EVALUATING THE STATE OF LOAN REPAYMENT ON MANAGEMENT OF MICROFINANCE INSTITUTIONS: A CASE OF NATIONAL MICROFINANCE BANK, TANZANIA

CONSOLATA WILFRED

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE OPEN UNIVERSITY OF TANZANIA

2013

CERTIFICATION

I the undersigned certify that I have read and hereby recommends for the acceptance by the Open University of Tanzania, a dissertation titled ***"Evaluating the State of Loan Repayment on Management of Microfinance Institutions: A Case of National Microfinance Bank, Tanzania,"*** in partial fulfillment of the requirements for the degree of Master of Business Administration of the Open University of Tanzania.

………………………………………

Dr. Primi Mmasi

(Supervisor)

…………………………..……………….

Date

COPYRIGHT

DECLARATION

I, **Consolata Wilfred,** declare that this dissertation is my original work and has never been submitted for any academic award. Where the works of others have been cited acknowledgment has been made.

………………………..…………….

Signature

………………………..…………….

Date

DEDICATION

This project is dedicated to my husband Mr. Delphinus Rwegasira and my beloved son Ethan Rwegasira and daughter Eleora Rwegasira who tirelessly supported me in all ways to study, my father Mr. Wilfred Kimwaganje and mother Elyne Kimwaganje, my young sister Christer and brothers Benedict, Alex and Christian for their encouragement and prayers, friends and colleagues who gave me assistance and support both morally and financially.

ACKNOWLEDGEMENTS

Although this work is a result of my own effort, I wish to thank God who has given me the will and the guidance throughout this time. I extend sincere gratitude to my competent professional supervisor Dr. Primi Mmasi, who has guided me all this time in all the stages of research. May God bless you sir. I would like to thank all our lecturers at Open University of Tanzania for their valuable support and encouragement.

Special thanks also go to my friends and classmates of Open University of Tanzania; Delphinus Rwegasira for the advice on proper arrangement of the research; Tumaini Mgoba for encouragement and support in some data analysis that made the findings better; My beloved husband for your love and encouragement throughout the research process, and for those whose names have not appeared here, I will always remember your contributions. Your contributions are engraved deep in my heart and you will be in my mind always THANK YOU and God bless you all.

ABSTRACT

This research has examined the way loans repayments are managed at the National Microfinance Bank Headquarters Dar es Salaam. The idea came up as a result of analyzing loan repayments basing on facts found through Observation, Interviews and Document analysis conducted in the department concerned revealed the need to understand fully the management of loan repayments and how to improve the same. For the effectiveness of the research, the researcher used a research design and data collection and analysis were used to arrange the information in such a way that enabled the researcher to come up with the reliable recommendations and conclusions. Different methodologies were employed which were research design, study population, sampling design, research instruments and analysis of data where the researcher used pie charts, and presentation done in bar graphs. It was realized that the performance of any micro finance institutions as far as loans are concerned depends on its existing loan process or rather policy at any given time period thus NMB use loan process to evaluate the credit worthiness of its customers hence this has enabled the bank to run smoothly and effectively. It was also found out that NMB uses collateral/security policy which helps them to rate the credit worthiness of its customers. Collateral policy also helps the bank to reduce the defaulters and the NMB keeps and check the financial records of their clients. Despite the good performance of NMB due to its credit policies, the bank had however faced some challenges' which had hindered their operations hence this has caused bad debts in the bank. These are improper appraisal, conmen, poor supervision, political influence, weak legal system, diversion of funds, non- compliance and poor payment.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

LIST OF ABBREVIATIONS AND ACRONYMS

ALCO	Asset/Liability Management Committee
ME	Micro enterprise
MFIs	Micro Finance Institutions
NMB	National Microfinance Bank

CHAPTER ONE

1.0 INTRODUCTION

1.1 Introduction

This chapter is about the background of the study, it is about the statement of the problem, the research questions, objectives of the study, scope of the study which will include time subject scope, not forgetting the significance of the study and the conceptual framework.

1.2 Background of the Study

Broadly speaking, microfinance for loans is the provision of small scale financial services to people who lack access to traditional banking services. The term microfinance usually implies very small loans to poor people for self-employment, often with the simultaneous collection of small amounts of savings.

Lending is the principal business activity for most microfinance and commercial banks. The loan portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to microfinance's safety and soundness. Loan repayment management (LRM) is the process by which risks that are inherent in the repayment process are managed and controlled.

1.2.1 Background of National Microfinance Bank

In 1997, the National Microfinance Bank Limited Incorporation Act established the NMB. In practice, this meant that NMB only provided payment services, savings accounts and no or limited borrowing services. The Government of the United Republic of Tanzania started the privatisation process in 2005, and sold part of its shareholding (49%) to a consortium led by the Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ('Rabobank Group').

NMB is the largest bank in Tanzania, both when ranked by customer base and branch network. With 120 branches we are located in more than 80% of Tanzania's districts. This broad branch network distinguishes NMB from other financial institutions in Tanzania. We are committed to sustaining and enhancing our branch network in order to provide access to capital to citizens in all areas of Tanzania, including the most remote.

1.3 Statement of the Problem

Effective and efficient management of the loan and the credit function is fundamental to microfinance’s safety and soundness**,** but due to lax credit standards, poor loan repayment management, or weakness in the economy, loan management problems have historically been the major cause of microfinance losses and failures.

In almost half the world, over 3 billion people still live on less than 2.50 dollars a day, of which 80 percent are in Africa, according to Poverty Facts and Statistics report conducted by the World Bank Development indicators. Since then, microfinance institutions have been promoted as a means through which many peoples' lives can be transformed through access to credit. So-far-so good-as this has given a chance to many people to depend on their own abilities, however loan repayment remains a major challenge. Therefore there is a need to investigate the state of loan repayment on management of microfinance institutions.

1.4 Study Objectives

The study was guided with both general and specific objectives.

1.4.1 General Objective

The general objective of the study was to evaluate the state of loan repayment on management of microfinance institutions.

1.4.2 Specific Objectives

(i) Identify how loan process affects loan repayment on management of microfinance.

(ii) Identify the need for securities/collateral on management of loan repayment by microfinance.

(iii) Identify the effects of interest rates policy used for loan repayment by microfinance institutions.

(iv) Identify how the attitude of entrepreneur towards loans and microfinance can affect loan repayment and management of microfinance.

1.5 Research Questions

(i) What are the effects of loan processes/procedures for obtaining a loan from microfinance on loan repayment?

(ii) What are the effects of securities/collateral on loan repayment?

(iii) How does the interest rate policy of microfinance influence loan repayments?

(iv) Does the attitude of an entrepreneur towards microfinance and loan have effects on loan repayment?

1.6 Scope of the Study

The study focused on the state of loan repayment management of microfinance institutions, and was carried out from National Microfinance Bank in Dar es Salaam, Tanzania. The study targeted NMB workers like managers, loan officers and other financial and non-financial officers who have the knowledge on loan repayments.
The research was conducted in the period between July –October 2012.

1.7 Significance of the Study

The findings of the study will yield a better understanding on the concept of loan repayment management and how to improve loan repayments or recovery by the microfinance institutions. The study may give results which will add more knowledge on the available literature about the state of loan repayment on management of microfinance. The study may bring out an effective and efficient loan process for microfinance institutions. Therefore improve loan recovery hence this will add a competitive advantage to microfinance as far as financial institutions and sector is concerned.

Future researchers can also use the findings which will be obtained for further research and studies on the state of loan recovery on management of microfinance institutions and financial institutions at large. The research is also basic for the awarding of the Masters degree of Business Administration in Open University of Tanzania.

1.8 Research Model

The study was guided by the researcher’s conceptual model (see Figure 1.8) as designed because it took into account many factors which affect loan repayment including loan process, collateral policy of the micro finance, interest rate policy, attitude of entrepreneurs towards loan repayment as well as Government policies and the economy condition.

The model assumes that, once the loan process, collateral policy, interest rate and the attitude of the entrepreneur are in either way affected they have direct impact on the state of loan repayment. More over government policies and the economic condition of the country at a particular time as far as microfinance are concerned will also have an impact in one way or the other affecting loan repayment. Therefore the below conceptual frame work tries to show the assumption of the model in a nut shell.

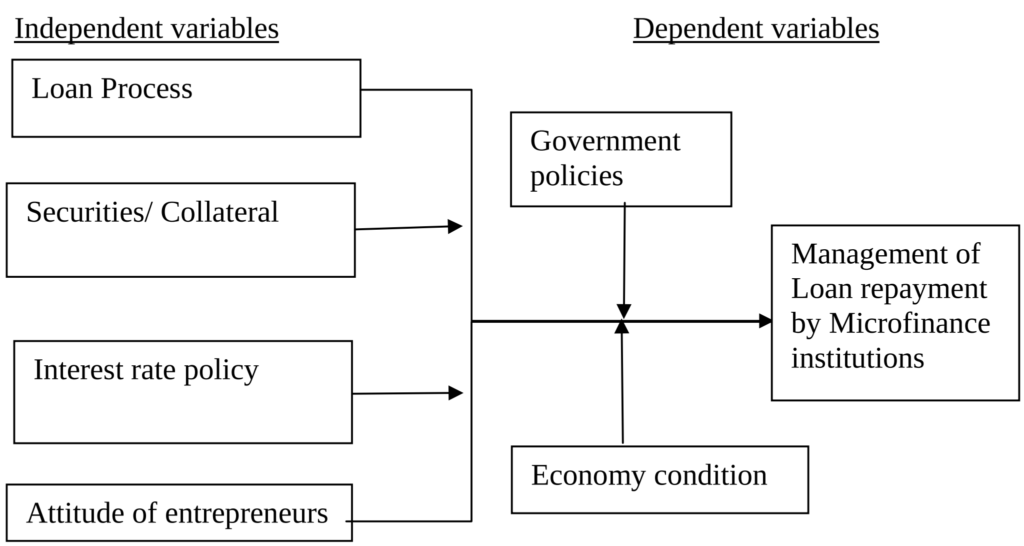

Figure 1.1: Research Model of Factors Affecting Loan Repayment

Source: Developed by the Researcher, (2012)

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Chapter two reviews other scholar's related work on the state of loan repayment on management of microfinance institutions. It intends to cover explanations of loan process complexity, positive and negative effects and need for collateral or securities by microfinance institutions, microfinance loan repayment policies and the attitude of entrepreneurs towards loan and microfinance.

Literature review also did assist the researcher gain a deeper understanding on the management of loans by microfinance institutions, and further more this chapter helped the researcher deeper understanding on importance of effective and efficient loan repayment systems by microfinance.

2.2 The Loan Process and its Effect on Loan Repayment

The loan approval process is the first step towards good portfolio quality. When individual credits are underwritten with sound credit principles, the credit quality of the portfolio is much more likely to be sound. Although good loans sometimes go bad, a loan that starts out bad is likely to stay that way. The foremost means to control loan quality is a solid loan approval process **(**Comptroller, 1998).

