A COMPARATIVE ANALYSIS OF LOAN REPAYMENTS BETWEEN SAVINGS AND CREDIT COOPERATIVES SOCIETIES AND MICROFINANCE INSTITUTIONS BORROWERS IN BABATI DISTRICT

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

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CERTIFICATION

The undersigned certifies that he has read and hereby recommend for acceptance by The Open University of Tanzania a dissertation entitled: *A Comparative Analysis of Loan Repayments between Credit Cooperatives Societies and Microfinance Institutions Borrowers in Babati District*, in partial fulfillment of the requirements for the degree of Master of Business Administration of The Open University of Tanzania.

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DECLARATION

I, Kassim Athuman Chachalika, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

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Signature

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Date

DEDICATION

I dedicate this work to God. With Him everything is possible, without Him none can be achieved at all. That is why I have come this far.

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ABSTRACT

The study was conducted in Babati District in Manyara Region with the main objective of comparing the extent of loan repayment between MFIs and SACCOS, and to identify the causes of poor loan repayments. Hence suggest solutions for improving borrower's livelihood. The specific objectives of the study were to evaluate the percentage of loan default and factors contributing to Loan default rate in SACCOS AND MFIs, The methodological used to collect data from borrowers and lenders in the specific study area were the structured questionnaires were used to collect primary data from borrowers and lenders. Also, secondary data was used to collect empirical information from various literature sources. The population of this study was both borrowers from four lending institutions which are; PRIDE Tanzania Ltd Babati Branch, Small Industry development Organization (SIDO) Manyara, Babati SACCOS Ltd and Revival Church SACCOS Ltd, Babati Branch both in Babati District. The total of 140 samples was taken from all four lending institutions of which 35 respondents were taken from each. The study show that, an analysis of the data in regards to poor loan repayments were caused by borrower's family problems, unfavorable financial lending strategies policy implemented by some lenders, high interest rate, multiple loans. It is recommended that, in order to move in the right direction of saving and improving the livelihood of the poor borrowers, both players which are; Government, borrowers' representative, and other stakeholders should be involved in preparation of a transparency and favorable balanced Microfinance Policy that will aim to assist the poor borrowers and not to give lenders the loop hole of surviving for expenses of their clients.

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LIST OF ABBREVIATIONS AND ACRONYMS

BOT	Bank of Tanzania
MFIs	Micro Finance Institutions
NGOS	Non-Governmental Organizations
NMB	National Micro Finance Bank plc
LTD	Limited
SACCOS	Savings and Credit Cooperative Society
TSHs./TZS	Tanzania Shillings
USD/US$	United States Dollars
BBT SACCOS	Babati Savings and Credit cooperative
URT	United Republic of Tanzania
SPSS®	Statistical Package for Social Sciences
PRIDE	Promotion of Rural Initiatives and Development Enterprise
TSPs	Training Service Providers
NMP	National Microfinance Policy
MKUKUTA/NSGRP	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini (National Strategy for Growth and Reduction on Poverty (NSGRP))

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background Information

In the developing countries there are number of individuals who are financially unprivileged. However, microfinance institutions (MFIs) have globally recognized true financial needs as prospective component of strategies of development organizations, governments, and societies to promote enterprises in developing countries. Microfinance programs and institutions have become an increasingly important component of strategies to reduce poverty through promotion of micro and small enterprise development. However, knowledge about the achievements of such initiatives remains only partial and contested (Hulme, 2000). They are organizations with a goal to serve the need of unprivileged or under-served markets as a means of meeting development objectives. Microfinance institutions enable enterprises owner to develop their micro and small enterprises, which enhance their income earning capacity, and hence enjoy an improved living standard (Mosley, 2001).

One common solution to resolve poverty is providing microfinance to the poor. Microfinance has been claimed to positively impact the livelihoods of the poor through accumulation of social, human, financial, natural, and physical resources. The most findings suggest that the process of accumulation of assets, leads to creation of livelihoods that result in increased household income and poverty reduction (Ranjula, 2007).Offering financial services to the unprivileged is a complex task and past attempts have been rather unsuccessful. One commendable effort that has sprung from the failures of commercial banks is microfinance and thanks to innovative ideas that microfinance institutions have managed to cope with many of the challenges previously experienced by the formal bank sector in the 1970’s through the 90’s.

The “new” approach has successfully managed to overcome obstacles such as lack of collateral and information asymmetry. By using joint-liability schemes and by requiring frequent installments, microfinance institutions have managed to reduce their risk exposure and by outsourcing the screening process to the borrowers they have dealt with the lack of information on their clients (Viktor and Arizo, 2007*)*.Savings and credit co-operatives Society (SACCOS) are community membership-based financial institutions that are formed and owned by their members in promotion of their economic interests (Fred, 2007).

Credit is considered to be an essential input to increase productivity such as business activities, agricultural productivity, mainly land and labor. It is believed that credit boost income levels, increases employment at the household level and thereby alleviate poverty. Credit enables poor people to overcome their liquidity constraints and undertake some investments. Microfinance is a key policy strategy for poverty alleviation. Inadequate access to credit by the poor has been identified as one of the contributing factors to poverty, (Nathan *et al,* 2004). Furthermore credit helps poor people to smoothen out their consumption patterns during the lean periods of the year (Binswager and Khandker, 1995). By so doing, credit maintains the productive capacity of poor rural households (Heidhues, 1995). In many developing countries the financial institutions in the most distress are part of the public sector (World Bank, 1989) also observed that improved consumption is an investment in the productivity of the labour force.

However, there are number of cases which are much concern with problem of failure of loan recovery as reported by (Kalegeya, 2005). The commercial court as court of choice for loan recovery and related disputes was established to deal specifically with commercial disputes. At present the court is more than five years old and has gained a good experience on Financial Institutions / loan recovery relationship / disputes and related, in courts. Since its inception in (1999), over 85% of the cases filed were from financial institutions seeking recovery of their loans (Kalegeya, 2005). A study by (Mallika, 2001) showed that there were both similarities and differences between the experiences of women from the developing world and developed world. Specifically, this study found that the start-up problems faced by women in both cases were similar although there were important differences in other areas. These women were different from women entrepreneurs from antecedent conditions (e.g., support services). Differences in reasons for starting a business and succeeding in it were also found. Some of these differences may be due to socio-cultural differences between India and other nations.

1.2 The Problem Statement and Justification

For many years Tanzania has received considerable amounts of largest and fastest assistance to improve microfinance programme of financial reforms as a way of combating poverty in rural and urban areas of Tanzania. It has been evident that top-down development policies have not been much successful to improve the livelihood of people in Tanzania. A number of development strategies emerged as a result of this failure. Micro credit is the most prominent among all these strategies. It has gained much popularity in terms of its scope and impact on improving accesses to financial services in the last two decades (Zia and Kamran, 2009).

However evidence has shown that these SACCOS and MFIs lack equilibrium balance of financial benefits between lenders and borrowers. A financial borrower has been victim of financial disequilibrium effects of carrying huge borrowing costs and other unfavorable conditions for such a long time. The result was found to be among of the cause of increased loan default rate across the borrowers interviewed. Various findings stimulated researchers to investigate if The Cooperative Societies Act of 1991 and The National Microfinance Policy (NMP) aim at raising the income of both households and financial institutions (i.e. SACCOS and MFIs).

1.2.1 Research Objectives

1.2.2 The Main Objectives

The overall objective of the study was to compare the extent of loan repayment between MFIs and SACCOS and identified the causes of poor loan repayments and also suggests solutions for improving borrowers' livelihood.

1.2.3 Specific Research Objectives

(i) To evaluate the percentage of defaults in SACCOS and MFIs

(ii) Identify factors contributing to loan defaults in SACCOS and MFIs

1.4 Research Questions

(i) To what extent the percentage of loan repayment rate are in SACCOS and Microfinance institutions?

(ii) What factors contributing to poor loan repayment in SACCOS and MFIs?

(iii) Which institution has low loan repayments rate?

1.5 Significance and Relevance of the Study

As the study have been observed, the study will be of benefit to SACCOS and Microfinance Institutions, poor borrowers, policy makers to formulate appropriate strategies to tap the potentials of that sector of the financial system. And also assist the community at large both in taking most economic decisions.

It will also serve as a reference and guidance material for researchers in SACCOS, MFIs, economist and finance analyst. Furthermore, the information to be provided by the study will be useful to the savings and Loans financial institutions services in packaging and reviewing their services. It will also be useful to the customers of these financial services providers as they will have a broader knowledge of services available in the industry. An important implication of comparability is that both players and other potential users are informed of the favorable balanced of the microfinance policies, compliance with policies and disclosure of the microfinance policies used by both SACCOS and MFIs.

1.6 Scope of the Study

The study was conducted in Babati District, in Manyara Region in Tanzania to determine the loan recovery system carried out by comparing SACCOS and MFIs both in Babati District. The study focused only on the loan issued and reasons for failures or recovery of loans. Other issues such as sources of capital in SACCOS and microfinance institutions were not covered in this study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter contains the theoretical basis for the empirical study and analysis. At first, it gives and discusses the character of credit organizations and borrowers. Second, it presents the nature and the character of different risks in order to help and stimulate an understanding of the business of lending between borrowers and credit organizations. Since poor loan repayment or credit risk is the substantial determinant factor in the credit organizations for credit assessment, finally discuss different credit methodologies most used by surveyed credit organizations.

There are many theoretical perspectives that can be relevant when one wants to study or understand loan repayment assessment. Previous studies have identified several factors that influence lending officers' credit assessment. On one hand, some studies argue that the characteristics of the borrowers are the most important factors during a credit assessment in order to avoid the situation of poor loan repayment. On other hand, other studies disagree and keep on pointing out that the borrower's financial conditions that show that the borrower has the future ability to service a credit are more substantial. Other research argues that for the borrowers who offer sufficient collateral or security, the lending becomes easier. Thus, the credit organization has another means of repayment in case the borrower will default on the credit. Finally, this study indicate that, to improve loan repayment status is composed both by qualitative judgments, specific and quantifiable information.

The underlying idea of this dissertation was to reach and identify the key factors that affect a loan repayment and its recovery. Lastly, the discussion of the study is divided into; conceptual definitions, theoretical and conceptual framework in order to simplify the reading and to facilitate the understanding for the readers.

2.2 Conceptual Definitions

2.2.1 What is Microfinance?

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services. Many microfinance institutions also provide social intermediation services such as training and education, organizational support, health and skills in line with their development objectives. One of the most important aspects of microfinance is savings mobilization (Khan and Rahaman, 2007).

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 (Kessy and Urio, 2006). The principal providers of financial services to the poor and low income households in the rural and urban areas of Tanzania consist of licensed commercial banks, regional and rural unit banks; savings and credit cooperative societies; and several NGOs whose micro-credit delivery operations are funded and supported with technical assistance by international donors (Kessy and Urio, 2006).

While, Savings and Credit Co-operative Society (SACCOS) are community membership-based financial institutions that are formed and owned by their members in promotion of their economic interests (Fred, 2007). The microfinance industry tries to bring financial services to the poor, has grown to become an immensely popular strategy for reducing poverty. It involves small loans with the purpose of allowing poor people to run a business and smooth consumption. Micro credits as opposed to macro credit have a clear element of engaging the informal sector, (Fridell, 2008).

2.2.2 Microfinance and Credit Unions

The Microfinance Industry is made up of two primary groups - Credit Unions and Microfinance Institutions (MFIs). Although they both provide financial services to their clients for their productive needs, their approaches are different. The financial sector reforms are still in progress but there is increasing concern that the majority of the rural population which constitutes 70-80% of the population and comprise 90% of all the poor in Tanzania have not benefited from the financial reforms. They have largely been bypassed by these reforms. The need to enhance accessibility of financial services to the rural poor in Tanzania deserves high priority on the agenda of the on-going financial sector reforms.

The challenge is to be innovative in the design of rural finance options (Wangwe and Lwakatare, 2004). Most African economies are characterized by a financial system that has both formal and informal segments (Aryeetey, 2008). Many analysts who see informal finance as a consequence of inadequate formal financial systems expected that financial sector reforms will lead to a decline of informal finance. There is no sign of that happening in any country yet (Aryeetey, 2008).

Savings and Credit Cooperatives Society (SACCOS) / Credit Unions, on the other hand, operate within the cooperative philosophy of a broader holistic approach whereby they believe that all members of a community require a broad range of financial services - savings, consumer and productive credit. In SACCOS savings are linked to credit. The SACCOS have helped to address the bias that often prevails against individual borrowers who are located in rural areas which are sometimes not easy to reach. The SACCOS have functioned as a bridge between individual borrowers' particularly small borrowers and the formal financial institutions. SACCOS have had a substantial role in the mobilization and allocation of otherwise untapped resources (Wangwe and Lwakatare, 2004).

However, MFIs differs significantly with most SACCOS in credit goals, in MFIs the goals which are not productive credit goals are not entertained. Since they know that to provide credit to non productive borrowers may eventually increase the number of loan defaulters. On the contrary there are signs of formal institutions borrowing from the informal sector (Aryeetey, 2008). It is the expectation of this relationship increasing that often leads to calls for properly regulated linkages to be developed between formal and informal finance. It is argued that integrating these two segments of financial markets and ensuring effective linkages between them can improve the efficiency of the financial system by enabling different agents to specialize for different market niches and by facilitating the flow of savings and credit up and down the system. Whatever transformation the informal sector will undergo then will be driven by the desire to access the resources of the formal sector. It will not diminish or disappear so long as the socio-economic structures of African countries require informality (Aryeetey, 2008).

2.2.3 Microfinance

Very small deposits and loans are referred together as “microfinance”. Microfinance services include credit or micro enterprises, agriculture, housing, education and consumer purchases, insurance, savings facilities, related training, and other financial-based transactions.

