

**FACTORS DETERMINING LOAN REPAYMENT IN MICROFINANCE
INSTITUTIONS: THE CASE OF DAR ES SALAAM CLIENTS**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for the acceptance of dissertation titled; *“Factors Determining Loan Repayment in Microfinance Institutions: The Case of Dar Es Salaam Clients”* submitted in partial fulfillment for the requirements of the award of the Masters of Business Administration in Finance of the Open University of Tanzania.

.....

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DECLARATION

I, **Elias Johansen Muganyizi**, do hereby declare that this dissertation is entirely my own work and it has not been presented to any other Institute of higher learning for a similar or other academic award.

.....

Signature

.....

Date

DEDICATION

This dissertation is dedicated to my mother Faustina Elias and all my family who tireless prayed for my success.

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I would never have been able to finish my dissertation without the guidance, help and support of the kind people around me, to only some of whom it is possible to give particular mention here.

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ABSTRACT

Microfinance Institutions (MFIs) are important for poverty reduction and creation of employment opportunity in developing countries including Tanzania. MFIs in Tanzania have suffered challenges on loan repayment problems and consequently decreasing employment levels and cash flows problems in Microfinance Institutions. This study explored contextual local determinants of loan repayments problems by clients in MFIs. Both quantitative and qualitative methods were used to collect data and analysis. Purposive sample was drawn from business premises where persons operating on business financed by microloans from MFIs were found. Qualitative analysis captured additional contextual determinants of loan repayment problems being corruption among loan officers, failure of loan disclosure within families, unfair business tax estimation, proxy business supervision, diverting loan money to different purpose, having been operating business into an informal premises which leads to confiscation of business products and demolishing structures at business sites by polices of municipal council and unforeseen situation like falling into sickness by loan client or his/her family member, death of relative, theft of business product, road traffic accidents, catastrophes such as fire and flood were implicated factors. This study recommends that each MFI is supposed to put control measures which prevent loan officers to abuse their position in asking bribes from borrowers and make client risk check list analysis which will correctly earmark a possible loan defaulter. Borrowers Training on entrepreneurial skills and practice are equally important to increase the possible loan repayment.

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ACRONYMS

ACB	Akiba Commercial Bank
ACCION	Americans for Community Cooperation in Other Nations
BELITA	Better Life for Tanzanians Development Trust Fund
BFI	Baba's Foundation, Incorporated
BLAC	Bangladesh Rural Advancement Committee
CARE	Cooperative for Assistance and Relief Everywhere
CGAP	Consultative Group for Assisting the Poor
CRDB	Cooperative and Rural Development Bank
FINCA	Foundation for International Community Assistance
MFI	Microfinance Institution
NGO	Nongovernmental Organization
NMB	National Microfinance Bank
NMFP	National Microfinance Policy
PRIDE	Promotion of Rural Initiative and Development Enterprises Limited
ROSCA	Rotating Savings and Credit Association

SACCOS	Savings and Credit Cooperative Organizations
TWB	Tanzania Women Bank
URT	United Republic of Tanzania
VICOBA	Village Community Banking
YOSEFO	Youth Self Employment Foundation

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

1.1.1 Origin of Microfinance

The concept of providing financial services to low income people is very old. Many informal credit groups have been operating in many countries for several years like the *susus* in Nigeria and Ghana, *chit funds* and Rotating Savings and Credit Associations (ROSCAs) in India, *tontines* in West Africa, *pasanaku* in Bolivia, *hui* in China, *arisan* in Indonesia, *paluwagan* in Philippines etc. It is believed that initially, the informal financial institutions emerged in Nigeria dating back in the fifteenth century. Such type of institutions started establishing in Europe during the eighteenth century when in 1720 the first loan fund targeting poor people was founded in Ireland (Seibel, 2005).

In 1976, Muhammad Yunus, a professor of Economics at Chittagong University, Bangladesh initiated an experimental research project of providing credit to the rural poor. He gave a small loan of 856 Taka (\$27) from his pocket to 42 poor bamboo weavers and found that small loans radically changed the lives of these people and they were able to pay back the loans with interest. The success of this idea led Yunus to establish Grameen Bank in 1983 in Bangladesh. This programme showed astonishing growth rates in Bangladesh, particularly during the 1980s and 1990s. It encouraged social innovators and organizations all over the world to begin experiments with different microfinance delivery methods to bring financial services

to the poor. It is now adopted worldwide in the countries of different continents.

Many international NGOs, such as Foundation for International Community Assistance (FINCA), Americans for Community Cooperation in Other Nations (ACCION), Freedom from Hunger, Opportunity International, Co-operative for Assistance and Relief Everywhere (CARE), Consultative Group for Assisting the Poor (CGAP), etc. are promoting microfinance programme for creating new businesses and combating poverty in a +sustainable way. Over the past few decades, microfinance has been experimented in many developing countries.

In Tanzania, the first initiative to introduce microfinance was established early in 1938 as one of the faith based services. Current evidence shows that the first SACCOS in Tanzania were established in Moshi Town by the Ismailia Group in 1938. From there, the Catholic Church picked the idea when the Late Cardinal Laurean Rugambwa (then a Bishop) visited Michigan Credit Unions in the late 1950's to learn more about SACCOS (Dublin, J. et al, 1983). Then later, Tanzanian government supported the concept of microfinance in 1985 when it established the Presidential Trust Fund. In mid 1990's other MFIs emerged such as PRIDE, FINCA, and YOSEFO and in the late 1990s the Bank of Tanzania started specialized banks which are commonly known as community banks and cooperative banks. These include Kilimanjaro Cooperative Bank, Mufindi Community Bank and Kagera Cooperative Bank. Akiba Commercial Bank became the first Commercial Bank to venture into microfinance.

In 1991 Tanzania SACCOS was enacted under co-operative Society Act to offer savings and credit services to its member. Through supportive and standalone policy for microfinance was drawn in the year 2000 with the vision to achieve widespread access to microfinance throughout the country; through integrating microfinance with mainstream financial system with the flexibility that ensures that their special features are not compromised (NMFP, 2000).

1.1.2 Why Microfinance

In developing countries, financing rural poor people through formal financial services failed to meet the credit requirements. The main reason of failure was absence of any recognized employment and hence absence of collateral with the poor. The high risk and the high transaction costs of banks associated with small loans and savings deposits are other factors which made them non-bankable. The lack of loans from formal institutions leaves the poor with no other option but to borrow money from local money-lenders on huge interest rates. In different countries including Tanzania, efforts have been made by their governments to deliver formal credit to rural areas by setting up special agricultural banks/rural banks or directing commercial banks to provide loans to rural borrowers.

Microfinance scheme provides a wide range of financial services to people who have little or nothing in the way of traditional collateral. It helps them to build up assets, survive crises and to establish small business to come out of poverty. While extending small loans (micro-credit), microfinance programme provides various other financial and non-financial services such as savings, insurance, guidance, skill

development training, capacity building and motivation to start income generating activities to enhance the productivity of credit. This programme is becoming popular and emerging as a powerful instrument for poverty alleviation in many countries of Asia, Africa, Europe and America.

Microfinance is created in the economy for the economic benefit of the poor and to alleviate poverty. Microcredit is the lending side of microfinance. Microcredit loans help the poor to be involved in income generating activities that allow them to accumulate capital and improve their standard of living. Some scholars say that “The poor stay poor not because they are lazy but because they have no access to capital” (Smith & Thurman, 2007). This is true since many of poor people around the world are already benefiting from microfinance. Previously, microfinance was known as rural finance or informal finance. Rural finance and informal finance have similar characteristics and practices as microfinance, as they involved in small loans that are normally tailored to the poor. The term “microfinance” became popular and widely used with the establishment of Grameen Bank by Muhammad Yunus in the 1970s.

The Grameen Bank defined microcredit as small loans given to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families. Microfinance is defined as financial instruments, such as loans, savings, insurance and other financial products that are tailored only to the poor (Gonzalez-Vega, 2008). According to Ledgerwood (1999), microfinance is a provision of a broad range of financial services such as savings,

credit, insurance and payment services to the poor or low-income group who are excluded from the normal banking sectors.

1.1.3 Loan Repayment Problems

The major goal of microfinance is the provision of microloans to the low-income and the poor households (Bystrom, 2007). The chance that a microfinance institution (MFI) may not receive its money back from borrowers (plus interest) is the most common and often the most serious vulnerability in a microfinance institution. The most common loan repayment problems of MFIs are delinquency and default. A loan is said to be delinquent when a repayment is late and default is the failure to pay back a loan. (CGAP, 1999). A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal. Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help predicting how much of the portfolio will eventually be lost because it never gets repaid.

1.2 Statement of the Problem

The microcredit loans are able to improve the socio-economic status of the poor since it provides a working opportunity. Microfinance services have a significant positive impact on the severity of poverty and specific socio-economic variables such as children's schooling, household nutritional status and women empowerment. Promotion of microfinance to reach poor households increases income earning capability and enjoyment of improved quality of life.

Expansion and regional distribution of MFIs to reach the poor is mandatory to the achievement of millennium development goal of eradicating extreme poverty and hunger by 2015. Institutions that offer microloans to low-income borrowers in developing and transition economies have focused increasingly on making their lending operations financially sustainable by charging interest rates, which are high enough to cover all their costs (Richard, et al, 2009). They argue that doing so will best ensure the permanence and expansion of the services they provide. Sustainable (i.e., profitable) microfinance providers can continue to serve their clients without needing ongoing infusions of subsidies and can fund exponential growth of services for new clients by tapping commercial resources, including deposits from the public (Richard, et al, 2009). In supporting the sustainability and broadening services of MFIs, Tanzanian microfinance policy empowers microfinance organizations to price their services in the ways that ensure to cover up their cost of loans (NMFP, 2000).