Loan process which can result into effective and efficient repayment must follow the following seven steps (Peter and Sylinia, 2008).

2.2.1 Finding Prospective Loan Customers

Most loans to individuals arise from a direct request from a customer who approaches a member of the lenders staff and staff and asks to fill out a loan application forms. Business loan requests, on the other hand, often arise from contacts the loans officers and sales representatives makes as they solicit new accounts from firms operating in the lender's market area. Increasingly the lending game is becoming a sales position.

Sometimes loan officers will call on the same individual for months before the customer finally agrees to give the lending institution a try by filling out a loan application. Most loan department personnel fill out a customer contact report when they visit a prospective customer's place of business. This report is updated after each subsequent visit, giving the next loan officer crucial information about a prospective client before any other personal contacts is made (Peter and Sylinia, 2008).

2.2.2 Evaluating a Prospective Customers Character and Sincerity of Purpose

Once a customer decides to request a loan, an interview with a loan officer usually follows, giving the customer the opportunity to explain his or her credit needs. That interview is particularly important because it provides an opportunity for the loan officer to assess the customer's character and sincerity of purpose. If the customer appears to lack sincerity in acknowledging the need to adhere to the terms of a loan, this must be recorder as a strong factor weighing against approval of the loan request.

2.2.3 Making Site Visits and Evaluating a Prospective Customers Credit Record

If a business or mortgage loan is applied for, a loan officer often makes a site visit to assess the customer's location and the condition of the property and to ask clarifying question. The loan officer may contact other creditors who have previously loaned money to his customer to see what their experience has been. Did the customer fully adhere to previous loan agreements and, where required, keep satisfactory deposit balances? A previous payment record often reveals often reveals much about the customer's character, sincerity of purpose, and sense of responsibility in making use of credit extended by a lending institution.

2.2.4 Evaluating of Prospective Customers Financial Condition

If all is favorable to this point, the customer is asked to submit several crucial documents the lender needs in order to fully evaluate the loan request, including complete financial statements and in the case of a corporation, board of directors resolutions authorizing the negotiation of a loan with the lender. Once all documents are on file, the lenders credit analysis division conducts a thorough financial analysis of the applicant, aimed at determining whether the customer has sufficient cash follow and backup assets to repay the loan.

The credit analysis division then prepares a brief summary and recommendation, which goes to the appropriate loan committee for approval. On larger loans, members of the credit analysis division may give oral presentation and discussion will ensue between staff analysts and the loan committee over the strong and weak points of a loan request.

2.2.5 Assessing Possible Loan Collateral and Signing the Loan Agreement

If the loan committee approves the customer's request, the loan officer or the credit committee will usually check on the property or other asset to be pledge as collateral in order to ensure that the lending institution has immediate access to the collateral or can acquire title to the property involved if the loan agreement is defaulted.

This is often referred to as perfecting the lenders claim to collateral. Once the loan officer and the loan committee are satisfied that both loan and the proposed collateral are sound, the note and other documents that make up a loan agreement are prepared and signed by all parties to the agreement.

2.2.6 Monitoring Compliance with the Loan Agreement and other Customer Service Needs

Is this the end of the process? Can the loan officer put the signed loan agreement on the shelf and forget about it? Hardly! The new agreement must be monitored continuously to ensure that the term of the loan are being followed and that all required payments of principal and interest are being made as promised. For larger commercial credits, the loan officer will visit the customers business periodically to check on the firm progress and see what other services the customer may need.

Usually a loan officer or other staff member enters information about anew loan customer in a computer file known as a customer profile. This file shows what services the customer is currently using and contains other information required by management to monitor a customer's progress and financial service needs.

2.2.7 Loan Review

Finally, what happens to a loan agreement after it has been endorsed by the borrower and the microfinance institution? Should it be field away and forgotten until the loan fall due and the borrower makes the final payments? Obviously that is the grave mistake for any lender to do because the condition under which each loan is made are constantly changing, affecting the borrower's financial strength and his or her ability to repay. Fluctuations in the economy weaken some businesses and increase the credit needs of others, while individuals may lose their jobs or contract serious health problems, imperiling their ability to repay any outstanding loans. The microfinance must be sensitive to those developments and periodically review all loans until they reach maturity (Peter and Sylinia, 2008).

Effective management of the loan portfolio's credit risk requires that the board and management understand and control the bank's risk profile and its credit culture. To accomplish this, they must have a thorough knowledge of the portfolio's composition and its inherent risks. They must understand the portfolio's product mix, industry and geographic concentrations, average risk ratings, and other aggregate characteristics. They must be sure that the policies, processes, and practices implemented to control the risks of individual loans and portfolio segments are sound and that lending personnel adhere to them (Comptroller, 1998).

The impact of the above process on loan repayment is, when the above steps are carefully observed by the MFIs the chances of the 100% loan recovery are very high and vice versa is true.

2.3 The Concept of Collateral and Loan Repayment

Many loan agreements require that the borrower put up collateral to guarantee the loan will be paid back. In the event of default, the financial institution takes the possession of the collateral. A nonrecourse loan gives the lender no recourse beyond the right to the collateral. That is, the lender may not le sue the borrower for further payment if the collateral turns out not to be valuable enough to repay the loan (Bodie, 1995).

Collateral requirements for loan are the important credit risk management tools. Collateral is the property promised to the lender as the compensation if the borrower defaults, lessens the consequences of adverse selection because it reduces the lender's loses in the case of loan default (Frederic, 2002).

In assessing the collateral aspect of a loan request, the loan officer must ask, does the borrower possess adequate net worth or own enough quality assets to provide adequate support for the loan? The loan officer is particularly sensitive to such features as the age, condition, and degree of specialization of the borrower's asset. Technology plays an important role here as well. If the borrower's assets are technologically obsolete, they will have limited value as collateral because of the difficulty of finding a buyer for those assets should the borrower's income falter (Rose, 2008).

2.3.1 Common Types of Loan Collateral Accepted by MFIs

2.3.1.1 Personal Property

MFIs often take a security interest in automobiles, furniture and equipment, jewelry, securities and other forms of personal property a borrower owns. A financing statement may be filed with state or local government offices in those cases where the borrower keeps possession of any personal property pledged collateral during the term of loan. To be effective, the financing statement must be signed by both the borrower and an officer of the lending institution. On the other hand, a pledge agreement may be prepared (but will usually not be publicly filed). If the lender or its agent holds the pledge property, giving the lending institution the right to control that property until they loan is repaid in full.

2.3.1.2 Real Property

Following a title search, appraisal, and land survey lending institution may take a security interest in land and / or improvements on land owned by the borrower and record its claim- a mortgage- with a government agency in order to warm other lenders that the property has already been pledged and to help defend the original lenders position against claims by others. For example, public notice of a mortgage against real estate may be filed with the county courthouse or tax assessor/ collector in the county where the property resides. The lender may also take our title insurance and insist that the borrower purchase insurance to cover damage from floods and other hazards, with the lending institution receiving first claim on any insurance settlement made.

2.3.1.3 Personal Guarantees

A pledge of the stock, deposits, or other personal assets held by the major stockholders or owners of microenterprise may be required as collateral to secure a business loan. Guarantees are often sought in lending to smaller business or to firms that have fallen on difficult times. Then, too, getting pledges of personal assets from the owners of business firm gives the owners an additional reason to want their firm to prosper and repay their loan.

2.3.1.4 Inventory

In return for a loan, a lender may take a security interest against the current amount of inventory of goods or raw materials a business borrower owns. Usually a lending institution will advance only a percentage (30 to 80 percent is common) of the estimated market value of borrowers inventory in order to leave a substantial cushion in case the inventory's value declines.

Other Safety Devices to Protect a Loan by MFIs

Many loan officers argue that the collateral a customer pledges behind a loan is just one of the safety zones that lending institution must wrap around the funds it has loaned for adequate protection. Most loan officers prefer to have at least two safety zones- ideally, three –around the funds they have placed at risk with the customer.

The primary safety zone is income or cash flow- the preferred source from which the customer will repay the loan. The second consists of strength on the customer balance sheet in form of assets that can be pledged as collateral or liquid assets that can be sold for cash in order to fill any gaps in the customer's cash flow. Finally, the outer safety zone consists of guarantees from business firm owners to support a loan to their firm or from third party cosigners who pledge their personal assets to back another person's loan (Rose, 2008).

2.3.2 Reasons for Taking Collateral

While large corporations and other borrowers with impeccable credit ratings often borrow unsecured (with no specific collateral pledge behind their loans expect their reputation and ability to generate earnings) most borrowers at one time or another will be asked to pledge some of their assets or to personally guarantee the repayment of their loans. Getting pledge of certain borrowers assets are collateral behind a loan really serves two purpose for MFIs. If the borrower cannot pay, the pledge of collateral gives the lender the right to seize and sell those assets designated as loan collateral, using the proceeds of the sale to cover. What the borrower did not pay back.

Secondly, collateralization gives the lender a psychological advantage over the borrower. Because specific assets may be at stake (such as the customers automobile or home), a borrower feel more obligated to work hard o repay his or her loan and avoid losing valuable assets. Thus, the third key question faced with many loan application is, can the lender prefect its claims against the assets or earnings of a borrowing customer?

The goal of a lender taking collateral is to precisely define which borrower assets are subject to seizure and sale and to document for all other creditors to see that the lender has a legal claim to those assets in the event of nonperformance on a loan. When a lender holds a claim against borrower’s asset that stands superior to the claims of other lenders and to the borrowers own claim, we say that lenders claim to collateral has been perfected. Lending institutions like MIFs have learned that the procedures necessary for establishing a perfected claim on some one else's property differ a depending on the laws of the state or nation of the assets reside.

The impact of Collateral on loan Repayment

Moreover, MFIs can easily recover loans from the borrowers who have put up collateral for the loan taken. Collateral arrangement gives an implicit call option to the borrower. The borrower has the option to wait until loan maturity and repay the loan only if the collateral is worth more than the amount necessary to satisfy the loan. If the collateral is worth less than the loan, the borrower can default on the loan, discharging the obligation by forfeiting the collateral (Bodie, 1995).

2.4 The Interest Rate Policy of Microfinance and its Impact on Loan Repayment

An interest rate is the price a borrower pays for the use of money they borrow from another lender, for instance a small microenterprise might borrow capital from a MFI to buy new assets for their business, and the return a lender receives for deferring the use of funds, by lending it to the borrower (Carol Leisenring, 1980).

The majority of MFIs aim to charge an interest rate that will allow them to achieve all of their financial and social goals. The interest rate should be high enough to cover institutional costs, allowing for financial sustainability. At the same time, it must be low enough to compete in the finance market and also allow them to achieve their social mission of creating access to credit for low-income populations. There is little information, however, to help MFIs determine the most suitable interest rate.

Interest rate is a debatable issue in the microfinance industry. Evidently, interest rate varies across different institutions and geographical areas. The absence of uniform interest rate structure for the homogenous products in the industry is allowing many MFIs accrue unfair gains. Poor clientele in many areas are discriminated by many MFIs, and thus compelled to pay higher interest despite they are unaware of it. This in turn in many cases increase the probability incidence of default.