2.2.4 Micro Enterprises

Micro enterprises are very small, income generating businesses, owned, managed, and operated by entrepreneurs who derive most of their livelihood from the business. Micro enterprises employ very few people, relying for the most part on family members. They use very little capital and typically are unable to acquire loans from commercial banks. Micro enterprise services include financial services such as credit, access to savings facilities and investment capital, and non-financial services such as skills development and training (i.e. technical, accounting, financial and marketing skills). Through training the participants are expected to change their behavior and how they perceive business activities. Training helps small business owners, managers and potential entrepreneurs to meet the challenges of today’s business environment manage the ever-changing world and plan for future of their business (Kessy, 2009). The surveyed MFIs conducted a pre-lending training programme, but it was further observed that, the training was provided by loan officers who were not experts or practitioners in the area of small business. The training concentrated more on familiarizing the clients with loan terms and conditions rather than providing small business skills. This practice may build up the spirit of loan repayment but does not influence business growth (Kessy, 2006).

2.2.5 The Meaning of Loans

A loan is a type of debt like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower through an agreement. The borrower initially receives or borrows an amount of money (loan), called the principal, from the lender, and is obligated to pay back or repay an equal amount of money to the lender at a later time. Typically, the money is paid back in regular installments, or partial repayments; in an annuity, each installment is the same amount. The loan is generally provided at a cost, referred to as interest on the debt, which provides an incentive for the lender to engage in the loan. In a legal loan, each of these obligations and restrictions is enforced by contract, which can also place the borrower under additional restrictions known as loan covenants (Demirgüç-Kunt and Maksimovic, 1998). Therefore, this research focused on monetary loans.

2.3 Lending Strategies used by SACCOS and MFIs

2.3.1 Group Lending

Microfinance institutions employ a diversity of approaches in lending to low-income households. The method that has been given the most attention and is the most important is group-lending. Group-lending is one way for a formal lending institution to reduce the costs of screening, monitoring and enforcement the borrower(s). There are also a few other measures often used in combination with group-lending (Calles, 2005). Majority of the SACCOS and Microfinance institutions offer and provide credit on a solidarity-group lending basis without collateral.

PRIDE Tanzania Babati Branch mostly used group lending strategy. The group self-selects its members before acquiring a loan and loans are granted to selected member(s) of the group. Group members are jointly accountable for the repayment of each other's loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. That is why most group members if it happens that a member of a group fails to pay in time all take peer responsibilities to pay the unpaid loan installment in order to insure that their group is not disqualified for being eligible for further loans.

The group members usually lend money on an unsecured basis, just using the member group guarantee, whereby each individual is responsible for repayment in the selected group. This principle of micro-credit was borrowed from the Grameen Bank of Bangladesh (Aryeetey, 2005). On one hand, the group formation gives to lower transaction cost for the MFIs, but on the other hand there are social costs related with this process. These social costs can be a restraint to group borrowing and joint liability approaches, and include coercive peer pressure, loss of faith and the likelihood that the poorest and most vulnerable will remain excluded or further stigmatized. Such social costs are higher in some societies than in others, depending upon underlying social relations (which influence the ease/difficulty of group formation) and the distances that people must travel to participate in-group activities.

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. Poor rural borrowers are often considered risky. Their living conditions are marked by insecurity and risk. The default risk is high. Banks are unwilling to lend money because of failure to repay seems to be high. Lending to groups instead of individuals solves this issue by spreading the responsibility for the loan, which from a bank's point of view is a kind of cost-free insurance (Calles, 2005).

However, group lending may quite fit to those borrowers who live in one place and the group members are well known to each other if not individual lending will be preferable over group lending. One may argue that individual services may fit better in urban areas than using groups (Calles, 2005). The mobility is often higher in urban areas. In a rural area people have often lived in the same place for years or generations, and their bond to neighbors and villagers are probably stronger than those among people in cities. It is likely that it is not as easy to form groups in cities as people do not trust each other as much as they do in villages.

Servicing this scattered or urban clientele results in high transaction costs, and limited opportunities for risk diversification (Yaron, 2004). In microfinance many organizations use group lending more extent since it is believed that the interdependence between borrowers created by group lending contributes significantly to higher repayment rates. Besides the benefits resulting from the structure of group lending it is also indicated that using the borrowers' social assets can create possibilities to enhance the performance of group lending (Berglind and Karimi, 2007). Even if the informal advantage mechanism and the peer pressure mechanism exist it is unavoidable that failures to repay will occur. This can be solved through the informal insurance mechanism. The poor are very vulnerable and can experience unavoidable external impacts which will affect their ability to repay, i.e. droughts, fires or accidents. In cases like this, the other group members cover the repayment, giving the client time to recover. He/she then repays to the group (Calles, 2005).

People living in villages are dependent on good relationships with their neighbors and the idea is to use the borrowers' social collateral to give them better incentives to not impose costs on their lending partner (Berglind and Karimi ,2007). The social penalties of not being able to repay your share can be in the form of bad reputation and losts of trust among fellow group members. The consequence may be that the delinquent borrower will find it difficult to find partners that would be willing to co-sign for future loans (Berglind and Karimi, 2007).

Microfinance institutions use regular repayment schedules where repayment starts only a few weeks after the loan has been disbursed, and then occur on a weekly or monthly basis (Berglind and Karimi, 2007). These regular repayment schedules help to screen out prospective delinquent borrowers at an early stage and also provide group members with early warnings of potential future problems. From the lenders' perspective this provides repayment assurance to some extent. It is also a way for the banks to get hold of the cash flow before it is consumed (Berglind and Karimi, 2007). There is uncertainty over the term of the savings: if other clients in the group are overdue in their loan repayments, release of savings can be held up for an unpredictable period (Mutesasira, *et al*, 2000). Although there is little danger of the MFI failing, all compulsory savings (and in most cases even voluntary savings, where they are allowed) are at risk of being confiscated by the group (or the MFI) to make up arrears (of both loan capital and interest) of defaulting fellow-members (Mutesasira, *et al,* 2000).

2.3.2 Individual Lending

Unlike MFIs, there are very few conventional financial institutions that provide individual loans to low-income people because poorer clients are considered higher risk clients due to their lack of collateral, plus the labor-intensive nature of the credits and hence the lack of profitability of small-credits (Khan and Rahaman, 2007).

2.4 Theoretical Consideration and Framework

2.4.1 National Micro-finance Policy

Objective and scope of the policy, the Government considers micro-finance system as an integral part of the financial sector that fall within the general framework of its financial sector reform policy statement of 1991. The overall objective of this policy is, therefore, to establish a basis for the evaluation of an efficient and effective micro-financial system in the country that serves the low-income segment of the society, and thereby contribute to economic growth and reduction of poverty. Most of the micro finance institutions currently operating in the country are small and/or new. A greater deal of capacity building is required to bring them to the level at which they can operate with large outreach (URT, 2000).

Coverage, the policy covers the provision of financial services to households, small holder farmers, and small and microfinance enterprises in rural areas as well as in the urban sector. It covers a range of financial services, including savings, credit, payments, and other services. Clients use these services to support their enterprises and economic activities as well as their household financial management and consumption needs (URT, 2000).

Gender Equity, Access to financial services should be available to both men and women. In order to achieve gender equity in the delivery of services, it may be necessary to make special efforts to incorporate features that make the services accessible to all (URT, 2000).

For example, Katwalo, (2007) established that female entrepreneurs relied more on family funds than male entrepreneurs. In this case it is difficult for female owned enterprises to take advantage of external finance opportunities. This is against the internal finance theory of growth (Carpenter and Petersen, 2002; Binks and Ennew, 1996 and Reid, 1996), which argues.

2.4.2 Characteristics of Microfinance

Microfinance gives access to financial and non-financial services to low-income people, who wish to access money for starting or developing an income generation activity, though most of MFIs prefer to give loans to their clients who already have existing businesses. Borrowers may be given loans for several purposes beyond that of income generating activity.

The individual loans and savings of the poor clients are small (Khan and Rahaman, 2007). Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be 'bankable', that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low-income people to become clients of a banking intermediary.

2.4.3 Loan Recovery and its Theories

When a loan has been taken by a person from a bank then he has to repay it according to agreement entered by both parties. But if person failed to pay back the money regularly for a fixed period then the lenders institutions start recovery procedure which means to take back the debt from the mortgaged property of the person according to the procedure of securitization act.

According to study done by Zia and Kamran, (2009) observed that due to the increase in numbers of MFIs there should be a centralized system to provide information about the borrower. This will avoid dual loaning from multiple institutions which not only affect the repayment capacity of the recipients badly but also increases loan loss ratio.

Providing financial services to the rural population has always constituted a challenge to governments. However, due to the inherent difficulties associated with providing such services to rural clientele often characterized by low population density, isolated markets, seasonality, and highly covariant risk (Yaron, 2004).

2.4.4 Loan Default Theories

Implications higher interest rate and other loan associated costs as hindering factors resulted on failure of borrowers to repay back their loans and eventually result on loan recovery problem. The reasons for poor loan recovery may not be viewed to be caused only by borrowers weaknesses that may arises due to either inappropriate monitoring of their business activities, but it were also argued that, some are related to lenders inappropriate design features leading to incentive problems and most importantly, politicization that made borrowers view credit as political gifts.

2.4.5 Theories on Poverty

Poverty at its broadest level can be conceived as a state of deprivation prohibitive of decent human life (URT, 1999). Ranjula, (2007) found that poverty contributes to about 80 percent of vulnerability faced by households. This is caused by lack of resources and capabilities to acquire basic human needs. But often mutually reinforcing parameters which include malnutrition, ignorance, prevalence of diseases, squalid 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 not as easily defined as it might sound. The first important distinction to make is between relative poverty and absolute poverty. Many studies of pro-poorness growth use the growth in income for the poorest quintile of the population compared to growth in mean income as a measure. Using that measure, one focuses on a country's relative poverty and how this is affected by growth, (Mesterton, 2006). Absolute poverty measure is based upon a poverty line, below which an individual is considered not to have sufficient income to be sure of having access to basic human needs such as food, shelter and clothing. This poverty line differs between countries, depending on the domestic price level (Mesterton, 2006).

2.4.6 Empirical Literature Review

Despite their small incomes, the poor are faced, surprisingly often, with expenditure needs which are large in relation to the sums of money that are immediately available to them. Although day-to-day household expenditure – food is often an example – can be roughly matched with income, there are many other expenditure needs which call for sums of money much larger than they normally have in their purse or pocket. There are three main categories of such occasions (Mutesasira, *et al,* 2000).

The study on multiple loans among borrowers' studies in Iringa municipality in Tanzania has showed that prevalence of multiple borrowing was very high. Over 70% of the 250 microfinance clients had at least two loans from different MFIs at the same time. In addition, about 16% had also borrowed from individual lenders. Major reasons for multiple borrowing were similar to those observed in the present study such as insufficient loans from MFIs, loan recycling, and family obligations. Over

70% of the respondents had problems in loan repayment because of multiple pending loans (Mpogole, *et al*, 2012).

According to Mpogole H, *et al* (2012) to the major reason for multiple loan contracts were mismatch between the size of loans issued by MFIs and the needs of the clients. According to study done by Mpogole H, *et al,* (2012). During the depth interviews, we learnt that some MFIs provide loans between TZS 50,000 to TZS 100,000 equivalent to USD 36 to USD 72 for an exchange rate of TZS 1,396 per USD 1 (BOT, 2010). These amounts were too small to conduct any meaningful business; as such clients had to take the small loans from different sources to reach their goals. Other reasons for multiple borrowing include family obligations, loan recycling, and relaxed or simple loan procedures, influence of friends who are taking multiple loans, and delayed loan disbursement from the MFI in which the client first applied. Family obligations ranked second after that of small loans. This means that although MFIs provide loans for running businesses, clients used the loan for family obligations as well. From the depth interviews, we also learnt that clients did not distinguish business from family matters, as one informants said in Swahili "Huwezi kuacha watoto wanakufa wakati hela ya mkopo ipo" meaning in our own interpretation "You cannot leave children dying at home while there is some money from the loan." (Mpogole H, *et al,* 2012). The study done in Babati found that in terms of amount of loan, the lower the loan amount the higher the probability of default. While the higher the loan amount, the lower the probability for default. The present results compare well with the finding by Roslan and Abd Karim,(2009) who found that, significant portion of the borrowers indicate that the loan amount given were small and insufficient. Hence, it is argued that the negative relationship arise was due to this small loan size. Lending very small loans could lead to high default rate.

In such, the reasons encountered as the most cause of this scenario as was said by some of interviewed borrowers. Money is always sweet, people pretend to step up to the next loan brackets which offer great amount of money. And sometimes borrowers prefer next loan bracket or stage for the purpose of getting that large loan amount. In that regard, sometimes borrowers cut or terminated the existing loan contract. By repaying the remained installment(s) sometimes at the middle of year of loan contract or at any given period of time. Without taking into consideration the previous associated loan costs and the opportunity cost at the present time.

Instead they only forecasted to be given large loan amount. As the results they end up paying huge and unnecessary loan costs resulting from multiple loans taken or intend to take and eventually failed to pay their loan installments in time and remain undeveloped due to loan cumulative costs which do not match with actual profit realized.

In this matter, the default was the results of borrowers' failure to plan for the exactly true financial needs of what were the external financial requirements and the loan associated costs. Of which the solution was not to rash for the next stage of loan amount of which the borrowers incur unnecessary loan associated costs and other borrowing conditions. Instead they end-up fighting for loan repayments than what they actually gain through using loan received. In this study more than 105(75%) of borrowers interviewed across the four credit providers said that they had not ever came to an end of their repayment period of loan contract. Instead some were paying the whole repayments before remaining period of either; five months, four months, three months, two months and one month to an end. Of which if this loan contract termination was to be calculated basing on value for money and the loan time period held by borrowers.

