

ST JOHN'S UNIVERSITY OF TANZANIA



MASTER'S OF SCIENCE IN FINANCE

**ANALYSIS OF FACTORS BEHIND CREDIT RISK IN TANZANIANS SACCOS: A
CASE OF HAZINA SACCOS IN DAR ES SALAAM, TANZANIA**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
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CERTIFICATION

I the undersigned, certify that I have read and hereby recommend for acceptance by St John's University of Tanzania the Dissertation entitled: "*Analysis of Factors Behind Credit Risk in Tanzanian Saccoss, A Case of Hazina Saccos in Dar es Salaam, Tanzania*" in partial fulfilment of the requirements for the Masters of Science in Finance of the St John's University of Tanzania.

.....
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Date.....

DECLARATION

I, Tunkete Ndabiti Mwamsojo, declare that this dissertation is my own 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.

Signature.....

Date.....

DEDICATION

This study is dedicated to my heavenly father, my beloved wife, my children, friends and every one that participated towards accomplishment of this study.

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ABBREVIATIONS

ICA	: International Commercial Agency
ILO	: International Labour Organization
MFIs	: Microfinance Institution
MSEs	: Micro and Small Enterprises
NMFP	: National Microfinance Policy
SACCOS	: Saving and Corporative Society
SPSS	: Statistical Package for the Social Science
URT	: United Republic of Tanzania
USA	: United State of America

ABSTRACT

This study focuses on the factors for credit risk at Hazina SACCOS, Dar es Salaam, Tanzania. It basically attempts to address three specific objectives namely; factors for credit risk at Hazina SACCOS in Dar es Salaam, the effects of credit risk at Hazina SACCOS and measure for dealing with credit risk at Hazina SACCOS. This study employed a case study design to collect information from 86 respondents. The findings show that credit risk is contributed by existing difficult business environment, that reported to depend on the business in terms of type and environment. It has also been observed that credit risk at SACCOS resulted into reduced SACCOS outstanding cash, and the need for controlled lending policies and procedures, and ability of SACCOS members through the management to control credit issuance and collection. The factors for credit risk were presented. The credit risk was associated with reduced SACCOS outstanding cash and reduced members confidence to save and shortage of SACCOS capital. The credit risk, SACCOS is faced with problems associated with cash and liquidity. The ability of credit risk to influence investment of members at Hazina SACCOS the ability of credit risk to influence investment of SACCOS credit risk is an obstacle to SACCOS investment and saving from its members. It has been strongly affirmed that credit risk is contributed by existing difficult business environment. The credit risk there should be well controlled lending procedures, and ability of SACCOS members through the management to control the credit. SACCOS management is required to improve procedures and strategies to control credit provision based on the lending procedures.

CHAPTER ONE

INTRODUCTION

1.1 Overview

This chapter focuses on the factors behind credit risk in Tanzanians SACCOS. It includes background information, statement of the problem, objectives of the study, research questions and finally in ended with the significance of the study.

1.2 Background of the Study

The saving and credit cooperative societies are one of the autonomous associations of people who come together voluntarily to meet the common economic and social goal; in fact, it operate jointly to control an enterprise in a democratic way through cooperatives principles (ICA, 2005). These cooperatives are organized in the values of self-help, honesty, openness, self-responsibility, democracy, quality, equity, solidarity, mutual caring, efficiency, transparency and accountability (ICA, 2005). The SACCOS credit risk is increasingly recognized as a major problem for both developing and developed nations, even in USA. The credit risk is increasing danger to the operation of microfinance institutions due to financial crisis of majority of businesses. The borrowers' failure to handle the loan responsibilities is a major factor affecting the operation of the business and the financial institution in particular.

In China, credit risk is the major factor inhibiting lending procedures and strategies under the rural microfinance sectors. Appropriate risk control strategies become evidently weak due to borrowers low ability and economic situation. In most places the lenders' risk and the ability of the borrowers to repay are affected by the information collected under the credit market.

In fact, in most of African countries since the 1950s and 1960s cooperatives were supported by governments to reduce the burden of their operation. The governments supported cooperative purposely to boost operations in return for political support. This affected the cooperatives in terms of credit risk increase and liquidity problems.

In 1990 t government withdrawal from supporting SACCOs which adversely affected its performance because SACCOS management failed to establish and supervise cooperative policies. The members and SACCOs management are increasingly misusing the capital and poorly managing the credit without appropriate borrowers'

information. As a result, the default rate has also risen as members and borrowers lose trust. This has significantly harmed the cooperative principles such as democratic members' controls, information and members' participation.

By independence, the SACCOs movement was firmly established in East African countries albeit recognized with less identical institutional frameworks among countries. The operation and management of credit are specifically identified to be the limiting factors for expansion and profit accumulation, so performance has depended on these factors across these countries.

In Tanzania, for example, SACCOs are relatively limited in expansion and business practices in both urban and rural areas are not as advanced as those in Kenya. In most cases the SACCOs credit staffs have failed to assess borrowers' information in a professional way (Nkinda, 2005).

It is evident that SACCOS objectively seek to promote the economic and social welfare of their members in the basis of loan advancement. The loan is required by SACCOS members to cover various economic needs such as, initiative in agricultural or industrial work (WOCCU, 2005). This is hampered when SACCOS business is affected by a huge credit risk as the authorities find it difficult to advance such loans, fearing default by borrowers.

The credit risk is the change in net asset value due to changes and the perceived ability for the parties to meet contractual obligations. It is obvious that the credit union face risk by the nature of their activity and in terms of potential losses. In fact, it takes place when borrowers experience defaults and do not manage to honour their obligations timely.

In such cases, the obligator may default and be subjected to a bankruptcy procedure or he may refuse to pay altogether even when not bankrupt (Bessis, 2003). Since the credit risk is one of the oldest persistent problems that credit unions face, it is important to establish the control of credit risk to avoid more losses that SACCOS encounter in the credit business.

1.3 Statement of the Study Problem

Regardless of the fact that SACCOS small sized loans to members compared to other financial institutions in Tanzania, the same tend to encounter higher level of loan default rate that are created by SACCOS members (Karumuna and Akyoo, 2011). For example in 2011 the credit risk hit more than 423 SACCOS that in consequences failed to extend loan timely to its members. It accounted for 10.27% of the 4118 SACCOS Societies in Tanzania and possibly regarded as the major risk in SACCOS operation and control (Magali, 2013). In addition, 1,343 SACCOS were dormant due to default rate of 24.16% out of 5,559 total SACCOS in Tanzania (Mapesa, 2015). In fact, this increasing default rate among SACCOS threatens financial viability and sustainability for SACCOS to achieve their goal of maximizing benefits to members in terms of social role and improvement of members' standard of living (Legat, et al., 2013). Failure for SACCOS to control credit risk, could possibly lead to insolvency, it is evident that the performance of every SACCOS is connected to the effective control of credit risk (Alfred, 2011). The factors that cause credit risk are being hidden for a long time and mostly are unknown and its impacts are wide spread in the SACCOS operation and economy in general. Therefore, it is import to fill this gap and search for the factors behind credit risk at Hazina SACCOS Dar es Salaam, Tanzania

1.4 Objectives of the Study

1.4.1 General Objective

The general objective of this study is to analyze factors behind credit risk at Hazina SACCOS Dar es Salaam, Tanzania.

1.4.2 Specific Objectives

- i. To identify factors behind credit risk at Hazina SACCOS in Dar es Salaam.
- ii. To determine the effects of credit risk at Hazina SACCOS.

1.5 Research Questions

- i. Are there any factors behind credit risk at Hazina SACCOS in Dar es Salaam?
- ii. Are there any effects of credit risk at Hazina SACCOS?
- iii. What are the measures to address credit risk at Hazina SACCOS?

1.6 Significance of the Study

This study has significance to knowledge, policy contribution and management perspective. This study will contribute knowledge for further related research. In addition, it will help the SACCOS managers to design appropriate policies and procedures to control credit risks. The policy contribution will also be evident on the control of SACCOS and credit risk mitigation process.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter covers the theoretical literature review, the empirical literature review and the conceptual framework. Based on the key points drawn out in the literature review, the author provides the reader with some background knowledge of the research questions and objectives. This enables the reader to place the research in this paper into context with regard to previously established research on the subject.

2.2 Review of Theories

2.2.1 Definition of Concepts

2.2.1.1 Credit risk

Credit risk is defined as the current and prospective risk on the capital or earning that is caused by the borrowers' failure to meet the contractual agreement with the SACCOS as agreed. The credit risk generally exists once success depends on one side only. It happens once funds are committed or invested through contractual agreement (Wanyama, 2008). It can also be defined as the potential that a SACCOS borrower or counterparty will fail to meet the obligations based on the agreement or loan terms. The credit risk management aims to minimize a SACCOS risk adjusted rate of return through control of credit risk exposure in the acceptable parameters. The SACCOS need to manage the credit risk within their entire portfolio and also risks that are associated with individuals' transaction (Oyeyomi, 2003). In view of that credit risk can be defined as the risk that one party to financial instrument will cause a financial loss for the other party due to its failure to discharge contractual obligation.

Credit risk mostly faces SACCOS, because of the asymmetry information problem that borrowers have and the borrower's ability and willingness to repay the loan in time basis. The credit risk can be controlled and managed through sound investment and lending policies and procedures. The management of SACCOS must ensure adequate supervision of lending policies and procedures purposely to mitigate the risk on credit.

The credit risk generally fluctuates over time due to the fact that life of an investment or loan is naturally depended on the economic and other factors. The investments need to be well protected from these risks. The credit risk control in any financial institution starts on the establishment of strong and sound lending principles and

framework. The committee dealing with risk needs to strongly design standards and guideline to protect the investment and capital of SACCOS. The various credit issuance processes need to be planned and managed in such a way that impose credit limits, taking collateral, diversification, loan selling, credit insurance and securitization (Irobi, 2008).

2.2.1.2 Credit Risk Control

Credit risk control is a structure designed to manage uncertainties in various dimensions; proper risk assessment and developing strategies to control risk in the wider managerial resource application. It manages the risk in the process of transferring credit to another party or to avoid it, to reduce its effects and generally accepts the risk consequences. It is manifested in two processes: first, to identify the source of risk such as the variable causing risk; and second, designing appropriate methods to deal with risk such as the use of mathematical models. Once the risk identification stage is managed and implemented the next stage is to apply the techniques in credit risk control in various situations, products, instruments and institutions. The SACCOS need a comprehensive risk control framework to realize growth in a sustainable manner, which is directly connected with the comprehensive risk control framework (Greuning and Iqbal, 2008).

2.3 Theoretical Literature Review

2.3.1 The Imperfect Information Paradigm Theory

It commonly accepts that banks cannot manage to deal with associated risks of lending to highly risk candidates. The banks may raise loan costs to deal with credit risk due to failure to identify high hazard candidates. The high credit risk may drive the microfinance sectors to provide small loan to business sectors. The model insists that SACCOS are unrealistic to deal with credit risk. The credit risk increasingly results from the imperfect information problems and even limits SACCOS from accomplishment of its definitive objective (Oyeyomi, 2003). The credit risk could be wisely minimized through increase of loan cost for good borrowers to compensate for poor borrowers. The credit policy needs to comprise strategies to access information and distinguish between good and poor borrowers, effectively to deal with credit risk.

2.3.2 Informal Credit Markets Theory

The theory asserts that in creating lending base and sustainable credit access in financial market, it is important to observe the ideas of loan specialists for credit risk minimization. The credit specialists analyse the risk in various parts in relation to cost of financing. The informal credit risk affects microfinance operation in matter pertaining to credit. The microfinance requires more strategies to control and minimize credit risk, the informal credit market is more risky due to poor arrangement and procedures for provision of credit. The SACCOS in safe and accurate credit control need to operate formally, as opposed to the way informal market operates. The informal market needs to follow procedures in credit provision such as complete and accurate applicant information (Meenu, 2010).

2.3.4 The Saving of the Poor and the New Microfinance

The savings are the forgotten half of the poor financing (Ranjula and Adel, 2010). Indeed, there is larger demand for financial savings in urban areas of developing countries and that savings are more crucial for microfinance clients than credit. Yet savings remain forgotten in much of institutional microfinance in urban settings (Mapesa, 2015).

The theory recognizes that mobilizing voluntary savings both as a service and as a source of finance for loans is a basic tenet of the SACCOS revolution. It particularly increases challenges on the women entrepreneur business performance through access of financial services to the poor women in developing countries (Maghimbi, 2009).

