THE EFFECT OF CREDIT MANAGEMENT ON LOAN PERFORMANCE IN MAENDELEO BANK LTD, TANZANIA

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A Thesis Submitted in Partial Fulfilment of the Requirements for the Award of the Degree of Master of Business Administration in the School of Business of Africa Nazarene University

July 2024

DECLARATION

I declare that this document and the research that they describe are my original work and they have not been presented in any other university for academic work.

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DEDICATION

I dedicate this thesis to my two siblings Walter and Marina, and my parents Deogratius and Gillian who have provided support and encouraged me. I am grateful to have them in my thesis writing journey and I appreciate the motivation to follow my dream and complete the proposal. God bless you all.

ACKNOWLEDGEMENT

My foremost acknowledgement goes to my supervisor Dr. Lucy Kirima, Senior Lecturer, PhD Program Leader, Africa Nazarene University. She tirelessly guided me in the formulation and execution of the whole process of completing this proposal. Many thanks go to Dr. Kapella Lazaro who provided helpful insight on proposal writing and protocol for research in Tanzania. Also, I acknowledge the review panel comprised of Dr. John Kamau, Dr. Moses Owino, Dr. Irene Kibati, Dr. Peter Gaiku and others whose comments assisted the researcher to improve the proposal. A special thanks goes to Maendeleo bank HR Manager, Mr. Mbwana for the access to conduct data collection and submission of data collection instrument.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Loan performance is a fundamental concern for banks and overall health of the economy. Loan performance is directly linked to the profitability of banking industry and macroeconomic indicators of GDP and employment rate. Loan nonperformance is a huge concern and can lead to bank failure and exacerbate unemployment levels in the economy. In Tanzania, the standard NPL ratio set by the authority is 5% however, the average NPL ratio for 2022 was at 7.75%. Loan non-performance is often associated with borrower factors however, this research set out to explore effect of bank's factors on loan performance. The purpose of this study was to explore the effect of credit management on loan performance in Maendeleo bank. The study aimed at examining the effect of the credit policy, credit collection policy, and credit risk control on Maendeleo bank loan performance. Information asymmetry theory, 5C of credit model and theory of performance guided the study. A descriptive research design approach was used. The study population consisted of 56 banking staff of Maendeleo bank. The study sampled 33 staff from the finance and credit department. Data was collected by use of questionnaires. Content validity was estimated by incorporating the views of content experts consisting of two lecturers from Africa Nazarene University. Cronbach's alpha for internal consistency was used to test reliability. The analysis of data was done with the use of Microsoft Excel and SPSS. Collected data was run for statistical analysis such as frequencies and percentages as well as regression model which was used to assess the relationship between variables. The hypotheses were tested at 95% confidence level using regression analysis. The findings indicate that; credit policy has a significant positive effect ($\beta 1 = 0.536$, $t = 3.559$, $p < 0.05$) on loan performance, collection policy has a significant positive effect ($\beta 2 = 0.484$, $t = 2.758$, $p < 0.05$) on loan performance, and credit risk control has an insignificant negative effect ($\beta 2 = -0.274$, $t = -0.923$, $p = 0.368 > 0.05$) on loan performance. It was concluded that credit policy and collection policy have a significant effect on loan performance. This study recommends that bank put more emphasis on credit management as it explains almost fifty percent of loan performance. Further, to attain good loan performance levels, much caution should be taken during borrower onboarding as credit risk control measures taken after onboarding a high-risk borrowers will result to a negative but insignificant change. The findings of this study may assist banking and government policy makers to formulate better policies concerning credit management in financial institution across the country.

DEFINITION OF TERMS

Credit: These are loans extended to borrowers

Credit Management: Is the process of granting credit to borrowers, setting payment terms and conditions and recovering payments from borrowers.

Credit Policy: Is a set of terms that set out how a bank will issue credit to its client and collect unpaid debts.

Collection Policy: Is a set of procedures that a bank uses to ensure timely recovery of loan payment.

Credit Risk Control: Is the practice of mitigating losses that may arise as a possibility of a borrower not paying back bank loan.

Loan Performance: In this study, loan performance is the ability of commercial banks to use its assets (loans) to generate revenue(interest).

ABBREVIATIONS AND ACRONYMS

BCBS: Basel Committee of Banking Supervision

BOT: Bank of Tanzania

FI: Financial Institutions

MFB: Microfinance Bank

MFI: Microfinance Institution

MSE: Micro and Small Enterprise

NPL: Non-Performing Loan

ROA: Return on Assets

SACCOS: Savings and Credit Co-operative Society

SME: Small and Medium Enterprises

SPSS: Statistical Package for Social Sciences

ToP: Theory of Performance

CHAPTER ONE: INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Introduction

This chapter discusses the study's background, then statement of the problem, the study's purpose, its aims, its research questions, and its importance. The study's scope, assumptions, theoretical and conceptual frameworks, as well as its limitations and delimitations, are then presented.

1.2 Background of the Study

Credit management is the process of assessing and deciding what terms and conditions a business must set in order to approve credit requests from its clients. Effective credit management is an extensive process that integrates people, processes and technology in evaluating and monitoring credit risk (Johnson, 2019). Credit management begins with the formulation of credit policy which is the board of directors and management responsibility. A credit policy outlines guidelines, criteria and procedure for extension of credit line to clients. This includes credit limit, credit terms, early payment discounts, and late payment fees (Mundhra, 2023). Subsequently, an organization can accept credit application for assessment from clients. A credit application form is a document that contains personal and financial information of applicant that lender will use to determine credit worthiness (Ailani, 2024). Before approval or denial of credit application, verification of financial information provided must be conducted through credit analysis so as to determine risk profile of borrower. Additionally, a scrutiny of the economic conditions in which the client operates is useful to inform the credit decision. Once a decision to approve credit is reached, the next step is monitoring of repayment patterns by client in order to catch early warning signs of risk of default

Credit management is an indispensable practice for organizations seeking financial stability and growth. By diligently overseeing the credit flow within the business, firms can optimize their cash flow, reduce bad debts, and enhance profitability. Furthermore, meticulous credit management facilitates stronger relationships with suppliers, fosters credibility among creditors, and fortifies the company's overall financial health. Through strategic credit policies, timely monitoring of receivables, and prudent risk assessment,

organizations can mitigate financial risks and capitalize on new opportunities, ultimately positioning themselves for sustained success in the competitive marketplace.

Credit management in organizations poses significant challenges that require strategic planning and diligent oversight. One of the key obstacles faced is the risk of potential bad debts, which can arise from unforeseen unstable economic conditions or unreliable borrowers. Furthermore, ensuring an optimal balance between credit sales and collections is crucial to maintaining healthy cash flow. Another challenge lies in accurately assessing the creditworthiness of customers, as inadequate evaluation may lead to increased instances of payment defaults. Additionally, managing credit terms and conditions in a rapidly changing market landscape requires constant monitoring and adaptability. Overcoming these challenges demands a comprehensive approach that combines sound financial analysis, effective risk assessment, and robust credit monitoring systems within organizations.

1.2.1 Loan Performance

A loan is a credit arrangement wherein money is extended to a third party with the expectation that the principal value plus, frequently, interest or finance charges will be repaid at a later date. When making a decision to extend a loan to a potential borrower, lenders take into account the borrower's income, credit score, debt levels, and collateral (Kagan, 2024). Loans play a crucial role in today's financial landscape, serving as a means to meet various economic needs. Lenders are able to fuel economic activity by providing access to capital that may not be readily available through personal savings or other channels, while getting paid for their risk in the form of interest.

Loan performance is the degree to which advanced loans are being paid back according to the negotiated terms. A loan is considered non-performing when the principal and interest payments are 90 days or more past due and there are other clear signs that they will not be made in full (Segal, 2022). After 90 days, the lender no longer believes in receiving payment so is written off in the books as bad debt. Loan non-performance begins as delinquency which is missing payment over the grace period then moves to loan default which is failure to make required repayments even after the grace period is over. As the default period stretches out, borrower credit score is damaged while the accumulation of

interest fees and penalties can lead to seizure and auction of collateral pledged (Sharkey, 2024). Common reasons of loan defaults include misuse of credit by borrower, the bank's negligence in credit extension, borrowers' inability to make payments due unanticipated crises like a borrower's death, illness, or layoffs, and poor business performance (Tamplin, 2023).

Non-performing loans (NPL) as a ratio of total loans is monitored by financial regulators. The Basel Committee on Banking Supervision (BCBS) established by central banks of G10 member countries in 1974 is the global stand setter for banking regulations. Currently it has 45 member countries located in Asia, Australia, Europe, North America, South America, and South Africa. The BCBS formulates broad supervisory standards and guidelines and recommends statements of best practice in banking supervision to be implemented in member national systems (BIS, 2024). In Tanzania, the framework for effective credit risk management is set by the Bank of Tanzania (BOT) based on international best practices.

According to World Bank, the average NPL rate for 2022 based on 76 countries was 5.5 percent. The highest value was in Equatorial Guinea at 55.41 percent and the lowest value was in Sweden at 0.3 percent. Other countries such as; United States of America was 0.7 percent, United Kingdom was 1 percent, Ukraine was at 38.1 percent, Pakistan at 7.3 percent, Nigeria at 4 percent, Ghana was at 14.8, Kenya was 11.1 percent and Tanzania was 7.75 percent.

1.2.2 Credit Management and Loan Performance

As postulated by theory of information asymmetry, credit markets are rife with uncertainties. The existence of imperfect information between banks and borrower prevents both parties from making risk-free credit decisions. Credit risk is the risk that a loan will become non-performing. A non-performing loan not only affects the borrower, whose assets are taken as collateral, but also the bank, whose reputation, profitability, and capacity to extend credit are adversely impacted. When the amount of NPLs rises to a point where the bank's equity is significantly reduced, it becomes challenging to issue new loans since they are subject to capital charges (Fredriksson & Frykström, 2019). A common way

to think of capital is as a cushion against potential losses; the larger the cushion, the greater the bank's capacity to withstand losses in the future. Therefore, sustaining high levels of NPLs is detrimental to the bank because they are deducted from capital therefore minimizing the cushion and lowering bank ability to absorb future losses (AlZoubi, 2021).

NPLs have a negative relationship with; GDP level, employment rate, house prices, exchange rates, and share prices. High level of NPLs impacts the economy and is the highlight of every banking crisis. The financial crisis of 2007-2008 was a result of poor performance of mortgage loans. The 2009-2010 Venezuelan banking crisis saw the taking over of multiple banks by government due to under capitalization. The banking crisis in Ghana between 2017-2020 saw the taking over of indigenous banks by private companies as a result of NPLs.

In general, banks have two options to reduce the volume of NPL in their portfolios. First, banks can rely on external workout of NPL by securitization or sales to specialized investors. Second, banks can internally workout NPL via credit management strategies. The external workout is uncommon with significant legal hurdles so internal workout is dominant among banks (Bischof, Rudolf, and Schmundt, 2022). The Basel Committee on Banking Supervision (BCBS) purports practices of credit management in: establishing an appropriate credit risk environment; operating under a sound credit granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk can overcome loan non-performance (BIS, 2024).

