearly outline the scope and allocation of bank credit facilities and the manner in which the credit portfolio is managed that is how loans are originated, appraised, supervised and collected.

Derban, Binner and Mullineux (2005) the close follow up the customer remain a very important credit management practices that facilitate better credit management. Credit officer who is able to follow properly the business operation of his/her customer tend to have better credit management because he/she cannot give credits which above the business capacity and ability of the customers. Poor assessment and monitoring customers has been a serious issue that affects the credit management among microfinance institutions.

The scholars have indicated that credit rating systems plays important strategies if it indicates changes in expected level of credit loan loss. The credit rating system has been used as the strategies of reducing microfinance credit risk. The microfinance can rate the disbursement of credit depending upon the sector to which the business are operating.

Brown Bridge (1998) proper and effective assessment or screening customers who are requesting for credit from the micro financial institutions, having credit approving levels, develop proper monitoring customers who have taken loan from the microfinance institutions and having better mechanism of recovery of defaulters plays a significant practices for credit management (Derban, Binner and Mullineux, 2005).

2.3.3 Mechanism of Credit Management in financial institutions

The credit management remain very important for survive and performance of financial institutions. Understanding properly and effectively the mechanism of managing credits play significant impacts for better performance of microfinance institutions. The scholars such as Armendariz and Morduch (2005) and Giné *et al.* (2010), argued that proper understanding the borrowers characteristics, their capacity, and their business history plays important mechanism for proper and effective credit management in microfinance institutions.

The microfinance institutions has been looking on credit lending without investing on understanding nature of borrower particularly micro entrepreneurs has been creating higher risks on credit recovery. Management credit with mechanism of knowing customer properly plays significant roles in addressing the problem related with asymmetric information.

Kono and Takahashi (2010) argued that it is important for microfinance institution develop different nature of credit portfolio that suit a particular segment of customer and develop strategies on how to solve the problem of credit risks for such segment compared generalising that all customers are the same.

The diversification in credit portfolio has a significant contribution of risk management among financial institutions.

Armendariz and Morduch (2000) noted that with nature of fragile market conditions, the microfinance institutions should have a proper risk management policy and credit management strategies and implement it properly and effectively in order to promote higher credit management.

2.3.4 Process of credit management adopted by banks

- **Screening**: Commercial banks should maintain a checklist to ensure that all the required information in line with credit applications is comprehensively collected. They should set out pre-qualification criteria for screening. E.g. the criteria could include rejected applications in blacklisted customers all together so as to avoid duplication of effort (Matanda, 2010).
- **Credit appraisal:** banks should be able to assess the customer's ability to repay the loan, the nature and value of the collateral or guarantee in support of the credit so as to mitigate risk, the working capital financing should not be pegged to the existence of collateral or guarantee (MacDonald *et al*, 2006).
- **Credit approval**: Commercial banks must put in place written guidelines with respect to this process, the approval authorities of individuals or committees and the basis of such decisions. All credits approved should be at arms lengths (MacDonald et al, 2006).
- **Credit evaluation** is the process a business or an individual must go through to become eligible for a loan. Granting a loan depends on; the willingness of the bank to lend in the current economy based on its assessment of the ability of the borrower to repay (MacDonald et al, 2006).

2.3.5 Challenges facing Banks on Credit Management

Credit asset quality problem is one of the obstacles limiting the further development of commercial banks (Jin, 2011). Thus, an immediate and manageable challenge before Tanzanian public sector banks is to improve their internal Customer Relationship Management systems and procedures in credit risk assessment, mitigation and control, to track and reduce credit delinquencies, and build quality asset portfolio. Many theoretical and empirical studies have verified that internal organizational management and strategies are the determinants of a business's profitability (Wei-Shong & Kuo-Chung, 2006).

Banks shall have a 'differential treatment, differential control' loan policy to reduce credit risk (Jin, 2011). Banks should also consider qualitative variables when setting internal systems and procedures to manage credit risk (Gama and Gerald, 2012) (Lehmann, 2003). Credit departments of the banks need to be highly informed of business environment, accounting tactics of their customers, and Basel requirements (Oesterreichische, 2004).

Njanike (2009) highlighted obstacles in credit risk management systems by microfinance lack of resources, disintegration of systems across departments, inconsistencies in risk-rating approaches, data management, and stringent regulatory requirements. Previous research on different aspects, have reported size of the bank as one of the critical variables that affect credit management. Malhotra and Singh (2010) observed that large banks were sometimes thought to be more capable as they may have higher quality or more technically able people on their staff, they may be freer from financial constraints.

2.3.6 Risks faced by commercial Bank

For the past decade, the banking sector has operated in a relatively stable environment. However, today the industry is operating under new; more complex atmosphere resulted from the major changes in the economic and political conditions of the country. According to MacDonald et al, (2006) risks associated with the provision of banking services differ by the type of service rendered. This section elaborates some of the risks banking institution but will further focus on credit risk.

Liquidity Risk: Liquidity is the ability to generate cash and cash equivalent in a timely manner at a reasonable price to meet obligations as and when they fall due and to provide funds on demand (Cornet, et al 2008).The major problem of liquidity management for a bank is that: whereas bills are mostly predictable, customers' demands for cash are not, especially from savings deposit and current account deposits.

Operational risk is associated with the problems of accurately processing, settling, and taking or making delivery on trades in exchange for cash. Also they can occur in record keeping, processing system failures and compliance with various regulations (Cornet, et al 2008).

Legal risks are widespread in financial contracting and are separate from the legal ramifications of credit, counterparty, and operational risks. New statutes, tax legislation, court opinions and regulations can put formerly well-established transactions into contention even when all parties have previously performed adequately.

Systematic risk is the risk of asset value change associated with systematic factors. All investors assume this type of risk, whenever assets owned or claims issued can change in value as a result of broad economic factors. For the banking sector, two are of greatest concern, namely variations in the general level of interest rates and the relative value of currencies (Cornet, et al 2008).

Interest Rate Risk: The bank's main source of profit is derived from the conversion of liabilities of deposits and borrowing into assets of loans and securities. Banks earn profits by paying lower interest on liabilities compared to what they earn on assets. Interest rate paid on deposits and short term borrowings are sensitive to short term rates, whereas interest earned on long-term liabilities is fixed. This creates interest rate risk, which in this case is the risk that interest will rise making the banks pay more for their liabilities (Acharya, Hasan & Saunders, 2006).

Credit Risk: Credit default risk occurs when a borrower cannot repay the loan. It remains the most important risk to manage to date. The predominance of credit risk is even reflected in the composition of economic capital, which the banks are required to keep aside for protection against various risks. According to one estimate of all the risks, credit risk takes about 70% and 30% of the remaining is shared between other risks (Hempel et al, 1994). Non performing advances are indicators of credit risk. Banks reduce credit risk by screening loan applicants, requiring collateral for a loan, credit analysis and diversification of their loan portfolios.

2.4 Empirical Literature Review

So far, we have focused on the theoretical underpinnings of loan repayment, which provide a sensible foundation for the factors that lead to difficulties in loan repayment. In addition to its theoretical strength, there is quite a substantial amount of empirical research by mainstream researchers that have studied these factors and analyses the impact they have on loan repayment and bank performance at large.

2.4.1 The credibility of loan appraisal procedures in the bank

Feeble credit appraisals and assessment techniques contribute highly to poor repayment of loans. Chepkoech (2014) demonstrates indicators such as inability workers and creditors collect timely and relevant information, falsified information and data from borrowers in order to qualify for bigger loans, poor coordination are some of the weaknesses in the credit appraisals which lead to difficulties in loan repayment. Also, the laid down policy procedures are most of the times not adhered to. Respondents indicated that it was possible for both credit staff and bank managers to manipulate credit appraisal results and give loans to borrowers who do not qualify. Moreover, even the loan appraisals trainings offered do not were usually not relevant as they do not meet the requirements needed and the failure to equip with appropriate skills credit appraisal staff will continue to impact negatively on loan repayment since they will be poorly prepared to classify borrowers based on actual riskiness.

In addition, Moti *et al* (2012) demonstrates that credit terms formulated by the financial institutions do affect loan performance but rather the involvement of credit officers and customers in formulating credit terms affects loan performance. He further shows that the credit risk controls and collection policies adopted by microfinance institutions have an effect on loan performance, credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers, reports on financial conditions, refrain from further borrowing had an effect on loan performance.

2.4.2 According to factors leading to loan repayment problems

Several scholars found that the borrower's characteristics, project/business characteristics and loan characteristics have huge impacts to repayment ability. Roslan and Zaini (2009) in their study in 86 branches of agro bank throughout Malaysia they found that the probability to default is higher for male than for female borrowers and for borrowers that did not have any training in relation to their business/project activity. In terms of the project, borrowers that involve in production activities face more difficulties in loan repayment as compared to those in service/support activities. Lastly, for loan characteristics the borrowers with huge amount of loans and longer repayment period tend to end up not paying their loans in the long run.

Moreover, Jemal, (2003) demonstrates that education, level of income, loan supervision, suitability of repayment period, availability of other credit sources are important and significant factors that enhance the loan repayment performance. Whereas, loan diversion and loan size are found to significantly increase loan default. In addition, female borrowers were found better in terms of loan repayment.

Several studies (Munene H. N &Guyo S. H, 2013; Roslan & MohdZaini, 2009; Eze & Ibekwe, 2007; Bhatt & Tang, 2002) have also implicated the causes of credit repayment problems to be categorized into these three dominant factors: (a) borrower related characteristics (b) business operation related characteristics (c) loan related characteristics. They slightly differ in the variables picked but the results are generally similar.

However, there are some scholars who concentrated on the side of the lenders, so they study how financial institutions offering loans can impact loan payment. Aguilera-Alfred & Gonzalez-Vega (1993) in his study discussed that credit rating by the bank and regulatory instruments mostly affect client loan repayment. Whereas, Olomola (1999), found that loan disbursement lag and high interest rate have significant impact. This was also confirmed by Okpugie (2009); Vandel (1993), who also discovered high interest, charged by the microfinance and banks, has been the reason behind the alarming default. Lastly also poor management procedures and loan diversion are also causative reasons for failure of loan repayment (Kohansal and Mansoori, 2009).

Nonetheless, macroeconomic factors of a country can also influence hardships in loan repayment. Fofack (2005) in his study on loan default in Sub-Saharan countries, showed that, macroeconomic stability and economic growth are associated with a declining level of default; whereas adverse macroeconomic shocks coupled with higher cost of capital and lower interest margins are associated with a rising scope of nonperforming loans. In addition, Kwakwa, (2009) found that, corporate loan default increases as real gross domestic product decline, and that the exchange rate depreciation directly affects the repayment ability of borrowers.

Different economic sectors face different loan repayment challenges. The government sector mainly faces difficulties in loan repayment because of diversion of funds, unforeseen problems and whether the government offices have access to other sources of income (Rose, 2007).

Whilst in the agriculture sector, Akinwumi and Ajayi (1990) discovered that the size of the farm, the size of the family within a household, the scale of operation, the family living expenditure and exposure to efficient management skills as some of the causes likely to influence farmer’s ability to repay their credits.

Balogun and Alimi (1988) also identified the that delay in time of loan delivery, small farm size, high interest rate, age of farmers, poor supervision, non-profitability of farm enterprises and undue government intervention with the operations of government sponsored credit programmes as the main causes. Reza and Mansoori (2008) findings confirms that farmer's experience, income, received loan size and collateral value have positive effect while loan interest rate, total application costs and number of installment have a negative effect on repayment performance of recipients.

In the industrial sector, Berger and De Young (1995) identified that main causes of default of loans from industrial sector as improper selection of an entrepreneur, deficient analysis of project viability, inadequacy of collateral security/equitable mortgage against loans, unrealistic terms and schedule of repayment, lack of follow up measures and natural calamities.

Lastly, Nguta, and Guya (2013) revealed that high cases of default of loan repayment were common in the manufacturing sector followed by the service industry then by the agriculture. The trade sector recorded the least cases of loan repayment defaults. This could be attributed by the reason that trade industry deals in fast moving products on high demand which translates in good business performance and increased revenue hence low default cases.

2.4.3 The role of technology in enhancing loan repayment

Loan recovery and repayment of loans has been a great challenge throughout the world. Kiplagat, (2013) analyzed how technological innovation may impact the loan recovery in student loan boards. In their study mechanisms of loan payment such as the use of mobile phones, the use of standing orders, credit cards, debit cards and the use of electronic funds were examined to understand which one is the most preferred method of loan recovery. They discovered that there is a positive relationship between the various technological innovations and the amount of loan recovered in a given year.

Mobile phone payments, electronic funds transfers and the use of standing orders showed a positive effect on loan recovery while the use of debit and credit cards showed a negative relationship with the amount of loans recovered.

Computer automation has also tremendously improved the services of many banks. Agboola (2001) discovered that automation specifically Electronic Banking in Lagos has had positive impact in reaching their customers. In addition, Aragba (1998) also highlights that Information Technology (IT) is becoming the backbone of banks services regeneration in Nigeria.

