

**AN ASSESSMENT OF EFFECTIVENESS OF LOAN APPRAISAL
PROCEDURES AND TO IDENTIFY THE LEVELS OF LOANS APPROVALS
AND REPAYMENT BY THE COMMERCIAL BANKS ON SOCIO ECONOMIC
STATUS OF THE POPULATION IN TANZANIA: THE CASE OF CRDB BANK
AT ILALA DISTRICT**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION FINANCE (MBA) OF THE OPEN UNIVERSITY OF
TANZANIA**

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Open University of Tanzania a Project entitled “*An Assessment of Effectiveness of Loan Appraisal Procedures and to Identify the Levels of Loan Approvals and Repayment by The Commercial Banks on the Socio Economic Status of the Population in Tanzania: A case study of CRDB Bank at Ilala District*” in fulfillment of the requirement for the degree of Master of Business Administration in Finance of the Open university of Tanzania.

.....

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(SUPERVISOR)

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Date

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DEDICATION

This work is dedicated to my lovely family and my friends; I appreciated their contributions in different aspects during my study.

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ABSTRACT

This study focuses on effectiveness of loan appraisal procedures and to identify the levels of loans approvals and repayment by the commercial Banks on the socio economic status of the population in Tanzania. The main objective was to assess effectiveness of loan appraisal procedures and to identify the levels of loans approvals and repayment by the commercial banks on the socio economic status of the population of Ilala District, Dar es salaam. The specific objective were to examine the banks loans issuance procedures with regard to their acceptance by the borrower in Ilala District, to examine the effects of bank loan on the reduction of unemployment status in Ilala District Dar es salaam and to establish the relationship between bank loans issuance and socio economic status of the borrowers in Ilala district. Finally to examine the socio economic benefit accrued by the borrowers of the loan from the bank. Case study design was used. In this study participatory observation, documentation, discussion and questionnaire were used in obtaining information about the effectiveness of loan appraisal procedures and identification the levels of loan approval and repayment. The findings showed that there were problem in procedure, criteria and condition in loan provision and loan officer not comply with the rule and not fair to customers. The study suggest that the banks needs to have better ways to eliminate those problems in order to perform well as well as to make the customer access loan easily without regard their level of income and also reduce unemployment in the society and improving the socio economic status of the population in Tanzania. It also recommended that the CRDB should emphasis on setting the criteria and condition that favor all classes in the society and also to establish way which will enable to know all employees who are not perform work regarding the code of practice. Finally, this research leave this work open to constructive criticisms and expects future scholars to delve into further research and improve on this work.

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LIST OF ABBREVIATIONS AND ACRONYMS

BFIA	Banking and Financial Institutional Act
BOT	Bank of Tanzania
CRDB	Cooperative and Rural Development Bank
DMD	Deputy Managing Director
MFI	Microfinance Institution
NBC	National Bank of Commerce
NGOs	Non Government organization
NMB	National Microfinance Bank
NPA	None performing asset
NPLs	None performing loan
SACCOS	Saving Credit Cooperative Societies
SMEs	Small Medium Enterprises

CHAPTER ONE

1.0 BACKGROUND INFORMATION

1.1 Introduction

CRDB Bank Plc is a leading, wholly-owned private commercial bank in Tanzania. The Bank was established in 1996 and has grown and prospered over the years to become the most innovative, first choice, and trusted bank in the country. CRDB Bank has been recording progressive profit every year since its foundation and has paid dividends annually. The Bank reached an important milestone recently and was listed on the Dar es Salaam Stock Exchange on 17th of June, 2009.

CRDB Bank offers a comprehensive range of Corporate, Retail, Business, Treasury, Premier, and wholesale microfinance services through a network of over 85 branches, 250 ATMs, 15 Depository ATMs, 12 Mobile branches, 900 Point of Sales (POS) terminals and scores of Microfinance partners institutions. The Bank also operates through Internet and Mobile banking services

1.2 Vision

To be the leading bank, which is customer need driven with competitive return to shareholders

1.3 Mission

To provide quality and competitive financial services with a strong focus on retail banking and customized corporate and institutional services while ensuring confidence and trust from stakeholders.

1.4 Objectives

The bank's objectives include quality financial services with a focus on retail customers and customized corporate services

1.5 Strategic Business Plan

Under the plan, the Bank continues to focus on retail banking, by offering quality products and services through network expansion, enhanced use of electronic banking channels, and improvements in the Bank's technological platform. The Bank will continue to offer customized banking services to corporate and institutional customers as well as take measures to improve risk management. The challenge ahead is building capacity and infrastructure for provision of services to all segments of customers, at the bottom of the pyramid.

1.6 The Organization Structure of CRDB Bank

CRDB Bank organizational structure (see the structure in appendix III)

1.7 Background of a Problem

Loan appraisal is stipulated in the Bank of Tanzania Act (1995), Banking and Financial Institution Act (1991) and Foreign Exchange Act (1992), the term loan appraisal as used in this study refers to an investigation/assessment done by the banks before providing any Loans and advances/project finance and also checks the commercial, financial and technical viability of the project proposed, its funding pattern and further checks the primary and collateral security cover available for recovery of such funds.

In Tanzania, there were basically four types of loan appraisal services for loan repayment in commercial bank providers:-

- Non government microfinance institutions

- Commercial banks
- Member based financial service provider like saving credit cooperative societies (SACCOS)
- Money lenders, traders, shopkeeper, family

Other providers include several NGOs whose micro credit delivery operations were funded and supported with technical assistance by international donors.

Commercial bank in Tanzania like the other institutional provider of microfinance services, fairly new to microfinance compared to other countries in Asia and Latin America, and now to some other countries in Africa. The three commercial banks which have financial service and product aimed at the poor and low income households which loan appraisal has to be effectively utilized were CRDB Bank, which has been restructured and recapitalized from the former Cooperative and Rural Development Bank, National Microfinance Bank which is a government owned bank being prepared for privatization and Akiba commercial Bank. The Postal Bank, a licensed state owned non bank financial institution, provides a variety of savings deposit services nationwide. National Microfinance Bank (NMB), together with NBC (1997) Ltd, was created from the restructuring of the National Bank of commerce which held a monopoly in commercial banking until 1984. (Randhawa and Gallardo, 2003)

Several empirical studies on loan appraisal on loan issuance have in chased problems in regard with loan appraisal in most African countries including Tanzania. In the case of Ghana and other African countries there is evidence of poor supervision and monitoring of bank loans by banks. (Lassort and Clavier, 1989; Aryeetey et al, 1994). National economic downturn, insider lending, political connection of bank owners, customer failure

to disclose vital information during the loan process, lack of proper skills amongst loan officials were among the major factors identified in other countries.(Santomero,1997; Brownbridge and Harvey, 1998; Waweru and Kalani, 2009).

In the case of Tanzania the problem of accessing bank loans by the population can be traced to the colonial periods in the 1950s as most of the population was not quite educated. There existed few banks which were owned by the British colonialists but their major clients were both the white colonial masters and a few Indian businessman.

However, after independence in Tanzania in 1961 the situation changed in 1967 with the pronouncement of the Arusha Declaration whereby the major means of the economy were nationalized including the banks. During the period of nationalization to the 1990s the nationalized Banks including the National Bank of commerce concentrated in granting loans to public institutions as very few individuals were able to fulfill the conditionality's of accessing loans from the Banking sectors. Cooperative Rural Development Bank during that period concentrating on issuing of loans to cooperative Unions in the country which had weak administrative structures resulting in embezzlement of loans leading to the collapse of these cooperative unions and CRDB had to be restructured in 1996 as to meet the new challenges of operation in commercial basis.

Currently, with the change of the economic set up of liberalization and free market, Tanzania has attracted a number of private banks which range to a tune of 28. However, most of these Banks have continued to serve and benefit a small fraction of the population in terms of the provision of loans for investments. Those who have been benefiting are the middle class level people who are able to fulfill the strongest conditionality's of loan application which is currently with the interest of 21% - 25% which are quite high for ordinary citizen.

In Dar es Salaam, a recent report by the International Labor Organization (ILO) an assonate organization of the United Nations has found that the majority of the population is unemployed (around 72%) and are not able to open bank accounts. Most of these populations are involved in petty business in slums, with beginning prostitutions and the increased rate of crimes.

The report also found evidence on the majority population with Bank accounts not being able to access loan from the banks to enable them to start viable economic ventures. The major problems had been on the cumbersome procedures introduced by the banks of the assessment and final approval of loans. In case of Dar es Salaam, out of a total of 100 received loan applications only 10% of these applications are approved for payments. The above scenario indicates the problems of the banks (including CRDB) on their system of the election of potential borrowers with low default rate, has had negative effects on the population economic well being. Dar es Salaam region with a population of more than 5 million requires extensive loans to enable them to engage in economic ventures, which will enable them to facilitate their children's education and other activities.

1.7 Statement of the Problem

Credit appraisal is one of the crucial stages in the loan processing procedures. This is because this stage analyses information about the financial strengths and creditworthiness of the customer. Lender must therefore ensure a through credit evaluation process to fore stalk default (Sinkey, 1992). There are factors that render processing and issuing loans to people and results to low level of repayment in the lending institutions like commercial banks. This includes; weak credit appraisal process, insider lending and weak credit policies. (Kanyiri, 2005), Poor loan supervision and loan follow up, poor appraisal of the collateral and legal system for sueing loan defaulters lead to the poor loan repayment

(Edmund, 2009), and failure to conduct proper loan appraisal is the major reason for default and existence of problem loans. (Chowdhury et al, 2012).