Interest rates associated with business loan vary in most of the cases. The factors which mainly lead to this variation are different degrees of risk involved with the loan, different durations of the loan, Tax Considerations of the loan and diverse characteristics of the loan. If a business loan involves higher risk, interest rate will be higher and if the loan is low risk, interest rate will be comparatively lower.

Interest rates throughout history have been variously set either by national governments or central banks. For example, the Federal Reserve federal funds rate in the United States has varied between about 0.25% to 19% from 1954 to 2008, while the Bank of England base rate varied between 0.5% and 15% from 1989 to 2009, and Germany experienced rates close to 90% in the 1920s down to about 2% in the 2000s.During an attempt to tackle spiralling hyperinflation in 2007, the Central Bank of Zimbabwe increased interest rates for borrowing to 800%. (Leisenring, 1980).

The level of interest rate risk attributed to the bank's lending activities depends on the composition of its loan portfolio and the degree to which the terms of its loans (e.g., maturity, rate structure, and embedded options) expose the financial institution revenue stream to changes in rates. Pricing and portfolio maturity decisions should be made with an eye to funding costs and maturities. When significant individual credits or portfolio segments are especially sensitive to interest rate risk, they should be periodically stress-tested. If the asset/liability management committee (ALCO), which typically is responsible for managing the institution's interest rate risk, is to manage all of the bank's positions, it must have sufficient reports on loan portfolio and pipeline composition and trends. These reports might include a maturing loans report, pipeline report, and rate and pricing report (Comptroller, 1998).

MFIs frequently shift interest rate risk to their borrowers by structuring loans with variable interest rates. Borrowers with marginal repayment capacity may experience financial difficulty if the interest rates on these loans increase.

Interest rates are a topical subject in the micro lending industry in South Africa. The micro lending industry has been accused of charging usurious interest and exploiting the Consumers (Mohane, 2000).

Policy makers in Asia and the Pacific are increasingly critical of the high interest rates that microfinance institutions (MFIs) charge. Some policy makers have suggested that ceilings be introduced on microcredit interest rates to ensure that poor households have access to affordable credit (Fernando, 2006).

Why Microcredit Rates are so high

An MFI's main objective is to provide poor and low income households with an affordable source of financial services. Interest charged on loans is the main source of income for these institutions and, because they incur huge costs, the rates are correspondingly high. Four key factors determine these rates: the cost of funds, the MFI's operating expenses, loan losses, and profits needed to expand their capital base and fund expected future growth (Fernando, 2006).

Many policy makers question why microfinance interest rates remain high even when MFIs receive concessional funds to finance lending. Although micro lenders receive loan funds at concessional rates, they must cost these funds at market rates when they make decisions about interest rates to ensure the sustainability of the institution's operations. Donors provide concessional funds for a particular usage only for a limited period, as do some governments. However, concessional funds cannot be considered a permanent source of funds for MFIs, and provision must be made through interest rates to sustain the lenders' operations. Inflation adds to the cost of microfinance funds by eroding micro lenders' equity. Thus, higher inflation rates contribute to higher nominal microcredit interest rates through their effect on the real value of equity. Micro lenders have two kinds of operating costs: personnel and administrative. Because micro lending is still a labor-intensive operation, personnel costs are high.

Microcredit interest rates are often compared with those charged by both commercial banks and excessively subsidized lending organizations. Such comparisons are inappropriate. Commercial banks most often deal with large loans, and their transaction costs are lower than those of MFIs on a per unit basis. Thus, commercial banks are able to charge lower interest rates than MFIs. A financial institution receiving large subsidies may charge much lower interest rates than other MFIs. In Bangladesh, the Grameen Bank charges an annual interest rate of 20% (on a reducing-balance basis) on its main credit product. Because this rate was below cost recovery levels, the Grameen Bank incurred losses for many years, and these losses were underwritten by the big subsidies it received. Thus, Grameen Bank's interest rates should not be compared with those of an MFI that has not received similar subsidies. Other inappropriate comparisons of MFI interest rates include those charged by government-owned MFIs or government-sponsored microfinance programs that are often compelled to charge lower-than-cost-recovery interest rates based on political considerations. These comparisons also overlook that most of these programs and institutions in general are unlikely to survive in the long term to serve the poor. Moreover, the poor have to incur unusually high transaction costs to access credit from these sources due to credit rationing systems and rent-seeking practices adopted by their employees (World Bank, 1989).

Finally, MFIs having high rate of interest this has always increased risk of the ability of the borrower to pay back the loan. Lower microcredit interest rates will help increase the depth and breadth of availability of affordable finance for poor households; hence borrowers will be able to pay back the loan. On the other hand, imposing ceilings on microcredit interest rates is not the answer. Lenders will incur losses if a rate ceiling is set at a level less than that required for cost recovery, reducing an MFI's willingness and ability to expand operations, and discouraging potential investors from supporting the industry. Rate ceilings will reduce the creditworthiness of MFIs, reducing their ability to borrow from the market to finance their operations, and prompting a decline in the supply of credit, contrary to expectations of policy makers who seek such a ceiling.

2.5 The Attitude of an Entrepreneur towards Microfinance and Loan and their Effects on Loan Repayment

Micro entrepreneurs are the owners of small-scale business operations described above that provide just enough income to cover basic household expenses, such as food, clothing and shelter. Micro entrepreneurs are the principal beneficiaries of microfinance programs (Githinji, 2000).

It is likely that the behavior of market participants is governed by a wide variety of economic and psychological factors; it is believed that the expectation about the future course of the economy have an important influence on the actions and reactions of borrowers and lenders. Their actions are then reflected in the interest rate movements (Mullainathan, 2009).

Micro entrepreneur expecting the economy to expand may increase their borrowing to finance their own expansion; or, consumers expecting inflation may increase borrowing to buy before price increases occur. Either of the actions would add to the demand for credit and would help push up interest rates. Borrowers and lenders frequently formulate plans based on what the financial institutions or rather microfinance has done or what they anticipate the Central Bank will do in the future (Mullainathan, 2009).

It is argued that one of the reasons for the high mortality rate and loan default is the change in agent's attitude towards risk caused by access to credit. This conclusion is based on the premise that access to credit stimulates entrepreneurial attitude which favor risky undertakings with high returns. However, in the bid to increase the repayment rate, the credit providers devise some mechanisms that force the credit recipients to concentrate on activities that would enable them to repay the loan. In this respect, very little effort is directed to the expansion of the ME (Simtowe, 2005).

2.5.1 Public Attitude towards Financial Institution

(i) Financial institutions are exploitative, they are viewed as institutions whose main purpose is to make super normal profits while levying hefty charges and paying little or no attention to their clients' needs.

(ii) MFIs are fearful: Most borrowers evaluated were known to be fearful of banks' ways of operations. As a result they are mostly misunderstood and this comes to light during auctions, repossessions and receiverships.

(iii) MFIs are exclusive: These institutions are viewed as institutions dealing with people in employment, company owners, businesses etc.

More over, as far as the above attitudes of micro entrepreneurs are concerned the rate of loan repayment can highly be influenced by these attitudes. (Githinji, 2000)

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

Chapter three explains methods through which data was collected, analysed and presented. The techniques and samples from the National Microfinance Bank are highlighted as well.

3.2 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aim to combine relevance to the research purpose with economy in procedure.It has been categorized as research design in case of explanatory research studies,description and diagnostic research study and research design in case of hypothesis testing research studies (Kothar, 2004).

This research adopted case study design with explanatory research because it is flexible and allow non probability sampling design (Kothar, 2004), and time contray,easy results to conclude on the study and give results that will evaluate the state of loan repayement to the management of microfinance.

The research used both primary and secondary data collection. Secondary data was gotten from past research literature whereas the primary data was collected by use of questionnaires, observation and random interviews to create an array of balanced opinions and to avoid biased interpretations that would not serve the purpose of this research in balanced proportions.

3.3 Area of Study

The study was carried out at National Microfinance Bank –Head Office, Dar es Salaam.

3.4 Population of Study

Population means all the individuals or objects that meet certain requirements for membership in the overall group (Churchill and Brown, 2007). The population of the study was all microfinance worker and clients, however because of time limitation and other resources including finance, the study was carried out at National Microfinance Bank – Head Office, Dar es Salaam.

3.5 Sampling Design

The major aim of this step was to determine the specific population that would be surveyed, to decide on an appropriate sample, and to determine the criteria that will be used to select the sample (Marczyk, 2005). Random sampling, questionnaires and observation were used so as to cover a broad section of the population interviewed.

Table 3.1: Sample Size

Designation	Frequency	% of frequency
Loan officer	14	14%
Credit officer	31	31%
Credit rating officer	4	4%
Manager	1	1%
Others	15	15%
Clients	35	35%
Total sample size	**100**	**100%**

Source: Field Data

The sample were randomly selected and clustered according to their status. The sample elements selected were based on the representation of the population of the interest group. The total number of the respondents were 100 as the table below presents this information with the categories of others, it includes people working in the finance, accounting, administration legal departments in NMB and the clients.

3.6 Data Collection Methods and Procedures

In this study, structured and unstructured questionnaires were used in data collection. Keya, et al (1989) defines questionnaires as a set of questions that are drown up to meet the objectives of the survey. Most of the questions were carefully designed to avoid responses that might be biased in the favour of the study objectives. They were also prepared according to the status of the targeted group.

3.7 Questionnaires

Questionnaires were used because these did provide the respondents a chance to objectively give their opinions and it enabled data to be collected over a large area. The questionnaire also enabled the respondents fill them in at their convenience which reduced bias and incomplete responses attributed to lack of time and being timid in the presence of the researcher. Questionnaires were used mainly as they were much cheaper than personal interview.

3.8 Interview

This research was mainly face-to-face interviews, which provided a fast hand experience and personal contact with interviewees. Interviews also provided high capability for facial validation which was instrumental in gaining insight into the reasons for certain responses from participants. The interview involved direct collection of information from employees, and all interview techniques was used to ensure that all respondent were free to answer and explain what they knew. It did include verbal discussion with the target employee, member of staff, top official of the Microfinance, and other officers in finance and accounting departments.

3.9 Observations

Observations were used because this provided the researcher with the chance to validate responses from the respondents with what is actually on the ground on a first hand basis. The researcher participated on the day-to-day activities including the observation on how the loans were processed by the microfinance and the whole process of loan repayment.

3.10 Limitations of the Study

Respondents were reluctant to come for interviews and as a result the researcher was late. This further hindered the study which already had a short time frame to be conducted in.

There are numerous costs that were involved in this research which included paying some of the respondents for their answers. Travel expenses were also incurred. The cost of printing the final research was also incurred.

3.11 Data Analysis

Analysis of data was divided into two well-known approaches namely; Qualitative and Quantitative Analysis. Quantitative Analysis refers to studies whose finding are mainly the product of statistical summary, while Qualitative Analysis involves systematic collection of more subjective narrative material and data obtained is presented in narrative form (Kumar, 2005).