The borrowing costs in reality could be as much and uneconomical to borrowers for early loan termination. Economically these situations do not favor the borrowers although it was done on their will (voluntarily) and not forced or convinced by their lenders. However, by doing that, it could have double the borrowing costs indirectly without borrowers knowingly what exactly it harm them economically and how hard was for repayment status which eventually increased loan defaults.

The study by Mpogole H, *et al*, (2012) Incidences of failure to repay loan on time were also high for 71% of all survey respondents admitted to often face the problem of early loan contract terminated by demanding next stage of loan amount. Multiple borrowing was one of the major reasons for failure to repay on time. Although other reasons such as family obligations and poor business turnover were mentioned. The argument was backed by the fact that about 71% of all survey respondents had two or more loan contracts while at the same time about 71% of all survey respondents faced problems in loan repayment.

2.4.7 Knowledge/Research Gap

Despite of the literature and empirical review discussed on the matter which are much seem to be the factors contributing to borrowers failures to repay or poor loan repayment, some mentioned factors are; small incomes, the poor are faced, surprisingly often, with expenditure needs which are large in relation to the sums of money that are immediately available to them.

However, the research gap can also be seen in the other matters that may also have direct poor loan repayment influence such as; the presence of multiple promises usually given to borrowers by the loan officers of which in turn add costs to borrowers in term of time, money (such as Taxi charges, transport cost while attending the given promise), too much chain of associated contributions refundable and non refundable and others.

Such as required some of money be deposited before one is given the applied loan, which in turn all these costs and other contributions amount beyond half applied loan. While in calculating interest charges these cost are not excluded both indirectly they are subjected to interest charges in sense that they act as collateral substitute.

2.5 Conceptual Framework

The performance of a business was product of the individual entrepreneur’s ability, his/her motivation and behavior, and the opportunities that he/she faced. A thorough understanding of the major issues which hamper the performance of SACCOS and MFIs must therefore examine all of these influences. Conceptual or analytical frameworks of loan recovery between SACCOS and Microfinance institutions and the way in which these institutions are important variable for effective and efficient data collection, There are some factors that are important in determining the loan provision and guarantee of loan repayment.

The first factor is the ability of loan providers to access borrowers about their true needs of loan required. These true financial needs of borrowers should not be viewed in terms of loan asked alone, but also should go beyond that point only but also consider other related variable. Such as reducing loan interest rate charged together with most common flat rate method of calculating interest charges, long time used in loan processing, increasing training which may eventually increase borrowers awareness, and increase of transparency when processing loan so as borrowers be aware of what is going on, as to borrowers may reduce other unnecessary costs such as transport cost and other non cost such as multiple promises of which in turn may cause the loan received mismatch because the loan is received beyond the time needed for that loan etc. This in turn to a greater extent will smoothly the true loan usage and increase the number of loan borrowers. As the results, if used properly, standard of living of borrowers will somehow improve due to access to financial services available to them. Studies have shown that, no way to escape divergence of some borrowers to use their loans in different ways far from that stipulated into credit organization policy. The second factor is analysis of loan user education that will add loan usage ability which could correspond with decrease on loan defaulters available among loan borrowers.

As known, education is very important in any corner of human life, since it will add value into knowing their market and assist them to add their product features which will eventually lead to decrease on loan defaulters as the skills of borrowers will be increased on loan usage and the requirement of loan providers. Thirdly, improving loan recovery on both SACCOS and Microfinance institutions from day to day this will eventually lead to increasing capacity of loan provision to borrowers and hence improving the members' standard of living and minimize poor loan repayments. Below is the figure that shows how the related dimensions affecting loan repayments.

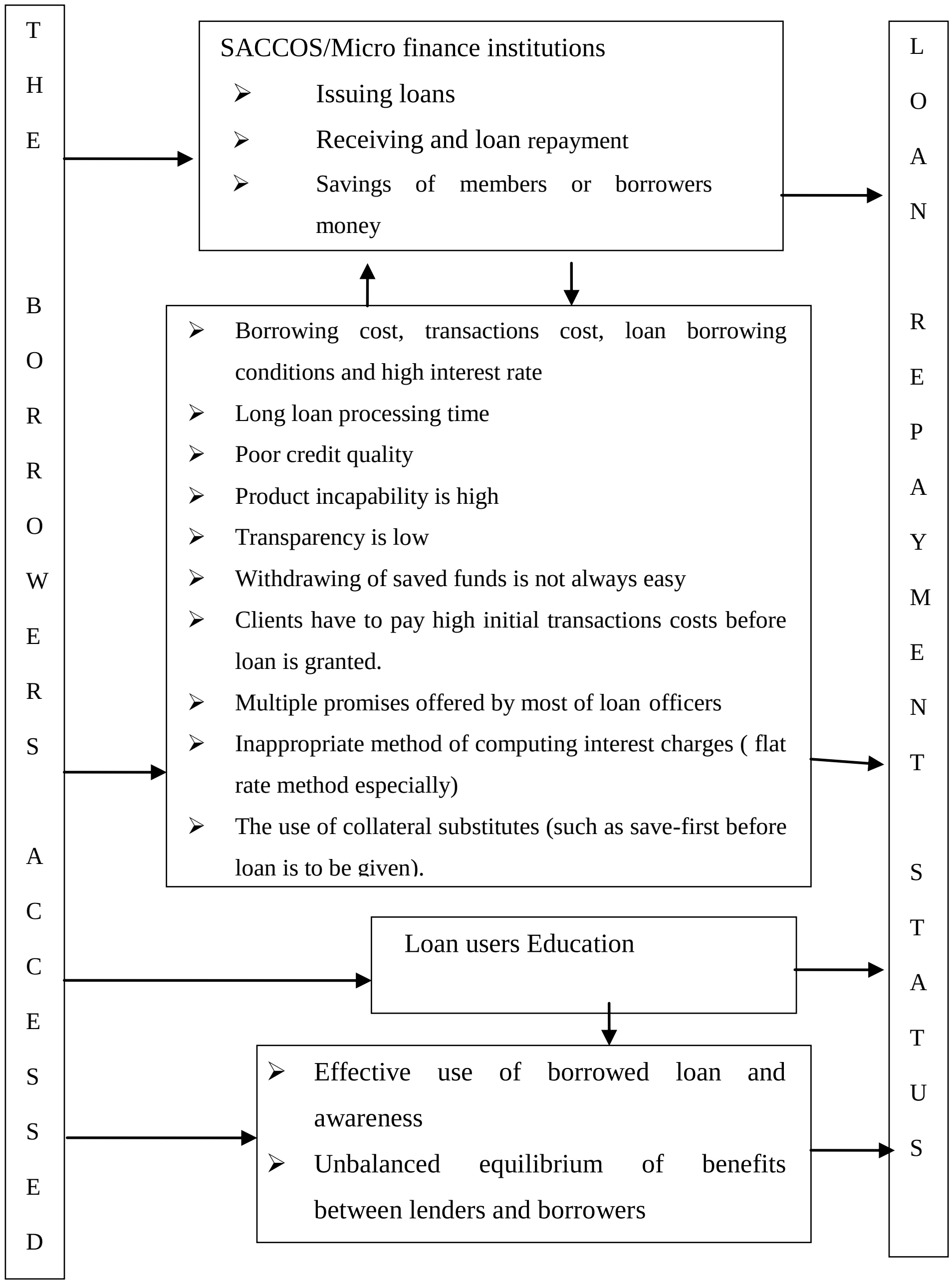

Figure 2.1: Conceptual Framework

Source: Field Data

2.5.1 The Underlying Theory/Assumption of the Theoretical Framework

The aim of the proposed above framework is to provide the clear understanding of financial links of loan processing, borrowing conditions repayment channels and other activities towards poverty reduction and loan recovery. In fighting against poverty individuals and associations are confronted with constraints. If they overcome the constraints, then there will be poverty reduction. The model has been prepared in such a way that the positive combination of independent variables (constraints) which are reasonable borrowing costs, Entrepreneurship skills, infrastructure and borrowers financial benefits expansion results into increased in income, capital increased and improvement of living standard.

2.5.2 Relationship between Variables

Borrowers need soft loan with minimal borrowing conditions from lenders which would help them reduce poverty and repayments. For these efforts in order to be successful the low borrowing cost should be kept to minimal borrowing cost, good improved promise offered by lenders and access to entrepreneurship skills must be guaranteed to the people. If the mentioned factors are positively considered then more individuals would be attracted to join the investment hence the outcome will be increase in income, business capital and improvement of living standard at large. Alternatively, if the rural Tanzanians are not in the expansion programme to investments will deprive the rural poor of access to the services, the role of poverty reduction will not be achieved. This is because most of the poor are found in rural areas. Then credit providers should make sure that, they do not survive for expenses of their lenders through their various loan provision strategies which disregard equilibrium balance of benefits and opportunity cost.

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter introduces methodology used to collect information from respondents both loan borrowers and loan officers in the specific study area. Socio-economic characteristics of the respondents have been considered under this section. This section outlines, description of the study area, sources and data type, research design, sampling procedures, data collection and data analysis.

3.2 Description of the Study Area

3.2.1 The Geographical Location and Administrative Divisions

Babati is one of the five Districts of Manyara Region. The other districts are Mbulu, Simanjiro, Kiteto and Hanang. Manyara Region was established in 2002, when the Government spilt the former Arusha – each with five districts respectively. Geographically, Manyara region lies in the northern part of Tanzania bordering Arusha region to north, Kilimanjaro and Tanga regions to the east, Morogoro and Dodoma regions to the South, and Singida and Shinyanga regions to the west (Regional Commissioner (RC) and planning Commission), 1998:15:NBS and RC Manyara 2005:1).

According to the population census of 2002 (United Republic of Tanzania,200b; 171), Babati district has a population of 303,013 (men 156,169 and women 146844) constituting about 29% of the total Manyara regional population. Comparatively, Babati district is more populated than any other district in the region.

The choice of Babati district as an area of study was dictated by several considerations, which includes:

(i) Babati district has no heavy industries which could employ large number of people- hence was taken as a role model ideal representative of other districts of Tanzania.

(ii) Babati is among the major food crop producing district in the country, which have no reliable infrastructures and argricultural finance system that may serve unsaved poor people and

(iii) In Babati district, financial NGOs and Co-operatives are not growing fast enough to meet the observed “financial services demand gap” in provision of financial services and related training needs. SACCOS promotes community ownership and peoples’ voice was the driving force in relation to their cooperative principles. Members have equal right to participate in development of their society in all economic activities. Main functions include promotion of savings and credit opportunities to the members, promotion of financial stability among members, enhancement of the habit of saving regularly, borrowing wisely and paying promptly so as to improve trust and positive perception of borrowers in view of credit organization.

3.3 Data Sources and Types of Data

Both Primary and Secondary data were used in this study. Primary data (qualitative and Quantitative) were collected through questionnaires. Focus group Discussions (FGD) and field observations were also used to gather information. The procedures were selected basing on the way found to facilitate main objective and specific objectives. The study pointed out the identifications of the Qualitative and Quantitative approaches which gave the description of the methodological approach.

However, within the qualitative approach the work attempted to study through borrowers' visits, discussion with some of borrowers and lenders staff also discussion with female and male borrowers who had taken the loan from either MFIs or SACCOS. To compare the extent of loan repayment problem between MFIs and SACCOS of which the qualitative strategy was the relevant starting point.

To illuminate factors affecting loan repayments into a subordinated situation, it was thought that, it is necessary to analyze how borrowers themselves described their daily life in relation to loan they have taken from lending institutions. This assisted to know well the factors affecting loan repayments. The qualitative method of research includes methods and techniques of observing and documenting, analyzing and interpreting attributes, patterns, characteristics and meanings of specific, contextual features of phenomena under study (Afriyie, 2006).

Qualitative methodologies explore feelings, understandings and knowledge of others through various means. They also explore some of the complexities of everyday life in order to gain a deeper insight into the processes shaping our social worlds. It is also a means of understanding people, enabling us to engage in-depth with the lives and experiences of others. Before entering into data gathering, the study had few ideas about our sociological problem regarding poor loan repayments. In that, the literature about loan repayments and the minor field studies preparation elements gave the researchers both understanding of the context was going to face (Afriyie, 2006). Interestingly claims; qualitative methods may have the power to take the investigator into the minds and lives of respondents, to capture than warts and all (Afriyie, 2006).

In this study, I am seeking the understanding of the poor loan repayments rate and causes pertaining their lives as poor people and how they feel they are vulnerable of the financial services regarding borrowing financial burden. The study tried to create the theoretical framework and the problem on basis of the empirical findings.

Qualitative methods as consisting of three kinds of data collection techniques namely; in-depth, open ended interviews; direct observations and other related documents. In a qualitative approach, the main aim of the research is to investigate the depth of the topic and not seeking to study a representative sample of the population.

3.4 Research Design

The research design refers to the overall strategy that were used to integrate the different components of the study in a coherent and logical way, thereby, ensuring effectively address of the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data. The cross sectional research design was used to conduct and obtain the data. This design was preferred due to its high degree of accuracy and easy to administer questionnaires and interviews to different borrowers at one point in a time. The design is also relatively less costly compared to other designs such as longitudinal survey.

3.5 Sample Size

The study selected a sample of 140 respondents (borrowers) from both four surveyed lending institutions. Of which 35 respondents in each of the lending institution Table 3.1 indicates the distribution of respondents in their respective lending institutions and four loan officers were also interviewed from one staff from each lending institution. Questionnaires surveyed involved 140 respondents (borrowers) who were already have the loan taken for one year or more.