Credit management encompasses a range of processes and strategies aimed at evaluating, monitoring, and controlling the creditworthiness of borrowers which involves thorough credit analysis, establishment of sound credit and collection policies, and continuous monitoring of borrower behavior. The quality of credit management directly impacts loan performance, as it serves as the foundation for determining the likelihood of repayment and overall borrower reliability. Financial institutions that adhere to adept credit management practices are better positioned to identify and mitigate potential defaults or delinquencies. Furthermore, effective credit management fosters a culture of responsible

lending, promoting sustainable growth and minimizing adverse outcomes for both lenders and borrowers. Previous research (Romaric, 2018; Mburu, Mwangi and Muathe, 2020) shows that credit management components have a significant effect on NPL's but on varying capacities. The objective of the research is to investigate the impact and variations therein of credit management variables (credit policy, collection policy, credit risk control) in loan performance in Maendeleo bank Tanzania

1.2.3 Banks in Tanzania

Only eight banks and four non-banking financial institutions, which were foreign-owned, existed in Tanzania on the day of its independence, December 9, 1961. All private commercial banks were nationalized after the Arusha Declaration in 1967, and their assets and liabilities were combined to establish one sizable state commercial bank. The bank industry performed so poorly that the government had to support banks in order for them to survive due to a lack of competition, a lack of integration with the international banking system, and the economic crisis of the 1980s. In order to expand the banking and financial industry, the government took action in 1991 and allowed privately owned and foreign-owned banks to operate.

Since then, the number of authorized banking institutions has increased to a peak of 59 in 2017. By 2022, there were only 46 licensed banks operating in the banking sector (Tanzania Invest, 2022). After the establishment of the banking market, six banks and other financial institutions failed in Tanzania. Five banks had their banking licenses cancelled by the Bank of Tanzania (BOT) in 2018 due to their undercapitalization (Kanyabwoya, 2021).

According to BOT (2022), the banking industry's asset quality has improved as seen by a decrease in non-performing loans, which fell from 9.3 percent in June 2021 to 7.8 percent in June 2022. This improvement can be attributed to the accommodative monetary policy that was put in place in 2021/22, which attempted to promote the economy's recovery from COVID-19 by the expansion of private sector credit and other economic initiatives. The percentage, however, is still higher than the targeted 5 percent mark established by BOT.

1.2.4 Maendeleo Bank Plc

Maendeleo Bank Plc is a regional bank owned by the Evangelical Lutheran Church in Tanzania-Eastern and Coastal Diocese. Maendeleo bank began its operation on September 2013 and has been targeting micro, small and medium enterprise markets in Dar es salaam, Tanzania. Maendeleo bank is headquartered at Luther House Dar es salaam and has four branches within the city. Maendeleo bank provides business account deposits, saving account deposits, insurance services, treasury services and loan services. Non-performing loans to total gross loans in 2021 was 8% and dropped to 5% in 2022 (Maendeleo Bank, 2023).

1.3 Problem Statement

The goal of credit management is not only to prevent bad loans, but also to make good loans that sufficiently reward bank's for taking on all associated risks. Credit management ensures that only borrowers with acceptable credit ratings obtain loans thus reduce risk of NPLs, and boost overall performance (Obae and Jagongo, 2022). As a measure to minimize credit risk BOT has instructed banks to ensure appropriate credit management policies are in place in accordance to principles of risk management issued by BOT. These include maintenance of the set standards of; capital adequacy, liquidity and sensitivity to market risk ratios (BOT, 2016). On the ground, several banks do not adhere to the statutory requirements set by BOT. Five banks were closed in 2018 and one bank was placed under administration by BOT in 2022 as a result of the breach on capital requirements due to increase in NPL’s which affected cash flow and liquidity and thus made it difficult to meet depositor’s obligations on demand (Tanzania Invest, 2023).

Normally, borrowers are required to sign a loan contract to confirm the agreement to repay the loan after the credit department is satisfied with borrower risk profile. However, even after proper vetting and borrower commitment some do not pay on time and even the credit department may fail to detect early warning signs of default. The credit department faces two conflicting pressures: On one hand, the team must gather enough information to make a responsible credit decision and prevent loan default. On another hand, a quick decision is required so that the bank can complete the sale and move towards collecting payment (Aptic, 2021).

The BOT has set the standard of non-performing loans to gross loans as 5%. However, the average NPL ratio for 2022 was at 7.75% while the breakdown indicates large banks at 3.8% and small and regional banks at 11.7% (Ernest and Young, 2023). A review conducted by BOT (2021) identified a weakness in credit management of Tanzanian banks by listing; irresponsible lending issuance, fraud/corruption, and lack of integrity of bank staff to be the main cause of NPL's Tanzania.

The problem of NPL's must be addressed to prevent negative consequence to the economy. Closure of banks can be catastrophic to the economy if numerous banks in the sector are simultaneously impacted by high levels of NPLs, because a reduction in availability to credit results in, among other things, lower investment, fewer jobs, and slower growth. It is against this backdrop the researcher seeks to expound on the effect of credit management on loan performance.

1.4 Purpose of Study

The purpose of this study is to determine the effect of credit management on loan performance of banks in Maendeleo Bank, Tanzania

1.5 Specific Objectives of the Study

This study will be guided by the following specific objectives;

i. To establish the effect of credit policy on loan performance in Maendeleo bank Tanzania
ii. To examine the effect of credit collection policy on loan performance in Maendeleo bank Tanzania
iii. To determine the effect of credit risk control on loan performance in Maendeleo bank Tanzania

1.6 Hypothesis

This study will be guided by the following hypothesizes;

i. H_{01}: There is no significant effect of credit policy on loan performance in Maendeleo bank Tanzania.
   H_1: There is a significant effect of credit policy on loan performance in Maendeleo bank Tanzania.

ii. H_{02}: There is no significant effect of collection policy on loan in performance Maendeleo bank Tanzania.

H_2: There is a significant effect of credit policy on loan performance in Maendeleo bank Tanzania.

iii. H_0: There is no significant effect of credit risk control on loan in performance Maendeleo bank Tanzania.

H_3: There is a significant effect of credit risk control on loan in performance Maendeleo bank Tanzania.

1.7 Significance of Study

This study will provide an expansion on the current understanding of the effect of credit management on loan performance. Through this research bank policymakers will comprehend the value of credit management as a firewall to loan losses. The study's conclusions can be utilized to instruct credit staff members on how credit decisions affect the development of high-quality assets. Moreover, the findings will serve a point of discussions among scholars and will convey valuable information for further research.

1.8 Scope of Study

Scope of study sets parameters within which the research is conducted (Hunt, 2024). The study covered. The focus was on Maendeleo bank because NPL ratio improved to 5% in 2022 from 8% in 2021, hence likelihood of improved credit management practices. The focus was on Luther House branch in Dar es salaam region because it is the headquarter therefore all department members were present. The study targeted finance and credit department members because they are directly involved in the underwriting process hence their insights were valuable to the study.

1.9 Delimitation of Study

The researcher focused only on Maendeleo bank, Luther House Branch. The researcher did not focus on any other variables other than credit policy; collection policy; and credit risk control. Also, the researcher will measure loan performance using non-performing loan (NPL) rate.

1.10 Limitation of Study

Limitations are snags often outside the researcher control, which can affect the generalization of results (Viera, 2023). The study is constrained by the participants' objectivity and honesty, and the researcher anticipated that some participants would withhold some vital data. The researcher anticipated a delay in completion of data collection instruments because collection began in the first quarter of the banking year. To deal with this, the researcher distributed the questionnaires beginning of the quarter and gave ample time for respondents to complete the questionnaire. Due to time and resource limitations, this research focused on credit management at the Luther House Branch and did not cover other branches in the Maendeleo bank.

1.11 Assumption of Study

The researcher assumes that the variables being studied were measured and that the questionnaire is a reliable tool for doing so. Additionally, the survey participants were be honest and open in their responses. The researcher also believes that the survey questions adequately captured the sub-variables and provide the data required to generate trustworthy and valid conclusions. The researcher assumes that the approach is appropriate for the study's objectives and the problem at hand. The researcher also believes that stakeholders will find the study's findings useful.

1.12 Theoretical Framework

1.12.1 Asymmetric Information Theory

The market for lemons, a 1970 paper by George A. Akerlof, was the first to introduce the idea of information asymmetry. With the example of the vehicle market, Akerlof explains asymmetric information. The market can either have new or used cars, and both can be good or bad/lemons. The fundamental defense is that until a buyer buys an automobile and learns about its condition, he or she cannot tell a good car from a bad one. Due to the inability of prospective customers to distinguish between good and lemon cars, their prices remain the same (Nobel Prize, 2022). Because buyers and sellers do not have access to the same information, there are economic inequalities that lead to moral hazards and adverse selection. Adverse selection occurs when there is lack of symmetric information before a

deal is done. Moral hazard refers to the potential that a party did not enter into a contract in good faith or that it provided incorrect information (Hayes, 2023).

In a credit market, information asymmetry tends to arise when a borrower who takes a loan has superior information about the potential risks and rewards associated with investment projects for which the funds are to be utilized on does not disclose this information to credit officers. On the other hand, the lender does not have sufficient information concerning the borrower's character or capacity to repay. In credit decisions, adverse selection happens when there is error in credit approval decisions due to inadequate customer background check and referencing; moral hazards, happens when there is inadequate borrower risk profiling due to misleading information.

The theory of information asymmetry underscores how commercial banks are vulnerable to adverse selection and moral hazard because of the information asymmetry that occurs between lenders and borrowers. By understanding and addressing information asymmetries, banks are better placed to design effective credit management practices, which not only assesses intrinsic credit risk that the bank is unaware of in order to prevent borrower selection bias, but also protects the bank's funds even after lending in order to prevent moral hazard.

1.12.2 The 5 Cs of Credit Model

The 5C credit model provides a comprehensive framework for evaluating creditworthiness by examining multiple dimensions of the borrower's financial profile. By considering character, capacity, capital, collateral, and conditions, lenders can make informed decisions that balance risk and opportunity when extending credit to individuals and businesses. The quantitative financial analysis is comprised of three factors: capacity, capital, and collateral. Capacity is the quantitative determination of borrower's ability to service a debt. Capital refers to the money invested in the business and shows how much is at danger if it fails. Collateral is a property or asset that the borrower pledges as security for a loan. The assessment of capacity is based on; borrower income and existing credit obligations. The assessment of capital is based on; borrower reserves, assets, and investments. Common types of collateral include; real estate, vehicles, or equipment. The qualitative analysis is

comprised of two factors: character and conditions. Character refers to the borrower's willingness and resolve to meet a loan obligation. Conditions are external factors that can borrower ability to pay back. The assessment of character is based on; interaction during credit application process, reference from previous credit obligations, and applicant partners/stakeholders. The assessment of condition is based on; political, economic, social, technological, environmental, and legal factors.

Lenders utilize a variety of risk rating and loan pricing tools to comprehend borrower's financial health so as to order to minimize credit risk. A lender assessing a credit application must understand all 5 Cs together to get a complete picture because a strength in one C can offset a weakness in another. By utilizing the 5C credit model, lenders can make more informed decisions regarding loan approvals and minimize the risk of default thereby increasing chances of loan performance.