Correlation analysis was done to test an intelligent guess for the study, in order to allow greater validity and reliability of information. A computer software package known as SPSS was used to analyze data. The package is the drudgery of the analysis, has more accurate computer and establishes tests of significant or hypothesis. Results proper reference and generalization were made.

Both qualitative and simple quantitative were used during the data analysis. Data was sorted and coded manually as well. The data collected was effectively and efficiently examined, verified and edited for the purpose of satisfying the evidence for answering the research questions. The data collected provide the researcher with evidence in order to obtain answers to the research questions and come up with a concrete and reasonable conclusion on the state of loan repayment on management of microfinance.

3.11 Reliability and Validity of the Study

Data qualities were explored through validity and reliability of the information collected from the field.

3.11.1 Reliability

Reliability is the extent to which results are consistent overtime. Golafshani (2003). According to Kothari (2007), reliability is the extent to which data collection process yields consistent results. The term reliability meant to what extent does the repeated measurement of the same object, using the same instrument, yield the same or very similar results (Saunders *et al.*, 2007).

3.11.2 Validity

According to Churchill (2007), Validity is the extent to which the instrument accurately measures what was intended and supposed to measure. More over Trochim (2005) defines validity as the extent which an empirical measurement adequately reflects the real meaning of the concept under study. Therefore the questionnaires for this research were pilot-tested to the employees including management and clients of NMB and the results were used to modify the questionnaires so as to get the required information for the study.

CHAPTER FOUR

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the research questions in view of the research objectives to evaluate the state of loan repayment on management of microfinance institutions so as to improve our understanding of the salient issues of the subject matter in line with survey findings and literature reviewed. In the presentation of findings, tables and figures have been used; frequencies/ percentages have also been used to describe findings. Thus the discussions of findings have been organized under the heading of existence loan repayment state on management of microfinance institutions.

4.2 Bio Data

4.2.1 Respondents Designations

In this study the researcher sought to understand who the respondents were by designation. The Table 4.1 presents this information and the figure 1 presents a diagrammatic presentation of the same. In the category of others, it includes people working in the finance, accounting, administration, legal departments in NMB.

Table 4.1: Classification of the Respondents by Designation

Designation	Frequency	% of frequency
Loan officer	14	14%
Credit officer	31	31%
Credit rating officer	4	4%
Manager	1	1%
Others	15	15%
Clients	35	35%
Total	**100**	**100%**

Source: Graph Field Data

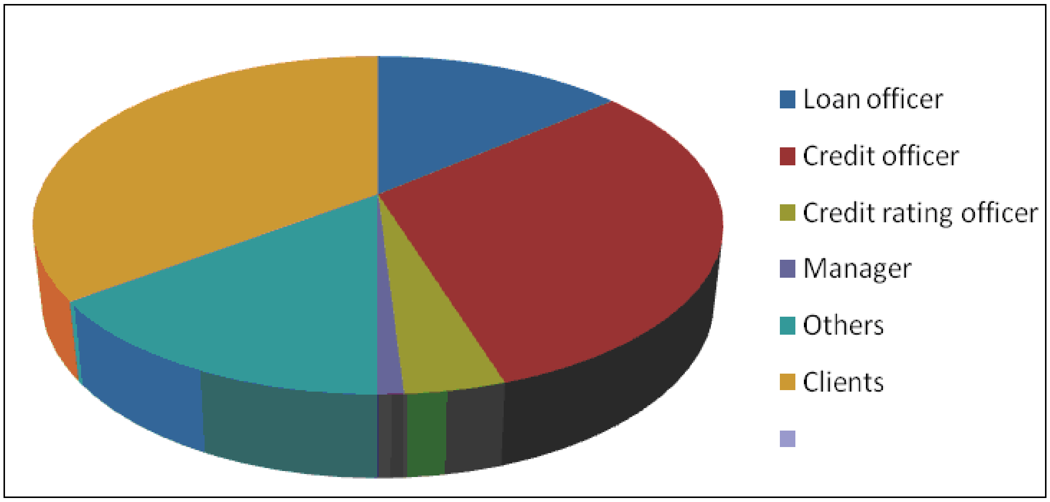

Figure 4.1: Presentation of Respondents by Designation/ Job Title

Source: Field Data

From the above analysis, it is easily deduced that the highest number of respondents from the management were 31 credit officers representing 31% the total respondents. Clients also have 35% concerning their views on the loan repayment management in the bank. There were 14 loan officers who responded representing 14% of the respondents. Only 4 credit rating officers representing 4% responded to the questionnaire. Others have 15% which include staffs working with support function of NMN and have relevant information of the study.

4.2.2 Respondents by Age, Sex And Education Level

The researcher sought to analyze the respondents by the age, sex and education as in the Table 4.2.

Table 4.2: Respondents by Sex Categories

Sex	Frequency	Percentages
Male	55	55%
Female	45	45%
Total	**100**	**100%**

Source: Field Data

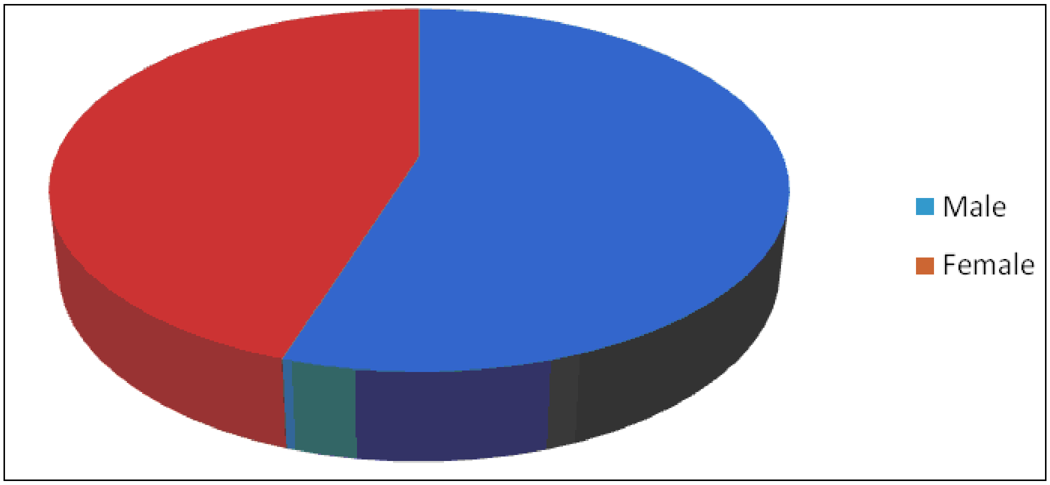

Figure 4.2: Respondents by Sex Categories

Source: Field Data

There were 55 males representing 55% and 45 females representing 45% of the respondents, thus males were the highest. This showed that NMB employees more males and the number of people seeking for loan in the bank are males thus this has been indicated in the study.

Table 4.3: Respondents by Age Groups

Age group	Frequency	Percentages
18- 25 years	22	22%
26- 33 years	45	45%
34- 41 years	14	14%
42- 49 years	12	12%
Over 50 years	7	7%
Total	100	100%

Source: Field data

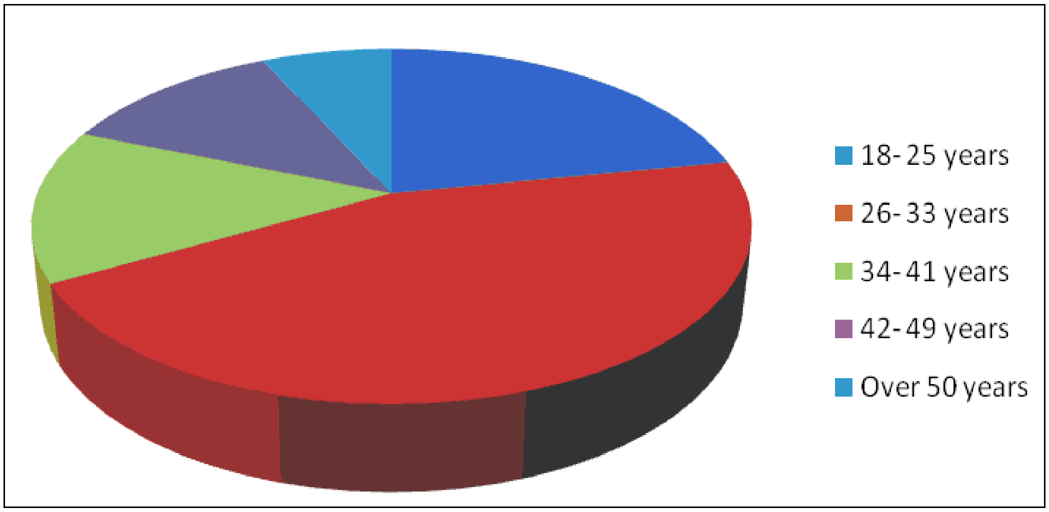

Figure 4.3: Respondents by Age Groups

Source: Field Data

The researcher was also interested to find out the ages of the respondents by grouping them hence the majority of the respondents were from age group of 26- 33 years who were 45 constituting of 45%. There were also age group of 18- 25years which were only 22 representing 22% of the respondents, the age group of 34- 41 years were only 14 consisting of 14% and the age group of 42- 49 years were 12 representing 12% of the respondents. The age group of over 50 years was only represented by 7 respondents which is representing 7% of the respondents hence this shows that very few of the respondents were over 50 years.

Table 4.4: Respondents by Education Level

Educational level	Frequency	Percentage
Primary	5	5%
Secondary	4	4%
Certificate	20	20%
Diploma	45	45%
Degree	26	26%
Total	100	100%

Source: Field Data

From the above analysis, there were 45 respondents who had diploma in education level representing 45% while degree level had 26 respondents consisting of 26% of the graduates thus it was regrettable to note that only 26% of graduates responded to the study as compared to the diploma that had 45% of respondents to the study. This was as a result that most of the management staffs were busy in relation to the lower staffs. There were 20 respondents in certificate level representing 20% while primary and secondary level had 5 and 4 representing 5% and 4% respectively.