Usually, the loans given to borrowers are very small, in short term period, in a group of five or ten people; no collateral needed and require either weekly or monthly repayment. Despite the efforts of MFI having put their sustainability plans, occurrence of loan repayment problems decreases chance of their service expansion to a wide poor community. Loan repayment problems decrease employment opportunities, proliferate household poverty cycle and the cash flows problems in MFIs.

Studies conducted by Mpogole H, et al, 2012 and Mukama J, et al, 2005) indicates that the growth of Micro-finance sector in Tanzania is faced with challenges of loan

repayment problems by clients. Repayment problems become the main obstacle for the microcredit institutions to continue providing microcredit services.

Several studies (Munene H. N & Guyo S. H, 2013; Roslan & Mohd Zaini, 2009; Eze & Ibekwe, 2007; Bhatt & Tang, 2002) have implicated the causes of microcredit repayment problems to be categorized into four factors: (a) borrower related characteristics, (b) business operation related characteristics, (c) lender related characteristics and (d) extraneous causes.

It is equally important for Tanzania to understand whether already stipulated factors have significant causal relationship when they are evaluated in the context of Tanzanian situation. Yet, there is no study that has been conducted to analyze the causal relationship of these factors to Tanzanian setting. We should not take it for granted that factors found somewhere else, could have the same impact for Tanzania.

1.3 Broad Objective

To investigate factors causing loan repayment problems among borrowers of MFIs in Dar es Salaam.

1.3.1 Specific Objectives

- 1) To identify determinants of the loan repayment problem among MFI borrowers in Dar es Salaam
- 2) To determine the relationships between business characteristics and loan repayment problem among clients of MFIs in Dar Es Salaam.

1.4 Research Questions

1. What are the factors making clients of MFIs in Dar es Salaam have loan repayment problems?
2. What is the relationship between MFI characteristics (like mode of repayment, loan size, threat imposed by lenders, regular monitoring, grace period, length of repayment period, repayment method, delays in disbursing funds, interest rate) and loan repayment problems

1.5 Research Justification

MFIs are important for poverty reduction and creation of employment opportunity especially in developing countries like Tanzania. One of the key factors for their profitability, sustainability and expansion of their services is the presence of good loan repayment rates. The motivation of conducting this study was to have a better understanding of determinants of loan repayment problems among MFIs by getting borrowers' views to eventually ascertain the causes of delayed loan repayment. The understanding of determinants of loan repayment problem helps MFIs to employ friendly lending practice strategies, which ultimately encourage them to increase their product portfolio and boost the economic status of poor people who are determined to excel. The study result is useful in policy formulation and decision making in respect to MFI micro-credit and government departments which are implementing micro-credit programs. The understanding of the causes leading to loan repayment problems enables policy makers to set policies that mitigate future repayment problems among MFIs and hence positive impact on poverty alleviation. It contributes to existing body of literature and form a basis for further research.

1.6 Limitations of the Study

The study analyzed primary data collected from loan borrowers of MFIs in Dar es Salaam. Because of constrain of resources in terms of time and finances, and the challenges of identifying who was to participate in the study, research participants were drawn on board by using convenient sample selection method. Due to method used in sample selection, statistical results of this study cannot be hundred percent relied on as a representative findings for the Dar es Salaam population.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Overview of Microfinance Institutions (MFIs)

Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer, and insurance to poor and low-income households and their micro enterprises. Microfinance does not only cover financial services but also non-financial assistance such as training and business advice.

Microfinance institution (MFI) acts as a bank for the poor. Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, gradually build their asset base, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life (Pilipinas, 2002). Researchers argue that the Microfinance Institutions (MFIs) are useful as they:-

- i) Reduce poverty through increased income and standards of living;
- ii) Empower women;
- iii) Develop the business sector through growth potentials, and
- iv) Develop a parallel financial sector (Hulme and Mosley, 1996a; and Buckley, 1997).

It is generally accepted that without permanent access to institutional microfinance, most poor households would continue to rely on meagre self-finance or informal

sources of microfinance, which limits their ability to actively participate and benefit from development opportunities.

In some cases, MFI actually is a bank, or can become one, but usually it is an NGO or governmental program aimed at poverty alleviation. The purpose of microfinance is to provide loans to the poor that are not made available to them through the traditional banking system. The sustainability of microfinance institutions is therefore essential to create desired social impact.

2.2 Theoretical Review of Microfinance

The roots of microfinance can be found in many places, but the best known story is that of Professor of economics Muhammad Yunus of Chittagong University in southeast of Bangladesh. He was the founding father of Grameen Bank of Bangladesh. Hence, he was the pioneer who established the idea of microfinance institutions with the purpose of eradicating poverty in his home country Bangladesh. Together, Yunus and Grameen Bank were laureates of the 2006 Nobel Peace Prize awarded. Grameen Bank is known for successfully implementing the system of group-lending.

2.2.1 Theoretical Implications of the Benefits of Microfinance Institutions

The concept of group-lending was introduced by Grameen Bank of Bangladesh as a means to avoid classical economic problems associated with lending to poor people

2.2.2 A Game-Theoretical Approach to Group-Lending

Classical financial institutions typically require the existence of collateral as security before granting loans to a client. However, low income levels and the lack of assets would exclude most people in developing countries from obtaining credit from standard banks.

In contrast, microfinance institutions apply the concept of group-lending. Instead of requiring collateral from each individual, they use peer pressure and social selectivity to increase repayment rates and hedge against default risk. Several individuals are grouped, where each person receives a specific loan, but still the whole group is responsible for repaying credit. As groups form voluntarily, no group is willing to accept a member whose reputation is questionable and who is likely to take too high risks in investing the loan and risks to be unable to repay by hindsight.

2.3 Definition of Poverty

Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life (URT, 1999). This is caused by lack of resources and capabilities to acquire basic human needs as seen in many, but often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, nasty surroundings, high infant, child and maternal mortality, low life expectancy, low per capita income, poor quality housing, inadequate clothing, low technological utilization, environmental degradation, unemployment, rural-urban migration and poor communication (URT, 1999). Poverty is caused by both internal and external factors. Whereas the internal causes can be clustered into economic, environmental

and social factors, the external causes relate to international trade, the debt burden and the refugee problem.

2.4 Microfinance Policy in Tanzania

Microfinance in Tanzania is one of the approaches that the government has focused its attention in recent years in pursuit of its long term vision of providing sustainable financial services to majority of Tanzanian population (Rubambey, 2001). In Tanzania, before the financial and banking restructuring took place, most of financial services for rural, micro and small enterprises were offered by the National Bank of Commerce (NBC) and the Co-operative and Rural Development Bank (CRDB) (Chijoriga, 2000).

Since 1991, the government has been implementing financial sector reforms aimed at putting in place a competitive, efficient and effective financial system. Although the reforms have had reasonable success in bringing about the growth of competitive and efficient mainstream banking sector, it has not brought about increased access to basic financial services by the majority of the Tanzanians, particularly those in rural areas (Rubambey, 2001).

The realisation of the above shortcoming led to the Government's decision to initiate deliberate action to facilitate alternative approaches in the creation of a broad based financial system comprising of a variety of sustainable institutions with wide outreach and offering diverse financial products. The government's choice of microfinance was influenced by the conviction that, given adequate attention,

microfinance has the potential to contribute considerably to the economic development of the country because it is more adapted to the needs of the low-income population which makes up the majority of Tanzanians.

2.5 Empirical Review of Microfinance

2.5.1 The Link Between Micro Finance Institutions and Poverty Alleviation

Do microfinance institutions really help poor people to come out of poverty when high interest rates are imposed to their clients? MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor (Harper et al, 1999), women's empowerment and the development of the business sector as a means of achieving high standards and reducing market failure (Chijoriga and Cassimon 1999).

Empirical evidences and surveys give mixed results on the performance of MFIs. In some cases debacle stories have been reported, yet there have been success stories. In other cases the reasons for failures or successes have not been well documented.

Linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and degree of subsidisation). In order for the MFI to meet the best practices desired and theoretical microfinance, as given by

Consultative Group to Assist the Poorest (CGAP), and be financially sustainable, it has to regard itself as a business venture. Consequently, this profit making strategy especially in the rural areas, make very few people qualify to access business loan.

2.5.2 Microfinance and Loan Repayment |Problems

Late payments are unacceptable for financial institutions. Not only do they signal cash problems, unreliability or unwillingness to repay, they also interfere with liquidity planning and therefore immediately produce financial costs for financial institutions.

A successful MFI is one that maintains strict client repayment schedules (Morduch 1999). The lenience in collecting loan has been attributed to the downfall of many MFIs. Leniency teaches clients that it is not necessary to repay loans on time and that the MFIs are “soft” and easy to supplicate. Group lending is the strategy used by MFIs to supplement for the lack of collateral in impoverished communities (Morduch 1999). Usually poor people do not have collateral to put up in case of failure to repay their loans. Some MFIs have demonstrated that group lending can be used in the place of actual collateral. Groups are required to deposit savings periodically throughout the duration of the loan. Savings are used as a back-up emergency fund, and can be taken out only when the group is broken up. Saving also provides security for the clients themselves in time of economic crisis.

MFIs charge high interest rates between 40 and 60% as compared regular financial institutions which charges between 10 and 15% depending on credit history of the borrower (Morduch, 1999). MFIs argue not to reduce their interest rate with the

reason that it helps them to sustain their MFIs when there are loan defaulters. Some experts dispute to support high interest rate of MFIs because it discourages poor from borrowing and hence maintain them into poverty. If at all they happen to borrow and start up business, they work to profit MFIs instead of financially developing their economic status. However, no research has been able conducted to prove that high interest rates discourage poor from borrowing. Brandsma and Chaouli 1998 urges that high rates are necessary for MFIs sustainability and at same time encourage people to put a lot of effort into their business, since they will need to work very hard in order to still make a profit after the loan is repaid. Principally, hard work pays off with a higher success rate for the business.