Table 3.1: Sample Size Involved

Credit Organizations	Category	Sample Size
SIDO – Manyara (Regional Office)	MFI	35
PRIDE Tanzania – Babati Branch	MFI	35
Babati SACCOS Ltd	SACCOS	35
Revival Church SACCOS Ltd	SACCOS	35
Total		**140**

***Source:* Own Field Data**

3.6 Data Collection

3.6.1 Primary Data

In order to solicit background information from pre testing, the pre testing questionnaires was done to test validity and reliability of questions using ten respondents. Thereafter, the questionnaires were amended for use to a wider coverage of borrowers from the four lending institutions.

3.6.2 Borrowers Survey

Closed ended and structural questionnaires were administered to only borrowers with loan to gather respondent’s perception about loan repayment status, loan usage, and other borrowing conditions necessary to quality for loan. Basic information on respondents such as education, gender, marital status, loan size, economic impact of borrowers due to loan borrowed.

3.6.3 Interviews

Purposive sampling was employed in conducting interviews to borrowers with one or more than one year of borrowing. Also, respondents (borrowers) who had taken more than one loan from different lending institutions and understanding the reason behind for borrowers taking more than one loan. The prevailing lending conditions and their economic implications to borrowers taken loans.

Together with that, it contained questions regarding problems considered as critical causes of poor loan repayments and lastly the recommendations addressed by borrowers interviewed. However, on other side, loan officers were interviewed in order to give information on area of operation of their organization and lending conditions necessary to be fulfilled before loan were disbursed to borrowers.

3.6.4 Borrowers Observation

The researcher also used to sit aside and observe how the activities were conducted by both borrowers and lenders. This was done especially to lenders location without borrowers and lenders knowing what were going on. Observation was employed in getting information on borrowing and loan repayment activities. Which were being carried out in the PRIDE Tz Ltd Babati Branch and other two SACCOS surveyed, of which several visit were conducted to collect information arising at the lenders location.

3.6.5 Data Analysis

Data edited, coded and summarized prior to analyzing using the Statistical Package for Social Science (SPSS). Descriptive statistics such as frequencies, percentages and average were employed in the final data analysis. Cross tabulations were used to asses different factors affecting loan repayment of borrowers.

3.6.6 Delimitations

The interviews included only borrowers taken loan for a year or more than a year, it was therefore reasonable to let the borrowers themselves interpret their life with loans they had taken and their economic situation in general and their recommendations provided by them.

3.7 Organization of the Field Survey

Before the commencement of the fieldwork, the researcher had a series of consultative meeting with supervisor to share the study framework and methodology. This was followed by mapping out the study area, and selection of the sample frame. The recruitment of research assistant was followed by training.

The researcher and the assistant carried out preliminary surveying for ten respondents attending at one of selected MFI which was the PRIDE Tanzania Babati Branch in Manyara Region for practical training of the research assistant and to test the questionnaires. This pre-survey exercise was necessary in order to make sure that the questions and the prepared checklist of issues as well as the essence of the study are well understood by both enumerators and respondents.

3.8 Data Accuracy and Reliability

Much has been said about the degree of accuracy and reliability of data collected in most of the developing countries, Tanzania inclusive, and how this can constrain the value of socio-economic research due to lack or inadequate records and reliance on recall (Kashuliza, 1994:81-82, Casley and lury, 1987). In this study this was not an exception and thus much effort were made to together field data so as to minimize biases and error.

Whenever possible, information gathered from both respondents interviewed from SACCOS and those from MFIs was counter checked in order to include only those respondents with already taken loans. In this way, the degree of reliability and accuracy of data used were greatly enhanced.

3.9 Limitation for the Study

The limitations during the research were location chosen, the number of SACCOS and MFIs. The obstacles of study were in availability of appropriate information or data, in much organization. Staffs from lenders were not free to display out their information and however was a great obstacle to this study. Also since the problem under study was concern with personal income the normal individual might be worrying of displaying the information. While lenders were not easily to expose their successful factors which could be opportunity or strength by doing that may weaken them.

CHAPTER FOUR

4.0 RESULTS AND ANALYSIS

4.1 Introduction

The previous chapter of this dissertation explained different methodological approaches appropriate for study. However, in this chapter the study used the data gathered from various methodological approaches. The data used in this paper come from multiple sources as described below. Together information on loan taken by borrowers and their respectively loan default rates.

The researcher collected detailed baseline and end line survey data from sample of clients at the time of and approximately one year after loan disbursement. Baseline surveying was conducted between October 2010 and June, 2012. The baseline survey gathered background information on respondents. And their results were based on the following matters; one demographic characteristics, loan usage and other implications and constraints associated and implicit and explicit loan borrowing cost.

Along with the measures of risk regarded as the positive or negative critical causes of loan repayments among borrowers from two MFIs and two SACCOS. While the sample size taken from each credit organization were 35 respondents representing borrowers in each SACCOS and MFIs (i.e. N=35) respectively. And making total sample size of 140 respondents surveyed from the four credit organizations. This was followed by the interpretation and discussion about findings. Note; the default rate or poor loan repayment rate was taken to mean any loan repayments made beyond loan contract repayment schedule issued to borrowers by lender(s) indicating date or days for each individual loan repayments. The study was designed to pursue the following objectives:

(i) The overall objective of the study were to compare the extent of loan repayment problem between MFIs and SACCOS

(ii) To identify the causes of poor loan repayments and

(iii) Suggest solutions that may hence improving economies and livelihood of the communities.

It covered the general matters of loan providers and borrowers both from SACCOS and MFIs respectively. Borrower's demographic characteristics, loan usage and impact on poor loan repayment among borrowers. Furthermore, the finding revealed most critical factors contributing to loan default on SACCOS and MFIs. Then the chapter concluded by giving the summary and the general implication of the results regarding the effect of disequilibrium of financial benefits between lenders and borrowers.

Types of credit organizations surveyed and lending strategies used, the study covered two MFIs which were Pride Tanzania Ltd Babati branch and SIDO Manyara. While on the side of SACCOS were Babati SACCOS LTD and Revival Church SACCOS Ltd Babati Branch. The findings revealed that, SACCOS and MFIs used various lending and financial strategies or mechanisms.

However under PRIDE Tanzania, Babati branch it was observed that lending methodology used was group lending over individual lending whereby clients are required to form groups of five individuals called (Enterprise Group, or EG in short) who agree to guarantee each other's loans; ten EGs form a larger center, or MEC (ten EGs to form one big group of fifty clients called a called “Market Enterprise Committee”) which acts as another level of guarantee on the loans in that any loan default were to be covered by both group members (i.e MEC). Although during this study there were no loan default was reported by lenders as the serious defaults case were taken before the court or borrowers assets were sold to cover unpaid loan amount. But any unpaid amount found to be contributed by group members of the EG or MEC of which the frequency of contributing on behalf of others was higher although not noted in the books of the lender (PRIDE Tanzania, Babati branch).

The study by Kessy and Urio (2006) revealed that, PRIDE Tz has managed to maintain an impressive annual repayment rate of 100% from 1996 to 2000. There was a slight decrease in the repayment rate from 100% in year 2000 to 99.8%, 98.9%, 99.8% and 99% in 2001, 2002, 2003 and 2004 respectively. The decline was identified as being due to problems such as socio-economic and harassment from local government authorities (the majorities of MSE owners operates in undesignated premises and often have their businesses demolished by these authorities).

While on the side of SIDO Manyara the results showed that most of its clients interviewed had taken their loan via individual lending methodologies. Of which the collateral was necessary in order for the loan to be given, the particular borrower was subjected or his/her assets used as collateral were to be sold to cover the unpaid loan amount. This was opposite to PRIDE Tanzania, Babati branch whereby the collateral was substituted by borrowers being in a group, whereby any critical default caused.

Then under SACCOS, loans were given to individual borrowers of which collateral used was the shares bought or held by borrowers, other membership fees and contributions made. But the other advantages gained by SACCOS borrowers was the share of profits or any return resulted by their shares invested or being a member with their SACCOS were distributed equally basing on amount of share bought.

In this regards, the borrowers from SACCOS had enjoyed both return from their invested money and the loan they had taken from their SACCOS. However, the most condition required in order to get a loan from SACCOS was to become a member of SACCOS by fulfilling some conditions. Such as purchase of shares which varies in every SACCOS.

4.2 Borrowers' Demographic Characteristics

Borrowers' demographic characteristics included age, gender status, education level and marital status. These were among the factors that affected loan repayments in different ways.

4.2.1 Age Characteristics of Borrowers from both SACCOS and MFIs

Borrowers' age may influence the repayment and default rate. The Table 4.1 below gives information about age characteristics of borrowers as percentage of the population between 15 years and above 51 years of age. The frequency table 4.1 show data about age of borrowers and percentage of their default rate with a further classification by age group from 15 years and above 51 years of age.

Table 4.1: The Age Group of Borrowers and their Default Rates

Variable Measured	Age Frequency N=140	Default rate (%)
15 – 30 years of age	79(56.4%)	43.0
31 - 50 years of age	44(31.4%)	35.0
51 and above years of age	17(12.2%)	22.0
Total	**140.0**	**100.0**

***Source:* Own Field data**

A significant high default rate can be seen in the percentage of the population that with age group of 15 to 30 years of age representing just over half of the total sample size taken. An analysis of the data by age groups and default rate of loan taken shows that higher level of low age group correspond to higher levels of loan default rate above the other age groups.

The majority of the respondents shown that 79(56.4%) were in the age bracket of 15-30 years, and their loan default rate were 43% this was due to their less commitment in their general lives and business. However, borrowers aged between 15 years to 30 years of age proved to have the greatest level of loan default rate than age group of 31 years to 50 and above 51 years of age respectively.

This implies that borrowers aged between 15 years and 30 years of age had a higher probability of having a problem in repaying their loans. The age group 15 years to 30 years of age is the youngest group among borrowers of which the default rate was greater than other age group as shown on the Table 4.1 above. These findings support the argument that older borrowers would be more responsible and disciplined in repaying their loans than younger borrowers.

The lack of experience in the business involved, which resulted in less income received, might be the reason that the younger group has difficulty in repaying the loan. In addition, younger borrowers are not committed to repaying their loan since they might believe that even if they default; they still can receive microcredit loans from other microfinance institutions because they have more opportunities since they are still young. While the age bracket of between 31-50 was the age range within which people have more responsibilities including family building, School needs, social activities such as weeding ceremonies, health expenses and caring for the needs of immediate and extended families.

According to study done Roslan and Karim, (2009) it is argued that older borrowers are wiser and more responsible than younger borrowers. At the age 51 and above years the individual depends much on accumulated savings as to finance consumption expenditures, frequency sickness, and other social needs. Thus, age of a person can influence positively or even negatively the repayment of loan installments depending on life cycle or the behaviors associated with certain age group (such as the use of alcohol, excess use of drugs e.t.c. Clients of 45 years of age and above were negligible, it either means that older people were not engaged in small businesses or MFIs discouraged such people (Mpogole H, *et al*, 2012).

On the other hand, younger borrowers are argued to be more knowledgeable and more independent. Hence, age might have positive or negative effect on loan repayment). It is worth mentioning here of the fact that a greater percentage of the population of both communities are under 15 years of age, (Afriyie,2006). The age (between 31 and 50 years), which was considered also as a productive age group.

Although, the behavior of an individual in the first and second age group changes over time as family and societal commitment increased but if other things (such as ethical and moral standards of an individual behaviors) remained positive unchanged and repayment rate increased also. The result revealed that, most of the clients of MFIs are in the age group of 25 – 39 years.

This is a group that employs large proportion of workers among the surveyed MSE owners. The respondents of this age group are also observed to be strong in participating in various business and entrepreneurship trainings (Kessy and Urio, 2006). The youth age groups under 15 years mostly were the school going group. This age bracket was not-productive and hence depended mostly on family savings. The dependence ratio effected loan repayments status.

4.2.2 Gender Status and Default Rates

Table 4.2: Influence of Gender on Loan Repayment

Variable measured		Number of Respondents N=140	Number of Default rate (%)	P-Value
SEX	Female	66(47.1%)	36(54.5)	
	Male	74(52.9%)	34(45.5)	0.3973
	Total	**140**	**100**	

Source: Field data

The table above shows data about gender status and implication on loan repayments. The findings of this study basing on gender status showed that the surveyed respondents were nearly equal proportions of male and female respondents.

Both male and female were beneficiaries of microfinance services, also were selected randomly without any bias towards the gender. In this regards, both involved in mostly in all economic and production activities of the economy. In this study done in Babati District showed that women are no longer much discriminated from getting loans, doing hard job in the field, instead they were invited to work.

However, gender status of the borrowers as studied showed that most of male and female headed households were engaged in different business activities. The significant positive sign on the *Gender* variable indicated that the probability of a loan repayment problem was higher for females than for males according to this study. The other study by Bhatt and Tang, (2002) argue that lending to women can lead to economic empowerment, and inculcate of hard work and financial discipline, which in turn cal lead to high loan repayment rates.

According to study done and references quoted by D'Espallier, *et al*, (2009), about gender and repayment, the relation between gender and repayment has been analyzed in a number of studies. However, the evidence is mixed and usually anecdotic or very limited in geographical and/or institutional scope. On the one hand, a number of studies find that women consistently outperform men in terms of repayment. According to study done and references quoted by D'Espallier, *et al*, 2009, In a first empirical investigation, Hossain (1988) reports that in Bangladesh 81 percent of women encountered no repayment problems compared to 74 percent of men. Similarly, Khandker et al. (1995) find that 15.3 percent of Grameen's male borrowers had repayment problems compared to only 1.3 percent of the women.