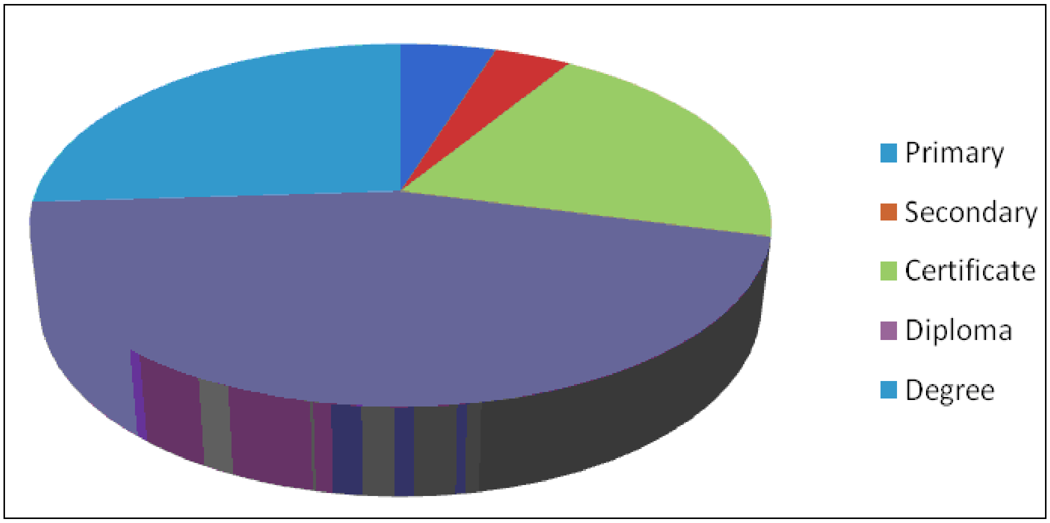

Figure 4.4: Respondents by Education Level

Source: Field Data

Table 4.5: Respondents' Length of Service

Period in service	**Frequency**	**Percentage**
Less than 2 years	17	17%
2- 5 years	41	41%
5- 8 years	23	23%
Over 8 years	19	19%
Total	**100**	**100%**

Source: Field Data

4.2.3 Length of Service

The researcher was also interested to find out how much time the respondents have spent working with the NMB so as to effectively interpret their views in relation to the performance of the NMB.

From the Figure 4.4 illustration, it is evident that the largest proportions of the respondents were age period between 2- 5 years with a frequency of 41 representing 41% of the respondents. This therefore proves that their views are largely based on past personal experiences with the bank over the period of 5- 8 years which had 23 of the respondents constituting of 23% of the respondents thus this shows that the respondents of 41% have a fairly sound knowledge on the operations of the bank. There were 17 respondents who had taken less than two years in the service in the NMB which represent 17% of the respondents. The researcher also found out that there were only 19 respondents who had worked in NMB for over eight years representing 19% of the respondents.

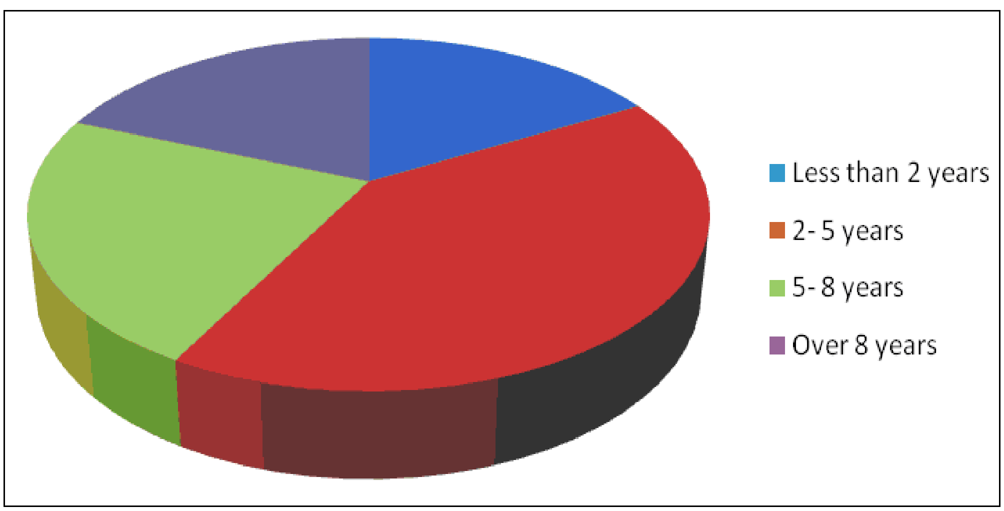

Figure 4 5: Respondents Length of Service

Source: Field Data

4.3 Loan process in NMB

The performance of any bank or micro finance institutions as far as loans are concerned depends on its existing loan process policy at any given time period. NMB has a written loan process/policy, procedures and directives that are guided by the bank's mission and strategies plan. These are used to guide the credit decision made and define the target m

Table 4.6: Credit/loan Process Respondents

Response	**Agree**		**Strongly agree**		**Neither agree nor disagree**		**Strongly disagree**		**Disagree**		
Loan process	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
Does your organization have a written loan process?	3	3%	95	95%	0	0%	0	0%	2	2%	**100%**
Are loan process, procedures and directives realistic to the performance of NMB?	35	35%	60	60%	0	0%	2	2%	3	3%	**100%**
Do you always use procedures and directive for all loan applicants?	32	32%	67	67%	0	0%	0	0%	1	1%	**100%**
Are borrowers outstanding liabilities checked to determine appropriate line of credit prior to granting additional credit?	50	50%	50	50%	0	0%	0	0%	0	0%	**100%**
Does the loan process encourage clients to borrow and repay?	43	43%	52	52%	0	0%	3	3%	2	2%	**100%**
Does NMB conduct review on its loan process?	45	45%	55	55%	0	0%	0	0%	0	0%	**100%**

Source: Field Data
Key:

F- Frequency

%- Percentage

From the Table 4.6, 95 of the respondents strongly agreed that NMB has written policy guidelines that guided them in their credit decisions and this represents 95% of the respondents in the research while 2% of the respondents disagree that NMB has a written credit policy. 67 respondents also agreed that NMB use procedures and directive for all loan applicants thus this representing 67% of the respondents and 32 respondents also agreed that NMB use procedures for all loan applicants but only 1 of the respondents disagreed with this. 50 respondents strongly agreed that before borrowers are given loans their outstanding and liabilities are checked to determine appropriate line of credit prior to granting additional credit and this represented 50% of the respondents.

Table 4.7: Summary of Loan Process Respondents

Response	**Frequency**	**Percentage**
Strongly agree	95	95%
Agree	3	3%
Neither agree nor disagree	2	2%
Strongly disagree	0	0
Disagree	0	0
Total	**100**	**100**

Source: Field Data

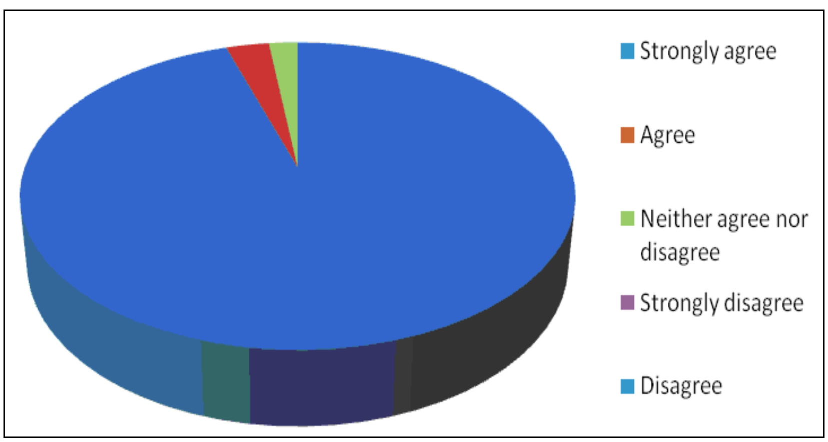

Figure 4.6: Summary of Credit Policy

Source: Field Data

The management in NMB reviews the credit process/policy, procedures and directives as shown in Table 4.7.

Table 4.8: Management's Review of the Bank's Loan Process

Response	Respondents			
	Strongly agreed	**% -age**	**Strongly disagreed**	**%-age**
Review loan proces	100	100%	0	0%
Changing market condition	70	70%	30	30%
Increasing risks of credit	76	76%	24	24%
Central bank directives	10	10%	90	90%
Legal considerations	0	0%	100	100%
Increased competition	20	20%	80	80%
Review every:				
By annually	35	35%	65	65%
Year	40	40%	60	60%
2 years	60	60%	40	40%
3 years	8	8%	92	92%
Never	0	0%	0	0%

Source: Primary Data

4.3.1 Loan Process Review

The researcher was also interested to find out how credit/loan process policies are reviewed and how effective they are to the NMB in managing loan repayment.

Manager and head of departments review the bank's credit process, procedures and directives periodically with 40 respondents agreed that the management reviewed their loan process at least once year representing 40% of the respondents. The issues taken into consideration in the review of the loan process and procedures are shown in Table 4.8.

The response of credit supervisors on the question of extent of applicability of market definition was also examined. All credit supervisors interviewed strongly agreed that a bank had a process on credit write off. 35 respondents agreed that the loan process was reviewed by annually and this representing 35% of the respondents. 40% agreed that the loan process was reviewed every year.

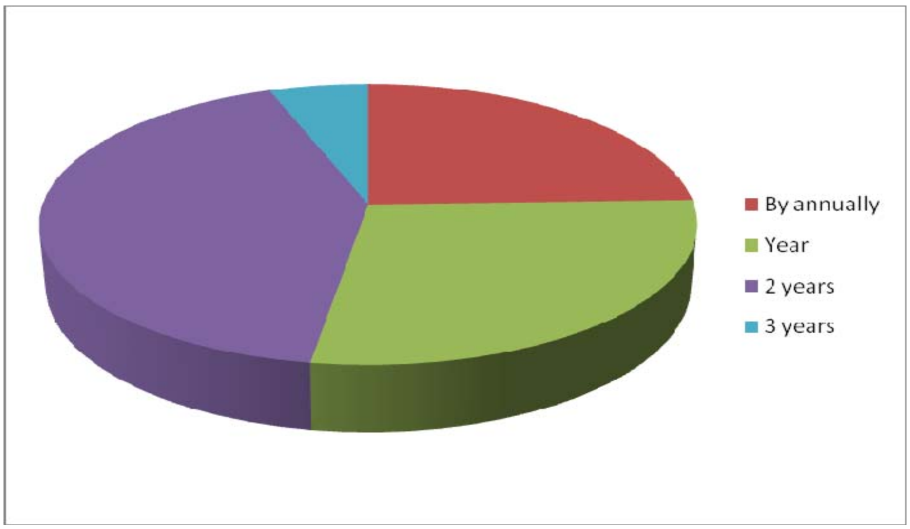

Figure 4.7: Review of the Loan Process
Source: **Field Data**

60 respondents strongly agreed that loan process was reviewed every two years while about 8% agreed the process was reviewed every 3 years. Figure 7 shows the credit supervisors knowledge of the bank's credit process. The loan processes thus encourage the clients to repay the loan to the bank and this has been supported by the respondents. 52 of the respondents have strongly agreed that the process encourages clients to repay hence this represent 52% of the respondents in the research. 43% of the respondents agreed that the process does encourage clients to repay, however, 5 respondents disagreed that the process does not encourage clients to repay thus this representing 5% of the respondents.

4.4 Collateral System

The bank uses a collateral/security system in assessment of the clients' credit worthiness. This collateral is assessed by the credit officers, their supervisors and sometimes by the head of credit section or the general managers. The security is assigned to rate the credit worthiness of the respondent.