2.3.5 Finance for the Poor-Grameen Bank Approach

Grameen Bank methodology is the early smaller scale credit model for neediness loaning in Bangladesh established by Muhammad Yunus. Muhammad Yunus, the originator of the small scale credit Grameen Bank mentioned two objective facts central to the outlook required for non-tokenistic ways to deal with group improvement and group engagement. "In the first place, our insight base about individuals and their collaborations is still extremely insufficient; second, every distinctive individual is essential. Every individual has colossal potential. He or she can impact the lives of others inside groups, countries, inside and past his or her own particular time" (Alamirew, 2006).

The Grameen Bank is an idea that has promptly drawn in numerous groups in the creating scene for right around thirty years. The birthplace of the thought can be followed back to 1976 when Professor Muhammad Yunus, head of the rural economic program at the University of Chittagong, Bangladesh chose to help a lady who was poor to the point that she was compelled to obtain US\$0.25. He was stunned to find that the moneylender then had the select right to purchase all she delivered at the value the bank chose. Considering this no superior to anything other than slave work, he aggregated a rundown of different casualties of this town cash bank. At the point when the rundown was finished, it contained 42 names and recorded the aggregate sum obtained as US\$27. He then reimbursed the extraordinary obligations with his own particular cash. This went about as an impetus creating an activity research venture which investigated the common sense of a credit conveyance framework concentrated on giving managing an account administration to ladies strengthening.

In an inversion of standard managing an account practices the Grameen Bank works on an arrangement of trust, obligation, inclusion and cleverness and does not request guarantee from its customers. Indeed, even the poorest individuals in Bangladesh are given credit without guarantee. Acknowledgement is utilized as an impetus to enhance the financial states of those beforehand without access to standard managing account activities and as a practical approach to address salary neediness. It has been recommended that credit can be gotten to by the poor on sensible terms and conditions, a huge number of little individuals taking after their great many little journeys can produce the "greatest advancement wonder" (Bakhshoodeh and Karami, 2008).

The methodology exhibits that needy individuals can be great credit risk and it has empowered a wide effort to poor borrowers. With the model neediness loaning approach requires a lot of proceeding with appropriations and has not demonstrated a comprehensively reasonable model. Neediness loaning does not take care of individuals' demand for sparing administrations. Hereafter; an alternate arrangement is required to take care of the monstrous worldwide demand for little credits and investment funds. Obligatory funds as a condition for getting advances and the accumulation of intentional reserve funds reflect two supplementing diverse methods of insight." The previous accept that poor people must be educated to spare and they have to learn budgetary control. The last expect that the monetarily dynamic need proper structures to minimize risk associated with credit. There is a

need to properly control lending to poor people and low income category with low risk (Elahi and Rahman, 2006).

The models above demonstrate that there are diverse methodologies which can encourage country financing through SACCOS deliberately for ladies strengthening. The decision of the best monetary conveyance component in light of the condition can encourage poor ladies in country territory to get to money related administrations for development of their life (Churchill, 2007).

2.3.6 Asymmetric Information Theory

Information asymmetry generally shows the situation for business owners or managers to be aware on the prospects for and risks facing the businesses to which they lend (Eppy, 2005). The theory is attached to the notion that all parties involved lack relevant information. In the debt market context information asymmetry becomes evident specifically for a borrower who takes a loan while he has poor information on the potential risks and returns on the business investment for which the funds are allocated. On the other hand the lender lacks sufficient information on the borrower.

As propounded by Cheston and Kuhn (2010) perceived information asymmetry has two problems for the SACCOS, firstly moral hazard which is a concern on the ability to monitor entrepreneurial behavior and adverse selection that associated to making errors in lending decisions. SACCOS increasingly find it difficult to overcome and exactly know these problems because they lack resources to monitor lending due to its small amount of lending. In fact, data needed to screen and monitor borrowers are not freely available to SACCOS.

2.3.7 The Supply-Leading Finance Theory

This theory refers to the provision of credit for the purpose of inducing economic growth. The theory emerged in the 1940's and 1950's in the context of post-World War Two developments of the emerging nations where agricultural growth was given high priority (Irobi, 2008). It assumed that poor people need credit but they could not pay the full cost of commercial credits and finance, so they would have to be provided in advance of the demand for it. Many institutions providing credit subsidies suffer from political interference, poor management, and unwanted products, low repayments, high costs and high losses (Bee, 2007).

The subsidized credit programs have limited the volume of financial services to the poor-helping for decades to suppress the development of larger scale microfinance. SACCOS movement has to recognize that women entrepreneur performance is critical stage and in that respect women need to be provided with finance but could not pay all the cost but be provided in advance of finance (Banerjee, *et, al.*, 2010).

2.3.8 The Financial System Approach to Micro Enterprise

The financial system approach to micro enterprises recognize that savings are as vital an administration for the poor as credit and that savings are vital in building independent budgetary organizations. Well-crafted savings services can support a move from non-money related reserve funds into reserve funds with the benefit of wellbeing and liquidity for business people and the arrangement of assets for venture for society (Ray, 2010).

The most important benefits of institutional savings for micro enterprises are an indirect one which is credit worthy. Small and micro enterprises can benefit from the expanded volume of institutional lending made possible by deposits mobilization. Substantial growth in institutional deposits can both significantly increase the amount of credits available to small entrepreneurs and provide loans which are of much lower interest rates than are otherwise available in the informal market (Kariuki, 2010).

The part and quality of casual account operators in little scale urban economies and their significance to low pay ought not to be belittled. The casual area permits low salary individuals access to administrations at moderately low expenses. It can do as such in light of the fact that the casual part is the common habitat for the destitute individuals. It requires equity drove change of establishments and qualities to re-establish group advancement, redistribution of forces and migrated assets to practical change in human welfare (Sicular and Gustafsson, 2007).

In view of the above observations, it can be judged that SACCOS need to be sustainable institutions that ultimately focus on entrepreneur financing. The financial services need to be convenient and appropriate for entrepreneur purpose.

2.3.9 National Microfinance Policy

Microfinance refers to arrangement of money related administrations to low pay customers, including families, smallholder ranchers and little and miniaturized scale ventures of the provincial and urban ranges (Kwizera, 2011) characterizes microfinance as exchanges in little measures of both credit and saving, including fundamentally little and medium scale organizations and methods. As indicated by the National Microfinance Policy [NMFP] (2000), the government of Tanzania considers microfinance framework as an indispensable part of the money related segment, with the general goal to set up a premise for the advancement of a proficient and compelling smaller scale monetary framework in the nation that serves the low-pay portion of the general public, and in this way add to economic growth and reduction of poverty.

2.3.10 The Need for Microfinance

The need for microfinance, and hence the policy rationale is given by its socio-economic benefits to the country. The NMFP (2000) plots three useful zones: First, for the majority of Tanzanians whose earnings are low, access to financial services offers the possibility of managing scarce household and enterprise resources all the more proficiently, insurance against dangers, arrangement for the future, and exploiting speculation open doors for financial returns (URT, 20013). For family units, financial services permit higher expectations for everyday life to be accomplished with the same resource base; while for enterprise and famers, it can encourage the quest for money development (Safiriyu and Njogo, 2012).

Secondly, savings services are expected to ensure low-pay individuals against times of low pay or particular crises and to cover extensive foreseen costs like school charges. Likewise, savings are expected to store accumulated value and provide fund for investment by others; thus, have a very broad outreach and value (Tache, 2006).

Thirdly, credit administrations give a source of short-term and long-term investment capital. Also, family units use credit administrations to address utilization issues, especially amid periods when salary streams are low, and to make investments, for example, housing improvements.

2.4 Empirical Literature Review

In their study, Cheston and Kuhn (2010) demonstrated that although microfinance does not address all the barriers to microfinance contribution but really affected with credit risk that hinders its improvement, microfinance programs, when properly designed can make an important contribution to livelihood. The existence of credit risk provides really limiting factors towards its development. Drawing from their studies and experiences of microfinance institutions in Africa, Asia and Latin America, they present evidence of several types of changes that are relevant and important for welfare and livelihood households in various places.

The study conducted in India by Katsushi, Arun & Annim (2010) on microfinance and household poverty reduction, found out that loans for productive purposes were more important for poverty reduction in rural than in urban areas. However in urban areas, simple access to MFIs has larger average poverty-reducing effects than the access to loans from MFIs for productive purposes. This leads to exploring service delivery opportunities that provide an additional avenue to monitor the usage of loans to enhance the outreach.

In another study, Khandker (2009) examines the effects of microfinance on poverty reduction at both the participant and the aggregate levels using panel data from Bangladesh. The results suggest that access to microfinance contributes to poverty reduction, especially for poor people, and to overall poverty reduction at the village level. But factors that limit the microfinance ability to reduce poverty are highly associated with credit risks, the capital and cash are really affected because some members are really affected. He finds that data on consumption and the consumption poverty line show that moderate poverty in the sample villages declined overall by 17 percentage points between 1991/92 and 1998/99 and extreme poverty by 13 percentage points. Also, poverty rates declined by more than 20 percentage points over the seven years among the households that were program participants in 1991/92, which is about 3 percentage points a year. He concludes that microfinance helps not only poor participants but also the local economy.

The World Bank estimates that approximately one billion people around the world live on less than one dollar a day (World Bank, 2010). With the reaffirmation of reducing poverty as the primary goal in the development policy agenda, microfinance has become the much favored interventionist strategy amongst

international development agencies not only in poor countries, but also in the poorer areas of the richest countries (*Ibid*).

Microfinance can only make a significant impact in alleviating poverty if it establishes itself in these areas, which are typically characterized by a lack of basic infrastructure, such as telecommunications, roads, education and health care facilities, and primary services such as sanitation. This constitutes a major constraint to the establishment of vibrant, sustainable microfinance systems in the region (Churchill, (2007).

The study conducted in Nigeria by Oyeyomi (2003) on poverty reduction strategies found that income poverty is a global phenomenon which affects continents, nations and people differently. It afflicts people in various depths and levels, at different times and phases of existence. The most commonly way to measure income poverty is based on income or consumption line; for example a person is considered poor if his or her consumption level falls below one US dollar per day, a level necessary to meet basic needs.

In the study done in Nigeria by Charles, *et al* (2011) on the impact of micro finance on poverty alleviation in Nigeria, the empirical relationship between micro finance loan disbursement and poverty alleviation was tested in the study by employing chi-square test, F- test and T-test. The findings revealed that there is a significant difference between people who use microfinance institutions and those who don't use them. For those who used micro finance their income is higher as well as their economic status.

The study conducted in northern Bangladesh by Amin *et al* (2003) found that while micro credit is successful in reaching the poor, it is less successful in reducing income poverty which mostly face the vulnerable poor, especially the group most prone to destitution (the vulnerable poor). Coleman (1999) also finds little evidence of an impact on the program participants. The results, Coleman further explains, are consistent with Amani (2005) assertion that "debt is not an effective tool for helping most poor people enhance their income" and that the poor are poor because of reasons other than lack of access to credit. The survey of 1072 households of member and non-member borrowers from BRAC in Bangladesh borrowing beyond a certain threshold increases income and reduces poverty (Meenu, 2010).

The study conducted in Iran by Bakhshoodeh and Karami (2008) on the determinants of poor accessibility to micro credits found that credits supplied by the Iranian agricultural bank is an effective source for poor especially the youth to create job opportunities in remote areas and therefore to improve their income and welfare. However, there are many people who have not an easy access to the bank nearby their places of living resulting in weak access to consistent and sufficient discounted credits that can potentially affects household welfare outcomes through alleviating the capital constraints on agricultural households and increasing its risk-bearing ability and altering its risk-coping strategy.

Diagne, *et al.*, (2000) in other words, distance to bank is one of the key variables in determining poor access to credit for whom small loans could make huge differences and so, it may be primarily propounded that traditional agricultural banking sector should increase its number of branches in various rural areas to increase access of small and poor farmers to micro-credit. However, administrative cost of supplying loans to the poor population is extremely high. Another issue that makes it difficult to serve these customers through traditional banking is that the poor does not have any assets to use as collateral.

The study conducted in Kenya by Kiiru Joy *et al* (2007) on “the impact of microfinance on rural poor households’ income and vulnerability to poverty”. The study was an experimental case of Makueni district where participants in microfinance programmes and non-participants’ households were studied over time thus yielding a rich pooled data for analysis. On integrating time dynamics in the analysis, the results indicate a positive and significant impact of microfinance on household income .The thesis argues that there is a role of microfinance on the improvement of household incomes.

According to Kwamiet *al* (2006) microfinance contributes to a greater economic stability and well-being of poor families through increase in income, health, nutrition, education and empowerment. That is proven to improve the standard of living of many families to such a degree that they are completely lifted out of their impoverished situation.