Linking the adoption of these technological advances on loan repayment, Einav et.al (2013) analyzed how the adoption of automated credit scoring has had an impact on lending at a large auto finance company. The adoption of credit scoring technology led to a large increase in profitability. Lending to the highest-risk applicants contracted due to more stringent down payment requirements, and lending to lower-risk borrowers expanded. They found that these effects were remarkably consistent and that credit scoring helped to compress large performance differences across dealerships. They further explain the down payment and maximum loan size in credit scoring deserves much more attention than it has generally received.

Moreover, Hauswald& Marquez (2004) studies how technological innovation in credit-risk has impacted loan repayment. He discovered that dissemination of innovations lowered the banking risks, credit risk inclusive. However, it generated a regulatory tension between lowering aggregate banking-system risk ex post and providing banks with incentives to innovate ex ante. Moreover, (Berger, 2003) shows how banks' spending on IT impacts the profitability of banks. They found out that IT might lead to cost saving and lower credit risk. However, excessive expenditures on can create network effects lowering bank profits.

2.5 Research Gap

Prior research in Tanzania demonstrates some of the determinants of loan repayment problems. Kangimba (2010) findings on Standard Charted Bank exhibits that long duration granted for repayment of loans, unwillingness of borrowers to pay back the loan, cheating in declaration of collateral, poor management, lack of business skills, and high competition are the reasons for non-performing loans. Whereas, Din'ohi (2011) findings at AKIBA commercial bank shows that poor practicing of credit policies, and procedure, unavailability of accurate information were related to non-performing loans. Lastly, Mbwambo & Maira (2014) findings on CRDB illustrates that loan processing time, bank's monitoring and control of business operations is quite important in affecting the performance of borrowers.

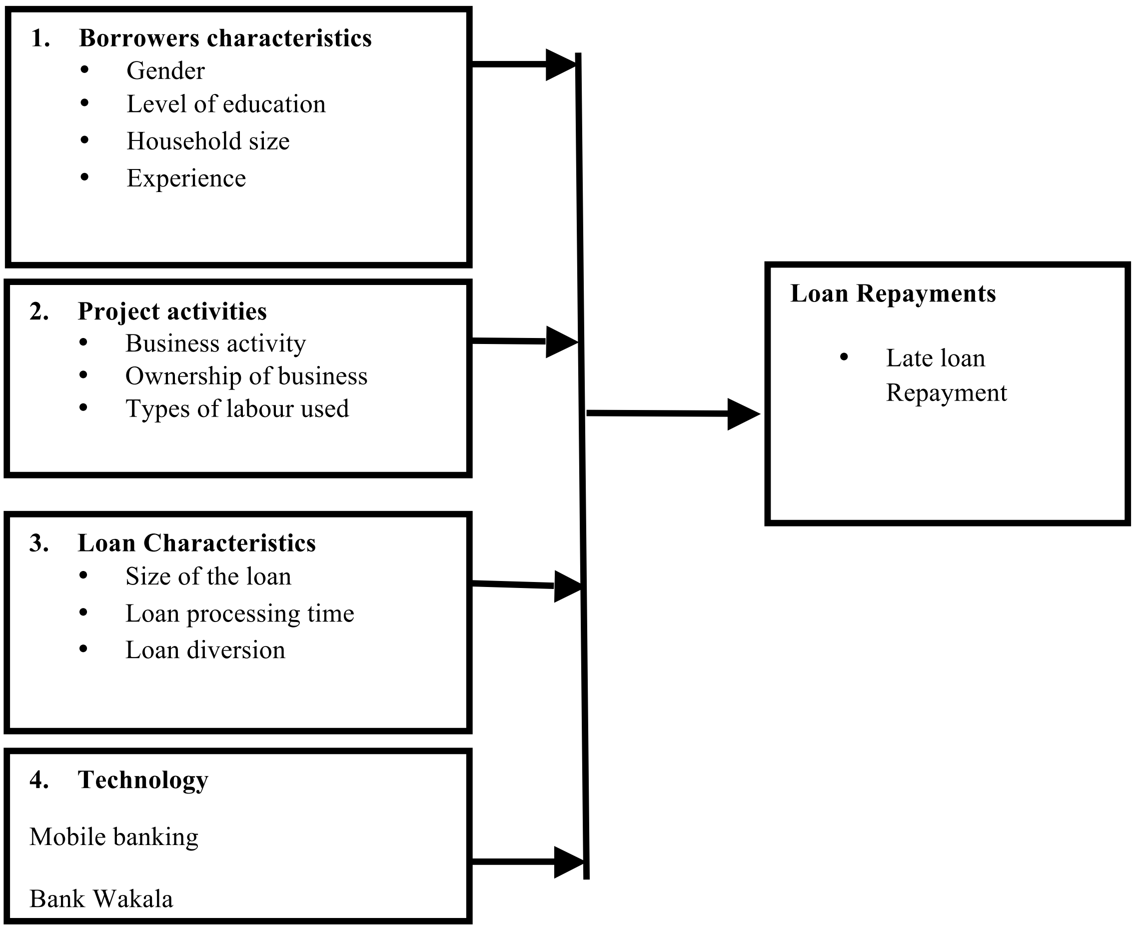
Despite the wealth of research conducted to analyze the causal relationship of these factors what has not been disclosed is the contribution of new technologies that are been upgraded in the banking industries in enhancing repayment of loans. In addition, mobile banking which is common in East African countries might have significant impact in performance of loan repayment which is also not given any attention in prior literature. This study thus investigates whether some of the already stipulated factors have significant causal relationship when they are evaluated in the context of Tanzanian Postal Bank and further examine the impact of technology (mostly credit scoring and mobile banking) in influencing successful loan repayment.

2.5 Conceptual Framework

The main issue in this study is that there are problems, which may cause a loan to be delayed in payment or end up being defaulted. This research to explore both the banks and the customers so that the problem is minimized

It is conceptualized that loan repayment problems are a result of some borrower's characteristics (age, level of education, gender, household size, experience and other sources of income), project characteristics (which sector does the business fall in, ownership of business, type of labour) and loan characteristics (loan processing time, loan size, loan diversion). In addition, the study also evaluated the impact of technology through mobile money.

Figure 2.1: Conceptual Framework for Loan Repayment Analysis



Source: Researcher Construct (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents methodologies used for successfully conducting this study. The issues related with research design, targeted study population, sample and sampling procedures, data and data collection methods, model specification, data analysis approaches and procedures, validity and reliability procedures and ethical consideration was taken care in this chapter.

3.2 Research Design

A research design is the framework or plan for study used as a guide to collect and analyze data. This study employed descriptive research design on assessing factors leading to loan repayment problems within the banking industry. The descriptive design was used to demonstrate and describe the determining the problems arising during loan repayment as a result leading to loan defaults. The study used the chi-square in order to testing the relationship between independent variables and dependent variable. The advantage of using descriptive design to ensure how and what questions related to the study problem is properly addressed.

3.3 Study Area

This research has covered TPB branches in Mwanza region as a case study. This is because Mwanza is the most economic active region in the lake zone, where conditions are ripe for banks to perform profitably.

3.4 Study Population

The target groups of this study are the customers and employees who are directly involved in credit processing and administering. The bank employee's side loan officers of the aforementioned branches were briefly interviewed to get their professional opinion on loan repayment issues. The clients were mainly situated at most productive trading centers at Nyamaghana/Ilemela district which are Kirumba business Centre, Makoroboi business Centre and Mabatini business Centre. The information was extracted from them in exploring the existing determinants of loan repayment problems. The area was having total number of 350 traders doing business (Ilemela District Profile, 2015) and these formed the targeted study population.

3.5 Unit of Analysis

The study used data finding from individuals as the unit of analysis. This is so because most loans are offered at individual levels and not household levels.

3.6 Sample size

The sample size is the number of element selected from the population. According to Kothari (2004) sample is selected from the targeted population and researcher use appropriate mathematical estimation of sample size. In this study, the sample was obtained from 350 traders who are located in the study area. The study employed infinite formula in calculating the sample size as indicated below:-

$n = N/(1+N(e)^2)$

Where

n = Sample size

N = Targeted population (350)

e = level of precision (8%)

$n = 350/(1+350(0.08)^2$

$n = 350/3.24$

$n = 108$

The sample size of the study was 100 traders doing business and accessing loan and 8 staffs from TPB branches in Mwanza region

3.7 Sampling Technique

The sampling technique used for the purpose of this study was simple random sampling procedure and convenient sampling. The study used simple random sampling technique to select 100 businessmen who were taking loan at TPB. The researcher used simple random sampling technique in order to give chance for all business men getting loan at TPB Mwanza branch have equal chance of selected for study. The study used convenient sampling technique to select 8 staffs working in credit sections in order to get more analytical analysis about the study problem. The 8 staff was interviewed in order to clarify issues related to the study problem. The study used convenient sampling in order to ensure staff selected for the study had convenient time to answer the research questions.

3.8 Data Collection Procedures

For the purpose of this study, the study used primary so as to get views from respondents. Questionnaires were mostly used to collect primary data from the clients. This helped in addressing the research questions more specifically. The questionnaire was designed and based on the strength of the review of the related literature and the research questions. The interview was used to collect data from the staff working at TPB bank at Mwanza branch in Tanzania.

3.9 Data Analysis Method

Data collected was edited and then coded through SPSS. After data coding what follows was conducting data analysis. The data were analysed using descriptive statistics which presented data in terms of frequency and percentages. The study also conducted cross tabulation analysis in order to see the relationship between two variables using chi-square. The chi-square was used to show the association between variable used in the study

3.10 Validity and reliability

The validity means the study measured what it supposes to measure. The study made sure that the research makes sound and the questionnaire was prepared in order to collect the information which is reliable for making research sounder. The study prepared questions which were reliable to the study problem. The study conducted pre study survey for 10 business taking loan at TPB Mwanza and three staff working at TPB Mwanza to test questionnaire if they were capable to collect information which reflect what it is in the field. The comments from the pre study survey were accommodated in final data collection instrument to ensure the information is reliable. This was aimed to make sure that the study is reliable and the information collected from the field tells the truth of what is happening to the field. In another approach the study conducted reliability test analysis using Cronbach's alpha. The result obtained is presented at Table 3.1.

Table 3.1: Reliability Statistics Tests

Reliability Statistics		
Variables	N of Items	Cronbach's Alpha
Borrower's characteristics	6	.875
Project characteristics	3	.730
Loan characteristics	3	.853
Technology	2	.782

Source: Field Data Analysis, 2019

The finding from reliability statistics tests using Cronbach's alpha tests shows that all variables have value which is greater than 0.7. This implies that the variables were reliable and valid for report writing.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, the study presents and discusses the findings based on data extracted from questionnaires and those from interview. A total of 100 questionnaires were distributed and all were collected from the respondents. The researcher managed to interview six staff of the bank. Therefore the findings presented in this study are based on facts obtained from questionnaire and interview and they are properly and effectively discussed according to literature review. The chapter presents findings based on two parts. First is the demographic and loan financing status of respondents. The second is part presented results based on the research objectives and discussed it according to theoretical and empirical literature

4.2 Demographic and loan financing status of respondents

The study was interested to know the demographic profile of respondents and their ways of financing loans for their business. The demographic profiles of respondents are important when it comes to payment of loan to the bank. The variables such as gender, marital status, level of education, experiences in doing business and main sources of financing loan for the business. These variables are properly and effectively discussed below.

4.2.1 Sex of Respondents

The sex of respondents indicates the status of being male or female. The business activities are done by both male and female respondents and are likely to face different challenges in payment of loan installment from the financial institutions (Halkias, 2008). The finding based on gender of respondents is shown through table 4.1 below.

Table 4.1: Gender status of Respondents

Gender	Frequency	Percent
Male	52	52.0
Female	48	48.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.1 shows that out of 100 respondents who were surveyed during the study, 52% were male and 48% were female. This indicates that both male and female are participating effectively in business activities at the study area. According to Evans and Winston (2008) the number of male and female engaging in entrepreneurship and solicit loan from the financial institutions has been increasing year after year. This is because both male and female understand success in business depends on effective use of credit. The finding has implication that business dealers in the study area are both male and female and they have been involved in accessing credit from banking industry.

4.2.2 Marital Status of Respondents

The marital status of respondents indicates their categorization based whether they are married, single, divorced or widowed. In running business and paying loan from the financial institutions the marital status is considered important variable. The marital status can affect loan to be paid time or completely not paid (Kibrom, 2010). Thus in this study marital status of respondents has an impacts on loan repayment problems within the banking industry. Table 4.2 shows the marital status of respondents used in this study

Table 4.2: Marital Status of Respondents

Marital Status	Frequency	Percent
Married	83	83.0
Single	10	10.0
Divorced	4	4.0
Widowed	3	3.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.2 shows that, 83% of respondents were married, 10% of respondents were single, and 4% of respondents were divorced and 3% of respondents were divorced. Marital status has effects on loan repayment. Thus getting information from respondents with different marital status contributed to get information suitable for this study. The finding from this study related with argument by Hwarire (2012) marital status is important in loan processing and payment process thus when study about loan repayment inclusion of people with different marital status remain inevitable. The processing loan among the married couple need consensus of partners otherwise the loan can be not paid. The partners can assists one another paying loan when the business is in hard conditions and that happen when there were consensus during the process of processing loan. This study found that large percent of respondents were married and if consensus was not done in the processing loan defaulting can be one of the reasons as reported by Hwarire (2012).