Currently, the rate of unemployment in city of Dar es salaam is 21% (ILO 2013) leading to increase in crime rate, petty trading, street children, mental disorder, HIV/AIDS, prostitution, educational problems on the quality and absenteeism. The banking sector has been approving only 11% out of the total applicants per year including CRDB in Ilala District, Dar es Salaam. Furthermore, the rate of return of these issued loans is around 5% per year due to higher interest rates of around 19% to 25%. The case study of CRDB system of assessing the issuance of loan is aimed recommending the right strategies on which the Banking sector in Tanzania can utilize in the reduction of unemployment through increasing level of the provision of self loans to the population.

To justify this problem, CRDB Bank needs to feel confident that the loan appraisal are effectively used and followed, this will make higher level of loan repayment. This therefore means that, there is a possible relationship between the loan repayment and loan appraisal process. Therefore, the researcher was convinced that, there was a need for more research on the assessment of effectiveness of loan appraisal procedures and to identify the levels of loans approvals and repayment, and that was exactly what this research study was set out to do. Such as to examine the bank's loan issuance procedures with regard to their acceptance by the borrower in Ilala District, to examine the effect of bank loans on the reduction of unemployment status in Ilala District Dar es salaam, and to establish relationship between bank loan issuance and the social economic status of the borrowers on Ilala District.

1.8 Research Objective

1.8.1 General Research Objective

The general objective of study was to assess the effectiveness of loan appraisal procedures

and to identify the levels of loans approvals and repayment by the banks on the social economic status of the population of Ilala District, Dar es Salaam.

1.8.2 Specific Research Objectives

- i) To examine the banks loans issuance procedures with regard to their acceptance by the borrowers in Ilala District.
- ii) To examine the conditions of loan appraisal used by CRDB at Ilala district if it is compatible with needs and characteristics of borrowers.
- iii) To examine the effects of bank loans on the reduction of unemployment status in Ilala District Dar es salaam.
- iv) To establish the relationship between bank loan issuance and the social economic status of the borrowers in Ilala District.

1.9 Research Questions

1.9.1 General Research Question

What is the level of loans approval and repayment by the banks to social economic status of the population of Ilala District, Dar es Salaam?

1.9.2 Specific Research Questions

- i) What is the level of banks loan issuance procedure with regard from acceptance by the borrowers in Ilala District?
- ii) Does CRDB bank conditions used in loan appraisal system compatible with the needs and characteristic of borrowers?
- iii) What is the effect of bank loan on the reduction of unemployment in Ilala District Dar es salaam?
- iv) Is there a relationship between bank loans issuance and the social economic status of the borrowers in Ilala District?

1.10 Scope of the Study

The study was conducted in Ilala District in Dar es salaam City which has a total of 27 wards. The study focused on loan assessment and approval on socio-economic status of the borrowers. On the other hand it focuses on how the increase of bank loans may result in an increase level of entrepreneurship activities and the reduction of unemployment in the city of Dar es salaam.

1.11 Relevance of the Study

The study will benefit the following group of people. The Tanzania Government policy makers will get the actual statistics on the levels of bank loans issuance and social economic status of borrowers and measure to be taken to improve loan appraisal performance on loan repayment.

The banking sectors may benefit by using the report finding in order to improve the loan appraisal on loan issuance and repayment procedures. The finding would also provide important information about loan appraisal on loan issuance and repayment.

The findings are expected to remind loan department staff about the effective use of loan appraisal in provision of loans and resulting good loan repayment. The finding of this study could be seen as a contribution to existing workers on loan department. Indeed, this would contribute immensely in building up academic knowledge in a wide range of issues. The findings would also assist other researchers to find strategies which contribute to improve the performance of loan appraisal and resulting to increases loan repayment performance as well as further research into other aspects of the topics under consideration or other related topic in the commercial banks.

1.12 Organization of the Research

This research was organized with five chapters as follows. **Chapter One** presents the introduction where by the following section were presented a brief background information on loan repayment in commercial banks; followed by statement of the problem, the objectives of the study was mentioned and research questions that guide the study were presented, as well as the significance of the study.

Chapter Two This chapter consists of Literature review, where by reviews from different studies and theories explaining on how to conduct loan appraisal are presented; also in this chapter, the researcher discussed types of loan appraisal repayment and methods of evaluating loan appraisal. Methodology adopted by loan appraisal on loan issuance and repayment also discussed here.

Chapter Three Highlights research methodology which geared the assessment of the effectiveness of loan appraisal on loan repayment in CRDB. It also spells out the research design, data requirement, data measurement, population sampling procedures and sample size of respondents, data collection methods adopted and data analysis for study undertaken.

Chapter Four presented the findings from the field work and analysis and discussion which the researcher to got from the responses of employees of CRDB Bank and customers who participated in this research.

Chapter Five The summary of a study, conclusion and Recommendations. Presentation of conclusions is derived from the study, finally recommendation for the future research based on important issues emerging from the study are discussed.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Overview

The chapter present concept, opinions , and ideas from authors, the theoretical reviews of various literatures and studies on assessing the effectiveness of loan appraisal procedures and to identify the levels of loan approvals and repayment by the commercial banks on the socio-economic status of the population. In these chapter literatures, studies or theories with the actual practice of CRDB on loan appraisal are discussed.

2.2 Conceptual Definitions

2.2.1 Loan

This is an arrangement in which a lender gives money or property to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future points in time Ambilikile (2008). Usually, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan (through modern capital markets have developed many ways of managing this risk).

2.2.2 Loan Appraisal

Refers to evaluating credit worthiness of the proposed applicant, credit worthiness may also indicate the ability to honor commitments. Or the lending to a client should be in accordance to her repayment capacity or else she may get over indebted and her economic situation may deteriorate. The loan appraisal should take account the repayment capacity of the clients given the loan sizes and the duration of the loan. According to Seyfried (2001), Loan appraisal (credit appraisal) process is a wholistic exercise which starts from

the time a prospective borrower walks into the bank and ends in credit delivery and monitoring with the objective of ensuring and maintain the quality of lending and managing credit risk within acceptable limits. This is basic stage in the lending process. Anjichi (1994) describes it as the 'heart' of a high quality portfolio. This involves gathering, processing and analyzing of quality information as a way of discerning the client's creditworthiness and reducing the incentive problems between lenders as principals and the borrowers as agents.

In the case of bank loan appraisal means assessing effective credit demand based on repayment potential requires certain skills in an Institution. The success or failure of a loan depends to large degree on an accurate appraisal of the customers' repayment capacity (Hartmut. S., 1997)

2.2.3 Loan Repayment

It is a process by which a borrower repays the loan issued by the bank. Lenders of funds in the formal financial sector use the deposits of their clients whilst lenders operating in the informal sector use mainly their own funds to advance money to borrowers. In either case, the transactions are expected to lead to recouping the financial capital. If this does not happen, borrowers benefit at the expense of the lender.

2.2.4 Commercial Banks

Michael, (1988) defines commercial banks to be banks that operate for profits and are a primary source of credit for companies that do not have easy access to capital markets. In other way commercial bank are deposit money banks that incur liabilities in the form of deposits payable on demand and transferable by cheque or otherwise in making payments. They lend and provide other banking services, including payment services, to the public. SADC/CPSS/BIS, (1999).

2.2.5 Social Economic Status

Is a value derived from analyzing a combination of variables, including income, wealth, occupation, loans, economic activities, place of residence.

2.2.6 Unemployment

Is a situation of which the population is defined of the basic needs due to lack of unable employment. (Hardwick 1994)

2.2.7 Assessment

The process of collecting data to change expressed concerns into validated needs which are then prioritized. It is an operational procedure undertaken by the banks to evaluate the witness of the applicant particular and information and make the final decision of whether to approval or not to approval his or her applied loan.

2.3 Types of Loan Appraisal Evaluation

Traditionally, bank conduct standard credit evaluation such as credit scoring following the receipts of loan request and make the accept/reject decision accordingly. This research explores the possibility of two stages credit evaluation in lending process. When the evaluation cost drops below the trigger cost, it pay to conduct the second stage loan appraisal. We derive two trigger cost thresholds for borrowers who are rated as credible and default in the First stage, respectively. Contingent on the share of good borrowers relative to the bad ones, the optimal strategy can be differentiated to implement second stage evaluation on either (1) both types or (2) only one types, or (3) neither type of the borrowers. We find that during severe economic contractions or geographic areas which are in deep troubles, whilst the borrowers who repay the loan are outnumbered by the borrowers, who fail to pay the trigger cost for borrower is higher than that default borrower. In this scenario, the banks are more inclined to undertake the second stage credit

evaluation on good borrowers, on other hand, if the percentage of credible borrowers is higher than that of default borrowers, the trigger cost for good borrower lies below the trigger cost of default borrower. As a result, the banks are less inclined to undertake the second stage evaluation on good borrowers. (Chen and Guo, 2009)

2.4 Methods of Evaluation

Satchidananda, (2006) said that there are several methods that can be employed to analyze loan appraisal. These methods are Broad screening of the credit proposals into good (acceptable) and bad (unacceptable) credit risks through appropriate loan scoring model, Identification of the critical variables in the good projects through multiple discriminate analysis, Quantification of the magnitudes of contribution of the identified project variables to the credit risk of the project through multiple regression analysis and Pricing the credit risk of the credit project using the option theory framework.