Another study was done by Alemu (2012) Ethiopia who carried the research titled “Microfinance and poverty reduction in Ethiopia” by taking a sample of five hundreds households from Amhra region. Using different statistical techniques such as Chi-

square and paired T-test, the study found out that the poor have smoothed their income in the study area. However, there was a problem in the sense that clients were using the loan for unintended purposes. It was also observed that clients lack technical skills to engage in more profitable business activities. This may indicate that financial services alone could not be sufficient enough to raise the living conditions of the poor. Therefore he recommends business training skills apart from loan provision only so as to help the low income people.

Mosley (2001) argued that microfinance makes a considerable impact to the reduction of poverty through its impact on income and also has a positive impact on asset level. But the mechanism through which poverty reduction works varies between institutions. Generally, institutions that give, on average, smaller loans reduce poverty much more by lifting borrowers above the poverty line, whilst institutions giving larger loans reduce it much more by expanding the demand for labour amongst poor people.

In a study conducted by Kessy & Urio (2006) on the contribution of microfinance Institutions to poverty reduction in Tanzania, the researchers covered four regions of Tanzania which are Dar es Salaam, Zanzibar, Arusha and Mwanza. Both primary and secondary data were collected; primary data were collected from 352 Micro and Small Enterprises (MSEs) through questionnaires, as well as on doing interview. PRIDE which is a microfinance institutions were used as a case study so as to get the insight of MFI operations.

The study findings pointed out that to a large extent MFI operations in Tanzania has brought positive changes in the standard of living of people who access their services; clients of MFI complained about high interest rate charged; and the weekly meeting was pointed out as barrier as the time spent in weekly meeting could be used to other productive activities. The study recommended MFI to lower its interest rate, increase grace period and provide proper training to MSEs.

Another study was done in India by Adel Varghese and Ranjula Swain (2010) on the evaluating the impact of training for a national microfinance program to the Indian self-help groups, the study shows that provision of business training with microfinance leads to a positive impact on assets for the participating households.

To make businesses even more productive, some MFIs have targeted the health and happiness of the clients themselves, offering training in areas such as nutrition, health care, and domestic problem solving. These social services not only help clients profit from their loans, but also aid in the development of human capital an important contributor to the alleviation of income poverty.

Also the study was done in Uganda by Kwizera Alex (2011) on credit policy and loan recovery in Microfinance Institutions. The study revealed that credit policies exist in management laxity to effectively implement on them the same led to negative impact of loan recovery between the periods “2008-2010”. Nevertheless, there exists a strong positive relationship of 0.722 using Statistical Package for the Social Science (SPSS) between credit policy and loan recovery. Therefore this implies that the effectiveness of credit policy leads to higher loan recovery levels.

On their part, Barnes *et al.* (2008) conducted an impact assessment on clients from three microfinance organizations in Uganda. The loan strategies of these organizations involved lending to individuals who are members of a credit group; group guarantee of loans made to its members; a weekly repayment schedule with flat rates; clients having an enterprise that guarantees revenue weekly; a savings requirement; mandatory attendance at weekly group meetings; and loans at commercial interest rates. Some institutions reach out to women only, some loan to men as well women and some also educate group members on good health and nutrition practices.

They conclude that nearly all of the client respondents reported to have benefited from participating in their microfinance program. The most frequently mentioned impacts were the ability to meet basic family needs, learning savings skills, and growth of the enterprise. The difficulties most commonly reported by clients were time lost to weekly meetings, the weekly repayment schedule, and lack of a grace period after receipt of the loan.

Mapesa (2015), in his study on shaping the saving behaviour of the rural poor, found out that rural finance programs have significantly managed to mobilize savings of rural farm households. Furthermore, saving of rural poor are significantly influenced by MFIs specific characteristics and SACCOS members have more propensity to save than the rest of households with membership elsewhere, but also location (geographical) specific characteristics also determines the savings of rural

farm household but the study does not explain how the saving influenced the livelihood improvement of SACCOS members.

Kuzilwa (2005) examines the role of credit in generating entrepreneurial activities. He used qualitative data from a sample survey of businesses that gained access to credit from a government source. He found that the output of enterprises increased following the access to the credit. Furthermore, businesses whose owners received business training and advice performed better than those who did not receive any training.

Soke, *et al*, (2009) who investigated on the credit risk management strategies on selected financial institutions in Malaysia, observed that majority of financial institutions and banks incurred loss as a result of outright default, because customers were not able to accomplish obligations such as lending, trading, settlement and financial transactions. Credit risk associated with banks that deal with individuals, corporate and financial institutions. The failure of portfolio management tends to adversely affect liquidity and increases credit risk, consequently poor firm performance.

Moti, *et al* (2012) based on the effectiveness of credit management system on loan performance, experience from Kenya microfinance sector. They reported that credit risk controls that are implemented by microfinance institutions affect loan performance, various aspects such as credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers and reports on financial conditions generally had effect on loan performance. The used collection policies among the microfinance institution affect loan performance.

Pandy (2005) who focused on the public sector communication performance revealed that, microfinance institution need to collect promptly to fast turnover of working capital, keeping collection cost and bad debt management in the limit that effectively maintains efficiency. The collection need to show evidently the procedures that needed to be followed in collection of loan. It special tact to make loan follow up to avoid losing of customers to other competitors need to cover overdue accounts. The collection of accounts should start immediately to emphasize the debtors to accomplish obligations.

Kariuki (2010) focuses on the effective collection policy, asserts that different policies organization need to be followed to effectively manage credit. One of these policies is a collection policy which is required because customers do not pay the firms bills in time. While other customers are slow payers of their obligations, others are categorized as non-payers. The collection effort should aim at accelerating collections specifically from slow payers and reducing bad debt losses.

Ahmed and Malik (2015) who investigated empirically on credit risk management and loan performance of micro finance banks of Pakistan observed that credit collection, when organized systematic ways do manage to recover loans from past owing clients by the use of legal framework. There are different financial institutions, each of which has different loan collection procedures and policy. The improved collection procedures are needed for financial institutions to recover its obligations from customers.

The study conducted by Magali (2013) on the impacts of credit risk management on profitability of rural savings and credit cooperative societies in Tanzania observed that rural savings and credits cooperative societies need to process, monitor and follow up obligations from customers. It emphasized on the serious screening of borrowers before loan provision. The feasibility need to be conducted to client and issue loan to qualified borrowers only. The loan provision also should consider the risk variables and income of the borrowers to minimize default risks (Mustafa, *et al*, 2011). Also, Kurui and Kalio (2014) reported that credit risk control is a special ingredient in decreasing loan default levels and improving organization financial performance.

Vogiazas and Nikolaidou (2014) put much effort to study credit risk determinants in Bulgarian banking system. They observed that credit risk is increasingly drawing an attention due to debt burdened neighbours or nations. In the time of financial crisis majority of the SACCOS failed to collect their overdue because of mismanagement in credit collection. The efficient and strategic credit control is needed to minimize such disputes. The credit should be controlled continuously until the final payment is received (Moti *et al.*, 2012). The credit approach should be related to the existing financial environment to capture the need of borrowers and client in the micro financial environment.

The credit risk control is the action that needs coordinated tasks for controlling and managing risks that organization face. Special attention on the risk control process needs to be implemented in sustainable manner, until the borrowers accomplish the obligation. In line of that financial organization should continue apply to other borrowers until it accomplishes its objective and financial collection targets (Vogiazas and Nikolaidou, 2014).

In fact, credit risk entails on the risk that exposed to lenders to lose money as a result of borrowers default. The risk control procedures and techniques aimed at minimizing the possibility and chances that may result from risk (Frank, *et al*, 2014). Special attempt presented on the existing essentials of corporate finance argued that risk management practices used by financial institutions have strong and rational framework. It facilitates decision making that firms aimed to accomplish to attain objective. However, credit risk management practices have never been very perfect to accomplish and hence they reduce human elements to control risks (Garcia, *et al*, 2013).

Furthermore, studies have found that among factors which cause most MFIs to be financially unsustainable include, entirely dependence on external funds and poor financial management (Etuk, *et al.*, 2014). In the same vein, Shafi (2007) pointed out that absence of vital administrative abilities, outreach, low financing cost, low credit size, operational wastefulness, individuals dropout, high working costs, low reimbursement rates, low sparing assembly, poor management system and low institutional capacity also contribute to SACCOS liquidity problems.

Elahi and Rahman (2006) who found that microcredit may have positive impacts on microenterprise revenue, fixed assets, employment, transaction relationships, and formalization. In some cases, the impact was to increase the levels of these enterprise performance variables. In other cases, microcredit served to insulate the enterprises from the poor economic climate so that drops in these variables were not as large for clients' enterprises as they were for non-clients.

On microenterprise revenue, microcredit appears to have positive impacts in both the treatment and new entrant groups. In monetary terms, treatment group households were estimated to have earned over US\$ 1,000 more that control group households in combined annual microenterprise net revenue (profits), and increased

US\$ 740 more per year for new entrant households than for control group households.

The data from the case study research indicated that the likely path by which these impacts occur is through an increase in enterprise working capital, so that entrepreneurs can buy more inventory, secure lower input prices, and increase sales and profits. On the other hand microcredit offered by SACCOS are risky and because of the clients economic situation. The risk mostly influenced by the way credit is organized and loan officers may minimize such negative facets through borrowers properly scrutinized. It is important and foremost to assess the borrowers' capacity and ability to recover the loan.

Dunn and Gordon (2001) that analyzed the impact of micro credit in Peru was based on a conceptual model of the household economic portfolio that led to impact hypothesis at the enterprise, household and individual levels. The microcredit observed to increase income to members while credit risk said to increase especially where the loan officers failed to assess the borrowers' capacity. It is important to assess the borrowers' capacity to recover loan and interest rate, sometimes the credit risk associated to borrower low economic situation and poor business performance.

As per ILO, statistics of 2004 uncovered that more needy individuals require savings services than loans. To up-lift the poor teaching how to use his restricted resources in a wise manner and developing saving culture is vital; savings are the privileged of investment that produce the start-up capital that welcomes savers to consider sparing driven ventures, that may prompt benefit or to be reinvested over and over. This builds self-financing and self-securing focused family units in the group (Mapesa, 2015).

SACCO's members are expected to build up a saving culture to manage their SACCOS financially and to battle reliance disorder depending on external borrowing which is fairly costly and in this way deny them of the would-have been profits. It is specified that without saving, individuals could confront serious issues of survival when they are no more ready to work. SACCOS are available to individuals inside the social orders not at all like urban based business banks and other business small scale fund organizations (Nkinda, 2005).

The SACCOS fall in the most reasonable organizations in small scale finance industry depend vigorously on saving mobilization (Omika, 2014). The overview further uncovered that, the capacity to successfully prepare store depends enormously on the full scale financial and legal environments (Ray, 2010).

Sicular, *et al*, (2007) who observed on the impact on transaction relationships was that microcredit helped commercial entrepreneurs buy inputs in more advantageous ways. Client enterprises were estimated to be about 9% more likely than their control group counterparts to have changed their main sources of suppliers from retailers to wholesalers, saving money by buying inputs in bulk at lower prices. Microcredit also appeared to help entrepreneurs gain ownership of their business premises, at a rate estimated to be 9% higher than those in control group. Premise ownership provides incentive to improve it; entrepreneurs do not have to spend money on rent; and does not have to fear eviction; whereas on formalization, among enterprises with similar characteristics, treatment group enterprises were estimated to have increased their level of municipal licensing by 4%, compared to a 9% decline for the control group.

Lema (2011) on enterprise fixed assets, the results suggest that primary enterprises in the treatment group accumulated US\$ 500 more in enterprise fixed assets than did enterprises in the control group. As regards enterprise employment, the results indicate that those households receiving microcredit provided about 9 more days of total employment per month and 3.25 more days of paid employment per month for non-household members than households not receiving microcredit.

The experience of nations like India, China and Kenya exhibit that low wage family units are fit for sparing a much bigger extent of their pay. The report called attention to that the impact sparing conduct of family unit relies on upon the capacity to save, propensity or ability to save and having chance to save (Tache, 2006).

Dunn and Arbuckle (2010) who observed on the effect of microfinance on many welfare variables, the household income was mostly considered as the held steady that could minimize the credit risk. Thus, the borrowers who are client in microcredit with low income tend to recover loan with more risk compared with those household with high income. The low income household to fulfil SACCOS obligation are require to reduce in expenditures on in various aspects; household appliances and food and beverages; this especially evident in downturn in the economy.

On the other hand, they found significantly higher investments in education and enterprise fixed assets. Households also reported a higher incidence of financial shocks and turned more frequently to coping strategies that adversely affected their productive assets. The increase of national income and capita income are controlled with households' economic situation. These impacts on income can probably be attributed to growth in enterprise revenue, which would indicate that microcredit driven changes in enterprises result in improvements in household welfare.

