ASSESSMENT OF THE EFFECTS OF CREDIT RISK MANAGEMENT ON LOAN PERFORMANCE IN TANZANIAN BANKS: A CASE OF TANZANIA AGRICULTURAL DEVELOPMENT BANK-TADB.

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Master Degree of Accounting and Finance of the Institute of Accountancy Arusha

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DECLARATION

I, **Neema Jonathan**, I declare that this dissertation, is my own original work and that it has not be presented and it will not be presented in any other university for similar or any other degree award, and where other people's research was used, they have been dully acknowledged.

Signature………………………….

Date…………….....…………………

CERTIFICATION

I, the undersigned, certify that, I have read and hereby recommend for acceptance by the Institute of Accountancy Arusha, the dissertation "**Assessment of the Effects of Credit Risk Management on Loan Performance in Tanzanian Banks**. **A case of Tanzania Agricultural Development Bank-TADB** in a partial fulfilment of the requirement for the award of Degree of Master of Accounting and Finance offered by Institute of Accountancy Arusha.

Signature: ……………………..…

Supervisor name: (CPA LAMECK JOHN)

Date…………….………..

DEDICATION

This dissertation is dedicated to my beloved husband Mr. Godwin Elisa for being there when I needed encouragement to go forward and ensuring that studying environment at home was favourable. Also, to my son and daughter Gabriel and Glad who endured my absence while doing this study as well as bring me a cup of water when I was tired.

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ABSTRACT

The study described an assessment on the effects of the credit risk management on loan performance in Tanzanian banks. It was guided by three predicting variables tested on loan performance as the dependent variable namely lending access, returns to investment and reduction in default. A systematic literature review was conducted , Assenga (2019) who assessed the effect of liquidity towards financial performance in investment banks in Tanzania and Maseta (2021) who assessed the effect of non-performing loans towards performance of investment banks in Tanzania, from their study, both recommend that it is essential for the study to be envisaged towards credit risk management pertaining to loan performance prior to the development banks in Tanzania therefore the study assessed the effect of credit risk management on loan performance in TADB. The Study was approached quantitatively using explanatory study design whereas causality relationship testing was conducted to generate new knowledge on the inquired subject. Data were collected from the Tanzania Agriculture Development Bank (TADB) employees as the case using structured questionnaires on a purposive sample size of 100. The data were assembled and grouped altogether such that were computed in SPSS version 23.0 for the generation of relevant statistical tests to present the results of the study. Descriptive statistics were generated to show the demographic features of the respondents on the overview of the employees in the bank. Besides that, correlation and multiple regression analysis were also used to show the existing relationship between study variables in filling the inquiry gap. Study results were evident that all three independent variables namely lending access, returns to investment and reduction in default have all been revealed positive with significant effect on loan performance as the dependent variable. This therefore implies that loan performance in development banks in Tanzania through credit risk management is influenced by lending access, returns to investment and reduction in default

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LIST OF ABBREVIATIONS / ACRONYM

CA	Credit Administration
CA	Credit Assessment
CMC	Credit Monitoring and Control
CRDB	Co-operative and Rural Development Bank
MBA	Masters of Business Administration
NBC	National Bank of Commerce
MPT	Modern Portfolio Theory
NPLs	Non-Performing Loans
SME	Small Medium Enterprises
SPSS	Statistical Package for Social Scientist
TADB	Tanzania Agricultural Development Bank
THB	Tanzania Housing Bank

CHAPTER ONE

INTRODUCTION

In the realm of financial system, banks play a vital role in promoting economic growth and development by providing essential financial services, including loans. However, the sustainability and profitability of the banks largely depend on the loan performance as a result of effectiveness of the credit risk management practices. Credit risk in this context refers to the potential financial loss that bank face when borrowers fail to repay their debts as agreed. It encompasses the assessment, measurement, and management of risks associated with lending activities to ensure the soundness and resilience of the lending institution. Whereas the loan performance it refers to the ability of borrowers to fulfill their repayment obligations according to the agreed-upon terms and conditions of a loan. A strong loan performance indicates that borrowers are making timely and full repayments, thereby reducing the credit risk faced by lenders and ensuring the overall health of the lending portfolio. Poor loan performance, characterized by high levels of non-performing loans (NPLs), can have severe consequences for banks, including reduced profitability, impaired liquidity, and potential threats to financial stability.

1.1 Background of the Problem

The management of credit risk and its influence on loan performance is a crucial matter for banks on a global scale (Bluhm *et al,* 2022). This is the practice that is required to be adhered and complied by all banks regardless of their size and categories such as commercial banks, investment banks, community banks, microfinances and others. The requirement is set under international standards described under Basel Accord guiding the financial institutions that are supposed to be complied with risk management being the key and primary issue of concern in credit lending and issuance (Brigo & Masetti, 2018).

The 2008 financial crisis underscored the significance of strong credit risk management practices, as numerous banks suffered significant losses due to elevated levels of non-performing loans (NPLs) and insufficient risk mitigation strategies (O'Connell, 2017). Consequently, regulatory bodies and financial institutions worldwide have placed increased importance on fortifying credit risk management practices. This emphasis highlights the necessity for responsible lending approaches, thorough risk assessment, and effective strategies for mitigating risk, all aimed at preventing excessive levels of non-performing loans and upholding financial stability (Orlando *et al,* 2022). In that case, credit risk management is the practice that is supposed to be embedded to all financial sector entities including banks both in the developed and developing countries (Duffie & Singleton, 2021).

This intends to assure stability of the entities in the markets and the economy as well as adequacy in the conduct of the operations and functions with most being lending and others (Bluhm *et al,* 2022). Also, credit risk management is essential in facilitating banks towards attaining successful balance in the asset and liability management which has the implication regarding performance of the entities including loan performance (de Servigny & Renault, 2019). In that note, credit risk management is the practice that is legally required to be adhered by the banks without hesitations that the regulators as central banks in the particular jurisdictions assure that banks operating in the market and the economy issues total compliance towards risk management in credit issuance.

The situation in most developed countries regarding credit risk management has been and still is adequate in the bank practices since the dominant practice is conventional banking system which to a great scale constitute adequate credit risk management measures in the process and course of issuing lending to the customers. However, with developing countries the situation has been different in several jurisdictions because banking practices in African states in most cases is an imposed practice that has been influenced by the developed states as it is not originated in the region. This makes the participants in the sector as active customers in totality to be limited though efforts are still implemented to assure influence among actors in the process. The rising credit risks in banks across Africa, which have been present since the early 20th century, have placed the performance of loans in jeopardy across the Sub-Saharan region (Jean, 2016).

In line with this, credit risk management has garnered significant attention, particularly following devastating events and bank failures triggered by a surge in non-performing loans (Bodo, 2018). Studies conducted in various African nations, such as Nigeria, Ghana, and Angola, have shown a concerning escalation in non-performing loans, climbing from 17% to 23% of outstanding loans within a single year (Francis, 2019). Additionally, East African countries have also cited non-performing loans as a major concern within the banking industry. For instance, in Kenya, inadequate credit risk management techniques utilized during the COVID-19 period resulted in a rise in the Portfolio at Risk (PAR) of banks from 12.7% in 2019 to 13.1% in 2020 (Central Bank of Kenya, 2020). Furthermore, the failure of Crane Bank in Uganda in 2016 can be attributed to substantial non-performing loans, which skyrocketed from Sh19.36 billion in 2014 to Sh142.3 billion (122.9%) in 2015 (Senyonyi, 2018).

Tanzania specific through the central bank as the Bank of Tanzania (BOT) has implemented measures aimed at strengthening credit-risk management practices within financial institutions, including development banks (Lindi, 2016). These efforts have been complemented by the mandatory adherence to the Tanzania Bankers' Association Code of Conduct, which seeks to enhance staff integrity and address related concerns. While these initiatives have shown positive results, there are still existing research gaps in understanding the full impact and effectiveness of these measures in mitigating credit risks (Mrema, 2020).

The report by Tanzanian Invest (https://www.tanzaniainvest.com), the ratio of non-performing loans (NPLs) to gross loans in Tanzania demonstrated a positive trend. In 2018, the NPL ratio decreased from 10.51% to 9.58%, although it remained above the desirable level of 5% (Moshi, 2021). Subsequently, by December 2020, the ratio further declined to 9.3%. Despite this improvement, it is worth noting that the ratio still falls below the required level, indicating ongoing challenges in managing credit risks effectively. This fosters the need to undertake the study to address the situation in Tanzanian environment pertaining to the relationship between credit risk management and loan performance in Tanzania banking sector.

1.2 Statement of the Problem

Government has different efforts to regulate the performance of financial institutions in Tanzania but the credit risk management practices and loan performance have emerged as a significant concern due to the persistent challenges of loan defaults and weaknesses in credit granting and monitoring processes (Mrema, 2020). This issue is particularly evident in several banks, such as Meridian BIAO Bank, Tanzania Housing Bank (THB), National Bank of Commerce (NBC), and Cooperative and Rural Development Bank (CRDB), which have encountered difficulties related to loan write-offs, indicating the absence of a robust credit risk management system. Notably, the Tanzania Agricultural Development Bank (TADB) has experienced a notable increase in non-performing loans and provisions for bad debts, underscoring the severity of the problem.

These challenges can be attributed to deficiencies in credit risk management processes (Moshi, 2021). In that note, credit risk management is very important banking sector entities in Tanzania regardless of their size, scope, and categories (Lindi, 2016). This is due to the fact that it is an initiative which automatically guarantees performance of the banks in the economy through assurance in lending pattern and practice because as business entities they generate income through lending loans to the borrowers whereas they earn returns with interests which is profit to the entities assuring their prosperity and well-being (Mrema, 2020).