4.2.3 Education Level of Respondents

The education of respondents in this study indicates the highest level of education background of respondents till the time when this study was conducted. The education measures skills, knowledge and ability of respondents to understand business activities and roles of loan in running the business. According to Bofondi & Gobbi (2003), reasons for elite people to default the loan varies with non elite people. Thus this study saw it is important to assess the level of education of respondents because education plays significant roles in explaining the motive for loan defaulting. Table 4.3 below shows the level of education background of respondents.

Table 4.3: Level of Education of Respondents

	Frequency	Percent
Primary	34	34.0
Secondary	33	33.0
College	16	16.0
University	11	11.0
Vocational training	6	6.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.3 shows that 34% of respondents were having primary education level, 33% of respondents were having secondary education level, 16% of respondents were having college education level, 11% of respondents were having university education level and 6% of respondents were having vocational training education level. The result indicates that respondents in this study had different level of education background. Respondents with different education background plays significant roles in explaining what are considered to them as factors leading to loan repayment problems within the banking industry. Bofondi & Gobbi (2003) argued that reasons for defaulting vary among people with different status of elites. This study has found that respondents have different level of education, thus it has a role in getting appropriate answers when assessing the factors leading to loan repayment problems within the banking industry.

4.2.4 Business Experience of Respondents

The years experiences in business in this study indicates number of years that business dealers have been doing business in the study area. The years experience in business activities indicates three main issues, ability of handling business activities in worse and better situations, experiences in understanding complexity in business financing and ability to credit process and its payment schedules. Business men with higher experience in doing business and getting loan from the financial institutions are likely to pay their loan installment timely. Hietalahti & Linden (2006) reported that quality of loan repayment among business operators positively influenced with experience of business operators in business and credit processing from financial institutions. This study investigated business experience of respondents because it is important in assessing factors leading to loan repayment problems within the banking industry. Table 4.4 shows the distribution of respondents based on business experience at the study area.

Table 4.4: Business Experience of Respondents

	Frequency	Percent
1-2 years	11	11.0
3-5 years	35	35.0
5-10 years	45	45.0
Above 10 years	9	9.0
Total	**100**	**100.0**

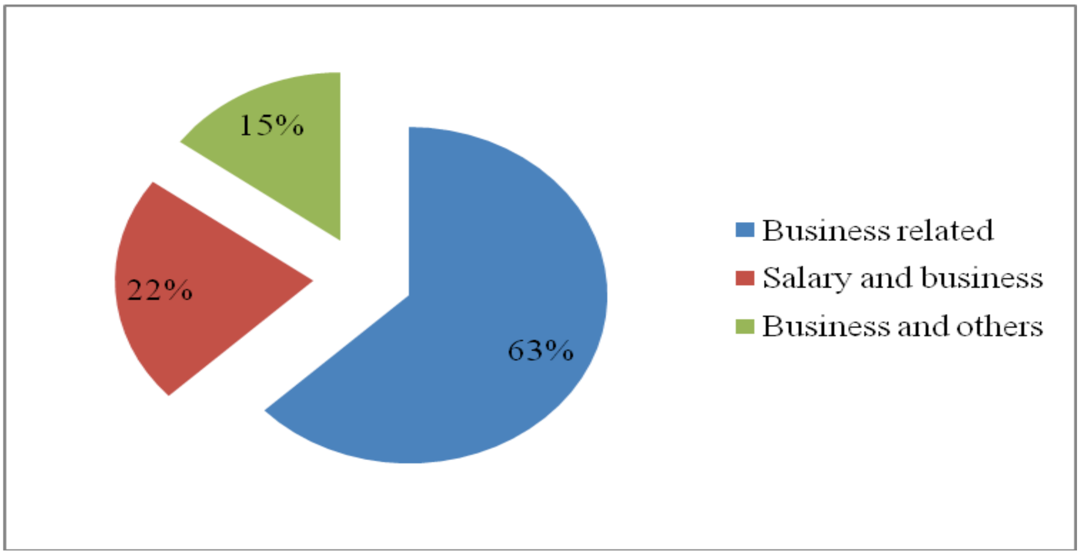
Source: Field Data, 2018.

Table 4.4 shows that, 45% of respondents have business experiences between 5 to 10 years in the study area, 35% have between 3-5 years in the study area, 11% of respondents have between 1-2 years in the study area and 9% of respondents have above 10 years in the study area. The findings indicate that respondents had different business experiences in the study area. Most of them have satisfactory business experiences that added value on answering the questions related assessing factors leading to loan repayment problems within the banking industry. As proposed by Hietalahti & Linden (2006) that quality of loan payment depends upon business experiences and this study found that respondents had different business experiences.

4.2.5 Main source of income paying business loan

The study investigated the main sources of income for business operators that are used in paying loan from the bank. Viswanadham &Nahid (2015) reported that defaulting rate is higher for business which depends upon only one sources to finance credits and finance family need. Multiple sources of income help addressing delays in paying loan to the banking industry in Tanzania. This current study assessed the factors leading to loan repayment problems within the banking industry. Thus knowing the business men sources of income to finance the loan help to understand critically the factors leading to loan repayment problems within the banking industry. Figure 4.1 below shows the main sources of income for financing business loans from the bank.

Figure 4.1: Main Source of Income Paying Business Loan



Source: Field Data, 2018.

Figure 4.1 shows that 63% of respondents depend upon business related income in financing business loan, 22% of respondents depend on salary and business related income in financing business loan and 15% of respondents depend on business and other sources of income in financing business loan. The result indicates that large percent of respondents depend on business related income in financing loan which imply that whatever the business income shakes they are likely to default. Viswanadham &Nahid (2015) business that depend one source of income to finance business it has higher probability to default.

4.3 Factors leading to loan Repayment Problems

The study main objective was assessing the factors leading to loan repayment problems within the banking industry. The three main factors which were borrower's characteristics, project characteristics and loan characteristics were considered in this study. Thus the first specific objective was interested on examining if borrowers characteristics, project characteristics and loan characteristics are leading factors for unsuccessfully loan repayment among business men and women in the study area.

4.3.1 The borrower's characteristics

The borrower's characteristics are considered among important variables not only in processing the loan but also ability of borrowers to successfully pay the loan (Viswanadham &Nahid, 2015). In this study the borrower's characteristics were categorized into four major aspects, which are gender of respondents, level of education, household size, and experiences in business activities. The study assessed if gender of respondents, level of education, household size, and experiences in business activities are causing unsuccessfully loan repayment among business men in the study area. The analysis of each variable was done and presented separately below.

4.3.1.1 Gender and Late Repayment of Loan.

The study was interested to know whether gender of business operators is associated with unsuccessfully loan repayment among business men in the study area. Table 4.5 shows the results that obtained during study.

Table 4.5: Cross tabulation of gender and late repayment of loan

Gender * late repayment of loan (Crosstab.)	Yes		No	
Male	45	(45%)	7	(7%)
Female	45	(45%)	3	(3%)
Pearson's chi-square 4.762, df = 4, p = .029				

Source: Field Data, 2018.

Table 4.5 shows that out of total of 52 male respondents, 45 consider they face late repayment of loan in their business activities and 7 do not face late repayment of loan in their business activities. Out of total of 48 female respondents, 45 do face late repayment of loan and 3 do not face late repayment of loan. Out of 100 respondents 90 both male and female do face late repayment of loan and 10 both male and female do not face late repayment of loan in their business activities. Therefore from the observation female face late loan repayment than men due to multiple loans (having more than one loan to service).

The study also shows that Chi-square value is 4.762 at p=0.029. This indicates that there is significant relationship between gender status of respondents and late repayment of their loan in their business. In this fact, it is observed that gender status of respondents is important borrowers characteristics associated with late repayment of loan. The finding related with Chepkoech (2014) who observed that loan defaulting has been an issue related with gender of business operators. The current study also confirmed study conducted by Fofack (2005) gender has significant impacts on non performing loan of commercial banks. Chepkoech (2014) who observed that loan defaulting has been an issue related with gender of business operators. The gender is important variable which affect credibility of timely loan repayment to financial institutions. This current study observed that there is significant relationship between gender status of respondents and late repayment of their loan in their business.

4.3.1.2 Level of education and Late Repayment of Loan.

The second variable on borrower's characteristics was level of education. The level of education was considered one of important variable that affect timely payment of loan among the borrowers. The study carried cross tabulation analysis between late repayment of loan among business operators in the study area and level of their education. The cross tabulation shows relationship or between variable. Table 4.6 below shows the cross tabulation analysis between late repayment of loan among business operators in the study area and level of their education.

Table 4.6: Cross tabulation between Education and late repayment of loan

Level of education * late repayment of loan (Crosstab.)	Yes		No	
Primary	29	(29%)	5	(5%)
Secondary	31	(31%)	2	(2%)
College	15	(15%)	1	(1%)
University	9	(9%)	2	(2%)
Vocational training	6	(6%)	0	(0%)
Pearson's chi-square 4.140, df = 4, p = .035				

Source: Field Data, 2018.

Table 4.6 shows that out of 34 respondents with primary education, 29 do face late repayment of loan to the bank while 5 do not face late repayment of loan to the bank. Out of 33 respondents with secondary school, 31 do face late repayment of loan to the bank while 2 do not face late repayment of loan to the bank. Out of 16 respondents with college education level, 15 do face late repayment of loan to the bank and only one does not face late repayment of loan to the bank. Out of 11 respondents with university education level, 9 do face late repayment of loan to the bank and 2 do not face late repayment of loan to the bank. And all 6 respondents with vocation training education level do face late repayments to the bank. The study also shows out of 100 respondents, 90 with different education level do face late repayment of loan to the bank while only 10 who do not face late repayment of loan to the bank.

In addition to that, the chi square value is 4.140 at p=0.035. This indicates that there is a significant relationship between education level and late repayment of loan in the study area. Based on this result, education level of respondent does affects late repayment of loan in the study area. Bofondi & Gobbi (2003) argued that reasons for defaulting vary among people with different status of elites. Bofondi & Gobbi (2003) argued that reasons for defaulting vary among people with different status of elites. In this study it has been observed that level of education affects credibility of loan repayment among business men. In this study it has been observed that business men with all level of education do face late repayment of their loan to the bank since they are more aware of the rules and regulation than the less educated ones.

4.3.1.3 Household size and Late Repayment of Loan

The study carried cross tabulation analysis between late repayment of loan among business operators in the study area and size of household. The cross tabulation shows relationship or association between variables. Table 4.7 below shows the cross tabulation analysis between late repayment of loan among business operators in the study area and size of household.

Table 4.7: Cross tabulation between late repayment of loan and size of household

Size of household * I do face late repayment of loan (Crosstab.)	Yes		No	
Two	5	5%	0	0%
Three	7	7%	0	0%
Four	30	30%	6	6%
Five	36	36%	4	4%
Above five	12	12%	0	0%
Pearson's chi-square 4.444, df = 4, p = .028				

Source: Field Data, 2018.

Table 4.7 shows that all 5 respondents with two members of household do face late repayment of loan to the bank. All 7 respondents with three sizes of household members do face late repayment of loan to the bank. Out of 36 respondents with four members of household, 30 do face late repayment of loan to the bank and 6 do not face late repayment of loan to the bank. All 12 respondents with above five size of household do face late repayment of loan to the bank .The study also shows out of 100 respondents, 90 with different size of household members do face late repayment of loan to the bank while only 10 who do not face late repayment of loan to the bank.

In addition to that, the chi square value is 4.444 at p=0.028. This indicates that there is a significant relationship between size of household and late repayment of loan in the study area. Based on this result, size of the household of respondent does affects late repayment of loan in the study area. Fofack (2005) reported that size of household was found positively and significantly determine non performing loan in commercial banks. Fofack (2005) reported that size of household was found positively and significantly determine non performing loan in commercial banks. In this study it has been observed that size of household has been a cause for delay of loan payment to the bank among business operators in the study area.

4.3.1.4 Experiences in business activities

The study also carried cross tabulation analysis between late repayment of loan among business operators in the study area and experiences in business. Table 4.8 below shows the cross tabulation analysis between late repayment of loan among business operators in the study area and experiences in business.

Table 4.8: Cross tabulation between late repayment of loan and experiences in business

Experiences * late repayment of loan (Crosstab.)	Yes		No	
1-2 years	10	(10%)	1	(1%)
3-5 years	28	(28%)	7	(7%)
5-10 years	43	(43%)	2	(2%)
Above 10 years	9	(9%)	0	(0%)
Pearson's chi-square 3.442, df = 4, p = .092				

Source: Field Data, 2018.

Table 4.8 shows that out of 11 respondents with experiences in business in business activities between 1-2 years. 10 respondents face late repayment of loan to the bank while 1 respondent do not face late loan repayment to the bank. Out of 35 respondents with experiences in business in business activities between 3-5 years, 28 respondents face late repayment of loan to the bank while 7 respondents do not face late loan repayment to the bank. Out of 45 respondents with experiences in business in business activities between 5-10 years, 43 respondents face late repayment of loan to the bank while 2 respondents do not face late loan repayment to the bank. All 9 respondents with experiences in business in business activities above 10 years face late repayment of loan to the bank. The study also shows out of 100 respondents, 90 with different experiences in business in business activities face late repayment of loan to the bank while only 10 do not face late repayment of loan to the bank.