1.12.3 Theory of Performance (ToP)

The writings of Don Elger (2012) contain references to the Campbell et al. (1993) theory of performance. To perform is to carry out a chain of tasks that combines abilities and knowledge to yield a useful outcome. The performer can either be an individual or a group of individuals who are working together. According to Elger, improving performance is a journey, and a person's level of performance indicates where they are in that journey (Monslave 2016). A system's performance is determined by its constituent parts and by the interactions between those parts. Elger contends that context, degree of knowledge, level of skills, level of identity, personal characteristics, and fixed elements all play a role in how well an individual or an organization performs. Elger went on to suggest three premises for improving performance: developing a performer's mindset, spending time in a stimulating setting, and engaging in reflective practice (Elge, 2013). Elger believed that ToP may be effective in a variety of traditional learning situations, including lectures, seminars, and other places that are often used for learning. Acquah and Kwofie (2021) propose that ToP influences education in settings that are not often thought of as classrooms such as: self-development, departments, committees, professional research groups, and organizations are a few examples of these situations.

This theory relates with the problem under study because it highlights the need for measurement of level NPL in the members of credit department. The credit team in a bank performs background checks in order to be equipped with appropriate information so as to vet a borrower, but even after sufficient vetting, some borrowers default and perhaps as a result of an oversight during borrower underwriting. By evaluating the credit team level of performance, management is able to identify, amend, implement and reduce weakness in underwriting process. As the credit department improves its level of performance, each member is able to underwrite borrowers with the highest chance of repayment therefore minimizing exposure to risk of default and thus increasing loan performance.

1.14 Conceptual Framework

Independent Variable Dependent Variable

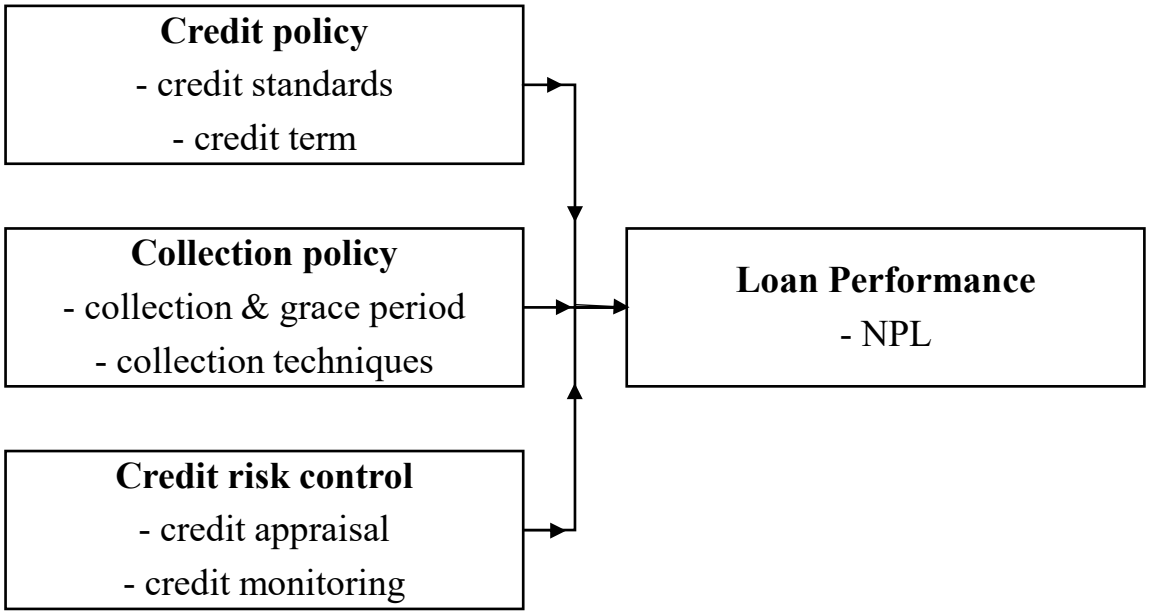

Figure 1.1 Conceptual Framework

Source: Researcher (2024)

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter includes a review of the relevant literature in accordance with the overarching research objectives, including credit policy and loan performance, collection policy and loan performance, and credit risk control and loan performance. A summary of the found research gaps appears at the end of the chapter.

2.2 Empirical Review

2.2.1 Credit Policy and Loan Performance

Credit policy is the blueprint used by financial institutions in customer underwriting to determine whether to extend credit facility or not to the applicant. Normally a credit policy is written down in a formal document. Credit policies prevent the same issues from coming up repeatedly while considering whether to award credit, so save time from being wasted. Additionally, they ensure that borrowers in comparable circumstances are handled equitably and that judgments are fair and consistent (Lotich, 2023). When credit policy is broken down it establishes the risk appetite of a company in credit extension. There are two types of credit policy: lenient credit policy and stringent credit policy. Lenient credit policy has few restrictions and tends to provide longer credit periods so as to increase sales and attract new clients. Stringent credit policy is restrictive and only extends credit to selective customers who meet criteria (Suthar, 2024).

Several studies have found that credit policy has a significant effect on loan performance/ profitability of banks while a minority find the opposite. Al-hawatmah and Shaban (2020) analyzed the effect of lending policy on the profitability of commercial banks in Jordan. The study used a descriptive analytical approach and sampled 13 banks during the period of 2016-2020. The findings reveal there is a statistically significant effect of lending policies on the profitability of commercial banks. Mburu, Mwangi, and Muathe (2020) examined the effect of lending policy on loan performance of commercial banks Kenya. The study sampled 44 banks and used a cross-section data of four years. The finding indicated that lending policy has significant positive influence on loan performance. Similarly, Karanja and Simiyu (2022) find that credit policy has a positive significant correlation with loan performance in microfinance banks Kenya. In contrast, Mafumbo

(2020) sought to analyze the effect credit policy on financial performance of banks in Uganda. The study used a causal research design with a universal sampling approach. The study established that there is no significant relationship between credit policy and financial performance of banks in Uganda.

Angweye and Otinga, (2019) examined the influence of lending policy on financial performance of SACCOS in Kakamega county, Kenya. The researcher employed a descriptive research design and sampled 13 registered SACCOS. The study results indicate a positive and significant influence of loan lending policy on the financial performance of SACCOS in Kakamega county, Kenya (β= 0.462 (0.066), at $p<0.01$). Also, Gichuchi and Omagwa (2020) finds that lending policy has a statistically significant effect on loan portfolio performance of SACCOS in Nyandurua county, Kenya. In addition, Nyachae and Warue (2020) evaluated the effect of horticultural financing lending policies on performance of financing institutions (FI) in Kenya. The study adopted a descriptive cross-sectional survey and sampled 51 financial institutions. The findings revealed that horticultural financing lending policies has a positively and significantly (P-Value, 0.00) on performance of FI.

In this study, credit policy is comprised of credit standards, and credit terms and condition. Credit standards are a bank's internal criteria and guidelines for approving loans. Prior to the actual loan application, credit standards are set to outline the kinds of loan that banks consider acceptable as well as the borrower characteristics that must be met in order to qualify for a loan (Faccia et al., 2024). Credit standards encompass; verification of financial statements, credit history, income and employment stability, collateral, and debt to equity ratio so as to enable bank make an informed credit decision. Banks can be driven to adopt easing or tightening credit standards due factors such as competition, risk tolerance, or capital position (Hamerling et al., 2020). A study by Twinomugisha (2020) find that bank's viability critically relies on strong credit standards to ensure selection of applicants with high probability of repayment and rejection of those with low probability or repayment.

Credit terms are the arrangements between buyer and seller which specify the payment terms and conditions of credit benefit (Pathak, 2024). In a credit market, terms include the loan duration and interest rate. Loan duration is the timeframe within which the borrower

should repay the loan. Muhammad, Bambale, Abdulwahab, and Ibrahim (2020) found that a significant relationship exists between loan duration and loan performance. Kiros (2023) found that a shorter the repayment period increases the probability of loan repayment by Ethiopian MSE's. However, Ngonyani and Mapesa (2019) find that a longer loan duration improves loan performance in Tanzanian MFI. The cost or fee that a borrower pays the lender for using their money over a specific time period is known as the interest rate. Typically interest rates increase during periods of inflation, a spike in credit demand, a shortage of money, or government policy (Heakal, 2022). However, Mbowe, Mrema and Shayo (2020) find that non-performing loan is the main driver of high interest rate. A study by Otieno et al. (2021) finds that high interest rate and short repayment periods for loans is major cause of underperformances in SME loans. A study by Osendo (2019) found that flexible repayment terms contribute to timely loan repayment. The research further revealed that imposing penalties on customers who default in paying loans improves loan performance.

2.2.2 Collection Policy and Loan performance

Debt collection is the process of pursuing loan payments of owed amounts and the fair and ethical recovery of delinquent amounts and past-due payments from borrower. Usually, the bank collects the amount on its own or hires a third party usually a recovery agency to collect payment on its behalf (Yego and Gichure, 2020). Many institutions have the collection policy as part of credit policy but it is worth having on its own. The justification for creating a set of policies is that not all clients fulfill their responsibilities in a timely manner and without repercussions. A collection policy sets clear collection methods and strategies the bank will take on overdue payments (Dun and Bradstreet, 2021). A collection policy will specify; collection period, when to contact late borrowers, grace period, when to send to a recovery agent and when to write off bad debt.

Studies depict that collection policy has a significant impact on loan portfolio quality and performance. Enoch et al. (2021) assessed how collection policies affected the portfolio quality of microfinance institutions in Adamawa State, Nigeria. It was found the asset quality of banks largely depends on collection policy; if effective the asset quality improves, on the other hands if ineffective overdue payment can negatively impact cash

flow and deteriorate asset quality. Abdulrauf and Hassan (2022) studied how loan performance was affected by collection policy in MFB in Kwara state, Nigeria. 140 staff members were sampled for the study and a survey research design was used. According to the findings, MFB loan performance is highly impacted by their collection policy. Equally, Gichuchi and Omagwa (2020) finds that collection policy has a statistically significant effect on loan portfolio performance of SACCOS in Nyandurua county, Kenya.

Several scholars have found that an improvement in collection policy will result to an improvement in loan performance. Ndichu (2021) analyzed the effect of credit management practices on loan performance in Catholic self-help groups in Kenya. Credit management practices were measured as; credit terms, client appraisal, credit collection policies and credit risk control. The study adopted a descriptive research design and sampled 120 groups operating for a minimum of 5 years in the Catholic Archdiocese of Nairobi. Findings show that credit collection policy has a positive and significant influence on loan performance of self-help groups in Kenya. Similarly, Makori (2024) in a study on credit management techniques and loans performance of commercial banks in Kenya found out that, a unit increase in debt collection leads to a significant improvement in loan performance. The study utilized descriptive research design and sampled 38 Kenyan commercial banks. Equally, Karanja and Simiyu (2022) found out that collection policy has a significant and positive effect of loan performance in MFB in Kenya.