Self-sufficiency in financial resources prompts a greater measure of better performance and self-control of SACCOS contrasted with other financial institutions which dispense credits out of settled stores of their individuals' and consequently control the obtained reserves, capital expense and its length as indicated by the volume of fixed deposits and their due time of payment.

Furthermore, a study conducted in Kenya by Maghimbi (2009) on variables contributing to liquidity problems and credit risk in SACCOS discovered that there were delays in settlements, loan defaults, low monthly earnings and inability to put resources into illiquid speculations prompted misfortunes that led to no growth of wealth. One of the key issues of SACCOS in Africa is connected with liquidity managing and capital levels, while meeting the requirements of member's withdrawal obligations. This is in regard to the model financial co-operatives in Africa had chosen to adopt.

Fundamentally, the model takes after the three to one standard, in view of part investment funds and shares. This implies credits are accessible to one each three individuals at any given time and that openness of advances turns between individuals on this premise. Under normal circumstances in the event that this imitation is managed effectively, it can keep on working as it has been in Africa for quite a while (URT, 2002).

However, during times of monetary downturn, the working of the SACCOS can be undermined if individuals' earnings are destabilized by instability in the economy. This may see individuals' cooperation with the SACCO vary and the functionalities of the three to one framework may crumble (Petrakis and Kostis, 2012).

Wambugu (2008) who found that microcredit may have had a negative impact on education spending among new borrowers. New entrants were estimated to spend US\$ 59 less per student in 1999 than comparable households in the control group; may be in order to focus their resources in improving their businesses and adjusting to the exigent demands of credit repayment. As regards expenditure on food, non-poor households reduced their per capita daily food expenditures, probably by cutting back on higher priced food items. By contrast, the poor households in the treatment group increased their expenditures on food; and there is weak evidence that microcredit may have positive impact on food expenditures for poor households. As to coping with shocks, evidence suggests that households who received microcredit were more likely to cope with shocks by liquidating productive assets, especially for the poor. With already low income levels, the poor have fewer options for coping with a shock while continuing to make payments on a loan. Results from the case studies suggest that the pressure to make loan payments can turn what might ordinarily be a minor problem into a major financial crisis.

In their part, Barnes *et al* (2008) who conducted a study on the impact assessment on clients from three microfinance organizations in Uganda. The various loan strategies of SACCOS involve lending to individual members of credit group, the loan are organized to the SACCOS members. The members are responsible to pay loan based on the repayment schedule, it may be a weekly on the flat rates; clients having an enterprise that guarantees revenue weekly; a savings requirement; mandatory attendance at weekly group meetings; and loans at commercial interest rates.

Some SACCOS reach out various category of society, it may be organized for women or some loan to men and some also educate group members on good health and nutrition practices. This study concluded that nearly all of the client respondents reported to have benefited from participating in their microfinance program. The most frequently mentioned impacts were the ability to meet basic family needs, learning savings skills, and growth of the enterprise. The difficulties most commonly reported by clients were time lost to weekly meetings, the weekly repayment schedule, and lack of a grace period after receipt of the loan. However, the microfinance programs is very risk activities, this partly influenced with the activity or business enterprise uncertainty.

Vogiazas and Nikolaidou (2014) who observed that credit may result in both positive and negative impacts on individual borrowers. This seemingly to create positive impacts to increased feelings of preparedness for the future. The microcredit may have negative impacts on client self-esteem, strain on household relationships, which may stem from stress relating to the pressure to repay loans. Also female entrepreneurs tended to exercise more control over household and enterprise resources and also appear to save more consistently than male entrepreneurs.

Rime (2001) who examines the role of credit in generating entrepreneurial activities. He used qualitative data from a sample survey of businesses that gained access to credit from a government source. He found that the output of enterprises increased following the access to the credit. Furthermore, businesses whose owners received business training and advice performed better than those who did not receive any training.

Goldlewski (2004) who shows that business performance in terms of profit generation and employment creation is positively related to the size of the firm, suggesting that strategies that promote vertical growth are more favourable than promoting horizontal growth. They also found that socio-economic factors positively influence profit margins and employment creation. These factors include the business owner's gender, level of education, motivations for establishing their businesses, sources of initial capital, and the technology used.

The key findings from the study by Banerjee, *et al*, (2010) found that MFI programs are primarily reaching low-income, moderately poor micro-entrepreneurs. The positive impacts of microfinance were found at the level of enterprise. Program participation was strongly linked with clients adding new products/services, moving to new premises or selling in new markets, improving or expanding their enterprise premises, reducing costs by buying in bulk, and increasing the size of their stock and sales volume.

The results suggest that access to lump sum cash provides clients with a broader range of choices for managing their enterprises and for taking advantage of opportunities that require chunks of money. Loan funds or profits from use of loans open up a range of choices that the micro-entrepreneur otherwise would be unlikely to have. The MFI programs face the credit risk because of the client financial vulnerability through diversification of income sources. Program participation was

found to be associated with client households establishing new enterprises, increasing the amount of loan to members is associated with increasing risk. The strategies of MFI programs help to empower clients, especially poor people to take loan with low interest while minimizing the credit risk, through increasing the ability of loan officers to collect information from borrowers and provide loan accordingly. The members need to save and loan extended to the amount served three times.

In another study done in Dar es Salaam, Maliti and Mnenwa (2008) examine the role of small businesses in poverty alleviation in Tanzania. They used primary data from 225 randomly selected manufacturing small and medium sized businesses in the three districts of Dar es Salaam. The data gathered supports the hypothesis that small businesses do contribute to poverty alleviation.

Results showed that average incomes generated by surveyed businesses were above the basic and food poverty lines, much more for small scale than micro-enterprises. However, they observe that although many SMEs have been established over the last two decades, poverty has continued to be a major characteristic of many people in the country, raising the question whether SMEs play any role in poverty alleviation. As indicated in earlier studies, they note that given the characteristics of the market in which micro enterprises operate, i.e. low income, low value-added activities, intensive competition and over-trading, a deliberate strategy to replicate these kinds of businesses simply threatens existing businesses and results in insecurity for existing entrepreneurs.

Osoro and Muturi (2015) discovered that reimbursement execution is fundamentally influenced by the borrowers' attributes, banks qualities and advance attributes. Reimbursement issues can be in type of credit misconduct and default. Whatever the structure in any case, the borrowers alone can't be considered dependable wherever issues emerge. It is essential to inspect the degree to which both borrowers and banks conform to the advance contract and additionally the nature and obligations, duties and commitments of both sides as reflected in the configuration of the credit programs than lighting accuses just for the borrowers.

As indicated by Omika (2014), SACCOS grant loans on the basis of member's savings. The credit might be pretty much than the investment funds of the borrower. Advances not exactly the part's investment funds are secure and the reimbursement is guaranteed. Credits in abundance of the part's funds must be ensured by different

individuals. Advances that are not recouped are thought to be reprobate and thus defaulted.

Ipaat, *et al.* (2014) discovered that the way in which borrowers are chosen and the measure of loan offered out to each effective borrowers decide the greatness of loan delinquency. Borrowers who are given advances can reimburse without hardships and scarcely default. A study made by (Ogujiuba, Ohuche and Adenuga, 2004) discovered that 63.7% of the MFIs reviewed were little gatherings and little foundations including multi-reason NGOs, SACCOS and casual association. These MFIs were compelled by liquidity in this way being not able to give their clients' larger sums of loans for a longer period.

Banerjee, *et al.*, (2010) discovered that solid observational data is essential to legitimate adjustment with regards to residential and worldwide liquidity control. While controls can make the money related framework stronger to liquidity hiccups, alignment ought to perceive any related expenses to the proficiency of monetary intermediation as this could bring about higher acquiring costs for different operators in the framework.

Liquidity deficiency, regardless of how little or huge it is, incredibly dissolve members' confidence and savings. It requires a long investment to manufacture custom client relationships and therefore liquidity crisis can destroy those relationships instantaneously. So as to avoid a liquidity crisis, management needs a particular strategy and set up strategies for measuring, observing, and managing liquidity. Liquidity lack is subsequently related and related with problems posed by information asymmetry, agency relationships and credit proportioning and mismatch between demand and supply of credits, all indicating at liquidity as a noteworthy issue for the MFIs. SACCOS and smaller financial firms live under tight liquidity constraints thus neglect to give credits as expected (Bee, 2007).

The fundamental motivation behind why organizations come up short and banks close is a result of liquidity problems. This circumstance is constantly accounted by MFIs especially SACCOS. Besides, most MFIs don't have arrangements for liquidity administration (Morgan, 2006). Liquidity deficiencies can be brought about by either outer business sector powers, for example, the inability to build stores or obtain reserves and inward disappointment because of lack of common sense and money administration.

The study made in Uganda by Ray (2010) discovered that MFIs clarified liquidity hazard as the likelihood of negative sound impacts on the premiums of individuals if there should be an occurrence of SACCOS, clients and different partners because of inability to meet current commitments in an auspicious and financially savvy way adequately foresee and get ready for changes in subsidizing sources and money needs. These could lead MFIs coming up short on assets in the short or long haul, which could make MFIs bankrupt either incidentally or for all time.

With the backing of Tanzania government, sources of external credits have been guaranteed in Tanzania for the cooperative movement. However, these circumstances put much enthusiasm for the issue of dependence on external financing of credits for the liquidity requirements of marketing cooperatives. The abundance liquidity of SACCOS could be all the more proficiently used to serve the credits necessities of SACCO's individuals and accordingly diminish on reliance on outer account sources. Moreover, this liquidity could be utilized to give produce storerooms that give ranchers more controls over the offering cost of their products. Much as SACCOS includes Government workers (Maghimbi, 2009).

Masinsi (2015) who focused on the contribution of microfinance on entrepreneurs performance perspectives from KKKT SACCOS and GEMA SACCOS in Dodoma Municipality. This study guided by three specific objectives namely; to examine the contribution of microcredit to business expansion of entrepreneurs, to evaluate influence of microcredit on liberating entrepreneur from their social determined roles and to examine relationship between microcredit and reduction of business failures by entrepreneurs. The study was a survey and empirical in nature design.

The study used a sample size of 81 respondents. This sample size was obtained through probability sampling technique in which systematic random sampling was used in selecting the entrepreneurs SACCOS client and Non probability sampling in which purposeful sampling was employed to obtain SACCOS committee members and loan officers. The findings revealed that microcredit contributed to business expansion in terms of increase in asset and saving of entrepreneur. The microcredit influence liberating entrepreneur from their social determined roles such as entrepreneur position increase in economic activities and income that gained widely attention in social roles.

Also, microcredit contributes to business failure due to high interest rate on loan and poor arrangement in loan recovery, provide difficult for entrepreneur with multiple loan. This study recommends that SACCOS management need to charge considerable interest rate for effective microcredit operation that is potentially ingredient of entrepreneur business performance.

Furthermore, Masinsi (2015) who revealed that the microcredit contributed to business expansion in several aspects such as increase in asset and saving of SACCOS members who are currently entrepreneur, this mostly influence business expansion and market size. Microcredit helped adequately to expand business of entrepreneurs to capture large market and asset as well as saving realization. The microcredit existence improved entrepreneur business in terms of asset and capital as well, also literature indicated that entrepreneur through existence of microcredit service managed to operate business and gained business expansion.

Mostly, microcredit influence liberating entrepreneur from their social determined roles such as entrepreneur position increase in aspects of increase in economic activities and income, also the opportunity of knowledge and business network has widely improved and gained widely attention in social roles. The entrepreneur managed to capture social attention and network, due to wide interaction from microfinance. It can be deduced from the literature that microcredit helped entrepreneur to gain social attention and recognition that is market and sales increase.

Lastly, microcredit contributes to business failure that is owned by entrepreneurs. The high interest rate on loan and poor arrangement in loan recovery, provide difficult for entrepreneur with multiple loan. Also literature indicated that microcredit is not the only element for business failure, but other elements are existence such as poor management. The interest rate charged on loan is important cost of loan to effectively manage and control the microcredit services.

Renatus (2005) in Tanzania microfinance interventions are well recognised as an alternative tool for poverty alleviation and improving socio-economic conditions of the country, microfinance is making headway in its efforts in reducing poverty and empowering rural as well as urban and unprivileged entrepreneur. Microfinance programmes, through a network of commercial banks, NGOs and Microfinance Institutions like SACCOS, FINCA and PRIDE have been largely supply driven.

Revealed, that microfinance institutions are expected to effectively make positive economic and social changes to all members' community at large, irrespective of the direct borrowers of the credit. Importantly, in fact, the SACCOSs facilitate the poor, especially entrepreneur to overcome the existing constraints in solving the wider gender issue, grappling the former credit institutions that construed the poor as un-bankable.