Despite that, credit management initiatives are essential in assuring returns to investment on time through the assessment which is undertaken to the borrowers before the actual lending is commenced (Orlando *et al,* 2022). Moreover, the initiatives assure performance of the banks since they are means to reduce credit defaulting among borrowers because the credit assessments undertaken in the process of risk management determines the identification of customers with high guarantee of being non-defaulters of the credits which assures growth and performance of the entities (Lindi, 2016).

In that note, there has been and still is a problem among banking entities that they have been insufficient in credit risk management practices which have been casing negative outcomes on credit lending activity as the problem pertaining to non-performing loans (NPLs) persistence has been the key concern especially in the investment banks operating in Tanzania. This necessitates the need to undertake the study since several studies have been performed banking sector in

Tanzania including Assenga (2019) assessed the effect of liquidity towards financial performance in investment banks in Tanzania.

Also, Maseta (2021) assessed the effect of non-performing loans towards performance of investment banks in Tanzania. Despite that, both studies recommend that it is essential for the study to be envisaged towards credit risk management pertaining to loan performance prior to the development banks in Tanzania. This signifies that little or less studies have been conducted in the area which is the gap that need to be filled. Therefore, the study is conducted to assess the impact of credit risk management on loan performance in Tanzanian Agricultural Development Bank.

1.3. General Objective

The general objective of the study was to assess the effects of the credit risk management on loan performance in Tanzanian banks.

1.4 Specific Objectives

i. To examine the extent to which access to lending influence loan performance in Tanzanian banks.

ii. To determine the extent to which assurance on return to investment influence loan performance in Tanzanian banks.

iii. To assess the extent to which reduction in defaulting influence loan performance in Tanzanian banks.

1.5 Research hypotheses

The main study assumption is that credit risk management positively influences loan performances in Tanzania banks with three hypotheses developed which are described in the following manner.

H1 Lending access positively influence loan performance in Tanzanian banks.

H2 Returns on investment positively loan performance in Tanzanian banks.

H3 Reduction in default positively influences loan performance in Tanzanian banks.

1.6 Scope of the Study

This study focused on conducting research on effects of credit risk management in Tanzania banks. The researcher used TADB as a case study with specific locations within Tanzania, namely Dar es Salaam, Dodoma, and Mwanza. These areas have been selected based on several considerations to ensure the efficiency and effectiveness of the study. The researcher used quantitative approach.

1.7 Limitation of the Study

This study is constrained with several shortcomings including time constraint since the researcher had to undertake the field work as well as compile the findings in between working-time and short rests night times. Time constraint affected both, the quality and quantity of the research study because the researcher was forced to use fewer respondents and only one financial institution as a case study. Despite that, financial limitation was another concern that lack of adequate financial resources affected the quality and quantity of data to be collected during the study. Furthermore, accessibility of data was the other shortcoming that it is always hard to obtain data in many Bankers due to the security of the data and how those data are going to be used.

1.8 Significance of the Study

The problem addressed in this research is to assess the effects of credit-risk management on loan performance in Tanzanian banks with the intention to contribute towards knowledge improvement, policy implications and managerial decisions.

Knowledge improvement, this study will provide valuable insights into the effectiveness of credit-risk management measures employed by Tanzanian banks, shedding light on their impact on loan performance.

Policy implication, the findings of this study will potentially provide inputs on policy making and amendment in relation to credit risk management and loan performance. Also will help to shape lending policies that are more inclusive, sustainable, and supportive for economic growth

Managerial decisions, the findings of this study will provide mangers with the in inputs that will help them in decisions on loans to its customers that will contribute to the overall financial stability of Tanzanian banks. By identifying potential gaps and challenges in credit-risk management, this research can guide banks in developing more robust risk mitigation strategies and practices. This, in turn, can lead to a reduction in non-performing loans, increased loan repayment rates, and improved overall loan performance.

Overall, this study's significance lies in its potential to contribute to the development of effective credit-risk management frameworks, thereby fostering financial stability, risk mitigation, and sustainable lending practices in Tanzanian banks.

1.9 Organization of the Study

The study was organized into five chapters. Chapter one described the background information, statement of the problem, objectives of the study, research questions, hypothesis, scope of the study, limitation and significance of study. Chapter two presented the literature review of the study describing various sections namely empirical study, knowledge gap, and the conceptual framework. Chapter three presented research methodology of the study. The fourth chapter described the findings, analysis and the discussions of the results. The last chapter described the summary of the study, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter aims at presenting the findings of other scholars related to the topic under study. The chapter dwells basically on the theoretical and empirical evidences on issues related to the study and the existing gaps in the body of literature to show the relevance and need for the study to be undertaken. The chapter consists of the definition of key terms, theoretical and empirical reviews, identifying the research gap and the conceptual framework guiding the study. The last section covers the summary of the chapter.

2.2 Definitions of Key Terms

2.2.1 Loan

A loan refers to the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date (Didier & Pirote, 2001). The resources which are provided may be financial (e.g. granting a loan), or they may consist of goods or services.

A loan is the trust that may be used in the conduct of the business especially in the financial institutional sector that they are perceived as credits that are landed to customers as investments that are returned with profits through interests (O'Connell, 2017). This is mostly done by the banks of different types and categories including development banks, commercial banks, community banks, microfinances and others. Assets are turned into credits by means of loans and expected to be returned with profits.

2.2.2 Credit

According to Didier and Pirotte (2001) Credit is defined as the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date. The resources which are provided may be financial (e.g. granting a loan), or they may consist of goods or services (e.g. consumer credit).

2.2.3 Credit Risk

Credit risk can simply define as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is also the risk of a loss resulting from the debtor's failure to meet its obligations to the Bank in full when due under the terms agreed. (Raghavan 2003). Inherent risk is the aggregate credit risk that can exist in bank’s book of loan portfolio.

2.2.4 Credit Risk Management

Credit risk management are practices in form of organization practice originate from policy assuring reduction of risks in lending credits to assure successful lending which guarantees maximum return to investment (Emmanuel, 2004). The purpose of credit risk management practice in credit lending entities is to assure that the lending is performed at minimal risk towards defaulting. Also in mitigating losses by assessing borrowers' credit risk including payment behavior and affordability.

2.2.5 Credit Delinquency

As per Bandoma (2006), delinquency is a situation that occurs when loans are past due. A delinquent loan therefore is one that is in arrears one day late. Delinquency affects the quality of the loan portfolio. Delinquency may occur when a part is willing but unable to pay, when they willing and able to pay but lacking in discipline or when they are unwilling to pay.

2.3 Theoretical Literature Reviews

2.3.1 Portfolio Theory

This is an economic and finance theory that describes the relationship between investment risks and returns using investment portfolios (Wong, 2013). The theory suggests that investors can use statistical approaches to assess the risk exposure of their asset portfolios, which in turn influences their expected returns (Markowitz, 1952). By evaluating the risks, investors can implement strategies to mitigate and control those risks. Within the context of banking institutions, credit is considered a risky portfolio (Lukomnik & Hawley, 2021). This theory suggests that banks should implement credit risk management practices that minimize the portfolio at risk, ultimately leading to improved loan performance (Westfall & Kvilhaug, 2021). Banks that diversify their financial products are expected to have better loan performance compared to those that do not.

Therefore, the theory is relevant to the study in the sense that it is essential in describing the relationship between credit risk management and loan performance in the manner that credit risk management intends to assure the relationship between investment risks and returns through the portfolios as the loans or credits offered are investments that must be returned with interests as profit. In that case, the theory is in line with the overall conduct of the study with regard to the relationship between credit risk management and loan performance since the portfolio intends to constitute assurance on investment returns, reduction of the defaulting behaviour and lending access.

2.3.2 Credit Risk Theory

This is the theory on finance developed by Macleod (1889). The theory suggest that the value of credit depends on the debtor's obligation to repay their debt and the creditor's right to demand payment. This theory explains the concept of credit default and provides the foundation for lenders to identify, assess, monitor, and control credit risk exposure (Chatterjee *et al.,* 2020). However, the theory has been criticized for its inability to systematically differentiate among various forms of credit, such as paper money, coins, bank notes, bank deposits, goods, or services (Lapavitsas, 1991). Thakor (2016) further developed the credit risk theory into the theory of bank credit risk management.

This reformulation is based on rational learning, where inferences of banking skills are revised in an environment where the importance of skills may vary depending on macroeconomic conditions influenced by investor sentiment or developments in the real sector. Thakor (2016) proposes that banks can choose between safer but potentially less profitable loans and riskier loans with higher potential returns. The probability of loan success (repayment) is contingent upon the realization of credit-related risks. The theory identifies two systematic risk regimes: high risk and low risk. In the high-risk regime, investors prefer to fund low-risk loans even if banks are considered highly skilled, while in the low-risk regime, riskier loans are funded if the bank is perceived as being sufficiently skilled to manage those risks.

The theory is relevant to the study on the ground that the concern pertaining to the credit risk management prior to loan performance is an initiative that is influenced by the theory that lending of credits to the customers is strongly monitored and determined by the adequacy in the risk management as far as conventional practices is/are concerned. This has implication regarding the performance of the entities as banks as the loans are assured of being returned and the lending being adequate and discreet; as well as the limited level of defaulting behaviors.

2.4 Credit Risk Management Overview

This is an important practice since it entails the possibility of losing a lender holds because of a risk of default on a debt that may rise up from a borrower failing to make required bills (Berger & Gregory, 2020). In the first inn, the risk is that of the lender and consists of lost main and interest, disruption to cash flows, and improved collection charges. The loss can be entire or partial. In an efficient marketplace, higher degrees of credit score hazard may be related to better borrowing charges. Because of this, measures of borrowing costs consisting of yield spreads may be used to infer credit score risk degrees based totally on assessments by using marketplace participants.