This study conceptualized collection policy as; collection period, grace period, and collection techniques. Collection period is the average time given to borrowers to repay monthly installments. A substantial correlation exists between loan collection period and loan delinquency. Researchers agree on that shorter collection yields best result. A study by Obae and Jagongo (2022) find that collection period has a major impact on loan performance and that a shorter collection period leads to an improvement of loan performance in commercial banks Kenya. On the same note, Wasike, Rezouki, Tibbs, and Ondiek (2019) found out that if the average collection period is shortened, Nzoia Water Services Company Kenya's overall financial performance and liquidity also increase.

Grace period is a set amount of time a borrower can delay payment without being charged a penalty. Researchers are split on whether the extension of grace period encourages loan

performance. Farhan, Yameen, and Yameen (2020) conducted research on 82 pharmaceutical companies registered on the Bombay Stock Exchange in India and discovered that the grace period had a negative and significant impact on the performance of the firms. However, Osendo (2019) finds that extension of grace period contributes to timely loan repayment. Similarly, a study in Tanzania by Ngonyani and Mapesa (2019) find that provision grace period of loans substantially reduces portfolio at risk of MFI's. On the other hand, Kiros (2023) on a study of loan performance determinants in Ethiopian MSE's found that grace period has no significant effect the probability of loan repayment among MSE's.

Collection techniques are strategies employed by banks to recover outstanding amounts from borrowers. Strategies include; early payment discounts, restructure of credit terms, use of guarantor policies, and litigation. Scholars have found that use of adept collection techniques or efforts significantly improves performance. Cheptum (2019) sought to determine how credit collection procedures affected the financial performance of Kenyan manufacturing enterprises. The research design for the study was descriptive and causal. 558 registered manufacturing businesses were the study's available population. Results show that loan collection techniques significantly improve the financial performance of manufacturing companies. Shiyonzo and Malenya (2020) evaluated the influence of collection effort on NPLs in deposit taking SACCOS in Kakamega county, Kenya. Descrptive research was utilized in the study and 3 SACCOS were sampled. The results depict MFI collection effort is negatively related to NPLs and that a unit increase in collection effort, will significantly decrease non-performing loans in SACCOS in Kakamega county.

2.2.3 Credit Risk Control and Loan Performance

Controlling credit risk is critical to ensuring the long-term viability of the banking industry. Nwude and Okeke (2018) define credit risk control as the process of identifying credit risks, taking into account their ramifications, deciding on a course of action, and evaluating the results. Credit control encompasses all measures taken by banks to make sure credit is given only to borrowers who are able to pay on time. Credit risk control involves activities such as identification, measurement, monitoring, and treating of risk from the likelihood

of default in order to prevent major pitfalls such as; credit concentrations, bad credit discipline, aggressive underwriting to high-risk borrowers, and insufficient loan pricing (Ahmadyan, 2018).

Scholars have found that credit risk has an adverse effect on banks. Chhetri (2021) looked into how credit risk affected the financial performance of commercial banks in Nepal. The study sample consisted of 85 observations from 17 commercial banks for years 2015 to 2020. The study found that non-performing loan has a statistically significant negative influence on financial performance. The study advises Nepalese commercial banks to practice scientific credit risk management to enhance the effectiveness of credit analysis and loan management to secure as much of their assets as possible and reduce the high incidence of NPL to improve performance.

Serwadda (2018) used panel data for a sample of 20 commercial banks in Uganda to analyze the effects of credit risk on the financial performance of commercial banks from 2006 to 2015. The study measured performance as return on assets, whereas credit risk was measured by; at non-performing loans, increase in interest income, and the proportion of total loans with loan loss provisions. Descriptive statistics, regression, and correlation analysis were used in the study. According to the report, credit risk management impacts how well Ugandan commercial banks perform. The findings showed that poor credit risk management has an adverse effect on banks' performance.

Previous research suggest that credit risk control/management can improve performance levels in financial institutions. Siddique, Khan, and Khan (2021) investigated the impact of credit risk management on the financial performance of South Asian commercial banks. For a period of ten years, from 2009 to 2018, secondary data were gathered from 19 commercial banks in the nation (10 from Pakistan and 9 from India). The findings showed that, credit risk management is strongly positively associated to the financial performance of Asian commercial banks. Additionally, Mafumbo (2020) finds that there is a significant relationship between credit risk control and financial performance of banks in Uganda. Similarly, Karanja and Simiyu (2022) found out that credit risk control has a significant and positive effect of loan performance in MFB in Kenya.

In this study credit risk control comprises of; credit appraisal and credit monitoring. Credit appraisal is the process of establishing the creditworthiness and risk profile of a borrower. It involves analysis of the borrower's financials and information obtained from reference bureaus and alternative data to determine if to grant credit or not. The appraisal process is bureaucratic; includes credit analysis and site visitation before approving loan application. Nonetheless, client appraisal is found to have a statistically significant effect on loan performance of SACCOS in Nyandurua county, Kenya (Gichuchi and Omagwa 2020). Obae and Jagongo (2022) find that credit appraisal has a significant positive effect on credit performance of the banking sector in Kenya. Similarly, Ndero et al. (2019) finds that there is a significant positive relationship ($r=0.206$ and $p=0.035$) between credit appraisal and loan performance of commercial banks in Uasin Gishu county, Kenya. In contrast, Abdulrauf and Hassan (2022) that credit appraisal does not significantly affect loan performance at microfinance banks in Kwara state, Nigeria.

Credit monitoring is the follow-up on borrower repayment behavior after loan has been granted. Through continuous, dynamic monitoring, lenders can minimize this risk of non-performance. Credit monitoring involves a variety of typically unobservable tasks which are challenging to quantify but with substantial effect. This include periodic follow up on; if repayment installments are timely done, if collateral used has been pledged elsewhere, if credit is utilized properly, or if there is any behavioral change on borrower (Branzoli and Fringuellotti, 2020). Murigi and Thuo (2018) found a positive and statistically significant relationship between credit monitoring and loan performance of microfinance banks, Kenya.

2.3 Summary of Review of Literature and Research Gaps

Studies reviewed, find that credit policy has an impact on the financial performance of any financial institution. Mburu, Mwangi and Muathe (2020) find that credit policy has significant positive influence on loan performance in commercial banks Kenya. Al-hawatmah and Shaban (2020) findings reveal there is a statistically significant effect of lending policies on the profitability of Jordian commercial banks. Gichuchi and Omagwa (2020) finds that lending policy has a statistically significant effect on loan portfolio performance of SACCOS in Nyandurua county, Kenya. However, Mafumbo (2020) finds

there is no significant relationship between credit policy and financial performance of banks in Uganda. Credit policy defines credit standards used in risk rating of potential borrower and credit terms for the loan. Twinomugisha (2020) finds that credit standards improve bank profitability while Abdulrauf and Hassan (2022) find that credit standards do not improve loan performance. In Tanzania, Ngonyani and Mapesa (2019) find that longer credit terms improve loan performance in MFIs while Kiros (2023) find shorter credit terms improves performance in Ethiopian MSE. In Tanzania, Mbowe, Mrema and Shayo (2020) find that high interest rate is the cause of NPL while in Kenya, Otieno et al. (2021) finds that high interest rate and is major cause of underperformances in SME loans.

Studies reviewed, find that collection policy has an impact on loan performance in Nigerian microfinance. Abdulrauf and Hassan (2022) find that MFB loan performance is highly impacted by their collection policy. Enoch et al. (2021) find that collection policy has a profound effect on MFI loan portfolio quality. Collection policy defines the collection period, grace period and techniques that bank will take to recover overdue amounts. Obae and Jagongo, (2022) find that a shorter collection period improves loan performance in Kenyan commercial banks. Similarly, Wasike et al. (2019) shorter collection period improves loan performance in Kenyan water services. However, scholars are split on whether extension of grace period improves performance or not. Farhan et al. (2020) find that grace period had a negative and significant impact on the performance of pharmaceutical companies registered on the Bombay Stock Exchange. Osendo (2019) finds that extension of grace period contributes to timely loan repayment in youth developmental fund. Ngonyani and Mapesa (2019) find that extension grace period substantially reduces portfolio at risk in Tanzanian MFI's.

Studies reviewed, find that credit risk (management) has an impact on the financial performance or profitability or loan performance. Siddique et al. (2021) find that credit risk management is strongly positively associated to the financial performance of Asian commercial banks. Credit risk control defines the process of identifying risk through credit appraisal and tracking risk through credit monitoring. Obae and Jagongo (2022) found that credit appraisal process leads to an improvement in loan performance in Kenya. Similarly, Gichuchi and Omagwa (2020) client appraisal is found to have a statistically significant

effect on loan performance of SACCOS in Nyandurua county, Kenya. However, Abdulrauf and Hassan (2022) found that credit appraisal does not significantly improve loan performance of MFB in Nigeria. Murigi and Thuo (2018) find that credit monitoring leads to an improvement in loan performance in Kenyan MFB.

The literature reviewed confirms credit management variables have an effect on loan performance. However, there is still some gaps that the study intended to fill. For instance, Mburu, Mwangi, and Muathe (2020) find that loan performance of Kenyan banks is highly attributed to efficiency of credit management practices. But then the study did not measure the effect of credit risk control on loan performance. Mafumbo (2020) find that credit management has a significant relationship to financial performance of Ugandan Banks. However, the study did not measure the collection policy and measured financial performance instead of loan performance. Gichuchi and Omagwa (2020) found that credit management practices are significant in determining the loan portfolio performance of SACCOs in Kenya. However, the study did not measure the significance of credit risk control. In addition, Al-hawatmah and Shaban (2020) find that lending policy has an effect on the profitability of Jordanian banks. But the study addressed lending policy as the central bank policy and measured profitability instead of loan performance.

While there is a wealth of research on credit management and profitability/financial performance of banks and other financial institutions there is a significantly less studies on credit management and loan performance of banks particularly in Tanzania. Further, not much has been done on the effect of credit management on loan performance as a combination of variables of credit policy, collection policy and credit risk control. It is against this back drop that this study sought to bridge this knowledge gap.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The research design and methodology that was used to conduct the study is presented in this chapter. The chapter is structured as follows: research design, study area, target population, sample size and sampling technique, research instruments, data collection method, validity and reliability, data analysis, legal and ethical considerations.

3.2 Research Design

Research design, according to Alam (2024), is the overarching strategy or framework that directs the research process is known as a research design. This nature of research is descriptive design utilizing a case study research strategy. Descriptive research describes a phenomenon, situation or a population. In a descriptive study, the researcher does not control or manipulate any of the variables, but only observes and measures them (McCombes, 2022). A case study of Maendeleo Bank Tanzania will be used to measure the objective of the study. The research adopted a realism or pragmatic philosophy because it adopts a problem-solving mindset and allows for use of both quantitative and qualitative data. The research approach is deductive because the researcher will test hypothesizes to confirm or reject. The research was carried out in between February and March 2024.

3.3 Research Site

This research was carried out in Maendeleo Bank Tanzania. Maendeleo Bank has a total of four branches in Tanzania. Research was carried out at the headquarters in Luther House branch, Tanzania.