In addition to that, the chi square value is 3.442 at p=0.092. This indicates that there is an insignificant relationship between experiences in business in business activities and late repayment of loan in the study area. Based on this result, experiences in business in business activities have no significant relationship with late repayment of loan in the study area. Hietalahti & Linden (2006) who observed that experiences in business contributes to better performance of repayment of credits among the business men in the economy. Hietalahti & Linden (2006) who observed that experiences in business contributes to better performance of repayment of credits among the business men in the economy. In this study it has been observed that experiences in business have been not a cause for delay of loan payment to the bank among business operators in the study area.

This objective is summarized that borrower's characteristics of size of households, gender and level of education are significantly associated with late repayment of loan among borrowers to the bank. This findings to some extent related with Several studies such as Munene & Guyo S 2013; Roslan & MohdZaini, 2009; Eze & Ibekwe, 2007; Bhatt & Tang, 2002 who observed that one of the causes of credit repayment problems is associated with borrower related characteristics

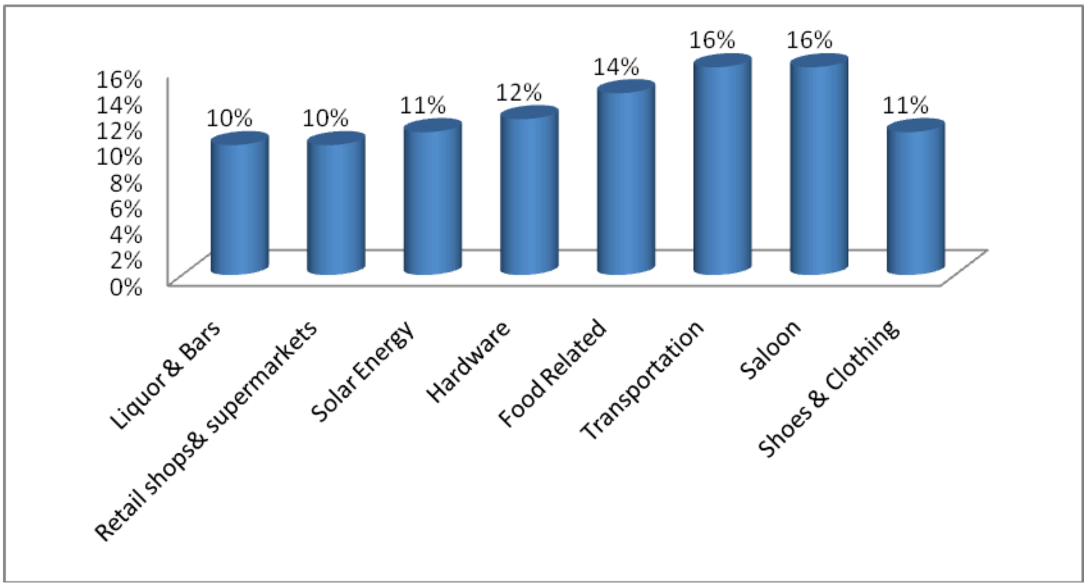
4.3.2 The Project Characteristics

The project characteristics are considered one of important variable not only in processing the loan but also ability of borrowers successfully pays the loan (Viswanadham & Nahid, 2015). In this study the project characteristics were categorized into three major aspects which are business activities, ownership of business and types of labour used in business. The study assessed if project characteristics based on business activities, ownership of business and types of labour used in business are causing unsuccessfully loan repayment among business men in the study area. The analysis of each variable was done and presented separately below.

4.3.2.1 Business Activities

The study was first interested to understand the business activities conducted by respondents in the study area. Chepkoech (2014) nature of business activities conducted by business operators has significant impacts on late repayment of loan to the bank. Thus with this facts, it was important to know the nature of business activities that is conducted by respondents in the study area. The figure 4.2 below presents the business activities conducted by respondents in the study area.

Figure 4.2: Types of Business Activities done by Respondents



Source: Field Data, 2018.

Figure 4.2 shows that, 16% of respondents are involved in saloon nature of business, 16% involved in transportations nature of business (bodaboda), 14% involved in food related nature of business, 12% involved in hardware nature of business, 11% involved in shoe and cloth nature of business, 11% involved in solar energy nature of business, 10% involved in retail shops and supermarket nature of business and 10% involved in liquor and bars nature of business. The result indicates that respondents involved into different types of business activities and according to Chepkoech (2014) different nature of business activities have different significant impacts on late repayment of loan to the bank.

After knowing the nature and types of business respondents were doing, the study was interested to know whether nature and types business conducted by respondents have been causing unsuccessfully loan repayment to the bank in the study area. The respondent first were asked if they do think nature and types of business they are doing cause delay of loan repayment to the bank. The table 4.9 shows result obtained when respondents were asked do you think nature and types of business are causing late of loan repayment to the bank.

Table 4.9: Nature and types of business cause late of loan repayment to the bank

	Frequency	Percent
Yes	62	62.0
No	38	38.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.9 shows that, 62% of respondents considered that nature and types of business are causing late of loan repayment to the bank while 38% do not consider nature and types of business are causing late of loan repayment to the bank. The finding indicates that majority of respondents considered nature and types of business cause late of loan repayment to the bank. Chepkoech (2014) different nature of business activities has different significant impacts on late repayment of loan to the bank. The nature and types of business is important variable which affect timely loan repayment to the bank.

The study also conducted a cross tabulation analysis in order to investigate if nature and types of business is related with late of repayment of loan. The table 4.10 shows the cross tabulation results.

Table 4.10: Nature and types of business of business and late repayment of loan

Business Activities * I do face late repayment of loan (Crosstab.)	Yes		No	
Liquor & Bars	9	(9%)	1	(1%)
Retail shops& supermarkets	9	(9%)	1	(1%)
Solar Energy	10	(10%)	1	(1%)
Hardware	10	(10%)	2	(2%)
Food Related	14	(14%)	0	(0%)
Transportation	13	(13%)	3	(3%)
Saloon	14	(14%)	2	(2%)
Shoes & Clothing	11	(11%)	0	(0%)
Pearson’s chi-square 4.853,df = 4, p = .022				

Source: Field Data, 2018.

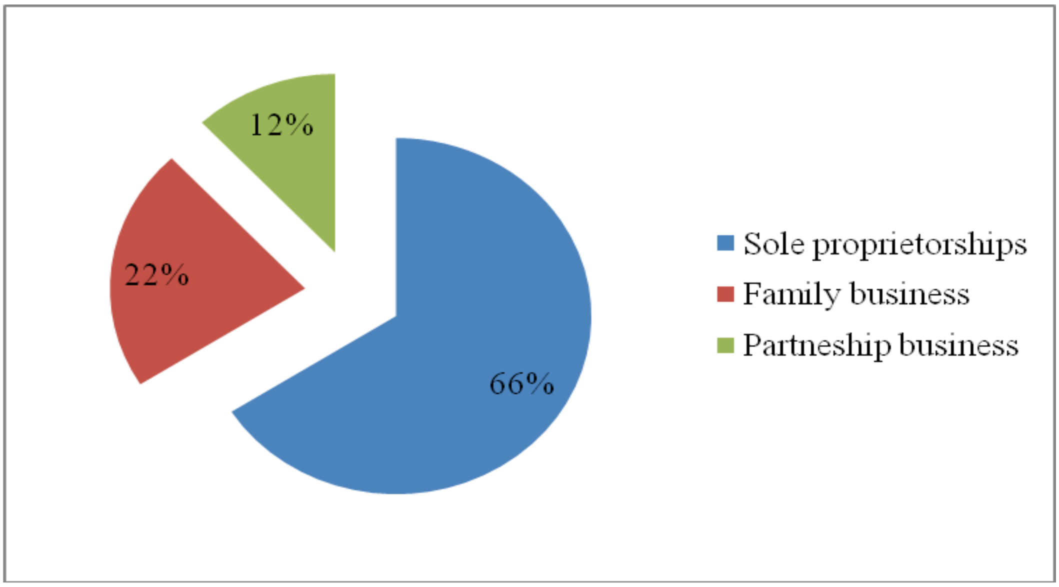
Table 4.10 shows that, out of total of 10 respondents involved in Liquor and Bars business activities, 9 face late repayments and 1 do not face late repayment of loan. Out of total of 10 respondents involved in retail shops & supermarkets business activities, 9 face late repayments of loan and 1 do not face late repayment of loan. Out of total of 11 respondents involved in solar energy business activities, 10 face late repayments of loan in their business activities and 1 do not face late repayment of loan. Out of total of 12 respondents involved in hardware business activities, 10 face late repayment of loan and 2 do not face late repayment of loan. All 14 respondents involved in food related business activities face late repayment of loan. Out of total of 16 respondents involved in saloon business activities, 14 face late repayments of loan and 2 do not face late repayment of loan. All 11 respondents involved in shoes & clothing business activities face late repayment of loan. Out of 100 respondents, 90 respondents involved in different types of business activities face late repayments of loan and 10 who do not face late repayment of loan.

The study also shows that Chi-square value is 4.853 at p=0.022. This indicates that there is significant relationship between nature and types of business activities and late repayment of their loan to the bank. Chepkoech (2014) different nature of business activities have different significant impacts on late repayment of loan to the bank.

4.3.2.2 Ownership of Business

The study was interested to know the status of ownership of the business in the study area. Kibrom (2010) nature of ownership has been important variable for defaulting to the bank and family business was found more prone to defaulting bank loan. Thus this study investigated the status of business ownership among respondents. Figure 4.3 presents the status of business ownership of business conducted by respondents in the study area.

Figure 4.3: Status of Business Ownership for Businesses of Respondents



Source: Field Data, 2018.

Figure 4.3 shows that, 66% of respondents have sole proprietor types of business ownership, 22% of respondents have family business ownership and 12% of respondents have partnership types of business ownership. The result indicates that, respondents have three types of business ownership which are sole proprietorship, family business and partnership business. According to Kibrom (2010) nature of ownership has been important variable for defaulting of the business to the bank and family business was found more prone to defaulting bank loan. This study found that 22% of business owned by the family.

After knowing the ownership status of businesses of respondents, the study was interested to know whether ownership of business have been causing late loan repayment to the bank in the study area. The respondents were asked if they do think ownership of business has been causing delay of loan repayment to the bank. The table 4.11 shows result obtained when respondents were asked do think ownership of business has been causing delay of loan repayment to the bank.

Table 4.11: Business ownership status are causing late of loan repayment to the bank

	Frequency	Percent
Yes	56	56.0
No	44	44.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.11 shows that, 62% of respondents considered that ownership of business are causing late of loan repayment to the bank while 38% do not consider ownership of business are causing late of loan repayment to the bank. The finding indicates that majority of respondents considered that ownership of business are causing late of loan repayment to the bank. This finding related with Kibrom (2010) who considered that nature of ownership has been important variable for defaulting of the business to the bank and family business was found more prone to defaulting bank loan.

The study also conducted a cross tabulation analysis in order to investigate if ownership of business of respondents affects late of repayment of loan and find out relationship between ownership of business of respondents and late repayment of loan. The table 4.12 below shows the cross tabulation results of ownership of business of respondents and borrowers late repayment of loan to the bank.

Table 4.12: Cross tabulation of ownership of business of respondents and borrowers face late repayment of loan to the bank

Business Ownership* late repayment of loan (Crosstab.)	Yes		No	
Sole proprietorships	59	(59%)	7	(7%)
Family business	20	(20%)	2	(2%)
Partnership business	11	(11%)	1	(1%)
Pearson’s chi-square 8.684, df = 6, p = .001				

Source: Field Data, 2018.

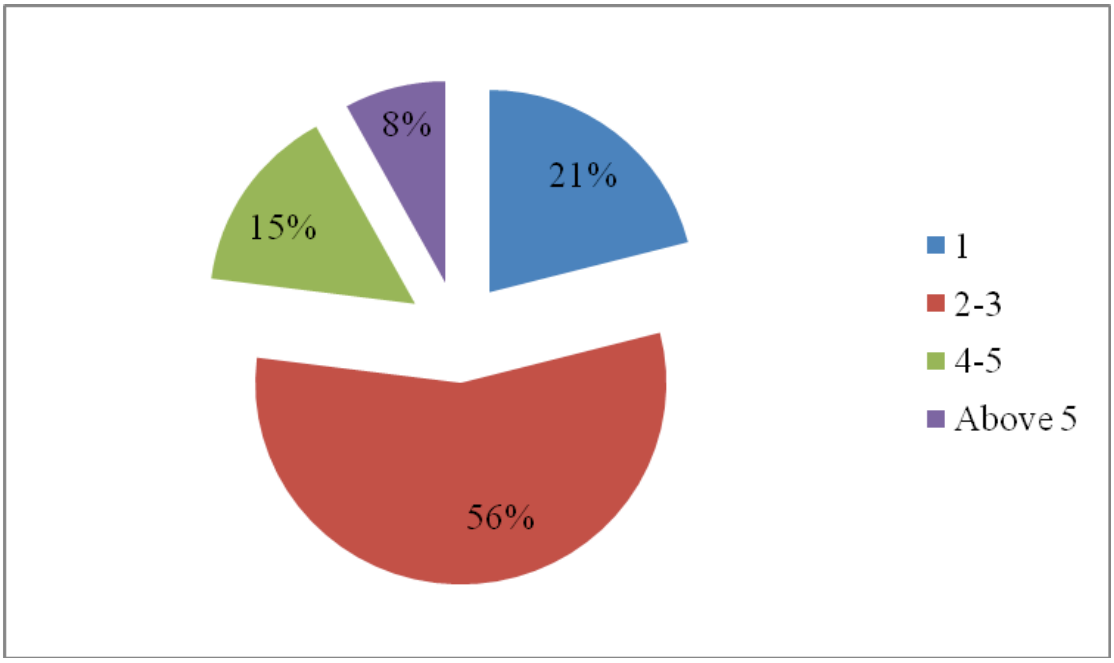
Table 4.12 shows that out of total of 66 respondents having sole proprietor business ownership, 59 face late repayment of loan to the bank and 7 do not face late repayment of loan to the bank. Out of total of 22 respondents having family business ownership, 20 face late repayment of loan to the bank and 2 do not face late repayment of loan to the bank. Out of total of 12 respondents having partnership business ownership, 11 face late repayment of loan to the bank and 1 do not face late repayment of loan to the bank. Out of 100 respondents, 90 having different business ownership status face late repayment of loan to the bank and 10 o not face late repayment of loan to the bank.