To lessen the lender's credit score threat, the lender may additionally perform a credit score test on the potential borrower, may additionally require the borrower to take out suitable coverage, such as loan coverage, or are seeking for security over some property of the borrower or a assure from a 3rd party (Lester, 2017). The lender can also take out coverage towards the danger or on-promote the debt to every other agency. In preferred, the higher the hazard, the better will be the interest charge that the debtor can be requested to pay on the debt. Credit threat especially arises whilst debtors are unable or unwilling to pay.

This is crucial in all forms of credits with maximum essential being bank issued credit because they make up the biggest share of credit score in life. The conventional view of banks as intermediaries among savers and borrowers is incorrect (Jarrow et al, 2017). Modern banking is about credit advent. Credit is made up of components, the credit score (cash) and its corresponding debt, which requires repayment with interest. The majority of the money within the UK financial system is created as credit score. When a bank problems credit, it writes a terrible access in to the liabilities column of its stability sheet, and an equivalent nice parent on the belongings column; the asset being the mortgage compensation profits stream (plus hobby) from a credit-worth man or woman.

When the debt is fully repaid, the credit score and debt are canceled, and the cash disappears from the financial system (Tikkanen, 2020). Meanwhile, the debtor gets a fine coins balance that's used to buy something like a house, however also an equal poor legal responsibility to be repaid to the financial institution over the period. Most of the credit score created is going into the purchase of land and belongings, growing inflation in those markets, that's a first-rate driver of the economic cycle. When a financial institution creates credit, it efficaciously owes the cash to itself. If a financial institution issues too much bad credit score, the bank turns into insolvent; having greater liabilities than belongings.

That the bank never had the money to lend inside the first location is immaterial - the banking license affords banks to create credit score - what matters is that a bank's overall property are extra than its total liabilities and that it's far keeping sufficient liquid property - which includes coins - to meet its obligations to its debtors (Chorafas, 2019). If it fails to do that it dangers financial ruin or banking license withdrawal. There are two predominant sorts of personal credit created by means of banks; unsecured (non-collateralized) credit score which includes customer credit score cards and small unsecured loans, and secured (collateralized) credit, generally secured in opposition to the item being purchased with the cash (residence, boat, automobile, and so on.).

To lessen their exposure to the chance of not getting their cash back (credit default), banks will have a tendency to trouble large credit sums to the ones deemed credit-worthy, and additionally to require collateral; something of equivalent value to the loan, with a view to be handed to the financial institution if the debtor fails to satisfy the repayment terms of the mortgage (Logemann, 2021). In this instance, the bank uses the sale of the collateral to lessen its liabilities. Examples of secured credit encompass customer mortgages used to buy houses, boats, and so forth., and PCP (private agreement plan) credit agreements for automobile purchases.

Movements of financial capital are commonly depending on both credit score or fairness transfers. The global credit score marketplace is three times the size of worldwide equity. Credit is in turn depending on the popularity or creditworthiness of the entity which takes responsibility for the price range. Credit is likewise traded in monetary markets (Finlay, 2019). The purest shape is the credit score default switch market, which is largely a traded market in credit insurance. A credit default change represents the charge at which parties change this risk – the protection supplier takes the risk of default of the credit score in go back for a price, usually denoted in basis factors one basis factor is 1/100 of a percentage of the notional amount to be referenced, at the same time as the protection client can pay this top class and in the case of default of the underlying (a mortgage, bond or other receivable), can provide this receivable to the protection dealer and receives from the seller the paramount.

Credits may be trade ones that are the approval of not on time charge for bought goods. Credit is from time to time not granted to a customer who has financial instability or issue (Comelli, 2021). Companies frequently offer trade credit to their customers as part of phrases of a purchase agreement. Organizations that offer credit score to their customers frequently hire a credit manager. Also, credit may be consumer which involves the money, items or services provided to a character within the absence of on the spot charge.

Common kinds of purchaser credit include credit cards, store playing cards, motor car finance, personal loans (installment loans), client lines of credit score, payday loans, retail loans (retail installment loans) and mortgages (Chorafas, 2019). Given the dimensions and nature of the mortgage marketplace, many observers classify loan lending as a separate class of personal borrowing, and therefore, residential mortgages are excluded from some definitions of purchaser credit, which include the only adopted through the U.S. Federal Reserve.

The fee of credit is the extra amount, over and above the quantity borrowed, that the borrower has to pay. It consists of interest, association costs and another expenses. Some expenses are mandatory, required by means of the lender as a crucial part of the credit settlement (Jarrow *et al,* 2017). Other charges, together with the ones for credit coverage, can be non-obligatory; the borrower chooses whether or not or no longer are they covered as a part of the agreement. Interest and different charges are offered in a diffusion of different methods, but beneath many legislative regimes lenders are required to quote all obligatory prices in the shape of an annual percentage fee (APR).

The aim of the APR calculation is to sell "truth in lending", to offer capability debtors a clear measure of the authentic cost of borrowing and to allow a comparison to be made among competing merchandise (Tikkanen, 2020). The APR is derived from the pattern of advances and repayments made during the agreement. Optional prices are commonly now not protected in the APR calculation. Interest quotes on loans to consumers, whether or not mortgages or credit score cards are most generally determined on the subject of a credit score. Calculated with the aid of non-public credit score corporations or centralized credit score bureaus based on elements which includes earlier defaults, charge history, and to be had credit score, people with higher credit score scores have get right of entry to lower APRs than those with decrease ratings

A credit danger can be labeled into three one of a kind paperwork with the first being credit score default danger that is the chance of loss bobbing up from a debtor being unlikely to pay its loan obligations in complete or the debtor is extra than 90 days late on any fabric credit score responsibility; default threat may also impact all credit score-touchy transactions, inclusive of loans, securities and derivatives (Tikkanen, 2020). The other shape or category is the awareness chance which is the hazard related to any single publicity or group of exposures with the capacity to provide large sufficient losses to threaten a financial institution's center operations. It may additionally rise up within the shape of single-call awareness or industry attention.

This is finished to the loan that is the switch of money by using one birthday party to some other with an agreement to pay it returned. The recipient, or borrower, incurs a debt and is commonly required to pay interest for the usage of the money (Smith, 2019). The record evidencing the debt will generally specify, amongst different matters, the primary amount of money borrowed, the hobby price the lender is charging, and the date of compensation. A mortgage entails the reallocation of the concern asset(s) for a period of time, between the lender and the borrower.

The hobby gives an incentive for the lender to interact inside the loan. In a felony loan, every of these duties and regulations is enforced by way of agreement, which can also place the borrower beneath additional restrictions called loan covenants (Harter et al, 2020). Although this text specializes in financial loans, in practice, any material item is probably lent. Acting as a company of loans is one of the foremost activities of financial institutions inclusive of banks and credit card organizations. For other institutions, issuing of debt contracts consisting of bonds is a normal supply of funding.

The lender, usually an economic institution, is given security a lien on the title to the belongings until the mortgage is paid off in complete. In the case of home loans, if the borrower defaults at the loan, the bank would have the legal right to repossess the residence and sell it, to get better sums as a result of it (Tikkanen, 2020). Similarly, a mortgage taken out to buy a automobile may be secured by means of the auto. The length of the mortgage is an awful lot shorter regularly corresponding to the useful existence of the automobile. There are varieties of automobile loans, direct and indirect. In a direct vehicle mortgage, a financial institution lends the money immediately to a patron. In an oblique auto loan, a automobile dealership acts as an middleman between the financial institution or monetary organization and the patron.

Other styles of secured loans encompass loans against securities such as stocks, mutual price range, bonds, etc. This specific device issues customers a line of credit based totally on the pleasant of the securities pledged (Chorafas, 2019). Gold loans are issued to customers after evaluating the amount and best of gold in the objects pledged. Corporate entities also can take out secured lending by pledging the organization's belongings, which includes the organisation itself. The interest rates for secured loans are commonly decrease than those of unsecured loans. Usually, the lending organization employs human beings on a roll or on a agreement foundation to assess the high-quality of pledged collateral before sanctioning the loan.

Unsecured loans are economic loans that are not secured in opposition to the borrower's assets. The hobby fees relevant to these specific bureaucracy might also range relying on the lender and the borrower (Finlay, 2019). These may additionally or may not be regulated through regulation. In the UK, whilst carried out to people, those may also come below the Consumer Credit Act 1974. Interest rates on unsecured loans are almost usually higher than for secured loans due to the fact an unsecured lender's options for recourse against the borrower within the occasion of default are seriously restrained, subjecting the lender to higher risk in comparison to that encountered for a secured loan.

An unsecured lender should sue the borrower, obtain a cash judgment for breach of agreement, after which pursue execution of the judgment towards the borrower's unencumbered belongings that is, those now not already pledged to secured lenders (Smith, 2019). In insolvency court cases, secured creditors historically have precedence over unsecured creditors whilst a court divides up the borrower's assets. Thus, a better hobby rate reflects the extra hazard that in the occasion of insolvency, the debt can be uncollectible.

Demand loans are quick-time period loans that normally do now not have fixed dates for compensation. Instead, demand loans bring a floating hobby fee, which varies consistent with the high lending price or different defined settlement terms (Cornelli, 2021). Demand loans can be called for compensation through the lending group at any time. Demand loans may be unsecured or secured. A sponsored loan is a mortgage on which the interest is decreased by a specific or hidden subsidy. In the context of university loans in the United States, it refers to a mortgage on which no hobby is accumulated even as a student stays enrolled in education.