3.4 Target Population

Population is the entire group where the researcher wants to draw conclusion about (Bhandari, 2020). For the objective of the study, the population is 144 employees of Maendeleo bank. The target population is all the employees of Maendeleo bank Tanzania, Luther House branch. For the year 2024, Maendeleo bank had a total of 56 employees. Target population was steered by the fact of ease of accessibility of Luther House branch and that it is the headquarter for Maendeleo bank Tanzania.

3.5 Study Sample

The fraction of the population used in research studies is known as a sample. It is a part of the population that shares a characteristic with the population and is a scaled-down representation of the total population under investigation.

3.5.1 Sampling procedure

A sample is the portion of the population that is used for research investigation (McCombes, 2022). Due to practicalities of accessibility and cost, researcher decided to only focus on Luther House Branch. The study utilized non-probability sampling where respondents were selected based on a non-random criterion. To do this, the researcher used purposive/judgmental sampling method. Given the credit nature of the study, the researcher found it appropriate to only include the credit and finance team in the sample therefore the sample frame is all credit and finance staff.

3.5.2 Sampling Size

To determine the sample size researcher utilized a census approach whereby all members in the credit and finance department were sampled. The sample size was 33 respondents.

3.6 Data Collection

The study used both primary and secondary data in the investigation. Primary data, which is qualitative in nature, was gathered through a close ended questionnaire utilizing a questionnaire using the drop-and-pick later technique. When distributing surveys, the researcher submitted to HR manager who distributed to the credit and finance team. The published Maendeleo Bank's yearly financial reports of 2022 was the source of secondary data, which was used to depict NPL ratio for Maendeleo bank.

3.6.1 Data Collection Instruments

Close ended questionnaires were employed as the instruments for this study's data collection. All members of credit and finance team were given questionnaires which provided the primary data. The published audited financial accounts of Maendeleo Bank, which are available on the websites of the Bank of Tanzania and the Maendeleo bank website, was used to derive data on total gross loans and advances; and NPLs.

3.6.2 Pilot Testing

Pilot testing determines the language's clarity, the tools' design, the duration, and the procedure for applying the data collection instrument. The validity and reliability of research instruments was determined by the results of pilot testing. The pilot test was administered to five different banks from the bank under study. The pilot took place in January 2024. The pilot questionnaires were distributed to: KCB bank, Bank of India, CRDB bank, DTB Bank, and Amana Bank. The banks were selected because, their management authorized researcher to collect data promptly and are situated in city center so easier to access.

3.6.3 Instrument Reliability

Reliability is the capacity of a research instrument to deliver consistent outcomes when utilized repeatedly under comparable circumstances (Middleton, 2023). A correlation coefficient is a numerical representation of the linear relationship between two variables. A perfect negative correlation between two variables is represented by a correlation value of -1, and a perfect positive connection is represented by a correlation coefficient of 1. It is generally agreed that a score of 0.7 and above is appropriate (Ruel, Wagner & Gillespie, 2016). The assessment of reliability utilizing correlation coefficient Cronbach’s alpha was carried out by of SPSS. Based on the analysis the Cronbach alpha is approximately 0.7 hence reliable.

3.6.4 Instrument Validity

Validity is an instrument's capacity to measure what it was intended to measure (Middleton, 2023). Each item on the instrument is given a face and content and construct validity check to make sure it covers the entire issue or phenomenon being measured and has a logical connection to the objectives. Prior to the data collection exercise, the questionnaires were examined to ensure the accuracy of the questions on the instruments. When determining the construct validity of the data collection instruments, the researcher consulted with the university's research supervisors. After the pilot test, the instrument was also be modified to remove improper questions and researcher bias.

3.6.5 Data Collection Procedures

A letter of introduction from Africa Nazarene University was obtained by the researcher. The researcher presented the letter to Tanzania Commission of University to obtain authorization to approach Maendeleo Bank for the purpose of gathering of data from their employees. The researcher collected data by use of questionnaires which were distributed to the credit and finance department with the help of Maendeleo bank HR manager. Secondary data was obtained from published audited financial statements available in Maendeleo bank website.

3.7 Data Processing and Analysis

Descriptive statistics was used to describe the data from the study and provide the basis further comparisons. Measures of frequencies, central tendencies and variance were used to analyze the data collected. Inferential statistics was used to determine association between variables. A Pearson correlation test was done to assess the extent to which independent and dependent variables are related. A multiple linear regression model was used to investigate how dependent variable changes as the independent variable changes. The test of significance was done using ANOVA and will enable researcher accept or reject hypothesis.

The regression equation is in the form of $Y= \beta_0 + \beta_1X_1+\beta_2X_2+ \beta_3X_3+e$,

Where; Y = Maendeleo bank loan performance

B_0= Constant

β_1-β_3= Regression coefficients

X_1= mean responses on credit policy

X_2= mean responses on collection policy

X_3 = mean responses on credit risk control

e is the error term.

3.8 Legal and Ethical Considerations

The researcher applied for introduction letter from ANU then used the letter to make an introduction to Tanzania's Commission of University in order to verify that all legal requirements are met prior to data collection. To provide confidentiality, the researcher provided an option to leave out name and mobile number for respondents. The responses

were given the highest confidentiality and the assurance of anonymity to uphold ethical standards. In order to respect copy rights and avoid plagiarism, the researcher acknowledges all of the information's sources, including books, peer-reviewed journal articles, unpublished theses, published theses, and other research materials.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This section presents the data analyzed from questionnaires and there on link findings to the objective of the study. Both descriptive and inferential statistics were used and ANOVA to establish significance of the model.

4.2 Characteristics of the Respondents

4.2.1 Response Rate

The study had targeted 26 respondents out of which 23 questionnaires were returned yielding 88.5% response rate.

4.2.2 Reliability

The reliability analysis was conducted using Cronbach's Alpha, which assesses internal consistency by determining whether different items on a scale measure the same concept validity. Cronbach's alpha was carried out by utilization of SPSS. Based on the analysis the Cronbach alpha is approximately 0.7 hence reliable. It is generally agreed that a score of 0.7 and above is appropriate (Ruel, Wagner & Gillespie, 2016).

Table 4.2.2 Reliability Analysis

Determinants	Cronbach's Alpha	N of items
credit management, credit policy, collection policy, credit risk control	0.688	42

4.2.3 Position of the Respondent

The respondents were requested to state their position so as to inform their knowledge level in answering the questionnaire.

Table 4.2.3 Position of Respondents

Position	Respondents
Relationship officer	13
Recovery officer	3
Finance officer	2
Credit manager	1
Recovery manager	1

Loan product supervisor	1
Treasury	1
Credit officer	1

Source: Research data (2024)

From the findings; 57% of responses were filled by relationship officers, 13% were filled by recovery officers, 9% of responses were filled by finance officer, 4% were filled by credit manager, 4% was filled by recovery manager, 4% was filled by loan product supervisor, 4% was filled by treasury officer, and 4% was filled credit officer.

4.3 Presentation of Research Analysis, Findings, and Interpretation

This section includes a presentation of the results according to the study objectives.

4.3.1 Descriptive Analysis of Study Variables

Descriptive statistics are utilized in describing the fundamental characteristics of data in a given study. A Likert scale questionnaire was used to rate the extent of effect of credit management aspects on loan performance where the respondent had to choose between strongly disagree, disagree, neutral, agree and strongly agree. The frequency, percentage, mean and standard deviation for all variables were analyzed and presented as indicated below

4.3.1.1 The Effect of Credit Management on Loan Performance

The respondents were asked to fill out their level of agreement on four statements describing the effect credit management on loan performance as presented below. Statement (1): Do you agree that credit management has an impact on loan performance? Out of the 23 respondents, none strongly disagreed, 4.3% disagreed, none was neutral, 56.5% agreed, and 39.1% strongly agreed. The item has a mean of 4.3 and a std. deviation of .703 which is more than the composite mean of 4.075 and std. deviation of .627 therefore implying respondents agree that credit management has an impact on loan performance.

Statement (2): Credit policy has an impact on loan performance. Out of 23 respondents, 34.8% strongly agreed, 60.9% agreed, 4.3% was neutral, and none disagreed or strongly disagreed. The item has a mean of 4.3 and a std. deviation of .559 which is more than the composite mean of 4.075 and std. deviation of .627 therefore implying respondents agree that credit policy has an impact on loan performance.

Statement (3): Collection policy has an impact on loan performance. Out of 23 respondents, 8.7% strongly agreed, 47.8% agreed, 34.8% were neutral, and 8.7% disagreed. The item has a mean of 3.57 and a std. deviation of .788 which is less than the composite mean of 4.075 and std. deviation of .627 therefore implying respondents disagree that collection policy has an impact on loan performance.

Statement (4): Credit risk control has an impact on loan performance. Out of 23 respondents 17.4% strongly agreed, 78.3% agreed, 4.3% was neutral, and none disagreed or strongly disagreed. The item has a mean of 4.13 and a std. deviation of .458 which is more than the composite mean of 4.075 and std. deviation of .627 therefore implying respondents agree that credit risk control has an impact on loan performance.

Table 4.3.1.1 Descriptive statistics – credit management and loan performance

Statement		SA	A	N	D	SD	Mean	Std. Deviation
Credit management has an effect on loan performance	f	9	13	0	1	0	4.3	0.703
	%	39.1	56.5	0	4.3	0		
Credit policy has an effect on loan performance	f	8	14	1	0	0	4.3	0.559
	%	34.8	60.9	4.3	0	0		
Collection policy has an effect on loan performance	f	2	11	8	2	0	3.57	0.788
	%	8.7	47.8	34.8	8.7	0		
Credit risk control has an effect on loan performance	f	4	18	1	0	0	4.13	0.458
	%	17.4	78.3	4.3	0	0		
Composite mean and standard deviation							4.08	0.627

Source: Research data (2024)

Note: SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly disagree, f=frequency

4.3.1.2 The effect of credit policy on loan performance

The respondents were asked to fill out their level of agreement on ten statements describing the effect credit policy on loan performance as presented below. Statement (1): Uniformity of credit standards to all borrowers leads to better loan performance. Out of 23 respondents; 39.1% strongly agreed, 47.8% agreed, none was neutral, 13% disagreed, and none strongly disagreed. The statement has a mean of 4.13 and standard deviation of .968 which is higher

than the composite mean of 3.27 with a standard deviation of 1.0671 therefore implying the respondents agree with the statement

Statement (2): Personalized credit standards to borrowers leads to better performance. Out of 23 respondents, 17.4% strongly agreed, 21.7% agreed, 17.4% were neutral, 34.8% disagree, and 8.7 strongly disagreed. The statement has a mean of 3.04 and standard deviation of 1.296 which is less than the composite mean of 3.27 std. deviation of 1.0671 therefore implying respondents disagree with the statement

Statement (3): Borrower qualification data from reference bureaus and alternative data do not impact credit granting decision. Out of 23 respondents, 8.7% strongly agreed, none agreed, 4.3 was neutral, 52.2% disagreed, and 34.8% strongly disagreed. The statement has a mean of 1.96 and standard deviation of 1.107 which is less than the composite mean of 3.27 and standard deviation of 1.0671 therefore implying respondents disagree with the statement.