2.5 Loan Appraisal within CRDB Bank

In the relevant variable which are critical in my study of CRDB Bank loan/credit appraisal include the following factor such as credit facilities and exposure; purpose; security; profile; risk analysis; environmental and social risk; financial assessment; relationship; conclusion and recommendation. The following were examples of credit appraisal report format of CRDB bank. (See appendix IV)

2.6 Loan Repayment

While the relevant variables which are critical in my study for credit assessment and disbursement to be conducted, the credit customer is expected to payback the installment as per agreed schedule. Each Bank has a different repayment mechanism. Based on the specifics of the Bank, customers can pay weekly, bi-weekly or monthly installments.

(Odongo, 2004) In order to ensure good repayment, Banks have to ensure proper monitoring and follow up actions.

2.7 Theoretical Analysis

There are several theories underlying this study, however the most relevant ones included the following.

2.7.1 Modern Intermediation Theory

According to Peterson (2000) explained that in modern intermediation theory, banks perform what is called “delegated monitoring”. Municipalities and other borrowers could, in principle, deal directly with individual lenders, by borrowing investment funds from large financial institutions like pension funds or insurance companies. They could even borrow from individual savers. However, unless the loan at stake is large, it is inefficient for each saver to try to monitor financial conditions and all the other factors affecting loan repayment. A bank performs this intermediation and monitoring function. It gathers savings from numerous sources, assembles specialized professionals capable of loan appraisal and loan oversight, allocates capital, and then monitors both its loans and the financial condition of borrowers. This approach/ theory is quite relevant to the study in sense that the bank are able to monitor the provision of their loans and their disbursement through selected institution like the municipalities which will be able to make a close follow up of their returns.

2.7.2 The Theory of Delegated Monitoring of Borrowers

According to this theoretical perspective is defined broadly ‘monitoring’ of a borrower by a bank refers to information collection before and after a loan is granted, including screening of loan application, examining the borrower’s ongoing creditworthiness and

ensuring that the borrower adheres to the terms of the contract. A bank often has privileged information in this process if it operates the client's current account and can observe the flows of income and expenditure. This is most relevant in the case of small and medium enterprises and is linked to bank's role in the payments system (Matthews and Thompson, 2008). This theoretical perspective is effectively utilized in developed countries where individual data are stored within the computerized system and most of the population are reachable people, the practicability of this theory in the case study of Dar es salaam may be a problem due to the fact that it has a mixture of slums and on identified settlement with the majority of the people living in slums.

2.7.3 The Theory of Process of Loan Appraisal/Credit Appraisal

Johnson and Johnson (1985), Hampel and Simonson (1999) and Kuch and McDonald (2000) all pointed out that the activities in the process of commercial and Industrial loan follow eight steps. These steps are application, credit analysis, decision document preparation, closing, recording, servicing and administration and collection. These activities and the primary tasks for those responsible for these activities must be well documented. The first step of the loan process is the application which is conducted by loan officer. This step covers the initial interview and screening of a loan request (consultative group to assist the poorest, CGAP, 2000). Secondly the credit analysis from the information gathered from the borrower is conducted by credit department. The analyst then prepares a recommendation report for the loan officer about whether the loan should be granted, rejected or qualified. In the third step the loan officer obtains the credit analysis report and determines whether the report accurately describes the borrowing capacity and characteristics of the borrower. If collateral is required the amount of collateral additional, collateral documentation are indicated (Coopestake, 2001).

In the fifth step the loan officer obtains the borrower's signature and receives collateral. Then the loan operation is closed and the loan proceeds. The sixth step is the recording of the loan conducted by the loan operation and credit department staff. A loan operation clerk classifies and codes the loan for entry into the commercial loan system, and he or she reviews the loan for compliance with the bank's loan policies. Finally the loan operation clerk and the credit department staff member file the loan notes, authorization and receipts in designated files.

The seventh step is loan servicing and administration conducted by loan officer, a credit department staff member and financial analyst. The loan operation staff person prepares the loan payment notices to notify the borrower and is responsible for receiving periodic payments. The loan officer makes periodic visits and customer calls to obtain new financial statements from the borrower and provides that information to credit department and reviews the loan for compliance with the loan agreement. A credit department financial analyst also receives and reviews the borrowers' periodic financial statement (Demirag 2004). This theoretical approach has been utilized by most banks in Tanzania including CRDB Bank. However it has experienced more of challenges especially in obtaining periodical financial reports of the borrower.

In the eighth stage the loan officer may receive periodic delinquency information and need to follow up on this with borrowers. The loan officer also needs to adjust loans terms and conditions are deemed necessary to take legal action if no collectible procedures and for closure on the loan are required. After analyzing these lending activities, a value chain of lending activities can be identified and the rationale for determining how values are created can be determined. (Demirag, 2004)

2.7.4 The Theory of Evaluating Loan Appraisal Effectiveness

Shaw and Gentry (1988) Commercial banks are the primary source of credit for companies that do not have easy access to capital markets. Generally, when comparing the risk characteristics of companies seeking bank credit to companies that have access to the capital markets, the risk characteristics of the former are greater than the latter. Determining which loan applicant should be extended credit, as well as the amount of credit, are major practical decisions that confront commercial bank lending officers, credit analyst, and loan committees. These decision makers must assess the financial health an applicant, which requires analysis of both quantitative and qualitative information on the outlook of company. Managing this information can provide a competitive advantage. However, the highest payoff comes from a lending expert using the information which in turn, produces the best possible results to the customers and the bank. The purpose of an expert system that evaluates loan applicants is to reduce the time devoted to the analysis and improve the quality of the evaluation, which would produce substantive benefits to commercial banks using the system. In general the objective of an expert system is to use both quantitative and qualitative information in order to capture as closely as possible the thought process of recognized expert.

Bryant, (2001) financial institutions such as banks have been active in the development of the variety of expert systems. Several banks have developed expert systems that capture the experience of their top loan officers in evaluating loan application. The research literature reveals a number of criteria and measures that have been employed by researchers and lenders. While some consensus is apparent for several measures, the research clearly indicates that both quantitative and qualitative information must be employed in evaluating a loan appraisal.

In other way loan appraisal can be evaluated as follow by considering the following step

Preliminary information: Is the first step used to collect information that helps to determine the lessee's creditworthiness and whether or not a contract will be offered. This includes revenues, net income and type of business. Also it outlines the relevant equipment, together with its purpose, value, technical capabilities.

Financial data: In this step lessee's is responsible to provide in depth operating and financial documents. These include audited financial statements for the past several years, copies of federal income tax returns, current cash flows. Also it request operating plans, information about client contracts and debt to income ratios. If the business is Startup Company, its owners may be required to provide personal guarantees in the event of default.

Company detail: Smaller leases may require basic information that does not venture far from essential company details and financial data. Lesser offering large contracts may request the company's state registration details, licenses, history, expansion plan, information about owners, and board of directors, and number of shareholders (if incorporated). Additional information may be requested about supplier, source of materials, labor contracts, business projections and banking relationships. (Rimm, 2011)

Generally for those companies that do not have easy access to capital market lead to high risk characteristics of these companies due to this situation, loan officers from commercial bank has major decisions concerning conducive loaning environment. This constitutes assessment of financial health of applicant quantitative and qualitative information in that loan applicant should extend credit and amount of credit.

All of these aims to reduce the time devoted to the analysis and improve the quality of the evaluation so as to produce substantive benefits to commercial banks, which were active in development of the variety of expert systems. This can be evaluated through several steps that was preliminary information which among other things outline relevant equipment, its purpose, value and technical capabilities, financial data request operating plans, contract and debt to income ratios, personal guarantees in the event of default to those startup company, and company detail which was all about essential company details and financial data.

2.7.5 The Theory of Unemployment and Rate of Interest

Cookie (2007) Interest rates are really the cost at which businesses and consumers finance their spending. When interest rates are high, borrowing becomes more costly, and so businesses and consumers have greater incentives to forgo current consumption to instead save and yield the high rate. Conversely, when interest rates are low saving becomes less profitable while borrowing becomes less expensive. In this way low rates create incentives for businesses and consumers to finance spending through borrowing. The relevance of this theory is that it helps policy makers to review rate of interests that motivate investors and thus increase employment. However this theory may be inapplicable when the economy is operating at full employment.

2.8 Empirical Studies

2.8 .1 Loan Appraisal in Developed Countries

Loan appraisal is a very important tool for assessing borrower commonly being used by commercial banks in providing loan to individuals and institutions. Loan appraisal enables the loan officer to make effective loan follow up to reduce defaults and doubtful loans. To justify this, the commercial banks need to feel confident that the loan appraisal will make

a difference when used properly. They need to know that the use of a well designed loan appraisal will improve and speed up the loan repayment in commercial banks.

For instance a research done by Chowdhury et al, (2012) failure to conduct proper loan appraisal is the major reason for default and the existence of the problem loans. Gurung, (2004) in the banking, the credit appraisal system is not appropriate to some extent based on which the banks provide the different type of credit facilities to the borrowers which are far from knowledge, skill, capacity etc in smoothly operating business units and activities. Also credit appraisal/ analysis regarding the borrower and any business entity have not been done according to the financial norms and internationality accepted standard.