Also from Bangladesh, Sharma and Zeller (1997) report that credit groups with higher percentage of women had significantly better repayment rates. From Malawi, Hulme (1991) reports that 92 percent of women pay on time, compared to 83 percent for men, and Gibbons and Kasim (1991) find that in Malaysia 95 percent of women repay their loans compared to 72 percent of the men as according to study done and references quoted by D'Espallier, *et al,* (2009).

Finally, a most reputed MFI in Indonesia has never had any specific focus on women, but still it has achieved nearly perfect repayment rates over several years (Aghion and Morduch, 2005). When it comes to theory, a number of arguments have been put forward to explain gender differences with respect to repayment rates (Armendariz and Morduch 2005). For instance, based upon her experience in Grameen-villages in Bangladesh, Todd (1996) argues that women are more conservative or cautious in their investment strategies, and therefore have better repayment records (According to study done and references quoted by D'Espallier, *et al,* (2009). In relation to various studies on gender and loan repayment status, the result on this study done in Babati District. Men managed to outperform women in terms of loan repayments due to their involvement into various levels of business activities than women.

It was argued that lending to women can lead to their economic empowerment and inculcate in them a culture of hard work and financial discipline, which can leads to high loan repayments, thus women borrowers may have high loan repayment rates (Roslan and Karim, 2009).

4.2.3 Marital Status

An analysis of data about marital status shows that higher levels of married (couple) borrowers were 126 (90.0%) out of 140 total sample taken the four surveyed credit organizations. while around 12 (8.6%) of those who were not married then 2 (1.4%) respondents were widowed. However, according to study by Akangbe *et al*, (2012) it also shows that 65.0% of the respondents were married while 26.3% were single.

The study revealed that credit provider with a large number of couple loan takers had positive loan repayment rates. But only if both member of the family were aware of the loan contract status and their ready to shared family commitments together.

And if everyone was well informed about taking the loan before and the arrangement was agreed together. In that regards married respondents benefited from the shared necessary skills and commitment from each other in pushing the progress of their business activities and household income over single or widowed borrowers.

The joint labor effort from married households enabled them to enhance and ensure loan taken realized more returns and improved loan repayment status positively than those who were single or widowed. The loan default rate for the named group was 14% out of 126 while that of singles was 45% out of 12 and that of widowed being was nil.

4.2.4 Borrower's Educational Levels from Surveyed Credit Providers

According to data analysis in respects of level of education proved to have the greatest level of borrowers being higher in those of primary education level than in secondary and tertiary level.

The results for borrowers' educational level showed that most borrowers were primary education holders 86 (61.4%) while their default rate being 20.5%, followed by secondary school holders 47 (33.6%) respondents as from both credit providers and their default rate being 11.2%. while those with tertiary education were 5 respondents and 2 respondents were those without formal education showed no loan defaults respectively.

In this regards, education factors does not matter in case of loan repayment. As still those borrowers with low level of education seem to be the ruling model counted the greater number of loan takers in Babati District. As both especially borrowers with primary education level fear on the issue of the personal effects to betaken by lenders in case of any serious loan default caused.

However, the difference between levels of education among the borrowers can be seen in case of training understanding capacity. As those with high education level were much able to understand what were taught concerning loan usage, borrowing costs and entrepreneurship skills.

Thus borrowers with high level of education may have higher repayment rates (Bhatt and Tang, 2002). According to Roslan and Abd Karim, (2009) higher education levels enables borrowers to comprehend more complex information, keep business records, conduct basic cash flow analysis and generally speaking make the right business decisions.

4.3 Borrower's Loan Size

The results for loan size that most borrowers took from lending institutions as were surveyed.

Table 4.3: Incidence of Loan Size, Multiple Loan and their Default Rates

Variable Measured	Loan Size (from - to) TZS.	Number of Borrowers N=35 (%)	Default rate (%)
PRIDE TZS,	50,000 - 500,000	20(57.7)	18
Babati Branch	500,001 - 1,000,000	9(25.7)	25
	Over 1,000,000	6(16.6)	8
SIDO Manyara	50,000 - 500,000	11(31.4)	14
	500,001 - 1,000,000	11(31.4)	10
	Over 1,000,000	13(37.2)	22
Babati SACCOS	50,000 - 500,000	5(14.3)	-
	500,001 - 1,000,000	9(25.7)	10
	Over 1,000,000	21(60)	-
Revival Church	50,000 - 500,000	7(20)	28
SACCOS Babati	500,001 - 1,000,000	11(31.4)	23
Branch	Over 1,000,000	17(48.6)	12
	Total	**140.0**	

Source: Field data source

The results from the Table 4.3 depict variation in loan size taken by borrowers. On this period, the incidence of default rate were also noted against the given loan size. However, the reason behind the poor loan repayments as noted from the table 4.3 were said to be caused by the following reasons; that the existing true financial needs encountered by borrowers against the loan size brackets were sometimes mismatch by either being beyond or behind the true financial need or gap.

This has resulted into higher loan default rate and also as the source of the multiple loans. Especially when the loan bracket was below the actual true financial needs as the borrowers were to find the other source to cover or fill the financial gap. Loan long processing time for various credit organization SIDO Manyara ranking the first for giving loan ranging from about four to ten weeks.

At this tune loan long processing period found to cause loan mismatch of loan received and targeted investment planed before. The study found that 62% of surveyed borrowers had multiple loans. Over 80% of the respondents had faced the problem of loan repayment because of multiple loans contracts entered with various lenders.

The findings for multiple loans shown that default rate was significant high in those with multiple loan compared to those without. The results for multiple loans were as follows; SIDO Manyara had default rate of 25% from those with multiple loans compared to those without multiple loan whose default rate being 15%.

PRIDE Tz Ltd, Babati Branch, shown 30% default rate caused by having multiple loans. While under SACCOS, the results were as follows, Babati SACCOS Ltd showed 10% of default rate caused by multiple loans. Lastly, Revival Church SACCOS Ltd, Babati branch default rate was 18% caused by multiple loans. However, to generalize the various causes of multiple loans as mentioned by most of the surveyed borrowers from all four credit providers in Babati District were as follows:

(i) The multiple loans occurs when client's business needs exceed the loan offers by a single microfinance providers (to support the actual growth, the need to fulfill business optimal stage, or a small business),

(ii) The multiple loans occurs due to variation of Interest rates across the sector, encouraging clients to go to a second microfinance provider, especially once clients discover that second credit providers has favorable interest rate and other loan associated costs.

(iii) The client's credit needs are not fulfilled by one MFI's product ranges (for instance some MFIs may only specialized in micro-crop loans, while others may excel in micro-business while other such as SACCOS can lend even to assist social activities as wedding, school fees and building),

(iv) The client may want to use additional micro-loans for consumption purposes or for an emergency arises such as sick, and

(v) In case of default, the client can take out a second loan to repay an earlier loan or simply start over after the first microfinance provider refuses to advance another loan due to a tarnished credit history. (This only occurs in the presence of information asymmetry about client indebtedness – read about a solution through credit bureaus).

4.4 Other Constrains Experienced as a Causes of Loan Repayment Failures

To look into the other factors contributing to failure of loan repayment among borrowers from surveyed MFIs and SACCOS. These variable as mentioned into conceptual framework included traveling costs, higher interest rate, loan long processing time, family problems such as illness, school fee, death, and divorced. Therefore, it was observed that due to such constraints mentioned above as the repayment problem over those who have had no history of the said above constraints over the same period of time.

This clearly showed that those who had severe illness, and have other problems had failed to repay their loans installments on time.

4.5 Higher Interest Rate and Flat Rate Method of Interest Computation are the Sources of Default Rates

The loan default rate reported as were caused by higher interest rate, the study found that, lenders such as PRIDE Tanzania Ltd., Babati branch. The interest rate charged were 28% flat rate for loan taken with repayment installments of fifty weeks and 30% for loan taken with repayment falling within six months payable weekly. While other surveyed credit organizations such as; SIDO Manyara and the two SACCOS offered interest rate ranged from 18% to 22% as the higher rate. Also calculated using reducing methods and repayments were done monthly. About 80% default rate from PRIDE Tanzania Ltd., Babati Branch, ranked interest rate as the most important constraint faced by borrowers as the major cause for poor loan repayment. Since the profit made were much used to cover borrowing cost and other borrowing conditions. In that case borrowing costs range beyond 30% that is interest rate plus other loan associated costs and borrowers money saved-first as borrowing conditions. Of which this condition were faced by borrowers from both two surveyed SACCOS and PRIDE Tanzania Ltd., Babati branch.

According to Kessy and Urio, (2006), High Interest Rates was indicated by the clients of PRIDE Tanzania Ltd., saying that the available funds were too expensive. That is the interest rates that the borrower has to pay the lender, there are other direct and indirect costs incurred by the clients. These costs include registration fees, weekly compulsory savings and the loan application fee. All these add to the cost of obtaining the loan. As to the financial services, the main facility offered is that of credit. To use this service, clients are required to pay it back with interest and service charges. The length of the repayment period depends on the size of the loan and can be repaid on a weekly, monthly or yearly basis (Johansson, 2010).

While 26.6% sample across the other surveyed credit providers with exceptional to PRIDE Tz, Babati Branch believed that the high level of interest rate is a second problem. While 87% of respondents from PRIDE Tz, Babati Branch ranked interest rate as a minor problem as the causes for poor loan repayments. Generally, clients felt that some conditions, including interest rate set by MFIs, did not favor low-income earners (i.e. the poor borrowers). However, other study found that, the interest rates were claimed to be too high up to 48% per year and where interest rate was moderate, there were other non-refundable fees to pay before securing the loan. Among the 352 clients surveyed, 93.8% argued that the interest rate and loan amount were constraints to their businesses.

All these constraints made it difficult for MSEs to generate enough profit for rapid growth (Kessy and Urio, 2006). However, untill this study was undertaken there was no any agreed interest rate acceptable as country maximum interest rate as the national base. That should established interest rate and other borrowing conditions that to be used by every credit organization national wide and similar interest computation method such as declining balance method.

That no any financial institution will be allowed to charge beyond that standard national base as friendly interest rate favorable to poor borrowers. Though, in both clients interviewed from the four surveyed credit providers were still blaming of the higher interest rate. In this study, results revealed that, regardless of the credit providers being in the same Babati District and lending to the same clients but they still differ greatly in terms of interest rate and other lending conditions. The primary objective of microfinance institutions (MFIs) is to provide financial services (credit and saving) to the poor in order to release financial constraints and help alleviate poverty. Each MFI tries to maximize its repayment performance, whether or not it is profit oriented.

High repayment rates are indeed largely associated with benefits both for the MFI and the borrower. They enable the MFI to cut the interest rate it charges to the borrowers, thus reducing the financial cost of credit and allowing more borrowers to have access to it. Improving repayment rates might also help reduce the dependence on subsidies of the MFI which would improve sustainability. It is also argued that high repayment rates reflect the adequacy of MFIs services to clients needs (Godquin, 2004).

During the past years, it has become one of the most prominent mechanisms in addressing poverty countrywide, used in development strategies both by the government and its development partners. Despite putting considerable effort in providing financial services to the disadvantaged of society, there are nevertheless numerous challenges for the microfinance industry (Johansson, 2010). The issue of inflation rate is further important to consider in analyzing the general profitability of MFIs as well as when putting this in relation to the size of interest rate (Johansson, 2010).

4.6 Loan Long Processing Period Cause Mismatch to Loan Investing Objectives

This was also recorded as the other most critical problems faced by borrowers from SIDO Manyara. That was from the date of loan processing period to loan receiving time which found to be more than four to tent weeks. As reported by its surveyed clients that about 22 (62.9%) out of 35.

However, respondent's ranked loan long processing period as another problem caused the default rate of about 65% due to loan investment timing mismatch. For instance, when the loan were intended to increase a working capital to buy some season business such as school uniforms especially in January and the loan application is made in December, for purpose of getting the loan early in January, as the result the loan is disbursed on mid of February. In this situation the loan disbursed will not match the intended loan objective and eventually end up investing into unplanned business activities.

Regardless of grace period were given by SIDO Manyara to its clients. In this case, the grace period which were offered seem to be viable only if the loan processing time was short for about two to for weeks. As this fall within the borrowers loan needed time (i.e. loan match investment opportunities). In that case, respondents from three surveyed credit organizations, with exceptional of SIDO Manyara reported to have ranked this problem as caused loan default problem by 31.4%. With respect to loan processing period, the borrowers faced more constraint and unnecessary expenses, such as travelling to lenders location many times and receiving multiple promises without clear answer of when the loan will be issued. As the results borrowers continues incurring costs as it was from SIDO Manyara than other credit organizations.

Though under Babati SACCOS Ltd long loan processing period problem were caused by insufficiency in money held by lender of which was another major problem faced by respondents in loan long processing period, about 12(34.3%) out of 35 respondent's ranked insufficiency fund situation as the most important problem under Babati SACCOS Ltd. Since as it was well known most of funds used by SACCOS are their contribution resulted by purchase of shares and other contribution which in them are revolving funds.

As also this was reported early that this was source for attracting borrowers to engage into multiple loans problem. Among the key issues frequently pointed out was the lack of loan capital, which is aggravated by inadequate donor funding and lack of equity capital. As a consequence of the current microfinance legislation, there are limited opportunities for MFIs to access foreign capital and attract social investors (Johansson, 2010).