Statement (4): Credit analysis prevents non-performing loans. Out of 23 respondents, 39.1% strongly agreed, 26.1% agreed, 21.7 were neutral, 8.7% disagreed and 4.3% strongly disagreed. The statement has a mean of 3.87 and a standard deviation of 1.18 which is higher than the composite mean of 3.27 and std. deviation of 1.0671 therefore implying respondents agree with the statement.

Statement (5): Long loan duration results to non-repayment. Out of 23 respondents, 17.4% strongly agreed, 21.7% agreed, 30.4% were neutral, 26.1% disagreed, and 4.3 strongly disagreed. The statement has a mean of 3.22 and standard deviation of 1.166 which is less than composite mean of 3.27 with a standard deviation of 1.0671 therefore implying respondents disagree with the statement.

Statement (6): Credit terms with early payment discounts encourage timely repayment. Out of 23 respondents, 17.4% strongly agreed, 60.9% agreed, 17.4% were neutral, and none disagreed or strongly disagreed. The mean for the statement is 4.04 and standard deviation of .638 which is higher than the composite mean of 3.27 with standard deviation of 1.0671 therefore implying respondents agree with the statements

Statement (7): Credit terms with high late penalties encourage repayment. Out of 23 respondents, 17.4% strongly agreed, 34.8% agreed, 17.4% were neutral, 26.1% disagreed, and 4.3% strongly disagreed. The mean for the statement is 3.35 and std. deviation is 1.191 which is higher that composite mean of 3.27 and std. deviation of 1.0671. This implies that the statement is true

Statement (8): High interest rates lead to NPLs. Out of 23 respondents, 30.4% strongly agreed, 43.5% agreed, 8.7% were neutral, 17.4% disagreed, and none strongly disagreed. The mean for the statement is 3.87 and standard deviation of 1.058 which is higher than composite mean of 3.27 with standard deviation of 1.0671 therefore implying respondents agree with the statement.

Statement (9): High NPLs leads to high interest rates. Out 23 respondents, 4.3% strongly agreed, 13% agreed, 13% were neutral, 52.2% disagreed, and 17.4% strongly disagreed. The mean for the statement is 2.35 and standard deviation of 1.071 which is lower than the composite mean of 3.27 with standard of deviation of 1.0671 therefore implying respondents disagree with the statement.

Statement (10): Credit policy concessions encourage non-repayment. Out of 23 respondents, 4.3% strongly agreed, 26.1% agreed, 30.4% were neutral, 34.8% disagreed, and 4.3 strongly disagreed. The mean for the statement is 2.91 and std. deviation is .996 which is lower composite mean of 3.27 and std. deviation of 1.0621 therefore implying that respondents disagree with the statement.

Table 4.3.1.2 Descriptive statistics – credit policy and loan performance

Statement		SA	A	N	D	SD	Mean	Std. Deviation
Uniformity of credit standards to all borrowers leads to better loan performance	f	9	11	0	3	0	4.13	0.968
	%	39.1	47.8	0	13	0		
Personalized credit standards to borrowers leads to better performance	f	4	5	4	8	2	3.04	1.296
	%	17.4	21.7	17.4	35	8.7		
	f	2	0	1	12	8	1.96	1.107
	%	8.7	0	4.3	52	35		

Borrower qualification data from reference bureaus and alternative data do not improve performance								
	f	9	6	5	2	1	3.87	1.18
Credit analysis prevents non-performing loans	%	39.1	26.1	21.7	8.7	4.3		
	f	4	6	7	5	1	3.22	1.166
Long loan duration results to non-performance	%	17.4	21.7	30.4	26	4.3		
	f	4	15	4	0	0	4.04	0.638
Credit terms with early payment discounts encourage timely repayment	%	17.4	60.9	17.4	0	0		
	f	4	9	4	5	1	3.35	1.191
Credit terms with high late penalties encourage repayment	%	17.4	34.8	17.4	26	4.3		
	f	7	10	2	4	0	3.87	1.058
High interest rates lead to NPLs	%	30.4	43.5	8.7	17	0		
	f	1	3	3	12	4	2.35	1.071
High NPLs leads to high interest rates	%	4.3	13	13	52	17		
	f	1	6	7	8	1	2.91	0.996
Credit terms concessions encourage non-repayment	%	4.3	26.1	30.4	35	4.3		
Composite mean and standard deviation							3.27	1.0671

Source: Research data (2024)

Note: SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly disagree, f=frequency

4.3.1.3 The effect of collection policy on loan performance

The respondents were asked to fill out their level of agreement on ten statements describing the effect collection policy on loan performance as presented below. Statement (1): Do you have a written down collection policy? Out of 23 respondents: 34.8% strongly agree, 56.5% agree,4.3% is neutral, 4.3% disagree and none strongly disagree. The statement has a mean of 4.22 and standard deviation of .736 which is higher than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents agree with the statement.

Statement (2): Maendeleo bank reserves the right to debit borrower's bank account in case of default. Out of 23 respondents; 30.4% strongly agree, 21.7% agree, 17.4% are neutral, 21.7% disagree, and 8.7 strongly disagree. The statement has a mean of 3.43 and standard

deviation of 1.376 which is higher than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents agree with the statement.

Statement (3): A shorter collection period encourages non-performance. Out of 23 respondents; 13% strongly agree, 8.7% agree, 21.7% are neutral, 34.8% disagree, and 21.7 strongly disagree. The statement has a mean of 2.57 and standard deviation of 1.308 which is less than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents disagree with the statement.

Statement (4): A longer collection period discourages non-performance. Out of 23 respondents; 7% strongly agree, 30.4% agree, 8.7% are neutral, 39.1% disagree, and 13% strongly disagree. The statement has a mean of 2.83 and standard deviation of 1.267 which less than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents disagree with the statement.

Statement (5): Early payment discount boosts performance. Out of 23 respondents; 34.8% strongly agreed, 52.2% agreed, 13% are neutral, and none disagreed or strongly disagreed. The mean for the statement is 4.22 and standard deviation of .671 which is higher than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents agree with the statement.

Statement (6): Enforcement of guarantee policies does not boost performance. Out of 23 respondents 8.7% strongly agree, 8.7% agree, 34.8% are neutral, 34.8% disagree, and 13% strongly disagree. The statement has a mean of 2.65 and standard deviation of 1.112 which is less than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents disagree with the statement.

Statement (7): Provision of grace period to borrowers increase chance of performance. Out of 23 respondents; 13% strongly agree, 65.2% agree, 4.3% is neutral, 13% disagree, and 4.3 strongly disagree. The statement has a mean of 3.7 and standard deviation of 1.02 which is higher than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents agree with the statement.

Statement (8): Grace period increases likelihood of non-performance. Out of 23 respondents; none strongly agreed, 21.7% agreed, 13% neutral, 56.5% disagreed, and 8.7%

strongly disagreed. The statement has a mean of 2.48 and standard deviation .947 which is less than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents disagree with the statement.

Statement (9): Provision of credit to borrower who previously defaulted increases chances non-performance. Out of 23 respondents; 34.8% strongly agree, 39.1% agree, 8.7% are neutral, 13% disagree, and 4.3 strongly disagree. The statement has a mean of 3.87 and standard deviation of 1.037 which is higher than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents agree with the statement.

Statement (10): Restructure of delinquent borrower promotes performance. Out of 28 respondents, 13% strongly agree, 39.1% agree, 30.4 are neutral, 13% disagree, and 4.3% strongly disagree. The statement has a mean of 3.43 and standard deviation of 1.037 which is higher than composite mean of 3.34 with standard deviation of 1.0654 therefore implying respondents agree with the statement.

Table 4.3.1.3 Descriptive statistics – collection policy and loan performance

Statement		SA	A	N	D	SD	Mean	Std. Deviation
Do you have a written down collection policy?	f	8	13	1	1	0	4.22	0.736
	%	34.8	56.5	4.3	4.3	0		
Maendeleo bank reserves the right to debit borrower's bank account in case of default	f	7	5	4	5	2	3.43	1.376
	%	30.4	21.7	17.4	22	8.7		
A shorter collection period encourages non-performance	f	3	2	5	8	5	2.57	1.308
	%	13	8.7	21.7	35	22		
A longer collection period discourages non-performance	f	2	7	2	9	3	2.83	1.267
	%	8.7	30.4	8.7	39	13		
Early payment discount boosts performance	f	8	12	3	0	0	4.22	0.671
	%	34.8	52.2	13	0	0		
Enforcement of guarantee policies does not boost performance	f	2	2	8	8	3	2.65	1.112
	%	8.7	8.7	34.8	35	13		
Provision of grace period to borrowers increase chance of loan performance	f	3	15	1	3	1	3.7	1.02
	%	13	65.2	4.3	13	4.3		
Grace period increases likelihood of non-performance	f	0	5	3	13	2	2.48	0.947
	%	0	21.7	13	57	8.7		
	f	8	9	2	3	1	3.87	1.18
	%	34.8	39.1	8.7	13	4.3		

Provision of credit to borrower who previously defaulted increases chances of non-performance								
Restructure of delinquent borrower advances performance	f	3	9	7	3	1	3.43	1.037
	%	13	39.1	30.4	13	4.3		
Composite mean and standard deviation							3.34	1.0654

Source: Research data (2024)

Note: SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly disagree, f=frequency

4.3.1.4 The effect of credit risk control on loan performance

The respondents were asked to fill out their level of agreement on ten statements describing the effect collection policy on loan performance as presented below. Statement (1): Credit appraisal process guarantees recovery. Out of 23 respondents; 26.1% strongly agreed, 43.5% agreed, 8.7% were neutral, 17.4% disagreed, and 4.3 strongly disagreed. The mean of the statement is 3.7 and standard deviation of 1.185 which is higher than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents agree with the statement.

Statement (2): Standardized credit appraisal process leads to poor performance. Out of 23 respondents; 8.7% strongly agreed, 30.4% agreed, 13% were neutral, 21.7% disagreed, 26.1% strongly disagreed. The statement has a mean of 2.74 and standard deviation of 1.389 which is less than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents disagree with the statement.

Statement (3): Board's involvement in making credit appraisal decisions increases performance. Out of 23 respondents; 13% strongly agree, 43.5% agree, 26.1% were neutral, 17.4% disagree, and none strongly disagree. The statement has a mean of 3.52 and standard deviation of .947 185 which is higher than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents agree with the statement.

Statement (4): Site visitation prior credit granting, improves performance. Out of 23 respondents; 47.8% strongly agree, 47.8% agree, 4.3% are neutral and none disagreed or strongly disagreed. The statement has a mean of 4.43 and standard deviation .590 which is

higher than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents agree with the statement.

Statement (5): Periodically monitoring of borrowers monitoring improves chance of performance. Out of 23 respondents; 30.4% strongly agree, 65.2% agree, 4.3% are neutral, and none disagree or strongly disagree. The statement has a mean of 4.26 and standard deviation of .541 which is higher than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents agree with the statement.