2.8.2 Loan Appraisal in African Countries

There were many studies done in African countries basing in different issues, but some researcher said that loan appraisal was steel problem in African. Example Angela, (2010) to adopt appropriate credit appraisal techniques to minimize the probability of loan defaults since defaults on loan repayments leads to adverse affects such depositor losing their money, lose confidence in the banking system, and financial instability. Amonoo, et al (2003), at Ghana said that the causes of poor loan recovery as revealed by the banking and non banking institution are high interest rate, poor appraisal and week monitoring, late disbursement of loan and the negative attitude towards loan. Klein et al (1999) said that an innovative use of loan appraisal techniques and close follow up can contribute to reduce agricultural lending risks. Ross et Kenya said that revise of loan appraisal instrument help identify deserving micro entrepreneurs such as to determine how much debt the borrower can comfortably handle, income streams and any other obligations that could interfere with repayment.

2.8.3 Loan Appraisal in Tanzania

In Tanzania, research done by Edmund, (2009) at National Microfinance Bank (NMB) found that poor loan supervision and loan follow up, poor appraisal of the collateral and legal system for suing loan defaulters lead to the poor loan repayment which affect bank activities, bank capitals and loan provision. Stanley, (2009) note that factors that contribute to defaults are; borrowers felt no obligation to repay as they thought it was part of the government assistance, appraisal system of the scheme was deficient in many way, it did not properly work out the debt repayment capacities of the borrowers and loans were often disbursed untimely. Charles, (2006:89) the factors affecting non performing of loans in commercial banks are lack of credit risk management skills that is lack of lending techniques, lack of loan evaluation skills, lack of loan appraisal skills and lack of knowledge of loan structure cause in nonperforming loan. Khalid, (2003) said that most of the schemes or programmes that are involved in the provision of credit services to smallholder farmers and micro enterprise sector in Zanzibar have experienced poor repayment performance, and one of the reason of this situation is poor loan appraisal system.

2.8.4 Related Literatures

Aggarwal and Mittal (2012) point out that the major reasons for NPA includes improper selection of borrowers activities, weak credit appraisal, industrial problems, inefficient management, slackness in credit management and monitoring, lack of proper follow-up, recessions and natural calamities and other uncertainties. The increased number of banks over stretched their existing human resources capacity which resulted into many problems such as poor credit appraisal system, financial crimes, accumulation of poor asset quality among others (Sanusi, 2002). Eleanor Charles in his paper “Appraising the Role of the Appraiser’ Published: September 8, 1995 talked about the centralized function of the

appraiser to grant the loan and virtually every loan applicant will have to rely on an appraisal to set a value on the property against which the loan is to be made. The manager of ZEU SACCO said he was pressured by the wholesale lender to disburse the agricultural loan quickly. This external pressure, he said, led the SACCO to do poor appraisal of members and, as a result, to make several bad loans. The management team cites the inadequate loan appraisal and disbursement process as the cause of ZEU SACCO's poor loan portfolio and troubled repayment to the wholesale lender (Fiorillo, 2006)

Diamond and Rajan (2000). In assessing the impact of a bank's capital level on its lending decisions, our first source of predictions is they model how a bank's loan refinancing rate varies with the bank's capital level and the borrower's cash flow situation. Compared to a bank that has adequate capital relative to assets, a bank that has low capital may extract more rents from borrowers whose cash position is relatively weak and will extract fewer rents from borrowers whose cash position is relatively strong. The intuition is that a bank with low capital is desperate to get cash to shore up its liquidity position vis-a-vis depositors and other debt holders. If the borrower's cash flow is also somewhat weak, the bank has a credible threat to liquidate the borrower to get cash; this makes the borrower willing to pay more to avoid liquidation. For borrowers with strong cash flows, however, the bank's bargaining position is weak; knowing the bank needs cash now, the borrower can extract weaker lending terms in return for paying debts earlier. This leads to the following hypothesis.

Hypothesis 1: compared to adequately capitalized banks, banks with lower capital charge higher rates for refinancing borrowers with weak cash flow and lower rates for borrowers with strong cash flow.

Tests of Hypothesis 1 are subject to a possible critique, however: the correlation between bank capital levels and lending rates may be driven by some third variable that affects

both independently. For example, it may be the case that a borrower's cash flow is more important for loan pricing in recessions, when such cash is most useful in warding off default.

Also, banks suffer higher credit losses in recessions, reducing their capital. This would suggest that, in recessions, bank lending rates are likely to be more strongly decreasing in borrower cash flow, and bank capital levels are more likely to be low, leading to the correlation predicted by:

Hypothesis 1: To test for this possibility, we need to control for the state of the economy.

Hypothesis 2: controlling for the state of the economy and its effect on the importance of borrower cash flow for loan pricing, there is no link between bank capital level, borrower cash flow, and refinancing rates for firms.

2.9 Research Gap Identified

The gap identified both from the theoretical and empirical literature leads to the study are as follow, the conditions of bank loans appraisal and issuance do not reflect the actual income of the population. The rates of interest charged by banking sector are too high to enable attracting many borrowers. The borrower of bank loans most of them fail to return the loans on time due to stiff competition in the business market. The bank loans do not consider the increasing rate of unemployment and their positive contribution towards its decrease. The bank loans do not consider ceteng for the social economic development of the small and medium term customer.

2.10 Conceptual Framework

The conceptual framework model serving for community based intervention designed by Hoy and Mised (2001) is relevant to this study. The model cover three variables namely

inputs, process and output which address the current situation of the study. The components of input process and output model on the context of community based intervention refers to the operational functions and conceptual scheme of a general system focused to create an enabling sustainable environment for change addressing loan borrower and general public access to bank loans to enable them to improve their social economic environment.

The conceptual framework provides for the fact of conducive well set community based intervention as an input to mobilize the population on the importance of the bank loans towards the improvement of the social economic ventures. Effective crosscutting banks mobilization programmed for the population securing of loans for their economic development in Tanzania cannot be developed in a vacuum. Essentially the awareness and mobilization programmed for successful intervention design with the right strategies depends on the involvement at all the key stakeholders from within and outside the local area.

Loan evaluation and appraisal service can be categorized on several basis and complementing each other so as to provide the best service to the population of Ilala District, Dar es salaam. In the matrix of this model the active actors can be the Banking education facilitator, wealth officer, businesses, entrepreneurs, potential individuals for employment, commonly actors, government institution, the civil society organization, SACCOS and other.

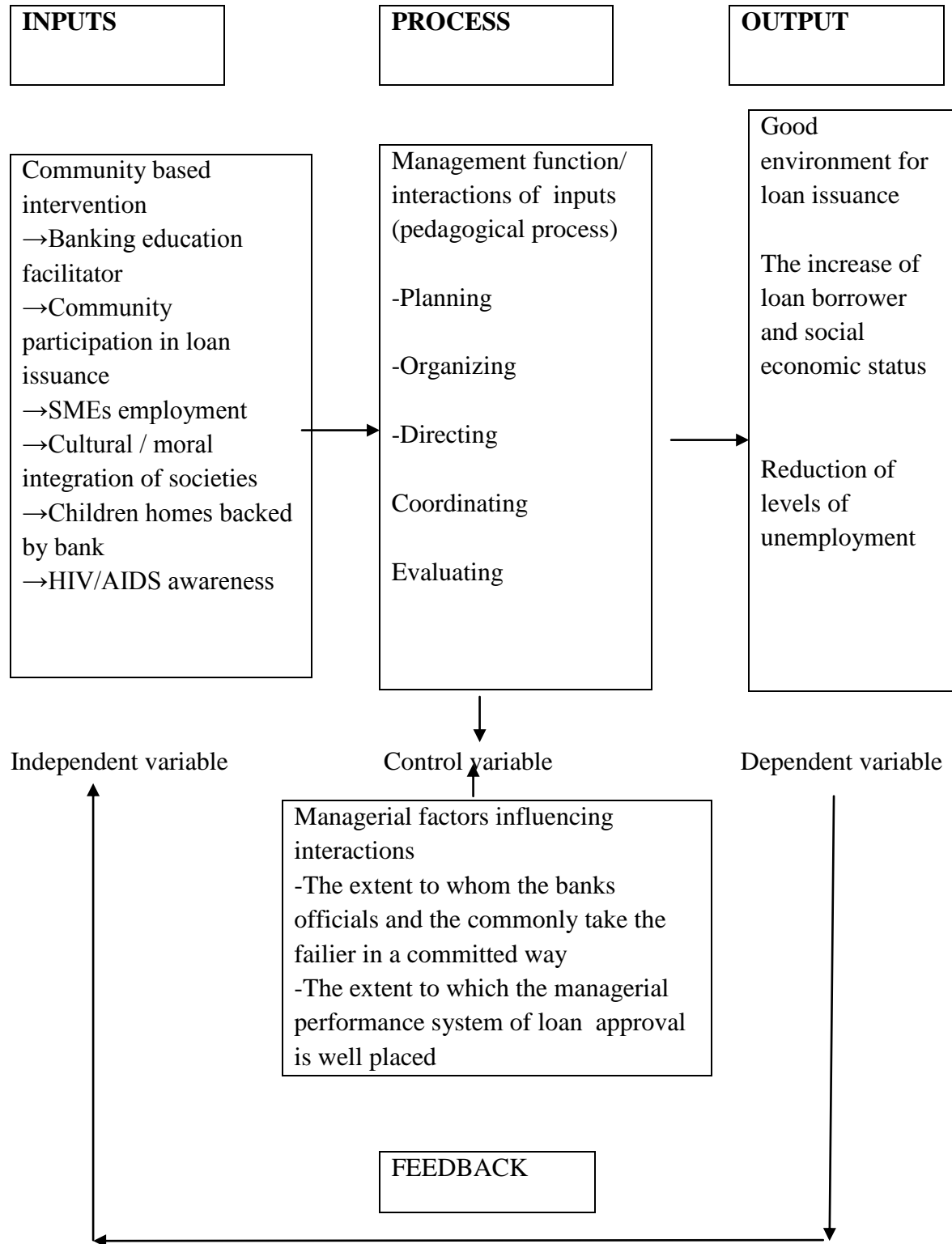


Figure 2.1: Summary of the Variables Involved in Conceptual Framework Model .