A concessional mortgage, from time to time referred to as a smooth loan, is granted on phrases substantially greater beneficiant than market loans both via under-marketplace hobby charges, by way of grace intervals, or a aggregate of each. Such loans may be made by using foreign governments to developing countries or may be offered to personnel of lending establishments as an employee advantage (Tikkannen, 2020). Loans can also be categorized according to whether or not the debtor is an individual man or woman (purchaser) or a commercial enterprise. Common personal loans include loan loans, car loans, domestic fairness traces of credit, credit cards, installment loans, and payday loans.

The credit score rating of the borrower is a chief thing in and underwriting and interest prices (APR) of those loans. The month-to-month bills of personal loans may be reduced by way of selecting longer charge terms, but usual hobby paid increases as nicely (Henderson, 2018). A private loan can be obtained from banks, opportunity (non-financial institution) lenders, on line mortgage carriers and private lenders. Loans to organizations are just like the above however also consist of commercial mortgages and corporate bonds and authorities guaranteed loans Underwriting isn't based totally upon credit score however as an alternative credit rating (Jeffer et al, 2017). The most regular mortgage charge kind is the fully amortizing fee wherein each monthly fee has the equal value over the years. Predatory lending is one shape of abuse within the granting of loans. It normally entails granting a loan with a purpose to put the borrower in a function that possible benefit over them; subprime loan-lending and payday-lending are examples, where the moneylender isn't always legal or regulated, the lender might be considered a mortgage shark.

Usury is a one-of-a-kind form of abuse, in which the lender charges immoderate interest. In special time intervals and cultures, the perfect interest price has numerous, from no hobby at all as in the biblical prescript, to limitless interest fees Logemann, 2021). Credit card agencies in a few international locations have been accused by using purchaser organizations of lending at usurious hobby quotes and making money out of frivolous greater costs. Abuses can also take area in the form of the consumer defrauding the lender by borrowing without proceeding to repay the loan.

Furthermore, the alternative category is the united states risk which is the danger of loss springing up from a sovereign state freezing overseas forex bills (switch/conversion threat) or whilst it defaults on its responsibilities (sovereign threat); this kind of risk is prominently associated with the us of a's macroeconomic overall performance and its political balance (Logemann, 2021). Significant resources and complicated programs are used to research and manipulate chance. Some businesses run a credit risk branch whose job is to evaluate the economic health of their customers, and increase credit (or not) for that reason.

They can also use in-residence programs to advice on warding off, reducing and shifting chance. They also use the third birthday celebration furnished intelligence (Altman & Saunders, 2017). Nationally identified statistical rating companies provide such statistics for a charge. For huge businesses with liquidly traded company bonds or Credit Default Swaps, bond yield spreads and credit score default change spreads indicate market participants' assessments of credit score chance and can be used as a reference point to fee loans or cause collateral calls.

Most lenders hire their models (credit scorecards) to rank capability and current customers in line with danger, and then practice appropriate techniques (Henderson, 2018). With merchandise which includes unsecured non-public loans or mortgages, lenders charge a higher charge for higher-hazard customers and vice versa. With revolving merchandise which includes credit playing cards and overdrafts, the hazard is controlled via the placing of credit score limits. Some merchandise also require collateral, usually an asset that is pledged to comfy the reimbursement of the mortgage.

Credit scoring fashions additionally shape part of the framework utilized by banks or lending establishments to supply credit score to customers. For company and industrial borrowers, these models usually have qualitative and quantitative sections outlining numerous components of the chance such as, but no longer constrained to, working revel in, management understanding, asset satisfactory, and leverage and liquidity ratios, respectively (Mester, 2017). Once this information has been completely reviewed by credit officers and credit score committees, the lender affords the price range challenge to the terms and situations supplied in the agreement.

Sovereign credit hazard is the danger of a central authority being unwilling or unable to meet its mortgage obligations, or reneging on loans it ensures. Many nations have confronted sovereign chance in the overdue-2000s international recession (Jarrow et al, 2017). The life of such chance approach that creditors should take a -degree selection procedure whilst determining to lend to a company based totally in a foreign country. Firstly one ought to do not forget the sovereign threat best of the United States after which keep in mind the company's credit nice. The opportunity of rescheduling is an increasing function of debt provider ratio, import ratio, the variance of export revenue and domestic money supply growth.

The likelihood of rescheduling is a reducing function of investment ratio due to destiny financial productiveness gains. Debt rescheduling probability can growth if the funding ratio rises because the foreign united states ought to emerge as much less depending on its external lenders and so be less concerned about receiving credit score from those international locations/buyers (Henderson, 2018). A counterparty chance, additionally known as a settlement hazard or counterparty credit score hazard (CCR), is a threat that a counterparty will now not pay as obligated on a bond, by-product, insurance coverage, or different contract.

Financial institutions or other transaction counterparties may additionally hedge or take out credit coverage or, especially inside the context of derivatives, require the posting of collateral (Jarrow et al, 2017). Offsetting counterparty hazard isn't always continually viable, e.G. Due to transient liquidity issues or longer-term systemic reasons. Further, counterparty risk will increase because of definitely correlated threat factors; accounting for this correlation among portfolio danger factors and counterparty default in danger management method isn't trivial.

The capital requirement right here is calculated the usage of SA-CCR, the standardized method for counterparty credit score danger (Tikkanen, 2020). This framework replaced both non-inner version procedures - Current Exposure Method (CEM) and Standardised Method (SM). It is a "danger-touchy methodology", meaning that Conscious of asset elegance and hedging, that differentiates among margined and non-margined trades and recognizes netting benefits; issues insufficiently addressed beneath the preceding frameworks.

2.5 Empirical Literature Review.

2.5.1 The influence of access to lending on loan performance in Tanzanian banks.

Francis (2019) examined the influence of credit risk management on the commercial banks in Nepal. The study employed cross sectional design whereas findings revealed that credit risk identification in commercial banks in the area has been essential in assuring the successful lending process in the manner that is objective and discreet assuring performance of the entities. This is the case since risks were highly minimized and sometimes completely avoided that assurance on the investment returns has been certain in the credit lending process. The study further recommended that other studies may be conducted in different contexts to assure outcome. The study will be conducted basically to address the recommendations.

Jean (2016) assessed the effect of credit risk management on loan performance in Sib-Saharan African states. The study employed comparative analysis among institutions in the selected countries in the region of Kenya, Uganda, Malawi, Lesotho and South Africa. Three variables were identified for testing namely lending, returns and defaults reduction prior to the performance. Results revealed that all three variables had positive relationship and significant level towards loan performance with stronger influence towards lending among the others. This fostered the need for the area to be envisaged further in Tanzania to address the concern.

2.5.2 The influence of Assurance on return to investment on loan performance in Tanzanian banks.

Remy and Njeru (2020) analyzed the impact of credit risk identification on the financial performance of commercial banks. The study was conducted in Burundi using survey design and or approach. The study demonstrated that effective credit risk identification plays a significant role in achieving benefits for banks by carefully addressing each risk factor. The presence of an effective risk tracking system and risk measurement contributes to ensuring financial performance in the bank. The study therefore recommends the need to envisage in other contexts regarding the area to determine the outcomes in line with their contexts. Hence, the undertakings of this study basically targets to address the concern in Tanzanian environment respectively.

Marisit (2018) examined the ways useful in facilitating credit risk assessment in the financial institutions to assure performance in the loans and the entities at large. The study was conducted in United Kingdom (UK) using comparative approach whereas findings revealed that one way to enhance credit risk assessment is by utilizing credit scores. Checking credit scores helps banks evaluate credit and supplier risks, increase collections, and reduce loan default rates, ultimately improving profitability. The study recommends that the assessments regarding credit risk towards financial institutions performance are essential that they should be undertaken in different contexts to address the realities within.

2.5.3 The influence of Reduction in defaulting on loan performance in Tanzanian banks.

Magnifique (2013) conducted a study on credit risk management and financial performance of commercial banks. The study was conducted in Rwanda banks and revealed a relationship between credit risk identification and the productivity of commercial banks. Findings revealed that credit risk management practices constitute significant influence towards returns both on assets and equity towards commercial banks since as the risks are reduced the higher the rate of assuring profitability with vice versa being the case as well. However, this study focused on credit risk management and financial performance, while the current study focuses specifically on Loan Performance.

Kalu *et al* (2018) examined the effect of inadequate credit risk management towards loan default in microfinance institutions. The study was conducted in Netherlands using survey design whereas the results revealed that financial analysis contributes to loan defaults since lots of issues tend to be poorly assessed leading to the defaulting as a result of poor assessment and consideration of key components in lending process. The study further recommended that it is essential to undertake the study in different categories of financial institutions regarding credit risk management and loan performance that the conduct of the study in Tanzania will address the concern.

In conclusion, the existing literature demonstrates the positive relationship between credit management strategies and the performance of financial institutions. However, there is a need for more research specifically focused on Loan Performance in the context of development banks in Tanzania. Studies conducted in microfinance and commercial banks have limited applicability, and more comprehensive approaches are necessary to accurately assess the relationship between credit risk management strategies and loan performance in commercial banks.