Table 4.9: Response on Collateral System

Response	**Agree**		**Strongly agree**		**Neither agree nor disagree**		**Strongly disagree**		**Disagree**		
Collateral system	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
14. Does your Bank use a collateral system in evaluation of clients' application for credit facility?	35	35%	65	65%	0	0%	0	0%	0	0%	**100%**
15. Are securities of clients often reviewed?	32	32%	50	50%	3	3%	8	8%	7	7%	**100%**
16. Has the loan repayment of NMB been effective between the periods of 2003- 2007?	45	55%	0	0%	0	0%	0	0%	0	0%	**100%**
17. Are there some factors that lead to non-payments/ bad debts in NMB?	60	60%	38	38%	0	0%	0	0%	2	2%	**100%**

Source: Field Data

Key:

F- **Frequency**

%- **Percentage**

At supervision level, the respondents agreed that the bank uses collateral policy. This shows the supervisors involvement in the bank's and the bank's use of collateral system. All respondents agreed that the bank use a collateral system in assessment of the clients' credit worthiness.

65 of the respondents strongly agreed that NMB use collateral system in evaluating of clients' application for credit facility thus this represent 65% of the respondents.

This makes the bank to effectively choose their clients who can pay back the loans given by the bank. 35 of the clients agreed that NMB use collateral system to its clients hence this represents 35% of the respondents.

The researcher also wanted to know if the securities of clients is often reviewed thus 50% of the respondents strongly agreed that NMB reviews its collateral system policy while 32 of the respondents agreed that the bank reviews its collateral policy, however, 15% of the respondents disagreed that NMB does not review its collateral policy.

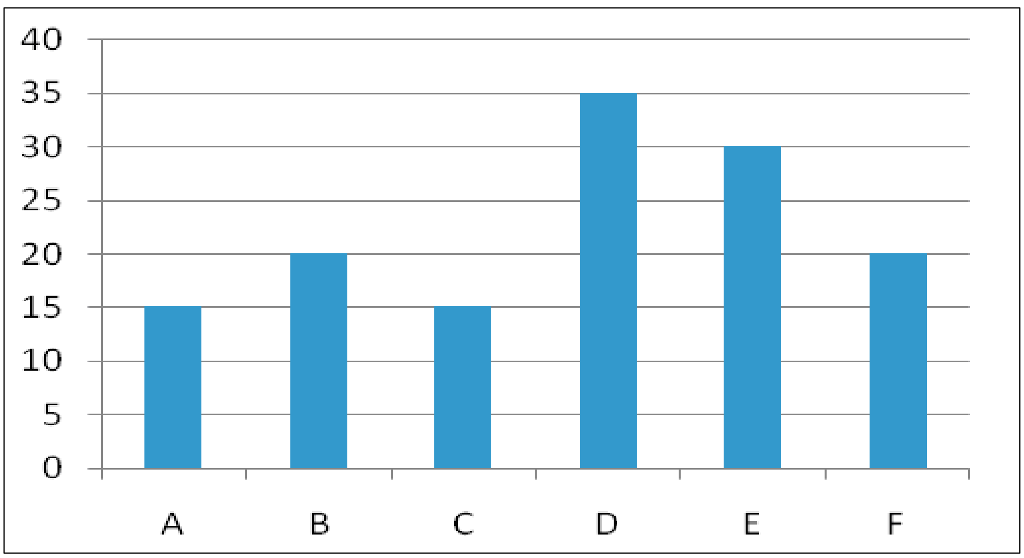

Figure 4.8: Challenges in Monitoring Respondents' %
Source: Field Data

Key:

A-	Poor communication
B-	Large portfolio of clients
C-	Clients change of premises
D-	Hostile clients
E-	Transport
F-	Accessibility of clients

The researcher wanted to know if their were some factors that lead to non-payments/ bad debts in NMB bank, hence 60 of the respondents agreed that NMB face some problems and this representing 60% of the respondents.

The respondents considered several factors as the cause of bad debts namely: improper appraisal, conmen, poor supervision, political influence, weak legal system, diversion of funds, non- compliance and poor payment thus this is shown in Figure 4.8.

4.4.1 Response on Factors on Assessment of Credit Facility

The researcher was interested in knowing how important are the below factors important in application for a credit facility

Table 4.10: Important Factors used in Assessment of Credit Facility

Response	**VI**		**I**		**FI**		**HI**		**NI**		**Total**
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	
Credit limit summary	45	45%	40	40%	5	5%	7	7%	3	3%	**100%**
Purpose of the credit	60	60%	30	30%	7	7%	3	3%	0	0%	**100%**
Collateral/ security	70	70%	30	30	0	0	0	0	0	0	**100%**
Capacity of customer to pay	60	60%	40	40	0	0	0	0	0	0	**100%**
Character of the management	15	15%	30	30%	25	25%	10	10%	20	20%	**100%**
Financial assets of the company	45	45%	10	10%	20	20%	20	20%	5	5%	**100%**
Financial projection	40	40%	20	20%	10	10%	27	27%	3	3%	**100%**
Owner level of dependence	43	43%	45	45%	5	5%	3	3%	4	4%	**100%**

Source: Field Data

Key: VI- Very important **I-** Important **FI-** Fairly important **HI-** Hardly important **NI-** Not important **F-** Frequency

There are some important factors that NMB has to take into consideration before granting loans to their clients thus the researcher wanted to know how important these factors are. There were 60 respondents representing 60% of the respondents who agreed that the purpose of the credit is very important before clients acquire the loan, the clients have to state the reasons why they need the loan.

70 of the respondents representing 70% agreed that collateral or security is very important for the bank to check before granting loans to clients, thus this will give the bank the assurance that the clients will pay the loan.

The bank has also to check on the capacity of the customer to pay the loan, thus 100% of the respondents agreed that this is important since the bank has to know whether the clients are capable of paying the loan. The researcher also wanted to know if the character of the management is an important factor when one is applying for loan hence15% of the respondents agreed that it is important while 25 respondents representing 25% of the respondents fairly agreed that it is important. However, 20 respondents representing 20% of the respondents said that character of the management is not important when a client applies for loan.

45 of the respondents representing 45% agreed that financial assets of the company is very important factor in evaluating an application for the credit facility while 5 respondents representing 5% of the respondents said that financial assets of the company is not important in evaluating an application for the credit facility. Owner level of dependence is also important since this will prove to the bank that the client has the capacity to pay for the credit when given thus 43% and 45% of the

respondents agreed that it is very important and important respectively in evaluating an application for the credit facility.

4.4.2 Response on Credit Recovery Approach

Table 4.11: Effectiveness of Credit Recovery Approaches

Response	HE		FE		NE		NR		Total
	F	%	F	%	F	%	F	%	
Continuous supervision to ensure purposeful use of the loan.	30	30%	30	30%	40	40%	0	0%	**100%**
Continuous customer sensitization about their financial obligation	50	50%	40	40%	8	8%	2	2%	**100%**
Reminder on phone, letters and physical customer contact.	70	70%	30	30%	0	0%	0	0%	**100%**
Use of court bailiffs and mortgage of collateral	60	60%	40	40%	0	0%	0	0%	**100%**
Visiting clients whenever need be.	55	55%	40	40%	4	4%	1	1%	**100%**
Auctioning clients property	66	66%	32	32%	2	2%	0	0%	**100%**
Referees to guarantors	48	48%	48	48%	2	2%	2	2%	**100%**
Warning to the customers	65	65%	35	35%	0	0%	0	0%	**100%**

Source: Field Data

Key

High effective (**HE**), Fairly effective (**FE**), Not effective (**NE**), Non-response (**N**R)

Frequency (**F**)

In the evaluation on credit recovery approaches, the researcher wanted to find out effectiveness are the above table. 30 of the respondents representing 30% of the respondents agreed that Continuous supervision to ensure purposeful use of the loan is highly effective in credit recovery approach hence the bank cannot supervise what the clients do with their loans which they have been given by the bank.

50 respondents representing 50% of the respondents' agreed that Continuous customer sensitization about their financial obligation is highly effective in credit recovery approach while 40% of the respondents agreed that Continuous customer sensitization about their financial obligation is fairly effective.

The researcher also wanted to know whether reminder on phone, letters and physical customer contact is effective hence 70 respondents representing 70% of the respondents agreed it is highly effective since the bank has to remind its clients on their obligations.

NMB also uses court bailiffs and mortgage of collateral as away of credit approach recovery and this is show by the respondents where 60 of the respondents representing 60% of the respondents agreed that its is highly effective while 40% of the respondents fairly agreed that court bailiffs and mortgage of collateral are effective.

Being that NMB is micro deposit institution, the bank does visit its clients whenever need be. 55 respondents representing 55% of the respondents agreed that clients' visit is very effective so that the management can know their clients very well while 40 of the respondents representing 40% agreed that it is fairly effective for the bank to visit its clients.

66 of the respondents representing 66% of the respondents highly agreed that auctioning clients' property is effective approach of credit recovery since some clients' might not be able to pay their loans back yet the bank have their security thus

the only option the bank have is to sell the security in order to get back their money. The respondents agreed that the bank has to warn the customer before auctioning their securities. 65 respondents representing 65% agreed that it is highly effective that the bank has to make the warning to the customers.

4.5 Response on Interest Rate Given to Borrowers

The researcher was interested in evaluating the effects of interest rates given to customers by the bank towards loan repayment.

Table 4.12: Interest Rate Given to Clients/ Borrowers from the Bank

Response	Agreed		Strongly agreed		Neither agreed nor disagreed		Strongly disagreed		Disagreed		
	F	%	F	%	F	%	F	%	F	%	Total
1. Does the interest rate encourage first time borrowers to repay the loan? i.e. 18% to 20% interest rate	3	3%	0	0%	0	0%	57	57%	40	40%	**100%**
2. Are all borrowers pay their principle plus interest in time?	0	0%	0	0%	0	0%	60	60%	40	40%	**100%**
3. Are the third time borrowers given lower interest rate i.e. more than one year for them to repay their loans?	0	0%	2	2%	0	0%	43	43%	55	55%	**100%**

Source: Field Data

The researcher wanted to know the effects of interest rate to first time borrowers, second time borrowers and third time borrowers if it encourages loan repayment. 57 of the respondents representing 57% of the respondents strongly disagreed that the first time borrowers are not encouraged by the interest rate to repay the loans to the bank while 40 respondents representing 40% of the respondents disagreed with it.

The researcher also wanted to know whether borrowers pay the principle plus the interest in time, thus 60 respondents representing 60% of the respondents strongly disagreed while 40% of the respondents disagreed that all borrowers repay their loan in time.

43 of the respondents representing 43% strongly disagreed that the third time borrowers are given lower interest rate i.e. more than one year so as to encourage repayment of their loans while 55% of the respondents disagreed that the third time borrowers are given lower interest rate. The respondents agreed that NMB bank treat their clients equally and this depends on the amount of loan a customer applies for hence all customers are equal.