Source: Researcher 2012

2.11 Summary

Generally according to different theories and research done in developed countries, Africa and Tanzania it show that loan appraisal system is important to be used effectively. When it is not used effectively, it leads to several problems. These problems result to poor loan recovery, non performing loan, and the existence of loan default. Also in this part, it explains the loan appraisal process and overview of loan appraisal process, the condition necessary for evaluation of loan appraisal effectively to customer, that enable them to qualify for accessing loans. Furthermore this part explains the loan appraisal evaluation and methods of evaluation.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Overview

This chapter outlined the research methodology that is a systematic way applied to solve a research problem. Kothari,(1990). This chapter present detailed explanation concerning areas upon which the research was conducted, methods and instruments for collection, techniques for data analysis and presentation revealed in this chapter. The chapter also provides reasons as to why a particular method of research, sampling, data collection and data analysis are chosen.

3.2 Research Design

According to Babies (2003), a research design is the program that guides the investigator in the process of collecting, analyzing and interpreting observations. It provides a systematic plan of procedure for the researcher to follow. A case study method was used by the researcher as a general guideline for the study. This was used because it collects sufficient and valid data for the study and generalized the result with caution. CRDB Bank plc headquarters in Dar es Salaam was used as a case study. A researcher used the case study because it molded possible to use questionnaires, observation and documents in collection of data.

3.3. Research Area and Population

3.3.1 Research Population/ Units of Inquiry

The research was covered in loan department officers, management and customer of the CRDB Banks plc. The loan department was the area of concentration. The following were the trend of loan and repayment in five years, which is from 2006-2010.

Table 3.1: Trend of Loan Provision and Repayment in five years

Year	Net loan portfolio		Interest income on over drafts and term loan		Personal loan	
	Amount (Tshs billion)	Percentage (%)	Amount (Tshs billion)	Percentage (%)	Amount (Tshs billion)	Percentage (%)
2006	406	-	34.7	-	28.42	7
2007	588	45	58.3	46	64.68	11
2008	837	42	89	65.8	100.44	12
2009	949	14	117	58	114	12
2010	1123	18	136	59	56.15	5

Source: CRDB Annual Report (2006-2010)

3.3.2 Area of the Research

The study was conducted in Ilala district at CRDB Bank plc, Azikiwe Branch. This area was selected because it enabled the researcher to easily get answers to the research questions.

3.4 Sampling Design and Procedure

According to Kothari (2000), sampling is the process of obtaining information about the entire population by examining only a part of it where result will present or portray the characteristics of the entire population. The population is defined from which the sample is taken. It is better to identify the target population Rwegoshora, (2006). Kothari (1988) define population as a total of items about which information is desired. Therefore, due to time and resource constraints, the researcher used purposive sampling methods because it was not possible to randomly select all employees, due to that research questions, raised were answered by specific employees who deal exactly with loan department.

Table 3. 2: Sample and Sampling Procedure

Employee & customers category	Population	Sample	Percentage (%)
Manager Approval Retail (Personal and SMEs loan).	17	10	59
Customers	30	30	100
Total	47	40	85

Source: Field data 2012

3.5 Data Collection Technique

Researcher used both primary and secondary data collection instruments. Primary data collections instruments used in this study were questionnaire, observation, and discussion, and secondary data collection instrument was documentation. A researcher used these instruments in order to get reliable data.

3.5.1 Primary Data

Primary data was preferable because it's fresh data, which was collected at first time meaning they were not processed and help to come out with clear information. The primary data were collected by using the following research Instruments:-

Questionnaires

This is a schedule of questions in which respondent fill in answer. The study used both close and open ended questionnaires which were supplied to all representative of loan (as sample). In this method, respondents are free to air their own views which enable the researcher to get more information.

3.5.2 Secondary Data

A researcher passed relevant written materials such as annual report that used as

supportive instruments. Therefore, in this study both secondary and primary documents available and used as source documents of information.

Table 3. 3: Questionnaires

Representative sample	Distributed Questionnaires	Returned Questionnaire	Percentage (%)
Manager Approval Retail (Personal and SMEs loan).	10	9	90
Customer	30	23	76
Total	40	32	80

Source: Field data 2012

3.6 Data Analysis

Data were analyzed using both qualitative and quantitative analysis techniques. Analysis was basically considered the objective of the study while taking into consideration the research questions. Spread sheet and simple excel were used to process the data for the analysis. Tables and statistical diagrams like bar charts and pie charts also aided in the data presentation. The primary data were presented by some of these statistical tools and by way of narration. Presentation of the data on these statistical tools made the analysis very easy. The statistical tools used conveyed the meaning of figures captured and as such made the analysis straight forward.

CHAPTER FOUR

4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Overview

This chapter presents the findings of the research, the analysis and interpretation of the findings. The findings are analyzed in relation to the objectives of the study and the literature reviewed earlier.

4.2. Presentation of Findings

4.2.1 An Overview of Bank Staff (Loan Department) at CRDB

The purpose of this study was to assess the effectiveness of loan appraisal procedures and to identify the levels of loans approvals and repayment by the commercial bank on the socio-economic status of the population in Tanzania. The data were collected through primary and secondary source.

This study explored both information quantitative and qualitative data. The quantitative approach has applied particularly on the presentation of findings from the responses. The questionnaires were also used to collect data and were distributed to the responded according to the category of the study.

First category comprises the Bank staff with different position in the department of loan. The second category was incorporated with Bank customers, most of them having relationship with Bank.

4.2.2 Demographic Features of the Study

This part of the study gives a brief account of educational level of the respondents (Employees in loan department). Figure below show that the respondent's level of

education was categorized into five groups, namely, those with college/ vocational qualification, Ordinary Diploma, Advanced Diploma, University Degree as well as Master Degree. The result showed that, among the respondents interviewed (employees), about 33% of the respondents were University Degree and finally 67% were Master Degree

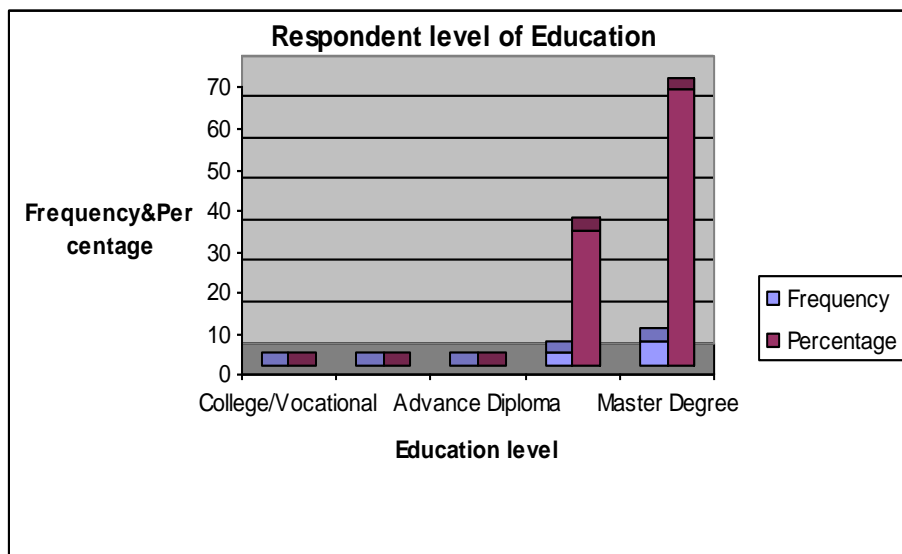


Figure 4.1: Respondents Level of Education

Source: Field data 2012

Information collected through questionnaire was valid and reliable. So it indicates that education level is very important in performing activities in the field of work.

4.2.3 Respondents Working Experience

The time distribution of a sample representative for the study was composed of less than one year, which accounted for 11%, 1-2years accounted for 11%, and 3-5years accounted for 11% and more than 5years which accounted for remaining percentage (i.e. 67%). Basing on these results, it is evident that most employees had experience on loan department for more than 5 years. It indicated that with such experience, they are supposed to perform much better. Figure 3 below justify the above contention.