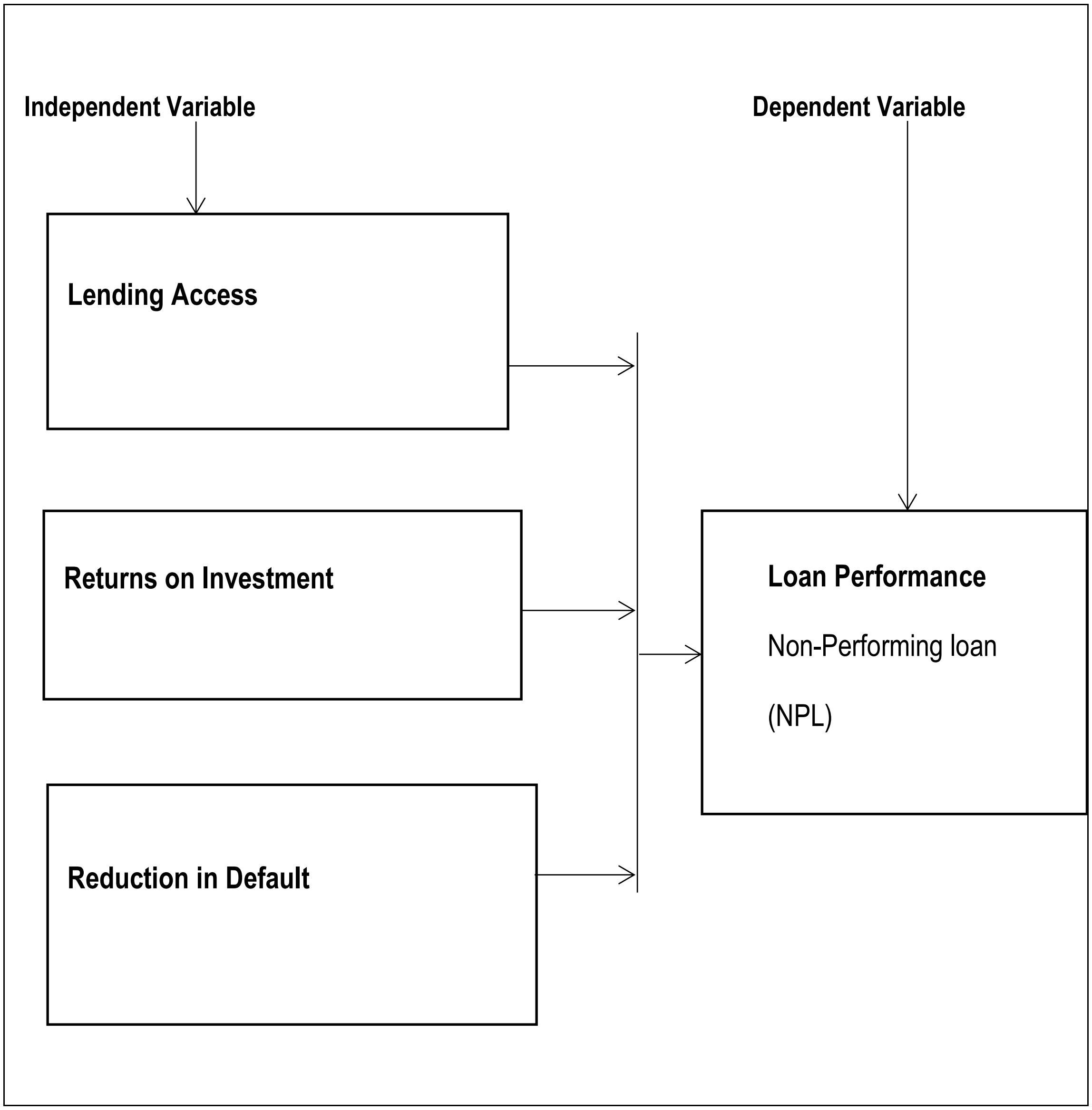
2.6 Research Gap

Based on the reviewed literature, it is certain that credit risk management constitute relevance as the practice regarding loan performance in the financial institutions including banks and their categories in different countries in the globe. Since that is the case, Tanzania constituted active banking sector which offers credits to the customers in the course of performing bank operations. However, the sector is very active and growing tremendously with the entities required to issue compliance to the credit risk measures to assure adequate credit lending. However, studies have been conducted in the area pertaining to bank practices prior to credit risk management especially on commercial banks and microfinance entities with little being envisaged on development bank. This signifies the existing gap that the inquiry is undertaken specifically to address the gap.

2.7 Conceptual Framework

This is a sketch in form of a diagram depicting the existing variables in the study and the way they influence each other. The conceptual framework for this study was developed based on the relationships between credit risk management identified in the literatures that influence loan performance in banks. Credit Risk Management involves activities which may lead to the survival of financial institution from default. In this case, there are two variables, namely dependent variable and independent variables. The dependent variable in this case is loan performance (LP) while independent variables are lending access (LA), return on investment (RI) and reduction on default RD). Therefore LP is the function of LA, RI and RD. This framework aimed to elucidate how credit risk management activities, when effectively operationalized, contribute to reduce non-performing loan in Tanzanian Banks. This framework provides a structured approach that assessed the extent to which these activities (LA, RI, RD), when optimized, reduces non-performing loan in banks. The framework is depicted through figure below.

Figure 2. 1 Conceptual Framework



Source: Authors Formulation from Literature Review 2023

The framework as the model describes an assessment of the effects of credit risk management on the loan performance in Tanzania banks. The main study assumption is that credit risk management positively influences loan performances in Tanzania banks with three hypotheses developed which are described in the following manner.

H1 Lending access positively influence loan performance in Tanzanian banks.

H2 Returns on investment positively loan performance in Tanzanian banks.

H3 Reduction in default positively influences loan performance in Tanzanian banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction.

In this chapter, it presents a comprehensive analysis of the methodology to be employed to examine credit risk management practices and their impact on loan performance. The chapter outlines the study area, research design, defines the target population, and describes the extent of data collection. Moreover, we address important considerations regarding quality control measures and ethical concerns associated with the study.

3.2 Study Area

The study focused on conducting research in specific locations within Tanzania, namely Dar es Salaam, Dodoma, and Mwanza. These areas have been selected based on several considerations to ensure the efficiency and effectiveness of the study. Firstly, Dar es Salaam is the economic and financial hub of Tanzania, housing the head offices of various financial institutions, including the Tanzania Agricultural Development Bank (TADB). Conducting the study at TADB's head office in Dar es Salaam provides access to relevant data, resources, and key decision-makers involved in credit risk management practices and loan performance within the bank.

Secondly, the selection of Dodoma and Mwanza as zonal offices is strategic for gathering comprehensive and diverse information. Dodoma serves as the political capital of Tanzania, while Mwanza is a major commercial and economic center in the country. By including these locations, the study can capture regional variations and perspectives on credit risk management practices and loan performance in different contexts. The choice of these specific locations offers practical advantages in terms of accessibility and cost-effectiveness. Conducting the research in Dar es Salaam allows the researcher to minimize travel and logistical expenses since TADB's head office is conveniently located at Plot 84, Kinondoni road. Similarly, selecting Dodoma and Mwanza as zonal offices reduces the need for extensive travel to gather data from different regions of Tanzania.

Overall, the study's focus on Dar es Salaam, Dodoma, and Mwanza which facilitated efficient data collection as there were access to key stakeholders, and a representative with understanding of credit risk management practices and loan assessment in Tanzanian lending institutions. By concentrating efforts in these areas, the study achieves its research objectives in a timely and cost-effective manner.

3.3 Research Design

Research design is the process which guarantees knowledge gap filling in the study (Creswell, 2012). It involve technique and methodologies. The study used explanatory design to explore concepts and ideas on subject since knowledge was attained through causal relationship approach between study variables. This in turn fostered the study to be pursued through quantitative approach using close ended questionaire in facilitating knowledge generation process. The design allowed data collection in time, providing a snapshot of the current credit risk management and loan performance, it is efficient broad information and cost-effective, requiring fewer resources and time compared to longitudinal designs.

3 .4 Research Approach

Saunders et al., (2003) categorize research approaches into positivism, phenomenology, and realism. Positivism relies on statistical and quantitative methods, while phenomenology uses qualitative techniques. Realism combines elements of both approaches. This study employed positivism / quantitative approach because the study was conducted objectively with the focus to identify patterns and relationships on what regarding the phenomenon under the study. Also Denzin and Lincoln (2005) suggest that quantitative approach in research undertaking seeks to envisage on what, when and where on the phenomenon under study. This is the opposite with qualitative approach since it seeks to envisage on the why and how on the phenomenon under study.

3.5.1 Research Paradigm

This refers to the existing debates on the undertaking of the scientific studies (Laudan, 1977). The debates are in two opposing views with implication to knowledge source and the reality setting pertaining to the study for that matter. Therefore, the study used positivism philosophy since it was conducted scientifically with appropriate methodology. Knowledge was collected using structured questionnaires as the data collection instrument with the reality described in hypotheses.

3.5.2 Targeted Population

The study population for this research consisted of 132 key stakeholders involved in credit risk management and loan performance in TADB offices located in Dar es Salaam, Dodoma, and Mwanza. These include employees, decision-makers, and individuals engaged in credit assessment, administration, monitoring processes, and loan performance evaluation within this institution. Focusing on these specific areas ensures a comprehensive representation of credit risk management and loan performance in Tanzanian. The inclusion of employees and decision-maker, allowed access to individuals with firsthand knowledge and experience, making them valuable sources of information for the research objectives

3.5.3 Sample Size.

A samplae is a small portion of the entire population target. It involve selcting few respondent among number of given population to represent the whole. (Kombo &tromp,2006). In this study a sample constituted TADB employees as the sample which consisted of the direct practiitioners within the entity because they were the actual subjects to the situation that were researched. With that, a total of 100 respondents from the TADB employees were picked since they were useful and actual relevant participants within the organization for the generation of sufficient primary data on the issue which is being researched.

The selection of the sample size is derived from Taro Yamane method . n= N/ (1+N (e) 2) Therefore, this is further elaborated in the manner that;

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

N = Population in this study we had 132 as the total population,

e = Level of precision (sampling error) 5% or 0.05 where as there is 95% confidence level

n = Sample Size

n= 132/1+132(0.05^2)

n = 132/1+132(0.0025)

n= 132/1.33

n=99.248

n= approximately to 100

In this case, the sample of 100 was used.