The promotion of income generating activities for the poor rural and urban entrepreneur is perceived as a powerful medium for resolving social and economic problems such as alleviation of poverty (MKUKUTA), provision of goods and services appropriate to the local needs, and redistribution of income and opportunities within the community. Microfinance services need critical assessment of socio-economic status of the members in order to analyse the impact of respective policy interventions.

Magali (2014) conducted a study in Tanzania on the effectiveness of loan portfolio management in rural SACCOS in which he showed that loan is classified into 4 classes. The risk portfolio is reported to be not effective because it is based on the single class. The quality of loan portfolio was influenced by the loan size; on the other hand, the influence of gender and location of the borrowers were insignificant in loan risk.

The rural SACCOS are in most cases reported to engage in portfolio diversification, collateral, guarantors, letter from the village/ward government and affidavit from the lawyer purposely for credit risk mitigation. Also, the quality of loan portfolio is clearly threatened by the fluctuation of price of agricultural products. It later on recommends that rural SACCOS should enhance portfolio control and revises the loan maturity purposely to improve the quality of loan portfolio in the SACCOS.

A study directed in Tanzania, on liquidity constraints and credit risks associated to access of credit and pro- poor in rural Tanzania" found that small scale farmers in developing countries may become mesmerized by absence of liquidity required making profitable investment due to increased credit risk and its effects (Nyamsogoro, 2010) The increased access to credit could create expert poor monetary development if poor families are generally liquidity obliged families advantage from the new money related administrations. The study uncovered that expanded account for liquidity-compelled family units could create expert poor

development, however that general extension of money related administrations to families that have no entrance to credit would not successfully target lower wage families or families whose homestead exercises are liquidity-obliged.

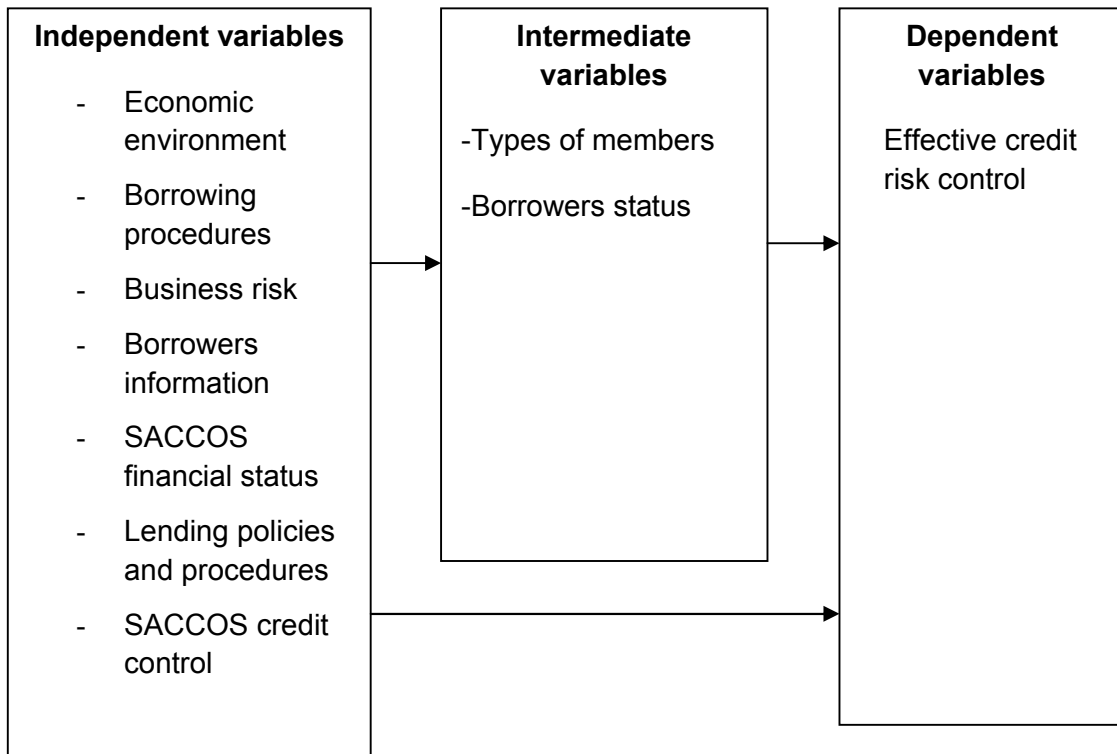
2.5 Research Gap

SACCOS encounter problems of loan default rate created by SACCOS members it is a major risk in SACCOS operation and control (Magali, 2013). (Karumuna and Akyoo, 2011). (Mapesa, 2015). Increasing the SACCOS members default rate is one of the situation that showed that credit are essential for SACCOS operation, previous studies do not take into account the study of credit risk a separate issues in credit management and SACCOS operation (Legat, *et al.*, 2013). Failure to document this credit risk a separate issues is where the study emanated, to be seriously focused on the factors behind credit risk at Hazina SACCOS Dar es Salaam.

2.6 Conceptual Framework

The credit risk in SACCOS is influenced by a number of factors that are termed as independent variables that are; economic nature it is important to note that economic situation are the basis of credit risk minimization once perform well, policy related, borrowers' financial situation and information that has SACCOS concerning the borrowers. All these facets are reported to be directly related to the SACCOS financial status once the borrowers are financial status improved means that manage to meet the obligation, lending policies and procedures and SACCOS credit management. Once all these policies, procedures, SACCOS management are properly directed to control the credit risk, the SACCOS attain effective credit risk control, and as a result borrowers meet obligation, timely loan payment, and the credit organization attain its financial stability. From this diagram the explanation indicate relationship as discussed above.

Figure 2.1: Conceptual Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

This chapter provides a research approach and design that guided the study operationalization. It specifically begins in the explanation of research design, study area, population, sample and sampling, data collection methods, data analysis, validity and reliability and ethical consideration. It provided the way and approach for organizing data collection and analysis for research objective accomplishment.

3.2 Research Design

Research design is termed as a plan or strategy of shaping the research, it is evidently termed as the entire process of research from the initial stage of conceptualization of a problem to final research of findings presentations. According to Kothari (2004) research design is recognized as arrangements of conditions for collection and analysis of data with the purpose of addressing the research questions. The research design provides a plan and direction to achieve the research major themes, it is presented with more detail and methodological aspects to accomplish the objectives. This study used the case study design, because the chosen case study presented more insight on the factors for credit risk and it was intended to go deeper on the factors of credit risk at the individual Hazina SACCOS in Dar es Salaam, Tanzania. It considers the use of qualitative approaches to collect data for detailed explanation of the study topic were collected from the key informants also quantitative approach was considered to collect data in terms of numeric forms from SACCOS members.

3.3 Study Area

The study was conducted at Hazina SACCOS in Dar es Salaam which is one of the SACCOS that experience credit risk, loan default and where the borrowers cited the problem, the researcher had convenience in data collection and where the problem is evidently present. This Hazina SACCOS comprised of 600 members and majority of Hazina SACCOS members were with poor economic status.

3.4 Target Population

A population is a collection of all items in a field of inquiry from which a sample is obtained (Kothari, 2008). It refers to all elements (people, companies, production units) which have common characteristics. The target group is 600 members of Hazina SACCOS in Dar es Salaam, Tanzania.

3.5 Sample Size

Sampling means, drawing only a part of a population and study it in order to make inferences about the population. A sample design is a definite plan for obtaining a sample from a given population. Also, it is recognized as techniques that a researcher adopts for selecting items for the sample. The sample is calculated from the target population by using formula that is developed by Yamane in 1967.

$$n = \frac{N}{1 + N(e)^2} \dots\dots\dots (1)$$

Where by n = Sample size

N= Total population of Hazina SACCOS estimated to be 612

X = Precision (10%)

I = constant

Thus

$$n = 612/1+612X (0.1^2) =86 \text{ Respondents}$$

A total sample size of 86 respondents were drawn

3.6 Sampling Procedures

The study used two sampling techniques; purposive sampling and random sampling, purposive sampling is a sample deliberately chosen from the population based on the knowledge of a population and the study purpose (Kothari, 2004). Purposeful sampling procedure was used to select SACCOs staffs such as credit officers, branch managers and customer care staffs. On the other hand simple random sampling involves giving a number to every member of the accessible population and then picking any number at random. The simple random sampling was used to obtain 86 HAZINA SACCOS members.

3.7 Data Collection Methods and Tools

The study was used both primary and secondary data, the following are the major explanation of data collection methods and tools.

3.7.1 Primary Data

Primary data was defined as original data that are not already published, it is directly obtained from the field, using questionnaire and interview.

3.7.1.1 Questionnaires

The questionnaire is data collection tool that allowed the operationalization of the research questions; it is a research instrument with various questions for the

purpose of collecting information. It facilitated the collection of data and information in a relatively short period of time in a cost effective way. The questionnaire was facilitated data collection from SACCOS members basing on the major study theme.

3.7.1.2 Interview

Interview gave the researcher freedom to probe the interviewee to elaborate or follow a new line of inquiry introduced by what the interviewee was saying. The face to face organized interview was increasingly associated with the advantage of supporting the research to obtain or establish rapport from participant and their relatively cooperation. It was also allowed to clarify ambiguous answers and make follow up information. It is recorded as a systematic conversation between two or more people. It was given more freedom to probe the interviewee to elaborate the answer. This method was used to collect data from SACCOS management staffs, loan officers and customer care on the factors for credit risk in Tanzanians SACCOS, Dar es Salaam, Tanzania.

3.7.2 Secondary Data

Secondary data refers to data that was collected from published or unpublished documents. It was collected through documentary review of various documents to capture the important theme.

3.8 Data Analysis

The study collected qualitative data though questionnaire, which, after being collected, were analysed using Statistical Package for Social Scientists (SPSS). It was chosen to analyse data because it is simple and capable of generating information. In analyzing data descriptive analysis was applied. It was used to get percentage and frequencies, clearly descriptive and cross tabulation was selected to obtain user friendly tables worthy reading. The qualitative data was analyzed through content analysis. The multiple regression equation to be estimated is as follows:

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \beta_7 x_7 + \beta_8 x_8 + \beta_9 x_9 + \beta_{10} x_{10} + \beta_{11} x_{11} + \mu$$

Where; is the Y-intercept, β_0 is the Beta coefficient of X_n variable and μ is the error term. The regression model was used to present the measures to address credit risks the variables are defined as:

X_1 - Strengthen SACCOS management

X_2 – Proper loan procedures

X₃ – Members encourage to provide true business information

3.9 Validity and Reliability of Data

3.9.1 Validity

Validity is basically concern on the instrument ability to measure what it supposed to measure. It was referred to the degree that the study specifically intends to assess and measure specific concept that it is attempting to measure (Fidel, 2007). This study to captures the validity it was applied interview and questionnaire for collection of primary data. The documentary analysis for secondary data, It was conducted through piloting of the data collection instruments. Also it was allowed respondents to participate freely and give opinion, the questionnaire was designed with simple English and it was translated to be well understood by SACCOS members.

3.9.2 Reliability

Reliability on the other hand refers to the relative absence of random measurement error for precision and instrument measure of data. In order to collect reliable data, the interview and questionnaire were designed in an elaborate procedure that involves a series of revisions under the guidance of the study supervisor to ensure field work was conducted in a high quality data collection. Also, quotes from interview and statement from questionnaires was used to ensure reliability.

3.10 Ethical Consideration

The aim of this study was to communicate with all respondents; firstly it informed respondents that, all responses were voluntary, verbal and a written consent taken as part of this study. The introduction and elaboration of objectives were given to every respondent before engaging him or her in the field work. This study had been focused on communicating each respondent in terms of verbally or written consent. All research tools have been introduced to participants to keep identity anonymous, to avoid any harm to respondents. This study has been abided by the ethics of social research ranging from professional to researcher respondents relationship. All respondents who have been assisted in one way or another were given due respect. Acknowledgement of other scholars' works is maintained in the whole research process.

CHAPTER FOUR RESULTS AND DISCUSSION

4.1 Overview

This chapter presents the findings and discussion of the research that is divided into several sectors; such as profile of respondents, the factors for credit risk at Hazina SACCOS in Dar es Salaam, the effects of credit risk at Hazina SACCOS and the measure for dealing with credit risk at Hazina SACCOS.

4.2 Profile of Respondents

This section describes social and economic characteristics of the respondents who provided information on the factors for credit risk at Hazina SACCOS Dar es Salaam, Tanzania. The study examined the characteristics of the respondents based on the sex, age, marital status and education level of respondents.

