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The Integrity Factors Affecting Loans Repayment For SACCOS In Mbeya City, Tanzania

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Abstract

Savings and Credits Cooperative Societies (SACCOS) are very important for delivering various services to a large number of people who cannot afford to obtain credit services from formal financial institutions in Tanzania. The critical problem which faces most of SACCOS in Tanzania is poor loan repayment for borrowers. Therefore, this study sought to assess how the integrity factors (loans appraisal procedures, the integrity of credit officers and credit committee members and collateral assessment) affect the loan's repayment among SACCOS' borrowers in Mbeya City (MC). The study used descriptive research design and the stratified sampling to obtain 7 SACCOS from 76 SACCOS. The sampling formula was used to get 179 respondents from 324 borrowers with outstanding loans while the random and stratified sampling were used to select respondents for the survey. However, only 118 questionnaires were returned. The collected data were coded and analyzed descriptively by using SPSS version 21. The study established that low integrity of credit officers/credit committee members, poor loan appraisal and poor valuing of collateral were the reasons for poor loans repayment among SACCOS' borrowers in MC. The study recommends that the loan appraisal committee and borrowers should be trained on issues related to integrity, collateral valuation and effective loan appraisal procedures. Also, SACCOS' rules and regulations should be enforced to promote loans repayment.

Keywords: The integrity factors, loans repayment, SACCOS, Tanzania

1. Introduction

SACCOS are the type of cooperative societies which have the primary function of mobilizing savings and furnish their members with credits (Absanto & Aikaruwa, 2013). According to the Institute of Continuing Co-operative Education (ICCE, 2014), the history of SACCOS in Tanzania began from 1938 when the first SACCOS was formed by Ismaila group in Moshi Town but many SACCOS were established after the liberalization of the financial services since the 1990s (Maghimbi, 2010). The number of SACCOS in Tanzania in 2019 were 6,137 but the active SACCOS were 2,158 which is equivalent to 35.16 % (Tanzania Cooperatives Development Commission-TCDC, 2019). The number of registered SACCOS and loans issued in Mbeya region and Mbeya City by December 2018 was 399 and 76 and Tanzanian Shillings (TZS) 63 and 27 billion respectively.

SACCOS serve the majority of Tanzanians who have been excluded from accessing financial services from formal financial institutions (Absanto and Aikaruwa, 2013). They provide loans for low-income earners in rural and urban areas because of their spread all over Tanzania (Nigusie, 2015). The government of Tanzania promoted the formation of SACCOS to enhance the availability of the financial services to the majority of Tanzanians who are not served by the formal financial institutions (Magali, 2013). Maio, Mirporian, Rusian, Caragliu and Landoni (2015) asserted that high loans repayment rate benefit not only borrowers but also the microfinance institutions (MFIs). This benefits the borrowers because makes them continue receiving the SACCOS' services which are deposits, savings, insurance, remittance and training (URT, 2017). The paid interests also serve as income and make the SACCOS to cover operation costs (Magali, 2013).

SACCOS in Tanzania have been facing loan repayment challenges. To cite a few cases, an outstanding loan of TZS 762.5 million (equivalent to $610,000) was revealed in Kibaigwa Financial Services and Credit Cooperative Society (KIFISACCO) (Karumuna and Akyoo, 2011). Magali (2018) also revealed that some SACCOS in Dodoma and Morogoro regions had unpaid loans from 99.5% to 19% with an average of 22%. TCDC (2019) proclaimed that poor repayment of loans has accumulated the number of inactive and untraceable SACCOS in Tanzania.

Integrity is the act of being fully consistent and coherent with principles and value (Montefiore and Vines, 1999). It further reflects the ability to perform the responsibilities professionally, carefully and adequately taking into consideration the stakeholders' needs. Integrity is against corruption, dishonesty, impartiality and non-accountability (Karssing, 2007). Magali (2014) established that some leaders and borrowers in Morogoro and Dodoma regions ran away to avoid the repayment of their loans. However, the study did not ascertain if the default of loans was linked with the low level of integrity of SACCOS' staff or loan committee members. Moreover, due to higher level of loans default experienced by the majority of SACCOS in Tanzania, in 2019, the Ministry responsible for cooperatives ordered Tanzania Prevention and Combating of Corruption Bureau (PCCB) to conduct the investigation in SACCOS and take measures for borrowers who failed to repay their loans. The PCCB order motivated the authors to assess the influence of integrity factors on loan repayment in SACCOS.