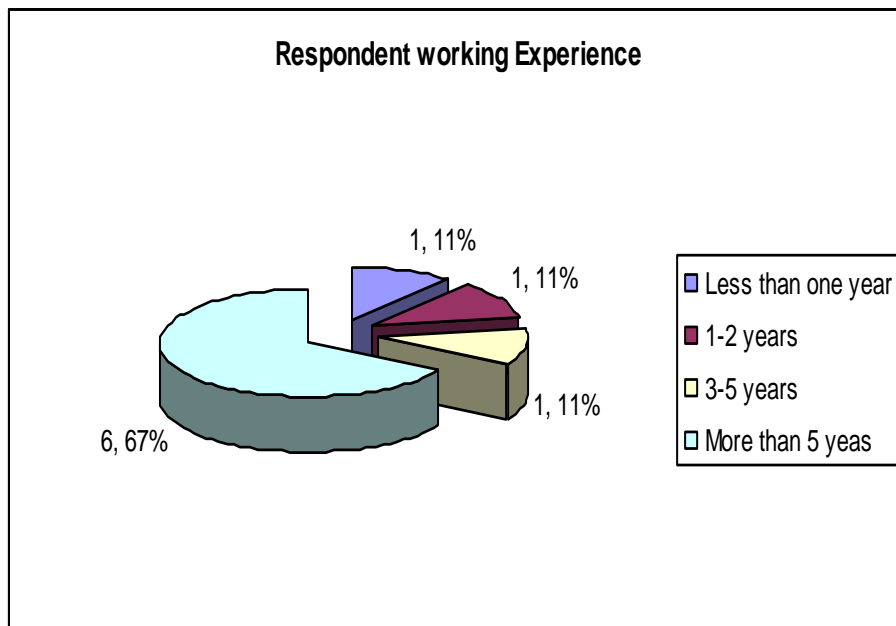


Figure 4.2: Respondent Working Experience

Source: Field data 2012

4.3.1 Presentation of Findings on Bank Loans Issuance Procedures

Under this part, the study need to understand the procedure used in CRDB to recommend loan for approval. Respondents were required to provide opinion about procedure used in CRDB to recommend loan for approval. Question asked to respondents was to “what do you think about the procedure used in CRDB to recommend a loan for approval?” which they are aware of. Main reason for asking this question was to be able to see the opinion of respondents. Results revealed that respondents had different opinion on the procedure used in CRDB to recommend loan for approval. Thus 44% of respondents said that the procedure used in CRDB to recommend loan for approval are more accurate. That was followed by 44% respondents who said that procedure used in CRDB to recommend loan for approval are normal accurate. Findings from this study also revealed that 12% respondents said that procedure used in CRDB to recommend loan for approval are less accurate. The figure below show the respondent’s opinion about the procedure used in CRDB to recommend loan for approval.

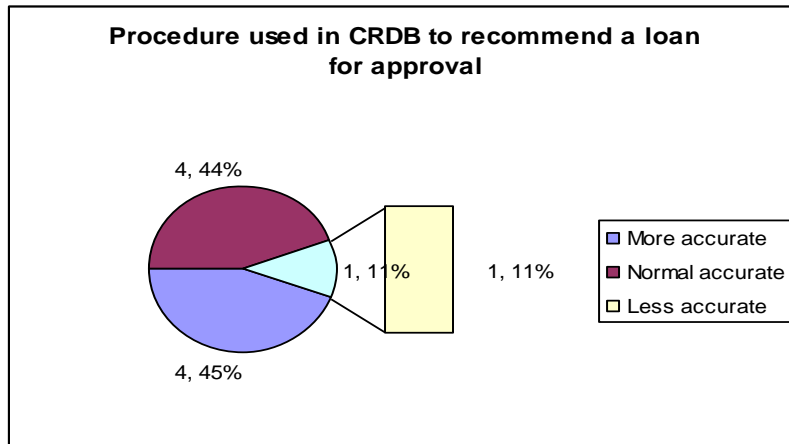


Figure 4.3: Procedure used in CRDB to Recommend Loan for Approval

Source: Field data 2012

4.3.2 Presentation of Finding on CRDB Bank Conditions used in Loan Appraisal

System Compatible with the Needs and Characteristic of Borrowers.

The following were the opinions from respondents (employee) about the compatibility conditions provided by CRDB to borrowers. Some of the respondents accounted for 56% said that condition provided by CRDB to borrower are compatible with needs and characteristics of borrowers, 33% said that conditions provided by CRDB to borrower are very compatible with needs and characteristics of borrower and other respondents which accounted the remaining percentage (11%) they said that not at all are compatible with needs and characteristics of borrowers.

Table 4.1: Condition Provided by CRDB to Borrowers

Opinion	Frequency	Percentage
Compatible with needs and characteristics of borrowers	5	56
Very compatible with needs and characteristics of borrowers	3	33
Not at all compatible with needs and characteristics of borrowers	1	11
Total	9	100

Source: Field data 2012

4.3.3 Presentation of Findings on the Effects of Bank Loans on the Reduction of Unemployment Status in Ilala District Dar es salaam.

Under the specific **objective number three** of the study was to examine the effects of bank loans on the reduction of unemployment status in Ilala District Dar es salaam and the research question of what is the effect of bank loan on reduction of unemployment in Ilala District. For that case respondents were required to say to what extent the effect of bank loan on reduction of unemployment. Results revealed that 22% respondents agreed there is very high effect resulted from bank loan on reduction of unemployment. Furthermore result from this study revealed that 78% respondents agreed there is low effect and there are no respondents who said that there is no effect. For that case the study showed that there are effects of bank loans on the reduction of unemployment status in Ilala District. Figure below justify the above contention.

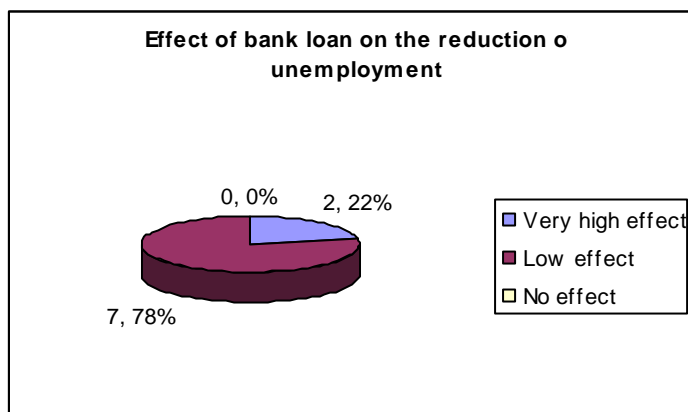


Figure 4. 4: Effect of Bank Loan on the Reduction of Unemployment

Source: Field data 2012

4.3.4 Presentation of Findings on the Relationship between Bank Loan Issuance and the Social Economic Status of the Borrowers in Ilala District.

In this the researcher was interested to know the relationship between bank loan issuance and social economic status. Respondents were required to answer YES or NO. Results

from this study showed that 89% out of total respondents agreed that there is relationship between bank loan issuance and social economic status while 11% disagreed.

4.3.5 Presentation of Findings on Conditions Stipulated to Loan Appraisal Report

In trying to know about conditions stipulated to loan appraisal report, respondents were asked to mention to what extent the conditions are followed. The question aimed at understanding condition stipulated to loan appraisal report. Results in the questionnaire revealed that 56% respondents said that conditions stipulated to loan appraisal report is very strong effectively followed. In addition, this study revealed that only 33% respondents said condition stipulated to loan appraisal report is strong effectively followed while the remaining percentage (i.e 11%) said that is not at all effectively followed. Below is a table showing opinion of respondents about the conditions stipulated to loan appraisal report.

Table 4. 2: Condition Stipulated to Loan Appraisal Report

Respondents opinion	Frequency	Percentage
Very strong effectively followed	5	56
Strong effectively followed	3	33
Not at all effectively followed	1	11
Total	9	100

Source: Field data 2012

4.4 Presentation of Findings from the Customer

It was showed that out of 30 respondents(customers) from sampled customer at CRDB Azikiwe Branch in Dar es salaam region 77% has respond well in answering question in the questionnaire while 23% had not respond.

4.4.1 Presentation of Findings on Procedure of Provision of Loan

Procedure is important tool to be followed and used by loan officer in processing and provision of loan to customer. So researcher was interested to know that if the procedures of provision of loan regard the characteristics of borrower or not. Respondents were supposed to respond on either YES or NO. Thus, 74% out of 23 respondents agreed that procedure of provision of loan regard characteristics of borrowers, while 26% disagreed. Moreover, the researcher was interested to know why respondents said that the procedures of provision of loan not regard characteristics of borrowers. The result showed that they consider more with people who have big capital/income and not low income earners, they pay attention to the normal people like peasants and not customer who are employed and also they not consider the time of repayment for those customer who have low income.

Also the respondents were required to respond on whether or not the procedures used in provision of loan are done effectively. Respondents were supposed to respond on either the procedure used in provision of loan is done effectively or not. Thus, 78% agreed that the procedures used in provision of loans are done effectively, while 22% disagreed that procedure used in provision of loan not done effectively. Furthermore, for respondents who agreed that the provision of loan done effectively, the researcher was interested to know to what extent done effectively. Respondents were required to respond on either more effectively, low effectively, effectively or ineffectively. Results revealed that out of 18 respondents, only 33% said that the procedure is low effectively while 11% said that the procedure is more effectively and remaining 6% said that the procedure in provision of loan is ineffectively. On other hand 50% were totally said that the procedure is done effectively. Table below justify the above contention.