4.2.1 HAZINA SACCOS Members distribution by Sex

The SACCOS members' distribution by sex is not a focus of this study, but being used to provide relevant information on the study. The SACCOS members are composed of both male and female, basically presented the factors for credit risk at Hazina SACCOS as shown on Table 4.1 below.

Table 4.1: SACCOS Members Distribution by Sex

Category	Frequency	Percentage (%)
Male	53	61.6
Female	33	38.4
Total	86	100

The findings show that more than half (61.6%) of respondents were male, while (38.4%) were female. The male SACCOS members appeared majority than female counterparty Hazina SACCOS members. These findings imply those males are more SACCOS members than female because male dominate in most cases matters pertaining to finance in most households. Similarly Soke, *et al*, (2009) pointed out that matters regarding to finance dominated with male than female counterparty.

4.2.2 Education Level of Respondents

Respondents with certain levels of education were considered to be relevant than illiterate ones. The education levels of respondents on the analysis of factors for credit risk at Hazina SACCOS are presented on Table 4.2.

Table 4.2: Education Level of Respondents

Category	Frequency	Percentage (%)
Primary education	44	51.2
Secondary education	22	25.6
College education	16	18.6
University education	4	4.7
Total	86	100

The findings on Table 4.2 indicate that a large proportion (51.2%) of respondents had primary education, while (25.6%) had secondary education compared to (18.6%) who had college education and a small proportion (4.7%) had university education. The respondents with primary education appeared to be majority than any other level of education because it is one of the basic and compulsory education levels in Tanzania.

Similarly Nkinda, (2005) pointed out that in the respective credit risk analysis basic and lower level of education are required to be utilized for precise presentation of the factors for credit risk. It is important to note that credit risks are factors that need to be clearly presented, the illiterate respondents may not clearly present the credit risks, this study managed to use literacy respondents. Similarly Karumuna and Akyoo (2011) the matters of loan and credit risk are importantly to be discussed and presented for precise judgment on credit and respective risks, the precise presentation of matters call for experience and sufficient knowledge, at with basic and lower primary education increases the knowledge for respondents to discuss the credit risks.

4.2.3 Marital Status

The respondent's presentation of their marital status shed light on the factors for credit risks. It is important to seriously focus on the credit and the respective respondents' marital status, Table 4.3 presents.

Table 4.3: Marital Status of Respondents

Category	Frequency	Percentage (%)
Married	42	48.8
Single	33	38.4
Divorced	6	7.0
Widow	5	5.8
Total	86	100

Marital status was considered to be helpful on the credit risk and its relevant factors. Table 4.3 shows that about (48.8%) of respondents are married, followed by (38.4%) who are single respondents, (7.0%) who are divorced and the smallest number of respondents (5.8%) who were widows. These findings imply that married respondents appeared to be majority because of family responsibilities that triggered them to be a SACCOS member. The marital status is generally connected with the marital status responsibilities. The credit risk is generally associated to the marital status of respondents, it is important to affirm that borrowers with marital status commitments are more inclined to accomplish the obligation than the ones without marriage responsibilities.

Similarly, Magali (2013) pointed out that with married responsibilities the credit risk tend to be minimized than the single one. The SACCOS due to credit risk reduced its ability to extend loan to its members and more particularly the respondents with marital issues are required to lower its credit risk. The married members tended to pose less credit risk, this being supported by Legat, *et al*, (2013). It is therefore important to consider the marital status of respondents, as this helps to gauge responsibilities and ability of fulfilment of credit responsibility. However, according to Alfred, (2011) members with marital status may be a cause for SACCOS insolvency, especially at periods of poor economic conditions.

4.2.4 Occupation of Respondents

The respondents' occupations are important to be presented for a letter analysis of the factors for credit risks because members with occupational levels provide more room for credit risk determination and its respective factors. Table 4.4 showed the respondents with levels of occupation.

Table 4.4: Occupation of Respondents

Category	Frequency	Percentage (%)
Private sector employees	21	24.4
Government employee	32	37.2
Self employed	33	38.4
Total	86	100

The findings on Table 4.4 show the respondents' distribution by occupation. A simple majority (38.4%) of respondents was self-employed, compared to (37.2%) who are government employees and (24.4%) who were private sector employees. These findings imply that Hazina SACCOS is composed of majority self-employed members, who would need finance and credit supports. The SACCOS members are mostly composed of self-employed cadre due to low ability of commercial banks and other financial institution to intervene: the SACCOS remains as the best alternative to give out credit. As observed by Kariuki (2010) self-employed people are mostly connected to SACCOS as its operations are generally of a semi-formal nature and are separated from the commercial banks due to low ability to present collateral. The SACCOS are attached to low and common conditionality to low income people. An interview with one of the loan officers revealed that SACCOS members are mostly recognized as self-employed people some of them operated in small scale and possibly may fail to mitigate credit risks. These people are acceptable in SACCOS because of the criteria of membership and ability to be listened through general meetings.

Also, Vogiazas and Nikolaidou (2014) observed that SACCOS members are mostly composed with self-employed people especially in petty trade and possibly operated without proper business premise, the low acceptability under the commercial banks and other financial institution, the best alternative and almost accessible termed as SACCOS.

4.2.5 Age of Respondents

The findings on Table 4.5 indicates the age of respondents, about 52.4% of respondents had age of between 38-56 years, followed by 36% of respondents who had age of between 19-37 years and small proportion 11.6% respectively. These findings indicated that active, energetic and matured respondents participated to provide information on the credit risk determination and its respective factors. These

imply that information provided is based on the experience of the productive age group that are currently participation in economic activities.

Table 4.5: Age of Respondents

Category	Frequency	Percentage (%)
19-37	31	36
38-56	45	52.4
57 and above	10	11.6
Total	86	100

4.3 The Factors for Credit Risk at Hazina SACCOS in Dar es Salaam

The first task under this study sought to identify factors for credit risk at Hazina SACCOS in Dar es Salaam.

4.3.1 The Condition for Credit Provision

The credit provision at Hazina SACCOS mostly attached with several conditions that must be seriously observed and fulfilled by the borrowers, the conditions are basically termed as the first strategies for credit provision. The findings on Table 4.5 present the respective conditions for credit provision.

Table 4.6: The Condition for Credit Provision Multiple responses

Category	Frequency (n= 86)	Percentage (%)
Filling credit Application form	86	100
Loan officer visitation	63	73
Collateral assessment	82	95.3
Credit committee discussion	46	53.5
Checking member saving with respect to loan amount requested	18	20.9

The findings on Table 4.5 show the condition for members to obtain credit. Using multiple responses analysis the results showed that majority (100%) reported to fill credit application form which is a basic and essential step that comprises the borrower's information. About (95.3%) reported to have been assessed based on the collateral, compared to (73%) who reported to follow the steps of loan officer visitation and (53.5%) who were passed on the credit committee discussion. A slight numbers of Hazina SACCOS members suggested passing through the stage of being checked with respect to the amount of loan requested.

The interview responses with one of the Hazina SACCOS financial and loan committee, suggested that, “ *The commonly and easy steps that are followed by every members demanded for credit is filling the application forms; this provides us as finance and loan committee, information to come with evidence and basic qualification for the initial assessment.*”

The loan officer, continued saying that, “*every applicant of credit at Hazina SACCOS is entitled to fill the application forms, as the first steps towards credit accessibility conditionality, for that reasons it is important to note that not every applicant of credit is guaranteed to obtain the credit,*”

Another suggested that, “*after filling the credit application forms, the next step that we use to reduce the credit risk is to assess the collateral to check its worth compared with the amount of loan applied; this helps us to minimize the credit risk, such as once we identified the ability of collateral and the amount applied are quite different, such as the collateral is of low values, we normally reduce the amount or even terminate the application.*”

Similar observation is reported by Frank, *et al*, (2014) that every applicant of credit is entitled to fill the credit forms, this is recognized stage for supply of necessary credit information and borrowers characteristic, including the status and the place of resident, possibly information for making a follow up is also indicated in the credit application forms. Concurrently Magali (2014) points out that failure to fill the credit forms may lead to credit disaster, it would be difficult to make a follow up especially when the borrowers are at the point of default.

4.3.2 The SACCOS Members’ Ability to Pay Obligation Timely

The credit risks are reduced due to the SACCOS members’ ability to fulfil the obligation on timely basis. The ability to pay obligation or not be able to fulfil financial obligation are some of the necessary prerequisite to be considers in credit risk of SACCOS. Table 4.6 presents the SACCOS members responses on the fulfilment of obligation.

Table 4.7: The SACCOS Members Ability to Pay Obligation Timely

Categories	Frequency	Percentage (%)
Manage to pay obligation	39	45.3
Failed to pay obligation	47	54.7
Total	86	100

The SACCOS members' ability to pay obligation presented on Table 4.6. shows that more than half 54.7 reported to have failed paying obligation timely, compared to (45.3%) who reported to have managed paying obligation timely. These findings showed that Hazina SACCOS experience credit risk because of large proportion of members who failed to pay obligation timely. This reduced the SACCOS capacity to the extent that new credit became impossible to issue.

During an interview with one of the Hazina SACCOS loan officer, on the ability of SACCOS members to pay obligation timely, he suggested that, "*normally SACCOS members are accomplishing obligation depending on the economic situation and its respective performance, with current economic situation members have failed to pay obligation timely. The economy is not performing well. Some of them failed to pay obligation at all, even their asset to recover the loan is very difficult to convert into money,*"

Similar observation was reported by Vogiazas and Nikolaidou, (2014) that ability to pay claim at SACCOS are importantly managed during healthy financial times; during financial crisis members fail due to low ability and responsiveness. Similarly, Moti *et al*, (2012) observed that SACCOS members are vulnerable to lack of loan payment and failure of obligation fulfilment especially at hard economic period, because majority are business people who are affected by the prevailing economic condition.

4.3.3 The Factors for Hazina SACCOS Member's Failure to Accomplish Obligation Timely

The factors for Hazina SACCOS members' failure to accomplish obligation are presented, because SACCOS members are required to pay the obligation on time basis to facilitate and enable SACCOS operation, different factors were mentioned to affect Hazina SACCOS members for accomplishment of obligation, more particularly these are presented on Table 4.8.

Table 4.8: The Factors for Members' Failure Accomplishing Obligation Timely

Category	Frequency	Percentage (%)
Difficult business environment	44	51.2
Market uncertainty of the business	34	39.5
Household responsibilities	8	9.3
Total	86	100.0

Failure to accomplish credit obligation is associated with various reasons. As indicated on Table 4.7 about (51.2%) failed to pay obligation timely due to difficult business environment, compared to (39.5%) who failed to pay credit obligation timely due to business market uncertainty and a small proportion (9.3%) failed to manage credit responsibilities timely due to household responsibilities. These findings imply that credit risk is mainly influenced by the business in terms of type and environment. The nature of the business and its type are important factor for its ability to accomplish financial obligation.

During an interview responses from one of the Hazina SACCOS loan officer, pointed to the fact that, *importantly, SACCOS members failed to accomplish financial obligation due to the nature of business and prevailing economic condition. The business is not operated on the moon but on earth and respective economic condition are what judge its return; for example currently in Tanzania, clothing business has a poorer performance compared to the meals business. This is because people are facing hard economic times and the only opportunity is to meet basic necessities of life,* “

Wanyama (2008) also argued that SACCOS members are in a hard time when there is an economic crisis, or once the money supply is reduced in disfavour of the whole business settings. In turn SACCOS members face difficulties to accomplish on time basis financial obligation owed to SACCOS.

As argued by Greuning and Iqbal (2008) in financial hard time comprehensive risk management techniques are required to be implemented, just to observe and control financial resources for SACCOS ownership. It is important to control the credit based on the existing uncertainties over financial and business areas. Otherwise the economy will be operated in a manner that discourages even investors and lenders on the existing investment opportunities.

Based on the imperfect information as reported by Oyeyomi, (2003) under the difficult economic environment investors on credit and financial business are shaken, due to existing uncertainties over business life. This creates increased risk and basically discourages business development. Under the microfinance regime it is important to assert that control the credit in such a period should be associated with searching for information. More particularly strict effort should be based on the borrowers and type of business. Failure to do that will lead to financial disaster for both members and SACCOS itself.

Allen and Maghimbi, (2009) came up with the view of volatility of the commodity prices that the SACCOS members are disposing at the market due to general problem of the economy. In that point members become increasingly difficult to accumulate more to pay at the SACCOS or even to start saving. Another idea is based on the existence of reduced members confidence to save; his was supported by Carey and Flynn, (2005) who stated that during the poor economic condition members' confidence on saving and repaying the loan become well affected, also Aigboduwa and Oisamoje (2013) assert that in such a period credit becomes very difficult to be accessed as in most instances members are financially weak.