Maio, et al. (2015), Jote (2018) and Yeboah and Oduro (2018) revealed that the demographic factors affecting loan repayment in MFIs are borrowers' gender, age, experience, education, level of income, family size and marital type. The other factors affecting loan repayment in MFIs are the sources of income, credit appropriateness, repayment time suitability, the trend in loan repayment, training, religious education, distance, business legal structures, follow-up effectiveness, total monthly sales, loan amount, loan appraisal and disbursement procedures (Nawai and Shariff 2012; Pasha and Nigese, 2014; Ssebuwufu, 2014; Gerba, 2017, Garomsa 2017; Mariadas, 2017), to list a few. Katula and Kiinya (2018), Chinduri (2016) and Chepkorir, Osiemo and Wambua (2014) also emphasized that loan appraisal is essential in enhancing the loan repayment. However, the studies were done outside Tanzania (Kenya and Zimbabwe) and they did not link with the integrity of loan appraisal committee. According to Yeboah and Oduro (2018), loan appraisal involves appropriate evaluation of the borrowers' financial capacity of servicing the loan. It comprises of gathering, processing and use of information for loan disbursement decision making. Katula and Kiriinya (2018) found that effective loans appraisal influenced loans repayment for SACCOS in Kenya. Also, other such as Chinduri (2016) and Adu, Owualah and Babajide (2019) assessed the influence of MFIs loan appraisal in Zimbabwe and Nigeria respectively while Chepkoriret, Osiemo and Wambua (2014) analyzed how loan appraisal

influenced the loan repayment in Kenyan commercial banks. Nevertheless, none of the studies examined how staff integrity influenced the loan repayment.
Adu, Owualah and Babajide (2019), George (2015), Angaine and Waari (2014) and Abiddin (2005) stressed that integrity of staff in microfinance institutions is important, despite the scholars did not assess how integrity affected the loan's repayment. Kohansal and Mansoori (2012), Gebremedhin (2010), Chachalika (2013) and Haldar and Stiglitz (2016) assessed how collateral may be used to secure the loans but the studies did not assess how the collateral value assessment was linked with the integrity of SACCOS' staff and loans appraisal committee. The studies were also not done in SACCOS but in commercial banks and other financial institutions.

The Tanzania Cooperatives Development Commission (TCDC) and other SACCOS practitioners in Tanzania have strived to promote the loan repayment in SACCOS but the repayment of loans is still a challenge (TCDC, 2019). Moreover, the data from the Mbeya region show that as at 31.12.2018 the SACCOS at Mbeya region issued loans worth TZS 63 billion but 39% of loans were not paid back. Therefore, this paper analyses on how loan appraisal procedures, the integrity of SACCOS' staff and loan appraisal committee members, and valuation of collateral influence loan repayment among SACCOS borrowers in MC in Tanzania.

This study applies the adverse selection theory of Stiglitz and Weiss (1981) who stated that buyers with unfavourable characteristics may expose the risk of loss to the seller, especially in the financial or insurance market. This study assessed how staff involved in approving loans in SACCOS (considered as sellers in this case) may pose the risk of loan default. The risks may be emanated by the lack of integrity in loan appraisal and collateral assessment.

Literature Review

Adverse Selection Economic Theory

According to Siegelman (2004), adverse selection insurance theory was originated by Rothschild and Stiglitz in 1976. The theory stress that a competitive market equilibrium cannot function well in absence of symmetric information. Stiglitz and Weiss (1981) asserted that the adverse selection for the credit market occurs when borrowers possess the unobservable characteristics that may be detrimental to the lenders and this may affect the loans' repayment if the loans are given to unqualified applicants. Adverse selection in SACCOS occurs when borrowers provide false information to be issued loans. While the adverse selection theory concentrates on borrowers' integrity, it does not articulate the role of staff who process the credit. It happens that if their integrity is low, there is a high probability of non-repayment problem of loans. It follows that, if the integrity of both loan appraisal committee and borrowers is low, they can collude in an unscrupulous way and ignore the loans processing regulatory procedures and hence the loans may be given to unqualified applicants.