The study also shows that, chi-square value is 8.684 at p=0.001. This indicates there is significant relationship between business ownership status and late repayment loan to the bank. Kibrom (2010) reported that nature of ownership has been important variable for defaulting of the business to the bank and family business was found more prone to defaulting bank loan.

4.3.2.3 Size of labour in business

The study was interested to know the size of labour in businesses of respondents in the study area. Islam et al, (2005) performance of business is linked with size of labour in business and many business faces defaulting of their loan to financial institutions due employing large size of labour compared to business to handle. Thus this study investigated size of labour in business used among businesses of respondents. The figure 4.4 presents size of labour in business of respondents in the study area.

Figure 4.4: Status of size of labour in businesses of Respondents



Source: Field Data, 2018.

Figure 4.4 shows that, 56% of respondents their business have employed 2-3 labours to handle business activities, 21% of respondents their business have employed 1 labour to handle business activities, 15% of respondents their business have employed 4-5 labors to handle business activities and 8% of respondents their business have employed above 5 labors to handle business activities. The result indicates that, business have employed different size of labors to handle business activities. Islam et al, (2005) performance of business is linked with size of labour in business and many business faces defaulting of their loan to financial institutions due employing large size of labour compared to business to handle.

After knowing the size of labour in businesses of respondents, the study was interested to know whether such size of labour in businesses cause late loan repayment to the bank. The respondents were asked if they think size of labour in their business activities cause delay of loan repayment to the bank. The table 4.13 shows result obtained.

Table 4.13: Size of labour are causing late of loan repayment to the bank

	Frequency	Percent
Yes	62	62.0
No	38	38.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.13 shows that 62% of respondents considered that size of labour in their business activities cause delay of loan repayment to the bank while 38% size of labour do not cause delay of loan repayment to the bank. The finding indicates that majority of respondents considered that size of labour in their business activities has been causing delay of loan repayment to the bank. Islam et al, (2005) reported that performance of business is linked with size of labour in business and many business faces defaulting of their loan to financial institutions due employing large size of labour compared to business to handle.

The study also conducted a cross tabulation analysis in order to investigate if size of labour is related with late of repayment of loan. The table 4.14 shows the cross tabulation results of size of labour of businesses respondents and borrowers late repayment of loan to the bank.

Table 4.14: Size of labour of businesses and late repayment of loan to the bank

Size of labour in business * late repayment of loan (Crosstab.)	Yes		No	
1	19	(19%)	2	(2%)
2-3	50	(50%)	6	(6%)
4-5	13	(13%)	2	(2%)
Above 5	8	(8%)	0	(0%)
Pearson's chi-square 6.111, df =3, p = .018				

Source: Field Data, 2018.

Table 4.14 shows that out of total of 21 respondents with size of 1 labour in their businesses, 19 face late repayment of loan to the bank and 1 do not face late repayment of loan to the bank. Out of total of 56 respondents with 2-3 size of labors in their business activities, 50 face late repayment of loan to the bank and 6 do not face late repayment of loan to the bank. Out of total of 15 respondents with 4-5 size of labors in their business activities, 13 face late repayment of loan to the bank and 2 do not face late repayment of loan to the bank. All 8 respondents with above 5 labors in their business activities face late repayment of loan to the bank. Out of 100 respondents, 90 with different size of labour in their business activities face late repayment of loan to the bank and 10 do not face late repayment of loan to the bank.

The study also shows that, chi-square value is 6.111 at p=0.018. This indicates that, there is significant relationship between size of labour in businesses and late repayment of loan to the bank. Islam et al, (2005) reported that performance of business is linked with size of labour in business and many business faces defaulting of their loan to financial institutions due employing large size of labour compared to business to handle.

The finding in this objective is summarised that, business activities, ownership of business and size of labour used in business are significantly associated with late repayment of their loan to the bank. Munene & Guyo S 2013; Roslan & MohdZaini, 2009; Eze & Ibekwe, 2007; Bhatt & Tang, 2002 reported that one of the causes of credit repayment problems is associated with business or project related characteristics. In this study it was found that, project characteristics based on business activities and size of labour in business significantly influence late repayment of loan to the bank.

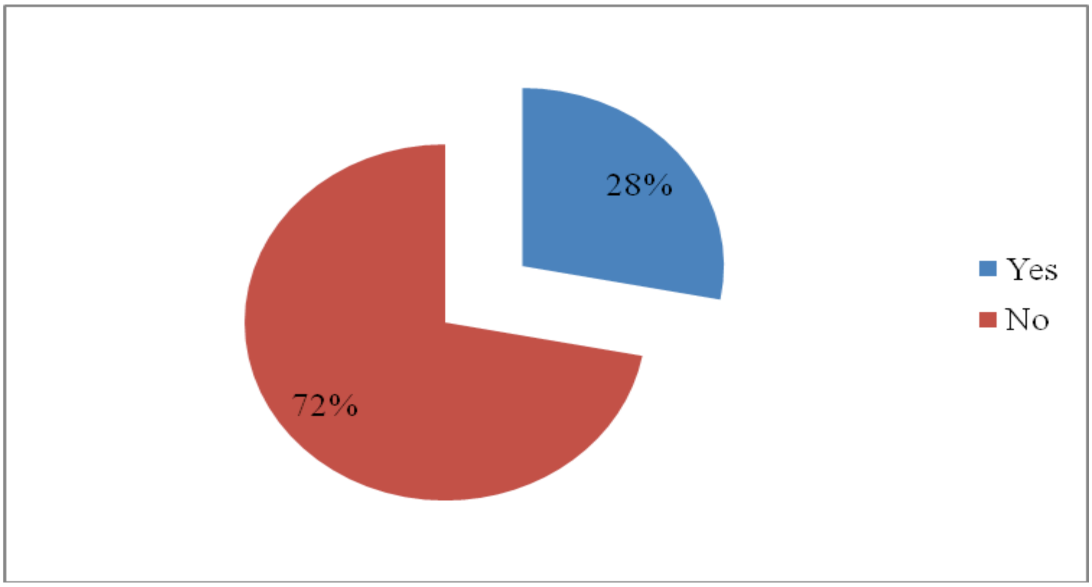
4.3.3 Loan Characteristics

The loan characteristic is considered important variable in promoting ability of borrowers successfully pay the loan (Viswanadham & Nahid, 2015). In this study the loan characteristics were categorized into three major aspects which are size of the loan, loan processing time and loan diversion. The study assessed if loan characteristics based on size of the loan, loan processing time and loan diversion are causing delay of loan repayment among business men in the study area. The analysis of each variable was done and presented separately below.

4.3.3.1 Size of loan

The study was interested to know the size of loan they get from the bank in the study area. Ojala et al, (2015) size of loan is very important attribute for business men in promoting their ability to pay the loan to the bank. Offering loans size above the business capacity affect ability of business to pay and offering relative lower size of loan affect ability of loan utilized as per plans of the business which ultimately affect repayment status of business borrowers. The study begins with assessing if respondents get the loan requested to the bank. The figure 4.5 presents findings related business operators in the study areas if gets the loan as requested from the bank.

Figure 4.5: Business gets loan as requested.



Source: Field Data, 2018.

Figure 4.5 shows that, 72% of respondents don't get the size of loan requested while only 28% of respondents get the loan size as requested to the bank. The result indicates that majority of respondents do not get size of the loan requested for the bank. Getting the loan which is not needed for the business has different implications. Ojala et al, (2015) noted that, size of loan is very important attribute for business men in promoting their ability to pay for the loan to the bank.

Offering loans size above the business capacity affect ability of business to pay and offering relative lower size of loan affect ability of loan utilized as per plans of the business which ultimately affect repayment status of business borrowers.

After knowing business men gets the loan size not requested, the researcher investigated the reasons that make them not getting the size of loan requested. The respondents were asked what the reasons are causing your business getting the amount of loan not requested to the bank. Table 4.21 shows reasons for them not getting the amount of loan as requested from the bank.

Table 4.15: Reasons for business not getting loan as requested to the bank

Reasons for getting loan less than requested for the bank	Frequency	Percent
Risks of the business	7	7.0
Inability to know the conditions for granting loan	14	14.0
Lack of sound business records and financial performance	25	25.0
Insufficient collateral for securing loan size needed	30	30.0
The poor bankers assessment of the business	17	17.0
Others	7	7.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.15 shows that, 30% of respondents are not getting the loan size as requested for the bank because of insufficient collateral for securing loan size needed. Also 25% of respondents are not getting loan as requested due to lack of sound business records and financial performance. In addition to that, 17% of respondents do not get loan as requested because poor bankers assessment of the business. Furthermore, 14% of respondents do not get loan as requested because inability to know the conditions for granting loan. Then7% of respondents do not get loan as requested because of risks of their business. Finally, 7% do not get loan as requested because of other factors. Ding'ohi (2011) reported that business men and women in Tanzania get lower loans size to support their business due to ignorant about conditions for credit in Tanzania.

The study was also interested to know whether size of loan has been causing late loan repayment to the bank in the study area. The respondents were asked do you think size of loan you get to support your business from the bank cause delay of loan repayment to the bank. The table 4.16 shows result obtained.

Table 4.16: Size of loan cause late of loan repayment to the bank

	Frequency	Percent
Yes	64	64.0
No	36	36.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.16 shows that, 64% of respondents considered that size of loan cause delay of loan repayment to the bank while 36% size of loan does not cause delay of loan repayment to the bank. Ojala et al, (2015) reported that size of loan is very important attribute for business men in promoting their ability to pay for the loan to the bank, that offering loans size above the business capacity affect ability of business to pay and offering relative lower size of loan affect ability of loan utilized as per plans of the business which ultimately affect repayment status of business borrowers.

The study also conducted a cross tabulation analysis to find if there is relationship between size of loan business and late of repayment of loan. The table 4.17 shows the result obtained.

Table 4.17: Size of loan and late repayment of loan to the bank

Size of loan * late repayment of loan (Crosstab.)	Yes		No	
Yes	28	28%	0	0%
No	62	62%	10	10%
Pearson’s chi-square 4.321, df =1, p = .038				

Source: Field Data, 2018.

Table 4.17 shows that, all 28 respondents who get the same amount requested to the bank face late loan repayment to the bank and of total of 72 respondents who not get the same amount of loan requested to the bank, 62 face late repayment of loan to the bank and 10 do not face late repayment of loan to the bank. Out of 100 respondents, 90 who gets the amount of loan requested and those who do not get the same amount of loan requested to the bank face late repayment of loan to the bank and 10 who do not get the same amount of loan requested to the bank not face late repayment of loan to the bank. The findings imply that, regardless respondents get the same amount or do not get the same amount of loan requested to the bank but still late payment of loan to the bank remains the problem.