Anayo and Ellis 2011, conducted a research which examined the factors that are responsible for the poor credit recovery among micro-finance institutions (MFIs) in Nigeria and found that borrowers' wrong attitude to credit repayment, MFIs' staff weak skill and corrupt tendency, and poor infrastructural provision by the government were the implicated reasons to poor credit recovery. A study conducted by Suraya H. M, et al 2012, in Malaysia demonstrated that borrowers' characteristics such as age, gender and type of business as well as microcredit loan characteristics such as mode of repayment amount are among the factors that contribute to loan repayment problems.

CRDB report (Neema Mori 2007), in Tanzania indicates factors that cause poor repayment rate to be inevitable instance like death of a client, whereby the loan is written off, dishonesty of loan officers who continue to disburse loans to ghost

clients, in fictitious groups and unfaithful loan officers who colludes with some unlawful clients who apply for the loan with a clear intention of not repaying and vanish after receiving their loans.

2.5.3 Lesson from the Literature Review

From the above evidence, the researcher found that there was a strong need to study the factors causing loan repayment problems in MFIs in Tanzania in the context of Dar es Salaam city environment. In Tanzania there is no any published research findings that have looked at reasons found or implicated in other part of the world that could bear the same impact in Tanzania. Therefore, the findings from this study will help to bridge the knowledge gap existing at local circumstances in Dar es Salaam.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

This chapter presents research design, area of the study, population sample, sampling techniques, data collection and analysis techniques used in this study.

3.1 Research Design

This is a descriptive research design method which attempts to explore and explain while providing additional information about loan repayment problems among MFIs in Tanzania taking a case study of Dar es Salaam.

3.2 Sample Population

As far as population of the study was concerned, the study focused on loan clients of the MFIs operating in Dar es Salaam with the aim of exploring the determinants of increasing loan repayment problems in most of MFIs, a situation which is threatening the economic performance of the country.

The study focused to examine the perception of loan clients as regards to the causes of loan repayment problems for MFIs in Dar es Salaam: therefore, the researcher interacted with loan clients who were identified from trading centers within Kinondoni municipality in Dar es Salaam.

3.4 Sampling Procedure

In order to get genuine responses from the loan clients of MFIs, the researcher employed a non random sampling technique by conveniently drawing a sample of research participants from a pool of business persons who willingly agreed to

participate in the research from their working premises rather than finding them at the MFI centers. During tool pre testing, the researcher found that clients who happened to be interviewed at MFI premises seemed difficult to disclose information related to their behavior and that of loan officers which were important factors leading to the cause loan repayment problems. Additionally, this deliberate or convenient (purposive) sampling technique was also preferred because of limited resources in terms of time and money to finance research assistants. Research participants were drawn from business centers of Ubungo, Mwenge, Kawe, Tegeta and Magomeni.

3.4 Sample Size

About 71% (177 clients) of estimated sample size i.e. 250 clients were interviewed. Stigma on being identified as a business person operating on loan was a stumbling block. The challenge was that some loan clients of MFIs never wanted to be earmarked to have business with liabilities. Hence with limited resource of time and money, the researcher could not timely survey 100% his prior estimated sample size.

3.5 Research Tools

The researcher prepared a research questionnaire and schedules that contained questions which sought to address research objectives. During data collection, each questionnaire and schedule were allocated with serial numbers and had a covering consent letter which explained the purpose of the study, applicability of confidentiality and voluntary participation in the research. Questionnaire had structured closed questions for quantitative data collection and schedule had unstructured open ended interview questions for qualitative data collection.

3.6 Methods of Data Collection

As far as collection of the primary data for the study was concerned, questionnaire with structured closed ended questions and schedule with unstructured open ended questions was developed. Both tools were administered to research participants. Questionnaires were responded by individual participants but schedule was responded by research participants in a group where in-depth interviews were conducted. The questionnaire was administered to loan clients of MFIs operating at their businesses premises in Kinondoni Municipality in Dar es Salaam. The questions in both tools questionnaire and schedule were designed in a way that would elicit clients' perception on factors causing loan prepayment problems.

Unstructured questions in in-depth interviews were employed to comprehend the real factors causing loan repayment problems in the context of Tanzania. Tool pre-test was conducted at PRIDE's office branch premise in Tegeta to verify its validity before real data collection. Amendments on the questions on questionnaire and schedule were made to improve the question understanding of respondents. Modification on data collection approach was also adjusted to find research participants from their own trading premises rather than finding them from MFIs premises, reason being that research participants responded freely and genuinely better at their business premises than when they were at premise of their MFI services.

3.7 Methods of Data Analysis

Quantitative data analysis was mainly descriptive which employed chi square analysis to find whether there were relationships between observed differences in proportion. Regression analysis was not used because from the first site of analysis by using chi square, the statistics showed no association between variables.

Methodological triangulation techniques was employed to conclude results obtained from both quantitative and qualitative data analysis. In order to understand and explore determinants of loan repayment problems in the MFIs, unstructured questions in the in-depth interviews were posed to respondents who had history of loan repayment problems. These collected qualitative data were analyzed by using content analysis and deductive approach to categorize responses. The result of qualitative analysis was used to validate results of quantitative analysis which showed statistically variables with no relationship through seeking respondent's own perspective and meaning.

CHAPTER FOUR

4.0 RESULTS

4.1 Socio-demographic Characteristics of the Respondents

Initially, the study had planned to interview a maximum sample size of 250 clients of Microfinance Institutions (MFI) in Dar es Salaam, but it ended up not interviewing 73 (29%) of clients because some other clients did not want to disclose that they had loans from MFI. As a result a total of 177 MFI clients were interviewed at trading centers of Boko, Tegeta, Mwenge, Kawe, Sinza and Makumbusho in the last two weeks of July and the first two weeks of August, 2013. Among interviewed participants 90 (50.8%) were males and 87 (49.2%) were female.

The age of respondents ranged between 25 to 75 years with a mean age of 37.82, median of 36 years, mode 32 years and with the standard deviation of 9.277. Regarding marital status; 125 (70.6%) were married, 33 (18.6%) were not married, 9 (5.1%) were widow, 10 (5.6%) were either divorced or separated. See table 2.

4.2 Socio-economic Characteristics of the Respondents

Table 2 summarizes both socio-demographic and economic of respondents. Most respondents had primary education 111 (62.7%), and the lowest proportion of respondents 7 (4%) had advanced level of secondary education. The observed trend of level of education can be explained by the fact that most entrepreneurs who start business without capital, resort to obtain small loans from MFIs. The more

individuals get learned the more they become risk averse to take up loans for business.

The highest number of proportion of group dependant was between 4 to 6 dependants that counted 70 (39.5%) and its lowest proportion was between 13 to 15 dependants who counted 6 (3.4%).

4.3 Microfinance Institutions

There were 177 interviewed respondents who belonged to 18 MFIs. 50 (29.4%) respondents were from Akiba Commercial bank, 27 (15.3%) from PRIDE, 22 (12.4%) from BFI, 18 (10.2%) from Access bank, 13 (7.3%) from National Microfinance Bank (NMB) and other 45 (25.4%) participants were clients from Amani, Belita, Blac, Dar es Salaam Community Bank (DCB), Faulu, FINCA, Kilele, Mkombozi, Mwananchi, SACCOS, Tanzania Women Bank (TWB), and VICOBA. See figure 1.

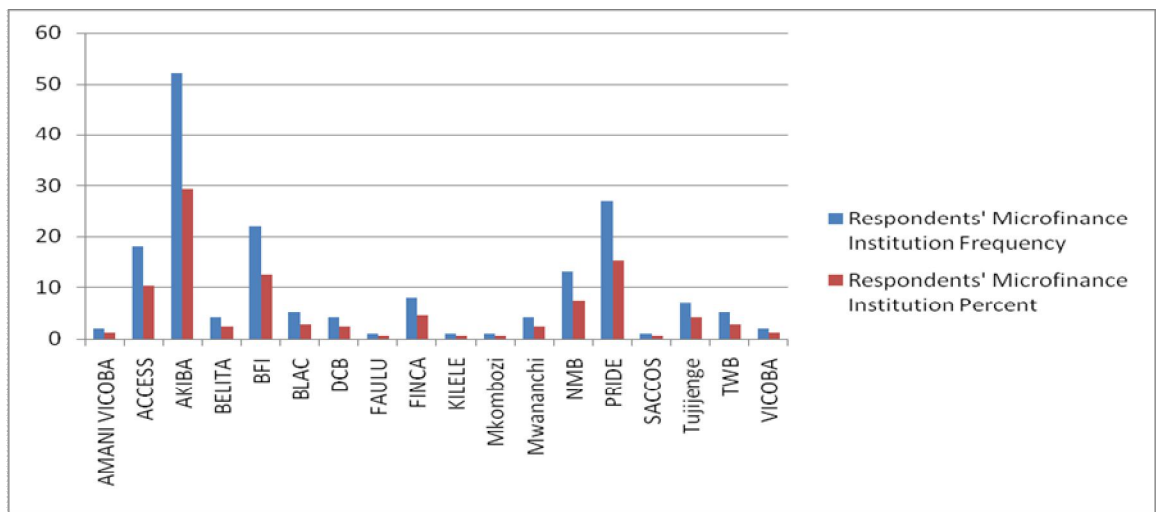


Figure 1: Number and Percentage of Respondents of Each Microfinance Institution

4.4 Microfinance Institution Loan Interest rate

The loan interest rate of different MFIs ranged from 2 – 52%, with mean value of 24.86% and standard deviation of 11.32%. Majority loan interest rate fell between 21 – 30%. See figure 2.