Loan appraisal is done to ensure that the loan is given to a qualified applicant (Katula and Kiinya, 2018). Hence, the loan appraisal should be fair and realistic and free from any inducement. inducement using corruption makes the process futile (Karssing, 2007). Proper assessment of collateral promotes the loan repayment (Haldar & Stiglitz (2016) because genuine collateral minimizes the problem of adverse selection in credit processing and disbursement (Dinh, Hainz & Kleimeier, 2010). If the SACCOS' loans committee cannot differentiate the qualified and unqualified borrowers, they pose threats to SACCOS (Absanto and Aikaruwa, 2013). Islam and Nishiyama (2016) argued that the bank's percentage of Non-Performing Loans (NPL) depends on the credit quality and borrowers' adverse selection may influence the NPL. If the integrity of the loans' appraisal committee is high, they often reject the fake collateral or collateral with less value. However, if their integrity is low, they would receive corruption and approve the loans using the fake or less valued collateral. Here the problem is not because they do not have important information but because they decide to be selfish and hence deliberately expose loans at the risk of default. This paper assesses how the theory of adverse selection applies both to the loan appraisal team and the borrowers by integrating the variables of loan appraisal, the value of collateral and integrity of staff because the previous studies focused only on the borrowers' side (Katula and Kiinya, 2018; Dinh, Hainz & Kleimeier, 2010; Stiglitz and Weiss, 1981). Moreover, the studies on the application of adverse selection theory on borrowers' part have concentrated on the commercial banks (Zimba, 2013; George,2015; Makomeke, Makomeke and Chitura, 2016). The study, therefore, assessed how the adverse selection affects the loan repayment in SACCOS, by focusing the variables of the integrity of SACCOS' staff and loan appraisal committee members, collateral valuation and loan appraisal procedures.

Empirical Literature Review

Influence of demographic and loan-related factors on loan repayment performance

Scholars such as Reta (2011), Magali (2013), Maio et al. (2015), Mwaka (2017), Gutu, Mulegeta and Birlie (2017), Yeboah and Oduro (2018) and Jote (2018), to list a few, have assessed the influence of demographic variables on loan repayment. The demographic factors under assessment were borrowers' gender, age, experience, education, marital status and income. The loan-related factors were loans' size, loan activity, repayment period, type of loan/purpose and loan diversification.

Nawai and Shariff (2012) and Maio et al. (2015) assessed how the distance of the borrowers influenced the loan's repayment while Haile (2015) and Absanto and Aikaruwa (2013) examined the influence of saving and training and qualified human resource personnel. Mukono (2015) and Jote (2018) analyzed the method of lending and firm and leaders' characteristics. Makorere (2014) concentrated on the role of the grace period and interest rate. The variable of interest rate also was considered by Katula and Kiriinya (2018) and Salifua, Tofik-Abub, Rahmane and Sualihud (2018) who also studied on how the loan application costs influenced the loan's repayment. Moreover, Maigua (2017) scrutinized the influence of loan follow-up procedures and customers characteristics on loan repayment while Ndiege, Mataba Msonganzilla and Nzilamo (2016) found that lack of sound implementation of good governance practices in SACCOS influenced the sustainable financial performance. However, the study did not assess how the variable of integrity as a component of good governance practices influenced the loan repayment in SACCOS.

Loan appraisal and repayment

In SACCOS, loan monitoring is done by the loan appraisal committee or any SACCOS' designated staff. The purpose of loan appraisal in the MFIs such as SACCOS is to ensure that the loan is given to qualified applicants (Mpogole, 2012). Yeboah and Oduro (2018) found that loan monitoring influenced repayment performance. However, the study did not examine how the loan monitoring, repayment performance and integrity of the staff and borrowers were intertwined. Similarly, Katula and Kiinya (2018) found that loan appraisal, and follow-up procedures, customers characteristics have effects on loans' repayment. Nonetheless, the study did not ascertain if customers' characteristics are interrelated with the integrity of the borrowers. Moreover, the assessment of the integrity of the loan appraisal officers was ignored in the analysis. Chinduri (2016) revealed that inadequate credit appraisal was the major cause of non-performing loans for Microfinance institutions in Zimbabwe. But no details were provided whether the integrity of the loan committee led to inadequate appraisal or not. Possession of low integrity of loan appraisal officers induces them to disregard regulations set for appropriate loan appraisal and this leads to loans non-repayment problem.