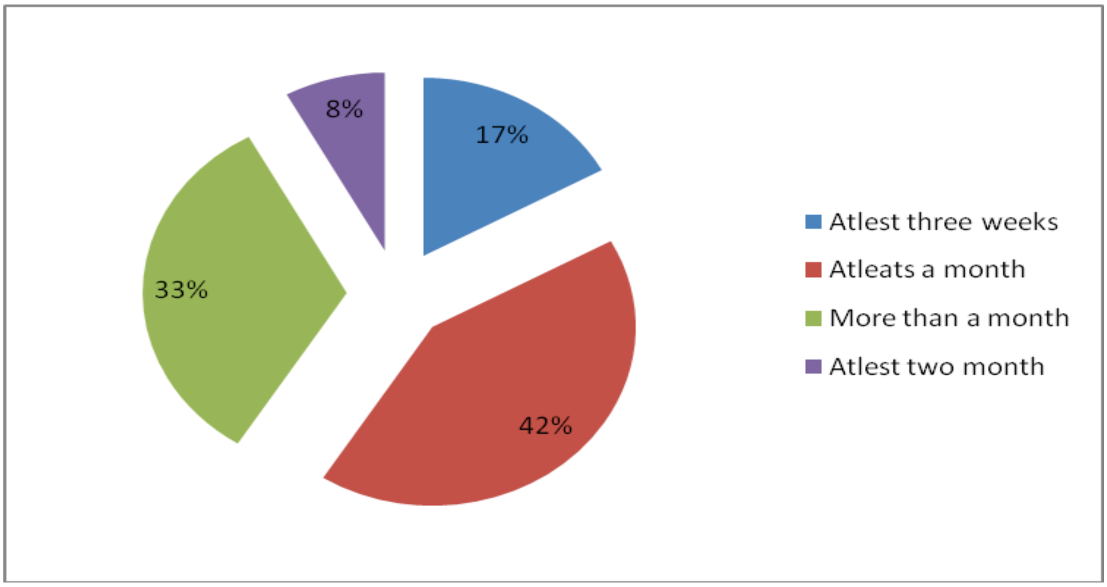
The study also shows that, chi-square value is 4.321 at p=0.038. This indicates that there is significant relationship between size loan business respondents gets from the bank and late repayment of loan to the bank. Ojala et al, (2015) noted that size of loan is very important attribute for business men in promoting their ability to pay for the loan to the bank, that offering loans size above the business capacity affect ability of business to pay and offering relative lower size of loan affect ability of loan utilized as per plans of the business which ultimately affect repayment status of business borrowers.

4.3.3.2 Loan Processing Time

The study was interested to know loan processing time and its effects on late loan repayment to the bank. The key issues was are the business men and women get loan on time to support their business, if they get does it contribute to late loan repayment or not. Hwarire (2012) small business spend more time in processing loan from the bank relative to corporate customers and spending long time in processing loan affect credibility of paying on time.

The study was first interested to know if respondents get the loan requesting to the bank on time. The respondents were asked how long it took to process loan to the bank. Figure 4.6 results obtained.

Figure 4.6: Loan processing time of respondents

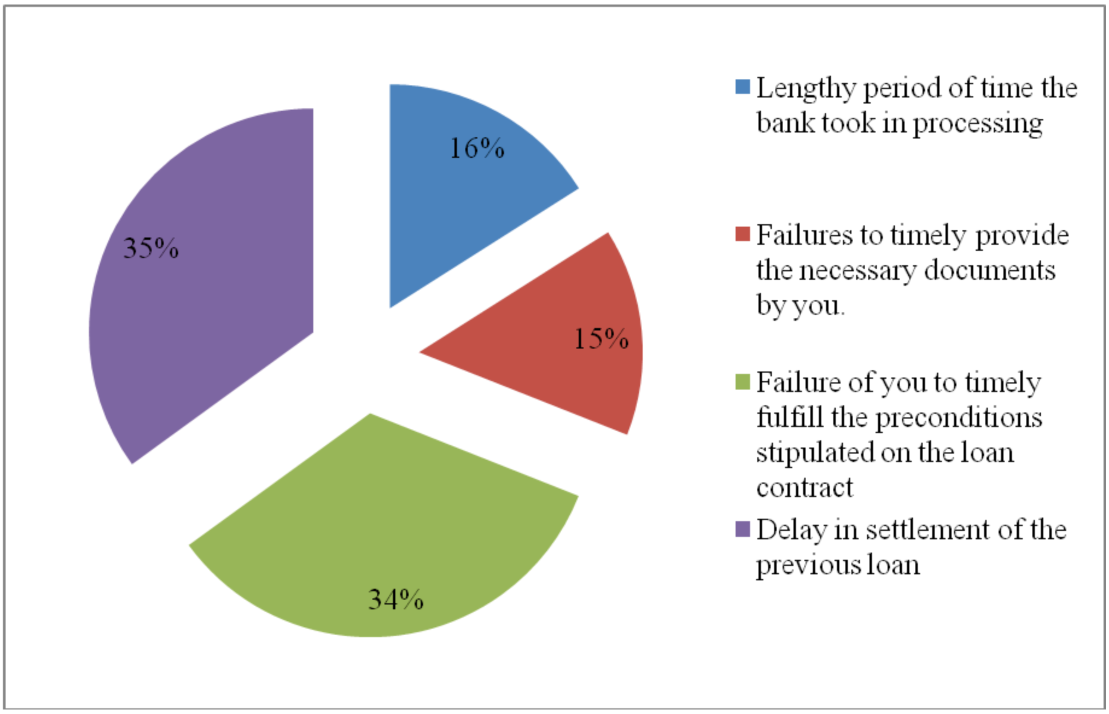


Source: Field Data, 2018.

Figure 4.6 shows that, 42% of respondents spend at least a month to process loan from the bank, 33% of respondents spend more than a month to process loan to the bank, 17% of respondents spend at least three weeks to process loan from the bank and 8% spend at least two month to process loan to the bank Hwarire (2012) small business spend more time in processing loan from the bank relative to corporate customers and spending long time in processing loan affect credibility of paying on time. In this study, respondents spending weeks or months to process loan from the bank.

The study was also interested to know why business dealers spend more time to process loan from bank. The figure 4.7 shows the reasons that make business dealers in the study area spend long time in processing loan from the bank.

Figure 4.7: Reasons for delays in processing loan from the bank



Source: Field Data, 2018.

Figure 4.7 shows that, 35% of respondents named reason for delay processing loan is delays in settlement of previous loans, 34% of respondents named failure of businessmen to fulfill the pre conditions stipulated on the loan contract cause delays processing loan to the bank, 16% of respondents named length time the bank took in processing loans cause delays in processing loan a to the bank and 15% of respondents named failure of borrowers to timely provide necessary documents needed in processing the loan cause delays in processing loan among business operators in the study area to the bank. The study indicates that, there several reasons that cause business men and women in the study area spend long time in processing loan from the bank.

The study was interested to know whether long time spends in processing loan cause late loan repayment to the bank. The respondent were asked do you think the time spend in processing loan from the bank cause delay of loan repayment to the bank. The table 4.18 shows result obtained.

Table 4.18: Long time in processing loan causes delays in late loan repayment to the bank

	Frequency	Percent
Yes	66	66.0
No	34	34.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.18 shows that 66% of respondents said yes on spending long time in processing loan from the bank cause causing late repayment of loan to the bank while 34% of respondents said no that spending long time in processing loan from the bank cause late repayment of loan to the bank. The result shows that majority of respondents considers that spending long time in processing loan from the bank has been causing late repayment of loan to the bank. Hwarire (2012) small business spend more time in processing loan from the bank relative to corporate customers and spending long time in processing loan affect credibility of paying on time.

The study also conducted a cross tabulation analysis to assess relationship between time business spends in processing loan and late of repayment of loan. The table 4.19 below shows result obtained.

Table 4.19: Time spend in processing loan and late repayment of loan to the bank

Loan processing time to the bank * late repayment of loan (Crosstab.)	Yes		No	
At least three weeks	12	12%	5	5%
At least a month	37	37%	5	5%
More than a month	33	33%	0	0%
At least two month	8	8%	0	0%
Pearson's chi-square 11.843, df =1, p = .038				

Source: Field Data, 2018.

Table 4.19 shows that out, 17 respondents who spend at least three weeks on processing loan from the bank, 12 respondents face late loan repayment to the bank while 5 respondents do not face late loan repayment to the bank. Out 42 respondents who spend at least a month on processing loan from the bank, 37 respondents face late loan repayment to the bank while 5 respondents do not face late loan repayment to the bank. All 33 respondents who spend more than a month on processing loan from the bank face late loan repayment to the bank. All 8 respondents who spend at least two months on processing loan from the bank face late loan repayment to the bank. Out of 100 respondents, 90 who spend different time in processing loan from the bank face late repayment of loan to the bank and 10 respondents not face late repayment of loan to the bank.

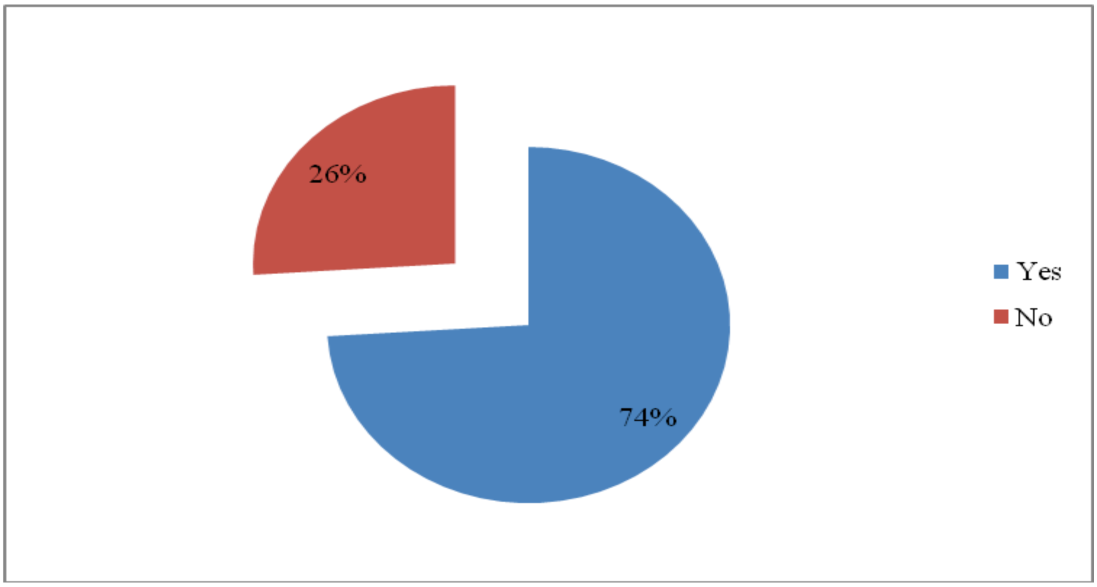
The study also shows that chi-square value is 11.843 at p=0.008. This indicates that there is significant relationship between time borrowers spend in processing loan from the bank and borrowers facing late repayment of their loan to the bank. The finding from this study confirmed argument by Hwarire (2012) small business spend more time in processing loan from the bank relative to corporate customers and spending long time in processing loan affect credibility of paying on time.

4.3.3.3 Loan Diversion

The study was interested to know if respondents face issues of loan diversion from the previous plan of the business. Viswanadham &Nahid (2015) many small business faces challenges of diversion of fund from the previous plans which contributes to either late payment of loan installment or totally failure to pay loan to the bank.

In this study it was important to know if respondents surveyed are subjected with issue of diverting loan obtained from the bank from the previous loan plans. The respondents were asked do you divert loan from the previous plans. Figure 4.8 shows the results obtained.

Figure 4.8: Status of loan diversion among respondents

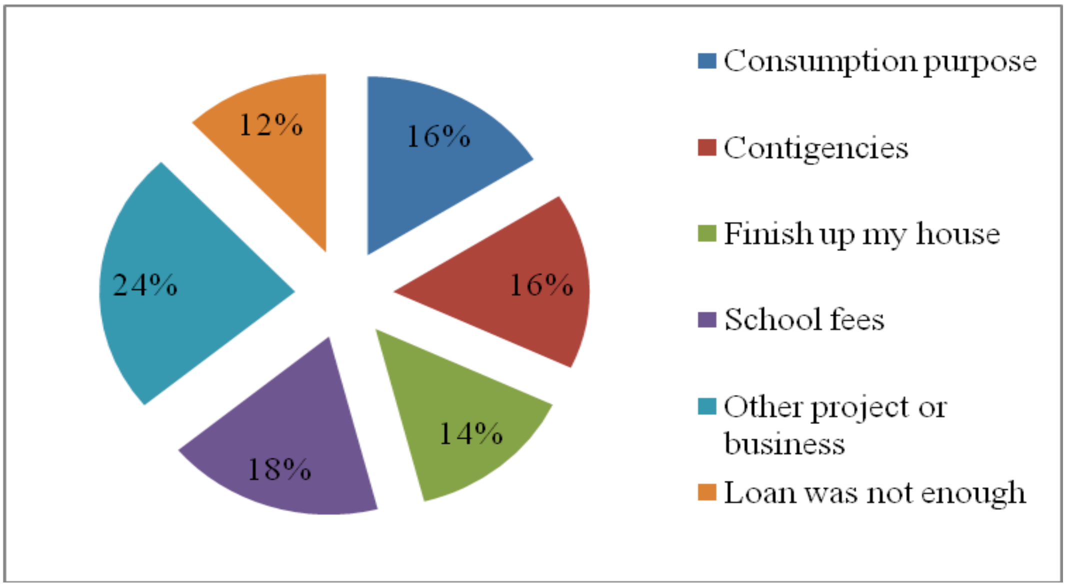


Source: Field Data, 2018.

Figure 4.8 shows that, 74% of respondents they have involved on diversion of loan obtained from the bank from the previous plan while 26% of respondents they not involved diversion of loan obtained from the bank from the previous plan they had. The majority of respondents have involved diversion of loan obtained from the bank from the previous plan they had. Viswanadham & Nahid (2015) reported that many small businesses faces challenges of diversion of fund from the previous plans which contributes to either late payment of loan installment or totally failure to pay loan to the bank.