4.7 The Percentage of Loan Default Caused with Family Problem

According to study by Kassaye, *et al* (2008) 75% of MFIs in Africa reported that HIV/AIDS has had a substantial impact on their program and clients. Common impacts reported include client absenteeism due to emergency medical obligations, low morale among clients, increased delinquency and default, increased client drop outs, and a greater burden of caring for dependents. In the current study the respondents reported that there were family members who were sick over 3 months. Of those reported to have been sick, half of them (50.7%) were in the age interval of 25-49 years, i.e. in their prime productive and reproductive age. As the results of loan defaults was 28%.

The present study revealed that, about 61(43.6%) said that this were also the major cause of poor loan repayment among borrowers across the four credit providers. The disease reported were Malaria, typhoid etc. This results found in Babati had no big difference in results as found by other researcher such as Kassaye, *et al* (2008).

4.8 Comparative Borrowing Conditions Burden to Borrowers

The study investigated the issue of loan repayment defaults in microcredit concentrated more on the effectiveness of group lending, individual lending, gender difference, and educational levels. However, little study has been conducted on the issue of the credit worthiness and the burden incurred by the borrowers due to their state of being poor. This means that, a poor people who was faced with true financial need have no chance to re-think about borrowing burden involved or costs. As it was said by most interviewed from Babati borrowers, hence some of the rending institutions take this for their grants to exploit their potential clients via different financial strategies policy designed before loans were to be given to borrowers. Such as conditions of save-first, where most borrowers blamed much to those lending institutions demanding to save money mostly ¼ of the total required loan amount, in order for one to save money mean has a surplus income and not capital tying.

Therefore, for borrower who was in need of loan, it was not favorable for him/her to save first hard cash money with lending institution. As this borrower has faced with financial need (gap) and not the cash surplus. The institution using this financial strategy seem to exploiting their clients financially and for their client cannot develop economically instead their clients will be used as their financial agents, in other word these kind of financial institutions will be surviving for expenses of their clients. Also, the other issue interest rate charged to borrowers were said be higher to most of lending institution especially PRIDE Tz LTD Babati Branch, and also unfriendly methods of calculating interest rate.

The capability of borrowers to repay their microcredit loans was important issues that need special attention. Borrowers can either repay their loan or choose to default. However, involuntary defaults of borrowed funds could be caused by either of the two things which are (1) unexpected circumstances occurring in the borrower's business that affect their ability to repay the loan and (2) can be also caused by inappropriate credit providers lending policies which disregard the benefit side of borrowers, unfavorable financial strategies employed by lenders. Unexpected circumstances include lower business revenue generated, natural disasters, borrowers' illness, and lack of transparency among lenders.

But on the other hand lenders employed variety of borrowing costs and other unnecessary or unproductive policies stipulated by lenders which in turn become borrowers' burden before recording as profit. In contrast, voluntary default is related to morally hazardous; lack of financial discipline or either bad behavior the borrower. In this category, the borrower has the ability to repay the borrowed funds but refuses because of the low level of enforcement mechanisms used by the institution or by their peer group in case of group lending methods.

Microfinance is not a magic sky-hook that reaches down to pull the poor out of poverty. It can, however, be a strategically vital platform that the poor can use to raise their own prospects for an escape from poverty (Matin, *et al*, 2002).

However Table 4.4 and 4.5 below summarized surveyed borrowing costs faced by a borrower having taken two different loans from two different credit organizations with deferent loan amount. The borrowing costs involved were refundable and non refundable associated for loan amount of Tsh.2, 500,000/ (Two million five hundred thousand only) from SIDO Manyara and Tsh. 2,000,000/= (Two million only) loan amount taken from PRIDE Tanzania Babati branch. Note: Approximately Tsh.1, 584.62 = US$1.recorded on 22nd June, 2012.

Table 4.4: A client from SIDO Manyara with Loan Amount of Tsh. 2, 500,000

S/N	Details of loan and associated cost	Principal Loan Amount. Tsh.	Borrowing cost and other loan conditions. Tsh.
1.	Loan amount taken	2,500,000/=	-
2.	Total interest charged for 12 months	-	287,899.79/=
3.	Total loan services charges (around 7.5% of 2,500,000/= not refundable)	-	187,500/=
4.	Borrower’s save-first (Not condition)	-	None
5.	Insurance premium and Membership fee (Not condition)	-	None
6.	Weekly or Monthly savings (Not condition)	-	None
	TOTAL	**2,500,000/=**	**475,399.79/=**

Table 4.5: A Client (borrower) from PRIDE Tanzania Ltd., Babati Branch with Loan Amount of Tsh.2, 000,000

S/N	Details of loan and associated cost	Principal Loan amount Tsh.	Borrowing cost and other loan conditions Tsh.
1.	Loan amount taken	2,000,000/=	-
2.	Total interest charged for 50 weeks (i.e. non refundable 2,000,000 x 28% flat rate method)	-	560,000/=
3.	Borrower's savings -first (refundable) varies with loan size. (i.e. ¼ of 2,000,000/= borrowing conditional).	-	500,000/=
4.	Insurance premium charged in relation to such loan amount of Tsh. 2,000,000/= (1.35%)	-	27,000/=
5.	Membership fee which was 1% of loan of Tsh. 2,000,000/= amount applied	-	20,000/=
6.	Compulsory weekly saving accompanied with regularly loan repayments (Tsh.2,000/= weekly for 50 weeks) refundable	-	100,0000/=
	TOTAL	**2,000,000/=**	**1,207,000/=**

Source: Field data, 2012

Note: Approximately Tsh.1, 584.62 = US$1.recorded on 22nd June, 2012. The Table 4.6 below study done by Kessy and Urio, (2006) the loan Size the PRIDE Tanzania Ltd., loan sizes ranges from Tshs 50,000 (about US$50) to Tshs 5,000,000 (about US$5,000) as shown in Table 4.4. The current loan sizes were reviewed in 1996. Previously, the minimum and maximum loan sizes were Tshs 50,000 and Tshs 600,000 respectively.

The higher loan sizes have been reviewed upwards overtime while the minimum loan size has not been reviewed since inception of the programme

Table 4.6: Classification and Weekly Repayment of PRIDE Tanzania Ltd., Loans

No. of Loan	Loan Amount Tshs	Weekly Repayment Tshs	Loan Insurance Fund (LIF) Tshs	Total Weekly Repayment Tshs
1	50,000	2,300	1,500	3,800
2	150,000	5,400	1,500	6,900
3	300,000	9,300	1,500	10,800
4	500,000	14,000	1,500	15,500
5	1,000,000	27,100	1,500	28,600
6	2,000,000	51,100	1,500	52,600
7	3,000,000	52,700	1,500	54,200
8	5,000,000	69,500	1,500	71,000

Note: Approximately Tshs. 1,000 = US$ 1

Source: **PRIDE Tanzania Ltd., records, 2003 as quoted by Kessy and Urio, (2006)**

In totality, Borrowing costs which includes interest rates, unfavorable methods of interest calculations (flat rate method), loan fees or services charges and other loan associated costs both refundable and non refundable. The survey confirmed popular appreciation of benefits on loan taken from SIDO Manyara and followed by two SACCOS surveyed in Babati District over PRIDE Tanzania, Babati branch.

The reality of borrowing burden was found from one of the interviewed borrower who had two loans taken from two different lenders. As follows, Tsh.2, 500,000/=

was loan borrowed from SIDO Manyara and Tsh. 2,000,000/= from PRIDE Tanzania Ltd, Babati Branch. The analyses of borrowing burden were given by her regarding the two loan amount. The loan taken from SIDO Manyara seem to be of less cost as compared to cost of borrowing from PRIDE Tanzania Babati, branch as shown from Table 4.4 and 4.5 above.

The clients from PRIDE Tanzania Ltd., Babati branch were asked about benefits resulted due to compulsory saving done weekly. Since as a poor people you do not have a financial chance to save money meanwhile going to ask for loan. In reality no one or even big companies worldwide can go to a bank and deposit what he/she has and at the same time ask for a loan in return. While the saved money as borrowing condition in return receive nothing as an interest receivable for retained borrowers fund save.

While on the other side you take the money and pay the interest to the whole money disbursed without any consideration of what was invested by borrower to lenders. Some borrower interviewed said that, this kind of financial strategy were the day light robbery to their clients (borrowers). As mostly the deposited amount earn nothing (i.e. zero interest receivable). About 80% had said that they dislike depositing first as lenders borrowing condition.

Since their working capital were still small, not dividable and not enough to run business at full utilization of business resources. In that case to save-first and subsequently saving was not appropriate to poor clients as it was found by this study for clients. Therefore, this research revealed that, most study did not indicated this saving first and other subsequently saving if has an negative effect on loan repayments. However, the issue here was not to allow poor people to save for future use only but also was to consider the chance of economic priorities and the opportunities were existed around borrowers. The study found that, this saving was usually used to net off the remaining installments. Especially when the borrower or client decides to quit the borrowing programme from the lending institution. All the accumulated savings of borrowers were used by borrowers to nil their balances and hence the client leaved the programme with empty hands.

As in this case, most borrowers said that, their accumulated saving had saved them nothing as 80% of those who quit the programme had not leaved with their savings. Therefore, this study revealed that, most study did not indicate saving first as unfavorable for poor borrowers who are used as the national target group was intended to improve their living standard and their livelihood.

As it was said on discussion with one borrower giving an example as, “for instance, if Tanzania Breweries Company Ltd, decides to take a loan from PRIDE Tanzania Ltd., say of TZS 1000,000,000/. The Company will have to save first ¼ of such amount in order to get that applied loan amount (i.e. borrowing condition before loan was disbursed to borrowers). The amount equal to TZS 250,000,000/ will be kept aside by the company with lenders, But the Company pays the full interest for the whole TZS.1billion. In this regard some of the already in hand capital by the company will be the capital tied by PRIDE Tanzania Ltd, Babati branch. However, no theories support the lending condition as a way of assisting the poor from poverty reduction. Since to the large companies if the door were open for them to take the loan from PRIDE Tanzania Ltd., Babati branch. For sure they cannot take such unfavorable business financing, so how comes to poor people like me to develop for such kind of loan services which seem to be unfavorable to borrowers on favorable to lenders.

But I have to take the loan though I know, but because I have no choice, and I have faced with financial need, family problems, though I know the economic impact of that loan a m taking as it brings to me negative economic development".

According to study done by Kessy and Urio, (2006) PRIDE Tanzania Ltd., requires clients to pay Tshs 1,500/= each week as compulsory savings. These compulsory savings are for the Loan Insurance Fund (LIF). According to the terms and conditions of PRIDE Tanzania Ltd., loan delivery, once a client is registered as a member, he/she has to pay weekly savings until he/she quits the programme. When a client decides to quit the programme all the accumulated savings are refunded. It is also important to note that even those who remain as clients of PRIDE Tanzania Ltd., benefit from this procedure because the savings help them expand their working capital. Also compulsory savings builds the tendency for saving among poor people such as owners of MSEs. The LIF provides a bonus which is given to the clients. The amount of the bonus depends on the market rate of savings. There is no interest earning in those savings apart from the bonus.

According to study done by Kessy and Urio, (2006), PRIDE Tanzania Ltd., is playing a significant role in fighting poverty. PRIDE Tanzania Ltd., is rated as the best MFI in Tanzania. PRIDE Tanzania Ltd., has proved that poor, as well as illiterate micro business owners in the informal sector can borrow money and sustain an organized system of financial management. PRIDE Tanzania Ltd., also has moved from donor dependency to an institution that is able to meet all its operational costs using its own internally generated resources over the past three years.

Clients visited have proved that they are benefiting from the services offered by the institutions and that is why they are still PRIDE Tanzania Ltd., clients. Sometimes clients quit and then come back to PRIDE Tanzania Ltd., When asked why they do that, one client responded that (Kessy and Urio, 2006):

> *"Sometimes I just get tired of the weekly meetings and compulsory savings, or I am in need of money and I know I have my savings, so I quit and get my savings back. After sometimes I rejoin the group and start afresh" (Kessy and Urio, 2006):*

The major problem was "finding an economic activity that will yield a rate of profit necessary to cover the interest rate" (Vatta, 2003), of from PRIDE Tanzania, the loan were issued with attached interest rate of 28% or 30 % on the loan depending to borrowing conditions as the size of loan amount and plus other forgone benefit which could be generated through idle cash tied by lenders.

Therefore, SIDO Manyara score high rank on effective initiatives through its lending conditions or other lending components poverty alleviation strategies, economic development, less borrowing costs and affordable borrowing conditions, grace period and timeliness on repayment terms which were monthly repayment interval than it was for clients interviewed from PRIDE Tanzania Ltd., who were paying weekly. In that regards, PRIDE Tanzania Ltd., Babati branch ranked greatly in terms of higher borrowing costs connected with other loan conditions which eventually made financial burden to their borrowers. That why there were a number of frequency for clients from PRIDE Tanzania Ltd., Babati Branch had failed some times to pay their loan repayments in time whereby the co members had to contribute for unpaid amount.

When one or more clients in a MEC (Market Enterprise Committee) group fail to repay the loan according to agreed installments schedule, the whole MEC groups were stalled until the money was raised. This is a technique for pressurizing the clients to repay the loan installments on time (Kessy and Urio, 2006).

According to study done by Wangwe and Lwakatare, 2004. PRIDE Tanzania Ltd., is one of the largest financial non-governmental organizations in Tanzania since it was founded in 1994, with a dedication to microfinance. However, although PRIDE Tanzania Ltd., has such dedication to microfinance as part of a nationwide initiative for poverty reduction. By pursuing its objectives of assisting micro entrepreneurs by providing loan and technical skills.

However, the critique on that can be opposite as from the comparison of presented individual borrowing burden as shown from Table 4.4 and 4.5 above. Such initiative for poverty reduction did not result into positive economic development and poverty reduction via loans taken by borrowers as compared between borrowed amount from SIDO Manyara and that amount of loan borrowed from PRIDE Tanzania Ltd.,, Babati Branch.