Statement (6): Periodic credit monitoring alerts bank of possibility of delinquency but does not reduce non-performance. Out of 23 respondents; 8.7% strongly agree, 43.5% agree, 21.7% are neutral, 13% disagree, and 13% strongly disagree. The mean of the statement is 3.22 and standard deviation of 1.204 which is higher than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents agree with the statement.

Statement (7): Low risk borrowers make overdue payments. Out of 23 respondents; 8.7% strongly agree, 13% agree, 26.1% are neutral, 34.8% disagree, and 17.4 strongly disagree. The statement has a mean of 2.61 and standard deviation of 1.196 which is less than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents disagree with the statement.

Statement (8): High risk borrowers make timely payments. Out of 23 respondents; 4.3% strongly agree, 8.7% agree, 21.7 are neutral, 47.8 disagree, and 17.4% strongly disagree. The statement has a mean of 2.35 and standard deviation of 1.027 which is less than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents disagree with the statement.

Statement (9): Restructuring of delinquent loan increases risk of non-performance. Out of 23 respondents; 13% strongly agree, 21.7% agree, 43.5% are neutral, 17.4% disagree, 4.3% strongly disagree. The statement has a mean of 3.22 and standard deviation of 1.043 which is less than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents disagree with the statement.

Statement (10): Disbursement of loans before collateral document perfection increase risk of non-performance. Out of 23 respondents; 43.5% strongly agree, 39.1% agree, 8.7% are

neutral, 8.7% disagree, and none strongly disagree. The statement has a mean of 4.17 and standard deviation of .932 which is higher than composite mean of 3.422 with standard deviation of 1.0059 therefore implying respondents agree with the statement.

Table 4.3.1.4 Descriptive Statistics – credit risk control and loan performance

Statement		SA	A	N	D	SD	Mean	Std. Deviation
Credit appraisal process guarantees performance	f	6	10	2	4	1	3.7	1.185
	%	26.1	43.5	8.7	17	4.3		
Standardized credit appraisal process leads poor performance	f	2	7	3	5	6	2.74	1.389
	%	8.7	30.4	13	22	26		
Board's involvement in making credit appraisal decisions increases performance	f	3	10	6	4	0	3.52	0.947
	%	13	43.5	26.1	17	0		
Site visitation prior credit granting, improves performance	f	11	11	1	0	0	4.43	0.59
	%	47.8	47.8	4.3	0	0		
Periodically monitoring of borrowers monitoring improves chance of performance	f	7	15	1	0	0	4.26	0.541
	%	30.4	65.2	4.3	0	0		
Periodic credit monitoring alerts bank of possibility of delinquency but does not reduce non-performance	f	2	10	5	3	3	3.22	1.204
	%	8.7	43.5	21.7	13	13		
Low risk borrowers make overdue payments	f	2	3	6	8	4	2.61	1.196
	%	8.7	13	26.1	35	17		
High risk borrowers make timely payments	F	1	2	5	11	4	2.35	1.027
	%	4.3	8.7	21.7	48	17		
Restructuring of delinquent loan increases non-performance	f	3	5	10	4	1	3.22	1.043
	%	13	21.7	43.5	17	4.3		
Disbursement of loans before collateral document perfection increase risk of non-performance	f	10	9	2	2	0	4.17	0.937
	%	43.5	39.1	8.7	8.7	0		
Composite mean and standard deviation							3.42	1.0059

Source: Research Data (2024)

Note: SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly disagree, f=frequency

4.3.2 Inferential statistics

Inferential statistics uses sampled data to draw conclusions or make prediction about the larger population. For inferential statistics, this study adopted correlation analysis, regression analysis, and analysis of variance (ANOVA).

4.3.2.1 Correlation between Independent Variable and Dependent Variables

The link between independent variables which are credit policy, collection policy, credit risk control and dependent variable which is loan performance was measured using Pearson correlation analysis and results are tabulated below.

Table 4.3.2.1 Correlation between Independent Variable and Dependent Variables

		Loan Performance	Credit policy	Collection policy	Credit risk control
Loan performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	23			
Credit policy	Pearson Correlation	.547**	1		
	Sig. (2-tailed)	0.007			
	N	23	23		
Collection policy	Pearson Correlation	0.401	-0.037	1	
	Sig. (2-tailed)	0.058	0.867		
	N	23	23	23	
Credit risk control	Pearson Correlation	0.188	0.335	0.314	1
	Sig. (2-tailed)	0.389	0.118	0.145	
	N	23	23	23	23

The results in Table 4.3.4 show a strong positive correlation existing between credit policy and loan performance at a significant level of 0.05, at the strength of 54.7%. Also, the results show a significant positive correlation exist between collection policy and loan performance at a significant level of 0.05, at a significant strength of 40.1%. Furthermore, the results show an average positive correlation exist between credit risk control and loan performance, at the average strength of 18.8%.

4.3.2.2 Regression Analysis

This part discusses the strength of the association between variables.

Table 4.3.2.2 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.707a	0.499	0.42	0.33188	1.888

a Predictors: (Constant), credit policy, collection policy, credit risk control

b Dependent Variable: loan performance

The correlation coefficient (R) represents the quality of prediction for independent variable. From Table 4.3.4.2 R is 70.7% implying the quality of prediction is at a strength of 70.7%. The coefficient of determination (R^2) is used to measure the explanatory power of the model. From table 4.3.4.2 the R^2 is 49.9% implying that only 49.9% of loan performance is explained by credit management leaving 50.1% to other factors which are not subject of the study (error terms). This shows that the model is an average fit.

4.3.2.3 Variance Analysis

ANOVA analysis was used to establish the overall significance of the model to testing levels of variability and form basis of test of significance.

Table 4.3.2.3: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.087	3	0.696	6.315	.004b
	Residual	2.093	19	0.11		
	Total	4.179	22			

a Dependent Variable: loan performance

b Predictors: (Constant), credit policy, collection policy, credit risk control

The results in Table 4.3.2.3 above confirm that the model is significant for the data, as captured by the F-statistic value of 6.315 indicated and it associated probability of 0.004

(f=6.315, p<0.05) which means that the model is significant in explaining relationship between independent variables and dependent variable.

4.3.2.4 Test of Coefficients

This section shows the beta coefficients for the actual regression equation.

Table 4.3.2.4 Coefficients for Credit Management and Loan Performance

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.643	0.968		1.697	0.106
	Credit policy	0.536	0.151	0.621	3.559	0.002
	Collection policy	0.484	0.175	0.477	2.758	0.013
	Credit risk control	-0.274	0.297	-0.169	-0.923	0.368

a Dependent Variable: B (Loan performance)

Table 4.3.2.4 establishes that when all independent variables are taken into account, 1.643 is constant. A unit increase in credit policy, on average, increase loan performance by 0.536. A unit increase in collection policy, on average, increase loan performance by 0.484. A unit increase in credit risk control, on average, decreased loan performance by 0.274. The results show that, credit policy bears the highest positive effect on loan performance, followed by collection policy, and credit risk control bears a negative effect on loan performance.

The following regression model was obtained:

$$Y= 1.643 + 0.536X_1+ 0.484X_2 – 0.274X_3+e,$$

Where: Y is Average Loan Performance, X_1 is credit policy, X_2 is collection policy, X_3 is credit risk control, and e is error terms

4.3.2.5 Hypothesis Testing

The hypotheses testing was done by the linear regression model using the distribution (F statistic) test, to determine where to accept or reject the hypotheses. The decision rule was as follows: Accept $H_{01\text{-}03}$ if $p > 0.05$, Accept $H_{1\text{-}3}$ if $p < 0.05$.

Based on Table 4.3.2.4, the calculated t-value for the significant effect of credit policy on loan performance Maendeleo bank Tanzania is 3.559 with an associated p value of 0.002. Since the p value is less than 0.05, then credit policy has a positive significant effect on loan performance. This implies that H_{01} is rejected and H_1 accepted.

Based on Table 4.3.2.4, the calculated t-value for the significant effect of collection policy on loan performance Maendeleo bank Tanzania is 2.758 with an associated p value of 0.013. Since the p value is less than 0.05, then collection policy has a positive significant effect on loan performance. This implies that H_{02} is rejected and H_2 accepted.

Based on Table 4.3.2.4, the calculated t-value for the significant effect of credit risk control on loan performance Maendeleo bank Tanzania is -0.923 with an associated p value of 0.368. Since the p value is greater than 0.05, then credit risk control has a statistical insignificant effect on loan performance. This implies that H_{03} is accepted and H_3 rejected.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS, RECOMMENDATION

5.1 Introduction

This chapter presents the discussions and summary of findings, conclusions, recommendations and areas of further research for the extension of the body of knowledge.

5.2 Discussion

The study sought to find out the effect of credit management on loan performance. Thirty-three questionnaires were administered and twenty-three questionnaires were returned yielding a 69.6% response rate. The questionnaires were filled by bank staff who work with the credit department. The findings indicate that credit management has an effect on loan performance (M=4.075, SD=0.627). However, the coefficient of determination (R^2) indicates that only 49.9% of loan performance is explained by credit management and 50.1% is explained by other factors not part of the study.

5.2.1 The effect of credit policy on loan performance

Majority of the respondents agree that credit policy has an effect on loan performance (M=3.27, SD=1.0671). The model confirms that credit policy has a positive and significant effect on loan performance ($\beta_1 = 0.536$, $t = 3.559$, $p < 0.05$). In line with the findings, Mburu, Mwangi, and Muathe (2020) in a study on credit management practices and loan performance in commercial banks Kenya indicate that lending policy has significant positive influence on loan performance. Similarly, Karanja and Simiyu (2022) find that credit policy has a positive significant correlation with loan performance in microfinance banks Kenya.

The study confirms that upholding strict credit standards work to improve loan performance. Borrower qualification data from reference bureaus and alternative data is used to provide context for credit granting decision. Equally, Osendo (2019) finds that borrower past information is a significant indication for loan repayments. Twinomugisha (2020) in a study on credit management practices and loan portfolio performance of Uganda commercial bank find that loan portfolio performance critically relies on strong credit standards to ensure selection of applicants with high probability of repayment and rejection of those with low probability or repayment. Furthermore, the study purports that

uniformity of credit standards leads to better loan performance as compared to personalized credit standards.

The study finds that credit terms with high interest rates lead to NPLs. In accord, Otieno et al. (2021) finds that high interest rate is major cause of underperformances in SME loans. The study findings disagree that high NPLs lead to high interest rates. However, Mrema and Shayo (2020) on a study on bank lending interest rates in Tanzania finds that non-performing loan is the main driver of high interest rates. The study finds credit terms with high late penalties encourage timely repayment and that credit terms concessions encourage repayment. Similarly, Osendo (2019) found that imposing penalties on default borrowers improves loan performance and that flexible payment terms contribute to improving loan performance. The study finds that long loan duration leads to loan non-performance. On the same note, Kiros (2023) found that a shorter the repayment period increases the probability of loan repayment by Ethiopian MSE's. However, Ngonyani and Mapesa (2019) find that a longer loan duration improves loan performance in Tanzanian MFI.