3.5.4 Sampling Technique

This study used purposive sampling technique because the respondents were picked and selected among the knoweldgeable and skilled on credit risk management aspects and issues for the acquisition of adeqaute and reliable primary data

Purposive Sampling: This technique was used to intentionally select key stakeholders involved in credit risk management and loan performance within TADB, such as managers or heads of sections. By employing purposive sampling, the study ensured that individuals with firsthand knowledge and experience in these areas are included, maximizing the relevance and richness of the collected data.

The purposive sample was divided into distinct subgroups or strata based on different departments or roles within TADB, including credit assessment, administration, monitoring, and decision-making. By selecting participants from each stratum, the study ensured representation from various segments of the organization, enhancing the generalizability of the findings. Stratified sample captured the diversity and variations in credit risk management practices and loan performance across different functional areas, facilitating comparisons and analysis within and between strata for a more comprehensive understanding of the research topic.

3.6 Data Collection Methods.

The procedure of collecting, measuring and analyzing accurate insights for research using standard validated techniques is referred as data collection technique (Bryman & Bells, 2015), the approach of data collection is different for different purpose of study depending on the information needed. In this study, researcher used primary data which enable to obtain the required information. The structured questionnaires were briefly prepared, constructed in a simple language in order to ensure all the respondents understand clearly and the researcher provided enough time for the respondents to answer the questionnaires completely to ensure the information generation which sufficiently intended to fill the study gap.Questionnaire refers to the list of questions printed on papers on the researched issue or subject (Gillham, 2008).Also Secondary souces were used as they involve going through documents of variety in nature both published and unpblished ones in relation to the study hypotheses. The gathered data were used to support primary data as fresh information in the discussion of the results of the study.

3.7 Data Analysis

The collected and obtained data were clustered quantitatively. The questionnaires were subjected to SPSS version 23.0 for analysis to get simple descriptive statistics such as frequency tables and percentages. Correlation and multiple regression analyses were used to clearly indicate the relationship between the independent and dependent variables. The study is rather quantitative that it is described by the model stated that;

$$LP = \beta o + \beta 1LA + \beta 2RI + \beta 3RD + e$$

Where by

LP = Loan Performance

βo = Constant factor

β1LA = Lending Access

β2RI = Returns on Investment

β3RD = Reduction in Default

e = Random variable

3.8 Pilot Study

Before the main study, a pilot study involving a small sample of TADB employees was conducted to test the validity and reliability of the data collection instruments.

3.9 Validity and Reliability

The researcher was challenged with many obstacles during data collection including validity and reliability of data collected. In this study the researcher made sure that these threats were kept to the minimum to ensure accuracy and consistency to data required.

3.9.1 Validity

Validity refers to the instrument which indicates the degree of measurement on what is supposed to be measured (Beer, 1993). The study is valid in the sense that there is observed research gap from the literature which is valid that can be filled by the information which will serve as new knowledge from the field. This was achieved through the use of pilot test, which is pre-testing of the questionnaire.

3.9.2 Reliability

Reliability on the other hand refers to the measurement which is reliable as it provides consistent results (Ritter, 2010). With that, reliability can be best measured and determined after the field work where as results of the study as findings determined the reliability of the study. This was cartered through the use of Cronbach alpha test. Therefore, table 3.1 illustrates the results.

Table 3. 1 Cronbach Alpha Test

Study Variables	**Cronbach's Alpha**
Lending Access	0.764
Returns in Investment	0.799
Reduction in Default	0.803
Loan Performance	0.743

Source: Field Data 2023

The results in table 3.1 provide the outcome regarding the reliability and consistenc on the variables under study. The results shows that the variables are reliable and consistent since the alpha values have reached 0.7 and more. This is further verified with Ritter (2010) that the alpha coefficients are key determinants with regard to the reliability measurements on the study variables provided that they have reached 0.7 and more. This is the outcome depicted in the results as shown on the table above.

3.10 Ethical Consideration

Ethical issues are mandatory in the conduct and pursuance of the inquiry in terms of adhering to the university rules and regulations including possessing adequate research permit for data collection and presentation of an original work which is not subject to plagiarism. Despite that, confidentiality of the respondents was well observed as none of the confidential information pertaining to the respondents were revealed by the researcher.

3.11 Limitation that Influence Research Methodology of the Study.

The study acknowledges time limitations that should be considered for a comprehensive understanding of its scope and potential biases. The researcher used data that were gathered through questionnaire due to time constrain as most of the TADB officials had limited time during working hours therefore questionnaires were appropriate for them as they fill it after working hours. Regardless of that, the constraints were dealt upon through several ways including compliance with the set schedule for the conduct of the study. Also, the information gathering process may assure clarity and focus to ensure that adequate primary data were obtained to assure information gathering process.

CHAPTER FOUR

PRESENTATION AND DISCUSSION

4.1 Introduction

The chapter describes the study results, analysis and the discussions of the results in line with the variables under study pertaining to causal relationship testing respectively. Therefore, the chapter consists of the description which is in the manner that is as follows.

4.2 Presentation of the Findings

4.2.1 Response Rate

The study targeted the sample of 100 employees as respondents from Tanzania Agricultural Development Bank TADB from Mwanza, Dodoma, Dar es Salaam zone offices and Dar es Salaam headquarter in the knowledge gathering process but the researcher was able to distribute 81 questionnaires to respondents. The results were that only 72 responses were obtained which is 72% while 9 responses were not obtained. The gathered number of responses was certain with the results generation because Webb (1991) suggest that the response rate of 65% and above assures accuracy on the results and their reliability in generating conclusion. Since the rate of response was 72% then the results are accurate and reliable.

4.2.2 Respondents Profile

The section describes the profile of the study participants based on the key demographic characteristics of the respondents with the results shown as follows.

4.2.2.1 Age

The study was set to obtain information on age of the respondents as the participants to the inquiry that table 4.1 show the results as follows.

Table 4. 1 Age

		Frequency	Percent
Valid	21-35	20	27.8
	36-50	39	54.2
	50+	13	18.1
	Total	72	100.0

Source: Field Data

The study results on age clearly depict that 27.8% of the respondents were aged 21-35 years, while 54.2% were aged 36-50 years and 18.1% were aged 50 years and more. This implies that employees in development banks in Tanzania constitute varying age groups with most being the active age group than the aged therefore they should have to be able to make good influencing decisions in relation to the credit risk management that will affect loan performance positively. This assertion is shared with Bodo (2018) that banking sector and their categories in various jurisdictions consist of the working group as the dominant in number than the aged group due to the nature of the tasks that they require active and energetic practitioners.

4.2.2.2 Gender

The study also assembled facts on the gender distribution of the study participants shown in table 4.2. and figure 4.1

Table 4. 2 Gender

		Frequency	Percent
Valid	Male	50	69.4
	Female	22	30.6
	Total	72	100.0

Source: Field Data 2023

The findings describe the results on gender of the participants that 69.4% were male respondents while 30.6% were female respondents. This implies that employees in the banking sector regardless of the bank category consist of men and women all over the globe including Tanzania. This is further stated with Francis (2019) that employees in the banking sector in all bank categories and types are men and women in countries all over the world. The only variation is the gender composition at workplace that may never be the same due to the merit as the selection criteria towards hiring. This is there to provided clue about the respondent perception and performance in relation to their sex.

4.2.2.3 Education Level

Furthermore, the study collected information on the education level of the participants that table 4.3 points the results.

Table 4.3 Education

		Frequency	Percent
Valid	First degree	42	58.3
	Master degree	30	41.7
	Total	72	100.0

Source: Field Data

The findings on education level of the respondents are certain that 58.3% of the respondents had first degree and 41.7% of the respondents had masters' degree. This implies that employees in the banking sector in Tanzania and anywhere in all categories of banks are skilled practitioners with adequate level of formal education. This is the case with Agarwal *et al* (2017) suggesting that employees in the banking sector constitute adequate formal education since the activities conducted are technical that requires skills and competence to be well undertaken.

The findings on education level of the respondents are certain that, 58.3% had first degree and 41.7% had masters' degree. This implies that employees in the banking sector in Tanzania and anywhere in all categories of banks are skilled practitioners with adequate level of formal education. This is the case with Agarwal *et al* (2017) suggesting that employees in the banking sector constitute adequate formal education since the activities conducted are technical that requires skills and competence to be well undertaken. Therefore in relation to TADB the bankers should have to make influenced decision on credit risk management that will ensure maximum loan performance.

4.3 Analysis on Study Variables

The description of the analysis on study variables is performed using mean and standard deviation; followed by correlation and multiple regression analysis as inferential statistics. Therefore, the description comprise the following.

4.3.1 Mean and Standard Deviation

These are measures of central tendency conducted for the purpose of revealing the predicting variable to the dependent variable with larger influence than others using mean analysis; and also the level of opinion among respondents through the standard deviation. Therefore, table 4.4 present the results.

Table 4. 3 Mean and Standard Deviation

Study Variables	**Mean**	**Standard Deviation**
Loan Performance	3.142	1.1156
Lending Access	3.408	1.1338
Returns to Investment	3.524	1.1465
Reduction in Default	3.359	1.1284

Source: Field Data 2023

The results on mean and standard deviation reveal that returns to investment as the predicting variable consist of larger influence on loan performance as the dependent variable due to the fact that it has larger mean value (3.524) than other predicting variables. This implies that loan performance in development banks through credit risk management in Tanzania is largely influenced by returns to investment than lending access and reduction in default. Besides that, with the standard deviation it is noted that variance on the variables values are not high which implies that respondents opinion did not differ much.

4.3.2 Correlation and Multiple Regression

They constitute inferential statistics whereas the analysis is performed to show the relationship between the study variables both independent and dependent ones. However, it is first preceded by model summary test to state the overall influence of the independent variables on the dependent variable. This is described in table 4.5.