4.4 The Effects of Credit Risk at SACCOS

This objective presents the effects of credit risk at SACCOS, ability of credit risk to influence investment of members and credit risk influence on SACCOS reputation.

4.4.1 The Effects of Credit Risk at SACCOS

The credit risk is generally associated with effects at the respective SACCOS, the credit risk may essentially lead to reduced cash available to SACCOS, and importantly the following results on Table 4.8 show the effects of credit risk.

Table 4.9: The Effects of Credit Risk at Hazina SACCOS

Category	Frequency	Percentage (%)
Reduced SACCOS outstanding cash	58	67.4
Reduce members confidence to save	49	56.9
Shortage of SACCOS capital	36	41.8
Delay in loan extension to members	13	15

The findings show the effects of credit risk at SACCOS. As Table 4.8 shows, a large proportion (67.4%) of credit risk was attributed to reduced SACCOS outstanding cash, followed by (56.9%) who suggested on the reduced members confidence to save and (41.8%) who suggested the shortage of SACCOS capital. A small proportion (15%) suggested the delay of loan extension to members. These findings show that due to credit risk, SACCOS are faced with problems associated with cash and liquidity. It therefore becomes too difficult to extend new loan to SACCOS members.

As Mapesa (2015) observed, similar findings support the view that SACCOS suffer with reduced SACCOS cash and members saving ability especially during the low economic activities. In that period borrowers who are members of microfinance become well affected with such a situation. Following these view Berg and Fuchs (2013) pointed out the need for an appropriate credit management to control the financial resources of the SACCOS on behalf of the members.

4.4.2 The Ability of Credit Risk to Influence Investment of Members at Hazina SACCOS

The credit risk is mostly connected to the investment of SACCOS financial resources, as the members invested their financial resources to come with respective investment expansion and create more opportunities. The following result on Table 4.10 presents the ability of credit risk to influence investment.

Table 4.10: The Ability of Credit to Influence Investment of Members at Hazina SACCOS

Category	Frequency	Percentage (%)
Discourage investment	75	87.2
Encourage investment	11	12.8
Total	86	100.0

The findings on Table 4.10 show the ability of credit risk to influence investment of SACCOS. A substantial ratio (87.21%) suggested that credit risk discourage investment, while a small proportion (12.79%) suggested that credit risk encourages investment. These findings imply that credit risk is an obstacle to SACCOS investment and saving from its members.

As Tache (2006) points out, in a similar study, the majority of the SACCOS members failed to recover the loan and increase the credit risk among the SACCOS members. Similarly, Maghimbi (2009) found that credit risk at SACCOS either in rural or urban settings are associated with liquidity managing and capital levels, which are essential to ensure the withdrawal obligations among the members without harm of the liquid requirement level.

The factors for credit risks and its effects on the SACCOS in the study area were mainly considered on the ability to discourage SACCOS investment due to failure of SACCOS members to recover loan timely and savings deposits. It is the real fact that credit risk is mainly considered as an obstacle in the liquidity level that is required in facilitating the operation of SACCOS. These findings are related to that of Nyamsogoro, (2010) which posits that credit risk make SACCOS fail to invest its resources and as a result they become vulnerable to the delayed SACCOS capital expansion. Kivuvo and Olweny, (2014) also come up with a similar observation that shades light on the past experience that SACCOS suffer with credit risk mostly due to delays in remittances, loan defaults, low monthly earnings and failure to invest in illiquid investments.

4.4.3 The Credit Risk Lead to Poor SACCOS Reputation

The credit risk is expected to harm the SACCOS reputation. The failed SACCOS experienced credit risk before collapsing. The following results on Table 4.11 present the responses on the credit risk to create poor SACCOS reputation.

Table 4.11: The Credit Risk Lead to Poor SACCOS Reputation

Category	Frequency	Percentage (%)
Yes	61	70.9
No	25	29.1
Total	86	100

The credit risk has an influence on poor SACCOS reputation as a large proportion (70.9%) while a small proportion (29.1%) suggested that the credit risk does not influence poor SACCOS reputation. These findings imply that existing poor SACCOS reputation among the members and general society is created by credit risk.

As reported by Nyamsogoro, (2010) credit risk is the major problem that is associated with poor SACCOS reputation in most parts of developing countries, including Tanzania. On the risk based on credit, access and pro- poor in rural Tanzania" found that small scale farmers in developing countries may become mesmerized by absence of credit that are required in making profitable investment (Nyamsogoro, 2010) Increased access to credit lead to improvement of families living standard and liquidity for the advantage of family. The study uncovered that expanded account for liquidity-compelled family units could create awareness on the liquidity ratio in the lower family unit. However, that I extension of money related administrations to families that have no entrance to credit would not successfully target lower wage families or families whose homestead exercises are liquidity-obliged ((Nyamsogoro, 2010).

4.5 The Measure to address Credit Risks at Hazina SACCOS

Objective three presents the measures for dealing with credit risk at SACCOS; these are the lending policies ‘ effectiveness to reduce credit risk, the effectiveness of SACCOS credit control in minimizing credit risk at Hazina SACCOS and the measures for dealing credit risk at Hazina SACCOS.

4.5.1 The Effective Lending Procedures Reduce Credit Risk

The various procedures are required to be in place to reduce credit risk in most places under this planet. It is important for procedure to be planned and well controlled to capture the interest of members. Table 4.12 presents the existence of effective lending procedures to reduce credit risk.

Table 4.12: The Effective Lending Procedures Reduce Credit Risk

Category	Frequency	Percentage (%)
Yes	73	84.9
No	13	15.1
Total	86	100.0

The effective lending procedures reduce credit risk as presented on Table 4.12. A large proportion (84.9%) accepted that credit risk tends to be reduced by effective lending procedures, while a small proportion (15.1%) suggested that lending procedures do not reduce credit risk. The findings imply that credit risk tend to be reduced by existence of effective lending procedures to control SACCOS liquidity.

One of the credit officer at Hazina SACCOS, asserted that “we normally have policies that control cooperative and SACCOS funds in general. However, it is time to plan to have effective credit procedures, to reduce credit risk and control SACCOS liquidity position at acceptable levels”.

Similarly Pandy (2005) asserted that microfinance institutions are required to control the credit risk so as to operate efficiently and effectively for the development of credit business. The members need credit and plan to recover but unfaithful lead s to loss to SACCOS and reduce its outstanding cash.

4.5.2 The Effective SACCOS Credit Control Minimizes Credit Risk at Hazina SACCOS

The SACCOS credit control minimizes credit risk at Hazina SACCOS. Table 4.13 shows that (74.4%) of SACCOS members suggested the effective credit control help to reduce credit risk and 25.6% suggested that the credit control does not minimize credit risk. From these findings it can be deduced that credit control at the SACCOS levels through various committee tend to reduce credit risk.

Table 4.13: The Effective SACCOS Credit Control Minimize Credit Risk at Hazina SACCOS

Category	Frequency	Percentage (%)
Yes	64	74.4
No	22	25.6
Total	86	100

4.5.3 The Measure to Address Credit Risk at Hazina SACCOS

The credit risk is controlled with various measures at Hazina SACCOS. More importantly Table 4.14 presents results on the measures for dealing with credit risks.

Table 4.14: The Measure to Address Credit Risk at Hazina SACCOS Multiple responses

Categories	Frequency	Percentage (%)
Strengthen SACCOS management	86	100
Proper loan procedures	73	84.8
Members encouragement to provide true business information	67	77.9

The respondents suggested the measures for dealing with credit risk. Table 4.12, using multiple response analysis shows that (100%) of SACCOS members who suggested the need to strengthen SACCOS management, followed by (84.8%) who suggested proper loan procedures and (77.9%) of SACCOS members suggested that SACCOS members need encouragement to provide true business information. These findings imply that credit risk is expected to be decreasing once the SACCOS management in terms of credit and various committees is developed.

4.5.4 The Measure to Address Credit Risk at Hazina SACCOS

The information presented in Table 4.15 using regression analysis on the measure to address credit risk at Hazina SACCOS. The variables such as strengthen SACCOS management, proper loan procedures, members encouragement to provide true business information were presented to see if there is significant relationship to address credit risk at Hazina SACCOS.

Table 4.15: The Measure to Address Credit Risk at Hazina SACCOS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.315	.316		4.162	.000
	Strengthen SACCOS management	.272	.171	.174	1.594	.015
	Proper loan procedures	-.048	.180	-.029	-.266	.031
	Members encouragement to provide true business information	-.244	.163	-.165	-1.501	.047

4.5.4.1 Strengthen SACCOS Management

Strengthen SACCOS management was appeared with significance level of 0.015 ($p < 0.05$) which is acceptable, from this findings strengthen SACCOS management is the measure to address credit risk.

4.5.4.2 Proper Loan Procedures

Proper loan procedures appeared with significant level of 0.031 ($p < 0.05$), proper loan procedures is one of the factor that could address credit risk at Hazina SACCOS. These findings imply that once Hazina SACCOS implement proper loan procedures it means borrowers could manage to pay credit in time and hence reduced credit risk.

4.5.4.3 Members Encouragement to Provide True Business Information

The members' ability to provide true business information was appeared with significant level of 0.047 ($p < 0.05$), this indicates that Hazina SACCOS members ability to provide true business information could lead into reduction of credit risks. From the findings Ahmed and Malik (2015) pointed out the need for credit risk management and loan performance of micro finance banks and suggested on the systematic ways to manage recover from past owing clients. There are different financial institutions, each of which has different loan collection procedures and policy. The improved collection procedures are needed for financial institutions to recover its obligations from customers. Once financial institutions fail to implement these, they may encounter loss.

Concurrently Vogiazas and Nikolaidou (2014) argued that credit risk control is the action that needs coordinated tasks for controlling and managing risks that organizations face. Special attention on the risk control process needs to be implemented in sustainable manner, until the borrowers accomplish their repayment obligation. In line with this, financial organizations should continue to apply various conditions until the borrowers accomplish the obligation.

4.6 Chapter Summary

This chapter presented the profile of respondents that captured sex of the respondent, education level in which majority appeared with primary education and married, and a large proportion were self-employed participated to provide information on the credit risk determination and its respective factors. The factors for credit risk were presented. The credit risk was associated with reduced SACCOS outstanding cash and reduced members confidence to save and shortage of SACCOS capital. The credit risk, SACCOS is faced with problems associated with cash and liquidity. It therefore becomes too difficult to extend new loan to SACCOS members. The ability of credit risk to influence investment of members at Hazina SACCOS the ability of credit risk to influence investment of SACCOS credit risk is an obstacle to SASCCOS investment and saving from its members. It leads to poor SACCOS reputation. Moreover, it presents the measure to address credit risks at Hazina SACCOS due to existence of effective lending procedures, the microfinance institutions are required to control the credit risk so as to operate efficiently and effectively in the credit business. proper loan procedures, members' encouragement to provide true business information.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Overview

This chapter presents the conclusion and recommendations of the study based on the findings. Finally, the chapter presents areas for further research study.

5.2 Summary of Key Findings

It has been reported from the findings that more than half (61.6%) were male, while (38.4%) of respondents were female. The male SACCOS members appeared majority than female counterparty Hazina SACCOS members. It has been shown that a large proportion (51.2%) had primary education and majority (48.8%) is married, also a small proportion (5.8%) of respondents was widows. The majority (38.4%) was self-employed and a small proportion (24.4%) was in private sector employees. More than half 52.4% had age of between 38-56 years, matured respondents participated to provide information on the credit risk determination and its respective factors.

The factors for credit risk at Hazina SACCOS in Dar es Salaam, it has been presented that majority (100%) reported to fill credit application form which is a basic and essential step for borrower's information and (53.5%) were passed on the credit committee discussion. The information filled; in forms for initial assessment were significantly required in the forms and credit provision. The findings showed that more than half 54.7 failed paying obligation timely, Hazina SACCOS experience credit risk for the reasons that members failed to pay obligation timely.

More than half (51.2%) of respondents failed to pay credit obligation timely due to difficult business environment, business market uncertainty, household responsibilities, in turn SACCOS members face difficulties to accomplish on time basis financial obligation owed to SACCOS. The economy will be operated in a manner that discourages even investors and lenders on the existing investment opportunities.

The credit risk was associated with reduced SACCOS outstanding cash and reduced members confidence to save and shortage of SACCOS capital. The credit risk, SACCOS is faced with problems associated with cash and liquidity. It therefore becomes too difficult to extend new loan to SACCOS members.

The ability of credit risk to influence investment of members at Hazina SACCOS the ability of credit risk to influence investment of SACCOS. A substantial ratio (87.21%) credit risk discourage investment, the credit risk is an obstacle to SACCOS investment and saving from its members.