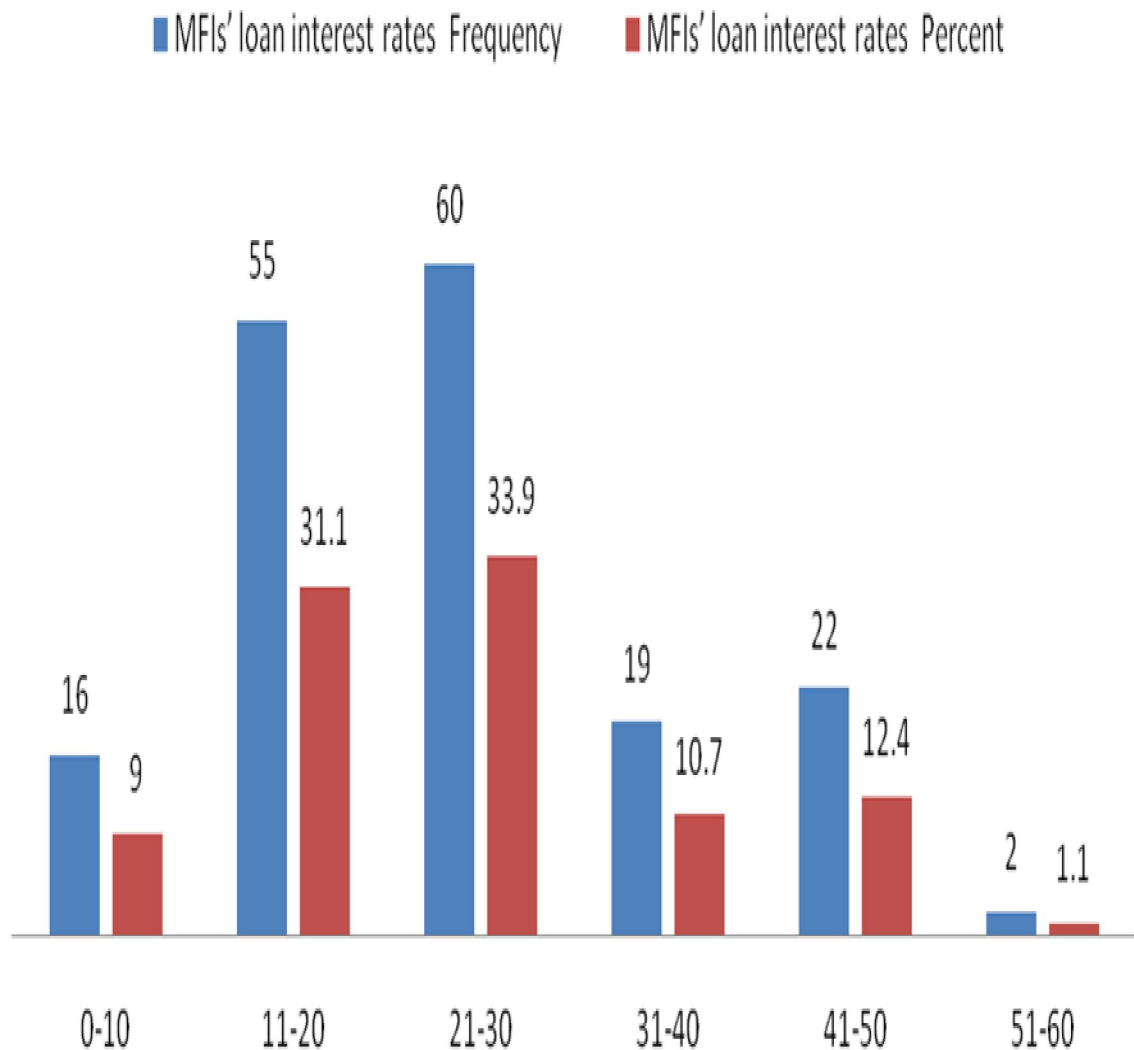


Figure 2: Percentage of Loan Interest rate of Different MFIs in Dar es Salaam

Table 1 : First Three Listed MFIs and Groups of Their Loan Interest Rate

Loan interest rate (Percent)	Number of respondents	Name of MFI
1 – 10	5	ACB
	5	NMB
	5	PRIDE
11 – 20	20	ACB
	8	NMB
	7	Access Bank
21 – 30	26	ACB
	17	PRIDE
	4	BLAC
31 – 40	8	Access Bank
	2	BELITA
	2	Mwananchi
41 – 50	15	BFI
	2	Access Bank
	2	FINCA
51 – 60	2	BFI

Source : Researcher Data

Microfinance institutions were having different loan interests. The lowest loan interests were offered by SACCOS at a rate of 6%, NMB at 8%, ACB, NMB and PRIDE at 10%. The highest loan interest rates were charged by BFI at 52, 49 and 44%. Also, Tujijenge charged 46%. Table 1 above shows the distribution of loan

interests among MFIs and their first four highest numbers of clients who participated in the study.

Table 2A : Characteristic of the Respondents Marital Status (N=177)

Characteristics	Female (%)	Male (%)	Total (%)
Marital status			
Married	51 (40.8%)	74 (59.2%)	125 (70.6%)
Never married	18 (54.5%)	15 (45.5%)	33 (18.6%)
Divorced	7 (87.5%)	1 (12.5%)	8 (4.5%)
Separated	2 (100%)	0 (0%)	2 (1.1%)
Widow	9 (100%)	0 (0%)	9 (5.1%)

Source: Researcher Data

Table 2B : Characteristic of the Respondent Age Groups (N=177)

Characteristics	Female (%)	Male (%)	Total (%)
Age group			
20 – 29 years	13 (52%)	12 (48%)	25 (14.1%)
30 – 39 years	44 (45.8%)	52 (54.2%)	96 (54.2%)
40 – 49 years	23 (54.8%)	19 (45.2%)	42 (23.7%)
50 – 59 years	5 (71.4%)	2 (28.6%)	7 (3.9%)
60 – 69 years	0 (0%)	5 (100%)	5 (2.8%)
70 – 79 years	2 (100%)	0 (0%)	2 (1.1%)

Source: Research Data

Table 2C : Characteristic of the Respondent Literacy Level (N=177)

Characteristics	Female (%)	Male (%)	Total (%)
Education level			
Illiterate	4 (50%)	4 (50%)	8 (4.5%)
Standard 1-7	57 (51.4%)	54 (48.6%)	111 (62.7%)
Form 1-4 or with either certificate or diploma	19 (47.5%)	21 (52.5%)	40 (22.6%)
Form 5-6	3 (42.9%)	4 (57.1%)	7 (3.9%)
Above form 6	4 (36.4%)	7 (63.6%)	11 (6.2%)

Source: Researcher Data

Table 2D : Characteristic of the Respondent Number of Dependants (N=177)

Characteristics	Female (%)	Male (%)	Total (%)
Number of dependants			
0 -5 dependants	49 (52.7%)	44 (47.3%)	93 (53.8%)
6 – 10 dependants	29 (44.6%)	36 (55.4%)	65 (37.6%)
11 – 15 dependants	5 (45.5%)	6 (54.5%)	11 (6.4%)
16 – 20 dependants	2 (50%)	2 (50%)	4 (2.3%)

Source: Researcher Data

4.4.1 Association of Borrowers' Characteristics and Loan Repayment Problems

This study sought to establish whether there were existing relationship between borrowers' characteristics (age, gender, level of education, business experience before obtaining any loan from MFI, number of dependants and number of MFIs where respondents are currently making repayments) and loan repayment problems. Descriptive analysis by using cross tabulation and Chi-square statistics, found no significant association; table 3 shows that age had no significant relationship since computed chi-square (X^2) (5, N=176) = 4.636, $P > 0.05$ (chi-square at 5 degree of freedom, 176 valid total number of respondents was equal to 4.636 at p-value 0.46 which is greater than 0.05 at 95% confidence level). The lack of association of variables could have been caused by sample size which was not big enough. Logit probit analysis wasn't further conducted because it would have not showed any relational significance when descriptive analysis is insignificant.

Gender had no relationship with loan repayment problems in MFIs. The analysis showed p-value of 0.9 and X^2 (1, N=176) = 0.013, $P > 0.05$. Level of education also did not have any association with loan repayment problems computed at p-value 0.084 and X^2 (4, N=176) = 8.215, $P > 0.05$. Number of years in business experience prior to obtaining any loan did not have association with loan repayment problem of MFIs. It computed p-value 0.103 and X^2 (5, N=176) = 9.145, $P > 0.05$. Individuals who were interviewed in the focus group discussion affirmed that the entrepreneur who had experience in a particular business industry repaid back his loan timely because he/she had passed through all hassles of business and know what to do in order to profit.

Likewise, number of MFIs where respondent was currently making repayments showed no significant relationship with loan repayment problems with MFIs. In contrast, qualitative analysis indicates that individuals who had loans from different microfinance felt significant burden of loans which resulted into loan default.