Table 4.13: Effectiveness of the Interest Rate Policy Towards Loan Repayment

Response	**Agreed**		**Strongly agreed**		**Neither agreed nor disagreed**		**Strongly disagreed**		**Disagreed**		
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
1. Are there some weaknesses in the interest rate policy, which might result to low repayment rate from the borrowers due to its strict terms and conditions?	20	20%	40	40%	0	0%	25	25%	15	15%	**100%**
2. Does the interest rate limit the borrowers' capacity from securing a loan?	43	43%	50	50%	0	0%	4	4%	3	3%	**100%**
3. Does the policy establish guidelines for loans to the clients and determine the repayment terms?	45	45%	53	53%	0	0%	0	0%	2	2%	**100%**
4. Does NMB bank check and evaluate collateral before giving its clients loans?	48	48%	52	52%	0	0%	0	0%	0	0%	**100%**

Source: Field Data

The researcher wanted to know whether the above information are important to the clients thus 40 of the respondents representing 40% strongly agreed that there some weaknesses in the interest rate policy, which might result to low repayment rate from the borrowers due to its strict terms and conditions. 25% of the respondents strongly disagreed with that, 15% also disagreed with it.

The researcher also inquired whether the policy limits the borrowers' capacity from securing a loan hence 50 respondents representing 50% of the respondents strongly agreed with this and also 43 respondents representing 43% of the respondents agreed, however, 4% of the respondents strongly disagreed that the policy limit the borrowers' capacity from securing a loan.

52 respondents representing 52% of the respondents strongly agreed that NMB checks and evaluate collateral from clients before giving them loans. 48 respondents representing 48% of the respondents also agreed with it. This will help the NMB to know the amount money they will give to their clients' proportionally to their collateral.

4.6 The Attitude of Entrepreneurs Towards Microfinance

Table 4.14: Response of the Clients on the Bank's Credit Policy

Response	**Frequency**	**Percentage**
The credit policy encourages clients to borrow.	40	40%
The credit policy discourages clients from borrowing	0	0%
High repayment rates due to the structures of the guidelines in the credit policy.	45	45%
Low repayment rate due to some weakness in the credit policy	15	15%
Total	**100**	**100%**

Source: Field Data

From the table above, results of the survey and interviews conducted indicated that 45 respondents representing 45% of the respondents agreed that the highest majority of the respondents took pride in the bank's credit policy considering the high repayment rates, due to strictness of the guideline in the policy and the clients also find the bank's credit policy bearable.

40 respondents representing 40% of the respondents revealed that the policy encourages the clients to borrow. This was due to the facts that loan processing takes less days, 15 respondents representing 15% of the respondents agreed that at times there are low repayment rate due to some weakness in the policy.

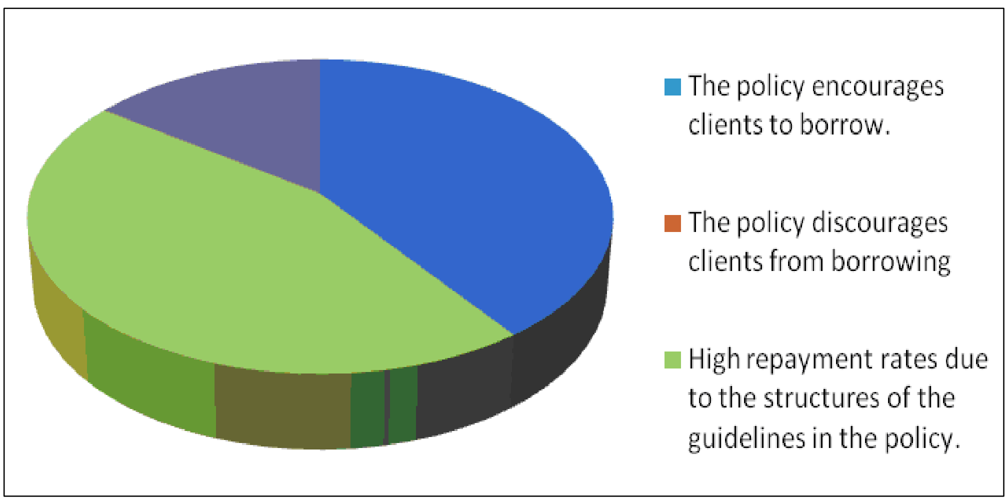

Figure 4.9: Response of the Clients on Clients on the Banks Credit Policy

Source: Field Data

CHAPTER FIVE

5.0 DISCUSSION OF FINDINGS, IMPLICATIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter five discusses the results, implications, recommendation and suggestion for future research in line with study objectives and research question.

5.2 Discussion of Findings

5.2.1 Bio Data

There were 55 males representing 55% and 45 females representing 45% of the respondents, thus males were the highest. This showed that NMB employees more males and the number of people seeking for loan in the bank are males thus this has been indicated in the study.

NMB also employ more workers who have diploma holder in level of education, 45% of the respondents agreed that NMB bank has majority of diploma compared degree who have 26% of the respondents. This shows that the bank mostly use diploma holders within the bank.

5.2.2 Loan Process

The loan process involves all the steps and procedures a borrower undergoes in order to obtain a loan from the bank or rather micro finance. 95% of the respondents strongly agreed that NMB has a written loan process which is well observed and reviewed. More over 67% of the respondents strongly agreed that NMB uses procedures and directives for loan applicants.

According to Comptroller (1998), The loan approval process is the first step towards good portfolio quality. When individual credits are underwritten with sound credit principles, the credit quality of the portfolio is much more likely to be sound. Although good loans sometimes go bad, a loan that starts out bad is likely to stay that way. The foremost means to control loan quality is a solid loan approval process.

According to Rose and Hudgin (2008), Loan process which can result into effective and efficient repayment must follow the following seven steps, finding prospective loan customer, evaluating a prospective customers character and sincerity of purpose, evaluating customers credit records, evaluating customers financial condition, assessing loan collateral, monitoring compliance with loan agreement and finally loan review.

I conquer with the author that once loan process is well established loan repayments are effective and efficient. The loan process at NMB has resulted into a quality and sound credit policy hence loan defaulters are limited.

5.2.3 Collateral System

Micro finance institutions can easily recover loans from the borrowers who have put up collateral for the loan taken. 65% of the respondents strongly agreed that NMB uses collateral system in evaluation of clients' applications for credit facility, more over 55% of the respondents strongly agreed that the loan repayments at NMB has been effective because of the collateral system.

According Frederic and Apostolos (2002), Collateral is the property promised to the lender as the compensation if the borrower defaults, lessens the consequences of adverse selection because it reduces the lender's loses in the case of loan default. Collateral requirements for loan are the important credit risk management tools.

According to Bodie, Kane and Allan (1995), Many loan agreements require that the borrower put up collateral to guarantee the loan will be paid back. In the event of default, the financial institution takes the possession of the collateral. A nonrecourse loan gives the lender no recourse beyond the right to the collateral. That is, the lender may not le sue the borrower for further payment if the collateral turns out not to be valuable enough to repay the loan.

I therefore agree with the author that in order to minimise loan defaulters collateral system is essential, collateral system reduces loses in the case of loan defaults.

5.2.4 Interest Rate

An interest rate is the price a borrower pays for the use of money they borrow from another lender. 60% of the respondents strongly disagreed that all borrowers pay the principle plus the interest to the bank in time, more over this shows that, the interest rate given by NMB discourages loan repayment because 57% of the respondents strongly disagreed that the interest rate encourages loan repayment.

According to The World Bank (1989). MFIs having high rate of interest this have always increased risk of the ability of the borrower to pay back the loan. Lower microcredit interest rates will help increase the depth and breadth of availability of affordable finance for poor households, hence borrowers will be able to pay back the loan.

According to Leisenring (1980), Interest rate is a debatable issue in the microfinance industry. Evidently, interest rate varies across different institutions and geographical areas. The absence of uniform interest rate structure for the homogenous products in the industry is allowing many MFIs accrue unfair gains. Poor clientele in many areas are discriminated by many MFIs, and thus compelled to pay higher interest despite they are unaware of it. This in turn in many cases increase the probability incidence of default.

I therefore concur with the author that loan repayment at NMB is negatively affected by the interest rate given to borrowers as it is clearly indicated that some of the customers are not able to pay back the principle plus the interest on time to the bank.

5.2.5 The Attitude of Entrepreneurs Towards Microfinance on Loan Repayment

It is argued that one of the reasons for the high mortality rate and loan default is the change in agent's attitude towards risk caused by access to credit. This conclusion is based on the premise that access to credit stimulates entrepreneurial attitude which favor risky undertakings with high returns. However, in the bid to increase the repayment rate, the credit providers devise some mechanisms that force the credit recipients to concentrate on activities that would enable them to repay the loan.

According to Githinji (2000), Microfinance Institutions are exclusive, these institutions are viewed as institutions dealing with people in employment, company owners and businesses owners etc.

I therefore concur with the author that, borrowers' attitude towards the microfinance favors loan repayments because, entrepreneurs believe that once your are able to repay interest plus the loan or rather meet the credit policy of the microfinance then you can take the loan. It was evident from the research that 45% of the respondent strongly agreed that, the credit policy of NMB is bearable and hence repayments of the loan are done smooth, while 40% of the respondent agreed that NMB credit policy encourages entrepreneur to borrow and payback.

5.3 Conclusion

1. It is evidently true that the good performance of NMB on loan repayment and management of the bank was mainly contributed by the credit control measures as a result of well established loan process/ credit policy screening mechanism in place before credit is extended to clients. It's evident from this study that indigenous micro finance institutions in Tanzania use all the elements of credit policy management process, but are not comprehensively using the aspects of the various elements of the process in the management of their credit function.

2. There is a significant and positive relationship between loan repayment and the management of NMB thus these findings reveal that the state of loan repayment in the bank has a strong impact of the quality of the bank's loan portfolio and thus the performance of the bank.

3. An overall credit policy management must include an evaluation of the loan repayment state, credit risk management policies and practices of the bank. This evaluation determines the adequacy of financial information received from a

borrower, which must be used by banks as a basis for the extension of the credit and the periodic assessment of inherently changing risk. Hence credit policies should define target market risk acceptance criteria, credit approval authority, credit origination and maintenance procedures, and guidelines for portfolio managements.

5.4 Recommendation

1. In light of the findings obtained during the study, the researcher recommended that NMB should work in conjunction with other banks to come up with a centralized customer data for easy access on details concerning a customer's credit worthiness. Financial institutions should always have qualified and experienced credit team who can tell a suitable candidate before any loan is given. The loan process should be reviewed frequently so that the procedures for the same are well observed and updated to meet the requirements so as to avoid defaulters.

2. NMB with other financial institutions should always keep proper records of a customer and terms and conditions given to a client before loan is disbursed should be followed by financial institution to avoid defaulters. The better the collateral presented/provided the better the loan repayment state.

3. Credit policies and interest rates should also be reviewed often and made clear to all the persons working under credit department and even other departments so that NMB customers should be well informed on the bank's policies.