Table 4. 3: To what Extent of Procedures used in Provision of Loan

Respondents opinion	Frequency	Percentage
More effectively	2	11
Low effectively	6	33
Effectively	9	50
In effectively	1	6
Total	18	100

Source: Field data 2012

In the case of bureaucracy associated with decision of loan. The respondents were required to respond on whether or not, there is bureaucracy associated with decision of loan. Respondents were supposed to respond on either YES or NO. Thus, 48% out of 23 respondents agreed that there is bureaucracy associated with decision of loan, while 52% disagreed.

For that case the results from the respondents showed that the procedure in provision of loan is not done more effectively. This might be due to some problems. So it is better to find the solution of that problem in order to make the procedure used in provision of loan to be done more effectively.

4.4.2 Conditions of Loan Appraisal used by CRDB at Ilala District if it's Compatible with Needs and Characteristics of Borrowers

The key question concerning the conditions of loan appraisal used by CRDB at Ilala District if it is compatible with needs and characteristics of borrower was asked to customer. "The conditions of loan appraisal used by CRDB Bank do you think it compatible with needs and characteristics of borrowers? The customer on responding the question of the conditions of loan appraisal used by CRDB the following were the respond.

The condition used by CRDB is compatible with needs and characteristics of borrowers, for that case 61% of the respondent said 'YES' and 39% said 'NO' the condition used by CRDB is not compatible with needs and characteristics of borrowers.

Table 4.4: Conditions of Loan Appraisal used by CRDB Bank if it Compatible with Needs and Characteristics of Borrowers

Respondents opinion	Customers	
	Frequency	Percentage
Yes	14	61
No	9	39
Total	23	100

Source: Field data 2012

4.4.3 Presentation of Bank Loans on the Reduction of Unemployment Status.

The one of the research objective of this study was intending to examine the effects of bank loans on the reduction of unemployment. Various statements were analyzed and presented the effect of bank loans. Through that the findings show that, 80% of the respondents say YES there is effect of bank loans on the reduction of unemployment and the remaining percentage said NO.

4.4.4 Presentation of the Relationship between Bank Loans Issuance and Social Economic Status of Borrowers in Ilala District.

In this part the researcher was interested to know the relationship between bank loan issuance and social economic status. Respondents were required to answer YES or NO. Results from this study showed that 70% out of 23 respondents agreed that there is

relationship between bank loans issuance and social economic status, while 30% disagreed.

Moreover, the researcher was interested to know the relationship between bank loans issuance and social economic status for those respondents said YES. The result revealed that the relationship between bank loan issuance and social economic status are the one of the source of income to people, make people in the society to be self employed, reducing unemployment problems as well as improving standard of living of people in the society. Therefore, these results show that there is relationship between bank loan issuance and economic status.

4.5 Analysis of the Findings

4.5.1 Analysis of the of Findings on Bank Loans Issuance Procedures

Results revealed that respondents had different opinion on the procedure used in CRDB to recommend loan for approval. Thus 44% of respondents said that the procedure used in CRDB to recommend loan for approval are more accurate. That was followed by 44% respondents who said that procedure used in CRDB to recommend loan for approval are normal accurate. Findings from this study also revealed that 12% respondents said that procedure used in CRDB to recommend loan for approval are less accurate. This is supported by theory of Peterson (2000) who in his study, titled, *Municipal Finance: Building Local Credit system* explained that in modern intermediation theory, banks perform what is called “delegated monitoring”. Municipalities and other borrowers could, in principle, deal directly with individual lenders, by borrowing investment funds from large financial institutions like pension funds or insurance companies. They could even borrow from individual savers. However, unless the loan at stake is large, it is inefficient for each saver to try to monitor financial condition and all the other factors affecting loan

repayment. A bank performs this intermediation and monitoring function. It gathers savings from numerous sources, assembles specialized professionals capable of loan appraisal and loan oversight, allocates capital, and then monitors both its loans and the financial condition of borrowers. In view of the above findings and theory of Modern Intermediation Theory, the researcher take bank loan issuance procedure as important things in a commercial bank because through this lead the good repayment and improving social economic status of people in a society as well as reducing unemployment problem .

4.5.2 Analysis of the Conditions used in Loan Appraisal System Compatible with the Needs and Characteristic of Borrowers

The following were the opinions from respondents (employee) about the compatibility conditions provided by CRDB to borrowers. Some of respondents accounted for 56% said that condition provided by CRDB to borrower are compatible with needs and characteristics of borrowers, 33% said that conditions provided by CRDB to borrower are very compatible with needs and characteristics of borrower and other respondents which accounted the remaining percentage (11%) they said that not at all compatible with needs and characteristics of borrowers. This is supported by the study of Rhyne and Otero (1992) who argues for the use of financial systems approach in the provision of financial services to the poor. The experience of last decade has produced a successful technology for credit delivery that utilizes sound financial principles as its basis that understands the needs of the clients, increasing efficiency by cutting administrative costs, and using various techniques to motivate repayment. Also this finding is supported by Coopestake (2001), who said that the loan officer obtains the credit analysis report and determines whether the report accurately describes the borrowing capacity and characteristics of the borrower. If collateral is required the amount of collateral additional, collateral documentation are indicated.

4.5.3 Analysis of the Effects of Bank Loans on the Reduction of Unemployment

Status in Ilala District Dar es Salaam

Results revealed that 22% respondents agreed there is very high effect resulted from bank loan on reduction of unemployment. Furthermore result from this study revealed that 78% respondents agreed there is low effect and there are no respondents who said that there is no effect. For that case the study showed that there are effects of bank loans on the reduction of unemployment status in Ilala District. This analysis is supported by Pettinger (2011) said that depends on other factors in the economy. *Ceteris paribus*, a fall in interest rates should cause higher economic growth, however there may be other factors that cause the economy to remain depressed. Also in principle, a decrease in the discount rate encourages banks to borrow, which increases the amount of available reserves held by the banking system, which then includes an increase in money supply and decrease in interest rates. An increase in the discount rate works in the opposite direction discouraging borrowing, reducing available reserves, decreasing the money supply, and increasing interest rates. For that case indicate that if the bank charge higher interest rate in provision of loans it lead the peoples to fail to access loan as well as increasing the problem of unemployment.

4.5.4 Analysis of the Relationship between Bank Loan Issuance and the Social

Economic Status of the Borrowers in Ilala District

Results from this study showed that 89% out of total respondents agreed that there is relationship between bank loan issuance and social economic status while 11% disagreed. This is supported by the empirical study of Roslan, (2006) who said that the microcredit programme was introduced in Malaysia in 1987 for need of eradicate poverty and also hoped to reduce the dependency of poor people on the government by promoting the concept of self reliance. In microcredit programmes, the poor are given credit to start an

income-generating activity. Another study which conducted by Mokhtar at el, the microcredit loans are able to improve the economic and social status of the poor since it provides a working opportunity.

4.6 Discussion of Findings

From the analysis showed that the level of education and working experience of most of employees in loan department at Azikiwe branch in CRBD Bank is Master degree and more than five years working experience respectively; and few of them have University degree and less than five years experience. This indicates that employees in this department are competent and have enough experience in performing work effectively and efficient.

Then the analysis of the finding revealed that the effectiveness of loan appraisal procedures make easy access of loan to people as well as reduction of unemployment problem in the society. The findings show that, there are direct and indirect job opportunities created by small and medium enterprises that enjoyed loan facilities from CRDB Bank.

Also the analysis of the finding showed that there are good relationship between provision of loan and economic status of people. Because through provision of loan lead to decrease the crime rate and various social problems.

The study also revealed that the provision of loans to people are important, for purpose of improving economic status of people in society, though the procedure and conditions of provision of loan is still difficult for people to access loan easily especially for those who are not employed and who do not possess collateral security.

Furthermore the analysis of the findings from different theory and empirical studies as well as analysis to both employee in loan department and customers through questionnaire showed that the loan appraisal procedures and identification of the levels of loan approval and repayment in CRDB Bank to a great extent is effective. So the CRDB management especially in loan department must make sure that plan the procedure, criteria, and conditions that favor all customers in the society without regarding the level of income.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 An overview

This chapter gives a summary of a study, conclusion and Recommendations. Presentation of conclusions is derived from the study, finally recommendation for the future research based on important issues emerging from the study.

5.2 Empirical Findings

The findings from different researcher showed that ineffective monitoring of loan and poor credit appraisal were emphasized by all respondents as major causes of loan problem Aballey, (2009). The cause of poor loan recovery as revealed by the banking and non-banking institutions are higher interest rates, poor appraisal and weak monitoring, late disbursement of loans and the negative attitude towards loans. Amanoo at el, (2003). Khalid, (2003) most of the schemes or programmes that are involved in the provision of credit services to smallholder farmers and micro enterprise sector in Zanzibar have experienced poor repayment performance, and one of the reason of this situation is poor loan appraisal system. Failure to conduct proper loan appraisal is the major reason for default and the existence of the problem loans. Chowdhury at el, (2012).