The study also investigates the reasons for diversion of loan from the previous plans. The respondents were asked what reasons are caused diversion of loan from your previous plan. Figure 4.9 shows results obtained.

Figure 4.9: Major reasons for diversion of loan from the previous plans



Source: Field Data, 2018.

Figure 4.9 shows that, 24% of respondents divert loan obtained from the bank from previous plans for doing other business or projects, 18% of respondents diverted loan from previous plan for paying school fees, 16% of respondents diverted loan from previous plan for contingency, 16% of respondents diverted loan from previous plan for consumption purposes, 14% of respondents diverted loan from previous plan for finish up their house and 12% of respondent diverted loan from previous plan because loan was not enough for the business plans. The finding indicates that respondents had different reasons for diverting loan from the previous plans.

The study was interested to know whether diversion of loan from previous plan cause late loan repayment to the bank in the study area. The respondents were asked do you think diverting loan from previous plan has been causing delay of loan repayment to the bank. The table 4.20 shows result obtained.

Table 4.20: Loan diversion causes late repayment of loan to the bank

	Frequency	Percent
Yes	73	73.0
No	27	27.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.20 shows that 73% of respondents said yes that loan diversion from previous plan has been cause delay of loan repayment to the bank while 27% of respondents said no that loan diversion from previous plan cause delay of loan repayment to the bank. The result indicates that majority of respondents considered loan diversion from previous plan has been causing delay of loan repayment to the bank. Viswanadham &Nahid (2015) reported that many small businesses faces challenges of diversion of fund from the previous plans which contributes to either late payment of loan installment or totally failure to pay loan to the bank.

The study also conducted a cross tabulation analysis to assess the relationship between loan diversion from previous and late of repayment of loan. The table 4.21 shows result obtained.

Table 4.21: loan diversion from previous plan and late repayment of loan to the bank

Loan diversion loan from previous business plan * late repayment of loan (Crosstab.)	Yes		No	
Yes	66	66%	8	8%
No	24	24%	2	2%
Pearson's chi-square 5.208, df =1, p = .016				

Source: Field Data, 2018.

Table 4.21 shows that out 74 respondents divert loan from previous plan, 66 respondents face late loan repayment to the bank while 8 respondents do not face late loan repayment to the bank. Out 26 respondents who did not diverted loan obtained from the bank from the previous plans, 24 respondents face late loan repayment to the bank while 2 respondents do not face late loan repayment to the bank. Out of 100 respondents who diverted and those who did not divert loan from their previous plans, 90 face late repayment of loan to the bank and 10 do not face late repayment of loan to the bank.

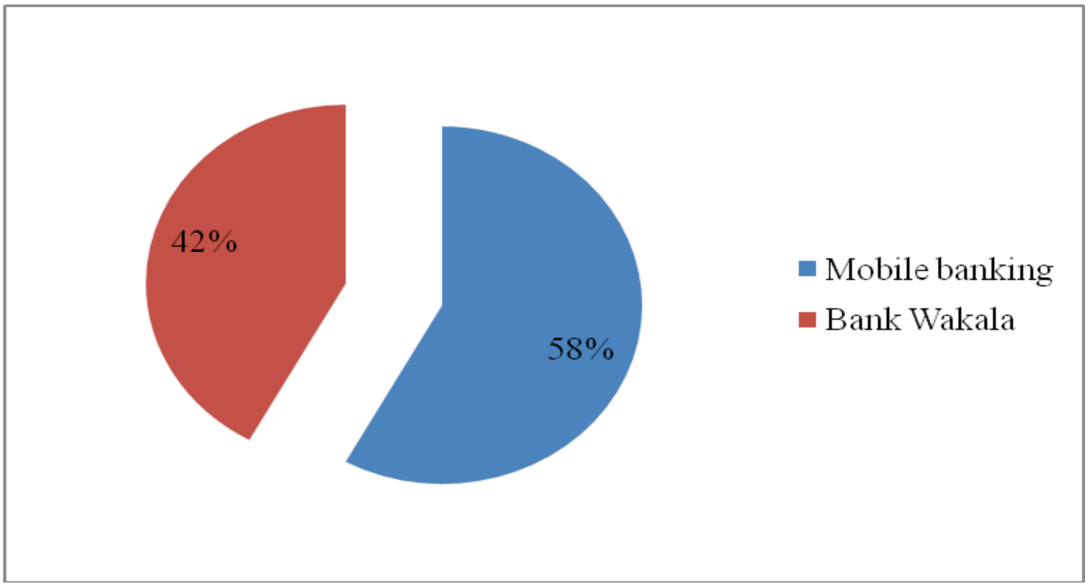
The study also shows that, chi-square value is 5.208 at p=0.016. This indicates that, there is significant relationship between borrowers diverting loan from the previous plans and late repayment of their loan to the bank. Viswanadham &Nahid (2015) reported that many small businesses faces challenges of diversion of fund from the previous plans which contributes to either late payment of loan installment or totally failure to pay loan to the bank.

4.4 The role of technology in enhancing loan repayment

The second specific objective in this study was examing the roles of technology in enhancing loan repayments. The technology that was highly used by the business respondents in the study area was the first concern in this part.

The study begin examine what technology is used by the business men in the study are for paying loan installment to the bank. The respondents when they were asked what kind of technology do you use in paying loan installment to the bank, their results are presented through figure 4.10.

Figure 4.10: Technology used by business men paying their loan installment



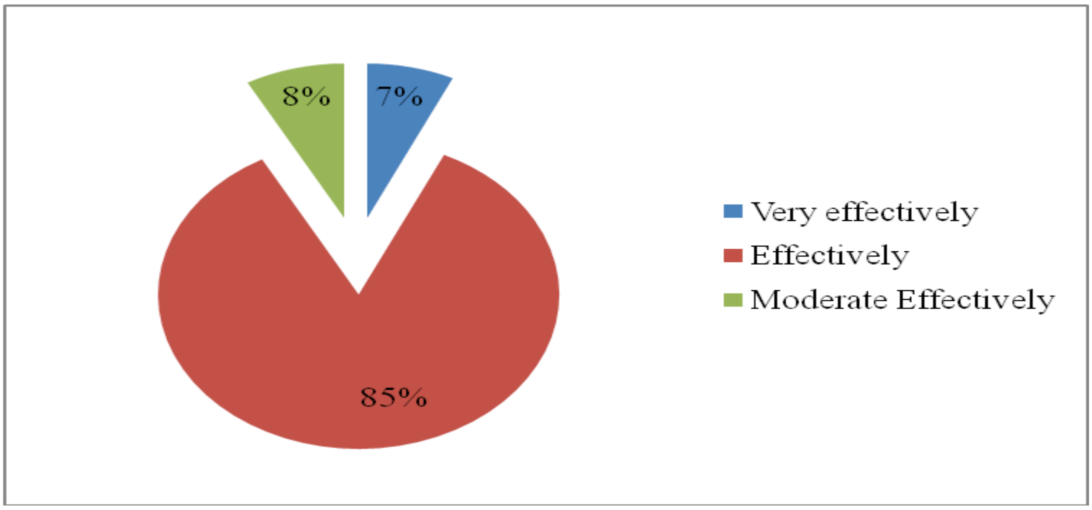
Source: Field Data, 2018.

Figure 4.10 shows that, 58% of respondents use mobile bank technology in paying loan installment to the bank account and 42% of respondents considered to use Bank Wakala technology in paying loan installment to the bank account.

This finding implies that business dealers in the study area use mobile bank and Bank Wakala technology in doing payment of loan installment to the bank. Agboola (2001) discovered that automation specifically Electronic Banking in Lagos has had positive impact in reaching their customers. Aragba (1998) also highlights that Information Technology (IT) is becoming the backbone of banks services regeneration in Nigeria.

The study also assessed the role of technology in loan repayment to the bank. The study examined mobile banking and Bank Wakala if they have been playing significant roles in loan repayment to the bank. Figure 4.11 shows the status of roles of mobile banking technology on payment of loan account.

Figure 4.11: Roles of mobile banking on loan payment to the bank

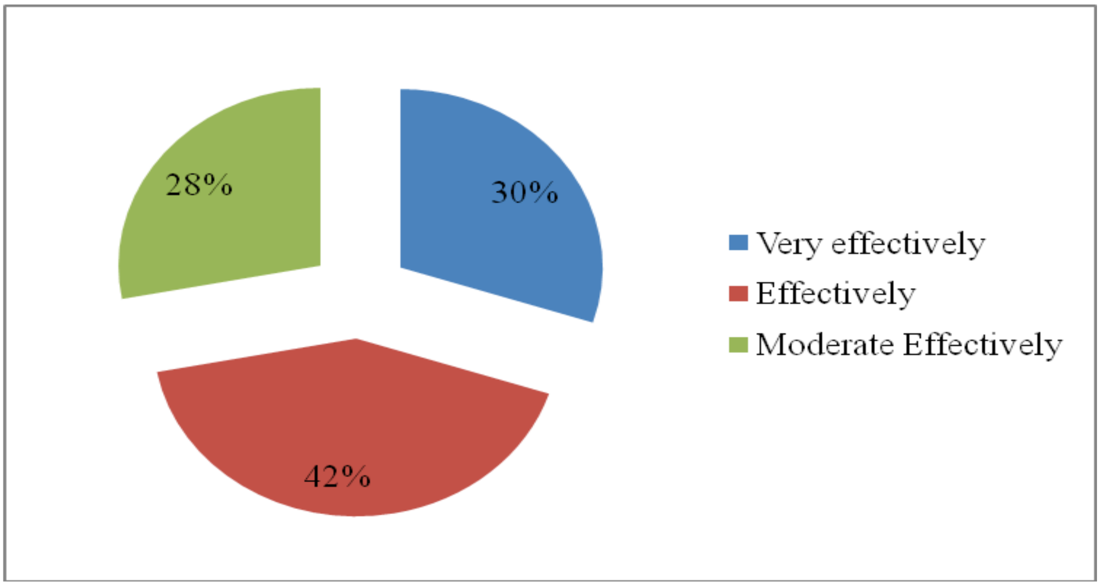


Source: Field Data, 2018.

Figure 4.11 shows that, 85% of respondents considered mobile banking has been playing effective roles in for business dealers paying loan to the bank, 8% of respondents considered mobile banking playing moderate effectively roles in for business dealers paying loan to the bank and 7% of respondents considered mobile banking play a very effectively roles in for business dealers paying loan to the bank. The finding indicates that, there is an effective roles played by mobile banking technology in paying loan to the bank. Agboola (2001) discovered that automation specifically Electronic Banking in Lagos has had positive impact in reaching their customers.

Figure 4.12 below shows the roles of Bank Wakala technology in promoting loan payment of business dealers to the bank in the study area.

Figure 4.12: The role of Bank Wakala technology in payment of loan to the bank



Source: Field Data, 2018.

Figure 4.12 shows that, 42% of respondents consider that Bank Wakala technology is effective in paying loan to the bank, 30% of respondents considered Bank Wakala technology very effective in paying loan to the bank and 28% of respondents considered that Bank Wakala technology is moderate effective in paying loan to the bank. This finding indicates that Bank Wakala technology is effective in paying loan to the bank. Aragba (1998) reported that Information Technology (IT) is becoming the backbone of banks services regeneration in Nigeria.

4.5. Credibility of loan appraisal procedures in the bank

The third specific objective in this study was assessing the credibility of loan appraisal procedures in the bank. The study begin examing what loan appraisal procedures in the bank. The respondents were asked to indicate the loan appraisal procedures in the bank, their results are presented through table 4.22.

Table 4.22: Credit Appraisal Procedures used by the bank in granting loan to customers

Credit Appraisal Procedures	Number	Percents
First, customer submission of loan application to the bank	14	14.0
Second, initial Processing of loan application	16	16.0
Third, appraisal the proposed business/Project	15	15.0
Fourth, acceptance of terms and condition of lending	18	18.0
Fifth, execution of loan agreements	14	14.0
Sixth, disbursements of loan	14	14.0
Seventh, monitoring of loan	9	9.0
Total	100	100.0

Source: Field Data, 2018.

Table 4.22 shows that, 14% considered first credit appraisal procedures is customer submission of loan application is a credit appraisal procedured used by the bank, 16% considered second credit appraisal procedures is initial processing of loan application, 15% of respondents considered the third credit appraisal procedures is appraisal proposed project/business, 18% of respondents considered the fourth credit appraisal procedures is acceptance of terms and conditions of lending, 14% of respondents considered the fifth credit appraisal procedures is execution of loan agreements, 14% of respondents consider the sixth credit appraisal procedures is disubursement of loan to borrowers account and 9% of respondents considered the seventh credit appraisal procedures is monitoring loan offered to borrowers.

Moti et al (2012) banks have credit appraisal procedures that need to be followed by credit borrowers. The procedures are borrowers feel form requesting loan, the bank assess the borrowers request of credits, the banks ensure the terms and conditions are accepted by borrowers, disburse the loan and the bank monitor credits provided to the customers in order to ensure it is paid back.

In addition to that, the study was interested to know whether the credit appraisal procedures used by the bak are credible. The respondents were asked are the credit appraisal procedures used by the bank credible. Table 4.23 shows results obtained.