4. The study evaluated the state of loan repayment on the performance of micro finance institutions in Tanzania using NMB as a case study. This was in regard to NMB past experience of credit function in line with its performances. The whole exercise of credit risk management depended on the discretion of management in controlling the level of loan portfolios. Thus its however advisable that a study on other functions in the bank outside the loan repayment state could provide further information on the factors that may influence the performance of micro finance institutions more so in NMB Tanzania.

5. Research can also be done on other financial institutions apart from NMB that deal with giving out loans and have credit policies since NMB bank is just a part of financial institutions. This leads to easy comparison and make research done earlier more realistic.

5.5 Limitations of the Study

The researcher found the following limitations in the process of this research**:**

(i) Banker's information and business finance sources are a very sensitive issue in most organizations hence some of the respondents were unwilling to answer the questionnaires in time thus leading to the delay in data collection.

(ii) There was the problem of information access by the researcher, the management of the NMB - invoke confidentiality and internal use only clauses and regulations thus this also led to delay in data collection.

(iii) Respondents' could not act in time due to unfavorable timing, especially during times when they were busy with the office work thus this led to delay of data collection and analysis.

(iv) There was financial problem, where the researcher had to take care of all the financial expenses or rather cost pertaining to the research and hence made the researcher to borrow funds from friends and relatives.

REFERENCES

Bank of Tanzania (1997). *Annual Report*, Dar es Salaam

Bernard Githinji (2000). *Building Evaluation Capacity in Africa*, paper work.

Bromley, D. B. (1991). *Academic Contributions to Psychological Counselling*. 2. Discourse analysis and the formulation of case-reports. Counselling Psychology Inc, Norway.

Carol Leisenring (1980). *Analyst in Money & Banking*, unpublished paper.

Churchill, G. A and Brown, T. J (2007). Basic Marketing Research, 6th edition, Mason, Thomson- South Western.

Comptroller (1998). *Loan Portfolio Management*, handbook, USA

Dr. P.K.Srivistava (2000). *Banking theory and Practice,* 8th Edition

Eugene F. Brigham and Joel F. Houston (1999). Foundations of financial management 9th edition.

Frederic S. Mishkin and Apostolos Seletis, (2002). *The Economics Of Money, Banking And Financial Markets*, 1st Edition, Pearson Canadian Inc, Toronto

H. Mohane, G.K. Coetzee and W. Grant (2000). *The Effects of The Interest Rate Ceilings On The Micro Lending Market In South Africa*, Department of Trade and Industry on Interest Rates, Pretoria

Jonas Pregos (2005). *Banking in Developing Countries*: Microsoft Encarta Encyclopaedia

K. C. Shekhar (1999). *Banking theory and practice,* 17th Revised Edition

Keya S. O, Makau B. F, Amani J, Omari B. M (1989). *Guidance for Developing Research Proposal*, Oxford University Press.

Kothari, C.R (2004). *Research Methodology, Methods and Techniques*. New Age International Publishers. New Dehli

Kumar, Ranjit, (2005), *Research Methodology-A Step-by-Step Guide for Beginners*, (2nd ed.), Singapore, Pearson Education

Marczyk, G, De Matteo, D and Festinger (2005). *Essentials of Research Design and Methodology*, John Willey and Sons Inc, New Jersey.

Meir Kohn (2004). *Money, Banking and Financial Markets*

Nimal A. Fernando (2006). *Understanding and Dealing with High Interest Rates on Microcredit,* a note to policy makers, Bangladesh

Olive M. Mugenda and Abel G. Mugemnda (1999). *Research Methods*, ACTS Press, Nairobi/

Peter S. Rose and Sylinia C. Hudgin (2008). *Bank Management And Financial Services*, Mc Graw-Hill,7th Edition, New York.

Robert K. (1994). *Case Study Research*, Thousand Oaks, Sage

Ross A. Stephen Wester Field Randolph W. (1988). *Corporate Finance Moby College.*

Saunders, M., Lewis, P. And Thornhill, A (2007). Research methods for business students. 4th ed. London: Prentice Hall.

Smokey J. F. J. R. (1995). *Commercial Bank Financial Management. The Portfolio Risks and Management Theory And Practice,* 5th edition prentice hall New Jersey.

The World Bank. (1989). The World Development Report 1989. Washington DC: The World Bank.

United Republic of Tanzania (2000). *National Micro - Finance Policy,* Government Printers, Dar es Salaam/

United Republic of Tanzania (2003). *Poverty and Human Development report 2003*, Government Printers, Dar es Salaam.

Winer, B., Brown, D., and Michels, K., (1991). *Statistical Principles in Experimental Design, Third Edition.* McGraw-Hill, New York.

Zui Bodie, Alex Kane and Allan J. Marcus (1995). *Essentials of Investments*, 2nd Edition, Richard Inc, USA.

APPENDICES

Appendix I: Time Schedule of Activities

ACTIVITY	PERIOD	OUTPUT
Proposal writing	18/05/2012	Proposal submission for approval
Field customization	June 2012	Initial information collection
Developing instruments	June 2012	Developing of instruments
Data collection	June 2012	Coding and entering of data
Data analysis	August 2012	Analyzing and interpretation of data
Preparation of report		Submission of dissertation

Appendix II: Questionnaire's on Assessment of Loan Repayment on Management of Microfinance Institutions. A Case of National Microfinance Bank, Tanzania

<u>QUESTIONNAIRE FOR EMPLOYEES</u>

<u>Dear: respondent</u>

<u>Ref: collection of survey data</u>

Section A

Instructions: tick the appropriate answer

1. Tick your appropriate gender

   Male ☐

   Female ☐

2. Indicate your education level

   Secondary education ☐

   College education ☐

   University education ☐

3. How long have you worked for National Microfinance Bank?

   Below-2 years ☐

   2 -5 years ☐

   6-10years ☐

   11-15 years ☐

   Above 15 years ☐

4. Indicate your position in this organization

Managing director ☐

Manager ☐

Supervisor ☐

Clerk ☐

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

5. Which department do you belong to?

Marketing department ☐

Planning department ☐

Credit department ☐

Financial department ☐

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

SECTION B

6. What factors does your organization consider when offering loans?

Repayment period ☐

Collateral offered ☐

Prevailing interest rates ☐

Others (specify)……………………………………………..

7. (a) What do you understand from the term loan process?

1. A process put in place to regulate lending. ☐

2. Steps to give out loans ☐

3. A micro finance term ☐

(b) Do you have a written loan process?

8. Does interest rate affects loan repayment?

Yes ☐

Please Explain………………………………………………………………

No ☐

Explain ………………………………...……………………………………

9. Does collateral affect (positively/negatively) loan recovery?

Yes ☐

Please Explain……………………………………………………………..

No ☐

Please explain………………………………………………………………

10. What is the relationship between the attitude of entrepreneur and microfinance?

Positive ☐

Negative ☐

No relationship ☐

11. How often do you review your loan process?

Once per year ☐

Twice per year ☐

Once after two years ☐

Once after five years ☐

Others (Specify)…………………………………………………………..………….

12. What is the state of loan repayment?

Very poor ☐

Poor ☐

Good ☐

Very good ☐

Give your own opinions on loan

repayment;...

....

....

Thank you for your co-operation

Appendix III: Customer's Questionnaire

<u>Tick Where Appropriate</u>

1. Gender: MALE ( ) FEMALE ( )

2. Educational Level
   - Secondary Level ( )
   - University Level ( )
   - Other (Specify)……………………..

3. What is your relationship with National Microfinance Bank?

   Customer………………………

   Borrower……………………....

   Others (specify)…………………………

PART TWO: Impact of loan process on repayments

4. Do you finance your financial needs with loans?

   YES [ ]

   NO [ ]

5. What is the duration of the loan?

   7 days [ ]

   14 days [ ]

1 month [ ]

6 months [ ]

12 months [ ]

6. Are there any fees charged or costs when applying for the loans?

YES [ ]

NO [ ]

7. Is the interest rate fixed or floating?

YES [ ]

NO [ ]

8. Are interest rates affecting your loan repayment abilities?

YES [ ]

Explain…………………………………………………………………………

……………………………………………………………………………………

NO [ ]

Explain……………………………………………………………..……………..

……………………………………………………………………………………

9. What happens in case you do not repay your loan as agreed?

…………………………...……………...………………………………………

……………………………………..……………………………………………

……………………………………………………………………………………

10. Is the interest rate on your loan lower comparing with that of commercial banks**?**

………………………………………………………………………………….

……………………………………………………..……………………….

11. Do you put up collateral to get a loan from NMB?

Yes [ ]

Explain………………………………………………………………………..

No [ ]

Explain………………………………………………………………………..

12. What is your attitude towards microfinance?

………………………………………………………………………………

13. Why do you borrow loans from microfinance institutions?

…………………………………………………………………………………

……………………………………………….…………………………………

14. Do you have any other factors affecting your ability to pay loan

YES [ ] NO [ ]

Explain...

....

Thank You

Response	**Agree**		**Strongly agree**		**Neither agree nor disagree**		**Strongly disagree**		**Disagree**		
Loan process	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
Does your organization have a written loan process?											
Are loan process, procedures and directives realistic to the performance of NMB?											
Do you always use procedures and directive for all loan applicants?											
Are borrowers outstanding liabilities checked to determine appropriate line of credit prior to granting additional credit?											
Does the loan process encourage clients to borrow and repay?											
Does NMB conduct review on its loan process?											

Response	Agree		Strongly agree		Neither agree nor disagree		Strongly disagree		Disagree		
Collateral system	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
14. Does your Bank use a collateral system in evaluation of clients' application for credit facility?											
15. Are securities of clients often reviewed?											
16. Has the loan repayment of NMB been effective between the periods of 2003- 2007?											
17. Are there some factors that lead to non-payments/ bad debts in NMB?											

Response	Agreed		Strongly agreed		Neither agreed nor disagreed		Strongly disagreed		Disagreed		
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
1. Does the interest rate encourage first time borrowers to repay the loan? i.e. 18% to 20% interest rate											
2. Are all borrowers pay their principle plus interest in time?											
3. Are the third time borrowers given lower interest rate i.e. more than one year for them to repay their loans?											

Response	Agreed		Strongly agreed		Neither agreed nor disagreed		Strongly disagreed		Disagreed		
	F	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**Total**
1. Are there some weaknesses in the interest rate policy, which might result to low repayment rate from the borrowers due to its strict terms and conditions?											
2. Does the interest rate limit the borrowers' capacity from securing a loan?											
3. Does the policy establish guidelines for loans to the clients and determine the repayment terms?											
4. Does NMB bank check and evaluate collateral before giving its clients loans?											

Appendix IV: Budget Estimations

NO.	ACTIVITY	COSTS	
		TSHs	
1.	STATIONARY	**40,000/=**	
2.	TYPING AND PRINTING	**50,000/=**	
3.	TRANSPORT	**30,000/=**	
4.	MEALS	**50,000/=**	
5.	PHOTOCOPY	**30,000/=**	
6.	INTERNET AND AIRTIME	**50,000/=**	
7.	MISCELLANEOUS	**50,000/=**	
TOTAL		**300,000/=**	