Chepkoriret al. (2014) divulged that credit appraisal for SMEs borrowed in the commercial banks' involved provision of the certified financial statements while Adu et al (2019) propounded that loan appraisal before disbursement is essential for prevention of the loan default. However, none of the studies was conducted in SACCOS. Moreover, the study did not expose if there were cases when the borrowers' in the commercial banks were denied loans because of the low integrity of the borrowers. Furthermore, no information was given on the integrity status of loan appraisal committee and how the integrity of the loan appraisal committee influenced the loan repayment.

Angaine and Waari (2014) declared that honesty may be used to evaluate the probability of microfinance borrowers to repay loans. However, the study did not analyze how honesty was used to promote the loan repayment in Kenya. Abiddin (2005) contemplated that the profile of the borrower may depict his integrity and personal attitude. However, the paper did not assess how integrity influenced the loan repayment for borrowers. The study also did not evaluate how the integrity of the loan committee influenced the loan repayment. George (2015) found that loan default was not caused by borrower-loan officer relationship. None of these studies analyzed how the integrity of borrowers and loan committee influenced loan repayment in the microfinance institutions such as SACCOS.

Valuation of Collateral and Loan Repayment

Kohansal and Mansoori (2012) found that collateral positively influenced loan repayment performance in Iran, despite the study did not ascertain if this was caused by the higher integrity of the loan appraisal committee. Dinh et al. (2010) emphasized that integrity of borrowers determines whether collateral should be used to secure the loan or not. However, the study did not consider the integrity of the loan appraisal committee in their assessment. Chachalika (2013) argued that the shares bought or held by borrowers, other membership fees and contributions made were used as collateral to secure the loans but his study failed to ascertain how the collateral was used to enhance the loan repayment in Manyara Region in Tanzania. The study also did not depict how the integrity of the loan officer influenced the acceptance of the borrowers' collateral.

Gebremedhin (2010) emphasized that it is better to know the personal characters of the borrower and collateral value before issuing loans to him. Some of these attributes include integrity and honesty. However, the study did not assess how collateral and personal attributes influenced the loan repayment and no detailed analysis of how the integrity and honesty of both borrowers and loan appraisal officers affected the loan repayment. Haldar and Stiglitz (2016) contended that using collateral in loan processing is an intention to use force to recover the loans, implying there is a challenge for using collateral as a mean of loan recovery. Nonetheless, the study did not recommend other alternative strategies which could promote the timely repayment of loans. The study also did not postulate how the integrity of borrowers and loan committee influenced the loan repayment performance. Capra, Comeig and Fernandez (2007) insisted that true collateral separates the high risk and low-risk borrowers but they emphasized that sometimes the loans with no collateral are charged the high rate of interest to compensate the risk. However, the author did not indicate whether the integrity of the loan officer was one of the factors which encouraged the presentation of false collateral.

The government of Tanzania in May 2020 has deregistered 3,436 cooperatives, among which 2554 (74%) were SACCOS and also ordered PCCB to investigate SACCOS to enhance the repayment of unpaid loans. This situation motivated us to assess the influence of integrity factors on the loan repayment for SACCOS in Tanzania.

3. Methods

The study applied descriptive research design where 179 borrowers were randomly sampled to participate in the survey from 324 borrowers. Data were collected using questionnaires. The five Likert scales 1-Strongly Disagree, 2-Disagree 3-Neutral, 4-Agree and 5-Strongly Agree was used to obtain the scores for each statement from which data were collected. Only agree and disagree scores were used to compute the percentages of responses. Table 3.1 shows the information about the population and sample size SACCOS for the study.