Table 3 : Factors Associated with Loan Repayment Problems by Delaying Repayments

Had ever had loan repayment problem by delaying repayments					
		No	Yes	Total	p-value
Age group	20-29	17 (68.0%)	8 (32.0%)	25 (14.2%)	0.46
	30-39	53 (55.8%)	42 (44.2%)	95 (54.0%)	
	40-49	24 (57.1%)	18 (42.9%)	42 (23.5%)	
	50-59	3 (42.9%)	4 (57.1%)	7 (4.0%)	
	60-69	1 (20.0%)	4 (80.0%)	5 (2.8%)	
	70-79	1 (50.0%)	1 (50.0%)	2 (1.1%)	
$\chi^2 (5, N=176) = 4.636, P > 0.05$					
Gender	Female	48 (55.8%)	38 (44.2%)	86 (48.9%)	0.90
	Male	51 (56.7%)	39 (43.3%)	90 (51.1%)	
$\chi^2 (1, N=176) = 0.013, P > 0.05$					
Level of education	Illiterate	4 (50.0%)	4 (50.0%)	8 (4.5%)	0.084
	Std 1-7	57 (51.8%)	53 (48.2%)	110 (62.5%)	
	Form 1-4	26 (65.0%)	14 (35.0%)	40 (22.7%)	
	Form 5-6	7 (100%)	0 (0%)	7 (4.0%)	
	> form 6	5 (45.5%)	6 (54.5%)	11 (6.3%)	
$\chi^2 (4, N=176) = 8.215, P > 0.05$					
Number of years in business experience before obtaining any loan	0-5	62 (53.0%)	55 (47.0%)	117 (66.5%)	0.103
	6-10	32 (66.7%)	16 (33.3%)	48 (27.3%)	
	11-15	3 (100%)	0 (0%)	3 (1.7%)	
	16-20	1 (25.0%)	3 (75.0)	4 (2.3%)	
	21-25	1 (50.0%)	1 (50.0%)	2 (1.1%)	
	26-30	0 (0%)	2 (100%)	2 (1.1%)	
$\chi^2 (5, N=176) = 9.145, P > 0.05$					
Number of respondent dependants	0-5	52 (56.5%)	40 (43.5%)	92 (52.3%)	0.295
	6-10	39 (60.0%)	26 (40.0%)	65 (36.9%)	
	11-15	4 (36.4%)	7 (63.6%)	11 (6.3%)	
	16-20	1 (25.0%)	3 (75.0%)	4 (2.3%)	
$\chi^2 (3, N=176) = 3.708, P > 0.05$					
Number of MFIs where respondent is currently making repayments	0 or 1	75 (55.1%)	61 (44.9%)	136 (77.3%)	0.58
	>1	24 (60.0%)	16 (40.0%)	40 (22.7%)	
$\chi^2 (1, N=176) = 0.296, P > 0.05$					

Source: Research Data

4.5 Association of Microfinance Institutions' Characteristics and their Loan Repayment problems

This study also sought to ascertain whether there is existing relationship between MFIs' characteristics and their loan repayment problems. Table 4 illustrates the summaries of computed descriptive chi-square analysis for each of MFI characteristics (supervision, threats, grace period, length of repayment period, repayment schedule, time interval in disbursing loan and loan interest rate) in relation to loan repayment problems in MFIs. The analysis showed that there were no any relationship among MFIs characteristics and loan repayment problems.

Table 4 : Lender Related Factor Associated with Loan Repayment Problems

Had ever had loan repayment problem by delaying repayments					
Respondent had ever been supervised for loan repayment	No	85 (56.3%)	66 (43.7%)	151 (85.8%)	0.515
	Yes	14 (56.0%)	11 (44.0%)	25 (14.2%)	
$\chi^2 (1, N=176) = 1.328, P > 0.05$					
Got threats from MFI regarding the loan repayment	No	74 (57.4%)	55 (42.6%)	129 (73.3%)	0.492
	Yes	25 (53.2%)	22 (46.8%)	47 (26.7%)	
$\chi^2 (1, N=176) = 1.418, P > 0.05$					
Grace period	No	98 (57.0%)	74 (43.0%)	172 (98.3%)	0.580
	Yes	1 (33.3%)	2 (66.7%)	3 (1.7%)	
$\chi^2 (1, N=175) = 0.671, P > 0.05$					
Length of repayment period	3 mo	5 (71.4%)	2 (28.6%)	7 (4.0%)	0.207
	6 mo	27 (62.8%)	16 (37.2%)	43 (24.6%)	
	9mo	6 (85.7%)	1 (14.3%)	7 (4.0%)	
	12 mo	58 (51.3%)	55 (48.7%)	113 (64.6%)	
	24 mo	2 (100%)	0 (0%)	2 (1.1%)	
	Others	1 (33.3%)	2 (66.7%)	3 (1.7%)	
$\chi^2 (5, N=175) = 7.185, P > 0.05$					
Repayment schedule	weekly	37 (54.4%)	31 (45.6%)	68 (38.6%)	0.679
	2weekly	3 (60.0%)	2 (40.0%)	5 (2.8%)	
	Monthly	59 (57.3%)	44 (42.7%)	103 (58.5%)	
$\chi^2 (2, N=176) = 1.513, P > 0.05$					
Loan issued timely	No	35 (61.4%)	22 (38.6%)	57 (32.4%)	0.351
	Yes	64 (53.8%)	55 (46.2%)	119 (67.6%)	
$\chi^2 (1, N=176) = 2.095, P > 0.05$					
Loan interest rate	0-10%	5 (31.3%)	11 (68.7%)	16 (9.1%)	0.15
	11-20%	29 (52.7%)	26 (47.3%)	55 (31.3%)	
	21-30%	36 (61.0%)	23 (39.0%)	59 (33.5%)	
	31-40%	13 (68.4%)	6 (31.6%)	19 (10.8%)	
	41-50%	14 (63.6%)	8 (36.4%)	22 (12.5%)	
	51-60%	2 (100%)	0 (0%)	2 (1.1%)	
$\chi^2 (1, N=173) = 8.049, P > 0.05$					

Source: Research Data

4.6 Causes Loan Repayment Problems

The study used qualitative open ended question in a survey questionnaire to validate the quantitative results through seeking respondent's own perspective and meaning. Also two focus group discussions which contained 7 respondents in each group. A question asked was "In your opinion why do you think microloan repayment is difficult in some loan beneficiary?" The analysis categorized responses to answer three basic questions;

What are the MFI related causes of microloan repayment problem?	<ul style="list-style-type: none"> • Low start up amount of loan provision • High loan interest rate
What are the individuals (clients) related causes of microloan repayment problem?	<ul style="list-style-type: none"> • Diverting loan money into different purposes • Individuals who regard loan money as theirs in person for use without restriction • Lack of business preparation and experience • Borrowers cheating to provide wrong information about non existing business premises • Use loan to repay other loans
What are the uncontrollable systemic (extraneous) related causes of microloan repayment problem?	<ul style="list-style-type: none"> • General Poor economic status of the country and restriction of money circulation • Structural demolition of business sites by city council authority • Unforeseen problems like illnesses, accidents, death of relative and theft • Seasonal business challenges like during Ramadhan, makes repayment difficult • Unfair business tax estimation by Tanzania revenue authority

Source: Qualitative Research Data

However, 124 (70.1%) reported to have improved their lives such as having managed to take their children to schools, bought land, built houses, able cater for household basic requirements and obtaining daily bread at home and so forth because of having accessed loans from microfinance institutions. 52 (29.4%) claimed not to have improved their lives

4.7 Discussion

4.7.1 Introduction

Microfinance institutions in Tanzania have suffered significant loan repayment problems (TBA 2007) resulting into subsequent decreased employment levels, industrialization, cash flow problems which makes difficult disbursement of loan to the existing and potential clients for MFI. Microcredit repayment problems deprive other small entrepreneurs' opportunity to their economic growth and decline the overall economic development to be contributed by small income generating activities. The continued failure of Micro-credit performance in Tanzania, constrains the MFIs' ability to assist other enterprises and frustrates the efforts of government and development stakeholders to alleviate poverty, economic growth, job creation and hence industrialization are totally affected. The understandings of factors that lead into loan repayment problems promote the development of policies which favor national economic growth.

This study was carried out to determine the relationship between both borrower or MFI characteristics and loan repayment problems. In this chapter the research findings are discussed.

4.7.2 Socio-economic Characteristics

In social demographic characters it was noted that majority respondents (62.7%) had primary education level. This finding confirms the observation by Walter and Lilian (2013) in their study conducted in Kenya to determine the Causes of Loan Default within Micro Finance Institutions; that people with lower levels of education use MFIs loan facilities more than those who have higher levels of education. Participants with low education level felt that they needed business training through seminars on how to handle loan from MFI, how can borrower benefit from loan and how does Tanzania Revenue Authority estimates business tax bills? Participants felt that lack of education support from MFI contributes to their failure to repay their loan on timely.

Studies conducted by Acquah and Addo (2011) and Umamuefula O. O et al. (2012), at different environment of Ghana and Nigeria respectively found that loan repayment increased with years of education. They explained their finding that entrepreneurs with higher educational level tend to have more knowledge and skills in such areas of basic mathematics and accounting which enables them to avoid losses emanating from poor calculations.

4.7.3 Borrower Characteristics and Loan Repayment Problems

This study sought to understand the relationship between borrower characteristics (age, gender, level of education, number of years in business experience, number of dependants and repayments in more than one MFI) and loan repayment problems at MFIs. Contrary to expectations, the descriptive analysis to this study did not find any existing statistical relationship between borrower variable characteristics and

loan repayment problems. However, qualitative findings identified reasons that make MFI loan repayment problems which included diverting loan money into different purposes, use of loan to repay other loans, lack of business preparation and experience in a particular business and borrowers cheating loan officers by giving them wrong information that they do either have shops or premises for business which are actually non existing. They cheat by showing friends' business premises so as to get loans that solve their life problems. When the time reach for repayment most of them fail to fulfill their obligation.

A study conducted by Munene H . N & Guyo S. H, (2013) in Kenya on seeking factors influencing loan repayment in MFI, found that the number of employees in a business was a factor which was negatively correlated to loan repayment performance contrary to this study's findings.

study conducted by Suraya H. M et al. (2011) in Malaysia found to be in agreement with findings from this study that Marital status, Educational level, Repayment period, Extra loan, Age group (26-35 years old), Age (36-45 years old), Dependant (3-4 people), Dependant (more than 4) did not significantly contribute to the repayment problem. However, in their study they found borrowers in the age group of 46 to 55 years of age had a higher probability of having repayment problems, contrary to expectation. Older borrowers would be more responsible in repaying their loans than younger borrowers. Other scholar explains that borrowers in old age group might have higher financial commitments to their family and business expenses. Thus, with higher financial obligations, they could have difficulty in repaying their loans.

Women indicated to support each other in group lending than men as a strategy that protects them from loan defaults. The finding is in agreement with Bennett & Goldberg 1998 who saw that women were more likely than men to assist and support one another should they experience financial difficulties.