5.2.2 The effect of collection policy on loan performance

Majority of the respondents indicate that collection policy has an effect on loan performance (M=3.34, SD=1.0654). The model confirms that collection policy has a positive and significant effect on loan performance ($\beta_2 = 0.484$, $t = 2.758$, $p < 0.05$). Similarly, Abdulrauf and Hassan (2022) find that microfinance banks' loan performance is significantly impacted by the collection policy. Enoch et al. (2021) on the study evaluating the effect of credit collection policy on portfolio quality of micro-finance bank in Nigeria find that collection policy significantly affects the loan portfolio quality of banks; if effective the asset quality improves, on the other hands if ineffective overdue payment can negatively impact cash flow and deteriorate asset quality.

The study confirms that a shorter collection period encourages performance. Similarly, Otieno and Nyagol (2021) in a study on relationship between credit management and financial performance in microfinance banks in Kenya observed that a strict collection approach to shorten the amount of time for repayment led to decrease in non-performing loans in Kenyan commercial banks. Additionally, Obae and Jagongo (2022) find shorter

collection period leads to an improvement of loan performance in commercial banks Kenya. Similarly, Kiros (2023) on a study of loan performance determinants in Ethiopian MSE's found that a shorter the repayment period increases the probability of loan repayment.

The study finds that provision of grace period loan encourage performance. In the same vein, Ngonyani and Mapesa (2019) find that provision grace period of loans substantially reduces portfolio at risk of MFIs, Tanzania. This is contrary to results by Farhan, Yameen, and Yameen (2020) who find that grace period had a negative and significant impact on the performance of India pharmaceutical firms.

The study finds that collection techniques such as early payment discount, guarantee policies, and restructure of credit terms boost loan performance. Similarly, studies by (Mburu, Mwangi, and Muathe 2020; Cheptum 2019; Shiyonzo and Malenya (2020) find that collection techniques are positively and significantly affect loan performance. Furthermore, the study finds that provision of credit to borrower who previously defaulted increases chances of future non-performance.

5.2.3 The effect of credit risk control on loan performance

Majority of the respondents indicate that credit risk control has effect on loan performance (M=3.42, SD=1.0059). However, the regression model indicate that collection policy has statistically insignificant effect on loan performance (β_2= -0.274, t= -0.923, p= 0.368>0.05). This implies, there is not enough evidence to suggest that credit risk control has a significant effect on loan performance. However, scholars (Siddique, Khan, and Khan 2021; Chhetri 2021; Serwadda 2018) find that credit risk management has a significant effect on performance.

The findings indicate credit appraisal process, and board's involvement in credit appraisal increases chance of performance. Similarly, Obae and Jagongo (2022) find that credit appraisal has a positive significant effect on loan performance. Additionally, findings indicate a standardized approach in credit appraisal encourages performance. Further, study findings indicate site visitation and collateral document perfection before

disbursement of loans reduce risk of loan non-performance. Similarly, Osendo (2019) find that borrower visits highly improve loan performance.

The study highlights that low-risk borrowers make timely payments and high-risk borrowers make overdue payments. This finding underscores the importance of a mechanism for classifying credit risk. The system should establish the risk profile of the borrowers so to ensure that account management, structure, and pricing are appropriate for the risk involved. Additionally, the study finds that periodic monitoring of borrower increases chance of performance. Likewise, Murigi and Thuo (2018) found a positive and statistically significant relationship between credit monitoring and loan performance of microfinance banks, Kenya.

5.3 Summary of Main Findings

The study finds that credit policy has a positive and significant effect on credit management. Furthermore, credit policy concessions encourage non-repayment. The study operationalized credit policy as credit standards and credit term. The findings suggest that good credit standard practice improves loan performance and that uniformity of credit standards leads to better performance. The study finds that credit terms with long loan duration results to non-repayment and that credit terms with early payment discounts or high late penalties encourage timely repayment. The study also finds that high interest rates lead to NPLs.

The study finds that collection policy has a positive and significant effect on credit management. The study operationalized collection policy as collection period and grace period and collection techniques. The findings suggest that having a written down collection policy streamlines collection process therefore boost collection. Furthermore, reservation of bank's right to debit borrower's bank account in case of default boosts collection. The findings indicate that a shorter collection period encourages collection, on the same note early payment discounts and boost collection. The study suggest that restructure of delinquent loans can lead to collection. Specifically, credit concession on delinquent loans improves collection. Furthermore, the enforcement of guarantee policies leads to collection in case of default. The findings indicate that the provision of grace period to borrowers increase chance of collection. Therefore, a lenient collection policy to allow

delinquent borrowers extra time to make repayment boost collection and can increase loan performance.

The study found that credit risk control has a negative and insignificant effect on credit management. The study operationalized credit control as credit appraisal and credit monitoring. The study finds that credit appraisal guarantees recovery but a non-standardized approach leads to poor credit decision. Also, the involvement of the board in credit appraisal increases chances of repayment. Furthermore, taking measures of site visitation and collateral document perfection before credit disbursement decrease risk of non-repayment. The study further finds that that periodic credit monitoring alerts bank of possibility of delinquency but does not reduce bad debt. This suggests credit monitoring aids banks to quickly identify credit risk but does not necessarily reduce such risk.

5.4 Conclusion

The study concludes that credit policy has a positive and significant effect on loan performance. This implies an improvement in credit policy will lead to an improvement in loan performance. Also, the study concludes that collection policy has a positive and significant effect on loan performance. This implies that an improvement in collection policy will lead to an improvement in loan performance. However, the study concluded that credit risk control has an insignificant effect on loan performance. This implies that an improvement in credit control measure will not necessarily improve loan performance.

5.5 Recommendation

Credit policy is the first step in borrower onboarding so needs to be developed relying on strong credit standards and with appropriate credit terms. An ideal credit policy is achieved through proper adjustment of credit standards and credit terms among different group of borrowers. The researcher recommends bank to use uniform credit standards to all borrowers but use a customized approach when setting credit terms among different groups of borrowers. The study recommends update of credit policy occasionally so as to capture changes in credit environment.

The study recommends having a written down collection policy so as to streamline the collection process. Also, the study recommends banks to adopt a lenient collection policy

so as to allow delinquent borrowers make payment and therefore boost collection. Measures of leniency can include grace period, credit concessions and loan restructuring.

The study recommends having a strong credit risk control measure of credit appraisal process to enhance loan performance rather than credit monitoring which may not lead to improvement in loan performance. Banks should adopt strong credit appraisal process to distinguish low-risk borrowers from high-risk borrowers. However, once credit is disbursed to borrower mitigating risk of non-performance through credit monitoring may not yield results.

5.6 Areas of Further Research

It is recommended that other research be done to establish non-banking factors affecting loan performance, which are not explained by the present study. The study was a case of Maendeleo bank, Tanzania. Other studies should be carried out in other Tanzania banks to enable generalization findings. Another area of interest can be the effect of credit risk control on loan performance.

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APPENDICES

Appendix 1: Questionnaire Survey

Introduction

I am Laura Mushi, a student from Africa Nazarene University (ANU) Kenya. I am writing a thesis on the effect of credit management on loan performance in Maendeleo bank. I kindly request you to respond to this questionnaire which is set for the study purposes only. Disclosure of your name and mobile number is voluntary.

Part A: Background Information

1. Name:		3. Position:	
2.Mobile No:		4. Date:	

PART B: The effect of credit management on Loan Performance in Maendeleo Bank, Tanzania

5. Please tick (✓) the option that corresponds to your answer in each of the following:

S/N	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5.1	Credit management has an effect on loan performance					
5.2	Credit policy has an effect on loan performance					
5.3	Collection policy has an effect on loan performance					
5.4	Credit risk control has an effect on loan performance					

PART D: The effect of credit policy and Loan Performance in KCB Bank, Tanzania

Please tick (✓) the option that corresponds to your answer in each of the following:

6. What is your level of agreement on the following statements relating to credit policy in KCB Bank?

S/N	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
6.1	Uniformity of credit standards to all borrowers leads to better loan performance					
6.2	Personalized credit standards to borrowers leads to better performance					
6.3	Borrower qualification data from reference bureaus and alternative data do not improve performance					
6.4	Credit analysis prevents non-performing loans					
6.5	Long loan duration result to non-repayment					
6.6	Credit terms with early payment discounts encourage timely repayment					
6.7	Credit terms with high late penalties encourage repayment					
6.8	High interest rates lead to NPLs					
6.9	High NPLs leads to high interest rates					
6.10	Credit terms concessions encourage non-repayment					

PART D: The effect of collection Policy on Loan Performance in KCB Bank Tanzania

Please tick (✓)the option that corresponds to your answer in each of the following:

7. What is your level of agreement on the following statements relating to collection policy in KCB Bank?

S/N	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
7.1	Do you have a written down collection policy?					
7.2	KCB reserves the right to debit borrower's bank account in case of default					
7.3	A shorter collection period encourages late non- performance					
7.4	A longer collection period discourages non-performance					
7.5	Early payment discount boosts performance					
7.6	Enforcement of guarantee policies does not boost performance					
7.7	Provision of grace period to borrowers increase chance of performance					
7.8	Grace period increases likelihood of non-performance					
7.9	Provision of credit to borrower who previously defaulted increases chances of future non-performance					
7.10	Restructure of delinquent borrower advances performance					

PART E: The Effect of Credit Risk Control in Loan Performance of KCB bank Tanzania

Please tick (✓) the option that corresponds to your answer in each of the following:

8. What is your level of agreement on the following statements relating to credit risk in KCB Bank?

S/N	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
8.1	Credit appraisal process guarantees performance					
8.2	Standardized credit appraisal process leads poor performance					
8.3	Board's involvement in making credit appraisal decisions increases performance.					
8.4	Site visitation prior credit granting, improves performance					
8.5	Periodically monitoring of borrowers monitoring improves chance of performance					
8.6	Periodic credit monitoring alerts bank of possibility of delinquency but does not reduce non-performance					
8.7	Low risk borrowers make overdue payments					
8.8	High risk borrowers make timely payments					
8.9	Restructuring of delinquent loan increases risk of non-performance					
8.10	Disbursement of loans before collateral document perfection increase risk of non-performance					

Thank you for your cooperation!

Appendix 2: Research Introduction Letter from ANU

***7th**, February, 2024*

E-mail: researchwriting.mba.anu@gmail.com

Tel. 0202711213

Our Ref: 17S03EMBA007
Maendeleo Bank, Tanzania
P. O. Box 216
Dar es Salaam

Dear Sir/Madam:

RE: RESEARCH AUTHORIZATION FOR: LAURA DEOGRATIUS MUSHI

Miss. Laura is a postgraduate student of Africa Nazarene University in the Master of Business Administration (MBA) program.

In order to complete her program, Miss. Laura is conducting research entitled: "**The Effect of Credit Management on Loan Performance in Maendeleo Bank Plc, Tanzania"**

Any assistance offered to her will be highly appreciated.

Yours Faithfully,

DR. Kimani Gichuhi,

MBA, Coordinator,

School of Business,

Africa Nazarene University.

Appendix 3: Map of the Study Area