Table 3.1: Population and Sample size

SN	Name of SACCOS	Type of members	Number of members	Number of defaulters (n)	Sample size; x= (179 x n)/324
1	MTC	Employee at Mbeya University of Science and Technology)	250	48	27
2	Lulu	Business People In MC	350	40	22
3	Chakuwama	Primary Teachers Mbeya Council	750	98	54
4	Mwanjelwa	Any Tanzanian Citizen 18+ years	528	48	27
5	Uwamu	Any Tanzanian at Uyole	1140	48	27
6	TAZARA Mbeya	TAZARA Employees and Others People	1307	30	17
7	Amkeni	Business People at Ilomba	250	12	7
		Total	4575	324	179

Source: Mbeya City Cooperative department, 2019

Mbeya city has 76 SACCOS. By using the stratified sampling, SACCOS were grouped by using the following criteria: SACCOS with many members, with the high number of defaulters and types of members in the SACCOS (whether members are businessmen/women, employees or mixed members). The three criteria were used to get diverse responses from SACCOS members on the integrity factors that affect the loan repayment. By using the stated criteria, 7 SACCOS were selected for the survey as follow: SACCOS which accepted only businessmen/women were Lulu and Amkeni SACCOS. Also, SACCOS which accepted only employees (employees-based SACCOS) were Chakuwama and MTC and mixed members SACCOS were Uwamu, TAZARA and Mwanjelwa. The last groups of SACCOS accepted any potential member, who engage in any legal activity such as farming, business or employment provided that he/she is 18 years and above. After obtaining 7 SACCOS, a sampling formula by

Yamane (1967) at 95% confidence level was used to calculate a sample size of 179 borrowers from 7 SACCOS. The formula is written as:

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

Where:
n= Sample size to be studied
N= Population size
Thus, by substituting; N = 324, e = 5% we get:

$$n = \frac{324}{1 + 324(0.05)^2}$$

Thus, by substituting; N = 324, e = 5% we get:
n= 179, the stratified sampling formula of x = (179 x n)/324 was used to obtain the sample size from each SACCOS as indicated in Table 3.1 (n=number of defaulters in selected SACCOS, x=Sample size obtained by using the sampling formula). The simple random sampling was then used to obtain the default borrowers. Thorough simple random sampling, all defaulters were assigned numbers on the piece of papers and then the researcher picked the papers randomly to get the required sample size. However, during the survey, only 118 respondents returned the questionnaire which is a 66% response rate. This rate is within the ranges recommended by Mugenda and Mugenda (2003), who stated that the response rate of 50% may justify proceeding for data analysis. Questionnaires were used to collect data and the survey technique was applied in data collection. The collected data was coded, summarized and verified using the SPSS version 21. The data were analysed by using the descriptive analysis. The ethical issues such as consent, confidentiality and originality were considered.

Validity and reliability of data

Validity measures exactly what was intended to be measured (Cresswell, 2011). Two strategies were undertaken to ensure that the validity of the research instrument. These include consultation with experts of SACCOS from MCC to check the validity of the data collection tool before data collection. Moreover, the instrument was pre-tested to 20 SACCOS clients before the data collection to prove its validity (as recommended by Cooper and Schindler, 2014).

The test-retest method used was used to test the reliability of the data. This method analyzes the level of correlation among the variables. The reliability of data was measured using the Cronbach alpha statistics. According to Quansah (2017), the accepted value of Cronbach alpha coefficient ranges from 0.70 to 0.95. The results of Cronbach alpha from Table 3.2 indicate that the data was not having the problem of reliability.

Table 3.2: Cronbach's Alpha for Reliability Scale Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
0.710	0.755	13

4. Results and Discussion

Demographic variables of respondents

The background information of the respondents considered in this study are gender, marital status, age, education level and experience of borrowers.

Gender

The findings indicate that 48.3% of respondents were males while 51.7% were females. The findings indicate that female in Mbeya city were involved much in entrepreneurial activities and hence they joined SACCOS to access the loans. The study is analogous with Salifua et al. (2018) who revealed that the majority of borrowers from SMEs in Ghana were females. Reta (2011), Nawai and Sharif and Maio et al. (2015) found that gender influenced the loan's repayment. In the current study, generally, it was revealed that the majority of defaulters were males.

Marital Status

The findings from Table 4.1 shows that the majority of borrowers (62.8%) were married. The results may imply that married borrowers had multiple responsibilities than the other category of marital status. Therefore, they borrowed loans to finance some of the social-economic activities. Yeboah and Oduro (2018) and Mwaka (2017) found that marital status influenced the loan repayment.