Table 4.23: Credibility of Credit Appraisal Procedure

	Frequency	Percent
Very Credible	40	40.0
Credible	45	45.0
Not sure	6	6.0
incredible	5	5.0
Very incredible	4	4.0
Total	**100**	**100.0**

Source: Field Data, 2018.

Table 4.23 shows that, 45% of respondents considered credit appraisal procedures used by the bank are credible, 40% of respondents considered credit appraisal procedures used by the bank is very credible, 6% of respondents were not sure if credit appraisal procedures used by the bank is credible, 5% of respondents considered credit appraisal procedures used by the bank is incredible and 4% of respondents considered credit appraisal procedures used by the bank is very incredible. The result indicates that majority of respondents considered credit appraisal procedures used by the bank is credible and very credible.

Moti et al (2012) banks have credit appraisal procedures that need to be followed by credit borrowers and adherence to procedures such borrowers feel form requesting loan, the bank assess the borrowers request of credits, the banks ensure the terms and conditions are accepted by borrowers, disburse the loan and the bank monitor credits provided to the customers makes credible for borrowers to pay.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter indicates the summary of the study, concluding remarks and the recommendations on the observed issues in the entire study which requires to be provided with suggestions to bring about positive changes.

5.2 Summary

The study investigated the factors leading to loan repayment problems within the banking industry. The specific objectives were examine how borrowers characteristics, project characteristics and loan characteristics leads to unsuccessful loan repayment, evaluate the role of technology in enhancing loan repayment and assess the credibility of loan appraisal procedures in the bank. The study employed descriptive statistics and hypothesis testing design in investigated the factors leading to loan repayment problems within the banking industry.

The study discovered that borrower characteristics (in this case gender, level of education, size of household and experience in business), project characteristics (business activity, size of labour and ownership of the business) and loan characteristics (size of the loan, loan processing time and loan diversion) have effect on late repayment of loan to the bank. Furthermore, the technological used in payment of loan to the bank had impact on the clients' ability to make on time payments. Finally the study found that credible loan appraisal procedures have significantly effect to timely repayment of loan to the bank.

5.3 Conclusion

The study observed that borrower's characteristics, project characteristics and loan characteristics significantly affect late repayment of loan to the bank. Thus it is concluded that the bank has to develop procedures and programs taking account these variables in order to reduce late repayment of loan to the bank.

The study observed that technology used by bank to allow the customers repay their loan on time. Thus it is concluded that bank has to make sure that customers use technology properly to pay their loan installment in order to reduce late repayment of loan.

The study observed credible loan appraisal procedures have significant effect on timely repayment of loan to the bank. The concludes that banks has to ensure that they have a sound and credible loan appraisal process in order to reduce borrowers late repayment of loan to the bank.

5.4 Recommendations

- The study recommends that more efforts in making borrowers characteristics, loan characteristics, and project characteristics are capitalized in credit policy so that provision of loan base on critical analysis of them in order to reduce late repayment of loan to the bank
- The study recommends that mobile banking technology and Banking Wakala have to be highly encourage for business men paying their installment daily or weekly in order to avoid waiting until the date of payment of installment which causes late repayment of loan to the bank
- The study recommends that credible loan processing procedures is well carried out and customers are well educated to understand them in order to ensure late repayment of loan to the bank is minimized.
- The study recommends that the CRB system should be updated for the credit officer to have an ease loan processing procedure.

5.5 Areas for future study

The study recommends that future study has to be conducted assessing factors leading to loan repayment problems within the banking industry taking account more variables and including more banks.

REFERENCES

Acharya, V. V., Hasan, I., & Saunders, A. (2006). Should banks be diversified? Evidence from individual bank loan portfolios. *The Journal of Business, 79*(3), 1355-1412.

Bofondi, M., &Gobbi, G. (2003).Bad loans and entry in local credit markets. *Bank of Italy,*

Caprio, G., &Klingebiel, D. (2002). Episodes of systemic and borderline banking crises. *Managing the Real and Fiscal Effects of Banking Crises, World Bank Discussion Paper, 428*, 31-49.

Chepkoech, D. (2014). *The Effect of Credit Assessment Process on Repayment of Bank Loans in Commercial Banks in Kenya,*

Chimkono, E. E., Muturi, W., &Njeru, A. Effect of non-performing loans and other factors on performance of commercial banks in malawi.

Ding'ohi, M. (2011). Credit risk management in financial institutions in Tanzania. *Unpublished MBA Dissertation, University of Dodoma,*

Einav, L., Jenkins, M., & Levin, J. (2013).The impact of credit scoring on consumer lending. *The Rand Journal of Economics, 44*(2), 249-274.

Ewert, R., Schenk, G., &Szczesny, A. (2000). Determinants of bank lending performance in Germany. *Schmalenbach Business Review: ZFBF, 52*(4), 344.

Fofack, H. (2005). Nonperforming loans in sub-saharanafrica: Causal analysis and macroeconomic implications.

Frame, W. S., Padhi, M., &Woosley, L. W. (2001).The effect of credit scoring on small business lending in low-and moderate-income areas.

Hauswald, R. B., & Marquez, R. (2004). Loan-portfolio quality and the diffusion of technological innovation.

Hietalahti, J., & Linden, M. (2006). Socio-economic impacts of microfinance and repayment performance: a case study of the Small Enterprise Foundation, South Africa. *Progress in development studies*, *6*(3), 201-210.

Hwarire, C., 2012. Loan repayment and credit management of small businesses: A case study of a South African Commercial Bank. In *A paper presented at the African development finance workshop, Cape Town, South Africa*.

Islam, M. S., Shil, N. C., &Mannan, M. (2005). Nonperforming loans-its causes, consequences and some learning.

Jullien, B., Salanie, B., &Salanie, F. (2007). Screening risk-averse agents under moral hazard: Single-crossing and the CARA case. *Economic Theory, 30*(1), 151-169.

Kibrom, T. G. (2010). *Determinants of Successful Loan Repayment Performance of Private Borrowers in Development Bank of Ethiopia North Region,*

Kiplagat, M. (2013). *The Effect of Technological Innovation on Loan Recovery in a Student Financing Organization: A Case Study of Higher Education Loans Board.,*

Klein, N. (2013). Non-performing loans in CESEE: Determinants and impact on macroeconomic performance.

LATA, R. (2014). Non-performing loan and its impact on profitability of state owned commercial banks in Bangladesh: An empirical study. *Proceedings of 11th Asian Business Research Conference,* pp. 26-27.

Matanda, W. J. (2010). *The Effect of 7cs Credit Appraisal Model on the Level of Non-Performing Advances of Commercial Banks in Kenya,* Moti, H. O., Masinde, J. S., Mugenda, N. G., &Sindani, M. N. (2012). Effectiveness of credit management system on loan performance: Empirical evidence from micro finance sector in Kenya. *International Journal of Business, Humanities and Technology, 2*(6), 99-108.

Mutarubawa, A. (2011) .Bankers are *not worried even as bad loans rise*, The citizen, July.

Ojala, Evusa Zablon Mudaki John Sambiri, &Otieno, D. (2015). Evaluation of the factors leading to loan default at equity bank, Kenya. *Evaluation, 6*(9)

Pagano, M., &Jappelli, T. (1993).Information sharing in credit markets. *The Journal of Finance, 48*(5), 1693-1718.

Petersen, M. A., &Rajan, R. G. (2002). Does distance still matter? The information revolution in small business lending. *The Journal of Finance, 57*(6), 2533-2570.

Rose A.B. Wakulla 2007 Ministry of State for Youth Affairs, KENYA

Roslan, A. H., & Karim, M. A. (2009). Determinants of microcredit repayment in Malaysia: The case of agro bank. *Humanity & Social Sciences Journal, 4*(1), 45-52.

Saba, I., Kouser, R., &Azeem, M. (2012). Determinants of nonperforming loans: Case of US banking sector. *The Romanian Economic Journal, 44*(6), 125-136.

Viswanadham, N., &Nahid, B. (2015). Determinants of nonperforming loans in commercial banks: A study of NBC bank Dodoma Tanzania. *International Journal of Finance & Banking Studies, 4*(1), 70.

APPENDICES

APPENDIX I

QUESTIONNAIRE

I am carrying out a study on the factors that lead to problems in loan repayment at TPB BANK PLC. I would be grateful if you could help me answer the following questions.

The questionnaire is in four sections, demographic profile, project details, loan details, and technological advancement details.

Section 1: Demographic profile

1) Gender: a) Male ☐ b) Female ☐

2) Do you think your gender status affect credibility of paying loan

   (a) Yes

   (b) No

   Why do you think so? ....

3) Marital status: a) Single ☐ b) Married ☐ c) Divorced ☐ d) Widowed ☐

4) Level of education a) Primary ☐ b) Secondary ☐ c) University/college ☐

   d) Vocational Training ☐ e) No education ☐

5) Do you think level of education causes delay of loan payment for the bank

   (a) Yes

   (b) No

   Why do you think so? ....

6) What is your Household Size?

   (a) Two

   (b) Three

(d) Four

(e) Five

(f) Above five

7) Do you think the size of household has been main cause for delay of loan payment for the bank

(a) Yes

(b) No

Why do you think so? ....

8) How many years of experience do you have in the business you are currently doing?

a) 1-2years ☐ b) 3-5years ☐ c) 5-10years ☐ d) more than 10 years ☐

9) What is the main source of income that generates money for paying your loan?

a) Business related ☐

b) Salary ☐

c) Other sources ☐

Section 2: Project characteristics

10) What business activities are doing? Tick your business activities

(a) Liquor & Bars

(b) Retail shops& supermarkets

(c) Solar Energy

(d) Hardware

(e) Food Related

(f) Transportation

(g) Saloon

(h) Shoes & Clothing

(i) Others

11) Does your loan financed business activities

(a) Yes

(b) No

Why did you do so? ....

12) Does your business activities causes delay or completely not paying loan for the bank

(a) Yes ☐

(b) No ☐

13) Do you own the business yourself? a) Yes ☐ b) No ☐

14) If yes, who supervises the business? a) yourself ☐ b) your relatives ☐ c) your employees ☐

15) Do you think ownership status causes delay or completely not paying loan for the bank

(a) Yes

(b) No

Why did you think so? ....

16) What types of labour do you use in your business

(a) Family members

(b) Employ someone to take care business

(c) Yourself

17) How many labours do you have in your business?

(a) One

(b) Two to three

(c) Four to five

(d) Above five

18) Do you think status of labours in your business causes delay or completely not paying loan for the bank?

(a) Yes

(b) No

Why did you think so? ....

Section 3: Loan Characteristics

19) How many times did you take loan from the bank?

a) Once ☐ b) Twice ☐ c) three times ☐ d) more than five times ☐

20) Was the loan amount you requested given to you? Yes ☐ b)No ☐

21) Was the amount given to you enough for the intended purpose and per your Interest?

b) Yes ☐ b) No ☐

22) What was the purpose of the loan?

a) For working capital ☐ b) For fixed investment ☐ c) other ☐

23) Did you use the entire loan for the intended purpose?

a) Yes ☐ b) No ☐

24) If your answer to Q 20 is No, how much of it did you spend for other purpose?

a) Nearly ¼ of it ☐ b) Nearly ½ of it ☐ c) Nearly ¾ of it ☐ d) More than ☐ >¾.

25) If your answer to Q.20 is No, what is your reason for loan diversion?

a) Consumption purposes

b) Contingencies

c) Finish up my house

d) School fees

e) Other project/business

f) Loan not enough

26) Did you get the loan at the right time? a) Yes ☐ b) No ☐

27) If your answer to Q. 26 is no, what is the reason for delay?

c) Lengthy period of time the bank took in processing ☐
d) Failures to timely provide the necessary documents by you. ☐
e) Failure of you to timely fulfill the preconditions stipulated on the loan contract ☐
f) Delay in settlement of the previous loan ☐
g) Others (please specify)________________________________

28) Have you ever been unable to pay your periodic loan repayment on time?

a) Yes ☐ b) No ☐

29) What do you think are the major reason/s/ for failure in loan repayment? (please tick any relevant reason, you can tick more than one)

Reasons	Tick	If others please specify
a) Market problem		
b) Contingencies problem such as death, sickness, etc		
c) Usage of the loan for other purposes like consumption		
d) Credit policy problem of the bank		
e) The interest rates charged		
f) Business failure		

30) If you have any idea, or comment towards improvement of credit management of the bank, Please write them on the space provided below.

____

Section 3: Technology advancement and loan repayment

31) Have you used any of the following means at your bank?

a) Standing order ☐

b) Credit/ Debit Cards ☐

c) Internet Banking Electronic transfer ☐

d) Mobile Banking ☐

e) Bank Wakala ☐

32) How efficient was mobile banking?

a) Very Efficient ☐ b) Inefficient ☐

33) How efficient were other means?

a) Very efficient ☐ b) Inefficient ☐

34) Has technologically improved or ease loan repayment?

(a) Yes

(b) No

THANK YOU

APPENDIX II

INTERVIEW QUESTIONS FOR BANK OFFICERS

1. What system assists you to assess the customer? How does it work?
2. How do you appraise the customers?
3. How do you credit a customer?
4. How does technology assist you in appraising a client?
5. What do you think has to be improved technologically as an officer?