This study has shown that there is no significant relationship in years of business experience and loan repayment problems. Respondents who were having 0 to 15 years of business experience had a trend of higher proportions of respondents who did not have loan repayment problems than those having 16 – 30 years of business experiences. Study conducted by Acquah and Addo (2011) in Ghana found that loan repayment increased with years of business experience. In this study, in depth interviews indicated that loan clients with increased years of experience in the business reported to perform better in loan repayment than ever before when they were just starting businesses. Experience in business made them to have discipline in spending money they get out of business as profit.

The size of a household has negatively correlated with loan repayment. That means the bigger the number of household dependants the lower the loan repayment performance. In this study number of dependant 11 and above had high percentages of loan repayment problems as compared to the household with below 10 dependants. However the observed differences among number of dependants in relation to loan repayment problems were not significant. This strongly agrees with the study conducted in Rwanda by Malimba M. P and Ganesan P, (2009), found that size of the household had statistically significant strong effect on loan repayment performance.

Loan clients who are having multiple loans suffer loan repayment problems. However, in this study did not find any statistical significant differences in loan repayment problems and having current multiple loan repayments. In-depth interviews to research participants with loan repayment problems revealed that the loan repayment problems among other causes were due to a client having multiple loans which give them loan burden during loan repayments.

4.7.4 Association of Microfinance Institutions' Characteristics and their Loan Repayment Problems

Another objective for this study was to explore the relationship between microfinance institution characteristics (supervision, imposed treats by MFI, provision of grace period, length of repayment, repayment schedule, loan issuing timely and loan interest rate) and loan repayment problems.

Study findings have shown no difference between respondents who had ever been supervised and those who had never been supervised by MFI's staff in loan repayment problems.

Application of treats of sanctions by loan officers to loan client is associated to increased loan repayment Bhatt and Tang (2002).But in this study, it was showed that threats did not have any impact on loan repayment because about 57% of respondents had no loan repayment problems while had no threats were imposed to them from MFIs and only 53% of respondents had no loan repayment problems while had imposed threat from MFI. This observable difference was not statistically significant. However, it has been reported that supervision by loan officers improves repayment problems(Walter and Lilian 2013)This study found 57% of respondents

who had no loan repayment problems had no provision of grace period and 67% of respondents who had loan repayment problems had grace period. However the difference observed was not statistically significant. This finding is consistently with the research finding of Erica et al. (2009) who found that delaying the onset of repayment (grace period) by two months significantly increased both repayment default. This basic finding supports the predominant view among micro-lenders that rigid repayment schedules are critical to maintaining low rates of default among poor borrowers. The in depth interviews to individuals with loan repayment problems suggested that if they were to be given the grace period of at least one month to start loan repayment would have made them to realize the business profit from the loan. The current practice is that you start loan repayment in the same month after getting it.

The in depth interviews to loan clients who had history of repayment problems complained that high interest rates on loan is a direct cause of repayment problem as it is supported by the study conducted by Ibeleme S. N. O et al. (2013) which found that Interest rate had a negative coefficient association implied that the higher the interest rate the lower the repayment rate and vice versa. Although, statistical finding on the same case did not show any significant association like the studies conducted by Chaudhary and Ishafq (2003) who examined the credit worthiness of 224 rural borrowers in Pakistan using logistic regression, found that subsidized interest level did not have a significant effect on repayment behavior among rural borrowers and eventually concluded that subsidized interest rate was not the best way to ensure good repayment by borrowers.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The microcredit loans are able to improve the economic and social status of the poor since it provides a working opportunity. Despite the recent growth in the Microfinance sector, the sector is faced with challenges of loan repayment problems by clients. In Tanzania Microfinance institutions suffer the same problems which consequently, promote poverty due to lack of employment and shortage of capital to new entrepreneurs.

In order to keep surveillance onto Tanzanian economy, there necessitates the need to explore and find out the factors that may threaten the operations of Microfinance sector. Studies conducted in others countries have indicated that loan repayment problems are associated with (a) borrower related characteristics which include age, gender, level of education, business experience, size of the family, having many other loans; and (b) MFIs or lender related characteristics which include mode of repayment, repayment amount (loan size), threat imposed by lenders, regular monitoring, grace period, length of repayment period, repayment method, delays in disbursing funds, loan interest rate.

In this study sought to explore to what extend these factors implicated by other authors were causing loan repayment problems in the context of Tanzanian environment. Using triangulation approach in analyzing both qualitative and quantitative data, this study therefore concludes that the same factors apply to

Tanzania; however quantitative analysis indicated insignificant statistics in contrast to earlier findings that demonstrate the association between borrowers' or microfinance institutional characteristics and loan repayment problems. Insignificance in quantitative results was not given so much weight because of having study limitation with small sample size of 177 respondents and use of purposive sampling technique.

Corruption among loan officers, failure of loan disclosure within families, unfair business tax estimation, proxy business supervision, diverting loan money to different purpose, having been operating business into an informal premises which leads to confiscation of business products by polices of municipal council and unforeseen situation like falling into sickness by loan client or his/her family member, death of relative, theft of business product, road traffic accidents, catastrophes such as fire and flood were additional factors in accordance to the Tanzanian context contributing into the existing knowledge.

This study is important because it provides more additional insights to microfinance stakeholders on the factors causing loan repayment problems in the microfinance institutions in Tanzania and opportunity to use the findings in formulating policies.

High interest rate, weekly repayment period, lack of entrepreneurial training among loan clients and overall economic crisis of the country including inflation pose to be rank high as factors causing loan repayment problems in the MFIs.

Further study that builds on these insights is recommended to gain more understanding on how microfinance institutions can grow to save and benefit more poor people.

5.2 Recommendations

The study recommends that stakeholders in microfinance sector ensure that borrowers have relevant training in the entrepreneurial skill and practice to alleviate loan repayment problems. Factors like who supervises the business financed by loan, formality of business premise, failure to disclose loan to a partner in marriage are factors that can be used by loan officers to screen possible loan defaulters and be useful for decision making.

MFIs are advised to prepare posters that educate their clients and the public at large with the aim of controlling and preventing corruptions within MFIs engineered by their loan officers.

Encourage loan policy which favors minimization of interest rates to increase the base of loan beneficiaries. Provision of grace period of at least one month before commencing loan repayment schedules is important and makes loan beneficiary to realize profit.

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APPENDICES

Appendix 1 : Survey Questionnaire – English Version

QUESTIONNAIRE NO. _____ I.D No _____

DATE _____

1. PERSONAL DETAILS

1.1 Name of the Site of Business _____

1.2 Age _____

1.3 Sex _____ 0.Female 1. Male

1.4 Tribe _____

1.5 Marital Status _____ 1.Single 2.Married 3. Divorced 4.Separated 5.widowed

1.6 Educational level _____

- 1) Illiterate
- 2) Std 1-7
- 3) form 1 - 4
- 4) Form 4 and Certificate or Diploma
- 5) Form 5-6
- 6) Above form 6

1.7 Number of dependents: Within the household ____ Outside the household _____

1.8 Occupation: Main _____ Second _____

Third _____

II: INFORMATION ON GROUP FORMATION

2.1 Did you have to join a group before you were to get a loan from MFI? 1 Yes; 0 No

If yes continue 2.2 – 2.6; if No, go to part III

2.2 How many members does the group in which you belong have? _____

2.3 Did you know all (most) of the members in your group? ___ 1.Yes 0.No

2.4 Did you feel responsible to other members of your group? ___ 1. Yes 0. No

2.5 Did you have the feeling that you might be sued in case of failure to repay the Loan? ___ 1.Yes 0.No

2.6 Do you attempt to know or monitor the loan utilization of the other members of your group? ___ 1.Yes 0. No

2.7 If yes, what action do you take in case you observe wrong utilization of the loan, say usage of loan for non-intended purpose? ___ 1) Inform loan officer of MFI 2) Accuse the diverter 3) Put social sanction 4) Other(specify) _____

III: LOAN AND ITS REPAYMENT

3.1 What is the name the MFI you have borrowed money for your business?

3.2 Did you have any source of credit before other than the one from this MFI? ___

1. Yes 0. No

3.3 If yes, what was your source?__ 1) SACCOS 2) Money lenders 3)

Friends/relatives 4) Banks 5) Other

3.4 Currently how many MFIs are financing your business? _____

3.5 How many times and how much money did you receive from these sources during the past 12 months?

Source	No. rounds	Amount of loan
1.		
2.		
3.		
4.		

3.6 What is the business enterprise you are involved in?

3.7 How long have you been in the business before looking for a loan you are having? _____

3.8 What is the loan interest rate of current MFI _____ how much you borrowed _____ and in total, how much you supposed to pay back during the repayment period _____

3.9 How long was the grace period before you started repayment schedules?

3.10 Have you finished repayment on loan from these sources?_____ 1. Yes 2. No

3.11 What is the length of repayment period? _____ and amount of weekly deposit (repayment amount) _____

3.12 Is the repayment period set by MFI suitable in your opinion? ___ 1. Yes 0. No

3.13 If no, recommend a suitable repayment period: _____

3.14 Was the loan issued timely? _____ 1. Yes 0. No

3.15 If no, what was the impact of the delay? _____

3.16 What is the status of recent loan? _____ 1 fully repaid 2; Repayment on schedule; 3. Repayment in arrears

3.17 If in arrears what is the balance remaining? _____

3.18 What was the problem for the loan to be in arrears?

- 1) Loan based business activity was not profitable
- 2) Used some of the loan for household living expense
- 3) Sold on credit but did not get paid back on time
- 4) Loss of assets acquired by the loan
- 5) Problem rose from city council authority; How (explain)

6) Other (specify) _____

3.19 Do you perceive the cost of default to be high? _____ 1. Yes 0. No

3.20 If yes, which of the following is the most important in forcing you to repay the loan in time?

1. Claim against personal wealth
2. Claim against guarantors

- 3. Social sanctions (e.g. loss of social status)
- 4. Fear of losing another loan in future
- 5 Other (specify)_____

3.21 In your opinion why do you think microloan repayment is difficulty in some loan beneficiary?

IV: LOAN UTILIZATION

4.1 What was the primary purpose for which the loan was taken?

4.2 Was the amount of loan you took enough for the purpose intended? _____

1. Yes 0. No

4.3 If no, what was the amount you requested? Tshs _____ discrepancy _____

4.4 Did you spend the entire loan on purposes specified in the loan agreement? _____

1. Yes 0. No

4.5 If no, state those non-intended purposes and the amount spent on them

Purpose Amount spent (Tshs).