Age

The data from Table 4.1 shows that SACCOS attracted members of diverse age ranges from 18 years to above 60 years old. The findings indicate that SACCOS were perceived important by people of different ages and hence they decided to join them. Yeboah and Oduro (2018) found that 31.1% of clients were aged 35-45. Also, the study done by Gutu et al. (2017) found that 48% of the clients were aged 26-50, implying that the MFIs absorbed the majority of the active age group. The findings further indicated that age influenced the loan repayment performance.

Education Level of Respondents

Education of the borrower is an important parameter which determines the loan repayment performance. The findings show that the majority (49.2%) of SACCOS' clients had secondary education while only 20.3% of clients possessed the primary education. Education might help borrowers to have the knowledge on diversification of their loans into various possible investments and hence makes them be able to service their loans when due and reduce loans default (Table 4. 1). Magali (2013) revealed that the education of the SACCOS staff influenced the loan repayment performance negatively.

Experience of SACCOS borrowers in years

The findings indicate that majority of members were having enough experience with SACCOS' operations. Hence, they might be aware of loan applications and repayment procedures. This could facilitate the proper repayment of loans. However, the demographic information was presented to articulate the general picture of defaulters in MCC. Since the analysis of how each demographic variable influence loan repayment was beyond the scope of this study.

Table 4.1: Demographic information of respondents (N=119)

Variable	**Frequency (f)**	**Percent (%)**
Gender		
Male	57	48.3
Female	61	51.7
Marital status		
Single	26	22.0
Married	74	62.8
Divorced	11	9.3

Widow	7	5.9
Age Ranges		
18-35	37	31.4
36-45	47	39.8
46-60	29	24.6
Above 60	5	4.2
Education level		
Primary	24	20.3
Secondary	58	49.2
None	8	6.8
University	28	23.7
Experience in SACCOS (years)		
Less than a year	15	12.7
1 - 3 years	28	23.7
4 - 6 years	37	31.4
Above 6 years	38	32.2

Loan Appraisal Committee's integrity and Loan Repayment

The study established the integrity of borrowers concerning loan repayment. The responses from borrowers are indicated in Table 4.2. The results from Table 4.2 shows that 90% of respondents agreed that some borrowers provided false information during the loan application. The findings signify that the prominence of the problem was high. The findings also indicate that corruption was also a problem which influenced the loan repayment as manifested by 72% of respondents. The findings show that it happened that the loan officers received corruption to disburse the loans. The findings indicate that the integrity of the majority of loan officers and loan officers/loan committee was low.

Angaine and Waari (2014) stated that honesty of borrowers influenced them to repay the loans. Abiddin (2005) suggested that the integrity of the borrowers may be assessed by looking at their profiles. Gebremedhin (2010) emphasized that it is better to know the integrity and honesty of borrowers before the loan repayment. Robert (2014) found that commitment and integrity of loan officer was important aspects which loan officer considered before disbursement of loans to borrowers in Uganda while Ahmad (2013) revealed that corruption influenced positively the accumulation of NPL for MFIs in Pakistani.

Table 4.2: Influence of Integrity Appraisal Committee on Loan Repayment

Variable(s) N=119	Frequency	Percentage
Provision of false information on loan application	106	90
Borrowers give corruption to get loan	85	72
Officers received corruption to offer loan	78	66

Influence of Loan Appraisal on Loan Repayment

The researchers also assessed the contribution of loan appraisal procedures on loan repayment. The findings indicate that majority of loan officers lacked knowledge on loan appraisal as manifested by 51.7% of the respondents (Table 4.3). Moreover, 72.03% asserted that loans were issued according to rules and regulations but only 32.2% of respondents agreed that documents given during the appraisal were genuine. The findings indicate a lack of knowledge on loan appraisal and presentation of fake documents contributed largely to poor loans repayment. The provision of fake documents during the loan appraisal is associated with low integrity. The influence of loan appraisal on loan repayment has been witnessed by Yeboah and Oduro (2018), Katula and Kiinya (2018), Chinduri (2016) Chepkoriret al. (2014) and Adu et al. (2019), to list a few.

Makomeke et al. (2016) further asserted that commercial banks apply a variety of credit appraisal methods to improve the quality of loans. George (2015) found that the bank relied on information provided by customers where there was no means of validating the information provided by them. The strictness of loan appraisal procedures used by the commercial banks helps them to issue loans to qualified applicants. Zimba (2013) found that CRDB bank at Azikiwe branch in Dar es salaam, Tanzania used a bureaucratic and strict criteria procedures in appraising loans for customers who had no reliable income. The strict procedures intended to issue loans only to qualified applicants and are related to the integrity of the appraisal staff.