The credit risk lead to poor SACCOS reputation it has influence on poor SACCOS reputation as a large proportion (70.9%) while a small proportion (29.1%) the credit risk does not influence poor SACCOS reputation. The credit risk is the major problem that is associated with poor SACCOS reputation in most parts of developing countries, including Tanzania.

The measure to address credit risks at Hazina SACCOS were that; credit risk tends to be reduced by effective lending procedures, the microfinance institutions are required to control the credit risk so as to operate efficiently and effectively in the credit business, proper loan procedures, members' encouragement to provide true business information.

5.3 Conclusion

It has been strongly affirmed that credit risk is contributed by existing difficult business environment, that is in turn reported to depend on the business in terms of its type and environment. In consequence SACCOS members fail to accomplish their obligation as stated in the credit contract. The existing business environment is significantly associated to the increase or decrease of credit risk. It is important to note that credit risk in most SACCOS is created by the existing business environment.

Also, it has been observed that credit risk at SACCOS results into reduced SACCOS outstanding cash, also members stop saving the fund into SACCOS due to existence of credit risk. There are observed liquidity problems in SACCOS due to poor loan control and even SACCOS management were noted to suffer with credit problem. In fact, SACCOS investment is being discouraged and SACCOS reputation becomes poor to the entire members.

It is important to note that to reduce credit risk there should be well controlled lending policies and procedures, and ability of SACCOS members through the management to control the credit. Important aspects put much emphasis such as strengthening SACCOS management and proper loan procedures which are major strategies to reduce credit risk.

5.4 Contribution to Existing Knowledge

This study expected to contribute in the credit risk management through addressed measures such as existence of effective lending procedures, the microfinance institutions are required to control the credit risk so as to operate efficiently and effectively in the credit business, proper loan procedures, and members' encouragement to provide true business information. So the SACCOS and generally the microfinance institution will come up with effective lending procedures and system that could be used to reduce credit risk.

5.5 Recommendations

There is a need to concentrate on the improvement of the following areas under SACCOS on the control of credit risk. SACCOS management is required to improve procedures and strategies to control credit provision based on the lending procedures and policies. The credit should be provided based on the business and technical procedures for the borrowers such as to reduce the problem of asymmetry information that could be caused by the borrowers who want to deceive the SACCOS management.

SACCOS members should improve the ability to meet their loan obligations in timely basis to reduce the possibility of credit risk. It is important to do so to increase the SACCOS profit generation and capital circulation. The decision makers should observe cooperative principles to advise and make decision through the introduction of policy that captures the interest of members in terms of credit risk control to influence SACCOS reputation.

5.4 Area for Further Research

There are some variables that are not completely searched in this research and take this opportunity to advise anyone who is interested to work on this study should focus on:-

- i. The credit risk impact on members saving ability.
- ii. The SACCOS management influence on credit risk.
- iii. The lending procedures and credit risk control.

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APPENDICES

Appendix A: Questionnaire for Hazina SACCOs staffs

Dear Respondent

I am Tunkete Ndabiti Mwamsojo a student from St John's University Dodoma doing Masters of Science in finance administration; I am kindly requesting you to answer my questionnaires on the Analysis of the factors for credit risk in Tanzanians SACCOSS, a case of Hazina SACCOS, Dar es Salaam, Tanzania. Also, the results of this research will lead to academic support and improvement of Hazina SACCOS on the improvement of management of SACCOs to control credit risk. So it is worthwhile for you to answer these questionnaires since the benefits will wide spread. All information provided will be treated with highest confidentiality and will only be used for academic purposes. Please tick or circle against and fill the appropriate answer based on question.

SECTION A: GENERAL INFORMATION OF THE STUDY

(To be filled by Hazina SACCOs staffs)

1. Sex of respondents a) Male () b) Female ()

2. Education level of respondents
 - a) Primary education
 - b) Secondary education
 - c) Collage education
 - d) University education

3. Marital status
 - a. Married ()
 - b. Single ()
 - c. Divorced ()
 - d. Widow ()

4. What position do you hold?
 - a) Cashier
 - b) Accountant
 - c) Credit officer
 - d) Manager
 - e) Board member

SECTION B: The factors for credit risk at Hazina SACCOS in Dar es Salaam

5. What are condition are required to obtain credit?

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.....

6. Does all borrowers manage to pay their obligation?

a) Yes () b) No ()

7. What are the factors for borrowers failed to accomplish obligation?

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.....

8. Do you think the borrowers provide relevant information concerning the business?

a) Yes () b) No ()

9. Does economic environment influencing credit risk

a) Yes () b) No ()

10. The limited borrowers information increases credit risk

a) Yes () b) No ()

11. What are the factors lead to credit risk at Hazina SACCOS in Dar es Salaam?

- a) Constrained Business economic situation ()
- b) Poorly supervised Borrowing procedures ()
- c) Financially stressed situation ()
- d) Business risk ()
- e) Limited Borrowers information ()

12. Does Unfaithful borrowers deceive the credit officers lead to credit risk

a) Yes () b) No ()

13. Does multiple borrowing of borrowers lead to credit risk?

a) Yes () b) No ()

14. Does low experience of staffs in borrowers information soliciting lead to credit risk ?

a) Yes () b) No ()

SECTION C: The effects of credit risk at Hazina SACCOs

15. What are the effects of credit risk to your SACCOs

- a) Reduced SACCOs outstanding cash ()
- b) Reduce members confidence to save ()
- c) Shortage of SACCOs capital ()
- d) Delay in loan extension to members ()
- e) Others (Specify.....)

16. Does credit risk discourage members in investment at Hazina SACCOs?

- a) Yes () b) No ()

17. Does Poor SACCOs reputation is the effect of credit risk?

- a) Yes () b) No ()

SECTION D: The measure for dealing with credit risk at Hazina SACCOs

18. Does effective Lending policies and procedures reduce credit risk?

- a) Yes () b) No ()

19. Does effective SACCOs credit control minimize the credit risk at SACCOs?

- a) Yes () b) No ()

20. What the measure for dealing with credit risk at Hazina SACCOs

- a) Strengthen SACCOs management ()
- b) Proper loan procedures ()
- c) Members encouragement to provide true business information ()
- d) Others

21. Comments on the reduction of SACCOs credit risk

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Appendix B: Questionnaire for Hazina SACCOs Members

Dear Respondent

I am Tunkete Ndabiti Mwamsojo, a student from St John's University Dodoma doing Masters of Science in finance; I am kindly requesting you to answer my questionnaires on the Analysis of the factors for credit risk in Tanzanians SACCOSS, a case of Hazina SACCOs, Dar es Salaam, Tanzania. Also, the results of this research will lead to academic support and improvement of Hazina SACCOs on the improvement of management of SACCOs to control credit risk. So it is worthwhile for you to answer these questionnaires since the benefits will wide spread. All information provided will be treated with highest confidentiality and will only be used for academic purposes. Please tick or circle against and fill the appropriate answer based on question.

SECTION A: GENERAL INFORMATION OF THE STUDY

(To be filled by Hazina SACCOs Members)

1. Sex of respondents a) Male () b) Female ()

2. Education level of respondents

- a) Primary education
- b) Secondary education
- c) Collage education
- d) University education

3. Marital status

- a) Married ()
- b) Single ()
- c) Divorced ()
- d) Widow ()

4. What is your occupation

- a) Private sector employees
- b) Government employee
- c) Self employed
- d) Others (.....)

SECTION B: The factors for credit risk at Hazina SACCOS in Dar es Salaam

5. What are condition are required to obtain credit?

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6. Are managed to pay your obligation?

b) Yes () b) No ()

7. If no What are the factors lead to failure in accomplishing your obligation?

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8. Do you provided relevant information concerning your business and its risk?

b) Yes () b) No ()

9. Does economic environment influencing you failure to accomplish your obligation at SACCOS?

b) Yes () b) No ()

10. What are the factors lead you fail to accomplish your obligation at Hazina SACCOS in Dar es salaam?

- a) Constrained Business economic situation ()
- b) Poorly supervised Borrowing procedures ()
- c) Financially stressed situation ()
- d) Business risk ()
- e) Limited Borrowers information ()

11. Does multiple borrowing of borrowers lead to credit risk?

a) Yes () b) No ()

12. Does low experience of staffs in borrowers information soliciting lead to credit risk?

a) Yes () b) No ()

SECTION C: The effects of credit risk at Hazina SACCOS

13. What are the effects of credit risk to your SACCOS?

- a) Reduced SACCOS outstanding cash ()
- b) Reduce members confidence to save ()
- c) Shortage of SACCOS capital ()
- d) Delay in loan extension to members ()
- e) Others (Specify.....)

14. Does credit risk discourage you from investing at Hazina SACCOS?

- a) Yes () b) No ()

15. Does Poor SACCOS reputation is the effect of credit risk?

- a) Yes () b) No ()

SECTION D: The measure for dealing with credit risk at Hazina SACCOS

16. Does effective Lending policies and procedures reduce credit risk?

- a) Yes () b) No ()

17. Does effective SACCOS credit control minimize the credit risk at SACCOS?

- a) Yes () b) No ()

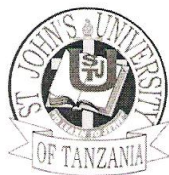
18. What the measure for dealing with credit risk at Hazina SACCOS?

- a) Strengthen SACCOS management ()
- b) Proper loan procedures ()
- c) Members encouragement to provide true business information ()
- d) Others

19. Comments on the reduction of SACCOS credit risk

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Appendix C: Research Clearance Certificate



**ST JOHN'S UNIVERSITY OF TANZANIA
DIRECTORATE OF RESEARCH AND CONSULTANCY
INTERNAL REVIEW COMMITTEE**

RESEARCH CLEARANCE CERTIFICATE

FOR MASTER'S AND DOCTORAL STUDENTS

Date of Review: 05th April, 2017

Project title: **ANALYSIS OF THE FACTORS FOR CREDIT RISK IN TANZANIAN'S SACCOS**

Researcher: **TUNKETE NDABITI**

Supervisor: **Dr. CYRIL CHAMI**

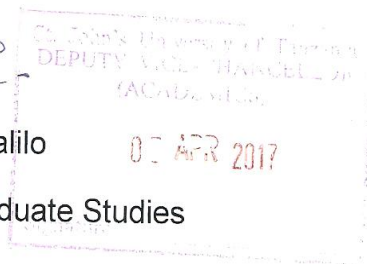
Faculty / Institute / School: **SCHOOL OF COMMERCE AND BUSINESS**

Degree being studied for: **MSc IN FINANCE**

This is to certify that the research proposal herein detailed has been examined and approved by the Internal Review Committee of St John's University of Tanzania

A handwritten signature in blue ink, appearing to be 'Fadhili Bwagalilo'.

Dr. Fadhili Bwagalilo
Ag, Director, Graduate Studies



A handwritten signature in blue ink, appearing to be 'C. Rubagumya'.

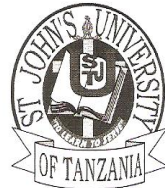
Prof. C. Rubagumya
DVCA

Appendix D: Approval Letter for Data Collection

ST JOHN'S UNIVERSITY OF TANZANIA

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Date: 05.04. 2017

TO WHOM IT MAY CONCERN

Graduate Student's Research Clearance

This letter serves to introduce TUNKETE NDABITI (Registration Number M 2015/5101), who is a bona fide student of St John's University of Tanzania in the Faculty of Business and Business Studies.

He is currently in the research stage of his Masters studies and is required to collect data. He has already obtained ethical clearance from SJUT Internal Review Committee.

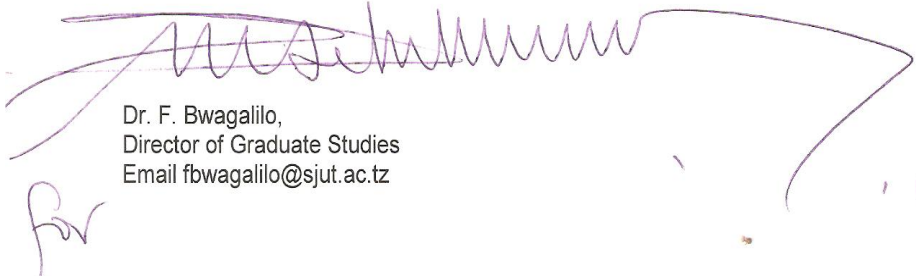
His approved research topic is:

ANALYSIS OF THE FACTORS FOR CREDIT RISK IN TANZANIAN'S SACCOS

Should you need further clarification please contact my office.

I wish to thank you for your kind assistance for this student.

Yours sincerely


Dr. F. Bwagalilo,
Director of Graduate Studies
Email fbwagalilo@sjut.ac.tz