Table 4. 4 Model Summary

Model	R	R square	Adjusted R Square	Standard Error of Estimate	Change statistics			Durbin-Watson
1	.718	.672	.661	56.593	.507	69.278	.000	1.553

Source: Field Data 2023

Dependent Variable: Loan Performance

Independent Variables: Lending Access, Returns to Investment and Reduction in Default

Results in table 4.5 indicate the entire influence of all independent variables towards the dependent variable that is clearly depicted through the R^2 coefficient. The model therefore states that loan performance in development banks in Tanzania through credit risk management measures is influenced by positively with lending access, returns to investment and reduction in default by

67.2%. This therefore implies that the assumptions of the study as the predicting variables to the dependent variable are positive such that further inferential analyses are conducted.

Regardless of that, the outcome of the model implies two key aspects that first there is no need to undertake the analysis of variance (ANOVA) test since the model is positive with R^2 coefficient being above 0.5. Also, the remained influence of the overall influence of the independent variables to the dependent variable signifies that loan performance through credit risk management may be influenced by other factors apart from the tested independent variables.

4.3.2.1 Correlation Analysis

The analysis is described to show the variable among the predicting ones with high influence than others to the dependent variable with table 4.6 illustrating the results.

Table 4. 5 Correlation Analysis

	Loan Performance	**Lending Access**	**Returns to Investment**	**Reduction in Default**
Business Performance	1.000			
Lending Access	.451	1.000		
Returns to Investment	.530	.019	1.000	
Reduction in Default	.386	.032	.040	1.000

Source: Field Data

Results of the study indicated the values of correlation on study variables such that it shows the fact that returns to investment as the independent variable influences loan performance most than other predicting variables because it has higher correlation value (.530). This implies that loan performance in development banks in Tanzania through credit risk management is influenced with returns to investment most than other predictors tested. Regardless of the fact that correlation is positive still the coefficient is less which implies that there is no multicollinearity. This is the problem which is dealt using multiple regression analysis.

4.3.2.2 Multiple Regression Analysis

The analysis is performed to show the contribution of each independent variable to the dependent variable with table 4.7 illustrating the results.

Table 4. 6 Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. error	Beta		
(constant)	-10.352	3.612		-1.283	.000
Lending Access	2.048	.261	.471	11.891	.022
Returns to Investment	2.538	.283	.519	12.674	.018
Reduction in Default	1.633	.186	.396	11.382	.046

Source: Field Data 2023

The findings of the study indicated the facts on multiple regression analysis that three predicting variables which are lending access, returns to investment and reduction in default are positive with significant effect statistically on loan performance as the dependent variable with $p<0.05$. This implies that loan performance in development banks in Tanzania through credit risk management is influenced by lending access, returns to investment and reduction in default.

4.4 Discussion of the Findings

The study assesses the effects of credit risk management on loan performance in Tanzanian banks specifically in TADB. This part present the discussion of the findings obtained from field as in Appendix ii, its analysis and interpretations in relation to specific study variable.

4.4.1 Lending Access and Loan Performance

The study findings indicate that lending access as the independent variable is positive with significant results towards loan performance since $p<0.05$; which signifies that loan performance in development banks in Tanzania through credit risk management is influenced with lending access. This is verified with the views by Tanoi *et al* (2015) that banks main activity towards income generation and profitability is credit lending. This is well facilitated through adequate and thorough credit risk management measures to clear the customer to be issued with the loan.

Once credit risk management measures are well affected automatic lending access becomes certain and the entity is likely to perform. Also, Senyonyi (2018) states that credit lending is the main function of the bank regardless of the category with all other income generation activities being perceived as secondary. However, lending becomes well effected provided that the risk measures towards credit lending have been well exhausted for clearance to be issued and access to the credit(s) being issued.

4.4.2 Returns to Investment and Loan Performance

The study findings also indicate that returns to investment as the independent variable is positive with significant effect statistically towards loans performance ($p<0.05$). This signifies that loan performance in banks including development banks in Tanzania through credit risk management is strongly influenced with returns to investment. This is also connected with Kalu *et al* (2018) stating that credit risk management measures as are well effected to the customers interested to be landed with credits in the manner that is effective and efficient the loans have very low chances of being non-performing.

This automatically influences performance in the granting process that may be returned on time with the expected profit that needs to be obtained. Also, Jean (2016) suggest that credit risk management is an important initiative in banking sector which is a necessary requirement that must be fully complied stated under Basel Accord. Therefore, as the measures are well effected automatically there is high chances of the loans to issue significant returns as profit since the measures are well effected they completely minimizes the non-performing loans (NPLs).

4.4.3 Reduction in Default and Loan Performance

The study further indicate that reduction in default as the independent variable is positive with significant effect towards loan performance as the dependent variable ($p<0.05$). This means that loans performance in banks including development banks through credit risk management is influenced with reduction in default. The view is also in line with Marisit (2018) stating that credit risk management is essential practice that assures the well-being of the banks in the credit lending process and the returns to the investments.

However, with the efficiency in risk management defaulters are eliminated automatically as well because they always lack key important aspects that are used to get away from the irregularities that may be observed. This assures the well-being of the entities in the market and the economy respectively. Furthermore, Mutua (2016) suggest that credit risk management is an important practice by banks that assures well-being of the banks investments as credits. This is the case because defaulting is likely to be reduced to a greater scale which is essential for the growth of the business by the entities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter describes the summary of the study with the brief highlight of the entire study. Also, the chapter describes the conclusion of the study based on the findings gathered as well as recommendations serving as way forward on the observed issues that needs to be further addressed.

5.2 Summary

The study described an assessment on the effects of the credit risk management on loan performance in Tanzanian banks. It was guided by three predicting variables tested on loan performance as the dependent variable namely lending access, returns to investment and reduction in default. The study was performed using explanatory study design whereas causality relationship testing was conducted to generate new knowledge on the inquired subject. Data were collected from the Tanzania Agriculture Development Bank (TADB) as the case from the employees using structured questionnaires. The data were assembled and grouped altogether such that were computed in SPSS version 23.0 for the generation of relevant statistical tests to present the results of the study. Descriptive statistics were generated to show the demographic features of the respondents on the overview of the employees in the banks. Besides that, correlation and multiple regression analysis were also used to show the existing relationship between study variables in filling the inquiry gap. Study results were evident that all three independent variables namely lending access, returns to investment and reduction in default have all been revealed positive with significant effect on loan performance as the dependent variable. This therefore implies that loan performance in development banks in Tanzania through credit risk management is influenced by lending access, returns to investment and reduction in default.

5.3 Conclusion

Loan performance in development banks in Tanzania is largely influenced with credit risk management through in lending access, returns to investment and reduction in default since the variables possess significant results towards the dependent variable. With that being the case, it is vivid that loan performance in development banks and the banking sector in general regardless of the category of the entities is influenced with credit risk management initiatives since have also the role towards performance and the requirement that is mandatory to be fulfilled in the execution of the duties respectively.

5.4 Recommendations.

It is certain that the study revealed the usefulness of credit risk management with regard to the loan performance that it is recommended that the lending decisions are necessary to be facilitated by the credit risk management and no other factors which contrary leads to the decision based on the unprofessional conducts especially on the development banks in Tanzania. This may foster performance of the loans that are being granted to the customers to assure efficiency in the process.

The study also recommend that with the focus towards issuance of loans based on efficient credit risk management measures may guarantee high degree of returns since loans are reduced towards being non-performing which may serve as the solution towards the long time problem pertaining to the development banks in Tanzania regarding the returns to the investment respectively.

The study further recommend that with adherence to the strictness in risk management in issuing credits may assure reduction of the defaults in the loan granting because the issued loans may be guaranteed with high level of assurance that the level of default may be reduced to the greatest scale and become the solution to the long time problem regarding persisting defaults.

5.5 Areas for Further Studies

The study was conducted based on the relationship testing between credit risk management and loan performance as the variables under this study in the process of knowledge generation. Despite that, the other study may be undertaken in facilitating knowledge generation process by means of qualitative research method with the aim of gathering subjective results. Also, the study was conducted based on the development banks in Tanzania that the other study may be conducted with reference to other category of financial entities apart from the development banks.

5.6 Critical Evaluation of the Study.

Critical evaluation is an essential component of any research study as it assesses the strengths, weaknesses, and overall quality of the research. In this section a critical evaluation of the study on effects of credit risks management on loan performance in TADB, including its objectives, methodology, and findings. This evaluation aims to highlight the study's strengths and areas for improvement.

5.6.1 Strengths of the Study

The study's objectives are well-defined and address critical issues within credit risk management in Tanzanian Banks. The research focuses on assessment of effects of credit risk management on loan performance in Tanzanian banks specifically TADB.

The use of a questionnaire to collect data from 72 TADB respondents was an appropriate method for gathering insights. The distribution and collection of questionnaires through phone internet like what Sapp and emails was practical approach to minimize response delays and maximize the response rate as the bankers can manage to work on it within their own time especially after working hours.

The study effectively analyzes and presents the findings of the questionnaire questions. The results are well-structured, providing percentages and interpretations for each question, offering a clear understanding of participant perceptions.

5.6.2 Areas for Improvement

The study does not explore potential external factors that may affect loan performance in Tanzanian banks especially TADB which provide loans to customers dealing with agricultural activities. Such factors include climatic changes, economic conditions, and political influences. Understanding these external factors could provide a more comprehensive view of the challenges faced.

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APPENDICES

Research instruments (questionnaires)

Appendix i: Questionnaire

This is a questionnaire on the study titled ***"Effect of Credit Risk Management on Loan Performance in Tanzanian Banks".***

Part I: General Information

1. Gender?
    a. Male
    b. Female
2. Age?
    a. 21-35
    b. 36-50
    c. 50+
3. Education Level
    a. Masters and Above
    b. Bachelor Degree
    c. Diploma
    d. Other (specify) ……………………………………………………………….