Table 4.3: Influence of Loan Appraisal on Loan Repayment

Variable(s) N=119	Frequency	Percentage
Loan officers lack knowledge on loan appraisal	61	51.7
Loan appraisal is done according to regulations	85	72.03
Documents given for loan appraisal are genuine	38	32.2

Influence collateral assessment on Loan Repayment

The study examined the influence of integrity of borrowers and appraisal staff on collateral assessment. The findings indicate that 63% of respondents agreed that loans were given without collateral and this tendency posed a risk of non-recovery for loans (Table 4. 4). The findings further indicate that there are some cases where despite the collateral was used, it did not reflect the value of loans as supported by 59.3% of the respondents. The findings further indicate that only 46.7% of the respondents agreed that collateral was sold to recover the loan. The finding generally indicates that there was a problem in using collateral in recovering the loans during the event of default because there were some cases where collateral was not presented during the loan application and even if presented, did not reflect the value of loans and in most cases, it was not sold to recover the loans and this indicates the low integrity of borrowers and loan appraisal staff and this designates the low integrity of the loan appraisal committee. During the survey, it was revealed that one borrower was given a loan worth TZS 13 million after presenting a copy of motor vehicle registration card, instead of the original card. Collateral is important in ensuring the recovery of loan during the default as revealed by Kohansal and Mansoori (2012) Dinh, et al. (2010) and Chachalika (2013). However, Haldar and Stiglitz (2016) contended that using collateral in loan processing is an intention to use force to recover the loans, implying there is a challenge for using collateral as a mean of loan recovery. George (2015) reported that borrowers failed to meet the difficult conditions sat on the bank's collateral and hence borrowed loans from other financial institutions.

Table 4: Influence of collateral assessment and loan repayment

Variable(s) N=119	Frequency	Percentage
Loans are given without considering applicants' collateral	75	63
Collateral did not reflect the value of loan	70	59.3
Collateral were sold to recover the loans	55	46.7

5. Conclusion and recommendations

The study findings indicate that low integrity of staff, failure to consider the value of the collateral and poor loans appraisal accumulated the high number of NPL for SACCOS in Mbeya city. The study revealed that poor loan appraisal and poor valuation of collateral was associated with low integrity of SACCOS staff and loan appraisal committee members. Therefore, this study recommends that SACCOS' officers and loan committee should be trained on issues related to integrity, collateral valuation and effective loan appraisal procedures. Also, integrity standards and procedures for officers dealing with loans in SACCOS should be established. This study recommends that the government of Tanzania should develop effective policies and amend SACCOS' rules and regulations which will promote the loan repayment performance. These policies may include the regulated credit risk management and involvement of staff from the Tanzania Prevention and Combating of Corruption Bureau (PCCB) in SACCOS lending activities to reduce the corruption problems. Therefore, the paper recommends that PCCB should continue interfering the loan repayment procedures in SACCOS when the normal procedures fail to function.

This study contributes to the body of knowledge on adverse selection theory by revealing that both seller and buyer side (borrowers and credit officers/loan committee) have a role to play to promote the better loan repayment performance. This study reveals that the integrity of the majority of SACCOS' staff and loan appraisal committee was low and this disturbed the loan appraisal process and valuing of collateral and ultimately affected the loan repayment in SACCOS. The paper contributes to the adverse selection theory because the theory concentrates largely on the borrowers' behaviour. The finding from this study discloses that the integrity of the loan appraisal committee also is vital in promoting the loan repayment, specifically in SACCOS. However, the study is based on the descriptive design which does not give a full explanation of how these variables influence the loan repayment. Therefore, the mixed design study may offer a more detailed explanation of how each variable contributes to the loan repayment. Also, during the survey, some members of the SACCOS were not ready to disclose the information to researchers. Nevertheless, the researcher concentrated on respondents who were ready to provide the required information. Furthermore, The 5-Likert scales may involve response bias. Hence, the mixture of techniques in data collection such as the use of secondary data, evidence and qualitative data might increase the precision of data.

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