The reason behind such situation is the matter of ignoring the equilibrium side of benefits to borrowers and leaving the borrowers carrying financial burden alone and ignoring its objectives of assisting micro entrepreneurs by providing them with loan with affordable borrowing costs and borrowing conditions and being like a loan take from SIDO. Of which to financial analyst who is cost consciously will find that the loan were not favorable on the borrowers side but favorable on side PRIDE Tz Babati branch.

4.9 The Economic Impact of Multiplier Effects of Save-First Condition Benefits to Lenders But Burden to Borrowers

The theory of multiplier effects which state that, the marginal effects of a change of one economic variable upon another economic variable, of which the first variable is a component due to save first condition. Therefore, in this case the lenders financial strategy will only favor lenders and not borrowers' side of economic variable. For instance, take a look of loan amount of Tsh.2, 000,000/= each of which five borrowers or clients from PRIDE Tanzania Ltd.,, Babati branch as in case of loan amount stated in table 4.6. Therefore, the total loan amount for five borrowers would be Tsh.10, 000,000/=.

Then from such total loan amount the saved-first for both five clients would be Tsh.2, 500,000 (i.e. calculated as follows Tsh.2, 000,000/= x ¼ = Ths.500, 000/= for each individual loan amount, then for five borrowers being Tsh.500, 000/= x 5= 2,500,000/=) while from SIDO Manyara save first is zero. But going far to that scenario, such amount saved-first by borrowers were also enough to allow lender to give loan to other potential borrowers amounting to Tsh.2, 500,000/=. While saved-first funds earned interest ranging between 28% or 30%. Of which the earnings were not shared between lender and borrowers in all way as it was done by surveyed two SACCOS who shared any earning resulted. In reality, No way it is obviously that since the saved-first money cannot be kept idle in the hands of lenders. Instead they must be issued out to other borrowers and earn interest. And then same saving-first will continue to earn profit at every single coin issued as loan to clients. In situation every process will keep on repeated over and over.

As it was noted that, the total saved-first amount for five borrower totaling Tsh.2,500,000/=. Also were required to save-first Tsh.625,000/= for each loan amount of Tsh.2,500,000/= (i.e. 2,500,000/= x ¼= 625,000/=). Of which, this trend of economic multiplier effects will go on far and far in benefiting lenders side and not borrowers side in any ways. In this regards, borrowers seem to suffer here and there fitting for loan repayments but ending by carrying huge borrowing burden beyond the normal direct interest rate or charges stated by lenders which eventually end up on loan defaults.

Therefore, among the other things caused default rate to many borrowers where due to capital tying caused by save-first lending condition. This was also the major reasons caused failure of poor loan repayments from PRIDE Tanzania Ltd., Babati branch. Although most loan defaults found from PRIDE Tanzania Ltd., Babati branch were not easily recorded in books of lenders due to the factor that, group members as the first guarantors were entitled to contribute for any unpaid amount and it was done so many times as was said by many respondents surveyed from different MECs and EGs. The major financial institutions activity usually is lending money to borrowers with financial needs especially those whose already have business activities. Through group pressure, borrowers are forced to repay their loan in time. Group pressure is most effective where individual enterprises localized, for example in villages. In towns/cities group pressure may become ineffective due to geographical dispread. Group lending subject to social sanctions is improving the repayment rate (Viktor and Arizo, 2007). Majority of the microfinance institutions offer and provide credit on a solidarity-group lending basis without collateral (Khan and Rahaman, 2007).

4.10 Challenges facing SACCOS in Africa

There are very interesting accounts of challenges faced by SACCOS in Africa with back-up statistical data to giving an insight of way to approach the issues. Which are internal and external challenges faced by SACCOS, some of which were profound during times of crisis such as Financial, Food insecurity, climate change and conflict crisis (Ademba, 2010). Arguably the SACCOS are intertwined with numerous problems faced by the society making its role in achieving development objectives in African countries as no-contestable. If capital is pivot to development process, then the question that arose is how can the people at the grassroots relate to this important factor of production, when certain challenges exist which inhibits the process of capital accumulation. Currently there are measures where savings through the SACCOS is being systematically channeled into productive enterprises *(*Ademba, 2010). This is further made effectively by regulations as in the case of Kenya and South Africa It was argued that SACCOS as a self-help group can bring about much needed economic and social development among its members through mobilization of savings and advancing of loans to various entrepreneurial initiatives by the members. The leaders should therefore guard against any condition that would threaten this benefit to the members. In some cases the loan demands of members exceed the available savings.

It is at this point that management needs to come up with measures that mitigate challenges associated with capital accumulation *(*Ademba, 2010). The Statistical information available shows that a considerable part of the world population largely depends on SACCOS; In Africa for instance, there are 60 millions who depend on the SACCOS. Any threat to the SACCOS sector would therefore have undesirable effects on a huge population and exerts pressure to the existing governments.

Internal Challenge deficiency in contemporary skills, Leadership and governance problems, Inadequacy of resources, Insufficient technological development, Quality service demand, HIV/AIDS pandemic, Ethics and integrity etc. External Challenges competition, Political, government, Technological and global changes. Mitigating internal challenges requires **e**ducation and training, Cultivate strong Leadership, Proper management of the scarce resources, investing in appropriate Information Technology, Encompass Total Quality Management concept, HIV/AIDS awareness, Avoid vices e.g. corruption and learn to be accountable (Ademba, 2010).

Mitigating external challenges requires become more competitive through better focus, products and service provision, Legislation that favors SACCOS Movement, Understand customer needs and wants, Become creative, Inject business culture, Specialize, Diversify, Network, Foster interaction with “common bond” *(*Ademba, 2010). Currently there are measures where savings through the SACCOS is being systematically channeled into productive enterprises.

This is further made effectively by regulations as in the case of Kenya and South Africa It was argued that SACCOS as a self-help group can bring about much needed economic and social development among its members through mobilization of savings and advancing of loans to various entrepreneurial initiatives by the members. The leaders should therefore guard against any condition that would threaten this benefit to the members. In some cases the loan demands of members exceed the available savings.

It is at this point that management needs to come up with measures that mitigate challenges associated with capital accumulation *(*Ademba, 2010). “Poverty” is here connected to the inability to make “choices” and have “freedom to act”, which is also connected to poverty as a “trap”, primarily described as a state of “dependence”. When poverty is signified as a trap, it brings with it all the things that we associate a trap with. A trap can be interpreted as not only something that you can’t get out from, but also something that you may have been fooled into. The use of “trap” is in this quotation connected, in a chain of equivalence, to the disability to take a “risk” and to “insecurity”. Poverty is here the agent that “traps” people and this underlines image of passiveness of the poor. The “trap” of poverty is here also presented as the disability of investments in future income, which must be done through risk-taking.

In contrast to the trap, the basic income grant is connected to the words ”lift” and “sustainable”, enabling the poor to take the risks in investments for the future. Lifting can be understood as something that must be done from the outside, here by the grant, and while lifted the people can by own means take risks of searching for a job (Sofia, 2010).

4.11 The General Implications from the Results

Generally it has been observed that, some of the MFIs have the elements of agency cost included into borrowing costs. which found to cause poor loan repayments among borrowers due to carrying unnecessary financial borrowing burden. MFIs' clients and SACCOS's clients have not much increased their living standards, incomes level, increased the capital invested and therefore expanded their businesses. However, there are indicators of achievements to clients from SIDO Manyara and the two surveyed SACCOS due to their favorable financial conditions.

However, PRIDE Tz Babati branch operations were considered to cause involuntary loan default due to its lending policy. Consisting of demanding collateral substitute from its clients in form of save-first before loan was given. Of which to demand saving from the poor or borrowers faced with financial shortage was cumbersome in all way.

Since savings require to those with excess surplus funds and not those who is in need of loan to fill their financial gap. While borrowing conditions from SIDO Manyara was said to be smooth borrowing conditions having loan long processing time. Then, borrowing conditions implemented by SACCOS were somehow high. But the relief was that, any gain or surplus resulted were shared among the members of the SACCOS depending to their share held. The results revealed that, loan default seem to be higher in SACCOS over MFIs default rate. While the reason being that, most of their loans were issued to borrowers (members of the SACCOS) irrespectively of the condition of having business or not.

4.12 Summary of Default Rate Comparison Between SACCOS and MFIS

To summarized borrowers' repayment status from both MFIs and SACCOS respectively. Table 4.8 below recorded the results of this study interviewed 140 clients from both surveyed financial credit providers both from Babati District in Manyara Region in Tanzania. However, since study had gathered data from both clients and lenders. The results further revealed that the majority of clients were much open to express the reality of their repayment rates than it was from lenders side. The results below indicate how borrowers answered the questions regarding defaults and repayment rate.

Table 4.8: Summarized Percentage of Repayments and Defaults Status of Clients

Surveyed credit organizations	***Repayment rate (%)***	**Default rate (%)**
SIDO Manyara	26(74.3%)	9(25.7%)
PRIDE Tanzania Ltd., Babati Branch	25(71.4%)	10(28.6%)
Total percentage on average : N=70	**26(72.85%)**	**10(27.15%)**
	Repayment rate (%)	**Default rate (%)**
Babati SACCOS Ltd	27(77.1%)	8(22.9%)
Revival Church SACCOS Ltd, Babati Branch	20(57.1%)	15(42.9%)
Total percentage on average: N=70	**24(67.1%)**	**12(32.9%)**

Source: **Field data**

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Introductiton

This chapter gives the introduction and conclusion and recommendation of on the overall objective of the study. The study covered 140 respondents that were interviewed to represent various borrowers from surveyed credit providers. Of which two SACCOS and two MFIs both were taken from Babati district. Of which 35 respondents were taken from each credit provider respectively.

The selection was necessary since it was not possible to cover the whole district. Selection of respondents was guided by following attributes which were that; a borrower must be from either of the selected credit providers, must have taken loan for a year or more than a year. While research methodology used were; Questionnaires, discussion with respondents, and observations. Apart from borrowers, the study also involved a total of four respondents drawn from four financial institutions which are the officials from MFIs and SACCOS who were interviewed.

5.2 Conclusion

The objective of this paper was to investigate or examine how well the borrowers' and lenders are handling the loan repayments and loan recovery between them respectively. And what could be the sources of the causes to poor loan repayment and to see some of the mechanisms that are prevalent within microfinance both

SACCOS and MFIs in handling the issue. And how the problems and risk that can be the source of loans defaulters and thereby improve repayment rates. The study also looked at differences in loan configuration between SACCOS and MFIs to assess whether these differences are of any significance in terms of contributing to the success of SACCOS or MFIs loan repayment status and economic livelihood of borrowers in general.

The results revealed that respondents said that MFIs and SACCOS had brought about moderate changes in the standard of living of people who accessed loan from financial services. Although some of the clients have not benefited at all. Despite the moderate achievements of MFIs and SACCOS clients, most of them complained that, the interest rates charged by MFIs and SACCOS were very high.

Although PRIDE Tanzania Ltd., Babati branch ranked the highest in charging interest rate and other borrowing conditions over the other surveyed credit organizations. The findings reveal that the process of application for loans starts with small amount and after repayment the client can apply for next higher amount. However, due to this stages of loan amount borrowers found sometimes to terminate their loan contract at the mid way period of loan repayments. Sometime terminations were done between one to five months in case of SIDO Manyara or three to twenty weeks for loan provided by PRIDE Tanzania Ltd., Babati branch. This situation was among the factors contributing to poor loan repayments of which this was the voluntary decisions. This process was observed to be a limiting factor for those customers who needed a large loan amount right from small loan size. PRIDE Tanzania Ltd., clients found to visit lenders office one day in every week where they spend almost the whole day especially when some members of groups have not turn-up for loan repayments. This consumed a lot of productive time and hence reduced the time they could concentrate on other productive activities as the results borrowers keep on visiting lenders location although some times were coming from far villages of which require them to pay transport cost. Then, among other factors noted to be causing poor loan repayments was the problem of multiple borrowing undertaken by borrowers of which some were voluntary or involuntary action.

5.3 Recommendations

To move in the right direction, the Government should prepare a transparent strategy for rebuilding the co-operative movement involving other players like NGOs and other sympathizers of Co-operative enterprise. However, the financial institutions sector is a potential driver of economic growth and poverty reduction in Tanzania only if it were poverty reduction oriented. However, the sector must be carefully managed and regulated to ensure that Tanzania as a whole and the local communities directly.

The Microfinance sector reforms in Tanzania have been impressive in access of provisions of microfinance services to poor borrowers. But they have failed to embody clarity of potential of balancing the economic benefits in regard to loan provided to poor and cost of capital.

The basic point is simple. The major Microfinance policy challenge in Tanzania is to have basic greater access to finance. The Government of Tanzania recognizes that greater access to, and sustainability flow of financial services, particularly credit provision to poor people (low-income) households and MSEs is the critical to poverty alleviation and goals focused on capabilities, and organize everything else (to increase access of poor to financial services) around this.

However, The question of access to financial services such as taking loan cannot in its isolation assist the low-income people to reduce their poverty, but the issue equilibrium balanced financial benefits should be check also especially on the side of poor borrowers. Some lenders financial strategies policy should be denied to apply some are; demanding of save first before loan is disbursed to borrowers and there must be equal rate of interest and the method to be used in calculating interest rate. To do this, all stakeholders; whether the Government, its development partners, civil society, borrowers representative, researchers, and all of us are up to the task to share our common understanding.