- 1) _____
- 2) _____
- 3) _____

4) _____

4.6 What was/were the reason(s) for spending part/entire loan on non intended purposes? _____

1. The loan amount was not enough for the intended purpose
2. The loan agreement did not coincide with my initial intention
3. Market problem
4. To repay another loan
5. To make a more profitable business
6. Other (specify) _____

V: SUPERVISION, ADVISORY VISITS AND TRAINING

5.1 Have you ever been supervised regarding effective loan utilization by MFI's staff?

1. Yes 0. No

5.2 Have you ever been supervised for loan repayment? ___ 1. Yes 0. No

5.3 If yes to either on. No. 5.1 or 5.2, how many times were you supervised? ___

5.4 If yes to either 5.1 or 5.2, was it adequate in your opinion? _____ 1. Yes 0. No

5.5 Do you consider supervision as being important for loan repayment? ___ 1. Yes
0. No

5.6 Did you get any training before receiving loan? _____ 1. Yes 0. No

5.7 If yes, what kind of training was it? _____

- 1) Business
- 2) Marketing
- 3) Saving

- 4) Book keeping
- 5) Customer care
- 6) Other (specify) _____

5.8 Do you think that the training has helped you increase your income? ___ 1. Yes

0. No

5.9 Did you get any threats from the MFI regarding to the loan repayment? _ 1. Yes

0. No

VI: EMPLOYMENT

6.1 How many workers other than yourself are helping you in your business currently? _____

6.2 Do you think that your overall inputs on business have improved its performance? _____

1. Yes 0. No

6.3 Would you explain how and why?

VII. INFORMATION ON OTHER ISSUES

7.1 Did you have a saving account before participating in the microcredit services of MFI? _____

1. Yes 0. No

7.2 If yes, what is the average amount that you managed to save monthly?

Tshs_____

7.3 Do you have a saving account after loan involvement? ____ 1. Yes 0. No

7.4 If yes, what is the average monthly amount of your saving? Tshs_____

7.5 Do you keep accounting records? _____ 1. Yes 0. No

7.6 If yes, for what purpose?

1) To evaluate profit and loss 2) For loan repayment purpose 3) Other

(specify)_____

7.7 If no, explain the reason(s) of not keeping records?

1) Lack of knowledge

2) Transaction too small to keep a record

3) Other (specify)_____

7.8 Has your living condition improved in general because of you accessing loan at the MFI? ____ 1. Yes 2. No

7.9 What is your overall opinion about how effective the MFI can do help borrowers become productive in their intended cause of obtaining loan and their timely repayment

THE END. THANKS FOR YOUR TIME AND PARTICIPATION IN FILLING THIS QUESTIONNAIRE “MAY GOD BLESS YOU”

Appendix 2 : QUESTIONNAIRE (DODOSO) – SWAHILI VERSION

Na. ya Dodoso _____ Na. ya Kitambulisho _____ Tarehe

I. TAARIFA BINAFSI

1.1 Jina la eneo la Biashara _____ 1.2 Umri _____

1.3 Jinsia ____ 0. Mke; 1. Mume 1.4 Kabila _____

1.5 Hari ya Ndoa ____ 1. Sijaoa/Sijaolewa 2. Nimeoa/Sijaolewa 3. Nimeachika

4. Tumetengana 5. Mjane

1.6 Kiwango cha Elimu _____ 1. Sijasoma 2. Darasa 1-7 3. Kidato cha 1-4

4. Kidato cha 4 na Cheti/Stashahada 5. Kidato cha 5-6

6. Zaidi ya Kidato cha 6

1.7 Je, unao wategemezi wangapi nyumbani kwako? _____ na nje ya
nyumbani kwako? _____

1.8 Kazi yako kubwa ni ipi? _____ na ya Pili _____ Tatu

II. TAARIFA ZA VIKUNDI

2.1 Je, ilikupasa kujiunga na kundi lolote ili kupata mkopo wa Taasisi ya Mikopo iliyokukopesha? _____ 1. Ndiyo 0. Hapana

(Kama jibu lako ni ndiyo, tafadhari endelea na 2.2 – 2.6; na kama jibu lako ni Hapana, endelea na sehemu ya III ya dodoso hili).

2.2 Kundi lenu lina wanachama wangapi? _____

2.3 Je, hao wanachama ndani ya kundi lako uliwai fahamiana nao wote au karibia wote kabla ya kujiunga nao? _____ 1. Ndiyo; 0. Hapana

2.4 Je, unawiwa kuwajibika kwa wanachama waliopo kwenye kundi lako la mkopo?

1. Ndiyo; 0. Hapana

2.5 Je, unajisikia kuwa ukishindwa kulipa mkopo unaweza kushtakiwa? _____

1. Ndiyo 0. Hapana

2.6 Je, unajaribu kujua kwa kufuatilia matumizi ya mikopo ya wanachama waliopo ndani ya kundi lako? _____ 1. Ndiyo 0. Hapana

2.7 Kama jibu ni ndiyo, ni hatua zipi utazozichukua, kama utamuona mwanachama mwenzako ameutumia mkopo wake kwa matumizi yasiyo kusudi la msingi?

1. nitamharifu Afisa mkopo wa Taasisi ya Mikopo

2. Nitamlaumu

3. ataadhibiwa kijamii

4. Kingine (eleza)

III. MKOPO NA MAREJESHO YAKE

3.1 Ni Taasisi ipi ya mikopo iliyo kukopesha ela unayofanyia biashara _____

3.2 Kabla ya huu mkopo wa sasa hivi, Je, umewahi kuwa na mikopo mahala pengine tofauti Taasisi hii? _____ 1. Ndiyo 0. Hapana

3.3 Kama jibu ni ndiyo, nini chanzo cha Mikopo hiyo?

1. SACCOS 2. Wakopeshaji wasiorasmi mtaani, 3. Rafiki/Ndugu
4. Benki 5. Nyingine (taja) _____

3.4 Kwa muda huu, ni Taasisi ngapi zimekukopesha ela kwa ajili ya biashara yako?

3.5 Ni mara ngapi na kwa kiasi kipi umepokea kutoka kwa hizo taasisi za kukopa kipindi cha miezi 12 iliyopita?

	Taasisi	Mara ngapi?	Kiasi cha mkopo (Tshs)
1			
2			
3			
4			

3.6 Je, ulisharejesha mikopo yote kutoka vyanzo hivi? ___ 1. Ndiyo ___ 0. Hapana

3.7 Ni aina gani ya biashara unayojishughurisha nayo? _____

3.8 Je, ni uzoefu wa muda gani uliokuwa nao kwenye biashara ulioitaftia mkopo kabla ya kuupata? _____

3.9 Kwa sasa hivi, ni asilimia ngapi ya faida unayoilipa Taasisi ya Mikopo itokanayo na ela uliyoikopa? _____ Je, ulikopa kiasi gani? _____ na unapaswa kurejesha kiasi gani kumaliza mkopo? _____

3.10 Ni muda kiasi gani uliopewa wa kujipanga kabla ujaanza kuurejesha mkopo baada ya kuupokea? _____

3.11 Ni kiasi gani cha fedha ulipokea kutoka Taasisi ya Mikopo ulikokopa sasa hivi? _____

3.12 Ni muda kiasi gani unapaswa kuwa umerejesha ela yote uliyoikopa? _____ Je, unapaswa kurejesha kiasi gani cha ela kila wiki? _____

3.13 Je, kwa mawazo yako, muda uliopewa kuwa umemaliza kurudisha mkopo wako wote ni stahiki? _____ 1. Ndiyo 0. Hapana

3.14 Kama jibu ni hapana, pendekeza muda stahiki unaofaa kurejesha mkopo? _____

3.15 Je, Mkopo ulionao uliupata wakati muafaka ndani ya muda uliokusudia? _____ 1. Ndiyo 0. Hapana

3.16 Kama jibu ni hapana, ni athari zipi umepata kutokana na uchelewashaji wa mkopo? _____

3.17 Kwa jinsi ilivyo sasa hivi, mkopo wako upo katika hari gani? _____

1. umeurejesha wote

2. unaurejesha kwa utaratibu uliowekwa

3. unarejesha viporo

3.18 Kama marejesho ya mkopo ni viporo, ni kiasi gani umebakiza kama deni? Tshs

—

3.19 Je, nitatizo lipi limekufanya uwe na viporo katika kurejeshaji mkopo tofauti na utaratibu uliopewa na Taasisi ya mikopo? _____

1. Shughuli za biashara zilizonisukuma nikakope ela, hazikuzalisha faida

2. Kiasi kadhaa cha ela ya mkopo nimeitumia kwa mambo mengine muhimu
ya nyumbani kwangu

3. Nimefanya biashara kwa kuwakopa wateja ambao hawakuwa waaminifu
kunilipa ndani ya muda walioniahidi

4. Nilipoteza mali nilizozipata kutokana na matumizi ya mkopo

5. Kusumbuliwa na Halmashauri za Jiji la Dar es Salaam; Kwa jinsi ipi?

Eleza

6. Kingine (taja)

3.20 Kwa mtazamo ulionao, je, kuna gharama kubwa itokanayo na kushindwa

kurejesha mkopo ndani ya utaratibu uliopangwa na mkopaji? _____ 1. Ndiyo 0.

Hapana

3.21 Kama jibu ni ndiyo, ni kitu gani muhimu kati ya yafuatayo kinakusukuma ulipe deni la mkopo wako ndani ya muda na utaratibu uliowekwa?