The First Objective: Lending Access and Loan Performance

The following are the attributes of lending access on loan performance which are rated in Likert scale seeking your response. Kindly respond on the appropriate answer by ticking (√) the appropriate box on the scale expressed in numbers within boxes.

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
1	2	3	4	5

The Second Objective: Returns on Investment and Loan Performance

S/N	STATEMENTS	1	2	3	4	5
1.	Risk management in credits is essential towards assuring banking access on lending.					
2.	Adequate risk measures in loan issuance fosters increasing liquidity that speed up the process.					
3.	Risk management is essential in assuring bank performance in the operation of its core activities.					
4.	Risk management in credits promotes the ability of the banks to issue lending at all times.					

The following are the attributes of returns on investment on loan performance which are rated in Likert scale format seeking your response. Kindly respond on the appropriate answer by ticking (√) the appropriate box on the scale expressed in numbers within boxes.

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
1	2	3	4	5

S/N	STATEMENTS	1	2	3	4	5
1.	Risk management ensures returns on asset to the bank(s).					
2.	Adequate risk measures in credits fosters returns on equity.					
3.	Risk management measures fosters high level of returns by customers.					
4.	Risk management measures guarantees profitability in banks through lending process.					

The Third Objective: Reduction in Default and Loan Performance

The following are the attributes of reduction in default on loan performance which are rated in Likert scale format seeking your response. Kindly respond on the appropriate answer by ticking (√) the appropriate box on the scale expressed in numbers within boxes.

Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
1	2	3	4	5

S/N	STATEMENTS	1	2	3	4	5
1.	Adequate risk management reduce risks of default by customers.					
2.	Risk management measures intends to limit and wipeout the defaulting behaviour.					
3.	Risk management measures target towards preventing banks from encountering non-performing loans.					
4.	Risk management measures prevent the banks to encounter bad debts.					

Dependent Variable: Loan Performance

The following are the attributes of loan performance which are rated in Likert scale format seeking your response. Kindly respond on the appropriate answer by ticking (√) the appropriate box on the scale expressed in numbers within boxes.

Strongly Disagree Disagree Undecided Agree Strongly Agree

1 2 3 4 5

S/N	**STATEMENTS**	**1**	**2**	**3**	**4**	**5**
1.	Loan performance in banks through credit risk management is influenced with lending access.					
2.	Loan performance in banks through credit risk management is influenced with returns on investment.					
3.	Loan performance in banks through credit risk management is influenced with reduction in default.					

THANK YOU FOR YOUR TIME

Appendix ii: Research Participants Summary of Responses

Objective 1: Lending Access and Loan Performance	Strongly Disagree		Disagree		Not Sure		Agree		Strongly Agree	
	f	%	f	%	f	%	f	%	f	%
Risk management in credits is essential towards assuring banking access on lending.	0	0%	0		2	3%	11	15 %	59	82%
Adequate risk measures in loan issuance fosters increasing liquidity that speed up the process.	0	0%	0		6	8%	5	7%	61	85%
Risk management is essential in assuring bank performance in the operation of its core activities.	0	0%	0		1	1%	13	18 %	58	81%
Risk management in credits promotes the ability of the banks to issue lending at all times.	0	0%	0		0	0%	9	13 %	63	88%
The Second Objective: Returns on Investment and Loan Performance										
Risk management ensures returns on asset to the bank(s).	0	0%	0		6	8%	20	28 %	46	64%
Adequate risk measures in credits fosters returns on equity.	0	0%	0		7	10 %	16	22 %	49	68%
Risk management measures fosters high level of returns by customers.	0	0%	0		0	0%	25	35 %	47	65%
Risk management measures guarantees profitability in banks through lending process.	0	0%	0		0	0%	35	49 %	37	51%
The Third Objective: Reduction in Default and Loan Performance										
Adequate risk management reduce risks of default by customers.	0	0%	0		5	7%	29	40 %	38	53%
Risk management measures intends to limit and wipeout the defaulting behaviour.	0	0%	0		2	3%	42	58 %	28	39%
Risk management measures target towards preventing banks from encountering non-performing loans	0	0%	0		0	0%	17	24 %	55	76%
Risk management measures prevent the banks to encounter bad debts	0	0%	0		4	6%	44	61 %	28	39%

Appendix iii: Field work time table

Time Frame

ACTIVITIES	**January 2023**	**February-March 2023**	**March- August 2023**	**September – November2023**	
Concept note					
Research design					
Literature review					
Problem statement					
Research objective & objectives					
Hypothesis and significant					
Variable identification					
Methodology					
Background of information					
Proposal submission					
Development of data collection and instrument					
Instrument pretesting					
Data collection execution					
Data cleansing coding and testing					
Data analysis					
Data interpretation					
Conclusion					
Submission of first draft					

Appendix iv: Research Budget

Activities	DESCRIPTION	QUANTITY	COST	Total cost (Tsh)
Data collection	Stationeries	Photocopy and Printing	400,000	400,000
	Materials and Equipment's	equipment	200,000	200,000
	Research Transportation and communication	30 Days	600,000	600,000
	Meals and Accommodation	Food and drink 1 Months	@7000	210,000
Data analysis	Coding questionnaire	50 units	@1000	50,000
	Typing service	60 Pages	@1500	90,000
Report writing	Report Photocopying	60 Pages X 10	@300	180,000
	Hardcopy bidding	2 Copies	@15000	30,000
GRAND TOTAL COST (Tsh)				**1,760,000**

Appendix iv: Data Collection

Institute of Accountancy Arusha

P.O. Box 2798, Njiro Hill, Arusha, Tanzania
Telephone: +255 27 2970232 Mobile: +255 763 462109 Telex: 50009 IAA TZ
Fax: +255 27 2970234 Email: iaa@iaa.ac.tz Website: www.iaa.ac.tz

Ref. No.: MAF-01-0112-2022 **20th September 2023**

....
....
P.O.BOX...........................
....

Dear Sir/Madam,

RE : REQUEST FOR DATA COLLECTION

The purpose of this letter is to introduce to you **MS. NEEMA JONATHAN** who is our student pursuing Masters of Accountancy and Finance with registration number (MAF-01-0112-2022). Currently, the aforementioned student is conducting a study on **"TO ASSESS THE EFFECTS OF CREDIT RISK MANAGEMENT ON LOAN PERFORMANCE IN TANZANIA BANKS: A CASE OF TANZANIA AGRICULTURAL DEVELOPMENT BANK (TADB)"**. We would like to highlight here that this study is part of the requirement for the award of the above mentioned programme of study.

We therefore request you to extend to the above-mentioned student of our Institute any help that may facilitate her to achieve study objectives. We further request permission for her to see and talk to the staff of your Institution in connection to her study. The period for this request is granted from September to the end of November 2023.

Thank you for your continuing support.

Yours Sincerely,
INSTITUTE OF ACCOUNTANCY ARUSHA

DIRECTOR OF POSTGRA. STUDIES, RESEARCH & CONSULTANCY
INSTITUTE OF ACCOUNTANCY ARUSHA
ARUSHA, TANZANIA
TEL: 254 9412, FAX: 254 9421

Elias Mbuti
FOR: RECTOR

Appendix v: Permission Letter

THE UNITED REPUBLIC OF TANZANIA

TANZANIA AGRICULTURAL DEVELOPMENT BANK

4th Floor Acacia Estates Building, Plot 84 Kinondoni Road
P. O. Box 63372, 14109 Dar es Salaam, Tanzania.
Tel: +255 22 292 3501/02 Fax: +255 22 292 3503

TADB Tanzania Agricultural Development Bank "The Farmers' Bank"

Ref. No: TADB/ZML/VOL.1/2023/404 **Date: 19th October, 2023**

To whom it may concern,

Re: **Research Permit**

Heading above is concerned. In reference to the letter with reference number MPSS/01/0060/2022 from Institute of Accountancy Arusha regarding the above subject.

I am writing to introduce to you **MS. NEEMA JONATHAN ISSANGYA** from **INSTITUTE OF ACCOUNTANCY ARUSHA** who is at moment conducting a research study with a title**"Effects of credit risk management on loan performance in Tanzanian banks, "A case of Tanzania Agricultural Development Bank-TADB"**

In this regard you are requested to offer her with maximum cooperation during the study which will commence from 20th October 2023 to 10th November 2023.

Yours faithfully,

Tanzania Agricultural Development Bank Limited

Godwin Elisa
For Lake Zone Manager

Cc: **Neema Jonathan,**
Researcher

Toll free : 0800 110 120 info@tadb.co.tz www.tadb.co.tz tadbtz

ASSESSMENT OF THE EFFECTS OF CREDIT RISK MANAGEMENT ON LOAN PERFORMANCE IN TANZANIAN BANKS: A CASE OF TANZANIA AGRICULTURAL DEVELOPMENT BANK-TADB.

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ASSESSMENT OF THE EFFECTS OF CREDIT RISK MANAGEMENT ON LOAN PERFORMANCE IN TANZANIAN BANKS: A CASE OF TANZANIA AGRICULTURAL DEVELOPMENT BANK-TADB.

NEEMA JONATHAN

Master of Accounting and Finance of the Institute of Accountancy Arusha

November, 2023

ASSESSMENT OF THE EFFECTS OF CREDIT RISK MANAGEMENT ON LOAN PERFORMANCE IN TANZANIAN BANKS: A CASE OF TANZANIA AGRICULTURAL DEVELOPMENT BANK-TADB.

INSTITUTE OF ACCOUNTANCY ARUSHA TANZANIA

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AUTHOR(S)

NEEMA JONATHAN

&

CPA LAMECK JOHN

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