5.3 Implications of the Results

The finding of this research, imply that the CRDB bank need to put measure on conducting loan appraisal. Banks will also have to re-look their procedures and condition of processing loan with regard to customers (low income earners) as a outcome of this research perceives the customer (low income earners) clause within the bank procedure as

a hindrance and a contribution towards loan repayment growing numbers, usage of effective loan appraisal procedure will go a long way to helping bank cope with loan repayment. Due that the loan appraisal on loan issuance at CRDB bank is effectively followed thus way the repayment of loan to increase.

5.4 Summary and Conclusion

Loan appraisal on loan issuance and repayment in commercial bank is important tool because it deals with an investigation/assessment before providing any loan and advances, and also checks the commercial financial and technical viability of the project proposed its funding pattern and further checks the primary and collateral security cover available for recovery of such funds. If loan appraisal is well controlled and followed, it is likely that the commercial banks must overcome the weakness in selection of borrowers and enforce the implementation of selection criteria and improve the selection of potential borrowers with ensured recovery. Then access the information that improves the monitoring system. Furthermore lower the default rate and resulting rise of recovery rate and also clear division of work and responsibilities are well defined.

The research findings have shown that in five years respectively (i.e. 2006-2010) the net loan portfolio increased. This has been made possible because of well structured and strictly followed loan appraisal procedure on loan and repayment.

5.5 Recommendations

The finding for the some respondents showed that there is problem in the procedure, criteria and condition of loan provision in CRDB and other financial institutions in Tanzania.

- Criteria and condition are very hard to low income earners especially those who are not employed.

- Some of loan officer are not comply with rules and they not fair to all customer.
- The condition is rigid to some small scale entrepreneur and makes them to fail to request loan.

Below are researcher recommendations about the problem

- **Criteria and condition are very hard to low income earners especially those who are not employed**

Due to that researcher recommend that, bank must regulate the criteria and condition in order to favor all classes of customer in the society. For doing this it make all people in society without regard if is higher or low income earners to access loan easily.

- **Some loan officer not comply with rules and they not fair to all customer**

To make sure that the loan officer must comply with rules in order to avoid any kind of bureaucracy and to be fair to all customers. For doing that it makes the bank to meet the statement that says “CRDB is the bank that listens”. Then it makes to be in good position and remaining a competitive bank among the commercial banks in the country.

- **The condition are rigid to small scale entrepreneur and make them not to request for loan**

5.6 Limitation of the Study

Time limit was a major constraint in this study. As a result the study was carried out using a case study design. There was therefore the possibility that some issues regarding the topic might not come up if such issues are peculiar to some banks that were not covered in the study. This limitation was dealt with by conducting the study on CRDB one of the banks with diversified in almost to people and all major sectors of the economy.

The study was further narrowed down to some loan officers, from whom primary data was obtained. This also posed a limitation since there could be some biases regarding the information obtained. In dealing with this limitation, the study adopted objective questionnaire for all respondents to reduce their personal perceptions. Again, respondents were assured of their confidentiality in order to give information that represents the facts and figures on the ground.

Accessibility to data was also a constraint in view of the confidentiality of information in banks. This limitation was minimized by relying on published annual reports and financial statements of the bank, both in the print and electronic media. A letter of introduction was also obtained from the Open University of Tanzania which enables the researcher to collect data from the relevant institution for the study.

The researcher's association with the bank was also very helpful in this direction.

As an important measure to these limitations, time and resources were judiciously managed to achieve the objectives completion of the work.

5.7 Areas for Future Research

Since the main objective of the study was to explore the challenge face the provision of effective loan appraisal procedures on loan repayment in commercial bank focusing on the penetration and access to loan service of the poor and low income household in Ilala district in Tanzania, due to time constraints the researcher was not able to cover whole problem concerning in procedure, criteria and condition in provisions of loan.

The specific objective of the study was to understand the social economic characteristic of borrowers, to examine the level of conditionality of loan appraisal by CRDB in Ilala

district, to determine and examine the procedures used in provision of loan and CRDB lending conditions and lastly to identify the risks of lending to poor and low income household.

For future research, researcher should find out why the criteria and condition are very hard to low income earners especially those who are not employed and also why loan officers not comply with rules and not fair to all customer

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APPENDICIES

APPENDIX I**AN ASSESSMENT OF EFFECTIVENESS OF LOAN APPRAISAL ON LOAN
ISSUANCE AND REPAYMENT**

AIM: The aim of this questionnaire is to find out your feeling, perceptions and options on the effectiveness of loan appraisal procedures and to identify the levels of loans approvals and repayment by the commercial banks on the socio economic status of the population: The case of CRDB

NOTE: All information, including answers to various questions in this questionnaire, should be treated as strictly confidential and solely for academic purpose only. Respondent should feel free to express themselves openly. Please do not reveal your name in this questionnaire.

PART A

(For multiple choice question please tick (√) the box that matches your view)

1. Education qualification (Please tick in the appropriate box provided)

College/ Vocational ()

Ordinary Diploma ()

Advance Diploma ()

University Degree ()

Master Degree ()

2. How long have you been working in with loan department

Less than 1 years ()

1- 2 years ()

3- 5 years ()

More than 5 years ()

3. What do you think about compatibility of conditions provided by CRDB bank to borrower?

Compatible with the needs and characteristics of borrowers ()

Not at all compatible with the needs and characteristics of borrowers ()

Very compatible with the needs and characteristics of borrowers ()

4. To what extent do you adhere to conditions stipulated to loan appraisal report?

Very strong effectively followed ()

Strong effectively followed ()

Not at all effectively followed ()

5. Regarding the real situation of the society do you think there is relationship between bank loan issuance and social economic status of the borrowers?

Yes ()

No ()

6. For your opinion what do you think about the procedure used in CRDB to recommend a loan for approval?

More accurate ()

Normal accurate ()

Less accurate ()

7. Do you think that CRDB bank loans in Ilala district resulting to reduce unemployment in a society?

Yes ()

No ()

8. In what extent the effect of bank loan resulting to reduce unemployment status in society?

Very high effect ()

Low effect ()

No effect ()

THANK YOU FOR YOUR COOPERATION

APENDIX II

QUESTIONNAIRE FOR CUSTOMERS

Instruction to respondents

- 1. This questionnaire is conducted for academic purpose
- 2. The researcher shall keep all information given with confidentiality
- 3. The focus of the study is to make an assessment of effectiveness of loan appraisal on loan issuance and repayment in commercial bank
- 4. Where answer to choose have been provided please put a tick (√) beside the answer you think is appropriate or fill the gap where there is blank.

QUESTIONS:

- 1. Are the procedures of provision of loan regard the characteristic of borrowers?

Yes ()

No ()

If no, what to do

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- 2. As customer of CRDB bank do you think that procedure used in provision of loan is done effectively?

Yes ()

No ()

If yes, to what extent?

a. more effectively ()

- b. low effectively ()
- c. effectively ()
- d. ineffectively ()

If no, suggest your opinion

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3. As a customer of CRDB bank do you think that the provision and issuance of loan to people resulting the reduction of unemployment problem in the society?

- Yes ()
- No ()

4. Is there any kind of bureaucracy associated with decision of loan?

- Yes ()
- No ()

5. Regarding the real situation of the society do you think there is relationship between bank loan issuance and social economic status of the borrowers?

- Yes ()
- No ()

If yes, what are they?

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6. What is your opinion about procedure of provision of loan in CRDB bank?

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THANK YOU FOR YOUR COOPERATION

APENDIX II**DODOSO KWA WATEJA****Muongozo kwa washiriki**

1. Hili dodoso ni kwa madhumuni ya kitaaluma.
2. Mtafiti atatumza taarifa zote zitakazo tolewa
3. Lengo ni kufanya makadirio kuhusu utendaji wa utoaji wa mkopo na malipo katika benki za biashara.
4. Kwenye jibu utakalo chagua tafadhari weka alama ya vema (√) mbele ya jibu ambalo unafikiri ni sahihi au jaza nafasi iliyokuwa wazi.

MASWALI

1. Unafikiri utaratibu wa utoaji wa mkopo unazingatia sifa za mkopaji?

Ndio ()

Hapana ()

Kama, hapana nini kifanyike

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2. Kama mteja wa CRDB Benki unafikiri kwamba utaratibu unaotumika katika utoaji wa mkopo unafanyika kikamilifu?

Ndio ()

Hapana ()

Kama ndio, kwa kiasi gani

- a. Kikamilifu zaidi ()

- b. Kikamilifu kiasi ()
- c. Kikamilifu ()
- d. Si kikamilifu ()

Kama hapana, toa maoni yako

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3 Kama mteja wa CRDB unafikiri utoaji wa mikopo kwa watu utapelekea kupunguza tatizo la ajira katika jamii?

- Ndio ()
- Hapana ()

4. Kuna aina yeyote ya urasimu inayoendana na maamuzi ya utoaji wa mkopo?

- Ndio ()
- Hapana ()

5. Kwa kuzingatia maisha halisi unafikiri kwamba kuna uhusiano kati ya utoaji wa mikopo na uhalisia wa uchumi wa mkopaji?

- Ndio ()
- Hapana ()

Kama ndio, uhusiano huo ni upi?

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6. Nini maoni yako kuhusu masharti na utaratibu wa utoaji wa mkopo katika CRDB Benki?

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NASHUKURU KWA USHIRIKIANO WAKO