1. Madai dhidi ya mali zako binafsi
2. Madai dhidi ya wadhamini
3. Vikwazo au adhabu za kijamii (kupungukiwa hadhi katika jamii)
4. Kuogopa kuwa utashindwa kukopesheka huko mbeleni
5. Nyingine sababu (taja)

3.22 Kwa mawazo yako, je, unafikiri ni kwanini urejeshaji mikopo midogo midogo unakuwa mgumu kwa baadhi ya wakopaji?

IV. MATUMIZI YA MKOPO

4.1 Ni nini ilikuwa kusudi la msingi la kuchukua mkopo?

4.2 Je, kiasi cha fedha ulichokipata kama mkopo kilitosheleza mahitaji na kusudio lengwa la mkopo? _____ 1. Ndiyo 0. Hapana

4.3 Kama jibu ni hapana, ni kiasi gani ulikiomba? Tshs _____ na ni ipi ilikuwa tofauti ya maombi yako? Tshs _____

4.4* Je, uliutumia mkopo wote kama ulivyo ulivyokusudiwa kwenye mkataba wako na Taasisi ya Mikopo? _____ 1. Ndiyo 0.

Hapana

4.5 Kama jibu ni hapana, Ebu niambie ni matumizi yapi ambayo hayakukusudiwa uliyotumia mkopo?

	Matumizi	Kiasi (Tshs)
1		
2		
3		
4		

4.6 Ni sababu zipi zilizokulazimu utumie kiasi au mkopo mzima kwa malengo ambayo hayakukusudiwa? _____

1. Kiasi cha mkopo nilichopewa hakikuwa kinatosheleza kusudio lake
2. Makubaliano katika mkataba wangu na Taasisi ya Mikopo haukushabiiana na matakwa ya makusudio yangu ya awali.
3. Matatizo ya masoko
4. Kulipia deni lingine
5. Niliufanyia biashara nyingine iliyokuwa na faida zaidi
6. Nyingine (taja) _____

V. Usimamizi, Kutembelea Katika Kutoa Ushauri na Mafunzo

5.1 Je, ulishawahi kusimamiwa na wafanyakazi wa Taasisi ya Mikopo juu ya matumizi sahihi/fasaha ya mkopo? _____ 1. Ndiyo 0.

Hapana

5.2 Je, uliwahi kusimamiwa katika urejeshwaji mkopo? _____ 1. Ndiyo 0.

Hapana

5.3 Kama jibu la swali la 5.1 au 5.2 ni ndiyo, Je, mara ngapi umeweza kusimamiwa?

5.4 Kama jibu la swali la 5.1 au 5.2 ni ndiyo, kwa maoni yako usimamizi

ulikunufaisha? _____ 1. Ndiyo 0. Hapana

5.5 Je, Kwa mawazo yako, unadhani usimamizi ni muhimu katika kuamashisha

urejeshwaji wa mikopo? _____ 1. Ndiyo 0. Hapana

5.6 Je, wewe uliwahi kupata mafunzo yoyote kabla ya kuupokea mkopo? _____

1. Ndiyo 0. Hapana

5.7 Kama jibu lako ni ndiyo, Je, ni mafunzo ya aina gani uliyapata?

1. Biashara

2. Masoko

3. Akiba

4. Utunzaji vitabu vya fedha

5. Huduma kwa wateja

6. Kingine (taja) _____

5.8 Je, unafikiri kuwa mafunzo yalilenga kukusaidia ni jinsi gani utaweza kuongeza

kipato chako? _____ 1. Ndiyo 0. Hapana

5.9 Je, umewahi kupata vitisho vya aina yoyote kutoka Taasisi ya Mikopo kuhusiana

na urejeshaji wa mkopo ulionao? _____ 1. Ndiyo 0.

Hapana

VI. AJIRA

6.1 Kwa sasa hivi, ni wafanyakazi wangapi zaidi yako wewe wanaokusaidia kazi katika biashara yako? _____

6.2 Je, unafikiri jitihada zako zote unazoziweka kwenye biashara yako zimeisaidia kukua kwake? _____ 1. Ndiyo 0. Hapana

Unaweza kueleza umefanya nini cha zaidi? (eleza)

VII. TAARIFA JUU YA MAMBO MENGINE

7.1 Je, uliwahi kuwa na akaunti ya akiba kabla ya kujiunga na Taasisi ya Mikopo inayo kupatia huduma za mikopo? _____ 1. Ndiyo 0.

Hapana

7.2 Kama jibu lako ni ndiyo, ni wastani wa kiasi gani ulikuwa unaweza kuweka kama akiba kila mwezi? Tshs _____

7.3 Je, baada ya kujihusisha na Taasisi za Mikopo umeweza kuwa na akaunti ya akiba? _____ 1. Ndiyo 0. Hapana

7.4 Kama jibu ni ndiyo, je, ni kiasi gani kwa mwezi cha shilingi unaweka kwenye akaunti yako? Tshs. _____

7.5 Je, unatunza taarifa zako za biashara na fedha? _____ 1. Ndiyo 0.

Hapana

7.6 Kama jibu ni ndiyo, ni kwa ajili gani unafanya hivyo?

1. Kutathmini faida na hasara
2. Kwa ajili ya marejesho ya mkopo tu

3. Kingine (taja) _____

7.7 Kama jibu ni hapana, eleza ni kwa sababu zipi zinakufanya usitunze kumbukumbu za taarifa za biashara yako? _____

1. Kukosa maarifa
2. Shughuli za biashara ni chache mno kiasi cha kutoweza kuona umuhimu wa taarifa zake
3. Kingine (taja) _____

7.8 Je, unafikiri kwa ujumla wake kupata mkopo kutoka Taasisi ya Mikopo umeboresha maisha yako? _____

1. Ndiyo
0. Hapana

7.9 Kwa maoni ya ujumuisho wako, ni kitu gani Taasisi za Mikopo zinaweza fanya kuhakikisha mikopo inawanufaisha wakopaji na waweze kurejesha mikopo yao ndani ya muda uliokusudiwa? (eleza)

**MWISHO: NINAKUSHUKURU KWA MUDA NA USHIRIKI WAKO
KATIKA KUJIBU DODOSO HILI. “UBALIKIWE NA BWANA”**

***Informed Consent for Participation in an Academic Research Study – English
Version***

Faculty of Business Management Department of Accounting and Finance

FACTORS DETERMINING LOAN REPAYMENT IN MICROFINANCE

INSTITUTIONS IN DAR ES SALAAM: THE CASE OF DAR ES SALAAM.

Research will be conducted by:

Elias Johansen Muganyizi

Cell: 0766 352940

Dear Respondent,

You are invited to participate in an academic research study being conducted by Elias Johansen Muganyizi, a Master student from the Department of Accounting and Finance at the Open University of Tanzania.

The purpose of the study is to determine factors that lead to the causes of loan repayment problems in the Microfinance Institution in Tanzania.

Please note the following:

- This study involves the use of questionnaires. Your name will not appear in the study and the answers you give will be treated as strictly confidential.

You cannot be identified in person based on the answers you give.

- Your participation in this study is very important to us. You may, however, choose not to participate and may also stop participating at any time without any negative consequences.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor (Dr. Felician Mutasa) if you have any questions or comments regarding the study through **0713 229204**.

Please sign the form to indicate that:

- You have read and understood the information provided above.
- You give your consent to participate in the study on a voluntary basis.

Respondent's signature

Date

FOMU YA RIDHAA YA KUSHIRIKI UTAFITI WA KITAALUMA

**KITIVO CHA MENEGIMENTI YA BIASHARA: IDARA YA UHASIBU NA
FEDHA**

UAINISHWAJI SABABU ZINAZOSABABISHA UGUMU KATIKA
UREJESHWAJI WA MKOPO MIONGONI MWA TAASISI ZA MIKOPO DARE
S SALAAM

Utafiti unafanywa na:

Elias Johansen Muganyizi

Simu: 0766 352940

Mpendwa Mshiriki,

Ninafurahi kukuarika katika ushiriki wa utafiti wa kitaaluma unaofanywa na ndugu Elias Johansen Muganyizi, ambaye ni mwanafunzi wa shahada ya udhamili kutoka idara ya uhasibu na fedha ya Chuo Kikuu Huria cha Tanzania.

Nia ya utafiti huu ni kuanisha sababu zinazosababisha ugumu katika urejeshwaji wa mikopo ya Taasisi za mikopo Tanzania.

Tafadhari zingatia yafuatayo:

- Utafiti unatumia dodoso. Jina lako halitaonekana kwenye dodoso hili. Na majibu utakayotoa yatafanywa kuwa ni siri. Hakutakuwa mtu yeyote atakayeweza kutambua kuwa majibu uliyo yatoa kuwa ni ya kwako.

- Kwetu sisi, ushiriki wako katika utafiti huu ni wa muhimu sana. Ila unaweza kuchagua aidha kushiriki ama kuacha kuendelea kushiriki wakati wowote bila gharama yoyote iliyo mbaya dhidi yako.
- Matokeo ya utafiti huu yatatumika kwa nia tu ya kitaaluma, yanaweza kuchapishwa kwenye jarada lolote la kitaaluma. Kama utahitaji taarifa ya matokeo ya utafiti huu, tutaweza kukupa mhutasari wake kama utaiomba mamlaka husika ya chuo kikuu huria cha Tanzania.
- Kama utakuwa na aidha maswali ama maoni kuhusiana na utafiti huu, tafadhari usisite kuwasiliana na msimamizi wa utafiti huu Dk. Felician Mutasa kwa simu **0713 229204**

Tafadhari saina fomu hii kama ishara ya kuonesha kuwa:

- Umeisoma na kuielewa taarifa iliyopo hapo juu
- Kwa hiari umekubali kushiriki katika utafiti huu.

Sahihi ya Mshiriki

Tarehe