Most respondents have recommended that long loan processing time should be reduced and be within one to three weeks only. So as to much borrowers objectives set as the base for applying loans and the borrowers should be well informed on all steps involved on loan processing. In order to avoid borrowers unnecessary visiting to lenders location many time. This means that, if the given loan mismatches with targeted borrowers objectives the received loan will end up invested into inappropriate projects or uses. For instance, when the received loan was out of such an opportunity, this means that the borrowers ending investing into unrelated business activities as. Respondents also claimed on high interest rate charged and the use of flat rate method for calculating interest to be charged. Therefore borrowers recommended the interest rate be reduced.

According to respondent from across MFIs and SACCOS, borrowers incur certain costs beyond the interest rate charged. These costs include application process, constitution fees, service fee/ ledger fee, photographs, and time spent on processing of loans. In addition to that, there are other opportunity costs associated with these credit organizations, collateral substitutes (save-first strategy).

Improve quality of loan provision services: most respondents have recommended that, the good quality services provided by credit organizations have greater impact on every corner of financial issues**.** Tanzania Government should establish separate follow up unit that with functional relations with the microfinance institutions to provide the required guidelines, supervision and financial assistance.

A regulatory body is essential to monitor the activities of microfinance institutions in Tanzania, besides internal regulation by themselves, through governance and transparency in the disclosure of all types of their loans associated costs and interest charged to be fair to both lenders and borrowers. Then their accounting systems, management information systems services, the calculation method of loan interest rate to base on “declining balance amortization” also an initiative should also be considered to establish a social unit that will be educating poor urban and rural people about awareness on financial institutions including their contributions on poverty reduction and the costs of loan not only interest cost but also other implicit loan cost associated. Lastly, there must be a balanced borrowers and lenders benefits and considering poor people opportunity costs.

5.4 Scope for Further Research

Since the multiple borrowers have been observed to be a serious problem which was caused either voluntary or involuntary, there is a need to conduct a study to determine loan amount and time favorable that would end or cater the increased number of multiple borrowings and at the same time facilitate the improving of their clients' loan repayments.

There is a need to conduct a comparative study between the need of lenders demanding conditions such as a poor borrower who is in need of loan, is supposed to save-first 25% of the money from amount applied and the effect of not demanding such condition as was done by SIDO Manyara. There is a need to conduct a study to verify the effect of multiple promises during loan follow up and the issue of cost associated.

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APPENDECES

Appendix I: QUESTIONNAIRE [for Savings and Credit Cooperatives (SACCOS) and Microfinance Institutions (MFIs)]

Dear Respondent

This questionnaire forms part of a research on the “comparative analysis of loan repayment between SACCOS and Microfinance institutions borrowers”. In partial fulfillment of the requirements for the Degree “Masters of Business Administration (MBA)” The questions below will be asked to enable me gather information to undertake this study.

Thank you for your co-operation.

Name of Institution…………………………………………………………………….

Date of incorporation / when it started to serve the Babati residents? ………………

What savings instruments do you provide to the public?

Fixed deposit ( )

Savings deposit ( )

Deposit that can be withdrawn at any time (demand deposit) ( )

Others (please specify)……………………………………………

Who are your clientele?

Public Servants ( )

Small & Medium scale enterprises and traders ( )

Corporate Organizations ( )

Others (specify) …………………………………………………

How many number of Groups of borrowers and individual borrowers you have and the total loan amounts issued to the groups/ individuals over the past three years

Years	The total number of groups borrowers	Total loan amount given to groups	Total number of individual borrowers	Total loan amount given to individual borrowers	Number of Defaulters
2008					
2009					
2010					

How many number of borrowers make one group
Two people ( )
Five People ( )
Others please specify ………………………………………..……………………….
What are loan gender status over the past three years

Years	Number of Women Borrowers	Total loan amount Borrowed by Women	Number of Men Borrowers	Total loan amount Borrowed by Men	Number of Defaulters
2008					
2009					
2010					

Total loan repayment loan by women and men in over the past three years

Years	Loan repayment by Women	Loan repayment by Men	Number of Defaulters
2008			
2009			
2010			

Loan procedure and policy
Is there any loan policy? Yes ( ) No ( )

What types of loans and loan portfolio?…………………………………

What interest rate do you use?…………………. %

What method of interest determining?: flat rate ( ) declining balance method ( ) others (please specify) ……………………………………………………………….

How long does it take for one to get a loan?

One week – Fortnight (14 days) ( ) ii. One Month ( )

Two month or more ( )

How many times can one get a loan in period of one year?

Once ( ) or ii. more than one ( )

What security is offered for loans? : i. collateral ( ), ii. shares ( ), iii. salaries ( ) iv. employer guarantee ( ), v. Immovable assets ( ),vi.Group lending Guarantee ( )

(vii) Other (specify) ………………………….………………………………

How many people borrowed loan last three years? …………………………

What is the loan amount borrowed? (Tsh.) ………………………………………….

What are Loan repayment rate over the last three years?

Low ( ) ii. Moderate ( ) iii. High

Loan processing

Loan application: what are the necessary conditions? …………………

Loan appraisal: how does one qualify for a loan? ..…………………

Is there Loan review and appraisal? (i). Yes ( ) No ( ) (ii) postpone yes ( ) no ( ) (iii) rejection Yes ( ) No ( )? (iv) Others (please specify)

Is there Loan agreement? Yes ( ) No ( )

How long does Loan disbursement and repayment process is? (Take/ provide data)

……………………………………………………

Is there any Loan follow up and monitoring? Yes ( ) no ( )

Loan writes off: does it happen? Yes ( ) No ( ) How frequent and under what circumstance? (possibility on obtaining data for the last five years)

vi Reasons for writing off loan not paid back …………………………….

Reasons for writing off loan / not paid back from now to three years back

…………………………………….. …………………………

…………………………………………………………………………

What innovative schemes have you put in place to attract depositors?

High interest rates ( )

Access to credit ( )

Taking financial services to the customers at their doorstep ( )

Access to money deposited ( )

At what repayment interval do your customers suppose to pay loan installment?

Weekly ( ) ii. Fortnight (14 days) ( ) iii. Monthly ( ) iv. Other (please specify) …………………………………………..……..

………………………………………………………………………………

Who are your largest categories of borrowers?

Corporate bodies ( )

Petty Traders, artisans & Mama lishe / Baba lishe ( )

Public servants ( )

Medium & Large Enterprises ( )

Others (please specify) …………………………………………….

……………………………………………………………………………

Do you have grace period? 1.) Yes ( ) 11.) No ( )

If yes, how many days ……………………………….

Factors considered in evaluating credit requests

(Please tick those applicable)

Feasibility Studies ( )

Collateral ( )

Track record (repeat borrowings) ( )

Business relations that exist ( )

Financial Statements of clients ( )

Bank statement of clients ( )

Business plan ( )

Character based assessment (selection based on personal relations) ( )

Processing time between loan application and disbursement

One week – fortnight (14 days) ( ) (ii.) One Month ( ) (iii.) Others (specify) ……………………………………………………………………….

Which of these lending methodology / approaches do you practice?

Individual based lending ( )

Group based lending ( )

Which between the two Individual and group based lending has the high rate of loan repayment?

Individual based lending ( )

Group based lending ( )

Why the chosen one above has high rate of loan repayment? (please give reasons)
………………………….……………..

What is your loan default experience?

High ( )

Moderate ( )

Low ( )

How do you protect yourself against possible loan default?

Lending against collateral ( )

Through accurate appraisal ( )

Lending against cash security ( )

Lending against guarantors ( )

Individual based landing ( )

Group based lending ( )

Other (specify) …………………………………………. …………….

Do you give loans to non savers?

Yes ( ) ii.) No ( )

If yes what are the Conditions? ………………………………………….

What is the maturity profile of your loans?

Short term (within 1 year) ( )

Medium term (between 2 years and five years) ( )

Long term (over 5 years) ( )

Other (please specify) ………………………………………………

How do you manage your interest rate risk?

Short term loans

Transfer to customers

Other (please specify) ……………………………………………….

How do you get information on potential borrowers before loan decisions are made?

Community and neighborhood ties ( )

The company's own records ( )

Other (specify)……………………………………………………………..

What challenges are the SACCOS / MFIs facing when working with borrowers?

....

Management team, what problems do they face during loan processing or loan recovery process?

What are they ……………………………………………………………

How do you know about corruption during loan processing?

…………………………………………………………………………Do you get any complaints from your loan clients?

Yes ( ) 11.) No ( )

If yes, what are they? ………………………………………………..

What problems do you encounter and would you like to address concerning loan recovery (please specify)……………………...

……………………………………………………………………

Do you think the services provided by SACCOS / MFIs have any contribution to the household livelihood?......................................

How do you find the cost of SACCOS /MFIs services, are they affordable by everyone in the community?

Yes ( ) ii.) No ( )

Explain why?..

What recommendations do you have for improving the services of SACCOS/ MFIs to communities? ………………………………………

End of Questionnaire

Thank you very much for your time

Appendix II: Questionnaire to Customers

Dear respondent

This questionnaire forms part of a research on the "*comparative analysis of loan recovery between SACCOS and Microfinance institutions borrowers*". In partial fulfillment of the requirements for the Degree "**Masters of Business Administration (MBA)**". The questions below will be asked to enable me gather information to undertake this study.

Thank you for your co-operation.

HOUSEHOLD BASIC DATA

Village /Street…..…………..… ward ….………………Household code……………

Respondent name …………………………………..………Age ………..

Marital status i.) Single ( ) ii.) Married ( ) iii.) Widowed ( )

iv.) Separated ( )

Sex

Male ( )

Female ( )

Size of the family ………………. Male ………..Female ………..Children………

Active and productive family member…………..No. of dependants …….

Educational level

None ( )

primary Education ( )

Secondary education ( )

Tertiary Education ( )

Primary Occupation

…………………………..

Secondary occupation

Farmer ( )

Livestock keeper ( )

Employee ( )

Businessman/woman ( )

Student

Type of business you have developed?:______________________________

Where have you taken your current loan?

Name of institution ……………………………

What rate of interest are they charging on your loan taken ________%

Do you have any other loan taken from other SACCOs or MFIs?

i.) Yes ( ) ii.) No ( ). If yes, mention them ____________________________

The business was?: i. New_________ ii. Already existing_____________

Taught in entrepreneurship skills? i.) Yes ( ) ii.) No ( )

Taught in loan usage skills? i.) Yes ( ) ii.) No ( )

Number of years in business _________________ years

When did you join SACCOs or Microfinance institution?

Answer _________________________

How many years you borrowed the loan?: Answer ________________________

Have your taken your loan via

Group based loan ( )

Individual based loan ( )

If in group, why did you decided to join in group?. Please give reasons

…………………………………………………………………………………………

IF THE BORROWER IS NOT IN GROUP please skip to No.23

In your group, how many are you?

Group of two people (   )

Group of five people (   )

Group of more than five people (   ).

Are all your group members paying their loan on time?

Always you pay on time   (   )

Not always you pay on time (   )

Sometimes are you forced to contribute repayments on behave of your member(s) who has/have not repaid on time i. Yes (   ) ii. No   (   )

How frequent it happen for members of group fails to repay their loan?

One member in one – two weeks   (   )

One / Two members in three – four weeks   (   )

More than two in five weeks or more weeks   (   )

How many times you have missed to repay your loan on time over past four months?

One –two times   ( )

Three to five times   (   )

More than five   (   )

What was the reasons for missing to repay on time? ……………………………..

What loan amount borrowed last year? Answer Tshs.________________

Did you manage to pay back the last loan? i.) Yes   (   )   No   (   )

If No, why

…………………………………………………………………………………….

Who motivated you to take the loan? i.) Self ______, ii.) Family members' _____, iii.) Relatives / Friends ___________, IV.) Saccos/Bank, social Mobilize_____,   v.) Others ____

What business you invested a loan?

Small business   (   )

Fees   (   )

Other social issues (   )

Did you earn profit or Loss from the business?

If yes: How much?   Tsh. ....

If loss: How much?   Tsh...

What did you invest after earning profit from the loan?

Type of investment ……………………………………………….

Amount of investment Tsh……………………………………….

Is the loan taken improved your business?

Very much

Moderate

Not improved my business

If not improved, what is the reasons?………………………………………..

When you received your loan who kept the money and ready for use

Yourself   (   )

Your Husband (   ) / your wife   (   )

Your family members (   )

Others, specify …………………………………………………..

Does your male / female consult you in the issue of financial affairs?:

(i)   Before business development Yes______ No_____

(ii)   After business development Yes______ No______

What constrains (if any) households experience as a causes of loan repayment failures?

The cost of travelling to SACCOs or MFIs   (   )

The high interest rate   (   )

Long loan processing time   (   )

Present of elements of corruption in loan provision   (   )

Lack of training about loan usage   (   )

No transparency on cost associated to loans given   (   )

Family problem   (   )

Other please specify …………………………………………………

…………………………………………………………………………

How do you find the quality of services from SACCOS or MFIs?

Excellent ( )

Good ( )

Poor ( )

How do you rate the management of SACCOs or Financial Institution?

Excellent ( )

Good ( )

Poor ( )

How do you rate the loan committee or staff who approving loans?

Excellent ( ) ii.) Good ( ) iii.) Poor ( )

What problems do you encounter when processing loans?…………

…………………………………………………………………

How long does it take get loan from loan application process to loan receiving time?

One – two weeks ( )

Three – four weeks ( )

More than one month ( )

Is that time of loan receiving match with your loan goals /objectives of taking loan

Yes ( )

No ( )

How do you know about corruption during loan processing?

……………………………………………………………………………………

……………………………………………………………………………………

Which recommendations are you giving for improving loan access to the SACCOs or MFIs?……………………………………………………………………

……………………………………………………………………………………

…What are your recommendations to the government for enhancing accessibility of loan to many borrowers?

....

End of Questionnaire

Thank you very much for your time